ECONOMY — General

1-1-81 — 31-7-81

SA ECONOMY (49) FM 2|1|81

Taking a breather

In 1980 the South African economy reached what is most likely the peak in the present business cycle. But the view from the top, while it is downwards, is by no means unduly discouraging.

Over the past year, the economy grew at 8%, one of the fastest — if not the fastest — rate in the world. To continue this year at that cracking pace would eventually place tremendous strains on resources, especially skilled labour.

Progress is being made in the freeing of further resources from legislative restraints. But the sins of past policies would most likely lead either to shortages or rapid price rises in the short term if this pace were maintained for long.

This year, with labour shortages and declining export earnings reducing slightly the level of business activity in general, a fortuitous opportunity has been given for material legislative change to free more resources — especially in the field of labour — to sustain future growth.

There are telling indications, moreover, that the country's potential for sustained growth this decade is considerable, leading to generally rising living standards for all population groups.

The first indication that the country could be facing a prolonged growth phase was given in March last year. A team of Pretoria University economists, headed by Professor Jan Lombard, came to this conclusion after studying the effect of rising gold income on past business cycles.

They identified general expansion of the economy in the Sixties as being a lagged consequence of gold mining expansion 10 years earlier in the Fifties. Similarly, gold mining retardation in the early Sixties corresponded with lower growth in the economy in the early Seventies.

Simply put, their conclusion was that gold's overall contribution to the domestic product in recent years may have generated a long cycle of general economic growth.

In October the then Senior Deputy Governor of the Reserve Bank, Dr Gerhard de Kock, presented to the Economic Society his analysis of changed characteristics of the SA business cycle.

He pointed out that in the general redistribution of income and wealth between countries as a result of substantial oil price increases, SA had come out advantageously. Not only had the price of gold risen considerably as a result of the redistribution, but there had also been a "structured increase in world demand for many other SA mineral products."

Stronger upswings

His conclusion was that the SA economy would, in consequence, see stronger upswings and higher growth rates before deficits on the current account became large enough to bring about either a cheaper rand or a decline in the reserves.

But he warned that the threat of "bottleneck" inflation would be much greater in the later stages of the new cycle. For this reason, effective control of the money supply had become of increased importance. Allied to this was a need to apply a more market-oriented strategy to exchange control and exchange rate policy.

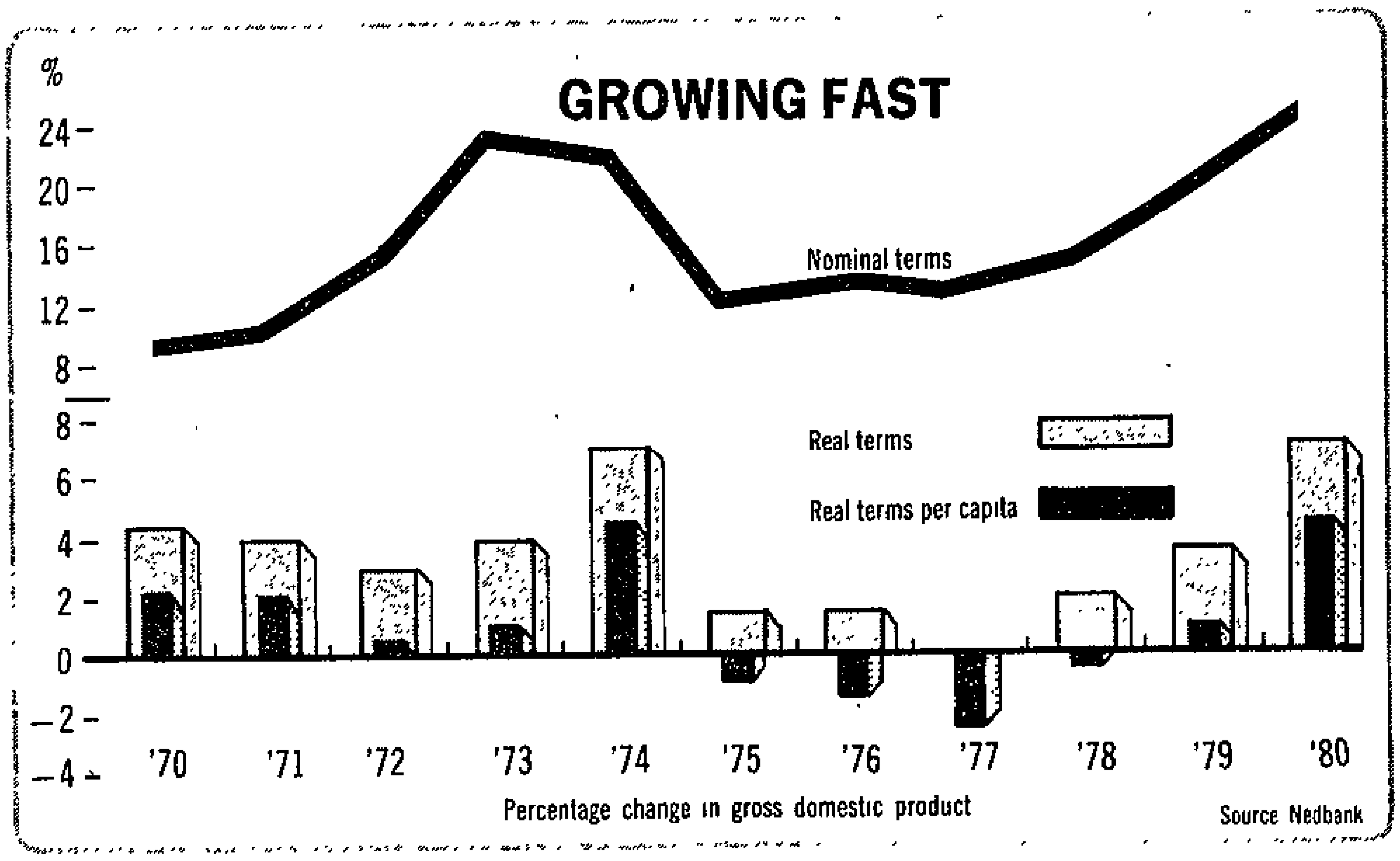
The unusually long period — about three years so far — of the current business upswing tends to bear out these analyses. In the beginning its main impetus was provided by rising export earnings, from other metals as well as gold. Latterly, however, private consumption spending has become the main engine of growth, followed by rising fixed investment spending.

This change was wrought by declining demand for SA exports from the Western industrialised nations and the impact domestically of substantial tax cuts and rising employment and wages.

Although there is little surplus manufacturing capacity within the economy, the increase in consumer spending has not yet reached inflationary levels. Rising imports are preventing demand exceeding supply and, in due course, fixed investment spending will be translated into additional productive capacity.

Moreover, as Nedbank chief economist Merton Dagut points out, consumer spending has not increased disproportionately in terms of gross domestic product and its strength is not abnormal for this stage of a cyclical upswing.

The scope for further imports is still considerable, despite a reducing trade balance. Indeed the current account is still in such surplus that the balance of payments is unlikely to restrict growth at all this year. Nor would a trade deficit necessarily be restrictive if the potential for a



SA will look to gold in 1981

RDM 3/1/81

(49)

By JOHN MULCAHY

SOUTH Africa will once again be heavily dependent on revenue from gold this year, with the economic outlook for purchasers of the country's other minerals and metals not very good.

In fact, one can expect a downturn in the fortunes of many base metals, with the "Cinderellas" of 1980, asbestos, chrome and manganese, being joined by commodities such as iron ore, copper and tin

The one mineral which may serve to bring some relief to the otherwise mediocre expectations for the metals and minerals industry is coal, which in the light of rising costs of alternative energy sources, such as oil, and the safety fears for uranium, should enjoy continued high demand as well as good prices.

Mr Dennis Etheredge, head of Anglo American's gold division, said he was not at all pessimistic about gold production in 1981, and the level should be around the same as in 1980

Mr Etheredge was hesitant on possible bullion prices, but expressed confidence on the continuing role of the metal in world monetary systems, which in turn could probably be translated into a maintenance of price stability.

On uranium Mr Etheredge noted that the market was still very soft, with prices at an extremely low level, but with most South African producers delivering according to contract there should be constant sales of the nuclear material.

A factor which could have a favourable influence on South African exports of various metals was the tendency by many countries to place ever-growing importance on defence spending, with concommitant spin-offs for metals such as vanadium, chrome and manganese, as well as uranium.

A major negative factor for minor metal producers continues to be the sorry state of the world steel industry, which has shown little sign of any revival, and will affect the performance of the iron ore export market, as well as chrome ore, ferrochrome and chromite

A good barometer of the international metal markets is the copper sector, which is facing a reduction in orders for the new year While major producers have generally been successful in concluding 1981 contracts for high quality cathodes, consumers have been buying less copper than before.

In fact some consumers in the UK and West Germany are reported to have contracted for amounts only 50% to 75% of their likely needs, compared with 85% to 90% in a normal year

An important factor influencing the slowdown in demand for metals from overseas consumers is the high level of interest rates which, combined with poor economic prospects for this year has led to an unwillingness to hold none but essential stocks

The outlook from an investment demand point of view is somewhat better, though, with prices of precious metals likely to remain relatively high as long as continued Opec oil price increases spur on inflation in the US and elsewhere.

Mr Paul Sarnoff, a director of Rudolff Wolff Commodity Brokers in New York, said recently that there was no gold shortage in the world from a fundamental viewpoint, but prices were not fixed by the normal demand/supply equation.

The Reagan administration could lead to further increases in precious metal prices, but this would depend on the new US government's handling of the stockpile.

Mr Sarnoff noted that the silver stockpile was down to less than one year's supply of normal consumption, while platinum could benefit from substantial government buying.

Also on the platinum angle, investment demand for the metal appears to have managed to soak up surplus production as demand from the jewellery market fell away, while that from the car market had become depressed.

Mr David Lundy, vice-president of Johnson Matthey, quoted in "Metal Bulletin", said that investors and speculators in platinum had for some time been selling mainly to each other, and thus holding on to the metal to ensure a stable market.

Mr Lundy said he expected some gains in demand for platinum from the car market by mid-year, with even stronger demand in 1982.

Demand from the jewellery sector was also expected to continue to improve after starting to recover in 1980, while demand from the petrochemical industry was expected to burgeon until 1983.

4/11/8? Exp.

SA risk rating drops 4 places

(49)

By DAVID PINCUS

SOUTH AFRICA has moved from 12th to 16th place in the international foreign investment stakes, according to the internationally accepted Business Environment Risk Index (Beri).

Beri, published in Newark, Delaware, assesses 45 countries on various risk factors.

Not surprisingly, the "winner" was Switzerland, with the wooden spoon going to Iran.

South Africa was up with the leaders as far as business risk factors were concerned, but slumped to a lowly 27th, out of 45, when her political stability was assessed.

She was rated a 10th as far as her attitude to foreign investment and profit was concerned, 10th as far as both nationalisation and inflation were concerned, 12th for bureaucracy, 13th for economic growth, 14th for labour costs and productivity, and a high 7th for local management

Switzerland was considered the country most likely to attract short and medium-term investment followed, in order, by the US, West Germany, Japan, Singapore, Canada, Netherlands, Belgium, Australia, Norway, Saudi Arabia, Sweden, Taiwan, Denmark, and Britain.

The countries that trailed South Africa in the Beri Index included Ireland, France, Mexico, Venezuela, Greece, Chile, Spain, Thailand, South Korea, Israel, several Black African states and in 45th place, Iran.

A spokesman for the SA-German Chamber of Trade and Industry, which has been monitoring the Beri Index for years, said it was clear that "if the announced changes in South Africa's policies and labour laws are implemented soon, an if her new policies of internal and external dialogue become general soon, the Republic could become one of the most rewarding investment countries".

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BUSINESS

SA capital spending will top R30 000-m in next 5 years

By Geoff Shuttleworth

Capital expenditure in South Africa over the next five years will rise dramatically to over R30 000-million with the mining industry taking the lead.

In the latest Standard Bank Review the authors note that whereas the increase in fixed investment was stagnant for the years 1976 and 1977, it only grew by 1,9 percent in 1979.

However, figures available for the first nine months of last year show an increase of 9 percent and it is likely that the final figure for 1980 will exceed 10 percent.

The mining industry according to this study, will be spending around R10 000-million — or roughly a third of the total.

Expansion

Much of the capex planned for the mining industry is related to the massive expansion in the energy field involving such projects as Sasol and various private undertakings which will produce methanol.

Over and above this Escom is planning to spend some R11 000-million to 1990 in expanding its facilities, again involving coal mining.

In its treatment of coal and energy, the report notes that the most significant factor is the deliberate changing of South Africa's energy and chemical raw minerals from oil to coal.

By the time Sasol 3 is completed in 1982, over R6 000-million will have been spent since 1975.

The report also notes that while methanol is important in its own right, it is attracting particular interest in the chemical industry because of its potential use in chemical synthesis. Here both South Africa's leading chemical groups, AECI and Sentrachem are involved in projects.

Another aspect of the expanding energy sector is the planned expansion of Escom facilities.

Quite apart from the Koeberg nuclear power station, the Drakensberg pumped storage scheme and the possibility of another such scheme in the Western Cape at Palmiet, cial-fired power stations will continue to be the prime source of extra capacity.

Other more clear cut mining expansion, largely on the gold mines but also on platinum, diamonds and other base metals, are clearly understated by the report because it does not take into account new projects which are bound to be announced before 1985.

Projects

According to mining sources several new projects will probably be announced this year alone ranging from new gold mines to brand new base metal mining ventures.

However, it does detail expansion which has been announced by the mining houses, predominantly on existing gold mines and among the country's three platinum mining companies.

Inexplicably the report is void of detail in respect of base metal projects which have been announced or where expansion is being planned or undertaken.

In respect of the Richards Bay coal export project some R390-million will be spent by the Railways alone in increasing capacity along the line to the port while at the terminal itself another R230-million will be spent by 1984 to increase handling capacity.

Turning aside from mining and mining related investments, the report notes that import replacement, in a wide field of activities, is another major factor in the total picture.

Among them are strategic projects such as the expansion at Armscor or the Atlantic Diesel Engine project, on which the IDC will spend some R350-million.

Moves to implement higher local content among the major industry products, too, will play its part in raising the level of capex planned by the motor industry.

Other replacement projects include the telecommunications industry and the electronics industry. Here the rate of growth is expected to be in the order of 25 percent a year.

Chemicals

The chemical industry, too, has announced expansion aimed at replacing certain feedstocks and end products such as a R250-million synthetic rubber plant by Sentrachem.

The report is understandably unable to estimate the capex planned by the thousands of smaller businesses where capacity utilisation has probably risen above 90 percent by the end of the year.

An indication of the expansion last year is evident from the 23 percent increase in real fixed investment by the private sector in the first nine months of 1980, in comparison with the same period in 1979.

Apart from the manufacturing industry, the building industry is another major area of growth where residential building plans passed have more than doubled for the first 10 months of 1980 compared with the same period in 1979. In the same period plans passed for manufacturing and commercial structures were 153,1 and 99,8 percent respectively.

Not all capex will be allocated for the expansion of facilities. Iscor is a case in point where its R1 000-million capex programme will be aimed more at upgrading existing capacity than at expanding it.

No. 64 9 Januarie 1981

AANSTELLING VAN DIREKTEURE VAN DIE NASIONALE FINANSIEKORPORASIE VAN SUID-AFRIKA

Dit het die Staatspresident behaag om kragtens die bevoegdheid hom by artikels 9 en 11 van die Wet op die Nasionale Finansiekorporasie, 1949 (Wet 33 van 1949), verleen, ondervermelde persone as direkteure van die Nasionale Finansiekorporasie van Suid-Afrika aan te stel:

Die heer Robin Allan Plumbridge as verteenwoordiger van beherende goudmynmaatskappye in die Raad van Direkteure van die Nasionale Finansiekorporasie van Suid-Afrika vir die onverstreke deel van die heer Robin Anthony Hope, wat bedank het, se ampstermyn, wat op 31 Augustus 1983 verstryk.

Dr. Gerhardus Petrus Christiaan de Kock as verteenwoordiger van die Suid-Afrikaanse Reserwebank in, en as voorsitter van, die Raad van Direkteure van die Nasionale Finansiekorporasie van Suid-Afrika vir die onverstreke deel van dr. Theunis Willem de Jongh, wat bedank het, se ampstermyn, wat op 31 Augustus 1982 verstryk.

No. 64 98 7357 9 January 1981

APPOINTMENT OF DIRECTORS OF THE NATIONAL FINANCE CORPORATION OF SOUTH AFRICA

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The State President, acting under the authority of sections 9 and 11 of the National Finance Corporation Act, 1949 (Act 33 of 1949), has been pleased to appoint the undermentioned persons as directors of the National Finance Corporation of South Africa:

Robin Allan Plumbridge, Esquire, to be the representative of gold mining houses on the Board of Directors of the National Finance Corporation of South Africa for the unexpired portion of the term of office, which will expire on 31 August 1983, of Robin Anthony Hope, Esquire, who has resigned.

Dr Gerhardus Petrus Christiaan de Kock to be the representative of the South African Reserve Bank on, and as chairman of, the Board of Directors of the National Finance Corporation of South Africa for the unexpired portion of the term of office, which will expire on 31 August 1982, of Dr Theunis Willem de Jongh, who has resigned.

Economy bumps the ceiling

RDM 15/1/81 (49)

By HAROLD FRIDJHON

THERE can be little doubt that the economic upswing has reached the stage where the economy is bumping against its capacity ceilings, not only in regard to skilled and semi-skilled labour but in respect of capital resources of production, says Dr Johan Cloete in the latest Barclays Business Brief.

In his comments on the bank's survey of business opinion, Dr Cloete says that in the current situation it must be expected that prices will start to rise much faster than output if total demand continues — or is allowed to continue — to increase at the high rate of the past year.

The business survey reveals that 39% of all respondents say they are operating not far short of full capacity; 24% are close to full capacity; a further 24% are at full capacity; and 5% are running at over-full capacity. Only 8% are well below capacity.

The labour situation appears to be as acute, with 44% of all respondents saying that skilled labour is in short supply and 55% describing their skilled labour position as being in very short supply.

No fewer than 85% of all the people who replied to the Barclays survey expect no significant improvement in the tight skilled labour situation in the year ahead.

Semi-skilled labour is also in short supply, according to 49% of the respondents, but 42% say that this category of labour is still readily available.

Unskilled labour is readily available.

Costs will rise this year, but not at the rate which one would have expected. Only 1% of the respondents expect wages to go up by more than 20%; 36% expect that wages will rise between 15% and 20%; 24% expect rises of between 12% and 15%; 36% of the respondents are looking to wage increases of between 10% and 12%; and only 3% foresee wage increases of less than 10%.

There is a similar pattern in the view taken on the increase in unit costs, with 1% expecting these to rise by more than 20%; 34% seeing rises of between 15% and 20%; 35% are looking at increases of 12% and 15%; 25% of the respondents think unit costs will go up by between 10% and 12%; and increases of less than 10% are forecast by 5% of the respondents.

Dr Cloete says that with the "mode" of expected increases in unit costs apparently about 15%, indications are that the inflation rate for the year as a whole is unlikely to be less than 15%. It could be higher because 34% of all respondents expect cost increases of between 15% and 20%.

On the other hand, replies to the Barclays questionnaire indicate that Most firms expect wage increases for 1981 to be lower than the increases in unit costs.

"This suggests that average real wages are likely to show little if any increase in the year ahead which does not augur well for a continued increase in private consumption expenditure (and hence of the economic growth rate) at the exceptionally high rate recorded during the past year."

The Barclays opinion survey reveals optimism about prospects for the next three to six months. While some respondents see signs of a levelling out of business, most speak of full order books, with consumers still apparently having money in their pockets.

Looking at prospects for the next quarter, most traders expect a further improvement (after allowing for the usual seasonal downturn), 41% hope to maintain their sales on about the same level as in the final quarter of last year and 12% are looking to a significant improvement in turnover.

Most manufacturing firms performed at high levels in the final 1980 quarter, but 64% do not think that their results in the first quarter will produce an improvement, although 31% expect better production and sales.

The results of the survey show that although most respondents expect to increase their stocks in the next six months, the outlook on inventories is not as buoyant as it was last September.

More than half of the respondents say profits were under some pressure last year and 54% expect the pressure to increasae in the year ahead.

Commenting on the response to last year's pressure on profits, Dr Cloete notes: "In view of the large wage and other cost increases experienced . . . in the past year, this result appears to confirm that the majority of firms are not facing very strong competition and are thus in a position to pass on wage and other cost increases via higher prices."

MONEY SUPPLY

Not much time left

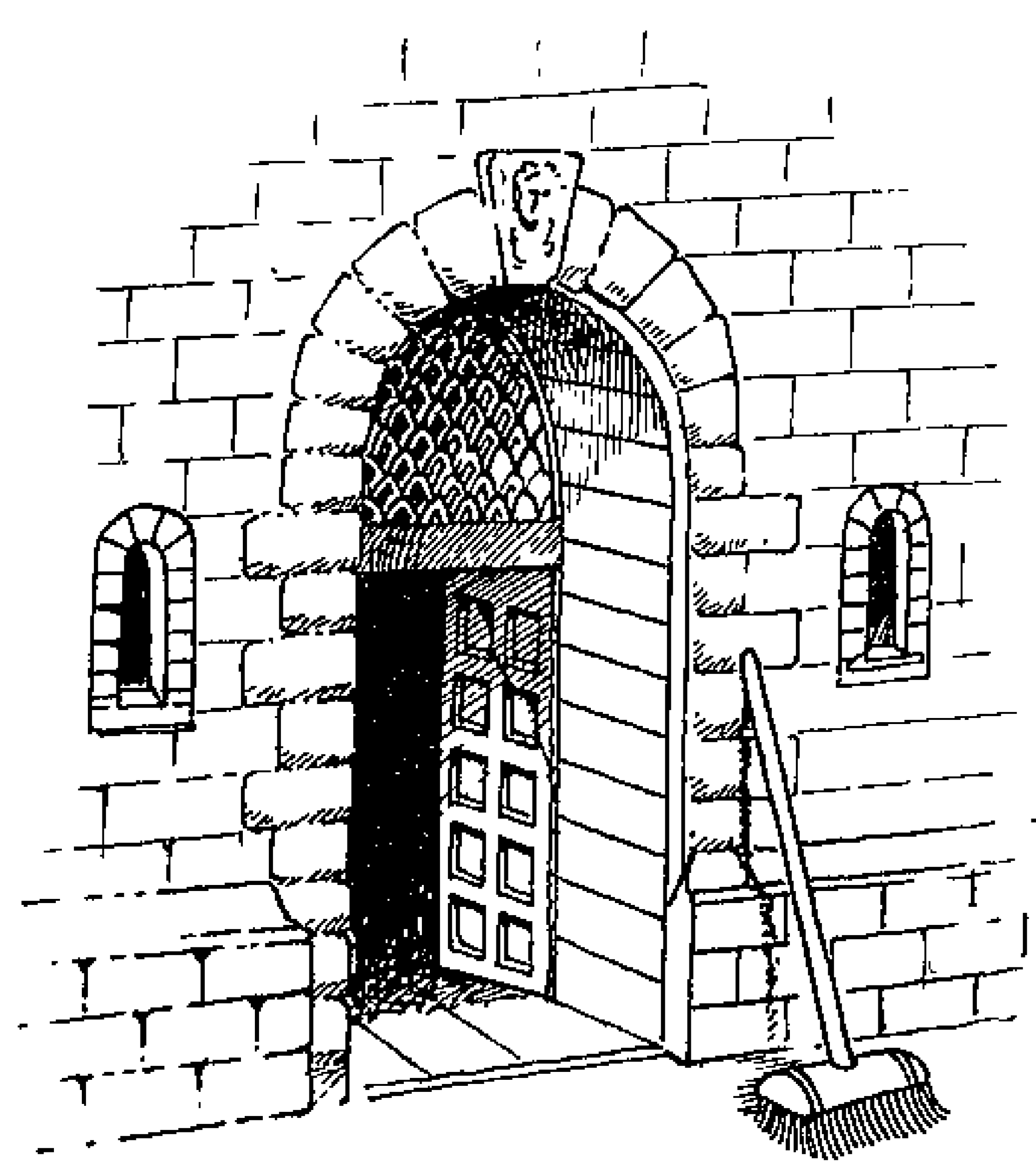
(49) FM 16/1/81

For the second time in a matter of weeks official money supply figures have been no less than horrific. Their inflationary potential is enormous. The burgeoning money stock is plainly out of control. It is thus one of the most pressing problems facing economic policy makers.

Yet for the two weeks he has been in office, the new Governor of the Reserve bank, Dr Gerhard de Kock, has remained in self-imposed isolation at Church Square. There has been not so much as a murmur from one of the chief architects the Treasury's hitherto exemplary financial policy.

Moreover, it is now clear that the final report of the De Kock Commission into monetary matters, which is to deal with precisely this problem, will not be ready before the second half of the year. This is because its chairman, the new Governor, has been so extensively involved in the emerging constellation policies.

The reason for the ostensible lack of activity, we guess, is that the seasonal tightening of liquidity has this year been so severe that it has given the new Governor a temporary respite. But it is no more than a respite. By April the money now flowing as tax revenues into the Exchequer will be coming out again. And, despite transfers to stabilisation account, the outflow is estimated at considerably more than the R900m of tax bills maturing at that time.



As that is plain for all to see, the new Governor is most likely preparing measures to withstand the tidal wave of liquidity that will hit the financial system in April and May.

His first task must be to gather a team of bankers capable of conducting intervention operations in the foreign exchange and money markets. For De Kock has stressed on more than one occasion that these two areas will be the real operational ones for the implementation of future monetary policy.

At their heart will be the resumption of an effective rediscount policy centred on a Bank rate that is geared to market trends. At the very latest the bank must be in a position to implement this policy vigorously by April.

De Kock does not in this respect appear to have been idle these past few weeks. Apart from two new deputy governors taking office, rumour has it that on January 27 the bank's board will be asked to approve the appointment of Diederik Goedhuys, formerly of the Wits Business School, as adviser to the governors, and that of the deputy head of the bank's economics department, Jaap Meijer, as assistant to the governors. The search is still on for a new general manager and for other key men.

Once assembled, this team will have to formulate and implement the open market policy — the buying and selling of appropriate securities — that will form the basis of measures aimed at reining in the money supply.

It will have to formulate rapidly monetary objectives for the year ahead and an official securities pricing policy that will tempt non-bank institutions back into the gilt market as buyers. With inflation at near 15% and the money supply having been allowed to rip, that will be no easy task.

Moreover, the amount of liquidity involved is likely to be so large that open market operations alone will not be sufficient to achieve the degree of control that is needed. Relaxations of exchange controls will also have to be formulated and implemented and possibly some mechanism enabling the Treasury to place deposits with the banks.

That is not the only problem. Past experience in the foreign exchange arena has shown that the piecemeal implementation of a grand monetary plan can create as many, if not more, problems than it is intended to solve.

For instance, if the managed float of the rand had been implemented properly, the authorities would not have run into trouble over the forward discounts. Nor would swap currency transactions, which are important to the development of the forex market, be inhibited.

It is a pity that the final report is not available to the new Governor. The *FM* appreciates the need to assemble skills. It acknowledges the seasonal respite. And it believes De Kock will not be gripped by the inertia that consumed his predecessor.

But, as we said only weeks ago, the monetary situation is too serious for delays of any sort — and it is still deteriorating. The simple answer remains for Finance Minister Owen Horwood to abolish exchange controls immediately. That single action would bring the money supply problem into almost immediately manageable proportions. Then De Kock would have ample time to implement other measures in an atmosphere more conducive to their success.

Huge R57m response to small business scheme

RDM 16/1/81 (49)

By JEREMY BROOKS

INTEREST by the private sector in the recently formed Small Business Development Corporation has resulted in the purchase of R57 050 000 subscription shares, says the chairman of the steering committee, Dr Anton Rupert.

At a Press conference in Johannesburg yesterday he said the value of subscription shares taken out exceeded the target figure by at least R7-million.

The committee had decided, in the face of overwhelming public support, to extend the deadline until the end of the month and to increase the target to R75-million.

Dr Rupert described the establishment of the corporation, and the public reaction to it, as the "beautiful face of capitalism".

He added: "The business sector has clearly recognised and is facing up to its responsibilities — with the realisation that without a better effort capitalism is doomed."

He said it was hoped that the Government would invest another R75-million to equal the private sector's contribution; R50-million had already been pledged by the State.

The corporation's main function would be to act as a guarantor for loans given by the normal banking system to the small businessman.

The corporation's policy was non-racial, its purpose being to benefit the community as a whole.

Dr Rupert said that with the aid of the branch networks of national banks the corporation would be able to reach, assist and advise rural and isolated population groups — many of whom would even be semi-literate or ill-educated.

"The amount we have raised may seem small in comparison to massive undertakings like Sasol, but we have the power to create wealth," he said.

INTEREST RATES (49)

Money costs more

FM 16/1/81

Seasonal shortages and intense institutional competition for funds have put money market rates under strong upward pressure, according to dealers and analysts, and the momentum appears to be accelerating.

Three-month bankers' acceptances and the discount houses' call rate on fresh cash have both risen 50 points in the last week to 8% and 7,20% respectively. And the Treasury bill rate firmed 27 points on Friday to 6,48%.

UBS's Peter Richardson . . . paying whatever is necessary

At the same time the houses were still in the Bank for about R250m when their repurchase option period expired 14 days after the end of the previous month, implying the forfeiture of assets pledged for rediscounting. The loss of these assets, dealers say, is not necessarily catastrophic, as the rate movements of the last few weeks have turned them into relatively low-yielders.

The causes of seasonal shortages include a massive withdrawal of banknotes from the banking system, company tax and foreign dividend payments and sharply higher import levels. And this has been greatly exacerbated by fierce intra-market competition for funds, mainly between the banks and the building societies. The societies are said to be offering up to 12% for one-year fixed deposits, and some of the smaller banks have allegedly met this rate on one-year NCDs.

Underlent on the commercial side, the banks' major priority at the moment is funding their HP and leasing commitments. Since the societies cannot take fixed deposits of less than a year, bankers say, some leeway remains on medium-term money, up to about 11 months.

The banks, nonetheless, depict themselves as victims of building society aggression. The societies, they say, face major institutional deposit maturities in the next few months, and are chasing the institutions for return cash flows. They are also, allegedly, pledging assets in warehousing deals at heavy losses. The only foreseeable limitation on upward movements in wholesale deposit rates, it is said, are the societies' "profit" margins, to which as individually owned institutions they need not be particularly responsive. So further rises in mortgage rates and, in reaction, prime overdraft rates, are widely mooted. As one banker puts it: "The 0,5% rise in OD could look stupid in a couple of months."

The societies defend themselves by maintaining that blame cannot be laid at individual doors for a market price that is theoretically the result of a diverse combination of market forces.

Peter Richardson, joint MD of the United Building Society which is widely named as a prime aggressor (possibly because of its size), offers an entirely logical defence. "We win some and we lose some," he says. "Because we lose some, we cannot be offering the highest rates in every case."

"And there are people," he darkly alleges, "who are prepared to pay anything, and to do the most peculiar things, to get money."

Richardson denies that the societies are now paying the penalty for greed displayed in the profligate years. But he does imply that the UBS at least will not let up in the relentless drive for funds. "We are in the market for funds in the normal fashion. If it is necessary to pay higher rates, then we do."

This sort of determination, and the fact that the market anticipates severe shortages in the next two months (R700m is the upper limit of estimates made for the January monthend), offers no release from the gloomy scenario of steadily mounting rates. Even at the relatively quiet long end of the market, rates on long-dated gilts and semi-gilts have risen about 50 points in the last week to around 12,30% and 12,80% respectively, allegedly on the actions of a few large sellers.

The hardening of the money market will at some stage spill over into the cost of retail borrowing. Whoever you are, there is no doubt you will be paying more for your money in the months ahead!

FM 16/1/81

BANK LENDING 49

Changing patterns

Last week's 0,5% rise in the prime overdraft rate was the first upward tug on the commercial banks' leading lending rate in nearly five years. It is viewed as the crucial forerunner of a sustained rise in lending rates that will almost certainly have an impact on the structure of overall bank lending in the next year. But bankers are reluctant to speculate on the precise form it will take.

According to Standard Bank GM Arthur Daymond, there is now little or no "real cost" differential between borrowing off-balance sheet and borrowing through conventional commercial bank facilities. Bearing in mind the standardisation of a 1,5% commission fee for bill endorsement agreed by the banks in November last year, observance of which appears to be widespread, the cost of acceptance credit is about 9,5%, and about 10% for non-liquid paper. On the retail side, the OD rate is now 10% and bill discounting fees 9,5%.

"If anything," adds Daymond, "wholesale credit is slightly more expensive. So we should see a shift to OD finance, but it could take time. Borrowing patterns are subject to a certain inertia. And, paradoxically, the possibility of rises in money market rates (and therefore in the cost of wholesale borrowing) may induce people to stay in the wholesale market in order to fix rates now for six to 12 months ahead."

Both markets have intrinsic uncertainty factors. Retail borrowing costs are dependent on the cost of retail money to the commercial banks. Merely to maintain their funding book, they must closely follow changes in the rate structure of the building societies. And, by all accounts, the funding policies adopted by the societies in the last few years of "easy money", coupled with their huge mortgage liabilities, will keep them aggressive competitors in the field.

The wholesale market appears to have a high liquidity potential, say bankers. Its chief sources of funding, the mining companies and institutions, still have large resources at their disposal, they add. But the market is tight now, and will remain so for the next few months, and rates will of course rise further. Projections for this market depend on a variety of factors which include the overall BOP outlook, monetary and fiscal policy and the gold price.

General bankers deny that the boom in leasing and HP in the last few years was, like the rise of the grey market, a reaction to the artificially high level of the OD rate. The cost of general bank credit has not been significantly lower than commercial bank credit, and a number of other factors apply.

"The largely industrial nature of leasing brings in considerations like long-term capital development planning, the inflation factor and; of course, the tax deductible aspect," says Nedfin MD Ron Rundle. "Despite OD now being more in line with the costs of other forms of credit, we're unlikely to see a pronounced swing away from HP and leasing. Consumer disposable income is still high, and industrial finance locked into long-term agreements."

But the level of OD rates will nonetheless affect costs. "When rates are more stable," says Peter Springett, MD of the newly established Barclays National Industrial Bank, "we try to fix rates for five years. At times like this, we peg them to prime rate."

But this method is regarded as unsatisfactory, since OD is simply not flexible enough to reflect changes in the cost of general bank funding. "We fund mainly through medium and long-term deposits," says Rundle. "Whereas our costs have risen by up to 1,5% in the last few months, the OD rate has gone up by only 0,5%. So we're lagging. But we are trying to create a more responsive system whereby our rates are based on the moving average of a basket of asset rates."

General bankers do not expect the demand for their credit facilities to drop, but Springett believes it is fair to speak of a funding squeeze in the months ahead. "Following the rise in wholesale and retail rates," he claims, "our costs must go up too."

Most bankers also believe that the OD rate will rise at least another 0,5% in the next few months. But even this is conditional upon whatever new measures are introduced by Church Square in the opening months of Gerhard de Kock's governorship.

"Something seems to be brewing," says one banker, "and it probably concerns Bank rate. It may be just another rise in the rate, but my guess is that sooner or later the link between it and the OD rate will be cut completely. Then both will be allowed to function as they really should — the one as a tool of monetary policy, the other as a market indicator."

MONEY SUPPLY

FM 16/1/81

Calling for Canute

(49)

The latest money supply figures released by the Reserve Bank are no exception to a year-long trend that has made nonsense not only of the Bank's ability to implement effective controls, but also of Finance Minister Owen Horwood's solemn declarations of an inflation-indexed target.

The absolute amount of money (broadly-defined) circulating through the economy at the end of November last year, the latest month for which figures are available, stood at over R15 000m. This yields a preliminary November-on-November annualised increase of 33%, almost 20 points higher than the inflation rate.

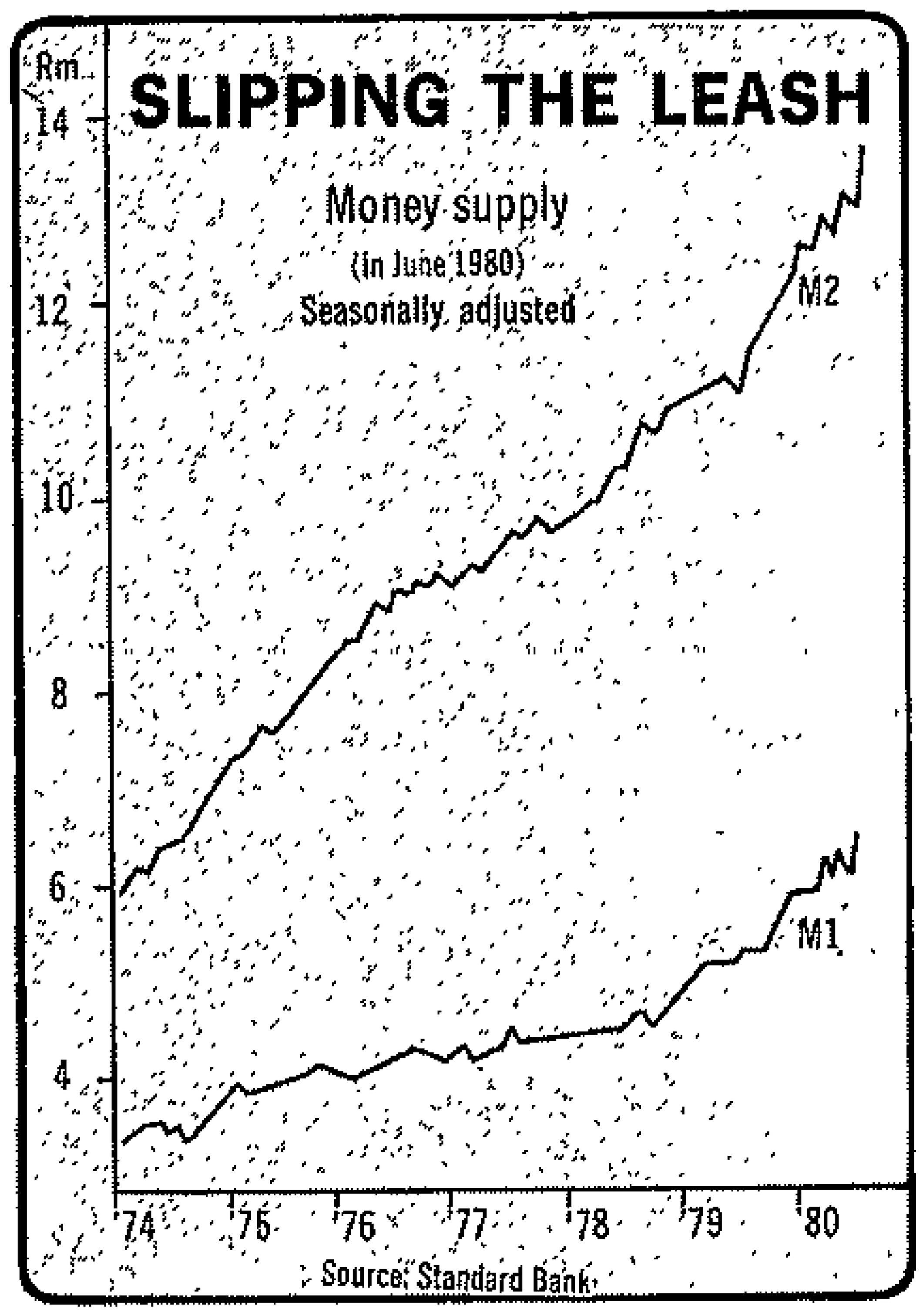
The narrowly-defined aggregate M1, which includes notes, coins and demand deposits, rose no less than 49% over the same period. This suggests that the annualised increase in M1 in the third quarter of 1980, which (also at 49%) created a sense of disbelief among economists, will prove to have been closer to the overall trend for 1980 than the 18% recorded in the second quarter. This is further supported by the fact that the six months preceding this second quarter saw an annualised increase of 42%.

The second quarter anomaly was due to a combination of factors that now appears to have been entirely fortuitous. Bank credit to the private sector rose only very moderately, while foreign inflows and government borrowings actually decreased. The third quarter saw a huge increase in net gold and foreign reserves, which provided a ready explanation for the alarming rise in the monetary aggregates. But a fall of over R400m in the reserves in the fourth quarter, which led commentators to predict a slowdown in the money growth rates, makes it clear that this excuse is no longer available.

Although official statistics are not yet available, the chief cause of the increase in October and November appears to have been a huge growth in bank credit to the private sector. Given traditional Christmas spending patterns, the December figures are unlikely to show any deviations in this particular curve. Money supply (M2) growth for 1980 will almost surely exceed 30%.

Apart from seasonal spending factors, private sector bank credit also probably received a boost from the abolition of credit ceilings in September last year. The important consequences of this would have been the real, rather than the statistical ones. The huge growth over the last few years in disintermediation (or grey market) activities has not in itself involved the concomitant creation of bank deposits, which by definition constitute money supply, although it has certainly accelerated their velocity of turnover.

But the rise in short-term rates, coupled with tight liquidity conditions, says one economist, has meant a return by borrowers to formal bank credit facilities, which do swell the figures. This would have been offset to some extent by the increased cost burden of supplementary liquid asset and cash reserve requirements. But support for a "net growth" assumption is provided by the Reserve Bank's quarterly bulletin which in December claimed that a substantial part of the rise in private sector bank credit in the third quarter of 1980 was due to increased holdings by the banks of bills discounted.



The resurgence of on-balance sheet lending, in concert with the predictably higher credit needs of business in a period of economic growth, point only to sustained pressure on money supply. In the opening weeks of his tenure, the new Reserve Bank governor Gerhard de Kock is faced with a problem his handling of which is crucial, both to his reputation and to the economic health of the country.

INVESTORS WAIT ON SIDELINES FOR ASSURANCES

Argus 17/1/81

(49)

Investment

By DEREK TOMMEY

FOR the first time since the beginning of 1978 it has become difficult to predict with any hope of accuracy the course of share prices during the next 12 months.

This is not because there has been any change in the basic fundamentals of the economy.

The long term outlook for gold and also for the South African economy is still extremely bright.

Rather, the problem arises because of what can be regarded as an accumulation of short-term uncertainties.

Investors are concerned about what is going to happen to the gold price in the next few months, and they are also a little worried about the course of domestic interest rates in this period.

The wild and unrealistic calls by African states for sanctions against South Africa following the collapse of the South West African negotiations may also be a worrying factor.

Also of importance is that these developments are happening at a time when many investors are showing substantial paper profits.

PRESSURE

As these developments pose a threat to these profits it is understandable that many investors have been selling their shares with the intention of sitting on the sidelines until the outlook for the market is more assured.

Thus, with little buying pressure but fairly sustained selling, the volume of trading has contracted and prices have tended to drift.

Meanwhile, an interesting comment on the state of the local share market appeared in the London Sunday Times this week.

Reviewing the outlook for the world's major share markets, it says it was unable to get a clear view of the outlook for South African industrials, mainly because one broker interviewed was decidedly bearish.

The paper found that South African brokers were concerned about the likely monetarist policies of the new Governor of the Reserve Bank and the current high rate of inflation.

Brokers were also forecasting weaker mining markets in the short term.

But the Sunday Times said that most saw a strong recovery in gold shares by mid-1982, although one broker predicted a 30 percent fall in gold share prices during the next 18 months.

Concluding, the paper says the South African forecasts were notable for their lack of agreement about a market which has exceptional long-term prospects.

This comment is interesting because it does not mention anything about a political risk in investing here.

On the contrary, it points out that South Africa's long-term prospects are outstanding.

If this passage is anything to go by, it would seem that investment attitudes in Britain towards South Africa have changed quite considerably in the past year or so.

WRITTEN OFF

It was not so long ago that many investment advisers in Britain had all but written off South Africa. Now, it would seem that once the gold price begins to firm again, foreigners could become substantial buyers of local shares.

The interest rate on the tax free building society shares and Post Office savings deposits have recently been increased to 8 percent making them a most attractive investment for anyone in the middle and high income groups.

However, pensioners and other people on low incomes should examine their tax position carefully before investing in them.

It is quite possible that they might be better off with other fixed interest investments where full tax is payable.

Everything depends on your marginal tax rate.

The higher this is the more attractive become the tax-free issues. For example, it would not pay a taxpayer to switch to tax free shares from 24-60 month fixed deposits which are presently paying 9,5 percent interest unless his marginal tax rate is higher than 16 percent.

That is unless he is earning more than R10 000 a year.

SWITCH

A switch into tax free from the 10,5 percent building society shares, whose one third of the interest is tax free, would only be worthwhile if the taxpayer's marginal tax rate was above 30 percent — that is if he is earning more than R16 000 a year.

And if he is an investor in Escom stock at 12,5 percent, an investment is 8 percent tax free, would only become attractive if his marginal tax rate was above the 36 percent which is levied on earnings of R22 000 a year or more.

Incidentally, if you believe that long-term interest rates have probably peaked and your income is less than R22 000 a year, an investment in long-dated semi-gilt-edged stocks could prove rewarding.

The current return on these stocks, as already mentioned, is around 12,5 percent and is even higher in some cases, which is well worth having.

There is also the prospect of capital appreciation when interest rates fall.

These stocks can be bought through a stockbroker or a bank.

Senbank, which has offices in Cape Town, is extremely active in this field.

2 YEARS OF STRONG GROWTH AHEAD FOR SA, SAYS DE LOOR

Argus 17/1/81 (49)

BY DEREK TOMMEY

SOUTH AFRICANS should be able to expect at least another two years of comparatively strong economic growth, Dr J H de Loor, Director-General of Finance, and one of the country's top economic planners, said in an interview in Cape Town this week.

Although the rest of the world was on recession, he said that the buoyant business conditions of the past year here were unlikely to be followed by any marked slow-down this year.

In 1980 the economic growth rate had been extremely close to 8 percent.

NOT SUSTAINED

This was a high rate but not sustainable.

The growth rate is now expected to return to a more healthy 5 percent to 6 percent.

Should South Africa have a 5,5 percent growth rate this year it was likely that this rate would be repeated in 1982 when demand from overseas for South African goods picked up again.

Dr de Loor said he believed that the economy could sustain an average growth rate during the next 10 years of 5,5 percent.

DR J H DE LOOR . . . 'no marked slowdown this year.'

COMPATIBLE

This rate was compatible with the country's natural, finance and labour resources.

A 5,5 percent growth rate would also keep unemployment at acceptable levels as well as increasing the standard of living of all populations groups.

Farsighted businessmen should base their planning on a basis of a 5,5 percent long-term growth rate, Dr de Loor said.

The major economic bottleneck facing the country was the shortage of skilled labour.

Therefore, one of the top priorities in the coming years would be to overcome this by increasing the supply of skilled manpower.

Much more would be spent on education at the primary, secondary and technical levels.

SCHOOLS

The doubling, announced recently, of expenditure for schools for Indian and coloured people was an example of what was happening.

Much else is being planned to develop the country's manpower.

Dr de Loor said he would also like to see more being done to bring in skilled people from abroad.

With many countries experiencing low growth rates or recessions conditions were favourable for recruitment.

SKILLED LABOUR

The other major economic problem was the high level of inflation, which was to a considerable extent caused by the shortage of skilled labour.

Ways would have to be found to neutralise the injurious effects of inflation and the skilled manpower shortage, he said.

UNIT TRUSTS

	Buy	Sell	Yield
Old M	378,32 (379,27)	353,75 (354,63)	4,16 (4,14)
NGF	221,17 (222,34)	206,52 (207,61)	4,93 (4,90)
SAGE	404,61 (405,89)	375,66 (376,85)	5,17 (5,15)
UAL	393,79 (394,40)	371,94 (372,52)	5,49 (5,48)
SATS	168,86 (169,77)	157,50 (158,37)	5,45 (5,42)
Sanlam	352,15 (354,29)	328,72 (330,72)	4,60 (4,57)
Trust	111,62 (112,64)	104,19 (105,14)	6,36 (6,30)
Santam	160,12 (161,36)	149,63 (150,79)	5,25 (5,21)
Intergr	115,00 (115,19)	108,95 (109,13)	6,61 (6,60)
Guard	360,49 (362,40)	339,42 (341,22)	4,83 (4,80)
Stand	240,72 (241,90)	228,71 (229,83)	5,44 (5,42)
Stand Income	90,58 (91,89)	88,17 (89,48)	10,79 (10,75)

FINANCE

Small Business scheme mirrors 'beautiful face of capitalism'

Argus 20/1/81

(49)

PIETER DE VOS looks at a historic point in the development of private enterprise in Southern Africa.

THE Small Business Development Corporation (SBDC) represents a historic mark in the development of private enterprise in southern Africa. Dr Anton Rupert, leader of the launching committee, calls its involvement in the promotion of wealth among the people of the area 'the beautiful face of capitalism'.

As a joint venture between private enterprise and Government to promote wealth among citizens, it could be of the biggest corporations in the world.

With a share capital which could reach R150-

Dr Anton Rupert

million, great hopes are pinned on the corpoation.

Its main task would be to provide guarantees for bank loans in cases when applicants have little or no personal security. Dr Rupert pointed out at a Press conference in Johannesburg recently that very few people with college or university education opened their own business.

Not even a high school education seemed essential to start a business, he said.

The corporation could therefore be a great aid to generate wealth among the people of southern Africa and might prove crucial for the continued existence of private enterprise in the area. People from all cultural and racial groups could make use of the benefits offered by the corporation.

The response of private enterpise to the call to subscribe amounts of not less than R100 000 for the share capital by Dr Rupert was termed 'a miracle.'

However, the corporation could provide some dividends to shareholders.

It will operate as a private enterprise company with full tax liability. The share capital was initially to consist of 100-million shares of R1 each.

STATE

At least 50-million 'A' shares would have been issued to the private sector and 50-million 'B' shares to the State.

However, with current subscriptions from private enterprise already totalling nearly R60-million, the target for private enterprise has been raised to R75-million.

If the Government took up shares on a 50-50 basis, this would mean that the corporation would start off with share capital of R150-million. Dr Rupert is confident that the share capital could reach at least R120-million. The Government's 'B' shares will share in the profits only after private and enterprise's 'A' shares have received an 8 percent dividend.

'A' shares may be taken up by means of five annual payments on the understanding that the minimum number of shares to be taken up by any shareholders shall be at least 100 000.

LEADERSHIP

The corporation would be under the leadership of private enterprise. The board would consist of state nominees and members from the private sector, but groups from the private sector which contributed R1-million or more would be allowed to nominate one director and the Government would nominate only one-quarter the total number of directors. Apart from these members, the board will have the right to nominate experts in any field as board members.

From this large board a much smaller executive board will be nominated to implement policies laid down by the larger board.

Because of the broad spectrum of its activities, other boards which previously directed their efforts solely at the coloured and Indian communities will be absorbed by the corporation. Some activities of the Economic Development Corporation aimed at the economic development of blacks will be taken over by the corporation as well as the small-business section of the Industrial Development Corporation.

The Industrial Development Corporation has already amended legislation to allow it to provide assistance to industrailists in centres such as Soweto.

To date, the IDC has made about R25-million available to small industrialists. Altogether 40 mini-factories are being built in Soweto, Diepmeadow and Dobsonville.

OBJECTS

The SBDC's objects in broad outlines would be:

- The promotion of private enterprise among all population groups in Southern Africa.
- The financing of small business by providing share and loan capital on a short, medium and long-term basis.
- Providing business infrastructure such as factory units, industrial parks and business centres.
- The underwriting or guaranteeing of loans

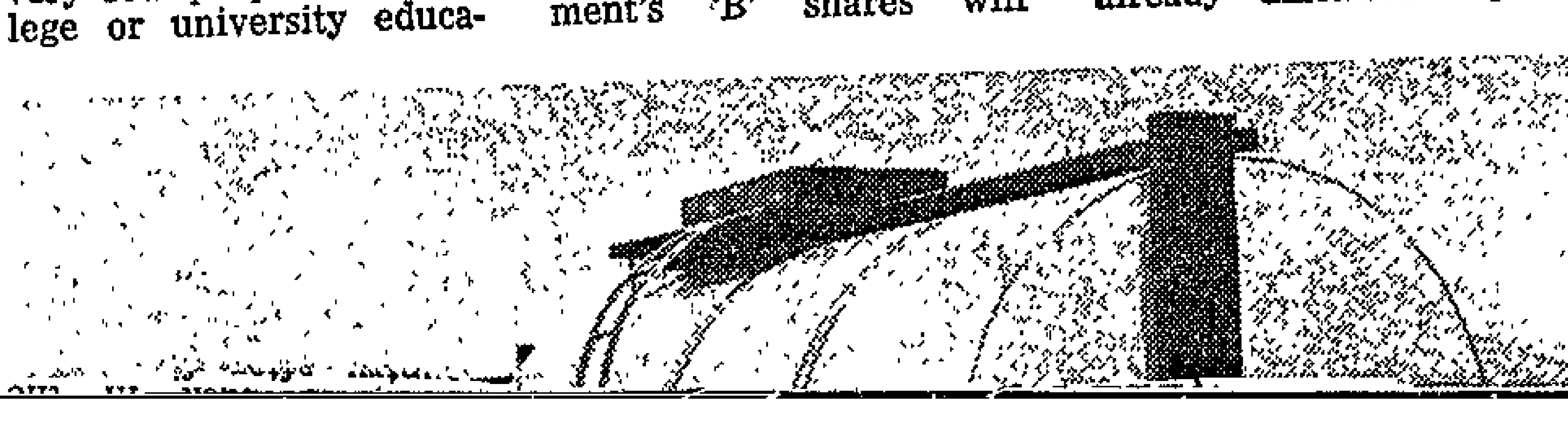
Mr P W Botha

granted by the private-banking sector to their own enterprising small-business clients.

- Providing aftercare to small undertakings that have received financial aid from the SBDC.

Mining companies have so far subscribed R16,15-million, industrial companies, almost R13-million, banks R12,25 million, insurance companies, R10,45-million, oil companies R4,5-million, motor companies, R450 000 and newspaper companies R300 000.

The notable exception is commercial undertakings. However, all companies have until the end of this



ARCHITECTURE

(Continued)

Mrs. Thornton White Prize
For the best work in first year.

Miss M F J Sandilands

S A Brick Association Prize
For the student who has made best use of bricks in his design work.

J G Kirkman

Award
est project in
and design.

s

Development Fund
Building Industry
izes
in each

month to subscribe. The company will be registered on February 3 and will hold the first board meeting on February 12.

CONSTELLATION

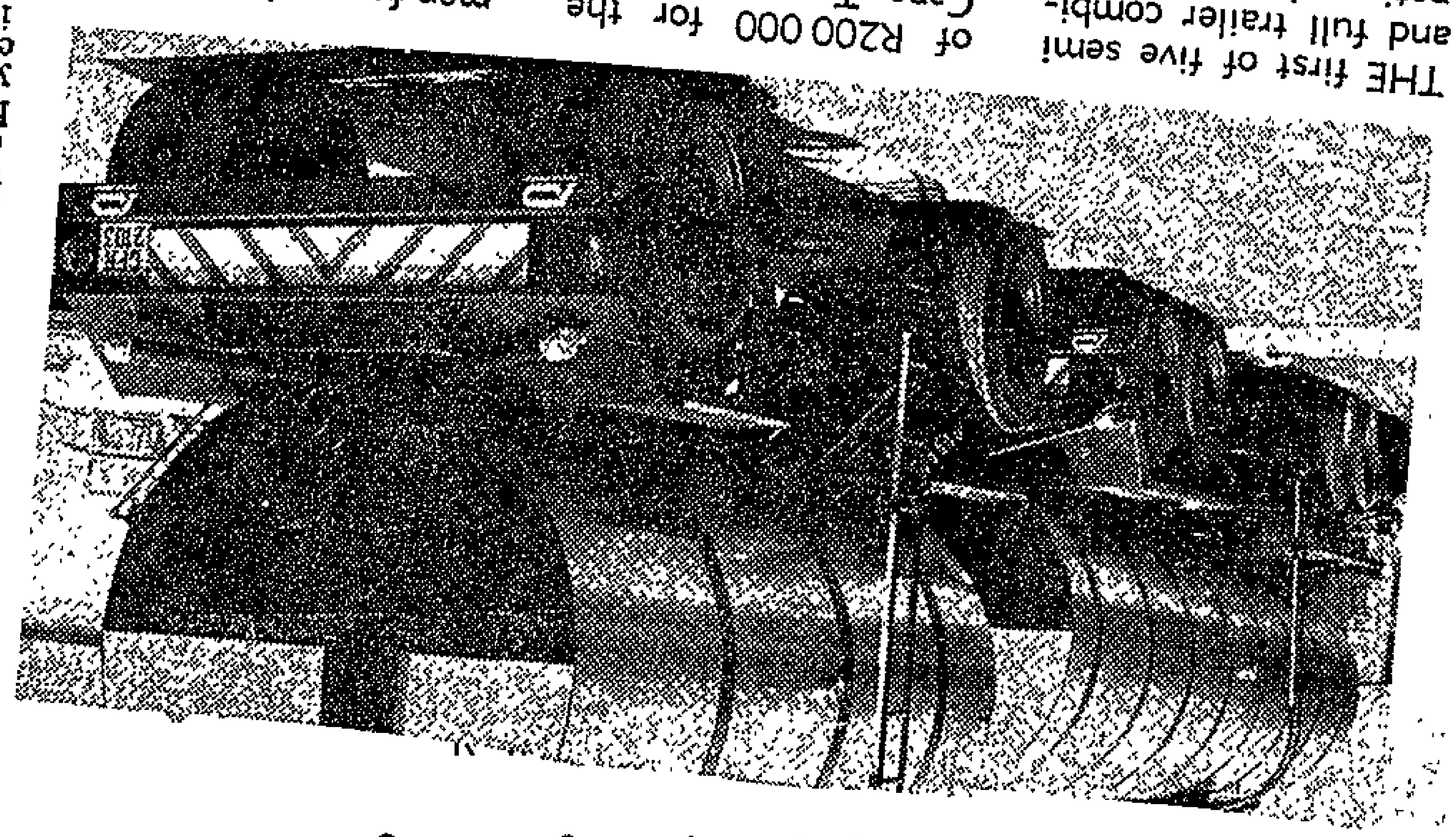
The Prime Minister, Mr P W Botha, views the corporation as 'another milestone towards a constellation of states in southern Africa.' In an address at the inaugural meeting of the SBDC last November he pointed out that the methods of production in southern Africa have over the past 30 years become increasingly capital rather than labour-intensive.

"This means only one thing — as some of the people show a rising income, there is growing unemployment among the masses of other people.

"Undoubtedly an important part of the solution is to be found in the promotion of small-business enterprises," said Mr Botha.

Legislation will be passed this year for the incorporation of the assets of the other corporations.

A small staff will man the SBDC head office in Johannesburg. The workers will be recruited from existing development corporations and private sector institutions.



THE first of five semi and full trailer combinations built by Duncan Andrew at a cost of R200 000 for the Cape Town company, Much Transport, for the movement of bitumen for road surfacing.

The trailers incorporate a number of special features including a 100-mm thick mineral wool insulation which will maintain the temperature of the bitumen for over twelve hours in the event of long-haul operations.

The last two combinations are scheduled for delivery in April and May.

George Strachan Prize
For the best final year student of the degree course.

R W Kohne

LTA Prize
For the best student obtaining a first class pass for a dissertation in Building Management.

S F Richardson

Small Business scheme mirrors a 'beautiful face of capitalism'

STAR 47 17/6/81

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CRUCIAL

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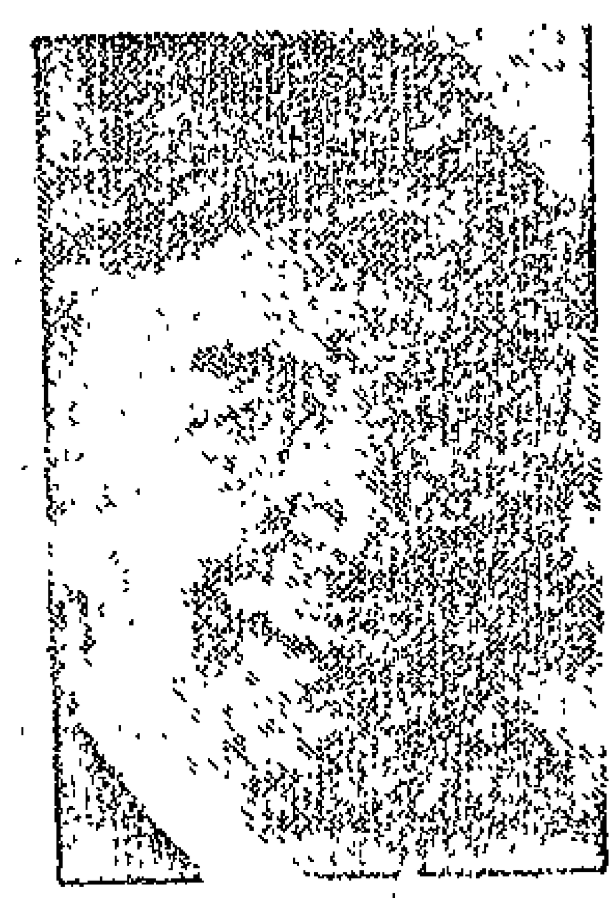
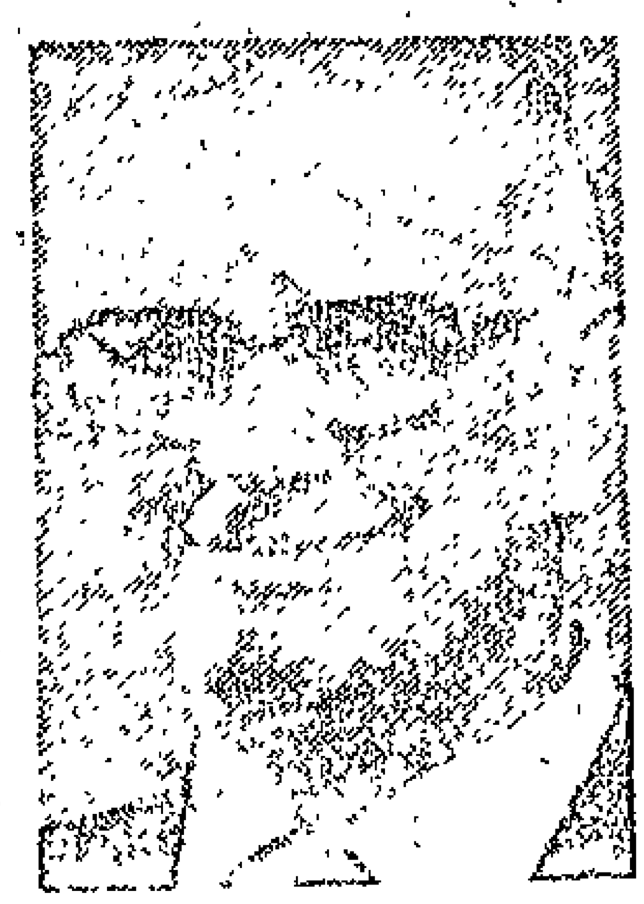


Mr Anton Rupert . . . historic mark.



Mr P W Botha . . . wider wealth.

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FINANCE

GROWTH RATE REACHES 8,7 PERCENT

Argus 20/1/81

49

Financial Editor

THE South African economy expanded at a cracking pace in the first nine months of 1980, with output growing by 8,7 percent, the Department of Statistics reports.

Agricultural output, which grew by 18,2 percent, accounted for much of the exceptionally high growth rate.

But manufacturing output grew by 13,4 percent, commerce by 10,6 percent, electricity and transport by 9,1 percent, and construction by 8,2 percent.

Mining output in real terms dropped by 0,4 percent, mainly as a result of a reduction in gold output.

LOWER GRADE

The mining tax system forces mines to work their lower grade ores and thus reduce gold output when the gold price increases.

Overall, the non-agricultural sector grew by 7,8 percent in the first nine months of last year.

Helping to stimulate the economy was the continued rise in private consumption expenditure.

This rose in real terms by a further 2,2 percent in the third quarter after a similar rise in the second quarter and a rise of 1,4 percent in the first quarter.

The third-quarter increase represented a rise of 9,1 percent in consumer spending at an annual rate.

ANNUAL RATE

Demand for durable goods increased in the third quarter at an annual rate of 11,3 percent, while demand for semi-durable goods increased by 3,9 percent.

In actual money terms, the gross domestic product in the first nine months of last year rose to R42 796-million up R11 400-million or 36,1 percent on the same period of 1979.

CASH TERMS

Remuneration of employees rose by 18,4 percent in cash terms from R17 391-million to R20 600-million, while the gross operating surplus — rents, profits, dividends — increased by 57,3 percent from R14 043-million to R22 093-million.

About half of this increase was the result of the greater value of mining output. This rose by almost 80 percent from R5 590-million to R10 022-million.

The value of manufacturing output rose by R2 300-million equal to an increase of 32,2 percent, while the earnings of commerce rose by 1 400-million, equal to an increase of 35,6 percent.

ORGANISATION OF SOUTH AFRICAN TRADE UNIONS

CONFEDERATION OF LABOUR

17 unions: 137640 members

- ULTRA-RIGHT WING UNIONS
- WHITE UNIONS ONLY ADMITTED
- STRONGLY SUPPORTS JOB RESERVATION – PROTECTION FOR WHITE WORKER
- NOT AFFILIATED TO INTERNATIONAL UNIONS.
- DIVIDED ON SUPPORT FOR NEW LEGISLATION – NON-DISCRIMINATORY LAWS.

FOSATU

14 unions : 22030 members

- MAINLY OPPOSED TO GOVERNMENT POLICY
- PREDOMINANTLY COLOURED AND BLACK UNIONS
- STRONG SUPPORT FOR MIXED UNIONS
- MANY AFFILIATED UNIONS ARE NOT REGISTERED.
- SOME AFFILIATION WITH INTERNATIONAL UNIONS
- DO NOT SUPPORT THE NEW LEGISLATION
- CONDEMN "PARALLEL" UNION POLICY

TUCSA

ions : 260650 members

- OLDEST FEDERATION O
- MODERATE, MIDDLE-OF
- SUPPORT REGULATIONS
- MANY MIXED AND SINGI
- AFFILIATED TO INTERN
- SUPPORT "PARALLEL" U
- SUPPORT AND HAVE HEI

NIONS

ILIATED

IOUR POLICY

NON-ALIGNED UNIONS

nions : 276025 members

- POLICIES SET BY EACH U

ASIS

Chamber predicts recession

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4.4

Own Correspondent

DURBAN — The Kaffrarian Chamber of Commerce yesterday predicted an economic recession in King William's Town if it was incorporated into the Ciskei.

In a report to the Van der Walt Commission, the Chamber said the town would dry up economically and stagnate.

The Chamber listed among its objections to incorporation "horror" at what had happened in Transkei.

Its development had dried up, some towns and villages had deteriorated into filthy dumps, and there was mass unemployment.

FINANCE

SA shows no alarm at 28 pc growth in money supply

Argus 21/1/81

49

Financial Editor

A REASONABLY careful observer of the economic scene would have noted that the financial authorities in South Africa tend to take a somewhat different attitude to controlling the money supply from their counterparts overseas.

For example, the news this week that the money supply in this country had increased by 28 percent in the 12 months ended November appeared to occasion no restrictive actions by the authorities.

On the contrary, the only noticeable step they have taken has been to step up the flow of funds to the money market, so easing a tight situation and preventing short-term interest rates rising further.

But overseas, and especially in Britain and the United States with their present financial regimes, such an increase would be regarded as almost a national catastrophe. It would certainly have led to demands for severe counter-measures.

PRIMARY AIM

Why is there such a difference in attitude? An answer is to be found in an article on the money supply in the latest issue of Barclays Bank's business briefs.

In this highly interesting article the bank claims that overseas financial authorities are failing to observe the primary aim of monetary policy, which is to enable the economy to grow as fast as it is capable of doing.

The bank points out that the demand for money is a reflection of the level of economic activity. The supply of money, on the other hand, depends on the level of bank credit and any inflow of funds from overseas.

LOWER RATE

The monetary authorities should aim at enabling the banks to provide sufficient credit to meet demand, otherwise the economy may grow at a lower rate than it is capable of attaining.

But at the same time the authorities cannot allow a limitless supply of credit. Production would then exceed the level of resources and cause prices to rise.

The bank says the poor performance of most of the industrialised countries at present is the result of their failure to aim for economic growth.

Instead of allowing the money supply to rise to meet demand, they are setting money supply targets aimed at curbing inflation.

But in many instances much of their inflation is not caused by excess demand. It therefore does not respond to reduction in the money supply.

The inevitable result is growth rates well below those which their economies are capable of achieving, says the bank.

Gold rallies

THE rally in the gold price in New York last night was maintained in London today when it opened at 573,50 dollars.

In New York gold rose 5.75 dollars from its London close to 569,50 dollars on the news that the Iranians had freed the American hostages.

Fixings in London yesterday:

	Dollars an ounce	Rands a kg
10.30 am	563,50	13 621,87
3.00 pm	562,00	13 585,61

UNIT TRUSTS

	Buy	Sell	Yield
Old Mut	376,00	351,58	4,18
	(375,92)	(351,50)	(4,18)
NGP	219,65	205,09	4,96
	(219,84)	(205,27)	(4,96)
Sage	403,17	374,32	5,18
	(402,61)	(373,81)	(5,19)
UAL	391,50	369,78	5,52
	(391,85)	(370,11)	(5,52)
SATS	167,83	156,54	5,48
	(168,46)	(157,12)	(5,46)
Snlmtrst	349,62	326,35	4,63
	(350,26)	(326,96)	(4,63)
Trust	111,12	103,70	6,39
	(111,12)	(103,75)	(6,39)
Santam	158,80	148,35	5,29
	(159,62)	(149,14)	(5,26)
Intergro	114,41	108,40	6,64
	(114,60)	(108,57)	(6,63)
Guardbk	357,27	336,45	4,87
	(358,52)	(337,62)	(4,86)
Standard	238,97	227,11	5,48
	(239,78)	(227,82)	(5,46)
Stand Inc	90,97	88,58	10,86
	(90,96)	(88,57)	(10,84)

Manufacturers' big role in economy

21/9/81

(69)

By Ann Crotty

Information from the Department of Statistics highlights the importance of manufacturers in the economy during 1979.

The information concerns registered companies with assets exceeding R250 000 — assets of these undertakings represent more than 90 percent of the total assets of all companies.

With 1 043 760 workers, the manufacturing division is the largest employer and pays wages and salaries of R3 946,3-million.

The next largest employer is the mining and quarrying sector with 648 879 workers, paying R1 551,5-million in salaries and wages.

The division titled wholesale and retail trade and catering and accomodation services, employing only 606 327, pays wages and salaries of R2 475,093-million. This sector has the largest gross income with R41 910,6-million.

All-round surge for Trade & Ind

RDM 22/1/81

(49)

By DAVID CARTE
Deputy Financial Editor

A HEALTHY banking climate, surging imports and exports and better profits in its subsidiaries, lifted Trade & Industry Acceptance Corporation to a 59% attributable profit increase in the six months to December.

Taxed profit of Trade & Industry itself soared 69% to R1 640 000, and the taxed attributable portion of subsidiaries' profits rose 43% to R505 000. This means the financial division contributed 77% of the R2 101 000 total and the subsidiaries 23% against a 73%-27% split in the first half of last year.

Earnings a share rose 34% to 54,8c (1980: 41c) in spite of a 20% increase in the weighted average number of shares in issue after the Commonwealth Shippers acquisition.

The interim dividend was increased 30% to 13c (10c).

Textile subsidiary Svenmill hoisted pre-tax profit 70% to R973 000. Tax became payable, however, and earnings rose 40% to R803 000, or 10c (7,1c) a share. No interim dividend was paid, but a yearend dividend will be considered.

President Catering raised pre-tax profit 27% to R846 000, taxed profit 29,5% to R487 000 and earnings a share 28% to 14,3c (11,2c). The interim dividend was lifted from 4,5c to 5,5c.

The chairman, Mr Ivor Jacobson, told me the financial division had managed to prosper with interest rates rising, as it had a year ago when they were falling. Higher rates reflected greater demand for funds, as clients' needs for finance grew in a more buoyant economy.

He believed the economy would become even less liquid. T&I, he said, would benefit if it did, as it had maintained liquidity in reserve.

Mr Jacobson said Svenmil's order books were at record levels. While tax had not been paid in the half-year, the tax provision represented half the expected yearend tax bill.

He said Prescat was running ahead of budget and was increasing market share.

He was confident that not only the financial but the other divisions could maintain the pace of the first half and that earnings at the yearend would still be 34% ahead.

Mr Jacobson stressed that the interim dividend did not suggest cover would increase at the yearend. It would be constant at 3.

He said stated earnings were after writing off the costs of a lot of infrastructural development, particularly in integrating Commonwealth Shippers and expanding the international network of offices. T&I was now represented in 14 countries.

The company says it has not benefited "significantly" by either trade credit switching or the stronger rand in the past 18 months.

COMMENT: Assuming T&I maintains the pace until the yearend, it will earn 122c a share and assuming cover is held at just over 3, it will pay 40c. That puts the top company on a relatively attractive prospective yield of 7,1% and a prospective PE of 4,6.

Depending on the outlook at the end of the year, Svenmill looks likely to pay a final dividend, even if it is only 5c or 10c. That goes a long way towards justifying the present price of 80c.

Prescat's 28% earnings improvement was relatively disappointing, but judging by the interim, earnings of 29c and a dividend of 12,5c are possible, suggesting, at 115c, a prospective yield of 10,9% and a PE of 4, which looks good value.

ARCHITECTURE
(Continued)

Mrs. Thornton White Prize
For the best work in first year.
Miss M F J Sandilands

S A Brick Association Prize
For the student who has made best use of bricks in his design work.
J G Kirkman

R Stubbs Award
For the best project in structure and design.
M R I Ness

BUILDING

National Development Fund for the Building Industry

RDM 22/1/81

Cash flood for the Treasury

49

By HAROLD FRIDJHON

MONEY is flowing into the Treasury at a rate far exceeding budgetary expectations. Receipts for the eight months of the fiscal year to November 1980 — after transfers to central revenue fund and to customs union members — amounted to R8 223-million. For the full tax year, the Treasury expected to collect R10 911-million.

If collections continue to flood into the Exchequer at this rate, collections could total R12 335-million — and Mr Horwood would take in R1 423-million more than he budgeted for.

By the time that the Minister of Finance presents his accounting for the current financial year — by the last week of March — he will probably show collections well over R12 335-million and have a handsome surplus for stashing away in the stabilisation account.

In the next four accounting months he can look forward to huge inflows into the Treasury account, possibly at a heavier rate than the R1 028-million which is the monthly average for the past eight months.

Big tax payments are still to come into account from all sectors of the economy, with large payments falling due at the end of February when provisional taxpayers will weigh in with their contributions.

Although figures point to a significant surplus when accounts for the fiscal year to March are drawn, it is possible that with fancy footwork and a certain amount of departmental overspending, the final surplus will not be shown to be as large as it is now appears.

But a surplus there will be, and taxpayers cannot look forward to getting back some of the excess receipts.

First, it is doubtful whether the 1981 gold price will enable Mr Horwood to gather in as rich a harvest from the mines as he garnered this year. Indeed, he might well be lucky if the 1981-82 year brings in two-thirds of this year's collections.

Second, it is doubtful whether he will want to put any more spending power into consumers' hands. It is probable that tax rates will be unchanged in spite of fiscal drag. There is still sufficient momentum in the economy without any additional stimulus that might add to inflationary pressures.

Income tax brought in R4 569-million by the end of November. This must be compared with R3 000-million for the same period of last year and a budgetary estimate of R5 991-million.

Gold-mine lease payments brought in R550-million against R219-million last year and an estimate of R635-million for the year.

The Treasury's big money spinner, general sales tax, earned R1 049-million against R800-million for the first eight months of last year, R1 249-million for the last full tax year and R1 550-million which Mr Horwood hoped to collect this year.

With December's sales still to come into account — and it must be remembered that most shops spoke of increased turnovers of 25% and more over the Christmas season — GST collections should easily top the estimates.

Other significant increases in revenue came from non-resident shareholders' tax which brought in R190-million in the first eight months against R103-million last year and R200-million for the full year.

Transfer duties exceeded R103-million for the eight months against R54-million last year and a budgeted R95-million for the whole of last year.

Customs and Excise brought in R1 235-million compared with R1 081 for the first eight months of the last fiscal year and Budget estimates of R1 611-million. The Customs and Excise figures are subject to the deduction of payments to other members of the Customs Union.

The opening of Parliament

MESSAGE OF OPTIMISM

Argus 23/1/81

Pomp and ceremony return to streets

Staff Reporter

COLOUR and ceremony returned to the city centre today as more than 1 000 troops, military bands, aircraft and the presidential procession combined to open the fifth session of the sixth Parliament of the Republic of South Africa.

In contrast to the opening of the last two sessions, the thousands of onlookers and participants did not have to contend with sweltering heat this year.

FOUR BANDS

Partly cloudy weather, clearing now and again, greeted the 1 000 troops who took up their positions in Adderley Street from Wale Street down to the Heerengracht. Four military bands and the Railway Police band entertained the crowd.

The House trumpeters and the guard of honour, made up of the State President's personal guard, formed up 30 minutes before the official opening at 11 am.

THE ROUTE

With split-second timing the presidential procession left the official residence, Tuynhuys, at 10.39, and were escorted along the traditional route down Adderley Street by mounted members of the South African Police.

The presidential couple and their aide-de-camp stood on the threshold of the red carpet as the State President's guard presented arms and the naval band, under Commander Ron Marlowe, played the national anthem. Trumpeters greeted Mr Viljoen before he entered the House.

As the opening prayer was read a flight of Impala jet aircraft made a low pass over the House.

THEIR SEATS

Constitutional changes saw the 12 nominated Members of Parliament first time. No senators attending the opening — the Senate was dissolved under the new dispensation introduced last year.

Guests and Cabinet Ministers and their wives arrived well before the official opening to take up their seats in the House.

The wives of Ministers were seated in the House while wives of members were in the public gallery.

Street fashions were largely unspectacular this year. Onlookers were dressed in casual everyday wear — safari suits, breezy summer dresses and sandals.

Mr Marais Viljoen

THE gleaming black of the State President's limousine and its attendant vehicle contrasts with the white of the South African Navy and the blue of the South African Police as the procession takes the State President, Mr Marais Viljoen, and Mrs Viljoen towards Parliament for today's opening.

Cautious appraisal of buoyant SA

(49)

Political Staff

THE State President, Mr Marais Viljoen, opened Parliament today with a message of buoyant optimism laced with concern about food production, energy needs, inflation and the plight of flat tenants.

It was an historic opening of South Africa's first unicameral (single chamber) Parliament since Union in 1910.

Mr Viljoen said the sustained progress of the Republic in spite of unstable world conditions contrasted sharply with conditions in the rest of Africa, he said.

Soviet threat

Mr Viljoen praised the 'outstanding' performance of the economy last year

session, said the provision of adequate housing would be given high priority this year.

This applied particularly to the less privileged.

Flat buildings had been increasingly withdrawn from the letting market for selling which was creating problems for tenants unable to afford anything else.

'Measures to provide more security for flat tenants and at the same time avoid discouraging investors are being exhaustively investigated,' the State President said.

Development of economic assets had made ever greater demands on energy resources, but good

(Contd on Page 3, col 1)

'Kappie' demo outside House

EIGHT members of the Kappiekommando waited at Parliament today in the hope that they could present a bouquet of flowers to the Prime Minister.

The woman, all in black, wore Voortrekker kappies.

A bystander said an attempt would be made to arrange a meeting between the Prime Minister and members of the women's group in private this afternoon.

The 'Boerenooientjies', under the leadership of Mrs Marie van Zyl, 42, would present their flowers to him then.

Members of the Afrikaner Weerstand Beweging also stood as a group near Parliament at the formal opening today.

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Optimism

(Continued from page 1)

progress was being made with a national strategy to counter energy problems.

He spoke of rapid population growth increasing demands of agricultural resources.

The best possible use of land was imperative as the requirements of South Africa's people and other countries in Africa depended on food produced in South Africa, he said.

Mr Viljoen touched on health services, rationalisation of the public service, the coming Republic Day celebrations, manpower usage and transport.

He said good progress had been made in providing education facilities in spite of disruptive circumstances.

South Africa's greatest assets remained her people, their national will and determination.

"As Table Mountain here in our Cape of Good Hope is sometimes enveloped in heavy storm clouds and as, once the clouds roll by and the storm abates, Table Mountain still towers there firm and strong and inviolate, so are South Africa and her people," he said immediately before reading the official statement opening Parliament.

FINE ART & ARCHITECTURE

ARCHITECTURE

Cape Provincial Institute of Architects' Prize

For the best student in :-

Sixth Year

P F Dunckley

Helen Gardner Travel Prize

For a student who has satisfactorily completed 1st, 2nd and 3rd major courses.

P A Rappoport

Molly Gohl Memorial Prize

For the best woman student in third year.

Miss C Tregold

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FINANCE

SA SET FOR R43-BILLION INVESTMENT

Argus 23/1/81

49

Financial Editor

SOUTH AFRICA is at the start of the biggest investment boom in its history. According to figures compiled by the Standard Bank, major new projects costing R43 000-million are now under way or in the pipeline.

For South Africans this is good news indeed. Investment on such a scale and the expenditure of such a vast amount of money should ensure that the country enjoys a high level of prosperity and growing employment for at least the next five years.

For anyone with some education and employable skill, no matter what their colour, the investment boom will bring direct benefits. For it is bound to lead to a considerable demand for skilled and semi-skilled workers.

As a result, anyone who is willing to learn a skill can look forward to a much higher standard of living in the coming decade.

The boom has been brought about by the fact that South Africa possesses many valuable minerals which the rest of the western world is at last realising it desperately needs for its own prosperity.

But increased international demand for South African minerals, in addition to triggering a mining boom, is also resulting in a major industrial and commercial boom as well.

Below are the companies which are involved in major new investment and the cost of their projects, as recorded by the Standard Bank.

FINE ART & ARCHITECTURE

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ECONOMY (14) FM 23/1/81

Aiming at M2

Further easing of exchange controls to cut back massive accretions to the domestic money supply were hinted at by Finance Director-General Joep de Loor at an agricultural conference this week.

Outlining monetary and fiscal priorities for 1981, he identified inflation and M2 as the policy-makers' prime targets this year. Steps taken so far to gain a measure of control over M2, like sterilisation of government revenue and open-market operations, had met with some success. "But it is clear at this stage (even before the next report of the De Kock Commission) that more active use will have to be made of exchange controls as a policy instrument."

In a mild reproof, De Loor urged farmers to raise productivity to reduce the adverse effect of the food price component on the CPI. Inflation was running at 15% in the 12 months ended November 1980, but the food inflator was rising at the rate of 27,6% in the same period. Net of food prices the overall inflation rate would have been a fairly respectable 10,7%.

Reviewing 1980, De Loor said real gdp will have grown about 8% and although demand hoisted imports, gold will have pushed overall trading results into a current account surplus of more than R3 000m — 5% of estimated gdp for the year.

1981, says De Loor, should be a "satisfactory" year. Real gdp growth will probably drop to a level between 5% and 6%, aided by increased government spending which, De Loor says, will probably be necessary to maintain the momentum of higher rates of fixed investment.

Private consumer spending on durables and semi-durables could increase 6% and non-durables 9%. But to cool demand pull and facilitate expansion it will be necessary to allow imports to rise 15%-20% on 1980 levels.

Exports will probably stagnate, but assuming a gold price of $500 or more for the year, 1981 will close with a current account surplus.

De Loor is less sanguine about interest rates, which will be higher. How much higher will depend on the degree of control that can be exercised over M2 accretions, the rate of gdp growth, balance of payments movements, exchange control policy and fluctuations in foreign interest rates.

Dark trends for SA

RDM 24/1/81 (49)

By ALEC HOGG

UNEMPLOYMENT, inflation and the high population growth were "dark trends" hanging over the South African economy, Professor Rias van Wyk told Liberty Life's seminar in Johannesburg yesterday on the life-insurance industry.

Professor Van Wyk heads the business economics department at Stellenbosch University.

He said unemployment would remain at unacceptably high levels in international terms.

According to the Economic Development Programme, even if South Africa achieved a 5% growth rate over the next 20 years, unemployment among unskilled workers would still be as high as 11%.

On the other hand, if growth average only 3,5%, the figure would rise to 22% of the labour force being unemployed by the turn of the century.

One of the main reasons for this was the geographic fragmentation of the economy.

The high population growth would also present problems.

In 1970, there was 5,5 ha for each person in South Africa, but the figure fell to 4 ha in 1980 and was expected to be only 2,5 ha by the turn of the century.

South Africa averaged a 2% growth in population every year, which meant a doubling in the number of people to feed every 35 years.

"We will have to construct as many roads, schools and houses in the next 35 years as we have over the last 350 years."

South Africa had one of the highest growth rates in the world, well ahead of many of the industrialised countries.

Dr Van Wyk said interest rates would have to rise significantly if money supply, and thus inflation, were to be brought under control.

He said interest rates were unrealistically low, and had been losing the battle against inflation over the past 20 years.

In 1960, long-term investors were receiving a real return of 4% on their investments. This dropped to 3% in 1970, to 0% in 1976/78 and negative 3% in 1979.

In spite of these trends, Professor Van Wyk said he was still optimistic South Africa could overcome the problems if individuals became more aware of them.

(49) 24/1/81

The metropolitan solution

RDM 24/1/81 (49)

By NIGEL MANDY
Chairman of the CBD Association

DURING the 1980s the pace of change will accelerate dramatically in South Africa and particularly in our country's powerhouse — the Witwatersrand.

This must inevitably create acute social and political pressures, because history shows that adjustment to exponential change is never easy or tidy.

However, we have it in our power to cope with these dynamic changes peacefully and constructively to the benefit of everyone in this subcontinent.

Firstly, because of our well-known riches in minerals, energy, other natural resources and people and, secondly, because in the years 1978 to 1980 remarkable progress was made in the identification of the real problems and opportunities in Southern Africa, with many outworn and fallacious practices being discarded or discredited.

For example:

- The Wiehahn Commission identified the need for sweeping changes in our labour laws, to open jobs and trading opportunities for non-whites to the advantage of everyone;
- The Riekert Commission showed how influx and job control measures have failed in their misguided attempt to restrict economic growth by compartmentalising people of different races. There is a single indivisible economy, to which free market norms should be applied;
- Riekert further highlighted the overriding importance of the urban areas and in particular of the major metropolises.

By 1970 blacks already constituted an absolute majority in virtually every municipal area in South Africa.

There is in fact no "white" area. There is no practical way of diminishing black numbers.

On the contrary, the proportion of blacks in the cities must continue to rise — whether legally or illegally — if our country is to achieve economic advancement, viability and security. Blacks are moving up the scale to take more skilled and better paid jobs — but again with only beneficial results for the white labour force.

Petty apartheid barriers are rapidly disappearing with the big cities leading the way.

> IT IS FASHIONABLE TO THINK OF CITIES AS CREATING PROBLEMS, BUT I SEE THEM AS PROBLEM-SOLVING MACHINES

Theatres, restaurants and sports facilities have opened to all races, and the sky has not fallen in.

The Government-sponsored research body, Benso, has shown the failure of decentralisation policies to create job opportunities sufficient to cater for even a material fraction of the black work-seekers entering the job market each year.

Economically sound decentralisation and deconcentration are desirable and are to be encouraged, but no one should be deluded into thinking that the major job opportunities of the 1980s will occur significantly anywhere other than in the major metropolitan areas.

The Prime Minister, Mr P W Botha, has made a commitment to the removal of hurtful and unnecessary discrimination and has assigned priority to economic growth. Territorial separation is no longer being desired for its own sake.

The inter-dependence of the various ethnic units is being given practical recognition in the evolving concept of a constellation of states.

The economic growth which we are now experiencing is a powerful force for change. A static society can resist change indefinitely but population growth, pressure of unemployment, increasing aspirations and physical integration make "verkrampte" policies not only delusionary and dangerous but actually impossible.

Looking around the rest of Africa, let us not apologise for the role which a strong and free economy play in creating liberty and prosperity. Let us remember that poverty has no causes — only prosperity has causes.

Governments everywhere in the world (and also doctrinaire opponents of whatever governments happen to be in power) like sweeping answers for wholesale application, laying everything out neatly for the whole of the country, but life is not like that.

Progress comes from the combination of the efforts of myriads of people and associations each focussing on particular problems and details.

What is important is to be working in a sensible direction in the evolutionary perfection of any particular step.

It is fashionable to think of cities as creating problems, but I see them rather as being problem-solving machines.

Think of the inconveniences of big cities in the last century and of all the changes which have been made to overcome those and make further growth possible: sewerage and drainage, paving, street cleaning, health services, transportation, communications.

In a big city like Johannesburg there is a vast variety of separate businesses, enterprises, talents and skills: you have only to look at the size and diversity of the classifications in the Yellow Pages directory to realise the advantages which a city has over any decentralised industrial estate.

People criticise congestion, but who wants to be in an empty theatre or restaurant, or what shopkeeper wants to be situated on an uncrowded street? The task is to learn how to manage congestion and I believe that we are doing that.

The Pretoria-Witwatersrand-Vereeniging complex occupies 1% of the land surface of South Africa but employs 41% of the economically active white population, 30% of the economically active black population and produces 45% of the gross national product.

It follows mathematically that the potential for further growth is much greater here: adding 5% per annum compounded to the assets and the productive capacity of Johannesburg will achieve far more than creating a new city in the veld. It will be a lot easier, quicker and will cost far less capital.

This growth on the Witwatersrand and on the PWV has happened despite restrictions of the Group Areas Act; despite the Physical Planning Act which tried to force small industrialists employing blacks, coloureds and Indians either to close up or to move to the homelands; despite all the financial, fiscal and physical incentives for decentralisation, because the fundamentals were not there in those other areas.

> LET US REMEMBER THAT POVERTY HAS NO CAUSES — ONLY PROSPERITY HAS CAUSES

We are not talking about Johannesburg alone: that city is the sun around which satellites like Randburg, Sandton, Germiston and Soweto revolve.

Any natural economic development in any of those areas benefits the entire metropolitan area.

There is no objection, for example, to decentralised offices in Sandton provided that development does not take place in an artificial or distorted manner.

Soweto is a crippled dormitory city which — because of past mistakes and policies — is without proper trading or industrial facilities. Of course this situation must be rectified as soon as possible, but we should not make the opposite mistake now by trying to make it self-sufficient.

We wouldn't dream of putting a barbed wire fence around Sandton and saying that its citizens should not commute to or trade with Johannesburg, and the same applies to Soweto.

All the informed projections of bodies like Jomet (the Metropolitan Transport Advisory Board for the Inner Witwatersrand) show that the major thrust of job creation is going to continue to be in the central business district in the established industrial townships.

Let us see what is practically possible in the present fluid and evolving situation.

The Government is committed to residential and educational separation and that can be expected to continue (except of course for the hundreds of thousands of blacks who live on white properties!) Ethnic arrangements do have many advantages, but let us give the blacks a proper range of choices, eg between city and suburban living, and let us help them to have proper infrastructure and services befitting permanent inhabitants of the great metropolitan area.

Business, professions and facilities in the central city and the industrial areas are rapidly being opened up to all races.

People of all races are working together. Even though blacks might not have formal political power they do through their economic contribution have influence and a growing power. Our safety must lie in the creation of a large and expanding black middle class with an interest in the common economy.

A parliamentary franchise for blacks is not practical politics at the moment but neither is a connection of the black councils to rural homelands.

The political task that is immediately to hand and that is achievable is surely to strengthen responsible local government for blacks, and from that other developments can flow.

How much of the turmoil and mis-government of Africa is not due to the granting of self-government on the national scale before adequate institutions (both public and private) and skills have been created on the local scale?

The historic boundaries of established local authorities are frequently not relevant to the present situation. It is necessary to find an appropriate scale for local authority, and I suggest that we need a metropolitan government like that which was created for Toronto in 1954 and in London nearly a century earlier.

For a start, let us take the Jomet area, ie the inner Witwatersrand. If we were to create this as a regional government largely dependent on the rural-dominated Transvaal Provincial Council, we could have a vigorous and innovative body which should be entitled to direct Government assistance from the revenue which this area generates so largely for South Africa.

> THERE IS NO FEASIBLE WAY BY WHICH VIRUSES OR RIOTERS COULD BE PREVENTED FROM CROSSING THESE BOUNDARIES

Activities like transport, housing, municipal services, employment and health all overlap formal municipal boundaries. They are largely technical matters which can be handled in a non-controversial manner and which must be handled unselfishly.

There is no way in which we could entrench privileges. There is no feasible way by which viruses or rioters could be prevented from crossing these boundaries.

On the Witwatersrand we could have existing local authorities as the lower tier handling matters of local concern, with the metropolitan government handling the shared interests.

It could be constituted from representatives of each authority and I see no problem in having white and black representatives sitting together (just as they have for the past few months being admitted together on to the board of Jomet).

I suggest that it was a great mistake when the Transvaal abolished the Ratepayers' Roll on the municipal elections and introduced the Parliamentary Voters' Roll instead. That tended to make municipal elections re-runs of elections on national issues instead of being concerned with local matters.

It would be very good to see people with vested interests in the property and business of the cities having a direct say in running them.

And I believe that a company owning property should have a corporate franchise. So often ward councillors take a parochial view, reflecting only the attitudes of the voters in their wards. Businessmen and industrialists could strengthen metropolitan government because they see the need to draw labour across municipal boundaries and to supply goods and services widely.

With proper local government must go free enterprise. Restrictions must be lifted on trade and industry in black townships (but with protection in a transitional stage for weaker black businesses).

Ingenuity must be rewarded, opportunities opened up, the Third World-type of trade encouraged instead of being suppressed.

Last month the Government published three Bills for introduction in the coming session of Parliament, with the declared intention of improving the lot of the urban blacks and developing their local authorities to full municipal status.

The intention was admirable but I consider that the drafts are defective. For example, they used the lack of housing as an excuse for not giving influx control permission to those people who are inevitably going to be needed in the cities, instead of emphasising the removal of all barriers and the creation of extra housing so that those people can be accommodated.

In recognising old mistakes we should try to avoid new ones. Have these influx restrictions worked? Do they cost more to apply than they are worth? What would happen if they were to be abolished?

There ought at least to be some way of phasing out these restrictions.

Government monopoly of black township development and Government control over trade and industry in the black areas have served us ill. Prompt changes must be made.

The good news is that this will be possible under the new and realistic Government policies which are now developing — but this will not come about unless the private sector does its own part and adds its pressures to the process.

ARCHITEC

(Continu

BUILDIN

Inflation still the bugbear

Growth rate likely to drop

S. Tribune 25/1/81 (49)

By JACK BRICKHILL

EXPERTS are clashing over the likely economic growth rate in the next two years as the spectre of inflation looms larger.

Dr Joop de Loor, Director General of Finance and the man at the helm of the country's fiscal policies, says the buoyant economic conditions of the past year are unlikely to be followed by any marked slowdown this year.

Last year's growth rate of nearly eight percent is expected to return to a more healthy 5,5 percent and this should be repeated in 1982 when demand overseas for South African goods picks up again.

Dr de Loor believes the economy could sustain an average growth rate during the next 10 years of 5,5 percent — a rate compatible with raw material and financial and labour resources.

At this rate employment will stay at acceptable levels, and the standard of living for all population groups will improve.

He says businessmen should base their planning on a long term growth of 5,5 percent. Education and training will be stepped up to combat the major economic bottleneck of the shortage of skilled labour.

Dr de Loor's rosy picture of the future is already looking a little tarnished with inflation around 16 percent and still rising. The hell for leather growth has run into trouble because of the shortage of skilled labour. Wages are being forced up by around 20 percent a year and prices are not far behind.

Dr Johan Cloete, chief economist at Barclays Bank, says the economy last year was overstimulated by the Government who underestimated the impact of the higher gold price on business confidence and the sustained strength of the gold price.

Stimulating consumer demand by cutting taxes resulted in overheating with built-in inflation potential of 17 to 18 percent. The Government will soon be forced to take fiscal action such as higher interest rates and mopping up liquidity with Treasury paper to cool down activity and drop inflation.

Volkskas has forecast a growth rate as low as four percent this year and Dr Cloete says it could be even lower in 1982. "The Government talks about the highest growth rate in the world, but this is not in fact anything to boast about," he says. The inflation monster released during the boom will mean that growth in the medium to long term will be lower than it should be.

The ideal is an even tempo with no overheating and no slump.

Professor Jan Sadie of Stellenbosch says he will be pleased if even a four percent rate is achieved in each of the next two years.

"I can't be too optimistic," he added.

Nedbank's Dr Piet van Schaik said five percent should be attainable this year; but the rate next year could be lower. "Don't expect many tax cuts this year," says Dr van Schaik.

Where will it all end? African Eagle estimates that in 21 years a litre of milk will cost R4, a bottle of whisky R67, a house worth R40 000 now will cost R380 000 and you won't get much change from R50 000 for a small car.

student of the degree course.

R W Kohne

LTA Prize

For the best student obtaining a first class pass for a dissertation in Building Management.

S F Richardson

The peak of the boom is nigh — but not to worry

RDM 26/1/81

(49)

Howard Preece

Economic Spotlight

THE world economy is looking sick, gold has been flat, in South Africa interest rates are on the way up and stock exchange prices have drifted down — what kind of prospect does that add up to?

On the surface it does not sound particularly encouraging.

But it would be quite wrong to suppose that the boom in the South African economy is over because some of the trappings have disappeared.

It may well be, of course, that somewhere into 1982 the going might get tougher.

The news that inflation in 1980, as measured by the year-on-year consumer price, rose by 15,8% must give cause for painful thought to Mr Horwood, the Minister of Finance, and Dr Gerhard de Kock, the new Governor of the Reserve Bank.

They are hardly likely to be priming the economic pumps this year.

All the evidence, however, points to the fact that 1981 will be a better year in growth terms for the economy than any since 1974 — except for 1980.

In absolute terms most people's real incomes will certainly be higher at the end of this year than at the end of 1980.

We should not be deceived into forgetting that, just because there can hardly be the same explosive growth in 1981 as there was in 1980.

There is, of course, no chance of a real growth rate this year of 8% or so as happened in 1980.

House price rises will not come within three leagues of 1980's once-a-decade take-off.

The gold and industrial indices on the Johannesburg Stock Exchange will battle this year to regain the peaks achieved in 1980.

In those circumstances it might seem, misleadingly, that the boom has quietly faded away.

All this is assuming that there will no new, large and sustained increase in the gold price. Should that happen it might again seem like Christmas all year. But at this stage it is safer not to expect it.

However, as Mr Merton Dagut of the Nedbank group has shrewdly put it, there is an irresistible momentum already built into the economy which will ensure an excellent year even in adverse circumstances.

It is rather like a giant oil tanker. A great deal of time elapses between the moment of decision to turn around and the achievement of a 180 degree arc.

In the case of the economy many of the key decisions affecting 1981 have been taken.

New factories and developments will be executed this year that were planned some time back.

Consumer spending will be heavily reinforced by the enlarged pay cheques that generally start at the end of January.

It is true that if gold averages somewhere near its present level, the current account of the balance of payments could slip back into deficit in the second half of this year.

But that will be no great surprise and need cause no alarm. Rising interest rates in South Africa should result in a large inflow of capital as trade finance is switched from domestic to overseas sources again.

At the bottom of the scale, some economists have suggested that real growth this year in South Africa might not be much over 4%.

At the other end, Mr Horwood has suggested that 6% is possible.

(In the memorable words of Mandy Rice-Davies of Profumo scandal notoriety: "He would, wouldn't he?")

The wider consensus is looking for about 5%.

To put that in perspective it would, if achieved, be a level that would be dearly envied by virtually every other Western industrial country.

But what of the broader outlook? What is the forecast for 1982? And beyond?

Gold is obviously critical and there is no way of knowing at this stage how it will behave.

One point, however, cannot be avoided.

Some months ago I drew attention to the spiralling growth in the money supply and the rather anomalous and lavish praise that was being heaped on Government financial policy by many purported "monetarists".

Since then money supply has become a dominant issue.

Dr Johan Cloete, the chief economist of Barclays National Bank, has pointed out that the rapid rise in money supply was an inevitable consequence of a high economic growth rate starting from a double-digit inflation base.

(This is not to say that money supply need, or should, have risen at the rate it has.)

Dr Cloete has further commented: "Similarly, any significant reduction in the money supply at this stage would substantially push up interest rates, which have already started to rise.

"This, in turn, would soon inhibit consumption and investment demand and so the economic growth rate."

Given the disturbing inflation and money-supply rises, this scenario is certainly likely this year.

The authorities will be anxious not to clamp down on growth after the long recession of 1975 through to early 1978.

But some restraint looks probable. This could be felt in 1982 with growth then perhaps edging down to 4% or so, maybe be even a little lower.

Throughout the world, however, even the weathermen seem to have better track records than economic forecasters.

FINE ART & ARCHITECTURE

ARCHITECTURE

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P F Dunckley

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For a student who has satisfactorily completed 1st, 2nd and 3rd major courses.

Mr B B Goodall

Racism 'thwarts' free enterprise system

27/1/87

Argus

(49)

Parliamentary Staff

ANY meaningful and sincere attempt to promote free enterprise in South Africa would have to be accompanied by the systematic destruction of the legislative framework of apartheid.

This was said in the Assembly yesterday by Mr B B Goodall (PFP Edenvale) who called for a greater degree of free enterprise in South Africa, during the no-confidence debate.

Mr Goodall said nearly half of the laws enacted by Parliament since 1910 had been contrary to the spirit of free enterprise and militated against open competition in some way or another.

It was a "tragedy" that the free enterprise system had been brought into disrepute with 80 percent of the population because of the policy of legislated race discrimination.

DENIED

It was generally accepted that a free enterprise system implied the institutions of private ownership of property and the means of productions.

colour.

The Black population was all but excluded from owning private property on a freehold basis. They were barred from establishing business where they chose.

They were prevented from choosing where they wished to live and also from moving freely from area to area.

Mr Heunis

Heunis: Govt reaping rewards

CT 27/1/81

49

HOUSE OF ASSEMBLY. — South Africa's flourishing economy and changing social order had won widespread confidence in the government, the Minister of the Interior, Mr Chris Heunis, said yesterday.

The Republic's outstanding characteristic was orderly and evolutionary transformation, the minister said in the no-confidence debate. The government had committed itself to politics of consultation and negotiation.

Never before had there been a greater awareness of the interdependence between the authorities and the private sector, and never before had there been greater co-operation between the two groups, thanks to the efforts of the government.

The world had confidence not only in South Africa's economic stability but also its political stability.

The government was bringing about meaningful economic and social change and it had taken the initiative to put South Africa on the road to orderly constitutional development.

In contast with the government, the official opposition had relinquished its claim to the support of the white electorate.

Instead, the Progressive Federal Party was wooing another constituency comprising brown people, blacks and the outside world.

The opposition was driving whites into the folds of small extreme right-wing groups on one hand, and on the other it was creating distrust of the government's initiatives among black and brown people.

Orderly constitutional development had to be acceptable to Parliament and the people who voted for representatives in Parliament.

But what did the opposition do to help the government break down resistances among whites?

Most whites were not opposed to change and constitutional development, "but if you want a revolution in this country, you should question the rights of whites to self-determination". Sapa

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P A Rappoport

Molly Gohl Memorial Prize

For the best woman student in third year.

Miss C Tredgold

RDM 28/1/81 (49)

Govt spending up 22% so far

By HAROLD FRIDJHON

GOVERNMENT expenditure up to the end of December 1980, that is for the first nine months of the current fiscal year, amounted to R10 434-million, up 21,7% on the comparable figure of last year.

In his Budget speech, Mr Owen Horwood, Minister of Finance, estimated that total expenditure would be R13 142 million. If issues continue at the same rate for the next three months as they have for the past nine months expenditure could reach R13 912-million — that is R770-million over Budget.

It is, however, unlikely that State spending will reach this figure. The usual pattern is for the rate of issues from the Exchequer to slow down in the last three months of the fiscal year and to be at a higher rate during the first few months of the year.

With revenue reaching R8 972-million (35% higher than at the same time last year) the deficit is R1 462-million which has been comfortably financed by borrowings and cash on hand, after transferring R760-million to the Stabilisation Account.

During the nine months R147-million was raised abroad and R171-million was repaid on several foreign loans. And R54-million was paid to the International Monetary Fund.

Examining the heads of expenditure, Defence has spent R1 689-million in the first nine months against a budgeted R1 890-million. If the outlay for defence continues for the rest of the fiscal year at this rate the Defence Vote could well be overspent by a considerable amount.

Manpower Utilisation is another vote which looks as if it might be overspent by the time that final accounts are drawn.

At present it seems that the Police Vote could be R50-million over budget. Spending to the end of December amounted to R272-million against a vote of R310-million. What could be the deciding factor is the amount of building that is charged by the end of the year.

National Education for which R407-million was allocated had spent R373-million by the end of December. This suggests that spending has been more than the Budget rate.

The amount of the Budget surplus will depend on the overspending by departments. The Minister is, by statute, allowed some latitude in his tabled expenditure and with revenue running well ahead of estimates he has probably shown some leniency to key departments.

Growth target down to 5%

RDM 29/1/81

49

By ALEC HOGG

THE GOVERNMENT has scaled down its economic growth forecast for this year from a maximum possible 6% to 5% or a fraction less.

This emerged in a speech yesterday by Dr Simon Brand, chief of financial policy of the Department of Finance, and is in line with the growing emphasis on reining in inflation.

It is evident that top priority will go to restraining the rapid growth in the money supply even if it means shaving growth a little.

Dr Brand implied this in the keynote address at Simpson, Frankel's "Insight into the 80s" conference in Johannesburg yesterday.

He was delivering the address on behalf of the Minister of Finance, Mr Horwood who was unable to attend.

Dr Brand said the increased attention to the rising inflation rate and the growth in money supply over recent months could be interpreted as a shift in the emphasis of policy.

In 1980, the broadly defined money supply grew by an "unacceptably" high seasonally adjusted rate of 30%, and inflation rose 15,8% year-on-year in December.

But this did not mean the Government had relinquished its growth objectives.

"In a medium to longer-term perspective, the conclusions in the latest Economic Development Programme still hold, namely that South Africa needs an average annual growth rate of at least 5%.

"However, to register an average annual growth rate of 5% or more it is not necessary to have a 5% or higher growth rate every year.

"It is in any event by no means inevitable that the growth rate in 1981 will be below 5%."

(Mr Horwood has previously argued that 6% might be achieved.)

Dr Brand said the emphasis the authorities intended to place on ensuring proper control over the rate of growth in the money supply would certainly not be aimed at pressing down the real growth rate of the economy below the level which the available productive factors could maintain.

The object of the approach would be to ensure that domestic liquidity did not build up to an extent where the demand on goods and services could not be met by SA production and imports.

In his outlook for 1981, Dr Brand said:

- The real gross domestic product would increase at a lower rate than in 1980, but the rise would still be "respectable".
- Private investment could be expected to hold up well as investment plans started in the recent past were carried out, but private consumption expenditure would grow at a more moderate rate than in 1980.
- Exports would continue to feel the effects of the weak economic performance of South Africa's major trade partners and might even decline in volume terms over 1980.
- Provided the intentions of the authorities to regain proper control over money-supply growth could be carried through effectively, the inflation rate could be kept in check.
- South Africa could expect a year of healthy economic growth, a strong balance of payments and no worsening in the inflation rate.

"Particularly if we look around us in the rest of the world, this prospect is not a cause for despondency, but something to be grateful for," Dr Brand concluded.

Replying to a question, Dr Brand said South Africa would never "play" the gold market by withholding significant quantities of gold for any length of time.

South Africa was too dependent on gold for its balance of payments and could not afford to test the "actual" price of gold by withholding supplies.

On the other hand, the falling gold price would have little more than a psychological effect on the economy.

Dr Brand said the estimated gold price used for the Budget was always "very conservative", and even if the price should average $400 an ounce 1981, this would not upset calculations.

- In reply to another question, Dr Brand said a change in the 14% usuary limit on interest rates was, after the recent strong upward rise in rates, being considered in Pretoria.

Slowdown as inflation quickens

29/1/81 RDM

(49)

By HAROLD FRIDJHON

A PHASE of slower growth in the manufacturing and retailing sectors of the economy with an increase in inflationary pressures is predicted by the University of Stellenbosch Bureau for Economic Research for the first quarter of this year.

The report, written by Dr O D J Stuart, the BER's chief economist, is based on an opinion survey of more than 2 000 firms throughout South Africa.

Dr Stuart says inflationary pressures will increasingly reflect the development and worsening of various bottlenecks

In the case of manufacturing industry, these bottlenecks have been identified as shortages of labour, raw materials and the cost of financing, all of which point to an acceleration in the inflation rate.

After a peak fourth quarter in 1980, many manufacturers believe production and sales will level off during the current quarter.

Most appear to be well stocked with raw materials, but they have shortages of finished goods. This suggests that production will have to be increased to replenish depleted stocks.

Close to 60% of the industrialists who took part in the survey are still in a position to increase production without adding to buildings, plant and equipment, but there are indications that additional fixed investment will be undertaken in the current quarter

The major bottleneck is a shortage of skilled labour, although a scarcity of good semi-skilled labour is also hampering manufacturers. Another problem area is the supply position of raw materials and industrialists are expressing misgivings about the increasing cost of financing.

An encouraging sign is that compared with the fourth quarter of 1979, more factory workers were employed in the last quarter of 1980 and the average hours worked were also higher.

Average total cost a unit of production has been increasing at a rate of about 10% a year and the average selling price a unit of production was increasing at the same rate.

Wholesalers, too, expect business conditions to become slower in the current quarter. Their stocks are low and Dr Stuart says this suggests that either manufacturers will be asked to produce more goods than they bargained for, or that more goods will be imported

Wholesale selling prices seem to be firmly set on an uptrend

After a buoyant fourth quarter of 1980, retail traders do not expect a major deterioration of business conditions in the current quarter, although there are indications that consumer demand might taper off during the current three-month period Dr Stuart suggests that this might be the result of an inflation rate that could become more of a problem than it is.

The retail sector, however, should be viewed sectionally.

Distributors of semi-durables see the current pattern of trade as continuing at the level of the previous quarter.

In the non-durable field, traders expect a follow-through from the fourth quarter of 1980, but they report that a stock problem is developing with inventories too high in relation to expected demand (This appears to be a little paradoxical.)

Prices in this area appear to be running a little wild. The average buying price a unit has increased at an annual rate of 13% while the average selling price has gone up by 14%.

A significant deterioration in sales is expected by retailers of consumer durables after a very good fourth quarter. Prices are up 11% at the wholesale price and 12% higher at retail.

Dr Stuart comments that contrary to what was expected by some economists, consumers had ample cash because in the Christmas quarter retailers reported higher cash-credit ratios compared with the previous year.

Motor traders, after a buoyant close to 1980, expect the current quarter's trade to be on a more subdued note.

RDM 29/1/81

Factories, commerce expect slowdown

49

Own Correspondent

CAPE TOWN. — The manufacturing and commerce sectors in South Africa are entering a phase of slower growth characterised by inflationary pressures and bottlenecks, says the bureau for economic research at the University of Stellenbosch.

The bureau's latest opinion survey of business conditions found that retailers experienced buoyant business at the end of 1980, and did not expect a major deterioration now.

"For some reason, however, they found themselves overstocked, and this apparently had a damping effect on their outlook for the forecast period," said the bureau.

There were indications that consumer demand might taper off during the first quarter of 1981, and the responses of retailers — taken in conjunction with those of wholesalers and manufacturers — suggested that inflation would become even more of a problem.

Wholesalers stocks were "rather low", suggesting that either local manufacturers would be asked to produce more, or more goods would be imported.

They were less optimistic about business conditions in general that three months ago.

Motor traders indicated that the vehicle sales were likely to level off substantially.

MONETARY POLICY

(49) FM 30/1/81

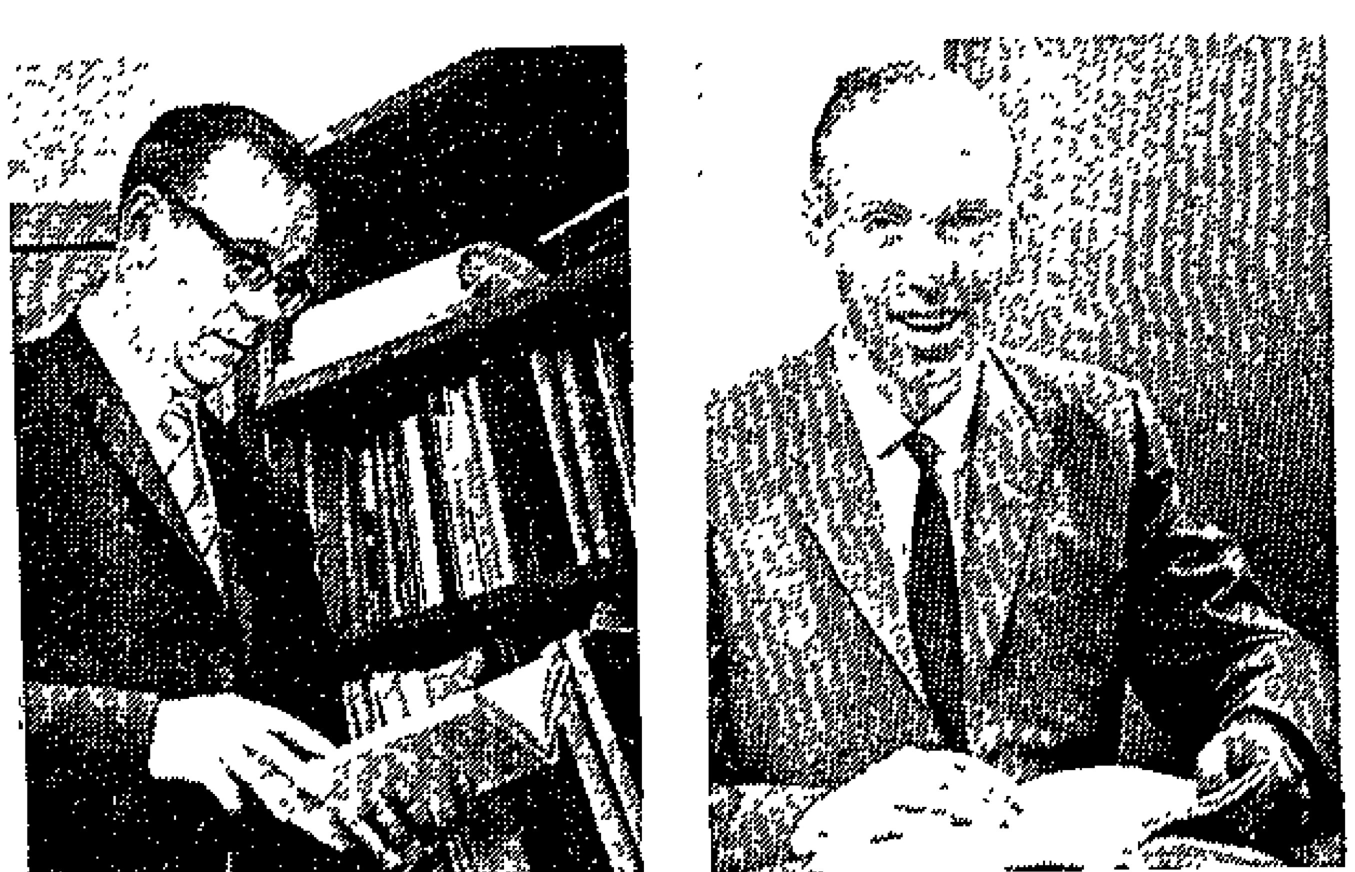
Decks cleared for action

If anyone ever seriously doubted that Gerhard de Kock would act swiftly and decisively when he took over as Governor of the Reserve Bank, those doubts must have been dispelled this week.

In a little more than the three weeks since he moved in, he has stripped the decks for action in a major and significant managerial reorganisation which was ratified by the bank's directors at a meeting on Tuesday. It is important because of what it presages.

It involves bringing to the central bank two of the men who have played key roles in formulating the thinking of the Commission of Inquiry into the Monetary System and Monetary Policy. They are Professor Jan Lombard, Pretoria University's witty, jovial economics chief, and Wits Business School's banking expert, Professor Diederik Goedhuys; both convinced free marketeers.

The reorganisation also involves the abolition of the bank's antiquated single-line managerial structure and the adoption of delegated areas of responsibility, each presided over by a deputy governor with direct executive authority. Chris Stals will handle foreign functions, Japie Jacobs domestic ones and Braam van Staden economic services.


Lombard and Goedhuys . . . bringing a new attitude of mind

The old post of general manager (chief cashier) has been abolished and the task divided among four general managers, assisted in turn by two deputy general managers.

There is now no mistaking that De Kock has around him a team of formidable influence and like mind. If Jan Lombard is right in saying — as he did 18 months ago — that the key to the meaningful implementation of a managed float of the rand was an attitude of mind, it is certainly not lacking in the top corridors of Church Square now.

Moreover, plans are afoot to provide training abroad for the bank's money market and currency dealers. This remains the area of greatest weakness if De Kock's policies are to be properly and swiftly implemented. A former Johannesburg money market dealer, Andre Kock, will be handling the bank's actual dealing in the domestic market.

Lombard's position as special adviser with the bank is to be temporary — although he is giving up board appointments. His task will be to oversee economic cooperation in southern Africa, initially through the establishment of a development bank over which he will preside.

Goedhuys moves in permanently and will devote his energies to the work of the De Kock Commission. Once that is completed, his fulltime function remains unclear. Meanwhile, if his recent papers on monetary policy are anything to go by, his will be the complicated task of formulating the reintroduction of an effective rediscount policy.

So far as the local money market is concerned — and in so far as this can be isolated from the bank's foreign functions — his is going to be the hot spot.

Another rising star within the bank is the former deputy head of the economics department, Jaap Meijer. As assistant to the Governor he takes on an ADC role, a task similar to that held by Stals in his early days with previous governor De Jongh.

It is safe to say that whatever obstructive differences there were in the past between the Reserve Bank and the Treasury, they do not exist now.

This is of crucial importance to economic policy at present. The most urgent need is for the galloping money supply to be reined in before inflation becomes chronic.

For two years, the Treasury has been studiously financing government activities in a manner that has a contracting influence on the money supply. But this has been more than negated by the Reserve Bank's former exchange rate, exchange control and rediscount policies.

Monetary policy was the one blot on government's economic record in recent years — the more so because it should have been relatively easy to control the money supply given the success of the much more difficult task of restraining official expenditure.

If confidence is to be restored in government's economic endeavours — and this is important if the capital inflow is to be kept sweet to offset a shrinking trade balance — then De Kock must lose no time in formulating and implementing policy measures.

This does not imply swinging the economy away from growth. There is plenty of room for that even at a much lower rate of money supply increase.

What is required is that the monetary authorities be geared up to withstand the flood of liquidity that will come pouring out of the Treasury in April and into the money supply. De Kock has got the ship, he has got the men. There is no excuse now for inaction.

men or rents fishermen by paying them prospect-
ive wages.

causes after the catch: good weather, few
schools of fish in the area that day, etc." are

Interest rates will soar this year as liquidity tightens

CT 31/1/81 (49)

This is the second in the series of articles dealing with this week's Simpson Frankel investment conference in Johannesburg. Financial Editor Paul Dold examines the economic outlook for the rest of the year and finds while the the barometer is set fair, business men may have to adapt to new forces in the economy.

THE crack in the gold price this week has sharply focussed attention on the economic outlook for 1981 and has no doubt created some concern that if the gold price remains in the $400 to $500 range, growth could be hampered. And the new downward trend in share prices has not helped sentiment.

The Simpson Frankel investment conference — traditionally the first seminar of the year which attempts to sight the economic barometer — considered the economic outlook to be reasonable with a growth rate lower than last year but high enough to not be out of kilter with our long-term objectives.

Even with a gold price of around $500 average for the year it is difficult to foresee any serious problems on the horizon.

Dr Frans Cronje, chairman of the Nedbank Group, believes that the real GDP growth rate in 1981 will be around 5 percent and probably most economists are bracketting their forecasts in the 4 — 5 percent range.

Although the economic outlook is fair it could prove a very exacting year for many business men who are not in tune with consumer demand trends or who fail to recognize key economic indicators.

I believe there is a possibility that a severe cash scarcity could arise as the year progresses, particularly if the gold price remains low and the Western economies continue to show little inclination towards growth.

In this situation the current account of the balance of payments would be in deficit for most of the year as our imports relating mainly to the past year's super growth, continue to boom for some time while export earnings remain in low key.

Interest rates are likely to rocket. It is a fair guess that the rises thus far are only the start of the cycle. Thus credit may become scarcer and a great deal more expensive.

As a corollary one can expect that dividend retentions will increase as firms are forced to plough back a larger slice of internal earnings. Thus dividend growth forecasts made by some analysts could fall considerably short.

How high will rates move? I would not be surprised to see capital market rates climb to 15 — 16 percent narrowing the negative return gap and a substantial rise in mortgage bond rates as well as building society fixed deposit rates must be in prospect.

Short-term money market rates will rocket, too, resulting in an inverse curve as the general cost of finance moves up.

Presumably, Government policy will, correctly, be aimed at controlling the money supply after the past year's rampaging money figures which to many suggested the money supply was well out of control.

Dr Simon Brand, chief of financial policy of the Department of Finance, in an excellent analysis of the current economic trend hinted strongly at the conference that money supply would be a high priority even at the expense of some growth. This should help to lower the inflation rate — which must be another priority.

At question time in what was probably the strongest pointer to the expected interest rate surge Dr Brand said that a change in the 14 percent usuary ceiling on interest rates was being considered.

Dr Brand's speech also seemed to suggest that the growth rate could well be five percent this year which was in line with Dr Cronje's view.

One could argue that forecasts of a five percent rate are a shade optimistic with 4 — 4,5 being closer to the mark but it must be considered that the economy is in full stride with tremendous impetus acrosss the spectrum. The pattern has probably already been set for the first six months.

Investment (private fixed) will continue to rise for some time as industry expands.

The postponement of the Budget due to the April general election has no doubt given the authorities a welcome breather to study how Reagan copes with the United States economic ills and to monitor progress in Britain, Germany and elsewhere. And of course a clear gold price pattern should emerge towards the year end.

The Budget, instead of merely being a "neutral" marking time exercise, will once again be cast in the role of a major policy instrument when it takes place later in the year.

The economy has been running at full tilt. Industrial production is probably around 90 percent of capacity and one only has to see the volume of job advertisements in the daily press to observe the manpower and other bottlenecks. Thus a period of slower growth will be salutary in preventing the onset of a wave of demand inflation.

Apart from the scenario of rocketting interest rates there could be marked changes in the pattern of consumer demand, particularly if inflation remains high

It is clear that consumer demand will not grow at the same level as last year and this should be clearly reflected in segments of the retailing sector.

Dr Cronje expects slower growth in sectors producing durable consumer goods such as furniture and motor vehicles and to a lesser extent in the clothing and footwear sectors. It is reasonable to expect a substantial slowing in overall real consumer spending.

A key part of Dr Cronje's speech dealt with the balance of payments outlook and expertly analysed the various components.

"As a result of the almost 25 percent real increase in private sector fixed investment, the large outlay on inventories, the rise in the oil price and apparently substantial military imports, the value of imports rose by about 45 percent in 1980.

"Fifteen percent of the rise was accounted for by rising volume after a marginal decline in the volume of imports in 1979. In 1981 private sector fixed investment should rise sharply again but the growth in total imports should be somewhat slower than in 1980.

"But a further rise in imports, combined with a relatively poor export performance and a gold price around present levels, implies that the current account will be in deficit for most of 1981.

"If the current account is in deficit in 1981, it seems likely that the net reserves may also come under pressure. Whether the net reserves will in fact decline will depend largely on the authorities' manipulation of the capital account of the balance of payments.

"The De Kock commission may well recommend a further dismantling of exchange controls which may trigger a capital outflow. However, if South African interest rates remain high, inflows, especially on the short-term capital account, could largely counter a drain of the gold and foreign exchange reserves.

"There is a large hidden reserve built into the short-term capital account because of the large outflows that occurred in 1980. Also South Africa's international creditworthiness clearly improved in 1980, substantially increasing the scope for long-term foreign borrowing. However, after a year of strongly rising reserves, some decline will in fact fit in well with the overall policy objective of curbing money supply growth."

Examining likely monetary policy, he said that in view of the build-up in the money supply last year monetary policy will probably remain restrictive

"If however, the balance of payments and the conduct of fiscal policy exert a deflationary influence on the money suypply, monetary policy need not be tightened significantly further from its present stance Continued open market operations and increases in the bank rate should however be expected."

And on the Budget outlook he said. "Because 1980's rise in real GDP exceeded the authorities' growth goal and because it has started to push the economy close to capacity constraints, creating concern with demand inflation, the 1981 — 82 Budget cannot be expected to contain more than marginal tax cuts

"Also, despite financial demands such as those for public sector and teachers' salary increases and possibly increased defence spending, total government expenditure will probably again be budgetted to rise by about 17 percent.

"The net effect is likely to be a tightening of fiscal policy. Combined with tighter monetary policy this will mean a substantially different policy package from that at the beginning of 1980 ."

Dr Cronje believes that interest rates will rise this year. The liquidity base of the banking sector is unlikely to have the boost it has been receiving since 1977 due the BOP being in deficit.

"At the same time the central government is likely to run its affairs in such a way as to make a minimal, if any, contribution to that liquidity base. If, under these circumstances the banks have to satisfy rising credit demand, interest rates are bound to be under greater pressure.

"Initially, the demand for credit and capital will become strong in 1981 even if real economic growth slows down. The need for working capital is at its strongest when consumer demand starts to level off. Typically, and this is almost certain to be the case in the present cycle, private sector fixed investment still rises rapidly at that point with clear implications for the demand for capital

"However I should immediately add that there is an important set of reasons for not expecting the recent rate of interest rate rises to continue through 1981. In the business cycle upswings of the 1970's private and public sector demand for capital expanded simultaneously.

"In the present cycle this has not been so and I expect the demand for capital from virtually all public sector bodies, except Escom, to rise only moderately in 1981."

On the share market he said:

"I think the industrial market is in a long-term bull phase that started in 1977 and may last for most of the 1980's. There is, however, bound to be short-term swings around this cycle which will be in some way related to the swings of the business cycle. The weakness that started to develop in industrial share prices late last year probably form part of one of these brief and shallow bear pahses that I envisage during the 1980's."

Of the gold price: "What is going to happen to the gold price is anyone's guess ... All I can say at the end of January 1981 is that I do not regard it as probable that the average gold price for the year will be substantially higher than that ruling at the present time ($550). I would however comfort myself to some extent by anticipating a higher price level towards the end of this period.

"The implications for gold shares, if these asumptions are correct, are quite clear. The combined negatives of lower price, higher exchange rate, falling grades and most particularly rising costs and irreversible commitments to capital expenditure programmes will lead to conservative dividend distributions in the months immediately ahead.

"It may be argued that share price levels have already moved to compensate for this scenario but it is in the nature of the gold share market to be volatile and to exhibit the extremes of periodic optimism and pessimism.

"The outlook for commodity prices and export volumes is not encouraging and I would be surprised to see the absolute level of profitability being maintained in all but a few exceptional cases. Against this background we must address ourselves to the outlook for the major mining finance houses and it is here perhaps that I am most optimistic.

"Over the past few years the houses have experienced very large cash flows from their various mining interests, particularly gold. This, in turn, has led to an extremely sound and liquid financial structure to the extent that they are well placed to take advantage of new developments in the event of an early upturn in world economic conditions and to consolidate their diversified interest in the optimistic economy.

"An important market-related consideration for most investors is the surpising lack of new investment opportunities and the scarcity of sound financial assets to meet the growing cash flows of the contractual savings institutions, mainly insurance companies and pension funds.

"I do not foresee widespread equity capital raising projects and am of the opinion that a modest scarcity premium will apply in the equity of soundly managed companies throughout the economy "

RDM 3/2/81 ~~(214)~~ (49)

Get set: after the poll, the price deluge

Pretoria Bureau

A RASH of price and tariff rises is expected soon after the General Election on April 29, according to Pretoria sources.

Goods expected to be affected include maize and maize products, cheese, butter and fresh milk, followed soon after by price rises for other milk products — and most disturbing of all, a bread price hike.

According to the Wheat Board, the present subsidy on bread amounts to R17-million a month — more than R200-million a year.

The subsidy was raised last October to avoid a further increase in the price of bread, which has remained at 31c a white loaf and 21c a loaf for brown and wholewheat since last April.

A board official pointed out that bread consumption was rising sharply, mainly because better-paid blacks were switching from traditional mealie-meal to bread as a staple.

The more bread sold, the bigger the subsidy has to be. In 1978-79 bread production was estimated at 1 192 911 tons. In 1979-80 it rose by 9,7% to 1 308 900 tons.

Pretoria sources say the extent of the subsidy on bread would have been reviewed and included in the main Budget in April.

There would also almost certainly have been a rise in the bread price.

However, the main Budget will only be submitted to Parliament during the first session of the new Parliament in September or October.

It is expected, therefore, that the Government will set aside new funds in the little Budget to hold the bread price at present levels, at least until the main Budget is presented.

Then a bread price rise is expected.

Farmers claim they can give strong reasons for price rises of between 20% and 26%.

But, they add, in view of the Government's expected intensified campaign against inflation this year it would be unrealistic to expect price rises of more than 20%.

However, if the authorised increase is much less than 20%, an angry reaction from organised agriculture is certain.

According to the SA Agricultural Union, the Farming Requisites Index — the agricultural equivalent of the Consumer Price Index — rose by a massive 26% between October 1979 and last October.

And, according to the Department of Statistics, CPI food prices rose by nearly 30% last year.

Other price rises which may be delayed until the main Budget is tabled include Railways and Post Office tariffs.

The Minister of Transport, Mr Hendrik Schoeman, and the Minister of Posts and Telegraphs, Mr Hennie Smit, will introduce their little budgets in the Assembly later this month, and may give some hint of what can be expected.

The chairman of the Federal Consultative Council of Railway Staff Associations, Mr Jimmy Zurich, said a combination of pay rises for the 260 000 Railways workers, and an expected fall-off in high-rated import traffic and in exports, would make it virtually impossible to keep tariffs at present levels.

The Post Office, it is pointed out, will also have to find an additional R50-million or more to fund its share of the pay increases to be announced for all public sector workers later this month.

This, coupled with a dynamic and costly continuing development programme, could necessitate further tariff rises.

Bank rate rise will dampen demand

Ct 3/2/81

49

BY PAUL DOLD
Financial Editor

THE authorities last night took their first major step to negate the growing danger of demand inflation by raising the bank rate one percent.

Reserve Bank Governor Dr Gerhard De Kock said in a statement that it was imperative for the authorities to regain effective control over the money supply and add monetary discipline to the existing fiscal disciplines if the threat of accelerating demand inflation was to be avoided.

And he hinted that the hiking of the bank rate to eight percent was only the first step in a new anti-inflation programme.

The announcement underscores the consensus in financial circles that the Government should, if necessary, sacrifice some growth this year if the country is to avoid still higher inflation, and is in line with Senator Horwood's growth with financial discipline policy.

The anti-inflation measure is all the more noteworthy in that the announcement comes ahead of a vital general election. Few can thus doubt the determination of the able team at the finance ministry to come to grips with the inflation problem.

The raising of the bank rate is bound to raise the cost of credit to consumers both directly through more expensive overdrafts and by making credit far scarcer.

Interest rates will bound ahead still further but, hopefully, the inflation rate will stabilize once the full package is introduced.

It must be only a matter of time before the authorities remove the 14 percent ceiling on the Usury Act.

The fact that the bank rate was raised by a full percent to eight percent suggests the authorities are determined to slash the money supply. This is particularly clear if one considers that the gold price may remain depressed for some time.

The economy has clearly become overheated but a sustainable growth rate this year of between 4,5 and 5 percent should not be severely hampered by the planned measures. Last year the economy grew by some 8½ percent which is far too high a rate and this has resulted in numerous bottlenecks such as manpower shortages. The Government's plan probably is to ease back the growth rate to a more sustainable rate thus preventing the outbreak of the much feared demand inflation which would lead a definite severe brake on growth having to be adopted for some time. The rise in the bank rate is a sign that the boom is in its mature stages.

The money supply (the broader definition) grew by a massive 30 percent last year which is excessive.

The authorities have been trying to mop liquidity through increased cash requirements for banks and substantial amounts have been transferred to the stabilization account at the Reserve Bank.

The government will also be playing its part in holding back inflation this year by maintaining a tight rein on State expenditure with government spending unlikely to rise by more than 17 percent — or roughly in line with the inflation rate.

The major issue is whether the authorities can in fact, bring a money supply which has seemed out of control to behave as it should. The earlier dollar discount system appeared to have many disadvantages.

The problem of controlling the money supply is being faced in Britain and elsewhere and there seem no instant solution. It seems probable that Dr De Kock may introduce monetary aggregates and targets as part of his money supply control measures or even move towards a minimum lending rate.

In one sense it is a pity that the Budget has been delayed as this may have provided a view of what is likely to develop in Dr De Kocks' next report. Hopefully, the report will now be published sooner than anticipated to avoid uncertainty so that the business sector can sense the direction of economic policy.

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Fourth Year (Gold Medal)
M Salmon
J Cumming
P Weeks
H Rens
F McCleland

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Bank rate rise in bid to curb inflation

CT 3/2/81

49

By GORDON KLING

THE GOVERNMENT last night formally pulled in the reins on one the greatest economic booms ever experienced in South Africa by shifting priorities from growth to the fight against inflation.

In a move intended to consolidate gains for continued orderly progress, Dr Gerhard de Kock, Governor of the Reserve Bank, announced an immediate one percent hike in the bank rate, on which all other interest rates in the economy are based.

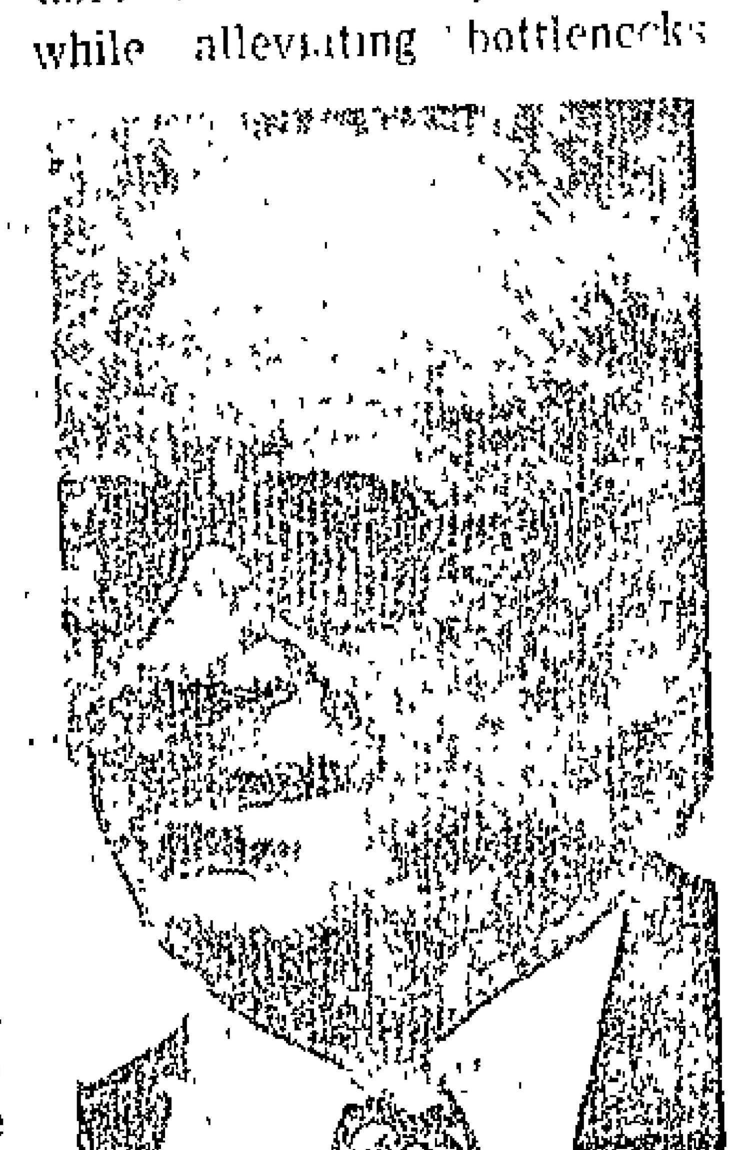
This heralds the official end of cheap money in the Republic. The increase, to eight percent, means another upward surge in interest rates, including overdraft and mortgage bond rates.

It also means that almost everything will probably cost a little more, although the move should eventually slow down alarming rises in the cost of living.

Coming at a time of weak gold, stock exchange and property prices, economists believe that dearer money can be expected to dampen further boom conditions in the economy which have led to strong inflationary pressures.

With gold trading below $500 an ounce on world bullion markets yesterday — a 10-month low — South Africa's chief export is also under pressure from rising production costs. This lowers the profitability of the country's gold mines and their dividend prospects — which has accordingly depressed gold share prices to levels which in many cases are less than a third of those ruling at the peak of the market late last year.

The authorities maintain that the return to a real growth of about five percent this year in the value of all goods and services produced in the country would permit orderly, sustainable economic improvement, while alleviating bottlenecks



Dr Gerhard de Kock

and other outcomes of last year's hefty eight percent growth.

Announcing the bank rate increase in Pretoria last night Dr De Kock said it signified official recognition of the recent upward tendency in domestic interest rates, and the determination of the monetary authorities to act with speed to reduce the rate of increase of the money supply.

Last year had been one of the best ever for the South African economy. It had been a year of prosperity and rising standards for most South Africans, and of increased confidence in the economic future of the country, as shown by the substantial increases in real fixed investment and in consumer-spending in the private sector.

Dr De Kock said that the current account of South Africa's balance of payments — which basically reflects its trade position with the rest of the world — showed a surplus of between R2,5 billion and R3 billion for 1980 as a whole, in spite of an increase of about 47 percent in imports.

This performance, he said, largely reflected the virtual doubling of the average gold price for the year in comparison with 1979.

Exceptional liquidity, as reflected by an increase of more than 28 percent in the broad money supply (money plus near-money) between November, 1979 and November, 1980 was, however, very disturbing.

This rate of increase was more than double the broad guideline of 10 to 12 percent indicated by the Minister of Finance, Mr Owen Horwood, earlier in the year.

"Although the government sector's financing operations had contributed substantially to the increase in the money supply during the second quarter of 1980 and again in October and November, they had exerted a net contractionary monetary influence over the first 11 months of the year as a whole," Dr De Kock said.

Indications were that this would also be true of the fiscal year ending March 1981.

Dr De Kock said the inflationary potential of the excessive increase in the money supply needed no underlining.

At the beginning of 1980 inflation in South Africa had still been largely of the cost-push kind (in which higher costs push up the price of goods), and the emergence of general demand inflation (in which too much money chases too few goods) had not seemed inevitable.

"But as the year progressed, the excessive low level of interest rates made the general financial situation increasingly conducive to general demand inflation, in spite of the continued restraints on government spending and the marked increase in tax receipts."

During this period there had also been a progressive acceleration of the rate of inflation.

The seasonally-adjusted annual rate of increase of the consumer price index had risen from 8,6 percent in the first quarter of 1980 to 13,3 percent in the second quarter, 16,3 percent in the third quarter and 22,3 percent in the fourth.

This had resulted in an increase of 15 7 percent between December 1979 and December 1980.

Tough action will aid savers

RDM (49) 3/2/81

By HOWARD PREECE
Financial Editor

TOUGH action to raise interest rates in a bid to curb inflationary pressures in the economy was announced in Pretoria yesterday by Dr Gerhard de Kock, the new Governor of the Reserve Bank.

He said Bank Rate, the key official guideline to interest rates, would go up from 7% to 8%.

This means that savers can soon expect to earn more on their various types of deposits with banks, building societies and the Post Office.

But ripple effects are bound to put further upward pressures on home loan mortgage rates.

The building societies have already announced a 0,75% rise in mortgage rates, applicable to existing bonds from March 1. Rates will then range from 9,75% to 11,75% on bonds of R40 000 and more, and a further rise later this year now seems absolutely certain.

Overdraft rates will rise by at least 0,5%, perhaps by more.

Evidence of severe inflationary pressures in the economy has been mounting, with the Consumer Price Index rising by 15,8% during 1980, and money supply expanding rapidly as the economy soared to a real growth rate of 8% last year.

● See Page 13

Economy must depend less on gold — Minister

RDM 3/2/87 (49)

CAPE TOWN. — South Africa's decentralisation policy was under review and incentives were being restructured with a view to making them more attractive, the Minister of Industries, Commerce and Tourism Dr Dawie de Villiers said in Cape Town yesterday.

Speaking at a Cape Chamber of Industries luncheon, he said: "It is common knowledge that the present upswing in the economy is in the first instance attributable to our export performance to which our mining industry, and in particular the spectacular increase in the price of gold, made an important contribution.

"We must, however, become less dependent on a single commodity such as gold, and it is clear that the driving force in the country's economic growth in the long term will be the manufacturing industry."

For the past three years there had been a cyclical upswing in the economy and although it had to be accepted that the exceptional growth rate of nearly 8% last year could not continue indefinitely, a healthy rate could still be expected with 5% being achieved this year.

Although the Cape did not have the mineral wealth of the rest of the country, it had made a substantial contribution to the industrial development of the Republic.

The Bureau for Economic Research at Stellenbosch University had almost completed its two year study of rail distances and transport costs from the Cape to inland markets.

The role of the Government in industrial growth was primarily one of ensuring a climate conducive to development and, within the concept of decentralisation, Atlantis in the Western Cape had been established as a growth point.

"The whole decentralisation policy is now under review and the incentives for decentralisation are being restructured with a view to making them more attractive for industrialists."

Dr De Villiers said that the export promotion scheme of his department was expected to support industrial growth in the Western Cape further. — Sapa.

Schwarz predicts 'good news' budget

RDH 4/2/81

(49)

By GERALD REILLY
Pretoria Bureau

SOUTH Africa can expect a "good news" little budget on February 16 and a "bad news" main Budget in August, the PFP's finance spokesman, Mr Harry Schwarz, said yesterday.

The Government, he said, would squeeze maximum election advantage from the Part Appropriation debate.

Electoral sweetening moves like public sector pay increase announcements and a statement of intent to improve the lot of pensioners were virtually certain to be announced by the Minister of Finance, Mr Owen Horwood.

Mr Schwarz pointed out that with more than 400 000 white public sector workers, including 60 000 teachers, and nearly 500 000 whites over the age of 60, most of them pensioners, there was a large mass of voting power which the Government would try to influence by little budget concessions.

Another virtual certainty was that Mr Horwood would not announce the introduction of fringe benefit taxation.

Senior public servants in Pretoria expect the Minister to announce that cheap housing loans available to public sector workers would not be subject to the tax.

Mr Schwarz said this would be another move calculated to slow down the drift away from the Government which it was feared was taking place among railway and post office workers and a section of teachers, the police, and State Department.

It was hardly likely the Government would neglect this vulnerable political support area.

Mr Schwarz said there was no doubt the Prime Minister had become anxious about the effect of this "liberal" rhetoric on a large section of National Party support, and the possible strengthening of the HNP with NP defectors.

This was why every stop would be pulled to exercise a maximum influence on voters in the Part Appropriation debate.

On fringe benefits, Mr Schwarz said he had put a question on last week's order paper which would be replied to in the Assembly today by Mr Horwood. Mr Schwarz has asked him to outline his intentions.

Meanwhile organised commerce and industry believe the Minister will broadly deal with fringe benefit tax proposals in the little budget.

Organised commerce has told Mr Horwood companies will need time to reorganise employee's pay packets against a background of the extent of the tax.

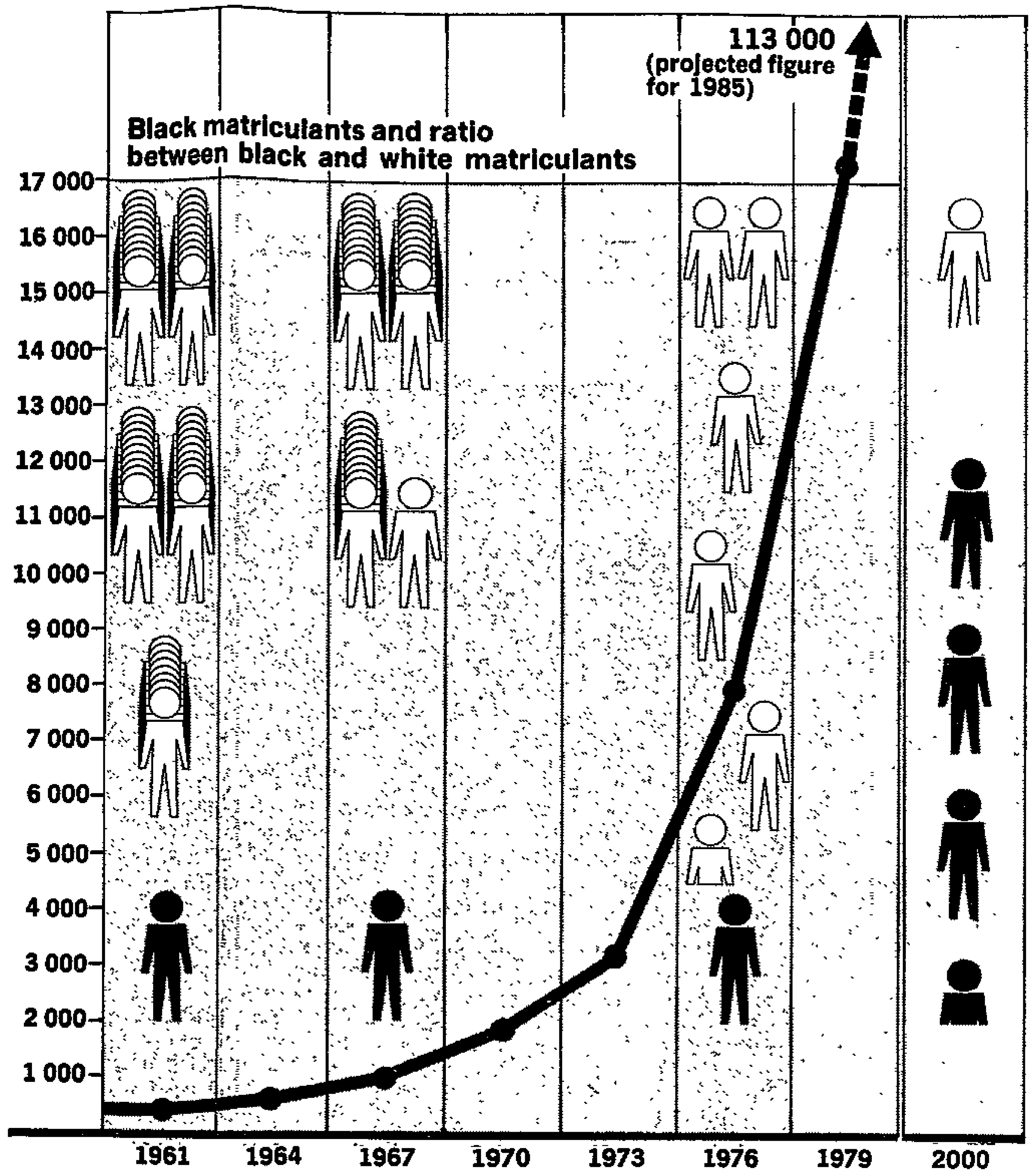
It is, therefore, confidentially forecast that the fringe benefit tax will again be delayed — until the 1982-83 tax year.

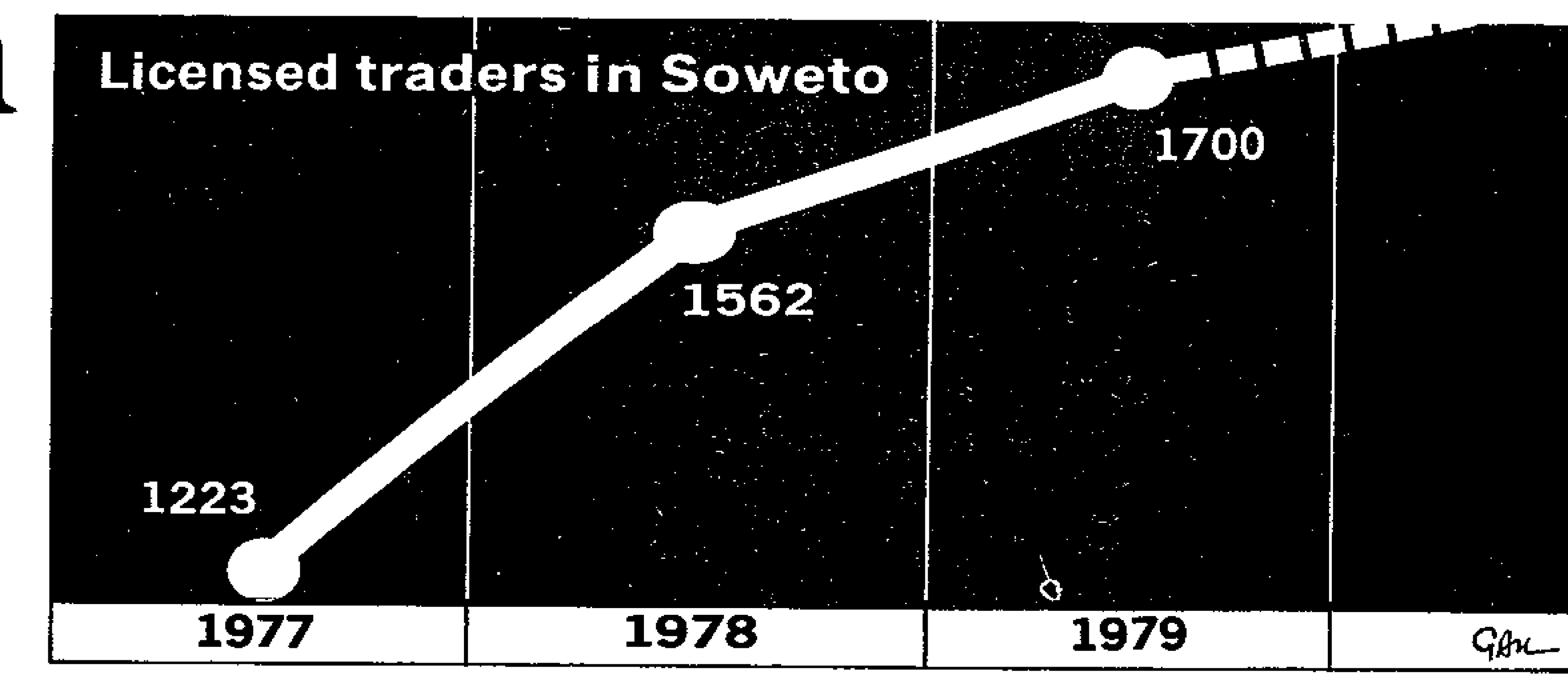
(49)

The restless captives of white reformism

RDM 5/2/81 (49)

The old restrictions on the emergence of a black middle class are being lifted rapidly as the National Party seeks to bolster its position — and that of whites generally — by encouraging the growth of a stable, propertied black class with a stake in the system. PATRICK LAURENCE examines the evolution of policy from the days of Dr Verwoerd and assesses the reformist hopes that the black bourgeoisie will become the political auxilaries of the white-controlled society.





It is one thing to produce such a people and quite another to keep them satisfied with their position
— NIMROD MKELE

THE assiduous wooing of a black middle class as political allies of the ruling whites is of pivotal importance to the reformist policy of the Prime Minister, Mr P W Botha, and his verligte advisers, but the stratagem is not new.

Encouraging the emergence of a "stable middle class" was the shibboleth of the old United Party long before the slogan was taken over and refurbished by the ruling National Party.

Even before Mr Botha became Prime Minister in September 1978, the National Party had begun to loosen the fetters which it had previously placed on the emergence of a urban-based black bourgeoisie.

But there is no doubt that Mr Botha has popularised the policy and given it an urgent dimension, especially in his impassioned rhetoric about the need to avert revolution.

In one sense, however, June 1976 is more appropriately highlighted as the starting point of the "new" policy than September 1978: its stimulus seems to lie more in the outbreak of unrest in Soweto than in the accession to power of Mr Botha as the new premier.

In May 1976 the first steps were taken to remove restraints on black businessmen in urban townships when the ban on blacks forming partnerships and companies was lifted.

But this slight easing of the constraints on black trading imposed by the 1963 and 1968 regulations was accompanied by an attempt to link urban black businessmen to their designated homelands: possession of a homeland citizenship certificate was made compulsory for traders.

To guard against too sudden a shift from the old restrictive policy — which constricted black businesses to the provision of essential daily household needs — two further constrictions were imposed:

1 Applications for business sites larger than 150 square metres had to be approved by the then Minister of Bantu Administration and Development;

2 The number of business activities open to urban blacks was still limited to 26.

In 1977 these restrictions were removed in the wake of the Soweto unrest and the concommitant anxieties which the radicalism of young blacks aroused in white businessmen.

After that, of course, Mr Botha became Prime Minister and further steps were taken to encourage the emergence of a black middle class. The new direction had already been set, but Mr Botha undoubtedly moved down the chosen path more decisively and rapidly.

Innovations under Mr Botha included decisions to open black townships to white capitalists in partnership with black entrepreneurs and to encourage black involvement in light manufacturing in townships by making loans available from the Industrialisation Decentralisation Board.

These post-1976 moves must be linked to an associated process of facilitating the emergence of a black propertied class in the urban areas. In the aftermath of 1976, the policy of denying urban blacks the right to own their homes was abandoned.

The first shift came in August 1976, with the abolition of a proviso requiring homeland citizenship certificates from blacks wishing to take advantage of the 30-year leasehold scheme of home ownership (which had been abolished in 1968 but reintroduced in 1975).

The proviso aroused black opposition and was thus an obstacle to plans to facilitate the emergence of a "responsible" urban propertied class. It was dropped post haste after the violence of June 1976.

Later, in December 1978, a new 99-year leasehold scheme was introduced. It is not coincidental that the Urban Foundation — which was set up by powerful white business interests in November 1976 to forestall the drift to socialism among young blacks — made money available to speed up implementation of the 99-year scheme.

Another factor of relevance to stimulating accelerated growth of the black bourgeoisie was the rising financial input into black education. The motive here was not simply to increase the number of the educated blacks but also to make good the shortage of skilled whites.

Ever since the 1972 decision to lift the R13-million ceiling on State funds for black education, the amount of money made available rose steadily. But the rate of increase appears to have picked up markedly after 1976.

Between then and 1980-81, expenditure on black schools in white-designated areas rose more than fourfold, from R58-million to nearly R250-million.

Another perspective to the policy of creating a black elite appeared in 1978, when the old power to exempt select blacks from the pass laws was restored to the statute book. Although it has not been used on a large scale yet, there are reported moves to make wholesale use of it in the years ahead.

The wooing of an urban-based black bourgeoisie is rightly perceived as a post-Verwoerd development. But in another sense it might be viewed as a logical extension of the policy of self-governing and independent homelands pioneered by Dr Verwoerd.

Verwoerd saw the chiefs and headmen — the *traditional elite*, in the parlance of modern sociology — as the "natural allies" of white government, and his homeland policy sought to bolster their authority and to forge close ties between them and the whites.

Restrictions were simultaneously removed on black entrepreneurs in the homelands. Loans were made available to them. The result was to encourage an alliance between the traditional rulers and *new elite* as common beneficiaries of the homeland policy.

The limitations of Verwoerd's policy were exposed in 1976. His successor found himself without the support of a substantial class of black auxilaries in the urban areas. There were too few beneficiaries and too many rootless proletarians or "temporary sojourners".

The post-1976 policy represents an attempt to expand Verwoerd's policy to the urban areas: not in the earlier crude form of trying to establish the authority of chiefs and headmen there, but in the sense of creating a new class of "responsible" blacks.

It is difficult to quantify the impact of the new policy in precise terms, but there are indications that it has expanded the ranks of the black middle class (which, it should be noted, is notoriously difficult to define).

The indicators include:

1 An increase in the number of licensed Soweto traders from less than 1 225 in 1977 to more 1 700 in 1980. The presumption is that increases of the same or similar magnitude took place in all South Africa's main townships — with the exception of those around Cape Town, where the coloured labour preference policy generally hampers black development;

2 The slow but steady growth of leaseholders. In townships under the auspices of the West Rand Administration Board, there are nearly 2 850 home owners under the 30-year and 610 under the 99-year scheme. These figures do not take into account the 30-year leaseholders who acquired their homes before the temporary abolition of the scheme in 1968;

● The sharp rise in black matriculants from barely over 9 000 in 1975 to 40 000 last year. The implications were spelt out by Professor Dries Oosthuizen, of the Rand Afrikaans University, in a recent address. By the year 2 000, black matriculants will outnumber white matriculants by 3,5-to-1, he forecast.

In a recent analysis of official manpower surveys, two social scientists, Mr Charles Simkins and Mr D C Hindson, traced class changes within the black community.

They found that the biggest increase occured within the ranks of the "petty bourgeoisie" (which they categorised as professional men, clerical or white-collar workers and supervisors).

Where the proportion of black workers dropped from 90,96% to 86,68 % of the overall total of economically active South Africans between 1969 and 1977, the proportion of *petty bourgeoisie* rose from 8,66% to 12,85% over the same period. Black "owner-occupiers" increased marginally from 0,39% to 0,46%.

These figures relate to the period before Mr Botha took over as Prime Minister to give added impetus to the policy of encouraging the emergence of a black middle class. Mr Simkins was confident that the same pattern would continue apace under Mr Botha.

In a article in the latest issue of the Journal for Southern African Studies, the British scholar Dr Roger Southall argued that the new policy was beginning to pay dividends.

In the past the black middle class had been so hemmed in that it had little or no hesitation in linking up with the masses under the banner of African nationalism, he said.

But "in recent years the African petty bourgeoisie has adopted a less implacable and more ambiguous stance toward apartheid."

It is a major tenet of Dr Southall's thesis that new black middle class is not an autonomous class with capital and resources of its own, but a captive of white capital.

Dr Southall does not specifically make the point, but the new formulae for the entry of white capital into black townships may be seen as evidence of his point.

Theoretically, of course, the balance of power should lie with black capital under the prescribed formula, which stipulates that blacks should own at least 51% of any partnership.

But, with vastly more resources and experience at their disposal, there is little to stop the white capitalists from controlling the partnerships through black surrogates.

Thus it is not surprising that the black entrepreneurs behind the Diepkloof development complex had to borrow money from white capitalists to keep their project afloat — or that the company tipped to win the contract to develop the Jubulani complex in Soweto is backed by both black and white money.

The long term loyalty of the new black bourgeoisie to the white establishment is a matter of debate. But certain segments of it are likely to be less than steadfast in their support.

Short of a major change in the existing political structure, the rising generation of black matriculants is unlikely to remain politically quiescent, much less pillars of the regime, if the research of Dr Melville Edelstein is taken as a guide.

Dr Edelstein who, ironically, was murdered by black youths in Soweto in June 1976, found "inadequate political rights" to be the strongest grievance of Soweto matric students. His research showed further that they were hostile to the idea of homelands and in favour of a supra-tribal African identity.

The support of the "petty bourgeoisie" — the white collar clerks and supervisors — is comparable to the shifting sands referred to in the bibilical parable. Mr Simkins said of their loyalty: "They are up for grabs. Their loyalties can go either way. They have to be competed for."

Black capitalists proper — owners and managers of capitalist enterprises — are safer, sounder allies. They are, to paraphase Dr Southall, tied into the white-controlled system, although they may have to be paid with bigger and bigger concessions.

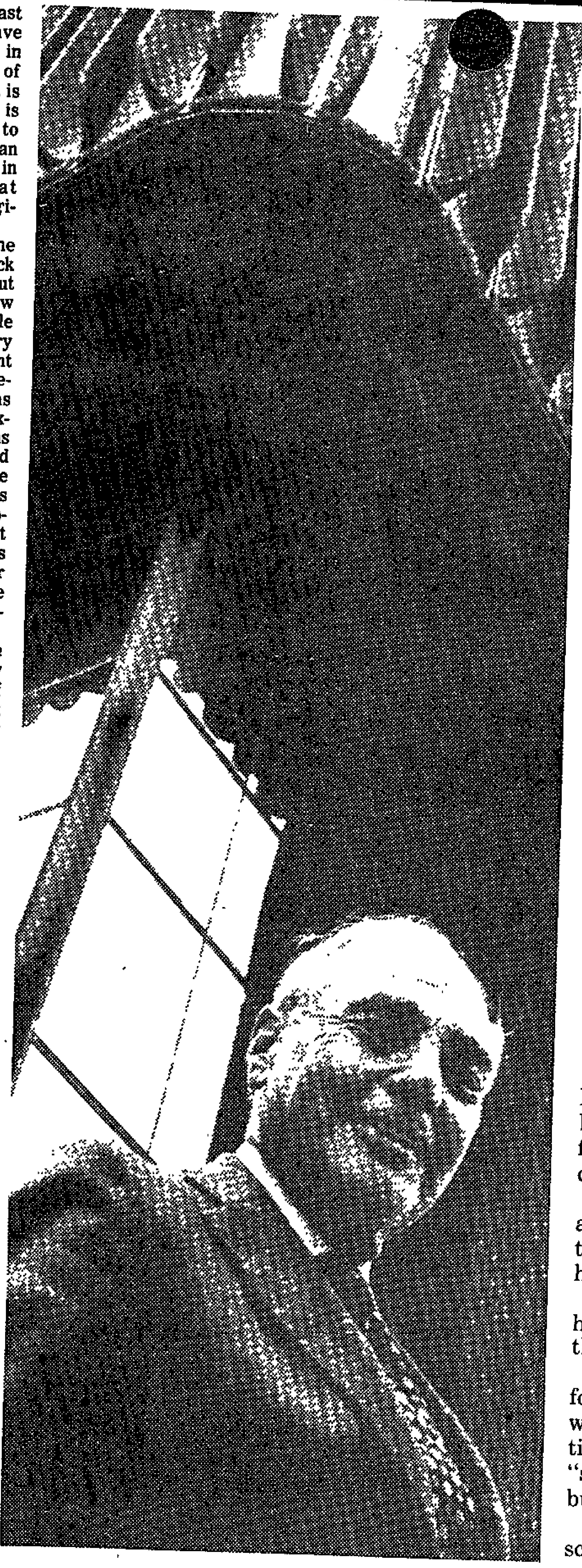
But, in the end, even their loyalty is dependent ultimately on the strength of the regime and its ability to protect as well as reward them.

As Professor Philip Mayer has remarked: "It could be abruptly ended by anything that seriously threatened the military or economic stability of the regime."

OPPENHEIMER SPELLS OUT WHY HE HAS BECOME DISILLUSIONED WITH BOTHA'S REFORMISM

RDM 6/2/81

49



In November 1979, South Africa's most powerful businessman, Mr Harry Oppenheimer, gave qualified support to the Prime Minister's plans for a constellation of Southern African States.

Addressing the meeting between Mr P W Botha and businessmen during the historic Carlton Hotel conference, he said: 'I see more reason for real hope now than I have seen for many years".

Now, only 15 months later, Mr Oppenheimer has expressed considerable disillusionment over the direction of Mr Botha's reformist policies.

In a little-publicised interview this week with foreign correspondents based in Johannesburg, he warned that if the country wants to avoid revolution, the Government has to take within five years "substantial steps, not only towards social justice, but towards the sharing of power".

The Rand Daily Mail today publishes a transcript of his views.

'OVER the past past fortnight there have been such changes in South Africa of which, of course, the most important is the new election. But it is extraordinarily difficult to talk about the South African situation without finding in about 10 days time that you've made the most terrible fool of yourself.

So anyhow, you've got me here and so I've got to stick my neck out and talk about the situation as I see it. Now I had, and I think most people in SA had, been looking very much forward to the present session of Parliament because we really felt this was going to be a session of exceptional importance and was really going to show once and for all whether the Prime Minister's reformist policies which he talked about at Upington, which we talked about at the meeting with business people something over a year ago — whether these were really going to be transformed into fact.

This I felt was what one wanted to discuss but now there has been a great deal of change. Now I don't think myself that it's fair to say that the Prime Minister has not done anything in the direction of the policies about which he talked. Something has been done, indeed quite a lot and quite a lot has been done in the business world with the approval of the Government, approval that some years ago would not have been given.

But of course, while something has been done, a great deal more has been promised and we've got to see whether this rhetoric is going to be turned into action. I myself never was as scornful of the rhetoric as I know a lot of other people were because I have always felt that very often the rhetoric of today can turn into the political programme of tomorrow, and I was hopeful that this might happen.

There's only one thing I do feel in regard to that meeting that the business people had with the Prime Minister at the Carlton Hotel a year and a bit ago where there has certainly been confusion. The Prime Minister put tremendous emphasis on the importance of private enterprise and we were all very pleased about that.

I do think, however, that over the years one has seen more that the Government, and particularly the civil service, had a rather different idea about what was meant by private enterprise than the sort of ideas that I had. I saw private enterprise as a means of building a better and a more prosperous country and a country which was a fairer country also. If you think of private enterprise in that way in SA the most important part of all is that the black people should have major opportunities in the private enterprise area.

I don't think yet that they have that and I don't think that when the Government talked about private enterprise that they clearly understood that you cannot rely on private enterprise to do what it ought to do and can do if it's given the opportunity in SA unless the black population of SA is also free to enter into the private enterprise field. That means freedom of movement to a very great extent. It also means a great deal in the educational sphere.

I'm not giving up on the promises that the Government has made. They promised innumerable things; they promised to get away from the pass laws; they've promised much greater security for the black people in the urban areas. Something in that direction has admittedly been done. They've promised that the private enterprise system should accommodate black people as well as white people in the way I suggested and we're waiting to see whether these things and many other things — symbolic things, like the end of the Mixed Marriages Act, and so forth — whether these things were really going to be done.

But now over the last — as I say I've just been away, I got back from America, I've been to England, to America — I got back towards the end of last week, and during the period since I left for England, three extraordinarily important things have happened.

Firstly, there has been the banning of these black newspapers and the banning of some black journalists. There's been the raid into Maputo and most important of all, of course, the calling of the elections.

Now all these new movements, so it seems to me, are being justified not in any detailed sort of way but by the use of a phrase that there is a total onslaught on SA and that as there is a total onslaught we need in consequence to have a total defence strategy.

Now I don't know whether there is a total onslaught on SA — that is anyhow a question of semantics. What does one mean by a total onslaught? Obviously, there are a great many people who would like to see a total onslaught in SA and to take part in it. But how total is this in the world? I mean it would seem to me very (inaudible) for instance to think that the new administration in the United States is associating itself with a total onslaught on SA.

I'm quite certain that would not be the case if it became clear that the Prime Minister really was going to carry out the promises which he and some of his leading colleagues have made. Of course, it can only too often happen that if you adopt a total defence strategy in relation to a total onslaught, that this total defence strategy can very easily take forms that provoke rather than deter the onslaught that it feared.

Now when you think — I was away when it was done — when you think of the banning of these newspapers, the closing of these newspapers and the banning of black journalists. Perhaps this was justified — though I personally don't believe it was — but anyhow, no reason is advanced as to why it's justified except that there is this onslaught on SA, which again is not very clearly defined.

I'm quite certain of this thing — perhaps you won't agree with me — but certainly this particular reaction to the total onslaught has certainly had the effect of getting SA a worse Press and worse public opinion than it had before at a time when one was beginning to see, or so it seemed to me, a relaxation of hostilities to SA generally in the Western world.

And then of course there's the onslaught, this spectacular attack on the ANC in Maputo. Now I am certainly not out to condemn what was done there. I share the official view that if the countries around SA think it's alright to harbour and succour people who spend their time blowing things up in SA or planning to do so, then I think they must take the consequences of what they are doing. I don't think there is any cause in such circumstances, any reasonable cause, for them to squeal about vile behaviour from the Government or the Defence Force.

But of course, while I'm not arguing that attacking these bases in Maputo is morally wrong, one does want to know also that it was wise because when you take actions of this sort, it's necessary for them not only to be morally defensible, but they've really got to do some good for SA.

Now I don't know whether they did good for SA or not. I'm quite prepared to believe that they have done good for SA and that they were justified from every point of view, but what I do say is that the Government doesn't think it necessary when very alarming, very dangerous steps of this sort are taken to give any explanation as to the reasons which motivated them or the advantages to SA which had been achieved.

I don't say that those don't exist, but I do say that it is now allowed, in a country which sets out, anyhow as far as the white people are concerned, to be a democracy. It is not enough to say we can do these things because we assure you there is a total onslaught in SA and you must leave it to us at our discretion to devise a total defence strategy.

Now when you come to the election, it seems to me that the same sort of questions arise. The first thing about this election — I don't understand clearly why it's being called — but one thing surely is clear: that this election is not taking place because the Government or anybody else can possibly believe that it's in the interests of the country to have this election.

It can only be in relation to some interest — what it is is somewhat mysterious — but some interest relating to the plans and the organisation and the future of the National Party. Now the Government has a huge majority in Parliament and it's perfectly clear that it can carry through any policy which it wants to carry through. If it were — in the course of carrying through the sort of policies that the Prime Minister has been talking about — if it were to lose a few supporters to the Right it certainly would gain an equal amount of supporters to the Left.

Naturally in the tribal organisation of our politics, that may not be an entirely satisfactory way of looking at it, but nevertheless it happens to be the fact. Now since I've been back and read about this election, two reasons, two contradictory reasons are being put forward, so it seems to me, explaining why the elections are taking place.

The one is to say that (the PM) has decided to ditch his forward-looking policy and that this is a Rightwing move to ensure the solidity of the National Party. This seems to me to be pretty improbable because I cannot see that if the Prime Minister wants to abandon his moral leadership of the party and simply take the moral leadership from Dr Treurnicht, I don't see why he needs to have an election in order to do so.

And then, of course, the other contradictory theory is that he's doing it in order, in the nomination contests, to get rid of a lot of Rightwing people and so have solid control of the party that way. I must admit that that also seems to me to be a bit improbable simply because I would have thought that it would be so unlikely that he would succeed in doing anything of this sort.

I would have thought that when he gets back into Parliament, he would have had the same sort of Rightwing people to cope with as he has now. And if he wants to run the risk of quarrelling with them, one says: Why not quarrel now rather than after the election?

But I'm inclined to think myself, rightly or wrongly, that the calling of this election in connection with all this talk about the total onslaught and the total defence strategy because what I think he in effect is doing is to go to the country but refuse to give the country any policy at all which he's asking them to support or not to support. He's simply saying there's a great onslaught on SA, I want to prepare a total strategy in order to meet it, you must give me a blank cheque in order to do so and this is what the election is all about.

And I think this may mean that he believes he can get through his forward-looking policy but put it through in a more authoritarian way in relation to his own problems, as well as in relation to the opposition party's.

But I would argue that this is a call for a blank cheque, while refusing to explain what he wants the blank cheque to do. And I think that to act in that way is to move away from the normal conventions of a parliamentary system.

I regard the parliamentary system in SA as immensely important. I know we're not a democracy in SA, but we have a parliamentary system even though it's a system which is very narrowly based from the franchise point of view, but a parliamentary system is a very valuable thing in itself in helping to get competent government, in helping to get clean government.

Without a parliamentary system what do you think would have happened about the Information scandal, and I think that to go to the country and to ask for a blank cheque, which to my mind is what the Prime Minister is doing, is a step against the parliamentary system and I think it begins to put that system at risk.

I may say on the other side I still believe that the PM — and many of you will think I'm just being starry-eyed — but I still believe the PM does intend to put through his reformist policies. But I think he wants to be able to do this just in the manner he likes

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not have sufficient spiced butter within the envelope to give an inner succulence. But this is a matter of taste, what one must really judge is the final outcome which was more than satisfactory.

The sole, a reasonably large east coast fish, was well fried and not dried up to the stage at which the flesh is tough, and falls away from the bone. In these days of fish shortages, a sole becomes almost a delicacy even though one can taste the effects of its incarceration in a deep freeze.

The vegetables were excellent — butternuts, brussel sprouts and sauteed potatoes. The sprouts had been prepared with care; they were such a change from the mush so often served in the many establishments.

The Rustenberg Dry Red is

an elegant, claret rathe burgundy. because we our menu v it gracefull did not d chicken or

Le Vestib ised establi ently has clientele of demanding They dine main cours care and straint. Jud ments of would say t are cooked meats, prop

The price medium b and to eat pleasing en the attracti ment. The and willing desire to please.

Natal B (B Alistown and S Moore) second day from 10 am

SAB CURRIE CUP

CAPE TOWN: Western Province v Transvaal first day from 10 am

GOLF

SUN CITY: Sun City Sunshine Classic third round 18 holes from 7 45 am

HOTRODS

DUNSWART TEXAN STADIUM: British riders on Speedway Saloons racing from 8 n.

INDOOR HOCKEY

WEMBLEY INDOOR STADIUM: Southern Transvaal Mens Indoor Championship 4 matches from 6 pm.

SOCCER

BALFOUR PARK: Highlands v Dynamos first round BP Knockout Cup Kickoff 8.15 pm

SWIMMING

ELLIS PARK: Transvaal third and fourth league gala from 7 pm

Tomorrow

SAB BOWL

WANDERERS STADIUM: Transvaal B v Natal B (B Alistown and S Moore) third day from 10 am.

SAB CURRIE CUP

CAPE TOWN: Western Province v Transvaal second day from 10 am

HANSA LEAGUE

BEDFORDVIEW: Bedfordview v Old Parktonians (D McGee and J Pienaar)
MORNINGSIDE: Balfour Guild v Kohinoor Crescents (R Ryninks and E Wood)
MILNER PARK: University v Old Edwardians (H Lack and J Mackay)
WANDERERS NO 3 OVAL: Wanderers A v Wanderers (E Freedman and G Kirk)
QUONDAM PARK: Jeppe Old Boys v West Rand (M Ballinger and C Mitchley)
LINKSFIELD: Old Johannians v Pirates (R Sambridge and B McLauchlin)
(All matches start 2 pm)

SWIMMING

…IS PARK: Age Group top ten gala at 6

… LAKE: Zoo Lake Closed Championship 2 pm.

DIVING

…IS PARK: Transvaal Age Group Cham… Under 10, Under 12 and Under 14 …m 1 pm

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MILNER PARK 7 45 pm
GERMISTON: west 7 pm
GERMISTON: 7 45 pm
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and within the limits which he likes, and I think that the meaning of this election is to ask the electorate, and finally to ask Parliament, to abrogate their responsibilities in favour of voting in favour of the PM having a blank cheque to deal with a situation which he defines as a total onslaught.

But I myself would not define the situation in which we find ourselves in SA as a total onslaught from the rest of the world. Of course, to my point of view and . . . I still feel there is a role for the white opposition in SA, I don't think the white opposition is going to win the next election in SA! Nor any election that I can see in the future, but I still think they have a role to play.

And I think the role they have to play is to put forward very clearly the sort of policy which they have been putting forward, a policy aimed at getting rid of racial discrimination in every way and moving to a proper sharing of power.

And I believe that in putting forward that policy they will, to a very great extent, be giving backing for what the PM really wants to do. But I think on the other hand they ought to take up this question on what appears to me to be an attack on the normal way of carrying on a parliamentary system.

Of course any PM in most circumstances is in a position to call an election when he likes and it's within the normal conventions . . .

But again that sort of power if you are going to run a parliamentary system successfully, needs to be exercised within certain limits. It needs to be exercised within the limits which enable a parliamentary system to work, and I think you go beyond those limits if you go to the public and you ask the electorate and you ask the electorate's confidence while you deliberately refuse to tell the electorate what you intend to do with the power which you are asking them to put in your hands.

And I think that this is what is happening in SA and I believe it is the job of the Opposition now not only to put their policy in relation to getting rid of racial discrimination and sharing power on a fair basis in this country, but I think they ought to point out the risks that exist of permanent damage to the parliamentary system.

As I say, a democracy we never had, but a parliamentary system is something very precious and it ought to be defended, and I think what is happening, whether it was meant that way or not — it probably wasn't meant that way — is in practice a danger to that system. ❜

Q *Your earlier remarks gave the impression that you were rather disillusioned with what has come out of the meeting at the Carlton Centre. If Mr Botha is now going to ask for a blank cheque from the community at large, do you think that the business community — the people who were present at the Carlton Centre meeting — are going to (inaudible).*

A I think people are now rather inclined to do this nowadays. I am not quite as disillusioned as perhaps I have given the impression of being. I said to you that I thought in certain ways this had not resulted in what I had hoped, but it was a success in producing a better atmosphere between Government and the business community.

And I certainly think too that it produced an atmosphere in which moves to make better use of black workers, to pay them more, to train them better — I think that all these things can be done with more confidence now because of the better atmosphere, because of the better relationship between the Government and the business community. I don't think this was just a waste of time.

Q *How do you react to recent statements from the Mine Workers' Union?*

A The MWU has always been a union which has been extremely conservative and traditionally worried about black advancement. I would have thought that provided the price of gold holds so that there isn't a feeling among white workers that their jobs are at risk I would have thought there is a better chance now of getting a greater advancement of black workers now in the industry.

It is extremely difficult to achieve that without the co-operation of the white workers. I am a bit inclined to think that this looks easier than it used to look in the past.

Q *You said you were still confident that the Prime Minister would still push through this reformist policy (inaudible).*

A I think that by calling this election instead of getting on with the job now, the Government is running very grave risks at the expense of the interests of the country in order to give some advantage which is difficult to define in relation to their party. I think certainly this is going to result in delay, and delay in regard to promises which have been made is very dangerous indeed.

Q *Would you support the idea of one man, one vote?*

A You know I used to be very opposed to the one-man-one-vote idea. I believed in something which is so old-fashioned that you can't go along with it now — and that was a qualified franchise. And I felt this would provide a system in which the share of black people would gradually increase in view of the very large numbers and that there would be more black people voting than whites.

I think that the time for this, however wise it may be, is something which is no longer possible. One man, one vote has taken hold and we've got to accept it. But in a country like South Africa you've got to combine one man, one vote with with a (inaudible) that those votes are exercised within a political dispensation which prevents minorities, either black or white, from being oppressed.

We've got to have some sort of a set-up which will prevent the black behaving towards the whites in the same way in which the whites behaved towards the blacks in the past.

Q *In which area do you think the Government should take the next reformist steps?*

A The two obvious areas are first of all, in the field of education, and I think they are moving in that way, to see that black education should be as good as white education. I personally don't believe that can be done unless there is one department of education which is responsible for the education of all. Education is a key factor also for industry and unemployment because you will only stop unemployment for the unskilled if you are able to deal with the shortage of workers in the skilled crafts.

And then the second, and very important, field, and this is the field that is led by Dr Piet Koornhof, who I like very much, but who makes very many promises which have not yet been carried out.

And it is quite essential that he should do what he said and that he has got to tackle the security of tenure of black people in the urban areas — that there needs to be freedom of movement of black people to a very much greater extent and that you have got to get rid of the pass system in its present objectionable form. There are very many other things which remain to be done, but these are the first two.

Q *We were talking about black frustrations earlier on. Do you think there needs to be some sort of timetable for South Africa?*

A We have squandered our time. There was a time when we could have done these things quite slowly. There was a time when it would have been quite easy, for instance, for the Government to work together in a non-racial way with the Indians and the coloured people and leave the more difficult problem of the blacks to a later stage.

But they have wasted time. People are always saying to me, how long have you got in South Africa? A country just doesn't fall to pieces . . . as though it would in a certain time sink into the sea.

But I think that if you're going to avoid a revolution in SA — to take a figure off the shelf — I believe we've got to take substantial steps not only towards social justice but towards the sharing of power within a period of five years.

Q *Do you think that the business community is doing enough for its part towards the direction of change in SA and what do you think are the most important things that the business community is or should be doing?*

A It's awfully difficult. No, I don't think the business community is doing enough, but I think I would say that always, whatever they were doing, because it is a vital thing for the country, a vital thing for the business community. I think the business community is doing a great deal more than it has ever done in the past and I think that there again the first and most important area that business should be involved in is the technical/educational field.

I think that business on the whole is in that direction. Business was frightened to move faster. They were frightened to do things which were perfectly legal because it was felt this was going to damage the relationships with the Government. I think that sort of fear is less than it used to be.

THE ECONOMY

49

No need for gloom

FM 6/2/81

What a tale of unmitigated woe events of the past weeks appear to tell. Interest rates are rising, gold and share prices are tumbling, and the cost of living is on the up and up with the money supply spiralling out of control.

As if to make matters worse, internal politics have taken a depressing turn. The promised crack in apartheid must now hang on an election. The press is under siege Namibia/SWA drags on.

All this is hardly likely to preserve and foster that spirit of confidence necessary to sustain growth and the current high level of business activity.

There are undoubtedly some pointed similarities to 1974, the year in which gold fell back from $200 and forced Dr Nico Diederichs into a course of economic action that led inevitably to the deep depression of 1976.

But are the doomsayers right? Are we really back to the old boom and bust days of the late Sixties and early Seventies?

The boom may be over the top, but there is a lot of steam left. Perhaps of most importance is the fact that government finances are in cracking good shape, having been realistically based on a gold price of $430 an ounce, below even current depressed market levels.

That, more than anything else, is the main difference between 1981 and 1974, and outweighs all the superficial similarities. It means that even if the gold price continues to slide, we will still be able to pay our way.

It means that despite a 30% rise in the money supply last year, a most important potential component of it is under control. And with the reorganisation at the Reserve Bank and increase in Bank rate, Church Square has indicated its determination to draw in the monetary reins quickly.

The money supply is growing because of bank lending to the private sector which is being financed by a trade balance that, in turn, has been swollen by an artificially low value of the rand.

The balance of payments may not be as strong as it was last year, but even at the current gold price the trade account is not far off balance. Indeed, if the large Western countries begin stockpiling strategic minerals, and as our coal exports build up, the current account might ride out further falls in the gold price.

The capital account is showing signs of firm recovery. The haemorrhage of 1979-80 is over. Moreover, even should the balance of payments deteriorate faster than expected, domestic growth should not be unduly circumscribed. Its main impetus is coming from consumer spending and private sector investment.

Both are rooted in the high gold price of recent years which — if past experience is anything to go by — will provide momentum for some years yet, and in contained government spending and lower taxes.

It is important to remember, too, that consumer spending is not yet excessive in relation to GDP and it follows some years of high personal saving. So the Christmas shopping binge is not yet indicative of overheating; demand has not yet outstripped supply.

Of course, manufacturing capacity is limited and is being constrained by the shortage of skilled workers. But industry isn't yet deeply into overtime and government's more relaxed import policy remains a cushion.

But the run-away money supply does mean that demand inflation is closer than at any time in the current growth cycle. It is not a matter for complacency.

There is another important point: Reserve Bank Governor Gerhard de Kock has made plain his new policy includes very limited price management. This is a major and long-awaited development.

The exchange rate and other key financial prices are going to be increasingly determined by forces of supply and demand. Moreover, symptomatic of his monetarist approach is the concentration on controlling money aggregates and ignoring interest rate levels.

This means that the exchange rate, interest rates and share prices are going to fluctuate sharply. These fluctuations must be seen for what they are.

They are not indicative of depression but of a new and enlightened policy approach that will not be inflationary. The growth trend remains firmly upwards. Whatever the political situation might be, the economic one does not justify gloom.

They also mean that the business cycle has been rediscovered. At some stage businessmen will have to begin preparing to face the trough. But to do so now would be inappropriately jumping the gun.

Second Year (Bronze Medal)

Corporation Medals
For the best student in each
of the 2nd, 3rd and final years.

FACULTY OF ENGINEERING

DIAGONAL STREET

The view from London

(49) FM 6/2/81

"With the dollar recovering, the price of gold shows every sign of staying off the boil." "The basic economy out there is flashing warning signals." "Watch out for the fiscal brakes with inflation set to climb well above 15% this year."

This random selection of one-liners from the financial community in and around Throgmorton Street reflects the defensive stance adopted in London towards investment in South African shares. Six months ago, he was a confirmed bull: today, the London stockbroker specialising in the Johannesburg market is a chastened individual.

This is understandable. Seen from London, SA's long running bull market is now looking distinctly stale. Major fundamental influences have begun to work against share prices and so, too, has the big imponderable that gives Johannesburg its special flavour — the price of gold.

In these circumstances, say the Kaffirs experts, it is only a matter of time before the economy is put into cold storage to allow the tensions now mounting to be smoothed out. What price shares then?, they ask.

For its part, the stock market is not arguing. Both gold mining and industrial shares in Johannesburg are noticeably short of their peaks of last autumn, while in London the *Financial Times* gold mines index has shed 50% since September. The financial rand, which looked so strong a few months ago, is reduced to the status of a limp rag. By any standard, the South African economy has begun to overheat, writes a London correspondent. The rapid growth of the past year is now spilling over into a steep rise in money supply and inflation has begun to accelerate sharply.

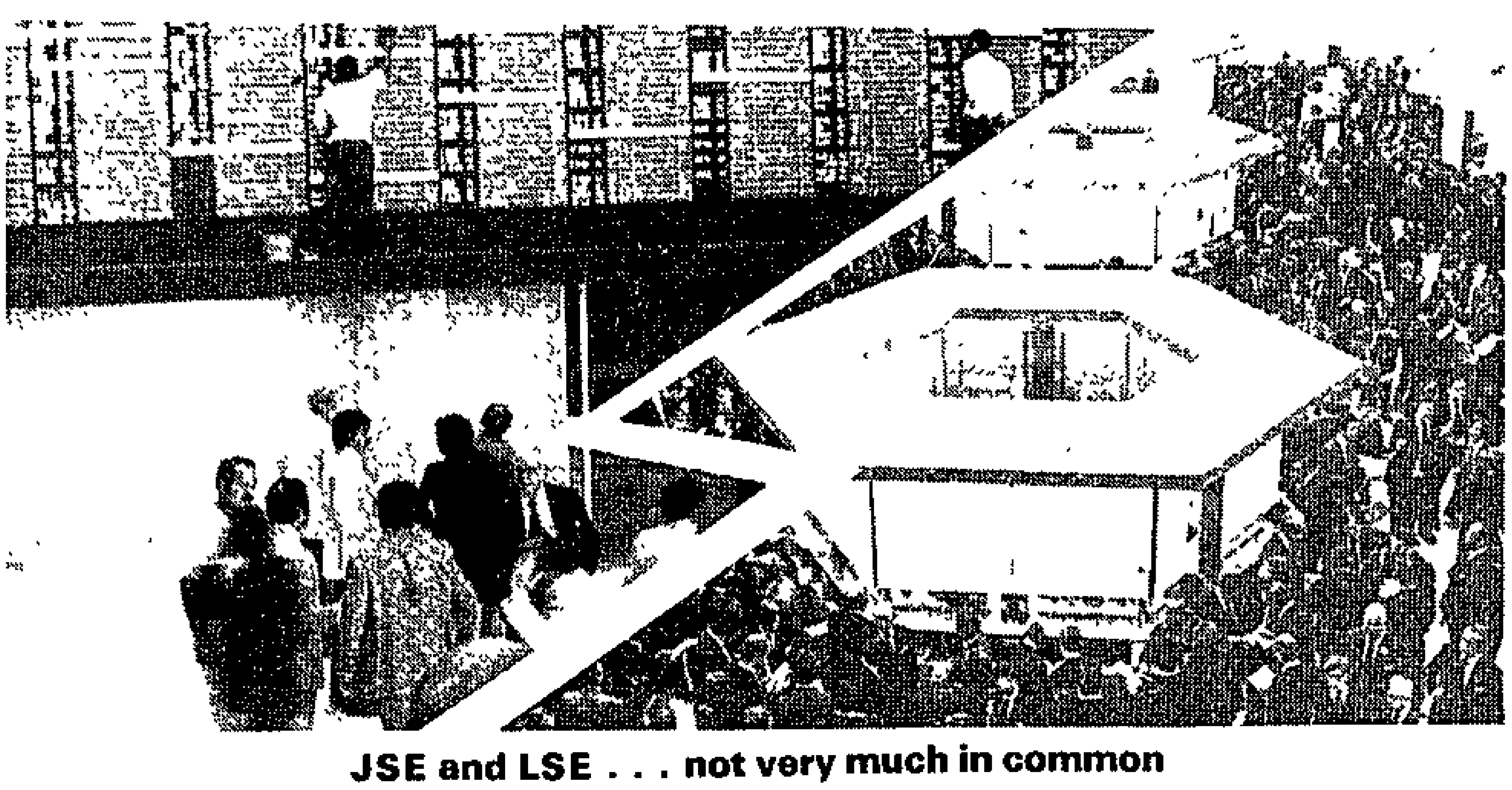
Having become painfully adept at monitoring its own wayward money supply, the financial community in London dislikes what it sees happening in SA and is quick to draw all too obvious parallels with recent economic experience in the UK.

On the narrow definition provided by Treasury officials in Pretoria, money supply rose by 37% over the first nine months of 1980. Even on the broader range of statistics the upsurge has been dramatic, at 26%. Not surprisingly, short-term interest rates have hardened noticeably in recent months and inflation has started to surge upwards.

Over the first 10 months of 1980, consumer prices were showing gains of more than 13%, and the uptrend is likely to be extended during 1981. The impact of rising oil prices, rapid money supply growth and the pressures of excess domestic demand could well push inflation above 15% during the current year.

Of course, observers in London still see the SA economy rolling forward. By the standards of most Western industrial countries, where recession is now deep-rooted, this is impressive. Real gross national product rose by about 8% last year and the momentum built up for 1981 should ensure further growth of around 5%. But, by the second half of this year, growth could be tailing off sharply, signalling the end of boom conditions.

SA's trading with the rest of the world is already showing signs of stress. Last year the economy was comfortably in surplus, but imports rose faster than exports. And with relatively strong domestic demand forcing a loss of price competitiveness in weak world markets, the outlook for 1981 seems bleak, from London at any rate.



JSE and LSE . . . not very much in common

Exports from SA rose by 34% last year while imports shot up by 45%. The broad trade surplus for December was less than R200m, which compares with around R300m for earlier months. Thus the weakness of the gold price — gold accounts for half of all exports — has already begun to have a major impact on the trade balances. On present form, a current account deficit looks quite possible for 1981.

However, despite the economic caution and the recent dispirited performance of the stock market, there are a number of compensating factors. They may add up to only a combination of short-term cushion and crossed fingers, but, by the same token, they cannot be entirely ignored.

Company profits are a considerable investment cushion for 1981. These are still rising sharply and dragging dividends along in their wake. Thus the prospective stock market indicators are not unattractive. And if there is a reversal in gold's downward price movement, stock market bears may be forced back to the drawing board.

For the current year, the profits of SA industrial companies, according to one London stockbroker, should grow by at least a fifth. At the same time, dividends on industrial shares can be expected to rise by up to a quarter, which is well in excess of the 15% long-term dividend growth trend.

This level of growth in earnings and dividends is having a telling impact on investment ratios for Londoners buying through the FR. The prospective PE ratio for 1981 is around 6,5, or a full point under the average for 1980. Yields on industrial shares, which averaged out at just over 5% last year, look set to rise to close on 6,5% for 1981.

Low ratings among industrial shares (Barlow Rand and Tiger Oats, for example, are selling at strikingly nominal PE ratios) have aroused obvious interest. And the sharp fall in this market since November may yet tempt the buyers, especially if the FR sags further.

Now that the wholesale shakeout in gold shares has depressed the FR to almost its heaviest discount, there is a section of brokers in London who feel that there is speculative flavour in almost any South African asset. The absence of major competition from other world stock markets is tending to fuel this view.

Japanese and US equities are in some demand, but Sydney and Hong Kong, the two main markets that the international investor tends to pigeon-hole alongside Johannesburg, have done nothing since last autumn. And Europe, where London is leading the way down with a fall of a tenth in nine weeks, is totally out of favour.

But though Johannesburg has its obvious attractions, UK investors will probably wait until gold bottoms before channelling investment funds in our direction on any appreciable scale.

SA still set to outpace the rest in 1981 growth

RDM 6/2/81

49

By HAROLD FRIDJHON

SOUTH Africa will have one of the highest growth rates in the industrialised world this year if predictions made by the Sanlam Economic Research Department are fulfilled.

In common with most economists, Sanlam's economic survey forecasts that this year's South African growth rate will be 5% after an estimated 8% last year.

In contrast, it is expected that this year the United States will grow at a rate of between 1% and 1,5%.

West Germany's five leading economic research institutes forecast stagnation for 1981 after real growth last year of only 2%.

Britain's GDP is predicted to decline by a further 1,5% after dropping by an estimated 3% last year.

And in Japan it is estimated that real economic growth rate will slow from 1980's 5% to 4% this year.

What is significant is that South Africa's growth is expected to continue in spite of a background of slow growth in the Western world which will have the effect of:

- weakening the demand for, and prices of, commodities, including base metals and minerals; and
- restraining the price of gold.

Other factors which mitigate against 1981 being a "gold" year will be:

- A sharp decline in the industrial demand for gold;
- Inflation in most of the advanced economies may slow down still further this year.
- Interest rates in the Western countries are expected to remain at relatively high levels.
- The dollar is expected to perform strongly against most other important currencies.

But all is not bleak for gold. Sanlam suggests that a further decline in the supply of gold, sustained international uncertainty, and the vested interest of central banks should have a retarding influence on the downward pressure which the negative factors will exert on the price.

After a year in which there was a sharp increase in the demand for goods and services in SA, a 10% rise in the volume of manufacuring production, big increases in retail and car sales, a dramatic improvement in the building industry and a downturn in unemployment, the economy is poised for some deceleration.

Sanlam says that the economy is close to full use of productive capacity and that there are already limiting factors at work. These are:

- A levelling in export earnings.
- An increasing shortage of skilled workers.
- A levelling off in consumner demand, especially for durable goods.
- Increasing pressure on production capacity.
- Scarcer and more expensive money.

But in spite of these difficulties, Sanlam says that 1981 should be another year of good business propsects. Profits of commercial and industrial companies will continue their favourable trends, but the increase will be at a slower rate.

The economic survey does not believe that the balance of payments will have a serious constricting influence in 1981.

Combating inflation will be the Government's most important economic objective, and Sanlam believes that the policy of financial discipline will be continued and that efforts will be made to get a more effective control over the money suppply and to ease acute bottlenecks.

The forecast inflation rate is about 15%.

The review says that because of the already sharp increases in long-term interest rates, only moderate rises are expected in the coming months, with rates at the end of the year being only one percentage point higher than at present.

Short-term rates will move faster; the sustained large gap between long-term and short-term rates "leaves room for further considerable increases in money market interest rates".

Adding weight to this view on interest rates, the review points to a higher demand for money from local authorities and public corporations, and a bigger demand from the private sector for capital for expansion in a climate of tighter money caused by the less favourable balance of payments and aggressive Government moves to restrict the growth of the money supply.

CT 10/2/81 (49)

Oppenheimer's doubts about Botha reforms

November 1979, South Africa's most powerful businessman, Mr ...rry Oppenheimer, gave qualified support to the Prime Minister's ...ns for a constellation of Southern African states.

Addressing the meeting between Mr P W Botha and businessmen ...ing the historic Carlton Hotel conference, he said: "I see more ...son for real hope now than I have seen for many years."

Now, only 15 months later, Mr Oppenheimer has expressed disillu...onment over the direction of Mr Botha's reformist policies.

In a little-publicized interview with foreign correspondents based in ...hannesburg, he warned that if the country wanted to avoid revolution, ... government had to take within five years "substantial steps, not ...ly towards social justice, but towards the sharing of power".

The Cape Times today publishes a transcript of his views.

...VER the past fortnight there ...ve been such changes in ...uth Africa of which, of ...urse, the most important is ... new election. But it is ex...aordinarily difficult to talk ...out the South African situa...on without finding in about 10 ...ys' time that you've made ...e most terrible fool of ...urself.

So anyhow, you've got me ...re and so I've got to stick my ...ck out and talk about the ...tuation as I see it. Now I had. ...nd I think most people in ...uth Africa had, been looking ...y much forward to the pre...t session of Parliament be...use we really felt this was ...ing to be a session of excep...onal importance and was real... going to show once and for ... whether the Prime Minis...'s reformist policies which ... talked about at Upington, ...hich we talked about at the ...eeting with business people ...ething over a year ago — ...hether these were really go...g to be transformed into fact.

Change

This I felt was what one ...nted to discuss but now ...re has been a great deal of ...ange. Now I don't think my... ...f that it's fair to say that the ...ime Minister has not done ...ything in the direction of the ...licies about which he talked. ...mething has been done, in...ed quite a lot, and quite a lot ...s been done in the business ...ld with the approval of the ...vernment, approval that ...e years ago would not have ...en given.

But of course, while some... ...g has been done, a great ...al more has been promised ...d we've got to see whether ... rhetoric is going to be ...ned into action. I myself ...ver was as scornful of the ...toric as I know a lot of ...r people were, because I ...ve always felt that very often ... rhetoric of today can turn ...o the political programme of ...morrow, and I was hopeful ...t this might happen.

There's only one thing I do ...l in regard to that meeting ... the business people had ...ith the Prime Minister at the ...rlton Hotel a year and a bit ...o where there has certainly ...en confusion. The Prime ...inister put tremendous em...asis on the importance of pri...te enterprise and we were all ...y pleased about that.

I do think, however, that ...er the years one has seen ...re that the government, and ...rticularly the civil service, ...d a rather different idea ...at what was meant by pri...te enterprise than the sort of ...eas that I had. I saw private ...terprise as a means of build...g a better and a more prosperous country and a country which was a fairer country also. If you think of private enterprise in that way in South Africa the most important part of all is that the black people should have major opportunities in the private enterprise area.

Free movement

I don't think yet that they have that and I don't think that when the government talked about private enterprise they clearly understood that you cannot rely on private enterprise to do what it ought to do and can do if it's given the opportunity in South Africa unless the black population of South Africa is also free to enter into the private enterprise field. That means freedom of movement to a very great extent. It also means a great deal in the educational sphere.

I'm not giving up on the promises that the government has made. They promised innumerable things: they promised to get away from the pass laws; they've promised much greater security for the black people in the urban areas. Something in that direction has admittedly been done. They've promised that the private enterprise system should accommodate black people as well as white people in the way I suggested and we're waiting to see whether these things and many other things — symbolic things, like the end of the Mixed Marriages Act, and so forth — whether these things were really going to be done.

But now over the last — as I say I've just been away. I got back from America, I've been to England, to America — I got back towards the end of last week, and during the period since I left for England, three extraordinarily important things have happened.

Bannings

Firstly, there has been the banning of these black newspapers and the banning of some black journalists. There's been the raid into Maputo and most important of all, of course, the calling of the elections.

Now all these new movements, so it seems to me, are being justified not in any detailed sort of way but by the use of a phrase that there is a total onslaught on South Africa and that as there is a total onslaught we need in consequence to have a total defence strategy.

Now I don't know whether there is a total onslaught on South Africa — this is anyhow a question of semantics. What does one mean by a total onslaught? Obviously, there are a great many people who would like to see a total onslaught on South Africa and to take part in it. But how total is this in the world? I mean it would seem to me very [inaudible] for instance to think that the new administration in the United States is associating itself with a total onslaught on South Africa.

I'm quite certain that would not be the case if it became clear that the Prime Minister really was going to carry out the promises which he and some of his leading colleagues have made. Of course, it can only too often happen that if you adopt a total defence strategy in relation to a total onslaught, that this total defence strategy can very easily take forms that provoke rather than deter the onslaught that it feared.

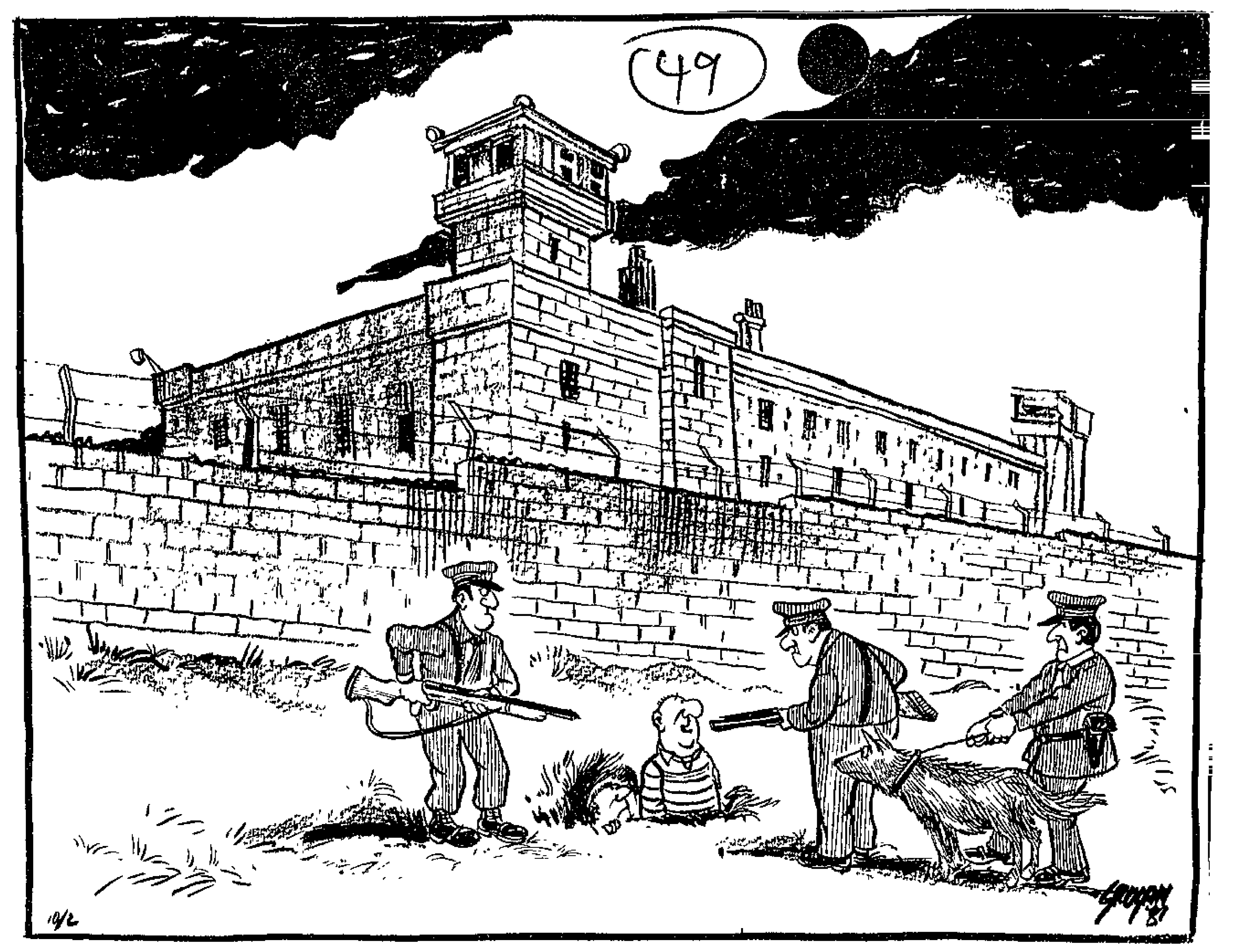
Now when you think — I was away when it was done — when you think of the banning of these newspapers, the closing of these newspapers and the banning of black journalists. Perhaps this was justified — though I personally don't believe it was — but anyhow, no reason is advanced as to why it's justified except that there is this onslaught on South Africa, which again is not very clearly defined.

Worse press

I'm quite certain of this thing — perhaps you won't agree with me — but certainly this particular reaction to the total onslaught has certainly had the effect of getting South Africa a worse press and worse public opinion that it had before, at a time when one was beginning to see, or so it seemed to me, a relaxation of hostilities to South Africa generally in the Western world.

And then of course there's the onslaught, this spectacular attack on the ANC in Maputo. Now I am certainly not out to condemn what was done there. I share the official view that if the countries around South Africa think it's all right to harbour and succour people who spend their time blowing things up in South Africa or planning to do so, then I think they must take the consequences of what they are doing. I don't think there is any cause in such circumstances, any reasonable cause, for them to squeal about vile behaviour from the government or the Defence Force.

But of course, while I'm not arguing that attacking these bases in Maputo is morally wrong, one does want to know also that it was wise because when you take actions of this sort, it's necessary for them not only to be morally defensible, but they've really got to do some good for South Africa.



"We merely thought we'd relieve the pressure caused by the high prison population."

Now I don't know whether they did good for South Africa or not. I'm quite prepared to believe that they have done good for South Africa and that they were justified from every point of view, but what I do say is that the government doesn't think it necessary when very alarming, very dangerous steps of this sort are taken, to give any explanation as to the reasons which motivated them or the advantages to South Africa which had been achieved.

I don't say that those don't exist, but I do say that it is now allowed, in a country which sets out, anyhow as far as the white people are concerned, to be a democracy. It is not enough to say we can do these things because we assure you there is a total onslaught in South Africa and you must leave it to us at our discretion to devise a total defence strategy.

Now when you come to the election, it seems to me that the same sort of questions arise. The first thing about this election — I don't understand clearly why it's being called — but one thing surely is clear: that this election is not taking place because the government or anybody else can possibly believe that it's in the interests of the country to have this election.

Huge majority

It can only be in relation to some interest — what it is is somewhat mysterious — but some interest relating to the plans and the organization and the future of the National Party. Now the government has a huge majority in Parliament and it's perfectly clear that it can carry through any policy which it wants to carry through. If it were — in the course of carrying through the sort of policies that the Prime Minister has been talking about — if it were to lose a few supporters to the right, it certainly would gain an equal amount of supporters to the left.

Naturally in the tribal organization of our politics, that may not be an entirely satisfactory way of looking at it, but nevertheless it happens to be the fact. Now since I've been back and read about this election, two reasons, two contradictory reasons are being put forward, so it seems to me, explaining why the elections are taking place.

The one is to say that [the PM] has decided to ditch his forward-looking policy and that this is a right-wing move to ensure the solidity of the National Party. This seems to me to be pretty improbable because I cannot see that if the Prime Minister wants to abandon his moral leadership of the party and simply take the moral leadership from Dr Treurnicht, I don't see why he needs to have an election in order to do so.

And then, of course, the other contradictory theory is that he's doing it in order, in the nomination contests, to get rid of a lot of right-wing people and so have solid control of the party that way. I must admit that that also seems to me to be a bit improbable simply because I would have thought that it would be so unlikely that he would succeed in doing anything of this sort.

Why not now?

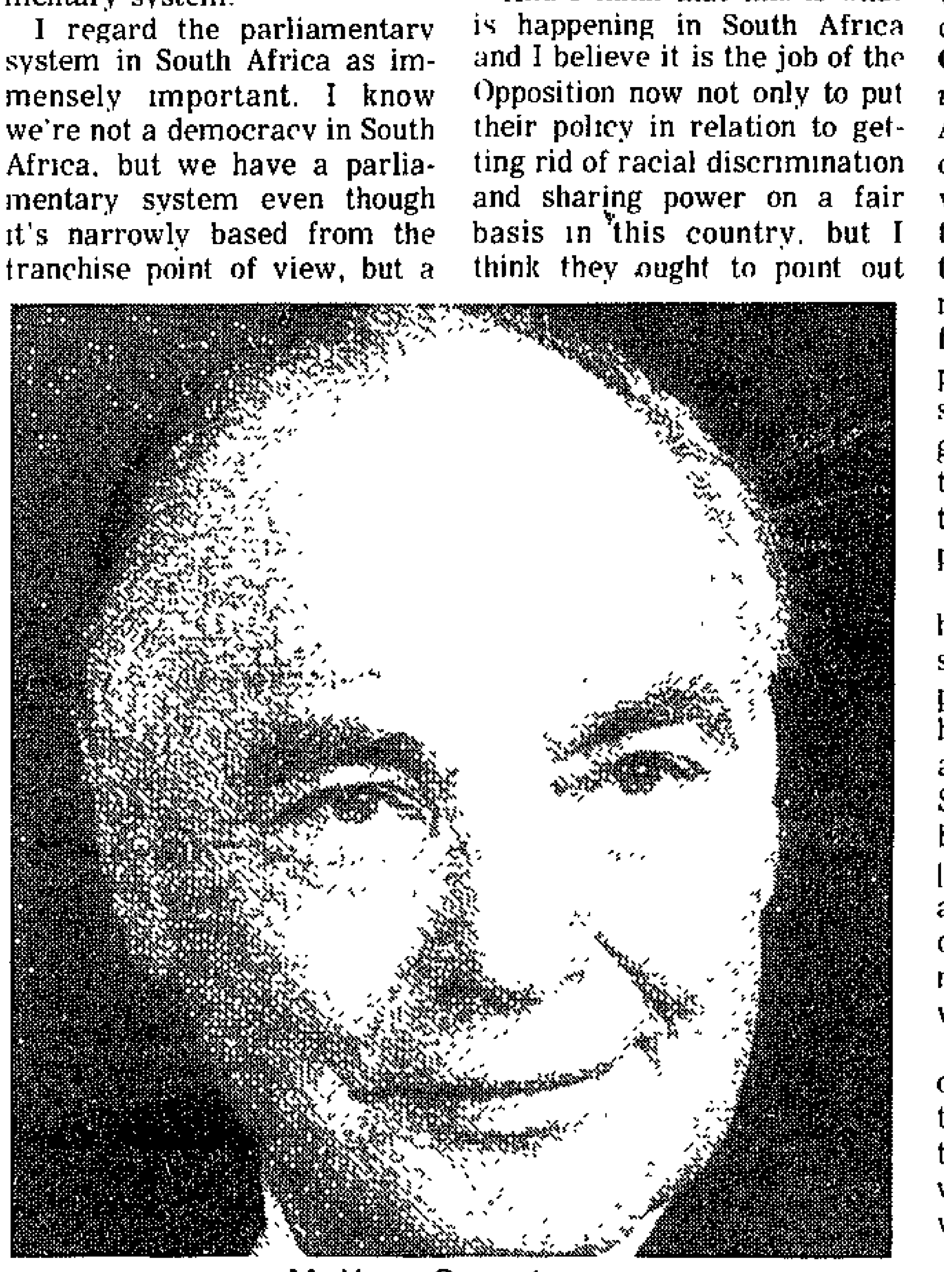
I would have thought that when he gets back into Parliament, he would have had the same sort of right-wing people to cope with as he has now. And if he wants to run the risk of quarrelling with them, one says: Why not quarrel now rather than after the election?

But I'm inclined to think myself, rightly or wrongly, that the calling of this election in connection with all this talk about the total onslaught and the total defence strategy . . what I think he in effect is doing is to go to the country but refuse to give the country any policy at all which he's asking them to support or not to support. He's simply saying there's a great onslaught on South Africa, I want to prepare a total strategy in order to meet it, you must give me a blank cheque in order to do so, and this is what the election is all about.

And I think this may mean that he believes he can get through his forward-looking policy but put it through in a more authoritarian way in relation to his own problems, as well as in relation to the opposition parties.

But I would argue that this is a call for a blank cheque, while refusing to explain what he wants the blank cheque to do. And I think that to act in that way is to move away from the normal conventions of a parliamentary system.

I regard the parliamentary system in South Africa as immensely important. I know we're not a democracy in South Africa, but we have a parliamentary system even though it's narrowly based from the franchise point of view, but a



Mr Harry Oppenheimer

parliamentary system is a very valuable thing in itself in helping to get competent government, in helping to get clean government.

Without a parliamentary system what do you think would have happened about the Information scandal, and I think that to go to the country and to ask for a blank cheque, which to my mind is what the Prime Minister is doing, is a step against the parliamentary system and I think it begins to put that system at risk.

I may say on the other side I still believe that the PM — and many of you will think I'm just being starry-eyed — but I still believe the PM does intend to put through his reformist policies. But I think he wants to be able to do this just in the manner he likes and within the limits which he likes, and I think that the meaning of this election is to ask the electorate, and finally to ask Parliament, to abrogate their responsibilities in favour of voting in favour of the PM having a blank cheque to deal with the situation which he defines as a total onslaught.

But I myself would not define the situation in which we find ourselves in South Africa as a total onslaught from the rest of the world. Of course, to my point of view and . . I still feel there is a role for the white opposition in South Africa. I don't think the white opposition is going to win the next election in South Africa. Nor any election that I can see in the future, but I still think they have a role to play.

And I think the role they have to play is to put forward very clearly the sort of policy which they have been putting forward, a policy aimed at getting rid of racial discrimination in every way and moving to a proper sharing of power.

And I believe that in putting forward that policy they will, to a very great extent, be giving backing for what the PM really wants to do. But I think on the other hand they ought to take up this question on what appears to me to be an attack on the normal way of carrying on a parliamentary system.

Of course any PM in most circumstances is in a position to call an election when the likes and it's within the normal conventions.

But again that sort of power if you are going to run a parliamentary system successfully needs to be exercised within certain limits. It needs to be exercised within the limits which enable a parliamentary system to work, and I think you go beyond those limits if you go to the public and you go to the electorate and you ask the electorate's confidence while you deliberately refuse to tell the electorate what you intend to do with the power which you are asking them to put in your hands.

And I think that this is what is happening in South Africa and I believe it is the job of the Opposition now not only to put their policy in relation to getting rid of racial discrimination and sharing power on a fair basis in this country, but I think they ought to point out the risks that exist of permanent damage to the parliamentary system.

As I say, a democracy we never had, but a parliamentary system is something very precious and it ought to be defended, and I think what is happening, whether it was meant that way or not — it probably wasn't meant that way — is in practice a danger to that system.

Q *Your earlier remarks gave the impression that you were rather disillusioned with what has come out of the meeting at the Carlton Centre. If Mr Botha is now going to ask for a blank cheque from the community at large, do you think that the business community — the people who were present at the Carlton Centre meeting — are going to [inaudible]?*

A I think people are now rather inclined to do this nowadays. I am not quite as disillusioned as perhaps I have given the impression of being. I said to you that I thought in certain ways this had not resulted in what I had hoped, but it was a success in producing a better atmosphere between government and the business community.

And I certainly think too that it produced an atmosphere in which moves to make better use of black workers, to pay them more, to train them better — I think that all these things can be done with more confidence now because of the better atmosphere, because of the better relationship between the government and the business community. I don't think this was just a waste of time.

Q *How do you react to recent statements from the Mine Workers' Union?*

A The MWU has always been a union which has been extremely conservative and traditionally worried about black advancement. I would have thought that provided the price of gold holds so that there isn't a feeling among white workers that their jobs are at risk, I would have thought there is a better chance now of getting a greater advancement of black workers now in the industry.

It is extremely difficult to achieve that without the co-operation of the white workers. I am a bit inclined to think this looks easier than it used to look in the past.

Q *You said you were still confident that the Prime Minister would still push through this reformist policy [inaudible].*

A I think that by calling this election instead of getting on with the job now, the government is running very grave risks at the expense of the interests of the country in order to give some advantage which is difficult to define in relation to their party. I think certainly this is going to result in delay and delay in regard to promises which have been made is very dangerous indeed.

Q *Would you support the idea of one man, one vote?*

A You know I used to be very opposed to the one-man-one-vote idea. I believed in some thing which is so old-fashioned that you can't go along with it now — and that was a qualified franchise. And I felt this would provide a system in which the share of black people would gradually increase in view of the very large numbers ... that there would be more black people voting than whites.

I think that the time for this however wise it may be, is something which is no longer possible. One man, one vote has taken hold and we've got to accept it. But in a country like South Africa you've got to combine one man, one vote with [inaudible] that those votes are exercised within a political dispensation which prevents minorities, either black or white, from being oppressed.

We've got to have some sort of a set-up which will prevent the blacks behaving towards the whites in the same way in which the whites behaved towards the blacks in the past.

Obvious areas

Q *In which area do you think the government should take the next reformist steps?*

A The two obvious areas are first of all, in the field of education, and I think they are moving in that way, to see that black education should be as good as white education. I personally don't believe that can be done unless there is one department of education which is responsible for the education of all. Education is a key factor also for industry and unemployment because you will only stop unemployment for the unskilled if you are able to deal with the shortage of workers in the skilled crafts.

And then the second, a very important, field, and that is the field that is led by Dr Piet Koornhof, whom I ... very much, but who makes very many promises which have not yet been carried out.

And it is quite essential that he should do what he said ... that he has got to tackle the security of tenure of black people in the urban areas.

Continued on page 9

CT 10/2/81 (49)

Oppenheimer

Continued from page 8

there needs to be freedom of movement of black people to a very much greater extent and that you have got to get rid of the pass system in its present objectionable form. There are very many other things which remain to be done, but these are the first two.

Timetable?

Q We were talking about black frustrations earlier on. Do you think there needs to be some sort of timetable for South Africa?

A We have squandered our time. There was a time when we could have done these things quite slowly. There was a time when it would have been quite easy, for instance, for the government to work together in a non-racial way with the Indians and the coloured people and leave the more difficult problem of the blacks to a later stage.

But they have wasted time. People are always saying to me, how long have you got in South Africa? A country just doesn't fall to pieces ... as though it would in a certain time sink into the sea.

But I think that if you're going to avoid a revolution in South Africa — to take a figure off the shelf — I believe we've got to take substantial steps not only towards social justice but towards the sharing of power within a period of five years.

Q Do you think that the business community is doing enough for its part towards the direction of change in South Africa and what do you think are the most important things that the business community is or should be doing?

A It's awfully difficult. No, I don't think the business community is doing enough, but I think I would say that always, whatever they were doing, because it is a vital thing for the country, a vital thing for the business community. I think the business community is doing a great deal more than it has ever done in the past and I think that there again the first and most important area that business should be involved in is the technical/educational field.

I think that business on the whole is in that direction. Business was frightened to move faster. They were frightened to do things which were perfectly legal because it was felt this was going to damage the relationships with the government. I think that sort of fear is less than it used to be.

CIVIL

CHEMICAL (Continued)

Malan Chemical Engineering Medals

For the best student in each of the following years:-

Second Year (Bronze Medal)

A H Dabrowski

Third Year (Silver Medal)

C L E Swartz

Fourth Year (Gold Medal)

L Flach

Malan Prize for the most improved First Year Chemical Engineering Student

K W Strickland

S A Institution of Chemical

...ists working on a possible

CHEMICAL

(Continued)

Malan Chemical Engineering Medals
For the best student in each of the following years:-

Second Year (Bronze Medal)

A H Dabrowski

Third Year (Silver Medal)

C L E Swartz

Fourth Year (Gold Medal)

L Flach

Malan Prize for the most improved First Year Chemical Engineering Student

K W Strickland

S A Institution of Chemical Engineer's Silver Medal
For the best performance in project, design and practical courses over the 4-year curriculum.

P M Salmon

L T A Construction Prize
For the final year Civil Engineering student submitting the best thesis.

G P Mitchell

S A Federation of Civil Engineering Contractors' Prize
For the best final year design showing constructional merit.

K N Hvidsten

S A Institution of Civil Engineers Student Chapter Prize
For the best written report submitted in C E 214, design

P C Watt

Nine-man team selected by Dawie

CAPE TOWN — The establishment of a nine-man programme advisory council to assist small businessmen was announced yesterday by the Minister of Industries and Commerce, Dr Dawie de Villiers.

The men, under the chairmanship of Professor P C Fourie, would serve in their personal capacities and would not represent any particular sphere of interest.

The other members nominated to the council are Mr E de Beer, Mr K P Desai, Mr J Hetherington, Mr E Kai, Mr R Maponya, Mr A R Martin, Mr M J Oosthuizen and Mr B Yeowart.

The Minister said in a statement that the purpose of the recently established Small Business Development Corporation was to look after the financial needs of small business undertakings.

The council's terms of reference are:

- The continuous identification of problem areas that retard the development of small business undertakings, and to make recommendations for a comprehensive policy aimed at the encouragement of such undertakings in southern Africa.
- The allocation of available funds to institutions actively engaged in rendering services, such as advice and guidance to, and training of small businessmen, as well as undertaking research in this field.
- The co-ordination of the work of the institutions.
- Any other matters relating to the promotion of small business undertakings. — Sapa

Gross national product 49

33. Mr. N. B. WOOD asked the Minister of Statistics:

Hans 3 Ques Col 121

(1) What was the gross national product for the latest year for which figures are available;

12/2/81

(2) what was the (a) percentage and (b) amount allocated to (i) health in the Republic and the Black states, respectively, and (ii) social welfare services;

(3) what was the (a) percentage and (b) amount allocated to (i) education and (ii) housing in respect of each race group?

The MINISTER OF STATISTICS:

(1) R46 080 million for the calendar year 1979

	(a) Percentage of gross national product at market prices	(b) Amount R Million
(2) (i) Health		
Republic	2,23	1 041,9
Black states	0,15	70,6
(ii) Social Welfare Services	1,49	696,5
(3) (i) Education		
Whites	2,44	1 138,1
Coloureds	0,47	218,8
Asians	0,24	110,6
Blacks	0,70	325,4
(ii) Housing		
Whites, Coloureds and Asians	0.81	379,4
Blacks	0,53	248,6

Item (1) includes South West Africa and the Republics of Bophuthatswana and Transkei. Items (2) and (3) exclude South West Africa and the Republics of Bophuthatswana and Transkei and relate to the financial year ended 31 March 1979. In the case of item (3)(ii) separate figures for Whites, Coloureds and Asians are not available.

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No. 269 13 Februarie 1981

Staat van Ontvangste in en Oordragte uit die Skatkisrekening vir die tydperk 1 April 1980 tot 31 Januarie 1981.

Tesourie, Pretoria.

No. 269 13 February 1981

Statement of Receipts into and Transfers from the Exchequer Account for the period 1 April 1980 to 31 January 1981.

Treasury, Pretoria.

ONTVANGSTE—RECEIPTS

Inkomstehoof	Head of Revenue	Maand Januarie / Month of January 1981	Maand Januarie / Month of January 1980	Totaal 1 April tot 31 Januarie / Total 1 April to 31 January 1981	Totaal 1 April tot 31 Januarie / Total 1 April to 31 January 1980
		R	R	R	R
Skatkissaldo, 31 Maart 1980	Exchequer Balance, 31 March 1980	—	—	248 593 278	—
Skatkissaldo, 31 Desember 1980	Exchequer Balance, 31 December 1980	112 426 308	—	—	—
Staatsinkomsterekening	*State Revenue Account*				
Doeane en Aksyns	Customs and Excise	121 506 318	105 964 818	1 123 870 673	994 942 996
Binnelandse Inkomste	Inland Revenue	926 789 032	769 161 995	9 144 980 277	6 514 121 405
	R	1 048 295 350	875 126 813	10 268 850 950	7 509 604 401
Staatsoliefonds	State Oil Fund	26 323 077	21 149 424	230 058 628	214 662 137
Nasionale Padfonds	National Road Fund	13 476 570	11 252 757	116 753 220	106 621 438
Suid-Afrikaanse Ontwikkelingstrustfonds	South African Development Trust Fund	—	343 000	10 126 552	9 088 056
Rekening vir Swart Vervoerdienste	Account for Black Transport Service	981 061	1 401 909	11 979 284	9 599 742
Fonds vir Sorghumbiernavorsing	Sorghum Beer Research Fund	—	276 111	950 006	1 190 874
S.W.A. Gebiedsinkomstefonds—Verkoopreg	S.W.A. Territorial Revenue Fund—Sales Duty	3	2 202	17 480	32 745
	R	1 089 076 061	909 552 216	10 638 736 120	7 850 259 393
Ander Ontvangste	*Other Receipts*				
Skatkisbiljette: *Binnelands*	Treasury Bills: *Internal*	573 356 000	—	6 887 037 000	—
Spesiale Trekkingsregte Toegeken	Special Drawing Rights Allocated	41 187 591	—	41 187 591	—
Binnelandse Effekte, Obligasies en Lenings Opgeneem—	Internal Stock, Bonds and Loans Raised—				
7 Persent Tesourie-obligasies	7 Per Cent Treasury Bonds	3 539 100	—	118 507 000	—
Vyfjaar obligasies vir Nie-inwoners	Five Year Non-Resident Bonds	—	—	—	—
8 Persent Tesourie-obligasies	8 Per Cent Treasury Bonds	—	—	Dr 1 000	—
8 Persent Nasionale Verdedigingsobligasies	8 Per Cent National Defence Bonds	971 600	—	30 587 725	—
Verdedigingsbonusobligasies	Defence Bonus Bonds	29 177 093	—	232 279 120	—
Binnelandse Geregistreerde Effekte—	Internal Registered Stock—				
9,25 Persent, 2004	9,25 Per Cent, 2004	—	—	160 633 900	—
9,25 Persent, 2002	9,25 Per Cent, 2002	—	—	225 943 100	—
5 Persent, 1983	5 Per Cent, 1983	—	—	403 793 200	—
5,15 Persent, 1981	5,15 Per Cent, 1981	—	—	752 549 200	—
9,80 Persent 2001	9,80 Per Cent, 2001	—	—	303 918 200	—
10,35 Persent, 2001	10,35 Per Cent, 2001	Dr 15 000	—	74 473 500	—
11 Persent, 1998	11 Per Cent, 1998	—	—	81 901 000	—
8 Persent, 1983	8 Per Cent, 1983	—	—	229 381 800	—
11,5 Persent 2001	11,5 Per Cent, 2001	80 371 221	—	343 234 040	—
Buitelandse Lenings en Kredette Opgeneem—	Foreign Loans and Credits Raised—				
1981–86	1981–86	131 230	—	1 782 913	—
1979–84	1979–84	—	—	152 932	—
1980–87	1980–87	—	—	52 342 319	—
1977–84	1977–84	—	—	2 988 775	—
1983–88	1983–88	—	—	37 517 821	—
Terugstortings, *Staatsinkomsterekening* 1979/80	Surrenders, *State Revenue Account* 1979/80	33 536 347	—	83 858 029	—
Terugstortings, Statutêre Bedrae 1979/80	Surrenders, Statutory Amounts 1979/80	119 225	—	2 213 440	—
	R	1 851 450 468	—	20 705 017 725	—
Totaal (insluitende Aanvangssaldo)	Total (including Opening Balance) R	1 963 876 776	—	20 953 611 003	—

UITBETALINGS—ISSUES

Dienste	Service	Begroting / Estimates 1980/81	Maand Januarie / Month of January 1981	Maand Januarie / Month of January 1980	Totaal 1 April tot 31 Januarie / Total 1 April to 31 January 1981	Totaal 1 April tot 31 Januarie / Total 1 April to 31 January 1980
		R	R	R	R	R
Staatsinkomsterekening	*State Revenue Account*					
1. Staatspresident	State President	427 000	34 000	35 000	357 000	310 956
Statutêre Bedrag	Statutory Amount	50 000	4 166	4 082	41 668	38 751
2. Parlement	Parliament	3 262 000	242 000	175 000	3 074 000	2 644 000
Statutêre Bedrag	Statutory Amount	3 837 000	295 000	320 000	3 686 000	3 144 000
3. Eerste Minister	Prime Minister	4 799 460	483 000	50 000	3 308 000	440 000
4. Verdediging	Defence	1 890 000 000	201 000 000	195 000 000	1 890 000 000	1 547 000 000
5. Mannekragbenutting	Manpower Utilisation	29 148 200	1 355 000	1 400 000	27 609 000	21 480 000
6. Samewerking en Ontwikkeling	Co-operation and Development	676 823 000	70 000 000	61 698 600	500 138 200	394 111 100
Statutêre Bedrag	Statutory Amount	204 065 000	—	—	204 065 000	191 696 000
7. Landbou en Visserye	Agriculture and Fisheries	431 037 000	44 000 000	37 500 000	360 400 000	261 000 000
8. Handel en Verbruikersake	Commerce and Consumer Affairs	156 840 000	2 000 000	8 000 000	111 000 000	98 393 000
9 Nywerheidswese	Industries	187 555 500	11 000 000	4 000 000	174 700 000	291 400 000
10. Finansies	Finance	3 008 513 000	217 100 000	197 662 000	2 733 015 600	2 264 783 000
Statutêre Bedrag	Statutory Amount	1 514 772 000	107 288 850	114 426 850	1 336 287 944	1 262 290 054
11. Oudit	Audit	5 400 000	510 000	440 000	4 968 000	4 150 000
12. Vervoer	Transport	234 381 500	16 000 000	11 000 000	203 000 000	135 000 000
13. Gemeenskapsbou	Community Development	461 558 350	24 800 000	9 800 000	400 000 000	271 300 000
14. Kleurlingbetrekkinge	Coloured Relations	401 617 000	38 000 000	27 600 000	361 950 000	279 430 000
15. Indiërsake	Indian Affairs	147 921 000	13 000 000	10 500 000	133 700 000	102 728 000
16. Justisie	Justice	49 813 896	4 100 000	3 400 000	44 865 000	42 007 000
Statutêre Bedrag	Statutory Amount	3 043 000	13 000	250 000	3 043 000	2 440 000
17. Binnelandse Sake	Interior	19 620 000	2 150 000	950 000	15 014 000	11 803 000
18. Kommissie vir Administrasie	Commission for Administration	17 400 000	350 000	300 000	16 610 000	11 180 000
19. Staatsdrukkery	Government Printing Works	1 000	—	—	—	4 800 000
20. Waterwese, Bosbou en Omgewingsbewaring	Water Affairs, Forestry and Environmental Conservation	267 593 000	22 964 000	16 470 000	228 232 000	197 813 000
21 Buitelandse Sake en Inligting	Foreign Affairs and Information	234 811 000	15 000 000	4 990 000	147 516 000	46 530 000
Statutêre Bedrag	Statutory Amount	6 0160 000	5 565 000	11 267 900	54 475 000	112 676 400
22. Mineraal- en Energiesake	Mineral and Energy Affairs	431 085 330	30 850 000	32 429 000	387 350 000	245 184 000
23. Polisie	Police	309 765 000	33 000 000	32 000 000	305 500 000	236 500 000
24. Gevangenisse	Prisons	110 618 000	13 318 000	5 300 000	110 618 000	83 900 000
25 Nasionale Opvoeding	National Education	407 404 000	33 111 000	29 850 000	406 304 000	337 120 000
26. Openbare Werke	Public Works	390 495 000	26 000 000	19 800 000	340 600 000	274 250 000
27. Statistiek	Statistics	21 487 000	500 000	650 000	18 650 000	6 500 000
28. Toerisme	Tourism	8 434 000	680 000	650 000	6 998 000	6 170 000

Dienste	Service	Begroting Estimates 1980/81	Maand Januarie Month of January 1981	Maand Januarie Month of January 1980	Totaal 1 April tot 31 Januarie Total 1 April to 31 January 1981	Totaal 1 April tot 31 Januarie Total 1 April to 31 January 1980
		R	R	R	R	R
29. Onderwys en Opleiding	Education and Training	244 153 000	22 000 000	17 000 000	217 000 000	151 000 000
30. Gesondheid, Welsyn en Pensioene	Health Welfare and Pensions	769 875 000	75 000 000	62 000 000	711 700 000	582 500 000
Statutêre Bedrag	Statutory Amount	150 000	—	—	130 000	108 000
31. Verbetering van Diensvoorwaardes	Improvement of Conditions of Service	432 000 000	1 282 000	—	1 282 000	—
Statutêre Bedrag	Statutory Amount	2 002 000	50 000	—	50 000	—
	R	13 141 917 236	1 033 045 016	916 918 432	11 467 237 212	9 483 820 261
Staatsoliefonds	State Oil Fund (a)	270 000 000	26 323 078	21 149 424	230 058 828	214 662 137
Nasionale Padfonds	National Road Fund (b)	133 000 000	13 476 570	11 252 757	116 753 220	106 621 438
Suid-Afrikaanse Ontwikkelingstrustfonds	South African Development Trust Fund (c)	6 454 000	—	343 000	10 126 552	9 088 056
Rekening vir Swart Vervoerdienste	Account for Black Transport Services (d)	12 500 000	981 061	1 401 910	11 979 284	9 599 742
Fonds vir Sorghumbiernavorsing	Sorghum Beer Research Fund (e)	850 000	—	276 111	950 006	1 190 874
SWA Gebiedsinkomstefonds—Verkoopreg	SWA Territorial Revenue Fund—Sales Duty (f)	13 000	3	2 202	17 480	-32 745
	R	422 817 000	40 780 712	34 425 404	369 885 370	341 194 992
	R	13 564 734 236	1 073 825 728	951 343 836	11 837 122 582	9 825 015 253
Ander Uitbetalings	*Other Issues*					
Terugbetaling van Skatkisbiljette: Binnelands	Treasury Bills repaid: Internal	—	425 834 000	—	6 375 353 000	—
Terugbetaling van skatkisbiljette: Buitelands	Treasury Bills repaid: External	—	—	—	—	—
Belastingdelgingsertifikate gedelg	Tax Redemption Certificates repaid	—	—	—	86	—
Leningsheffing 1966/80 gedelg	Loan Levy 1966/80 repaid	—	539 471	—	7 603 148	—
Delgingsfondsvoorskotte	Sinking Fund Advances	—	1 643 901	—	23 698 930	—
Oordrag na Sentrale Inkomstefonds—SWA	Transfer to Central Revenue Fund—SWA	—	—	—	40 000 000	—
Terugbetaling van Promesse I.M.F.	Repayment of Promesses I.M.F.	—	—	—	48 000 000	—
Valuta Aanpassing I.M.F.	Valuation Adjustment I.M.F.	—	—	—	18 478 003	—
Oordrag na Stabilisasierekening	Transfer to Stabilisation Account	—	—	—	750 000 000	—
Kwotaverhoging I.M.F.	Quota Increase I.M.F.	—	—	—	6 000 000	—
Oorbetaling van Saldo op S.W.A. rekening	Payment of Balance on S.W.A. Account	—	—	—	5 042 223	—
Spesiale Trekkingsregte Depositorekening	Special Drawing Rights Deposit Account	—	41 187 591	—	41 187 591	—
Binnelandse Effekte, Obligasies en Lenings Gedelg:	Internal Stock, Bonds and Loans Redeemed:					
Vyfjaar-obligasies vir Nie-inwoners	Five year Non-Resident Bonds	—	117 000	—	1 555 000	—
8 Persent Tesourie-obligasies	8 Per Cent Treasury Bonds	—	1 236 500	—	13 102 800	—
Premie-obligasies	Premium Bonds	—	100 300	—	39 261 400	—
Tweede Reeks Premie-obligasies	Second Series Premium Bonds	—	79 000	—	30 723 900	—
Nasionale Verdedigingsobligasies	National Defence Bonds	—	3 405 450	—	11 138 600	—
Tweede Reeks Nasionale Verdedigingsobligasies	Second Series National Defence Bonds	—	40 112 400	—	40 516 000	—
Derde Reeks Nasionale Verdedigingsobligasies	Third Series National Defence Bonds	—	101 500 000	—	101 643 650	—
7 Persent Tesourie-obligasies	7 Per Cent Treasury Bonds	—	1 730 500	—	11 747 500	—
Verdedigingsbonusobligasies	Defence Bonus Bonds	—	61 805	—	30 136 370	—
8 Persent Nasionale Verdedigingsobligasies	8 Per Cent National Defence Bonds	—	480 000	—	1 989 550	—
Binnelandse Geregistreerde Effekte:	Internal Registered Stock:					
8,75 Persent, 1980	8,75 Per Cent, 1980	—	—	—	934 744 750	—
5,25 Persent, 1980	5,25 Per Cent, 1980	—	—	—	84 000 000	—
5,375 Persent, 1980	5,375 Per Cent, 1980	—	—	—	47 564 574	—
Buitelandse Lenings en Kreditte Gedelg—	Foreign Loans and Credits Redeemed—					
6 Persent Uitvoerkrediet Fasiliteit	6 Per Cent Export Credit Facility	—	—	—	4 529 771	—
1979–81	1979–81	—	—	—	15 629 432	—
1977–84	1977–84	—	—	—	400 304	—
1978–81	1978–81	—	—	—	24 329 389	—
1982–84	1982–84	—	—	—	12 468 828	—
1979–81	1979–81	—	—	—	10 804 640	—
1979–80	1979–80	—	—	—	800 830	—
1978	1978	—	—	—	40 114 663	—
1981	1981	—	—	—	74 424	—
1976–85	1976–85	—	—	—	4 374 263	—
1977–86	1977–86	—	—	—	4 268 499	—
1977–86	1977–86	—	—	—	4 393 158	—
1979–84	1979–84	—	—	—	2 925 296	—
1980	1980	—	—	—	51 250 513	—
1973–87	1973–87	—	—	—	593 339	—
1975	1975	—	1 323 994	—	1 323 994	—
Uitbetalings, Staatsinkomstebegrotingsposte, 1979–80	Issues, State Revenue Votes, 1979–80	—	—	—	3 996 100	—
Uitbetalings, Staatsinkomstebegrotingsposte, 1978–79	Issues, State Revenue Votes, 1978–79	—	—	—	24 304	—
[illegible]	[illegible]	—	[illegible]	—	[illegible]	—
	R	—	[illegible]	—	[illegible]	
			[illegible]		[illegible]	
[illegible]	[illegible]		270 611 652		270 611 652	
Totale	Totals R	—	1 963 876 776	—	20 953 611 003	—

(a) Artikel 1 van Wet 38 van 1977.
(b) Artikel 2 (1) (a) van Wet 54 van [illegible]
[illegible]
[illegible]
(e) Artikel 19*bis* (1) (a) van Wet 63 van 1962.
(f) Artikel 22 (4) (a) van Wet 25 van 1969.

(a) Section 1 of Act 38 of 1977.
[illegible]
[illegible]
[illegible] of Act 5? of 1957.
(e) Section 19*bis* (1) (a) of Act 63 of 1962.
(f) Section 22 (4) (a) of Act 25 of 1969.

BUSINESS

Safto calls for overhaul of economic policy

13/4/81

Own Correspondent

DURBAN — A call for an overhaul of the Economic Development Programme (EDP) was made in Durban by Mr Wim Holtes, managing director of the SA Foreign Trade Organisation (Safto).

Speaking at an NDMF business conference, Mr Holtes said there were up to 24 top economists employed on compiling a programme that was of little help to many businessmen.

These economists were "engaged in drawing up a document which nobody reads and the Cabinet ignores."

What businessmen needed was an official outline — "a specific microplan" — on the investment potential of the various regions. With such a document — examples of which were common in rapidly growing Far Eastern nations — foreign investors and businessmen would be able to identify and develop interests in the correct regions.

Instead of producing this much-needed document the EDP economists spent long periods trying to determine whether the growth rate "is likely to be 6,3 percent or 6,5 percent," he said.

Turning to the trade picture, Mr Holtes said account would have to be taken soon of the big jump in imports and slowing growth of exports.

A number of important industries — such as steel and fertilisers — had now scaled down exports to provide for the home market. There was a need to use this period to build new export industries but potential exporters needed more guidance about where to locate themselves.

Mr Holtes said that the stronger rand had removed 10 percent of the competitive power of exports during the past year. The stronger currency had also effectively removed the benefits of the latest round of export incentives.

It would be wrong if the authorities followed the example of Switzerland which, in a desire for a strong currency, had allowed export industries to fade. However, he believes that the new Governor of the Reserve Bank, Dr Gerhard de Kock, was aware of the need for a strong involvement of the foreign-trade sector in the economy.

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P M Salmon

T J Cumming

D P Meeks

J H Rens

B F McClelland

Professor George

Awarded on result

CHEMICAL

~~355~~ ~~250~~ 49

RDM 14/2/81

Govt can await backlash if pay rises fall short

By GERALD REILLY
Pretoria Bureau

THE powerful public sector staff associations are poised to hit back at the Government if their pay rises — an announcement is expected on Monday in the mini-Budget — fall short of expectations.

And their expectations are that the increases at least compensate for the 15% inflation rate.

The Federal Council of Teachers' Associations, which speaks for South Africa's 60 000 teachers, plans a hair-trigger response to Monday's announcement, whatever it is.

The council executive will meet the Minister of National Education, Dr Gerrit Viljoen, in Cape Town soon after the Minister of Finance makes the expected pay announcement in the House of Assembly.

Swift responses can also be expected from the Public Servants Association and Post Office and Railway staff association leaders, especially if the Minister announces increases which fail to match the inflation rate.

With the General Election on April 29, senior Government sources are confident that increases will be impressive.

They point out that there are nearly 500 000 whites working for the State, provincial departments, Railways and Post Office.

This, they say, represents a powerful voting block which the Government is hardly likely to ignore, considering the serious dissatisfaction among teachers, policemen, nurses and the armed forces.

A certain objective will be to counter this dissatisfaction with a generous budget allocation for public sector pay rises, political observers believe.

The major, if not the sole, reason for the election is the National Party's concern about loss of support to the extreme Rightwing — and the need to plug the drain.

The extreme Rightist Herstigte Nasionale Party, it was pointed out, has been feeding on pay and other grievances in the public sector in an effort to draw support from the NP.

Against this background, it was unlikley that the Prime Minister would risk a pay announcement which would result in a voter backlash in the public sector.

Pensioners, too, constitute a big voting blalck. There are more than 400 000 whites over the age of 60 — a high percentage of them dependent on pensions.

So an announcement about pensions increases is also expected as an election sweetener.

14/2/86 (49) S/pm

SA has 'too much control of economy'

By David Bristow and Maud Motanyane

The South African economy is over-controlled, according to Mr Chris du Plessis, assistant director of the Consumer Council.

He was reacting this morning to comments on "Microphone-in," last night on SABC radio which for the second week running focused on rising food prices.

Dr Jan Lombard, general manager of the Meat Board, and Mr Russell Stevens, chairman of the Tongaat Food and Feed Group, faced a barrage of questions from irate consumers countrywide.

Tempers flared and among allegations made were that:

- Prices of controlled commodities have over the past three years risen more sharply than those left to the free market forces.
- Massive maize price increases have affected the prices of basic foodstuffs such as eggs, chicken, meat and milk.
- There is a lack of adequate co-ordination between control boards.
- Feed producers with direct interests in the poultry industry are able to manipulate the price of chicken.

Mr du Plessis said that control of food prices was necessary, but that control boards tended to be "over-controlled" and bureaucratic.

"In fact, the whole economy is over-controlled."

Mrs Joy Hurwitz, president of the Housewives League, said today consumers were "flaming mad" about the rising price of meat.

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T J Cumming
D P Weeks
J H Rens
B F McClelland

Professor George Menzies Prize

Awarded on results of final examinations to the best male student in Land Surveying or Civil Engineering.

J H Rens

Sammy Sacks Memorial Prize

Awarded to the student with the best classwork in Engineering Drawing.

L Menegaldo

A E & C I Prize

For the first year student obtaining the highest average mark.

G L Cragg

BUSINESS

Board of Trade stand on tariff protection

14/2/81 5/1M (14a)

Own Correspondent

DURBAN — The Board of Trade and Industries is not prepared to change protective tariffs to compensate for the increased value of the rand during the past year, its chairman, Dr S J Kleu, said in Durban.

Opening a R1-million resins plant for Coates Brothers, Dr Kleu said the board is not willing to react to short-term currency fluctuations because:

"During boom periods increased production volumes and better rates of capacity utilisation could result in productivity gains and lower unit costs.

"There was a good chance that, depending upon the rate of growth and level of inflation in the main Western countries, the effective appreciation of the rand could be reversed."

The board therefore believed that the effects of a fluctuating exchange rate in making adjustments to the balance of payments and stabilising the economy should not be partially nullified through tariff measures.

However, Dr Kleu stressed, a persistent and sustained appreciation of the rand — which amounts to a structural change — will express itself in consistently lower rand prices or normally priced imports. This factor would be dealt with in the normal course of the board's work in response to tariff applications from domestic manufacturers.

Turning to the question of low-priced imports, Dr Kleu said these did not always fit the definition of "dumping." In considering protection applications the board took its cue from normal Western prices.

However, South Africans should not delude themselves. Many newly industrialised nations had, through intelligent planning, productivity improvements and aggressive marketing, achieved advantages which should now be regarded as normal. It would be futile to try to combat them through protective measures. South Africans should emulate them in the achievement of greater efficiency and alertness in marketing.

ABSORBED

Dr Kleu said that official figures showed the total increase in manufacturing profits last year was R1 026-million. Overall improvement in productivity accounted for about R492-million, meaning that more than half the increase in profits was attributable to over-recovery of costs by way of prices.

Manufacturing industry absorbed a good deal of the increase in the remuneration of labour but tended to over-recover other cost increases.

It was disappointing that more than 80 percent of the increase in real output was derived from a higher consumption of resources. Less than 20 percent flowed from an increase in the productivity of those resources.

Government policy emphasis switches to fight inflation

CT 17/2/81

(13) (49)

BY PAUL DOLD
Financial Editor

SOUTH AFRICAN interest rates will soar still further as the Government takes firm action to control the money supply and remove the threat of demand inflation. The emphasis in Government policy has abruptly changed from growth to fighting inflation.

This is clear from yesterday's mini Budget when the Finance Minister, Mr Owen Horwood, told the country that the government would not stand in the way of interest rates rising to their market levels.

"The South African monetary authorities will not hesitate to allow interest rates to rise to their natural market determined levels This forms an essential part of an effective anti-inflationary policy."

And he noted that local rates were low compared with our main trading partners and are still negative in real terms.

Determined

He left business men in no doubt that the Government was determined to cut money supply growth and would be using its impressive armoury of conventional weapons — open market operations, the stabilization account and the discounts on forward dollars.

It is to be hoped that that the minister's remarks will be followed by swift action in the market place itself so that the authorities can gain an important psychological advantage.

The track record both here and in the United States and Britain has shown that it is difficult to control money s[...]ply and techniques have still be refined

Overseas, broad agreem[...] does not yet even exist as which definition of money s[...]ply should be regarded as t[...] market barometer.

Reading between the lines of the mini Budget speech one gained the impression that the authorities are unhappy with the huge spurt in commercial bank credit to the private sector during the past year — a rise of R3 240m which the minister labelled as the principle cause of the huge increase in the money supply.

Thus post-election monetary policy could be strengthened and credit tightened. The banks may well be asked to restrain credit and I would not be surprised to find credit cards which are widely used as a credit function coming under closer scrutiny.

It is certain however that monetary policy will not have an instant impact on the inflation rate and it will take several months at least for the new monetary package to have an effect.

Thus, in the interim the private sector will be asked to make some contribution to price stability. What the trade off will be is unclear but Mr Horwood will no doubt tell the private sector in an uncertain [...]

[...] sury and the Reserve Bank will be widely welcomed by the capital and money markets.

The Reserve Bank has, of course, been active in recent months in buying short-dated government stock but this accelerated activity could herald the start of the much awaited free market financial policy which is expected to be the cornerstone of Dr De Kock's report

The minister's announcement that the Central Bank's activities in the money market would concerate on easing the expected seasonal tightening of the February and March month ends is sound strategy.

From next week the money market could be facing one of the tightest periods in years and the policy should be able to cushion the market from the worst

Next stock issue

Under the current monetary policy it is reasonable to predict a very attractive rate on the next government stock issue with a coupon of 12,75 to 13 percent.

Hopefully, the policy will assist in mopping the vast surplus cash in the short end of the market with switching taking place into the long end where this liquidity really belongs.

At a glance the pay rises announced seem to be well within reasonable bounds, particularly considering this is a pre-election Budget and there is no doubt that Mr Horwood's prime achievement to date has been his success in limiting government spending. It is vital that this be continued if the policy of growth through the private sector is to be maintained.

The relaxation of exchange controls will delight the travel industry. It is a pity that the supply of Kruger rands to the local market are only being increased now when the gold price is well below the $500-mark.

For too long South African's have been denied a meaningful opportunity to buy these gold coins and it is hoped that the totally inadequate method of distribution will be revamped.

While this Budget, which heralds new rises in interest rates, has been discounted by the stock market it can but only reinforce the major bear trend in share prices.

Mr Horwood is to be congratulated for grasping the opportunity provided by the mini Budget to enunciate government policy ahead of its implementation rather than using it merely as an appropriation exercise.

CT 17/2/81

49

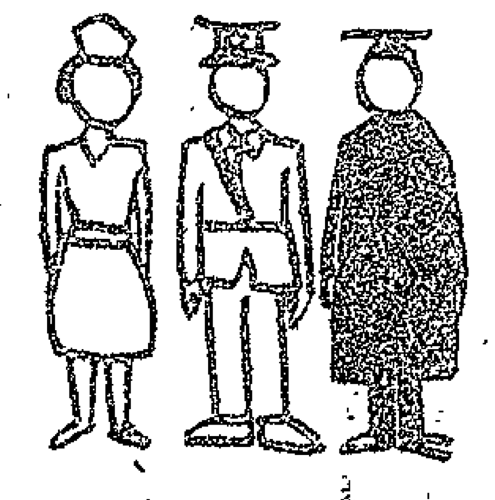
Bonus for pensioners

SUBSTANTIAL pension concessions were announced in the mini budget along with a surprise softening of proposals for the preservation of pension rights.

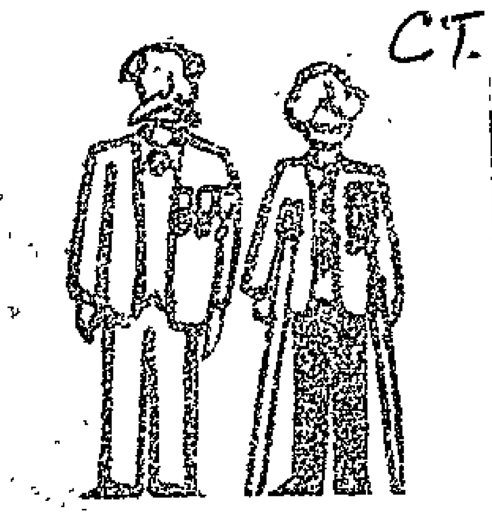
Social pensions are to go up on October 1 by by R13 a month for whites, R9 for coloureds and Indians, and R7 for blacks.

Special bonus benefits paid out last November are to be repeated in April: R30 for whites, R24 for coloureds and Indians, and R18 for blacks.

Military and civil pensions are to rise by 12 percent from April 1.



12 percent increase for civil servants



War veterans' increased allowances

Election handout

49

CT 17/2/81

By GORDON KLING

CIVIL SERVANTS and pensioners are the main beneficiaries of R905 million worth of pre-election handouts by the Minister of Finance, Mr Owen Horwood, in a relatively low-key interim budget.

The second reading of the Part Appropriation Bill, providing for R8 900 million in government expenditure from April 1 till the main budget in August, reflected the stresses and strains of a strong economy past its boom and the determination of Mr Horwood to maintain financial discipline.

The minister even sounded a cautionary note on the country's biggest money-spinner, gold, saying: "It would certainly not be prudent at this stage to anticipate another large increase in the average gold price during the next financial year."

But on the longer-term outlook he was "decidedly bullish".

Opposition parties rejected the package as a vote-catching gimmick which the public would have to pay for after the election.

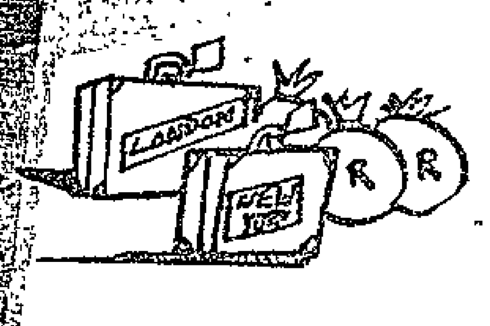
Representing organized commerce, the director of Assocom, Mr Raymond Parsons, said that the main thrust was one of basic economic strength, and it was right that "serious inequities" in public service remuneration should be redressed.

The main features of yesterday's "little budget" are:

- Big social and civil pension improvements, plus another bonus payment for pensioners in April. Cost: R173m.
- An average basic 12 percent pay rise for the public service, with substantial boosts for many occupations, including an average salary increase upwards of 20 percent for fully-qualified teachers. Cost: R720m.
- An increase of R1 000 a year in personal overseas travel allowances to R4 000, business travel allowances up R2 500 to R7 500, and other relaxations in exchange control regulations, including a doubling of the amount of finance which foreign firms can raise in the Republic. These measures will be brought into effect as far as possible, not later than March 1, 1981.
- A cut of 3c a litre in the excise duty on fortified and sparkling wine and other fermented fruit drinks. Cost: R1,3m.
- Tax concessions on lump sum payments related to retirement.
- Doubling of the amount of gold available for Kruger Rand production intended for South Africans in a move intended to reduce the relatively high local premium on the coins.
- A new issue of national defence bonds from April 1, with an effective 10 percent interest rate.
- The calling of a top-level summit meeting on inflation involving organized labour, consumers, academicians, the public sector and leading businessmen.
- Action on a perks or fringe benefits tax apparently delayed till after the election, but a decision expected before the next session of parliament in July.
- Proposals for streamlining the tax system which include an eventual raising of the level at which tax begins, and refining PAYE to the point where many taxpayers will not have to file final returns.
- The government's flood relief programme is to be boosted by a further R8-million to R10m.

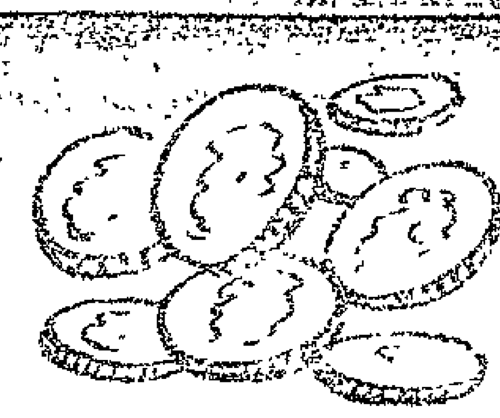
To page 2

Full speech — pages 4, 5, 9



Exchange control concessions

Reduced duty on some wines



Doubling of minting of Kruger Rands

A vote now, pay later budget — Schwarz

Political Correspondent

OPPOSITION parties yesterday castigated the giveaway mini-budget as a transparent attempt to buy Nationalist votes in the April general election.

They told the Minister of Finance, Mr Owen Horwood, that the voting public would not be deceived by what they described as "trickery" and "an election gimmick".

Mr Horwood was accused of making vague and patchwork increases by announcing every possible concession now and saving any bad news for taxpayers until the main budget after the election.

Mr Harry Schwarz (PFP Yeoville) and Mr George Bartlett (NRP Amanzimtoti) welcomed the increases for nurses, teachers, policemen and other public sevants. But they said the rises were long overdue and had been timed to have maximum electoral impact.

Mr Schwarz, the chief opposition finance spokesman, said Mr Horwood underestimated the intelligence of the electorate. "They are too clever to be taken in by this trickery."

Rejecting the budget as a vote-catching gimmick, Mr Bartlett said it had been described as a lollipop budget, but the public would not be taken for suckers.

Mr Schwarz, who said the Nationalist election slogan should be "Vote now, pay later", doubted whether the increases would be sufficient to put teachers back in the classroom, nurses back in the wards and policemen back on the beat.

He said Mr Horwood had tried to deal with every category of workers who might not want to vote Nationalist at the election, but had not told voters about the inflation rate or the massive food-price increase.

"What he is doing now will not really solve the problem. Why is there no incentive to people to become more productive?"

"Instead of taking urgent steps to increase the number of skilled workers, the government was fuelling inflation by increasing competition for the existing skilled staff. Pension increases deliberately announced in February before the election would have been eaten away by inflation by the time they came into effect in October.

Mr Barlett said a government which failed to control inflation was guilty of economic terrorism.

"This government has failed in all its declared intentions of curbing inflation, which is now running at 15,8 percent a year. The Department of Statistics has even described inflation as 'unstoppable'."

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D P Weeks
J H Rens
B F McCleland

Professor George Menzies Prize
Awarded on results of final examinations to the best male student in Land Surveying or Civil Engineering.

J H Rens

Sammy Sacks Memorial Prize
Awarded to the student with the best classwork in Engineering Drawing.

L Menegaldo

CHEMICAL

A E & C I Prize
For the first year student obtaining the highest average mark.

'Inflation still chief problem'

201 12/2/81 (49) (153)

THE ASSEMBLY. — The prospects for the economy in 1981 were decidedly favourable with a possible 5% to 6% growth and the main economic problem remaining inflation, Mr Owen Horwood, said yesterday.

Concluding his mini-Budget speech, he said economic problems facing the country were basically problems of prosperity.

If the Government failed to maintain fiscal discipline and reduce the rate of increase of the money supply to the required extent, the rate of inflation in 1981 and thereafter may well be higher than that of 1981.

The overall balance of payments position should remain sound throughout 1981.

"Even if, which I do not expect, the current account itself might at some later stage move into temporary deficit — and much would depend on the behaviour of the gold price — this should be comfortably offset by the improvement in the capital account as a result partly of the increased foreign financing of South African imports and exports, and partly by a general inflow of investment capital," he said.

"A 5% to 6% growth would imply an increase of around 13% in the real gross domestic product over two years.

"At some stage, of course, there will be a temporary downward phase of the normal business cycle, to be followed in turn by the next upswing which would carry the economy to new record heights," Mr Horwood said. — Sapa.

POLITICS

DD. 17/2/81 (99)

Budget called an election gimmick

HOUSE OF ASSEMBLY — Opposition parties yesterday castigated the giveaway mini-budget as a transparent attempt to buy Nationalist votes in the April general election.

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Both Mr Harry Schwarz (PFP, Yeoville) and Mr George Bartlett (NRP Amanzimtoti) welcomed the increases for nurses, teachers, policemen and other public servants. But said the rises were long overdue and had been timed to have maximum electoral impact.

Mr Schwarz, the chief opposition finance spokesman, said Mr Horwood under-estimated the intelligence of the electorate.

"They are too clever to be taken in by this trickery."

Rejecting the budget as a vote-catching gimmick, Mr Bartlett said it had been described as a lollipop budget, but the public would not be taken for suckers.

Mr Schwarz said the Nationalist election slogan should be "vote now, pay later". He doubted whether the increases would be sufficient to put teachers back in the classroom, nurses back in the wards and policemen back on the beat.

Mr Horwood had tried to deal with every category of workers who might not want to vote Nationalist at the election, but had not told voters about the inflation rate or the massive food price increase.

"What he is doing now will not really solve the problem. Why is there no incentive for people to become more productive?"

Instead of taking urgent steps to increase the number of skilled workers, the government was fuelling inflation by increasing competition for the existing skilled staff.

"Pension increases deliberately announced in February before the election would have been eaten away by inflation by the time they came into effect in October.

"We in South Africa want to maintain living standards, combat inflation, have a considerate and efficient public administration, create jobs, care for the aged and infirm, preserve freedom, respect human dignity and remove discrimination.

"It is a tragedy that the government's proposals do not go even the remotest way towards achieving this."

Mr Bartlett said a government which failed to control inflation was guilty of economic terrorism.

"This government has failed in all its declared intentions of curbing inflation, which is now running at 15,8 per cent a year. The Department of Statistics has even described inflation as 'unstoppable.'"

"The public service was in disarray, with thousands of overworked officials resigning their posts."

Mr Schwarz and Mr Bartlett cited the failure to control inflation and ensure decent living standards for all in amendments they introduced opposing the budget.

Mr Alf Widman, chief opposition spokesman on social welfare and pensions, described the pension increases as inadequate and said the pension gap between different races had been widened yet again.

Pensioners had to eat now and not in October, when the increases would come into effect.

He described increases of R13 a month for whites, R9 a month for coloureds and Indians and R7 a month for blacks as "better than nothing" but disappointing to people who were unable to make ends meet. — PC-SAPA

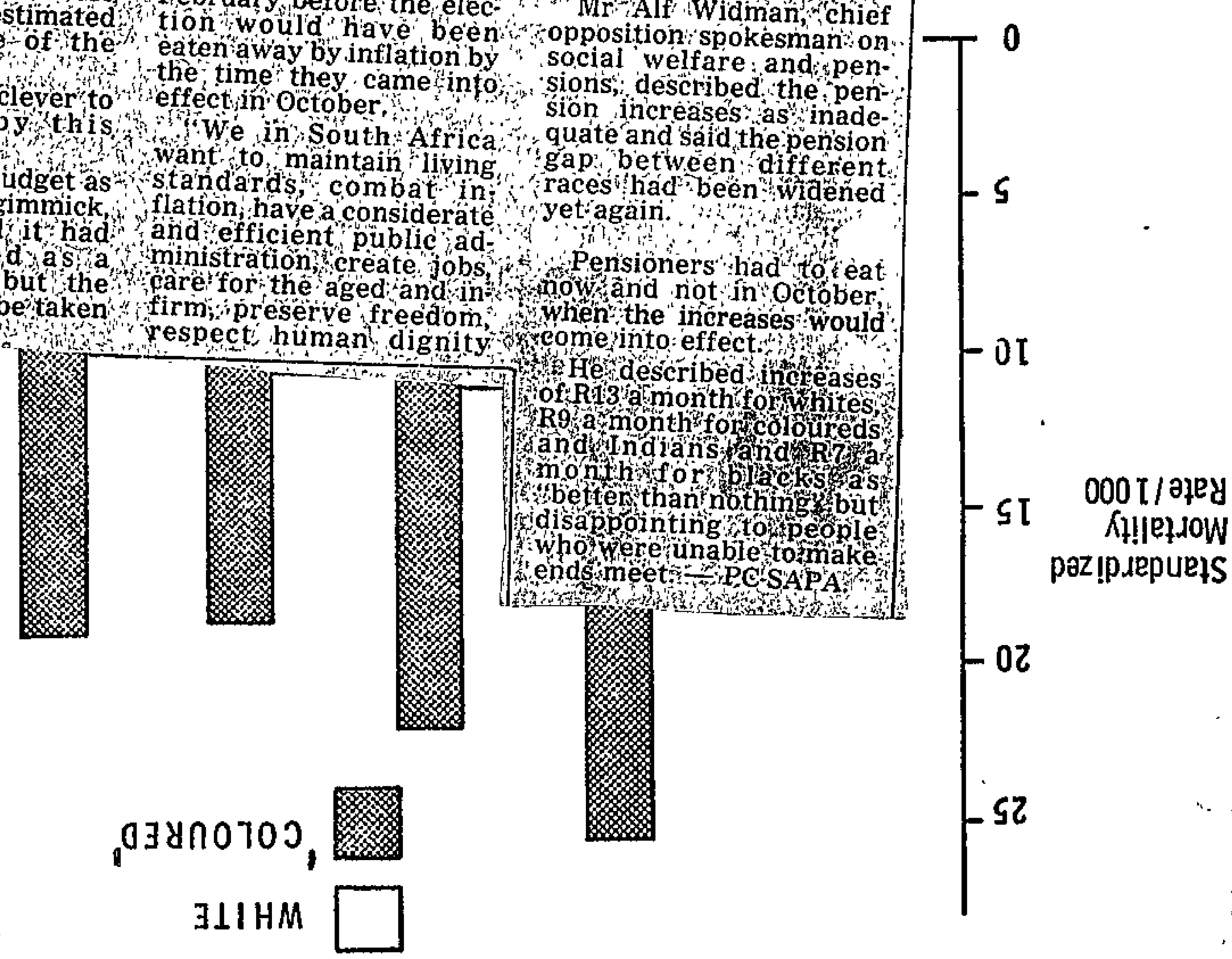


Fig. 3 Standardized Mortality Rate/1000 'Whites' and 'Coloureds', 1929 - 1970.

Public servants get 12% 'election' pay ri

RDM 17/2/81 49

~~850~~ ~~3595~~ ~~49~~

By HOWARD PREECE
Financial Editor

PAY rises ranging from an average 12% for general public servants to more than 20% for senior teachers were announced yesterday in a R720-million package in the mini-Budget.

The hope of the Minister of Finance, Mr Owen Horwood, is to combat widespread crises in the public services while not fuelling the already disturbingly high 15% level of inflation in the economy.

Mr Horwood also announced increases in old-age and other pensions, and some easing of exchange controls — including allowing more to be taken overseas for holidays.

And he paved the way for further possible interest rate rises, particularly on the man-in-the-street's bank overdraft.

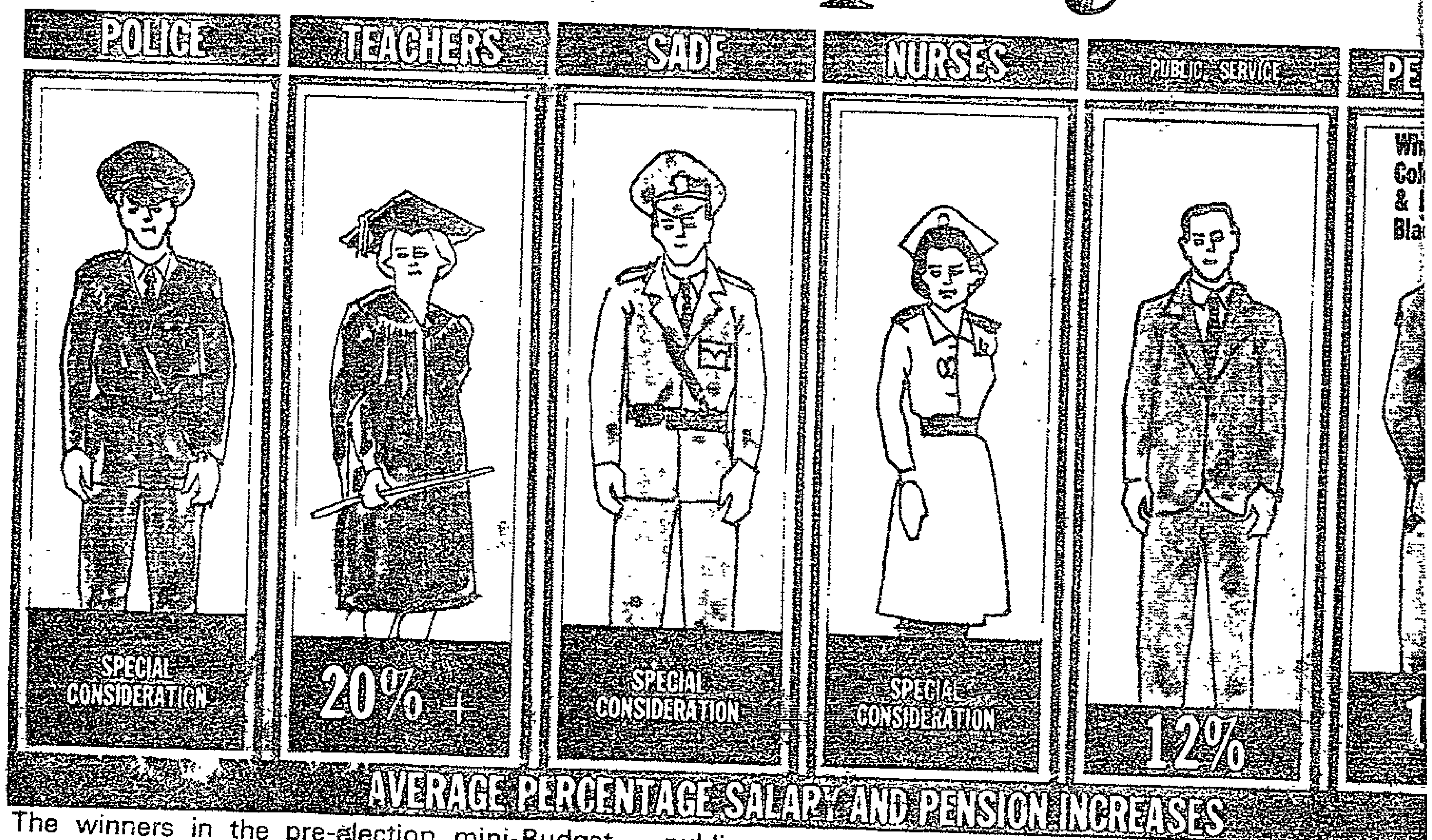
Mr Horwood said all public servants would get a basic pay rise averaging 12% from April 1.

However, over and above that, some groups would get additional special treatment. These included police, military, prison staff, health and nursing staff, and judicial staff of the Department of Justice.

Teachers in the upper grades would be paid an average 20% more.

Among key points in Mr Horwood's Part Appropriation Bill are:

- Old-age pensions will go up from October 1 by R13 a month for whites, R9 for coloureds and [illegible] blacks.



The winners in the pre-election mini-Budget . . . public servants, teachers, nurses, policemen and pensio[ners re]ceived "special consideration" in Mr Owen Horwood's R8 900-million Part Appropriation Bi[ll] of R30, R24 and R18 respectively will be paid from April 1 — and maybe more later.

- Civil and military pensions will rise by 12% from April 1;
- The Government will raise the 14% maximum interest rate ceiling on borrowing. Some overdraft rates could then go above this level.

"The Government will not hesitate to allow interest rates to rise to their natural market-determined levels," Mr Horwood said.

- No action is to taken yet on the proposed tax clamp on fringe benefits — but it is still in the pipeline;
- There will be a 3c-a-litre duty cut on fortified and sparkling wine;
- A new series of National Defence Bonus Bonds is to be introduced from April 1 with a basic rate of interest of 9% (previously 8%);
- There is to be some easing of exchange controls. One effect will be a rise in the adult overseas travel allowance from R3 000 a year to R4 000. Other holiday and business allowances are to be increased;
- Emigrants will be able to take furniture and motor cars out with a maximum value of R20 000 each, against the present R10 000;
- The number of Krugerrands available for sale in South Africa will be increased from 150 000 ounces a year to 300 000;
- Foreign-controlled companies will be allowed to borrow more within South Africa;
- The Government is to push ahead with plans to make pensions transferable, but will relax some provisions.

Mr Horwood said the pay increases being granted to the public services were the most the country could afford if inflation was to be contained.

(49) 17/2/81

DD 17/2/81

Teachers, nurses wait and see but pensioners angry

CAPE TOWN — There was guarded reaction from teachers, nurses and policemen yesterday because the exact amount of the salary increases announced in Mr Owen Horwood's mini-budget had not been worked out.

But there was more angry reaction from pensioners whose increases were described as still being below the breadline.

The Federal Council of Teachers' Associations could not say whether it accepted the new scales until details were made available.

Professor H. Maree, chairman of the council, said after almost two hours of talks with the Minister of National Education, Dr Gerrit Viljoen, that the increase was "the largest single salary improvement in the history of the teaching profession".

But he added that the amount needed to put the teaching profession in a competitive position should have been larger than that announced.

Prof Maree said it was possible that the improvements announced might serve as a first instalment in the settlement of an account to teachers which was long overdue and had created many problems for the profession.

The Cape Teachers' Professional Association also met yesterday with the Minister of Internal Affairs, Mr Chris Heunis — who is responsible for coloured education — to hear how the increases would affect coloured teachers.

Mr Pat Samuels, president of the Durban-based Teachers' Association of South Africa, said last night a 50-year battle by Indian teachers for parity in pay with whites had been largely won.

Speaking after an earlier meeting with Mr Heunis, Mr Samuels said from April 1 about 80 per cent of the 7 000 Indian teachers would be receiving equal pay as a result of the closing of the wage gap.

A spokesman for the non-racial National Education Union of South Africa said there was a danger that the government would use the new salary scales to substitute qualifications for race in pay discrimination.

"We hear that the biggest increases are going to go to 'D' category teachers (matric plus four years' experience)," he said. If this is so, few blacks have these qualifications and the salary gap will be widened rather than narrowed.

"There is a strong case for paying by the job rather than by qualifications," he said.

The president of the South African Nursing Association, Prof Charlotte Searle, said in Pretoria, she had been told by the Minister of Health, Dr L. Munnik, that certain critical categories of nurses would get increases of up to 20 per cent.

"But we can't say which these categories are until we have studied the new scales."

The minister had also told her that overtime payments would be doubled, Prof Searle said.

"The board of the SA Nursing Association is not satisfied with an overall 12 per cent increase which does not even meet the increased cost of living, but we realise that these scales must be considered in the overall context of the public service salaries."

Prof Searle said the board would, however, have to reopen negotiations again immediately.

"In the meantime, I must appeal to nurses not to panic because we do not yet know how much benefit will accrue to nurses in the critical areas — that is in the sisters' ranks."

The opinion of the "man on the beat" on the announcement of 12 per cent and more for the police was summed up by one senior policeman in the Cape: "It's nothing to sing about."

How much is the "more", a number of members of the force asked.

Pensioners reacted with deep disappointment and white pensioners claimed that their increase to R122 a month did not constitute a "living wage" in the face of rampant inflation and dramatic rent increases.

The director of the National Council for the Aged, Mrs Zerilda Drosky, said she was grateful for the hand-out, but it was still inadequate in view of the rising cost of living.

She expressed particular concern for elderly urban blacks who, despite a R7-a-month increase, had to make do with a pension of R40 a month. She sa[id] even the new pension of R120 for whites was still below the breadline. — DDC-SAPA.

Mini-budget called a case of . . .

Vote now, pay later

DD 17/2/81

CAPE TOWN — **Opposition parties yesterday blasted Mr Owen Horwood's mini-budget in which all civil servants — and MPs — were granted pay increases ranging from 9,2 per cent to well over 20 per cent.**

BARRY STREEK Political correspondent

- **R720m wage increases**
- **Some teachers 20pc**
- **Pension rise and bonus**
- **Travel allowances up**
- **3c cut on wines**

Details page 10: Reaction page 11

The Progressive Federal Party's Mr Harry Schwarz, accused the government of using the budget for the April general election and added that it was a case of "vote now, pay later".

And the New Republic Party financial spokesman, Mr George Barlett, described the mini-budget as an "election gimmick".

Both spokesmen also accused the government of exacerbating inflationary trends in the economy which, they said, would hit the ordinary man in the street.

They were reacting to the speech by Mr Horwood, the Minister of Finance, in the Assembly, in which he announced salary increases totalling R720 million.

Mr Horwood said that "special treatment" would be given to teachers, policemen, soldiers, prison officials, nurses, health officials, and the Department of Justice's judicial staff.

He did not disclose details of the "special treatment" but said fully qualified teachers and ...

deal directly with taxation proposals, but Mr Horwood hinted that the tax threshold would be raised and that some taxpayers might no longer have to submit returns.

He said he was considering a system of final deduction of PAYE so that people whose incomes were basically salaried would no longer have to render further tax returns.

Pensions would be increased by R13 for whites, R9 for coloured and Indian people and R7 for blacks.

The special bonus benefits for pensioners, to be paid in April, would amount to R30 for whites, R24 for coloureds and Indians and R18 for blacks.

The increase in social pensions would take effect in October, while the increase in civil pensions would take effect in April.

Mr Horwood also extended the levels of the means test to include people with higher incomes than before.

The pension payout would amount to R65 million in the coming ...

bonus bonds, the minister said a higher interest rate would be paid from April 1.

The number of Kruger rands available to the South African public would be doubled immediately and 300 000 ounces of gold would now be sold per year.

The new defence bonds would now carry an interest of nine per cent, and not eight per cent as at present, with an additional five per cent being paid on redemption after five years. This would give an average ...

XIV

CONGENITAL ANOMALIES

	W		A		C		B	
	M	F	M	F	M	F	M	F
0–1	1,57	0,76	0,60	1,03	1,24	0,79	0,89	0,74
1–4	0,05	0,04	0,05	0,05	0,05	0,02	0,04	0,05
5–24	0,01	0,00	0,01	0,01	0,01	0,02	0,00	0,00
25–44	0,00	0,00	0,00	0,00	0,00	0,01	0,00	0,00
45–64	0,01	0,00	0,00	0,00	0,00	0,00	0,00	0,00
65+	0,02	0,01	0,00	0,00	0,00	0,03	0,00	0,00
ALL	0,04	0,02	0,03	0,04	0,04	0,03	0,03	0,00
NO.	87	43	9	14	50	33	54	47

Mr Horwood also announced in his R8 900 million mini-budget:

- Increases in social, civil, war veteran and military pensions.
- A special, one-off bonus payment to pensioners, amounting to a R30 grant to white pensioners.
- A three cent per litre tax cut on sparkling and fortified wine, apple; pear and orange beverages.
- An extra R8 million in flood relief, bringing the total to R10 million.
- An increase in travel and exchange allowances.

The mini-budget did not

Mr Horwood said he hoped a further bonus payout could be made to pensioners in the second half of the year.

No decision had yet been made on the taxing of fringe benefits but the minister said he hoped a final decision would be taken before August.

He also announced new travel allowances which would enable travellers to take out R4 000 a year on holiday and R7 000 on business.

Turning to defence

Few details of the salary increases were revealed in either Mr Horwood's speech or in separate statements by the Minister of National Education, Dr Gerrit Viljoen, and the Minister of Internal Affairs, Mr Chris Heunis.

But Mr Horwood did say that the average increase would be 12 per cent with greater increases for lower-paid staff tapering down to 9,2 per cent for the upper echelons. — PC.

(News by Barry Streek, Press Gallery, House of Assembly.)

N CAUSES OF PERINATAL MORBIDITY AND MORTALITY

	A		C		B	
F	M	F	M	F	M	F
7	16,92	11,55	29,22	24,78	23,16	22,23
2	0,02	0,02	0,02	0,04	0,04	0,00
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	–	–	–	–	–	–
	0,48	0,32	0,83	0,67	0,55	0,67
	170	113	942	785	1143	1075

 (49) 17/2/81

Financial discipline must stay — Horwood

RDM 17/2/81 (49)

HOUSE OF ASSEMBLY. — There was no doubt the Government's policy of financial discipline must remain in force, the Minister of Finance, Mr Owen Horwood, said yesterday, introducing the Second Reading of the R8 900-million Part Appropriation Bill.

He said the Government would once again give high priority to defence and security matters. The same priority would also be given to manpower development and education and to essential infrastructural development, but this would necessarily mean a number of other services would have to be assigned a lower priority.

"It is manifestly impossible to assign top priority to all the functions of government, however important they may be."

Referring to revenue expectations on the existing basis of taxation, Mr Horwood said non-gold revenues promised to show another healthy increase during the next fiscal year, but the estimation of gold mining revenues would be more problematic.

Another large increase in the average gold price during the next fiscal year should not be anticipated, he warned.

"As to the longer-term outlook for gold, I am decidedly bullish, but would not wish to base short-term fiscal policy on too optimistic a price."

The Government's policy during the current year of basing revenue estimates on a conservative gold price had stood the country in good stead, so much so that at current gold price levels, it was possible to fund rising Government expenditure, expressed at current prices, in a healthy and disciplined way.

Mr Horwood said it was not possible, some six weeks before the end of the current financial year, to give a detailed account of revenue and expenditure, but it was already abundantly clear Government revenue would be considerably higher than originally budgeted for.

In his Budget speech last year, he estimated total Government revenue would amount to R10 856-million.

"Due mainly to the unexpectedly high average gold price and growth rate in the economy as a whole, tax revenues are expected to exceed this estimate by a fair margin, and this notwithstanding substantial reductions in tax rates for the 1980-81 tax year."

Referring to the new issue of national defence bonds which would become available as from April 1, he said the present issue offered a taxable return of 8%.

"As a result of the recent sharp rise in interest rates, the yield on this bond has fallen out of line with market rates and the issue will consequently be withdrawn at the end of this month.

"The new series of national defence bonds will carry interest at 9% and will pay an additional bonus interest of 5% at redemption after five years, which is tantamount to an attractive rate of about 10% a year to redemption.

"As is customary, the new bond will be marketed through the Post Office and prospectuses will be available at all Post offices and from the Treasury by April 1," he said.

In the economic and financial field, Mr Horwood said, 1980 stood out as one of the best years since the Second World War, with the many positive developments far outweighing the less favourable tendencies.

He said the typical economic picture in virtually all non-oil producing countries in 1980 was one of low and declining growth rates, high and increasing inflation areas, and serious balance of payments problems.

"By contrast, South Africa experienced one of the highest economic growth rates ever recorded in a single year in this country, while at the same time a remarkably strong balance of payments was maintained.

"Virtually the only dark spot in this generally bright economic picture was the inflation rate, which remained stubbornly high here, as elsewhere."

Complete statistics for the full 1980 calendar year were not yet available, but indications were, the real gross domestic product increased by about 8%, nearly double the rate of 1979.

Mr Horwood said there were certain groups in South African society which had participated to a lesser extent than others in the recent wave of prosperity.

"Every effort is being made to alleviate the burden of these people as much as possible, often at considerable cost to the exchequer, and therefore to the taxpayer.

"Food subsidies this year alone amount to about R250-million, and if no adjustment to bread and other commodity prices is made, will far exceed R300-million in 1981-2.

"Escalating direct transport subsidies for bus and rail passengers will exceed R150-million this year and could easily exceed R200-million next year unless fares are adjusted.

"To these amounts should be added an indirect subsidy of at least R175-million in respect of exemption of interest payments by the exchequer on capital invested in passenger services by the South African Railways."

Mr Horwood said for the majority of people in South Africa, the high growth rate had meant significant increases in average earnings and after-tax incomes, increases which exceeded the inflation rate at times by handsome margins.

At the same time there was a substantial increase in the number of new jobs created.

In the first three-quarters of 1980, total non-agricultural employment was on average about 3,4% higher than in the corresponding period of 1979.

This made a significant dent in the unemployment numbers, a matter which had become a cause for concern during the recessionary years of the middle seventies.

But it was clear living standards had risen generally, in many cases to a marked extent during 1980.

The relatively free availability of consumer credit meant consumers were able to improve their standard of living to a greater extent than that indicated by the rise in average real earnings alone.

"This is apparent from the estimated 8% rise in real private consumption spending in 1980, which was more than three times the rate in 1979, and also about three times the rate of increase of the population.

"An aspect of the high growth rate which was particularly heartening was that it was accompanied by a strong acceleration in fixed investment.

"After having shown a declining trend between 1975 and 1978, and increasing by only 2% in 1979, real gross domestic fixed investment, expressed at constant prices, rose by no less than 13% in 1980.

"Moreover, this welcome increase took place, for the greatest part, in the private sector," Mr Horwood said. — Sapa.

Mr Leon Vermaak has been appointed financial manager of Volkskas Industrial Bank.

State spending over Budget

RDM 17/2/81 (49)

By HAROLD FRIDJHON

GOVERNMENT expenditure to the end of January amounted to R11 467-million which, with two months to go before the close of the fiscal year, suggests that on the final count excess expenditure might be as much as R620-million, which would be 5% above Budget.

Mr Horwood estimated in his Budget last year that total expenditure would be R13 142-million.

But there is a strong likelihood that in the next two months the rate of issues from the Treasury might drop below the R1 468-million a month average for the 10 months. January payments from the Exchequer were slightly over R1 000-million and this lower trend can be expected to continue.

While expenditure is running at 21% above last year's comparable figures, total revenue is R10 269-million, which is 36,7% higher than collections for the first 10 months of last year.

This is only R588-million less than Mr Horwood expected to collect for the full year. With two months to go, revenue collections will probably net an additional R2 500-million.

Defence has spent R1 890-million, which is exactly the amount which Mr Horwood budgeted for the year. As Defence spends about R200-million a month, it would seem as if this vote will be at least R400-million overspent.

Commerce and Consumer Affairs looks like being underspent, but the Industries Vote might be a little overspent when the final accounts are drawn.

Coloured Relations might be over budget to the extent of about R40-million, but this depends on how much is spent during this month and next. The same goes for Indian Affairs.

The Police Vote will surely be well overdrawn. The budget was for R310-million and to the end of January Treasury issues amounted to R305-million. Prisons has spent the R110-million provided in the Budget.

If the rate of spending continues in February and March at the rate of the first 10 months National Education will be overspent by more than R50-million. The Health, Welfare and Pensions Vote also look like being over budget.

On what used to be the loan account but is now termed other issues and receipts, the Treasury has taken in R29-million in Defence Bonus Bonds and R80-million on 11,5% long-dated stock, probably issued as a tap to the Public Debt Commissioner. Last month the Treasury repaid R101 500 000 on the third series National Defence Bonds.

Expect rise in interest rates

(49) RDM 17/2/81

THE ASSEMBLY. — Further increases in interest rates were part of an effective anti-inflationary policy and inevitable consequences of improved monetary and credit control, said the Minister of Finance, Mr Owen Horwood.

Although fiscal and monetary policy had its desired effect, sharp increases in the broad money supply last year were "a disturbing development".

South African interest rates were still low compared with those in the United Kingdom, the United States and other industrialised countries.

"If allowance is made for the rate of inflation, most South African interest rates are still negative in real terms," Mr Horwood said.

"The South African monetary authorities will not hesitate to allow interest rates to rise to their natural market-determined levels.

"This forms an essential part of an effective anti-inflationary policy.".

Official economic strategy in the past five years had aimed at promoting economic growth in the private sector.

Reductions in tax and loan levy rates had been designed to offset the effects of "fiscal drag" — the increase in the real tax burden on the community brought about by a progressive tax system and inflation.

Fiscal policy had encouraged sound expansion in the private sector and suppressed general demand inflation.

The financial fly in the ointment was the undue increase in the broad money supply which had plagued South Africa, as well as many other countries.

In the year ending December 1980, the money supply had risen by 27%, heightening the danger of general demand inflation.

The term "money" denoted short and medium term deposits with banking institutions, as well as bank notes and coins.

"If too much of this money is created, it encourages excessive spending on goods and services, resulting in price hikes and declines in the value of the rand," he said.

Rapidly increasing money supplies throughout last year, accompanied by [illegible]

Mr Owen Horwood, Minister of Finance, accompanied by his wife, Helen, arriving at Parliament yesterday to deliver the mini-Budget.

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Miss N C Davidson

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(Continued)

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L Flach

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G P Mitchell

<u>S A Federation of Civil Engineering Contractors' Prize</u>

For the best final year design showing constructional merit.

K N Hvidsten

<u>S A Institution of Civil Engineers Student Chapter Prize</u>

For the best written report submitted in C E 214, design

P C Watt

demand inflation.

"Too much money chasing too few goods has now become very real."

The situation was aggravated by absorbing most of the surplus economic capacity and the shortage of certain skilled labourers.

Bank credit to the Government declined by R434-million over the year and helped to offset some of the expansionary effects on the money supply from other sources.

Among those sources was an increase of R386-million in the net gold and foreign reserves, which augmented bank liquidity.

But the principle "cause" of increased money supply was an increase of R3 240-million in bank credit to the private sector.

The increased money supply was accompanied throughout the larger part of 1980 by exceptionally low interest rates when viewed against interest rates abroad and the rate of inflation at home, Mr Horwood said. — Sapa.

Rand affected by balance of payments

RDM 17/2/81 (49)

THE ASSEMBLY. — Although the rand had depreciated slightly against the United States dollar, it was not an indication of weakness, said the Minister of Finance, Mr Owen Horwood.

Introducing the mini-Budget yesterday, he said it rather reflected the strengthening of the dollar against other currencies.

The strength of South Africa's balance of payments was reflected in the movement of the rand exchange rate.

"At the end of 1980 the effective exchange rate measured against a representative basket of currencies of South Africa's trading partners was 10,9% higher than at the end of 1979," he said.

The strong overall balance of payments had also contributed to an improvement in South Africa's international credit rating, Mr Horwood said.

Proof of this was the Government's success in obtaining foreign loans.

"These loans, as well as those taken up by other South African public sector borrowers, were obtained at much more favourable terms than was possible a few years ago."

The soundness of the balance of payments in 1980 was remarkable at such an advanced stage of the economic recovery, he said.

In the past, Mr Horwood said, it was quite normal for the current account of the balance of payments to move into deficit as the growth rate increased.

This time round, the current account still showed a large surplus, although the economy was in its third year of economic recovery.

"In other respects, however, the balance of payments did exhibit tendencies normally associated with an advanced stage of economic recovery.

"In particular, merchandise imports rose by about 47% in 1980, reflecting the strong rise in gross domestic expenditure, particularly in fixed investment.

"As has often happened in the past at the comparable stage of an economic recovery, the growth rate of merchandise exports declined.

"Although the total value of exports in 1980 was still about 10% above the corresponding figure for 1979, it actually also declined on a seasonally adjusted basis from quarter to quarter throughout the year," he said.

There were two reasons for this, Mr Horwood said. The first was the relatively poor performance of South Africa's trading partners. The second was an upsurge in domestic demand, which deflected would-be exports.

Similar tendencies were observed in the services accounts of the balance of payments.

The rise in imports and the decline of exports were neutralised by the 70% increase in the gold output from R6 000-million in 1979 to over R10 000-million in 1980.

"Consequently, the surplus on the current account of the balance of payments amounted to between R2 500-million and R3 000-million, almost the same level achieved in 1979," Mr Horwood said. — Sapa.

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Miss G C Littleworth

Third Year (Silver Medal)

Miss N C Davidson

Fourth Year (Gold Medal)

P M Salmon
T J Cumming
D P Weeks
J H Rens
B F McClelland

Professor George Menzies Prize

Awarded on results of final examinations to the best male student in Land Surveying or Civil Engineering.

J H Rens

Bonus for travellers as exchange control rules are rela

RDM 17/12/81 (49)

THE ASSEMBLY. — Limitations on the local borrowing of foreign-controlled companies have been eased.

The Minister of Finance, Mr Owen Horwood, announced this and a number of measures relaxing exchange control in his introduction to the Second Reading debate on the Part Appropriation Bill (mini-Budget) yesterday.

In a statement issued immediately afterwards, Mr Horwood announced that:

- Credit limits in respect of Regulation 3 (1)(f) would double;
- Annual holiday travel allowance for adults would increase from R3 000 to R4 000 and for children from R1 500 to R2 000;
- Annual business travel allowances would increase from R2 000 to R3 000 in neighbouring countries and from R5 000 to R7 500 in other countries;
- The export limit for SA Reserve Bank notes would rise from R100 to R200;
- Transfers for unexpected medical expenses abroad would go up from R300 to R3 000;
- The upper limit of personal effects and jewellery to be exported without Reserve Bank authority, the export value of household and personal effects, and the export value of motor vehicles by emigrants would all double from R10 000 to R20 000;
- The export limit of jewellery inherited by non-residents would be raised from R200 to R20 000;
- Import limits on postage stamps for philatelic use and coins for numismatic use would rise from R300 to R3 000;
- The limits on the release of blocked funds to emigrants on local visits and the release of financial rands inherited by non-residents from local estates for local visits would be increased from R5 000 to R10 000 annually per family at R150 per adult and R75 per child per day;
- Guarantees by non-residents and the acceptance of guarantees from abroad for facilities to local residents would increase from R1 000 to R10 000;
- Limits on directors' fees for emigrants would increase from R2 000 to R4 000 a year and for non-residents from R2 000 to R4 000 per company a year;

Mr Horwood said the authorities were conscious of the disadvantages and deficiencies of local exchange control regulations.

There were many ways capital ... country without being affected by ex...

"The crux of the matter is that if ... monetary policies are not appropria... be relied upon to keep the capital ... payments in order.

"If our fiscal and monetary policie... in realistic and market-related ex... rates, we should have little need for ... run," he said.

Mr Horwood said he did not re... substitute for the relaxation and phas... proposed by the De Kock Commissi...

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G L Cragg

White man's budget, say coloured and Indian leaders

49 Argus 17/2/81

By Hugh Roberton

COLOURED and Indian leaders described the mini budget as 'a white man's budget' today and said it was aimed more at winning votes for the National Party in the April 29 general election that at solving the country's basic problems.

They particularly deplored the continuing gap between old-age pensions paid to whites and pensions paid to other race groups and said yesterday's announcement of higher pensions entrenched an unjust and indefensible disparity.

A start

But Indian leaders complimented the Minister of Finance, Mr Owen Horwood, for what they said was at least a start towards equal pay for equal qualifications and work among teachers, though they felt much more could have been done to improve the lot of black teachers.

'This is very obviously an election budget, a white man's budget,' said Mr David Curry, national chairman of the Labour Party. 'And when you get that sort of budget, there is very little for the rest of us to get excited about.

'I think it is shocking that old people of all races should have got such meagre increases in their pensions. After all, bread costs the same, no matter what your age or race. The budget has also entrenched the racial disparity of the past, which is deplorable.'

Mr Curry said the budget did little to solve the basic problems of the country. 'So long as the country's political problems remain, so long will our economic problems be with us. The manpower shortage can only be solved by political changes, for instance. And until it is solved, we will have heavy inflation.'

He scoffed at suggestions that the new salary scales for teachers had narrowed the gap between white and coloured earnings. 'It only gives that impression. The facts indicate otherwise. Only the elite among teachers have equal pay for equal work.

'While that is to be welcomed, the fact still remains that about 12 000 coloured teachers, or about 70 percent of the total, simply do not come anywhere near parity in earnings because they do not have the minimum qualifications. And the budget has done nothing to help the coloured community raise those minimum levels.'

The leader of the Indian Reform Party, Mr Y S Chinsamy, said he welcomed steps by Mr Horwood to narrow the gap between Indian and white teachers' salaries, though in general the mini budget had been aimed at the white community and at winning votes for the NP on April 29.

'I think that as far as pensions are concerned, we really should move away from the gap between the races and in this regard I feel the blacks have been let down badly. All old people have worked to build our country, they all pay the same prices for food. Why do only whites get such comparatively big increases and the rest of us so little?'

SA can't afford economic policies to suit Nats — PFP

RDM 17/2/81 (49)

Mr Harry Schwarz, chief Opposition spokesman on finance, opposed the Part Appropriation Bill.

Political Staff

HOUSE OF ASSEMBLY. — Opposition parties yesterday castigated the giveaway mini-Budget as a transparent attempt to buy Nationalist votes in the April General Election.

They told the Minister of Finance, Mr Owen Horwood, the voting public would not be deceived by what they described as "trickery" and "an election gimmick".

Mr Horwood was accused of announcing every possible concession now, and saving any bad news for taxpayers until the main Budget after the election.

Both Mr Harry Schwarz (PFP Yeoville) and Mr George Bartlett (NRP Amanzimtoti) welcomed the increases for nurses, teachers, policemen and other public servants.

But they said the rises were long overdue and had been timed to have maximum electoral impact.

Mr Harry Schwarz

Mr Schwarz said Mr Horwood underestimated the intelligence of the electorate.

"They are too clever to be taken in by this trickery."

Mr Schwarz said the Nationalist election slogan should be "Vote now, pay later".

He said he doubted whether the increases would be sufficient to put teachers back in the classroom, nurses back in the wards and policemen back on the beat.

in regard to subsidies to ensure that the prices of basic foodstuffs do not go up."

Nor was the Government prepared to reduce or abolish general sales tax on basic food items to give people some relief, even though income from GST was much higher than budgeted for.

The Government spoke of a commitment to free enterprise, but when there was an outcry from consumers they were told the system did not apply in the agricultural sector.

"Nothing is being done to curb exploitation."

Very little had been done to limit the money supply, which the Government had allowed to rise to unhealthy levels to stimulate demand.

"The much vaunted financial discipline is absent and there is no appropriate action."

The argument that inflation was imported lost its validity when account was taken of the fact that prices of local goods had been rising at a higher rate than imported goods — about 17% against 7%, Mr Schwarz said.

Mr Schwarz moved that the House decline to pass the Bill unless and until the Government undertook to take more active steps to combat inflation, to care for aged and other underprivileged people, to bring about efficient administration of the machinery of Government and to ensure the safety of the people of South Africa.

Dr Dawie de Villiers

The anticipated growth rate of about 5% for this year made South Africa one of the top performers in the international economy."

in favour of a less regulated economy."

"There are tremendous challenges which we will have to face in the future, but I am convinced we have the means and the will to meet them," he said.

Mr George Bartlett

Rejecting the mini-Budget as a vote-catching gimmick, Mr Bartlett (NRP Amamzimtoti) said it had been described as a "Lollipop Budget", but the public would not be taken for suckers.

The Government were political terrorists and the salary increases for civil servants were an election gimmick, Mr Bartlett said during the Second Reading debate on the Part Appropriation Bill.

A government which failed to control inflation was guilty of economic terrorism.

"This Government has failed in all its declare intentions of curbing inflation, which is now running at 15,8% a year. The department of statistics has even described inflation as 'unstoppable.'"

The public service, he said, had never been in such disarray as it was today, with thousands resigning from their jobs.

Public servants were doing more than their share and they should not be caught for suckers by the forthcoming election.

While his party welcomed the salary increases announced, it would oppose the passing of the Bill.

The Government should tell the country which road it was taking on the matter of joint decision making.

There were not only terror-

It had a good image in the outside world and it had more channels of trade with other countries than ever before.

Mr G J Kotze

Greater self discipline by the nation and the private sector were needed to overcome the problem of inflation Mr G J Kotze (NP Malmesbury) said during the Second Reading debate on the mini-Budget.

He said the Government alone could not be blamed for inflation.

No country in the world had found an answer to this problem and South Africa was no exception.

In his Second Reading speech, the Mr Horwood had not tried to hide this fact but had stated clearly it was a problem to be contended with.

It was wrong for the Progressive Federal Party to say salary increases and concessions announced in the mini-Budget were made with a view to the coming general election.

The announcements made by the Minister, he said, were the result of continuous investigations into matters which required attention.

South Africa's stability and economic prosperity was admired abroad and had led not only to greater overseas investment but had promoted good relations among the different people within the country.

Economic prosperity had led, through evolutionary development, to the upliftment of the coloured people, more work opportunities had been created and the real domestic growth rate had increased from 3,7% in [illegible] more than 7% this

Dr Dawie de Villiers, Minister of Commerce, Industry and Tourism praised SA's economy.

Mr Horwood had tried to deal with every category of workers who might not want to vote Nationalist at the election, but had not told voters about the inflation rate or the massive food price increase.

"We in South Africa want to maintain living standards, combat inflation, have a considerate and efficient public administration, create jobs, care for the aged and infirm, preserve freedom, respect human dignity and remove discrimination, maintain law and order and negotiate for and maintain a peaceful future," he said.

"It is a tragedy the Government's proposals do not go even the remotest way towards achieving this.

Mr Schwarz asked why teachers had to wait until April 1 for their salary increases.

He asked whether the increases were the product of negotiation and agreement with representative bodies or whether the Minister was simply imposing what he thought adequate.

And, he said, it was unheard of for a government to announce pension increases in February which would only become effective from October.

Pensioners, who were already struggling to survive, were being tantalised by the Minister.

"He is saying 'vote for me and you'll get an increase in October'. That's the immorality."

Pensioners were told they could eat in October when they needed to eat immediately.

"To do this is not humane. It is characteristic of a government that doesn't care for people, the arrogant 'great I' Government."

The "I", Mr Schwarz charged, stood for inflation, incompetence, inefficiency, insecurity, instability and isolation.

"The South African people cannot afford a government which tailors its economic policies to suit purely party political interests as they arise from time to time."

... an indication that the future could be met with confidence, the Minister of Commerce, Industry and Tourism, Dr De Villiers said yesterday.

Speaking in the Second Reading debate on the mini-Budget, he said the present upswing in the economy had a far wider base than in the past.

The country's energy position was such that next to the oil producing countries, it was probably one of the most self sufficient in the world.

Together with this, the Republic's balance of payments position was good and reliance on gold revenue was decreasing.

Dr De Villiers said the Government was concerned about inflation and rising prices, but it had to be remembered that inflation was the direct result of the growth rate the Republic was experiencing.

"We have inflation plus a positive growth rate. The rest of the world has inflation and stagnation."

Opposition parties were criticising the Government for rising food prices but lost sight of the fact that these were but a link in the chain of inflation.

The Minister said it was his intention to apply the principles of the free market system to the letter and his department would look from time to time at controlled prices.

"The Government is strongly ... nomic terrorists, like the Government.

The Government had failed in all its declared intentions to stop inflation and the man in the street was like a mouse in a treadmill, getting nowhere.

There was too much Government control, too many takeovers of businesses and too many monopolies.

Smaller producers in a number of fields were wiped out by the giants.

Many businessmen did not manage their jobs efficiently and the cost of this was merely passed on to the consumer.

Because of the Government's mismanagement of the economy the public was terrorised by inflation, he said.

Mr A J Visser

Making his maiden speech, Mr A J Visser (NP Nominated) said Mr Bartlett had exaggerated the situation.

While the Government could never give enough as far as teachers were concerned, the profession had to acknowledge that the Government did come to its aid.

The Opposition was guilty of double talking and a good example of how the Government encouraged competition was the way in which it helped small businesses.

South Africa was one of the most prosperous countries in the world and inflation was a product of this.

... "Through its economic policies, the Government had established excellent relations with the private sector to the point where the arms embargo against South Africa was no longer a threat, he said.

Mr Wynand Malan

A strong stabilisation account was needed to keep the economy afloat in the recession which was sure to follow the current economic upswing, Mr Malan (NP Paarl) said yesterday during debate on the Part Appropriation Bill.

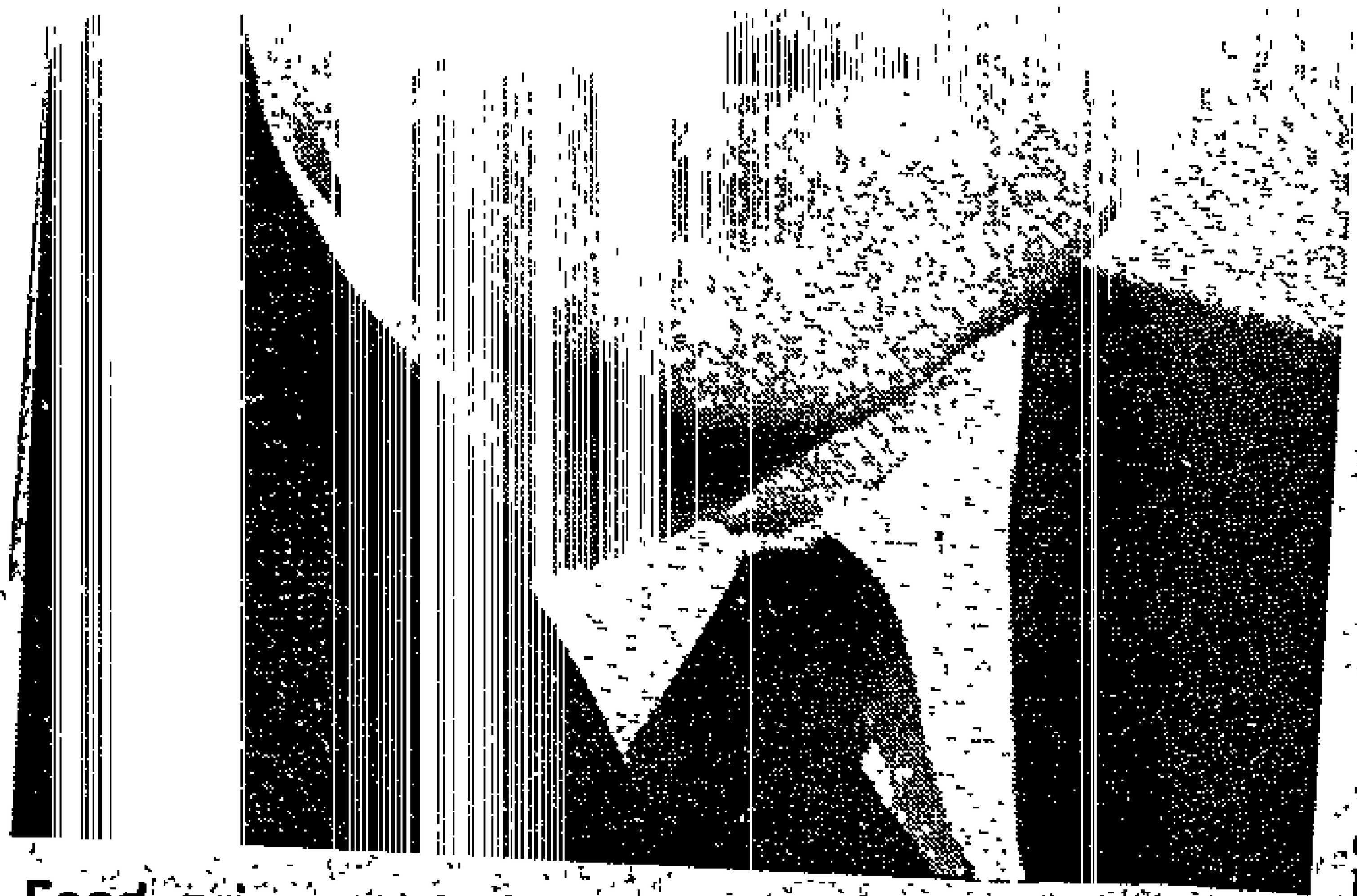
He said the Bill proved that Mr Horwood was firmly in control of the Republic's finances.

Mr Malan, who is retiring from politics, said in his farewell speech the Minister had made provision for strengthening the stabilisation account to see the country through lean periods.

The Government would not be able to raise taxes and suppress economic activity in recessions "at the very time when the economy has to be stimulated".

Mr Malan urged Mr Horwood to raise the means test in accordance with increases in social pensions.

Otherwise, people who had made their own provision for their old-age would lose out to the advantage of people who drew social pensions.



Food prices rose by nearly 30% last year, said PFP MP for Orange Grove, Mr Rupert Lorimer.

long-term plans and many doubted whether it had any.

"Through its incompetence and inadequacy the Government is threatening the stability South Africa requires at this difficult time."

It was clear the Government had no solution to the problem of inflation. The Opposition had repeatedly called for an anti-inflation campaign and now the Government was to call a meeting on the issue.

The Minister had not said a word about the alarming increase in food prices — 30% last year — when it was known the price of bread was likely to rise again.

"There has not been a word

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ately began an in-depth study of the report, its recommendations and their implications.

In the meantime, important developments were taking place, such as, for example, the rationalization of the public service and various aspects of the public sector as a whole, and an investigation into possible ways and means of amending and improving the consitution, which clearly impinged also on local government and its financing.

In these circumstances, after consultation with the United Municipal Executive and other interested parties, the treasury decided late in 1980 to set up a representative working group to make a comprehensive and critical review of the entire Browne Committee report and its recommendations against the background of the latest development.

The working group, under the chairmanship of Mr Gerhard Croeser, chief director of finance, comprises inter alia representatives of the United Municipal Executive, the Office of the Prime Minister, the Commission for Administration, and certain other departments, with power to co-opt experts in specialised related fields as the need arises.

Already, the working group — in whose activities my colleague, the deputy minister of finance, is also taking a keen interest — has endorsed and in some instances amended, more than two-thirds of the report's recommendations, and reported to me accordingly. The aspects remaining, relate to some of the most intractable financial problems of local government in the Republic at the present time, and are the subject of on-going, in-depth studies by the working group and certain specialised sub-committees set up by it.

I am confident that the reports now reaching me from the working group are authoritative contributions to the solution of some thorny problems, and I can assure the House that neither I nor the government has any intention other than to put all such proposals as we accepted, into effect as early as possible.

The Browne Committee report, with its wealth of statistical tables and analyses, may well be the most comprehensive document yet to appear in the important field of local government finance in South Africa.

Conditions of service

I now wish to deal with necessary adjustments to wages and salaries of civil servants and certain occupational groups.

In a press announcement on December 5, 1980 I conveyed the cabinet's decision that the salaries of all employees who are directly or indirectly on the payroll of the state, would be adjusted simultaneously from April 1, 1981, and I also intimated that the cabinet's decision on salary adjustments would be made known when I introduced the Part Appropriation Bill in the present session of parliament.

After thorough consideration of the requirements of the staff concerned and the position of the public service, on the one hand, and the prevailing inflationary conditions on the other, it has been decided to make an amount of R720 million available for the improvement of salaries and conditions of service.

This is very substantially the largest amount ever made available by the government for this purpose. The additional burden to the exchequer has to a large extent arisen as a result of the substantial — and in certain cases excessive — increases in salaries granted in the private sector and the resultant need to safeguard the public sector in order to maintain essential services. The public sector salary increases should therefore not be seen by the private sector as a new round of salary and wage increases.

The *basic salary* improvement will amount to an average of 12 percent, with greater percentage increases for lower-paid staff and smaller percentage increases for higher paid staff, tapering down to 9,2 percent in the upper echelons.

In addition to the basic salary increases, and in line with the government's policy of vocational differentiation, certain groups have been singled out for special treatment, on the grounds of personnel problems peculiar to those groups as well as the results of intensive investigations carried out during 1980. These groups include education, the military, the police, prison officials, health and nursing personnel and the judicial staff in the Department of Justice, as well as certain smaller vocational groups.

The policy of vocational differentiation necessarily implies that due to the nature, demands and circumstances of occupations, as well as the supply and demand situation in the labour market, the various vocational groups cannot all receive the same percentage increase. Even within the same vocational group, structural adjustments necessitate that members of the same group do not all receive the same increase.

In the case of the teaching profession, for example, certain structural and progression problems peculiar to the profession have evolved over the years. The government has therefore awarded a considerable share of the funds available for vocational differentiation and structural adjustments to this group. The extent of these adjustments (including the basic salary increases) may be judged by the fact that fully qualified teachers, together with those in the upper grades, will from April 1, 1981 be paid on average upwards of 20 percent more than is currently the case. For certain classifications, the increases are even higher, indeed they can be significantly higher.

I should mention that, in coming to their decision, the authorities gave very serious consideration to the representations of the personnel associations, and the report of the study committee of the Department of National Education was considered in depth. Adjustments for vocational differentiation, over and above basic salaries, have also been made in respect of the other groups mentioned earlier.

The Commission for Administration is at present processing the mass of detail involved for all groups and is also engaged in protracted consultations with interested parties. This is a time-consuming process, and the commission must be given the necessary opportunity to complete what amounts to a very detailed exercise.

I wish to assure the House that the cabinet has given very serious consideration to the adjustment of salaries and conditions of service in the public sector and that the record amount allocated is the furthest that the Treasury could conceivably go, if there is not to be a grave risk of fuelling the fires of inflation still further.

What is needed now is the greatest possible measure of productivity and efficiency from every sector in the economy. The government is convinced that there are solid grounds for believing that the process put in motion by the prime minister's personal intervention some time ago, has now been brought to a satisfactory conclusion.

Conclusion

The year 1981 is clearly going to be a difficult year for the world economy. South Africa, too, will be confronted by economic challenges.

All things considered, however, the prospects for the South African economy in the year ahead are decidedly favourable. Since most of the slack in the economy has now been taken up, the real rate of growth in 1981 will, of course, be lower than the abnormally high rate of 8 percent in 1980 but could still reasonably be expected to be in the vicinity of 5 to 6 percent. This would represent an excellent "growth on growth" performance and would imply an increase of something more than 13 percent in real gross domestic product over two years.

At some stage, of course, there will again be a temporary downward phase of the normal business cycle, to be followed, in turn, by the next upswing, which could carry the economy to new record heights.

The overall balance of payments position should remain sound throughout 1981. Even if, which I do not expect, the current account itself might at some later stage move into temporary deficit — and much would depend on the behaviour of the gold price — this should be comfortably offset by an improvement in the capital account as a result partly of the increased foreign financing of South African imports and exports, and partly by a general inflow of investment capital.

The main economic problem facing South Africa in 1981 will almost certainly be that of inflation, particularly in view of the pressure on scarce skilled labour resources.

To pretend that there is an easy or quick solution to this problem would be naive. What is clear is that if we fail to maintain fiscal discipline and to reduce the rate of increase of the money supply to the required extent, the rate of inflation in 1981 and thereafter might well be higher than that of 1980.

On the other hand, if we succeed in adding monetary discipline to the existing fiscal discipline, we should in due course, with the co-operation of the private sector, succeed in reducing the rate of inflation to more acceptable levels.

The economic problems facing the country now are basically problems of prosperity. But dealing effectively with these problems is just as vital to the future well-being of South Africa as solving problems of recession and stagnation. The question is whether we have the will and the ability to do so. I believe the answer is in the affirmative.

Finally, I do not wish this opportunity to go by without paying public tribute to two individuals who, each in their own areas, have been pillars of strength in our financial system and who are soon to retire.

First of all, Mr Wynand Louw, the Registrar of Financial Institutions. In him, I and my predecessors, found a calm, capable and extremely knowledgeable person who since 1957 and particularly for the past 11 years as registrar guided and monitored the destinies of all financial institutions in South Africa. He has served our country in an outstanding way and I wish to convey to him the grateful thanks of the government and pray that he and his wife may enjoy an active and happy retirement. Mr Louw will be succeeded by his deputy, Mr E W van Staden, as of May 1, 1981.

Secondly, I wish to pay a warm public tribute to Mr J M C (Hannes) Smit, managing director and chairman of the board of the Land and Agricultural Bank, who has decided to retire at the end of June 1981. He has been associated with the Land Bank for a record period of 55 years and assumed his present position as managing director and chairman some 14 years ago.

Hannes Smit, as he is affectionately known to all, has the gift of understanding the farmer, of effectively combining the principles of sound agricultural financing with the special problems and requirements of the agricultural sector, and of doing this in a manner that the agricultural sector as a ...

I wish to assure Mr Smit ... contributions in these ... important fields over the ... span of his working life ... as a monument to the ... agriculture in South Af... wish him and Mrs Smit ... deserved and happy retire... Smit will be succeeded by ... de K Pienaar, at present ... eral manager on July 1, ...

who, like his father, is classical music."

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"savings account" which they feel entitled to draw on as and when needed. Such a view to my mind is extremely shortsighted and hard to justify, as in their old age these employees will become a heavy burden on the taxpayer.

I do not, however, intend recommending that we force the unwilling under all circumstances to preserve their pension rights. I feel an important responsibility rests on employers to convince their employees that it is in their own interest to opt for such preservation measures and that resigning from a job simply to lay one's hands on a lump sum in order to spend it is invariably not in the best long-term interest of the employee himself This is, I fully realize, a slow educational process, and we will have to find ways and means of bridging in the meantime the gap between the present indefensible position and the much-improved proposed new position.

There is no reason for any employee to fear that anyone, least of all the government or his employer, will deprive him of his rightful pension monies. These funds are his and his alone.

Karoo flood disaster

From those in need in their old age, I wish to turn the attention of the House for a moment to those who suffered so cruelly recently from nature's destructive powers. I refer, of course, to the recent tragic loss of life and property of the inhabitants of Laingsburg and surrounding areas in the Karoo. The spontaneous and magnanimous reaction of South Africans of all races and creeds, of organizations and of business, reflects the compassion felt for the people of Laingsburg and the afflicted areas

The government at once intiated a comprehensive assistance and reconstruction programme and great credit is due to the South African Defence Force, the South African Police, the Cape Provincial Administration, the various government departments involved and the many private organizations and individuals for their effective and generous assistance in this time of need.

The government is committed to provide immediate and tangible

I shall deal presently with lump sum benefits from pension, provident or retirement annuity funds.

(b) **Backdated contributions to pension funds and retirement annuity funds** Since 1978 backdated contributions to a pension fund by an employee were deductable from his income up to a maximum of R1 000 per year. It is now proposed that the maximum deduction be increaed to R1 500 per year with effect from the year of assessment commencing on 1 March 1981.

Where employees have since 1978 made backdated contributions by way of lump sum payments exceeding R1 000, the amounts in excess of R1 000 were disallowed. It is proposed that in such cases the excess amount be carried forward for deduction in subsequent years up to the maximum amounts allowable in respect of such years. It is, furthermore, proposed that the concession should be made retrospective to the 1978 year of assessment.

In case of a member of a retirement annuity fund who discontinued his contributions prematurely and was subsequently reinstated as a member by making additional contributions to compensate for the discontinued contributions, I propose to make a similar concession in regard to the additional contributions made since 1978.

(c) **Tax-free portions of lump sum benefits from pension and provident funds**: Since 1961 the exempt portion of a lump sum benefit paid by a pension or provident fund not established by law has been calculated in accordance with a formula based mainly upon the employee's period of pensionable service and his highest average remuneration during five consecutive years in the employ of the employer concerned.

Because the formula has remained unchanged for a considerable period, I have asked the Commissioner for Inland Revenue to review this aspect, and I trust that it will be possible to propose a significant improvement during the next session of parliament.

In the course of the tax reform programme, we have so far concentrated on the improvement of the tax structure. Other matters which could serve to modernize our income tax system and to streamline procedures must not be neglected. My department is, therefore, actively engaged in seeking ways and means to ensure that tax deduc-tions over the tax year will closely match the actual tax payable. I trust, therefore, that we will no longer have these exaggerated and irresponsible statements on an ordinary administrative measure which is in the interest of all taxpayers

Customs and excise

I next wish to deal with a few customs and excise matters:

- Since 1977 the excise duty on unfortified wine has been reduced by 4 cents per litre, while the excise duty on fortified and sparkling wine has only been reduced by 1c per litre.

As the sales of the wine industry as a whole have not come up to expectations, I propose that the excise duty on fortified and sparkling wines be reduced by 3c per litre so as to restore the duty margins on wines to the 1977 levels.

However, in order not to disturb the relative position of each in the overall picture, the excise duty on fortified and sparkling fermented apple, pear and orange beverages and the customs duty on imported goods of a similar class or kind will also be reduced by 3c per litre.

The loss of revenue for 1981-82 is estimated at R1,85 million.

Representations have also been received from the wine industry to increase the maximum gauge pressure of perlé wines At present, perlé wines with a gauge pressure above atmospheric pressure exceeding 200 kilopascal at 20°C are classifed as sparkling wines, in which case they attract higher rates of excise duty.

In order to meet the industry also in this respect, I propose that the maximum gauge pressure in the case of perlé wines be increased to 300 kilopascal.

Government notices to give effect to these amendments will be published tomorrow (Tuesday). The amended duties will become effective on February 17, 1981 and be applicable to the imported goods concerned which have not been entered for home consumption before tomorrow (Tuesday), and on the excisable goods concerned which by tomorrow have not been removed from the premises of the manufacturers and owners of warehouses licensed by the commissioner for Customs and Excise

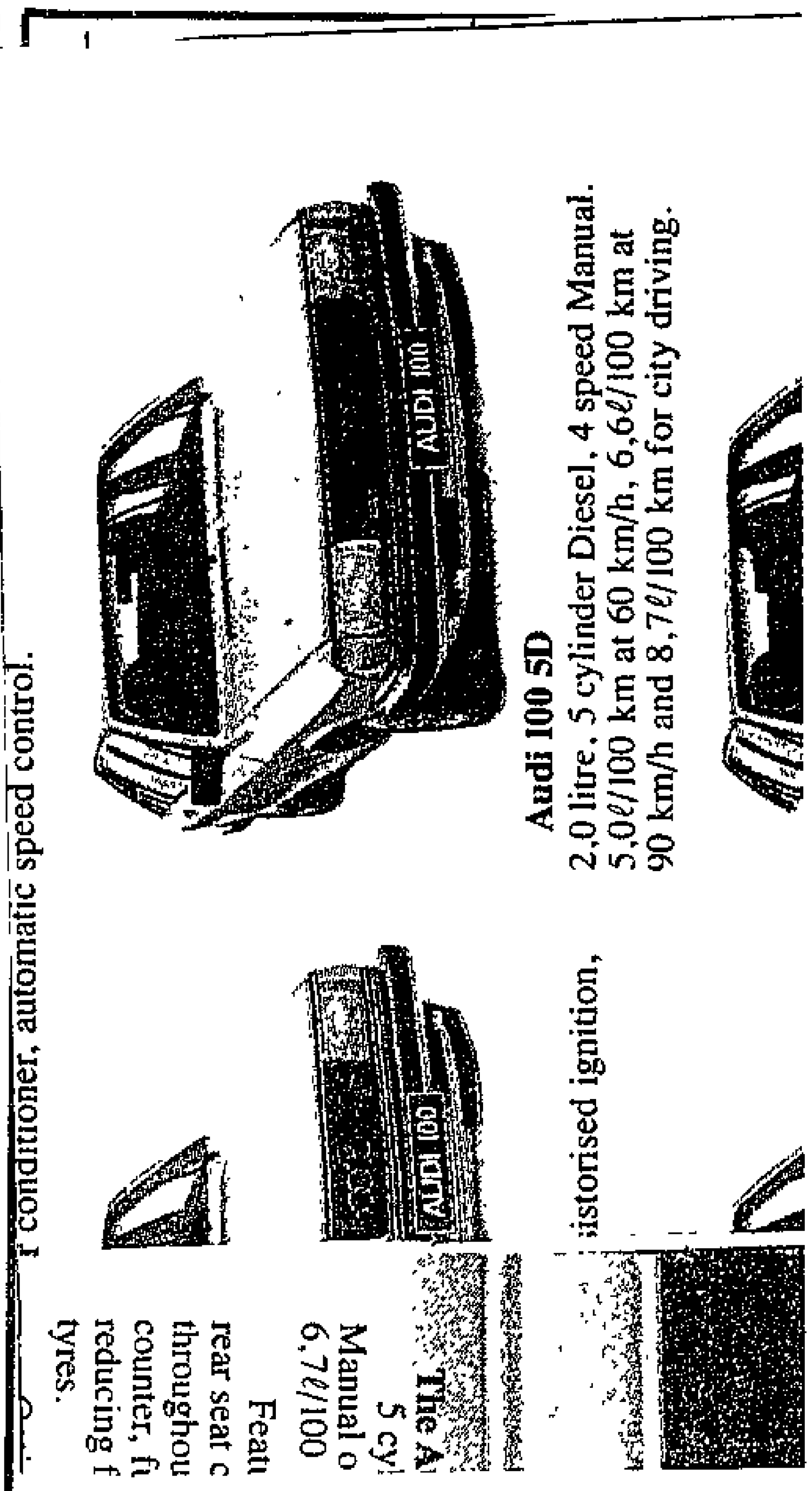
A further matter which I would like to draw to the attention of the House concerns the implementation of the amendments made to the Limitation and Disclosure of Finance Charges Act during the last session of parliament. As is the case with the Credit Agreements Act, which was also adopted last year and bears reference to this Act, I propose to implement the amendments of the Finance Charges Act from March 2, 1981

After due consultation with the Reserve Bank I have, in terms of the provisions of the Act, decided to fix new *maximum* finance charge rates. A Government Gazette notice with full details will be published shortly.

In order not to inhibit the charging of market rates, I have decided to establisht he new rates at levels appreciably ab[…] present. These […] *mum rates,* […] signed to prev[…] same time to e[…] tion of the sm[…] worthy borrow[…] serious difficul[…] funds. My co[…] minister, will c[…] in more detail […] debate.

Commit[…]

Before honou[…] which I gave o[…] ernment early […] nounce salary […] introducting t[…] ation Bill, the […] matter to whi[…] allude. It conce[…]



provide immediate and tangible assistance Thus, an amount of R2 million has already been made available to provide suitable temporary accommodation, and a further amount of up to R8 million will be provided for housing and for the redevelopment of the town of Laingsburg, as well as for rebuilding and renewal in other affected areas

Agricultural damage, which is substantial, will be dealt with in the first place by the Department of Agriculture and Fisheries, and the Cape Provincial Administration will give assitance to local authorities. As the full effect of the damage becomes apparent, the government stands ready to play its full part to bring relief and aid to those afflicted

I now wish to deal with certain inland revenue and customs and excise matters

Income tax matters

Although legislation in regard to taxation matters will not be introduced during the current session of parliament, I deem it advisable at this stage to make known certain proposed amendments so that the House may have an early opportunity to pronounce upon them, if it so wishes

My proposals in connection with income tax are the following

(a) **Lump sum payments** from his employer received by or accrued to an employee or the holder of the office by way of a bonus, gratuity or compensation upon retirment due to attainment of the retiring age or due to old age, ill-health or any other infirmity, are, subject to certain conditions, at present exempt from income tax up to an amount of R15 000. It is proposed to increase this amount, with effect from the year of assessment commencing on 1 March 1981, to R20 000.

ing ways and means of reducing the volume of tax returns which must be processed, so that the available manpower can be more productively employed.

Two measures are contemplated: Firstly, the raising of the tax threshhold — that is, the income level at which income tax will become payable by individuals Secondly, the development of a system of final deduction of PAYE in respect of remuneration, to a system of final deduction of PAYE in respect of remuneration to a level yet to be determined.

This latter measure will have the result that a large number of persons whose incomes consist wholly or mainly of salaries or wages from which PAYE has been deducted, will not be required to render further income tax returns

This will entail the provision of more accurate deduction tables than those at present in use and could even lead to the introduction of differentiated tax rates, that is, a small-income rate and rebate on the one hand and different rate for incomes in excess of the small-income limit, on the other

As far as donations to universities and colleges are concerned, honourable members will recall that the relevant provision in the Income Tax Act was amended last year to empower me to extend that provision to embrace also other educational institutions. Unfortunately, due to practical difficulties encountered in implementing this provision, its extension to certain secondary educational institutions has not as yet been completed. It is, however, expected that finality will be reached shortly

The Standing Commission on Taxation has also recommended to me, and I have approved in principle, that donations by South African taxpayers to universities and colleges in independent states which formerly constituted a part of the Republic receive the same tax treatment as that which applies to donations to South African universities and colleges

The question of the tax treatment of fringe benefits has not yet been finally considered by government I have been asked by certain interested parties to consider further representations I am prepared to do this prior to the taking of a final decision, which I hope will be before the next session of parliament

Tax deduction tables

While on the subject of income tax, I would like to offer a few remarks on the new tax deduction tables. The House will bear in mind that the fiscal or tax year runs from March 1 to ensuing February 28

Sensational banner headlines have recently appeared announcing "tax shocks", as if this was an unknown event suddenly sprung upon an unsuspecting public My colleague, the deputy minister will, in the course of this debate, comment more fully on the background of the new employees' tax tables

Personal income tax was substantially reduced last year The employees' tax deduction tables to give effect to these reduced tax rates came into operation on July 1, 1980 and not only reduced the deductions in accordance with the lower tax rates but also adjusted for the higher deductions for the first four months of the tax year when the previous year's (that is, 1979/80) tables were still in use

As a matter of fact I specifically emphasized this in my budget speech last year when I said that the *taxpayer would receive the full benefit of the reduction in the 1981 tax year*, instead of having to wait for a refund of the higher deductions until the assessment is issued.

In my second reading speech on the Income Tax Bill on June 13, 1980 already I said, *inter alia*

"Depending on the circumstances early next year, it may be necessary to bring out revised deduction tables as from March 1, 1981 to remove the adjustment made to the July 1, 1980 tables I am mentioning this well in advance so that the government cannot be accused of increasing tax rates without parliamentary sanction when revised deduction tables are brought out This happened in the past when a similar adjustment was made some years ago"

I want to repeat: There is no change in the tax rates The deduc-

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Horwood's 1981 mini-budget: Gold, growth swell tax revenue

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I am in the process of putting this policy into effect in order to provide for the purchase of oil and other strategic materials at escalating costs and, at the same time, by this form of financial restraint, to counter the inflationary pressures in the economy

On the expenditure side I am thankful to be able to report that, on the whole, our efforts to contain government expenditures have been largely successful. The House will shortly receive details of unavoidable additional expenditures in the Additional Appropriation Bill.

Taken as a whole, the deficit before borrowing, estimated at R2 227 million in March last year, will have shrunk considerably by the end of March 1981, thus contributing to the disinflationary effect of the budget

Looking at expenditures in the coming financial year, there is no doubt in my mind that our policy of financial discipline must remain in force We shall once again give high priority to defence and security matters, to manpower development and education, and to essential infrastructural development, but this will necessarily mean that a number of other services will have to be assigned a lower priority It is manifestly impossible to assign top priority to all the functions at government, however important they may be

As to revenue expectations on the existing basis of taxation, non-gold revenues promise to show another healthy increase during the next fiscal year, but the estimation of gold mining revenues will be more problematical I deem it my responsibility to sound a note of caution here. It would certainly not be prudent at this stage to anticipate another large increase in the average gold price during the next fiscal year

As to the longer-term outlook for gold, I am decidedly bullish, but would not wish to base short-term fiscal policy on too optimistic a price Our policy during the current year of basing our revenue estimates on a conservative gold price has stood us in good stead, so much so that at current gold price levels we are able to fund rising government expenditures, expressed at current prices, in a healthy and disciplined manner

In concluding this brief review of the State's finances, I would like to refer to the new issue of national defence bonds which will become available as from April 1, 1981. It will be recalled that the present issue offers a taxable return of 8 percent As a result of the recent sharp rise in interest rates, the yield on this bond has fallen out of line with market rates and the issue will consequently be withdrawn at the end of this month The new series of national defence bonds will carry interest at 9 percent and will pay an additional bonus interest of 5 percent at redemption after five years, which is tantamount to an attractive rate of approximately 10 percent per annum to redemption As is customary, the new bond will be marketed through the Post Office and prospectuses will be available at all post offices and from the Treasury from April 1

I now turn to an assessment, albeit briefly, of the economic and financial situation in South Africa:

Economic situation

In looking at the performance of the South African economy over the past year, there is much to enthuse about Indeed, in the economic and financial field 1980 stands out as one of the best years ever experienced since World War II, with the many positive developments far outweighing the less favourable tendencies

The typical economic picture in virtually all non-oil producing countries in 1980 was one of low and declining growth rates high and increasing inflation rates and serious balance of payments problems. By contrast, South Africa experienced one of the highest economic growth rates ever recorded in a single year in this country, while at the same time a remarkably strong balance of payments was maintained Virtually the only dark spot in this generally bright economic picture was the inflation rate, which remained stubbornly high here, as elsewhere.

Complete statistics for the full calendar year 1980 are not yet to hand, but indications are that the real gross domestic product increased by some eight percent, just about double the rate recorded in 1979

Increases for public servants

For the man in the street, the growth rate in the real gross domestic product may be a rather abstract concept. He may feel that it probably bears little direct relation to his own well-being There are, indeed, certain groups in our society which have participated to a lesser extent than others in the recent wave of prosperity in South Africa. Every effort is being made to alleviate the burden of these people as much as possible, often at considerable cost to the Exchequer.

the rate of increase of the population

An aspect of the high growth rate which was particularly heartening was that it was accompanied by a strong acceleration in fixed investment After having shown a declining trend between 1975 and 1978, and increasing by only two percent in 1979, real gross domestic fixed investment — expressed at constant prices — rose by no less than 13 percent in 1980 Moreover, this welcome increase took place for the greatest part in the private sector

The soundness of the balance of payments in 1980 was indeed remarkable at such an advanced stage of the economic recovery. In the past it was quite normal for the current account of the balance of payments to move increasingly into deficit as the growth rate of the economy increased. This time round the current account still showed a large surplus, even though the economy was in its third year of economy recovery.

In other respects, however, the balance of payments did exhibit tendencies normally associated with an advanced stage of economic recovery In particular, merchandise imports rose by about 47 percent in 1980, reflecting the strong rise in gross domestic expenditure, particularly in fixed investment. As has often happened in the past at the comparable stage of an economic recovery, the rate of growth of merchandise exports declined, and, although the total value of exports in 1980 was still about 10 percent above the corresponding figure for 1979, it actually also declined on a seasonally-adjusted basis from quarter to quarter throughout the year This was partly the result of the relatively weak economic performance of our major trading partners and partly of the upsurge in domestic demand, which caused potential exports to be deflected to the domestic market. Similar tendencies were observed in the services accounts of the balance of payments

The rise in imports and the declining tendency in merchandise exports were more than neutralized by the sharp rise in the value of the net gold output, to over R10 000 million in 1980, compared with about R6 000 million in 1979 — an increase of almost 70 percent Consequently, the surplus on the current account of the balance of payments amounted to between R2 500 million and R3 000 million, almost the same level achieved in 1979

The capital account of the balance of payments fluctuated substantially during the course of 1980 with net outflows of both long- and short-term capital recorded in the first two quarters, followed by a large net inflow during the third quarter These movements in the capital account provide no cause for concern. They reflect mainly the responsiveness of the financing of South Africa's foreign trade to

The Minister of Finance, Mr Owen Horwood

ricans have had to endure in the past few years have been initiated by international developments over which we have no control Amongst these have been the world-wide cost-raising effects of the successive increases in the price of crude oil and world-wide inflationary tendencies brought about by international monetary mismanagement, which resulted in excessive liquidity creation This vexed problem of world-wide inflation is extremely unlikely to be resolved until such time as the US dollar is restored to its pre-August 1971 state of convertibility and official recognition is given to the essential monetary role of gold

While recognizing the role which these international forces have played we must, of course, not be blind to the factors in our own economy which contributed to the high inflation rate we are now experiencing In this respect a distinction is customarily drawn between "demand-pull" and "cost-push" inflation In my view it is quite clear that for several years during the seventies the high inflation rate in South Africa was not caused by excessive aggregate demand This is demonstrated by the fact that the rate of increase in the consumer price index stayed above 10 percent from 1975 to 1977, despite a continuing increase in surplus capacity in manufacturing and in unemployment during that period, conditions which can surely not be associated with excessive aggregate demand

produced favourable results The key to the correct interpretation of this strategy lies in recognition of the fact that it has aimed largely at promoting economic growth where it could be most productively done, in the private sector, while preventing the emergence of general demand inflation, and that, to this end, unnecessary government spending has been restricted At no stage during the past five years have we attempted to stimulate the economy by means of increased government spending, partly or wholly financed by bank credit To have done that would have been deliberately to pursue an inflationary policy What we have done is to promote sound growth predominantly in the private sector by means of reductions in tax and loan levy rates, specifically designed to offset the effects of "fiscal drag", ie the increase in the real tax burden on the community brought about by the combination of a progressive tax system and inflation

It should be a source of satisfaction to all that this policy has achieved its main objectives. The prophets of doom, who, a few years ago, predicted that because of political uncertainties and a general lack of confidence, the South African economy would be unable to achieve high rates of growth and investment, have been confounded.

It is particularly gratifying to note that the elements of "built-in" or automatic stability contained in last year's budget have exerted

This has not been the case in South Africa Although fluctuating substantially from quarter to quarter, net bank credit extended to the government sector actually declined by R434 million over the year 1980 as a whole. This means that the government's financing operations served to offset some of the expansionary effects on the money supply emanating from other sources.

One of these sources was an increase of R386 million in the net gold and other foreign reserves, which not only contributed directly to the increase in the money supply, but also served to augment the liquidity of banking institutions, and therefore their money-creating ability This factor was crucially important during the third quarter of 1980, when the net reserves rose by over R1 100 million However, over the year as a whole, the major "cause" of the substantial increase in the money supply was an increase of R3 240 million in bank credit extended to the private sector

The substantial rise in the broad money supply and in the liquidity of the banking sector was accompanied during most of 1980 by a level of interest rates which was exceptionally low, not only in relation to overseas rates but also in relation to the domestic rate of inflation For most of the year the situation was also characterised by distortions in the relative structure of domestic interest rates and by a substantial increase in off-balance sheet financing or grey market activities In these circumstances there is clearly a need to improve our techniques of controlling the quantity of money

It was because I anticipated this need that I asked the State President some three years ago to appoint the De Kock Commission to carry out a thorough investigation into monetary policy in South Africa The commission is now nearing the end of its inquiry and hopes to have its final report completed before the main budget is introduced in August this year In the meantime, as is evident from the steps taken in recent weeks policies which are likely to be in line with the commission's recommendations are already being applied and are already taking effect

It was in accordance with this new approach that the Reserve Bank, after the usual consultation with the Treasury, increased its bank rate from 7 to 8 percent with effect from February 3, 1981 This step signified both official recognition of the recent upward tendency in domestic interest rates and the determination of the monetary authorities to attain better control over the money supply

The increase in interest rates should be viewed as a natural and inevitable consequence of improved monetary and credit control Although borrowers would naturally

pletely particularly since financial rand transactions are still subject to extensive regulation In addition, exchange control places a heavy administrative burden on the Treasury, the Reserve Bank, the authorised foreign exchange dealers, business enterprises and the general public, thereby raising costs of production and contributing to inflation

The authorities are also aware that the effectiveness of exchange control is limited in a reasonably sophisticated and developed economy like that of South Africa In such an economy there are many ways in which capital can enter and leave the country without being affected by exchange control These include the well-known "leads and lags", in current foreign payments and receipts, and undesirable practices such as over-invoicing, under-invoicing and so-called "transfer pricing"

The crux of the matter is that if our fundamental fiscal and monetary policies are not appropriate, exchange control cannot be relied upon to keep the capital account of the balance of payments in order And if our fiscal and monetary policies are appropriate and result in realistic and market-related exchange rates and interest rates, we should have little need of exchange control in the long run.

In accordance with this approach, I have therefore decided to bring about a series of measures to relax exchange control and streamline its procedures

One of the measures which has given rise to numerous complaints is regulation 3 (I)f, in terms of which limits are imposed on the local borrowing activities of foreign-controlled companies It has for some time been felt that the definition of local borrowing applied in the regulation is inadequate and needs to be amended to include the various form of "off-balance sheet" financing This will be attended to More importantly, the limits themselves have become very restrictive in today's circumstances and I have therefore approved a substantial relaxation, in fact a doubling, of the credit limits in respect of regulation 3 (I)(f)

This adjustment in the formula should create substantial additional scope for foreign-controlled companies to use local credit facilities if and when needed Although I do not foresee that there will be an immediate large-scale switching by these companies from foreign to domestic financing sources with a concomittant drain on our foreign reserves, the greater flexibility which this relaxation will afford should substantially enhance South Africa's attractiveness to foreign investors.

In accordance with the recommendations of the Technical Committee on Exchange Control appointed last year, I have also decided to relax and simplify a

Before leaving this important subject, I would point out that I do not regard these relaxations as a substitute for the more fundamental revision and phasing out of exchange control proposed by the De Kock commission Such a revision will of necessity have to await the final report of the commission simply because it should form part and parcel of a major modernization of our monetary system and policy and not be dealt with piecemeal or in isolation

Gold coins

I should now like to say something about Kruger Rands in the domestic market

The House may recall that I have on several occasions in the past expressed dissatisfaction with the present method of distributing the various denominations of Kruger Rands in the domestic market. I have pointed out that although our gold production should primarily be available to acquire foreign exchange as and when need, South Africans should also be afforded a reasonable opportunity to acquire gold coins

As a first step to improve the situation I, as recently as September last year, agreed to a 44 percent increase, from 104 000 to 150 000 ounces of fine gold per annum in the quantity of gold which can be sold locally in the form of gold coins. Despite the freer availability of Kruger coins today, there are still indications of an unsatisfied local demand as is evidenced by the high premiums prevaling in the local secondary market

My department is still in consultation with the Chamber of Mines and Intergold on improvements to the present distribution system, but I have in the meantime decided to double immediately the quantity of gold — from 150 000 to 300 000 ounces per annum — available for the domestic distribution of gold coins This in itself will substantially enhance the local supply of Krugers and assist in bringing down the present high premiums. Details on improved distribution method will be announced as soon as agreement is reached with the Chamber of Mines and Intergold

Pensions

In inflationary times such as these, I feel it appropriate that we look timeously again at those of our senior citizens who have not been able, to the same extent as those of us still actively at work, to protect themselves against the ravages of inflation Assistance to these deserving people cannot be postponed until the main budget is presented in six months' time

In addition, I am pleased to propose that the same special bonus benefits as were paid in November last, namely, R30 for Whites, R24 for coloureds and Indians, and R18 for blacks, be paid again, as soon as it is possible to do so, that is, in April 1981, to all persons receiving social pensions and allowances

In respect of war veterans, the present additional allowance of R10 per month will be increased to R15 per moth for Whites. This increase together with the R13 per month rise also applicable to war veterans, means that such persons will receive an additional R18 per month coloured, Asian and black veterans will also receive increases

In order to encourage persons who qualify for social pensions or grants to remain economically active for as long as possible it has also been decided to grant a further concession in respect of the means test for income derived from earnings. The result will be that pesons with higher incomes from employment may in future still qualify for a social pension or grant

Military pensions will be increased by 12 percent with effect from April 1, 1981 At the same time, adjustments will be made to the compensation paid to those who are receiving compensation in terms of the Occupational Diseases in Mines and Works Act, 1973 Other allowances administered by the Department of Health, Welfare and Pensions will also be increased

The total cost of all these concessions, excluding the special bonus to social pensioners, will amount to approximately R65 million in the 1981-82 financial year and to R127 million in a full year The special bonus payments will entail a further R23 million in the 1981-82 financial year, bringing the total government commitment under this heading to R150 million If, as I hope, the state of the country's finances warrant the payment of another round of special bonuses in the latter part of the year, it will mean that the aggregate cost to the Exchequer of all these pension increases and other concessions will be no less than R173 million in a full year, by far the biggest amount ever to be set aside for this purpose

As far as civil pensioners are concerned, the government is well aware of the problems experienced by retired former employees of the state and has accordingly decided to grant and increase of 12 percent to former officials and other civil pensioners with effect from April 1, 1981 The previous adjustment took effect just a year earlier

While on the subject of pensions, I regard it as necessary to clarify a few matters in respect of the first report of the Interdepartmental Committee of Inquiry into Certain Specific Pension Matters, chaired by the Registrar of Financial Institutions I tabled the report in the middle of last year and am of the opinion that it reflects a thorough in-depth study of the pensions problem, containing, as it does, important recommendations for action to preserve and transfer pension rights

The government has not taken and will take no final stance on this sensitive matter until all interested parties have been given a full opportunity to discuss and analyse the proposals I have directed the Registrar to draft the relevant bill taking cognizance as far as possible of all comments and criticisms received and to publish the draft bill with an invitation to all interested t us in a position to offset some of expansionary monetary impact other forces at play.

sharp rise in interest rates, the yield on this bond has fallen out of line with market rates and the issue

abstract concept. He may feel that it probably bears little direct relation to his own well-being. There are, indeed, certain groups in our society which have participated to a lesser extent than others in the recent wave of prosperity in South Africa. Every effort is being made to alleviate the burden of these people as much as possible, often at considerable cost to the Exchequer, and therefore to the taxpayer. Food subsidies this year alone amount to about R250 million, and if no adjustment to bread and other commodity prices is made, will far exceed R300 million in 1981/82. Escalating direct transport subsidies for bus and rail passengers will exceed R150 million this year and could easily exceed R200 million next year, unless fares are adjusted. To these amounts should be added an indirect subsidy of at least R175 million in respect of exception of interest payments by the Exchequer on capital invested in passenger services by the South African Railways.

For the great majority of people in the Republic the high growth rate has meant significant increases in average earnings and after-tax incomes, increases which exceeded the inflation rate at times by handsome margins. At the same time there was a substantial increase in the number of new jobs created.

In the first three-quarters of 1980 total non-agricultural employment was on average about 3,4 percent higher than in the corresponding period of 1979. This made a significant dent in the unemployment numbers, a matter which had become a cause for concern during the recessionary years of the middle seventies.

I have just said that the high economic growth rate also made possible significant improvements in earnings. In the first three quarters of 1980 average earnings per worker outside agriculture were 17 percent higher than during the corresponding period of 1979. This increase exceeded the increase in consumer prices, and even though the inflation rate rose sharply during the fourth quarter, there is no doubt that there was a significant increase in average real earnings during 1980 as a whole. If one adds to this the substantial lowering of income tax rates in the budget last year, it is obvious that living standards rose generally, in many cases to a marked extent.

In addition, the relatively free availability of consumer credit meant that consumers were actually able to improve their standard of living to an even greater extent than that indicated by the rise in average real earnings alone. This is apparent from the estimated eight percent rise in real private consumption spending in 1980, which was more than three times the rate in 1979, and also about three times

ance of payments fluctuated substantially during the course of 1980 with net outflows of both long- and short-term capital recorded in the first two quarters, followed by a large net inflow during the third quarter. These movements in the capital account provide no cause for concern. They reflect mainly the responsiveness of the financing of South Africa's foreign trade to changing differentials in interest rates here and abroad, and to adjustments in the discounts on United States dollars in forward exchange transactions.

The strength of the overall balance of payments has also contributed to a substantial improvement in South Africa's international credit rating. Proof of this was provided by the success of the public bond issue of DM120 million which was floated by the Republic in June last year and managed by a group of leading European banks, and of the syndicated credit of $250 million obtained from an international consortium of banks in the second half of the year. These loans, as well as those taken up by other South African public sector borrowers were obtained at much more favourable terms than was possible a few years ago.

The strength of South Africa's balance of payments is also reflected in the movement of the rand exchange rate. At the end of 1980 the effective exchange rate measured against a representative basket of currencies of South Africa's trading partners was 10,9 percent higher than at the end of 1979. Although the rand has recently depreciated marginally against the US dollar, this is not an indication of a weakening in the general standing of the rand, but rather a reflection of the strengthening of the dollar against other currencies.

I come now to what I called earlier the one dark spot in the bright economic picture in South Africa — inflation. Between December 1979 and December 1980 the consumer price index rose by 15,7 percent. One aspect of the general price rise in 1980 which caused particular concern was that it tended to accelerate during the course of the year. Thus, taken at a seasonally-adjusted annual rate, the rate of increase of the consumer price index moved up from 8,6 percent in the first quarter of 1980 to 22,3 percent in the fourth quarter. Another worrying aspect of the inflation is that its effect on the lower income groups has been more severe than on the higher income groups, mainly because of the increase in food prices.

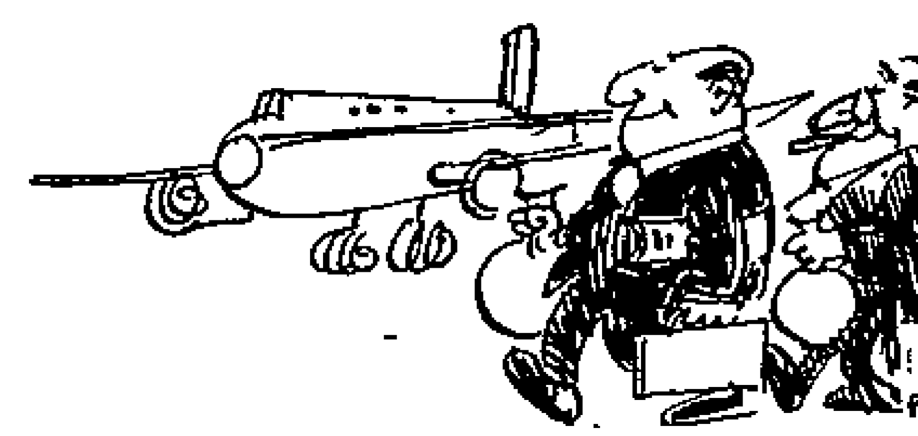
There can be no doubt that like the rest of the world, South Africa ran into a serious problem of inflation during the seventies, and that this problem has not yet been solved or mitigated. In part, the high inflation rates which South Af-

caused by excessive aggregate demand. This is demonstrated by the fact that the rate of increase in the consumer price index stayed above 10 percent from 1975 to 1977, despite a continuing increase in surplus capacity in manufacturing and in unemployment during that period, conditions which can surely not be associated with excessive aggregate demand.

The main reasons for the stubbornly high inflation rate of recent years must therefore be sought in certain structural features of the South African economy, such as the absence of effective competition in certain sectors of the economy, the pursuit of self-sufficiency in strategic sectors where this was achieved at higher cost than would otherwise have been the case, and the tendency amongst various groups in society to attempt to extract more from the economy than their own productive contributions can justify. Against this background, the anti-inflation struggle has not benefited from the deliberate policy of narrowing the wage gap, however desirable that may be for other reasons.

It was only in the course of 1980, when unemployment among the more skilled categories of labour had virtually disappeared and capacity utilization in manufacturing was fast filling up, that excessive demand started to pose a potential inflationary danger.

Before turning specifically to fiscal and monetary policies, I wish to emphasize that inflation is not a matter for the authorities alone to combat. Not all the wisdom — and not all the responsibility — rests



Travel and business allowances up

with the authorities, and by no means all the remedies are in their hands. The government has for this reason consulted regularly with the private sector, including organized labour, on appropriate ways and means of dealing with this cancer. These consultations have been valuable and have influenced the formulation of anti-inflationary policies.

I am of the opinion that the time has arrived for calling a meeting of top-level representatives of the business sector, of organized labour, of consumers, of academicians and of the public sector to discuss the inflation problem in depth and to agree on ways in which each and every one of us can make a more significant contribution to the solution of this all-pervading problem. My predecessor, the late Dr Diederichs, called a similar meeting several years ago. It served admirably to focus public attention on the dangers of inflation, helped to gain public understanding for its causes, assisted in identifying appropriate measures against it, and mobilized active and co-ordinated support for the continuing struggle. Arrangements to set up such a meeting will be made by my Department, and the details will be announced as soon as is practicable.

From the facts I have presented it is evident that the official economic strategy of recent years has

prophets of doom, who, a few years ago, predicted that because of political uncertainties and a general lack of confidence, the South African economy would be unable to achieve high rates of growth and investment, have been confounded.

It is particularly gratifying to note that the elements of "built-in" or automatic stability contained in last year's budget have exerted their desired and anticipated influence and that substantial amounts have been transferred to the stabilisation account. Fiscal policy has therefore played its intended role of encouraging sound productive private sector expansion while helping to prevent the emergence of general demand inflation.

This does not, however, mean that I am satisfied with all aspects of our economic policy. On the contrary, I wish to focus renewed attention today on a disturbing development to which I have referred on several previous occasions, namely the undue increase in the broad money supply in 1980. It is a phenomenon which has plagued not only South Africa in recent months, but many countries, some of them for much longer periods.

Between December 1979 and December 1980 the broad money supply increased by about 27 percent. This accelerated increase in the money supply was undesirable because it increased the danger of general demand inflation, a state of affairs often described as "too much money chasing too few goods". The term "money" as used here is not a synonym for "income", "wealth" or "prosperity". It denotes mainly short- and medium-term deposits with banking institutions, as well as bank notes and coins. If too much of this money is created, it encourages or facilitates excessive spending on goods and services, resulting in undue price increases and a decline in the value of the money unit.

As I have already pointed out, the inflation in South Africa a year ago was still mainly "cost-push inflation", rather than "general demand inflation" of the kind I have just described. At that stage the emergence of general demand inflation did not appear to be inevitable, particularly in view of the discipline applied to government spending and the scope for rising imports to add to the supply of goods in the economy. However, as the year progressed, the unduly rapid increase in the money supply and the accompanying low level of interest rates made the general financial situation increasingly conducive to general demand inflation. The result is that the threat of "too much money chasing too few goods" has now become very real, particularly since most of the surplus capacity in the economy has in the meantime been absorbed, and the shortage of certain kinds of skilled labour remains a serious constraint.

When general demand inflation occurs in any country it is often caused mainly by excessive government spending financed by money creation in the form of bank credit.

tion of the recent upward tendency in domestic interest rates and the determination of the monetary authorities to attain better control over the money supply.

The increase in interest rates should be viewed as a natural and inevitable consequence of improved monetary and credit control. Although borrowers would naturally prefer lower interest rates to higher interest rates, it is appropriate in present circumstances that savers in general should receive a higher rate of interest and thereby be at least partially compensated for the erosion of their real income brought about by inflation. South African interest rates are in any event still low in comparison with rates in the Unites States, the United Kingdom and many other industrial countries. Indeed, if allowance is made for the rate of inflation most South African interest rates are still negative in real terms. The South African monetary authorities will therefore not hesitate to allow interest rates to rise to their natural market-determined levels to the extent that this forms an essential part of an effective anti-inflationary policy.

Prominent among the new techniques of monetary policy which we have in mind are more active public debt management by the Treasury and extended open-market operations by the Reserve Bank. In the months ahead the Treasury will continue to sterilise funds in the Stabilisation Account. At the same time, the Reserve Bank will be more active in buying and selling government stock and other money market paper in the open market, first to ease the expected seasonal tightening in the rest of February and March resulting from the large movement of tax funds from the private to the public sector, and then, during the rest of the year, to prevent any undue easing of the money market and an excessive rise in the money supply.

Of course, in controlling the money supply, account also has to be taken of changes in the balance of payments. To this end, the Reserve Bank is making judicious use of the discount on forward dollars as a means of influencing capital movements which result from the switching of trade financing between foreign and domestic sources. In this regard we have also reassessed the role of exchange control, and it is to this subject that I now turn.

Exchange control

The House will recall that in accepting the interim report of the De Kock Commission, the government committed itself to the objective of gradually dismantling exchange control on non-residents and of relaxing and simplifying it in the case of residents. I wish to reiterate today that this remains our policy. In addition while exchange controls are still in existence every effort will be made to simplify and streamline them and to eliminate all unnecessary "red tape" involved in their application.

While exchange control has its uses under South African conditions, the authorities are conscious of its many disadvantages and deficiencies. Apart from conflicting with market principles, one of its main drawbacks is that it discourages foreign investment and participation in the South African economy. The broadening of the old securities rand into the new financial rand two years ago has done much to improve the position in this respect, but has not removed the inhibitions and fears of foreign investors com-

reserves, the greater flexibility which this relaxation will afford should substantially enhance South Africa's attractiveness to foreign investors.

In accordance with the recommendations of the Technical Committee on Exchange Control appointed last year, I have also decided to relax and simplify a number of other individual exchange control measures. For example, the adult travel allowance to countries other than neighbouring countries will be raised from R3 000 to R4 000 per annum and the business travel allownce from R5 000 to R7 500 per annum. Since time does not allow me to list all the relaxations and simplifications in detail here, further information will be made available shortly in the form of a press release. Authorised dealers will, of course, be notified of the changes by the South African Reserve Bank in the usual manner. I have directed that these measures be brought into effect as far as possible not later than March 1, 1981.

inflation. Assistance to these deserving people cannot be postponed until the main budget is presented in six months' time.

Social pensions up

I am, therefore, glad to be able to inform the House that the government has once again found it possible to grant meaningful concessions to pensioners and other social beneficiaries.

Full particulars of the proposed concessions, which will, as is customary, take effect on October 1, 1981, are set out in a document which I shall table this afternoon. The concessions include an increase in social pensions of R13 per month in the case of whites, R9 per month for coloureds and Indians, and R7 per month for blacks.

sensitive matter parties have bee portunity to discu proposals. I have istrar to draft the ing cognizance as all comments a ceived, and to pu with an invitatio parties to submi views to us.

It is my convic try to find a dispensation for which will avoid dle-to-grave app hand, but on the preserve private order to support the maximum ex he most needs su pensioner in his c

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To page 5

Cautious reaction to pay rises

DD. 18/2/81 (49) (375)

EAST LONDON — Initial local reaction to Monday's mini-budget announcement by the Minister of Finance, Mr Owen Horwood, is generally "wait and see".

Spokesmen for teachers, nurses, pensioners and commerce said more details were needed.

All praised the announcement as a step in the right direction by the government to overcome the public service crisis.

But some suggested the crisis was not over yet.

Particular caution came from commerce and teaching association spokesmen.

The vice-resident of the Federal Council of Teachers' Associations, Mr John Stonier, said the Federal Council still had no specific details.

"We generally feel the sum of money set aside looks promising. It is the biggest single amount ever set aside for salary increases," Mr Stonier said yesterday.

The Federal Council had lengthy discussions with the Minister of National Education, Dr Gerrit Viljoen, on Monday.

"We were not given any specific details but it seems that virtually no-one will receive less than 20 per cent," he said.

Mr Stonier described the increases as the beginning of a concerted government programme to get the teaching profession back to a healthy position.

"The whole status of the educator has been researched and investigated by Dr Roux Venter who completed his report a month ago.

"This report has had a far reaching effect on government thinking on the subject and we believe the government has accepted this report and is implementing it," Mr Stonier said.

Details of Dr Venter's report have not been made public, but Dr Viljoen told the Federal Council it would be made public in time.

The report has not yet been printed and circulated to all teachers.

A spokesman for the Border Chamber of Commerce, Mr Tony Selley, said no details on the increases were known yet.

"I just hope it doesn't turn out like last year which was a real flop," he said.

"But it appears to be good and if so we will be extremely delighted.

"It is a pity it has taken so long and I hope now the situation will be stabilised.

"The major problem, however, is still inflation and this is a problem we will have to live with."

The chairman of the East London branch of the South African Nursing Association (Sana), Miss B. Haddad, said she did not want to make any comment at this stage.

"Our executive will be meeting early next month and until then I will not be able to make any official comment on their behalf," she said.

Miss A. C Mbalu, a senior matron at the Frere Hospital and delegate to a recent national congress of Sana, was also cautious.

"Details of salary increases for nurses are not clear yet," she said

"Our feeling has always been for a narrowing of the wage gap between black and white nursing sisters and it remains to be seen if the new scales have this effect or not."

The chairman of the South African Legion, Mr Alan Barker, also declined to comment on the pension increases saying more information would be needed. — DDR

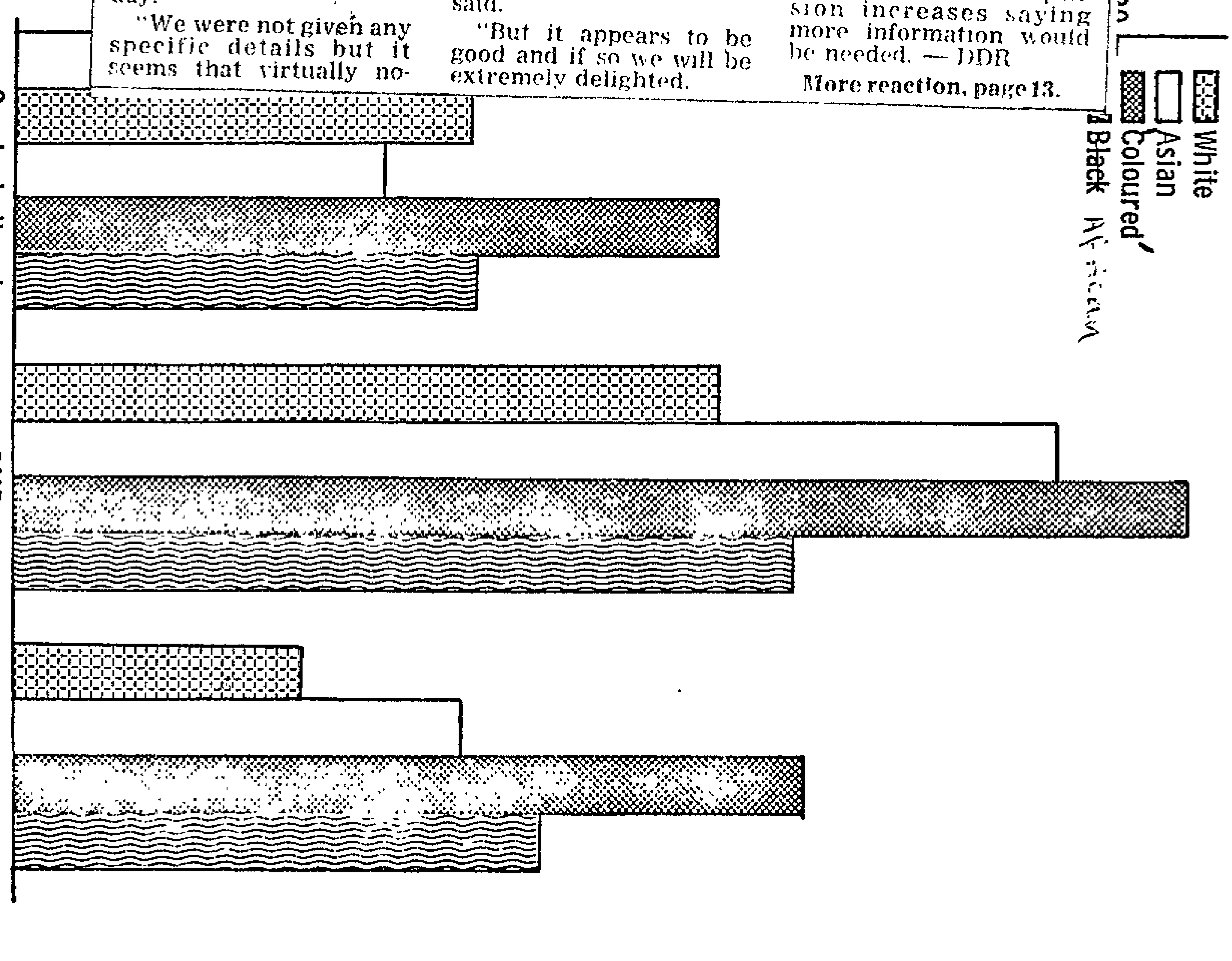
More reaction, page 13.

Footnote to TABLE II

* E979 "Suicide and self inflicted poisoning by motor vehicle exhaust gas"

Fig 1. Crude Death Rate and Standardized Mortality Rates for 1974

~~Whites, Asians and Coloureds: 1974~~



Business Mercury

More gold swops by Reserve Bank expected

MM 18/12/81 (49)

CAPE TOWN—Further gold swops by the South African Reserve Bank are expected to be undertaken this year, banking sources said.

They said when the balance of payments surplus on the current account moves into deficit, if it has not already done so, and the gold price continues to hold well below $600, further swops with European banks are anticipated.

South Africa made two currency-for-gold swops in 1975 and 1976, then estimated to have been for some 8 000 000 ounces, and mostly with Swiss banks.

Bankers said some 50 percent of that gold has been rolled over, while the remainder has either been bought back or sold off.

The new more flexible gold sales policy, of reduced sales when the gold price falls, is not possible when the current account moves into deficit.

Although Reserve Bank governor Dr Gerhard de Kock said that if the gold price stays below $600 the current account surplus is likely to be reduced or eliminated, he added the capital account will be able to handle this provided the money supply is kept under control.

Output down

Bankers expect that if swops are undertaken, new South African gold coming on to the market will fall in 1981.

Gold production in 1980 fell to 674 tons from 703 tons in 1979 and at an average price of $550 an ounce production in 1981 is estimated at 678 tons.

Bankers said gold swop arrangements have advantages for both parties because the Reserve Bank obtains foreign currency at a very low rate of interest, while for the banks, the income from the use of the gold more than satisfied the low rates on the loans.

Bankers added that if this gold is sold by the Reserve Bank it will most likely be sold to the banks that undertook the swop. — (Reuter)

Pay deal slated as more vow to quit

RDM 18/2/81

By JAYNE LA MONT

NURSES and teachers in the Transvaal have dismissed their mini-Budget salary increases as inadequate — and are warning of a "vicious circle" bringing a breakdown in the two services.

Most nurses and teachers who contacted the Rand Daily Mail yesterday said they felt "cheated".

They said that since the rises were not big enough to lure back lost staff, more would resign — unable to handle the increased workload.

This would bring the crisis in health and education services to a point of complete breakdown.

And in the Provincial Council last night the Progressive Federal Party's spokesman on hospitals, Mr Sam Moss, said the increases had turned out to be a "damp squib".

He warned: "We can expect ... an even greater exodus of trained staff from Provincial [illegible]

D F Weeks
J H Rens
B F McCleland

Professor George Menzi
Awarded on results of
examinations to the be
student in Land Survey
Civil Engineering.

J H Rens

Sammy Sacks Memorial P
Awarded to the student
best classwork in Engi
Drawing.

L Menegaldo

A E & C I Prize
For the first year stu
obtaining the highest
mark.

G L Cragg

CHEMICAL

CHEMICAL

(Continued)

Malan Chemical Engineering Medals

For the best student in each of the following years:-

Second Year (Bronze Med

A H Dabrowski

Third Year (Silver

C L E Swartz

Fourth Year (G

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K N Hvidsten

S A Institution of Civil Engineers Student Chapter Prize

For the best written report submitted in C E 214, design

P C Watt

deciding on their future. The [illegible] who had agreed to [illegible] so felt the wait had been futile.

Most [illegible] If their categories were [illegible] 20% increase [illegible] by covering the [illegible] in [illegible] areas, such as sisters — [illegible] would still feel tempted to quit the profession.

Other nurses said although they had been given "some breathing space" on pay, many other urgent issues — such as working conditions and outdated equipment — had not been dealt with at all.

Professor Charlotte Searle, president of the SA Nursing Association, last night agreed that not all Sana's requests had been met.

"Of course we are disappointed that we did not get all we asked for, but one seldom gets everything one asks for.

"I would appeal to all nurses to wait until the actual figures for their categories are announced before they panic."

Prof Searle said Sana would reopen negotiations with the Government on the issues which had not been dealt with.

But despite her appeal, many nurses said they had already waited "far too long" and had decided to resign.

Most nurses and sisters spoken to agreed the only reason they had remained in the profession until now was because "we believed that we would get a better deal".

A doctor at a large Provincial hospital said the salary announcement had done little to dispel "the deep gloom" of nurses and warned that, judging from their reaction yesterday, "we can expect many more resignations in the near future".

Senior student nurses at a Cape Provincial hospital said the salary announcement was greeted with "apathy, disappointment and disinterest".

Teachers, too, felt the increases were insufficient.

An English teacher at a Johannesburg high school said she would resign at the end of March. "I waited until the Budget.

"It is the children that will suffer, but at the moment my own children are suffering because I cannot afford to give them the things they need.

"Even a 20% rise, in my case, would not allow me enough to live on."

One highly-qualified science teacher, who was trained in Britain, said: "These new increases will not bring me anywhere near what a newly-qualified teacher in my subject gets in Britain. It's just not worth it."

And the Transvaal Education Department yesterday disclosed 1981 enrolment figures for training colleges showing a drop in the number of male students.

• The Minister of Education and Training, Dr Ferdie Hartzenberg, said the mini-Budget announcement showed the Government was prepared to fulfil its promise to bring black teachers' service conditions in line with those of other population groups.

RDM 18/2/81 (49)

Production up but prices rise faster

By HAROLD FRIDJHON

THE physical volume of production by South African industry increased by 6,2% in a year-on-year comparison at the end of November 1980 but on a price basis the increase was 17,8% as the value of production rose to R3 376-million from R2 864-million.

These figures produced by the Department of Statistics reflect the overall rate of price inflation in the South African economy.

Inflation was particularly acute in the food industries which at the end of November last year actually produced a lesser quantity of goods — the index dropped from 188,2 at November 1979 to 161,4 a year later, a drop of about 14,3%.

But the food industry's lesser production rose in value to R423-million from R367-million, an increase of 15%. This appears to confirm the statistical trend that the price of food has increased by more than 20%, although equating an index of volume with actual value figures could be misleading. And it must further be borne in mind that value is factory value and not retail cost.

The physical volume of all beverages rose by 24% but the value of output increased by only 9%. This suggests that prices have come down but one is inclined to suggest that this does not appear to conform with experience, particularly where alcoholic beverages are concerned.

In the textile section the factory value of output rose by 20% but physical volume was only 9% higher which suggests that prices galloped ahead. And in clothing, too, volume was up 5% but the value rose by 24%.

The output of footwear increased by 28% but the value of the output was only 8% higher. This suggests that prices were more competitive.

One had hoped to see an increase in the physical volume of production index for the machinery industry as this would have indicated that factories were increasing capacity to cope with bigger demand. But in fact both the mechanical and electrical machinery industries did not increase output but judging from the value of sales figures, their prices went up by an average 30%.

The biggest increases in both volume and prices occurred in the automotive industry. Physical volume of production rose by 26% and the value of the output went up by 44%. This does not mean that their prices jumped to this extent.

If one could get a reasonable correlation between output and prices, it would seem that overall, price increases were on a relatively modest scale.

FACULTY OF ENGINEERING

CHEMICAL

Corporation Medals
For the best student in each of the 2nd, 3rd and final years.

Second Year (Bronze Medal)

Miss G C Littlewort

Third Year (Silver Medal)

Miss N C Davidson

Fourth Year (Gold Medal)

P M Salmon
T J Cumming
D P Weeks
J H Rens
B F McClelland

Professor George Menzies Prize
Awarded on results of final examinations to the best male student in Land Surveying or Civil Engineering.

J H Rens

19/2.1981

Opposition says it will boost inflation

(49)

THE ASSEMBLY — The railways mini budget was an "inflationary, spendthrift" measure that would push up the price of every commodity in South Africa and pose a grave threat to the economy, Mr Rupert Lorimer, chief opposition spokesman on transport, said yesterday.

MR LORIMER

Mr Lorimer was speaking in Parliament shortly after the Minister of Transport Affairs, Mr Hendrik Schoeman, had announced sweeping tariff increases, ranging from up to 50 per cent on Blue Train tickets to 12 per cent on rates for certain parcel categories.

"Another jump in the cost of living is now inevitable and I believe this will bring the inflation rate to at least 20 per cent in the coming year," Mr Lorimer said.

"I find it difficult to believe a government committed to fighting inflation could consider a budget such as this," Mr Lorimer said.

At the same time he hit at the government for failing to make adequate provision for railway employees, whose increases would not enable them to keep up with the rise in the cost of living, and said "living standards will go down for most people working for railways, airways, harbours and pipelines."

Mr Lorimer said the transport increases would have a ripple effect which could burden the economy beyond its capacity. Transport was part of the cost structure of every single item produced or marketed in South Africa.

Responding to the attack, Mr Hans Schoeman (NP Witwatersberg) said the opposition was "short-sighted and illogical" in its criticism.

To say businessmen in South Africa could not afford the cost of rail transport was farfetched and illogical, he said.

The opposition also attached the government for providing inadequate facilities for black commuters on the SAR ...

MR PAGE

productivity had also increased 3,2 per cent, yet, while private companies had shown good profits in a boom year, the railways had shown a R10 m deficit.

Mr Bartlett said this was the result of capital costs on projects which were not showing profits.

Mr Brian Page, NRP MP for Umhlanga, said the South African Airways was getting "sloppy" on the ground, Durban Airport was "hopelessly inadequate" and the Airbus hall at Jan Smuts Airport, the main gateway to South Africa, was "nothing better than an open cattle truck".

Mr Page said passengers were not getting value for money by flying SAA, but the problem was not in the air, but on the ground where conditions under which staff had to work were causing a loss of efficiency, image and goodwill.

More and more people were flying but airport f...

There are other areas however for which it is not possible to responsibly report on the figures

We have many manpower problems that cannot change overnight. Improving the existing system is therefore probably not the quickest way of curing our malady

Other Systems

Lo tries one also
se toring health

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mot onwide basis
and h are very
use em of national
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Havin ral facilities
it se ystematically
improv a National
basis. st on the
regist event of
death and not necessarily the cause by death certificate yet)

Calling for apartheid on the railways to be scrapped, Mr Lorimer gave several examples of inadequate facilities for blacks.

These included:

- The use of a "leaky" tarpaulin over "unsightly" scaffolding to shelter black commuters at Johannesburg station.
- The lack of catering facilities for blacks on a certain round trip from Johannesburg.
- Inadequate rolling stock for black passengers.

Mr Lorimer also hit out at Mr Schoeman's statement that rail tariffs for blacks in Soweto were increasing by less than half a cent per kilometre.

It was because of the government's apartheid policy that blacks were forced to live so far from their places of work in the first place, Mr Lorimer said.

Fare increases for people living on the breadline were very important, he said.

Mr George Bartlett, New Republic Party spokesman on transport, said the railways budget pointed at serious trouble for the economy.

If inflation kept increasing, a crash in the economy was inevitable and that was the reason for the calling of an early general election, he said.

The test of a good railways budget was whether it provided the most economic transport possible, Mr Bartlett said.

In the past year there had been considerable increases in tariffs and ...equate and the ground staff unable to cope with the crush.

Now SAA wanted to start a direct service to London but the inadequate Durban Airport could not cope, he said.

At Jan Smuts Airport, which one passenger described as the closest thing to Jeddah Airport, the situation was worse.

There conditions in the Airbus hall were "chaotic" and the restaurant "indescribable".

What sort of impression did this make on tourists arriving in the country, Mr Page asked and asked Mr Schoeman to investigate the catering service in the hall.

A spokesman for Assocom said in Johannesburg yesterday that the increases were inevitable.

Although there would be ripple effects it appeared the tariff increases had been kept to a minimum.

It nonetheless showed the parasitic nature of inflation and the need to take active steps against it, therefore giving special significance to the top-level meeting of public and private sector representatives to review the situation next month.

The less-than-average 12 per cent increase in the black commuter fares remained a matter of concern. Because of its possible social implications, Assocom believed the question of black commuter fares should receive the urgent attention of the commission of inquiry into passenger transport. — SAPA-PC.

IN A NUTSHELL

(49) FM 20/2/81

As the main Budget is due only in August, Finance Minister Owen Horwood's Part Appropriation Bill contains few fiscal propasals for the 1981/2 financial year. However, those measures announced include:

☐ **Civil service salaries** — to be raised by an average 12% with upper echelons getting less, around 9,2%. Teachers, nurses, policemen, soldiers, health personnel and prison and judicial officials to get "special treatment," although Horwood did not spell out precise details. Total cost of salary hikes will be R720m.

☐ **Exchange control** — foreign-controlled companies are allowed to borrow twice as much in SA as previously, but some off-balance sheet financing is to be brought into the definition of local borrowing. Adult travel allowances abroad are boosted from R3 000 to R4 000 a year for holidays and from R5 000 to R7 500 for business purposes. Thresholds on the transfer of assets abroad by emigrants and on remitting assets and remuneration to non-residents are raised. Red tape involved in applying controls is to be eased.

☐ **Pensions** — monthly improvements announced of R13 for whites, R9 for coloureds and Indians and R7 for blacks Military and civil service pensions to rise by 12% and war veteran allowances bettered Total cost R127m A special pensioners' bonus will be paid in April (whites R30, coloureds and Indians R24 and blacks R18); costing R23m Plans for pensions preservation to go ahead but some provisions will be relaxed.

☐ **Usury limits** — an increase in various maximum interest rates, the highest fixed at 24%, which is up from 21%. Interest rates to be market determined and Defence Bonds to offer 9%, up from 8%.

☐ **Income tax** — proposals to upgrade tax-free limits on lump sum retirement payments from R15 000 to R20 000 and allow backdated contributions to a pension fund to be tax-free up to R1 500 a year instead of R1 000 Raising tax payment thresholds is contemplated, as is exempting persons whose remuneration comes mainly from incomes on which PAYE has been deducted from filling in further tax returns. Taxing fringe benefits is still to be determined

☐ **Krugerrands** — local market supply doubled to 300 000 ounces a year to reduce the premiums on such coins.

MINI BUDGET

FM 20/2/81 49

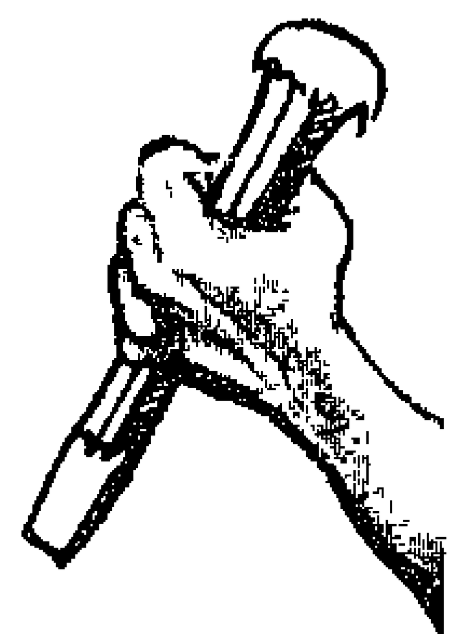
Horwood hits controls

The mini-budget this week was a bold and purposeful statement of intent: that the "invisible hand" of the market place will, to a greater extent, be allowed to allocate resources. This process of decontrol should help to modify future price rises.

More visible in Finance Minister Owen Horwood's speech was the hand of new Reserve Bank Governor Gerhard de Kock. He also heads the commission studying the monetary system and monetary policy and was responsible, among other things, for the creation of a foreign exchange market in this country.

For instance, one of the most important budget announcements was the further relaxation in exchange controls, which Horwood explained thus:

"The crux of the matter is that if our fundamental fiscal and monetary policies are not appropriate, exchange control cannot be relied upon to keep the capital account in order. And if (these) policies are appropriate and result in realistic and market related exchange rates and interest rates, we should have little need for exchange controls in the long run."



There are, in that statement, strong similarities to the market sentiments in the first report of the De Kock Commission. Along with the rise in usury ceilings, it indicates that Horwood is resolutely chipping away at controls which distort the forces of supply and demand.

Of these measures, the increase in the limits to which foreign companies may borrow locally was the most important. For it indicates to banks that they must be prepared to live with more market-related exchange and interest rates.

It could well be the transitional step towards allowing banks more freedom in the months ahead to place deposits abroad.

The measure of the extent to which government is prepared to go in allowing the market to allocate resources — and thus to check inflation — will have to await the May gilt issue. To attract sufficient buyers to influence the money supply materially, this rate will have to rise very sharply.

What is disconcerting about the mini-budget, however, is the extent to which it increases government expenditure, through wage hikes to civil servants and the like, without indicating definite compensatory cuts.

Although likely to remain buoyant for some time, government revenues will be down in the future and expenditure sharply up. In these circumstances, the alternative to compensatory cuts are very high interest rates to finance a deficit in a non-inflationary way. That, in turn, could prevent the economy growing as fast as it otherwise might.

Civil servants have undoubtedly been the passive victims of inadequate government anti-inflationary policies. Their real incomes have fallen while those of private sector employees have risen sharply. Nevertheless, the economic wisdom of the pay rises, when aggregate demand and supply are roughly in balance, is certainly open to question.

While spending on education will in the long run add to productive resources, in the short term it will simply push up demand.

The shortage of public servants was indicative of a very real swing in resources from the public to the private sectors. That is, of itself, anti-inflationary. These pay rises have impeded the process. Fortunately, they probably are not sufficiently high to reverse it.

Of course, Horwood may have reasoned that the need to secure adequate public services now outweighs the longer term gains from a shift in resources to the private sector. Or that, in the short-term, the process is simply too painful.

But then he must face two stark truths: the extent to which his predecessors and their whole philosophy starved the private sector of resources, as well as the fact that, to reduce a bloated public service is going to be agonising but unavoidable.

The increase in welfare payments amount to an additional impost on taxpayers which is necessary partly because government and the previous Reserve Bank Governor, who allowed the money supply to soar out of control, have neglected monetary policy. This, in turn, put additional steam under price rises and will do so for some time to come.

Inflation, as Horwood points out, is the one flaw in SA's economic picture in the current fiscal year. It promises to be a major issue in the forthcoming one.

What is essential, therefore, is that government spending be held in tight control and continue to be financed in a manner that has a negative effect on the money supply. In this respect, the extent of the teachers' and other pay rises is not reassuring.

Nor is the inhibition these rises will have on resources being shifted to the private sector — that is, of the bureaucracy being shrunk.

It is a pity that Horwood's resolve to allow the "invisible hand" to predominate in financial markets does not extend equally to other areas of economic activity. But his mini-budget is one to be welcomed.

FURTHER HEALTH CARE DEV

Health care developments a
and 'felt' needs (as expre
individuals).

Constraints to fulfil need
1. M
2. T
3. F
4. S

Resources to be made avail
1. MANPOWER a) b) c) d) e)
2. TRANSPORT a) b)
3. FINANCE a) b) c)

FM 20/2/81

Squeezing out inflation

(49)

The rise in interest rates as a result of the mini budget measures may come as a shock to some borrowers. That is understandable. In this country we are not accustomed to sharp adjustments in the cost of credit But by international standards the rises will be modest indeed.

In West Germany, prices are rising at only 6% a year yet interest rates there approximate those here, where the inflation rate is nearer to 16%. In Britain and the US, inflationary expectations are less than ours, yet interest rates in these countries are substantially higher than in SA.

Moreover, even if domestic interest rates should eventually begin to approach those in the US, the higher costs to borrowers in the short term will be much less than those long term if inflation continues at current levels.

Of course, had the money supply not been allowed to get out of hand last year, this price would have been much less. As Finance Minister Owen Horwood pointed out on Tuesday: "... the unduly rapid increase in the money supply (27%) and the accompanying low level of interest rates made the general financial situation increasingly conducive to general demand inflation."

Fortunately, this increase in the money supply was not caused by government borrowing from the banks, which should enable control over it to be regained more easily. In fact, net bank credit to government declined by R434m last year.

It was caused by two other factors.

- A R356m rise in net reserves, which contributed both directly to the money supply and indirectly by increasing liquidity among banks.
- A rise of R3 240m in bank lending to the private sector.

If it had not been for exchange controls, the increase in the money supply and surplus liquidity would have been much less Clearly relatively high interest rates abroad would have attracted some of these funds.

Indeed, a direct consequence of bottling them up behind exchange controls were artificially low domestic interest rates They were, as Horwood said "Exceptionally low, not only in relation to overseas rates but also in relation to the domestic rate of inflation."

"For most of the year the situation was also characterised by distortions in the relative structure of domestic interest rates and by a substantial increase in off-balance sheet financing or grey market activities. In these circumstances there is clearly a need to improve on techniques of controlling the quantity of money," he added

As interest rates that reflect underlying supply and demand are essential as a first step to improving these techniques, the Reserve Bank raised Bank rate by 1% to 8% in February.

The increase in usury limits this week was also essential to enable relative rates to respond adequately to this measure And further adjustments are clearly going to be necessary in the months ahead.

The mini budget's increase in the amounts foreign companies may borrow locally is another device to raise domestic rates. For these companies will eventually switch from expensive foreign facilities to cheaper local ones More immediately, it should raise investor confidence in SA.

Other measures still to come, Horwood explained, are increased open market operations by the Reserve Bank and more active debt management by the Treasury.

LOCAL BORROWING EASED

The restrictions on local borrowing by foreign-controlled companies — set out in Exchange Control Regulation 3(1)(f) — have long been a very sensitive issue.

In his speech on the Part Appropriation Bill, Finance Minister Owen Horwood announced a major relaxation of the regulation — a doubling of the local borrowing entitlement relative to shareholders' funds. But he partially off-set his generosity by announcing that certain forms of off-balance sheet financing (hitherto exempted) would soon be brought within the definition of local borrowing.

A banking source considers, nevertheless, that most foreign-controlled companies will be substantially better off on balance under the new dispensation, although a few, which rely heavily on off-balance sheet finance, could be worse off.

Previously, 3(1)(f) provided that the percentage of shareholders' funds which could be borrowed locally equalled 25% plus the percentage SA interest which is then divided by the percentage foreign interest and multiplied by 25%.

Where the foreign interest was 100% the foreign borrowing limit stood at 25% of shareholders' funds. If the SA interest had been 75% and the foreign interest 25%, then the limit would have been 100%.

The new formula doubles the local borrowing entitlement for any given percentage of foreign shareholding. So, for 100% foreign-owned companies, the limit is now 50% of shareholders' funds

Both the definition of shareholders' funds and the definition of local borrowings are elaborate. Thus, shareholders' funds include issued and paid-up capital, accumulated profits and most categories of reserves. Shareholders' loans are regarded as capital if they are advanced by resident and non-resident shareholders in proportion to their shareholdings If the non-resident holders advance more, the excess will still be deemed shareholders' funds. But if the resident shareholders advance more than their commensurate proportion, the excess will be treated as a local borrowing

Share premiums, dividends declared but not yet paid and deferred tax are also treated as shareholders' funds. So, too, are certain proportions of credit facilities made available to the local company by its non-resident parent — the so-called "hard-core element."

Local borrowings include overdrafts, acceptance credits, discount facilities, loans (including loans secured by mortgage) and (as already mentioned) loans by local shareholders in excess proportion to their shareholdings. Leases of equipment of a productive nature are also included But other forms of "off-balance sheet financing" have hitherto been exempt.

Horwood's speech now indicates that some, at least, of these forms of finance will be brought into the definition of local borrowing. Banking sources say that regulation 3(1)(f) will be reworded to include invoice discounting and factoring as local borrowing.

Horwood observed that, although he did not "foresee that there will be an immediate large-scale switching by these companies from foreign to domestic financing sources with a concomitant drain on our foreign reserves, the greater flexibility which this relaxation will afford should substantially enhance SA's attractiveness to foreign investors "

VELOCITY (49) FM 20/2/81

Unholy conspiracy

The behaviour of the velocity of circulation of money in SA over the last 20 years points clearly to the dependence of money supply on the ebbs and flows of the BOP current account. It also highlights the paucity of official means of dealing with it.

...riting in Volkskas' bi-annual Finance and Trade Review, the Reserve Bank's Jaap Meijer notes that since 1960 rates of change in velocity have tended to be below rates of change in monetary aggregates, and to be inversely related to them. This means that changes in velocity, working in the opposite direction to changes in money supply, have tended to contradict monetary policy, either expansionary or restrictive. It also means, contrary to the beliefs of Barclays' economist Johan Cloete, that velocity has played a subordinate role in annual rises in the monetary gdp.

But perhaps most importantly, it shows that increases in the aggregates have almost certainly been caused not by increases in demand emanating from the real economy, but by increases in supply emanating from BOP surpluses. And supply is the ultimate responsibility of government.

An increase in real economic activity normally leads to higher demand for money, which is satisfied in the first instance by an increased usage of the available money stock, and thus a rise in velocity and interest rates. But Meijer's painstaking empirical investigation shows the opposite — money supply increases have regularly taken place against a background of declining velocity and interest rates.

What is more, "cyclical accelerations in the rate of growth of the narrow money supply . . . regularly tend to occur in the course of cyclical downswings and the earlier stages of upswings," at a time, in other words, when real economic demand is traditionally weak. The cause of such accelerations must be sought, Meijer concludes, in the BOP current account. Rising gold and foreign exchange reserves feed directly into the domestic money supply. And the liquidity base of the banking system swells, causing it to seek lending outlets, or create them by investment in the private sector.

So Finance Minister Owen Horwood's recent assertion that the principle cause of last year's 27% rise in the money supply was the R3.24 billion increase in bank credit to the private sector, must be read advisedly. The principle cause, more likely, was to be found in an unwilling and unholy conspiracy between government, sitting on its swollen reserves, and the banking system, anxious to put to work an embarrassment of liquidity whatever the state of demand from the real economy.

Easier credit conditions generally lay the basis of an economic upswing. But they also exact a price to be paid later as inflation accelerates, and they tend to make the SA monetary authorities appear to be the passive victims of other mens' sins. Which is nonsense, of course. The bottling of liquidity under pressurised conditions, is the direct result of the excessively tight restrictions on the free movement of currency in and out of the country.

Meijer's analysis also dissects the connection between restrictions on bank lending and the rise of off-balance sheet financing. An increase in liquid asset requirements, for instance, tends to reduce proportionately the banks' deposit rates and thus curtail the supply of deposits to them. Reduced deposits, the major constituent of money, means also a drop in the supply of credit to the grey market, but not a drop in the demand Assets chasing money mean higher rates which tend to neutralise the interest rate differential between the banks and the money lenders outside them. But if bank lending rates are fixed, like the OD rate, this can take time, as the last few years in SA have proved. And Meijer demonstrates that at the new equilibrium position, the volume of credit extended in the grey market "is likely to have increased in relative terms compared to that extended by the banks, it may even have increased absolutely."

The fixed OD rate, Meijer suggests, can only partially explain the rise in off-balance sheet lending. "The remainder may have to be traced to other and past restrictions on the banks' portfolio behaviour," an assertion borne out by the banks attempts to increase their bankers' acceptance holdings, relative to Treasury bills after the abolition of credit ceilings in September last year.

The point, of course, is that financial behaviour compensating for monetary restriction tends to feed on interest rate differentials. The Bank of England has noted that "in the real world, there are no techniques of monetary control which involve no risk at all of disintermediation."

Post-poll rise in bond rates predicted

CT 20/2/81

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By GORDON KLING

BANK AND BUILDING society sources yesterday predicted that a money market free-for-all, pushing up mortgage bond and other interest charges throughout the economy with all the implications this entails for the man in the street, would develop after the general election on April 29.

They based their predictions on the four percent hike in the "usury" ceiling on money lending announced by the Minister of Finance, Mr Owen Horwood, in the mini-budget on Monday.

Official spokesmen, however, maintained there was no cause for alarm although none would comment on the probable level in the next half-year of home-loan interest rates — a key factor for the building industry, homeowners and people living in rented accommodation.

The increase in maximum finance-charge rates, which from next month should lead to a 24 percent interest charge on hire-purchase deals of less than R5 000 and personal overdrafts

Mr Owen Horwood

costing up to 16 percent, is part of attempts by the authorities to facilitate market-related interest rates.

Building society sources yesterday claimed it was tantamount to taking the brakes off the banks in the current tight money market and increasing their profitability while leaving the societies unable to compete for funds and accordingly unable to lend at reasonable levels.

The banks, they said, were paying 14 percent for one-year money, while the societies earned only an average of 10,5 percent on the money they lent.

"You can imagine how long we'll last if we have to pay more for money than we charge for lending it," one official said.

Bank-share prices on the Johannesburg Stock Exchange continued to firm where changed for the second day since the new ceiling was announced.

Bankers maintained there would be a rise of 2 percent in bond interest rates within the next six months. This would cost a person with a R30 000 bond about R40 a month extra.

Coupled with higher PAYE payments, albeit for technical reasons, a married person with one child with such a bond and earning R1 001 a month would find his living costs up R60 a month through the two measures alone before taking inflation, running at about 15,7 percent at the end of the year, into account.

Market price

The president of the Association of Building Societies, Mr A F V Viljoen, yesterday said in an interview from Johannesburg that the current situation simply reflected the fact that government poli...

study the rate pattern emerging in the market and adjust our rates so that we are competitive and this naturally will affect the bond rate. By how much and from when I cannot say."

Mr Viljoen said it was not possible to say when the study would be completed.

No harm . . .

A top Johannesburg banker said the change could be expected soon after the general election when there would be "a free-for-all" in the money market as the societies battled the banks for funds.

"We would not allow the building society movement to be harmed," commented the Deputy Registrar of Financial Institutions, Mr G W Van Staden, from Pretoria. The authorities would ensure that the societies remained competitive, he said, but declined to comment on the likely pattern of bond-interest rates in the near future.

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Salaries: Govt's done its duty — Minister

KBM 20/2/81

THE ASSEMBLY. — The Government had done its duty towards civil servants as far as salaries were concerned and nobody would have benefited by a policy of recklessness, the Minister of Finance, Mr Owen Horwood, said yesterday.

Replying to the Second Reading debate on the mini-Budget, he said the R720-million package improving salaries and wages was obviously the correct figure as no other figure had been forthcoming from the Opposition.

State expenditure on salaries had risen from R3 200-million in the 1979/80 financial year to R3 760-million a year later, a 17,5% increase.

He estimated it would rise by 20% to R4 500-million in the coming financial year.

It had to be remembered normal salary increments, promotions and merit assessments continued every year to bring about an annual increase total of around 18% and 19%, Mr Horwood said.

"But the Opposition says this is insufficient. I say the Government has done its duty. It could not do better and it would be extremely irresponsible to adopt such recklessness and permissiveness as has been suggested.

"Who would have gained from the resulting inflation rate of nearly 20%?"

The social pension had increased more than twelve-fold since 1948 when it was R10 — and had been for many years. Over the same period the consumer price index had multiplied only by a factor of 6,7.

In the past three years the ratio between white, coloured/Asian and black pensions had closed from a ratio of 100:50:25 to 100:60:33, he said.

Total expenditure on education had risen from R953-million in 1975/76 to R2 143-million in the current financial year.

Over the same period defence expenditure had had to be increased from R600 to R2 500 million and yet the Government was able to reduce personal tax rates, Mr Horwood said.

"What government could do better? Where in the world will you find better figures than these?" He asked. — Sapa.

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G L Cragg

Towards a free market economy?

CT 21/2/81 (49)

A FREQUENTLY heard reply to the question "How would you like to see 1981?" is "The same as 1980". An understandable sentiment as 1980 saw relative prosperity for many and great prosperity for some; the gold price averaged $614 and the all-share index increased 32 percent; profits were sharply higher and wages and salaries rose markedly.

This additional income generated could either have been spent or it could have been saved, with the ideal of a healthy balance of both.

A higher level of consumer expenditure most definitely came about, and was certainly needed after the lean year of 1977 to 1979 (as any retailer will confirm), and increased personal and corporate saving also took place, which in theory was a good and necessary development, except that much of it went into short-term rather than long-term saving, which was not so good.

It was not so good because it meant a tremendous build up of liquidity in the South African money market. Short-term deposits with the banks went up, and therefore so did bank credit to the private sector, and of course interest rates were very low.

Now, if local production capacity is sufficient to meet the increased consumer demand generated by this increased private credit that is excellent, as it means healthy domestic expansion with fuller employment of local resources.

But, if domestic capacity is insufficient to meet this added demand then it means some combination of increased imports and an increased strain on the domestic economy.

Overheating

Such a domestic strain, or overheating of the economy, shows itself in various ways, the most obvious of which is probably higher inflation.

The statistics for 1980 speak for themselves: manufacturing production, in volume terms, was up 10 percent over 1979 (with the really fast growth of 15 to 20 percent concentrated in the consumer oriented sectors), imports were 47 percent higher; and by the year end consumer prices were, depending on the income group, between 15 percent and 20 percent higher over the year.

So what went wrong in 1980? Does it mean that economic prosperity has to be paid for with higher inflation? No, the examples of Japan and Germany, both with long records of above average growth and moderate inflation, prove otherwise.

To me, and here I must admit to being a moderately loyal supporter of Milton Friedman, the answer seems relatively simple. Every economy has a more or less optimal growth rate within the constraints of its operating framework, so that if restraints are placed on the economic framework then restraints must also be placed on the rate of economic growth.

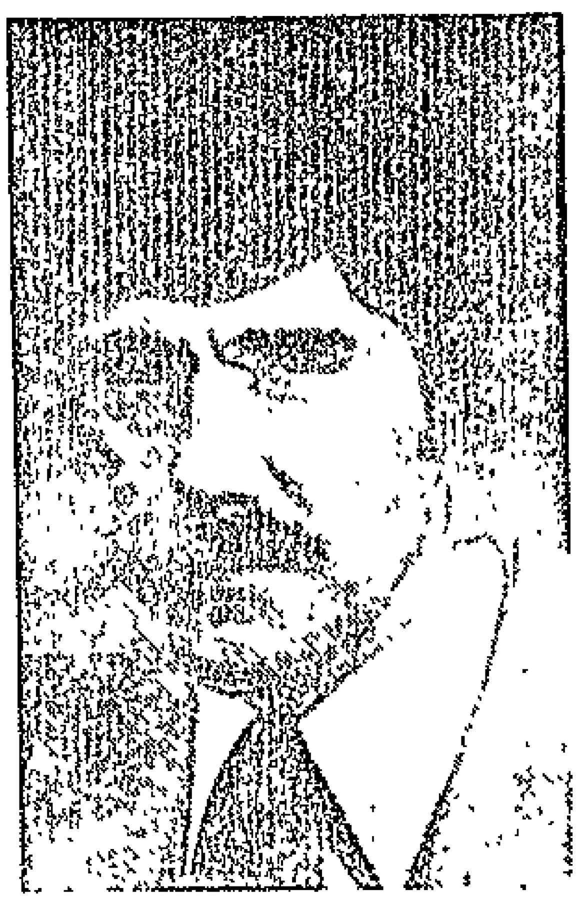
It is clear that this was not the SA experience during 1980 when we had 8 percent plus real GDP growth with most of the old restraints still in force.

A solution?

The hypothesis is therefore a fairly simple one: The 1980 growth rate was excessive relative to the existing economic framework.

What could have been a solution? I should like to suggest that either the economic growth rate should have been curtailed, or the multitude of constraints which are built into our economy should have been relaxed.

Assuming that we do want to optimise our economic growth



Mr Bill Langley, above, assistant general manager (investments) at the Old Mutual and one of the country's leading investment experts, examines South Africa's progress towards a free market system.

This article is the first in a new series in which top level business men give their view on economic and general business trends

aspect of our economy.

Many of these restrictions are more minor irritations than major impediments to economic growth, but some, notably those restricting the free movement and free employment of black labour, are so fundamental to the structural problems of the economy that their abolition is essential.

The real problem is that such issues are an integral part of a political philosophy which has developed in South Africa over many generations so that there are numerous individuals and groups who will strenuously resist their removal. But if we are to live and work in an environment which makes economic sense, then go they must.

It is clear that the present government is showing a much greater awareness of the need for free market reforms. Numerous statements of intent have been made over the past couple of years, and in some areas action has been taken.

Free market

In the financial field particularly we have seen a movement towards increased reliance on free market forces. The foreign exchange markets are now somewhat free, and there is every expectation of more relaxations to come, various direct controls have been either eased or lifted, for example the credit ceilings on the banks and, more recently, the interest rate ceilings imposed under the Usury Act.

And when the final report of the De Kock Commission is published later this year, hopefully, we will move still further down the path towards a true free market economy.

But these relaxations have been almost wholly confined to the fiancial markets. The recommendations of the Wiehahn and Riekert reports have yet to lead to any meaningful changes in the black labour market, the area where change is most urgently required.

Need for change

I believe that among the policy makers in our government there is a genuine awareness of the need for change, but it would seem to be combined with an uncomfortable inability to effect much which is truely meaningful which introduces the additional danger of frustrated expectations.

It is in the labour market that this danger is greatest, and most apparent, but it is equally true for the financial side of our economy, as is well illustrated by the frightening loss of control of the money supply during 1980, where the growth rate was 38 percent during the last six months of the year.

I could not be a pure monetarist in the narrow sense of believing that the success of an economic equation and the loss of control in 1980 will have to be paid for in 1981. That the price will be paid is certain, what is less certain, and here is where I perceive there to be a real danger, is how the price will be paid.

Without further government interference the price will be still more inflation, but at what level will this prove to be unacceptable?

When will it be decided that while the theory of free market forces is still accepted its real application is as politically unacceptable in the financial economy as it is in the physical economy?

What will be the policy makers solution then? Cut off the one-armed man's remaining arm to bring him back into balance?

Faltering steps

We have taken a few faltering steps towards a truer free market system, and the various individuals who have played such an important initiating role in this respect must be congratulated on their excellent achievements.

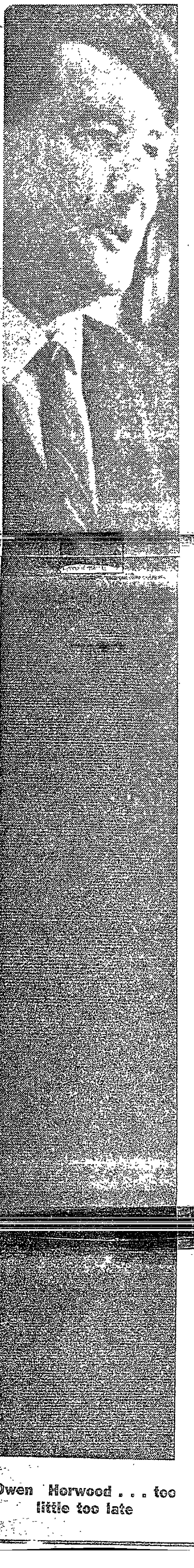
But more important is that they be heeded and that our policy makers have the strength and determination to fully remove the economic straitjacket so that our economy can have both arms free.

The danger is that non economic factors will force a retreat away from the market place in 1981.

(49)

TODAY TWO ECONOMISTS GIVE THEIR VIEWS ON FINANCE MINISTER HORWOOD'S MINI-BUDGET

By JILL NATTRASS
Associate Professor in Economics, Natal University

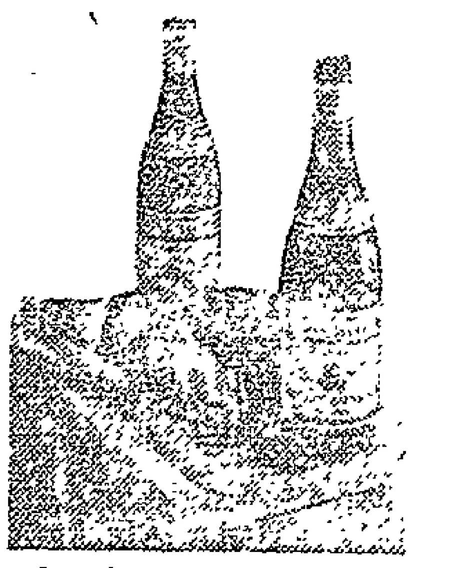


Owen Horwood . . . too little too late

Some of the main features . . .

● More gold for domestic production of Krugerrands

● Public servants will get an across-the-board 12 percent increase and higher in some cases



● The excise duty on wines has been reduced but it won't benefit the man-in-the-street

● Social and military pensions will be increased but it's not enough to keep up with the inflation rate

S. Tribune 22/2/81

~~153~~ ~~49~~

Public Enemy No. 1

(. . . THAT'S INFLATION — 1980 WAS BAD BUT 1981 IS GOING TO BE MUCH, MUCH WORSE!)

THE Minister of Finance, Owen Horwood, waxed enthusiastic over the performance of the economy in 1980 in his Mini-Budget speech to the House of Assembly on Tuesday.

He highlighted a real growth rate of above eight percent, a strong balance of payments, rising levels of investment, particularly in the private sector, and increased employment as being the signs of substantial economic progress.

Inflation was singled out as the "one dark spot" in the bright economic picture.

The Minister was less optimistic regarding the outlook for 1981, anticipating the growth rate would be down to between four and five percent, mainly as a result of the world economic outlook and steps to be taken by the South African authorities to try to control inflation, which at an annual average rate of 15,7 percent for the year 1980 (escalating from 8,6 percent in the first quarter to 22,3 percent in the last quarter) clearly poses a significant threat.

Mr Horwood proposes to re-enter the lists to do combat against inflation in 1981, armed with the same weaponry with which he entered the fray in 1980 (to emerge unsuccessfully!); namely higher interest rates, lower Government spending, a non-inflationary approach to Government financing, and an exhortation to the private sector to hold down wage levels and to increase productivity.

Friedmanism still stalks the halls of financial policy making in Pretoria.

This approach failed last year — will it succeed this year?

"Too much money chasing too few goods" was the phrase the Minister used to describe inflation. A phrase which indicates clearly there are three areas for action — money, goods, and the rate at which money changes hands.

Pretoria (in company with other devotees of monetarism) proposes to concentrate its attentions on the money element and to achieve a reduction in the rate of growth of the money supply by keeping Government expenditure in check.

While monetary and fiscal discipline will clearly be a crucial element in any anti-inflationary package, the experience of 1980 must suggest that it will not be easily achieved and that even if it is it may well prove insufficient.

Despite the intentions of the authorities, Government consumption expenditure over the nine months to September 1980 rose faster, at 10 percent a year, than either private consumption (8,6 percent) or fixed investment (2,8 percent).

The situation was made considerably more difficult by the massive increases in the money supply that followed from the combination of a high gold price and strict exchange control measures.

The money supply increased by more than 20 percent over the year and the increase would have been very much higher had it not been for the effort made by Government to reduce their indebtedness to the banking sector.

Output — the other side of the equation — grew by eight percent which, although it must be counted as a good performance, was not enough to prevent an increase in demand-led inflation pressures.

Indeed the bulk of the growth came from the outstanding performance of the mining sector, and the output of goods and services for the domestic market grew more slowly, compounding the problem.

In 1981 the situation could well be worse.

The authorities have taken some, albeit rather limited, steps in the Mini-Budget to reduce growth in the money supply.

● The limited relaxation of exchange control;

● An increase in the interest rate ceilings;

● An increase in the allocation of gold for the domestic production of Krugerrands.

The one positive aspect is the recent revival in private sector investment levels, which should result in an increase in the flow of goods in the near future.

On balance, however, it seems inflation will remain the order of the day in 1981, and the question may be whether it is inflation with growth, or inflation with stagnation?

The Minister announced increases in social and military pensions and in public sector salaries — an average 12 percent rising to 20 percent in the education, military, justice, police and prisons, and health areas.

These increases must be viewed against an annual inflation rate of 15,7 percent in 1980 and the prospect of continuing high inflation in 1981.

Civil servants are, on average, being asked to start 1981 with lower real salaries than they had in 1980 and then to suffer falling standards of living. Even increases of more than 20 percent represent very small increases in real standards of living, so small that they may well have already been eroded by the time they are paid out.

It does not seem that the Minister was serious in his intention to safeguard the public sector, particularly those sectors such as education, justice, health and the military, whose efficient operation is crucial to the long term health of the private sector.

He should not be surprised should he find the present crisis, far from being relieved, actually deepens.

One of the more disturbing elements in the Minister's speech were the comments he made relating to the subsidies on food and transport and the implication that the price of bread would be increased yet again.

Finally, from the tone and content of the Mini-Budget, it does not seem the authorities have yet accepted their responsibility to create a social and economic environment that is conducive to private sector progress.

Ben Temkin on the 'vote-catcher'

HORWOOD'S CHICKEN BUDGET

OWEN HORWOOD'S pre-election Mini-Budget is an interesting attempt to catch a few votes from disgruntled public servants — especially teachers and nurses — and also to win a few merit awards from the business community who are so vigorously punting free enterprise right now.

First, that sop to teachers and nurses is belated and possibly even ungenerous. There was more than sufficient surplus in the State kitty in the last quarter of 1980 for the gesture to have been made then. Of course, it has more impact if made just before an election.

But that's beside the point. Any reasonable analysis of last year's March Budget would have shown that there were two major flaws:

● The Budget did little or nothing to bolster the massive deficiencies in black education and training — notwithstanding the concessions available for in-service training.

● The various concessions made in that Budget had, by their nature, to be inflationary yet the problem of inflation was largely ignored.

To be fair, Mr Horwood was only too aware of the dangers of inflation and had to decide between promoting real growth or reducing consumer demand to counter inflation, thereby inhibiting growth.

He undoubtedly chose correctly.

Having achieved the economic miracle of 1980 and helped South Africa to produce its highest real growth rate in history, Mr Horwood chickened out at the end of last year on pumping any more money into the economy through higher educational spending:

With an election looming, he could hardly stall any longer.

Nor could he do much more than push up salaries in critical areas: How would his electorate now feel had he decided to put an extra R150 million or thereabouts into black primary education — the most critical educational area of all?

If you are in favour of free enterprise, then the most cheering thing in the Mini Budget is the raising of the ceiling of interest rates.

It has long been a truism that in an inflationary environment you can only win if you are a borrower because you will repay your loan in depreciated money.

This has become particularly serious with the highest interest rates allowable being lower than the rate of inflation. Lenders have effectively been earning negative rates of interest for some time. Now they will be able to make a profit on their lending in real terms.

Mr Horwood probably hopes through this move that he will dampen consumer demand since interest rates will now make credit purchases much more expensive.

If you pay interest of 14 percent but you know that the price of the article you are buying is likely to rise by 20 percent in a year, then you don't mind. But if your interest rate is much the same as that of the price rise then you may well think it better to save and wait until you have enough money.

The big question then is whether or not the rates paid on loans and deposits will automatically rise to the same extent.

If they do, then pensioners and others living on incomes tied to fixed-interest investments could have a much better chance of survival.

It has to be accepted that a reduction in consumer demand will probably reduce the rate at which credit is being granted and this could well be anti-inflationary. But the immediate effect is going to be even more inflation than before. This is because people will be paying more for items that they buy on credit.

You don't however, win or lose votes on a platform of inflation unless price rises are hurting to the extent that people are being forced to reduce their living standards radically.

Nor is it really entirely logical to suggest that this is a pay later Budget. Revenue receipts by the State are well in excess of budget and there will be little or no problem financing the public salary increases.

What really irks about the Mini-Budget is not that it imposes penalties on us in future but that it shows a lack of courage by the Government to put its money where its mouth so often has been — in removing the basic discrimination that exists in this country especially from the time our children begin school.

HORWOOD EASES CURBS ON BORROWING BY FOREIGN COMPANIES

S. Tribune 22/2/81

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Finance Reporter

A KEY announcement in Finance Minister Owen Horwood's mini-budget on Monday has attracted little attention.

Horwood has eased at long last — but not abolished — the notorious exchange control regulation 31F, the ruling which severely curbs the extent to which foreign companies may borrow in South Africa.

Over 2 000 firms operating here are in this category.

Horwood has given another sign of his willingness to allow interest rates to rise still further by allowing foreign subsidiaries to join the queue for bigger credit facilities.

He said that foreign-owned companies' local borrowing limits would be doubled. At the middle of last week, bankers were still waiting for detailed guidelines from the Reserve Bank.

It appears, though, that the formula used up to now to calculate permissible borrowings will simply be altered to double existing levels.

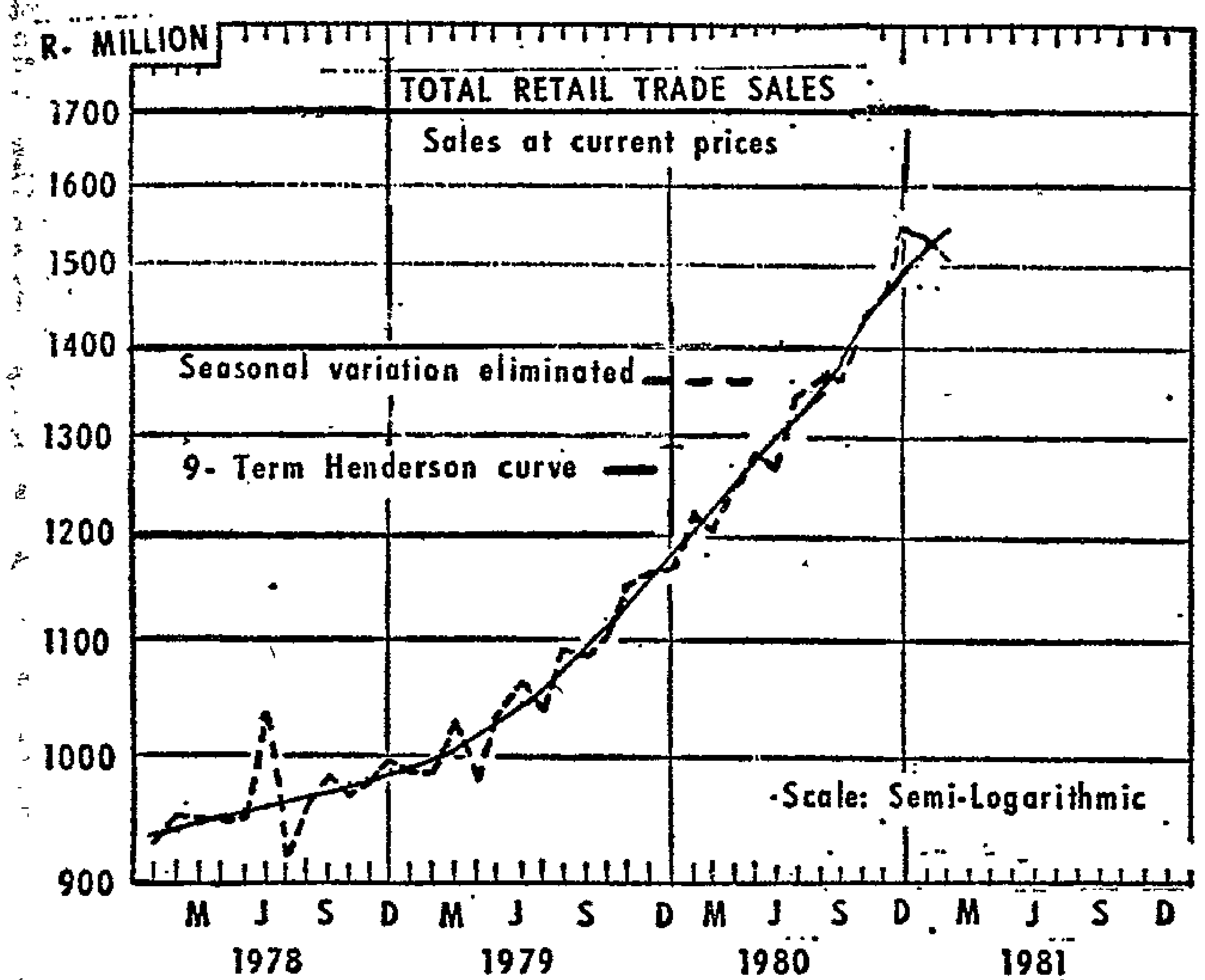
The formula basically allows companies to borrow in inverse proportion to the stake of foreign shareholders. Thus, a 100 percent foreign-owned company could up to now borrow 25 percent of its share capital, undistributed profits and certain parent company loans. This has now been raised to 50 percent. Companies with a 25 percent foreign interest can ... their

FINANCE

ECONOMY STILL AT FULL THROTTLE

49

Argus 23/2/81



UP AND UP go retail sales to delight the shopkeeper and keep the country's factories busy.

Financial Editor

THE South African economy is continuing to experience boom conditions. Retail sales and manufacturing output are at record levels and are rising strongly.

The latest figure for manufacturing output for December, shows it was still running 10 percent ahead of the previous year.

The Department of Statistics reports its index of the physical volume of manufacturing production (1963 — 64 100) rose to 190,1 in December from 171,1 in December 1979.

This brought the index for the whole of 1980 to 224,7, which is 10 percent higher than the 1979 index.

This is the biggest annual increase in manufacturing output in real terms for at least a decade. The 10 percent rise compares with a 6,7 percent increase in 1979, 5,1 percent in 1978 and a drop of 6,3 percent in 1977.

Whether the manufacturing sector will be able to rival 1980's growth rate this year would appear to depend more on the extent to which production facilities are available than demand.

Many factories were up against their production ceilings by the end of last year and had little scope for further increasing output.

However, many factories are not putting expansion plans into operation which should help ease the situation later in the year.

Meanwhile, retail sales figures show the demand is continuing.

Preliminary figures for January show retail sales totalled about R1 425,6-million, an increase of 31,7 percent in cash terms on the year ago figure. This follows a 33,3 percent increase in December sales to R2 123,4-million. This R530-million more than the consumers spent in December 1979.

In real terms retail sales in January are estimated to be about 12,3 percent higher than a year earlier. This follows a 13,3 percent rise in December.

INFLATION

Preliminary estimates put total retail sales last year at R16 043,1-million, which was R3 290,4-million or 25,9 percent above the 1979 figure.

Retail sales in real terms are estimated to have risen by about 9,7 percent.

However, retailers are expecting some slowing down in retail sales this month. They estimate that they will rise by about 24 percent in cash terms — or about 6,0 percent in real terms.

From these estimates it seems retailers are expecting inflation to take an ever bigger share of the consumer's rand.

Gold price

THE gold price advanced in Hong Kong today reaching 512 dollars after closing at 510 dollars there on Saturday, but eased to 509 dollars at the London opening.

The higher gold price reflects the weaker dollar following heavy European central bank intervention in the exchange markets at the weekend.

The South African Reserve Bank today lowered its indicated rand/dollar spot rate to 1,2941/61 dollars from Friday's 1,2966/86 dollars.

Kruger rand

KRUGER RAND today: Cape Gold Coin exchange, buy R490 (R490) sell R515 (R515); half-ounce, buy R225 (R225) sell R250 (R250); quarter buy R115 (R115) sell R125 (R125); tenth, buy R55 (R55) sell R65 (R65).

State to meet bosses in new inflation fight

RDM 23/2/81 (153) 49

By GERALD REILLY
Pretoria Bureau

THE Government is to mobilise the private sector in a new effort to combat inflation — which some authorities say is beginning to run out of control.

In his mini-Budget last week, the Minister of Finance Mr Owen Horwood indicated that the time was ripe for a meeting of Government and private sector leaders for an urgent study of spiralling prices.

The Progressive Federal Party's finance spokesman, Mr Harry Schwarz, supports a new co-ordinated effort to fight inflation.

The meeting is likely to be next month, with the Government represented by Mr Horwood's top advisers: the Governor of the Reserve Bank, Dr Gerhard de Kock; the Director-General of Finance, Dr Joop de Loor; and Dr Simon Brand.

A strong Government appeal to private employers to hold salary rises below the inflation rate is likely.

In return, the Government would be expected to keep a tighter grip on its spending, and on the prices of the wide range of key commodities and services it controls.

Price rises for a whole range of Government-administered foods is expected to be announced within the next three months. These include maize and its by-products, milk (fresh, powdered and condensed), butter, cheese and the floor price of beef.

Wheat and bread price rises are also expected before the end of the year.

Economists have warned that the pipeline is bulging with other inflationary pressures.

In his mini-budget in Parliament today, the Minister of Transport, Mr Hendrik Schoeman, is expected to announce higher railway tariffs — including train and, possibly, air fares.

Another strong inflationary influence will be the higher salaries in the public sector.

From April, R60-million a month will be pumped into the economy, and there is little hope that the increase will be matched by higher productivity.

It is expected that the CPI (Consumer Price Index) for February will rise above 16% — it was 15,5% in January.

It is food prices which are causing the greatest strain on incomes — especially for lower income groups. The food price index rose by 28,3% in the year to the end of January. This has been mainly responsible for raising the cost-of-living of lower income groups by 20%.

Despite appeals by the country's biggest trade union organisations — Tucsa (Trade Union Council of South Africa), the SA Confederation of Labour, and the Federated Consultative Council of Railway Staff Associations — Mr Horwood last week refused to exempt basic foods from sales tax.

CHEMICAL

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Miss G C Littlewort

Third Year (Silver Medal)
Miss N C Davidson

Fourth Year (Gold Medal)
P M Salmon
T J Cumming
D P Weeks
J H Rens
B F McClelland

Professor George Menzies Prize
Awarded on results of final examinations to the best male student in Land Surveying or Civil Engineering.

Current account still in surplus

RDM 24/2/81

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By HOWARD PREECE
Financial Editor

THE current account of the balance of payments seems to have been in surplus in January in spite of the sharp fall in the gold price.

This emerges from the preliminary trade figures for last month from the Department of Customs and Excise.

The balance of trade surplus in January was R364-million, according to Customs.

This is only a provisional figure and should not be taken too literarily.

It is unlikely, however, that there was a deficit of more than R250-million on "invisibles" — dividends, interest payments, shipping, insurance, etc.

On that assumption the overall current account of the balance of payments was in surplus last month even if Customs was overstating the trade balance by R100-million.

Customs figures could, of course, be understating.

Imports of oil and military equipment and all forms of gold exports are now included in the data.

Last December, Customs reported a trade surplus of only R196-million which would have put the overall current account in deficit.

That was mainly, however, because of a fall in general exports which might well have been basically due to seasonal factors.

Exports in January were valued by Customs at R1 599-million — about R150-million higher than in December.

It was, however, less than the R1 700-million recorded in January, 1980 when gold was roaring ahead at record levels.

There is no sign yet of the import boom fizzling out, although the rate of increase this year is not expected to be anywhere near as high as the 40%-plus rise in 1980 over 1979.

In January, imports reached R1 235-million, according to Customs, marginally lower than in December when there were strong buying pressures.

More pertinently, perhaps, the January level this year was nearly 25% up on the total in January 1980.

It is never advisable to read too much into one month's figures, but as it happens the average forecast of leading economists is that imports in 1981 will be about 25% up on those of 1980 by value.

Senbank reckons that if gold averages only $500 this year the current account of the balance of payments will end in deficit of about R2 000-million.

The figures for January show that exports to Europe totalled R513-million and imports were valued at R561-million.

Exports to America ran to R136-million and imports from the area to R192-million. Trade with Asia was worth R131-million in exports and R210-million in imports.

Goods worth more than R77-million were sent to Africa in January against imports from Africa totalling R18-million.

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CHEMICAL

Business Mercury

25/2/81

49

Salary boost will push up inflation

Financial Editor

WHAT sort of a boost can the injection of R920m in civil servant salary increases and pensions, plus another R225m in railway salaries and pensions, give to the inflationary spiral?

Last year the Minister of Finance, Mr Owen Horwood, pumped R2 500m into the economy by way of tax concessions.

Inflation reached 15.9 percent by December and the money supply showed signs of overheating.

Consumer spending measured by the collection of general sales tax was R22 632m between the 1979 budget and December 1979.

It increased by 33 percent to R30 203m from the 1980 Budget last March up to last December. That is, the R2 500m boosted spending by a multiple of three to an increase of R7 517m.

Economists are agreed that the surge of consumer spending which caught industry by surprise was largely responsible for the 8 percent growth in the economy last year.

The prospects are that with the two budget handouts consumer spending from now to December could rise by about 11 percent.

Real growth

Real growth in 1981 is expected to be about 4 to 5 percent and it will be strengthened by heavy investment by industry in new capacity — an indication that spending will be different this year.

Imports of machinery and similar capital equipment will be affected by the way the rand moves against the dollar — it is expected to be downwards with a $1.40 rand being out of the question. Somewhere about $1.28 is more likely for the next few months.

This will also have its effects on the value of exports and the balance of payments. A drying up of the trade surplus will also mean reduced domestic liquidity — a deflationary move.

Given that increased spending will probably not be matched by increased output the possibility of demand inflation (shortage of goods leading to increased prices) is real.

But the real inflation push must come from the increased rail tariffs which are about 15 percent across the board. More rises are expected.

● Maize and oil seed traditionally have a May rise — estimated 15 percent up.

● Flour is expected to rise in October by 10 to 12 percent. The main budget in August could lead to adjustmnents to the bread price.

● The Seifsa wage award affecting 500 000 workers and the prices of steel and fabricated articles is expected to give a 20 percent wage rise two months earlier than the usual July 1.

Car prices

● Car prices should rise by about 3 to 4 percent a quarter (16 percent on the year). Tractors are affected by the Atlantis diesel project from October and current prices could rise 10 percent.

● Paint prices may rise by 12.5 percent but are dependent on the oil price which is not expected to rise significantly this year.

● Petrol, diesel and paraffin prices hinge on the oil price and on the Government's decision on how much it will pass on to the consumer — industrial sources suggest a 7.5 percent rise this year.

● Building materials, besides being in short supply should rise by about 10 percent which with labour costs and other bottlenecks, would confirm the Bureau for Economic Research's prediction of a 30 percent rise this year. Cement and bricks are expected to get a 10 percent rise from April 1.

You can bank on it, Natal's factories are

IN FULL SWING FOR A BOOM

49

S. Tribune 1/3/81

NATAL industry is going flat out to install new plants to keep pace with the burgeoning economy.

The general manager Natal for Barclays, Jim McKenzie, says large loan facilities are being granted every day to industries in the province at a level substantially higher than in the past.

He says the upturn in industrial expansion that hit the Reef first is now in full swing in Natal. Factories are working at or near capacity and plant is being expanded, probably at a record rate.

Roland Freakes, executive director of the Natal Chamber of Industries, says a recent survey shows that several sectors are working at capacities higher than their previous best. Clothing, footwear, wood and wood products, printing and publishing, textiles, furniture, paper and motor vehicles are all either expanding or are poised for expansion.

Only tobacco, industrial chemicals, rubber products, non-ferrous metals and transport equipment still have spare capacity, but not much.

By JACK BRICKHILL

Recent figures on expansion are hard to come by but Nedfin Bank has recognised the business potential by setting up a new regional operation in Natal under manager Tom Gillham.

Gillham says contracts for more than R100 million of project finance in Natal have been concluded by his bank over the past few months.

The money mainly covers the purchase of plant and machinery by local industries.

There is also an increasing demand for professional finance, particularly from medical practices. Nedfin has arranged the financing of a R700 000 body scanner — the first to reach Natal — which will be used by a partnership of radiologists in Durban.

The bank's expansion in Natal is part of a national development programme designed to double its market share within five years.

First step has been to set up the new regional operation. Previously the bank was represented only at branch level with offices in Durban and Pietermaritzburg and a sub-branch in Pinetown.

Now a fully-fledged branch is planned for Pinetown.

Nedfin is recruiting extra staff to cope with the Natal expansion.

Says Gillham: "Although we will concentrate on the corporate market, we believe we have to offer a finance service to the broad spectrum of Nedbank clientele. As far as flexibility is concerned we tailor finance to match needs — using leasing, suspensive sales or HP agreements.

"Very often off-shore finance or export credit facilities are used for funding larger transactions."

'Too much gloom' over W Cape future

Argus 6/3/81

49

Property Editor

GLOOM about the impending decline of the Western Cape was much overdone, Mr Brian Kantor, senior lecturer at the School of Economics at the University of Cape Town, said yesterday.

Speaking at a seminar organised by the South African Property Owners' Association on property investment in the '80s, Mr Kantor said growth in the Western Cape was likely to accelerate well in line with the country's economic growth in this decade.

'The Cape Town lobby for Government concessions may have unintentionally led Capetonians and others to believe their own propaganda about the impending decline of the region.'

SERVICE

He envisaged the development of the Western Cape as an administrative and service centre, as well as an employer of more skilful industrial labour.

Government policies had led to an immobility of coloured labour in the Cape and in turn depressed wages. But the lower wages in the Cape, compared to those on the Witwatersrand, would attract business houses.

However, the performance of the Western Cape economy would depend more closely on domestic expenditure than did the South African economy in general.

He estimated that the labour force in the region would become progressively better educated, acquiring more skills generally than labour on the Witwatersrand.

Mr Kantor criticised the Government's plan for land use in the Western Cape known as 'spatial development strategy'.

'The conceptual framework of the plan is typically uninformed by economic analysts,' he said.

There was a complete disregard for the role played by prices — land prices, rents and wages — in allocating land and labour resources in an efficient way.

EXCHANGE CONTROLS (19)

More red tape

FM 4/3/81

Last month new regulations for the purchase and sale of foreign currency by residents of the rand monetary area (RMA) became effective, necessitating the issue of a new Form A (for the purchase of foreign currency) and a new Form E (for the sale of foreign currency).

The new forms provide a more specific analysis of foreign currency transactions than previously. Form E has no fewer than 27 categories, ranging from "capital investment in RMA" to "unused travel facilities of RMA resident." Just in case any other categories might have escaped this compendious list, there is category 28 — "any other transaction."

The new forms require a declaration by the person selling or buying foreign currency. A seller must declare (Form E) that no balance of foreign currency due in respect of the underlying transaction is being withheld in contravention of the Exchange Control Regulations.

A buyer must declare (Form A) that foreign currency is being acquired for the purpose stated and that the transaction will not lead to a credit in foreign currency due, directly or indirectly, to the applicant or to any other resident of the RMA.

The commercial banks have not been prepared to assume responsibility for the honest completion of the new forms by their clients, who have, since the introduction of the new forms, been obliged to do so themselves. The only exceptions are when the client is absent from the RMA or for "other good reasons."

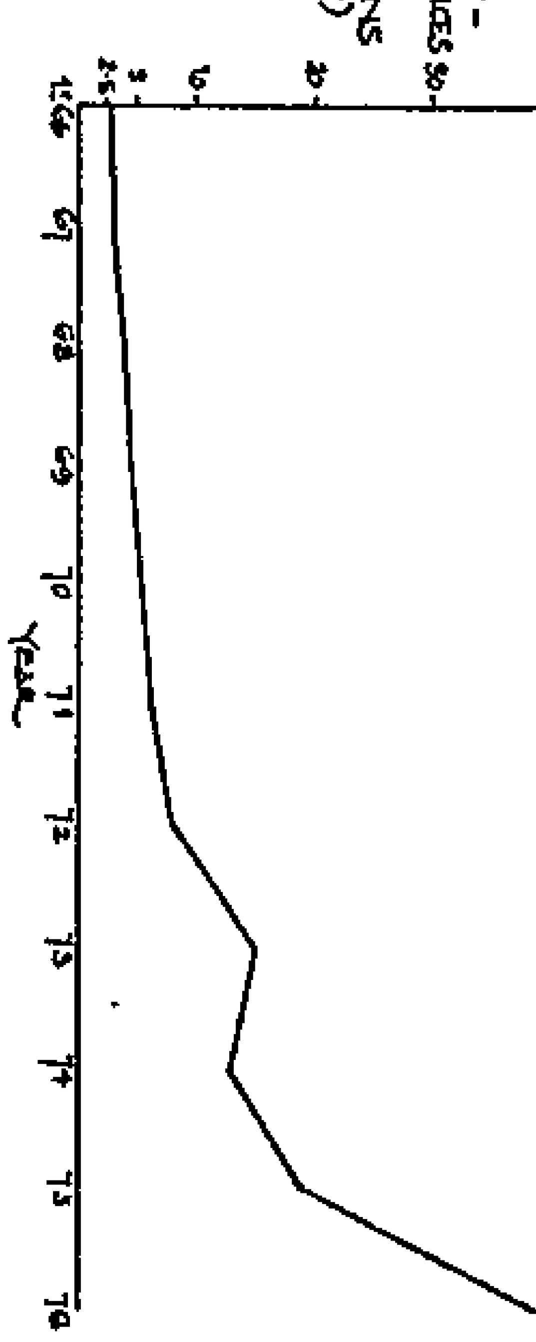
Although the need to sign the forms in person might superficially appear an unnecessary burden on bank clients, the wording of the declaration makes it clear that it would be unreasonable to expect the banks to sign, as they would then be assuming legal responsibility.

It is only too obvious that the new Forms A and E were motivated by an official desire to achieve more effective control over foreign currency transactions. This sort of inconvenience is unlikely to disappear as long as officials continue to perceive the necessity for exchange controls to apply to SA residents.

The irony is that in his mini budget speech Finance Minister Owen Horwood severely criticised the efficiency of exchange controls, which are administered by the Reserve Bank as his agent. Moreover, at roughly this time last year, the bank unilaterally tightened exchange control procedures only to have them reversed by the Minister in his March budget.

In 1966 there were 28 657 outpatient attendances. By 1976 this figure had increased more than tenfold.

GRAPH 3
NUMBER OF OUT-PATIENT ATTENDANCES AT ALL MENTAL HEALTH INSTITUTIONS 1966-1976 ($\times 10^3$)

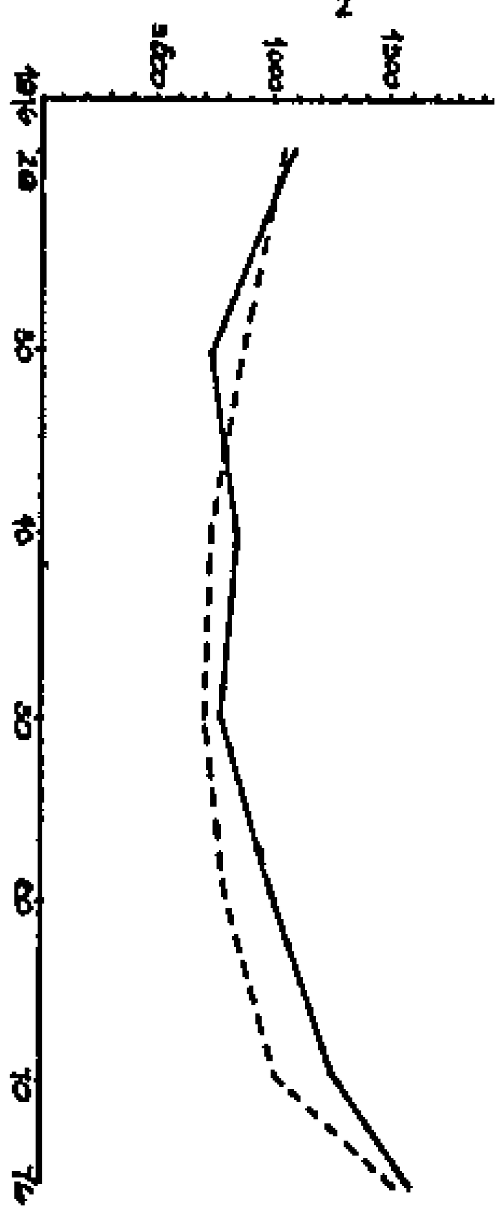


The outpatient services comprise two sections:

a). Outpatient department psychiatry clinics i.e. patients attend at hospital clinics.

--- NUMBER OF INPATIENTS RESIDENT IN STATE MENTAL HOSPITALS AS FRACTION OF POPULATION (%)

— NUMBER OF BEDS AT STATE MENTAL HOSPITALS AS FRACTION OF POPULATION (%) 1919 - 1976



In 1919 one in every 1 080 people were patients in psychiatric hospitals. By 1976 one in every 800 were resident inpatients.

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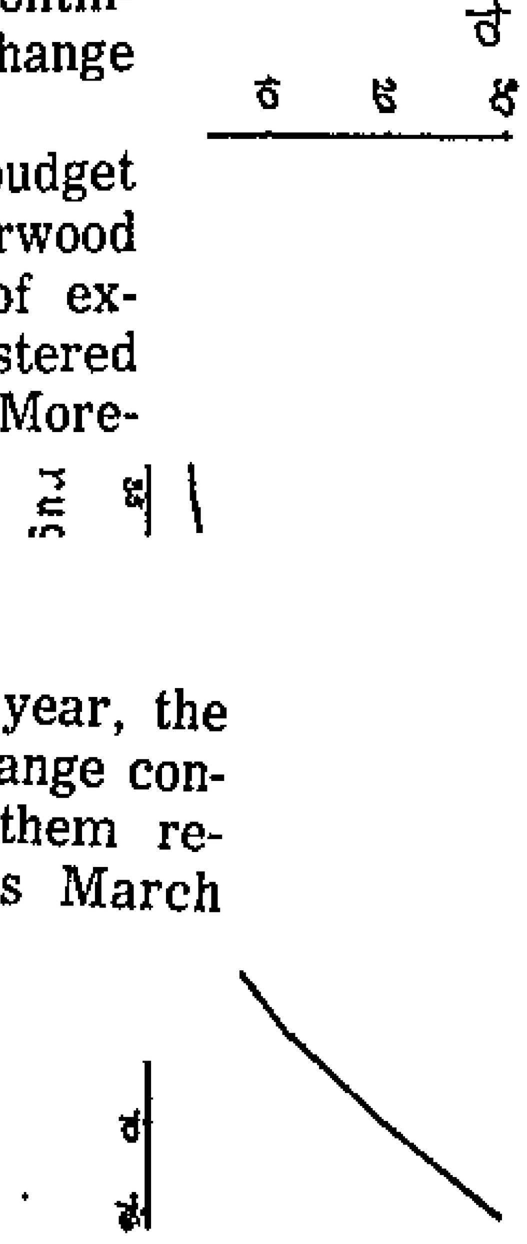
Admissions 1919-1976

In 1920, 1 750 patients were admitted to state hospitals. In 1976 at least 39 700 patients were admitted to state, provincial and homeland hospitals. The number of admissions grew more than 20 times. The discharges mimicked the pattern of the admissions.

GRAPH 5
NUMBER OF ADMISSIONS TO STATE MENTAL HOSPITALS ($\times 10^3$) 1920-1976



The responders required an average of 6 weeks hospitalisation, and were then managed as outpatients. This allowed for a greater rate of inpatient turnover.(6)

6. e.g. If hospital A with 800 beds has 800 inpatients in a year, none of whom improve and qualify for discharge, then a total of 800 patients would be resident in that hospital annually. If, on the other hand, hospital B discharges all its patients every 6 weeks, then a total of 6 900 patients would be resident in that hospital annually. Thus nearly 9 times as many patients rotate through hospital B compared to hospital A annually.

./...

they are at special risk of many infections which may precipitate overt MN. Thus in a series of fifty children with kwashiorkor, one in four had been seen during the previous month with UN + measles. Again, in an analysis of the progress of 260 children attending a nutrition clinic, 56 had previously been seen with UN but not treated and had all deteriorated, one in four to kwashiorkor or marasmus. (See Graphs I)

(b) Extrovert approach. If the aim is to detect malnutrition and define its extent and manage it effectively, it is clearly not practical to wait for impoverished, poorly motivated, handicapped or depressed people to seek attention, but to go out into the community to find them.

This was well demonstrated during a ten week campaign when a doctor was available to visit the district intensi thin community members to invite "all venues. In a period when about 70 new simply being available at clinics, 292 almost four times the usual rate, as we

An interesting aspect of the campaign w guardians of undernutrition. Many chil but except for a handful of opportunist to weigh below the third Boston percent

2. Hospitalisation.

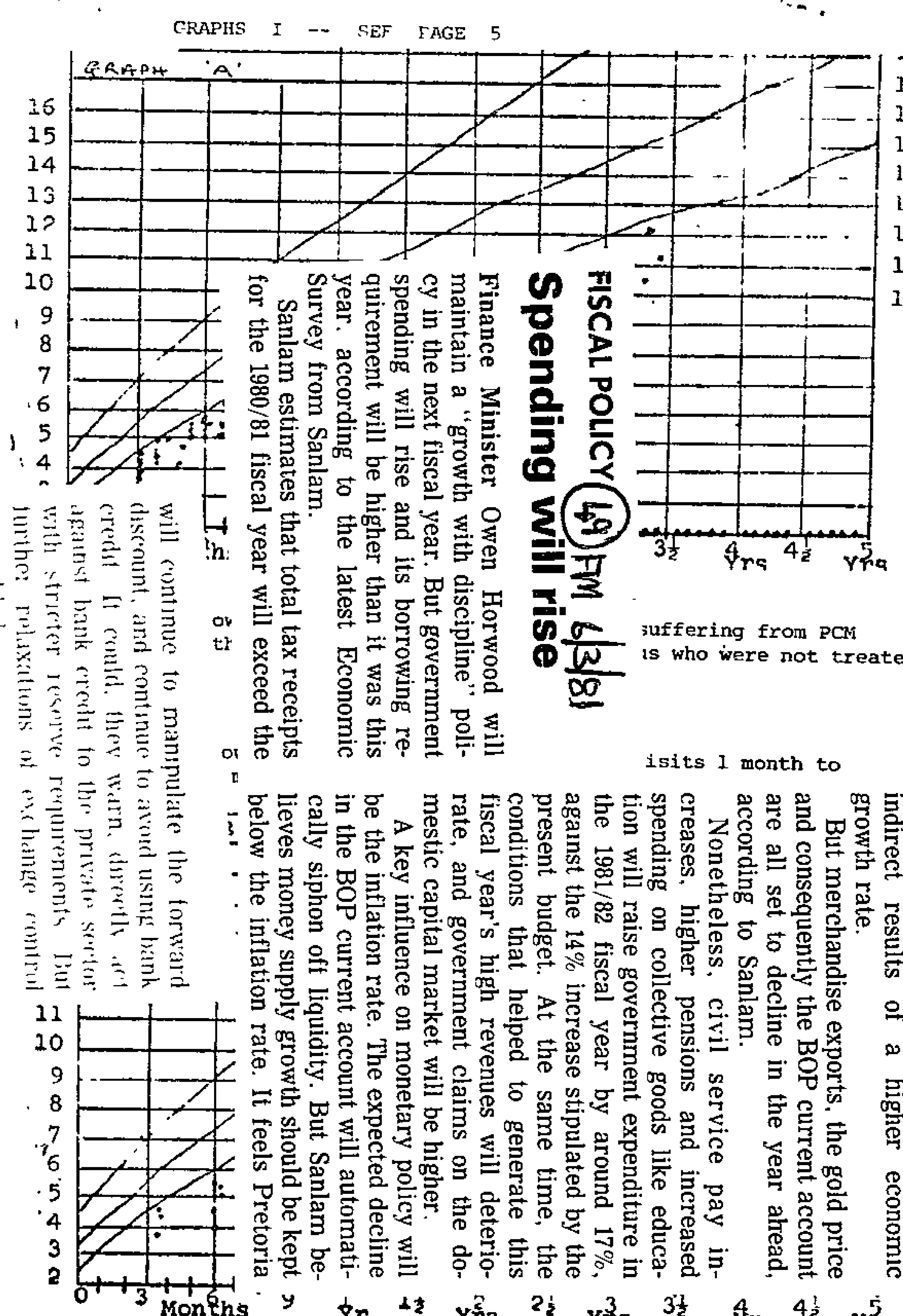
Undernourished children usually come from int care of their mothers, and their fathers' sup simply and directly related to their poverty. These children only need a supply of protein to be brought within their means and their nutrition will improve because their mothers are both competent and well motivated to make good use of any available resources.

On the other hand, MN children are usually even poorer than UN children, and in addition come from extremely disorganised homes. It is essential to recognise that MN is the result of an extremely hostile home and community environment and that circumstances which caused it in the first place are seldom suitable for its treatment. MN children who are not hospitalised often die. This was dramatically illustrated during the nutrition campaign described above when, because of the overcrowding it caused, it was not possible to admit all new cases of MN in accordance with normal hospital procedure. Children with less severe diseases and more suitable guardians were managed with milk and instruction. The following table shows their fate at six weeks compared with the hospitalised group :

.../6.

5(a)

GRAPHS I -- SEE PAGE 5



FISCAL POLICY (49) FM 6/3/81

Spending will rise

Finance Minister Owen Horwood will maintain a "growth with discipline" policy in the next fiscal year. But government spending will rise and its borrowing requirement will be higher than it was this year, according to the latest Economic Survey from Sanlam.

Sanlam estimates that total tax receipts for the 1980/81 fiscal year will exceed the budgeted amount by nearly R2,5 billion. This is the result of increased imports attracting excise duties, higher sales netting about R90m more in gst than was expected, and increases in personal income and company profits bringing in higher tax revenues. All, of course, the indirect results of a higher economic growth rate.

But merchandise exports, the gold price and consequently the BOP current account are all set to decline in the year ahead, according to Sanlam.

Nonetheless, civil service pay increases, higher pensions and increased spending on collective goods like education will raise government expenditure in the 1981/82 fiscal year by around 17%, against the 14% increase stipulated by the present budget. At the same time, the conditions that helped to generate this fiscal year's high revenues will deteriorate, and government claims on the domestic capital market will be higher.

A key influence on monetary policy will be the inflation rate. The expected decline in the BOP current account will automatically siphon off liquidity. But Sanlam believes money supply growth should be kept below the inflation rate. It feels Pretoria will continue to manipulate the forward discount, and continue to avoid using bank credit. It could, they warn, directly act against bank credit to the private sector with stricter reserve requirements. But further relaxations of exchange control are unlikely.

So government's financial policy in the foreseeable future Sanlam concludes will "be directed at counteracting overheating in the economy while at the same time ensuring that a reasonably satisfactory growth rate will be maintained. Given the current momentum in the economy even a neutral government stance should yield a 5% gdp growth rate in 1981. But inflation, as measured by the cpi, will be about 15%. And with the BOP current account falling, the demand for loanable funds rising, a high inflation rate and a conservative monetary policy, interest rates will rise further in the next year.

Standard fears for SA growth

RDM 9/3/81

49

Financial Reporter

A DEFICIT of R1 600-million to R1 800-million on the current account of the balance of payments is likely this year unless the gold price recovers significantly and soon, according to the Standard Bank Review.

It says: "If realised, such a deficit is bound to emerge as one of the most seriously restrictive factors for growth through its influence on domestic liquidity, interest rates and official policy."

The current account forecast — on the assumption that gold averages $500 or below this year — is broadly in line with that of Senbank which has forecast a deficit of R2 000-million if gold remains depressed

Standard says: "Provisional foreign trade statistics for the past year as a whole show that South Africa's overall merchandise trade exports, including gold bullion as well as oil and arms, amounted to a record R5 532-million — 13% higher than the 1979 surplus of R4 907-million.

"While the overall result is certainly impressive, it is attributable largely to record gold earnings which for a time disguised a weakening fundamental position.

"The country's non-bullion trading position has in fact deteriorated significantly throughout the year — an early response to poor world conditions and the domestic boom.

"As a consequence, the 1980 non-bullion trade balance was in deficit by no less than R3 802-million — almost nine times larger than the small R439-million deficit recorded in 1979.

"The substantial widening of the non-bullion trade deficit last year is attributable to a merchandise import bill (including oil and arms) which increased by 45% for the year while merchandise export earnings rose by only 11%.

"Since no noticeable recovery in the economic growth performances of South Africa's major trading partners can be expected until late this year, there are strong indications that the country's non-bullion export performance will deteriorate in 1981.

"Although much slower domestic economic growth is on the cards now, pointing to a reduced growth rate in merchandise imports this year compared with 1980, a continued rising trend in fixed investment will continue to underpin imports, particularly of capital equipment."

Standard says: "In view of these developments South Africa's non-bullion trading position can be expected to deteriorate further and a non-bullion deficit of some R6 500-million must be reckoned with this year.

"Nevertheless, short of a drastic and sustained decline in the gold price from present levels, bullion earnings are likely to more than compensate for this large shortfall and the overall merchandise trade balance in 1981 is still likely to reflect a surplus, albeit a substantially smaller one than last year's.

"An average gold price of $500 an ounce in 1981 would not, however, be sufficient to ensure a favourable balance on the overall current account of the balance of payments even if, as anticipated, the rand depreciates further against the dollar.

"This is so because South Africa traditionally runs a large services deficit and this year the deficit is likely to be substantially above the estimated 1980 level of R3 200-million.

"Consequently, to avoid a current account deficit the average gold price for the year would have to be considerably in excess of $500."

SA foreign currency holdings surge

RDM 10/3/81 (49)

By HAROLD FRIDJHON

A R166-million surge to R649-million in the Reserve Bank's holdings of foreign currencies resulted in the gold and foreign exchange reserves at the end of February rising by R147-million to R5 034-million.

Gold holding were virtually unchanged at R4 309-million, although the bank's stock rose by about 56 000 ounces, suggesting that about 3% of the monthly output had been withheld from the market. The price at which gold was valued was lower — R351,01 an ounce compared with R352,55 an ounce at the end of January.

The bank's holdings of foreign bills dropped from R64-million to R39-million.

The Reserve Bank's February statement is interesting because it suggests the extent to which it assisted the private sector to handle the flood of tax money which flowed to the Treasury. To a large extent this flow was smoothed by the issue of special tax tap bills, but this mechanism did not help the private sector over its difficulties.

What is surprising is that the Government's deposits with the Reserve Bank rose to only R446-million. Last February the Government balances were R955-million and in August they reached R1 106-million One can only assume that there were large sums in transit which had not come into account.

Or did the Treasury make an immediate transfer to the stabilisation account to offset the huge injection of cash into the system by the Reserve Bank?

The Reserve Bank pumped no less than R653-million into the banks — if one ignores the R635-million worth of bills which had been discounted.

The Reserve Bank's investments in Government securities were doubled, rising from R282-million to R568-million. This probably represents the central bank's purchase of excess prescribed assets from the banking system to provide them with cash to meet end-of-tax-year demands from their customers.

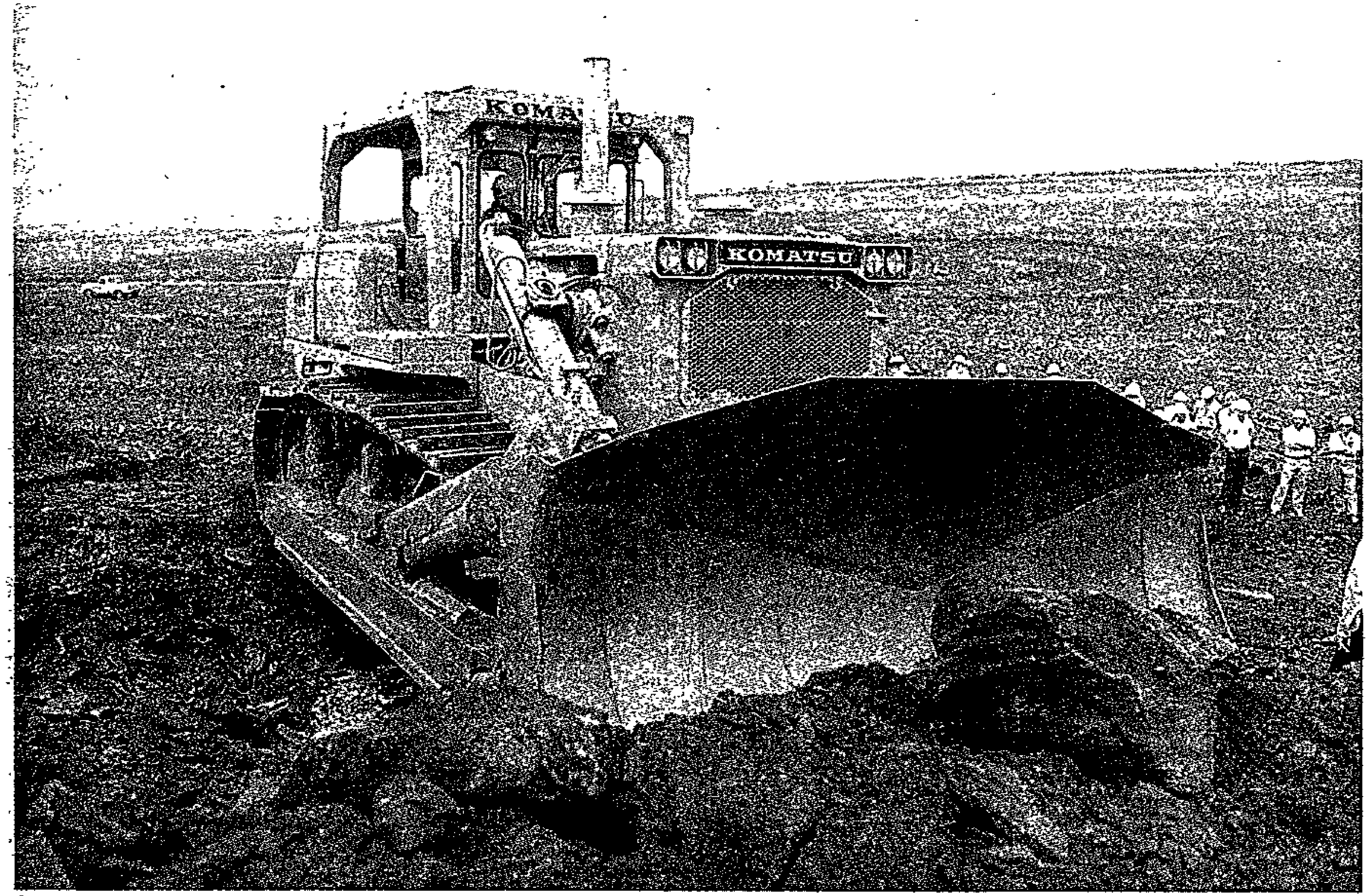
The other significant figure was the increase of R367-million in the central bank's investments in other securities. These investments are probably bankers' acceptances which the Reserve Bank acquired last month as part of its rescue operation.

These figures are an indication of new policies at the Reserve Bank — to go into the market and buy assets at times when the banking sector is under pressure. In other words, a working together instead of a pulling apart.

But at the same time it is improbable that the Reserve Bank would pump cash into the system without some assurance that there would be an equal drain on the money supply. Hence the assumption that the Treasury might have frozen several hundreds of million rands in the stabilisation account.

TAX BONANZA FOR HORWOOD

S A. Industrial Week 10/3/81 (49)



Plant specialists from all over the country have been guests of the Sigma Power Corporation at a series of demonstrations of this 81-ton Komatsu D455A bulldozer — one of the biggest in South Africa — at the big Amcoal open-cast colliery at Arnot, near Middelburg. The dozer's six-ton single-shank ripper tears through rock and overburden to a depth of 1,7 metres and the blade has a capacity of 26,1 cubic metres. The bulldozer sells for around R550 000.

THE economic boom promises to bring the Goverment its biggest tax bonanza on record with revenues sweeping as much as R2 500-million over 1980/81 budget estimates.

While Owen Horwood, Minister of Finance, took aim at tax revenues of R10 911-million in the 1980 Budget a year ago, economic researchers at Sanlam have worked out that in fact the total looks likely to surge to R13 440-million.

As a result of sky-high bullion prices in the 1980 gold fever and the big profits that went with them, the gold mining industry alone will be paying in about R3 600-million in tax — almost R1 000-million more than originally expected.

The sharp increase in consumer spending may well bring in R1 640-million in general sales tax, compared with the R1 550-million anticipated.

The widespread advance in business profits will mean a much bigger bite for the government in company tax.

And there is bound to be a considerable rise in revenue from personal income tax, stemming from the extra jobs created by the boom, higher salaries and wages, and the boost in income from swollen dividends from the stock market.

Government spending will also be up — perhaps as much as 18,5 % on 1979/80 expenditure.

The Sanlam analysis estimates that a budget deficit first calculated at around R2 200-million for the full year was in fact running at only R1 200-million a few weeks ago and is likely to be trimmed still more yet.

Like virtually all other economic teams, the Sanlam researchers envisage an inevitable slowdown to the boom in 1981. Even so they believe there is still sufficient momentum to reach a growth rate in the real gross domestic product of a respectable 5 % for the year as a whole.

The principal concern, of course, is evidence of worldwide economic stagnation, if not recession, which is certain to apply the brakes to South African exports.

More clouds gathered at the weekend when the European Economic Commission changed its mind over original forecasts that the Common Market, where South Africa finds most of its main trading partners clustered, might

GENERAL NEWS

'Co-prosperity zone' proposed for Border

11/3/89 STAR (41)

Own Correspondent

EAST LONDON. — A strong plea was made to the Van der Walt Commission in East London yesterday not to incorporate Berlin into the Ciskei, and to propose the development of the whole "Border corridor" as a "co-prosperity zone."

The plea was made by the Mayor of East London, Mr Donald Card, and his deputy, Mr Errol Spring, who envisaged this system of economic sharing of the Border with Ciskei and Transkei.

Mr Card told the commission that incorporation of more land into Ciskei was not the answer to the problems of the region.

The biggest problem in the region was unemployment, which led to unrest.

The region needed industrial development, which would not take place as long as there was uncertainty.

"The incorporation of Berlin will only increase the uncertainty," he said.

"If the Border corridor is narrowed further with a possible sharing of the harbour and airport, what will remain of our area?

"How can there be certainty of the future? Will we still be viable?

"Should the Government decide on incorporation, we must believe that it sees this area as expendable because of a policy."

FRAGMENTATION

Mr Card said that a co-prosperity scheme would, on the other hand, solve the problems of economic fragmentation of the area.

If Berlin had already been promised to Ciskei the co-prosperity plan had gone by the wayside.

"If all parties in this area want co-prosperity, how can the Government say incorporation is in the interests of the region and the country?

"We need co-prosperity zones, not the loss of further land. Then, with our neighbours in Ciskei and Transkei, we can work out ways of living together in a great country."

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RATION, CONSCIOUSNESS AND SOLIDARITY.

ping countries, peasant (service) co-operatives y governments, local authorities or other local leaders, without due regard to the fact that everything depends on the degree of incorporation of a rural community, on who will be willing to co-operate, and to what ends. For this reason, the co-operatives often fail. If they do not, governments are likely to have unrealistic expectations regarding their effects.

The promoters see the co-operative not only as an excellent way in which to stimulate local agricultural development but often expect, implicitly, that everyone will benefit. However, the history of all successful service co-operatives shows that they benefit the somewhat richer, somewhat larger, more innovative and more educated peasants rather than the others, and that they cannot prevent the increase of socio-economic differentiation.

The rise and fall of induced co-operatives can be sketched in ideal typical form (cf. Galjart, 1975b):

a; A local government official or some other prominent person who is certain of the utility of a co-operative, talks about it with local peasant-farmers. If these show interest, he looks for informal leaders whose task it becomes to convince others to participate in setting-up an association.

(1) This shortage and also the lack of adequately trained personnel has been cited since the Tomlinson Commission. For references see Neil Alcock "Thoughts on Kwa-Zulu's agricultural future (Roneod) p.9 + 10. See also The Kwa-Zulu Government Service Select Committee on Land Tenure Interim Report 1975.

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KANTOOR VAN DIE EERSTE MINISTER

No. 504. 11 Maart 1981.

Hierby word bekend gemaak dat die Staatspresident sy goedkeuring geheg het aan die onderstaande Wet wat hierby ter algemene inligting gepubliseer word:—

No. 37 van 1981: Addisionele Begrotingswet, 1981.

OFFICE OF THE PRIME MINISTER

No. 504. 11 March 1981.

It is hereby notified that the State President has assented to the following Act which is hereby published for general information:—

No. 37 of 1981: Additional Appropriation Act, 1981.

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See full text sa GG

KANTOOR VAN DIE EERSTE MINISTER

No. 506. 11 Maart 1981.

Hierby word bekend gemaak dat die Staatspresident sy goedkeuring geheg het aan die onderstaande Wet wat hierby ter algemene inligting gepubliseer word:—

No. 39 van 1981: Gedeeltelike Begrotingswet, 1981.

OFFICE OF THE PRIME MINISTER

No. 506. 11 March 1981.

It is hereby notified that the State President has assented to the following Act which is hereby published for general information:—

No. 39 of 1981: Part Appropriation Act, 1981.

49

THE ECONOMY FM 13/3/81 49

What not to worry about

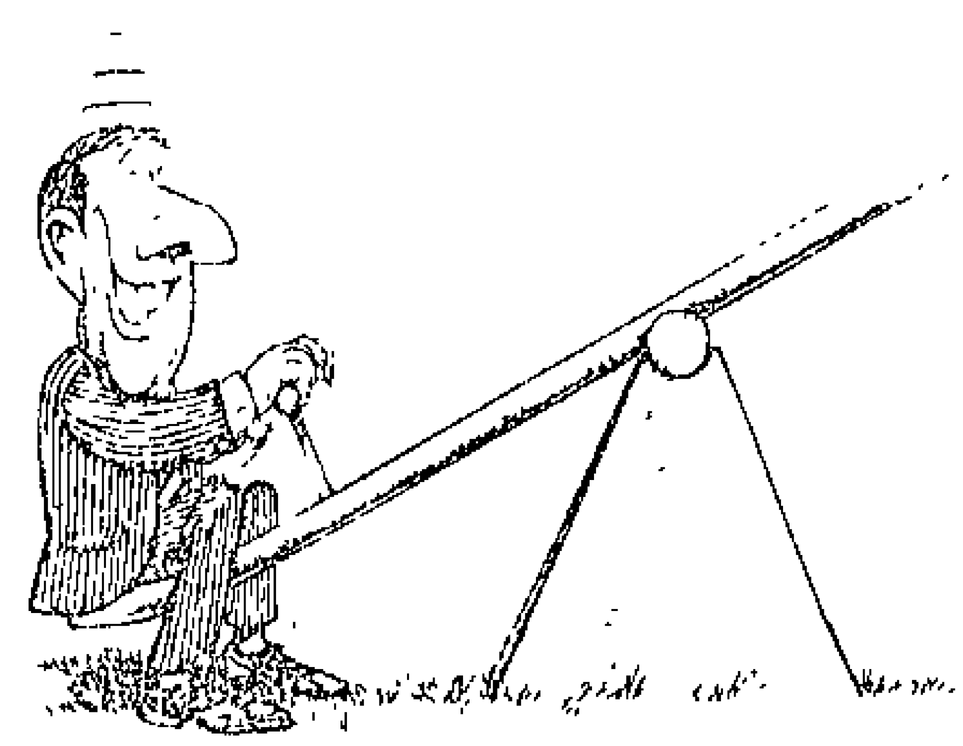
Attempts in the popular press and elsewhere to "talk down" the economy reflect, to put it kindly, a good deal of ignorance.

In October last year Dr Gerhard de Kock, now Governor of the Reserve Bank, warned specifically about the tendency to see natural economic trends as setbacks. Indeed, De Kock pleaded for a more balanced approach while warning that "naive amateur analysts" would express "surprise and disappointment" at perfectly natural changes in the economy.

The Governor appealed to "financial journalists and analysts . . . to draw a clear distinction between . . what we *should* worry about and what we need *not* worry about."

It was all to little avail and we imagine the Governor is exasperated. In his October address he concluded, after a lucid argument, that a sharp downturn of the current account was *not* something to worry about. He pointed out that "this development is both natural and desirable."

He added: "The sharp increase in imports has reflected the increased prosperity and has helped to delay the advent of general demand inflation by augmenting the supply of goods and services in response to rising demand. It has also provided much needed competition to contain domestic industries which might otherwise have been in a position to increase their prices inordinately.



"A sharp rise in imports is, in any event, a perfectly normal feature of every cyclical upswing in SA, particularly since more than four-fifths of SA's imports consist of capital and intermediate goods. For these reasons, what might appear to be a 'deterioration' of the balance of payments on current account in 1980 and 1981, will, in fact, be a symptom of rapid real growth, prosperity and underlying economic growth in SA."

Could anything be more clearly stated? Surely even "naive amateurs" should be able to grasp the point.

De Kock went on to describe views that the current and capital accounts would decline "simultaneously and indefinitely" as "entirely fallacious." He carefully explained that, as we swing into deficits, interest rates rise, the switching of trade financing from foreign to domestic sources is reversed and capital flows back.

This, as he said, was "simply how the system works." "Unfortunately," he added, "many analysts have short memories." How right he was. And today those commentators are doing SA a disservice by spreading gloom, alarm and despondency on the basis of events which are normal, predictable and healthy. Public attention is being focused away from more telling issues, such as the skills shortage, black education and the inadequate management of food prices.

Here are some of the things which the Governor believes we should not worry about:

☐ The high rate of growth in 1980. It wasn't too high, he said. There was enough slack in the economy to absorb it and it took place . . . "*where* we wanted it — mainly in the *private* sector."

☐ The so-called "dangerous spending spree" on consumer goods. "Such spending," he said, is a "welcome and essential part of the process of economic growth . . ."

☐ The wage and salary explosion. "With real growth of 7% and money growth of 20% . . . it would be unreasonable and unrealistic to expect wage and salary rates to rise by no more than productivity. That would imply an enormous decline in the real remuneration of most people and in the relative share of wages and salaries in the total national income, and that in a year in which the economy as a whole is undoubtedly prosperous."

☐ A decline in the rate of growth in 1981. This, he said, will ". . . not be anything to worry about." In 1981 growth will be off a far higher base in an economy with very little slack in it.

☐ High interest rates. He saw these as "normal and desirable" and "not as an unexpected setback or cause for concern."

☐ The fall in share and property values. This is a "normal cyclical phenomenon" and "simply the way the system works."

De Kock is a realist. He knows we have problems — such as the skills bottleneck and inflation — but all he asks is that analysis and comment be accurate and not misleading.

In addition to the points he makes, it is also clear that even if the capital account of the balance of payments should take time to move into surplus, the financing of a trade deficit as large as R2 500m will present no problem. With no foreign loans at present, SA's foreign credit worthiness is good.

Have we not problems enough without having to conjure up new ones?

DEPARTEMENT VAN FINANSIES | DEPARTMENT OF FINANCE

No. 535 — 13 Maart 1981 | No. 535 Gly 7473 — 13 March 1981

Staat van Inkomste ingevorder gedurende die tydperk 1 April 1980 tot 31 Januarie 1981.

Tesourie, Pretoria

Statement of Revenue collected during the period 1 April 1980 to 31 January 1981.

Treasury, Pretoria

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Inkomstehoof	Head of Revenue	Begroting Estimates 1980-81	Ingevorder vir die jaar geëindig 31 Maart 1980 Collections for year ended 31 March 1980	Maand Januarie Month of January 1981	Maand Januarie Month of January 1980	Totaal 1 April tot 31 Januarie Total 1 April to 31 January 1981	Totaal 1 April tot 31 Januarie Total 1 April to 31 January 1980
		R	R	R	R	R	R
Staatsinkomsterekening	*State Revenue Account*						
Doeane en Aksyns	Customs and Excise						
Invoerreg	Customs Duty	480 000 000	45[illegible] 108	65 [illegible] 007	40 200 570	596 469 273	375 513 540
Aksynsreg	Excise Duty	1 111 0[illegible] 000	1 013 [illegible]	173 [illegible]	148 [illegible]	1 077 110 0[illegible]	825 702 422
Verkoopreg	Sales Duty	500 000	[illegible]	[illegible]	[illegible]	[illegible]	1 100 423
Bobelasting	Surcharge	1 000 000	2[illegible]	Dr [illegible]	24 9[illegible]	Dr 2 616 760	2[illegible] 546
Diverse	Miscellaneous	19 000 000	[illegible]	[illegible]	4 702 455	43 [illegible]	19 325 370
R		1 611 [illegible] 000	[illegible]	[illegible]	2[illegible] 510	1 665 451 867	1 436 383 331
Oordrag na Sentrale Inkomstefonds	Transfer to Central Revenue Fund (a)	Dr41 100 000	Dr 34 495 546	Dr 3 000 000	Dr 1 000 000	Dr 30 500 000	Dr 30 500 000
Betalings ingevolge Doeane-Unieooreenkomste	Payments in terms of Customs Union Agreements (b)	Dr500 200 000	Dr402 465 8[illegible]	Dr126 [illegible] 500	Dr100 6[illegible]	Dr504 919 435	Dr402 465 892
R		Dr541 300 000	Dr436 961 [illegible]	Dr129 22[illegible] 500	Dr101 614 750	Dr535 419 435	Dr432 965 892
R		1 070 226 000	1 293 464 5[illegible]	122 006 6[illegible]	114 302 060	1 130 032 432	1 003 417 439
Binnelandse Inkomste—	Inland Revenue						
Belasting op Inkomste	Tax on Income	5 950 200 000	5 224 057 755	541 442 281	414 603 489	5 636 107 016	3 905 001 668
Ander Belastings en Ontvangste	Other Taxes and Receipts—						
Goudmynhuurkontrakte	Gold mining leases	635 000 000	334 270 081	3 106	3 239	550 491 570	218 954 517
Ander mynhuurkontrakte	Other mining leases	16 000 000	15 433 263	5 930	12 676	906 548	251 803
Staatseiendomsreginkomste op diamantmyne	State Ownership Revenue on diamond mines	44 000 000	40 176 148	27 353	3	206 601	157 218
Uitvoerreg op diamante	Export duty on diamonds	31 000 000	31 365 265	3 873 809	3 081 567	21 382 161	25 826 915
Belasting op buitelandse aandeelhouers	Non-Resident shareholders' tax	200 000 000	161 208 119	25 963 523	13 689 467	246 073 135	129 678 965
Rentebelasting op buitelanders	Non-Resident's tax on interest	16 000 000	15 540 840	992 017	1 201 243	9 806 131	12 743 648
Belasting op onuitgekeerde winste	Undistributed profits tax	5 000 000	4 207 096	92 635	403 641	2 062 316	3 563 203
Belasting op geskenke	Donations tax	1 500 000	1 476 310	58 655	180 974	1 650 771	1 209 304
Seëlregte en gelde	Stamp duties and fees	150 000 000	123 771 930	12 162 805	10 863 471	107 183 979	9[illegible] 399 637
Hereregte	Transfer duties	95 300 000	99 450 559	11 550 252	7 750 131	127 153 295	[illegible]
Boedelbelasting	Estate duties	48 500 000	[illegible] 871 649	7 001 017	4 724 682	51 167 004	4[illegible] 451 475
Belasting op bemarkbare sekuriteite	Tax on marketable securities	20 000 000	23 667 167	2 103 253	2 071 174	[illegible] 125 [illegible]	16 516 2[illegible]
Lisensies	Licences	3 000 000	2 478 509	207 400	213 940	2 276 388	2 268 580
Kinematograaffilmsbelasting	Cinematograph films tax	1 000 000	896 263	92 345	98 240	[illegible] 263	[illegible] 012
Ander	Other	1 400 500	2 082 588	Dr 583 958	159 367	1 5[illegible]	2 [illegible] 949
Departementele en Diverse Ontvangste—	Departmental and Miscellaneous Receipts						
Staatsdiamantdelwerye	State Diamond Diggings	13 585 000	28 313 100		3 625 185	[illegible]	24 191 153
Bosinkomste	Forest revenue	28 000 000	33 971 507	4 072 375	4 657 300	35 326 056	26 6[illegible]
Waterinkomste	Water revenue (c)	33 000 000	46 947 [illegible]	5 966 950	2 744 9[illegible]	4[illegible]	35 [illegible]
Boetes en verbeurdverklarings	Fines and forfeitures	12 000 000	11 65[illegible]	[illegible] 120	[illegible]	10 [illegible] 52	[illegible]
Verhalings van voorskotte	Recoveries of advances	2 787 000	4 204 125	2 436 203	373 033	13 060 593	3 389 174
Verkoop van staatsgrond	Sale of state land	2 500 000	[illegible]	99 475	11 360	[illegible]	[illegible]
Verhuring van staatseiendom	Rental from state property	13 460 000	14 417 276	971 832	1 671 133	13 [illegible]	[illegible]
Algemeen	General	191 022 800	183 874 829	17 271 012	33 841 788	153 016 012	180 [illegible]
Rente en Dividende	Interest and Dividend	670 505 700	662 437 441	79 371 750	60 492 992	535 [illegible]	[illegible]
Terugbetalings van Lenings	Repayment of Loans	51 351 500	120 7[illegible]	4 750 [illegible]	6 961 925	[illegible]	6[illegible] 911 183
Algemene Verkoopbelasting	General Sales Tax	1 550 000 000	1 248 233 2[illegible]	164 703 651	135 027 932	1 372 812 368	1 040 [illegible]
R		9 841 217 500	8 494 082 166	885 317 617	74[illegible] 18 100	9 062 0[illegible]	6 [illegible] 953 232
R		10 911 443 500	9 787 546 704	1 007 324 232	863 120 160	10 192 116 362	7 496 370 671
Staatsoliefonds	State Oil Fund (d)	270 000 000	259 158 006	26 323 078	21 149 424	223 009 [illegible]	213 [illegible]
Nasionale Padfonds	National Road Fund (e)	133 000 000	121 [illegible] 005	13 476 579	11 [illegible]	114 [illegible]	1[illegible] 961 012
Suid-Afrikaanse Ontwikkelingstrustfonds	South African Development Trust Fund (f)	6 454 000	14 501 552	1 061 [illegible]	1 776 [illegible]	6 0[illegible]	9 479 966
Rekening vir Swart Vervoerdienste	Account for Black Transport Services (g)	12 500 000	11 448 943	981 061	1 401 909	11 970 [illegible]	9 2[illegible] 678
Fonds vir Sorghumbiernavorsing	Sorghum Beer Research Fund (h)	850 000	1 118 520	—	—	956 000	1 119 520
Suidwes-Afrika Gebiedsinkomstefonds	South-West Africa Territorial Revenue Fund (i)	13 000	41 462	3	2 202	16 984	30 [illegible]
R		422 81[illegible] 000	416 1[illegible] 493	41 812 815	35 583 1[illegible]	361 [illegible]	[illegible]
Totaal	Total R	11 334 260 500	10 203 66[illegible] 197	1 049 166 807	898 703 3[illegible]	10 [illegible]	[illegible]
Rekonsiliasie met opgaaf gepubliseer by Goewermentskennisgewing 269 in *Staatskoerant* van 13 Februarie 1981	Reconciliation with statement published by Government Notice 269 in *Government Gazette* of 13 February 1981						
In Transito, 31 Maart 1980	In Transit, 31 March 1980		—	—	—	41 028 659	
In Transito, 31 Desember 1980	In Transit, 31 December 1980	—		6 085 396			
Invorderings soos hierbo	Collections as above	—	—	1 049 166 807	—	10 553 965 590	—
	R	—		1 055 252 203	—	10 [illegible]	
Te veel oorgedra, 31 Januarie 1981	Overremitted, 31 January 1981	—	—	13 8[illegible] 203	—	13 [illegible] 293	
In Skatkisrekening ontvang	Received into Exchequer Account R			1 069 0[illegible] 496		10 61[illegible] 511	

(a) Artikel 22 (1) (d) van Wet 25 van 1969.
(b) Artikel 51 (2) van Wet 91 van 1964.
(c) Voorheen ingedeel onder "Algemeen".
(d) Artikel 1 van Wet 38 van 1977.
(e) Artikel 2 (1) (a) van Wet 54 van 1971.
(f) Artikel 8 van Wet 18 van 1936.
(g) Artikel 7 van Wet 53 van 1957.
(h) Artikel 196A (1) (a) van Wet 63 van 1962.
(i) Artikel 22 (4) (a) van Wet 25 van 1969.

(a) Section 22 (1) (d) of Act 25 of 1969.
(b) Section 51 (2) of Act 91 of 1964.
(c) Previously included under "General".
(d) Section 1 of Act 38 of 1977.
(e) Section 2 (1) (a) of Act 54 of 1971.
(f) Section 8 of Act 18 of 1936.
(g) Section 7 of Act 53 of 1957.
(h) Section 196A (1) (a) of Act 63 of 1962.
(i) Section 22 (4) (a) of Act 25 of 1969.

TABLE 37

Distribution of workers by job type and cash wage (R per week)

WAGE (R PER WEEK) \ JOB	General	Stock	Lands	Fencing	Driving	Hunting	Gardening	Horses	Caretaker	Other	TOTAL NO. OF WORKERS
0-2,50		1	2							1	4
2,51 - 5,00	10	2	2	2	1		2		3		22
5,01 7,50	22	2	2	1	4				3		34
7,51 -10,00	14	3	1	1	6	2	1		4	1	33
10,01 -12,50	10	2			4		1	1	2		20
12,50 -15,00	2			1	3						6
>15	5	1		1	1		1	2			11
TOTAL NO. OF WORKERS	63	11	7	6	19	2	5	3	12	2	130

Homelands primarily to back SA economy

Government is spending millions on its homelands policy, yet the people there are starving and jobless and prevented from seeking work.

Black Sash national president, Mrs Joyce Harris, in her speech last night, said the homelands existed primarily to create labour reserves for the white economy of South Africa.

Said Mrs Harris: "The costs of the homelands policy continue to escalate. These are not incurred to feed the starving women and children and old men in the homelands, or to provide jobs for those endorsed out of urban areas, removed under the Government's removal scheme or prevented from seeking work.

"Only R133 745 of all those millions was spent by the Development Corporation in creating 11 206 jobs for blacks in 1978/79."

She said the homelands are "totally incapable of financing themselves" and that they had been "thrust upon" the blacks.

"And calling them the black national states does not make them so.

"The black national states, in their present form, are a figment of the Government's imagination as is the 'independence' of the so-called independent states."

Mrs Harris said that blacks who voted in favour of independence were voting "only for their second option." The first — a one-man-one-vote unitary system with all races voting together for one parliament — had been denied them.

On the issue of a constellation of states, she found it strange that "all these people who are presently being drawn into the constellation are, in fact, bona fide citizens of the Republic of South Africa. They lost their citizenship when their states became independent, only to be subsequently encouraged to become inter-dependent."

Why, she asked, did states such as Transkei, Bophuthatswana, Venda and soon Ciskei have to be "amputated" from South Africa "so that they can be drawn back into a constellation of states within which they can then be respected?"

W CAPE HIGH IN GROWTH STAKES

Argus 14/3/81

49

Rise in buying power

THIS TABLE shows the country's buying power on a geographical basis and its growth last year:

	Percentage share	Percentage increase
CAPE	29,8	26,7
Peninsula	10,9	27,6
Wellington/Paarl to Strand	2,7	31,4
Port Elizabeth	3,8	29,1
East London	1,6	22,9
Kimberley	1,2	31,5
Rest of Cape	9,5	23,5
NATAL	15,5	24,1
Durban-Pinetown	8,4	25,4
Maritzburg and environs	2,1	24,5
Rest of Natal	5,0	24,0
TRANSVAAL	48,7	23,3
Johannesburg and Randburg	14,2	23,0
Germiston, Alberton, Kempton Park, Boksburg, Benoni	6,3	25,0
Brakpan and Springs	1,7	20,9
Nigel, Heidelberg, Balfour	0,8	26,1
West Rand	3,1	29,8
Pretoria	7,5	25,5
Vereeniging/Sasolburg	2,6	30,1
Witbank/Middelburg	1,6	17,9
Rest of Transvaal	11,0	19,7
FREE STATE	6,0	20,4
Bloemfontein	1,9	26,6
Free State goldfields	1,5	30,0
Rest of Free State (excluding Sasolburg	2,6	11,3
NATIONAL AVERAGE		24,4

THE Western Cape, which not so long ago was regarded as one of the country's Cinderella areas, is now high up in the growth stakes, official figures show.

By Derek Tommey, Financial Editor

Figures for consumer spending in the 21 economic regions show that the growth in sales in this area was well above the national average last year and equal to that attained in many of the recognised growth areas.

The towns surrounding the Peninsula — Wellington, Paarl, Stellenbosch, Somerset West and The Strand — had the second highest increase in retail sales with a gain of 31,4 percent, while the Peninsula ranked seventh with an increase of 27,6 percent.

Average

The national average increase last year was 24,4 percent.

The other leaders were Kimberley with a retail sales growth of 31,5 percent, the Vereeniging-Sasol-Vanderbijl Park, triangle with an increase of 30,1 percent, the Free State gold fields with 30 percent and Port Elizabeth with 29,1 percent.

It is significant that the Peninsula is the only one of the four major urban areas in the top seven.

Differently

In contrast, sales in the Pretoria area rose by 25,5 percent, in the Durban-Pinetown area by 25,4 percent and in the Johannesburg-Randburg area by 23 percent.

The upsurge in sales in the Western Cape is in line with the view expressed recently by Mr Brian Kantor, senior lecturer in economics at the University of Cape Town, on the area's economy.

Mr Kantor maintains that the Western Cape economy, lacking mining, tends to perform differently from other parts of the country.

It is more dependent on domestic expenditure than the South African economy as a whole, with its export-orientated mining sector.

Thus growth in the Western Cape tends to accelerate faster than in the rest of the country in good times, but to slump more steeply in bad times.

Overdone

He says there is no need for pessimism about the area's prospects. Any gloom about the impending decline of the region is much overdone.

The slow growth between 1975 and 1979 was the result of the exceptionally slow growth in domestic expenditure.

A development which should help to sustain the Western Cape's growth is that the labour force is becoming progressively better educated.

Accelerate

The trend towards more formal education will accelerate, with dramatic implications for the supply of industrial and, perhaps even more, administrative and managerial skills.

Cape employers of skilled labour may thus enjoy a greater competitive advantage in time.

The Western Cape is likely to develop rapidly as an administrative and service centre, as well as an employer of more skilful industrial labour, Mr Kantor says

Mean: R19,70 a week.
Range: R 6,41 to R34,40.

TABLE 22 (a)

Distribution of workers according to family income per head

(R per week)

Family income per head	Number of workers	Cumulative %
0 - 1,00	0	3,85
1,01 - 2,00	5	16,15
2,01 - 3,00	16	34,62
3,01 - 4,00	24	53,85
4,01 - 5,00	25	66,15
5,01 - 6,00	16	74,62
6,01 - 7,00	11	77,69
7,01 - 8,00	4	81,54
8,01 - 9,00	5	85,38
9,01 - 10,00	5	100,00
> 10,00	19	
TOTAL	130	

Mean: R6,18 a week.
Range: R1,80 to R20,47.

Barclays expert advocates curb on wages to check inflation

STAR 16/3/81 (49)

The chief economic consultant to Barclays National Bank, Dr Johan Cloete, in the bank's Business Brief, advocates keeping salary and wage increases at or below the current inflation rate.

There can be little doubt, he writes, that if the inflation rate is to be contained at its present level, and especially if it is to be pulled down without simultaneously pulling down the economic-growth rate, then upward salary and wage adjustments in the period ahead in the public and private sectors of the economy will, on average, have to be kept at or below the current inflation rate, otherwise the inflation rate will almost certainly accelerate.

This is because salaries and wages constitute the main cost for most employers, so that the size of the salary-and-wage increases made or granted in the months immediately ahead, less a deduction for any increase in labour productivity, will largely determine the size of the upward-price adjustments which producers and business firms will effect in the coming year and so the inflation rate for 1981.

"The authorities have in the mini-budget and Railway budget shown themselves to be aware of the crucial relationship between the rate of increase in salaries and wages and the inflation rate — hence their decision to raise salaries and wages within their orbit of influence by less than the current inflation rate, at least on average, an example which they undoubtedly hope will be followed by the private sector," Dr Cloete writes.

There is, however, a problem with this policy. There is another important relationship involved — between the rate of increase in real wages and the economic-growth rate.

"If the average salary and wage increases in the economy as a whole are to be kept below the current inflation rate, real salary-and-wage incomes would fall unless the inflation rate is reduced even more than the salary and wage increases.

"Given that a salary-and-wage policy is implemented, whereby big employers in the private sector follow the example set in the public sector and keep the wage increases they grant at or below the existing inflation rate, then it will be necessary to hold down the average increase in all important prices such as those for food, petrol, steel, electricity and so on, below the average increase in salaries and wages, otherwise real-wage incomes and so real-consumption expenditure and the economic-growth rate could be unduly depressed."

SA redeems huge debts

RDM 16/3/81

(49)

By HOWARD PREECE
Financial Editor

SOUTH Africa's net foreign liabilities (excluding equity investment) fell by about R5 750-million from the beginning of 1977 to the end of 1980.

This has been disclosed by Dr Chris Stals, the senior Deputy Governor of the Reserve Bank.

He said: "Indeed, at this juncture the total of South Africa's net foreign liabilities in this context amounts to only about R3 000-million, or less than 15% of the combined value of last year's exports of merchandise and the value of gold production."

Net liabilities in this case are foreign liabilities minus foreign assets.

Equity investment is not included for two reasons:

- The value is subject to market conditions which can vary sharply from time to time.
- Most such investment is negotiable only through the financial rand mechanism.

This means that new investment or disinvestment in this area generally has no effect on the net gold and foreign exchange reserves.

Dr Stals said: "Foreign investment has always played an important role in the economic devlopment of South Africa.

"At the end of 1979 the total value of all foreign investment in South Africa was estimated at almost R23 000-million of which about 50% represented investment in equity and the other half represented various short- and long-term commitments to the rest of the world.

"The big surpluses registered on the current account of the balance of payments during the past few years enabled South Africa to make substantial repayments on outstanding foreign debt.

"The cumulative surplus on the current account of the balance of payments during the four years 1977 to 1980 amounted to more than R7 500-million."

On the calculation given by Dr Stals, it seems that the value of foreign-owned equity investment in South Africa at the end of 1979 was around R11 500-million.

What proportion of that would be in companies listed on the Johannesburg Stock Exchange is not clear.

Some of the largest foreign investments in South Africa are in unquoted companies, such as General Motors, Ford, Philips, Siemens, Phelps Dodge, the oil companies and others.

To put the sum in perspective, however, the total value of the market capitalisation at the end of 1980 for gold shares was more than R22 000-million, for financials R22 000-million, and for industrial companies R20 000-million.

Of course, stock exchange prices rose strongly in 1980.

The Rand Daily Mail 100 index of industrial shares moved up from 456,3 to 596,1 and the RDM the gold index from 540,3 to 785,1.

This would have added hundreds of millions of rands to the value of the foreign equity stake.

Leaving the equity portion aside, however, for the reasons above the size of South Africa's net foreign liabilities is remarkably small.

Indeed, it is unhappily small for there can be no doubt that but for political reasons the degree of foreign involvment in the South African economy would be enormously higher.

RDM 18/3/81 (49)

'Domestic demand fuelled SA growth'

By HAROLD FRIDJHON

THE rapid economic growth in 1980 — a real rate of about 8% — emanated almost entirely from a marked increase in real domestic demand, with only a minor contribution from real exports, says the Reserve Bank in its March Quarterly Bulletin.

The 8% real growth was twice as high as the 4% of 1979. The bank notes that the high rate of economic growth exceeded the average annual rate of 3% in the 70s by a substantial margin.

All sectors of the economy, except mining, contributed to the increase. The real product of agriculture increased markedly as a result of good rains, while manufacturing grew by 12% and commerce and accommodation by 11%.

While all components contributed to the rise in demand, real private consumption rose exceptionally sharply to record the highest rate of increase in any single year in the post-war period — 8½%. This was based on a further rise in real disposable income and the ready availability of consumer credit.

While real expenditure on all major classes of consumer goods increased at substantially higher rates, the largest rise was recorded in the durable goods category because of a pent-up replacement demand for these goods.

The rates of increase in consumer and production prices accelerated appreciably during the second half of the year. Although the pressures of excess demand began to exert a significant influence on price movements, much of the increase was still related to cost-push factors, including upward adjustments to administered prices.

The exceptional sharp rise in food prices was the predominant cause of the higher rate of increase in consumer prices. While the average consumer price index rose by 13,8%, month-on-month, food prices rose by 18,8% in 1980.

Real gross domestic fixed investment increased sharply by 12½% after a decline from 1975 to 1978 and only a slight increase in 1979. Fixed investment was financed by a high level of corporate savings and the availability of domestic funds at low rates of interest. The fixed capital outlay of the private sector surged ahead at a rate of increase of 24½%.

Real private fixed investment maintained a strong upward trend during most of the year and, says the bank, is likely to remain at a high level "for the time being" because of the large number of capital projects in progress.

Sharp increases in investments were recorded in mining, manufacturing and the financial sector as well as in private residential buildings. There were also sharp turnabouts in the real fixed capital outlays of the agricultural sector.

Inventories showed a substantial build up.

Gross domestic savings rose by 31% after a 37% increase in 1979. At a level of R20 026-million, gross domestic saving exceeded the amount required for the financing of fixed and inventory investment by R2 845-mlillion, indicating that South Africa's net indebtedness to the rest of the world was reduced by this amount.

The bank says that a notable feature of the South African economy during 1980 was that the high rate of economic growth was accompanied by a large surplus on the current account of the balance-of-payments. (This is dealt with by Howard Preece below.)

With the generally strong overall balance of payments, the rand appreciated considerably against most currencies last year but the effective rate of the rand did not increase further during January and February. The reason was the depreciation of the rand against the US dollar which strengthened notably against most other currencies during this period.

The money aggregates showed "excessive" rates of growth in 1980. The money and near-money supply rose by 27%.

"The predominant statiscal 'cause' of the change in the money and near-money supply was an exceptionally large increase in bank credit to the private sector, especially after the abolition of ceilings on bank credit to the private sector in August 1980."

Part of the sharp increase however represented the "re-intermediation" of credit which previously had been extended outside the banking system. A relatively small contribution to the growth in money supply was the increase in the gold and foreign exchange reserves.

A negative factor was a decline in net bank credit to the Government.

Current a/c surplus reached R2 845m in 1980

RDM 18/3/81 (49)

By HOWARD PREECE
Financial Editor

SOUTH AFRICA had a surplus of R2 845-million on the current account of the balance of payments in 1980 — but there was a deficit of R89-million in the fourth quarter.

There was net capital outflow of R2 300-million, less than the R2 535-million in 1979.

Gold sales soared to R10 141-million in 1980, over R4 000-million more than the previous record of R6 003-million in 1979.

Merchandise exports rose by only 9,7% last year — from R8 844-million to R9 705-million — with the volume of goods sold up by about 4%.

Imports, however, led by oil, bounded up by 47% — roughly 20% higher in volume — from R9 739-million to R14 288-million.

These details are all disclosed in the March Quarterly Bulletin from the Reserve Bank.

It says the boom in the economy led to a big increase in dividend payments to foreigners which sharply increased by 29% the net deficit on services.

The bulletin says: "The sharp rise in the price of gold caused the value of the net gold output to rise, for the first time since 1946, above the value of merchandise exports.

"Marked fluctuations in the price of gold occurred during 1980, resulting in large quarterly swings in the net gold output and the surplus on the current account of the balance of payments."

On general exports it says: "The higher export volume was largely accounted for by maize and coal but a partly offsetting decline occurred in the volume of diamond exports.

"Increases occurred in the export prices of platinum, iron ore, diamonds, nickel, maize and sugar but declines were recorded in the prices of uranium, coal, ferro-chrome and asbestos.

"Export prices in terms of the rand were adversely affected by the appreciation of the rand against the currencies of South Africa's main trading partners."

The Reserve Bank says the big rise in import prices "was largely the result of a substantial rise in the price of oil but was also due to continuing high rates of inflation in other countries which were only partly neutralised by the appreciation of the rand.

"The higher level of merchandise imports was evident in all the main categories of imported goods but particularly sharp rises were recorded in imports of machinery and electrical equipment, mineral products, transport equipment, chemical products and base metals."

Slow growth not inflation answer —Sanlam chief

19/3/81

By Mervyn Harris

Inflation remained unacceptably high, but South Africa could not afford slow growth in an attempt at counter-action, Dr A D Wassenaar, chairman of Sanlam, said in Johannesburg.

He told the company's annual meeting that inflation basically stemmed from the community wanting to draw more from the economy than it was prepared to put into it.

Success in curbing inflation had been achieved only by countries that were prepared for sacrifice, hard work and effective utilisation of their means of production.

"High inflation contributes towards the ruination of savings. The aged, pensioners and people living off the interest on their investments, who are least able to protect themselves against inflation, are hardest hit.

"If the public does not save voluntarily and private fixed investment is discouraged because of uncertainty as to the probable return on capital, we run the risk that our existing capitalistic society will ultimately have to make way for socialism."

INHERENT

Dr Wassenaar said several factors inherent in the economy gave rise to inflationary pressures. One of the most important was the structural shortage of skilled labour and experienced management.

This gave rise to sharp increases in labour remuneration with attendant inflationary effects.

"In addition, there are the inflationary implications arising from the policy, for social and political reasons, of gradually narrowing the gap between black and white wages without increasing productivity.

"A further factor wich fans national inflation is that there are several markets for goods and services in which there is insufficient competition and where prices are not determined by market forces.

"Inflationary pressures are also created by the relatively high level of Government spending on defence and the development of our economic and social infrastructure.

DEFENCE SPENDING

"Defence expenditure, in particular, is inflationary by definition because it produces no negotiable products or services.

"Curbing inflation is thus a complex problem since our conditions differ materially from those in other industrial countries," said Dr Wassenaar.

"South Africa has to contend with a fast growing black population for whom employment opportunities must be created and whose claims to a higher standard of living will have to be met at a rapid rate.

"We cannot, therefore, afford slow growth in an attempt to counteract inflation.

Dr Andreas Wassenaar

"Viewed over the longer term, I believe improvement of our productivity performance is one of the best ways to check inflation.

"The key to increased productivity is improved education and training. All workers must be given the opportunity to realise their maximum potential as our future is closely bound up with the productive utilisation of our manpower."

Rent control remains a curb—Wassenaar

The possible continuation of rent control was one of the main reasons why Sanlam had not contributed its share in providing for the housing scarcity, the chairman, Dr A D Wassenaar, told the company's annual meeting.

"Sanlam did not take part in the sale of flats on a sectional-title basis. But we appeal to the Government not to consider the continuation of rent control as a solution of the problem," he said.

Reviewing the 1980 financial year, Dr Wassenaar said premium income amounted to R533-million.

For the second consecutive year the increase (R146-million) was the largest any national life office had been able to achieve.

These results could largely be attributed to the increasing use which pension funds were making of Sanlam's services.

Income from investments increased by 33 percent to R207-million and had almost doubled over the past three years.

HIGHLIGHTS

Other highlights were:

- Sanlam's assets stood at R2 450-million at the end of the 1980 financial year.
- Policyholders and their dependants received a total of R167-million, double the amount of five years ago.
- The annual-bonus rate was again increased and a policy now more than doubled in 16 years.
- Administration costs stood at 5,8 percent of premiums against 9,9 percent five years ago.

The most important feature of Sanlam's investment policy was to confine investments in prescribed assets and other interest investments to short terms in view of rising interest rates.

Reinvestment of these funds at higher rates would have a favourable effect on the company's investment income in years to come.

Share investments at book value amounted to R458-million and investments in securities and loans to Government and other public bodies reached R773-million.

Investments in properties increased to R438-million and income from this source was expected to increase substantially as rentals rose. — Mervyn Harris.

Fosatu's Erwin rejects the 'myth' of capitalism.

A close look at free enterprise

(49) SOWETAN 20/3/81

Mr Q Majola . . . "We cannot own land in the country of our birth."

By MANDLA NDLAZI

FREE enterprise came under a powerful magnifying glass recently when a group of concerned white businessmen examined the system.

And as a result, they were seriously warned that black people's frustrations would eventually turn the tables of this system, and its "dreamers" would find themselves in the midst of their own nightmare.

"It's true," was the sharp reaction from Mr Q Majola, managing director of the Black Chain Supermarket in Diepkloof, when approached by SOWETAN for a comment. He said the danger was in the Government's discriminatory policies that have frustrated the black people for years.

"For instance," he said, "we cannot own land in the country of our birth. How does one successfully run business under such laws, to give just one example."

He said unless blacks were properly included in this system, "nobody will enjoy the economic cake" in the near future.

"Right now," he said, "there's an increasing number of young blacks who are already questioning the justification of blacks who support this so-called system."

Sharing the same views, Mr Sam Motsuenyane, president of the National African Federated Chamber of Commerce (Nafcoc) said he has gone on record as saying free enterprise required a climate of complete freedom to enable a black businessman to operate effectively.

"This was lacking in South Africa," he said, "and as long as there are discriminatory laws like the Group Areas Act — laws that prohibit the freedom of blacks — then free enterprise won't work."

These comments arise from the views outlined at a seminar recently organised by the South African division of the Institute of Directors. Held in the comfort of Johannesburg's Sunnyside Park Hotel, the seminar lasted for about five hours.

The theme of the seminar was, "Free enterprise in the '80s — for South Africa to meet it's social, economic and political needs." It was a white affair because of the absence of black entrepreneurs.

Chaired by Mr Desmond Niven, the seminar was given a wide range of contrasting views on what the system actually was, and whether it was the best for the country. The views came from three directors, an economist and a trade unionist.

While all speakers tried to give face to free enterprise, Mr Alec Erwin, well-known general secretary of the Federation of South African Trade Unions called it a "myth".

After he had slammed the system in his detailed and sometimes biting address, Mr Erwin warned that the "mass of people will in any event begin changing this whether the State or Capital like it or not. They will do this by developing institutional power in the form of political organisations, community organisations and trade unions."

These "corrective institutions," he said, "will begin re-directing resources to the underprivileged." Mr Erwin further warned that, "the State, whether it likes it or not, will have to play a role. Obviously political reform is absolutely essential both to encourage investment and to generate an acceptability of changes."

Mass poverty, starvation and anger are political facts, just as is the power of mass organisation, said Mr Erwin. "We need to confront the harsh reality for many that the State has no option but to play a greater and not lesser role at this time," he said.

Concluding his address he said, "you may not like it but in my view the pipedream of free enterprise should be seen as just that or else the dreamers will find themselves in the midst of their own nightmare."

When he started, Mr Erwin had told his audience, "I shall not attempt the thankless and usually unsuccessful task of trying to use the force of reason and logic to dismantle a myth that most of you believe in."

He brutally stated that the market has never been free and that it has always been characterised by the force of monopoly and State involvement. "This being the case," he said, "I would argue that the free enterprise myth has always been an ideological weapon of the economically powerful."

The country's present pre-occupation with the system, he said, arises from "the fact that once again in our economic history it is the most convenient unifying world view for a number of powerful interests."

He said South Africa's economic power has been central to the policies of virtually all her governments since 1924.

"Since 1948, State interference has been intricately linked with apartheid," he said.

He contends that the Government's sudden change was "motivated by political considerations which make apartheid less and less acceptable. "The Government advocating free enterprise, he said, was "a case of the leopard changing its spots."

Mr Erwin noted that "for the black businessman, his call for free enterprise is eminently sensible given that he has borne the brunt of discrimination." He said the black trader's other dilemma was that the free enterprise myth has to be widely accepted if he was going to live a tolerable social life.

"A system of free enterprise," he said, "in its most elaborated form has never existed in practice nor can it be ultimately defended in theory."

About economists he said, [illegible] knowledge about the other sciences and history makes them perfect intelligent lackeys for the free enterprise lobby."

When he finally took his seat, Mr Niven, the chairman, thanked him for his "provocative" address amidst applause.

Mr Leon Louw, executive director of the Free Market Foundation said the country has moved a long way towards a "true and free market." But, he also warned that South Africa had to go further "to satisfy rapidly-rising black aspirations and promises made."

He holds the opinion that with massive rapid wealth creation, blacks will not only be less resentful, but that whites will "more readily accept real change."

Mr Walter Goldsmith, director general of the Institute of Directors said: "South Africa does not need too much advice about its economic future."

The country's "growth and underlying strength of economy owe much to skills and imagination of its financial leaders, and in particular, of course to Senator Horwood," he said.

He was aware of the "risks, strains and tensions of making enterprise more free," but said globally, free enterprise was on the moral offensive.

Alec Erwin . . . "Free enterprise has always been the weapon of the economically powerful."

Horwood heads for R1 500m surplus

RDM 20/5/81 (49)

By HAROLD FRIDJHON

WHEN Mr Owen Horwood, the Minister of Finance, presents Treasury figures for the year to March 31, 1981, in his post-election Budget speech, he is certain to table a huge surplus.

A slowing down in the rate of departmental spending indicates that Government overspending for the fiscal year will probably not exceed R200-million And revenue looks as if it will be at least R1 500-million over the estimates

In anticipation of the surplus, the Treasury has salted away R1 241-million in the stabilisation account.

Treasury figures for the 11 months to the end of February show that total expenditure was R12 350-million Assuming that expenditure in March is about the same as it was in February, the total for the year will be R13 233-million against an estimated R13 142-million

At one stage it seemed that State spending would be 22% above estimates, but in the past few months there has been a noticeable reduction in the rate of outlays as State departments have trimmed their sails

The most noteworthy features of the February statement of payments are the transfer of R491-million to the stabilisation account and the transfer of R160-million to defence

Details of collections are available only to the end of January and most heads of revenue are well up on the estimates.

Customs duty, reflecting the surge in imports, has risen to R596-million, R116-million above the estimates with two months of collections to come — and with the container depots packed with imported goods awaiting clearance.

Excise duty, estimated to bring in R1 111-million, had realised R1 027-million by the end of January and sales duty — as distinct from GST — budgeted to provide R500 000 was in surplus two months ago.

GST had brought in R1 373-million at the end of January. Budget expectations were R1 550-million. With collections for the next two months likely to bring in about R400-million, Mr Horwood will have R200-million extra in his final accounting.

The Treasury's biggest sources of funds is income tax and it was expected that this would yield R5 990-million. By the end of January R5 636-million had been collected with the biggest tax month, February, still to come into account. Between February and March this could yield an additional R1 500-million.

On the other hand, one does not know whether collections to date include the special tap Treasury bills which were in issue since October 1980. If it does, collections during February and March might not reach the estimate I have made.

(49) FM 20/3/81

Set fair for the Eighties

Looking back, it is only a little more than a year ago that South Africans were beginning to doubt that a boom really existed. Few appeared to be much better off. Prosperity seemed to be the figment of economists' imaginations.

Even after the substantial March tax cuts it took almost until Christmas for the consumer to find he had real money in his pocket. Then, of course, it began to burn a hole.

In fact, as this week's Reserve Bank quarterly bulletin reveals, both blacks and whites were substantially better off last year. The boom was certainly not a mirage.

Real per capita gross national product rose on average by 5% a year during the past two years. On average, earnings (excluding farm wages) increased by nearly 17% last year.

In real terms (excluding inflationary price rises), the rate of increase in the growth of earnings of blacks rose from 0,5% in 1979 to 4,4% in the first three quarters of last year. The real earnings of whites, which had decreased in the previous five years, increased by 2,5% over the same period.

There were also substantial rises in employment. In round figures, unemployed whites, coloureds and Indians fell from nearly 27 000 in 1979 to 18 300 last year. The ratio of unemployed blacks to economically active ones declined from 9% to 8%.

But, there is a more important message in the latest figures than a retrospective glance at prosperity. It is that we can all look forward to at least another buoyant year, even if one not quite as good as last year, despite a deteriorating trade balance.

Last year saw a real growth rate of 8% — the largest annual increase since the war — yet only "a minor contribution" was made to it from real exports. The main impetus came from domestic demand.

After such a material increase in prosperity last year, that demand is unlikely to suddenly disappear this year. It will remain at a relatively high level for some time yet, even if the value of imports should exceed export earnings, including gold.

In fact, if a swing in the trade balance does not happen, the strength of consumer demand, and other economic stimulants, could create a serious demand inflation problem as the supply of available goods lags.

As important is the fact that last year saw an exceptionally large increase in fixed capital investment, especially in the private sector. It increased by 24,5% against 0,5% in 1979 and a 3% decrease in 1978.

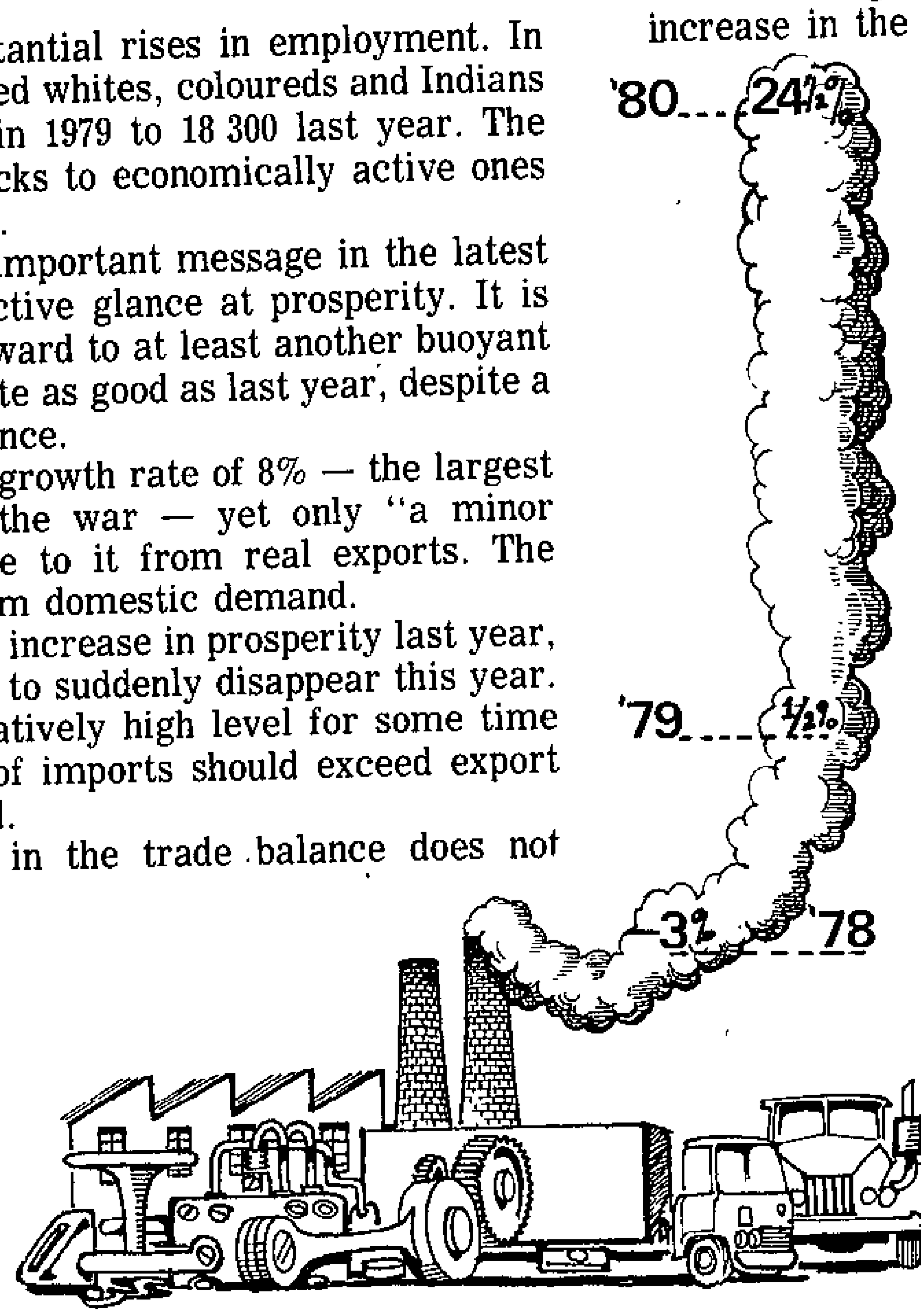
In real terms, fixed investment in the domestic economy shot up by 12,5% against 1% the previous year and a decline of 3% in 1978.

Even if investment was to tail off this year (which is unlikely because factories and machines take years to build) the effect of last year's investment spree will ripple through the economy for some years yet. It has created a substantial long-term earnings capacity.

The multiplier effect of this investment is likely to continue even if gold earnings are substantially lower. This has certainly been the experience after previous periods of high gold earnings. It was most evident in the late Sixties when the economy grew at record levels while the gold price was in double digits.

Of course, inflation is a worrying aspect of the year ahead, especially as the money supply grew last year by 28%. The effect of that on prices is normally a lagged one and is likely to make itself felt later this year.

But it might not be as severe as it seems. This increase in the money supply was largely a result of a sharp rise in bank lending. This, in turn, reflected a general increase in demand for credit but also the return of substantial grey market borrowers to the banking system.



Changes in the various liquidity ratios the banks are required to maintain, and the removal of the quantitative bank lending ceiling, made this possible.

It is a desirable development, as grey market loans are not included in the money supply calculation, which is, broadly speaking, the total of banks' cash and loans. If grey market loans and the money supply had been aggregated in the previous year, it is probable that the increase in the conventional money supply sum would not have been as high as 28%. Certainly, future figures should mirror more accurately the extent that credit has risen.

To sum up, the indication from the latest figures produced by the Reserve Bank is that the country can look forward to another year of relative buoyancy. Sound and productive foundations for future prosperity — in the form of factories and machines — have been built.

KENNISGEWING 201 VAN 1981

SUID-AFRIKAANSE RESERWEBANK

Staat van bates en laste op die 28ste dag van Februarie 1981

Laste	R
Kapitaal	2 000 000,00
Reserwefonds	28 588 297,84
Note in omloop	2 027 367 234,00
Deposito's:	
Regering	445 828 054,75
Provinsiale administrasies	177 190 417,63
Bankiers	1 419 468 669,81
Andere	49 185 725,46
Ander laste	4 134 129 463,90
	R8 283 757 863,39

Bates	R
Goud	4 308 962 025,05
Buitelandse:	
Wissels	38 951 718,03
Beleggings	36 398 959,66
Ander bates	649 480 017,80
Totaal aan goud en buitelandse bates	5 033 792 720,54
Binnelandse:	
Gediskonteerde wissels	635 430 000,00
Lenings en voorskotte:	
Regering	—
Andere	628 378 878,31
Sekuriteite:	
Regering	568 096 318,73
Andere	371 589 528,00
Ander bates	1 046 470 417,81
	R8 283 757 863,39

7493

20/3/81

Verhouding van goudreserwe tot verpligtings teenoor die publiek min buitelandse bates 67,4 persent.

G. P. C. DE KOCK, Hoofbestuurder.

Pretoria, 9 Maart 1981.

NOTICE 201 OF 1981

SOUTH AFRICAN RESERVE BANK

Statement of assets and liabilities on the 28th day of February 1981

Liabilities	R
Capital	2 000 000,00
Reserve Fund	28 588 297,84
Notes in circulation	2 027 367 234,00
Deposits:	
Government	445 828 054,75
Provincial administrations	177 190 417,63
Bankers	1 419 468 669,81
Other	49 185 725,46
Other liabilities	4 134 129 463,90
	R8 283 757 863,39

Assets	R
Gold	4 308 962 025,05
Foreign:	
Bills	38 951 718,03
Investments	36 398 959,66
Other assets	649 480 017,80
Total gold and foreign assets	5 033 792 720,54
Domestic:	
Bills discounted	635 430 000,00
Loans and advances:	
Government	—
Other	628 378 878,31
Securities:	
Government	568 096 318,73
Other	371 589 528,00
Other assets	1 046 470 417,81
	R8 283 757 863,39

49

Ratio of gold reserve to liabilities to the public less foreign assets 67,4 per cent.

G. P. C. DE KOCK, General Manager.

Pretoria, 9 March 1981.

(20 Maart 1981)/(20 March 1981)

KENNISGEWING 202 VAN 1981—NOTICE 202 OF 1981

STAAT VAN BATES EN LASTE VAN BANKINSTELLINGS SOOS OP 31 DESEMBER 1980

[illegible]

STATEMENT OF ASSETS AND LIABILITIES [illegible]

[Published in terms [illegible]]

	Handelsbanke Commercial banks	Diskontohuise Discount houses	Aksepbanke Merchant banks	Algemene banke General banks	Totaal Total
	(R1 000)	(R1 000)	(R1 000)	(R1 000)	(R1 000)
LASTE/LIABILITIES					
Verpligtings teenoor die publiek/Liabilities to the public					
1. Deposito's deur die publiek/Deposits by the public:	(13 048 473)	—	(1 195 445)	(6 331 338)	(20 575 256)
Korttermyn/Short-term	6 030 785	—	397 190	895 677	7 323 652
Middeltermyn/Medium-term	5 510 799	—	405 461	2 204 002	8 120 262
Langtermyn/Long-term	1 506 889	—	392 794	3 231 659	5 131 342
2. Lenings deur diskontohuise ontvang teen verpanding van bates/Loans received by discount houses against pledge of assets	—	[illegible]	—	—	334 837
3. Lenings en voorskotte van/Loans and advances from:	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
S.A. Reserwebank/S.A. Reserve Bank	—	[illegible]	—	[illegible]	[illegible]
S.A. handelsbanke/S.A. commercial banks	—	[illegible]	—	[illegible]	[illegible]
Andere/Others	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
4. Akseppe ten behoewe van kliente, *per kontra*/Acceptances on behalf of customers, *per contra*	716 441	—	[illegible]	[illegible]	1 818 945
5. Ander te betale wissels/Other bills payable	—	—	—	—	—
6. Vyftig persent van kredite in transito, en ander verpligtings teenoor die publiek/Fifty per cent of credits in transit, and other liabilities to the public	384 403	6 769	18 118	70 794	480 084
7. Totale verpligtings teenoor die publiek/Total liabilities to the public	14 198 879	1 046 813	2 006 087	6 749 040	24 000 819
Kapitaal, reserwes en verpligtings behalwe teenoor die publiek/Capital, reserves and liabilities other than to the public					
8. Gestorte aandelekapitaal/Paid-up share capital	154 105	6 150	76 459	122 783	359 497
9. Netto onaangetaste reserwefondse/Net unimpaired reserve funds	639 050	20 087	107 898	288 565	1 055 600
10. Netto totale gestorte kapitaal en onaangetaste reserwefondse/Net total paid-up capital and unimpaired reserve fund	(793 155)	(26 237)	(184 357)	(411 348)	(1 415 097)
11. Saldo verskuldig aan Suid-Afrikaanse hoofkantoor en binnelandse takke/Balance due to South African head office and local branches	189 717	—	31 803	4 612	226 132
12. Onverdiende finansieringskoste/Unearned finance charges	89 322	5 420	12 742	690 373	797 857
13. Ander verpligtings as bovermelde/Liabilities other than the foregoing	510 855	10 916	104 55[illegible]	144 123	770 453
14. Totaal van kapitaal, reserwes en verpligtings behalwe teenoor die publiek/Total capital, reserves and liabilities other than to the public	1 583 049	42 573	333 461	1 250 456	3 209 539
15. Groottotaal van verpligtings/Grand total of liabilities	15 781 928	1 089 386	2 339 548	7 999 496	27 210 658
16. Totale verpligtings teenoor nie-inwoners (ingesluit by groottotaal van verpligtings)/Total liabilities to non-residents (included in grand total of liabilities)	905 817	561 719	102 350	152 294	1 722 180
17. Totale deposito's per tjek opeisbaar deur kliente (ingesluit by korttermyndeposito's deur die publiek)/Total deposits withdrawable by cheque by clients (included in short-term deposits by the public)	4 484 922	—	—	213 254	4 698 176
BATES/ASSETS					
1. Pasmunt, goudmunt, staafgoud en banknote/Subsidiary coin, gold coin, bullion and bank notes	331 967	—	396	30 166	362 529
2. Deposito's by/Deposits with:	(1 395 760)	(124)	(128 129)	(317 726)	(1 841 761)
S.A. Reserwebank/S.A. Reserve Bank	1 062 779	32	61 039	179 564	1 303 424
S.A. handelsbanke/S.A. commercial banks	43 580	92	6 800	38 523	88 995
Nasionale Finansiekorporasie/National Finance Corporation	112 648	—	12 167	50 927	175 742
Ander S.A. bankinstellings/Other S.A. banking institutions	48 079	—	[illegible]	25 372	73 911
Buitelandse bankinstellings/Foreign banking institutions	106 782	—	22 634	5 688	135 104
Bouverenigings/Building societies	21 952	—	21 921	17 248	64 121
Plaaslike besture/Local authorities	—	—	[illegible]	406	464
3. Verhandelbare depositosertifikate/Negotiable certificates of deposit	54 120	11 018	7 31[illegible]	254	72 707
4. Lenings en voorskotte aan bankinstellings/Loans and advances to banking institutions:	(582 197)	(—)	(154 176)	(171 929)	(903 302)
Diskontohuise in S.A./Discount houses in S.A.	417 713	—	152 424	139 898	740 035
Ander bankinstellings/Other banking institutions	134 484	—	1 752	32 031	168 267
5. Wissels van en voorskotte aan die Landbank/Bills of and advances to the Land Bank	890 010	—	—	60 000	950 010
6. Skatkisbiljette/Treasury bills	124 174	82 500	12 500	23 260	242 434
7. Beleggings/Investments:	(2 923 300)	(634 499)	(478 599)	(1 238 294)	(5 274 692)
Staatseffekte/Government stock	1 494 212	416 185	170 812	784 264	2 865 473
Leningsheffings deur die Regering/Government loan levies	20 221	2 761	2 184	2 949	28 115
Obligasies van die Landbank/Land Bank debentures	374 120	115 644	28 040	129 357	657 161
Effekte van administrasierade/Stocks of administration boards	100	—	—	1 597	1 697
Effekte van plaaslike besture/Stocks of local authorities	11 080	15 335	17 139	39 201	82 755
Obligasies of effekte deur die Regering gewaarborg/Debentures or stock guaranteed by the Government	25 505	—	5 054	15 878	46 437
Obligasies en notas uitgereik deur die Nywerheid-ontwikkelingskorporasie/Debentures and notes issued by the Industrial Development Corporation	234 907	—	10 883	24 923	270 713
Effekte van die S.A. Reserwebank/Securities of the S.A. Reserve Bank	35 662	15 000	—	—	50 662
Wissels van en lenings en voorskotte aan openbare korporasies/Bills of and loans and advances to public corporations	113 228	—	9 503	36	122 767
Effekte en obligasies van openbare korporasies/Stocks and debentures of public corporations	70 179	45 494	26 237	107 236	249 146
Ander obligasies/Other debentures	23 628	24 080	26 257	10 525	84 490
Aandele van bouverenigings/Building societies shares	13 894	—	5 024	6 179	25 097
Aandele van S.A. bankinstellings, S.A. Reserwebank en Nasionale Finansiekorporasie/Shares of S.A. banking institutions, S.A. Reserve Bank and National Finance Corporation	42 647	—	1 222	26 307	70 176
Ander aandele/Other shares	463 917	0	166 244	89 842	720 003
8. Gediskonteerde of gekoopte wissels/Bills discounted or purchased:	(810 735)	(348 487)	(155 518)	(171 823)	(1 486 603)
Deur inwoners van S.A. getrek—lopend/Drawn by residents of S.A.—current:					
Bankaksepte/Bankers' acceptances	514 581	295 587	79 137	82 981	972 539
Handels- en landbouwissels/Trade and agricultural bills	99 039	26 416	[illegible]	68 752	232 194
Ander wissels/Other bills	103 708	26 484	27 252	19 634	177 108
Deur nie-inwoners getrek—lopend/Drawn by non-residents—current	93 250	—	10 842	456	104 548
Agterstallig/Overdue	167				167
9. Huurkoopdiskonterings en -voorskotte (lopend en agterstallig)/Hire-purchase discounts and advances (current and overdue)	164 695	—	37 491	2 763 145	2 965 331
10. Koopaktes gediskonteer of aangegaan (lopend en agterstallig)/Deeds of sale discounted or entered into (current and overdue)	—	—	—	401	401
11. Lenings en voorskotte aan Regerings/Loans and advances to Governments	165 470	—	12 852	20 535	198 857
12. Ander lenings en voorskotte/Other loans and advances:	(4 773 534)	(1 529)	(417 572)	(1 035 081)	(6 227 716)
Ongedek/Unsecured:					
Lopend/Current	1 732 024	—	208 368	357 779	2 298 171
Agterstallig/Overdue	1 364	—	3 200	2 136	6 700
Gedek—lopend/Secured—current:					
Deur effekte, aandele of obligasies/By stocks, shares or debentures	202 688	843	36 176	17 807	257 514
Deur verbande op stedelike eiendom/By mortgages over town property	429 176	686	47 694	179 924	657 480
Deur verbande op plaaseiendom/By mortgages over farm property	473 289	—	7 322	119 572	600 183
Deur verpanding van inkassowissels/By pledge of bills for collection	41 979	—	41	995	43 015
Deur borge en medehoofskuldenare/By sureties and co-principal debtors—					
Persoonlike lenings/Personal loans	119 981	—	—	105 477	225 458
Ander/Other	1 144 138	—	58 482	93 874	1 296 494
Op 'n ander wyse/By other means	590 998	—	55 384	152 847	799 229

	Handelsbanke Commercial banks	Diskontohuise Discount houses	Aksepbanke Merchant banks	Algemene banke General banks	Totaal Total
	(R1 000)	(R1 000)	(R1 000)	(R1 000)	(R1 000)
Gedek—agterstallig/Secured—overdue ...	3 691	—	905	4 670	9 266
Faktorering/Factoring					
Lopend/Current	34 206	—	—		34 206
Agterstallig/Overdue			—	—	—
13 Handelsware-huurkontrakte (lopend en agterstallig)/Merchandise leases (current and overdue)	515 888	—	36 307	1 597 054	2 149 249
14. Saldo's verskuldig deur takke en S.A. hoofkantoor/Balances due by branches and S.A. head office	1 338 828	—	—	40 872	1 379 700
15. Verpligtings van kliënte uit hoofde van uitstaande aksepte, *per kontra*/Clients' liability on acceptances outstanding, *per contra* ...	716 434	—	779 836	322 665	1 818 945
16. Ameublement, toebehore en uitrusting/Furniture, fittings and equipment	103 088	98	4 363	35 514	143 063
17. Bankpersele/Bank premises	390 639	100	—	26 251	416 990
18. Vaste eiendom behalwe bankpersele/Fixed property other than bank premises	109 205	—	29 166	56 272	194 643
19. Ander bates as bovermelde/Assets other than the foregoing ...	391 843	11 031	85 299	88 252	576 425
20. Totale bates/Total assets ...	15 781 928	1 089 386	2 339 548	7 999 496	27 210 312
21. Totale buitelandse bates (ingesluit by totale bates)/Total foreign assets (included in total assets)	352 331	—	36 977	21 211	373 578

OPMERKING/NOTE

(a) Waar bedrae tot 'n bepaalde graad van benadering gegee word, sal die aangegewe totaal nie noodwendig gelyk wees aan die som van sy samestellende bedrae nie/ Where figures are given to a certain degree of approximation, the total shown does not necessarily equal the sum of its constituent items.

(b) "O" dui 'n bedrag minder as R500 aan en "—" geen bedrag/"O" indicates an amount less than R500 and "—" no amount whatever.

(20 Maart 1981)/(20 March 1981)

KENNISGEWING 203 VAN 1981

DEPARTEMENT VAN MANNEKRAG-BENUTTING

WET OP NYWERHEIDSVERSOENING, 1956

INTREKKING VAN REGISTRASIE VAN 'N VAKVERENIGING

Ek, Mattheus Willem Johannes le Roux, Nywerheidsregistrateur, maak hierby kragtens artikel 14 (2) van die Wet op Nywerheidsversoening, 1956, bekend dat ek die registrasie van die Vereniging van Staatsaagmeul- en Bosbouwerkers van Suid-Afrika met ingang van 4 Maart 1981 ingetrek het.

M. W. J. LE ROUX, Nywerheidsregistrateur.

(20 Maart 1981)

NOTICE 203 OF 1981

DEPARTMENT OF MANPOWER UTILISATION

INDUSTRIAL CONCILIATION ACT, 1956

CANCELLATION OF REGISTRATION OF A TRADE UNION

I, Mattheus Willem Johannes le Roux, Industrial Registrar, hereby notify, in terms of section 14 (2) of the Industrial Conciliation Act, 1956, that I have cancelled the registration of the Vereniging van Staatsaagmeul- en Bosbouwerkers van Suid-Afrika with effect from 4 March 1981.

M. W. J. LE ROUX, Industrial Registrar.

(20 March 1981)

	Handelsbanke Commercial banks	Diskontohuise Discount houses	Aksepbanke Merchant banks	Algemene banke General banks	Totaal Total
	(R1 000)	(R1 000)	(R1 000)	(R1 000)	(R1 000)
Gedek—agterstallig/Secured—overdue	3 691	--	905	4 670	9 266
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Lopend/Current	34 206	—	--	—	34 206
Agterstallig/Overdue	-	·	--	—	—
13. Handelsware-huurkontrakte (lopend en agterstallig)/Merchandise leases (current and overdue)					
14. Saldo's verskuldig deur takke en S.A. hoofkantoor/Balances due by branches and S.A head office	515 888	·	36 307	1 597 054	2 149 249
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17. Bankpersele/Bank premises	103 088	98	4 363	35 514	143 063
18. Vaste eiendom behalwe bankpersele/Fixed property other than bank premises	390 6[illegible]9	100	--	26 251	416 990
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(20 Maart 1981)/(20 March 1981)

Private enterprise makes the running

S. Tribune 22/3/81

(49)

FINANCE Minister Owen Horwood has clearly kept his promise to let private enterprise make the running in the economy. The Reserve Bank's latest quarterly bulletin, released this week, gives ample proof that the man-in-the-street and the companies he works for have been the mainspring of South Africa's longest post-war boom.

Special Finance Correspondent

Private consumer spending jumped by 8,5 percent in real terms last year — the highest increase since 1945. Capital outlays by the private sector zoomed up by no less than 24,5 percent. By contrast, Government kept the reins on its spending allowing consumption outlays to rise by only 5,5 percent in real terms (Still too high, some free marketeers would argue). Fixed investment by public authorities, excluding public corporations, actually fell by 3,5 percent in 1980.

The Reserve Bank ascribes the surge in household spending to "a further rise in real disposable income and the ready availability of consumer credit, "fairly modest. The increase in the first nine months of 1980 was three percent, against a 0,9 percent fall in 1979.

The rise in demand in some sectors was nothing short of spectacular. Sales of motor cars and other means of personal transport shot up by nearly a third in real terms last year. Leisure product sales were up by 29 percent and furniture and household appliances by 23 percent.

The quarterly bulletin reveals that the value of real estate transactions increased by 89 percent in 1980. The surge was interrupted in the third quarter, but continued in the last three months of the year, despite the increasing difficulty of finding mortgages.

Other sectors were less fortunate, however. Sales volumes of medical and pharmaceutical goods rose by a relatively modest 5,6 percent and petroleum products by four percent. Demand for food and beverages was up by just over five percent.

Besides the rapid growth in consumer demand, one of the features of the boom has been the massive turnaround in investories. After falling by almost R400-million in 1978, they rose by R27-million in 1979 and by no less than R762-million in real terms last year.

The Reserve Bank clearly expects several components of last year's eight percent growth rate to continue rising fairly rapidly for some time.

It points out that private fixed investment "is likely to remain at a high level for the time being because of the large number of capital projects which are presently in progress."

In other areas, however, the peak of the boom appears to have passed. The bank says: "It is expected that the current lower rate of mortgage lending by the building societies and the existing high level of property prices will have a lagged effect on turnover in the real estate market."

SA trade surplus dwindles

RDM 24/3/81 (49) [illegible]

By HOWARD PREECE
Financial Editor

SOUTH Africa's trade surplus dwindled to R414 500 000 in the first two months of this year against more than R1 600-million in January and February 1980, according to preliminary figures from Customs and Excise.

The figures confirm that the current account of the balance of payments has moved into moderate deficit after the decline in the gold price.

They also show a continuing surge in imports at this stage, with the value of goods coming in 30% higher in January and February than in the 1980 equivalent.

The rise was from R1 940-million to R2 521-million.

Exports dropped over the same period from R3 554-million to R2 936-million.

All the statistics from Customs are provisional, however, and should be treated with caution.

The individual import figures for January and February were also distorted by a pile-up of goods in the Johannesburg container depot.

This had the effect of reducing the true level of imports in January while adding to the normal amount in February as the backlog was cleared.

Over the two months, however, the statistics ought to be give a reasonable picture of South Africa's trading position.

Sales of bullion as well as Krugerrands are included, as are imports of both oil and military equipment.

Last year South Africa had a net deficit of R2 709-million on services and transfers — dividends, insurance, shipping, etc — which is approximately R225-million a month.

The Customs trade surplus of R415-million for January and February together is, therefore, in line with a small deficit on the overall current account of the balance of payments.

Dr Chris Stals, the senior Deputy Governor of the Reserve Bank, has disclosed that the account has moved into a moderate deficit position.

Trade with Europe totalled R1 013-million in imports and R828-million in exports in the first two months of this year in comparison with totals of R783-million and R830-million respectively last year.

In the case of America the two-month import figure this year was R401-milliion (R304-million last year) while the export figures were R270-million (R305-million).

Trade with Asia ran to R389-million in imports and R264-million in exports in January and February.

Last year's comparable figures were R217-million in imports and R307-million in exports.

In the case of Africa, imports were down from R43-million in the first two months of last year to R41-million this year and exports from R172-million to R156-million.

Events make a mockery of economic forecasting

RDM 25/3/81 (49)

Howard Preece

Economic Spotlight

THE 16% rise in the consumer price index is a reminder that the South African economy has performed radically differently in some crucial ways over the past 18 months or so than was either intended or forecast.

Growth has been much higher than expected and, partly as a consequence, so has been the inflation/money supply surge.

That is hardly unique; economics is a notoriously fallible business.

But it should be a caution against putting excessive reliance in any forecasts, good or bad, about the prospects for the next couple of years.

So where and how has the South African story departed from the preview?

Go back to the second half of 1978 and into 1979 when the first confirmed but gradual evidence that the economy was at last coming out of severe recession was becoming apparent.

There was one insistent theme about the outlook — Steady As She Goes.

Put more bluntly, one leading architect of the Government's financial strategies told me in 1979: "We are not going to do a Diederichs".

Nor indeed have the authorities, in some vital respects.

Mr Owen Horwood, the Minister of Finance, has kept a firm control over total State spending rises in the past five years.

In a previous Spotlight I pointed out the declining share of Government expenditure over that period as a percentage of the gross domestic product.

(It can, of course, be argued that the whole nature of that expenditure is made wretchedly lopsided and distorted in priorities by the dictates of apartheid, but that is an issue for another occasion).

Overall it is a very different state of affairs from the large real increases in State spending that were sanctioned by Dr Diederichs, as Minister of Finance, over the 1970-75 period.

A key distinction between Mr Horwood and Dr Diederichs is that the former has never allowed his belief in and his enthusiasm for gold to override normal considerations of sound finance.

We have enjoyed the gold boom but we have not recklessly taken it for granted.

This is especially reflected in the balance of payments position.

In 1974 South Africa ran up a deficit of R998-million (equivalent to well over R2 000-million in today's money) on the current account of the BoP in spite of a major surge in the gold price.

Particularly relevant, however, is that that deficit followed small shortfalls in both 1972 and 1973.

When, therefore, the gold price capsized in 1975 there was little fat to call on.

The balance of payments pressures were acute, the net gold and foreign exchange reserves hopelessly inadequate and devaluation and stiff deflationary measures were compelled.

A sharp fall in the gold price now, even back to the $457 level of a few weeks ago, would pose some problems for South Africa if it were long sustained.

But the huge current account surpluses of 1976-80 of over R7 600-million make the situation totally different to that of 1975.

It may well be, in any case, that President Reagan's new look in economics will also turn out noticeably differently from the expectations and the hopes.

If so, that should help gold.

But this brings me back precisely to the wide variation between forecasts and intentions on one side and achievements on the other in growth and inflation in South Africa for 1980 and the reasons for this.

It was never Government policy to aim for a real growth rate of anything like 8,5% in 1980.

In 1978 and through at least to mid-1979 the oft-stated official view was that growth of around 5% to 5,5% a year should be the target when the economy emerged fully from recession.

A growth rate of 8%, as happened in 1974 before the 1975 crash, was specifically rejected.

In the language of the theory of the universe, steady state expansion was preferred to big bang.

The argument was that by holding back growth to 5% or so South Africa could ensure a sustainable boom rather risking superboom and bust.

At the same time grave warnings against and firm commitments to prevent a further take-off in inflation levels were given.

But it did not work out that way. Why?

Very simply, because the gold price went through the roof and triggered a degree of expansion that no policy-maker could reasonably have foreseen.

Instead of 5% growth in 1980 we got the 8%-plus explicitly rejected in the 1978-79 preview.

South Africa also got an explosive 27% growth in the broadly defined M2 money supply and a 15,8% year-on-year rise in the consumer price index, now up to 16% for the 12 months to the end of February.

Here we must return to Dr Diederichs.

In the heyday of his incautious handling of the State's finances South Africa had increases in the money supply of 23%, 22,3% and, as the crash came, 17,4% in 1973, 1974 and 1975 respectively.

Now you can argue as much as you like (as, indeed, I have above) that Mr Horwood has adopted a far more conservative approach to his finance portfolio than did Dr Diederichs.

But the harsh facts are there. Who could possibly have credited in 1978-79 any suggestion that money supply would rise by 27% in 1980?

Of course, there are explanations. The value of net gold output soared last year by over R4 000-million, pumping money into the economy.

The 8% growth rate gave enormous wage-bargaining power to many thousands of workers.

Add those two factors to a rapid economic take-off coming from an inflation base of 14% in 1979 and money supply was in practice bound to go skyward no matter what Professor Friedman and others might argue in theory.

That does not mean that we need have had a 27% money supply growth last year. The case has been widely argued that modifications to exchange control and other aspects of monetary policy could and should have made things tighter than that.

But the essential point is that a remarkable rise in the gold price, a rise that economic policy-makers could not reasonably have expected, drastically changed the economic outlook and made nonsense of the supposed official strategy.

It would be extremely foolish to suppose that gold and/or other developments (politics?) not now on the horizon might not radically change the economic scene in 1982-83 from the way it looks now.

— Sapa

Economic indicators holding up well — BER

CT 25/3/81

(49)

By ALEX PETERSEN
Finance Reporter

THE NEXT turning point in the South African economy could be as late as the first quarter of next year, the Bureau for Economic Research of the University of Stellenbosch notes in its latest quarterly issue of Trends, a statistical analysis of the economy.

The BER Trends analysis notes while the composite index of coinciding indicators of the business cycle "is still holding up well, the leading indicators are reflecting a measure of hesitancy in their upward course."

In order to pinpoint the next turning point in economic levels statistically, a number of variations in the length of lag between the leading and coinciding indicators were tested.

The Trends analysis found that the greatest degree of coincidence of historical turning points of the two indices "occurs at a 13-month time lag, which implies that the next turning point could occur as late as the first quarter of next year".

The analysis finds that cement sales — used as an indicator of building and construction activity — have shown a phenonemal growth rate since 19676, and is still being maintained at present.

But, while the percentage growth of commercial activity volumes is in line with that of manufacturing production, both of them are "significantly below that of domestic cement sales".

"A point of interest here is the retarded recovery of these commercial activities in comparison with manufacturing, construction and mining at the beginning of the present recovery phase.

"The latter two series are at present showing signs of weakness while the others — apart from mining — are still accelerating apace."

Looking at national accounts, Trends notes that in percentage terms private consumption volumes expanded much faster than the GDP, but, it points out, "while investment volumes for the first half of 1980 held up encouragingly, demand started to flag as a result of the curbing of public sector activity — growth in private sector investment activity has up to now not been sufficient to compensate fully for this reduction."

Referring to what it describes as "the quandary facing the authorities, Trends notes: "While a free market philosophy presupposes a lessening of official intercession, at this stage of development, the South African economy, in the absence of some measure of public sector support, will be hard put to maintian an acceptable rate of growth to overcome secular unemployment — as well as achieving a greater degree of cyclical stability."

Reduction of public sector investment in the late seventies as part of the anti-inflation strategy contributed measurably towards the length of the last recession, says Trends.

The report notes that registered unemployment "is still declining encouragingly," pointing out that unemployment among coloureds has dropped from 12,5% to 5% in the last three years.

"As many of these new recruits to the active labour force have in the meantime certainly acquired at least some in-work skill, they would not easily be retrenched in the event of recession in view of the persistent shortage of formally skilled labour in South Africa."

But, says Trends, a problem needing "high priority remedial attention at national level" is the "lethargic improvement in the unemployment rate among blacks".

'unemployed,'

Some of these people may be chronic invalids.

But it seems a little facile to assume that all the other women (those who are not invalids) are housewives from choice, particularly since many of them must fall into income categories where the incentive to combine running a house with a cash-earning job is strong; and it is not clear how the other men should be described, if they are not to be considered 'unemployed,'

STAATSKOERANT

VAN DIE REPUBLIEK VAN SUID-AFRIKA

REPUBLIC OF SOUTH AFRICA

GOVERNMENT GAZETTE

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CAPE TOWN, 27 MARCH 1981

KANTOOR VAN DIE EERSTE MINISTER

No. 654. 27 Maart 1981.

Hierby word bekend gemaak dat die Staatspresident sy goedkeuring geheg het aan die onderstaande Wet wat hierby ter algemene inligting gepubliseer word:—

No. 51 van 1981: Wysigingswet op Omgewingsbeplanning, 1981.

OFFICE OF THE PRIME MINISTER

No. 654. 27 March 1981.

It is hereby notified that the State President has assented to the following Act which is hereby published for general information:—

No. 51 of 1981: Environment Planning Amendment Act, 1981.

L9 ~~166~~ ~~334~~ Su ach Box

'Black skills shortage a barrier to evolution'

69

STAR 30/8/81

By Andrew Walker

The shortage of skilled manpower "is a major obstacle in the way of peaceful evolution of the South African political system," Mr Harry Oppenheimer, chairman of Anglo American, said today.

The acute shortage of skilled manpower, particularly in technological fields, was the most pressing problem facing South Africa today, he said in the opening address at a technical and vocational education conference at Wits University in Johannesburg.

Only the provision of effective technical facilities for blacks as well as whites could overcome the shortage.

He said the time was past when it could be supposed that all skilled work outside the limited tribal areas "which are still often talked of as though they are the sole homelands of our black population, could or should be reserved for white South Africas."

The shortage of skills, and particularly in relation to black manpower, was at the root of almost all South Africa's national problems.

"It is because of this shortage that the problem of inflation must be tackled at the expense of economic growth."

Stating that it was inevitable that blacks would obtain a greater share in political power, Mr Oppenheimer told the conference that the manner in which this change came about was by no means certain.

"Our aim must surely be to see that it comes about without violence and that it does not take a form which would involve a reduction of the area of free choice for the individual, of which the maintenance of the free enterprise system is a most important defence."

He also warned that education in South Africa for all races had been too academically orientated.

Paradox of the boom at home and recession at large

When the world stops, SA will have to get off

RDM 30/3/81 49

THE South African economy is booming while that of the rest of the world is stagnating. But can the SA economy remain untouched by events in the rest of the world? NEIL BEHRMANN continues his review of the international scene. His assessment follows visits to South Africa, Switzerland and West Germany.

AFTER the greatest inflationary boom in its economic history, will South Africa be able to sustain a high growth rate while her major trading partners are in the midst of prolonged recession?

After remarkable growth of 8% in 1980, South African economists predict that the economy will grow at a slower but still impressive rate of more than 4% this year.

Before discussing the possibility of a further downturn in 1982, the similarities and differences between the boom and recession of the early and mid-Seventies must be examined.

The gold price quadrupled in four years to the end of 1974.

Other raw material exports also soared on the back of a world commodity boom. Money poured into SA.

Interest rates tumbled. Share and property prices surged. Fixed investment grew after a sharp increase in consumer spending. Real growth of nearly 3% in 1972 was succeeded by more than 4% in 1973 and a peak of almost 8% in 1974. Helped along by lax credit, widespread wage increases, bottlenecks and runaway Government spending, inflation accelerated.

Imports more than doubled to nearly R7 000-million a year during the boom.

While this was happening the world commodity and gold boom petered out. With imports outpacing exports and inflation rampant, the Reserve Bank slammed on the brakes. From lows of 3,5% in 1973, short-term interest rates rose sharply to historic highs of more than 13% in 1976. Long-term rates peaked at a shade under 14%.

Adding to the problems, a series of political crises reduced the inflow of capital from abroad and capital fled from SA. Euphoria turned to gloom and the growth rate slipped under 2% in 1975. By 1977 it was zero.

The features of the present boom are remarkably similar to those I have described. Only the numbers are much bigger.

An average gold price of $125 in 1976 soared to $600 last year, raising gold revenue from R2 300-million to R10 100-million. Other exports doubled to R9 600-million. Money supply soared, short-term interest rates dropped well under 4%, shares and property surged and buoyant consumer spending was followed by an impressive increase in fixed investment.

Today, in spite of warning signs, optimistic economists do not believe that the economy will be subjected to the vagaries of violent cyclical fluctuations again. Much of this optimism is based on a steady and rising gold price.

But the optimists also contend that the vast improvement in the infrastructure during the mid-Seventies will steady the SA economy against any shock. They say the Government is curbing expenditure and a commitment to a free-market economy ensures continued growth from a private sector which has much greater incentive than before.

In the latest fat years the Government has been repaying foreign borrowings, and net foreign liabilities are now only 15% of total gold and other exports. Even though imports surged to nearly R14 200-million last year and a balance of payments current account surplus of R2 800-million in 1980 has now moved into deficit South Africa is in a strong position to borrow abroad.

Sophisticated foreign exchange techniques are helping to adjust short-term capital flows. An adjustment in the forward exchange rate and change in SA interest rates can draw in short-term foreign trade finance.

There is little doubt that these changes will help smooth out the problems if the situation becomes serious. But the big question is whether the authorities can reverse the cycle.

There appear to be two basic weaknesses in the optimists' argument. The first is inflation and the second is that South Africa's major exports, including gold, tend to fluctuate wildly in line with the international economic cycle.

While one is happy about the impressive increase in the real growth rate, it is convenient to forget the huge burden which inflation places on the economy.

In 1975 gross domestic expenditure was R28 000-million and by 1980 it was only about R29 000-million in constant prices.

Yet when inflation is included in the figures, actual Government and private-sector consumption and investment grew to R53 000-million last year. On current expectations actual gross domestic expenditure could be R64 000-million by the end of the year.

This much larger economy must be financed by exports, capital inflows and by internal savings. The rest must be borrowed.

Credit to the private sector was about R6 000-million in 1974. By 1980 it had reached R15 000-million.

Although the Government has kept its real spending down, years of double-figure inflation raised borrowings from R8 000-million in 1974 to nearly R20 000-million last year.

Regardless of what the optimists or pessimists are saying, the market is pointing the way.

Short-term interest rates are once again in double figures, and long rates are touching their previous records. This indicates that there is insufficient money to finance the inflationary boom.

Fearful of inflation and finding that the huge balance of payments current account surplus has been whittled away, the Reserve Bank is tightening the noose, making it highly likely that interest rates will reach all-time highs this year.

On the international front the lights are amber. In spite of intermittent rallies the fundamental demand for South Africa's major exports has not improved.

An inflationary, booming SA economy requires a continual increase in the gold price. It cannot cope with stagnation, let alone a declining trend.

Alternatively, there must be huge borrowing abroad. But politics has put paid to that theory, forgetting about any potential problems in the Euro-markets. Brazil is a classic example. Its huge foreign borrowings are already alarming its creditors.

Whether one likes it or not, South Africa remains a pawn in the international economic cycle.

To say that South Africa cannot afford a recession because of its political problems is to say to the world, "Please don't have recession because of our difficulties."

In other words, the world must not be what it is.

31/3/81

STAR

Oppenheimer on obstacle to peaceful evolution

The shortage of skilled manpower was a major obstacle in the way of peaceful evolution of the South African political system, the chairman of Anglo American, Mr H F Oppenheimer, said in Johannesburg yesterday.

Opening a technical and vocational conference, he said economic development had to pave the way for political development.

"We all know that political change is on the way. We know that inevitably black South Africans are somehow going to obtain a greater share in political power, but though change is inevitable, the manner in which it will come about is by no means certain.

"Our aim surely must be to see that it comes without violence and that it does not take a form which would involve a reduction of the area of free choice for the individual, of which the maintenance of the free enterprise system is the most important defence.

"But political transition is not likely to be peaceful if it takes place against a background of poverty and economic stagnation, which is another way of saying that a prerequisite of peaceful change is an educated and industrious population. And that we will certainly not have in South Africa unless the educational system is efficient and balanced and does not discriminate on grounds of race and colour."

Mr Oppenheimer said that when he was in Parliament some 25 years ago it was already clear to thinking people that a major effort was required to provide technical training for blacks. However, this was "very far" from according with the ideas of the politicians then in power.

"At that time not only was technical training for blacks not undertaken as it should have been, it was deliberately retarded and to some extent positively prohibited.

"It is only within the last few years that these disastrous political attitudes have been changed, and the years that have been lost are most difficult to recover. What might have been done gradually and comparatively easily over the years must now be done on a huge scale and as a matter of the greatest urgency." — Sapa.

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11

Motors lead surge in profit perfomers

3/3/81 RDM (49)

How they rate

FINAL Company	% GROWTH Pre-Tax Profit	Taxed Profit	Dividend%
Toyota	406	420	230
Qhs	146	103	333
Aalpha	100	71	54
Triomf	89	40	200
Natrad	86	86	40
Ninian	79	88	83
Blue	74	77*	52
Cusac	72	85*	9
Sappi	71	78*	62
Utico	67	61	72
Haddon	66	64	42
Haggie	65	53	39
Unisec	65	66	43
D&H	60	52	43
AECI	61	56	50
Sagehol	57	44	33
Unilon	54	45	45
Cedsch	53	47	13
Barclays	53	63	53
Dubin	51	48	35
Dunlop	49	43	50
Rennies	49	45	50
Stanbic	37	37	2
Frenbank	n/a	37.4	18
Verref	29	34*	25
Kohler	28	37	28
D R G	15	28*	35
Units	−33	−32	0
Lamberts	−34	−32	0
Sea SWA	−51	−51	0
Wilbarz	−65	−61	−27
Average	56%	55%	55%
INTERIM			
Trencor	176	125	
McCarthy	154	198	
Seardel	145	158	
Trust	n/a	140	
Micor	119	96	
Reunert	114	121	
Steelmet	98	103	
Cullinan	97	105	
Chemhold	95	118	
Senchem	89	83	
Tedelex	83	82	
Spitz	80	58	
Truworths	77	77	
G F Props	74	76	
Bradlows	65	82	
Sasol	64	60	
T & I	58	59	
Clicks	55	56	
Garlicks	54	55	
Barzack	54	48	
Edgars	51	60	
Consol	50	53	
Abercom	48	39	
Calan	48	47	
Globe	45	103	
W&A Inv	41	35	
Rex True	39	41	
Ellerine	38	50	
Claudo	38	38	
A T I	37	40	
Protea	35	37	
Woolworths	32	28	
World	30	32	

By DAVID CARTE and SUSAN DALLAS

FINANCIAL and industrial company profits and dividends continue to surge ahead at record rates.

A Business Mail survey of 67 companies reporting in December shows that the average increase for the year, or the six months, to December in pre-tax profit was 61% and in taxed profit 62%.

A similar survey of 40 companies reporting in September showed average pre-tax profit growth of 63%.

Dividends of companies reporting for the year to December were, on average, up 55%.

And judging by the trend in companies reporting for the **six months** to the end of December, profit growth has not slowed, even though profits really started to surge in the second half of 1979, putting many companies up against some pretty tough numbers.

The average interim reporter this time around lifted pre-tax profit 66% and taxed profit 71% compared with 69% and 61% last survey.

For 31 reporters for the year to December, the average pre-tax profit increase was 56% against 55% in the previous survey.

The outstanding sector has been motors.

Toyota, with a 406% pre-tax rise off a low base, had one of the biggest increases in profitability. But McCarthy's, SA's biggest vehicle dealer, was hardly disgraced, showing a 154% increase in its interim.

Another motor stocks to perform well was QHS, with a 146% pre-tax rise.

In previous surveys, consumer-based counters have done particularly well, but this time as benefits filter through to the productive sector, engineering and steel companies came into their own.

Companies such as Reunert & Lenz, Cullinan, Haggie, Abercom all did well. Haggie's results, hit by lower exports because of the stronger rand, were improved by the consolidation of Consolidated Wire Industries for the first time.

The revival in the construction and building industries lifted Group Five which recovered from an abnormally low profit position in 1979 after loss-incurring contracts in Botswana. This company has been omitted from the averages as it would distort trends.

Other beneficiaries of the construction revival were the cement companies, Blue Circle and Anglo Alpha, which showed how well an industry can do in spite of price control if throughput is adequate.

Highveld's performance was relatively disappointing, largely because of the impact of recession abroad and the stronger rand on its exports.

High-flying chemical counters AECI, Sasol and Sentrachem continued spectacular performance based on the surging economy and import protection.

Triomf returned from the cold on the strength of booming phosphoric acid prices.

Banks enjoyed exceptional profit growth, with Barclays up 53% on an annualised basis for 1979, and Stanbic and French Bank, both up by 37%.

As might have been expected, both Unisec and Sage produced good results. Other financial companies also did well, with Trade & Industry, for instance, up 58% before tax.

Consumer durable companies, especially in clothing and motors, were hot performers, but current relative high prospective yields suggest concern about consumer durables in the immediate future. Possible HP curbs and higher interest rates, particularly mortgage rates, are the main threats to the sector.

Fishing company profits were the only ones among December reporters to decline. Profits were devastated by the absence of pilchards because of overfishing and restrictions on fishing.

Short-term insurers generally had an indifferent time with premium rates cut to the bone and claims rising. Only investment income has saved some from declaring losses.

Unusual tax situations caused taxed profit growth in Sappi and Guardian National to outstrip pre-tax profit growth.

One result of strong profit growth in recent months has been the move by an increasing number of companies to the more conservative lifo method of stock valuation. This reduces declared profits — but only nominally. More important, it reduces taxation and enhances cash flow.

In the past, because it "reduced" stated profits, lifo actually hurt company ratings on the stock market. That is one reason companies have waited for exceptionally good times to implement lifo.

Now analysts say the tide has turned and soon those on lifo will enjoy better ratings.

They foresee the day when PE and earnings yield columns on stock prices pages will carry an asterisk to indicate lifo-based earnings. In the meantime, the fact that some companies are on lifo and others are not complicates comparisons.

Argus 1/4/81

Tariff rises hit W Cape industries

(49)

Staff Reporter

A PROMOTIONAL body to reverse the flow of industries from the Western Cape region should be set up urgently, Mr Brian MacLeod, secretary for the Cape Town Chamber of Commerce, said today.

Commenting on the effects of the rail and air tariff increases which come into effect today, Mr MacLeod said that because of the distance of the Cape from the main trading centres, local industries were at more of a disadvantage than others producing similar goods elsewhere in the country.

'This will increase the trend of disindustrialisation of the Western Cape region which has been a major problem for a long time.

'I cannot understand how the authorities have failed to initiate the action to institute the Wesgrow concept.'

The municipalities and local authorities in the regions stood to gain the most, and, led by the Cape Town City Council, should make the moves to form the body, Mr McLeod said.

'We need to actively promote the Cape, and have the body with access to central Government to investigate laws which increase this disadvantage.

'Private industry will back any such body with money and, if necessary, manpower. But the initial move must come from the local authorities.'

● Rail and air fare details — Page 15.

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i) Number of rooms.

The number of rooms in a house is related to its total area, but more important, it serves as a measure of privacy.

TABLE 23

Distribution of houses according to number of rooms, average number of people living in each type of house.

Number of rooms	Number of Houses	Average number of people in hous during week	at weekends and during school holidays
1		3,4	3,4
2		4,4	5,0
3		5,4	5,7
4		5,8	6,2
> 4		6,3	6,3

The ... e room only include the worker-built s... to nine people lived at weekends and dur... s.

ii) Area.

The ... h of the people living ... ng to square metres availab...

Argus 7/4/81

German, Swiss banks fund SA

49 63

Argus Correspondent

ZURICH. — West German and Swiss banks have now taken over the bulk of international lending to South Africa, a seminar on bank loans was told yesterday.

French banks also continue to provide funds but several British, US, Dutch and Canadian banks have stopped doing business with Pretoria, it was said.

A report to the 'international seminar on bank loans to South Africa' was made by the Rev David Haslam, secretary of the 'End Loans to South Africa' movement.

The seminar was convened by the UN Special Committee on Apartheid, the World Council of Churches and the Swiss Anti-Apartheid Movement.

In the Netherlands, Mr Haslam told the three-day seminar which began on Sunday that AMRO, ABN and other Dutch banks had stopped lending to South Africa.

In Britain the Midland Bank made a similar decision while in the US, the Chemical Bank, Chase Manhattan and others have indicated they would make no more loans.

'Citibank remains the main offender in the US,' Mr Haslam said.

Canada's Toronto Dominion Bank had also stopped further dealings with Pretoria.

'It is, however, the German and Swiss banks which have taken over much of South African lending.'

The decision to hold the seminar in Zurich backfired on the organisers, and not only because it aroused Swiss Government displeasure.

Zurich was selected because of its status as world financial centre and because all foreign reporters in the city are specialists in financial and economic news.

But all these reporters were concentrating yesterday on the annual report and Press conference given by Alusuisse, the big Swiss aluminium corporation and one of the 'enemies' of the anti-South African investment militants.

The foreign Press corps is concentrated in Geneva and only two correspondents, including one from the Soviet news agency Tass, attended.

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Wages and prices — a case for the market

(49)

EDM 9/4/81

Howard Preece **Economic Spotlight**

THE hills are alive again, it seems, with the sound of wage-price policies.

Opponents of such ideas are fearful that the 16% inflation rate may be nudging the Government in that direction

On the surface their anxiety seems needless

Mr Owen Horwood, the Minister of Finance, told the inflation conference in Johannesburg at the end of last month: "Generalised wage and price controls would conflict with the Government's accepted policy of promoting free enterprise and the operation of the free-market mechanism wherever possible."

But perhaps cynics might think that to be merely a variation of the Pravda Syndrome — that nothing can be true until it has first been officially denied.

It is certainly understandable if some Government ministers, and influential backstage personalities, should be getting concerned about inflation and the remedies for it

The horrendous recession from late 1975 to early 1978 was supposed to be wringing inflation out of the system.

Here we are, however, at 16%.

Was all that earlier suffering in vain, the doubters wonder

But would some form of wage-price policy be of any help? Or would it, as many economists maintain, do nothing to reduce inflation and do plenty of damage to the most efficient allocation of resources?

And have we actually given monetary and fiscal orthodoxy, and free-market policies generally, a fair chance yet to succeed?

The two best-known proponents of some form of incomes policy in South Africa are Dr Johan Cloete, the chief economist of Barclays National Bank, and Professor J L Sadie, of Stellenbosch University

Dr Cloete happens to have been the most pessimistic and the most accurate forecaster of South African inflation over the past three years

He was also one of the few economists to argue last year that the economy was in grave danger of overheating

But while these points should establish his credentials, they certainly do not mean he is necessarily correct over wages and prices

Let us look first at the two extreme and opposing views on wage-price policies.

●The case for permanent and enforcable wage-price controls.

This approach is particularly associated with Professor John Kenneth Galbraith of Harvard.

His view, very oversimplified, is that the free market in many crucial areas is in practice a myth.

The reality, Galbraith says, is that the modern industrial state is dominated by two big power groups — organised labour and the major corporations operating in monopoly, oligopoly or cartel form.

Their powers are held to be such that they can hold out against general monetary restraint quite differently from the rest of the weaker sectors of the economy.

The result, Galbraith claims, of relying only on monetary policy to curb inflation is that there will be stagflation — slump, bankruptcy and unemployment in the weak (and, ironically, market-oriented) economic sectors while organised labour and big corporations continue an upward wage-price cycle for the strong.

Galbraith argues that an enforcable wage-price policy must be applied, but only to the large combines

He denies that prices in such combines are genuinely market-determined and says, therefore, that there can be no loss of efficiency in restraining them.

●The case against wage-price controls, or even guidelines, or any other form of government involvement in the determination of wages and prices.

This view is held by such economists as Friedman and Hayek and by such political leaders as President Reagan and Prime Minister Margaret Thatcher

It is overwhelmingly held in South Africa

Two main arguments are put forward

1 Any attempt to interfere with the wage-price mechanism is an intolerable intererence with private enterprise.

It is argued that *relative* price (and wage) changes — some factors of production becoming dearer or cheaper in relation to others — are the essential engine in ensuring the most efficient allocation of resources in the economy.

Any artificial constraint to this process will be completely counter-productive.

2 Wage-price policies of any sort do not work anyway.

Inflation, it is said, is solely the product of excess creation of money.

Tinkering with wages and prices is looking at symptoms and not causes and will, at most, postpone the inevitable.

●But is there any area of compromise in the South African context?

A little, perhaps, where it is as much a matter of semantics as of economic theory.

Dr Cloete is not calling for statutory conrols but, critically, for the Government to try to induce restraint by the determiners of key prices, maybe a dozen in all.

(The case against "voluntary" restraint, of course, is either that it does not work, or is harmful if it does and in any event invariably leads to demands for statutory controls).

Dr Cloete insists that conventional and monetary fiscal discipline has to be imposed, and he argues that the Government has, in fact, been irresponsibily lax over the past year or so.

His view is that wage-price guidelines cannot possibly be more disruptive to the economy than the alternative, that he sees, of a return to severe deflationary policies of the type pursued in South Africa in 1976-77.

Dr Cloete argues that what he is urging is simply a way of trying to break the spiral of inflationary expectations.

Even this non-Galbraithian approach is, in theory, unacceptable to Mr Horwood.

He told the inflation conference. "It is not surprising. . .that one of the first things President Reagan did upon assuming office was to end the voluntary wage-price guidlines and to disband the Council on Wage and Price Stability which in his opinion has been a total failure and had done nothing to reduce inflation"

In practice, however, Mr Horwood is obliged to make some wage-price decisions.

Some of the most important prices in the economy — oil, steel, cement, maize, rail tariffs, for example — can certainly be influenced in the short-term by the Government.

That influence is likely to be used in conformity with a general inflation strategy.

So is public sector pay policy.

Mr Horwood also showed in the 1976 anti-inflation campaign that he is not wholly averse to "jaw, jaw" policies.

He tried this week to persuade the building societies to curb the mortgage rate increases.

There is, therefore, some element of "incomes policy" in operation.

But this is still a fair way removed from the approach of Dr Cloete and others.

What should we do?

My view is that we would be best advised to leave things strictly to the market mechanism for the time being, even though that mechanism is unhappily imperfect in many instances.

As a general principle I am certainly opposed to any kind of permanent wage-price policy for the reasons given above.

Also, although South Africa has paid lip-service to free-enterprise attitudes for years it is only now that some of the full implications are being permitted.

Interest-rate policy is at last, for instance, being freed from the constraints of cheap mortgages.

It is not right, therefore, to say that market policies have failed when the reality is more the other way, that they have not been properly tried

To change tack when we have barely got on course must be wrong.

I have no idea (and I know nobody who has) what the precise implications of the 27% rise in money supply last year are.

But I am highly sceptical of the success of any incomes policy at least until that has worked its way through.

However, I think there can be circumstances when a *temporary* wage-price policy can be helpful, *provided it is solely complementary to correct fundamental monetary and other policies.*

I thought there was a case for this in 1977, not since.

When the right circumstances might possibly occur again will be looked at in a future "Spotlight". There is no rush.

process.

Mr. Chairman, I have been greatly concerned about what message, I,

McCrystal worried at profit erosion

RDM 9/4/81

(49)

By HAROLD FRIDJHON

GROWTH in the economy this year is expected by Dr Lawrence McCrystal to be substantially lower than it was in 1980 and it will be accompanied by a higher rate of inflation.

He makes this prediction in his Field Industries chairman's review for 1980. He says that in the light of the effects of the 1980 level of inflation on company profits, the likely higher rate of inflation in 1981 is a source of serious concern.

A pro forma statement showing the effects of inflation on Field Industries income reduces the profit of R1 015 000 to R600 000 and Dr McCrystal comments that Field's experience is probably no different from that of most other industrial companies.

"In fact, there is a good case for believing that, after allowing for inflation, most moderately capital-intensive industrial companies will make little or no addition to the real value of their net worth during 1981."

Under these conditions the pressure on management to keep costs under control while raising turnover at a higher rate than the rate of inflation becomes severe. There also needs to be an even heavier emphasis on productivity than before.

"If the economy achieves a real growth of 5% and inflation averages at say 17% for the year, turnover will have to rise by nearly 23% if performance is to be above the average for the economy as a whole."

In spite of the bleak inflationary prospects, South Africa's economic growth rate will be well above the average for most Western countries. This weighs in SA's favour.

International bankers now regard this country as being one of the better financial risks and it strengthens its ability to withstand a short-term deterioration in the balance of payments — as will probably happen this year.

Overall, except for the rate of inflation which could have serious implications for the longer-term position of medium-sized industrial concerns, the business prospects for the year are good.

Dr McCrystal forecasts increased pre-tax atributable profits for Field Industries in 1981 provided that operating companies achieve higher turnovers with costs held tightly under control. Greater effort will have to be directed at achieving acceptable production and marketing performances in the industrial rubber operation.

(9.3) Centralised Marketing of Drugs:

Given the needs for incentives to encourage innovation in the industry and the lack of information and price-sensitivity, a combination of the price system and centralised marketing of drugs may be a way of overcoming the difficulties in the drug market.

The way in which such a system could operate would be as follows: a centralised body would be responsible for the

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community.

To an extent this board will enable the externalities in the drug market to be removed and the combination of private production and centralised marketing would ensure a more efficient market.

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Briefly stated, the use of the centralised marketing board would enable some of the problems in the market to be overcome.

The existence of price-sensitivity and information on the part of the customers of the firms would mean that more of the externalities would be internalised in the decisions of the firm. The firm would then have to consider the marginal costs and benefits of promotion and, because these costs and benefits more accurately reflect the full social ones, it would pay the firm to cut back on promotion expenditure. If it did not do so a competitor would be able to enter the market, offering a

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genuinely new and needed or else one that was priced below an existing drug.

Doctors would be given concise information on drugs. Price comparison and quality comparisons would be facilitated.

The advantages of the system proposed stem from the fact that greater price sensitivity and information will be re-introduced into the market.

At the same time, the incentives for the firm that introduces a better product will not be removed and may, in fact, be increased as the centralised buyers would be more sensitive to new and improved products.

It must be noted, however, that this system will still not be able to compare with the theoretical ideal of market efficiency. There are imperfections in the drug market that

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Industries must be protected — CCI chief

Argus 11/4/81

(49)

SOUTH AFRICA must protect its industries against dumping and other forms of disruptive competition in its already limited domestic market, says Mr A G Bramwell, president of the Cape Chamber of Industries.

Mr Bramwell told the executive council meeting of the Federated Chamber of Industries the current high level of demand was creating a false sense of security.

'When this demand begins to taper off, the inflow of imports will compete increasingly against local manufacturers in a shrinking domestic market.

'Our strong economy and the hardening of the rand makes us a sitting duck for other countries to offload their surplus production on our market. The problems of our economy are largely the problems of prosperity.'

RECESSION

The rest of the world was passing through a recession, the consequences of which South Africa could not escape.

Competition against local manufacturers might be regarded as desirable but this could not be viewed in isolation.

'We must give careful thought to our under-employed people who are demanding their place in the sun — not to mention the vociferous young people coming on to our labour market between now and the turn of the century at the rate of 1 000 a day.

'We must ask ourselves what is going to happen to the production capacity and additional jobs now being created by industries investing in expansion to meet the growing demand of the past year or two.'

Describing this competition as 'subtle and disruptive,' Mr Bramwell warned against the 'further dismantling of import control.'

He said even 'the mighty' United States closed out further imports once a predetermined yearly figure had been reached.

'When the crunch really comes, one wonders how many signatories will accept the restraints of GATT (General Agreement on Tariffs and Trade). Even now some countries bend the rules to suit their own requirements.'

EMPLOYMENT

Some industries exported the major part of their production and provided employment in areas where it was sorely needed.

Many of these industries were finding considerable difficulty in maintaining this trade because of recessions in other countries and the hardening of the rand.

Referring to the lack of skilled labour, Mr Bramwell said immigration procedures should be speeded up.

'The importation of skilled persons creates more jobs and does not take away jobs from our own citizens under present conditions.'

If it is accepted that access to health care is the right of all citizens, then as John Bryant stated in the opening quotation of this paper there are "profound social, political, ethical and educational implications". This paper has examined some of the educational aspects of the provision of future health workers in southern Africa. I have made no attempt to predict what types of health workers we will need, or to suggest where they should work or within what type of national health care delivery system they should work.

... part of the ... factors in the next ten years.

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How SA could invest abroad

RDM 13/4/81 (49)

By DAVID CARTE
Deputy Financial Editor

THE managing director of SA Mutual, Mr Frans Davin, has suggested a novel way of allowing South Africans to invest abroad under Reserve Bank control.

Mr Davin says the Reserve Bank could mop up excessive liquidity and take advantage of attractive interest rates abroad by investing short-term funds overseas and then offering this loan paper through the commercial banks to all South Africans on a tender basis.

Because the Reserve Bank would retain total control of foreign investment through this method, it would be beyond abuse.

More important, because investment would be undertaken on a short-term basis only, in line with the needs of the moment, Mr Davin believes his method would permit fine tuning of the domestic money supply.

With the gold price, and, therefore, gold receipts, highly volatile, this is a particularly strong recommendation.

Mr Davin's suggestion would enable South Africans, on a competitive tender basis, to benefit by high interest rates abroad.

If domestic liquidity, interest or exchange rates — or even political events — turned against South Africa, funds could soon be repatriated as they would be invested for no more than six months at a time.

Mr R C Lloyd, Mutual's other managing director, told me the proposed State pension scheme was unlikely to see the light of day. It had been proposed for sociological reasons without due regard to the financial facts, he said.

Had it ever got off the ground, it would have ended up a highly inflationary political football.

Mr Lloyd does not share the view of many that making pensions transferable will make them impossibly expensive to contributors. He said "preservation" would not cost contributors anything.

But it would add between 1% and 4% to company payrolls. If the average company's wage bill rose 2,5%, the cost would be small compared to recent salary increases.

Mr Lloyd said these pensions should be made compulsory for all races, but not initially for blacks, some of whom resented the idea and were liable to political agitation about it.

Mr Lloyd and Mr Davin were both hopeful that in terms of the Government's policy of moving towards the free market, prescribed investments for institutions would be reduced or phased out and that the Government would eventually pay a market-related rate of interest on its borrowings.

Because insurance companies were compelled to invest 50% of their assets in prescribed investments and returns on these prescribed investments were lower than on other investments, insurers were subsidising the Government.

Subsidised interest rates amounted to additional taxation of policy holders, they said.

be, the logical framework for collecting information, assessing assumptions in the light of this information, and for the suggestion of the consequences of decisions, remains. The ...sciplinary ... admini- ...sts ...lysis, As ...ld a

APPENDIX

A Note on the available statistics.

For the purposes of economic analysis, the data that are currently collected by the authorities have severe limitations. Market forces are not operative so that cost figures that are calculated are inappropriate indicators of the value of resources used in health service delivery by the CPA. The purpose of this section is to outline the data that are available and to point out the deficiencies of these figures.

(I.) Throughput statistics.

General throughput data is collected fairly extensively but apart from separation into infectious and non-infectious categories for outpatients, and into medical, surgical, deliveries and notifiable infectious for inpatients, there is little breakdown into type of disease. Certain institutions do separate outpatient attendance figures into general and specialist clinics with a breakdown of the number of attendances at each type of special clinic - dermatology, diabetic, neurology, orthopaedics, physiotherapy etc, (I) at Groote Schuur and ... Children's Hospitals (at the latter only since ... the number of beds available, the number treated, the number of daily units, the average ... and the average percentage occupancy of beds ... race group, at each hospital. (2) Figures ... of operations (major and minor), the number ... deaths and attendances at specialised depart- ... ic and therapeutic X-ray, physiotherapy, occupational therapy and electrocardiograph are kept at each hospital.

Few hospitals keep headcounts of outpatients treated - Groote Schuur has attempted to do so since January 1978, and the Day Hospitals make a headcount from the number of tickets sold and exemptions granted. The definition of an outpatient

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cannot be removed costlessly. The fact that an institution is imposed on the market implies costs beyond those experienced in an ideal market.

The existence of an institution such as the control board proposed leads also to the costs for society that result from rent-seeking.(7) The regulations acquired by the industry may be operated primarily for its benefit. The incentive for graft and corruption may generate significant costs.(8)

However, these costs may be reduced by ensuring that the controls are exercised in full view of the rest of the industry and the medical profession. For the controls do not include quantitative restrictions such as licensing, which encourage rent-seeking behaviour. They are based on price/quality, more open to assessment by parties not represented on the central board.(9) These factors should enable the costs of the board to be kept within its benefits.

The basic role of the board will therefore be to correct the distortions that arise from the demand side of the market: effective signals will be generated from the market demand that enable supply to be called forth.

This type of co-ordination is what is needed in the market, for it has shown that the supply side of the industry is currently effective and that the types of proposal that attempt to regulate supply (i.e. Nationalisation or direct controls) would generate major distortions and inefficiencies. The centralised board is merely a device for ensuring the clear voicing of the demand side of the market. And this would allow a more efficient combination of supply and demand forces to service the drug market.

(9.4) CONCLUDING COMMENTS:

The analysis of this paper has shown that there are flaws in the flow of information in the drug market which impose costs on the allocation of resources. However, no market is ever provided with perfect information. Given the amount of information that can be obtained economically, the problem

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is to devise a system that will allocate resources effectively.

It has also been concluded that the marketing board will

Apartheid policy costs country millions — Marais

RDM 14/4/81 (47)

By GERALD REILLY
Pretoria Bureau

THE Government's apartheid policy was costing the country hundreds of millions of rands a year in the earnings of public servants who in any race-free society would not be needed, the PFP spokesman on Internal Affairs, Mr Kowie Marais, said yesterday.

He was reacting to the latest count of workers in the central Government and provincial departments and in municipalities, released in Pretoria yesterday by the Department of Statistics.

In the last quarter of last year alone the statistics show wages and salaries in the three areas amounted to nearly R1 000-million.

Mr Marais said if the Group Areas legislation was scrapped, if the maze of influx regulations and others controlling the lives of blacks in the urban areas were lifted, and if education fell under one national body instead of four, taxpayers would be saved hundreds of millions of rands a year.

The manpower saving, too, would be substantial, and the thousands of public sector workers administering the apartheid laws could be freed for productive work in the private sector.

"Propping up and administering this failed policy is not only costly in terms of hard cash, but in the continual loss of goodwill for whites among the black population," Mr Marais said.

Meanwhile statistics show that the country's public sector continued to grow last year, in spite of the acute manpower shortage caused by the economic boom conditions.

At the end of December, according to the department's figures, the central Government, provincial administrations and the local authorities employed 796 000 workers of all races.

This is 17 000 more than in December 1979.

Blacks employed in the three areas at the end of last year — 353 144 — outnumbered whites by 42 450.

Salaries and wages of the 796 000 workers for the last quarter of last year amounted to R986 030 000.

This is a huge R201-million more than the total payout at the end of the first quarter — reflecting the increased earnings for Government and provincial workers in April, and in most municipalities from July.

(Report by Gerald Reilly, Van der Stel Building, Pretorius Street, Pretoria.)

Tardy tariff protection

RDM 14/4/81

(180) (49)

MR LANDAU criticises the system of getting tariff protection. He describes the mechanism as slow and cumbersome.

While welcoming the intention of the authorities to move away progressively from import control to tariff protection, he says it is essential that tariff adjustments and anti-dumping duties be rapidly applied if the current system of permit control is to be abolished.

"This is particularly true where major overseas producers in depressed areas are prepared to dispose of excess stocks by dumping them on to any available market.

"The current tariff protection system offers little or no protection to South African industry.

"By way of example, coated paper products enjoy no duty protecton whatsoever and Sappi, therefore, has to compete with international supliers who sometimes supply these products to South Africa at prices below the domestic prices in their countries of origin.

"Sappi's application for tariff protection on these commodities, which has been outstanding for nearly two years, has still not been granted.

"If local industries are to be encouraged to invest in future development, this situation will have to be corrected without further delay."

Medicine that'll hurt to heal

RDM 14/4/81 (49)

Howard Preece — **Economic Spotlight**

THERE is now little chance that the South African economy will achieve the hoped-for real growth rate of 5% in 1982, or even in 1983.

Growth looks like being a regrettable but inevitable casualty of a fundamental shift in emphasis in Government economic policy.

All the indications are that the Government has made the reduction of inflation its No 1 economic priority.

There is no painless way of achieving this.

It means sustained high interest rates, it means a tough and restrictive monetary policy, it means curbing the expansion of real demand for both goods and labour, it may even mean higher taxes.

It means policies that will work only when they begin to hurt.

There is no "free lunch" available here any more than there is in economic life generally.

Not that economic growth is about to come to a grinding halt.

It could well be 4,5% or more this year.

Last year, Mr Rudolf Gouws, the distinguished chief economist of the Nedsual group, suggested in an analytical study that the South African economy had the capability to show an average annual real growth rate of around 5% in the 1980s.

That may still hold good for the decade.

But with the year-on-year consumer-price index showing an increase of more than 16% and Standard Bank talking of the money supply being "out of control" inflation must now be turned back.

The process of turning it back, even modestly, could well mean that real growth for 1982 and 1983 will be in the 3,5% to 4% area, maybe less.

It is possible, of course, that a renewed gold boom could ensure continuing appreciable rises in living standards.

If so, however, that will come about through the exchange rate and through improved terms of trade, by the ability of our exports to pay for a greater volume of imports.

It will be reflected in the gross national product instead of in the gross domestic product and in employment.

Oil has had a similar effect on Britain in the past two years, although there it has been a matter of offsetting an actual industrial decline.

Should the gold price remain depressed, however, South Africa would in any case be obliged eventually for balance of payments reasons to take measures that would restrain economic growth.

Quite apart from gold, however, SA is faced with two blunt short- to medium-term choices:

- To continue with an exceptionally high level of inflation.
- To take counter measures, a consequence of which will be the effect of reducing the growth rate well below the physical potential of the economy.

There is scope for policy options within these limits; but there is no third choice at this stage.

We should not deceive ourselves.

There are a variety of policies that South Africa can now pursue that should have beneficial results for the economy in the middle or late 1980s.

These include, crucially, the switch to greater reliance on free-market policies generally, the abolition of racial barriers to economic efficiency and radically improved training and educational facilities for all people.

They can perhaps help to produce 5% growth in 1984 and beyond.

None of these factors, or other structural changes, will, however, have any impact on the immediate inflationary crisis.

If we had done some or all of these things five or 10 years ago South Africa would be better placed today.

We would almost certainly have still had inflationary problems, but they need not have been so severe.

It might then have been possible to have had real growth rate of 8% in 1980 without putting such strains on the economy as actually happened last year.

The pure monetarist would (or should) say today that there is no choice at all, that unless inflation is tackled head-on it will destroy the basis of long-term growth.

Impressive though that argument is in theory, however, experience offers a more muddled picture.

South Africa is in its eighth year of double-digit inflation.

By the conventional wisdom of the early 1970s we should be into or approaching totally destructive hyper-inflation at this point.

We are not.

Comforted by that and understandably fearful of the implications of an all-out assault on inflation — as exemplified by the Thatcher experiment in Britain — the South African authorities will look for compromise.

They will try to keep some growth momentum in the economy.

I think they will be right to do so.

The price of that, however, will be that inflation will show, at best, only a gradual decline.

It could also be knocked sideways by another explosion in oil prices.

A lowering of inflation in the major industrial countries would help, but it is far from certain that President Reagan will be as successful as this in the US as he hopes.

Nor is it any good looking to the second De Kock report, coming later this year, for panaceas.

It is widely agreed that the refusal last year by Dr T W de Jongh, the retired Governor of the Reserve Bank, to relax exchange controls aggravated the monetary build-up.

It is silly to pretend, however, that this was the overriding reason for the troubles.

If the Government and the Reserve Bank had wanted to take drastic action to mop up liquidity, they could have done so by a traditional domestic monetary and fiscal squeeze.

They did not do so because they wanted (very naturally) to keep the economic and employment upsurge bouyant and because they had no way of knowing how sustained the gold boom would be.

When all that is said, however, the fact is that they got their sums wrong.

They also departed from their own game plan of trying to hold the economic upturn to a rate of 5% or so a year.

There is no way now that we can avoid some rundown of growth over the next couple of years.

South Africa will still, however, be better off than most countries during this time.

Our difficulty is that our need for growth is greater than most.

McAlpine draws R430m

By SUSAN DALLAS

MORE than R430-million flooded in for Alfred McAlpine & Son's public share issue — oversubscribing the 2 300 000 shares on offer 60 times.

The offer attracted 22 524 applications for more than 138-million shares.

The oversubscription is bigger than the 30 times oversubscription for Sasol and three times that received for Southern Sun when they went public in 1979.

Applications were received for 138 998 600 shares.

Mr Alan Richardson, financial director for McAlpine, said the basis of allocation would be 1.60 and would follow a strict pro-rata system, with share allocations of below 5 500 being selected by ballot.

One applicant out of every 60 for 100 shares would receive 100 shares.

In the case of applications for 200 shares, two applicants out of every 60 would receive 100 shares and the same ratio would be applied to all applications up to 5 500 shares, at which point 55 applicants out of every 60 would receive 100 shares.

Applications for more than 5 500 shares would receive about 1.7% of the number of shares applied for, rounded to the nearest 100 shares and subject to a maximum allocation of 38 000 shares.

The 700 000 shares offered on a preferential basis to company directors, employees and associates, would be allotted in full, he said.

Applications subject to ballot would be selected at random by computer.

The allotment of the shares is conditional on a listing for the entire issued share capital of McAlpine being granted by the Johannesburg Stock Exchange.

Issuing house Hill Samuel says listing is expected to begin next Wednesday, and share certificates and refund cheques will be posted tomorrow.

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...ges

...es: London ...12,22; Frank- ...rich $472,50; ...

...nd influenced ...in some US

...e dollar rose

...ollar was at ...after about ...rately active ...ibly up from ...715/45 francs ...ntimes above ...of 1,9600/25

...ged to this ...against the ...sing at 216,60 ...ng. ...ed at 215,50 ...lipped below ...the day. It ...214,55 yen. ...bank sold ...kfurt as the ...arply higher ...ter 2,1470 on

...ed below its ...g its highest ...March, but ...1¾ pfennigs ...se.

...golds ...g the ...down

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...he Johannes- ...yesterday ...s reacted so ...ness in the ...drifted down ...dragging in- ... ...ected that ...will develop ...today's mar-

Krugerrands fell 17c to 470c, the weakness in the market emanating more from the issue of coins to the banks than from gold-price considerations.

Industrials were a weak market and losses appeared to outnumber gains — not that there was much selling. Buyers had withdrawn. The institutions were on the sidelines waiting to snatch bargains where they

How flexible

Business hopes still run high

RDM
15/4/81
49

By HAROLD FRIDJHON

MOST businesses interviewed for the quarterly opinion survey conducted by Barclays National Bank towards the end of March remain optimistic about prospects for the next three to six months.

No fewer than 42% of the firms interviewed expressed unqualified optimism about business propects and 50% were reasonably optimistic that business conditions would remain favourable.

Predictions about profits were also encouraging. In spite of rising costs, 60% of firms interviewed said profit margins were still increasing and, in line with this, 71% of the respondents expected that, compared with 1980, total profits this year would increase.

Most firms (89%) continued to experience satisfactory cash flows and about 78% of respondents said debtors were paying their accounts on time — which also must be affecting cash flows favourably. This, says the Barclays Business Brief, suggests that the debt position is still generally sound.

Among the reasons advanced for the optimism about the immediate future are:

- Generally full orderbooks for manufacturers.
- The continuation of fixed investment projects started last year.
- Increased public-sector salaries.
- Salary and wage increases in the private sector.

Barclays says these factors should maintain consumption expenditure at a relatively high level.

"In fact, apart from the growing shortage of skilled and semi-skilled labour, as well as a shortage of building society funds and a severe shortage of bricks which are affecting building activity, the majority of our respondents could not really see any reason to expect any significant slowdown in the pace of business in the immediate future."

In all three main sections of trade — non-durable, semi-durable and durable — 65% of traders interviewed reported an improvement in sales compared with the first quarter of last year. About a quarter said sales levels were unchanged from the final quarter of 1980. Only 11% said turnover had declined.

On expectations for the current three months, opinions were equally divided between those who expected a further improvement and those who said that sales would remain on the first quarter's level.

Demand for cars is expected to hold up well, at least in the short run.

Manufacturers reported better than expected results. A total of 51% said production and sales in the first quarter of this year exceeded those of the last quarter of 1980 and 45% said business had been on the same level as in the last quarter of the year.

Expectations for the current quarter are optimistic with 45% of manufacturers expecting an increase, and 51% believe first-quarter figures will be maintained.

In the building and construction industries work continued at a high level. Only 12% reported a decline.

Intentions about fixed investment are mixed, with 57% of all firms planning to spend money in the next three to six months, and the balance not contemplating this expenditure in the immediate months ahead.

Stocks appear to be adequate.

An increase in the use of bank credit is expected by 64% of the reporting firms. The rest do not expect to have to raise more bank credit. Of those who intend to increase their borrowing, 32% want 18% or more added to their facilities, and 30% talk of an increase of between 14% and 18% in the year ahead.

Wage and unit costs are expected to go up by about 15% to 16% as an average. This, says the Business Brief, strongly suggests a similar inflation rate for 1981 because there is usually a close correlation between wage and unit cost increases and price increases.

The economy has moved closer to full production capacity since the December 1980 survey. Of the manufacturers interviewed, 50% were operating not far short of full capacity, 26% were operating at full capacity and 3,5% were working at over-full capacity.

Unskilled labour is still freely available, semi-skilled labour is in short supply, but the supply of skilled labour is in very short supply with most respondents seeing little hope of improvement this year.

With this constraint on the economy and with the financial and monetary restraints that will have to be applied to counteract the pressure on prices and the inflation rate, the Business Brief suggests that achieving a 5% growth rate this year will not be easy.

Table 5.1: Cost of promotion of ethical drugs (as a percentage of sales) compared with the cost of manufacturing and research and development, (S.A. 1973)

Cost Component	Percent of Sales
Promotion	25%

(3.2) The Role of Promotion:

The large amount of promotion is said by the industry to play several positive roles. Among these are the ability of promotion, by increasing sales volumes, to allow unit prices to be reduced as a result of economies of scale being realised, and the encouragement of price-sensitivity by drug sales representatives (detail men).

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In addition the rapid pace of technological change necessitates a great amount of information dissemination. The drug firms provide readable information necessary for the doctor to practice effectively. "Medical thinking tends to be ruggedly individualistic. The Pharmaceutical Industry serves as an influential ... that individualism to

The main attack of the critics centres on the role of information dissemination. Although it is conceded that doctors do need to be given large amounts of information, the sheer magnitude of the promotion by the industry causes distortions.

The overconsumption of drugs and the increasing resistance of bacteria due to the injudicious use of antibiotics has become a major problem. Promotion boosts the sale of drugs and biases medical treatment towards drug-dependent curative medicine-

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File

49

NOTICE 277 OF 1981

SOUTH AFRICAN RESERVE BANK

Statement of assets and liabilities on the 31st day of March 1981

Liabilities	R
Capital	2 000 000,00
Reserve Fund	28 588 297,84
Notes in circulation	2 072 884 354,00
Deposits:	
Government	308 135 847,43
Provincial administrations	118 353 644,85
Bankers	1 359 068 453,33
Other	51 789 250,10
Other liabilities	3 874 452 859,09
	R7 815 272 706,64

Assets	R
Gold	4 670 083 282,60
Foreign:	
Bills	98 630 327,28
Investments	39 516 133,05
Other assets	693 317 221,74
Total gold and foreign assets	5 501 546 964,67
Domestic:	
Bills discounted	390 930 000,00
Loans and advances:	
Government	—
Other	679 664 512,02
Securities:	
Government	612 283 234,34
Other	249 892 878,00
Other assets	380 955 117,61
	R7 815 272 706,64

Ratio of gold reserve to liabilities to the public less foreign assets 72,0 per cent.

Pretoria, 9 April 1981.

G. P. C. DE KOCK, General Manager.

KENNISGEWING 277 VAN 1981

SUID-AFRIKAANSE RESERWEBANK

Staat van bates en laste op die 31ste dag van Maart 1981

Laste	R
Kapitaal	2 000 000,00
Reserwefonds	28 588 297,84
Note in omloop	2 072 884 354,00
Deposito's:	
Regering	308 135 847,43
Provinsiale administrasies	118 353 644,85
Bankiers	1 359 068 453,33
Andere	51 789 250,10
Ander laste	3 874 452 859,09
	R7 815 272 706,64

Bates	R
Goud	4 670 083 282,60
Buitelandse:	
Wissels	98 630 327,28
Beleggings	39 516 133,05
Ander bates	693 317 221,74
Totaal aan goud en buitelandse bates	5 501 546 964,67
Binnelandse:	
Gediskonteerde wissels	390 930 000,00
Lenings en voorskotte:	
Regering	—
Andere	679 664 512,02
Sekuriteite:	
Regering	612 283 234,34
Andere	249 892 878,00
Ander bates	380 955 117,61
	R7 815 272 706,64

Verhouding van goudreserwe tot verpligtings teenoor die publiek min buitelandse bates 72,0 persent.

Pretoria, 9 April 1981.

(16 April 1981)

G. P. C. DE KOCK, Hoofbestuurder.

No. 796 16 April 1981

Statement of Revenue collected during the period 1 April 1980 to 28 February 1981

Treasury, Pretoria.

No. 796 16 April 1981

Staat van Inkomste ingevorder gedurende die tydperk 1 April 1980 tot 28 Februarie 1981.

Tesourie, Pretoria.

Inkomstehoof	Head of Revenue	Begroting Estimates 1980/81	Ingevorder vir die jaar geëindig 31 Maart 1980 Collections for year ended 31 March 1980	Maand Februarie Month of February		Totaal 1 April tot 28 Februarie Total 1 April to 28 February	
				1981	1980	1981	1980
		R	R	R	R	R	R
Staatsinkomsterekening	*State Revenue Account*						
Doeane en Aksyns	Customs and Excise—						
Invoerreg	Customs Duty	480 000 000	453 033 408	61 542 242	38 784 717	658 011 515	414 298 258
Aksynsreg	Excise Duty	1 111 026 000	1 013 806 740	109 171 781	91 093 404	1 136 261 784	919 798 8[illegible]
Verkoopreg	Sales Duty	500 000	1 170 527	1 809	59 274	584 527	1 159 7[illegible]
Bobelasting	Surcharge	1 000 000	250 577 340	Dr 120 478	22 196 415	Dr 2 737 238	233 937 961
Diverse	Miscellaneous	19 000 000	21 837 962	528 348	2 332 076	44 434 981	21 657 446
	R	1 611 526 000	1 740 425 977	171 123 702	154 465 886	1 836 575 569	1 590 849 218
Oordrag na Sentrale Inkomstefonds	Transfer to Central Revenue Fund (a)	Dr 41 100 000	Dr 44 495 546	Dr 5 000 000	Dr 1 500 000	Dr 35 500 000	Dr 32 000 000
Betalings ingevolge Doeane-Unie-ooreenkomste	Payments in terms of Customs Union Agreements (b)	Dr 500 200 000	Dr 402 465 893	Dr —	Dr	Dr 504 919 435	Dr 402 465 893
	R	Dr 541 300 000	Dr 446 961 439	Dr 5 000 000	Dr 1 500 000	Dr 540 419 435	Dr 434 465 893
	R	1 070 226 000	1 293 464 538	166 123 702	152 965 886	1 296 156 131	1 156 383 325
Binnelandse Inkomste—	Inland Revenue—						
Belasting op Inkomste	Tax on Income	5 990 800 000	5 234 057 755	1 331 574 063	895 837 365	6 967 681 109	4 800 839 034
Ander Belastings en Ontvangste	Other Taxes and Receipts						
Goudmynhuurkontrakte	Gold mining leases	635 000 000	334 270 081	287 703 458	115 364 557	838 195 029	334 319 074
Ander mynhuurkontrakte	Other mining leases	16 000 000	15 434 763	17 903 407	8 480 537	18 809 955	8 772 340
Staatseiendomsreginkomste op diamantmyne	State Ownership Revenue on diamond mines	44 000 000	40 476 448	1 176	572	207 777	187 790
Uitvoerreg op diamante	Export duty on diamonds	31 000 000	31 365 265	1 843 474	3 054 020	23 225 636	28 880 935
Belasting op buitelandse aandeelhouers	Non-Resident shareholders' tax	200 000 000	161 508 119	15 079 302	11 721 314	261 152 438	141 300 279
Rentebelasting op buitelanders	Non Resident's tax on interest	16 000 000	15 540 840	956 147	919 734	10 762 278	13 663 382
Belasting op onuitgekeerde winste	Undistributed profits tax	5 000 000	4 207 096	164 316	137 744	2 226 633	4 001 946
Belasting op geskenke	Donations tax	1 500 000	1 476 340	116 958	109 631	1 767 729	1 318 935
Seëlreg en gelde	Stamp duties and fees	150 000 000	123 571 930	11 611 450	13 928 371	118 794 429	106 319 009
Hereregte	Transfer duties	95 400 000	89 430 559	13 615 483	9 826 238	140 768 778	77 983 664
Boedelbelasting	Estate duties	48 800 000	57 871 049	5 798 838	6 547 368	56 965 841	54 198 543
Belasting op Bemarkbare sekuriteite	Tax on marketable securities	20 000 000	23 667 167	2 344 708	3 507 900	31 470 224	20 024 179
Lisensies	Licences	3 000 000	2 478 509	153 045	103 271	2 429 432	2 311 852
Kinematograaffilmbelasting	Cinematograph films tax	1 000 000	896 263	73 126	58 616	786 689	831 627
Ander	Other	1 400 500	2 062 568	566 266	Dr 41 760	2 170 204	1 056 189
Departementele en Diverse Ontvangste	Departmental and Miscellaneous Receipts						
Staatsdiamantdelwerye	State Diamond Diggings	13 585 000	28 313 100	—	2 439 989	2 367	26 631 112
Bosinkomste	Forest revenue	28 000 000	33 971 807	4 601 822	3 776 344	39 927 888	30 310 [illegible]
Waterinkomste	Water revenue (c)	44 000 000	46 937 753	5 775 732	3 740 613	49 657 284	39 440 2[illegible]
Boetes en verbeurdverklarings	Fines and forfeitures	12 000 000	11 689 757	1 079 157	1 031 791	12 039 009	10 605 550
Verhalings van voorskotte	Recoveries of advances	2 787 000	4 204 125	156 783	188 713	13 217 376	3 577 6[illegible]
Verkoop van staatsgrond	Sale of state land	2 500 000	487 824	916 802	117 665	2 234 012	357 5[illegible]
Verhuring van staatseiendom	Rental from state property	13 469 000	14 417 226	Dr 2 775 783	1 239 827	10 437 504	10 065 [illegible]
Algemeen	General	191 022 800	183 874 829	27 597 090	9 929 309	210 61[illegible] 192	150 065 665
Rente en Dividende	Interest and Dividends	670 595 700	662 337 441	37 039 013	30 913 137	572 749 958	610 274 664
Terugbetalings van Lenings	Repayment of Loans	54 357 500	120 778 281	3 510 801	4 091 065	68 436 38[illegible]	101 032 148
Algemene Verkoopbelasting	General Sales Tax	1 550 000 000	1 248 735 251	134 504 218	94 969 293	1 507 316 586	1 335 366 973
	R	9 841 217 500	8 494 082 166	1 901 911 652	1 221 617 224	10 963 995 682	7 714 57[illegible] 45[illegible]
	R	10 911 443 500	9 787 546 704	2 068 035 354	1 374 583 110	12 260 151 816	8 870 957 782
Staatsoliefonds	State Oil Fund (d)	270 000 000	259 158 006	24 884 123	24 965 281	252 894 131	238 909 367
Nasionale Padfonds	National Road Fund (e)	133 000 000	129 854 005	12 959 674	13 021 698	127 841 599	118 982 710
Suid-Afrikaanse Ontwikkelingstrustfonds	South African Development Trust Fund (f)	6 454 000	14 501 552	3 741 368	825 489	[illegible] 324	[illegible] 455
Rekening vir Swart Vervoerdienste	Account for Black Transport Services (g)	12 500 000	11 448 948	1 399 381	809 629	13 378 666	[illegible]
Fonds vir Sorghumbiernavorsing	Sorghum Beer Research Fund (h)	850 000	1 118 520		—	950 000	[illegible]
Suidwes-Afrika Gebiedsinkomstefonds	South West Africa Territorial Revenue Fund (i)	13 000	41 462	104	8 758	1 [illegible]	[illegible]
	R	422 817 000	416 122 493	42 984 650	39 630 855	404 833 787	379 453 582
Totaal	Total R	11 334 260 500	10 203 669 197	2 111 020 004	1 414 213 965	12 664 985 603	9 250 [illegible]
Rekonsiliasie met opgaaf gepubliseer by Goewermentskennisgewing 559 in *Staatskoerant* van 13 Maart 1981	Reconciliation with statement published by Government Notice 559 in *Government Gazette* of 13 March 1981	—	—	—	—	—	—
In Transito 31 Maart 1980	In Transit, 31 March 1980	—	—	—	—	51 088 620	—
Te veel oorgedra 31 Januarie 1981	Overremitted 31 January 1981	—	—	13 829 293	—		
Invorderings soos hierbo	Collections, as above	—	—	2 111 020 004	—	12 664 985 603	
	R	—	—	2 097 190 711	—	12 716 074 223	
Te veel oorgedra 28 Februarie 1981	Overremitted 28 February 1981	—	—	6 863 954	—	6 863 953	
In Skatkisrekening ontvang	Received into Exchequer Account R		—	2 104 054 665	—	12 722 938 176	

(a) Artikel 22 (1) (d) van Wet 25 van 1969
(b) Artikel 51 (2) van Wet 91 van 1964
(c) Voorheen ingedeel onder "Algemeen"
(d) Artikel 1 van Wet 38 van 1977
(e) Artikel 2 (1) (a) van Wet 54 van 1971
(f) Artikel 8 van Wet 18 van 1936
(g) Artikel 7 van Wet 53 van 1957
(h) Artikel 19*bis* (1) (a) van Wet 63 van 1962
(i) Artikel 22 (4) (a) van Wet 25 van 1969

(a) Section 22 (1) (d) of Act 25 of 1969
(b) Section 51 (2) of Act 91 of 1964
(c) Previously included under "General"
(d) Section 1 of Act 38 of 1977
(e) Section 2 (1) (a) of Act 54 of 1971
(f) Section 8 of Act 18 of 1936
(g) Section 7 of Act 53 of 1957
(h) Section 19*bis* (1) (a) of Act 63 of 1962
(i) Section 22 (4) (a) of Act 25 of 1969

No. 830 16 April 1981

Statement of Receipts into and Transfers from the Exchequer Account for the period 1 April 1980 to 31 March 1981.

Treasury, Pretoria.

No. 830 16 April 1981

Staat van Ontvangste in en Oordragte uit die Skatkisrekening vir die tydperk 1 April 1980 tot 31 Maart 1981.

Tesourie, Pretoria.

ONTVANGSTE—RECEIPTS

Inkomstehoof	Head of Revenue	Maand Maart / Month of March 1981	Maand Maart / Month of March 1980	Totaal 1 April tot 31 Maart / Total 1 April to 31 March 1981	Totaal 1 April tot 31 Maart / Total 1 April to 31 March 1980
		R	R	R	R
Skatkissaldo, 31 Maart 1980	Exchequer Balance, 31 March 1980	—	—	248 593 278	
Skatkissaldo, 28 Februarie 1981	Exchequer Balance, 28 February 1981	144 599 291	—		
Staatsinkomsterekening	*State Revenue Account*				
Doeane en Aksyns	Customs and Excise	177 174 270	152 627 966	1 468 842 642	1 306 300 622
Binnelandse Inkomste	Inland Revenue	811 380 788	743 542 463	11 833 285 749	8 472 120 483
		988 555 058	896 170 429	13 302 128 391	9 778 421 105
Staatsoliefonds	State Oil Fund	21 660 001	18 200 000	276 602 751	257 827 418
Nasionale Padfonds	National Road Fund	11 150 291	9 000 000	140 863 186	128 643 136
Suid-Afrikaanse Ontwikkelingstrustfonds	South African Development Trust Fund	3 742 000	826 000	13 888 552	11 490 056
Rekening vir Swart Vervoerdienste	Account for Black Transport Services	2 192 050	1 350 642	15 570 716	11 760 012
Fonds vir Sorghumbiernavorsing	Sorghum Beer Research Fund	550	—	1 019 556	1 190 874
S.W.A. Gebiedsinkomstefonds—Verkoopreg	S.W.A. Territorial Revenue Fund—Sales Duty	75	1 742	17 658	43 245
		1 027 300 025	925 548 813	13 750 090 810	10 189 375 846
Ander Ontvangste	*Other Receipts*				
Skatkisbiljette *Binnelands*	Treasury Bills *Internal*	872 096 850	—	8 137 215 850	—
Leningsheffing 1980/81	Loan Levy 1980/81	18 000 000	—	58 000 000	—
Spesiale Trekkingsregte Toegeken	Special Drawing Rights Allocated	—	—	41 187 591	—
Binnelandse Effekte, Obligasies en Lenings Opgeneem—	Internal Stock, Bonds and Loans Raised—				
7 Persent Tesourie-obligasies	7 Per Cent Treasury Bonds	30 000	—	119 285 100	
8 Persent Nasionale Verdedigingsobligasies	8 Per Cent National Defence Bonds	88 650	—	31 278 175	
Premie-obligasies	Premium Bonds	—	—	—	
8 Persent Tesourie-obligasies	8 Per Cent Treasury Bonds	—	—	Dr 1 000	—
Verdedigingsbonusobligasies	Defence Bonus Bonds	15 950 010	—	270 836 150	—
8 Persent Tesourie-obligasies Tweede Reeks	8 Per Cent Treasury Bonds Second Series	12 424 700	—	15 727 100	—
9 Persent Nasionale Verdedigingsobligasies	9 Per Cent National Defence Bonds	10 000	—	10 000	
Binnelandse Geregistreerde Effekte—	Internal Registered Stock—				
9,25 Persent, 2004	9,25 Per Cent, 2004	—	—	160 633 900	—
9,25 Persent, 2002	9,25 Per Cent, 2002	—	—	225 943 100	—
5 Persent, 1983	5 Per Cent, 1983	—	—	403 793 200	—
5,15 Persent, 1981	5,15 Per Cent, 1981	—	—	752 549 200	—
9,80 Persent, 2001	9,80 Per Cent, 2001	—	—	303 918 200	—
10,35 Persent, 2001	10,35 Per Cent, 2001	—	—	74 473 500	—
11 Persent, 1998	11 Per Cent, 1998	—	—	81 901 000	—
8 Persent, 1983	8 Per Cent, 1983	—	—	229 381 100	—
11,5 Persent, 2001	11,5 Per Cent, 2001	—	—	343 231 030	—
12,5 Persent, 2003	12,5 Per Cent, 2003	90 000 000	—	250 000 000	—
Buitelandse Lenings en Krediete Opgeneem—	Foreign Loans and Credits Raised—				
1981/86	1981/86	2 190 770	—	5 964 751	—
1979/84	1979/84	—	—	152 932	—
1980/87	1980/87	—	—	52 342 319	
1977/84	1977/84	4 330 138	—	7 318 914	
1983/88	1983/88	39 077 765	—	76 595 566	—
Terugstortings, *Staatsinkomsterekening* 1979/80	Surrenders, *State Revenue Account* 1979/80	—	—	83 886 080	—
Terugstortings, Statutêre Bedrae 1979/80	Surrenders, Statutory Amounts 1979/80	—	—	2 213 440	—
	R	2 081 498 908	—	25 477 931 738	—
Totaal (insluitende Aanvangssaldo)	Total (including Opening Balance) R	2 226 098 199	—	25 726 525 016	—

UITBETALINGS—ISSUES

Dienste	Service	Begroting / Estimates 1980/81	Maand Maart / Month of March 1981	Maand Maart / Month of March 1980	Totaal 1 April tot 31 Maart / Total 1 April to 31 March 1981	Totaal 1 April tot 31 Maart / Total 1 April to 31 March 1980
		R	R	R	R	R
Staatsinkomsterekening	*State Revenue Account*					
1 Staatspresident	State President	427 000	35 000	75 044	427 000	421 000
Statutêre Bedrag	Statutory Amount	50 000	4 166	6 151	50 000	48 984
2 Parlement	Parliament	3 364 800	102 800	234 000	3 364 800	3 072 000
Statutêre Bedrag	Statutory Amount	3 837 000	—	—	3 837 000	3 453 000
3 Eerste Minister	Prime Minister	6 519 240	1 445 000	190 000	5 434 000	660 000
4 Verdediging	Defence	2 050 000 000	160 000 000	90 000 000	2 050 000 000	1 672 400 000
5 Mannekragbenutting	Manpower Utilisation	30 764 200	1 616 000	1 164 000	30 764 200	24 044 000
6 Samewerking en Ontwikkeling	Co-operation and Development	706 823 000	136 684 800	75 935 100	706 823 000	540 562 200
Statutêre Bedrag	Statutory Amount	204 065 000	—	2 088 000	204 065 000	193 784 000
7 Landbou en Visserye	Agriculture and Fisheries	469 037 000	71 637 000	54 911 000	469 037 000	361 665 000
8 Handel en Verbruikersake	Commerce and Consumer Affairs	156 840 000	21 340 000	15 917 000	142 340 000	127 310 000
9 Nywerheidswese	Industries	191 555 500	7 000 000	22 500 000	190 555 500	319 900 000
10 Finansies	Finance	3 186 115 500	276 099 900	354 476 000	3 186 115 500	2 832 565 000
Statutêre Bedrag	Statutory Amount	1 514 772 000	66 941 500	49 323 055	1 454 004 758	1 363 454 923
11 Oudit	Audit	5 480 000	80 000	450 000	5 480 000	4 960 000
12 Vervoer	Transport	249 481 500	26 481 500	41 439 000	249 481 500	192 439 000
13 Gemeenskapsbou	Community Development	463 890 350	49 390 350	74 566 000	463 890 350	571 566 000
14 Kleurlingbetrekkinge	Coloured Relations	409 117 000	13 167 000	40 203 000	409 117 000	348 033 000
15 Indiërsake	Indian Affairs	150 271 000	4 871 000	10 755 000	150 271 000	123 985 000
16 Justisie	Justice	50 566 896	753 000	4 839 050	50 566 895	51 346 050
Statutêre Bedrag	Statutory Amount	3 043 000	—	Dr 22 000	3 043 000	2 668 000
17 Binnelandse Sake	Interior	22 425 500	4 511 500	2 172 000	22 425 500	14 925 000
18 Kommissie vir Administrasie	Commission for Administration	17 400 000	440 000	350 000	17 400 000	11 780 000
19 Staatsdrukkery	Government Printing Works	1 000	—	—	—	3 800 000
20 Waterwese, Bosbou en Omgewingsbewaring	Water Affairs, Forestry and Environmental Conservation	276 593 000	24 368 138	19 169 000	275 264 138	228 952 000
21 Buitelandse Sake en Inligting	Foreign Affairs and Information	252 811 000	83 000 000	29 412 000	249 516 000	82 432 000
Statutêre Bedrae	Statutory Amount	67 195 000	7 150 000	11 667 700	67 195 000	135 612 000
22 Mineraal- en Energiesake	Mineral and Energy Affairs	431 086 830	26 335 330	22 940 000	431 085 330	299 896 433
23 Polisie	Police	321 265 000	11 500 000	15 281 000	321 265 000	260 528 000
24 Gevangenisse	Prisons	122 618 000	12 000 000	7 593 000	122 618 000	99 793 000

UITBETALINGS—ISSUES

Dienste	Service	Begroting Estimates 1980/81	Maand Maart Month of March 1981	Maand Maart Month of March 1980	Totaal 1 April tot 31 Maart Total 1 April to 31 March 1981	Totaal 1 April tot 31 Maart Total 1 April to 31 March 1980
		R	R	R	R	R
Staatsinkomsterekening	*State Revenue Account*					
25 Nasionale Opvoeding	National Education	407 649 900	245 900	714 388	407 649 900	357 792 388
26 Openbare Werke	Public Works	408 595 000	38 895 000	42 862 000	408 595 000	344 512 000
27 Statistiek	Statistics	21 487 000	1 200 000	1 350 000	19 950 000	8 600 000
28 Toerisme	Tourism	8 434 000	736 000	765 000	8 434 000	7 605 000
29 Onderwys en Opleiding	Education and Training	255 153 000	18 153 000	18 804 000	255 153 000	181 804 000
30 Gesondheid, Welsyn en Pensioene	Health, Welfare and Pensions	800 875 000	31 000 000	33 670 000	800 875 000	672 170 000
Statutêre Bedrag	Statutory Amount	163 204	13 205	16 696	163 205	142 696
31 Verbetering van Diensvoorwaardes	Improvement of Conditions of Service	455 000 000	193 920 000	244 606 433	455 000 000	255 345 000
Statutêre Bedrag	Statutory Amount	2 002 000	572 000	615 000	911 000	618 000
	R	13 726 774 420	1 291 689 089	1 291 037 617	13 642 167 577	11 505 662 674
Staatsoliefonds	State Oil Fund (a)	270 000 000	21 660 001	18 200 000	276 602 751	257 827 418
Nasionale Padfonds	National Road Fund (b)	133 000 000	11 150 291	9 000 000	140 863 186	128 643 136
Suid-Afrikaanse Ontwikkelingstrustfonds	South African Development Trust Fund (c)	6 454 000	3 742 000	826 000	13 888 552	11 490 056
Rekening vir Swart Vervoerdienste	Account for Black Transport Services (d)	12 500 000	2 192 050	1 350 641	15 570 716	[illegible] 760 012
Fonds vir Sorghumbiernavorsing	Sorghum Beer Research Fund (e)	850 000	550	—	1 019 556	1 190 874
S.W.A. Gebiedsinkomstefonds—Verkoopreg	S.W.A. Territorial Revenue Fund—Sales Duty (f)	13 000	25	1 742	17 655	43 245
	R	422 817 000	38 744 967	29 378 383	447 962 419	410 954 741
	R	14 149 591 420	1 330 434 056	1 320 416 000	14 090 129 996	11 916 617 415
Ander Uitbetalings	*Other Issues*					
Terugbetaling van Skatkiswissels Binnelands	Treasury Bills repaid Internal	—	580 395 850	-	8 125 714 850	
Belastingdelgingsertifikate gedelg	Tax Redemption Certificates repaid	-		-	125	
Leningsheffing 1966/80 gedelg	Loan Levy 1966/80 repaid	—	1 241 208	—	12 265 048	
Delgingsfondsvoorskotte	Sinking Fund Advances	—	1 840 731	—	27 163 304	-
Terugbetaling van Promesse I.M.F.	Repayment of Promissory Notes I.M.F.	—	—	-	48 000 000	
Kwotaverhoging I.M.F.	Quota Increase I.M.F.	—	—	—	6 000 000	—
Spesiale Trekkingsregte Depositorekening	Special Drawing Rights Deposit Account	—	—	—	41 187 591	-
Oordrag na Sentrale Inkomstefonds—S.W.A.	Transfer to Central Revenue Fund—S.W.A.	—	—	-	40 000 000	
Valuta Aanpassing I.M.F.	Valuation Adjustment I.M.F.	—	—	—	18 478 003	
Oordrag na Stabilisasierekening	Transfer to Stabilisation Account	—	—	-	1 241 632 800	-
Oorbetaling van Saldo op S.W.A.-rekening	Payment of Balance on S.W.A. Account	—	—	—	5 042 224	—
Oordrag na Verdediging ingevolge Finansiewet 100 van 1980	Transfer to Defence in terms of Finance Act 100 of 1980	—	—	-	160 000 000	—
Binnelandse Effekte, Obligasies en Lenings Gedelg	Internal Stock, Bonds and Loans Redeemed					
Vyfjaar-obligasies vir Nie-inwoners	Five Year Non-Resident Bonds	—	136 000	-	1 806 000	-
8 Persent Tesourie-obligasies	8 Per Cent Treasury Bonds	—	3 439 700	—	18 700 700	-
Premie-obligasies	Premium Bonds	—	29 500		29 335 700	—
Tweede Reeks Premie-obligasies	Second Series Premium Bonds	—	186 900	—	31 013 800	—
Nasionale Verdedigingsobligasies	National Defence Bonds	—	7 871 800	—	19 409 500	
Tweede Reeks Nasionale Verdedigingsobligasies	Second Series National Defence Bonds	—	10 646 150	-	85 669 550	—
Derde Reeks Nasionale Verdedigingsobligasies	Third Series National Defence Bonds	—	1 000 100		103 643 750	—
7 Persent Tesourie-obligasies	7 Per Cent Treasury Bonds	—	11 745 200	—	25 077 600	-
Verdedigingsbonusobligasies	Defence Bonus Bonds	—	4 566 000	—	43 561 520	—
8 Persent Nasionale Verdedigingsobligasies	8 Per Cent National Defence Bonds	—	1 387 450		[illegible] 699 200	—
Binnelandse Geregistreerde Effekte	Internal Registered Stock					
8,75 Persent, 1980	8,75 Per Cent, 1980	—	-	—	934 734 750	—
5,25 Persent, 1980	5,25 Per Cent, 1980	—	—	—	84 000 000	—
5,375 Persent, 1980	5,375 Per Cent, 1980	—	-	—	47 564 574	-
5,625 Persent, 1980	5,625 Per Cent, 1980	—	27 349 500	—	27 349 500	-
Buitelandse Lenings en Kredite Gedelg—	Foreign Loans and Credits Redeemed—					
6 Persent Uitvoerkrediet Fasiliteit	6 Per Cent Export Credit Facility	—	—	—	4 529 77[illegible]	-
1979/81	1979/81	—	1 768 449	—	17 397 881	—
1977/84	1977/84	—	—	—	400 304	—
1978/81	1978/81	—	—	—	24 329 389	—
1982/84	1982/84	—	—	-	12 468 828	
1979/81	1979/81	—	—	—	10 804 640	—
1978/80	1978/80	—	—	—	901 839	—
1978	1978	—	—	-	40 114 663	—
1981	1981	—	—	—	15 395 912	-
1976/85	1976/85	—	-	—	4 374 263	-
1977/86	1977/86	—	—	—	4 268 399	
1977/86	1977/86	—	—	—	4 393 158	—
1979/84	1979/64	—	—	-	2 925 296	—
1980	1980	—	—	—	51 250 513	—
1973/87	1973/87	—	—	—	593 339	—
1975	1975	—	-	—	1 527 994	—
1981/86	1981/86	—	4 309 724	—	4 309 724	—
1986	1986	—	2 826 855	—	2 826 856	—
Uitbetalings, Staatsinkomstebegrotingsposte, 1979/80	Issues, State Revenue Votes, 1979/80	—	20 134 747	—	24 130 847	-
Uitbetalings, Staatsinkomstebegrotingsposte, 1978/79	Issues, State Revenue Votes, 1978/79	—	—	—	24 304	—
Uitbetalings, Staatsinkomstebegrotingsposte, 1977/78	Issues, State Revenue Votes, 1977/78	—	-	—	85 491	—
	R	—	680 875 864	—	11 421 606 741	-
	R	—	2 011 309 920	—	25 511 736 737	
Skatkissaldo, 31 Maart 1981 Kontant	Exchequer Balance, 31 March 1981 Cash	—	214 788 279	—	214 788 279	—
Totale	Totals R	—	2 226 098 199		25 726 525 016	-

(a) Artikel 1 van Wet 38 van 1977
(b) Artikel 2 (1) (a) van Wet 54 van 1971
(c) Artikel 8 van Wet 18 van 1936
(d) Artikel 7 (1) van Wet 53 van 1957
(e) Artikel 19bis (1) (a) van Wet 63 van 1962
(f) Artikel 22 (4) (a) van Wet 25 van 1969

(a) Section 1 of Act 38 of 1977
(b) Section 2 (1) (a) of Act 54 of 1971
(c) Section 8 of Act 18 of 1936
(d) Section 7 (1) of Act 53 of 1957
(e) Section 19bis (1) (a) of Act 63 of 1962
(f) Section 22 (4) (a) of Act 25 of 1969

(49) FM 17/4/81

FREE ENTERPRISE

To be or not to be?

Contradictions in the Government's concept of the realities of free enterprise were highlighted this week in statements by the Prime Minister, PW Botha, and Finance Minister, Owen Horwood.

On Saturday at the Rand Easter Show, Botha re-affirmed the Government's commitment to free enterprise.

He said: "We shall continue to move away from direct economic controls of a socialistic nature, such as price and wage control, import control, exchange control and bank credit ceilings."

But on Monday he is reported to have baulked at reforming the Group Areas Act, saying that the poorer sections of the community would pay the price if their 'protection' were removed. The Group Areas Act controls access to land and therefore business sites as well as homes.

Finance Minister Horwood . . .
. . . one step back?

He declared: "The Group Areas Act has nothing to do with the free enterprise system It is a social measure guaranteeing the right of different population groups to acquire property and to have it registered in their own names."

Another blow to the spirit of free enterprise and market forces in this country came late last week when Minister Horwood declared his intention to set up a commission of inquiry to investigate the mortgage rate increases.

He said: "I am sorry that the building societies in South Africa have seen it necessary to raise mortgage bond rates as they have.

GAME PLAN OUTLINED

FM 17/4/81 (49)

Deputy Reserve Bank Governor Bramie van Staden, speaking to the East London Rapportryers on April 2, set out a central bank's manual for fighting inflation.

He emphasises fiscal discipline which is, in addition, the basis of monetary policy — government must rigidly limit its total expenditure, so leaving more room for private sector expansion.

Attention must be paid to the sources of official borrowing. At times of high inflation and rapid growth in the money supply, these requirements must not only be satisfied outside the banking sector, but the net debt position of government to the banking sector must be reduced.

Government must sterilise excessive funds in the Reserve Bank, the stabilisation account or other deposit accounts.

Then there is monetary policy. At a time of demand-pull inflation, the growth in money supply must be sternly controlled. It must be less than the anticipated inflation rate and significantly less than expected GDP growth at current prices.

The Reserve Bank needs to engage in open market operations — the sale of government stock and other money market instruments to absorb liquidity and restrict monetary growth. If the paper is purchased by the non-bank sector, this is a negative influence on money supply growth.

Purchases by the banking sector will diminish its cash holdings and exercise an upward pressure on interest rates, and may in addition diminish its liquid asset holdings — if the paper sold is long-term government stock.

The banking sector can resell the paper to the non-bank private sector, thereby further diminishing the money supply. The reduction in both the cash and liquid assets of the banks does not only have an upwards influence on short-term interest rates, but also restricts lending.

The level of interest rates and the expectations of future movements in interest rates also play an important role in the determination of growth in money supply.

Higher interest rates — that is to say, higher in comparison with the rate of inflation and international rates — are a natural result of open market transactions intended to reduce the rate of increase in money supply. They lead to a reduction in credit and an increase in savings.

If interest rates reflecting supply and demand cannot be accepted for socio-political reasons, then credit creation and the associated money creation might be restricted through more direct methods like credit ceilings. But they are not always successful.

The balance of payments, as reflected in changes in the net gold and other foreign reserves, comprises a third important element in money creation. The monetary authorities can, theoretically, use the foreign exchange reserves to influence the money supply — for example through exchange control relaxations to augment a capital outflow. The basis on which the Reserve Bank provides forward exchange cover can also influence capital movements. Exchange rate fluctuations and the differential between internal and foreign interest rates are also of importance in manipulating the level of reserves.

Of course, in practice, a number of restraining factors have to be taken into account in the use of various policy measures. These include having only one main budget per year. Financing of the Treasury deficit is another, as the deficit is dependent on many unpredictable elements.

The effectiveness with which open market operations can influence the liquidity base of the banks, and thence the money supply, is dependent on the existence of a well-developed and broad market for government stock and other money market instruments. SA has made much progress in this direction in the last two decades. But there are shortcomings.

Nor is it generally accepted that higher interest rates are a natural consequence of financial discipline. Certain interest rates, like the building societies' bond rates, and interest rates related to agricultural finance, are very sensitive to upward adjustments, which meet with strong resistance.

If the interest rates which homeowners and farmers must pay cannot, for socio-economic reasons, be allowed to rise to market levels, the authorities must consider direct subsidies in preference to pegging them at artificial levels, which amount to indirect subsidies.

The control of the money supply through the foreign reserves and the exchange rate also gives rise to problems, because of the large proportion of foreign trade in SA's GDP and the sensitivity of capital movements both to overseas developments and to political factors.

And the money supply is also greatly exposed to seasonal fluctuations, which greatly complicates the Reserve Bank's task. To prevent sharp short-term fluctuations in interest rates and the money supply, the Reserve Bank engages in the money markets very actively. At times, these seasonal operations clash with the underlying purpose of moving the money supply in one or other direction.

49 FM 17/4/81

ECONOMIC DEBATE

Harrowing Horwood

Finance Minister Owen Horwood came under sharp and concerted attack this week from three prominent academic economists — including professors from Wits and Rhodes universities — for his largely successful policies and his approach to policymaking.

It was an attack initiated and orchestrated by Professor Joubert Botha of Wits University and took the form of three articles published in the latest *SA Journal of Economics*, the learned publication of the Economic Society of SA.

The attack has created a stir among economists and members of the society, some of whom believe that, taken together, the articles were, at best, mischievous, and masked personal motives.

Each of the authors had a personal axe to grind and these came through, although cloaked in academic pretension. The authors are:

□ Professor Mike Truu, of Rhodes University, who was one of those who argued unsuccessfully for a prices and incomes policy at the minister's recent inflation conference at the Carlton Hotel;

□ Professor Botha, who has long been resentful of what he believes to be the exclusion of "professors and headmasters" salaries from increases in real wages; and

□ Dr Peet Strydom, an economist with Senbank and formerly an academic econometrician; he was clearly resentful of Horwood's remarks at an Economic Society function in September on the poor forecasting performance of econometric models.

Horwood's remarks were contained in a fairly general speech, dealing with policy formation in recent years. It was prefaced with a quote from Alfred Marshall, (the great English economist) warning against the excessive application of exact mathematical methods to the formulation of economic policy.

Academic forum

The speech was reproduced in the December issue of *The Journal*, which purports to be both scientific and a public academic forum. The decision to publish it was apparently taken reluctantly by Botha, who is its managing editor.

There is no doubt that in now attacking Horwood's earlier general remarks with tortuous academic treatises, Botha and his colleagues have chosen a battleground to their own tactical advantage. But whether their general strategy will find many adherents is a matter of opinion. Horwood's record is not easy to gainsay.

Within hours of the journal being distributed this week, business economists were sharpening their pencils to reply. General points of criticism against the trio's attack were that it lacked perspective, it was simplistic — and that these academics failed to grasp that there was more to policymaking than theory.

Editor Botha . . . wants more pay for professors

The articles by Truu and Strydom were regarded as showing some sagacity. They make the point that econometric work can assist policymaking through the extensive collection of empirical data. They grant Horwood the argument that econometric work has had indifferent results where imaginary facts have been used rather than observed ones.

Truu makes general remarks along these lines while Strydom points out some inconsistencies in Horwood's argument. For instance, he points out that while Horwood says it makes little difference to policymakers whether inflation is cost-push or demand-pull, he himself makes this selfsame distinction later on in his speech.

Strydom believes, too, that Horwood was making assumptions from data that was apparently not official and which could not, therefore, be tested by econometricians like himself.

In essence, he believes quantification in economics cannot be avoided and the Minister is in danger of superficial thinking unless he relies more on economic analysis and, by implication, less on deduction.

Botha's argument is much more difficult to follow. On the one hand, he is critical of the monetarist elements in official policy. He argues that to concentrate on quantity without taking into account price could have severe implications for the "real economy." In other words, he appears to be drawing attention to the monetarism imposed by the Thatcher government in Britain. Its severity could leave productive resources permanently scarred. On the other hand, of course, they could be rejuvenated.

Monetary growth

But he also appears to suggest that monetary growth does not really matter. "If it is borne in mind that the rate of inflation was 15% and the real growth rate of the order of 8%, a rise of 21% in the money supply does not appear to be excessive," he says.

It is, at best, a controversial point. It is certainly also possible that the economy could have grown last year at 8% on the basis of a much smaller rate of increase in the money supply. Perhaps Botha has, like Horwood, been guilty of an element of deduction.

He argues further that the government should have increased its spending, especially on the salaries of professors. In doing this, however, he does not attack government's spending priorities. Instead he rejects both monetarist and Keynesian views of budgetary policies.

Elsewhere, Botha has argued that inflation here has been caused not by government spending nor by the growth in the money supply, but by the excessive profits of the private sector. But he has neglected to back this up with the empirical evidence his two colleagues deem so important.

While the whole affair has some entertainment value, the fact is that economic policy is crucial to this country at present — probably more so than ever before.

Horwood has his weaknesses. The inflation rate is one of them. But by and large he has been the country's most successful Finance Minister. Where he is open to criticism, important issues should not be allowed to be clouded by the personal resentments of men in prominent academic positions.

facilitation of motor vehicle accidents costs society thousands of rands annually. This applies for three basic types of accidents, i.e. fatal, personal injury and property damage. The logical question arising from this is whether the criterion of impairment set in South Africa at 0.08 percent is realistic. Clearly it is not all that effective.

Although no accurate figures exist, cost of violent and anti-social behaviour linked to alcohol-misuse must be considerable. A detailed analysis of the crime statistic of the Coloured population group, shows that in 95% of all the offences of which Coloureds were found guilty, liquor and drugs played a role. Nearly 57% of all court sentences passed on Coloureds are for the misuse of liquor and drugs (Theron Report, 1974, p. 259).

Apart from the economic costs that problem drinking creates, it obviously has extremely detrimental effects on the social level, especially upon family life. Here the main areas affected are the husband and wife relationship and child socialization.

It is quite apparent that the general widespread misuse of alcohol by both the Coloured and white groups in South Africa is taking on unhealthy proportions.

If the extent and severity of the problem is seen in relation to the money and services allocated by society to alleviate the problem, the inadequateness of the latter becomes very apparent and disturbing.

I would suggest a much greater emphasis on these problems by

28/ ....

both central government and local administrations.

Central government must allocate more money for treatment, and particularly for prevention and education.

Budget surplus of R1 200m on the cards

22/4/81 79

By HAROLD FRIDJHON

A BUDGET surplus of the order of R1 200-million appears to be the outcome of the fiscal year which ended on March 31, 1981, according to the preliminary figures issued by the Treasury.

When Mr Owen Horwood, Minister of Finance presented his Budget in March last year he forecast that his surplus would be R39-million but he was not to know that the price of gold would soar to the heights that it did resulting in the inland revenue account earning R11 833-million against an estimated R9 841-million.

But Mr Horwood has very wisely tucked this surplus away, out of reach of grasping colleagues who might be tempted to try to spend it. During the course of the year R1 242-million was "frozen" in the Stabilisation Account and will only be used if the economy nose-dives and if the money supply position has been brought under complete control.

For the year to March total collections by Customs and Excise and Inland Revenue amounted to R13 302-million which was R2 446-million more than the original estimates.

State spending, including supplementary allocations was expected to total R13 727-million. Actual expenditure, according to the preliminary figures was R13 642-million which reflects very favourably on the Minister and the staff of the Treasury for resisting departmental pressures to spend more money as revenue flooded in.

On last year's estimates the deficit before borrowing — and before the supplementary expenditure which amounted to about R700-million — was R2 227-million which the Minister proposed meeting by borrowing R3 657-million, of which R1 430-million was to repay previous borrowings.

As things have turned out the R2 227-million deficit shrunk to R340-million and net borrowing was about R1 548-million after repaying maturing loans which is R679-million less than had been anticipated.

The difference is the surplus of R1 208-million.

If inflation were not running at its present too-high rate and if the total money supply had not exploded to R16 217-million at the end of December, nearly 27% above the previous year's figure, Mr Horwood would have made some telling hand-outs. That he has "frozen" his surplus in the Stabilisation Account shows wisdom and discretion.

The gold bonanza which was largely responsible for the surplus looks like being a once-off for the next year or two and therefore should not be taken into account in normal year-on-year budgeting. And apart from the inflationary and other pressures this money should not be spent.

Perhaps in less frothy circumstances, the surplus might have been used to good effect to give the economy and the social infra-struture a fillup, but in present circumstances the deep freeze of the Stabilisdation Account is the best place for this money.

29/ ....

cohol ar effective and easily obtainable anaesthetic to facilitate the "escape-syndrone". In order to make this escape drinking effective, the drinking must inevitably be excessive and very regular. This, according to Merton may lead to the development of a socio-psychological dependence on alcohol to cope with the reality.

To summarize: The scope of this paper does not allow a comprehensive review of all relevant and noteworthy theoretical approaches to problem drinking. From a discussion of these few theoretical explanations it is evident that any potential theory must in some way or another, incorporate an awesome number of relevant variables, whether it is because of a lack of crucial knowledge or the complexity of the phenomena, is debatable.

An honest and realistic assessment of the present situation leads one to the conclusion that it is highly improbable that a single aetiological factor can be identified as the cause of problem drinking. What is called for is a intra- and not multi-disciplinary approach to problem drinking, which will adequately accommodate constitutional, psychological and sociological insights and causation hypotheses.

5. PROBLEM DRINKING IN THE WESTERN CAPE

The Coloured population of which the majority resides in the Western Cape, can be divided into three major social classes according to the Theron Report (1974):

(i) The upper 20% have already reached middle-class status.

(ii) The bottom 40% are however in a situation of chronic poverty, which is sometimes referred to as the "cul-

Heading for R1 200m Budget surplus

CT 22/4/81 (49)

Own Correspondent

JOHANNESBURG. — A budget surplus of the order of R1 200-million appears to be the outcome of the fiscal year which ended on March 31,1981, according to the preliminary figures issued by the Treasury.

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sirable behavioral patterns.

The unique socio-political situation of the Coloured community may be an additional contributory factor in the creation of poverty and unhealthy levels of anxiety. Apart from frustrations arising from the denial to participate in the

RAND DAILY MAIL, Friday,

Ray 24/4/81

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Stellenbosch spots first signs

Boom begins to wind down

By HAROLD FRIDJHON

THERE are clear signs that activity of the manufacturing and commercial sectors is losing some of its vigour and that they have probably entered the downward phase of their business cycle, says Dr O D J Stuart in the April Opinion Survey Report prduced by the Stellenbosch University's Bureau for Economic Research (BER).

But these sectors are expected to remain healthy in the current quarter, particularly when compared with the corresponding quarter of a year ago. Looking further ahead, Dr Stuart says the growth rate of the gross domestic product of 1981 will probably be substantially lower than that of last year.

Reviewing the BER survey of business conditions in the first quarter and prospects for the second quarter, Dr Stuart says private consumption played a major role in rapid growth last year and there were fears that growth might decelerate rapidly from the first quarter of this year.

But almost all retail participants in the survey experienced higher sales in the first quarter of 1981 than in the first quarter of 1980.

On the other hand, fewer of them expect to have higher *real* sales in the second quarter compared with the second quarter of last year. It is believed that the growth in retail sales could slow gradually during the current quarter.

(*Real* sales are defined as sales at constant prices.)

Most retailers of semi-durables expect sales to remain buoyant, with 98% finding business conditions satisfactory although they expect slower growth this quarter. Inventories are low.

Retailers of consumables report higher sales levels, but the tempo of activity is losing some of its vigour.

Businesses selling durables say that the volume of goods sold in the last quarter was higher than a year ago and no slowdown is seen during the current quarter. Most participants in the survey said they were overstocked in relation to expected demand and because of this the value of orders placed was low.

Wholesalers did not have a lively first quarter, probably because retailers were well stocked. A further slowdown in the growth of sales is expected in the current quarter. Stocks appear to be too high in relation to demand.

Wolesalers of non-consumer goods had a good first quarter, but they are not optimistic about the future.

In the consumer goods section, wholesalers appear to be reasonably satisfied with first-quarter business and are not unduly pessimistic about prospects for the current quarter.

Overall, manufacturers experienced a slight slowdown in the first quarter and they expect a similar trend in the current quarter. But the pattern appears to vary slightly from industry to industry.

Taking an overview it would seem that conditions are influenced by various shortages, the most serious being a scarcity of skilled and semi-skilled labour. The imbalance in the labour force is highlighted in the BER survey which shows there are vast numbers of unemployed unskilled workers, but 82% of the manufacturers surveyed said their activities were hampered by a lack of skilled workers.

Food-industry manufacturers said that although business activity had lost some of its vigour, sales and production last quarter were better than in the previous year. No real deterioration is foreseen for this quarter. Supplies of raw materials are said to be low and stocks of finished products are also low in terms of demand. The cost of financing is becoming a onerous.

Clothing manufactuers still indicate strong growth, but there appears to be a leveling off in sales and production, with a sideways movement forecast for the current quarter. Manufacturers appear to be overstocked with raw materials.

Footwear manufacturers have experienced buoyant conditions which they expect to continue. The business mood is optimistic.

In the furniture trade, 85% of the respondents report that the volume of sales in the last quarter was higher than a year ago and 65% believe that similar conditions will prevail in the current quarter.

The motor trade is generally optimistic.

Dr Stuart says: "The fact that the boom phase of the cycle has probably come to an end is reflected in the deterioration in the business mood of all the sectors surveyed.

"The emergence of insufficient demand for products has been mentioned as a bottleneck by an increased number of participants."

Early in 1919 a Citizen's Housing Council was set up to lobby the

" I f ever there was a city where fresh air missionaries are needed it is Cape Town, where a large proportion of

applications[61] and its proposed expenditure of £250,000 on houses had been cut to £30,000 - and even then there were serious doubts as to whether these would be built.[62] Delay, red tape, rising costs and a fading sense of urgency had all taken their toll of the original enthusiasm for reform. "The housing problem in Cape Town ... has become

delay after delay[52] and the zeal for sanitary reforms faded. than two years after 'Black October' the Cape Times lamented :

"To-day in spite of the tragic and appalling lessons of the Influenza visitation, the insanitary state of affairs in the slums has in no way changed for the better. If anything, it has probably become worse, since the housing problem has reacted more dis-advantageously upon the poorer classes than upon any other section of the Community."[53]

This grave problem of overcrowding was driven home by the epide

For instance, at the memorial service for 'flu victims at Maitl

Cemetery, the Archbishop of Cape Town pointed out that :

"...the seed of the high mortality that was sown in many cases fell into congenial soil, because people were living under conditions of overcrowding and it is because of that that I think that this calamity has been perhaps worse here than it would have been otherwise."

Initially, action by the Municipality and private enterprise pr

much. "On 31 October 1918 the City Council approved in principle a £250,000 housing scheme for its employees; the newly constituted Employers' Housing Committee and the Cape Town Chamber of Commerce followed this up with housing proposals of their own, while the latter's president, Richard Stuttaford, suggested the creation of a public utility company to establish a carefully laid-out garden city.

TABLE 6: TIME TAKEN IN T…

Percentage of patients taking: Time:	… Coke
Less than ½ hour	31
0 - 55 mins	65
1hr - 119 mins	23
2hrs - 179 mins	10
3hrs - 239 mins	
4hrs - 299 mins	2
5 hrs +	
Total no.	19

* One way journey

Imports and falling gold knock trade surplus

25/4/81 RDM

By HOWARD PREECE
Financial Editor

A 34% rise in imports and the sharp tumble in the gold price combined to reduce South Africa's trade surplus to R580-million in the first quarter of this year, according to preliminary figures from Customs and Excise.

The Customs figures as supplied to the South African Press Association, however, make little sense in some key areas.

It would, therefore, be highly unwise to draw many conclusions from them until clarification can be given.

According to yesterday's statement to Sapa, the trade surplus in the first quarter of 1980 was R1 501-million.

It was given, however, as R2 468-million in April last year.

Total exports (which should include all gold) are said to be R4 450-million for January to March.

That looks reasonable, allowing for the normal provisional nature of Customs figures.

But these are supposed to compare with only R4 393-million for January to March 1980.

Again, in April last year total exports for the first quarter of 1980 were said by Customs to have been R5 220-million.

Also Customs said in March this year that total exports in the first two months of this year were 17,4% below the 1980 level.

It seems, then, that the import figure is at this stage the only safe, or comparatively safe, statistic in the latest Customs figures.

The 34% rise for the first quarter is over 10% down on the rate at which imports were increasing over 1980 as a whole.

But from that higher base it means that imports are continuing to increase rapidly, although how much of that is volume and how much is price is uncertain at this point.

TABLE 7: WAITING TIME

% patients waiting:	McCords	Umlazi	Masana	Mount Coke
Less than 1 hr	13	34	35	5
1 hr +	21	34	16	12.5
2 hrs +	41	25	13	12.5
3 hrs +	21	7	16	27
4 hrs +	2	1	2	25
5 hrs +	2		18	19
Total no.	195	179	83	64

Mean waiting time at Groote Schuur was 3 hrs 45 minutes.

Mean waiting time at Day Hospitals was 2 hrs 2 minutes (ranging from 95 minutes at Dr. Abduruman to 139 minutes at Heideveld)

TABLE 8: PREVIOUS CONSULTATIONS

% of patients who had previously consulted:	McCords	Umlazi	Masana	Mt. Coke
G.P.	31.5	8	15	8
Hospital or clinic	9.5	12	14	5
Indigenous practitioner	11*	3*	8*	3*
No other consultation+	55+	79	70	84
Total no.	195	179	83	64

*These figures appear to grossly underestimate consultation of other practitioners.

+Percentages do not add up because some respondents had previously consulted more than one type of other facility.

MARKET FORCES HAMSTRUNG IN SA — TOP ECONOMIST

(49)

Argus 25/4/81

Professor J S Lombard

By the Financial Editor

SOUTH AFRICA'S administered price system was sharply criticised this week by Professor Jan Lombard of the University of Pretoria, one of the country's top economists.

Professor Lombard, president of the Free Market Foundation, was also scathing about the number of controls in the economy.

Addressing the foundation's conference in Cape Town, he said market forces in South Africa were shackled by the tremendous array of regulatory devices available to the authorities.

They were also hamstrung by a high degree of concentration of economic power in both the private and the public sectors.

Neither the conduct nor the structure of the economy was greatly demonstrative of the idea of a free market economy.

He blamed the myriad of regulatory devices on what he termed 'an almost incredible lack of understanding of the role of prices in the market economy.'

He took a swipe at the way administered prices have been moving recently.

He said a generation ago people and government believed and expected that when a commodity was scarce its price had to go up. When it became more abundantly available its price would and must go down.

But these expectations had been seriously undermined in recent years by the movement of most administered prices.

'A rule seems to have emerged that when something is overproduced or underconsumed, its price must be increased. And when the public demand for a service is heavy and socially important, its price must be kept down.'

He also attacked the 'amazing' idea that in periods of inflation the rate of interest, because it was an important cost of production, had to be held down as much as possible.

He blamed 'this nonsense about prices' on the irrational expectation that governments were not subject to the rules of the market and had unlimited powers to do what was politically desirable.

The solution was to educate the public to expect the Government not to inflate the money supply or to diminish competition and free entry into the market economy.

'This is probably enough to restore our system to one of stability, prosperity and justice,' Professor Lombard said.

GDP jumped by a third to R58 000-m

S. Times 26/4/81 (49)

MINING UP 64%, THANKS MAINLY TO GOLD

By Elizabeth Rouse

SOUTH Africa's gross domestic product, at current prices, jumped by 32,5% to R57 917-million in 1980, after an increase of just over 18% to R43 726-million in 1979

Mining was naturally the star of the economy, contributing R13 449-million to GDP, up a phenomenal 64% on 1979's R8 206-million, thanks mainly to gold Growth in mining's contribution to GDP was a satisfactory 42% to R8 206-million in 1979

In 1979 manufacturing contributed more at R10 106-million than the mining industry. But last year its contribution shot up by 30% to R13 134-million almost equalling that of mining

The advance in commerce, catering and accommodation services was also impressive — up 32,7% to R6 563-million from 1979's R4 946-million. Growth in this area has been lagging since the 1978 recession and the increase in 1979 on 1978 was a mere 5,8%.

Finance, real estate and business services, although they took off later than basic industries, also showed a welcome growth of 19,5% to R6 402-million.

Total remuneration of employees increased by 19,3% to R28 626-million from almost R24 000-million. Miners scored best against creeping inflation as their total wages rose by 21,3% to R2 793-million from R2 303-million.

But the mining industry could well afford to put up salaries and wages as its gross operating surplus climbed by 80,5% to R10 656-million from 1979's R5 903-million. It outstripped the country's total gross operating surplus growth of 48,3% to R29 291-million.

Manufacturing paid out the biggest single wage package — R7 921-million, up 21,1% on 1979's R6 539-million. This sector's gross operating surplus was up 46% to R5 213-million.

Employees in commerce, catering and the hotel business did not fare so well, as their total remuneration rose by 15,2% to R4 059-million from R3 522-million, while this sector's gross operating surplus jumped by 75,8% to R2 503-million from R1 424-million.

However, 1979 was a bad year for this industry and income was actually down on 1978, so it needed the bigger cash flow.

Private consumption expenditure increased by 22,8% to R30 684-million from R24 977-million in 1979.

Spending on durable goods rose fastest by 41,8% to R3 811-million from R2 688-million, followed by spending on semi-durables, up 24,6% to R5 295-million from R4 251-million.

Non-durable goods such as food naturally accounted for the largest single sector spending and increased by 21,8% to R14 315-million from R11 756-million.

practitioners are generally far preoccupied with the pressing needs of the ill to spare time to study a parallel and often presumed inferior rival system. There is also a general lack of epidemiologic knowledge for this type of research: there is also a lack of interest in community medicine in South Africa. Most therefore contribute impressionistic information based on samples of patients who come to them after a failure in the hands of a traditional practioner. Their impressions then confirm the incompetence of the traditional practitioners. The fact that many of their own patients perceive treatment failure in their hands and seek out help in the traditional sector goes unreported. The case of the Thalidomide baby should be a constant reminder for all.

RDM 27/4/81

Money rate blunder claim

(49)

By SUSAN DALLAS

GOVERNMENT monetary authorities made a huge blunder with the exchange rate of the rand last year — a blunder which has caused inflation to run out of hand.

University of Cape Town economist Professor Brian Kantor has said on the radio programme "Microphone In" the rand should have been allowed to rise to $1,50/1,60.

The rand only reached $1,35 and trades now below $1,25.

Prof Kantor believes if the rand was allowed to grow to its true worth last year, much of the inflationary consequences of high import costs could have been avoided.

It is estimated that 40% of South Africa's inflation is "imported" in this way.

Prof Kantor's fellow panel member on the programme, University of Natal economist Professor Jill Natrass, argued that by allowing the rand to appreciate to this level, exporters would have suffered.

She said that a rate of $1,50/1,60 would have hit exporters hard — their goods would have been more expensive on international markets.

This would have meant that people would have bought lower-priced goods from other countries in preference to South African goods.

According to Prof Kantor: "We should have said to exporters we were pushing up the rand in order to push down inflation — meaning they could have benefitted in the long run by having lower costs."

"We have failed to understand that to cope with flexible international exchange rates we need an appreciating value on the rand."

It was suggested that prices in South Africa could be kept at as low a level as they were anywhere in the world if free trade was allowed South African importers and exporters.

Prof Natrass argued that the social cost of such action would be high, as some industries would go under — industries which would in the long run be profitable.

... result of western contact can lead to a modification of the traditional system.

We need to ask ourselves the following questions:

1. How does the traditional medical institution serve the present needs of the society?

2. To what extent has the introduction of scientific medicine led to changes in the practice of traditional medicine?

3. What type or kind of organizational base supports either type of medicine and why?

4. In what circumstances do the sick prefer one type of medical attention to the other?

5. What are some of the social consequences arising from the introduction of scientific medicine?

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is necessary. As with such brief descriptions this one is highly selective in nature since this subject may be dealt with in greater detail by other contributors in this conference. This description will take us to the following areas : political system, kinship system, marriage and family, the economic system and the concept of the individual.

1. Political System : In the rural areas paramount

Business will reap the fruits of government folly

CT 29/4/81 (49)

By ALLISTER SPARKS

BUSINESS had better stand by for strike trouble.

I fear we are in for a period of serious industrial unrest — not in the immediate future, perhaps, but probably beginning in the latter half of next year.

And the reason for this is the government's continued failure to grasp the nettle of political reform for blacks.

The government is being compelled by the pressures of our industrial economy to recognize the essentiality of the black labour force, to lift restrictions so that it can acquire the skills that industry increasingly needs, and to try to stabilize it by allowing it to become unionized and organized.

But it is doing nothing to allow blacks — particularly urban blacks — to acquire a comparable degree of political organization.

No equivalent

They are being given the machinery to express their employment grievances, but no equivalent machinery to express their social and political grievances.

Therefore it seems to me highly likely that they are going to use the one channel that they do have to give expression to both sets of grievances. They will use their industrial rights to fight for political as well as purely industrial goals.

And in that way I see the black political struggle spilling over into industry to the discomfort of an ill-prepared and uncomprehending business community.

There are precedents to indicate the likelihood of this. It happened on the Zambian Copperbelt before independence, when blacks had union rights but only limited political rights — and as a result the union-management link had to carry many of the stresses and strains of the independence struggle.

Already the two main black political groups in South Africa, Inkatha and the black consciousness movement, are playing close attention to the emergent black unions. And last year saw the birth of a number of new black unions committed to links with community organizations. So the basis for interaction is already there.

The government itself has clearly become aware of this danger created by its own policy shortcomings. Mr Fanie Botha's new Industrial Conciliation Amendment Bill contains some rather desperate attempts to prevent the new industrial machinery from being used for political purposes. It prohibits unions from assisting any "political organization", even from trying to influence their members in favour of such a body, and then empowers the Minister to close down any union that acts unlawfully.

Not neutralized

But tough though these provisions are, I cannot see them working. If the unions can build up enough real power, that power will not be neutralized by regulations any more than the old law prohibiting black strikes prevented them from happening.

The unions will use their power regardless — and as with "illegal" strikes in the past the government will have to decide whether to call in the police or the army to put them down. And as in the past I think that after one or two unfortunate attempts it will stop doing so because the consequences will prove too serious. So a new *de facto* situation will be created.

I have said I do not expect this onset of industrial trouble in the immediate future. Obviously I could be wrong, but I have a feeling that after the election there is going to be something of an hiatus in both white and black politics. People cannot sustain a high level of political activity all the time; they tend to run out of steam and sink back for a while, before building up again.

The last four years have been traumatic for blacks and I think they are already into their hiatus period. After the election the whites will be into theirs.

So from May onwards I expect to see a fairly flat period in our socio-politics.

But from about the middle of next year it is likely to start building up again. That is when economic factors are going to start hitting our lower income groups, especially blacks, with a bang.

By then the boom will have run its course and really be tapering off. And at the same time inflation will be going through the roof.

The vice-president of the Reserve Bank, Dr Bramie van Staden, warned recently that the inflation rate in 1981 was going to be higher than the 15 percent for the 12 months just ended (20,4 percent for blacks). The Standard Bank Economic Review is even more grave. "Latest statistics," it says, "show that the rate of increase in inflation has now moved out of control and unless checked soon the escalation of the amount of money in the economy seen recently seriously threatens to push inflation rates to levels unheard of in South Africa."

30 pc inflation?

That indicates that as economic growth declines and unemployment rises, blacks could be hit by an inflation rate of 30 percent or more in the second half of next year.

It is then that I foresee our next wave of trouble beginning, with most of it occurring on the factory floor to a degree unheard of in this country before. It will be an explosion of grievances, political and economic, which will take place through the only vehicle available to blacks — their unions.

It will be the most serious phase yet of South Africa's creeping revolution — and the business sector will have to bear the brunt of it.

The obvious strategy in the face of such a prospect is to take the pressure off the labour front by providing blacks with adequate political machinery, so that everything doesn't go down the one channel to an extent that is liable to cause economic havoc.

But this the Nationalist government will not do.

It talks of "change". It says it is prepared to abolish "unnecessary and hurtful" discrimination. But when it comes to political change, it is not prepared to go beyond drawing in the coloureds and Asians in some way.

It absolutely refuses to consider including blacks in the central political system of the country where the decisions are taken which divide up the cake of tax revenue and protect basic interests.

That is why it won't include blacks in the President's Council; the question is excluded from consideration.

Mr P W Botha made this clear in Parliament in February. Dr Koornhof confirmed it in a major policy statement recently. Blacks must exercise their political rights through the "homelands"; all they can have in the urban areas are municipal rights.

It is incredibly unrealistic. The Human Sciences Research Council has found that the great majority of urban blacks have no direct links with the "homelands". But even if there were closer links, the political machinery in those rural territories can have no relevance to the basic interests and grievances of black workers and their families living here in the industrial centres of the country.

And the number of people in this political limbo is going to explode. Official sources now estimate that the urban black population will quadruple to 28 million over the next 20 years.

It is madness to think that 28 million people are going to be satisfied with municipal rights. Or that a modern industrialized nation can treat its entire working class as "foreigners".

It is even greater madness to imagine that they won't strike out with anger if we try to do that to them, using whatever instruments are to hand.

The trouble is that for 30 years Nationalist policy has been built on an illusion — the illusion that the urban black was a temporary phenomenon and the black tide to the cities was going to turn; 1978 was supposed to be the magic year when it happened.

An illusion

Today the Nationalist government has woken up to the fact that that was an illusion. Today it accepts that the urban blacks are here to stay. It accepts that

ECONOMIC POLICY

FM 1/5/81

Limiting self-sufficiency

(49)

South Africans pay a premium of up to 100% on hundreds of different products — from hair clips to motorcars — in order to protect local manufacturers against foreign competition. This price penalty is imposed by government, presumably to develop local self-sufficiency and create jobs.

The cost is enormous. It can be determined by simple arithmetic and it runs to billions a year. But the benefits are not as easy to quantify or to justify.

Self-sufficiency in all products is not a prerequisite for prosperity. Yet in SA, the authorities are currently considering — or developing — local production facilities for high quality ball bearings, high pressure steam turbines and enriched uranium. There are less than a dozen countries in the western world which produce these items.

The authorities are also considering higher local content for motor cars, while in Germany, for example, one manufacturer imports components from at least three other countries.

The SA case is unique. we are told. SA faces a "total onslaught" from the world at large — a campaign aimed at breaking it economically, politically and militarily. We must be self-sufficient to survive.

But those who advance this argument are also the first to say how easy it is to bust sanctions. And they fail to acknowledge that the more we trade with the world, the less easy it is to boycott us.

When sanctions against SA were first proposed during the early Sixties, SA accounted for more than 50% of Britain's trade with Africa. The figure is now lower and the determination behind Britain's expected veto in the current UN Security Council debate is probably correspondingly lessened.

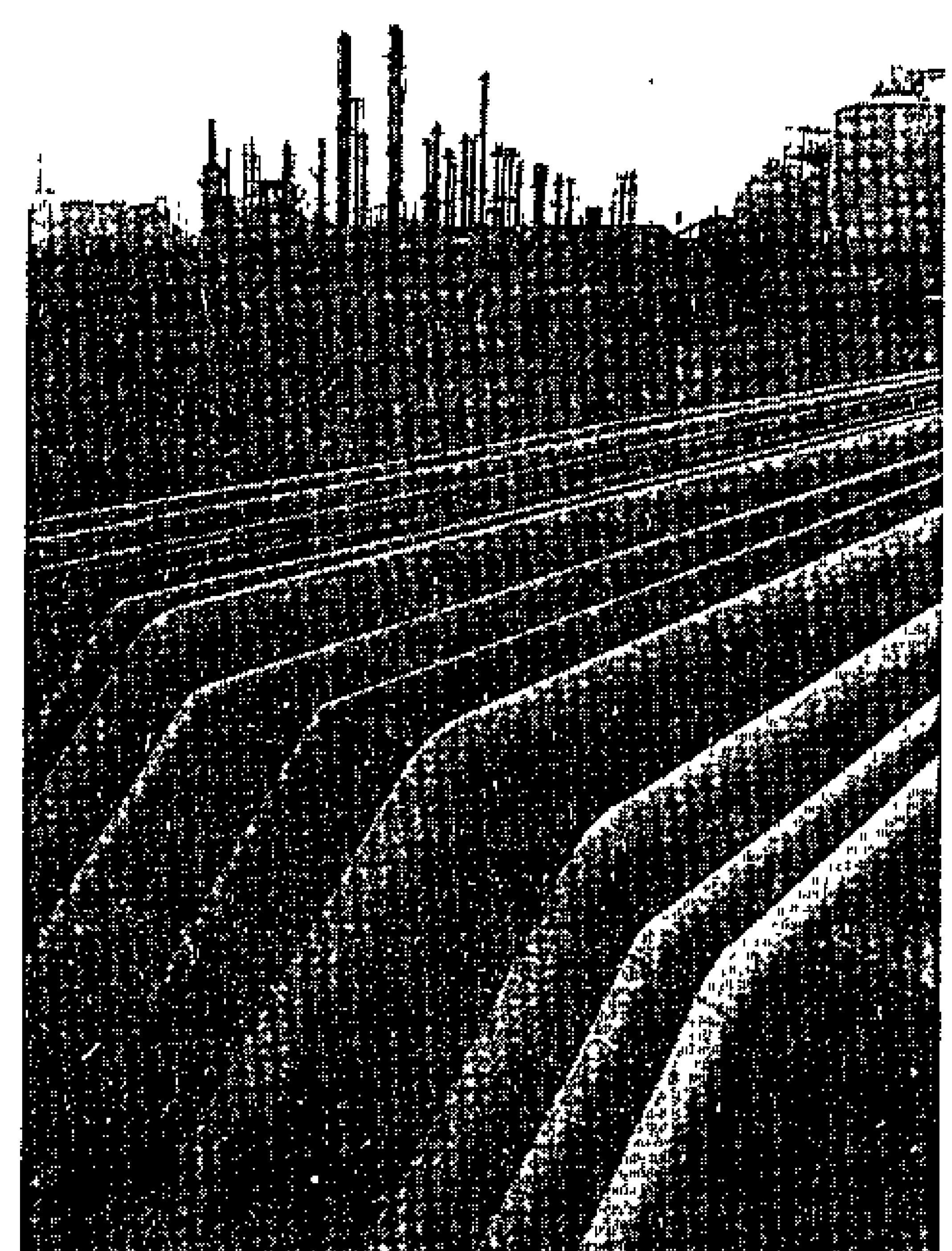
As the country approaches self-sufficiency, it becomes more easy to isolate and cut the jugular which carries the few items we must still import. For example, there is so far no sign that SA will make diesel engine fuel injectors. If these items were denied us, the heavy investment in the local diesel engine plant and the resulting high truck prices would have been in vain.

Self-sufficiency is a form of self-imposed isolation. As was clear on a limited scale in Zimbabwe, it provides jobs and prosperity in the short term, but, stagnation in the long term. If a country is to thrive, it must have access to the best bargains and the best markets in the world. If it protects its industries against international competition, it misses the bargains and prices itself out of the markets.

The drive for self-sufficiency has undoubtedly paid off in some areas. The most notable are armaments production and energy. The UN arms embargo has meant that it is cheaper to produce certain weapons locally than to buy them under the counter abroad. And the Sasol project is now all but economically viable But when it was first mooted, few believed that it was an economic proposition and fewer still foresaw the energy crisis.

This is borne out by the belated removal of restrictions on local coal mining. For, even now, SA can mine and export only a fraction of its potential coal production to an energy-hungry world.

Uranium enrichment is another area where the current massive investment may well pay off one day. Military considerations apart, local uranium enrichment facilities cannot be economically justified if their purpose is to supply fuel to the Koeberg power station only. But SA could become a major exporter of enriched uranium to countries which are at present prevented by anti-nuke lobbies from developing their own facilities.



Sasol . . . where self-sufficiency is indeed paying off

Political realities do dictate that SA be self-sufficient in some areas, whatever the cost. It is therefore a question which must be decided in the middle ground between the conflicting requirements of politics and economics. So far, government has tended to promote self-sufficiency mainly for political reasons with scant regard for cost.

For one thing, there has been the need to satisfy nationalist sentiments which require that the world be shown that we can do whatever can be done abroad. For another, government has been under pressure to favour local businesses by restricting imports. The profiteering by the privileged few television manufacturers after the switch-on of TV is a good example of this. More recently, strategic considerations have been the main justification for protecting local industry.

Government lacks criteria for objectively assessing which industries to encourage and protect. And its decisions are not entrusted to one body that follows a consistent policy. This should, presumably, be the job of the Board of Trade and Industries (BTI) which investigates protection applications and recommends tariffs to government. But some of the most important decisions on local manufacture have been made at Cabinet level without reference to the board.

Local manufacture of heavy truck components was one programme which emanated from the Cabinet. The anomalies and almost daily changes in policy and timing in this programme have demonstrated that the office of the Industries and Commerce Minister is not equipped to administer a problem of such complexity. It is therefore small wonder that the programme is unlikely to solve a strategic problem even though it will cost the country dear.

The BTI's own methods are not beyond reproach. And some of its arguments for the economic benefits of local manufacture have so far proved less than accurate. For example, in its report on Phase V local manufacture of motor cars, which was accepted by government, it says that the programme will facilitate standardisation in the industry. This has not yet happened.

The report also says that higher local content will increase the gdp, improve the balance of payments and lead to the importation of less foreign inflation. These statements are indisputable, but the cost of increasing the gdp and improving the balance of payments does not justify the benefits. It means that the economy is functioning below its potential.

Local manufacture has locked us into our own inflationary trends. For local inflation is now higher than in the countries of most of our potential suppliers. Local manufacture has substantially contributed to inflation.

Few would dispute that there are strategic considerations which warrant a degree of self-sufficiency. But events have shown that government is far too influenced by special pleading. The formulation of guidelines after wide consultation should be a matter of urgency. For the country cannot afford the waste with which so much of our self-sufficiency efforts have so far been crowned.

RDM 1/5/81 (49)

Economy moves into lower gear

By HAROLD FRIDJHON

THE ECONOMY'S performance in the rest of this year will be different from that of last year, says Dr Conrad Strauss, managing director of the Standard Bank.

He told the convention of the SA Society of Marketeers in Johannesburg yesterday that instead of demand and production rising strongly, they would level off. Interest rates would increase. The strains on physical production capacity and on labour supplies would ease.

"In other words, evidence will mount that the economy is moving into a contraction period. It would be unrealistic to expect this downturn in the cycle to bottom out before the end of this year.

"Downward phases in the South African economy since World War II have lasted on average close on two years, and the recession in the mid-1970s dragged on for over three years."

Dr Strauss expects that the trends emerging in 1981 to spill over into 1982. In the first half of next year he expects a further slackening in business activity, with the downturn in consumner demand extending to certain areas of capital expenditure.

He said that, as companies found themselves burdened with spare production capacity, many would cancel or postpone expansion plans drawn up in 1980 and the early part of this year.

Instead of building up stock, merchants and manufacturers would allow inventories to run down.

Financial markets would probably reach a turning point in early 1982 as the demand for credit slackened and liquidity in the economy started to build up again. As a consequence, interest rates seemed likely to peak early next year.

One of the most crucial determinants of the length and depth of the downswing would be the balance of payments.

Exports had traditionally been the spark which ignited recoveries in the South African economy and Dr Strauss saw no reason to believe that the timing of the next upturn would not depend largely on the performance of the export sector.

Earnings of export industries relied chiefly on events in the economies of SA's main trading partners and it seemed likely that orders from several of these countries, including the US and Britain, would pick up in the first half of next year.

By the middle of next year, export-dependent industries, such as mining, ferro-alloys and a number of agricultural sectors, should be performing considerably better than they were now.

The likely improvement in these areas would gradually filter through to the rest of the economy and, other things being equal, the overall growth rate should begin to pick up towards the end of next year or early 1983.

The ability of the economy to benefit from the revival in growth in the industrialised countires of the northern hemisphere would depend on the steps taken to check the recent excessive growth in the South African money supply.

"It is vital for our long-term growth prospects that everyone appreciates that a sound recovery cannot take place in an environment of rampant inflation. Excessive price increases would undermine the competitiveness of many exports in foreign markets and would necessitate a further depreciation of the rand.

"They would also rapidly erode the gains in real disposable incomes made over the past few years, while putting strong pressure on many companies' financial well-being.

"On balance, I believe that by the end of next year, the economy should be in good shape to take advantage of the opportunities offered by the recovery abroad for a renewed phase of sustained growth."

Dr Strauss said that after an exceptionally strong growth period, a year or so of slower growth should be a welcome opportunity to make the adjustments required for assuring sustained prosperity.

In the adjustment period ahead, some hard thinking about the wisdom of certain aspects of South Africa's economic environment would be more fruitful than a blind pursuit of higher turnover or record profits.

Besides the crucial inflation problem, there were a number of other areas crying out for attention from both the private and public sectors.

"The challenge facing us is to ensure that the pause ahead is indeed used with prudence to ease the strains which built up in the boom, especially labour bottlenecks. If significant progress is made towards elminating these problems, the next upswing may be just as long, but less uncomfortable, than the last one."

uth Africans second-richest in Africa, 44th in world

S. Tribune 3/5/81

Finance Correspondent

49

), Romania) and Uruguay). Libya's per GNP was no less 15 840, not surprising considering its population of a small population of only 2,7 people and high revenues. next richest

African country after South Africa is Algeria (R1 180), followed by Tunisia (R800) and Ivory Coast (R770). The other economic giant of Africa, Nigeria, is well down the list, with each of its 83 million-plus people producing only R490 worth of goods and services in 1978.

Obviously, measurements of wealth on a per capita average basis conceal wide disparities between various groups in most countries, especially in the Third World.

GNP also includes a number of components which may have a limited direct benefit on the individuals living in a country, for instance companies' operating surpluses.

Nonetheless, it remains a commonly used yardstick.

South Africa does not score as well as many other African countries in the advancement of living standards. Real per capita GNP rose by only 0,7 percent a year south of the Limpopo between 1970 and 1978.

By contrast, it soared by 13,2 percent in Botswana (thanks to the minerals boom), 6,9 percent in Mauritius and 4,4 percent in Nigeria.

South Africa fared considerably better in the growth stakes, however, than Angola, Mozambique, Madagascar and Uganda, among others, all of which recorded negative growth rates in per capital GNP.

According to the World Bank, Kuwait had the highest per capita national product in 1978 (R13 000), followed by Switzerland, Denmark, Sweden, West Germany and the US. South Africa, slotted in at number 44 worldwide.

State intervention wastes resources — free market chief

Argus 4/5/81 (49 au)

FINANCE

Argus Correspondent

JOHANNESBURG. — Wherever governments have intervened least there has been most co-operation, most prosperity for the masses, least monopoly, least unemployment, least shortages and surpluses, greatest efficiency, most housing and lowest inflation.

Mr Leon Louw, executive director of the Free Market Foundation, made this claim at the congress of SA Marketers here.

He said government intervention invariably led to waste of resources, citing the situation when government interference in egg production at one stage led to the dumping of R7-million worth of eggs each year.

Later attempts by the Government to release these eggs on to the international market cost a further R40-million a year.

PRICE MECHANISM

History had proven time and again that interference with the price mechanism could only lead to shortages or surpluses.

'The inescapable conclusion from history and theory alike is that the law of prices is like the law of gravity — you may not like it, but you cannot change it.'

A market in which the price mechanism was not interfered with would maximise efficiency.

Where there was intervention it became impossible to assess what were and were not desirable investments and policies.

SUBSIDISED

Thus if maize was subsidised, the price was fixed artificially high, local fertilisers and tractor engines were protected against cheaper imports and farm labour mobility was curtailed. There was no way of knowing whether the economy was better or worse off at any given production level.

If an economy was truly free then economic exchanges between individuals would be co-operative and would produce an increase in everyone's wealth.

On the other hand, if there was intervention, either criminally or governmentally enforced, then individuals were forced to compete with each other and there was a decrease in their wealth.

'Go to Soweto and see homeless people on a never-ending waiting list competing for one of the unobtainable socialised, nationalised, state-monopolised houses.'

Government intervention often led to the most rife competition, Mr Louw said.

Economy outlook remains 'bright'

CT 4/5/81. (49)

By GORDON KLING

POST-ELECTION South Africa's economy is steadily assuming a far duller hue than the rosy complexion which has characterized it for the past 18 months, but the long-term outlook remains bright.

Economists and the business community accept that what is probably the biggest boom the country has ever experienced is past its peak and the downward swing in the cycle will mean, among other things, a slump in real growth, high inflation, high interest rates, shortage of capital, and a deficit on the current account of the balance of payments.

No one could directly ascribe the change in the economic environment to the election itself. But just as certainly as the forces which are behind the slow downturn are not inherently political, the change in accent which can now be permitted by the government could well sap confidence enough to hasten the end of the party.

Inflation, now running in excess of 16 percent, a record, is not expected to moderate much before the year end and a considerable body of economists see it rising yet further in a development which will squeeze the man in the street hard after the relatively long economic binge that kicked off the 80s.

Notwithstanding the commission of inquiry into mortgage rates announced by the Minister of Finance, Mr Owen Horwood, when new increases were announced by the building societies towards the end of the election, bond costs are likely to go up again in coming months.

Alternatively, no new funds will be available for prospective home-owners since the societies are having to pay much more to attract new funds than they are earning on existing loans.

Mortgage increases

Non-building society institutions granting mortgage loans are already advising customers of increases in excess of one percent from August 1.

Although speculation persists that Mr Horwood could announce subsidies on bond payments in the August national budget, he is not personally keen on the idea — making it an excellent candidate for a non-starter.

Of course, the other side of the coin is that savers will get a better return on their money. They may break even after years of negative real returns.

For everyone else the liquidity crunch being imposed by the authorities as a tool of monetary policy to curb inflation will mean higher interest rates on everything.

Barclaycard, for example, is now advising customers that the interest on its airfare scheme is immediately up two percent to an effective 15 percent, budget account loans, including those for home-improvement, have been raised to 16 percent, and the interest on cash advances is now an effective 18 percent. This coming less than a year after banks and building societies were actively canvassing for good borrowers at cheap rates.

After years of a huge surplus on the current account, reflecting the healthy state of the Republic's trade with the rest of the world, weak demand for our primary goods and the near-collapse of the gold price from above $800 an ounce to below $500 is expected by Rand Merchant Bank's economist and director, Mr Louis Kruger, to mean a deficit in the order of R3 000-million at the end of the year.

Little joy

There's little joy in store for investors on the Johannesburg Stock Exchange in the face of every possibility that the bear market which got under way last October still has a good 12 to 18 months to run.

Mr Horwood's need to effectively increase PAYE payments just before an election doesn't auger well for tax breaks in the budget, and early repayment of the next loan levy looks too inflationary for serious consideration.

As for better salary rises than last year, what company can be expected to pay more when the business outlook is for less?

Govt warned on growth rate

ROM 7/5/81 XS4 549

By GERALD REILLY
Pretoria Bureau

LABOUR leaders fear the Minister of Finance, Mr Owen Horwood, may lose control of his "inflation busting plans" and dump the country into recession.

Over-reaction to the problem, they warned, could seriously aggravate an already acute unemployment problem among blacks.

They realised that counter action had to be strong to be effective, and some of the measures would hurt. But if the growth rate was allowed to fall too steeply many problems would be thrown up, they said.

They were commenting on the Reserve Bank's announcement earlier this week that bank rates was to be raised by 1½% to 9½%.

The chairman of the Federal Consultative Council of Railway Staff Associations, Mr Jimmy Zurich, said the growth rate should not be allowed to drop significantly below 5%.

If it dropped below this level the number of workless blacks would inevitably increase and this would create other serious problems.

Should control be lost, should too much money be siphoned from the econonomy, and should money become too expensive, South Africa could find itself back in recession, he said.

Labour leaders would unanimously accept the need to slow inflation. However, they were equally conscious of the dangers should the tactics be too ham-handed, Mr Zurich said.

The president of the Garment's Workers Union of South Africa, Mrs Anna Scheepers, said: "We are just beginning to emerge from a serious bout of unemployment. If they go too far with their curbs the employment benefits of the boom will be lost."

A whole series of new two and three-year wage agreements would be negotiated during the next 12 months. Workers who had missed out during the two-year boom could miss out again if curbs reduced the growth rate to too low a level.

She said it was not certain that the curbs would lower the inflation rate.

The provision of work not only for those still unemployed — and there were hundreds and thousands of them — but also for new workers was vital for socio-political as well as economic reasons, she said.

BER sees mild downswing

ROM 7/5/81

49

Financial Editor

THE economic boom is now over the peak — but the downswing will be mild. That is the conclusion of the Bureau for Economic Research at Stellenbosch University in its revised look at Prospects for 1981.

The BER says: "Total domestic demand is likely to increase more slowly during 1981 and the foreign sector's contribution will probably be negative.

"Gross domestic product growth is forecast to be between 4,5% and 5% in 1981 compared with 8% in 1980.

"The domestic business cycle is near to its turning point."

But the bureau comments: "It should be emphasised that the downswing in the South African economy will not be severe and is bound to be rather mild because of the overall position of the balance of payments, the continued strict discipline in Government spending and the market-oriented approach towards adjustments in interest rates and the exchange rate."

It says, however: "The real gross national product, GNP, is in fact a more accurate indicator of the standard of living arising from economic activity in South Africa.

"This magnitude increased faster during recent years than did the GDP, but the indications are that this will be reversed during 1981 — largely because of our assumed lower gold price."

Other points made by the BER include:

INFLATION. "It would appear as if the average rise in consumer prices in 1981, compared to the level of 1980, will be slightly above 15% — the highest rate of increase since 1920.

"The only ray of hope in this otherwise bleak picture is the implicit forecast that on a year-on-year basis inflation is expected to decelerate towards the end of 1981, especially during the last quarter, after first accelerating during the next few months.

"It must be stressed that the expected deceleration is based on a greater degree of monetary and business discipline than was the case during the greater part of 1980."

(Last year the consumer-price index rose by 15,8% on a year-on-year basis and by 13,8% on a monthly average basis).

BALANCE OF PAYMENTS. The BER predicts a current account deficit of R2 217-million this year on the assumption of an average gold price of $500.

"The slowdown in the world economy will hit most of South Africa's exports with the exception of coal where the special circumstances surrounding Poland and the world energy situation in general will put further upward pressure on prices.

"With the gold price softer it must be expected that the terms of trade will soften.

"The softening of the rand against the dollar will to some extent shield the economy against the full impact of the assumed lower dollar gold price.

"Overall a further increase of about 24,5% in the value of merchandise imports is forecast."

LABOUR. "The expectation that the economy is likely to grow more slowly during 1981 is not necessarily going to alleviate the acute shortage of skilled workers, but more unskilled entrants into the labour force will be jobless.

"This sitation means in effect that wages and salaries will remain under pressure and bodes ill for the already very high rate of inflation."

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PLEASE CIRCLE ITEMS REQUIRED

GROWTH 5 pc THIS YEAR — HORWOOD

Argus 8/5/81

(49)

Financial Editor

THE economy is expected to grow by about 5 percent, or slightly more this year, the Minister of Finance, Mr O P F Horwood, said in Stellenbosch last night.

He said lack of productive capacity prevented the economy attaining a higher rate.

Last year the economy grew 8 percent.

Mr Horwood said that as long as the economy could achieve an annual average growth rate of 5 percent over a number of years, the country would be doing well in providing employment opportunities for and improving the living standards of all sections of the population.

However, the attainment of this rate of growth required strict public spending control, moderate taxes on productive sectors of society, a conservative monetary policy, a market oriented exchange rate policy, labour training and export promotion.

However, in spite of this expected 5 percent growth rate, companies with weak balance sheets may experience worrisome problems by the end of the year, the Standard Bank says in its latest business survey.

The combination of lower sales, the coming on stream of new plant at the end of a boom and an inevitable tightening of credit will have a significant impact on the financial well-being of many companies.

The supply of internally generated funds will increasingly be restricted by declines in the rate of increase in sales and productivity. Profit margins will narrow and the financial gearing of many companies will deteriorate.

8/5/81 (49)

BUSINESS

Call for end of price controls

A call for post-election action to break from price controls and subsidies was made to the "new" government by Dr P J Kieser, general manager of the South African Foreign Trade Organisation.

He said that price controls and subsidies increased inflation by perpetuating inefficient production and creating extra unearned liquidity.

Among the guidelines he presented to the "new" government were to:

- Systematically scrap all price controls so that they would no longer be an issue at the next election.
- Draw up and execute within five years an export orientated infrastructural development plan which would give muscle to the next export-led growth. "Let us emulate the Richards Bay, Saldanha Bay and containerisation scheme of the 1970s," he said.
- Scrap foreign-exchange control as soon as possible.
- Give manufacturers free access to cheaper raw materials especially manufacturers who are forced to use agricultural raw materials, materials produced by State-owned or subsidised corporations or materials derived from high-priced inputs through specially protected industries.
- Drastically reduce or eliminate all internal subsidies and cross-subsidies which distort the domestic economy, except those necessary for the aged and infirm, and for education.
- Select a specific manufacturing industry and support it specially for large-scale export development. "The examples of the coal and iron-ore successes can be repeated and should, as in the case of coal, be a joint Government and commercial effort," he said.

Dr P J Kieser

NDMF CONFERENCE

The National Development and Management Foundation conference entitled "Post-Election Business Outlook" was held at the Carlton Hotel in Johannesburg yesterday. Some of the views of speakers addressing the conference are summarised on this page.

Capital expenditure of R25 000-m in five years

R25 000-million is likely to be spent on capital expenditure in the next five years, said Southern Cross Steel's capital projects manager, Mr J E Furze.

Of this figure R16 000-million is aimed at increasing export earnings and for import replacement. The remainder is for synfuel investments and metal and chemical replacements projects.

He said that the annual expenditure on fixed capital investments to achieve greater export and import replacement will amount to 33 percent of the present total annual fixed-capital investment.

RESPONSIBILITY

Speaking against the move to curb the money supply, Mr Furze said that it is a national responsibility that such projects go ahead.

"We should take the long-term view and make short-term concessions. I firmly believe that implementation of these projects can put South Africa on a much broader foundation. This will go a long way to alleviating our major socio-political problem — the employment of the black population and the provision of greater opportunity for advance.

"Further, if we are to improve development we will have to employ high technology and spend more on research and development to keep up with the developed countries," said Mr Furze.

TURNING KEY

"I am aware that many people will say that the lack of skilled labour will prevent the implementation of some capital projects. This is not necessarily the case. With the marked downturn in the economies of overseas countries, South Africa should be able to bring in skilled labour on a short-term contract basis for the implementation of capital projects."

"One aim of training programmes should be to provide managers, technicians and operators for capital projects once they are completed," he said.

"Industrialists are most keen on the idea of using overseas organisations on a turnkey basis. With adequate training and experience there is no reason why South Africans should not be used to turn the key.

"Wherever possible we should use indigenous resources and not always assume that overseas services and products are superior. Only by adopting this attitude can we build a sound national future."

'Investment growth commerce's task'

In the short-to-medium term any significant growth in investment will have to come from commerce, said Miss P A Freer of Samson-Freer Consultants.

Speaking on the outlook for capital-spending levels she expects investment by the public authorities to grow at a pace sufficient to keep the sector's capital stock growing at a rate somewhere between population growth and desired GDP growth.

She added that with the coming completion of such projects as Sasol and Koeberg, these public sector investments have allowed the Government to make room for commerce and "it would be surprising if even 1981's anticipated lower rate of investment was maintained in the next few years.

MARKET TRENDS

Investment in commerce seems to respond more closely to market trends than investment in the public sector, though inevitably there are some lags because of the long gestation period of the more complex projects and the inability of investors to stop major investments halfway.

However, a sector such as housing, which is not constrained by such consideration, can and does change rapidly from growth to contraction in response to prevailing market forces.

Painting the future scenario under two hypotheses Miss Freer said that under the first, with slow growth as a consequence of Government policies aimed at compensating for a low gold price (growth averaging 3 percent a year over the next five years), public sector growth of about R5 100-million this year, and real growth of 4 percent a year would be sufficient.

Alternatively, fast growth enabled by successful new export and import replacement industries and a comfortable gold price (growth averaging 6 percent a year over the next five years), then real growth in investment of about 20 percent would be needed next year and the pace of investment would have to grow thereafter by about 5 percent a year.

After 1982, public sector investment would have to grow again at about 1 percent faster than the GDP growth in both scenarios.

DIFFERENT

"Commerce is in quite a different situation. If my understanding is correct then even if the slower growth scenario is assumed, commercial fixed investment will have to grow by an average of 4 percent a year over the next five years," said Miss Freer.

"If faster growth is assumed, commercial fixed investment will have to grow again by about 30 percent in real terms to about R12 000-million this year and this number would have to continue growing by about 7 percent a year thereafter."

Growth-rate slowdown forecast

A marked slowdown in the growth rate of economic activity, with South Africa close to or entering the downward phase of the business cycle, was the forecast of the chief economist of Senbank, Mr Louis Geldenhuys.

The short-term economic outlook is that:

- Export growth will be non-existent during 1981.
- The balance of payments will become a constraining factor on growth.
- The gold price is more likely to be in a downward trend during the rest of 1981.
- No fiscal stimulation can be expected and fiscal drag will be a negative impact on growth.
- Credit will be more expensive and less freely available.

These features represent a reversal of the trend in events which had contributed to an environment that has favoured a high rate of economic growth since late 1977.

The balance of payments is becoming less favourable because of a combination of factors such as the high rate of domestic growth, international recession and the lower gold price.

A sizeable current-account deficit is expected for 1981, the extent of which will depend a lot on the gold price.

Mr Geldenhuys expects the price to remain weak for at least the next year. He feels that a strong correlation exists between the acceleration and deceleration of US inflation and rises and falls in the gold price. The cyclical downturn of the price could well continue into 1982.

Savings are expected to fall short of investment during the immediate future and this, plus Government commitment to a reduction in the growth rate in the money supply in order to reduce inflation, will lead to scarce and expensive credit.

FREE MARKET FM 3/5/81 (40)

Risk of relapse

The official drive for a free market SA economy was already showing some signs of faltering before the election. Now, the voting trends suggest that the impetus to liberalisation of economic policies could be further undermined unless government shows greater resolution than recent events indicate.

In the heat of the election campaign, the flats crisis was clearly a sensitive issue, as, too, were other economic issues like the maize price. The recent retrograde moves over rent controls, especially in relation to sectional title, were made under intense pressure, especially from the PFP.

And the eve-of-election appointment of a commission of enquiry into building societies' finance was nothing short of fatuous. All ministers with economics-related portfolios must have known why interest rates had risen and why the building societies were suddenly starved of funds.

There are two principal reasons to justify fears for government's post-election resolve to press on with economic liberalisation. The first is obvious — that a party returned with fewer seats and much reduced majorities over a broad front will, in most circumstances, have less will to pursue economic policies which in the short run might be unpopular with special interest groups.

But there is another, perhaps more important, reason for these fears. It has to do with the new voting pattern which has emerged. It is true that the PFP brought economic issues into the election. But opportunistic flirtation with economic controls by a party which basically represents free market interests cannot be that important in the long run.

The real threat lies on the National Party's other flank — with an HNP which now, for the first time, represents a major electoral force even though it failed to win a seat. The political dimension to the differences between Nationalists and Herstigtes is well enough understood to require no further analysis. But there is also a less obviously articulated economic dimension to their rift, which is of the utmost relevance.

The emergence of the HNP as a mass party signifies nothing less than the exposure of latent class differences within Afrikanerdom, which have been maturing for many years, but lay concealed under the heavy cover of ethnic loyalty.

When the NP came to power in 1948, it represented a group with fairly homogeneous socio-economic characteristics. Most Afrikaners were either farmers or blue-collar workers. If the latter, they still had strong emotional links to the soil. There was a political intelligentsia of dominees, lawyers, schoolteachers and other academics, but few representatives of business.

The party had, in opposition, always made the most of the allegedly alien nature of the free enterprise system in SA. Anti-business propaganda had relied heavily on ethnically offensive caricatures like "Hoggenheimer." In this context, political power was seen as one (but not the only) means available to Afrikanerdom for offsetting what were perceived as unequal, and even discriminatory, economic patterns within the white community. In a word, the economic plank in the NP platform before and after 1948 was to "catch up with and overtake" the English-speaking section.

In this ambition, the NP has succeeded beyond, probably, its wildest dreams. Apart from the massive growth of the state enterprises like Escom, Iscor and Sasol, many institutional Afrikaner-controlled groups like Volkskas and Sanlam have risen to parity or better, compared with their "English" counterparts. And the entrepreneurial spirit has flourished.

But it was inevitable that economic success, even on such a broad front as has been achieved, would leave many behind. Marginal farmers, lower paid state servants, white mineworkers and other blue-collar groupings have clearly become increasingly unhappy with their relative economic status within the Afrikaner community. Quite apart from the existence of exploitable ideological issues, this economic disaffection has provided fertile soil for the HNP to till.

To judge from what is generally known about HNP economics-directed propaganda, it lays emphasis on an NP sell-out to the "geldmag" — shades of the Thirties and Forties again. The potency of this line among a significant proportion of Afrikaners is not to be underestimated — as shown by the 1981 voting patterns.

What is the government to do in the aftermath of the setback? Setting out to woo back the disaffected blue-collar voters through reversing important economic (as well as political) policies would not only be useless, but, in many respects, thoroughly destructive. The state of alienation of this group from the governing party is now almost certainly irretrievable. And to abandon the drive towards a free economy would then upset the increasingly powerful business and professional grouping within the party.

What is required is the courage to accept that economic initiatives of many sorts will have to be pushed through against HNP opposition, even against an HNP with representation in future parliaments.

Government can fortify its courage by considering the undoubted fact that the constituency to which the HNP appeals is numerically in decline. Other vital political considerations require a drive for fast growth — which can only succeed by dumping the economic attitudes of the past.

Here the other opposition — the PFP — has an important role to play. It should resist all temptations to grab opportunistically at economic issues in a manner which could weaken government's resolve to go for economic freedom and growth. Short-term electoral gains achieved in this way will be bought at too high a price, and will mostly help the HNP.

GOVERNMENT LOAN

FM 8/5/81 (49)

Playing safe

The Treasury announced this week the coupon rates on its May government stock issue — 12,5% for the 22-year leg and 9,5% for the three-year stock. The actual yields on these loans will be determined by the prices at which they are sold, to be announced on June 12.

The Treasury explains that it chose to market its latest issue in this way so that it could read the market until the last possible moment and thus set an effective yield that reflected the latest trading rates. Prospectuses have to be prepared three weeks in advance — a lag that could easily make the difference between success and failure. And for the purpose of monetary control as much as government fund raising, the issue must be a success. So there is a good chance it will be issued below par.

The Treasury is redeeming almost R1 billion which the monetary authorities do not want to see fed back into the system. And any excess over this amount which can be effectively sterilised will probably be welcomed, despite the interest liability it will add to the Exchequer account.

The issue is a delicate one. The investing institutions have remained aloof from the long-term market in varying degrees since late-1978, waiting for the rising interest rate structure to reach a level acceptable to them, or at least reach a point where it was unlikely to rise further. Much of their cash-flows have been placed in the short-term market to aggravate the excess liquidity that has flowed into the country through the BoP current account. So the fortunes of the May issue are of crucial importance to the whole economy.

Capital market sources say the Treasury engaged in an extensive marketing operation for this issue to sound out the reactions of prospective purchasers. The market has hinted that a rate of 13% would be the minimum at which they come in, but sources now suggest that the response at the current nominal trading rate of 12,85% would be materially similar. This would mean selling at a discount of about R97,5%. So by setting a coupon of 12,5%, the Treasury is playing it safe.

Informal market tests by one bank indicate that some of the bigger institutions will devote between 50% and 80% of their cash-flows earmarked specifically for gilts at any rate from 12,85% upwards. Others, anxious to play to the full the process of rumour and expectation on which the market works in troubled times, stick at the 13% level.

But a reasonable consensus appears to exist that the issue will be successful at 12,85%. As one analyst comments, both the public and private sectors are funding themselves to relatively greater extents by internal cash flows. Government does not need to borrow heavily as it has done in the past at this stage of the business cycle, so it will set limits on the price it is prepared to pay for funds. And there is a general belief that the monetary authorities in general, and Reserve Bank Governor Gerhard de Kock in particular, have the ability to bring down inflation in at least the medium term.

In addition, the Treasury will not be offering new stock in June, when R121m matures, for the simple reason that two issues so close together would place on it an unwarranted administrative burden. And on top of it all, gilt rates are now at historically high levels. So rates are unlikely to rise further, he concludes, and investors would be well-advised to get in while the going is good.

There appears to be pressure for a wider discount on the three-year loan. Sources say 10% may well be the floor at which the Treasury could set an effective yield.

CORPORATE HQs FM 8/5/81 (49)

Devolution of power

Overseas, the traditional "fat" corporate headquarters, with a proliferation of staff functions, is on the way out. Recession and a flagging economy have forced a rethink.

Management philosophy now is to force down strategic decision-making to divisional level. This reduces "staff" functions at head office. Benefits include money savings and decentralisation of management. Managers thus get closer to the coalface.

In SA too the trend is towards "leaner" and more effective head office structures. Corporations such as Barlows, SA Breweries, Protea, Abercom and Kirsh Industries are being geared to "slimmed down" headquarters.

For example, Protea Holdings MD Aidan Beard says: "I don't see an alternative to a lean corporate structure in a widely diversified group such as ours. You can't run 80 operating companies from a centralised structure. It can only be done at company level."

The seven divisions and 80 companies in the Protea group are involved in chemicals, consumer products, electrical goods and electronics, instrumentation and laboratory equipment, medical, and engineering supplies and protective clothing. There are 8 300 employees.

Yet corporate headquarters houses, at executive level, only MD Beard plus six group managers — of whom two are also functional managers — who look after the divisions. Autonomy in the operating companies is extensive. Says Beard: "At the operating level, line managers are line managers in the true sense of the word. They are responsible for operations."

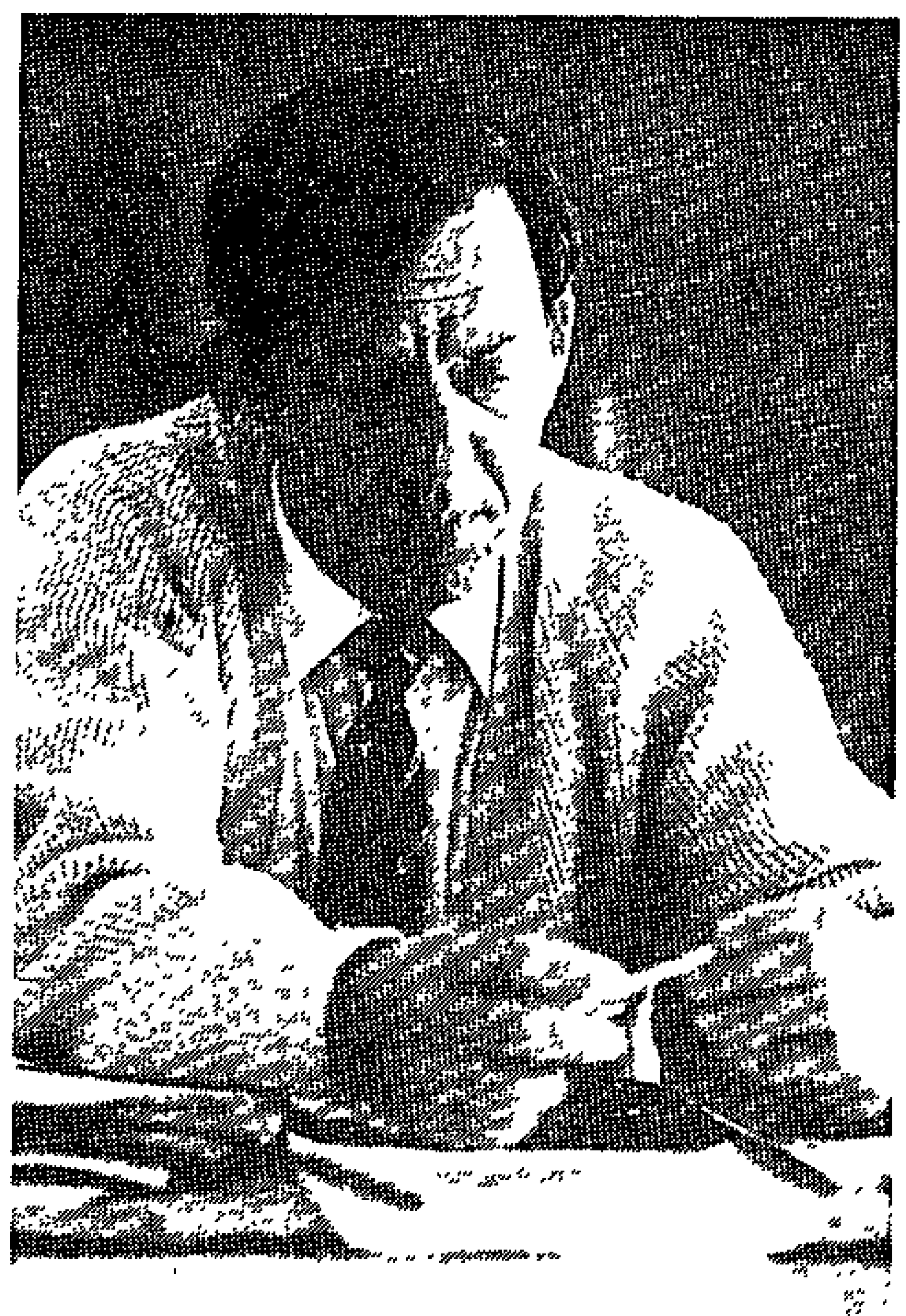
Protea follows the tenet that the holding company of a diversified group such as Protea is responsible for overall strategy and strategic planning. It plans group direction and decides which industries to get involved in. It also handles strategic planning at divisional level.

Beard says: "Once you've established this management structure, there's no limits to growth in the group if the basic tenets of decentralised management are followed."

Natie Kirsh, who heads the conglomerate Kirsh Industries, has the same policy. Kirsh's group includes milling, fertiliser, malt, food distribution, plastic moulding manufacture, property development, banking, saw milling, cash and carry wholesaling, furniture retailing and liquor retailing.

Kirsh head office staff consists of chief executive Natie Kirsh, executive director Mervyn King, company secretary and financial manager Rob Desmarais, accountant and corporate planner Barry Smith, a bookkeeper and a couple of secretaries.

"We're so small, the structure doesn't have to be formalised," says Kirsh. He claims the more secure a chief executive, "the more he can delegate. The only way you can run this sort of business is to hand responsibility to divisional staff while head office approves broader policy. You can't run big operations from headquarters. No line decisions are made here. We don't interfere."



Kirsh's Kirsh . . . running a tight ship

One constraint in developing this management philosophy is SA's desperate lack of adequately experienced and trained general managers.

Another major problem, says Prof Andy Andrews, Professor of Business Policy at the Wits Graduate School of Business, is the relatively "easy" competitive environment in many industries. Because SA companies have not been pressured to enter unrelated product-market areas, strategy "has remained essentially 'single business' in orientation."

Consequently, the management structure has remained functional and "fat," says Andrews, rather than lean and decentralised. It has been the trend to increase diversity of product-markets in developed economies which has been accompanied by a move to adopt product/divisional structures, generally associated with the so-called "lean" head offices, he says.

Andrews adds that research suggests SA firms lag the US by about 25 years in terms of corporate evolution. He believes, however, that SA will move through the "evolutionary stage" towards increased product diversification and product-divisional corporate management structures more rapidly than their US counterparts.

He believes about 40% of large SA firms will have decentralised management by 1985, though this will not necessarily mean a 'leaner' head office structure.

Corporations like Barlows may disagree. Barlows claims that with 300 operating companies in the group, decentralisation is its single most important philosophy

Barlows says that over the years it has built up a small but strong central team, consisting of executive directors and other senior management

This team takes responsibility for group functions like overall policy, group forward planning, acquisitions, approval of major capital expenditure programmes, the appointment of senior executives and the provision and control of group finances.

It also provides a limited range of services for companies which need them — generally the smaller ones — such as secretarial, tax, insurance and personnel.

Each of the executive directors takes ultimate responsibility for the performance of a number of trading divisions. In doing so, close liaison and personal contact is kept with those divisions. This keeps key executives in touch with all the group's main activities.

But Barlows stresses that the function of the central team ends there. All other activities, including direct management, take place within the trading divisions and companies themselves.

It is fundamental to Barlows' philosophy that direct management of an operation cannot be carried out from its Barlow Park headquarters. Such responsibility is firmly delegated to the executives running the individual companies. These managements are charged with the responsibility of the day-to-day running and profitability of their companies and with their own forward planning

Andrews defines the really lean organisation as one that has "a very small, highly trained group of executives. Head office functions concentrate on overall policy setting in the major areas of company interest — industrial relations, the capital market interface and portfolio aspects of corporate planning."

Early deficit in payments balance looms

8/5/81

By SUSAN DALLAS

SOUTH Africa's current account of the balance of payments can be expected to go into deficit as early as the second half of this year because of the large and growing deficit on the service account, says Dr P J Kieser, general manager of the SA Foreign Trade Association (Safto).

Dr Kieser spoke yesterday at a conference organised by the National Development and Management Foundation of South Africa (NDMF) in Johannesburg on the post-election outlook for business and the economy.

With a prediction that exports would tail off and imports would continue to rise, he forecast that the present R6 620-million surplus on the trade account would fall sharply in 1981 and would be only R500-million by the second half of 1982.

In the same tiome the present current account surplus (excluding transfers) of R3 472-million would become a R1 700-million deficit.

Export-orientated developments similar to the development of Richards Bay and Saldanha Bay had to be increased if South Africa was to improve this situation.

A recent upswing in the value of sugar exports because of higher prices on world markets had been reversed in the past six weeks because Europe had supplied some of its own sugar.

The canned-fruit industry, which was floundering because of stiff competition from Italy, Greece and California, had to make more effort, possibly trying a fresh marketing approach, Dr Kieser said.

He predicted a slowdown in the growth rate of all exports in the period to 1983 because of recession in world markets with the exception of coal.

The steady rise in demand for coal was expected to continue as Europe and Japan switched from oil to coal for energy. In addition, output would increase with the expansion of the Richards Bay coal-loading facilities.

He expressed concern that there are no major export-orientated developments comparable to the Richards Bay and Saldhana Bay developments which came on stream in the 1970s.

He suggested that the private sector be encouraged to dedicate more production capacity to exports and be given incentives by the Government to export.

The strengthening of the rand against other currencies made exports more expensive.

To ease the burden on exporters, Dr Kieser suggested that incentives should be linked to the exchange rate in some way, meaning that as the rand strengthened, higher incentives should be introduced.

Certain industries should be selected from time to time and become the focus of efforts to stimulate their export capacity — such as clothing and machinery manufacturing.

Restrictions on manufacturers' access to raw materials — forcing them to buy more expensive SA materials when they could import more cheaply — were harmful to exporting.

These restrictions should be removed along with all price controls and subsidies which fuelled inflation.

He said exchange control was the ultimate price control and as such should be done away with as soon as possible.

Labour leaders warn on growth rate

RDM 9/5/81

49

Pretoria Bureau

LABOUR leaders fear that the Minister of Finance may turn the anti-inflation screw too tightly and dump the country back into recession.

Over-reaction to the problem, they warned, could seriously aggravate an already acute unemployment problem among blacks.

They realised that counter-action had to be strong to be effective, and that some of the measures would hurt. But if the growth rate was allowed to fall too steeply a whole variety of problems would be thrown up, they said.

They were commenting on the Reserve Bank announcement earlier this week that the bank rate was to be raised by 1½% to 9½% and that a major aim of the Budget in August will be to drain further excess liquidity from the economy.

The chairman of the Federal Consultative Council of Railway Staff Associations, Mr Jimmy Zurich, said the growth rate should not be allowed to drop significantly below 5%.

If it dropped below this level, the numbers of workless blacks would inevitably increase and this would create other serious problems affecting stability.

"The Minister must use the fiscal and montary control machinery with the greatest care to ensure the slowdown is under tight control."

Should control be lost, should too much money be syphoned from the economy, and should money become too expensive, South Africa could find itself back "in the clutches of a recession", he said.

The president of the Garment Workers Union of South Africa, Dr Anna Scheepers, said: " We are just beginning to emerge from a serious bout of unemployment. If they go too far with their curbs the employment benefits of the boom will be lost"

A whole series of new two and three-year wage agreements would be negotiated during the next 12 months. Workers who had missed out during the two-year boom could miss out again if curbs reduced the growth rate to too low a level.

Dr Scheepers said there was no certainty either that the curbs would lower the inflation rate. During the recession years the rate had actually increased.

R563m April drop in reserves

RDM 9/5/81 (49)

By HAROLD FRIDJHON

SOUTH AFRICA'S gold and foreign exchange reserves fell by R563-million at the end of April. The Reserve Bank's monthly statement showed reserves at the monthend as R4 939-million compared with R5 502-million at the end of March.

The revaluation of the bank's gold stock which was about 24 000 ounces larger at 12 276 000 ounces resulted in a net fall in value of R285-million because the gold price was taken at R357,21 an ounce compared with R381,18 at the end of March. Gold holdings were R4 385-million.

Significantly, holdings of currency dropped by R264-million to R429-million. This could be the result of the repayment of foreign borrowings, a view which might be reinforced by the fall in other liabilities.

It might also reflect current account payments reflecting the adverse trade balance.

The other elements in the total reserves, bills and investments, were also marginally lower.

A surprise feature in the Reserve Bank statement was the 5% increase in the note issue which reached a new peak of R2 177-million. With the Easter holidays in mid-April, it would have been thought that the additional banknotes put into circulation then would have found their way back into the central bank before the month's end.

On a year-against-year basis, the note issue has increased by 33%.

The Government's balance with the Reserve Bank dropped from March's R308-million to under R60-million. This is a seasonal movement out of the Exchequer as large amounts are normally paid at the start of the new fiscal year.

Other liabilities fell sharply by R787-million. Part of the fall can be attributed to the drop in the gold reserves as a result of revaluation; this is the contra account. But that would account for only R285-million of the total.

One can only assume that part of the difference, R502-million, was used to repay a foreign loan. It could have been a Government debt for which the Reserve Bank had assumed some responsibility; or it could have been a central-bank-to-central-bank loan.

An unexpected item on the Reserve Bank statement is the bills discounted balance of R123-million. All the money-market institutions were out of the bank at the monthend and the banks had large balances with the National Finance Corporation, so the NFC institution had no reason to discount paper with the central bank.

Other loans have soared by R233-million to R913-million. This is a large sum of money for the Reserve Bank to pump into the system at a time when the concern of the authorities is to restrict the creation of credit. As lending by the Reserve Bank to its clients is circumscribed, one wonders whether part of this lending is a cover-up for Government borrowing — maybe not for the Treasury but for one or another of the Government agencies or quasi-State bodies.

It is strange that officially the Government has not borrowed money from the bank for years, even in its times of duress some years back.

The Reserve Bank's holding of Government securities is R34-million higher at R647-million. This could be an investment in Government stock so that the central bank has assets in hand for open-market operations. It will be interesting to see the bank's stock holdings in next month's statement after the forthcoming issues.

The other securities figure has returned to normal — R4 800 000 — from the exceptionally high levels of February and March when the Reserve Bank did buy-back deals with the banks to help them over the the acute tax payment period. Obviously all the assets "sold" to the central bank have been redeemed.

Companies cautious over Zimbabwe threat

(36Q) (49) Argus 9/5/81

SOUTH AFRICAN companies with financial interests in Zimbabwe are adopting a 'wait-and-see' attitude in the wake of a threat by the country's Minister of Finance, Senator Enos Nkala, to order a review of SA investments if the SA Government continued its 'economic provocation'.

Senator Nkala was referring in the House of Assembly yesterday to the termination of a 16-year-old trade agreement granting Zimbabwe ultra-preferential tariffs on goods exported to South Africa.

He told the Assembly: 'If they continue to provoke us in the manner they have been doing, I would order an exercise of reviewing whatever investments South Africa has here, or other links, so we can keep them in our pockets when the provocation becomes more painful, more unbearable, and we would have to defend ourselves by taking certain appropriate steps.'

Business Argus spoke to several companies with interests in Zimbabwe about Senator Nkala's veiled threats of nationalisation. Most were reluctant to be named due to the possibility of adverse repercussions.

A spokesman for a large liquor group said that due to the structuring of many businesses in relation to international holding companies, it would be difficult — if the crunch came — for the Zimbabwean authorities to decide what companies would be affected.

His company's interest in Zimbabwe is in the form of an interest in an international consortium of companies which has investments in Zimbabwe.

South Africa's Companies Act does not make it compulsory for local companies to declare their Zimbabwean interests. However, one of the biggest South African investors in Zimbabwe is Anglo American which lists its Zimbabwean interests in its latest annual report.

It has a 16.6 percent shareholding in Anglo American Corporation (Zimbabwe), which in turn has major investments in the mining of coal, nickel and copper, and in the production of iron, steel and ferrochrome.

It also has interests in farming, forestry, timber processing, merchant banking and finance.

A spokesman for Anglo American said he had no comment to make on Senator Nkala's statement.

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MAY 10, 1981

A stop, start period ahead for the economy

S. Tribune 10/5/81 (49)

By JACK BRICKHILL Finance Editor

THE authorities are making up for lost time, now the elections are over, by pulling down the shutters on the 1980/81 boom in an attempt to stabilise inflation.

The Reserve Bank grasped the nettle this week by raising the bank rate 1,5 percent to 9,5 percent, an effective increase of 18,75 percent. Overdraft rates linked to the bank rate have gone up and added another twist to the rising short term interest rate spiral. Long term rates, such as mortgage rates, are not affected.

The effect of the higher rates is to cut credit and increase the cost of money. In tighter conditions spending will shrink, goods will not be sold and unemployment will rise if the situation continues for long.

Much depends on the skill of the men in the Reserve Bank and the Treasury to open the taps again at the right time while the economy is still in a strong investment phase.

Unfortunately the Government already appears to be over-reacting and there is considerable uncertainty in business circles over recent actions.

Tenders put out by the Transvaal Provincial Council for civil engineering work have been suddenly withdrawn and this has raised the spectre of another stop-start period for the economy which is so disruptive to planners.

Dr Johan Cloete, chief economist at Barclays, says the business cycle is already in a downward swing with the current account of the balance of payments in deficit.

The bank liquidity arising from the massive balance of payments surplus last year financed the boom conditions but this eased off in the last quarter and interest rates started to rise. A large amount of money was lent for expansion.

The authorities worried by inflation, want to take even more cash away says Cloete. The increase in the money supply of 35 percent last year is historical. "They are closing the gate after the horse has bolted," he says.

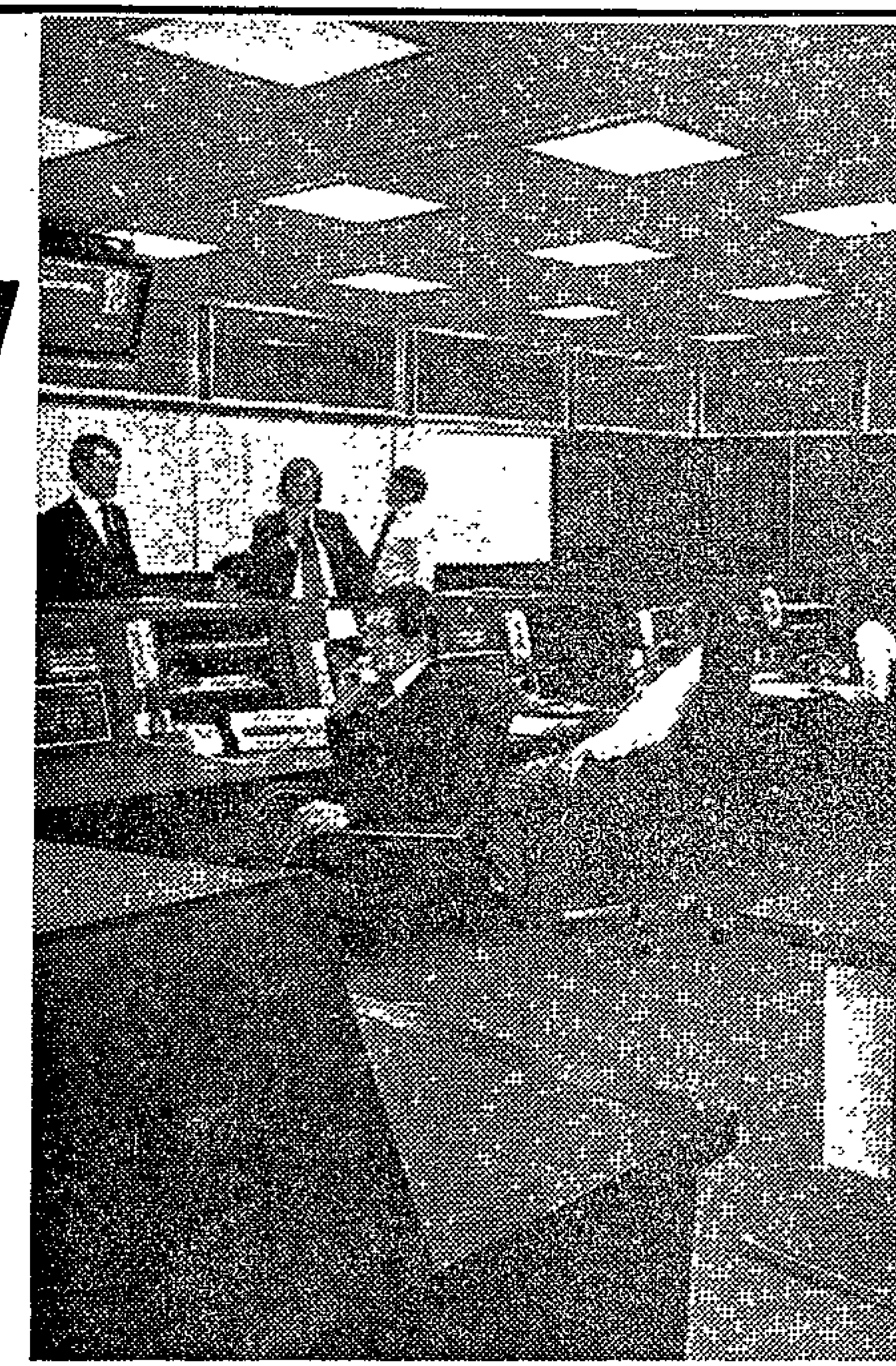
He blames the growth at all costs policy last year on the present sudden clamp-down. "Last year it was all go and this year it looks like being all stop. They always overreact."

Professor Jan Sadie of Stellenbosch University says the higher overdraft rates will only raise inflation a little because of the higher cost of money but he does not expect much effect on the growth rate. He says the 35 percent increase in the money supply should have been prevented by relaxation of exchange control measures.

Jannie van Huyssteen, director of the Motor Industry Federation, says a more gradual approach would have been preferable. "They have left it a little bit too late," he says.

Roland Freakes of the Natal Chamber of Industries, says the bank rate increase will inevitably have some effect on economic activity and it comes at a time when there are already signs of a tapering off in the economy.

"Deliberate squeezing of the money supply will have to be carefully controlled if it is not to result in an "overkill" which will reverse the moderately favourable improvements in employment," he says.



Standard Bank dealers transact on average R100-million a day in the busy money market. A tighter money supply and soaring interest rates should give them time soon for a tea break

S. Times 10/5/81 (49)

Big balance of payments deficit forecast

By Andrew McNulty

A LARGE balance-of-payments deficit is forecast for South Africa during this and the next two years.

The forecast is made by a Senbank economist, Dr Hans Falkena.

There are dramatic implications for the business outlook and for the consumer.

A detailed study by Dr Falkena of the country's exports and imports outlook until 1985 shows that, while long-term prospects look exceptionally good for a developing country, the balance of payments (BOP) is about to plunge into the red and stay there until 1984.

He forecasts BOP account figures in the order of:

- 1981: A deficit of more than R2 000-million.
- 1982: A deficit of more than R3 000-million.
- 1983: A deficit of more than R2 000-million.
- 1984: A surplus of R300-million.
- 1985: A surplus of R1 800-million.

A key factor in these projections is assumptions made on gold-price movements, which Senbank expects will dip further and probably average around $500 over the coming three years.

While this looks a gloomy view on bullion, Senbank has done detailed studies on the gold market and was one of the few correctly to predict well in advance gold's decline in the past 10 months.

South Africa's credit rating overseas is high, and both the Reserve Bank and the private sector will have no difficulty in

To Page 3

S Times 10/5/81 (49)

Large balance of payments deficit

From Page 1

finding money to meet the deficits overseas.

But off-spins of this scenario will include:

- Long-term interest rates will be above the inflation rate by next year, due either to an expected fall in the inflation rate or to still higher interest rates.
- Short-term interest rates could rise to the levels already seen in the United States — 17% to 18%.
- People will again be attracted to save and invest.
- Consumer spending will slow sharply.
- Black unemployment will again spiral. New jobs must be created at a rate of 1 000 a day if the problem is to be brought under control.

Dr Falkena expects real growth rates in the gross national product (GNP) of 5% in 1981, 2% in 1982, 2,5% in 1983, 4% in 1984 and 5% in 1985.

Foreign exchange earnings from exports, which totalled R19 846-million in 1980, are expected to drop by 12% in 1981 (a fall of 10% was forecast earlier this year), and in subsequent years show rises of 4%, 12,5%, 22% and 16%.

The imports bill, on the other hand, which totalled R14 288-million in 1980 after rising 46,7% in the year, is expected to rise this year by 14% followed by rises of 8,5%, 6,5%, 8% and 10%.

Imports of machinery and transport items will continue to rise strongly, stimulated by growth in infrastructural and other fixed-investment spending.

But major new export earnings growth will be achieved by 1985 in areas such as aluminium, ferro-alloys, iron and steel, gold, coal and locally made machinery.

Also, import substitution and associated exports will play growing roles in areas such as chemicals and defence.

RAND DAILY MAIL, Monday, May 11, 1981

SA producers miss white goods sales

RDM 11/5/81 (49) (24)

By SUSAN DALLAS

IN SPITE of a surge in the sale of domestic appliances last year, SA producers continued to lose some of their market share to imports.

This is a conclusion of a review by the Standard Bank of the white goods industry — refrigerators, stoves, washing machines and others.

But controversy exists about solutions to, and causes of, the problem faced by SA manufacturers.

According to the review, manufacturers are operating below full capacity — most in the region of only 70% — because of their inability to compete with cheaper goods from countries like Japan and Italy.

But some retailers believe this argument puts the cart before the horse and maintain that if the industry increased its productivity and efficiency — and the range of products offered — it would be in a stronger position to compete with the imported goods.

According to Mr Arthur Solomon of OK Bazaars, South African manufacturers should produce a small double-door eight cubic foot refrigerator.

"There is a growing market for a small refrigerator like this, especially among blacks as more and more have electricity in their homes, and among flat-dwellers."

Although the review says there has been a strong growth in demand for domestic appliances, it says the SA industry's major handicap is that it still serves a relatively small market.

The annual sale of refrigerators in SA is 180 000 compared with 8-million in the United States. This means small production runs and relatively high unit costs.

Imports of domestic appliances have risen by 14% in the past two years, and imports of some types of imported washing machines quadrupled in the first nine months of 1980.

Imports are estimated to account for over a quarter of total refrigerator sales

The review says these products are usually of high quality and are often sold at a price for finished goods below the SA industry's cost of labour and materials.

Tariff protection is controversial. The industry sees upward adjustments in Customs barriers as its only solution. It has applied for the 25% Customs tariff imposed on imported refrigerators and tumble driers in the early 1970s to be increased to 40%.

But Mr Solomon opposes tariff protection. He said: "As imported goods go up in price, manufacturers push up the price of local goods. That is inflationary.

"Imports help to stabilise pricing structures, avoid complacency about local goods and stimulate innovation."

But the review finds that the low level of production makes it commercially unattractive for manufacturers to expand, introduce new models or advance technology as often as their foreign counterparts.

On the other hand, protection means that consumers are discouraged from choosing the best and cheapest products from the range available on world markets.

The review describes as invidious the authorities' task of weighing these varied arguments.

RDM 11/5/81

(49)

Dangers in tight money

Industrial Reporter

GOVERNMENT economists should recognise the export earnings value of South Africa's R25 000-million domestic fixed investment over the next five years when they plan to reduce the money supply in the short term.

Mr J E Furze, capital projects manager of Southern Cross Steel, appealed at last week's post-election business outlook conference in Johannesburg for special consideration from the Government for export and import replacement projects.

He told the conference, organised by the National Development and Management Foundation (NDMF), that reductions in the money supply were a potential threat to expansions and new ventures aimed at achieving greater export revenue and replacing imports to save foreign exchange.

"If we summarise the capital investments needed to increase South Africa's export earnings and for import replacement expansions, we arrive at an astronomical figure of R16 000-million for export projects, and over R9 000-million for synfuel investments and metal and chemical replacement projects."

This made a total of R25 000-million, which was likely to be spent on average over five years. The annual expenditure on fixed capital investments to achieve greater export and import replacement would amount to 33% of the present total annual fixed investment, Mr Furze said.

"There is a strong move in South Africa to curb the money supply in an attempt to beat inflation.

"I would like to make a strong appeal at this stage for economists concerned with governmental planning to find some way whereby the export and import replacement projects I have been talking about can be given special consideration.

"It is my opinion that it is a national responsibility to see that these projects go ahead. We should take the long-term view and make short-term concessions."

Implementation of these projects could put South Africa on a much broader industrial foundation and go a long way to alleviating the major socio-political problem — the employment of its black population and the provision of greater opportunities for blacks to advance, Mr Furze said.

LITRES WITH 0·5, 0·1 AND 0·05 SUB-DIVISIONS (ATPS)

LITRES WITH SUB-DIVISIONS (BTPS) @ 20 °C (AMBIENT TEMP.)

Patients Name:

Record No: | Date of Test

STYLUS START

ZERO POINT

SECONDS

F 18666

8 75 + 2 (421) 8/5/81

DEPARTMENT OF FINANCE

No. 1003 — 8 May 1981

Statement of Revenue collected during the period 1 April 1980 to 31 March 1981 (Preliminary).

Treasury, Pretoria.

DEPARTEMENT VAN FINANSIES

No. 1003 — 8 Mei 1981

Staat van Inkomste ingevorder gedurende die tydperk 1 April 1980 tot 31 Maart 1981 (Voorlopig).

Tesourie, Pretoria.

Head of Revenue	Inkomstehoof	Estimates Begroting 1980/81	Collections for the year ended 31 March 1980 Ingevorder vir die jaar geëindig 31 Maart 1980	Month of March Maand Maart 1981	Month of March Maand Maart 1980	Total 1 April to 31 March Totaal 1 April tot 31 Maart 1981	Total 1 April to 31 March Totaal 1 April tot 31 Maart 1980
		R	R	R	R	R	R
State Revenue Account	*Staatsinkomsterekening*						
Customs and Excise—	Doeane en Aksyns—						
Customs Duty	Invoerreg	480 000 000	453 033 408	77 822 535	38 924 616	735 834 050	453 222 874
Excise Duty	Aksynsreg	1 111 026 000	1 013 806 740	111 577 776	97 741 384	1 247 859 560	1 017 537 210
Sales Duty	Verkoopreg	500 000	1 170 527	9 531	11 296	594 058	1 171 023
Surcharge	Bobelasting	1 000 000	250 577 340	Dr 59 696	16 639 379	Dr 2 796 935	250 577 339
Miscellaneous	Diverse	19 000 000	21 837 962	2 316 261	180 516	46 751 242	21 837 962
	R	1 611 526 000	1 740 425 977	191 666 407	153 497 191	2 028 241 975	1 744 346 408
Transfer to Central Revenue Fund	Oordrag na Sentrale Inkomstefonds (a)	Dr 41 100 000	Dr 44 495 546	Dr 6 000 000	Dr 5 000 000	Dr 41 500 000	Dr 37 000 000
Payments in terms of Customs Union Agreements	Betalings ingevolge Doeane-Unie-Ooreenkomste (b)	Dr 500 200 000	Dr 402 465 892	Dr —	Dr —	Dr 504 919 434	Dr 402 465 892
	R	Dr 541 300 000	Dr 446 961 439	Dr 6 000 000	Dr 5 000 000	Dr 546 419 434	Dr 439 465 892
	R	1 070 226 000	1 293 464 538	185 666 407	148 497 191	1 481 822 541	1 304 880 516
Inland Revenue—	Binnelandse Inkomste—						
Tax on Income	Belasting op Inkomste	5 990 800 000	5 234 057 755	555 070 350	433 486 463	7 522 751 460	5 234 325 496
Other Taxes and Receipts.	Ander Belastings en Ontvangste:						
Gold mining leases	Goudmynhuurkontrakte	635 000 000	334 270 081	43	Dr 48 993	838 195 071	334 270 081
Other mining leases	Ander mynhuurkontrakte	16 000 000	15 434 763	4 755 127	6 662 423	23 565 081	15 434 763
State Ownership Revenue on diamond mines	Staatseiendomsreginkomste op diamantmyne	44 000 000	40 476 448	17 892 530	40 288 658	18 100 308	40 476 448
Export duty on diamonds	Uitvoerregte op diamante	31 000 000	31 365 265	1 571 804	2 484 330	24 797 439	31 365 265
Non-Resident shareholders' tax	Belasting op buitelandse aandeelhouers	200 000 000	161 508 119	35 405 163	20 107 840	296 557 601	161 508 119
Non-Resident's tax on interest	Rentebelasting op buitelanders	16 000 000	15 540 840	1 319 600	1 877 457	12 081 878	15 540 840
Undistributed profits tax	Belasting op onuitgekeerde winste	5 000 000	4 207 096	208 472	205 149	2 435 105	4 207 096

Head of Revenue	Inkomstehoof	Estimates Begroting 1980/81	Collections for the year ended 31 March 1980 Ingevorder vir die jaar geëindig 31 Maart 1980	Month of March Maand Maart 1981	Month of March Maand Maart 1980	Total 1 April to 31 March Totaal 1 April tot 31 Maart 1981	Total 1 April to 31 March Totaal 1 April tot 31 Maart 1980
		R	R	R	R	R	R
Donations tax	Belasting op geskenke	1 500 000	1 476 340	193 567	157 405	1 961 296	1 476 340
Stamp duties and fees	Seëlregte en gelde	150 000 000	123 571 930	18 745 643	16 361 972	137 540 072	122 680 981
Transfer duties	Hereregte	95 400 000	89 430 559	13 149 136	11 446 895	153 917 914	89 430 559
Estate duties	Boedelbelasting	48 800 000	57 871 049	4 387 651	3 666 942	61 353 492	57 865 785
Tax on marketable securities	Belasting op bemarkbare sekuriteite	20 000 000	23 667 167	2 145 086	3 642 988	33 615 310	23 667 167
Licences	Lisensies	3 000 000	2 478 509	138 151	166 113	2 567 586	2 477 964
Cinematograph films tax	Kinematograaffilmsbelasting	1 000 000	896 263	64 086	64 636	850 775	896 263
Other	Ander	1 400 500	2 082 588	1 440 146	585 294	3 561 050	2 271 483
Departmental and Miscellaneous Receipts	Departementele en Diverse Ontvangste						
State Diamond Diggings	Staatsdiamantdelwerye	13 585 000	28 313 100	–	1 681 958	2 367	28 313 099
Forest revenue	Bosinkomste	28 000 000	33 911 807	7 070 530	3 639 428	46 998 419	34 049 545
Water revenue	Waterinkomste (c)	44 000 000	46 937 753	8 206 736	5 740 541	57 864 020	45 180 749
Fines and forfeitures	Boetes en verbeurdverklarings	12 000 000	11 689 757	1 327 403	1 083 587	13 366 412	11 689 167
Recoveries of advances	Verhalings van voorskotte	2 787 000	4 204 125	772 421	331 518	13 989 797	3 909 355
Sale of state land	Verkoop van staatsgrond	2 500 000	487 824	60 000	210 948	2 294 012	568 484
Rental from state property	Verhuring van staatseiendom	13 469 000	14 417 226	2 075 514	4 452 574	12 513 019	14 517 983
General	Algemeen	191 022 800	183 871 829	14 350 848	30 580 332	224 963 950	180 649 997
Interest and Dividends	Rente en Dividende	670 595 700	662 337 441	Dr 11 528 356	46 983 860	561 221 631	657 258 525
Repayment of Loans	Terugbetaling van Lenings	54 357 500	120 778 281	22 222 989	24 922 639	90 659 374	125 951 878
General Sales Tax	Algemene Verkoopbelasting	1 550 000 000	1 248 735 251	151 524 015	111 886 737	1 658 840 601	1 247 253 710
	R	9 841 217 500	8 494 082 166	852 569 358	772 669 685	11 816 565 040	8 487 240 142
	R	10 911 443 500	9 787 546 704	1 038 235 765	921 166 876	13 298 387 581	9 792 120 658
State Oil Fund	Staatsoliefonds (d)	270 000 000	259 158 006	21 660 001	18 200 000	274 554 112	257 109 367
National Road Fund	Nasionale Padfonds (e)	133 000 000	129 854 005	11 150 291	9 000 000	138 991 890	127 982 709
South African Development Trust Fund	Suid-Afrikaanse Ontwikkelingstrustfonds (f)	6 454 000	14 501 552	2 953 439	3 279 186	12 705 763	13 584 641
Account for Black Transport Services	Rekening vir Swart Vervoerdienste (g)	12 500 000	11 448 948	2 192 050	1 350 641	15 570 716	11 448 948
Sorghum Beer Research Fund	Fonds vir Sorghumbiernavorsing (h)	850 000	1 118 520	69 556	—	1 019 556	1 118 520
South West Africa Territorial Revenue Fund	Suidwes-Afrika Gebiedsinkomstefonds (i)	13 000	41 462	75	1 742	17 162	40 966
	R	422 817 000	416 122 493	38 025 412	31 831 569	442 859 199	411 285 151
Total	Totaal R	11 334 260 500	10 203 669 197	1 076 261 177	952 998 445	13 741 246 780	10 203 405 809
Reconciliation with statement published by Government Notice 830 in *Government Gazette* of 16 April 1981	Rekonsiliasie met opgaaf gepubliseer by Goewermentskennisgewing 830 in *Staatskoerant* van 16 April 1981	—	—	—	—	—	—
In Transit, 31 March 1980	In Transito, 31 Maart 1980	—	—	—	—	51 086 619	—
Overremitted 28 February 1981	Te veel oorgedra 28 Februarie 1981	—	—	6 863 953	—	—	—
Collections, as above	Invorderings soos hierbo	—	—	1 076 261 177	—	13 741 246 780	—
	R	—	—	1 069 397 223	—	13 792 335 399	—
In Transit, 31 March 1981	In Transito, 31 Maart 1981	—	—	42 097 198	—	42 097 198	—
Received into Exchequer Account	In Skatkisrekening ontvang R	—	—	1 027 300 025	—	13 750 238 201	—

(a) Section 22 (1) (d) of Act 25 of 1969.
(b) Section 51 (2) of Act 91 of 1964.
(c) Previously included under "General".
(d) Section 1 of Act 38 of 1977
(e) Section 2 (1) (a) of Act 54 of 1971.
(f) Section 8 of Act 18 of 1936
(g) Section 7 of Act 53 of 1957.
(h) Section 19*bis* (1) (a) of Act 63 of 1962.
(i) Section 22 (4) (a) of Act 25 of 1969

(a) Artikel 22 (1) (d) van Wet 25 van 1969
(b) Artikel 51 (2) van Wet 91 van 1964
(c) Voorheen ingedeel onder "Algemeen"
(d) Artikel 1 van Wet 38 van 1977
(e) Artikel 2 (1) (a) van Wet 54 van 1971.
(f) Artikel 8 van Wet 18 van 1936
(g) Artikel 7 van Wet 53 van 1957.
(h) Artikel 19*bis* (1) (a) van Wet 63 van 1962.
(i) Artikel 22 (4) (a) van Wet 25 van 1969

DEPARTMENT OF HEALTH, WELFARE AND PENSIONS

No. 995 8 May 1981

MEDICINES AND RELATED SUBSTANCES CONTROL ACT, 1965 (ACT 101 OF 1965)

APPOINTMENT OF MEMBERS OF THE MEDICINES CONTROL COUNCIL

In terms of section 4 (3) of the Medicines and Related Substances Control Act, 1965 (Act 101 of 1965), I, Louwrens Albertus Petrus Anderson Munnik, Minister of Health, Welfare and Pensions, hereby make known that it has pleased the State President by virtue of the powers vested in him by section 4 (1) of the said Act, to appoint the following persons members of the Medicines Control Council with effect from 22 April 1981:

Deodatus Botha.
Jan Willem de Graad.
Anton Claris Dreyer.
Peter Ian Folb.

DEPARTEMENT VAN GESONDHEID, WELSYN EN PENSIOENE

No. 995 8 Mei 1981

WET OP DIE BEHEER VAN MEDISYNE EN VERWANTE STOWWE, 1965 (WET 101 VAN 1965)

AANSTELLING VAN LEDE VAN DIE MEDISYNEBEHEERRAAD

Kragtens artikel 4 (3) van die Wet op die Beheer van Medisyne en Verwante Stowwe, 1965 (Wet 101 van 1965), maak ek, Louwrens Albertus Petrus Anderson Munnik, Minister van Gesondheid, Welsyn en Pensioene, hierby bekend dat dit die Staatspresident behaag het om kragtens die bevoegdheid hom verleen by artikel 4 (1) van gemelde Wet, ondergenoemde persone met ingang van 22 April 1981, as lede van die Medisynebeheerraad aan te stel:

Deodatus Botha.
Jan Willem de Graad.
Anton Claris Dreyer.
Peter Ian Folb.

REPUBLIC OF SOUTH AFRICA

GOVERNMENT GAZETTE

STAATSKOERANT

VAN DIE REPUBLIEK VAN SUID-AFRIKA

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GOVERNMENT NOTICE

DEPARTMENT OF FINANCE

No. 1012 12 May 1981

ISSUE OF INTERNAL REGISTERED STOCK OF THE REPUBLIC OF SOUTH AFRICA

The Minister of Finance fixed the issue prices of the Government Stocks, referred to in Government Notice 7565 of 1 May 1981, as follows:

A. INTERNAL REGISTERED STOCK, 12,50 PER CENT, 2003

Issue price R96,00 per cent (ninety-six comma nought nought rand per cent).

B. INTERNAL REGISTERED STOCK, 9,50 PER CENT, 1984

Issue price R98,50 per cent (ninety-eight comma five nought rand per cent).

GOEWERMENTSKENNISGEWING

DEPARTEMENT VAN FINANSIES

No. 1012 12 Mei 1981

UITGIFTE VAN BINNELANDSE GEREGISTREERDE EFFEKTE VAN DIE REPUBLIEK VAN SUID-AFRIKA

Die Minister van Finansies het die uitgiftepryse van die Staatseffekte, gemeld in Goewermentskennisgewing 7565 van 1 Mei 1981, soos volg vasgestel:

A. BINNELANDSE GEREGISTREERDE EFFEKTE, 12,50 PERSENT, 2003

Uitgifteprys R96,00 persent (ses-en-negentig komma nul nul rand persent).

B. BINNELANDSE GEREGISTREERDE EFFEKTE, 9,50 PERSENT, 1984

Uitgifteprys R98,50 persent (agt-en-negentig komma vyf nul rand persent).

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'Black economic muscle will aid political push'

RDM 14/5/81

By GERALD REILLY
Pretoria Bureau

THE economic muscle of black workers was increasing dramatically — and it would inevitably be used to support demands for more socio-political freedoms, the Progressive Federal Party's labour spokesman, Dr Alex Boraine, said yesterday.

He was commenting on a speech in East London earlier this week by the Minister of Transport Affairs, Mr Hendrik Schoeman, in which he disclosed the railways now employed 32 000 blacks in graded posts formerly held by whites.

Dr Boraine said it was obvious the economy's dependence on black workers was increasing rapidly.

What was happening on the railways was a reflection of the situation throughout commerce and industry. It was estimated that at present 80% of all workers in commerce and industry were black.

The public sector was also becoming steadily more dependent on black staff.

Of the total 920 000 State and provincial workers, more than 500 000 were black.

In East London, Mr Schoeman said great difficulty was still being experienced by the railways in recruiting necessary manpower.

In the Transvaal Provincial Council this week, the Administrator, Mr Willem Cruywagen, warned that road safety and the quality of hospital care were threatened by staff shortages.

Dr Boraine said it was inevitable that as the economy continued to expand, more and more "white" jobs would be taken over by blacks.

He praised the Railways administration for moving ahead of the private sector on theblack employment issue.

However, he warned that unless the economic advance of black workers was matched by political advancement, a chronically disturbed labour climate lay ahead.

"The economic muscle of black workers is growing, and unless reasonable concessions in the political area are also made, they will use it."

If the Government and the private sector continued to allow black job advancement — and the alternative was economic stagnation — greater political opportunities would have to be given to all blacks.

South Africa had already seen increasing strike activity among black workers. This trend would continue.

It was a fallacy to believe that by providing better training for black workers, greater job opportunities and better pay, the threat of industrial action in support of demands for greater political and other freedoms could be defused. "In fact, the contrary is true," Dr Boraine said.

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PLEASE CIRCLE ITEMS REQUIRED

Optimism among blacks on future economy

STAR 49 14/5/81

By Mervyn Harris

Black people in major urban areas are much more optimistic about the long-term economic future than white people, it is reported in the latest consumer survey by the Stellenbosch Bureau for Economic Research.

In addition, coloured people expect economic conditions to be more promising in the next months than those they experienced last year when they had dificulty in maintaining living standards.

The bureau has started including samples of coloured and black population groups on a limited scale after previously restricting the surveys to whites.

Polling of coloured people was restricted to the Cape Peninsula and polling of black people was confined to residential areas of Johannesburg and Pretoria.

CONTRAST

The survey found that in sharp contrast to the situation of a year ago, the white group has lost much of its confidence in the economy.

Black people surveyed are much more optimistic with no less than 43 percent "forecasting" that the economy will improve considerably during the coming five years.

The comparable figures for coloureds and whites are 23,3 percent and 16,7 percent respectively.

The financial position of whites has been more tight during last month compared with the same month a year ago. More whites have been running up debts, possibly because of the spending spree which they embarked on during 1980.

About one out of every five white consumers had to draw on savings last month and slightly fewer white respondents than a year ago were in a position to put money aside to add to their savongs.

The same cannot, however, be said about black and coloured people. The nature of the finances of these groups was such that about one in every five reported increasing debts and in the case of blacks 34,5 percent had to use savings to meet liabilities.

The survey found that 80 percent of the coloureds believe the inflation rate will be above 16 percent during the next 12 months and 37 percent of blacks and 53 percent of whites hold this view.

The bureau says the emergence of such an inflation mentality could be dangerous and the authorities are going to experience great difficulty in reversing this long-held attitude.

The substantial increase in the private consumption expenditure magnitude of 1980 was boosted by cheap and easily available credit.

DAMPENED

Consumers thus had little difficulty in buying additional household appliances or furnishing their newly acquired homes.

Interest rates have since gone up substantially and credit has consequently become more expensive and more difficult to obtain. To some extent this already dampened spending towards the end of last year but the full extent will only be felt during 1981, says the bureau.

Volkswagen heads April sales; Sigma hit by strike

(30) (~~152~~) (~~195~~) Sigma

14/5/81

Car sales last month were slightly higher than in April 1980 but well below the near-record number of new cars bought in March.

Total car sales of 22 707 last month was 65 more than in April 1980, boosting sales for the first four months of the year from 82 083 to 93 379.

But loss of production at Sigma Motor Corporation because of the strike by workers during April affected dealers' ability to meet customers' needs.

Sigma, which topped the list of car sales in March with a total of 5 086, sold 3 648 cars last month.

Heading the list in April was Volkswagen with 4 162 cars sold, 696 fewer than in March. Third after Sigma was Toyota with 3 404, nearly 500 down on sales in March.

Commercial vehicle sales last month were 11 375 which was less than the record of 12 828 set in March but more than the 9 321 units sold in April 1980.

In the first four months of this year commercial vehicle sales totalled 45 141 against 38 201 in the same period last year.

Toyota again headed the list for commercial vehicle sales with 3 526, followed by Datsun with 2 574 and General Motors with 1 468.

In combined car and commercial vehicle sales, Toyota held top position with 6 930, Datsun was second with 5 720 and Volkswagen third with 4 698.

Commenting on Sigma's April performance, sales and marketing director Mr Peter Moss said: "Sigma's sales have obviously been influenced by the strike, and the momentum which we have maintained this year has been temporarily slowed.

"However, we are back to normal production and we are confident we will shortly be in a position to meet the sustained demand for our products." — Mervyn Harris.

'Next decade will see unprecedented growth'

14/5/81 STAR

(49)

BLOEMFONTEIN — Consumer spending in South Africa would reach R5 450-million by 1990 — more than three times that of 1980 — Dr C J F Human, the managing director of Federale Volksbelegging said today.

Addressing the retail congress of the Afrikaanse Handelsinstituut, Dr Human said economic growth in the next ten years would exceed any previous growth figures in South Africa's history.

He ascribed much of the improved economic circumstances and growth potential to a new relationship between the Government and the business sector.

Dr Human said the relationship between businessmen and the Government and increased business profits had been severely criticised. But it should be noted that business firms tended to plough profits back into the economy, creating more job opportunities.

Dr Human added that traders could expect changes in business patterns and they would have to learn to keep pace. For instance, small traders would have to remain competitive by specialising and by exploiting the need for convenient shopping.

Horwood sees 5% growth

16/5/81

(49)

Financial Reporter

A REAL economic growth rate of 5%, or even slightly higher, is still expected this year by the Minister of Finance, Mr Horwood.

He said in Durban last night, however, that the exceptionally high growth rate experienced in South Africa in 1980 could not be sustained forever.

Opening the RSA 20 Festival Exhibition, he said it was clear that capacity limitations would cause an adjustment in the growth rate to about 5% or a little more in 1981.

"This, of course, is nothing to be despondent about," Mr Horwood said.

"Five per cent is a very real growth indeed. What matters is the average annual rate of growth over a number of years, and as long as we can average about 5% we shall be doing well in providing employment opportunities and improving the levels of living of all sections of our population."

However, whether South Africa would be able to sustain this rate of growth would depend, among others, on the kind of policies followed in the coming years.

In the latest Economic Development Programme it was shown that if the tendencies and policies of the early 1970s were to be continued the South African economy was likely to grow at an average annual rate of about 3,5% in the 1980s.

However, it was also shown in the EDP that if a policy approach was followed that would correspond in all essential respects with that followed over the past five or six years — strict control over public spending, a moderate tax burden on the productive sectors of society, a conservative money policy, a market-orientated exchange rate policy and close attention to the training of the labour force and the promotion of exports — then South Africa could well achieve an average growth rate in real GDP of 5% or more in the 1980s.

R25-billion for big new projects

S. Times 17/5/81 (49)

TAKE-OFF FOR IMPORT AND EXPORT REPLACEMENT

By Andrew McNulty

A TOTAL of R25 000-million is likely to be spent in the next five years on export and import replacement related projects.

Annual expenditure on these projects will average at least R5 000-million in 1980 money.

The forecast was made by Mr J Furze, manager of capital projects, Southern Cross Steel.

He told an NDMF post-election business outlook conference that "new venture" export-related projects will require spending of R16 000-million.

Spending on import replacement ventures will be R9 157-million.

The total, which excludes major projects such as the Atlantis diesel plant, accounts for 33% of the country's present total annual fixed investment.

Major spending directed towards exports comprises: gold mining (R5 320-million), coal mining (R1 850-million), other mineral mining (R1 182-million), agricultural products (R260-million), metal and chemicals (R2 085-million) and services needed for exports (R5 337-million).

Import replacements will create spending on synfuel (R7 552-million), fuel-replacement services (R350-million) and metal and chemical import replacement (R1 255-million).

Mr Furze says: "There is a strong move in South Africa to curb the money supply to beat inflation. I would like to make a strong plea to the Government to find some way whereby the export and import replacement projects can be given special consideration.

"We should take a long-term view and make short-term concessions. Implementation of these projects can put South Africa on a much broader industrial foundation and this will go a long way to alleviating our major socio-political problem, employment of our black population and provision of greater opportunity for them to advance."

Miss P Freer, director of Samson-Freer Economic Consultants, told the conference that in the private manufacturing sector there is currently little spare capacity, and any growth in output would have to be preceded by further increases in the real capital stock.

Even assuming an average growth of 3% a year over the next five years, private-sector fixed investment will have to grow by an average of about 4% a year in the period.

On average growth of 6% a year in the period, private-sector fixed investment would have to grow again by about 30% in real terms to about R12 000-million this year and continue growing by 7% a year.

She says investments of R5 100-million are projected for public authorities for 1981, requiring real growth of about 4% a year.

At the faster economic growth rate, further real growth in investment of about 20% would be needed in 1982 and the pace of investment would have to grow thereafter by about 5% a year.

RDM

19/5/81

Hopes for drop in State gold rake-off

By JOHN MULCAHY

THE proportion of gold-mining profits taken by the State may be reduced because of the Government's often-stated position that it will encourage the private sector to play a greater role in new capital development.

The president of the Chamber of Mines, Mr Bill Lawrence, told the World Gold Markets 1981-82 conference in London yesterday that such a tax reduction would encourage new capital investment in gold mining.

In addition, the higher distributable profits realised by the mines and their shareholders would have a significant multiplier effect on the SA economy by increasing the amount of capital in the private sector available for reinvestment.

Value added to the economy by gold mining in 1970 accounted for about 6% of GDP. In 1980, direct value added by mining contributed an estimated 17% of GDP.

Allowing for the indirect effects arising from spending in mining affecting other areas of the economy, the multiplier effect, Mr Lawrence said it was estimated that last year about 26% of total expenditure on GDP was generated by the gold-mining industry.

The shortage of skilled manpower would, if it persisted, undoubtedly act as a brake on expansion plans. Mr Dennis Etheredge, the previous chamber president, said last year there was a shortfall of 1 600 skilled personnel on the chamber's member mines, equivalent to the entire complement of skilled workers required to man two medium-sized gold mines employing 20 000 people.

Mr Lawrence said this problem had not been alleviated to any significant extent.

He believed the next decade would be marked by a return to a greater degree of stability in world economic systems and financial markets.

However, fluctuations related to economic cycles would continue and currency parities would react to differing rates of inflation or balance of payments positions in the world's trading nations.

Inflation might be reduced, but would certainly not disappear. Rapid changes in interest rates, equity values and political instability would still cause short-term surges of money into and out of investment assets, including gold.

Three factors would be of prime importance in determining the performance of the gold price over the next 10 years, said Mr Lawrence.

Industrial demand, which in eight out of the past 11 years accounted for 85% or more of total gold consumed, should stage a revival from current low levels as a general economic recovery gets under way in the near future.

Purchases of gold jewellery continued to increase steadily in nominal terms over the past decade and this type of increase could still be expected.

However, the sharp rise in the gold price had reduced the physical volume of gold consumed in jewellery, and a full revival of gold jewellery demand to its previous levels of about 1 000 tons a year could probably be expected only when the rate of increase in real disposable incomes on a world-wide basis equalled or exceeded the rate of increase in the gold price.

The current renationalisation of gold reserves would continue to be a feature of the system in the years ahead, said Mr Lawrence. Central banks would add to their gold reserves if and when feasible and gold collateral transactions would become more commonplace.

"I would not be surprised to see the re-emergence of an inter-central bank market for gold, enabling countries in balance of payments difficulties to utilise their gold reserves as collateral or for currency swaps without affecting the free-market price of gold."

RDM 19/5/81

49

32% jump in Govt spending

By HAROLD FRIDJHON

STATE spending rocketed by 32,4% to R1 633-million in April — the first month of the current fiscal year. In April last year, Exchequer payouts totalled R1 232-million — 7% higher than the average monthly expenditure.

Even allowing for the fact that payments made in the first two or three months of the fiscasl year are always at a higher rate than the monthly average, this large increase does suggest that budgeted expenditure this year will be considerably higher than it was last year.

Yesterday I suggested in an article that Government expenditure in the current year could be 20% higher than last year, but from these first figures it would seem that this figure could exceed my guess. Another couple months of Treasury returns would be necessary before one could make a reasonable estimate of the figures for the current year.

If the assumption that Government expenditure will exceed a 20% increase this year is right, Mr Horwood will experience considerable difficulty in financing his Budget in a non-inflationary manner. The steps taken last month cannot be taken as an indication of what he will do.

To balance the books at the end of April when receipts were R671-million, 10% higher than in April 1980, the Treasury not only used part of its credit balances from last year, but raised R200-million from a tap issue of the 12,5% loan stock and borrowed R640-million from the stabilisation account.

One can only hope that this borrowing from the stabilisation account is not a case precedent but only a temporary expedient until funds flow into the Treasury from the proceeds of the current Government loans and from the end of April mine taxes. When the cash flow is strong enough, the money must be repaid into the stabilisation account.

To use the money which is supposed to be frozen in the stabilisation account to balance any Budget deficits would be inflationary because it would add to money supply at a time when all stops have been pulled out to bring inflation under control.

The expenditure of most departments of State has increased sharply, probably the result of salary increases given to all employees. In addition, account must be taken of capital expenditure which was a hangover from the last financial year.

Defence expenditure was 41% higher than last year at R326-million and the finance vote accounted for R375-million compared with the previous April's R203-million.

Expenditure on the police rose from R30-million to R50-million which could be accounted for by wage increases as well as capital expenditure.

Social welfare and pensions increased its outgoing by 26,9% and the justice department's outlays rose by nearly R9-million to R26-million.

The preliminary income figures for the year to March 31 1981 show that income-tax collections were R7 522-million compared with estimates of R5 990-million and the previous year's R5 234-million. Goldmining leases brought in R838-million — 2½ times more than in the previous fiscal year.

Last year's buoyant property market resulted in income from transfer duty rising from R89-million to R154-million.

The second biggest revenue spinner for the Treasury after income tax was general sales tax. By the end of the year GST brought in R1 659-million. Mr Horwood budgeted to collect R1 550-million from this source, which in the previous fiscal year earned R1 247-million. This increase of 33% is a fair reflection of last year's explosion in consumption expenditure.

It must be remembered, however, that only part of this money came from the housewife. GST is levied on most goods and services.

New bid to create jobs in West Cape

Argus 20/5/81

49

By Audrey d'Angelo

THE population of the greater Cape Town area is expanding at a far faster rate than jobs are becoming available, the Stellenbosch Bureau for Economic Research warns in an interim report on the economic potential of the Western Cape.

The report — prepared for the Department of Industries, Commerce and Consumer Affairs and not yet made available to the public — welcomes a suggestion by the Mayor of Cape Town, Mr Louis Kreiner, that an organisation should be set up to attract more industry to the area.

Mr Kreiner has asked the Cape Town City Council to take the lead in forming this organisation, to be called Wesgro, and to contribute R50 000 a year towards it.

He suggests that other local authorities and the business sector should be asked to contribute to Wesgro's total annual budget of R180 000.

Promotion

The bureau's report suggests that the Government should set up a regional development advisory council of experts, with an annual budget of about R100 000, which would work together with Wesgro to encourage industrial development and promote exports.

It explains that the interim report has been issued now because of the urgency of problems related to the economic situation in the Western Cape.

It explains that although the economy of the Western Cape was holding its own in comparison with other areas during the 1950s it has been losing ground since then.

More workers

Emphasising the need for more labour-intensive industries, relying on large numbers of employees rather than on labour-saving machinery, it says the number of job opportunities in individual enterprises is declining while the output of individual workers is increasing.

One way of overcoming this, it suggests, would be to encourage more small-scale or cottage industries, employing 10 people or fewer and relaxing the present regulations which apply to factories and workshops about such aspects as roof height and washing facilities which sometimes discouraged the setting up of such businesses.

Marketing

It suggests that a marketing organisation might be set up to help to sell their goods here and abroad.

The report suggests that some local authorities should adopt a more welcoming and co-operative [illegible] in the area.

Meat Workers' Support Committee
c/o UCT

Dear

The Meat Workers' Suppor ... like to thank you very much for giving your support ... rs in their attempt to win the right to democratic ... work. Every contribution is essential if a just s ... reached.

Yours sincerely,

(for the Meat Workers' Su

Support Committee

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Yours sincerely,

(for the Meat Workers' Supp

Discussing the fact that the Western Cape is a coloured preference area, the report suggests that the assumption that blacks would otherwise compete unfairly with coloured people is wrong.

High praise

Management of well organised enterprises in the Western Cape invariably have high praise for their coloured workers who, even compared with international standards, perform very well with levels of skill and productivity,' the report states.

It suggests that black people are needed in the Western Cape labour markets for tasks which coloured people no longer have any wish to perform.

Discussing the effect of high rail tariffs on local industry, the reports say that more than half of local firms rely on markets in the north for 40 percent of their sales turnover.

Rail costs

'Against this background it is clear that railway tariffs are a decisive determinant in the choice of location for most industrialists,' the report says.

'The Western Cape manufacturing sector is exceptionally susceptible to prejudicial transportation costs, and needed structural changes to the Western Cape economy are being hampered by these costs.'

The report says this tendency will grow worse. 'Processing of raw materials will increasingly be done as close as possible to the market.

Processing

'A point of concern is that even imported raw materials can be processed more advantageously at the main inland marketing centres.'

The report recommends that a standing committee for revision of railage tariffs be established, and that the Decentralisation Board should be represented on it.

Wesgro aims to rescue W Cape

CT 20/5/81 (49)

Municipal Reporter

WESGRO, an organization intended to rescue the Western Cape from economic stagnation — the brainchild of Cape Town's Mayor Mr Louis Kreiner — is on the point of being launched.

The city council's executive committee acceded yesterday to a request by Mr Kreiner that the City contribute R50 000 annually for at least the next three to five years to get Wesgro established.

Private enterprise has pledged a similar amount while surrounding local municipalities and the Cape Divisional Council will be asked to contribute another R80 000 to cover Wesgro's operating costs, estimated at R180 000 a year.

Exco's decision will be tabled for sanction at next Tuesday's full council meeting, but it is generally expected that the recommendation will have a smooth passage.

Yesterday, in an interview with Exco, the mayor again stressed the fact that Cape Town was lagging behind the rest of the country economically. This held serious implications for its citizens.

He said: "Between 1970 and the year 2000 the population will have practically doubled. I need hardly dwell on the social consequences in terms of unemployment, human misery, crime and civil unrest which can be expected if our economy continues to fall behind the rest of the country and fails to provide the necessary employment opportunities.

"Even our housing schemes would be in danger if those for whom they were designed were unable to pay for them because they were jobless."

A broad cross-section of responsible business organizations had stressed the urgent need for action to attract job creating investment to the Cape. Mr Kreiner said that bodies similar to Wesgro had been established jointly by local authorities and private enterprise in a number of cities overseas "and the results have been tremendous".

The objects of Wesgro — its full name is the Association for the Promotion of the Western Cape's Economic Growth — would be to advertise and promote investment opportunities, motivate the public and private sectors to promote development of the region and to seek the removal of practices which militate against development.

Data bank

Wesgro will also seek assistance from the government and other public authorities, promote research into matters influencing growth potential, establish a suitable data bank in order to provide essential information for prospective investors, create more attractive conditions for economic expansion and promote expansion of export trade from the Western Cape.

The fulltime administration of Wesgro would initially be in the hands of a managing director, an assistant manager and a secretary. It was also intended to have representatives of local authorities, Chambers of Industries and Commerce, Handelsinstituut, agricultural unions and others to serve in the directorate.

SA may seek loans abroad

KDM 21/5/81 (49)

LONDON. — South Africa may take up further overseas loans this year and a firm decision is expected shortly, says the Minister of Finance, Mr Horwood.

He stressed that on economic grounds South Africa had no need to raise overseas loans, but as in the case of 1980, it might do so to retain its profile in the market.

Possible loan finance would total "a couple of hundred million dollars", he said.

Last year South Africa raised $250-million at ⅞% over libor for two years and 1% for five years to finance black township development.

Mr Horwood was reluctant to discuss possible terms, but said these had improved in recent years.

Any loan would fundamentally be developmental, with technology attached, as opposed to balance of payments relief for which there was no need.

Funds raised would go toward housing, education and social services, mainly for the black population. He gave as an example the Soweto electrification scheme now in progress.

In addition to the South African Government, Escom last year signed four Eurodollar loans totalling $256-million. — Reuter.

Trade surplus tumbles

ROM 23/5/81

349

By HOWARD PREECE
Financial Editor

SOUTH Africa's trade surplus tumbled to R496-million in the first four months of this year compared with R2 907-million for January to April 1980, according to preliminary estimates from Customs and Excise.

These figures do not include the large deficit on services — dividends, insurance, shipping, etc.

This is now running at about R250-million a month, so the overall current account of the balance of payments looks to have showed a shortfall of R500-million for January to April this year, on Customs calculations.

The department says there was a trade deficit of R84-million in April from imports of R1 394-million and exports of R1 310-million.

For the first four months of the year exports were R5 760-million and imports R5 264-million.

In the same period for 1980 exports were R1 037-million higher at R6 797-million while imports were much lower at R3 870-million.

Exports of gold bullion and imports of oil and military equipment are now included in the figures.

Customs calculations are, however, sometimes well wide of the final official mark and estimates based on them should not be taken too literally.

But a R500-million current account shortfall to date is in line with the broad expectation of several private sector economists that the deficit for 1981 will end up about R2 000-million in the red.

Mr Owen Horwood, the Minister of Finance, repeated his view in London this week that the current account could still end up in surplus this year.

That, however, really does look a complete non-starter on the present outlook.

For it to happen there would have to be a large upturn in the gold price and/or a remarkably sharp fall in imports.

At present gold would seem likely to be subdued in the immediate future by the high and rising level of interest rates in the United States.

Imports, on the other hand, are showing great buoyancy and, according to Customs, were 35% up in January/April against the 1980 inflow.

Economists are generally expecting imports to show a growth by rand value of about 25% this year.

It is reasonable to suppose that the level will ease in the second half of the year as the economy begins to feel the full effects of the slowing down in growth that is under way.

There is, in any case, no need for concern about the balance of payments at this stage.

Over 1977-80 the current account had an aggregate surplus of over R7 500-million.

Trade with Europe involved R2 202-million in imports and R1 573-million in exports in the first four months of this year compared with R1 639-million and R1 678-million respectively last year.

In the case of the US imports were R867-million (R595-million for January to April last year) while exports were R584-million (R683-million).

For Africa imports were up from R85-milliion to R94-million and exports were down from R352-million to R321-million.

Govt loans look like collecting R1 800m

RDM 25/5/81

49

By HAROLD FRIDJHON

FROM all portents, the Government is going to collect a packet from its loans, the lists for which closed on Friday.

Estimates in the capital and money markets on how much will flow into the Treasury vary quite widely, because at best they are guesses, but the figure which most market men are mentioning is R1 000-million, plus the roll over the maturities.

This would mean a gross R1 800-million with the overwhelming preference for the 22-year loan. The three-year at 10,142% all-in is expected to attract only about 10% of the total subscription.

There are two reasons for this. First and foremost the rate is not as attractive as the long-dated loan's. Secondly, I believe that the Governor of the Reserve Bank told the banks that the liquid assets he would like to see on banks' balance sheets is cash.

The market has shown how far out the three-year rate is by trading 2½-year RSAs at 10,25%. Against this the current Government offering looks a little niggardly — not that one can blame the Treasury for the rate. What has happened is that rates at the shorter end have been moving too fast.

When the three-year rate was announced it was fine. It has been overtaken by events.

On the other hand, the correctness of the long-dated has been confirmed in the market place. The secondary market was busy last week with turnover in Escoms as high as R70-million.

Trading rate for Escom longs was 13,15%, which would appear to be a little low when compared with the current Government rate. Previously the market had thought that the gap between RSAs and Escoms would widen, but this has not happened.

Long-dated RSAs gave way to mid-term stocks and here rates would appear to be broadly within pattern. The 12-year stock was trading between 12,88% and 12,91% with the 1991-92 loan changing at 12,91%/2%. There was plenty of switching in the market with investors showing a marked preference for nine-year to 11-year stocks.

In the new issue market Transkei, I believe, has secured all the money that it needs — R7-million for 16 years at 14%. The rate was too good to miss. The loans were placed by Senbank and Standard Merchant Bank.

UAL and Volkskas Merchant Bank have placed R3-million for Witbank. There are two loans — a 10-year at 13,35% and a five-year at 13,20%.

I am told that Ucor — the Uranium Corporation — has appointed Volkskas Merchant Bank and UAL to raise its local loans for the next two years. Standard Merchant Bank will service the corporation for its foreign borrowing.

* * *

THE money market was at sixes and sevens last week with rates moving up as cash was drained out of the system. On Friday the banks' free balances with the NFC dropped from more than R400-million to R156-million and they were expected to come down even more sharply over the weekend when cheques were cleared.

This outflow was assumed to be associated with subscriptions for the RSA issue and, when the dust has cleared, it is likely that the month end will prove to be difficult.

The bidding for short-dated money is fierce and rates for large sums of one-month cash maturing in June have been between 11,5% and 12%.

The spurt on Friday of three-months bankers' acceptances to a rate of 11,75% is an indication of the rate war — accelerated by the banks chasing for retail deposits. This new upward sweep has already invalidated Bank Rate and opinion in the market is that a further increase is now overdue.

The question is whether Pretoria will go the whole hog and jump another one percentage point to 10% or whether the

Horwood — the real challenge

RDM 26/5/81

49

ECONOMIC opinion seems, at first sight, more divided and confused than usual. Mr Horwood, the Minister of Finance, is still talking of 5% real growth this year — but some private sector economists are predicting a sharp rundown in activity ahead.

Howard Preece

Economic Spotlight

	Real economic growth	Consumer price index	Increase in money supply
1974	7,6%	14,1%	22,3%
1975	1,6%	11,7%	17,4%
1976	1,35%	10,8%	9,4%
1980	7,9%	15,8%	27%
1981	4,5%*	14,5%*	23%*
1982	2,5%?	12,0%?	15%?

* Estimate
? Guesstimate

Who is right, and what is the outlook?

Two points need to be made first:

● Those who expect growth to fall back to the 2%-3% range in 1982 base their predictions at least partly on the assumpion that the Government means exactly what it says about its determination to restrain inflation.

● The apparent difference between Mr Horwood and the more "gloomy" economic commentators is perhaps as much a matter of timescale as of substance.

Mr Horwood is understandably emphasising the strong growth momentum still at work in the economy.

That is not in serious dispute, although there are economists who believe the impact of higher interest rates and other restrictionary measures will be felt sufficiently over the second half of this year to pull growth down to 4%-4,5%.

Mr Merton Dagut, Nedbank general manager and economist, made the point last year that the impetus in the economy was already such as to carry it through 1981 on a fairly high growth path.

Dr Conrad Strauss, managing director of Standard Bank, argued coincidentally that even a crash in the gold price would have little impact until 1982.

Both have been proved right. The 7,9% growth of 1980 should sustain 4,5% in 1981.

Mr Horwood, however, has not yet committed himself to a growth forecast for 1982.

His fairly buoyant approach to 1981 does not conflict with the view that a downswing is already under way and that it will probably continue at least through most of next year.

But this is, of course, a question of a reduction in the rate of growth, not an actual decline. South Africa's real wealth will still be rising.

The nub of the issue, however, lies with the Government's anti-inflationary policies.

If these are to have any major success, they must also have the unfortunate but inevitable accompanying effect of dampening growth.

The whole credibility of the tighter monetary policy now being pursued hinges on this.

In other words, if Mr Horwood, the inflation fighter, really believes what he is promising then he has no choice but to agree with those who see a big check to the rate of economic advance next year.

(Export-led growth is a theoretical alternative, but I cannot see that happening on a large scale in 1982.)

I believe curbing inflation is indeed Mr Horwood's No 1 target.

Now that still leaves a lot of policy options.

Samuel Brittan, the distinguished economics commentator of the London Financial Times has argued: *"There has hardly ever been a recorded instance of inflation being halted, or drastically curbed, without an intervening recession.*

"The nearest approach to an exception was General de Gaulle's stabilisation programme of 1958-59.

"Skill and circumstance can affect the depth or length of the recession but not its existence."

Brittan is actually expressing no more than standard economics.

His acceptance of "recession" should, however, be seen in the context of British and US situations.

Grim though Mrs Thatcher's struggle is (Mr Reagan's has hardly started) it is a great deal easier than any such experiment would be in South Africa.

Mr Horwood is unlikely to take such an uncompromising view, which means our growth will not come to a halt, but nor will our inflation rate be easily reduced below 10%.

The accompanying table shows the "boom-bust" picture of 1974-76.

It shows that the deceleration now in process is not remotely as severe as the Crash of 75.

That is because our underlying situation is enormously healthier — thanks to Mr Horwood's generally prudent handling of State finances and to the huge cumulative surpluses piled up on the current account of the balance of payments over 1977-80.

But the table does also show that even though the economy went tumbling into recession and money-supply increases came sharply down (1977 took both trends even further) inflation remained stubbornly high.

This suggests (a) that South Africa will have to pay a horrendous premium today for a Thatcher-style assault on inflation; and (b) that unless some structural defects in the economy are tackled urgently, it will not be possible in a couple of years' time to get a resurgence in growth without a resurgence in inflation.

That is what should be of most concern.

Given the inflationary threat South Africa now faces Mr Horwood has no choice but to apply conventional anti-inflationary measures.

He need not squeeze too hard, however, because the natural downturn in the business cycle (accelerated by the gold-price fall) will be working in that direction anyway.

These forces together will reduce inflationary pressures, even though there will be some lagging before consumer prices fully reflect this, but they will also combine to reduce growth next year well below private-sector expectations of a few months ago.

In the short term the gold price will not be of determining importance.

I argued earlier this year that a depressed gold market could be a threat to growth in 1982.

But now that growth is going to fall sharply anyway that has already been partly discounted.

Unless, however, we begin taking radical actions now to improve the supply side of the economy, by changing labour and other cost-push obstacles, the downswing will offer only temporary relief.

That is the real challenge facing the Government.

CT 1/6/81 ~~263~~ ~~27~~ 47

Wesgro faces political hurdles

THE Cape Town City Council has given its approval to the establishment of Wesgro — the Association for the Promotion of the Western Cape's Economic Growth — by voting a sum of R50 000, on condition that a similar amount is contributed by commerce and industry, and another R80 000 from surrounding local authorities, including the Cape Divisional Council.

One is reluctant to pour cold wter on a bright new idea, and the Mayor, Mr Louis Kreiner, and a collegue, Councillor Peter Muller are to be congratulated for conceiving it; but I foresee some almost insurmountable hurdles in the way of Wesgro's achieving its aim as set out in its title.

But let's be logical and start at the beginning.

The chief architect (no pun intended) of Wesgro, Mr Kreiner, strikes me as one who might record an anti-National Party vote in a General Election.

But since part of our democratic system is the secret ballot, I obviously don't know and it would be impertinence and an invasion of his personal privacy were I to ask him his political affiliations.

The point made is that if Mr Kreiner is anti-Nat, he would also be opposed to the government's "spatial development plan" for the Western Cape.

This plan, among others, envisages Atlantis being the focal point for industrial growth in this locality.

Mitchells Plain would remain a dormitory area where people would only sleep, with no work opportunities — and that no more residential land, for coloured occupation, should be permitted in the Peninsula.

These planning concepts cannot be considered conducive to economic growth.

To illustrate this, the City Council itself — one recalls the then City Engineer, Mr J G Brand, preparing his thesis on "Land use in Greater Cape Town — as well as the Chambers of Commerce and Industry, and various academics and economists have made the point repeatedly that such schemes are not conducive to achieving the desired objective.

It follows that if ideological constraints on labour movement and housing remain, Wesgro's intentions are destined to fail — and it will be a case of R50 000 from the ratepayers' pockets going down the proverbial drain, if cliche can be forgiven in this context.

Now, it is to be hoped that Mr Kreiner, whose profession requires him to be cool and calculating, has already foreseen this.

If he has, and if he intends playing an active role in Wesgro, he must accept that he will have to speak out against government ideology for the Western Cape.

I am afraid Mr Kreiner has not done enough of this. Of course, he may argue that as Mayor of the City he does not wish to.

Indeed, as Mayor he should not become involved in "politics". Unfortunately, whether Mr Kreiner likes it or not, he has become embroiled in "politics" because of his choice to "father" Wesgro.

This is therefore one of the hurdles facing the new body. It cannot function in a vacuum; nor can it extol the economic virtues of the Western Cape and disregard political ideology which militates against economic progress.

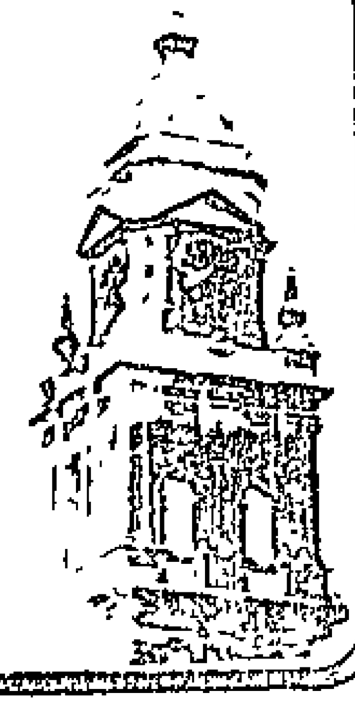
And the man to say so is the Mayor of Cape Town, Councillor Kreiner.

Will he do so? Or will he choose to continue selling South Africa in general and the Western Cape in particular to a country like Taiwan while remaining silent about government policies which fly directly in the face of economic development?

CIVIC DIARY

By

NEVILLE FRANSMAN



Another problem for Wesgro is that in its proposed constitution it will comprize strange bed-fellows — another headache for Mr Kreiner — as he still has to sell the Wesgro idea to other local authorities.

I do not think I am wrong when I put forward the theory that most smaller municipalities around Cape Town, and the Cape Divisional Council, see nothing wrong in the national government's "spatial development plan" — or, for that matter, in anything the government does.

The Divisional Council, in fact, HAS to believe in the plan because it is the agency which has taken on the task of ensuring that Atlantis succeeds.

If one accepts that Wesgro is duty-bound to expose ideological folly — as argued in what has been written so far — it is difficult to imagine these smaller municipalities joining forces, shoulder-to-shoulder with Cape Town, to fight Pretoria.

On the other hand, if most local authorities in the Western Cape do not co-operate, Wesgro might as well call it a day, to use "civileze" English.

So Mr Kreiner, I respectfully reiterate: Wesgro is a bright new idea, the proverbial breath of fresh air, and you should nurture it. I do not want to be called the cupbearer of cold water. But truly, one believes you will be faced with incredible obstacles on your way.

And you will have to take a much stronger "political" stance, because most of the problems stem from "political" factors.

May I end by asking, again respectfully: Are you up to it?

Trade unions will push up salaries, say economists

Financial Editor

WAGE increases for this year and next will remain ~~at~~ high levels — but not as high as in 1980 — the economists at Sanlam forecast in their monthly Economic Survey. There will be four factors ensuring this development. They are:

- Continued shortages of trained manpower, which will not be solved by immigration and which will sharpen competition for new entrants into the market;
- Stronger efforts to narrow the wage gap;
- Sustained high increases in the cost of living in regard to basic needs such as housing and food. The average increase in the consumer price index this year should be 'in the region of 15 percent';
- A more militant trade union movement and its effect on salary negotiations.

The survey thinks that employment will increase at a slower rate than in 1980 but because the downswing will be moderate and short, the demand for trained manpower will be strong.

Workless

They cannot say the same for unskilled labour where the unemployment rate will remain 'at a comparatively high level.'

The usual effect of a downswing, which gives industry a chance to build up its work force, will not be so marked this time the economists think.

Rapid economic growth cannot solve the structural problem of staff shortages.

'Training of workers can play a very important part and for that reason the intensified efforts by Government and private sector are to be welcomed.'

Examining the consumer price index, the survey says that for the past seven years the country has been burdened by double-digit inflation and 'there is little indication that this state of affairs will improve much in the forseeable future.'

Fod price

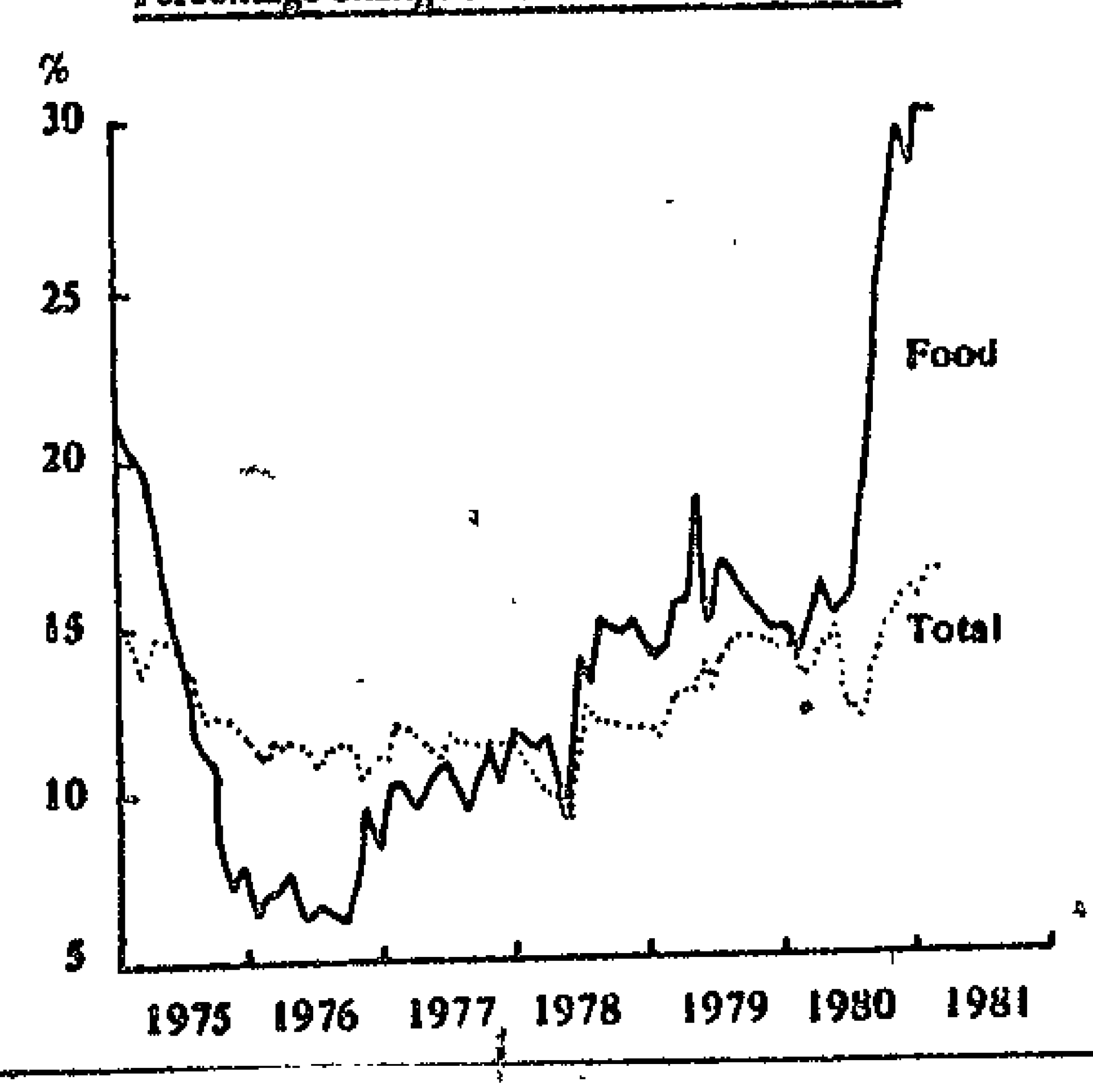
In fact, since 1978 the rate of increase has shown a rising trend (10,9 percent on average in 1978, 13,2 percent in 1979 and 13,8 percent in 1980).

The sharp rate of increases in food prices is responsible (they rose by 18,8 percent on average last year — with meat bounding up by no less than 32,3 percent) for the current high cost of living.

'It is enlightening that food prices for the major part of the past decade rose at a more rapid rate than those of other goods and services.'

The survey says that while the calculated consumer price indexes for the different income groups are much the same, it is possible that certain increases — in food for example — constitute a higher proportion of spending than the calculations show.

Percentage change in Consumer Price Index



DEPARTMENT OF FINANCE

No. 1211 — 5 June 1981

Statement of Revenue collected during the period 1 April 1981 to 30 April 1981.

Treasury, Pretoria.

DEPARTEMENT VAN FINANSIES

No. 1211 — 5 Junie 1981

Staat van Inkomste ingevorder gedurende die tydperk 1 April 1981 tot 30 April 1981.

Tesourie, Pretoria.

49 GG 7607

RECEIPTS—ONTVANGSTE

Head of Revenue	Inkomstehoof	Collections for year ended 31 March 1981 Ingevorder vir die jaar geëindig 31 Maart 1981	Month of April Maand April	
			1981	1980
		R	R	R
State Revenue Account	*Staatsinkomsterekening*			
Customs and Excise—	Doeane en Aksyns—			
Customs Duty	Invoerreg	735 834 050	69 522 293	46 809 435
Excise Duty	Aksynsreg	1 247 859 560	113 567 521	93 104 671
Sales Duty	Verkoopreg	594 058	706	18 950
Surcharge	Bobelasting	Dr 2 796 935	Dr 119 364	63 507
Miscellaneous	Diverse	46 751 242	2 225 483	3 623 388
	R	2 028 241 975	185 196 639	143 619 951
Transfer to Central Revenue Fund	Oordrag na sentrale Inkomste Fonds (a)	Dr 41 500 000	Dr 4 000 000	Dr 3 500 000
Payments in terms of Customs Union Agreements	Betalings Ingevolge Doeane- Unie-ooreenkomste (b)	Dr 504 919 434	Dr 125 792 750	Dr 118 426 750
	R	Dr 546 419 434	Dr 129 792 750	Dr 121 926 750
	R	1 481 822 541	55 403 889	21 693 201
Inland Revenue—	Binnelandse Inkomste—			
Tax on Income	Belasting op Inkomste	7 522 751 460	360 490 122	295 830 330
Other Taxes and Receipts	Ander Belastings en Ontvangste			
Gold mining leases	Goudmynhuurkontrakte	838 195 071	226	Dr 700
Other mining leases	Ander mynhuurkontrakte	23 565 081	649	4 046
State Ownership Revenue on diamond mines	Staatseiendomsreginkomste op diamantmyne	18 100 308	—	83
Export duty on diamonds	Uitvoerregte op diamante	24 797 439	1 935 230	2 326 838
Non-Resident shareholder's tax	Belasting op buitelandse aandeelhouers	296 557 601	26 139 519	19 093 685
Non-Resident's tax on interest	Rentebelasting op buitelanders	12 081 878	1 035 852	1 120 239
Undistributed profits tax	Belasting op onuitgekeerde winste	2 435 105	83 008	109 647
Donations tax	Belasting op geskenke	1 961 296	165 942	83 716
Stamp duties and fees	Seëlregte en gelde	137 540 072	12 775 833	10 993 681
Transfer duties	Hereregte	153 917 914	11 716 353	10 840 577
Estate duties	Boedelbelasting	61 353 492	5 864 895	5 014 646
Tax on marketable securities	Belasting op bemarkbare sekuriteite	33 615 310	2 217 303	2 626 232
Licences	Lisensies	2 567 586	85 711	66 118
Cinematograph films tax	Kinematograaffilmsbelasting	850 775	74 766	75 991
Other	Ander	3 561 050	1 106 983	1 135 735
Departmental and Miscellaneous Receipts	Departementele en Diverse Ontvangste			
State Diamond Diggings	Staatsdiamantdelwerye	2 367	—	2 367
Forest revenue	Bosinkomste	46 998 419	49 862	2 134 262
Water revenue	Waterinkomste (c)	57 864 020	93 414	632 217
Fines and forfeitures	Boetes en verbeurdverklarings	13 366 412	1 129 651	989 857
Recoveries of advances	Verhalings van voorskotte	13 989 797	1 512 452	2 292 453
Sale of state land	Verkoop van staatsgrond	2 294 012	—	—
Rental from state property	Verhuring van staatseiendom	12 513 019	254 959	317 915
General	Algemeen	224 963 950	3 054 322	2 432 214
Interest and Dividends	Rente en Dividende	561 221 631	31 597 664	80 312 592
Repayment of Loans	Terugbetaling van Lenings	90 659 374	51 911	214 941
General Sales tax	Algemene Verkoopbelasting	1 658 840 601	135 136 547	120 805 253
	R	11 816 565 040	597 115 181	559 454 955
	R	13 298 387 581	652 519 070	581 148 156
State Oil Fund	Staatsoliefonds (d)	274 554 112	20 500 000	20 500 000
National Road Fund	Nasionale Padfonds (e)	138 991 896	10 000 000	10 000 000
South African Development Trust Fund	Suid-Afrikaanse Ontwikkelingstrustfonds (f)	12 703 763	449 974	337 980
Account for Black Transport Services	Rekening vir Swart Vervoerdienste (g)	15 570 736	632 104	1 344 447
Sorghum Beer Research Fund	Fonds vir sorghumbiernavorsing (h)	1 019 554	—	—
Southwest-Africa Territorial Revenue Fund	Suidwes-Afrika Gebiedsinkomstefonds (i)	17 083	—	—
	R	643 859 194	31 692 368	32 182 427
Total	Totaal R	13 941 246 783	684 211 438	613 330 583

J H Rens

Head of Revenue	Inkomstehoof	Collections for year ended 31 March 1981 Ingevorder vir die jaar geëindig 31 Maart 1981	Month of April Maand April	
			1981	1980
Reconciliation with statement published by Government Notice 1025 in *Government Gazette* of 15 May 1981	Rekonsiliasie met opgaaf gepubliseer by Goewermentskennisgewing 1025 in *Staatskoerant* van 15 Mei 1981			
In Transit, 31 March 1981	In Transito, 31 Maart 1981		42 097 198	
Collections, as above	Invorderings soos hierbo		684 211 438	
	R		726 308 636	
In Transit 30 April 1981	In Transito 30 April 1981		19 077 616	
Received into Exchequer Account	In Skatkisrekening ontvang R		707 231 020	

(a) Section 22 (1) (d) of Act 25 of 1969
(b) Section 51 (2) of Act 91 of 1964.
(c) Previously included under "General"
(d) Section 1 of Act 38 of 1977
(e) Section 2 (1) (a) of Act 54 of 1971.
(f) Section 8 of Act 18 of 1936
(g) Section 7 of Act 53 of 1957
(h) Section 19*bis* (1) (a) of Act 63 of 1962
(i) Section 22 (4) (a) of Act 25 of 1969.

(a) Artikel 22 (1) (d) van Wet 25 van 1969
(b) Artikel 51 (2) van Wet 91 van 1964
(c) Voorheen ingedeel onder "Algemeen"
(d) Artikel 1 van Wet 38 van 1977
(e) Artikel 2 (1) (a) van Wet 54 van 1971
(f) Artikel 8 van Wet 18 van 1936
(g) Artikel 7 van Wet 53 van 1957
(h) Artikel 19*bis* (1) (a) van Wet 63 van 1962
(i) Artikel 22 (4) (a) van Wet 25 van 1969

SA economists gloomy

Six months to upturn in gold price

RDM 8/6/81

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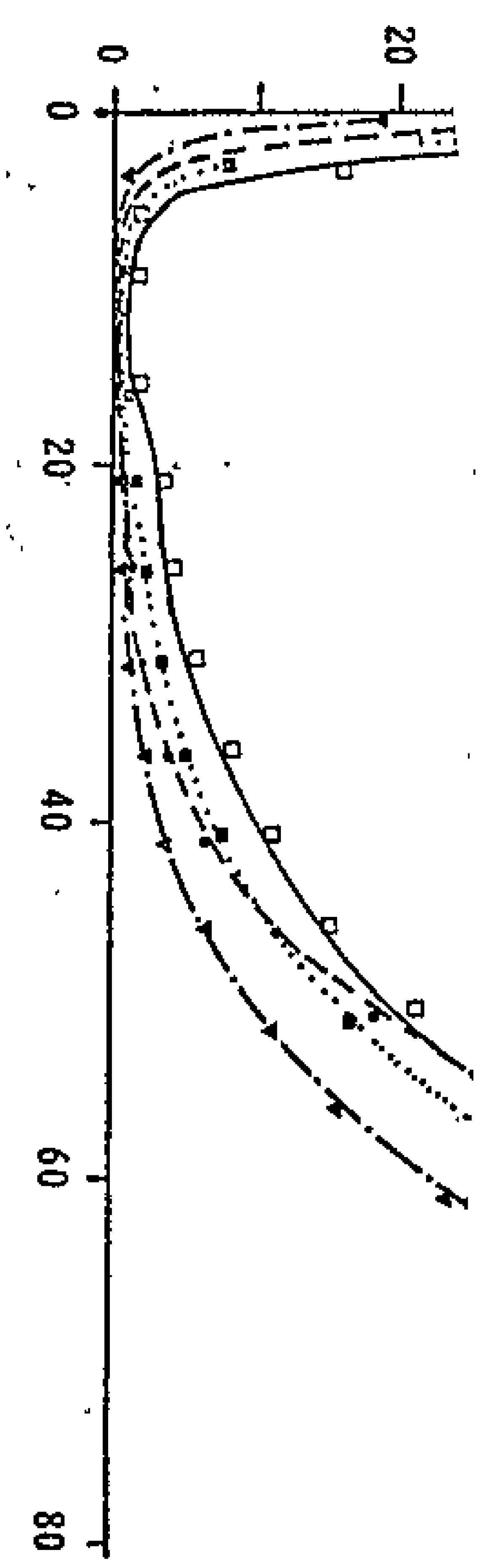


By JOHN MULCAHY
Mining Editor

THE gold price is still in a downward cycle, and there is little likelihood of a sustained turnaround until the end of the year or early in 1982.

South African economists are undivided in their pessimistic outlook. They say gold is continuing the trend which started last year with the slowing of inflation in the US and the rising recession in Europe

Nedbank economist Mr Rudolf Gouws says the downtrend should continue in the short term for the same reasons which applied in the 1975-76 decline — a return to relative strength of the dollar, and weaker prices in most other commodities.

Even if US interest rates should fall soon, over the longer term Mr Gouws believes this will be an indication of slower economic growth and stagnant inflation, which will serve as dampening factors on the gold market.

Mr Louis Geldenhuys of Senbank says the bear cycle will continue at least until the end of the year. His view is based on gloomy projections for the world economy, the oil glut, lower US inflation and higher real interest rates.

An individual factor which has had a dampening effect on the US inflation rate has been the decision by Mexico to reduce its oil price by $4 a barrel.

He says there is no reason for a change in Senbank's opinion on the gold price for this year — the bank suggested in April that the average for the year could be as low as $400

Speculative investment demand is the single most influential factor on the long-term outlook for gold, and this is affected by accelerating and decelerating inflation, says Mr Geldenhuys

Political events have a temporary influence on the price, but these are discounted over longer periods. When these upheavals apparently caused the major fluctuations in the gold price last year, they were accompanied by strong fundamentals — high US inflation, low real interest rates and the worsening economic situation in Europe

Dr Johan Cloete, Barclays National Bank's chief economist, says the declining line of US inflation and political events will probably lead to fluctuations in the gold price, but overall there does seem to be a downtrend.

The dollar is stronger and it is far more attractive to invest money in a dollar-based investment with a return of 15% or more than in a highly speculative gold market.

Mr Tom Maine, Chamber of Mines general manager, while agreeing that interest rates will have to fall before the gold price starts to move away from the lower levels, says the supply-demand situation in the market is more or less constant, and there has been little volatility.

The questions of US interest rates and inflation have not been resolved, says Mr Maine, and although it is probably true that these are cyclical, there is disagreement even in legislative circles in Washington.

Latest inflation figures from the US show a rate of about 5%, but there is also an "underlying rate" which is given as 10%

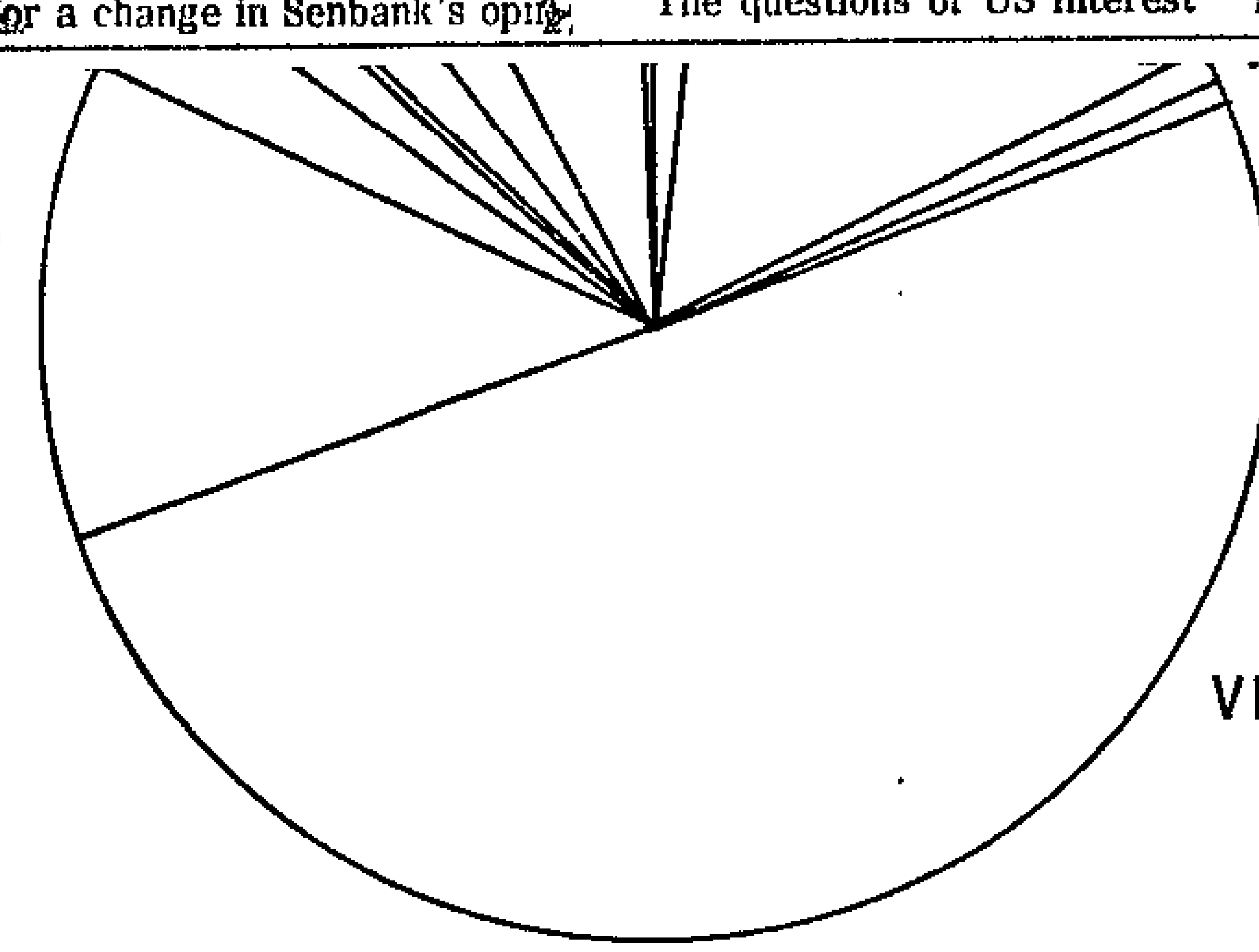
Interest rates have been positive, but it is debatable whether an economy can sustain for long rates at these levels which have a damaging effect on thrift institutions, such as the savings and loans society.

If, in fact, the high rates result in any failures among the thrift institutions, which could easily happen, there could be a major switch to hard assets

There is a tendency to look at the gold price only in terms of dollars, while it has actually been performing well in terms of currencies such as sterling, marks and the rand.

There is a view that the bear cycle began with the $850 peak in January last year and is due for a turn. Alternatively, if the two 1980 peaks — January and the $720 in August — are eliminated, it could be argued that gold has maintained a steady rise from $300 in 1979.

The $617 average for gold last year could not be sustained, and there was substantial volatility in the market, but the bearish view of a gold price in the $450 to $500 range is not wholly justified, says Mr Maine.



BUSINESS MAIL

Dawie de Villiers replies to Harold Fridjhon

Free enterprise and a reasonable profit

The fledgling Minister of Commerce wide of the mark on free enterprise

Off-side, Dr Dawie

Headlines on the article that upset Dr De Villiers.

Dear Mr Fridjhon,

I am writing with reference to the article written by you in the Rand Daily Mail of 25th May 1981 under the heading "Off-side, Dr Dawie" and in which you launched such a vehement and personal attack on me and my officials in response to certain remarks made by me in the course of my recent address at the annual banquet of the Johannesburg Chamber of Commerce.

I must say quite frankly that I have been amazed by the manner in which you attached your own interpretations to what I have said. In this process you have created in public an entirely wrong impression of the real intentions underlying my remarks in these difficult times of high inflation where we are so keen on the Government's side to create the right climate for better understanding and closer co-operation between the Government and the private sector in all matters of common interest. I, therefore, seriously doubt as to whether you have taken the trouble to obtain and study the actual text of my address before you have seen fit to express your own views thereon in such rude terms.

However, let me say right at the outset that I am a staunch supporter of the principles of the free market system and this also applies to my department. In fact, since my inception as Minister of Industries, Commerce and Tourism in October 1980, I have on various occasions in the course of public addresses expressed my personal beliefs in the merits of free enterprise. I have also firmly committed myself to move away from all unnecessary Government intervention in our economic system in all areas of my department's activities.

It follows, therefore, that we believe in the principles of a free market system, including the profit motive which constitutes the main driving force behind all forms of economic activity. We also believe that the maintenance of a sound business climate within which ecomomic expansion can take place, additional employment opportunities are created and reasonable profits can be earned, is of vital importance. These beliefs have been explicitly stated in my address, a copy of which is attached for easy reference.

Although we all subscribe to a free market economy, it is also true that one of its cornerstones is the discipline brought about by competition. This requirement, which is so often referred to by theorists and journalists is, however, frequently lacking in practice. In such circumstances it is indeed possible for the less responsible businessman to charge unreasonable prices. It is equally true that the degree of discipline in the free market system is less during boom periods than during any other phase of the business cycle. It was on account of these considerations that I appealed to businessmen not to take advantage of the weaknesses of the free market system, by making excess profits especially in the prevailing phase of the business cycle.

It is easy to say that the Competition Board must deal with these market imperfections. But, although the board can do a lot, it is impossible for it to police the entire economy and to rectify in the short term the ailments of the system in the form of practices that hamper sound competition.

In my address concerned I accordingly emphasised that, as a result of the persistently high rate of inflation, the time has arrived where our business community must apply a high degree of responsibility and austerity.

It is a fact that turnovers, as well as profits, increased substantially during the current boom period. Nobody denies a businessman the right to earn relatively high profits under such favourable conditions in order to enable him to receive a reasonable return on his investment and to generate funds for re-investment. However, if the rate of inflation is maintained at prevailing levels, our growth prospects will soon be jeopardised to the detriment of everybody, including the businessman.

This quite obviously cannot be interpreted as a deviation from the principles of the free enterprise system, but is purely a short-term contribution on the side of the business community and the labour force to assist the Government in its efforts to bring down the rate of inflation.

My remarks at the aforementioned banquet must be adjudicated against the background of these considerations.

I trust that you will give the same prominence to my letter in your column for the benefit of readers thereof.

— **Dr D J DE VILLIERS, Minister of Industries, Commerce and Tourism.**

DEPARTMENT OF FINANCE

No. 1232 — 12 June 1981

Statement of Receipts into and Transfers from the Exchequer Account for the period ~~1~~ April 1981 to 31 May 1981.

Treasury, Pretoria.

4a

DEPARTEMENT VAN FINANSIES

No. 1232 — 12 Junie 1981

Staat van Ontvangste in en Oordragte uit die Skatkisrekening vir die tydperk 1 April 1981 tot 31 Mei 1981.

Tesourie, Pretoria.

RECEIPTS—ONTVANGSTE

Head of Revenue	Inkomstehoof	Month of May / Maand Mei		Total 1 April to 31 May / Totaal 1 April tot 31 Mei	
		1981	1980	1981	198[illegible]
		R	R	R	R
Exchequer Balance, 31 March 1981	Skatkissaldo, 31 Maart 1981	—	—	214 788 279	—
Exchequer Balance, 30 April 1981	Skatkissaldo, 30 April 1981	129 549	—	—	—
State Revenue Account	*Staatsinkomsterekening*				
Customs and Excise	Doeane en Aksyns	161 764 523	109 119 058	218 753 562	122 081 547
Inland Revenue	Binnelandse Inkomste	926 485 160	927 642 482	1 540 683 283	1 524 383 829
		1 088 249 683	1 036 761 540	1 759 436 845	1 646 465 376
State Oil Fund	Staatsoliefonds	24 279 350	22 650 826	47 649 809	45 199 465
National Road Fund	Nasionale Padfonds	12 515 353	11 662 271	24 306 113	23 533 567
South African Development Trust Fund	Suid-Afrikaanse Ontwikkelingstrustfonds	249 000	137 000	449 000	337 000
Account for Black Transport Services	Rekening vir Swart Vervoerdienste	1 172 520	1 441 803	1 854 913	2 786 250
Sorghum Beer Research Fund	Fonds vir Sorghumbiernavorsing	—	—	—	—
S W A Territorial Revenue Fund—Sales Duty	S W A Gebiedsinkomstefonds—Verkoopreg	18	918	264	1 414
		1 126 465 924	1 072 654 358	1 833 696 944	1 718 323 072

Head of Revenue	Inkomstehoof	Month of May / Maand Mei 1981	Month of May / Maand Mei 1980	Total 1 April to 31 May / Totaal 1 April tot 31 Mei 1981	Total 1 April to 31 May / Totaal 1 April tot 31 Mei 1980
Other Receipts	*Ander Ontvangste*				
Treasury Bills *Internal*	Skatkisbiljette *Binnelands*	695 663 000	—	1 193 775 000	—
Stabilisation Account Advances	Stabilisasierekeningvoorskotte	Dr 398 000 000	—	242 000 000	—
Internal Stock, Bonds and Loans Raised—	Binnelandse Effekte, Obligasies en Lenings Opgeneem—				
8 Per Cent Treasury Bonds Second Series	8 Persent Tesourie-obligasies Tweede Reeks	11 038 400	—	23 274 100	—
9 Per Cent National Defence Bonds	9 Persent Nasionale Verdedigingsobligasies	1 071 000	—	3 062 650	—
Defence Bonus Bonds	Verdedigingsbonusobligasies	17 437 660	—	37 947 750	—
7 Per Cent Treasury Bonds	7 Persent Tesourie-obligasies	Dr 80 000	—	Dr 80 000	—
8 Per Cent National Defence Bonds	8 Persent Nasionale Verdedigingsobligasies	Dr 2 000	—	—	—
Internal Registered Stock—	Binnelandse Geregistreerde Effekte—				
12,5 Per Cent, 2003	12,5 Persent, 2003	1 048 504 164	—	1 248 504 164	—
9,5 Per Cent, 1984	9,5 Persent, 1984	335 273 750	—	335 273 750	—
Foreign Loans and Credits Raised—	Buitelandse Lenings en Kredite Opgeneem—				
1981/86	1981/86	2 906 403	—	2 906 403	—
1979/84	1979/84	2 833 090	—	2 833 090	—
	R	2 843 111 391	—	4 923 193 851	—
Total (including Opening Balance)	Totaal (insluitende Aanvangssaldo) R	2 843 240 940	—	5 137 982 130	—

ISSUES—UITBETALINGS

Service	Dienste	Month of May / Maand Mei 1981	Month of May / Maand Mei 1980	Total 1 April to 31 May / Totaal 1 April tot 31 Mei 1981	Total 1 April to 31 May / Totaal 1 April tot 31 Mei 1980
State Revenue Account	*Staatsinkomsterekening*				
1 State President	Staatspresident	40 000	35 000	85 000	[illegible]
Statutory Amount	Statutêre Bedrag	4 167	4 166	8 334	[illegible]
2 Parliament	Parlement	451 000	333 000	863 000	[illegible]
Statutory Amount	Statutêre Bedrag	310 000	381 000	608 000	[illegible]
3 Prime Minister	Eerste Minister	362 000	357 000	1 241 000	[illegible]
Statutory Amount	Statutêre Bedrag	3 750	—	7 500	—
4 Manpower Utilisation	Mannekragbenutting	2 400 000	2 871 000	9 988 300	[illegible]
5 Co-operation and Development	Samewerking en Ontwikkeling	20 000 000	9 703 700	40 000 000	[illegible]
Statutory Amount	Statutêre Bedrag	47 510 800	36 184 000	95 021 600	[illegible]
6 Transport	Vervoer	22 000 000	17 000 000	45 000 000	[illegible]
7 Finance	Finansies	284 000 000	230 123 700	659 300 000	[illegible]
Statutory Amount	Statutêre Bedrag	251 466 715	206 753 215	490 647 715	[illegible]
8 Audit	Oudit	523 000	456 000	1 055 000	[illegible]
9 Internal Affairs	Binnelandse Aangeleenthede	60 278 000	45 405 000	123 530 000	[illegible]
10 Foreign Affairs and Information	Buitelandse Sake en Inligting	15 800 000	3 500 000	31 600 000	[illegible]
Statutory Amount	Statutêre Bedrag	3 765 000	4 973 000	7 530 000	[illegible]
11 Mineral and Energy Affairs	Mineraal- en Energiesake	37 300 000	28 300 000	85 600 000	[illegible]
12 Police	Polisie	30 000 000	30 000 000	80 000 000	[illegible]
13 Commission for Administration	Kommissie vir Administrasie	780 000	650 000	14 357 000	[illegible]
14 Statistics	Statistiek	800 000	1 500 000	1 800 000	[illegible]
15 Health, Welfare and Pensions	Gesondheid, Welsyn en Pensioene	67 000 000	90 500 000	147 000 000	[illegible]
Statutory Amount	Statutêre Bedrag	15 000	—	30 000	[illegible]
16 Education and Training	Onderwys en Opleiding	30 000 000	22 000 000	60 000 000	[illegible]
17 Water Affairs, Forestry and Environmental Conservation	Waterwese, Bosbou en Omgewingsbewaring	24 000 000	20 764 000	49 300 000	[illegible]
18 National Education	Nasionale Opvoeding	36 000 000	26 361 000	142 000 000	[illegible]
19 Defence	Weermag	208 000 000	140 000 000	534 000 000	[illegible]
20 Agriculture and Fisheries	Landbou en Visserye	33 000 000	41 500 000	68 000 000	[illegible]
21 Industries, Commerce and Tourism	Nywerheidswese, Handel en Toerisme	33 000 000	52 800 000	59 000 000	[illegible]
22 Justice	Justisie	17 500 000	16 800 000	39 500 000	[illegible]
Statutory Amount	Statutêre Bedrag	405 000	390 000	770 000	[illegible]
23 Community Development and State Auxiliary Services	Gemeenskapsontwikkeling en Owerheidshulpdienste	79 900 000	61 300 000	151 600 000	[illegible]
	R	1 306 614 432	1 090 946 781	2 939 442 449	[illegible]
State Oil Fund	Staatsoliefonds (a)	24 279 350	22 650 826	47 649 809	[illegible]
National Road Fund	Nasionale Padfonds (b)	12 515 353	11 662 271	24 306 113	[illegible]
South African Development Trust Fund	Suid-Afrikaanse Ontwikkelingstrustfonds (c)	249 000	137 000	449 000	[illegible]
Account for Black Transport Services	Rekening vir Swart Vervoerdienste (d)	1 172 520	1 441 803	1 854 913	[illegible]
Sorghum Beer Research Fund	Fonds vir Sorghumbiernavorsing (e)	—	—	—	—
S W A Territorial Revenue Fund—Sales Duty	S W A Gebiedsinkomstefonds—Verkoopreg (f)	18	918	264	[illegible]
	R	38 216 241	35 892 818	74 260 099	[illegible]
	R	1 344 830 673	1 126 839 599	3 013 702 548	[illegible]
Other Issues	*Ander Uitbetalings*				
Treasury Bills repaid Internal	Terugbetaling van Skatkisbiljette Binnelands	534 704 000	—	1 085 582 000	—
Loan Levy 1966/80 repaid	Leningsheffing 1966/80 gedelg	799 956	—	1 480 477	—
Sinking Fund Advances	Delgingsfondsvoorskotte	1 483 350	—	2 952 165	—
Internal Stock, Bonds and Loans Redeemed	Binnelandse Effekte, Obligasies en Lenings Gedelg				
Five Year Non Resident Bonds	Vyfjaar-obligasies vir Nie-inwoners	102 000	—	387 000	—
8 Per Cent Treasury Bonds	8 Persent Tesourie-obligasies	3 346 300	—	7 956 000	—
Premium Bonds	Premie-obligasies	52 500	—	11 654 400	—
Second Series Premium Bonds	Tweede Reeks Premie-obligasies	93 500	—	185 100	—
7 Per Cent Treasury Bonds	7 Persent Tesourie-obligasies	16 166 900	—	36 143 500	—
National Defence Bonds	Nasionale Verdedigingsobligasies	66 553 350	—	91 996 350	—
Second Series National Defence Bonds	Tweede Reeks Nasionale Verdedigingsobligasies	237 700	—	1 382 000	—
Third Series National Defence Bonds	Derde Reeks Nasionale Verdedigingsobligasies	8 535 000	—	8 555 000	—
8 Per Cent National Defence Bonds	8 Persent Nasionale Verdedigingsobligasies	3 225 100	—	5 012 800	—
Defence Bonus Bonds	Verdedigingsbonusobligasies	7 062 030	—	13 114 435	—
Internal Registered Stock	Binnelandse Geregistreerde Effekte				
8,625 Per Cent, 1981	8,625 Persent, 1981	836 844 600	—	836 844 600	—
Foreign Loans and Credits Redeemed—	Buitelandse Lenings en Kredite Gedelg—				
6 Per Cent Export Credit Facility	6 Persent Uitvoerkrediet Fasiliteit	—	—	1 707 773	—
1979/81	1979/81	5 883 836	—	5 883 836	—
1978/81	1978/81	12 888 925	—	12 888 926	—
Issues, State Revenue Votes 1980/81	Uitbetalings, Staatsinkomstebegrotingsposte, 1980/81	40 310	—	162 310	—
	R	1 498 019 357	—	2 123 888 672	—
	R	2 842 850 030	—	5 137 591 220	—
Exchequer Balance, 31 May 1981 Cash	Skatkissaldo, 31 Mei 1980 Kontant	390 910	—	390 910	—
Totals	Totale R	2 843 240 940	—	5 137 982 130	—

(a) Section 1 of Act 38 of 1977
(b) Section 2 (1) (a) of Act 54 of 1971
(c) Section 8 of Act 18 of 1936
(d) Section 7 (1) of Act 53 of 1957
(e) Section 19*bis* (1) (a) of Act 63 of 1962
(f) Section 22 (4) (a) of Act 25 of 1969

(a) Artikel 1 van Wet 38 van 1977
(b) Artikel 2 (1) (a) van Wet 54 van 1971
(c) Artikel 8 van Wet 18 van 1936
(d) Artikel 7 (1) van Wet 53 van 1957
(e) Artikel 19*bis* (1) (a) van Wet 63 van 1962
(f) Artikel 22 (4) (a) van Wet 25 van 1969

Squeeze may ease, says De Kock

16/6/81 room (44)

By NEIL BEHRMANN

BASLE. — South Africa's credit squeeze will intensify during the next few weeks, but conditions may ease during the second half of the year, because the Reserve Bank is beginning to pull the money supply under control.

Dr Gerhard de Kock, the Governor of the Reserve Bank, and Dr Chris Stals, senior Deputy Governor, said this in an exclusive interview yesterday.

They were in Basle for the annual meeting for the Bank for International Settlements (see also Page 14).

They said that the balance of payments current account deficit and the highly successful recent long-term loan stock issue had syphoned excess cash from the banking system.

The current account deficit proved was useful for the moment because it helped lower money supply growth.

The Reserve Bank was discouraging short-term capital inflows for this reason, and it was reducing these movements by adjusting the forward rand exchange rate.

When the forward exchange rate was unattractive South African businesses and banks found that they must borrow locally rather than abroad because foreign interest rates remained higher than local rates.

Dr De Kock and Dr Stals said that particularly tight credit conditions would probably remain until the end of June, but even though the Reserve Bank intended maintaining a tight money stance to curb inflation the bank would have sufficient room to ease and smooth out liquidity in the banking system.

For a start the forward rand rate could be altered, encouraging businesses and banks to borrow abroad.

"The current account deficit can be met by this short-term trade finance," said Dr Stals.

"Failing that, South Africa has large under-utilised credit facilities abroad," added Dr De Kock.

"I am firmly under the impression, following talks with bankers in London and Basle, that South Africa is one of the most underborrowed countries in the world," he said.

"Bankers want to lend to South Africa. Though the country will make use of these credit facilities some time in the future, it does not suit us to do so for the moment," added Dr De Kock.

Dr De Kock and Dr Stals were also confident that the money supply was coming under control because statistical aberrations were being ironed out. When the country was subject to credit ceilings, there was "disintermediation".

Companies outside the banking system had sufficient money to lend to subsidiaries and smaller concerns. This grey market credit was not recorded in the banking figures, even though it was an effective increase in credit and hence the money supply.

When the controls were abolished, "reintermediation" took place because companies could once again borrow more from the banks, provided they were prepared to pay the rate of interest. Yet, even though this change had no net effect on credit creation, it was recorded as an increase in the banking and money supply figures.

This statistical aberration was one of the reasons why the money supply grew between 30% to 40% in the first quarter of this year.

"Despite this statistical anomaly, money growth was still excessive, so we still had to tighten liquidity," said Dr De Kock.

But the situation now appeared to be coming under control.

Although the Reserve Bank was tightening the money supply it was not following precise monetary targets as were being applied in the United States and some European countries.

"The question of monetary targets is still being studied by the Commission into monetary policy," said Dr De Kock, adding that the Reserve Bank pursued rough, but unofficial guidelines which aimed at holding money growth below the rate of inflation.

aware of, and sympathetic towards, the limitations of the doctors and the hospitals. Even potentially fatal errors of judgement can be forgiven a man who is felt to be doing his best and caring for his patient. One informant described how she had been to a doctor with a recurrent breathing problem and had mentioned in the course of the examination that she had a lump in her breast and some back pain. He said it was a "milk lump", so she left it. Three months later she had an asthma attack and went to the Day Hospital. The doctor sent her straight to False Bay Hospital after a preliminary examination. Within a week she was taken to Groote Schuur for a mastectomy where "they were wonderful". She returned to Groote Schuur for regular tests for several years thereafter. She also returned to the private doctor who has continued to treat her for other ailments, but has never discussed the operation with her. On the other hand, one informant believed that a private doctor was inclined to give his patients ineffective medicine when they first saw him, in order to ensure that they came back and paid twice - "he's only interested in money," was her judgement, and she never went back to him. Sufferers from chronic ailments particularly noted those doctors whose treatment had "helped" and commended them over their less fortunate or successful colleagues.

In their evaluation of hospital care, distance clearly lent enchantment to the people's view. Hospitals no longer in operation were recalled with great affection and with very little criticism. Older people remembered being well cared for in Simon's Town Hospital and at Rondebosch Cottage Hospital. The Day Hospital was regarded as having been a great boon to the township, especially by the less mobile elderly and poor. Its closure after the 1976 disturbances is seen as an unjust punishment inflicted on the whole community for the not wholly unprovoked excesses of a small minority. The Day Hospital was economical in time and money, its procedures were thorough within the recognised limits of its competence, and its doctors well regarded. "We want Epsilon and the hospital back", was a comment echoed in some form by every informant.

As the hospital currently serving Ocean View, False Bay Hospital came in for the most comprehensive criticism. Its main virtue was that it is the nearest point of care that is open for twenty four hours per day. Those informants who had actually spent time in the hospital as in-patients were less critical than those who had been out-patients, but in sum, there was little good that people had to say unless they qualified their praise by saying that they had kinsfolk or former school pupils who took particular care of them. Informants spoke of long waits; arrogant junior staff; delays with finding folders; segregation; hasty, superficial examinations; failure to carry out standard tests; rude doctors; neglect by nurses; impersonality, and ineffectual treatment. It is only fair to add that most of the same sorts of criticism have been levelled at Groote Schuur by poorer people living within its catchment area and that those whose appointments for both out and in patient treatment were specific, were generally less critical. Some people also remarked that it had improved in recent times.

More distant hospitals shone by comparison. There were plenty of doctors at Victoria Hospital, Wynberg; highly efficient and sensitive in patient care at Groote Schuur; untrained and junior staff apart, excellent service at St Monica's maternity home and Somerset Hospital; and, "Red Cross is marvellous."

In short, in their search for adequate medicare, cost and convenience were dominant factors determining choice, and all our informants cited the costs of medicare as a real problem. Those who sought most widely for solutions to their problems, and who hence devoted the greatest volume of resources to their search, were those who had tried the more immediate sources of supply without success, and who were fortunate enough to possess the knowledge and

Brand maps SA economic path for 80s

14/4/81 Kom (49)

By DON MARSHALL
Pretoria Bureau Chief

SOUTH AFRICA's economic policies during the 1980s could be expected to continue on the lines followed for the past five years, unless some major change occurred in the political or security spheres, Dr Simon Brand told a Washington conference last night.

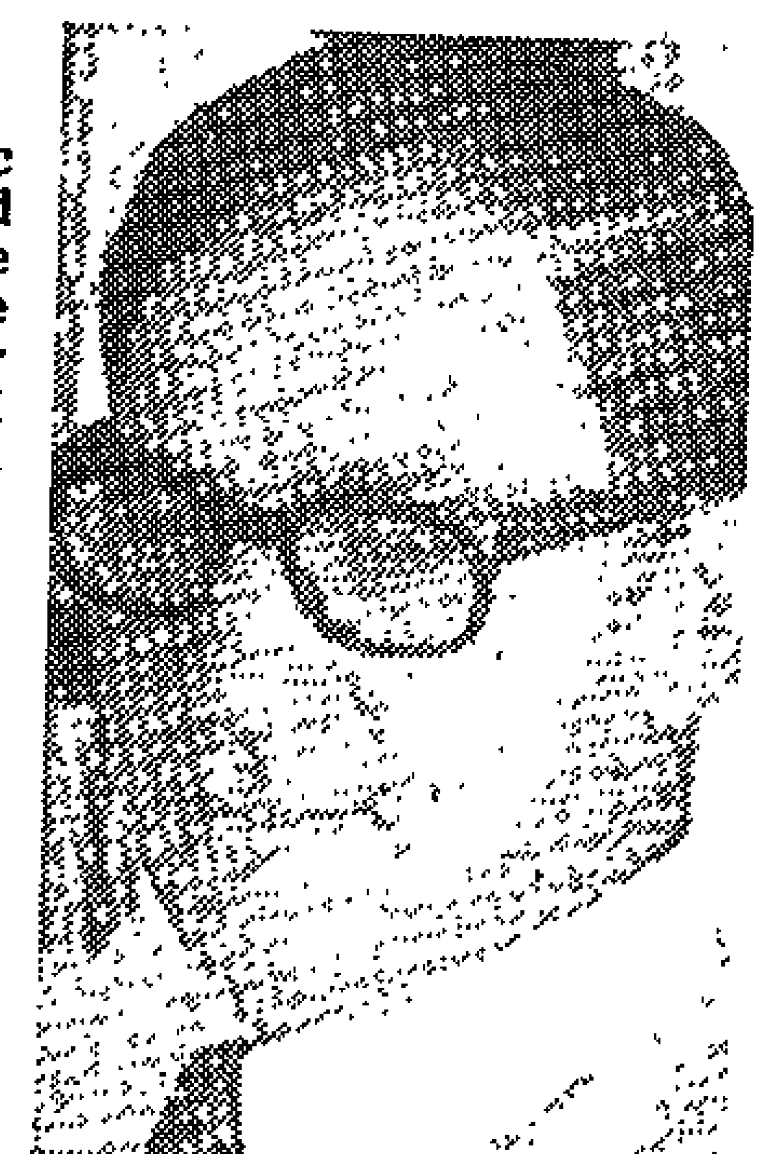
Dr Brand, chief of financial policy in the Department of Finance, was speaking at a conference on "South Africa in the 80s". A copy of the address was issued in Pretoria.

He said policy would continue to be aimed at a high rate of economic growth and job creation, the strengthening of the economy against external pressures and control of inflation.

Some of these aims were in conflict with each other at least some of the time. The short-term emphasis could therefore be expected to shift between the differing aims.

"Right now, for example, with the economy in a state of full capacity utilisation after the high rate of growth in the recent past, the emphasis is strongly on the control of inflation," he said.

Medium-term to long-term predictions indicated the economy should be able to maintain



DR SIMON BRAND
... optimistic forecast

an average annual growth rate of at least 5% in real gross domestic product (GDP).

One factor on which this projection was based was a gold price which appeared conservative in relation to its present level.

Dr Brand also forecast that South Africa's balance of payments would remain strong and that the inflation rate would, at its worst, not exceed the present level — and possibly drop towards a single digit rate.

"Such an economic performance should at least stabilise unemployment at its present level, but could well make it possible for some further reduction, and it should offer more than adequate opportunities for people from all sections of society to improve their earnings by moving into more meaningful roles in the economy.

"It should also generate enough economic activity to achieve a more balanced regional development pattern.

"If all this can be achieved in South Africa in the 80s, it will in the first place be a tribute to the inherent strength of the South African economy.

"It will also be due in a significant measure to economic policies that represent a sound balance between Government action in those economic spheres where Government has a valid role to play, and private initiative in those spheres where it could best do the job," Dr Brand said.

Regarding manpower, South Africa had to contend with surpluses of unskilled labour — manifested in a fairly high level of unemployment — and at the same time with an almost chronic shortage of skills.

Brand explains SA policy in Washington

Star 16/6/82 (49)

The Government would remain involved in the economy because of political pressures and the threat of economic sanctions.

This opinion was expressed today by Dr Simon Brand, chief of financial policy in the Department of Finance, at a conference on "South Africa in the Eighties," held in Washington.

A copy of Dr Brand's paper to the conference was released in Pretoria.

He said South Africa was rapidly moving away from Government control in the economy and towards a free-market economy. But, for several reasons, the Government would remain involved in the economy.

One of these reasons was the "open" nature of the South African economy and international political pressure.

STOCKPILING

"Pressures which, for many years, have been manifested in threats of economic sanctions against South Africa, have served as justification for Government action to increase the economic self-sufficiency of the country to a greater extent than would otherwise have been done," Dr Brand said.

Those actions had included stockpiling of essential imports, especially crude oil, launching public enterprises to establish local production capacity to substitute for imports such as Sasol.

"As long as the country remains under the threat of economic sanctions, such actions can be expected to be continued," he said.

But because the advantages of participation in foreign trade were appreciated in South Africa, action by the Government had been selective and would likely continue to be so.

Economic policy in South Africa could be expected to continue along the same lines in the eighties as during the past five years, unless there was a major political or security change.

This meant that economic policy would continue to be aimed at such desirable outcomes as a high growth-rate and employment creation.

It would also aim at a more acceptable distribution of the benefits of economic development among individuals and among different regions in the country, he said.

This would include greater parity in the provision of public services, the strengthening of the economy against external pressures and the control of inflation. — Sapa.

(1) Plot this demand curve as accurately as possible, preferably using graph paper.

(2) Now suppose that over a period of ten successive years the annual "crop" amounted to outputs of 80, 60, 70, 40, 50, 80, 60, 50, 40, and 70 million bushels respectively. Calculate and tabulate the gross value of the crop in each of these years, if the demand curve scheduled above was the demand curve of each of the ten years.

(3) Calculate the average annual gross value of the crop over the ten years, and the output and price which would yield this value.

Growth rate drops to 4,5% in first quarter

By HAROLD FRIDJHON

SOUTH AFRICA entered a period of slower economic growth during the first quarter of 1981 when the real gross domestic product was about 4½% higher than in the first quarter of 1980 when the increase for the year as a whole was 8%.

The South African Reserve Bank's latest quarterly economic review says the decline was not unexpected because important productive resources — among them production capacity and skilled labour — had become almost fully employed and could no longer sustain an 8% growth.

Mainly as a result of the sharp drop in the price of gold, South Africa's terms of trade deteriorated considerably in the first quarter. This caused the real gross national product to show an actual decline from the level of the fourth quarter of last year.

The domestic demand for goods and services continued to rise at a relatively high rate, even in real terms, although private consumption expenditure increased at an appreciably lower rate than in the preceding quarter. On the other hand, Government consumption expenditure, gross fixed investment and inventory investments rose sharply.

Private consumption expenditure increased more tardily because of a slower rate of spending on food and durable goods but outlays on semi-durables and services increased "substantially further".

Owing to the almost full use of production capacity and the high import content of domestic expenditure on capital goods, inventories and durable consumer goods, the strong monetary demand caused imports to remain at a high level. At the same time there was a decline in exports and in the value of net gold output.

As a result of these changes the current account of the balance of payments showed a moderate deficit of R107-million, or R1 010-million at a seasonally adjusted annual rate.

The Reserve Bank observes: "The emergence of a current account deficit after the economy had been in an expansionary phase for about three years, was, of course, not unusual."

Normally a current account deficit appears earlier during periods of economic expansion, but this time round the high gold price and a strong rise in merchandise exports kept the current account in surplus.

As during the second half of 1980, the increase in total monetary demand during the first quarter was again accompanied by an excessive increase in the broadly defined money supply.

"Taking into account its lagged effect on expenditure and prices, the sharp rise in the money supply since the middle of 1980 has clearly made an important contribution to the persistently high rate of inflation and will continue to do so for some time to come."

The curbing of the high rate of increase in the money supply has become the main objective in order to achieve ultimately a reduction in the inflation rate.

Contractionary influences on the broadly defined money supply were the declines in the gold and net foreign exchange reserves of the monetary banking sector and that sector's net claims on the Government sector. But offsetting this was the "unprecedently large increase" in bank credit extended to the private sector which boosted M2 to a large rise of 65% at a seasonally adjusted annual rate.

Measures to slow down the increase in bank credit to the private sector by restricting the growth in the liquidity base of banking institutions and by increasing the cost of bank credit from an integral part of current overall monetary policy.

Bank Rate was increased from 7% to 8% in February but money market rates remained fairly stable because of steps taken by the Reserve Bank to alleviate the seasonal tightness of money during the first quarter. Rates, however, moved up again in early May and Bank Rate went up from 8% to 9½% from May 6.

This led to an adjustment in the prime overdraft rate from 10% in February to 13% in May.

"Despite this increase, the overdraft rate remained well below the prevailing rate of inflation and considerably below the overdraft rates in most other countries with roughly similar or lower rates of inflation."

Both consumer and production price rises slowed down during the first quarter but nevertheless remained at high levels. A factor contributing to this lower rate of price increases was the absence of any material upward adjustment in Government-administered prices.

The high level of private sector liquidity contributed to the buoyancy in the capital market. Share prices rebounded in April and May after having declined from September to February. Real estate sales and mortgage lending continued at a high rate.

The fixed-interest securities market, however, was inhibited by expectations of further increases in long-term interest rates. These expectations were weakened during April and were finally dispelled during May with the successful issue of two Government loans. By pitching the effective yield for the long-term loan slightly above the then prevailing market rate, the Government was able, as a part of the broad monetary policy, to draw a sufficient amount of money from the private non-banking sector to achieve a meaningful reduction in private sector and bank liquidity.

In the money market, the strong demand for bank credit and housing loans brought about strong competition for funds among banks and the building societies. Deposit rates were raised several times during the quarter and the building societies' mortgage rates were raised in two stages by 2,25%.

"Like the prime overdraft rate of the commercial banks, the increased mortgage rates nevertheless remained below the prevailing rate of inflation," says the Reserve Bank.

BUSINESS

Reserve Bank reports modest deficit in BoP

Star 17/6/81

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By Mervyn Harris

The current account of the balance of payments showed a modest deficit in the first quarter of 1981 as domestic demand for goods and services exceeded the national product for the first time since the beginning of 1977, the Reserve Bank reports in its latest bulletin.

It says that the deficit of R107-million, or R1 010-million at a seasonably adjusted annual rate, on the current account after the economy had been in an expansionary phase for three years emerged as the country entered a period of slower growth in the first quarter of this year.

The high import content of domestic expenditure on capital goods, inventories and durable consumer goods caused imports to remain at a high level as exports declined.

HIGH LEVEL

The decline in exports was as a result of the economic slowdown in trading-partner countries and the high level of domestic demand for locally produced goods.

At the same time, a decline in the price of gold caused an appreciable decrease of 11 percent in the value of the net gold output.

The bank says the emergence of a current account deficit was not unexpected as its strength up to an advanced stage of the upswing was because of the exceptionally sharp rise in imports being more than offset by the quadrupling of the gold price from 1977 to 1980.

After a strong rise in merchandise exports that continued well into 1980, the decline in such exports in the first quarter was evident in most categories of export commodities.

DIAMONDS

Exports of diamonds, processed food and base metals were particularly hard hit.

While the decrease in exports was pronounced in volume terms, export prices expressed in rand terms actually showed a small rise mainly because of a fairly large depreciation of the rand against the US dollar and an increase in the prices of some commodities.

At current prices, the rate of increase in the gross domestic product also decelerated, largely as a result of a sharp decline in the total gross domestic surplus.

The decline, in turn, reflected considerably lower profits of mining companies, especially in the gold-mining industry.

The operating surpluses of manufacturing, construction and commerce, on the other hand, continued to rise, and share prices, which had declined from September 1980 to February, rebounded in April and May.

The bank reports that total remuneration of workers rose further to reach a level about 19 percent higher than in the corresponding quarter of 1980.

In nominal terms, the average remuneration of a worker in the non-agricultural sectors of the economy rose sharply by 18 percent in 1980 compared with an increase of 12,1 percent in 1979.

ADJUSTMENT

The average real remuneration of such a worker, after adjustment for price rises, increased by 3,4 percent in 1980 following a decline of 0,9 percent in 1979.

The effect of the increased wage bill on labour costs was, however, partly offset by increased labour productivity. In manufacturing, for instance, output a manhour rose by 4,5 percent in 1980 against only 2,4 percent in 1979.

The rate of increase in unit labour cost nevertheless accelerated from the second quarter of 1980 and showed an increase of 11,9 percent in 1980 after a rise of 9,8 percent in the preceding year.

The seasonably adjusted increase in consumer prices decelerated to an annual rate of 13,1 percent in the first quarter of 1981 compared with 15 percent and 22 percent in the third and fourth quarters of 1980, respectively.

REDUCED MATE

This slowdown was mainly the result of a reduced rate of increases in the prices of food and cars. Prices of non-food consumer goods continued to rise at the same rate as during the fourth quarter of 1980 and higher rates of increases were recorded in the prices of furniture, clothing and footwear.

From April 1980 to April 1981 the seasonably adjusted consumer-price index increased by 15,5 percent.

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Tough August Budget likely to curb spending

Star 18/6/81

(49)

By Ann Crotty

Consumer spending is likely to get the cold-sponge treatment in the Budget which is scheduled for August.

The recent Reserve Bank review shows that domestic demand for goods and services was greater than national production in the first quarter of 1981 for the first time since the beginning of 1977 when the country was in a recession.

The high level of domestic demand in the first quarter produces a seasonally-adjusted deficit on the current account of R1 010-million a year.

With this level of demand it is unlikely that the Budget will contain many giveaways which might encourage more spending.

But, although there will be no gifts in August, the Government cannot afford to be too severe on consumers and risk strangling the whole economy.

Recent moves towards financial and monetary discipline, such as the increase in the bank rate, seemed to have had the desired affect of cooling down our overheated economy.

So, while it is commonplace for a tough Budget to follow an election, the August Budget should see an attempt to curb spending without being too tight.

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for each of the outputs in the demand schedule in order to make the gross value of the crop in each year equal to the average annual gross value. Plot this schedule on the same paper as the demand curve. (It will be a curve of unit elasticity).

(5) From the demand curve find the total amount which must be offered on the market in order to fetch the prices discovered in part (4). From these amounts make a schedule showing how much the government would have to buy or sell for each total output.

(6) Draw up a schedule showing how much the government would have to buy or sell in each of the ten successive years of part (2). Would the government have to sell a total greater than the amount it would have to buy over the ten years? Does the answer mean that stabilization of the gross value of a crop is impossible?

* * * * * * * * *

"The treat for the rich girl would be to go boating or skiing, for the poor boy it would be to go to Arizona and stay with his uncle, who has a restaurant where he could eat all he liked. The Mexican-Americans mention virtually no hobbies==there are none for them. One or two of them have goats, and even then they tend to die. By contrast, many of the farmers' sons are from an early age active in 4H and FFA (Future Farmers of America), and own their own small herds of cattle or sheep by the time they are in High School." (Brokensha and Hatch, 1966: 30-31)

e. Field conditions

California state law contains detailed provisions for certain conditions of work: workers are entitled to rest periods; employers must provide field toilets with facilities for washing of hands; fieldhands must have access to cool clean water, with individual disposable cups. I only once worked in a field where all conditions were met, at a farm belonging to an enlightened grower who insisted that his labour contractor provide everything, despite the grumbles of the latter.

... officials have been

Deficit wouldn't worry Horwood

Star 18/6/81

49

Depending on the gold price and other factors, the current balance of payments' account might show an overall deficit this year, the Minister of Finance, Mr Owen Horwood, said last night.

Speaking at the annual general meeting of Finansbank in Johannesburg, Mr Horwood said a deficit at this stage, would be normal and was no reason for undue concern.

It was not certain that there would be a deficit, especially considering that an increase in the price of gold could drastically change the situation overnight.

"If the gold price continues to fluctuate at its current level for the remainder of the year, if imports remain high and if exports decrease reasonably sharply, it is possible that the current account of the balance of payments for 1981 might show an overall deficit instead of a surplus," Mr Horwood said.

"As a matter of fact, this has already happened in the last quarter of 1980 and the first quarter of 1981.

"At this stage of the business cycle, a deficit on the current account of the balance of payments will be a normal phenomenon for South Africa which should not cause undue concern."

Mr Horwood said the current high rate of inflation was a far greater reason for concern.

The recent inflation talks had identified a number of reasons for the high inflation rate. The Government was working on a possible strategy against it.

He said he would elaborate on this in his Budget speech but the general conclusion at the inflation conference was that management and individuals should adopt the right attitude to maintain monetary and fiscal discipline.

Because of the expected gradual levelling out of growth on the supply side of the economy and the need to maintain a high level of private fixed investment to expand the productive capacity of the economy, a sharp increase in public spending would increase inflationary pressures.

"In the overall policy approach, it can be accepted that relatively more emphasis is now being placed on measures aimed at controlling inflation and relatively less on measures aimed at actively stimulating the short-term growth of the economy," Mr Horwood said.

Long-term growth objectives to maintain an adequate level of employment and to improve the quality of life of all sections of society would still be pursued vigorously. — Sapa.

Exploding the myths of apartheid

49

Hertzog and Smuts. . . destroyed the 'colour-blind' Cape franchise.

PHYLLIS LEWSEN reviews a book set to become one of the more controversial analyses of apartheid — *Working for Boroko: The Origins of a Coercive Labour System in South Africa* by Marion Lacey.

WHAT is apartheid and when did it begin? What are its motives and purposes? Is it a controlling ideology or a "civil religion" that has emerged from our past — and especially from the Afrikaner Calvinist frontier experience? Or — as the radical historians and economists argue — is it a logical, airtight technique for the "super-exploitation" of black labour to swell the profits of capitalism?

Will this cruelly repressive instrument of white tyranny and supremacy yield before market forces? Or is it so pervasive and profitable that it can survive "cosmetic change" until overthrown by external assaults and internal revolution?

These are some of the questions which the critics of apartheid now pose in thousands of articles, speeches, and rhetorical or detailed onslaughts.

What is lacking is a clear sense of the origins and structure of apartheid and of its overlapping meanings and functions. The great value of Marion Lacey's penetrating and exhaustive study — Working for Boroko: The Origins of a Coercive Labour System in South Africa (Ravan Press, R9,50) — is that it explodes the myths, and separates the strands of apartheid in its most important formative phase.

The dividing points are not the Nationalist victory of 1948; nor, at the opposite extreme, the planting of Jan van Riebeeck's famous almond hedge to achieve physical segregation; but the Hertzog and Fusion period from 1942 to 1948.

Before this crucial time apartheid existed as a network of historically shaped attitudes and practices. But is the popular myth that "the predominantly Afrikaner National Party was wholly responsible for the segregation scheme and that 1948 was the magic date when the apartheid State began" what Marion Lacey disproves.

Lacey takes her title from the evidence of a black witness to a 1922 Native Affairs Department investigation: "An African is not allowed to hire a white's farm for money, except by working for nothing, "Boroko"."

She shows that one vital aspect of apartheid was inspired by the much-misunderstood Glen Grey Act of Cecil Rhodes, when he was Prime Minister of the Cape Colony in 1894. Rhodes divided the traditional Glen Grey area into four-morgen plots which could not be sold. Contrary to African practice, these plots would not be divided after death, or shared by the family, but were inherited by the eldest son.

This meant that the surplus population had no alternative except to go out and labour for mines or farmers. Secondly and even more significant, the Glen Grey plots, though held in individual tenure, did not qualify the occupants for the "colour-blind" Cape franchise, shared by whites, blacks, coloureds and Indians alike, and subject to a low property and educational test.

Thirdly, a labour tax was imposed on any Glen Grey peasant who did not go out to work for three months a year for white employers — a clause which was in fact inoperative because poverty compelled such labour-migration.

Finally, a distinctive system of local and district councils was introduced: a system that was creative in providing an opportunity for limited local self-government, but was destructive in that it spelt out an alternative to the deeply valued citizens' right of the franchise.

The characteristic "colour-blind" Cape franchise was protected in the Act of Union by special entrenchment and was destroyed by the partnership of Hertzog and Smuts in the Fusion Government.

Their reasons, as Lacey makes clear, were not primarily ideological. After Union, a repressive and coercive system of labour control was imposed on blacks in the other provinces to force them to work on farms and mines. The Cape, however, remained immune: nothing could be done to interfere with the individual's right to buy or hire land outside the "scheduled" reserve areas, as this would interfere with his opportunity to qualify for the franchise. Even the pass laws could not be applied in the Cape. In short, the Cape could not be assimilated into the general labour pattern of the Union.

The first national labour priority was the drafting of black labour to serve farmers as paid tenants (politically farmers dominated both the earlier Botha and Smuts governments, and the Hertzog Ministry).

Secondly, and in rivalry with the demands of the capitalist farming sector, the mines could not use the 1913 Land Act — so hated by the blacks — within the Cape to expand their recruitment of migrant labour.

The third priority was not directly relevant to the Cape, but was to solve the poor white question, which Smuts had signally failed to do so.

Hertzog's plan was to replace black labour in the public sector of the State and in the growing urban industries by "civilised" white labour. (He would thus effect two purposes simultaneously: he would split the threatening non-racial labour front, of which there had been ominous symptoms between 1920 and 1922 in black industrial unrest followed by the violent 1922 white strike, and he would find acceptable work for poor whites at the expense of the "super-exploitable" blacks.)

Another myth that Lacey demolishes is that Hertzog was the father of the homelands. On the contrary, he did not wish to enlarge the reserves, and thus restrict the labour available for farmers. His tardiness threatened to destroy the over-populated, impoverished reserves altogether.

It was only when the combination of economic depression and mine labour shortage — to solve which the reserves were indispensable — that Hertzog in effect gave way to Smuts, and accepted the Smuts policy of slightly enlarging the ludicrously inadequate reserves. These were still not in any sense intended as future "homelands" but as a pool for migrant labour: thus freeing the mines of the cost of paying family wages and side benefits to the elderly.

Finally, the abolition of the Cape Native franchise was already agreed on by 1931, though the compromises on the parcel of Hertzog Bills were not complete till 1935. The abolition was not therefore ideological — another myth — but was directly related to the search for an extended system of labour coercion.

The gist of Lacey's argument is that "trusteeship" — the new formula which replaced "segregation" and preceded "apartheid" — was "not only compatible with economic growth but designed as a coercive labour system geared to ensure capitalist profitability".

There is, however, nothing doctrinaire or dogmatic about her carefully mobilised factual arguments. She shows, too, the revival of what was then an almost defunct system of chieftainship, and the growth of repressive laws — for example a pass law which forbade farm blacks to leave their employment either for mines or cities, and which tied them down not to three but to six months of compulsory labour. Her conclusion is that by 1947 "the main struts of the modern apartheid State had emerged".

This invaluable study is bound to influence history students and lecturers at universities and even to percolate down to some schools. It is so cogently argued and clearly presented that one is amazed to discover that it was prepared as an MA thesis (for Rhodes University), as the usual weighty detail that makes theses heavy reading is so skilfully and readably handled.

There is, however, one omission. If new editions follow, a full index should be seen as indispensible — the absence in the present volume is undoubtedly a defect.

And secondly, Lacey could move back in time to the earlier geographic and social manifestations of ethnic hostility and geographic encroachment; and in regard to the Cape, go deeper into the history of segregation, laying less stress on Rhodes' Glen Grey Act, which was in many respects symbolic and part of an existing tradition, not a starting point.

20/11/81

UCT economists warn against too sharp a brake on money supply

By PAUL DOLD
Financial Editor

THE authorities must guard against overkill when tackling the money supply issue, a study for a South African stockbroker by a group of University of Cape Town economists concluded this week.

The monetary review and prospects for the economy prepared by UCT's Brian Kantor, David Rees, G D I Barr and B Kahn says that the priority ahead of the authorities over the next 12 months is to prevent any sudden reduction in money supply growth.

"The most important task for the monetary authorities at this stage of the business cycle is to engineer a gradual rather than an abrupt reduction in money supply growth. What is called for is a Columbia type re-entry into the stable atmosphere of slow and predictable money supply growth rather than a crash landing.

"Since we are not confident that the authorities have the instruments to make a precise landing we would urge them to err on the side of too much rather than too little money in 1981. An unexpectedly abrupt halt to money supply growth will have deleterious effects on real output but may achieve little in reducing the inflation rate.

Reserves

"Ample foreign exchange reserves and foreign borrowing capacity should facilitate such a policy. Open market operations and control over the terms at which the banks or discount hpouses borrow from the Reserve Bank are the instruments of money supply policy available to the authorities.

"There would seem no technical reason why if balance of payments deficits persist, a gradual reduction in money supply growth could not be achieved. The authorities are in a strong position to lead the money supply process.

"The task for the authorities in the longer term is to break the dependence of money supply and interest rates on the balance of payments. This will require market determined exchange and interest rates."

The survey says a credit squeeze of the 1974 dimensions when NCD rates shot way above the bankers acceptance rate has not yet occured and appears unlikely.

Prospects

Turning to growth rate prospects the economists conclude that growth in 1981 and 1982 will be slower than in 1980 but there is no reason why a five percent growth on average should not be maintained over 1981 provided there is no mismanagement of monetary policy in the form of a rapid plunge in money supply growth. They say that the effect of the fall in the gold price has been well managed.

Overall, the authors predict a average growth rate of 4,5 to 5 percent over the next 12 months with the inflation rate falling to below 10 percent by the first quarter of 1982.

"We expect long-term gilts to respond to lower inflation rates and long term RSA's should be about 11,5 percent by the first quarter of 1982. The bankers' acceptance rate is likely to remain at about the current high levels for the next six months if the growth in the economy is maintained at about 5 percent."

South Africa has clearly ample capacity to tap foreign loan markets. Leading ratios show that since 1976 the country's standing has improved while those of developing countries have worsened.

Indicators

The survey examines ratios such as interest servicing, long-term debt outstanding as a percentage of GNP and long-term debt outstanding as a percentage of current exports.

"The level of these indicators also show that compared to these countries South Africa is relatively underborrowed and if lending were done on a purely borrowing capacity basis, South Africa would have a much higher credit rating. Clearly, South African borrowers are paying a significant margin for political risk."

Although the credit rating has improved in the markets it still fails to fully reflect the vastly improved borrowing capacity.

The study notes that if there was no change in political risk it would take a few years of persistently large deficits to change the borrowing fundamentals. And if the Government adopts a policy of monetary restraint the current account deficit may decline in 1982.

"Nevertheless easy access to foreign credit would permit South Africa a faster rate of growth than could be achieved if reliance was to be placed solely on domestic sources. Rapid rates of growth leading to balance of payments deficits which could in part be financed by foreign borrowing would be most desirable."

Soweto

After the Soweto riots of 1976 the flow of loans to South Africa dried up and there was a large scale capital outflow.

"In 1977 gross domestic output exceeded gross domestic expenditure by R2 185m after expenditure had exceeded output in the first quarter of 1976 by an annual rate of R1 360m. This represented a most dramatic turnabout but was accompanied by a severe recession.

"Since those days as political risk factors have become somewhat stablized loans have increased.

"Details of loans since 1978 are more difficult to obtain but it is clear that the volume remains much lower than before 1976. This is due to the fact that the large currrent account surpluses since that period have meant a decrease in the demand for foreign loans and also that repayments could take place.

"South Africa's net foreign liabilities fell by about R5 750m from the beginning of 1977 to the end of 1980. During this period the cumulative surplus on the current account exceeded R7 500m."

THE BUILDING OF A FRIGHTENED ECONOMY

WHY YOU PAY, PAY AND PAY FOR APARTHEID

5 Feb 21/6/81

49

THE man in the street, already reeling under the blow of soaring inflation, has been hard hit during recent months by rapidly rising finance charges and bond interest rates.

Consumers, unable to afford to replace essential household equipment at ever increasing prices, are being forced into the hire purchase market where finance charges of close to 30 percent a year are now being levied. Homeowners are being faced with the option of steeply increased bond repayments or of increased repayment periods that carry their debts well beyond their planned retirement dates.

Blame for the twin evils of inflation and high interest must be laid at the door of the Government whose failure to face up to the economic realities has led to mismanagement of the money supply.

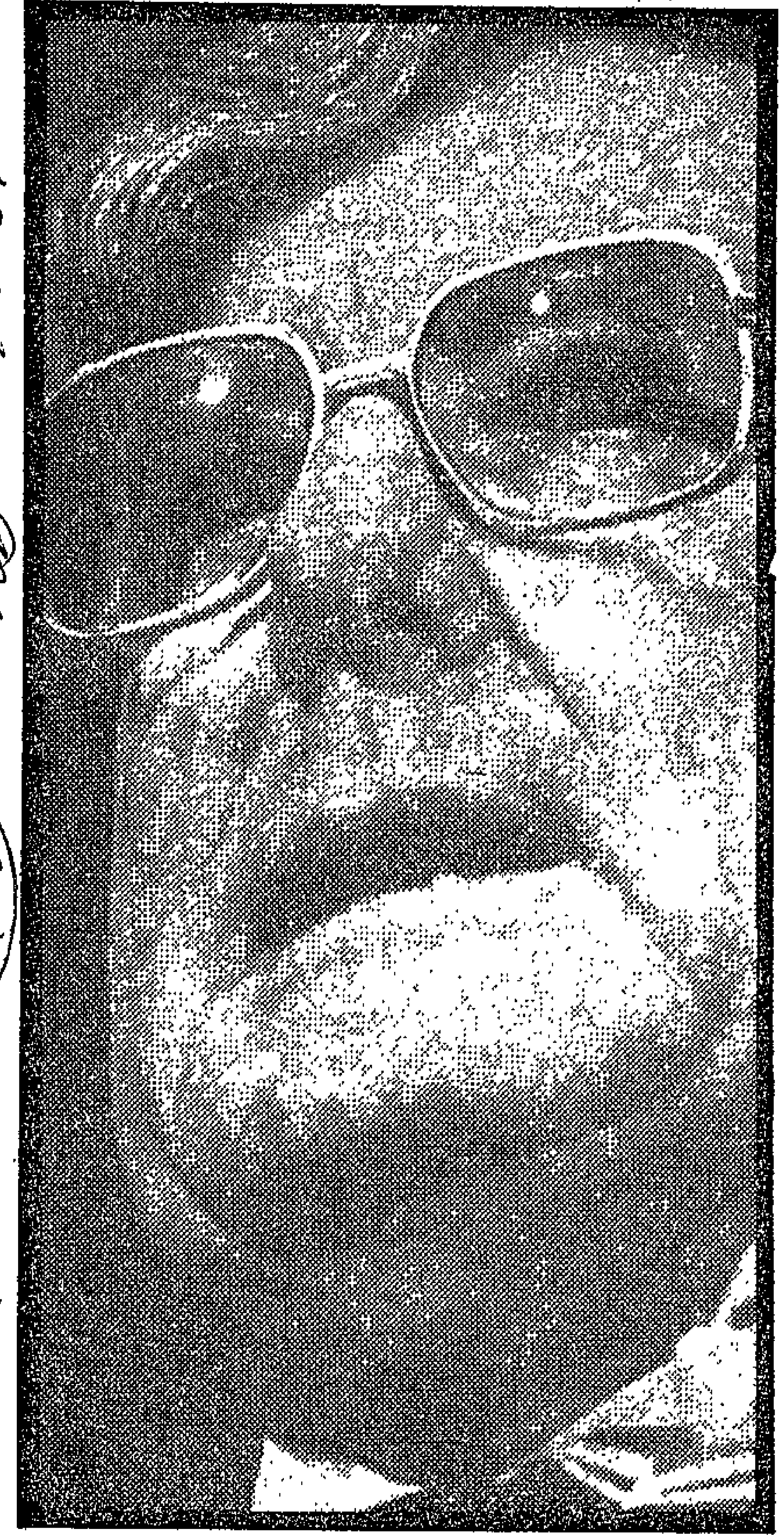
It is no coincidence that interest rates and inflation are peaking at the same time. High interest rates are not necessarily an indication of tight control of money supply. Nor has the hot air accompanying the string of Government policy statements declaring an intention to curb liquidity helped one iota towards this goal.

The current high level of interest rates reflects a premium demanded by lenders to compensate for the erosion on the value of their lendings by inflation. The high cost of money today is the result of the lax monetary control that was the root cause of this inflation.

The reason the Government has failed in its oft-stated intention of controlling the printing of new money is that the Cabinet refuses to recognise the critical relationship that exists between the money supply, prices and the level of the gold and foreign exchange reserves.

Price and interest rate stability will never be achieved in South Africa while artificial constraints are applied in the foreign exchange markets. The mistake of the National Party policymakers is their stubborn unwillingness to abolish exchange control.

By South African law, all gold production and foreign exchange earnings have to be surrendered to the Reserve Bank. In exchange the mines and exporters receive crisp new rand notes which largely come off the Government's printing press. During 1980 this printing press rolled on uncontrolled, adding billions and billions — nearly 30 percent — to the domestic money supply.



Owen Horwood: At his 'wits end', but he missed the option

By
GRAHAM MULLER
A former lecturer in economics at Natal University and economic advisor to a leading multi-national company

Minister of Finance, Owen Horwood, is quoted as saying at a recent National Party dinner that he is at his "wits end" trying to mop up all the excess liquidity in the economy. But the Minister did have an option which he chose not to exercise.

The Achilles heel of National party economic policy is the unwillingness of politicians to allow fellow South Africans the right to hold foreign currency on their own account or to use such holdings to make profitable investments abroad.

The Minister must relax and overcome the paranoia that bedevils Cabinet thinking in regard to exchange control. South African businessmen would have happily used the money that exchange control dammed up inside the South African economy over the past year to make highly profitable investments abroad at the very attractive rates of return that were then on offer in New York and London.

In the absence of exchange control the mines and exporters would not have been forced to surrender their dollars and Swiss francs for crisp new rand notes. The printing press would not have had to work overtime and market forces would have mopped up Mr Horwood's problem.

It is not only the businessmen who would have benefited. The whole economy would be healthier. Inflation would not have been fuelled. The money market would not have been destabilised. Homeowners would have been spared the inconvenience of record hikes in mortgage repayments. The benefits would have filtered right down to the man in the street.

The benefits would have been long term as well. South Africa's astute business community would now in 1981 be repatriating the profits of wise foreign investments thereby helping to lessen the adverse consequences of the large payments deficit that is today looming on our horizon.

Sadly the Cabinet is unlikely to learn by their mistakes. The illogical bogey of the greedy and unpatriotic investor siphoning off the wealth of the country to foreign climes looms too large in the National Party psyche to ever be lightly discarded. Such fears not only ignore the innate strength and robustness of the economy but misconstrue wealth as paper money. The wealth of South Africa lies in the resources of the country and the physical assets — the factories, farms and foundries that can never be spirited away.

But South Africa is ruled by a government with a siege mentality. This is the price we pay for the folly of apartheid. The National Party pays lip service to the concept of a free enterprise economy. But in fact when the chips are down government policy-makers do not have the courage of their convictions. They are afraid of the outside world and want the economy to be insulated from outside influences.

Unfortunately it takes only one inconsistency to ruin an economic policy. One unjustified interference and the whole show comes off the rails.

And in the final analysis it is the man in the street who pays, alas.

RDM 25/6/81

49

Prices and incomes policy call

By SIMON WILLSON

ANOTHER group has joined the call for a voluntary prices and incomes policy as an additional measure to combat inflation.

Mr P W Penzhorn, executive director of the National Development Management Foundation (NDMF), yesterday came out in support of prices and incomes restraint for the first time.

He said curbing the money supply was necessary to reduce inflation, and the increase in bank rate was a further attempt to bring money supply growth down.

"It is, however, urgently necessary that we look at a much wider spectrum of measures to bring inflation under control if we are not seriously to curb essential economic growth and run the risk of heavy unemployment with all its consequences.

"An attack on inflation on a broad front must include institution of some form of price and wage discipline which, I believe, should be voluntary to start with, and concerted action to improve efficiency and reduce the appalling waste in all sectors of the economy."

Mr Penzhorn told me that the NDMF had first advocated a voluntary prices and incomes policy in a private submission to the Minister of Finance at the beginning of the year.

"The Minister said he would put the matter under investigation, and we are awaiting the results of the study," Mr Penzhorn said.

The NDMF's call for a voluntary prices and incomes policy brings the organisation into line with the two other leading supporters of such a policy.

They are the Barclays Bank economist, Dr Johan Cloete, and the Stellenbosch economist, Professor J L Sadie.

Finance Minister Mr Owen Horwood, Reserve Bank Governor Dr Gerhard De Kock and the director-general of finance, Dr Joep de Loor, have always opposed the policy.

But influential sections of the National Party are thought to favour more legislation to combat the symptoms of inflation, and less reliance on tackling the causes of it by using market forces and fashionable "supply-side" economics.

The NDMF wants a new version of the "anti-inflation manifesto" of the mid-70s.

"We need a policy which involves all sectors of the economy. We need corporate employers to pledge to absorb cost increases and not pass them on to the consumer, and we need labour unions to pledge to increase productivity in return for wage increases," Mr Penzhorn said.

"The manifesto is a unique document in the free world, containing as it did a pledge by all sectors of the economy to play a positive part in curbing inflation."

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(I8a)

INDUSTRY	HOSPITAL FEES	DENTAL FEES	OPTICAL SERVICES	FREE DOCTORS' SERVICES ON A PANEL OF DOCTORS.
Baking & Confectionery (P.E. Uitenhage)	No	No	No	Includes injections, vaccinations and preventative injections.
Bedding Manufacturing (Tvl.)	No	Amount / Wage: R50 every 5 years. – R30 per wk. R75 every 5 years. – R30.05 R45. RIOO every 5 years. – R45+	Amount / Wage: R25 every 2 years. – R30. R50 every 2 years. – R30.0I -R45. R75 every 2 years. – R45+	Yes
Bespoke Tailoring (Witwatersrand)	RIO.OO or IO% whichever is less.	R5,00 towards extraction/ filling. R20,00 towards denture plates.	I free pair of spectacles every 2 years.	Yes
Canvas Goods Industry (Wits & Pretoria)	Not less than R2 and not more than R4 per day for I4 days.	I set dentures every 2 yrs. Free extractions, plastic fillings. 50% of cost of repair of dentures.	After 52 contributions 33 ⅓ cost of specs. R5,40 towards frames. Before 52 contributions % of optician's fee.	... + free chiropractic treatment.
Chemical Manufacturing (Tvl)	... and nursing home fees.	Maximum of R50 per annum, excluding gold inlays, fillings, crown and bridge work.	Optical lenses excludes: frames, sunglasses, contact lenses, repairs.	including X-rays & injections.
Clothing (Cape, Tvl, George, N. Cape, OFS, E. Province, Natal)	No	clinic Member pays 30c-extractions fillings - free dentures: member pays mechanic's fee.	optical clinic Specialist services free eye examination and lenses; frame - cost borne by member.	6 consultations for I period of illness & clinics: gynaecological, dental, medical, surgery, immunization programme.

I8b/...

Medical Aid Schemes

Table 3 shows that a racial bias exists, in terms of which medical aid schemes tend to cover predominantly whites. This stems from the skilled-worker bias of the medical aid schemes (as will be shown from membership criteria), and the fact that whites hold predominantly skilled positions. The contributions for medical aid schemes are also too high for lower-paid workers. It is however the parties to the industrial council agreements who decide on contributions rates and so forth. The parties are the registered trade unions and the employer organization. For the most part, medical aid schemes exist in industries in which the trade union is still organised on a craft union basis. These

Ten of the sixteen medical aid schemes at present existing were established after 1963 and only one existed before 1957.

All the schemes cover dependants to differing degrees, and make provisions for pensioners and widows to continue being members. The schemes pay for doctors' accounts and medicine, medical, surgical, specialist and hospital and nursing home treatment and services are also paid for. There is free choice of doctors, no doctors being appointed for consultation by the management committee. A preferential tariff is, however, laid down by the management committee of the fund.

9a/ ...

Night visit	R7,35	RI3,20	79.6

From: Matheson J.: The Economics of Health in South Africa
Source: 'Paying the doctor's bill ...' in Financial Mail, April 1977.

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Big current a/c deficit in May

RDM 25/6/81

(49)

By HOWARD PREECE
Financial Editor

SOUTH Africa seems to have recorded its largest monthly deficit ever on the current account of the balance of payments in May — perhaps as much as R550-million.

That is based, however, on provisional figures from the Department of Customs and Excise and these can be very fallible.

Inflation also has a distorting effect. A monthly deficit of R550-million would, in relation to the total money growth of the economy, be only roughly the same as one of R275-million in 1975.

According to Customs, however, there was a trade deficit of R340-million in May from imports of R1 759-million and exports of R1 419-million.

These totals now include all gold sales and purchases of oil and military equipment.

But South Africa also ran a net deficit of around R225-million a month on "invisibles" — dividends, interest, shipping, insurance, tourism etc — in the first quarter of this year.

Thus, if the Customs calculations are somewhere the near the mark that would mean an overall shortfall on the current account of the balance of payments of R500-million upwards last month.

The current account has not been in deficit on an annual basis since 1976 and the R89-million shortfall in the last three months of 1980 was, according to the official figures from the Reserve Bank, the first quarterly deficit since the R8-million recorded for January-March 1977.

In 1976 the current account had a record deficit of R1 813-million but there was no single month in which it came close to R500-million.

The deficit that year, however, was equivalent to one of around R3 600-million this year — far more than is expected by any economist.

Although Mr Owen Horwood, the Minister of Finance, is still talking of a possible current surplus this year that possibility must really be non-existent.

This is, however, no worry to Dr Gerhard de Kock, the Governor of the Reserve Bank.

He is, in fact, welcoming the current account outflow as a check on money supply.

According Customs, imports for January to May this year were R7 022-million compared with R5 429-million last year.

The export figure was R7 177-million this year and R8 308-million last year.

Trade with Europe totalled R2 878-million in imports, and R1 905-million in exports, during the first five months of this year, compared to R2 105-million and R2 193-million respectively during the same period last year.

	Cent per kg cold dressed mass
(c) Sheep and goats:	
(i) Levy	1,096
(ii) Special levy	3,304
Total	4,400
(d) Pigs:	
(i) Levy	0,777
(ii) Special levy	4,823
Total	5,600

2. This notice shall come into operation on 29 June 1981.

DEPARTMENT OF CO-OPERATION AND DEVELOPMENT

No. R. 1380 26 June 1981

95763

KANGWANE LEGISLATIVE ASSEMBLY

ACT 1 OF 1981

49

(APPROPRIATION ACT)

The State President has been pleased, under and by virtue of the powers vested in him by section 3 (2) of the National States Constitution Act, 1971 (Act 21 of 1971), to approve the following Act:

ACT

To apply a sum of money towards the services of the area of the KaNgwane Legislative Assembly for the financial year ending on the thirty-first day of March 1982

Be it enacted by the KaNgwane Legislative Asembly:

Revenue Fund charged with sums of money as shown in Schedule

1. The Revenue Fund of the area of the KaNgwane Legislative Assembly is hereby charged with such sums of money as may be required for the services of the said area for the financial year ending on the 31st day of March 1982, as shown in the Schedule.

How money to be applied

2. The money appropriated by this Act shall be applied to the services detailed in the Schedule, and more particularly specified in the Estimates of Expenditure, as submitted to and approved by the KaNgwane Legislative Assembly, and to no other purpose.

Executive Councillor may approve variation

3. With the approval of the Executive Councillor for Economic Affairs and Finance, a saving on any main division of a vote may be made available to meet excess expenditure on any other main division or expenditure on a new main division of the same vote.

Short title

4. This Act shall be called the KaNgwane Appropriation Act, 1981.

	Sent per kg koue gedresseerde massa
(c) Skape en bokke	
(i) Heffing	1,096
(ii) Spesiale heffing	3,304
Totaal	4,400
(d) Varke.	
(i) Heffing	0,777
(ii) Spesiale heffing	4,823
Totaal	5,600

2. Hierdie kennisgewing tree in werking op 29 Junie 1981.

DEPARTEMENT VAN SAMEWERKING EN ONTWIKKELING

No. R. 1380 26 Junie 1981

KANGWANE- WETGEWENDE VERGADERING

WET 1 VAN 1981

(BEGROTINGSWET)

Dit het die Staatspresident behaag om kragtens die bevoegdheid hom verleen by artikel 3 (2) van die Grondwet van die Nasionale State, 1971 (Wet 21 van 1971), sy goedkeuring te heg aan onderstaande Wet:

WET

Tot aanwending van 'n som geld vir die dienste van die gebied van die KaNgwane- Wetgewende Vergadering vir die boekjaar wat op die een-en-dertigste dag van Maart 1982 eindig

Daar word deur die KaNgwane- Wetgewende Vergadering verorden

Inkomstefonds belas met somme geld soos uiteengesit in die Bylae

1. Die Inkomstefonds van die gebied van die KaNgwane- Wetgewende Vergadering word hierby belas met die somme geld wat nodig is vir die dienste van genoemde gebied vir die boekjaar wat op die 31ste dag van Maart 1982 eindig, soos uiteengesit in die Bylae

Hoe die geld bestee moet word

2. Die geld wat deur hierdie Wet beskikbaar gestel word, moet aangewend word vir die dienste in besonderhede in die Bylae vermeld en meer omstandig uiteengesit in die Begroting van Uitgawes, soos voorgelê aan en goedgekeur deur die KaNgwane- Wetgewende Vergadering, en vir geen ander doel nie.

Uitvoerende Raadslid kan afwyking goedkeur

3. Met die goedkeuring van die Uitvoerende Raadslid vir Ekonomiese Sake en Finansies kan 'n besparing onder die een hoofindeling van 'n begrotingspos aangewend word tot dekking van uitgawes bo die gemagtigde bedrag onder 'n ander hoofindeling of van uitgawes onder 'n nuwe hoofindeling van dieselfde begrotingspos.

Kort titel

4. Hierdie Wet heet die KaNgwane-wet op die Begroting, 1981.

SCHEDULE
VOTE

No.	Designation	R
1	Authority Affair	1 014 782
2	Community Affairs	4 162 168
3	Works	12 453 037
4	Education and Culture	11 321 059
5	Agriculture	3 870 868
6	Justice	432 400
7	Economic Affairs and Finance	388 730
	Total ....R	33 643 044

BYLAE
BEGROTINGSPOS

No.	Benaming	R
1	Owerheidsake	1 014 782
2	Gemeenskapsake	4 162 168
3	Werke	12 453 037
4	Onderwys en Kultuur	11 321 059
5	Landbou	3 870 868
6	Justisie	432 400
7	Ekonomiese Sake en Finansies	388 730
	Totaal ....R	33 643 044

DEPARTMENT OF FINANCE

No. R. 1323 26 June 1981

CUSTOMS AND EXCISE ACT, 1964

AMENDMENT OF SCHEDULE 1 (No. 1/1/760)

Under section 48 of the Customs and Excise Act, 1964, Part 1 of Schedule 1 to the said Act is hereby amended to the extent set out in the Schedule hereto.

D. W. STEYN, Deputy Minister of Finance.

DEPARTEMENT VAN FINANSIES

No. R. 1323 26 Junie 1981

DOEANE- EN AKSYNSWET, 1964

WYSIGING VAN BYLAE 1 (No. 1/1/760)

Kragtens artikel 48 van die Doeane- en Aksynswet, 1964, word Deel 1 van Bylae 1 by genoemde Wet hierby gewysig in die mate in die Bylae hiervan aangetoon.

D. W. STEYN, Adjunk-minister van Finansies.

SCHEDULE

I Tariff Heading	II Statistical Unit	III Rate of Duty General	IV M.F.N.
61.01 By the substitution for subheading No. 61.01.70 of the following:			
"61.01.70 Dust-coats, overalls, dungarees, boiler suits, smocks and similar protective clothing of a kind commonly worn by factory workers, butchers, artisans or warehousemen:			
.10 Suits and overalls, designed for use by overhead transmission linesmen, of a value for duty purposes of R275 or more each	no.	free	
.90 Other	no.	35% or 35c per 100 g net less 65% with a maximum of 25c per 100 g net"	
82.13 By the insertion after subheading No. 82.13.10 of the following:			
"82.13.20 Cutters for clippers for shearing animals	no.	free	
82.13.30 Parts (excluding cutters) for hand-operated, non-electrical clippers for shearing animals		free"	

Note.—Specific provisions, free of duty, are made for—

(a) suits and overalls, designed for use by overhead transmission linesmen, of a value for duty purposes of R275 or more each, and

(b) certain parts for clippers for shearing animals.

R1 000m needed to fund budget deficit

RDM 1/7/81

(49)

By SIMON WILLSON

AT LEAST R1 000-million will have to be drawn from the private non-banking sector this year if the Government wants to finance the expected Budget deficit without fuelling inflation.

With this proviso, the latest Volkskas economic review says the funds attracted by the most recent Government stock issues are probably adequate to start the deficit financing off on a sound footing.

But the review points out that not all the R1 472-million netted by the stock issue came from the non-banking private sector.

Stock worth R836-million became due on May 15, which left R635-million net from the original issue.

"It must also be mentioned that R260-million was obtained from the public debt commissioners. Of the amount that was redeemed, R690-million went to the private sector.

"From this it can now be reasoned that the private sector (including the banking sector) made a total gross investment of R1 212-million, while R690-million was redeemed in May, so that the net amount drawn from the private sector was R522-million," the review calculates.

Looking ahead to the August Budget, the review says real demand dare not be intentionally stimulated further because of the inflationary threat, which rules out any tax relief.

"Accordingly, monetary policy measures are focused strongly on bringing the increase in the money supply down to more or less the same level as the infaltion rate in due course."

Interest rates on the market for bank credit will rise still further because of tighter financial discipline and the curbs on extending bank credit to the private sector.

Fiscal policy will have to be adjusted to support the stricter monetary measures, the review says.

"This implies that the impending Budget in August will need to have a strong element of neutrality and financial discipline."

QUANTITY SURVEYING (Continued)

Bell-John Prize

For the best all-round student in any year of study.

P C Key

The Committee of the Western Cape Chapter of Quantity Surveyors' Prize

For the student obtaining the highest marks in Professional Practice.

P R Swift

LTA Prizes

For the best student in each of the courses of Building Economics I, II and III in the third, fourth & fifth years respectively.

I : N D G Sessions

II : A R Low Keen

III: No award

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URBAN & REGIONAL PLANNING

Horwood sees no need for foreign loans

Rbm 4/7/81

(49)

By Neil Behrmann

LONDON. — South Africa will not be borrowing money abroad during the next few months even though a trade deficit looms in the wake of the lower gold price.

At a Press conference here on Thursday, Minister of Finance, Mr Owen Horwood, said there was more than sufficient trade finance abroad to finance the likelihood of "a moderate deficit" this year.

Mr Horwood said that he expected gold to remain around current levels for the next few months, at least until US interest rates declined.

Yet by the end of the year the price would probably rise because jewellers and other fabricators would take advantage of the lower prices and replenish their stocks.

Mr Horwood, however, declined to comment on the gold price which will be used for the August budget calculations, though he said it would be "conservative".

Mr Horwood said that he had discussions with governors of central banks industrialists and commercial bankers in Germany, Switzerland and the UK. He also met the UK Chancellor, Sir Geoffrey Howe.

Mr Horwood, who was accompanied by the director general of the Department of Finance, Dr Joep de Loor, and another finance ministry advisor, Dr Simon Brand, said that he would visit France too.

However, he was uncertain on whether he would meet the new French Minister of Finance.

Mr Horwood added that it was too soon to comment on any possible changes in relations between South Africa and France, following the triumph of the socialists. So far trade, including uranium exports, was normal.

Mr Horwood forecast that short term interest rates would rise further, but that long term rates were reaching a peak.

"High interest rates are one of the tools to combat inflation," he said. In the past 12 months inflation was running at 13,5%, but in recent months there were signs that price rises were beginning to level off.

Mr Horwood said that the country was attracting skilled artisans from abroad and though this was alleviating the shortage of skilled labour, education and technical training continued to be long term priorities.

Mr Horwood firmly indicated that anti-inflation policies would remain the top priority in the coming budget.

Although the country could easily borrow abroad there was no need for extra liquidity and it paid to keep monetary conditions tight at least until inflation was brought under ...

Argus 8/7/81 (49) 2448

Economic corruption 'not a bad thing'

Education Reporter

BRIBERY is not necessarily a bad thing for the nation's economy according to Mr Patrick Gardiner, a senior lecturer at the University of Cape Town's School of Economics.

Mr Gardiner made his contentious suggestion in Free Market, The Free Market Foundation of Southern Africa publication, under the heading: The Economics of Corruption.

'From the economist's point of view corruption is bad when it causes a misallocation of resources which then results in waste and losses in economic welfare. Conversely, if corruption can be shown to increase efficiency and welfare it is justifiable economically,' Mr Gardiner said.

As an example Mr Gardiner quoted a bribe to overlook a tax on an imported items.

'It may be economically justifiable if the tax has been imposed initially as a result of political pressure from vested interests who wish to protect their own inefficient industries from competition. In this case bribery in the economist's view ceases to be bad,' he said.

Similarly, if severe restrictions on motoring served only to increase motoring costs and congestion and had no material effect on safety, the law was a bad one and a bribe to a traffic officer could serve to increase economic efficiency rather than to reduce it.

Mr Gardiner said bribery could be bad if monopolistic conditions prevailed.

In the case of a government department setting the price of goods or service the official with authority to provide the service could ilegally raise the price and pocket the difference.

In the simplest case the applicant was not asking for anything illegal, Mr Gardiner said.

If the applicant were a businessman the cost could be added to all his other costs and would eventually be reflected in higher prices for the consumer.

'There is therefore a misallocation of resources and a loss of economic welfare for the community.'

An economist would set about reducing or preventing corruption by equating the marginal costs of reducing corruption with the marginal benefits achieved by its reduction.

In the case of bribing traffic officers, for example, the authorities could reduce corruption by imposing heavier penalties on traffic officers if they are caught; by increasing the risk of conviction by employing more police to reduce corruption, or by paying the officers more and thereby reducing their incentive to accept bribes.

In these cases, the size of the bribes would increase while the quantity would decline as fewer people could afford them.

However, the final result may be an even greater misallocation of resources than before.

'This is so even if we ignore the increased costs of the authorities, such as higher salaries for traffic officers or extra police needed to investigate corruption.

'The reason is that the total amount paid in bribes may have risen and this sum represents the misallocation of resources,' Mr Gardiner said.

IMMOBILE LABOUR THREAT TO ECONOMY — Kantor

ArMo 8/7/81

(49)

SOUTH AFRICA, with its subsidised housing and rent control, could in time suffer from the British disease of immobile labour, says Mr Brian Kantor, senior lecturer in economics at the University of Cape Town.

Speaking at the annual dinner of the Western Province region of the South African Property Owners' Association, Mr Kantor said housing policies needed to be closely examined from the view of mobility of labour.

'The problems occur when — as in South Africa — economic policy discourages the mobility of resources, either by stopping people from moving to where the jobs are or by restricting employers from offering jobs.

'The absence of a free market for housing and subsidised housing can discourage mobility which means slower economic growth generally.'

This happened when labour was more abundant in areas of slow growth and where mobility was restricted.

'The outcome is not unemployment but lower wages which could cause some workers to withdraw from the market. Extra unemployment will result if unemployment benefits are high, relative to the wages people can expect to earn.'

Subsidised housing in Britain and a highly restricted market in rented accommodation made the economy highly vulnerable to changes in regional output.

'Jobs at apparently generous wages may be available in another part of the country, but after the costs of renting or buying in these areas are taken into account, it may not pay to move. The dole may be a superior alternative.'

The results were unemployment in depressed regions and lower output in areas of growing demand for products or services.

Dealing with the Cape, Mr Kantor said the cost and availability of housing — other than white housing — was largely determined by Government policy.

These policies made the coloured labour force less mobile than white labour but probably more mobile than black labour.

'That blacks are restricted from access to employment opportunities at the Cape tends to make unskilled labour more expensive here than elsewhere, which is the major disadvantage suffered by the region.'

'YOU CAN'T RIDE TWO HORSES — APARTHEID AND FREE ENTERPRISE — AT ONCE'

RDM 9/7/81

(49)

Business is business: it can't be categorised into 'white business' and 'black business', Anglo American executive director DENNIS ETHEREDGE said in the keynote address to the National African Federated Chamber of Commerce congress this week. Here is an edited version of his speech in which he calls for far-reaching reform.

SOUTH Africa has a mixed economy with the State owning and running most steel production, power generation, rail and air transport, broadcasting and television — and much, much more.

The State also has considerable controls over private enterprise, and its interference with normal free market operations is all-pervading — we have, I believe, over 20 control boards, we have price control over a wide range of items and we have legislation prohibiting this and restricting that.

The mass of our working population — the blacks — are also entangled in a web of laws which so restrict their mobility — the very heart of the free market system — and control them in so many other ways that it is totally wrong to suggest that they live in a capitalistic state. They live under socialism.

And so we have a country which is called one of the last bastions of capitalism in the world being in reality, for the majority of its people, a socialist State. I am not just playing with words: Where the lives of the people of any State are centrally planned and controlled through legislation which determines where they will live, how they will be educated, on what markets they may offer their labour, what limitations there will be on their aspirations for skilled and managerial jobs — where this happens you have socialism.

This certainly happens in South Africa where we have the remarkable situation of capitalism — mostly for the whites — and socialism — mostly for the blacks — living side by side.

The tragedy of this situation is that many blacks look upon free enterprise as the economic wing of apartheid. Because the fruits of free enterprise seem to be concentrated on whites and because whites rule the country, blacks tend to associate free enterprise with apartheid and with the various oppressive measures to which they are subjected. This is, of course, a distortion of free enterprise which, separated from political measures, is from my experience of living not only in South Africa but also in Zambia and Zimbabwe, highly acceptable to blacks. I believe the black man is potentially the capitalist par excellence.

On November 20, 1979 — at the now famous Carlton Hotel meeting between the Prime Minister and leaders of the private sector — business leaders were given an open invitation to participate more fully in the development of the economy, it being acknowledged that there are many areas in which the private sector is likely to do a better job than the State.

There was no blueprint or plan of operation — just a general debate on development in Southern Africa. What the Carlton Conference did, however, was to turn the spotlight on free enterprise in a way which has not been done before.

> *A major advance of free enterprise is not possible within the apartheid philosophy and while discriminatory laws pervade the life of the majority of people*

It became more clear than ever before that we are near the limit of business growth which can be achieved with only whites in the skilled and managerial jobs and that a positive growth rate in the 1980s, say around 5%, would be achieved only if blacks entered these jobs in increasing numbers, numbers which as the years went by would far exceed the number of whites.

This, in itself, is not the problem — though there are some white South Africans who do not easily accept that the future composition of skilled and managerial work will be increasingly black. The problem lies in the inadequate preparation of great numbers of blacks to enter this field, in terms of education and training, and in the constraints on their mobility, job aspirations and so on.

What has become more and more obvious is that a major advance of free enterprise is not possible within the apartheid philosophy and while discriminatory laws pervade the life of the majority of people. In essence, you can't ride two horses at once — apartheid and free enterprise. And, over the 18 months since the Carlton Conference, the dismantling of legislative constraints has not proceeded far enough to leave South Africa firmly in the saddle of the free enterprise horse.

Let me put this in other words. If economic growth over the whole of Southern Africa is to be accelerated, the main effort will have to be directed at giving real opportunities to blacks in employment, investment and entrepreneurship. And that means, in plain and clear terms, that the appalling web of constraints and controls on blacks will have to go as these severely restrict and completely destroy opportunities. It seems to me that the Government can forget its dreams about private sector-led economic growth unless it itself is prepared to clear the barriers away.

The stakes are very high. Southern Africa, with its immense resources of people, minerals, arable land, cheap energy and the like could become a "take-off" state herself, outrun smaller growth areas like Hong Kong and Taiwan, and become one of the most powerful economic areas in the world. I suggest there is no other State on earth with our potential.

I agree fully with my old friend, Sam Montsi, Managing Director of the Lesotho National Development Corporation, who told the Black Businessman of the Year banquet early in May: "I am convinced, more than ever before, that without apartheid, Southern Africa could be the next super-power in the world. We have the land, the natural resources and the people. All we need to do is exploit every one of these."

Regrettably we are a long way from the "take-off" point and there will have to be such a change in attitudes and behaviour that we cannot hope for an early acceleration. This does not mean that we will not grow. Our resources are such that we shall grow despite ourselves. But greatness will not be ours until we can have a genuinely free market — and all the other freedoms too.

The starting point is to disentangle the vast web of legislation which throttles progress. Admittedly some progress has been made in the last few years. Mr Sam Motsuenyane (president of Nafcoc) said recently in a speech to the Alexandra Chamber of Commerce that since 1976 the Government had been flexible and "many laws were amended to suit us". He called for black businessmen to pull up their socks and make use of their opportunities.

True as this may be, a huge task lies ahead, so huge that it is difficult to know where to start. Literally thousands of statutes, ordinances and by-laws are involved, affecting the administration of every State department, provincial authority and local council.

The Free Market Foundation has done a service in listing the legislation I am referring to. The mind boggles at the task of changing it and, if it is left to the law advisers, progress will be very slow. This is not said in an unkind way, but from knowledge that they are already heavily overworked and not ready for such a task in the sense that dismantling has not been their responsibility for over a generation. They have learned to legislate for control, not for freedom.

There is a very real danger that they will replace one set of controls with another. The problem has been created by too much interference and it cannot be solved simply by changing the pattern of interference. Here, as elsewhere in the world, the bureaucratic response is too often: "If it is free, shackle it".

If we are to have a speedy process of dismantling, extensive planning and co-ordination is necessary and all interested parties should be asked to contribute. We have recently seen a refreshing example of this in regard to the three Bills affecting black urban life which were published on behalf of Dr Piet Koornhof, Minister of Co-operation and Development. They were heavily criticised and were then referred by him to representative ad-hoc committee for review and redrafting.

Somewhat different, but equally refreshing, has been the Human Sciences Research Council committee on education — the De Lange committee — which has gone out of its way to involve hundreds of South Africans in reaching its conclusions. I would urge that our legislation at national, provincial and local level which inhibits the growth of free enterprise should be the subject of a similar committee composed of senior civil servants, law advisers, academics and business leaders of every race.

> *Since the Carlton Conference the dismantling of legislative constraints has not proceeded far enough to leave South Africa firmly in the saddle of the free enterprise horse*

They should not only review the legislation but prepare excisions and amendments which could be placed before Parliament. I believe that it is only by such action that we shall untangle the web: anything less will take years and years.

In particular, they must rewrite the laws which hurt the newcomer to the business world because they protect established business interests; starting with the crucial factor of access to land with particular reference to the Group Areas Act. Vested interests will find this unpalatable, but the basic fact is that the private sector cannot grow unless the newcomer is given real freedom and opportunity.

I am not so naive as to expect the outcome to be a totally free society or a totally free market but I believe that the Government should give very serious consideration to this proposal and should set the objectives to be achieved, and provide guidelines on such matters as methods, training and procedures for implementation. I am sure that they will be able to count on the private sector, including Nafcoc, to co-operate fully with them in such a major undertaking which could lead to a wonderful future for everyone.

Another interesting idea which is being thought through by some businessmen and could lead to an approach to Government for further consideration, is the creation of a Free Enterprise Region. This would be a pilot project and would involve the suspension, in the chosen area, of the controls on free enterprise so as to give it a chance to show what can be achieved while the longer process of untangling the legislative web goes on.

There are of course, many problems in this concept, not the least being the choice of the first Free Enterprise Region, but the idea certainly commends itself particularly if the process of de-legislation proves to be longer and more complex than we would hope, even with the efforts of the ad hoc committee which I have suggested.

Such a region could not be the Pretoria-Witwatersrand-Vereeniging complex, or Johannesburg or one of our larger cities because this would cause too great a distortion in the economy. Rather, should it be some growth area such as, say, Richards Bay and its hinterland. There is no shortage of possible regions and it is quite possible that this concept is worth early consideration.

These ideas — the ad-hoc committee and the Free Enterprise Region — are aimed at an evolutionary but massive change in the operation of free enterprise in South Africa and the acceleration of black business in the 80s.

IDC financed R125m for export credits

RDM 15/7/81 (49)

Financial Reporter

THE Industrial Development Corporation made R125-million available over the past year in export credits.

Export contracts totalling more than R600-million have been financed during the past 20 years through the IDC's export finance scheme.

These points are made in a statement accompanying the third reprint of the IDC's "Export Finance Guide".

It says: "These credits have enabled South African exporters to build supply ships and fishing nets for Norway, fishing trawlers for Canada, oil rigs for the United States, fish meal factories for Peru and Ecuador, containers for Bermuda and Britain and earthmoving equipment for Paraguay."

Other projects have included "mine locomotives for Argentina, railway rolling stock for Taiwan, stone crushers for Mauritius and Reunion, sugar mills and grain silo complexes for Malawi and Swaziland, a hydro-electrical scheme for Transkei, a steel mill for Korea, a cement plant for Uruguay, an abattoir for Greece etc."

The IDC statement says: "Furthermore a number of successful joint venture arrangements between SA exporters and international partners were also established.

"The popularity of the scheme is further exemplified by the fact that during the past financial year alone the IDC made more than R125-million available in export credits.

"In order to accommodate export contracts of capital goods from South Africa to certain specific countries and to facilitate the granting of such loans the IDC has recently concluded several lines of credit, for example, with Ecuador, Mauritius, Israel, Bolivia, Uruguay and Chile.

"The vitality of the scheme enabled it to keep pace with demands in international trade.

"Because of the growth in the size of projects and to ensure that SA contractors remained competitive internationally certain innovations became necessary over the years.

"An important breakthrough was the design of a mechanism in terms of which the IDC in conjunction with merchant banks allowed interim advances to SA exporters against progress certificates during long construction periods of big projects."

QUANTITY SURVEYING (Continued)

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RDM 10/7/81 (49)

Gold, forex reserves down R202m

By HAROLD FRIDJHON

TOTAL gold and foreign exchange reserves of the Reserve Bank droppped by R202-million at the end of June from R5 063-million to R4 861-million.

The revaluation of the gold holdings at a price of R352,47 an ounce, compared with R360 an ounce in May, resulted in the value of bullion held declining by R82-million to R4 328-million in spite of a rise in the quantity of gold held.

The Reserve Bank's bullion stock went up by about 28 600 ounces which is not a significant increase.

The biggest loss in the reserves, R106-million, was in "other foreign assets" which is mainly currency. With the current account running a deficit this was to be expected.

The amount of bills discounted by the central bank was marginally lower at R467-million and reflected the intense squeeze which is being experienced in the money market.

"Other" loans made by the bank droppped by R34-million. In two months this figure has come down by R60-million and suggests that the Reserve Bank is trying to cut down on its advances, as it is pressing the private banking sector to do.

During the month, the Reserve Bank sold a net R69-million of Government securities in the course of its open market operations.

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Reserves down by R202m

CT 10/7/81 (49)

Own Correspondent

JOHANNESBURG. — Total gold and foreign exchange reserves of the Reserve Bank droppped by R202m at the end of June from R5 063m to R4 861m.

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Gold: 'SA can expect a deficit'

CT 10/7/81

(79)

(49)

JOHANNESBURG. — At the present gold price level, South Africa could this year expect a moderate deficit in its current account, the Minister of Finance, Mr Owen Horwood, said yesterday.

Speaking at a press conference at Jan Smuts Airport on his return from a two-week European tour, he said he felt the main reason for the present easing off of the gold price was the very high interest rate abroad.

This was especially so in the United States where there was a prime interest rate of about 20 percent.

"This means people holding gold may hope that interest rates will come down. But if they don't and they stay there for some time, as they have been doing, some people will eventually say it is about time they sold their gold and invested it where they can get 20, 21 or 22 percent on their capital, if not more."

Genrally speaking, he did not think one could say the present gold price was a result of lack of confidence in the metal.

"I think it is a hard business view that is being taken in relation to the alternative income you can get if you release your gold and get the cash and then invest it at very high rates of interest.

"If interest rates are going to remain high, we may have to expect the price of gold to remain comparatively low."

"What it really means is that where the very high gold price, with other exports, gave us the record surplus in our current account, something like R3-billion last year, we will at this rate, I would think, certainly have a moderate deficit in our current account this year."

Mr Horwood, who visited Frankfurt, Bonn, Geneva, Lausanne, London and Paris, said he had come back very encouraged, adding there was enormous constructive interest in South Africa.

"There is no doubt, talking generally, that the European economy is not in good shape."

Unemployment

Great Britain's unemployment was 2,5 million, France's 1,8 million and West Germany's nearly 1,5 million. This was cause for considerable concern. Growth rates were very low and the immediate outlook was not very good. There were also balance of payments problems.

"With the slack in the economy, we will have to be more and more competitive to maintain our exports."

Referring to a statement by the French Government on Wednesday regarding nationalization of privately-owned French banks, he said general expectations were that large banks would be nationalized.

"But we have made it clear that we want business as usual."

Interest

Mr Horwood said he found considerable interest in the idea of a constellation of Southern African States, the proposed multi-national bank and the small business corporation.

As far as the development bank was concerned, he hoped the government could make an announcement soon.

Generally, South Africa's creditworthiness abroad was extremely high.

Although he did not go overseas specifically to obtain loans, there was no doubt that if South Africa wanted them, it could do so on better terms than for a long time.

"But we must take into account that the European economy is not in good shape." — Sapa

Little relief for the taxpayer in Budget

RDM 14/7/81

(49)

By GERALD REILLY
Pretoria Bureau

A BUDGET with little comfort for the taxpayer is virtually certain to be tabled in the Assembly in August by the Minister of Finance, Mr Owen Horwood, according to the PFP's finance spokesman, Mr Harry Schwarz.

There was also a possibility that direct or indirect taxation might be increased.

"Taxpayers will realise next month why the Government held a General Election in April. It's going to be a post-election Budget with little thought given to the reaction from taxpayers."

Mr Schwarz said when the electorate was asked to vote in April the Government failed then to outline the country's economic prospects in inflation and taxation.

"They gave the Government a blank cheque — the cheque will now be filled in by the Minister of Finance on August 12."

Mr Schwarz said the plunge in the gold price had knocked a big hole in Government revenue and mining taxation would drop spectacularly.

"So money will have to be found from other sources."

Increased Government spending on defence, education and housing could be expected. The Cabinet had committed itself to a realistic expansion of free education for blacks.

This meant more schools, more teacher training colleges and a lot more will be spent on school books and equipment.

Housing was another priority which could not be ignored.

The housing shortage in urban townships had been of crisis proportions for a decade and to catch up would mean a vast allocation of State funds.

It was obvious, Mr Schwarz said, that the Government would find extreme difficulty in cutting back on State spending.

To make up for the big shortfall in gold mining taxation, the Minister had a number of options.

He could borrow on the local market which would further increase the upward pressure on interest rates. This in turn would discourage borrowing in the private sector and could accelerate the economic slowdown.

Funds could also be borrowed abroad and the climate there was right. There was still an "afterglow" from last year's spectacular economic growth, and a relatively sympathetic administration in Washington.

These factors should make borrowing significant funds relatively easy.

However, squeezing more from taxpayers directly or indirectly could not be ruled out.

Another vital issue with which the Minister would have to deal was the continued growth in the money supply.

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QUANTITY
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(Continued)

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Businessmen are 'less optimistic' — Barclays

CT, 14/7/81 (49)

JOHANNESBURG. — After the euphoria of the past few quarters, Barclays National Bank's quarterly survey on the business outlook says that businessmen have become noticeably more cautious about prospects for the months immediately ahead.

The survey, published in the July issue of Barclays Business Brief, says that most firms interviewed towards the end of June continued to be optimistic about prospects in their centres or areas over the next three to six months.

Compared with the position at the end of March, however, there was a significant increase in the percentage of firms stating that they were now pessimistic about the outlook for business in the coming months, while the division between optimistic and reasonably optimistic firms has also swung markedly towards the latter.

"The general business mood now appears to be less optimistic than it has been for quite some time," comments Barclays.

"Manufacturers in particular appear to be less sanguine about prospects in the third quarter of this year, although most trading customers also expected little or no improvement in business in the months immediately ahead."

The main reasons for optimism were sufficient orders, supplies of raw materials and merchandise and no changes in the degree of competition.

The main reasons for pessimism were declining profit margins, labour shortages, likely financing problems and stronger competition.

A majority, 57 percent of all trading customers reported improved business conditions during the second quarter, compared with the first quarter, after making allowance for the normal seasonal trends.

"Of these, however, 36 percent stated the improvement was only slight, against 21 percent reporting a significant improvement.

About 31 percent said that sales levels were unchanged from those in the first quarter, while 12 percent said they declined a little.

Results

Dealers in foodstuffs and other non-durable consumer goods appear to have had better results during the second quarter than those in furniture and other durable goods.

Traders in semi-durables, such as clothing and footwear, also reported good results generally.

With...

...noticeably more cautious about prospects for the third quarter than they had been for some time.

"On this occasion, in fact, the great majority (74 percent) said they expected that results during the next three months would show little or no change from those achieved during the second quarter.

"Only 17 percent expected an improvement, while nine percent expected production/sales would show a decrease."

Activity in building and construction also appears to have slowed down.

Some 55 percent of respondents in these industries reported unchanged work levels, while only 34 percent said work loads had been at higher levels during the second quarter.

Building

At the end of March, 61 percent of building and construction firms had still reported increased activity, compared with the preceding quarter, while only 29 percent reported unchanged work levels and only 12 percent lower work loads.

In common with manufacturers and traders, building and construction customers were also noticeably less optimistic about prospects in the third quarter.

A majority 57 percent expected unchanged work levels, compared with the second quarter, while 28 percent anticipated a decline and only 15 percent expected that work levels would increase.

The percentage of firms stating that they were planning to undertake new fixed investment over the next three to six months was some 12 percent lower than at the time of the previous survey in March.

Now, 45 percent of respondents said they would spend money on new fixed assets in the months immediately ahead, while 55 percent stated they were not planning any new fixed investment for the next three to six months.

In the March survey, the corresponding percentages were the other way around — 57 percent planning new investment and 43 percent not contemplating any new investment.

On the question of stocks, most retailers and wholesalers continue to report that stocks are at adequate levels in relation to expected sales.

On profit prospects, Barclay's March survey revealed 60 percent of firms saying that profit margins were increasing.

Now, however, ...

...of skilled labour in the year ahead.

The "mode" values of expected cost increases for this year appears to be in the range of 14 to 15 percent for wages and 15 to 16 percent for unit costs.

"This suggests an inflation rate for the year of around 15 percent as there usually is a close correlation between wage and unit cost increases and the inflation rate," says Barclays.

"Present indications are that, after having slowed down somewhat over the past three months, the inflation rate could accelerate again over the next three or four months under the impact of a series of administered price increases.

"By the final quarter of the year, however, the business cycle contraction and the high interest rates should start to exert downward pressure on wage increases and on employment, with a consequent slow deceleration of the inflation rate by that time." — Sapa with results obtained during the second quarter.

About a quarter expected a slight improvement, while only some five percent expected a significant improvement. The remaining 13 percent anticipated that business would be down in the third quarter.

"Dealers in durable consumer goods were clearly less sanguine about prospects for the third quarter than those in non-durables and semi-durables," says Barclays.

"While 45 percent said sales levels in the third quarter were likely to be roughtly on a par with those in the second quarter, a significant 29 percent expected a decline, against only 26 percent expecting an improvement."

Manufacturing firms reported conditions similar to those in the retail and wholesale trades.

A majority 58 percent said that production/sales levels in the second quarter were more or less unchanged from those obtained in the first quarter.

Some 38 percent reported increased production and sales, while only some four percent said business volumes showed a decline.

Consumer goods

Manufacturers of consumer goods reported markedly better results than those producing machinery, equipment and intermediate goods.

About half of firms manufacturing consumer goods reported higher production and sales levels during the second quarter, while 48 percent said business was on about the same level.

In the case of manufacturers of machinery and equipment and intermediate goods, 31 percent and 34 percent, respectively, reported increased business in the second quarter, while 62 percent and 64 percent, respectively, said sales and production levels were roughly unchanged from those achieved during the first quarter.

"Our manufacturing customers, however, were no- percent of respondents said that, compared with 1980, they were still expecting an increase in total profits for 1981.

A substantial 41 percent, however, said profits this year would be about on a par with those for 1980, while 15 percent expected a decrease.

In the March survey, respondents had been markedly more optimistic, with no fewer than 71 percent expecting an increase in profits for 1981, compared with last year.

Cash flows

Most respondents (85 percent) continued to experience satisfactory cash flows, with 77 percent reporting that debtors were paying accounts on time.

At the same time, some 60 percent said they anticipated having to increase their use of bank credit in the year ahead.

Asked about the extent of their anticipated increased borrowings, the most frequent reply given was in the range of 20 percent and above.

No fewer than 76 percent of all respondents reported they were currently operating at or near full production.

As far as the aviability of labour was concerned, 62 percent said skilled labour was in very short supply, while a further 36 percent reported that this category of labour was in short supply.

In the case of semi-skilled labour, 55 percent said that this type of labour was in short supply, while seven percent said semi-skilled workers were in very short supply. The remaining 38 percent reported that this category of labour was still readily or freely available.

As can be expected, there was no shortage of unskilled labour, with 62 percent of respondents stating that this category of labour was freely available and 32 percent reporting that unskilled workers were readily available.

Most (86 percent of firms spoken to) also said that they did not foresee any significant improvement in the present tight situation in repect

QUANTITY SURVEYING

Grave doubts on SA 5% growth ability

20/3 15/7/81

49

Financial Reporter

THERE are major doubts about whether the South African economy can now physically sustain an average annual growth of 5%, according to Dr Johad Cloete, chief economist of Barclays National Bank.

This is because of fixed investment bottlenecks and skilled labour shortages.

In any case, Dr Cloete argues, inflationary fears will soon compel the authorities to restrain demand and thus growth.

He says in Barclays Business Brief that a slow recovery is expected in the major overseas economies towards the end of this year or early 1982.

This should encourage an improvement in South African merchandise exports and perhaps in the gold price.

Dr Cloete says: "In the meantime the current downswing of the (SA) business cycle will almost certainly gain momentum into 1982, particularly under the impact of the rather belatedly imposed credit squeeze, and it would not be surprising if the growth rate should drop further to 3% to 3,5% for 1982, before picking up again in 1983.

"If these growth prognostications should, in fact materialise it would mean that over the complete business cycle 1978/82 the growth rate would average only about 4,4% a year.

"After having obtained a level of 7,6% in 1974 the economic growth rate also fell away sharply during the previous business cycle downswing to only 1,6% in 1975, 1,3% in 1976 and to zero in 1977.

"Over the complete business cycle 1973-77 the average annual growth rate was thus only 2,9% which in the socio-political situation prevailing in South Africa was quite unacceptable.

"It is true that the South African economy was subject to a concatenation of adverse circumstances over the period 1973-77 that can perhaps be considered as having been abnormal.

"However, the fact that after only one year of exceptional growth the economy once again appears to be slowing down rapidly and seems likely once again to be producing an average growth rate over a complete business cycle of less than 5% is a cause for concern.

"It raises the question whether the capital and labour resources at the disposal of the economy are, in fact, increasing at rates sufficiently high to produce a growth rate of 5% a year on a sustained basis."

This is especially so "if it is borne in mind that the economy has been enjoying the benefit of a major break-out and a very substantial increase in the price of its principal export which might not be repeated, at least for some years".

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The Committee of the Western Cape Chapter of Quantity

Oppenheimer says the boom could have been better used

BDM 16/7/81 (49)

SA missed its chance

By JOHN MULCAHY
Mining Editor

ECONOMIC growth this year cannot be expected to match the high rate achieved in 1980 and it is evident South Africa did not make the best possible use of the favourable conditions a year ago to build a stronger foundation.

Mr Harry Oppenheimer, chairman of Anglo American Corporation of South Africa, says in his annual statement it is because of this that the authorities now find it necessary to raise interest rates by adopting a tight credit policy.

"Even so it seems likely that gross domestic product will grow at a rate of about 4,5%, which if compared with other countries would seem to be a very satisfactory figure."

Against this, however, Mr Oppenheimer notes that the average increase in gross national product from 1975 to 1980 was only 3% — "including last year's exceptional figure of 8%" — and was well below the 1952 to 1980 average of 5,3%.

With the economically active population likely to grow at an annual rate of 2,5% — from 10 700 000 to about 18-million by the year 2000 — a growth of at least 5% a year in GNP will be necessary to absorb the corresponding increase in the labour force — "to say nothing of the unemployment that exists at present".

The economic problems facing South Africa are closely interrelated and by no means confined to this country, says Mr Oppenheimer, and it would be unwise to redard the situation complcently.

Mr Oppenheimer poses three questions:

- How is South Africa to tackle the problem of inflation without inhibiting the growth necessary to absorb the rapidly increasing working population?
- How is it to maintain and expand a modern industrial system which must be internationally competitive when resources of skilled people are in short supply and there is massive unemployment among the unskilled?
- If the conclusion is that the answer lies in favouring a labour-intensive low-w... reconciled in South African conditions with social justice and industrial and racial peace?

He says it is often argued that the narrowing of the wage gap is inflationary and likely to cause further unemployment because it is calculated to encourage mechanisation.

Over the past 10 years the gap between white and black wages is estimated to have narrowed from 20 to one to 6,5 to one in the gold-mining sector, and to 3,7 to one from 5,7 to one for the entire non-agricultural sector.

If the wage gap had not been narrowed at all, the total wage bill would have been reduced by about R3 000-million.

However, says Mr Oppenheimer, it is inconceivable that the wage gap would not have been closed at all. Assuming that it could have narrowed only half as much as it had, the additional cost in wages of what was actually done to what might conceivably have been done was R1 800-million, equivalent to 8,6% of the total increase in remuneration over the past 10 years.

"In all the circumstances, not least the other inflationary factors then prevailing, I cannot regard black wage increases of this magnitude as being in any way excessive in regard to the fight against inflation."

If the process of mechanisation, however right in the long run, has in some industries gone further than it should have, Mr Oppenheimer says "we must seek the cause not so much in the efforts of employers to eliminate racial discrimination in wage rates as in the maintenance until very recently of interest rates which were well below what supply and demand would have determined in a free market."

If the cost of money is maintained at the rate of inflation — "or below it, as has not infrequently happened" — it must provide a powerful incentive to high capital expenditure throughout the economy.

"However, the Government's new policy of relying to a much greater extent on market factors to determine interest rates and the external value of the rand will act both directly and indirectly to reduce inflation and direct the country's economic resources, material and human, to the best advantage."

In the short run the adjustments by the Minister of Finance and the Governor of the Reserve Bank in bringing monetary policy into line with fiscal policy will be painful for the money and capital markets "but it was entirely necessary to regain control of the monetary base".

"It may reasonably be hoped that the present stringent policy will not be required for very long, and that interest rates will ease towards the end of the year."

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M P Morkel

Horwood's hoping for 5% growth

EOM 16/7/81 (49)

Financial Reporter

THE South African economy "is extremely well, it is performing extremely strongly at this moment", the Minister of Finance, Mr Owen Horwood, said yesterday.

He was opening a R4 500 000 factory extension at Industrial Fastener Manufacturers in Boksburg.

Mr Horwood said the growth rate this year could well realise 5% and that South Africa's growth rate of 8% last year had been the best rate in the world.

Compared with European countries, which he had recently visited and where economies were relatively gloomy, South Africa was still experiencing favourable economic conditions.

Another 5% growth rate on top of last year's 8% would therefore be substantial.

Mr Horwood said the optimistic attitude to the South African economy was reflected by expansion programmes like that of IFM.

He had learned from his visit overseas that South Africa's credit rating in the Western world had also become stronger than ever before.

This was another indication of the trust that was placed in South Africa's economic growth.

Referring to the gold price, he said South Africa should not worry about its current levels as the price was at a "relatively low level" which would have to go up.

The currently high American interest rates (over 20%) could not stay as high as that and a return of investment in gold, backed by industrial demand for the metal, would send the gold price upwards again before the end of this year.

o Mr Horwood made a strong attack on Dr Johan Cloete, chief economist of Barclays National Bank — but this seems to have been based on a misunderstanding.

He accused Dr Cloete of excessive "pessimsim" and said that he had claimed South Africa would not achieve a growth rate of 4,5% or more this year.

In fact, Dr Cloete has consistently said growth could even reach 5% this year.

But he has been far more sanguine about the prospect for next year, as are most economists.

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URBAN & REGIONAL PLANNING

Investment By DEREK TOMMEY

Investment boom runs into trouble

Argus (Bus) 49 180 8/7/

SOUTH AFRICA is now experiencing its biggest investment boom. Although we have not seen much of it in the Western Cape, thousands of millions of rands are being invested in new projects in the Transvaal and Free State.

However, this investment boom, which is responsible for much of the country's present prosperity, seems to be running into difficulties.

The sharp rise in interest rates in recent months and the jump in building and construction costs suggest that the investment boom could be getting out of hand.

Because of the strong demand for money to finance private sector spending, money market rates have soared to record levels and there is now talk that they could go even higher.

DOUBLED

Building costs for the man in the street appear to have doubled in the past two years, greatly increasing the cost of new houses and also of new factories and office blocks.

These high money rates and high building costs are serious developments which must be causing the Government's economic advisers in Pretoria considerable concern.

One reason is that they could be laying the foundations for another wave of inflation just at the time when the rest of the world is hoping for some reduction in the pressure on prices.

They could also make the transition from boom to non-boom conditions much more difficult when it comes, with the run-down in the economy being far steeper than desirable.

REDUCE RATE

An indication of the Government's concern was the statement this week by Dr Chris Stals, senior deputy governor of the Reserve Bank, that the Reserve Bank was determined to force the commercial banks to reduce the rate of increase in their lending to the private sector.

Reserve Bank policy would therefore seem to be aimed at cooling the investment boom by withholding funds from the private sector. But there is a strong suspicion that the boom has gone much too far for this policy to have anything other than a modest effect.

The fact is that an investment boom has much in common with a pregnancy. Once the child or boom has been conceived and has started growing there is little that can be done to slow this process down without causing serious harm.

OVERHEATING

The current investment boom was conceived 18 months to two years ago when the gold price rose above 500 dollars an ounce for the first time. It was then that the authorities should have acted to prevent the current overheating of the economy.

At the time, readers will recall, the economy was flush with money, interest rates were low and business confidence was almost overpowering.

It seemed to a great many entrepreneurs a good time to expand. They drew up their plans, made arrangements with their banks for the necessary finance, and then started placing orders for their new factories and equipment.

The gold mines were among the leaders in the investment boom, with many announcing large expansion plans. This meant that their suppliers also had to expand to meet their needs, which put pressure on other resources.

MORE HOUSES

So the process continued. More people were hired and therefore more houses were needed. And with more people in jobs, consumer spending had to increase.

But now the bills are falling due. Equipment ordered a year ago is beginning to arrive. Construction companies have to be employed to install this equipment, and stocks have to be built up so the equipment can be put to profitable use.

As a result of all this the banks are now being called on to fulfil the commitments they made to their clients 18 months or two years ago.

MONEY SUPPLY

In the light of this the Reserve Bank's apparent shock at this year's steep growth in the money supply and its attack on the commercial banks for granting too much credit seems a little out of line.

If the monetary authorities had not wanted such a strong investment boom this year — and it should have been well within their powers to have foreseen what was likely to happen — they should have taken action at the beginning of last year.

It was fairly clear at the time that if steps were not taken to reduce the internal liquidity the country could be harmed by an embarrassment of riches.

The obvious course was to ease exchange control, and there was considerable support for this move.

But somewhere in the Government this proposal ran into strong opposition.

There appeared to be some lack of faith in the country's economic future. It was argued that if exchange controls were relaxed and there was another major riot, South Africa would have no foreign exchange reserves left.

With a "back to the laager" mentality still prevalent in part of the Government, this submission gained the day.

LEFT OPEN

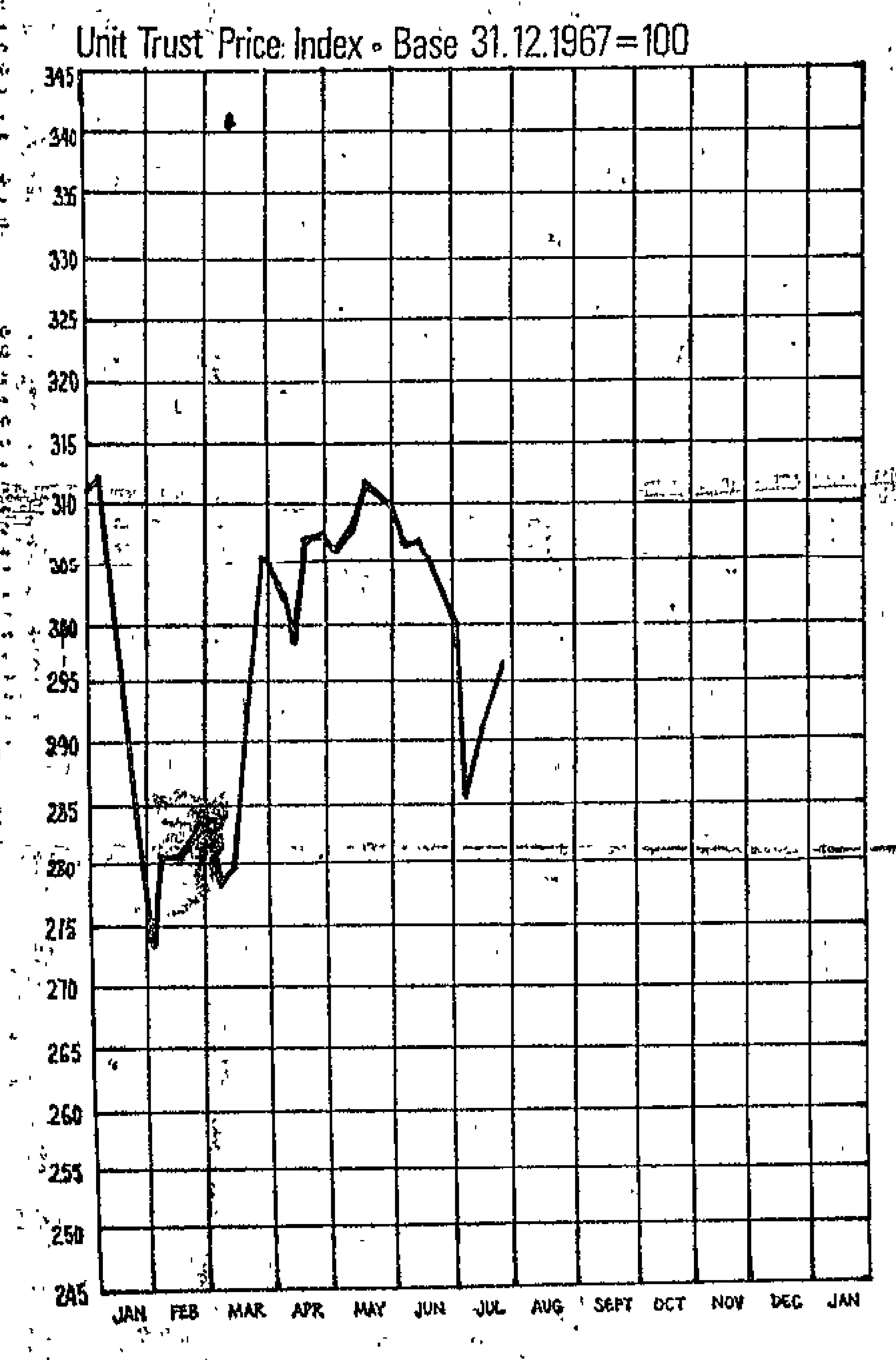
So the way was left open for the flooding of the South African economy with money, leading, as could be expected, to a high inflation rate, an explosive investment boom, and now the prospects of further high inflation.

For example, it is difficult to see how the factories now under construction, and built with dear money and dear labour, can operate profitably without charging high rentals.

A jump in the consumer price index must also be expected when the cost of new housing and flats is taken into account. And this will of course put further pressure on wages and prices.

For the investor the outlook is not clear. It would seem that high interest rates will make money an attractive investment in the short-term. But in the long term assets that give protection against inflation would seem to be the best to hold.

Unit Trust Price Index • Base 31.12.1967=100



THE ARGUS unit trust index rose 2,93 points this week to 295,16.

More firms folded last year

S Times 19/7/81 (49)

By Vera Beljakova

LIQUIDATIONS are a fact of life. Latest government figures suggest that many small businessmen have not learnt the lesson of the dangers of over-trading in good times — which can be as dangerous as quiet conditions in bad times.

Liquidations often increase at the peak and in the wake of every boom, but decrease during an inclement economic climate, which makes men more wary of gambling away their wealth on new ventures.

Last year there was a 44,3% increase in insolvencies reaching 186,7 points (taken on a base of 100 for 1975) while in 1979 insolvencies numbered only 129,4.

This also underlines the trend that when the sun shines on the money market, every would-be entrepreneur crawls out to try his luck ... but many don't make the grade and become just another casualty figure on the insolvencies-liquidation statistics.

But the pattern was reversed when it came to bouncing cheques. Money, being not so tight last year, meant that fewer cheques (11% less) were referred back to drawer in 1980.

Their total value dropped to R178 000 from from R200 000 in 1979.

Although liquidators generally blame a tigher money market and rising expenses for their failures, Toni Kedzierski, general manager of the National Development and Management Foundation, sees it differently.

He blames neither the tightening or the expense of money for the anticipated record number of liquidations SA is heading for this year, but rather a lack of management expertise.

We're still among the big spenders

S. Express 19/7/81 (49)

OUR TURNOVERS DOWN? NO WAY, SAY RETAILERS

By ARNOLD DAVID

THERE seems to be little evidence so far that the credit squeeze is biting at consumer level.

According to figures released last week by the Department of Statistics, the volume of wholesale trade for the period February to April was 3,3% higher in real terms than the November to January period — measured against constant 1975 prices.

The first three months included probably the freest-spending Christmas yet and the second three-month period included February, a notoriously slack month for the retail trade.

Myer Kahn, managing director of OK Bazaars, the first retail chain group in this country to crash the R1 000-million a year turnover barrier, told me that he expects a 20% increase in turnover this year — a growth of 5% in real terms.

"Our customers are obviously not involved in prime or overdraft rates and it will probably take a long time before they are affected, even indirectly, by the increases in those rates," he said.

"By that time we, as a company, will probably have outgrown any possible downward trend in the economy.

"We are still going very well and turnover is rising. There's certainly no downturn in sales."

And Doug Catto, managing director of Makro, the cash and carry wholesale group, who had expected a falloff in turnover, said he was experiencing the complete opposite.

"Turnover for the first six months of this year is R16-million or 26,2% up on the same period last year and earnings are 53% up," he said.

Jack Cohen, managing director of Tedelex, said the industry expected to improve on last year's sales of 290 000 TV sets.

"Our market research shows that the very least the industry can possibly sell this year is 265 000 sets, but most of us think that that is completely unrealistic," he said.

"I don't think that estimate takes into account that TV2 is due to start up on January 1, or that we now have a genuine replacement market developing in this country.

"Many sets are now seven years old and people who bought monochrome and small colour-sets now want to trade them in on large colour-sets.

"And it is no longer uncommon to find more than one TV set in a home."

Cohen said that the audio market, which surged by about 50% in the second half of last year, was still buoyant and had stabilised at slightly below last years's level.

"We believe that there will probably be a fall off in this market, but that it won't last long," he said.

Survey warns: Stand by for a price lift-off

RDM 24/9/81

49

STAND by for accelerating commodity price rises next quarter as cost increases are passed on to the consumer — probably resulting in an even higher inflation rate.

This is the prognosis reached by the Bureau for Economic Research at the University of Stellenbosch in its latest survey of the factory and trade sectors.

It says the labour shortage, the sharp rise in interest rates and the further deterioration of exports leaves little doubt the growth rate will flatten significantly during the second half of the year, although it will still be satisfactory at between 4,5% and 5%.

Inflation

Inflation will remain the major economic problem, the bureau says.

The shortage of skilled workers — and, to an increasing degree, of semi-skilled labour — is causing bottlenecks which retard activity and can lead to pressure for higher wages and salaries, it reports.

This once again emphasises the necessity for education and training facilities for all types of labour.

Factories still have a high potential of production capacity, and it may be expected that fixed investments will continue at a high level for a long time, the bureau forecasts

The unit costs of about 80% of factories in the survey rose

Shortages

This is mainly ascribed to a shortage of skilled labour and, to a lesser degree, shortages of raw materials and semi-skilled labour and longer working hours.

In most cases higher costs were shifted off by increased sale prices.

The exceptions are furniture factories and printing and publication firms which apparently absorbed a portion of their cost increases.

It appears from the survey that business in sectors of the factory industry which manufacturing intermediate and investment goods, such as metals, metal products, electrical machinery and timber, is flattening out.

Sectors producing consumer goods continued to do good business in the last quarter.

The turnover of most wholesalers rose during the quarter, and retailers — with the exception of those dealing in expensive goods — also fared better.

However, most wholesalers and retailers expect their purchasing and selling prices will rise in the next quarter, the bureau says.

About half expect prices to rise more rapidly than before. — Sapa.

SA's economy still rests on a golden foundation

S Tribune 26/7/81

By MIKE PEIRSON
Finance Editor

JUST how reliant the South African economy has become on just one commodity —gold — is highlighted dramatically this week in the Volkskas Economic Spotlight.

In 1970, a boom phase in the economy (as was last year) R3 788-million was paid for the total goods imported and services provided. Revenue from the sale of gold paid 22,1 percent of this account.

Last year goods imports and service payments came to R20 044-million of which 50,6 percent was met out of the proceeds of gold sales.

So the hard facts are that the current account of the balance of payment would have shown a deficit of R6 459-million in 1980 alone if the same amount had been earned from gold sales in 1980 as in 1970.

"If the gold price had not risen South Africa would have been unable to afford her high goods imports in 1980," says the report. "The value of the rand would also probably have been very different.

"One thing of which we can be sure is that we would all be in a weaker financial position."

Another interesting statistic relates to gold mine taxes collected in the past 10 years.

In 1971 these taxes totalled R117-million from a total revenue collected of R2 376-million.

In 1981 tax paid was R3 632-million from a total revenue of R14 288 million.

In percentage terms tax paid in 1971 against total revenue was 4,9 while 10 years later it was 25,4.

This large fluctuation in gold mine tax is of particular interest and for the economic policymakers it is both a blessing and a problem.

"It has the advantage," explains the report, "that at times when the gold price — and thus gold mining profits — rise sharply, a larger proportion of the profit accrues to the Treasury. This can facilitate control over the increase in the money supply.

"On the other hand, tax revenues from gold mines fall particularly sharply if the gold price should weaken, as is the case at present.

"Usually this places the Minister in a very thorny position because the deficit on the State accounts increases and measures have to be taken to correct this."

As a result we are now faced with an all-time high bank rate of 12,5 percent after this week's shock announcement of a two percent hike.

There is no doubt South Africa has to put its economic house in order as quickly as possible so that it can fulfil its ambitious future development projects, many of which are already in the pipeline.

On the positive side there is no restriction on lending imposed on the banks. In the past a pegging policy has been a predominant factor. Now the banks still hold the option and the onus is on the borrower to be prepared to pay the higher price for his money.

It is felt that pegging would only be used as an absolute last resort.

Some manufacturers fear, however, that the rate move may have a negative effect on the investment mood.

While it was recognised that some dampening down of the economic growth was required, it would do little to encourage potential investors. One of the consequences would be fewer job opportunities.

The International Monetary Fund in its annual World Economic Outlook published this week (see page 5) forecasts only a modest recovery in output in the industrial world next year; a further rise in unemployment; and a slowdown in inflation only to levels at least as high as in the 1978-79 period.

There are certain encouraging features, however. For example private markets have so far done well in the recycling process and adjustment to the second round of large increases in oil prices has been managed better than the adjustment to the 1973-74 rises.

However, "says the report", inflation must still be characterised as a severe worldwide problem. Slow (or, in some countries, negative) growth remains a key feature of the international situation and outlook."

..../were resettled in

1976 and 1977 under the Group Areas Act[3].

214 Children were seen from three areas of Nqutu township whilst 202 were seen from four different parts of Nondweni. The areas were chosen at random and the children were seen on a door to door basis.

RESULTS

The results of mid upper arm circumference measurements of 464 children living in Crossroads and 416 children living in Nqutu and Nondweni are shown in Table 1.

The incidence of both mild and severe malnutrition was significantly higher in Nqutu and Nondweni (7,3%) than in Crossroads (1,9%).

TABLE 1 : INCIDENCE OF MALNUTRITION AS DETERMINED USING THE SHAKIR STRIP

	CROSSROADS	NQUTU AND NONDWENI
Number of Children	464	415
Mild to Moderate Malnutrition (Arm circ. 13,5 to 12,5 cms.)	1,5%	6,1%
Severe Malnutrition (Arm circ. < 12,5 cms.)	0,4%	1,2%
TOTAL	1,9%	7,3%

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QUANTITY
SURVEYING
(Continued)

KNOTS, SPLINTERS — AND WARPED

By Bob Connolly

What went wrong with the Carlton love affair

RDM 27/7/81 (49)

"CARLTON" has come to mean the alliance between big business and Government in a commitment to promote free enterprise and remove political barriers in the way of an expanding economy.

As in most love-affairs, the partners had individual as well as shared motives: Big business wanted to reduce Government interference that hampered growth and limited profits. Verligte Government leaders believed that change on the economic front would pave the way for political change. And they both wanted economic growth to provide upward mobility and social security for blacks in an attempt to produce a stable middle class.

Their alliance met strong resistance from the Left and Right. While the Left resisted the attempt to co-opt an urban black elite, the Right believed the initiative would erode apartheid.

And sceptics from all camps believed that the free enterprise dream would never be implemented anyway because it would at times be to the detriment, not the advantage,

tertainment allowances to avoid paying tax on a large slice of their income.

For them, free enterprise was just fine as long as it meant the Government was curbing its own expenditure and reducing taxes in the private sector. But when some financial planners moved to close the fringe benefit loophole organised big business stepped in to persuade those in power to postpone, delay, shelve and water down the new tax proposals.

Not that they had to do too much persuading: After all, civil servants and politicians would also suffer if their free cars and homes and other allowances became subject to tax.

Informed observers predict that if the proposed fringe benefit tax is introduced at all this session, it will be a very watered down version — a far cry from what some economic planners had hoped for.

In effect, the rich will continue to enjoy substantial tax free income while their public services will continue to be subsidised to a large extent by such indirect taxes as the general sales tax, a particularly heavy burden on the poor.

Big government

and big business keep the free market in chains

Late in 1979 South Africa was introduced to a new concept: the belief that economic growth and "free enterprise" could promote far reaching political change. The new approach was introduced at an historic meeting between Government and the private sector at Johannesburg's Carlton Hotel. It is now 18 months since that conference. What has happened to the vision? Political Correspondent HELEN ZILLE reports.

of those who were trying to launch it.

Now, 18 months later, there can be little doubt that the initial euphoria has worn thin. In Government and the private sector, it is common to hear the phrase: "The spirit of Carlton is waning."

For a start, the Government still controls large sectors of the economy that in most "free enterprise" societies are in the hands of the private sector.

Agriculture

Perhaps the most obvious example is the control boards that administer the marketing of all agricultural produce, from mealies to dry beans. Control boards fix prices and protect the interests of the farmer, making sure the normal free market mechanisms of supply and demand do not operate, so that prices sometimes go up during times of surplus. There is no chance of this changing. Indeed senior Government officials believe free enterprise is "not appropriate" for agriculture.

There are other areas too where free enterprise cannot venture: railways, harbours, airways, Escom, Iscor . . .

And in the portion of the economy open to the private sector, "free enterprise" is increasingly undermined by the growing number of virtual monopolies that destroy free competition — an essential component of free enterprise.

But the short-comings of the free enterprise philosophy have perhaps been most apparent in the lack of political reform: although they never explained how, the free market philosophers believed an open and expanding economy would ease the way for far-reaching political reform. But such laws as influx control and the Group Areas Act remain on the statute book, effectively keeping blacks out of a free market. What is more, these laws are unlikely to disappear in the near future.

So, what's gone wrong?

Leading proponents of the free enterprise school do not believe it has failed completely. They believe it is just taking a lot longer than expected.

They give many reasons for this: pressure from the Right, the weakness of the verligtes in government, the stalling of the bureaucracy, the downturn in the economy, and resistance of both the private and public sectors to greater "freedom" when this does not work in their favour.

Privileges

Promoters of the free enterprise philosophy complain that the private sector itself does not want to be free. When an aspect of the free market system threatens to undermine profits, the private sector opts to protect its privileges rather than promote change.

On the other hand, the Government interferes with the working of the free market when the political price of the "free enterprise" gets too high.

Take the case of the American chickens.

A few months ago, local chicken producers found out to their dismay that "free enterprise" also meant facing the competition of American chicken producers who could deliver their birds on our supermarket shelves a lot more cheaply than South Africa's chicken farmers.

Chicken

Local chicken producers were very soon using their influence to lobby the relevant Government departments to halt the cheap chicken imports.

In this case the Government did not buckle and American chickens appeared on the supermarket shelves. Cynics say the Government stood firm not so much because of a commitment to a free market, but rather because the chicken producers were just not powerful or influential enough.

In other cases, "free enterprise" lobbies have been more successful. It is no secret in Government ranks that some of the most powerful business lobbies have succeeded in persuading officials to give the go-ahead for mergers resulting in virtual monopolies and destroying effective competition — one of the pillars of a free market economy.

This has brought strong opposition in Government circles from those technocrats seeking to extend, not limit, the scope of free market competition and there are moves behind the scenes to reinforce anti-monopoly legislation.

There are also cases where the Government has intervened to stop the functioning of the "free market" when the political price became too high.

Take the Government's present attempt to keep building societies from raising the interest rates on mortgage bonds — a highly explosive political issue.

The Government has an interest in keeping interest rates on mortgage bonds as low as possible. If interest rates increase, the average man paying off the bond on his home is suddenly faced with a significant increase in his monthly instalments and the inflation rate rockets.

Interest

However, at a time when the banks are raising their interest rates, and large-scale investors begin to draw away their deposits from building societies in search of higher interest, free market principles dictate that the societies must also push up their rates to remain competitive. This would be fully compatible with the free market idea — if it were not so politically sensitive.

So the Government has done all it can to prevent the building societies raising their rates. Whatever one may think of it, it is not free enterprise.

There are yet other examples where government and big business have joined forces to protect their privileges rather than allow normal market mechanisms to operate.

Take the attempts to impose a tax on fringe benefits, which account for a considerable part of the income of businessmen and senior civil servants.

In most free enterprise societies in the world, fringe benefits, like other earnings, are subject to taxation. This is not the case in South Africa, where the affluent use such "fringe benefits" as free cars and en-

Standards

It is what some members of Government call "inverted socialism" with the authorities ensuring the maintenance of the living standards of the rich.

The power of the big business lobby — together with the lack of counter balancing lobby groups — is one of the main characteristics of the South African political economy.

Many critics of the "free enterprise" school of thought predict the failure of the strategy, because they say big business does not want to face the ups and downs of a free market. It wants to be able to determine the type and extent of Government intervention in the economy.

And they also believe it is vain to hope that change in the economic sphere will automatically produce political reform. Without the political will on the part of the Government to change apartheid laws, there can be little progress.

Government planners concede they have problems in both these spheres. They have a long way to go before they can sell the free enterprise philosophy, convincing the private and public sector to stick by it in fair weather and foul.

And they also admit to a certain amount of despondency when viewing the likelihood of political change which they hope will pave the way for a future regional confederation.

Economists believe they have done their bit, that they have paved the way for the economic framework of the proposed new constitutional system by:

- Drawing up plans for regional economic development across existing homeland boundaries.
- Planning the bank which will provide the finance for the development of these regions.
- Setting up the Small Business Development Corporation to promote new enterprises, introduce greater competition, and open the market to individual initative of the small businessman of all races.

Economic strategists believed they were creating the economic conditions which would pave the way for far-reaching political change. But they now concede it will take a lot longer than they expect. The ball is no longer in their court.

It is moving away from the economy to the political arena once more, for it is here the hard decisions will have to be made. And, as South Africa faces its fourth session of Parliament since Mr P W Botha came to power, there seems little likelihood of this happening.

BUILD
(Cont

Falling currencies reduce SA debt

RDM 28/7/81

(49)

By NEIL BEHRMANN

LONDON. — The South African public sector has benefited considerably from the depreciation of the mark and the Swiss franc over the past two years.

A survey by the magazine Euromoney shows that in the late 1970s and at the end of June 1980, the South African Government and public corporations, such as Escom, had most of their outstanding foreign debt denominated in marks, Swiss francs and French francs.

All these currencies have fallen considerably against the rand and their depreciation has helped to reduce South Africa's effective foreign liabilities.

Euromoney says the rand equivalent of the public sector's outstanding foreign debt was R4 854-million at June 30 last year. Of this amount, mark borrowings were equivalent to R2 419-million, Swiss francs to R878-million and French francs R878-million. Sterling loans amounted to R206-million.

Since that date, the rand has appreciated by 18% against the mark, by 20% against the French franc, 9% against the Swiss franc and 4% against sterling. Any of these loans which were repaid during this time generated foreign exchange profits for the public sector's coffers.

Ironically for anti-apartheid pressure groups who successfully countered American loans, it paid South Africa to reduce its dollar borrowings. In the past year the dollar has appreciated by 15% against the rand, but the dollar loans were equivalent to R580-million, or 12% of the total foreign debt.

Yen loans were R120 million, but in the past year the cost of the borrowings has increased because the yen has appreciated by 10% against the rand. Any redemption of dollar or yen loans in the year would have incurred a foreign exchange loss for the State, Escom or Iscor.

The magazine perceives signs of change in the Euromarkets.

According to one international banker, "the South Africans are dealing from a position of strength and Joep de Loer drives a hard bargain".

Euromoney says South Africa's foreign debt of R4 900-million is low "by any criterion of measurement".

"In terms of export earnings cover for repayments, it is insignificant. The peak of repayments on the present balance does not come until 1984 by which time exports, particularly minerals and metals, will be deriving full benefit from increased industrial activity in the Northern Hemisphere.

"Historically, interest payments on the public sector's foreign borrowing declined from 7,6% of total export earnings, including gold, in 1976 to 6,7% in 1977, 6,2% in 1978 and 5,1% in 1979.

"Final figures for last year are not yet available, but with provisional export earnings increasing by more than 31%, interest payments were not an onerous burden."

According to the magazine, South Africa must repay R866-million in 1981, R795-million is due to be redeemed in 1982 and R699-million in 1983.

In 1984, redemptions will rise to R1 069-million and drop sharply in subsequent years.

The magazine quotes the senior Deputy Governor of the Reserve Bank, Dr Chris Stals, as saying: "The Reserve Bank has the facilities to finance a deficit of up to $3 000-million in the current account. When they are needed, we have two sources of funds to supplement foreign exchange reserves — credit lines with foreign banks, mostly private, and gold swops.

"Both are for borrowings up to a maximum of 12 months. The usual arrangement for our use of credit lines is to take a loan for six months, with an option to roll it over for a further six months.

"In March 1977 we had utilised credit line facilities to the extent of about $1 000 million, which is about the most we would want to do that way, but it was all repaid by March 1980. In the past few months we have used our credit lines again, to a small extent, to help cope with a balance of payments deficit."

Dr Stals said total foreign liabilities for import and export transactions, covered under forward cover contracts with the Reserve Bank, amounted to $9 000-million at present.

Appendix B

Manufacturing industries - distribution by employment

Industry	Cape	Natal	TvL.	O.F.S.
	%	%	%	%
Basic metal	2,4	7,9	89,7	-
Beverages	43,8	12,8	40,6	2,7
Electrical Machinery	14,9	8,8	75,9	0,5
Clothing	[illegible]	31,5	28,7	0,8
Chemical Products	21,1	23,3	53,5	2,1
Food	35,6	25,3	35,3	3,8
Furniture	22,3	13,5	62,5	[illegible]
Leather and Products	52,3	16,1	31,6	[illegible]
Machinery	9,2	7,9	50,0	[illegible]
Metal Products	14,3	11,7	72,3	[illegible]
Non-metallic Mineral Products	21,7	13,1	61,0	[illegible]
Paper & Products	26,3	39,2	34,5	[illegible]
Printing	37,2	15,1	43,4	[illegible]
Rubber	32,9	32,7	32,1	[illegible]
Textiles	40,1	40,2	17,0	[illegible]
Transport & Equipment	37,6	13,3	47,9	1[illegible]
Wood & Products	26,4	19,2	52,3	2[illegible]

Transvaal is the biggest manufacturing sector in terms of employment : 51,5%.

Source: SALDRU compiled Statistics.

In the Cape Peninsula the following are the major sectors and industries

Manufacturing: The largest employer of labour: employs 28% of labour force. The predominant industries are: Clothing Textile, Food and Beverages.

Services: The second largest employer of labour: 25% of labour force. The services are second only to construction in the employment of Africans in the Peninsula. This is because of the large number of African women employed in this sector: 93% of African women and only 9% of African men are employed in t this sector.

Commerce: Employs 17% of labour force. This is because of the large 'coloured' population in the peninsula.

Construction: 11% of the labour force employed. It is the second most important source of employment for Coloured men. It employs 28% of African men and is then largest source of employment.

Transport: Employs 9% of labour force.

Agriculture: 2,3% of labour force. Over half the workers are coloured and 30% of Africans.

Source: 'The People and Workers of the Cape Peninsula: Asketch. Hendrie D, and Horner D: in South African Labour Bulletin. Vol. 3, No. 2, September 1976.

Trade balance down R3 175-m

Star 28/7/81

49

Rising imports and decreasing exports during the first six months of this year brought South Africa's favourable trade balance to R162,3-million — R3 175,5-million less than the corresponding period last year, according to preliminary trade figures published by the Commissioner of Customs and Excise in Pretoria.

EUROPEAN FIGURES

Imports for the period January to June were valued at R8 552,4-million, compared with R6 494,8-million last year.

The export figure was R8 714,7-million (R9 832,6-million).

Trade with Europe totalled R3 530,0-million in imports and R2 298,1-million in exports, compared with R2 559,2-million and R3 590,9-million last year.

In the case of the United States the import figure was R1 376,4-million (R962,7-million). Export figures were R955,6-million (R1 074,1-million).

Trade with Asia ran to R1 302,3-million in imports and R963,4-million in exports. Last year's comparable figures were R770,1-million in imports and R972,7-million in exports.

In the case of Africa, imports were up from R134-million in the first six months last year to R153,4-million this year. Exports were down from R537,7-million last year to R497,6-million this year.

Trade with Oceania showed an import jump from R45,2-million to R75,4-million.

Exports to Oceania increased slightly from R46,6-million to R47,4-million.

INTO LINE

The import and export figures reflected in the statement have been adjusted largely to bring them into line with the requirements for the compilation of the balance of payments.

Other unclassified goods and balance of payments adjustments in the first six months this year were R2 114,6-million in terms of imports and R3 930,4-million in exports. Corresponding figures for last year were R2 023,6-million in imports and R4 587,0-million in exports. — Sapa.

RAND DAILY MAIL, Wednesday, July 29, 1981

RDM 29/7/81

US says peak of boom in SA has passed

49/3/4

WASHINGTON. — South Africa's growth boom had peaked and the country would certainly curtail its imports, the United States Commerce Department said yesterday.

South Africa's economic indicators, the department said, were levelling off and the peak of the boom reached in 1980 had passed.

In 1980, the US had been South Africa's leading supplier with a 13,6% share of the market, followed closely by West Germany and the United Kingdom.

During the past two years, South Africa's effort to diversify its trade relationships had led to increased trade with such non-traditional partners as Japan, Taiwan, Israel and South American countries.

There were two problem areas in the South African economy, the department said.

One was a shortage of skilled labour. It said that, according to estimates, between 15 000 and 20 000 artisan jobs were unfilled, a situation made worse by a shortage of training programmes for blacks who were facing an inflation rate of 20% in low-income urban areas.

Inflation

The second problem was inflation, caused largely by excessive growth of the money supply.

"Economic observers quickly emphasise that South Africa's downswing will not be severe because of overall favourable conditions and monetary discipline," the department said.

"Projections indicate that agriculture, forestry and fishing will be strong sectors in the coming months, while mining and quarrying will show a negative real growth of 2%.

"The business community in South Africa remains optimistic about future prospects for a variety of reasons. Manufacturers' order books are full, major investment projects started last year are continuing, the country enjoyed a bumper maize crop, and increased wages are expected to maintain consumer expenditures at a high level."

"Cameroon, with a strong agricultural sector and oil and mineral wealth, looks especially promising."

Of Nigeria, the department said that in coming months the world oil glut "will pose a major obstacle" to continued rapid economic growth. — Sapa-AP.

Trade surplus falls more than R3bn in first half

29/7/81

By HOWARD PREECE

JOHANNESBURG. — South Africa's trade surplus fell by more than R3 000 m in the first half of this year, according to preliminary figures from Customs and Excise.

The department says exports for January to June totalled R8 715m and imports were R8 552m. That gave a balance of trade surplus of R162m.

In the first half of 1980 the figure was R3 338 m.

Exports include gold bullion and Kruger rands and imports include oil and military equipment.

The turnaround in the overall current acount of the balance of payments in the first half of this year should have been higher than the Customs figures suggest because of a steady widening in the shortfall on invisibles — dividends, interest, shipping and insurance.

However, the Customs data are only provisional and the later official figures from the Reserve Bank may show a considerable variation.

So the full current account position may not be quite as heavily in deficit as might seem to be the case.

There is no doubt, though, that the general trend of the balance of payments is accurately reflected by Customs.

Nor, of course, is there any surprise about the huge change in the export-import pattern in the light of the severe fall in the gold price.

In June exports totalled R1 537m and exports R1 530m.

Over the first half of the year exports dipped to R8 715m from R9 833m in the 1980 equivalent.

Imports rose to R8 552m from R6 495m for January to June last year.

That is a rise of nearly 32 percent.

In one respect it indicates the vigour that is still evident in the economy.

Although the downswing is very much under way, real growth this year should still be about 4,5 percent, which will be the best in any year since 1974 except for 1980.

But the slowdown will surely become more marked over the second half of 1981 — growth in 1982 is likely to be in the 2,5 percent area — and that should have a restraining effect on imports.

The heavy depreciation of the rand against the dollar, and modestly overaly against major currencies as a whole, is adding to import costs.

It is possible, therefore, that import growth in rand terms will be igher in 1981 than the 25 percent or so rise that was originally predicted by several bank economists.

There is also the fact that the South African economy seems to ahve an exceptionally high import propensity — as does that of Britain, for example — whenever there is a sharp upturn in growth.

As has been consistently pointed out, the size of the trade deficit this year is not a matter for concern and indeed is even welcomed by the Reserve Bank as an aid to curbing money-supply growth and thus restraining inflationary pressures.

But that benign indifference might have to change if gold were to fall sharply lower and to stay depressed for a lengthy spell.

Exports to the rest of Africa eased slightly in the first half of this year — R498m against R538m in the 1980 period.

Imports increased, however, from R134m to R153m.

Trade with Europe comprised R3 530m in imports and R2 298m in exports compared with R2 559m and R2 591m in the same time last year.

For the United States the figures were imports of R1 376m and exports of R956m this year and R963m and R1 074m in 1980.

TRANSPORT Written by MERVYN HARRIS

Some firms prosper in recession

Star 30/7/81

(49)

Mr A D Stewart — not pessimistic.

Product life cycles or the demand for a particular item do not necessarily run parallel with economic cycles. Some firms can thus be hit by the decline of a product in times of prosperity while other firms do well in times of recession.

"There is plenty of business around even in times of recession," says Mr A D Stewart, executive director of Grindrod merchant services' division.

"During the last recovery period from 1977-9 we had a tremendous growth rate, outstripping our competitors in percentage terms, and we're not pessimistic about the coming recession.

"When the general economy is booming, our growth rate has slowed as the life cycle of certain products has run against us."

Stevedoring, for instance, was booming until the introduction of containerisation which resulted in a scramble for business in the fields of bulk and break cargo.

As the economic cycle now moves into recession and the rand weakens, freight companies will try and offset the fall off in imports by getting more export business.

Travel companies did well during the last domestic recession and are expected to do well again as businessmen increase overseas travel to look for export markets.

NEW COMPANY

The recession will also mean that service industries will be less prone to pressure on salaries which form a higher percentage of their costs than in industries such as manufacturing.

The rapidly changing pattern in cargo-handling methods and the need to adapt to developments within the stevedoring industry has prompted Grindrod, Rennies Shipping and Mitchell Cotts Transporation to rationalise their stevedoring interests.

A new company called Rennies Grindrod Cotts Stevedoring will have its head office in Durban under a reconstituted management.

UK LINK

Grindrod has also formed another subsidiary in Durban, Grindrod Marine, to provide wharf supervision and cargo repair.

In another development Grindrod Air Freight and Atlas Air of the United Kingdom have introduced a door-to-door through rate service

ECONOMIC FORECASTS (49) FM 31st July 1981

Confronting the future

The growth rate of the gross domestic product (gdp) will decline to 3,3% in 1981, according to a four-year forecast emerging from an econometric model developed by Santambank economist Frank Shostak It will maintain its falling trend to a trough of 1,8% in 1983, before rising again to a relatively healthy 4,7% in 1984.

As the table shows, declines in private

Santambank's Shostak . . . tracing the monetary impact

consumption expenditure over the four-year period will be offset by steady contra-cyclic rises in government expenditure well in excess of the gdp growth rate. Supporting this in 1981 will be the engine of growth of fixed investment, which will rise this year by nearly 9,5%, before plunging in 1982 by 4% and dropping another 7% the following year.

Money supply growth will not match the furious rates of the last two years, but will still exceed the overall growth rate. If, however, the model is an accurate forecaster, its rate of growth will be closer to a sensible financing of the expansion of the economy, with a smaller inflationary component thrown in. As a result, the rate of increase of the consumer price index will have fallen to just under 11,5% by 1984. But it will remain relatively high in 1981 and 1982, mainly as a result of inflation being imported through the mechanism of a depreciating rand. Thereafter, assuming this depreciation is not financed by the authorities with new money, it should decline.

A notable feature of Shostak's predictions is the impact of monetary policy — or, more specifically, Bank rate management. The model yielded three scenarios, each incorporating a different Bank rate (thus prime overdraft rate) assumption. The standard forecast, assuming a prime OD rate peaking at 14% in the third and fourth quarters of 1981, yielded a gdp growth rate of over 4,8% in 1981. The alternative forecast, incorporating a prime OD rate peaking at 15% in the third quarter of 1981 and sustained for 12 months, yielded a gdp growth rate for this year of 4,5%. And the third forecast, cryptically labelled Option 3 and assuming by miraculous foresight the 16% prime OD rate that came into effect last week, yields the growth rates tabulated below.

Short-term interest rates are expected to peak in the third quarter of 1981, after which downward pressure (but not necessarily a sharp correction) will be exerted (see graph). Long-term rates are predicted to exhibit a double peak — in the third quarter of 1981, followed by a decline and a second rise, which will peak in the second quarter of 1982.

Shostak contests the belief that a lower gold price will mean a reduction in money supply and therefore inflation. Instead, he argues, a lower gold price will depreciate the rand, causing both greater imported inflation pressures and a protection of the outflow of liquidity by reducing imports and raising the relative value of non-gold exports.

Shostak also makes the point that the Reserve Bank, although now admirably managing the exchange rate, may have erred somewhat in its monetary policy. Earmarking bank credit to the private sector as the major cause of money supply increases, it has sought to control the demand for credit through the price of credit — that is, interest rates and, specifically, the prime OD rate. But this, he argues, is a slippery indicator subject to a multitude of influences.

Furthermore, the liquidity base of the banking system was swollen in 1979 and 1980 by massive BoP inflows, and the banks as business entities could not be expected to curtail their activities in the national interest. What would have been far more effective, he adds, is to control the *supply* of credit by neutralising liquidity build-ups that feed into bank reserves. This can be done by managing foreign inflows by exchange rate management (the rand should have been allowed

SANLAM'S SCENARIO

Sanlam's econometric crystal ball, according to its latest economic survey, has thrown up a more generous forecast than that of Santambank (see "Confronting the future.")

As the table shows, Sanlam expects levels of private consumption expenditure higher than those of government expenditure and, backed by a healthy rate of fixed investment, to produce a gdp growth rate of 4,4% for 1981. But it expects a larger BoP current account deficit (R2,5 billion) than does Santam and its inflation forecast is more optimistic.

Short-term interest rates, it believes, will continue to rise during 1981, but long-term rates appear to have reached their peaks.

The August budget, it adds, will maintain present personal and company income tax rates, but will include an announcement on fringe benefits tax. Tax incentives for labour training and utilisation are anticipated and there is a possibility that institutional prescribed asset requirements will be altered. In broad terms, government will continue to balance the need to control inflation against the need to maintain economic growth.

	1981	1982
Gdp %	4,4	2,5
Private cons exppenditure %	4,5	—
Government cons. expenditure %	5,0	—
Gross fixed investment %	9,5	—
BoP curr a/c (R billions)	−2,5	—
CPI (annual average) %	15,0	13,0

CRYSTAL BALL

	1981	1982	1983	1984
Private consumption expenditure %	1,79	−2,07	3,5	5,28
Government consumption expenditure %	4,23	4,98	5,63	5,17
Gross fixed investment %	9,44	−4,02	−6,87	5,92
Gross domestic expenditure %	4,57	−0,12	1,71	4,21
Gross domestic product %	3,3	1,98	1,81	4,71
$/rand rate — % change	−8,49	−7,74	0,68	0,73
BoP current account (R billions)	−1,8	−0,9	−1,3	0,3
Change in net reserves (R billions)	−1,4	−0,8	−1,0	−0,5
CPI %	16,0	14,6	11,7	11,5
M1 %	20,3	10,5	7,1	15,7
M2 %	20,9	13,2	7,0	10,3

ECONOMY – GENERAL

1/8/81 – 4/12/81

President warns of economic slowdown

Political Staff

THE State President, Mr Marais Viljoen, yesterday warned that the present high level of economic activity could not be maintained indefinitely and that a levelling-off could be expected.

His speech at the opening of the first session of the seventh Parliament was otherwise cautiously optimistic, predicting a growth rate of between 4% and 5% in 1981 and a slight decline in the rate of inflation.

"The recent sharp decline in the gold price will reduce the revenue of gold mines and of the Exchequer and, together with declining income from exports and persistently high imports, has already resulted in a "moderate deficit" in the current account of the balance of payments," Mr Viljoen said.

The deficit was not unexpected and could be considered normal in the present phase of the business cycle.

Mr Viljoen described this parliamentary session as one of vital importance.

"Various steps in the constitutional sphere will shortly have to be considered and taken in response to reports by the President's Council and in the interests of the peaceful co-existence of the various national groups.

"The goodwill and positive results which have already been achieved and consolidated in the President's Council will form the basis of the important decisions. The Government may take on the proposals for the effective and meaningful participation of Coloureds and Asians in the decision-making processes and on the socio-economic position of the population groups."

The Government remained committed to the development of local energy resources.

This meant that attempts would have to be made to limit, if not curtail, crude oil imports and to increase production of alternative fuels from indigenous feed stock.

The Government was also faced with finding ways of providing cheaper and more effective housing.

"It is, therefore, imperative that the pace at which housing is provided is increased to catch up with the demand. In this, the private sector — in particular employers, building societies and utility companies — has a great responsibility."

Referring to South Africa's place in the international sphere, Mr Viljoen said it was pleasing that, in Western circles, it was now being realised that the Free World was faced with a global onslaught that had to be resisted.

"It is to be hoped that these signs of a greater sense of reality will lead to an appreciation of the value of Southern Africa to the Free World and the implications if South Africa were also to fall within the sphere of influence of the Soviet Union's expansionist programme," Mr Viljoen said.

(4a) Rdm 1/8/81

THE ECONOMY (49)

Around the bend

FM 7th Aug 1981

The economy has remained unexpectedly buoyant into the second quarter, although a slowdown in activity has been on its way since the second half of last year.

Most economic analysts have been surprised by the amount of steam still left in the economy by mid-year, according to Standard Bank's August economic review. But while almost all the business cycle indicators showed a marked slowdown in growth in late 1980 and in the first quarter of this year, second quarter figures, especially in the consumer field, have shown a strong recovery. The business activity index also recovered towards mid-year after a decline earlier.

On the other hand, the index of leading indicators, which indicates changes in business conditions about nine months ahead, points to poorer conditions.

Standard's economists explain that this see-saw movement of the economy is characteristic of turning points in the business cycle, which do not consist of a smooth transition from boom to slower growth. And they forecast a significant slowdown by next year.

The mid-year surge in the economy they attribute primarily to a bulge in the rate of money supply expansion last year and a decrease in the rate of inflation prior to the general election.

However, current pressures, especially on the side of the balance of payments, will have a pronounced negative effect in the near future. The effect of the very weak gold price and difficulties experienced by most of the export sector has been partially cushioned by the depreciation of the rand against the dollar and against a basket of currencies, while import demand has remained buoyant.

The result is an estimated shortfall of R1.2 billion on the current account of the BoP which has contributed to intense pressures on the Reserve Bank's foreign currency holdings and a huge liquidity shortage in the financial sector.

The major reason for the continued consumption boom, says the Standard Bank review, is slower but continued growth in employment and incomes. However, the high cost and diminishing availability of consumer credit will affect spending as consumers become unable or reluctant to increase their level of debt. Sharply increased mortgage rates and increases in administered prices will also erode disposable income.

More difficult financial conditions have dampened activity in the property and home building sectors and Standard predicts that while commercial and industrial building will remain active for a while the building industry is heading for leaner times.

The momentum of consumer spending will keep the manufacturing industry going until later this year but the volume of industrial production has already stopped growing and this will become more marked.

The skilled labour shortage may ease in coming months with low growth in key economic sectors, says Standard, but this will also mean a decline in spending, as will an impending rise in the inflation rate.

These trends indicate "that the economy's upper turning point may finally have been reached," says the review, concluding that while fiscal policy may support the economy for a short while, a significant slowdown lies ahead.

2 The Cape Times, Friday, August 7, 1981 ★

7 SA firms in list of giants

CT 7/8/81 (DUR)

(49)

By GORDON KLING

SOUTH AFRICAN industrial firms, and Afrikaner companies in particular, capitalized on the boom conditions at home last year with a powerful growth performance now resounding in the ranks of the world's biggest businesses.

The latest issue of the authoritative American business magazine, Fortune, places seven South African companies in its list of the 500 largest industrial corporations outside the United States, including two new arrivals, and all but one of the remaining five have greatly improved their positions.

Dr Anton Rupert's Rembrandt empire is the subject of an extensive article in the same issue.

Barlow Rand — the mining, manufacturing, equipment, distribution and property conglomerate — was rated the biggest firm in the Republic, and surged from 155th position in the Fortune 500 rankings to 114th.

Sales of the group, which in addition to the Johannesburg Stock Exchange is quoted on stock exchanges in London, Paris, Brussels, Antwerp and Salisbury, were put at the equivalent of $4 billion US (about R3,6-billion), and assets at $3,9 billion (about R3,5-billion).

Iscor, the state-backed steel producer, jumped 25 places to 185th spot on sales of $2,6-billion (about R2,3-billion), and assets of $4,3 billion (about R3,9-billion), while De Beers Consolidated Mines with assets of $5,1 billion (about R4,6-billion) slipped back to 169th position from 145th on weaker world diamond markets which took sales to $2,8 billion (about R2,5-billion).

Chemical giant, AECI, soared to 295th place from 363rd and Tiger Oats galloped from 427th to 370th. The state supported oil from coal venture, Sasol, which appeared to defy description in the ratings and was classed as "chemicals — mining, coal" entered the lists for the first time at 349th spot on sales of $1,3-billion (about R1,2-billion) and assets valued at $1,4 billion (about R1,3 billion).

Federale Volksbeleggings also made the top 500 for the first time in what could be regarded as an international coming of the age for the diversified holding company originally built on the savings of thousands of ordinary Afrikaners. Its investments in food, chemicals, services, electronics, mining and property generated sales of $877 million (about R797-million) last year on assets of $714 million (about R649-million).

Almost symbolic of the rise of Afrikaans business, Dr Rupert is described as a shy tycoon who has built an $8,5-billion (about R7,7 billion) a year contradiction — an international consumer business based in South Africa. The business, it says, has $700-million (about R636-million) in liquid funds waiting for a big buy overseas.

Asking where the Stellenbosch-based entrepreneur got the money to get his cigarette operations going, the magazine repeats the suspicion that he was staked by the Broederbond, but quotes him as denying he had ever been advised or financed by the society although he is a member: "I'm much too independent for that, my dear."

Nonetheless, the magazine notes, the Broederbond during the 1940s and 50s pooled capital to establish Afrikaners in business. And Sanlam and Volkskas bank which financed the early purchase of Rothmans in the United Kingdom were both established by Broeders. Sanlam's head, Dr A D Wassenaar, is also an old friend and Broeder.

extended range

DO 10 . . .

DO 10 . . .

Examples of extended ranges are:

□ This set of executable statements contains a control statement that could return control back to the DO range.

■ The range contains a GO TO, or arithmetic IF, or a logical IF containing either of these two statements, that can pass control out of the range to another set of executable statements.

A DO range can have an *extended range* if it is a nonnested DO or the innermost nest of a completely nested nest and both of the following conditions are true:

these companies followed a stated policy of interest capi
talisation.   Brief results of this study are shown in
Appendix B.

Although my questionnaire cannot be relied upon to provic
accurate statistical data as to the actual policies emplc
in South Africa, it is interesting to note that although
of the companies actually do follow a policy of capitalis
interest under certain circumstances, every one of the
respondents remarked that he or she supported such a pol

Western boost for SA next year

ROM 8/8/81 (49)

Volkskas looks to upswing abroad

Financial Reporter

THE South African economy can expect a boost next year from an upswing in the major Western economies, according to Dr A J de Toit, the chairman of Volkskas.

He expects and favours a fairly strict Budget on Wednesday. Dr Du Toit believes that the downswing in the economy will enable vital infrastructure developments to be carried out — but says "loose talk of a recession" is regrettable.

He was speaking in Pretoria yesterday at the bank's annual meeting.

Dr Du Toit said: "In this cooling phase of the economy there is no cause for pessimism.

"While the world economy is indeed still very slack, indications are that the economies of our foreign trading partners will have recovered reasonably well by mid-1982.

"Inevitably this will stimulate South African exports and therefore also general economic activity.

"As the economy moves further into the current consolidation phase imports will level off to a greater extent.

"As for the price of gold, prospects are uncertain in the short term, but in the long term there ar[illegible]

together with, among other things, scarcer and dearer bank credit heralds more difficult cash-flow situations for businesses."

"Obviously this will place heavy demands on management."

- "The shortage of trained manpower is surely the most important bottleneck in the South African economy."
- "More discipline will be required from the country's labour force in bargaining for higher wages and salaries.

"In the new labour dispensation which is now imminent labour costs will assume much greater significance. The writing is clearly on the wall."

- "Too much reliance cannot be placed on the current more stringent monetary stratfactors.

"Other plus factors in relation to the balance of payments include the well consolidated debt position of South Africa, a high degree of creditworthiness in foreign capital markets and the availability of loan facilities abroad.

"On balance, therefore, we should be able to overcome difficulties that may arise in the economy as a result of adverse balance of payments movements."

Other points made by Dr Du Toit include:

- At the end of 1980 there was little if any unused production capacity in most sectors of the economy.

"Overtime work reached new records and delivery times became longer. Skilled and semiskilled manpower resources were utilised to the full and and wages and salaries rose sharply."

- "We are still dealing with an overheated economy. Any attempts to prevent a slower rate of increase in the real business activities by stimulating demand is inconceivable in the light of the inflation problem which is still assuming serious dimensions."

- "The levelling off in the real growth rate will cause company profits to rise more slowly or even decrease. This

functioning of the economy is to be accomplished.

"Of equal significance is that fiscal policy should be applied together with monetary policy. This I anticipate that the monetary policy applied so far will be confirmed and reinforced in the Budget to be introduced next week."

Worst cash crunch in modern times

S-Times 9/8/81

(49)

SOUTH Africa is facing its most monumental cash crunch in modern times.

Pretoria confirmed to Business Times this week that the banking system could be short of up to R1 500-million at the end of August.

The position will be aggravated by massive tax payments by gold-mining groups which will drain the system of whatever cash is available.

The net effect to the man-in-the-street is going to be a draconian credit squeeze and a further hefty hike in interest rates.

By Tony Hudson

It also means that the already-difficult home-loan situation is going to become worse. It would seem that those who want to buy a new fridge, a car or a fancy hi-fi on HP are going to be thwarted, as credit is going to be difficult to get, and if it is obtainable it will be expensive.

Only those able to pay cash for their goods will not feel the pinch in the coming months.

In addition, it is now felt that the situation will not ease in October, as expected, but will continue well into next year.

It is expected that the *liquidity* crisis will continue into September and possibility October.

The main causes of the cash crisis are the falling gold price and Government measures aimed at reducing liquidity levels in the system in an effort to contain inflation.

The average gold price for the period January to May was around \$525 an ounce while the average for May and June was [illegible] However, [illegible] and how much cash flows to the Government."

He says that money-market estimates of a shortfall of between R1 000-million and R1 500-million are probably close to the mark.

Dr Stals hopes that by creating a favourable forward exchange rate the banks will be able to help ease the position with short-term borrowings from overseas banks. This rate will also encourage exporters and importers to make use of overseas financing facilities.

The discount houses were already into the Reserve Bank for R259-million in the first week of the month, and this figure will soar unless the banks' foray into foreign markets is successful.

But, despite penal rates of interest, it is expected that the houses will look to the Reserve Bank for between R350-million and R500-million at the minimum.

And if the situation remains tight in September, the figure could double before starting to ease.

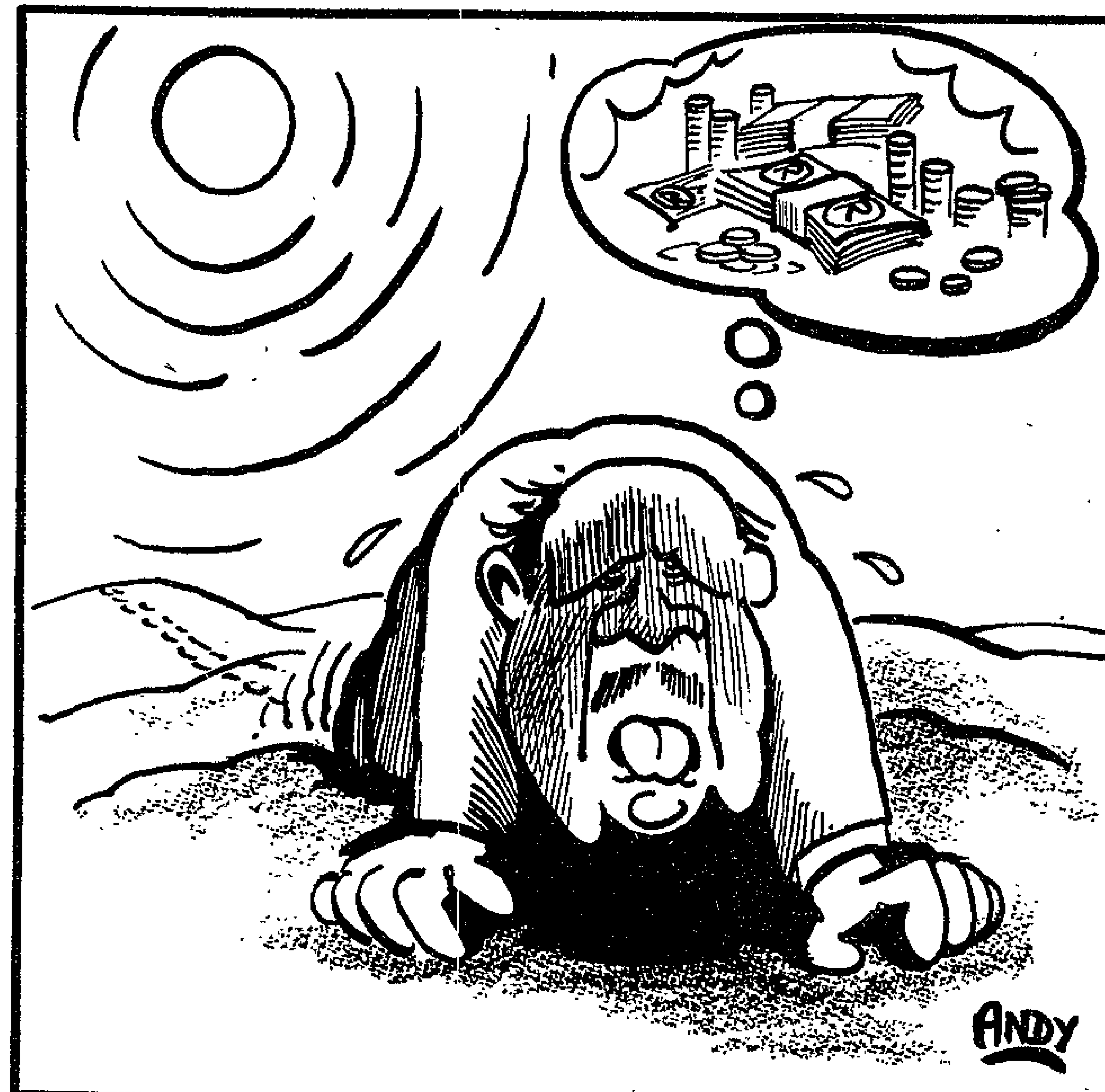
Dr Stals says that last year the normal August crunch was softened by Treasury tax bills, which were issued early in the year and redeemable at the time the taxman wanted his cash.

This meant that the cash was returned to the system as it was paid out.

He says, however, that this year the Treasury bill rate was way out of line with market rates and cash went into NCDs and 90-day bankers' acceptances. This means that the monetary system could be drained dry by the time the taxman has taken his cut.

National Acceptances' Francis Whitby says that the situation at the end of this month is going to be the worst the country has seen, and he expects a

To Page 3



Van Onselen claims that "Desertion was, in the bulk of cases, a

The row began to assume massive proportions when Graham, the Colonial Secretary, threatened to appeal to the Supreme Court to coerce compliance.[51] Graham felt that he had a good case. He pointed out to Milner that there were already grave complaints against the Royal Army Medical Corps [RAMC]. Only very recently Simpson had inspected one of the prisoners' transports in Simon's Town and found it in a disgraceful state. Moreover, Simpson agreed that dual control would be a fatal error. The colonial authorities had the proper resources for combatting the epidemic ...

B-day — how it will affect you

Today is Budget day — and you can read all about what the Minister of Finance, Mr Horwood, has to say about tax proposals in a special edition of The Star which will appear later today. Tomorrow The Star will carry a complete report of how the Budget proposals will affect the man in the street. There will be three pages of detailed analyses by The Star's team of financial experts, examining the implications for taxpayers.

Gloomy Minister warns nation of poorhouse

Political Staff

THE ASSEMBLY — A country cannot solve its problems by trying to live beyond its means, the Minister of Finance, Mr Horwood, said today.

To illustrate the point he quoted Franklin Roosevelt, who said: "A country, like any family, can for a year spend a little more than it earns. But you and I know that a continuance of that habit means the poorhouse."

Mr Horwood said external circumstances could not be ignored. The balance of payments and adjustment process not only had to be allowed to proceed but should be helped by monetary and fiscal policies — even if this meant restraining demand at a time of real growth.

There were no soft options in dealing with situations of this kind, the Minister said.

Horwood slates 'scramble' for scarce labour resources

Defence goes up 30pc

4 9
12/8/81
Star

By Peter Sullivan, Political Correspondent

The Department of Defence was given the biggest slice of the Budget cake doled out by Mr Owen Horwood today — a whopping 30 percent increase which pushed its share to nearly R2 500-million.

Other beneficiaries in the allocation of extra Government spending include housing, pensions, manpower training, flood relief and food subsidies.

Local authorities are to be given money from the Treasury coffers in various new ways, including the sought-after permission to exact rates from Government and Provincial buildings.

But the extra spending on all other commitments does not equal the millions being added to the already giant Defence budget.

Waring his traditional buttonhole, Minister of Finance Mr Horwood told Parliament that the moderate average real increase in expenditure of about two percent allowed "only very modest increases" in spending on other services.

The total expenditure provided for amounted to R15 871-million — which included supplementary proposals representing R159-million.

Defence would increase from R1 890-million last year to R2 465-million.

Mr Horwood said most of last year's initial surplus had been transferred to the Stabilisation Account, from where it was invested in essential strategic commodities.

Of the surplus of R309-million left over, an amount of R172-million would be transferred to the Special Defence Account.

The rest will go to SWA / Namibia (R80-million) via the Central Revenue Fund, and to initial subscriptions for the Development Bank for Southern Africa (R17-million) — leaving a surplus of R40-million to be carried over to the current financial year.

Mr Horwood dealt briefly with three matters of topical interest — the transferability of pension rights; building society rates; and using Government security for buying farming land — before detailing those Votes getting a special mention.

The National Housing Fund would be increased by R25-million to a record R256,7-million, he said.

"The Government has always been fully aware of the nearly insatiable demand for housing by the lower income groups," he said.

This was accorded a high priority, within limitations imposed by fiscal considerations.

Particular problems were being experienced in the need for housing at Atlantis in the Cape, and at Soweto, but any reasonable provision for this could be budgeted for at a later stage.

He announced no new increases for public servants, but dealt at length with those already given in the Mini-Budget.

Mr Horwood complained about "excessive competition" from the private sector for staff, and said some kind of procedure or formula would have to be found to keep an effective alignment, and prevent an "unwarranted scramble" for scarce labour resources.

Dealing with education and manpower, he said average expenditure on all education had jumped 158 percent in five years.

Spending on black education jumped from R244-million last year to R369-million, and the Government allocation on all education from 14,4 percent to 13,2 percent over five years.

Mr Horwood gave details of the second special pension bonus for social pensioners, which he announced earlier this year during the election.

For the second time this year, blacks will be given R18, Indians and coloured people R24 and whites R30 — at a cost of R25-million to the Treasury.

The Budget includes aid amounting to at least R37-million for flood disaster.

The bread subsidy is being kept at last year's level of R162-million.

Maize farmers — who had a bumper crop this year — get R71-million in the form of a Government-guaranteed bridging loan to the Maize Board to help finance the losses sustained in exporting.

A total of R29-million has been provided in the Budget to allow authorities to get assessment rates from the Government.

However, a 20 percent rebate on assessment rates will still be allowed, as the new system gets phased in.

The Government will also take over some responsibility for ambulances and fire protection services, and allow black administration boards to keep profits on liquor sales, which used to be paid to the Government for bus subsidies.

Mr Horwood hinted at an imminent further increase in the bond rate for home-owners, but at the same time announced concessions to ease the lot of building societies.

'Checking inflation is top priority'

Political Staff

The Assembly
The Government had no higher priority than combating inflation, the Minister of Finance, Mr Horwood, said today.

He conceded in his Budget speech that there were some hopeful signs, but said there was no cause for complacency about the inflation rate, which was too high.

The Government viewed the serious threat of inflation as a danger to the stability of the economy and the whole concept of values in society.

"No matter how it is looked at, inflation causes serious distortions in any economy," said Mr Horwood. "Bearing in mind that there are groups in every society who are not in a position to protect themselves adequately against the ravages of rising prices, it is gratifying that the average real earnings of the working population as a whole have increased in recent years, despite the high inflation rates.

"In 1980, for example, these rose by 3,3 percent for whites, and 4,3 percent for other population groups. This means wages and salaries rose on average by some 18 percent last year — a very substantial rise by any standards.

"Taking into consideration the high growth rate achieved in 1980, it is also gratifying that the average increase of 13,8 percent in the Consumer Price Index for 1980 was only slightly higher than the 13,2 percent rise in 1979.

"For the twelve months from July 1980 to June 1981, the Consumer Price Index rose by 14,6 percent over that of the previous 12 months."

Mr Horwood said inflation conferences which he had called earlier this year had underlined the futility of trying to combat it through selective price controls.

Such controls inevitably led to distortions between the prices of controlled and uncontrolled products.

While the way to fight inflation did not lie in formal wages and prices policies, self-discipline by all parties involved was needed, he said.

Later Mr Horwood said the present economic policy called for a budgetary policy of consolidation and adjustment.

South Africa needed to consolidate the enormous gains made recently. It also needed to adjust to the conditions created by four factors:

- The prevailing world recession;
- The abnormally high United States interest rates;
- The spectacular appreciation in the US dollar;
- The sharp decline in the gold price.

Mr Horwood rejected "out of hand" a policy of outright stimulation of demand through increased deficit spending financed by bank credit.

Even if the South African economy appeared about to follow Western Europe into a downward business cycle, much more had to be taken into account than just this consideration.

Inflation remained a major problem. With the economy operating at full capacity, any premature stimulation would accelerate price increases.

"There are no soft options," the Minister said. "A country cannot solve its economic problems by attempting to live beyond its means."

Mr Horwood said he believed the gold price would start rising again, possibly even as early as the end of this year.

But in the meantime, South Africa had to acknowledge that the decline in the gold price had, in a very real sense, made it less affluent than it would otherwise have been.

But Mr Horwood indicated that he was not going to hold back too severely on Government expenditure, and was prepared to step up Government borrowings.

Mr Horwood added later that there were indications that the growth in the money supply was slowing down.

Since the end of April, both the supply and bank credit had been rising at a noticeably slower rate, he said.

Value of SA gold output declines

THE ASSEMBLY — The value of South Africa's net gold output declined sharply from R10,1-billion in 1980 to a seasonally adjusted annual rate of about R8-billion in the first half of this year, the Minister of Finance, Mr Horwood, said today.

He said this was due to the decline in the price of gold and the widespread recessionary tendencies abroad.

Other exports also declined marginally below the high 1980 figure of R9,6-billion.

EXPANSION

"By contrast, the continued rapid expansion of domestic investment and consumption brought about a rise in imports, from R14,2-billion in 1980 to a seasonally adjusted annual rate of over R17-billion in the first half of 1981.

"Taking into account also other current payments and receipts, the result was a turnaround in the balance of payments on current account from a surplus of R2,8-billion in 1980 to a seasonally adjusted annual deficit of over R3-billion in the first half of 1981," Mr Horwood said. — Sapa.

(T9) Star 13/8/81

BUDGET

Total Revenue	Total Expenditure	Defence	Black Education	Co-operation & Development	Health	Pension and Welfare	Police	National Education	Tourism and Commerce
'81 R17144-m	'81 R15 871-m	'81 R2465-m	'81 R369,7-m	'81 R921-m	'81 R230,2-m	'81 R947-m	'81 R349-m	'81 R2902-m	'81 R334-m
'80 R13.276-m	'80 R11478-m	'80 R1890-m	'80 R240,370-m	'80 R785-m	'80 R ——	'80 R738 372-m	'80 R309-m	'80 R407-m	'80 R340-m

Govt's R256,7-m contribution not enough — Bifsa

The Building Industries Federation (Bifsa) is disappointed with the Government's contribution to alleviate South Africa's acute housing problem.

A Bifsa spokesman said last night that the Government's R256,7-million contribution to the National Building Fund as given in the Budget, an increase of 10,8 percent, reflected a decrease in real terms of 13 percent.

Commenting on Mr Horwood's suggestion that the private sector would have to become more involved in solving the housing problem, particularly the "nearly insatiable demand for housing by the lower income groups," the spokesman said he was of the view that the Minister's remarks were completely and intrinsically bound up with labour relations in South Africa.

In this regard, without the Minister having made specific proposals, he was of the opinion that Mr Horwood was suggesting that there should be an increase in the number of concerns providing corporate housing or low rate bonds for their workers.

"In other words, employers as I see it, will have to offer a total package to their employees."

The housing shortage, he said, was part of a socio-economic problem which could only be relieved in this way.

"If one considers the schemes of employers such as the Public Service, banks, insurance companies and a number of the larger corporations, a surprising percentage of people are already receiving such benefits. But I think it is the intention of the Minister that such schemes should extend to more concerns," he said.

By the nature of their business, it was not practical to expect builders or building societies and financial institutions to make the type of contributions he envisaged.

The shortages were extremely serious. Current Bifsa estimates put the shortage for all races at 400 000 units, a figure which was expected to escalate at the rate of 185 000 units a year.

Pensioners' bonus will help little

The special bonus for social pensioners will make very little difference to their lives.

This was the general reaction to Mr Horwood's announcement that by November whites will get R30, coloured people and Indians R24, and blacks R18.

"It's not going to help hungry pensioners pay their rent," said Mrs Molly Kopel, Johannesburg city councillor for the central area where many pensioners live.

Though disappointed, she and other spokesmen welcomed the bonus as better than nothing.

Mr Tony Simpson, chairman of the Johannesburg Council for the Care of the Aged, said that while it would help with Christmas shopping, "it means very little in today's cost structure."

Mrs Ellen Khuzwayo, a Soweto social worker, said the R18 for blacks was a "drop in the ocean" when considered against the rising cost of living.

Municipalities pleased with new concessions

Staff Reporter

Mild pleasure in Johannesburg and greater joy in Pretoria greeted the Minister of Finance's announcements of new concessions for municipalities in his Budget speech yesterday.

The three key concessions are:

- Government departments, provincial administrations and Government undertakings would in future pay assessment rates to local authorities.
- Provincial administrations will take over the financing of ambulances.
- The Government will pay a subsidy of R14-million yearly for fire protection.

Mr Dirk Botha, deputy city treasurer of Pretoria, welcomed the new measures which would provide relief for Pretoria's ratepayers.

Mr Botha said that if State and provincial buildings in Pretoria were fully taxed this would bring in R7,7-million to the city.

With the rebate of 20 percent this would amount to about R6,2-million.

As Pretoria already received R1,5-million from the State in rates, the advantage to Pretoria would be R4,7-million.

The chairman of Johannesburg's management committee, Mr Francois Oberholzer, estimated that the city would double the yearly R770 000 it received in rates from the State.

Ambulance fees would be about R900 000, which would now be paid by the Province.

Fire protection subsidies would save the city another R400 000.

He said all financial concessions announced by Mr Horwood would benefit the city by R2,5-million.

Mr Oberholzer expressed disappointment that local authorities had not been given additional sources of revenue such as a portion of fuel and car licences.

Mr Sam Moss, MPC, leader of the Opposition in the Johannesburg City Council, said the concessions showed that the Government had come to realise local authorities played a vital part in the country's infrastructure.

This opened up the possibility of municipalities being granted greater responsibility.

Mr Moss said he was disappointed that the Government funding of the National Housing Fund had risen by little more than 10 percent — from R231,7-million to R256,7-million.

He said that in real terms this was no increase.

Rise too high to swallow?

For every beer you buy in the pub 13c will go to the Government.

This is the result of the hefty increase in duty on beer announced in the Budget. The leap in the beer taxation — up by 4,8c per litre or 1,8c per 375 ml — was described by the SA Breweries as a "disappointing" move.

Sales are expected to be affected.

SAB general manager (marketing) Mr Peter Savory, told The Star:

"Every year you sit with a lump in your throat (during the Budget speech) but we certainly did not expect an increase of this size. This increase is the biggest increase in excise in 10 years."

The taxation would be passed directly on to the liquor trade.

"But we have not increased prices by more than the increase in excise."

He could not say how much the price of beer would rise in bars and bottle stores. This was up to the retailers.

The increase in duty will make for a brewery price rise of 44c on a case of 12 quarts.

Fortified and sparkling wines were sent up 2,4c per litre in the Budget, with other wines unaffected.

Assocom agrees with assessment

Mr I J Pinshaw, president of Assocom, said yesterday that the association is in broad agreement with the Minister of Finance, Mr Owen Horwood's assessment of the economic situation and welcomed his obvious commitment to bringing inflation under control without creating "an overkill" situation in the economy.

The Association endorsed the Minister's view that the Budget is one of "consolidation and adjustment" — it is a holding budget," he said.

"Although the overall rise in State spending is somewhat higher than Assocom expected, it is preferable to finance it as the Minister has done, through indirect taxation rather than direct taxation.

"With regard to the further taxation of fringe benefits and the proposals regarding certain pension fund matters, it is essential that the authorities consult with the private sector before the proposals are finalised.

"Assocom regrets that it has been necessary to increase the ad valorem excise duties as this is considered to be inflationary. — Sapa.

Farmers regret help is so small in predicament

THE ASSEMBLY — Maize farmers are to be assisted with a Government-guaranteed bridging loan of R71-million to the Maize Board.

The Minister of Finance, Mr Owen Horwood, when presenting his budget said the interest on this loan would be partly subsidised.

Apart from subsidising the handling and storage of maize, the Government would subsidise directly the price of maize to the consumer, to ensure that the increase in the consumer price should remain below 10 percent.

The total of all subsidies on maize and grain sorghum would therefore amount to R87-million for 1981/82 financial year, compared with R60-million in 1980/81. Although R50-million had been provided in the printed estimates, another R37-million would be provided in the supplementary estimates.

NO CONTROL

The South African Agricultural Union realised the Minister had introduced a very neutral Budget.

R250-million was being set aside this year for food subsidies alone, compared with R226-million in 1980/81.

In a statement in Cape Town last night the chairman of the co-operative board of the union, Mr Fanie van Rensburg, said it had always supported the government in measures to combat inflation and exercise financial discipline.

"The farmer is, however, in a predicament in that he has no control over the input costs because cost rises are being transferred to him." It was a pity so little was being done in this regard.

It was a pity no attention was given to export incentive measures.

Farmers should be allowed to build up an income reserve fund on which tax would only be payable on withdrawal.

Estate duties should be abolished completely.

The union was delighted that state securities would now serve as security with the Landbank. — Sapa.

Bank chief: it's only a holding operation

The Budget represented an essentially holding operation until next March, Dr Conrad Strauss, managing director of the Standard Bank, said yesterday.

"Nevertheless I believe the fiscal measures proposed in the Budget by themselves are not sufficient to bring about the adjustments necessitated by the less favourable in- [illegible] tackling inflation and balance of payments problems on monetary policy.

"This means that tight credit conditions may continue for longer with higher interest rate levels than if fiscal policy had been [illegible] placed in the Budget on consolidation, anti-inflation measures and greater investment in production capacity.

"Limited product availability together with booming domestic occ- [illegible] increased dividend plough-back allowance, may further stimulate investment in production capacity," he said.

"The fight against inflation remains a most important one for the export [illegible] more restrained than had been feared and the financing of the deficit appeared to be conservat-

nomic conditions mentioned by the Minister.

"The reluctance to take sterner fiscal measures now shifts the burden of

trictive monetary policies," Dr Strauss said.

Mr W B Holtes, chief executive of Safto, welcomed the emphasis

certain sectors.

"I believe the extended investment allowances announced earlier, now strengthened by an

on production and wage costs has to be curbed if South Africa wishes to retain its competitive edge in world markets."

PARLIAMENT

TODAY'S BUSINESS

Today's business in the Assembly is:

Resumption second reading, guidance and Placement Bill. Second reading, Second Wage Amendment Bill. Second reading, Vista University Bill. Second reading, National Road Safety Amendment Bill. — Sapa.

Unless otherwise stated, all political reports in The Star by P Sullivan of 47 Sauer Street, Johannesburg A H G Wentzel, F S Esterhuizen and L Parker of 122 St George's Street, Cape Town, B Cameron of 85 Field Street, Durban, and L H Marshall of 216 Vermeulen Street, Pretoria. Cartoons by A Berry, D Gaskill and D Fedler of 47 Sauer Street, Johannesburg. J Jackson of 122 St George's Street, Cape Town, and J Leyden and G Muller of 85 Field Street, Durban. Headlines ad posters by Johan de Villiers, and political comment by H W Tyson of 47 Sauer Street, Johannesburg.

Sapa's parliamentary reports by A Braid, C le Roux, P Claassen, J W Lordan, S Moller and D Powell, all of the Press Gallery, House of Assembly.

Learn about labour, bosses told

THE ASSEMBLY — The Minister of Manpower, Mr Fanie Botha, called on employers this week to give top-level attention to labour matters and acquaint themselves with developments in the field.

Replying to the third-reading debate on the Labour Relations Amendment Bill, he said it had been found that many employers were totally uninformed on labour matters. Some simply did not know what was going on.

But in recent times there had been a trend towards a more scientific approach to labour. Some companies were appointing experts, and universities were offering courses.

This development showed what an important role labour was playing not only in the political field, but in others.

Earlier, the chief Opposition spokesman on labour, Dr Alex Boraine (PFP Pinelands) said improvements brought about by the new legsislation was a great step forward.

The Bill was read a third time with the support of all parties. In the committee stage the PFP had objected to certain provisions. Some amendments proposed by the opposition were accepted.

Mr Botha also introduced the second reading of another new labour measure — the Guidance and Placement Bill.

He said it was aimed at providing a framework for occupational guidance.

119 670 houses needed yearly

THE ASSEMBLY — A total of 119 670 new housing units would be required annually to wipe out the accommodation backlog and meet the population increase, according to a Department of Community Development report.

The report on the provision of housing, tabled in Parliament with the budget yesterday, estimates that the private sector will have to provide 39 percent — 46 000 units.

A total of 38 000 houses would be needed each year for whites, 21 700 for coloureds, 7 970 for Asians and 52 000 for blacks.

"To finance a housing programme of this magnitude will take an annual investment by the public sector of approximately R411million for blacks."

Ways and means will have to be found to augment the capital of the National Housing Fund and to encourage even greater participation by the private sector in the housing provision process, especially for non-whites.

"These matters are being actively pursued," the report said. — Sapa.

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		1971	1972	1973	1974	1975	1976	1977	1978	1979	% change 1980
US	GDP	2,9	5,8	5,4	—1,3	—1,0	5,6	5,1	4,4	3,2	—0,2
	RPI	4,3	3,3	6,2	11,0	9,1	5,8	6,5	7,7	11,3	13,5
JAPAN	GDP	5,1	9,3	10,0	—0,3	1,4	6,5	5,4	5,9	5,6	4,2
	RPI	6,1	4,5	11,7	24,5	11,8	9,3	8,1	3,8	3,6	7,7
GERMANY	GDP	3,2	3,7	4,9	0,5	—1,8	5,2	3,0	3,3	4,5	1,8
	RPI	5,3	5,5	6,9	7,0	6,0	4,5	3,7	2,7	4,1	5,5
UK	GDP	2,7	2,2	7,5	—1,2	—0,8	4,2	1,0	3,6	0,8	—1,6
	RPI	9,4	7,1	9,2	16,0	24,2	16,5	15,8	8,3	13,4	18,4
SWITZERLAND	GDP	4,1	3,2	3,0	1,5	—7,3	—1,4	2,4	0,3	2,2	4,1
	RPI	6,6	6,7	8,7	9,8	6,7	1,7	1,3	1,1	3,6	4,0
AUSTRALIA	GDP	5,4	3,0	5,3	2,6	2,4	3,6	0,9	1,7	3,0	2,7
	RPI	6,1	5,8	9,5	15,1	15,1	13,5	12,3	7,9	9,1	10,2
SOUTH AFRICA	GDP	4,8	3,0	3,6	7,6	1,6	1,7	0,0	2,2	3,8	7,9
	RPI	6,4	6,5	9,5	14,1	11,7	10,8	11,1	11,6	14,0	15,8

Sobering figures for SA to think about

Howard Preece

Economic Spotlight

Mr HORWOOD produced a wide range of figures yesterday to show how well the South African economy has performed over the past two to three years.

He had some powerful ammunition at his disposal.

This country has enjoyed a more rapid rate of real economic growth from roughly the end of 1978 until now than any other major or second-line industrial country.

Mr Horwood will quite naturally and perfectly properly take much satisfaction from this.

On the other hand, he readily concedes the serious level of inflation and the fact that policy has to give prime consideration to this.

South Africa comes out poorly on any equivalent international comparison in this area.

But the statistics for any short term can be misleading.

What matters is performance measured over a long term.

In the table (above) the growth and inflation records for the 10 years 1971-80 are shown for South Africa along with those of the United States, Britain, Japan, West Germany, Switzerland and Australia.

The GDP figures — gross domestic product — show the level of real growth in the various economies.

The RPI figures — retail-price index, which is officially the consumer-price index in South Africa — are used as the inflation measurement.

In the South African case I have taken the data from the Reserve Bank Quarterly Bulletin and the Department of Statistics.

Those for the other six countries are taken from the Organisation for Economic Co-operation and Development as reported in the Financial Times (June 25, 1981).

Some qualifications must be made.

Consumer, or retail, prices are not necessarily the most accurate measurement of inflation and the official "deflator" used by most countries to measure the total effect of inflation on the economy might give a slightly different picture. But RPI is broadly accurate.

Economic growth can also be measured by gross national product, GNP, instead of GDP.

GNP will reflect the income effects of exchange rate moves and the terms of trade (the ratio of export to import prices) more closely.

In South Africa's case the 1979-80 gold boom meant that GNP was rising well above the GDP figure, almost to 10% last year.

Conversely, it will be adversely hit this year by the gold-price crash and the tumbling rand.

However, GDP is the most generally used international calculation.

There is also the question of which countries should be used in a "fair" comparison with South Africa.

This has to be essentially a matter of opinion, but I think the sample here is valid.

At the one extreme is Japan, the supreme achiever, and at the other Britain, forever under economic siege, it seems.

Switzerland and West Germany are widely regarded as models of economic balance and Australia has much in common with South Africa in some areas.

The US is simply the most important of all.

So how does South Africa shape?

This is how a league table of average real annual growth for the 10 years looks.

Japan 5,3%.
South Africa 3,5%.
Australia 3,1%.
United States 3%.
Germany 2,8%.
Switzerland 1,8%.
Britain 1,2%.

An excellent record for South Africa, it would seem, and so in some ways it is.

There is, however, one drawback.

This country has a population increase of about 2,5% a year, which is higher than any of the other six and way above that of the US and the three European nations.

In terms, therefore, of real growth per head South Africa's record is not so impressive.

But that is perhaps one illustration of the difficulties of comparison. This country is part Western, part Third World in its economic devlopment.

The soaring population figure, is inevitable for South Africa, as it is for most developing countries.

The overall figures are also rather flattering to the US which had negative growth in 1970 and is in a trough now.

Against that both Switzerland and Germany had growth rates of 6% in 1970 and Switzerland's dull-looking growth record would also helped by an increase of 4% or so this year.

What is a little sobering, though, is that even Japan could manage "only" an average 5,3% over the 10 years.

That is an indication of just how difficult it will be South Africa to obtain 4% a year in the 1980s — let alone the 5% that is hoped for.

South Africa will surely have to make some fundamental changes in its economic structure if the upper level of expectations are to be realised.

This is emphasised even more strongly by looking at the inflation league table.

Over the 10 years to 1980 this is how the picture was for the seven countries.

Switzerland 5%.
West Germany 5,1%.
United States 7,9%.
Japan 9,1%.
Australia 10,5%.
South Africa 11,1%.
Britain 13,8%.

Not only does South Africa come out worst apart from Britain. It is the only country in which inflation has stayed above 10% for every year from 1974 onwards.

That shows just how ingrained inflation is in the South African system and just how formidable the task will be to get the rate below 10% consistently in the 1980s.

The British record does exemplify the argument, however, that there is no guaranteed trade-off between inflation and growth, that inflation can well be the enemy of growth in the long term.

But the figures for the seven countries as a whole over the 10 years also suggest that there is no pat formula that can be applied to economic policy and success be assured.

Chamber of Mines view

Confidence booster

(49)

13/8/81 ROM

Financial Reporter

THE president of the Chamber of Mines, Mr Lynne van den Bosch, welcomes the theme of this year's Budget, with its conservatism and continued monetary and fiscal discipline.

Mr Van den Bosch said he believed that financing the Budget without recourse to general increased taxes was the correct approach in the circumstances, and would promote confidence in the economy.

"The moderate increase in Government expenditure exerts a contra-cyclical influence on the economy in the face of declining growth in private sector expenditure and is supported in current circumstances, although it is felt that the long-term policy should be to limit Government expenditure in real terms."

The Chamber agreed with the approach taken by Mr Horwood in financing the substantial Budget deficit largely from domestic borrowings, but believed the Government should be prepared to pay market related real interest rates for the funds it obtained in the SA capital markets.

This would ensure that the monetary discipline imposed recently on the private sector by market-related interest rates was also extended to the public sector.

"The chamber fears that if this is not the approach the financing of the Budget deficit could well prove inflationary."

THE BUDGET (49) FM 14th Aug 81

Horwood sails on

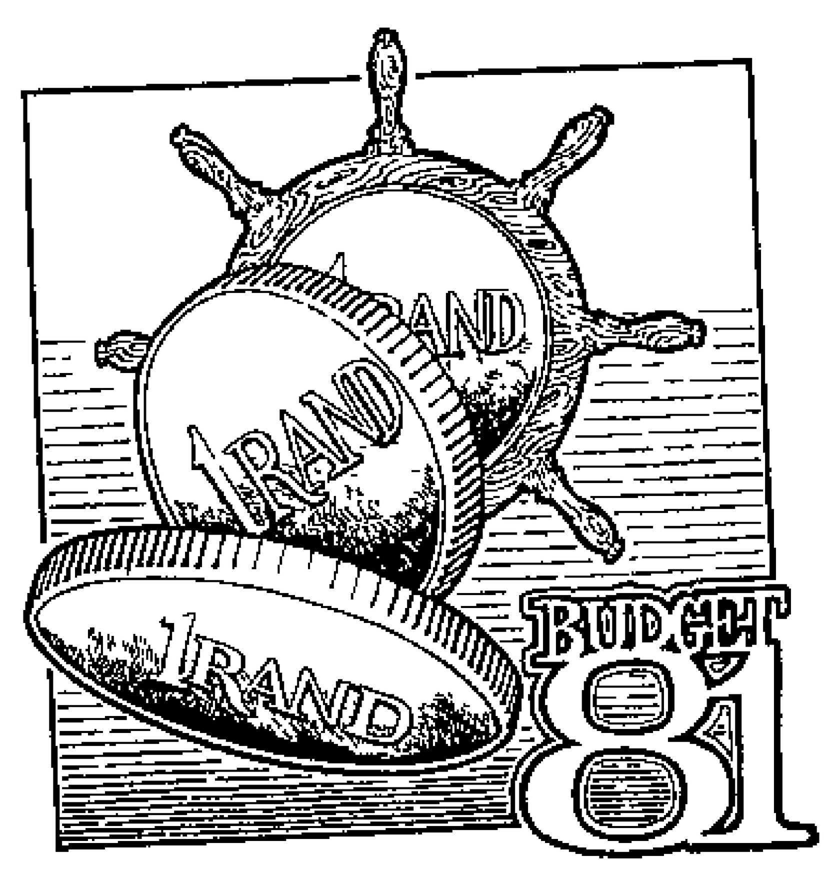
Owen Horwood, in his seventh year as Finance Minister, is holding firmly to his judicious course of the last four years. His Budget on Wednesday was certainly not without direction.

Against what must have been fearful pressure from his Cabinet colleagues, he has again held government spending in tighter check than many expected. This means that as the economy grows, there will be a continuation of the swing in resources from the public to the private sectors.

Broadly speaking, his tax reforms, most of which will be material only next year, will enhance this trend. They will also lead to a more equitable spreading of the tax burden and remove some of the impact of inflation.

With gold revenue likely to be sharply lower this fiscal year and with the millstone of inflationary military spending, he had to be conservative — for accounting reasons if no other.

Nor would it have been appropriate to boost demand through fiscal incentives when an overheated economy is still exerting upward pressure on prices.



But he could, and should, at least have raised tax thresholds to restore last year's concessions which have been eroded by inflation.

For, make no mistake, the mere fact that the tax structure remains unchanged, after prices have risen by nearly 15%, means that in effect taxes were increased. It is by no means only those who choose to drink and smoke who must pay up.

Trying to balance the Budget by taxing the private sector is not the way to achieve the broader economic objective of strong real growth in the long run.

Of course, it makes accounting easier, but by hampering the flow of assets to the private sector, the chances of production rising to meet excess demand are correspondingly reduced. It weakens the economy and ultimately leads to austerity.

Nor, in the case of this Budget, is the accounting need a compelling one. For the borrowing requirement at R2 707m is by no means excessive, although it is many times greater than last year's unusually small R288m. In fact, as Horwood says, it is a moderate 3,5% of gdp.

It would hardly require much effort for government to sell an additional R1 000m of long-term stock. After the record trade surpluses in recent years, the institutions are certainly not short of cash. And those sales would have a negative influence on the money supply.

Alternatively, with new foreign loans last year at a mere R142m and only R350m budgeted then, the country has barely tapped the credit available to it abroad. Even if foreign loans increase the reserves, the trade deficit will counter any short-term inflationary impact.

If Horwood had adjusted the tax structure to take account of fiscal drag, and funded instead through increased public borrowings, he would have come closer to achieving more stable prices.

His inability to contain inflationary pressures is the one flaw in Horwood's otherwise exemplary performance at the Treasury. It is an extremely severe flaw that clearly needs to be tackled with the courage and imagination he has brought to other problems.

Of course, he has the millstone of defence expenditure with which to cope. This year it was at R2 465m, which is 15,5% of total government spending and up 30% (more if other funds are taken into consideration) which is perhaps better than its 40% rise in 1975. It must also be seen in perspective. Education spending at R2 902m is 18,2% of total spending and up 158% over five years.

Few would deny that this country needs to take adequate measures to protect itself, although more appropriate social policies might make the need less pressing. But military spending tends to be an emotional issue, more often than not abandoned to the demands of influential generals. Perhaps some elements of greater public scrutiny would not be amiss. We are fighting, after all, a bush war, not an atomic one.

Another problem not of Horwood's own making was the intransigence last year of former Reserve Bank Governor Bob de Jongh, who could not be persuaded to take adequate measures to control the money supply. In consequence, it shot out of control and its growth is only now being arrested.

One of the most heartening aspects of this Budget were the measures to assist our cities with their massive financial problems. The proposed measures, especially the rates that will be collected on public buildings, amounts to a significant decentralisation of public sector financing.

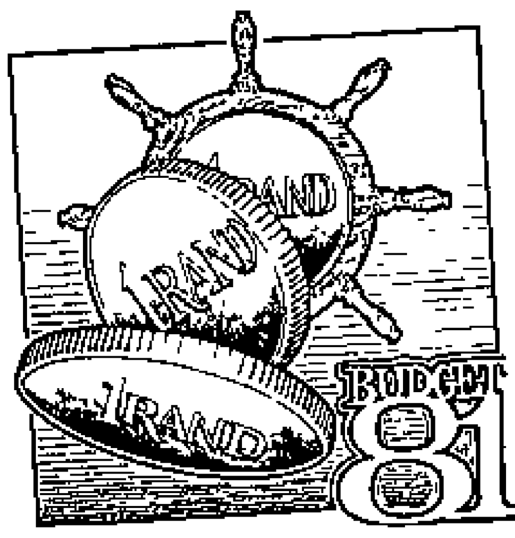
Likewise, if donations tax concessions are broadened to include private schools as well as universities, further assets will be released to the private sector. But as important will be the increased influence that Jan Publiek will, in effect, be given in local affairs.

On balance, the *FM* believes that Horwood's Budget is more contractionary than it need be. But the important thing is that the direction has not been lost.

MONETARY POLICY

Debt management

FM 14th Aug 1981 (49)



"The House may rest assured that, so far as the Government is concerned, there is no higher priority than the combating of inflation."

With these words Finance Minister Owen Horwood laid the basis for the 1981/1982 Budget, based on the slogan "consolidation and adjustment."

Consolidation, Horwood said, was necessary after the dramatic expansion of the SA economy in the last year. And adjustment had to be made to recessionary conditions in the rest of the world, high US interest rates and a sharply lower gold price together with the spectacular appreciation of the US dollar.

Consequently, and in line with most expectations, the Budget that was tabled in Parliament on Wednesday lacked the drama of last year's historic document.

That Horwood made little direct reference to monetary policy in his address was quite understandable, considering the base from which he began. The huge rises in the monetary aggregates witnessed in the last 18 months were caused mainly by the extension of bank credit to the private sector. This was itself made possible by the surge of liquidity that resulted from a BoP current account surplus for 1980 of almost R3 billion, and an artificially low interest rate structure. Apart from a quarterly aberration, government borrowing made little contribution, and in fact the R1,2 billion transferred by the Exchequer to the Stabilisation Account exercised a net contractionary effect.

Since then, as Horwood put it, "a combination of natural economic forces and a firm contractionary monetary policy has brought about a metamorphosis of the monetary and banking situation." Though statistical factors may have played a part, the rate of increase in the broadly defined money supply (M2) fell to 29% in the second quarter of 1981, against 46% in the first three months. Steady rises in prime and other interest rates, a gathering BoP current account deficit estimated to be in the region of R3 billion for 1981 as a whole, and Reserve Bank manipulation of short-term capital outflows, have all played parts.

Accepting, no doubt, that monetary policy was in good hands and that the De Kock Commission into Monetary Policy and the Monetary System was still some months from reporting, Horwood made no important statutory changes to the monetary system. Official concern for the foreign exchange reserves, already depleted, made the timing for a relaxation of exchange controls inappropriate.

But his Budget does contain some implications for interest rates and the money supply. He did not increase maximum lending rates in terms of the Limitation and Disclosure of Finance Charges Act, as general and commercial bankers had hoped for, but this is a step he could take at any time. He did, however, raise the rates payable on building society tax-free shares to 8,75% from 8,25%, and double the per taxpayer limits on indefinite period shares to R20 000. These higher borrowing rates provide added impetus to the societies to raise mortgage rates (the announcement of which was imminent as the *FM* went to press). This in turn will allow them to raise other deposit rates, which the banks will probably match automatically.

But the main interest rate and monetary implications concern his Exchequer

STATE REVENUE ACCOUNT

	Sub-total	Budget figure 1981-82 Rm	Revised figure 1981-82 Rm	Change
Expenditure				
ESTIMATE		15 443		
PLUS: Supp. appropriations financed from 1980-81 surplus		269		
PLUS: Supp. appropriations financed from 1981/82 revenues:				
Flood disaster	37			
Social pensions	25			
Food subsidies	67			
Local authorities	37	159		
Total expenditure		15 871	13 590	16,8%
REVENUE:				
Inland revenue at existing rates		13 057	11 833	
LESS: Concessions on taxes:	-3			
Total revenue		13 054	13 302	−1,9%
DEFICIT (before borrowing)		2 817	288	×10
PLUS: Loan redemptions		2 842	1 783	59%
TOTAL FINANCING REQUIREMENT		5 659	2 071	173%
Domestic loans:				
Public Debt Commissioners		1 850	1 180	
New issues already funded and reinvestment of maturing stock		2 714		
Non-marketable debt		550	435	
Foreign loans		350	142	
Loan levies		45	59	
Custom duty increases		110		
Surplus (carried forward)		40		
TOTAL FINANCING		5 659	3 622	56%
BALANCE			1 551	
Transfer to Stabilisation a/c			1 242	
SURPLUS		0	309	

5. Coopers & Lybrand: Letter in Response to the Proposed Statement of Financial Accounting Standards - "Capitalisation of Interest Cost", April 3, !979.

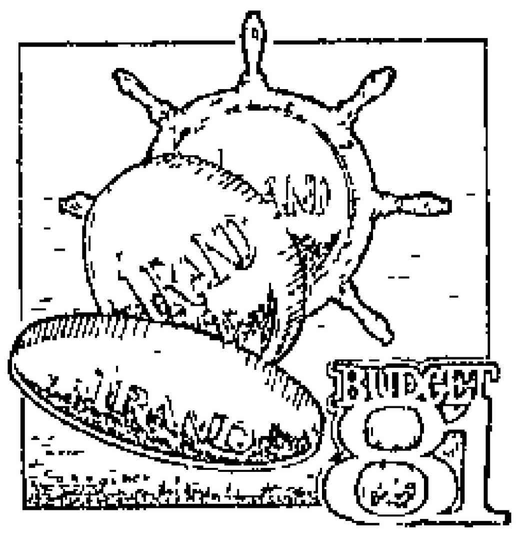
6. Deloitte, Haskins & Sells: Letter in Response to Proposed Statement of Financial Accounting Standards - "Capitalisation of Interest Cost", April 4, 1979.

7. Ernst & Ernst: "Financial Reporting Developments, 'Capitalidation of Interest Cost'", February 1979.

8. Ernst & Ernst: "Letter in Response to Exposure Draft - 'Capitalisation of Interest Cost'", April 11, 1979.

BUDGET (49) FM 14/8/81

How much you'll pay



The Budget has left income tax rates on individuals unchanged. But the impact of inflation on a progressive system of income tax produces "fiscal drag," which is inflation pulling individual incomes up to higher levels so that the percentage tax take increases, even though the purchasing power of the gross income has not increased. If personal incomes increase at no more than the inflation rate, the purchasing power of their after-tax income will diminish.

Wages and salaries increased last year on average by 18%, although it does not seem likely that the increase for the current year will be nearly as large. But the detailed revenue estimates show that tax on individual incomes is expected to rise from R1 805,8m in 1980-1981 to an estimated R2 710m in 1981-1982 — a startling increase of 50,06% in nominal money terms.

Even if deflated by the June 1980 to June 1981 inflation rate of 14,6%, the tax take from individuals is up by 28,1%. Even making further allowance for an increase in the number of individuals paying tax, and for the undoubted increase in real income (that for 1980 was up by 3,3% for whites), there has been a striking increase in the proportion of real income paid in tax.

Fringe benefits legislation has once again been pushed back to another year. It is expected to be enacted in the current session (after circulation of a further draft Bill) and become effective over two years, beginning next March. If passed, the amendments will increase the amount of tax payable by company executives and place the responsibility of quantifying and monitoring fringe benefits on the companies concerned. The extended period of implementation is intended to ease the impact of the additional tax.

The Budget did, however, include some significant tax reforms. For instance, Finance Minister Owen Horwood confirmed the previously announced concession that the tax-free portion of lump sum retirement benefits payable by employers to employees was to be increased from R15 000 to R20 000. He has now granted an additional concession. Any excess in lump sum payments over the new tax-free limit of R20 000 will be taxed in future at the taxpayer's average rate applicable to the balance of his income (other than the gratuity) rather than at his marginal rate, as was the case before.

The higher duties on liquor reflect an inequitable feature of the Budget: they give a further competitive advantage to natural wines over beer and spirits.

Natural wine has been left alone, but beer is going to cost 44c more a case, and spirits R6 more a case. This is the biggest increase for both beverages in a decade. Fortified and sparkling wines are also to be more expensive.

In future 30% of the price of a beer, or 13c, will go in excise tax. But on a glass of wine, only about 0,5c goes in tax.

Brewers see this as an attempt by government to make the Cape wine industry economically more viable and placate politically influential wine farmers.

Recent years have seen a reduction in the wine excise, but this failed to attract sufficient consumers to take up the overproduction. Wine sales have been relatively stagnant, and growing production has continued to feed SA's already enormous wine lake.

Black consumers will bear the brunt of the liquor price increases. Blacks account for about 70% of the beer market, and 50%-60% of the spirit market, while coloureds are the biggest consumers of fortified wines.

Government should rather have rationalised the increases in duty on alcoholic beverages in terms of its avowed policy of structuring excise to favour liquor of low alcohol content.

"We are very disappointed that government has once again discriminated against beer," says SA Breweries' (SAB) divisional chief executive for beverages, Ken Williams. "The excise increase is the biggest in 10 years, and now accounts for more than 40% of the brewer's price for beer."

SAB raised all but one of its beer prices by 44c a case, the full amount of the added excise, on the day after the Budget. The only exception to this is the 500 ml super dumpy bottle where the price rise is marginally less. Williams says the added costs will be absorbed by expected savings in packaging costs.

"The new excise should put up retail prices by between 6% and 7%," he says.

"This will have a bearish effect on sales volumes, but in the general climate of inflation and the naturally growing market, it should not reduce earnings.

Local authorities

Local authorities have come out as substantial Budget beneficiaries. For years their moan — and a justifiable one — has been that government and the provincial administrations have not paid anything like full whack of rates.

Johannesburg, for example, writes off about R7m/year. Pretoria estimates the loss at R4m and other cities and towns lose out more or less proportionately.

Now the upper two tiers of government will pay a bigger rates bill — though on a phased basis and with a 20% discount "in view of the social nature of certain of the services." Because the PO and Railways budgets have not taken account of the liability, their "fair basis" share will start coming through only next year.

Some R20m in additional rates will thus go to local authorities this year. In itself that will represent no more than a useful bonus. But, coupled with a takeover of ambulance services where they are still run by local councils and a subsidy on fire protection services, the package will fill a big hole in municipal revenues. In addition, the 20% share of township liquor

REDUCTION

Commodity	Reduction	Estimated revenue loss
Petroleum gas	Duties abolished	R6,3m

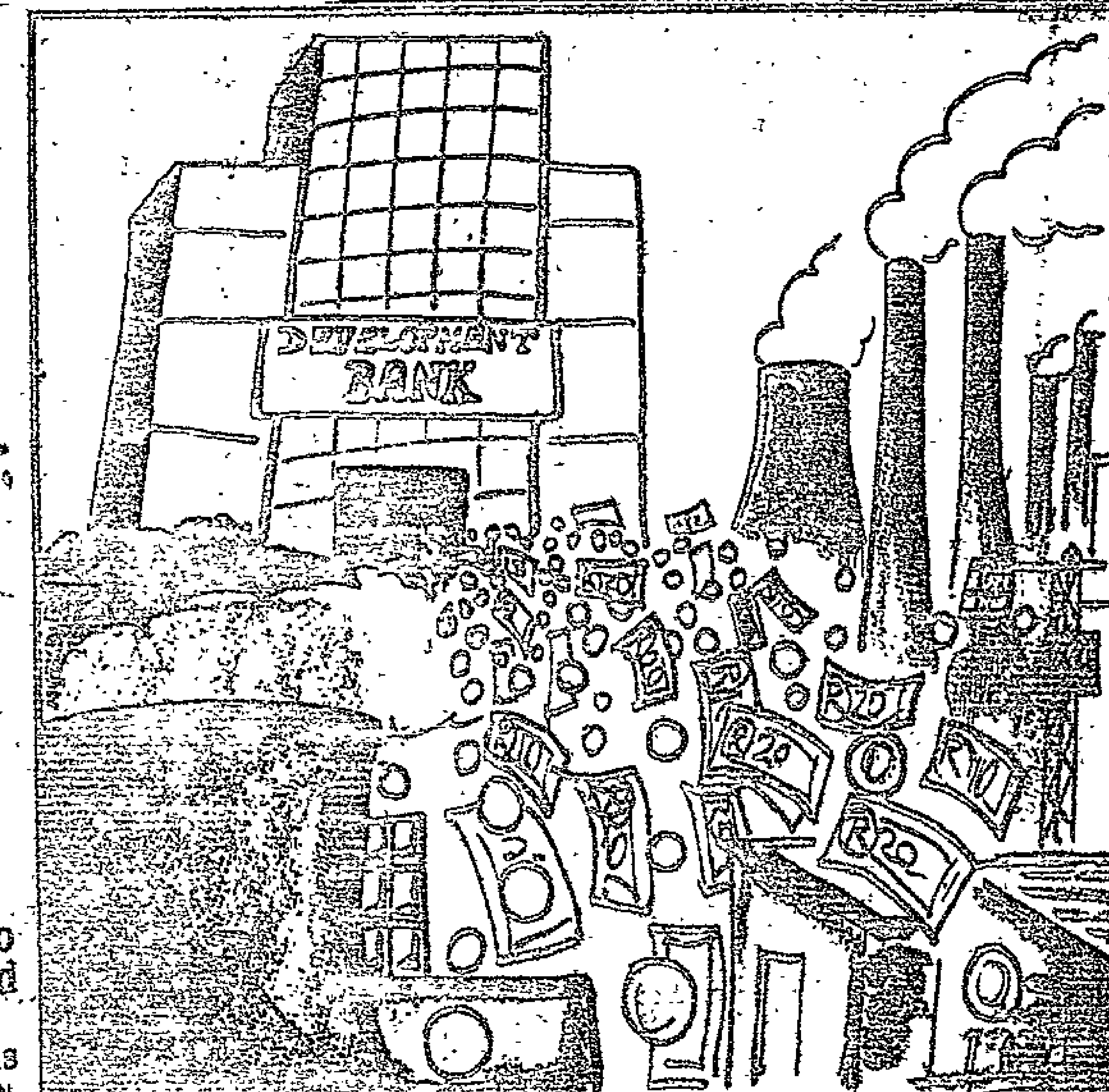
INCREASES

Commodity	Estimated retail price increase	Estimated revenue gain
Beer	2c/375 ml bottle	R21,6m
Brandy, whisky, gin, etc.	2c/tot	R31,9m
Fortified and sparkling wines	2,4c/ℓ	R0,8m
Apple, pear and orange alcohols	2,4c/ℓ	Negligible
Soft drinks, excluding squashes and natural fruit drinks	1c/ℓ	R5,2m
Cigarettes	4c/20s pack	R32,2m
Cigarette tobacco	2c/50g	
Cigars	10c/kg	
Jewellery, photographic equipment, furs, etc	5%	R18,3m

Go-ahead for billions in industrial development

S. Times 16/8/81

101 (49)



AROUND R3 000-million annually is expected to flow by the mid-Eighties into new Southern African ventures and expansion projects as Pretoria's planned Development Bank moves into gear — if it does.

According to sources close to the matter, any doubt that the bank will take shape as intended springs not from lack of confidence by the Ministry of Finance.

It arises, rather, from "in-fighting between the bank's supporters and those who feel that other development programmes should receive higher priority".

"Some even argue that these other programmes are viable whereas the bank, which is South African-inspired but must depend on international co-operation, could prove a damp squib. . . ."

Refuting this in a discussion with Business Times on Friday, those involved with the bank's architects said that there was no question of lack of support from the Cabinet.

"It should be clear from what the Minister of Finance said in his Budget speech that we are proceeding as fast as possible, and that there are no serious obstacles."

The sources were at pains to

By STEPHEN ORPEN

stress that the "apparently meagre" R17-million which the Minister said in his Budget would mark the Government's initial investment in the bank should not be misconstrued.

"This money, which will come from the Minister's planned R200-million budgeted surplus, represents only a small portion of the initial paid-up part of the bank's subscribed capital.

"Even the total paid-up part of the subscribed capital of a bank like this — similar in concept to the World Bank — is tiny compared with the full subscribed capital. And this capital is itself, of course, relatively miniscule compared with development funds handled by such banks."

The sources said that a set of proposals submitted recently to senior Cabinet Ministers called for an initial contribution from Pretoria of R200-million to paid-up capital.

"Development funds currently being invested in the country as a whole exceed R16 000-million a year.

"If one allows that the areas to be served by the Development Bank — outside the Pretoria-Witwatersrand-Vereeniging complex — absorb R6 000-million, it can be expected that the bank will be contributing well over R1 000-million soon for infrastructure and services alone.

"To this must be added what we hope the private sector will contribute by way of productive resources (factories and so on), which should amount to at least R1 500-million a year, and will hopefully grow by several hundred million a year.

"Sources of finance for the bank will be soft loans and other cash through Government, plus hard loans from both domestic and overseas agencies arranged by the private sector."

The Minister said in the Budget that "negotiations with the initial participating states have already reached an advanced stage and the articles of agreement are now being drawn up".

Negotiations had been conducted with Transkei, Bophuthatswana, Venda and self-governing national states to participate as founder members.

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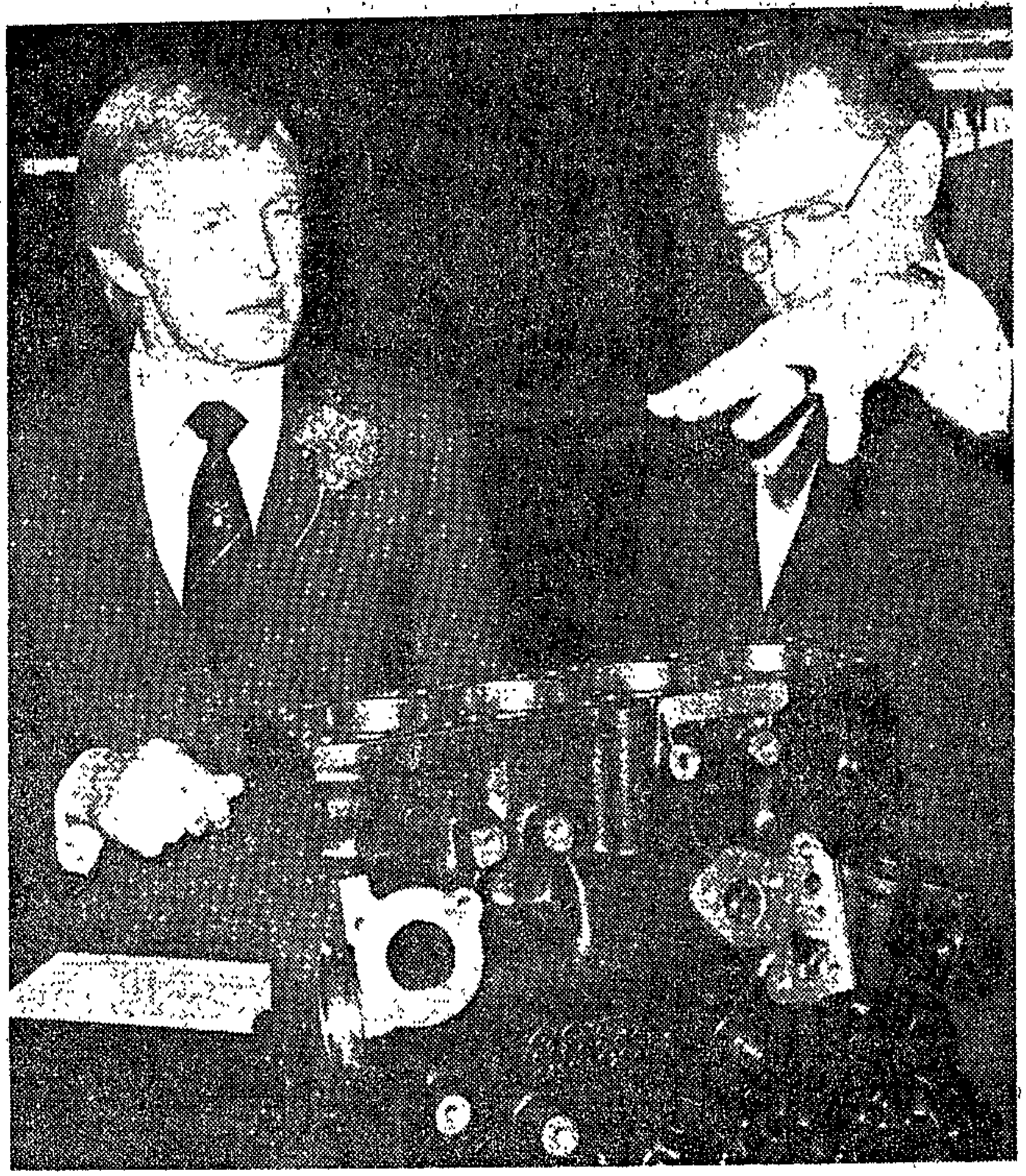
tion, were temporarily taken over
that the government put them into
spondence ensued which is
um landlord. Previously occupied
roughly neglected condition.
nts on the very favourable terms
the holder of the second mortgage

SA GEARED FOR HUGE INVESTMENT BOOM

Argus 22/8/81 (49)

By the Financial Editor

DR DAWIE DE VILLIERS, the Cabinet Minister responsible for the country's industrial development, looks like being an extremely busy man in the coming months and years ahead.



DR DAWIE DE VILLIERS, left, Minister of Industries, Commerce and Tourism, with Mr T D Lockwood, technical director, Volkswagen, at the opening of a R15-million engine plant in Uitenhage this week, part of a R100-million investment programme.

He is the person every industrialist wants to officiate at the opening of their factories — as he did for Volkswagen at Uitenhage this week.

With South Africa now well on the way to a major investment boom, Dr de Villiers will find official openings keeping him increasingly occupied.

Latest estimates are that R32 000-million will be spent on new major capital projects in the next five years.

Mining

About R6 000-million will be spent by the mining industry, R8 900-million by manufacturing, R15 600-million by Escom and more than R1 000-million by the services sector.

A large number of the projects are scheduled to begin in the next two years and the banks are known to be under pressure to find the necessary finance.

However, this heavy investment is needed if South Africa is to exploit her capabilities fully.

Barclays National Bank recently pointed out that new capital investment in South Africa had slumped in the 1970s.

But the bank added that there was now a growing awareness of the need not only to step up the pace of new investment but also to re-channel new investment in the direction of the development of new energy supplies, increased agricultural production in the lesser developed rural areas, and expanding mineral production.

Some of the biggest projects announced for completion in the next few years are listed in the accompanying table.

Company	Project	Amount
Sappi	Pulp-making capacity at Ngodwana increased to 260 000 tons a year	R800-m
Anglovaal in consortium with Caltex, Mid Wits and Anglo Alpha	Methanol plant	R650-m
Anglo-Alpha Cement	Expansion programme for all divisions	R358-m
South African Railways	Large-scale track improvements on major lines	R160-m
AECI	Salt and soda ash plant with annual capacity of 250 000 tons	R160-m
Iscor Vanderbijl	Four new direct production plants	R121-m
Firestone SA	Expansion of production capacity by 35 percent	R55-m
De Bruynplan and Escom Pension Fund	New shopping centre and office complex city centre, Pretoria	R35-m
Scaw Metals (Amic)	New direct reduction sponge iron plant in Germiston for annual production of 75 000 tons	R32-m
McKechnie Bros	New plant and equipment for modernisation programme to increase production capacity by 20 percent	R22-m

5. Commercial Banks do which of the following things?

2.

THE SECOND QUARTER SAG

49 S. Tribune 23/8/81

By MIKE PEIRSON
Finance Editor

SIGNS that the financial squeeze is beginning to have a slowing down effect on industry in Natal is highlighted this week in a second quarter survey of the conditions in the manufacturing industries conducted by the Chamber of Industries.

Says NCI executive director Roland Freakes: "We are seeing the first signs of a sagging in the industrial sector. This has become apparent in our latest figures which show that fewer respondents are reporting increases in sales and production.

"There has also been a decline in those reporting proposed new investment. This trend is confirmed by a further factor — the skilled labour shortage in the second quarter not quite as pronounced."

Freakes pointed out, however, that notwithstandingt his, the business mood was still optimistic.

I understand, however, that since these figures were accumulated, there have been signs of a further tapering off in a number of sectors. The full extent of this trend will only become evident once the present financial squeeze filters completely through the system.

There is no doubt, however, that as far as Natal is concerned the situation will be improved by the vast Richards Bay investments and other major projects on the drawing board.

This will have the effect of underpinning the present sagging which is shown up in the latest figures.

The pattern is reflected again in the latest consumer survey published this week by the Bureau for Economic Research.

They say that after having experienced a g... first half of the year, manufacturers, wholesalers, retailers and motor traders expected some slowdown from the third quarter onwards. This was particularly so as far as motor traders were concerned.

AND HOW...

NCI table based on the percentage of respondents reporting a significant upward trend in various areas.

	1st quarter 31/3/81 %	2nd quarter 30/6/81 %
Sales	44,7	44,3
Production	41,7	34,1
Employee strength	19,4	13,9
Investment plans	25,3	17,2
Shortage of skilled labour	22,3	20,2
Shortage of raw materials	31,3	29,1
Expectations of improvement	28.3	32,9
Expectations of deterioration	2.9	10.1
Overall costs of production	62,6	75,9

The boom busters

Skilled labour lack
Overworked plants
Materials' shortage

RDM 24/8/81

49

PHYSICAL constraints in scarcities of skilled labour, certain production inputs and the almost full use of production capacity caused economic growth to moderate from the beginning of 1981 after the rapid economic expansion of 1980.

These factors are stressed in the economic report of the Reserve Bank which is issued as a curtain-raiser to tomorrow's address by the Governor, Dr Gerhard de Kock, at the annual meeting of stockholders in Pretoria.

By HAROLD FRIDJHON

The report says that after rising by about 8% in 1980, the real domestic product grew by 4½% in the first half of this year which is described as a satisfactory growth performance from a high base.

Total money demand increased strongly last year and as the slack in the economy was taken up, this began to exert upward pressures on costs and prices and to contribute to the emergence of a deficit on the balance of payments.

"This state of demand inflation continued into 1981, even though the growth in monetary demand tended to show a welcome levelling off in the first half of 1981."

Strains in the labour market caused by the full employment of skilled and semi-skilled labour were reflected in a decline in unemployment, a relative increase in overtime worked, higher labour turnover and a rise in unit labour costs.

"Upward pressure on prices was evident in the persistently high level of the rate of inflation — as reflected in an in-

half of 1981, the overall balance of payments was in moderate deficit in the first half of this year. The result was a decline in the reserves and the sharp depreciation of the rand against the dollar.

Conditions in most financial markets tightened from about the fourth quarter of last year as more use was made of bank credit. The increase of credit to the private sector exerted a strong expansionary influence on the money supply, which grew excessively before slowing down in May and June as the Reserve Bank's restrictive policy took effect.

Tight conditions lead to a rapid rise in short-term interest rates and in the capital market rates also started to increase sharply from the last quarter of 1980.

Money supply increased excessively in the fourth quarter of 1980 and the first half of 1981 and reducing this growth rate became one of the main objectives of monetary policy with the basic objectives of curbing demand inflation and maintaining a sound balance of payments position.

er-price index between June 1980 and June 1981 — despite lower rates of increase in food prices, Government-administered prices and prices of imported goods in the first half of 1981."

The most important causes of the balance of payments showing a deficit of about R3 000-million in the first half of 1981 at a seasonally adjusted annual rate were the sharp decline in the gold price, the increase in imports, and other exports being adversely affected by recessionary conditions abroad.

Although there was a net outflow of capital in the second

directed at slowing the rise in bank credit by restricting the growth of bank liquidity.

"Inevitably this policy has resulted in rising interest rates."

Bank Rate was raised in four steps from 7% at the beginning of February 1981 to 12½% in July and was accompanied by an increase in banks' prime overdraft rate from 10% to 16%.

Short-term capital movements which could contribute to an increase in bank liquidity and the money supply were discouraged by the Reserve Bank from the fourth quarter of 1980 and only at the end of July 1981 did the bank provide some encouragement to foreign financing of trade by quoting more attractive forward discounts on dollars.

Reserve Bank reports R3000-m BoP deficit

S.Star 24/8/81

(49)

By Mervyn Harris

The current account of the balance of payments showed a deficit of about R3 000-million in the first half of 1981 after recording surpluses in the previous four years, the Reserve Bank says in its annual report.

The report, released before the chairman's address to stockholders at the annual meeting in Pretoria tomorrow, says the most important cause of this change was a sharp decline in the price of gold from October 1980. This greatly reduced the value of the net gold output.

In addition, imports increased further in response to the cyclically high level of domestic demand at a time when exports were being hit by recessionary conditions in most of the main industrial countries.

There was a net inflow of capital in the second quarter of 1981 but the overall balance of payments was in moderate deficit in the first half.

In these circumstances, the net gold and other foreign reserves declined and the rand, like most other currencies, depreciated sharply against the strongly rising United States dollar

Rapid economic expansion of last year slowed down from the January because of physical constraints in the form of scarcities of skilled labour and certain production inputs, and the almost full use of production capacity.

HIGH BASE

After rising by about eight percent in 1980, the real gross domestic product was nevertheless still about 4,5 percent higher in the first half of 1981 than in the same period last year.

The bank says this represented a most satisfactory growth performance from an already high base.

Upward pressure on prices was evident in the persistently high level of the rate of inflation, This was reflected in an increase of 14,5 percent in the consumer-price index from June 1980 to June 1981.

Restrictive cash policy retained by Reserve Bank

Star 25/8/81

49

The South African Reserve Bank would persist for as long as necessary with its current restrictive monetary policy, the governor, Dr Gerhard de Kock, said in Pretoria today.

He said at the annual general meeting that it was essential, in this process, to achieve and maintain realistic, market-related interest rates.

The Reserve Bank had already taken strong anti-cyclical expansionary action by permitting the rand to depreciate against the US dollar, which had been 22 percent since the beginning of the year.

It had also made extensive use of its own foreign-credit facilities, and more recently quoted attractive forward discounts on dollars to encourage the use of foreign-trade credits and loans.

In addition, it had employed techniques designed to prevent or offset undue fluctuations in money-market conditions.

Instead of forcing up the interest-rate structure, it had moderated the upward movement in interest rates, resulting from basic changes in supply and demand in the financial markets.

'But this is as far as the bank is prepared to go in the expansionary direction at this stage," Dr de Kock said.

Curbing inflation remained a high priority, not least because it would promote sound economic growth in the long run.

Equally important in the long term was the balance-of-payment adjustment process which must be permitted and encouraged to work.

"The lower average gold price and the other adverse external developments I have outlined are facts of life which cannot be ignored or neutralised by money creation or fiscal manipulation."

"Take medicine"

One could argue about the appropriate methods of adjustment, weighing up their different costs and benefits.

"But the inevitability of adjustment must be accepted — we can and must take our medicine.

"The bank will therefore persist as long as necessary with a restrictive monetary policy aimed at reducing the rate of increase of the money supply and maintaining tight conditions in the financial markets," he said.

'In this process it is essential to achieve and maintain realistic market-related interest rates."

The only alternative would be to extend more credit, thereby creating more bank liquidity and money. The bank rejected this course.

"South Africa cannot try to be an island of low-interest rates in a sea of high-interest rates if it wishes to deal effectively with its present economic difficulties and to maintain a strong economy."

Dr de Kock summarised the economy as it now stood:

- The economy was strong, prosperous, expanding and still experiencing some excess monetary demand and an unacceptably high rate of inflation.
- After registering eight percent last year, the real-growth rate was slowing down, mainly because of critical shortages of skilled labour and other pysical constraints in a still fully-stretched economy.
- Following the longest cyclical upswing on record, the economy had already begun or was about to move into a downward phase of the business cycle. Real-gross domestic product, investment and consumption would probably all rise at lower rates, and some economic indicators might actually decline. — Sapa.

Rates up early on State bonds

The Government has announced new interest rates on Treasury and Defence Bonds — a month earlier than the date given in the Budget — and higher rates for Savings Bank Certificates and Post Office Savings Bank Accounts.

The Minister of Finance, Mr Horwood, in yesterday's reply to the second-reading debate on the Budget in Pariament, said the changes in Treasury Bonds and Defence Bonds would be effective from September 15.

The new rates on Treasury Bonds will be 8,75 percent, — up from 8 percent, — tax free up to R60 000. Defence bonds will be set at 11 percent, with a redemption period of 12 months.

In the budget, Mr Horwood said he intended to close the two existing Treasury and Defence bonds, which were offering yields not competitive with market rates, and to offer new series at market-related rates from October 15.

The interest rate on Savings Bank Certificates for existing as well as new investments is to be boosted to 8,75 percent from September 1.

An investment of up to R20 000 a person in the certificates is allowed and interest on R10 000 is tax free. Post Office Savings Bank Accounts rates will rise to 5,5 percent. Interest up to R200 a person is tax free and investors may invest up to R10 000 annualy.

@DEBUG page 16

As mentioned above user files stored on drum are not backed up. In fact they are liable to be lost if the system has to be 'rebooted,' for example after a system crash. Furthermore the operators normally run a program called REMDRUM each morning. This program deletes user files from the drum without making a backup copy.

Recovery of files or elements of files

The Computing service will, as a matter of course, recover the latest available copy of any file lost because of system problems. A file which has been rolled out, will be rolled back, without further user intervention if any ti... it. There is obviously a delay while the correct tape

26/8/81

Assocom happy with De Kock

Econ 122 47

THE ANNUAL address of the Governor of the Reserve Bank, Dr De Kock, was described yesterday as realistic.

The chief executive of Assocom, Mr Raymond Parsons, said it "reinforces the basic message of the Budget speech on August 12".

"It is clear that a combination of internal and external factors will inevitably result in a much lower rate of economic growth next year and that business and employee expectations must be adjusted accordingly.

"Assocom supports the pursuance of a market-related interest rate policy, and welcomes the latest evidence of better control over the growth in the money supply. This is part and parcel of the current phase of consolidation and adjustment."

However, the problem of inflation remained too big to be tackled by monetary instruments only, and the role of administered prices in the inflationary process should not be underestimated.

"Assocom hopes that the study of administered prices by the Economic Advisory Council will be completed as soon as possible.

"South Africa's ability to adjust to adverse external economic circumstances — including a lower gold price — in the months ahead will depend largely upon the flexibility and versatility of its domestic economy, and this involves giving the maximum scope to the forces of private initiative and enterprise."

Doctor de Kock prescribes strong medicine

It's dearer and dearer money

26/8/81

Rom

49

By HAROLD FRIDJHON

THE Reserve Bank will carry on with its tough restrictive monetary policy. Interest rates will continue to rise and money will continue to be difficult and costly to come by.

This was made clear in Pretoria yesterday by the Governor of the Reserve Bank, Dr Gerhard de Kock, in his first annual address since he took office at the beginning of the year.

He said there was a choice between two lines of action for fiscal and monetary policy:

- Either to stimulate the economy, anti-cyclically, so as to prevent the growth rate from declining much futher,
- Or to be conservative and restrictive with a view to consolidation, curbing inflation and helping the balance of payments adjust to the lower gold price.

There is no doubt that Pretoria will follow the hard line and that it will hurt.

On Dr De Kock's priority list are control of inflation and making balance of payments adjustments, although some of these adjustments are pro-cyclical. But he warns that the lower average gold price and other unfavourable external developments *"are facts of life which cannot be ignored or neutralised by money creation or fiscal manipulation".*

De Kock's tough-line attitude is epitomised in his comment *that the inevitability of adjustment (to current economic difficulties) must be accepted.*

"We can and must take our medicine."

The medicine is not going to be pleasant

The Reserve Bank will persist as long as is necessary to

- Reduce the rate of increase in the money supply.
- Maintain tight conditions in the financial markets.
- Achieve and maintain realistic market related interest rates to finance the current payments deficit and the Budget's "deficit before borrowing".

There is no doubt that Dr De Kock sees interest rates moving up, and I think he is referring to short-term and long-term rates.

He mentioned the interest-rate pattern twice in his address. At one point he said:

"South Africa cannot try to be an island of low interest rates in a sea of high interest rates if it wishes to deal effectively with its present economic difficulties and to maintain a strong economy."

He said that the point had to be made that even after the recent increases in rates, "the present level of South African interest rates is not high *in relation to either the domestic rate of inflation or real interest rates abroad*" (my italics).

"If the rate of inflation in South Africa is taken at 14,5%, Bank Rate in real terns is still -2%, the yield on long-term Government stock -1½% and the new maximum building society mortgage rate slightly negative.

"This compares with a Bank Rate in real terms of 7,7% in Canada, 4,4% in the United States and 1,5% in Germany and a real yield on long-term Government stock of 4,8% in Germany, 3,8% in the US and 3,1% in both the UK and Canada."

Although the present Bank Rate of 12½% is a record for South Africa *in nominal terms* it has in the past been much higher *in real terms*. In 1968 it was about 4% in real terms compared with the present -2%. In the same year, the *real* building-society mortgage rate was about 6% compared with the present small negative rate.

Obviously, Dr De Kock has emphasised the negative aspect of the current rates pattern — both short and long — to warn of what lies ahead. When he spoke of market-related rates to finance the Government's deficit before spending, he was taking capital-market rates into his compass.

But it will not be the price and the availability of money alone which will restrain economic growth this year. Recessionary conditions abroad and the lower gold price will result in real economic growth dropping still further because of a moderation in demand.

Real private consumption is expected to rise at a more moderate rate. Sales of consumer durables, such as cars, might level off or even decline. Investment in construction, plant and equipment is likely to be reduced and inventories will be allowed to run down.

The indications are that the exchange control-system will be more market orientated than it has been in the past year. Although the Governor did not spell out what changes would be brought about, he said the Reserve Bank had been exploring ways of improving the system with authorised foreign-exchange dealers.

There are two areas which I know have been under discussion. One is for the Reserve Bank to stop quoting rates during the day in the forex, letting the rate emerge from the banks' forex dealing and with the central bank only intervening in the market from time to time.

The other, which will probably come sooner, is to allow the foreign exchange dealers to do swop transactions with the central bank in forward exchange dealing instead of doing two separate transactions — buying and selling for different clients. This would reduce the cost of certain transactions.

One point emerges strongly from Dr De Kock's address: monetary and fiscal policy are running in tandem for a change, with the Minister of Finance and the Governor of the Reserve Bank speaking the same language and seeking the same ends.

POINTS made by Dr De Kock:

- Since the institution of the financial rand in 1979, the Reserve Bank has approved applications of R1 000-million for its use for investments other than quoted securities. A total of R260-million was approved in the first seven months of this year.
- Renegotiations arising from the gold swaps of 1976 and 1977 have provided the Reserve Bank with R700-million additional foreign exchange since September 1980.
- The broadly defined money supply (M2), on a seasonally adjusted rate, increased by 17% in the first quarter of 1980, by 27% in the second quarter, 41% in the third quarter, 23% in the fourth quarter and by 46% in the first quarter of 1981. Its growth slowed in the second quarter of this year to 29%. In May and June, the seasonally adjusted annual rate of increase was 11%.
- In May and June, the narrowly defined money supply (M1) showed only a marginal increase.

CHAIRMAN'S ADDRESS

dor 26/8/81 (49)

Address by Dr Gerhard de Kock, Governor of the South African Reserve Bank, at the Annual General Meeting of Stockholders of the Bank on August 25 1981.

CHAIRMAN'S ADDRESS Address by Dr Gerhard de Kock, Governor of the South African Reserve Bank, at the Annual General Meeting of Stockholders of the Bank on 25 August 1981.

I have pleasure in formally presenting to you the Annual Accounts of this Address I would Reports of the Board and the Auditors, for the year ended 31 March 1981.

I also submit to you the Bank's Annual Economic Report, which should be regarded as furnishing a background to my remarks today.

At the commencement of this Address I would like to pay tribute to my predecessor Dr T. W. de Jongh, who served as Governor for 13½ years. Dr De Jongh not only made an outstanding contribution to monetary management and economic stabilisation in the broad national interest, but also set a standard of integrity and competence in central banking which has greatly enhanced the standing of the South African Reserve Bank both inside and outside the country.

DOMESTIC ECONOMIC CONDITIONS AND PROSPECTS

Real Economic Growth

That 1980 was one of the best years ever for the South African economy is well appreciated. It was a year of continued cyclical upswing during which real gross domestic product increased by about 8 percent and trade, employment and general economic activity expanded substantially. It was a period of prosperity and, despite the continuation of a relatively high rate of inflation, also of rising living standards for the great majority of our people.

What is perhaps less well appreciated, is that the economy's forward surge continued with considerable momentum during the first half of 1981. Certainly, real gross domestic product showed a lower rate of increase than during the [illegible] Demand clearly increased by more than was required to produce the high real growth rate of 1980. A more moderate rise in monetary demand would almost certainly have resulted in less demand inflation and a stronger underlying balance of payments position, with relatively little sacrifice of real output and income.

In retrospect, it is clear that early in 1980 the domestic upswing had not yet gained its full momentum and that, given the existence of surplus production and import capacity, the economy was capable of more rapid growth without immediately running into demand inflation or balance of payments difficulties. It was only as the year progressed that aggregate monetary demand began to rise at an excessive rate and brought about the overheating of the economy to which I have referred. The monetary and financial circumstances in which this occurred therefore require careful analysis if similar developments are to be prevented or more effectively countered in future. I shall return to this basic issue later in this Address.

Thus far in 1981 the state of excess monetary demand appears to have persisted. It is true that there has been a welcome slow-down in the rates of increase of all the main components of real gross domestic expenditure, namely private and Government consumption expenditure and fixed inventory investment. But total monetary demand has still been too high rather than too low — a conclusion borne out by such developments as the substantial further rise in imports, the unusually strong demand for bank credit, the further decline in unemployment and the worsening shortage of skilled and semi-skilled labour. This state of affairs, together with the decline in the price [illegible] probably expand at a lower rate. In addition, inventories will most likely be allowed to run down, resulting in negative inventory investment for a period.

How long the impending downward phase of the cycle will last before the next upswing gets under way, is impossible to forecast with any certainty. Much depends on the strength and timing of the anticipated economic recovery in he main industrial countries in the period immediately ahead and on the behaviour of the gold price. But, as we know from past experience, it is only a matter of time before the next upward phase of the South African business cycle commences.

BALANCE OF PAYMENTS

Current and capital accounts

The Reserve Bank's Annual Economic Report describes in detail how the strong upswing in domestic economic activity, together with the decline in the price of gold and in the value of merchandise exports, transformed the surplus on the current account of the balance of payments into a deficit from the fourth quarter of 1980 onwards, ie. before seasonal adjustment. At a seasonally adjusted annual rate, this deficit amounted to over R3 000-million or about 5 per cent of gross domestic product during the first half of 1981, compared with a surplus of R2 830-million in 1980. Up to a point these developments were fully in accordance with expectations and quite typical of the final stages of economic upswings in South Africa. They have, however, created a situation which has to be taken into account in the formulation of monetary and fiscal policy in the months ahead.

As always, the capital account of the balance of payments adjusted itself to a considerable extent to these changes in the current account. Thus, the total net outflow of capital amounting to about R2 300-million in [illegible] rand against the sharply rising US dollar during the past seven months has, of course, served to cushion the adverse effects on South African mines and other exporters of the sharp decline in the dollar prices of gold and other commodities, while at the same time assisting the normal process of balance of payments adjustment. It has also prevented the kind of currency speculation which would almost certainly have occurred under the old system of relatively fixed but adjustable dollar pegging.

The Bank has also been investigating methods of promoting the development of a proper forward exchange market in South Africa, and further steps in this direction can be expected in the months ahead.

During the past year and a half the Bank has found the use of variable forward exchange discounts (or premium) as a means of encouraging or discouraging foreign trade financing to be a very useful and potent instrument. For most of the period since September 1980 the Bank has set its discount on forward dollars at a level designed to discourage foreign financing of imports and exports, with a view to permitting the balance of payments deficit to drain excess liquidity from the domestic economy. In recent weeks, however, the Bank has again quoted more attractive forward discounts on US dollars, with a view to facilitating its reserve management.

Since the substitution of the financial rand system for the old securities rand system in January 1979, the Reserve Bank has approved applications to use financial rand for investments in forms other than quoted securities to an amount of more than R1 000-million, of which R260-million was approved during the first [illegible] months of 1981 [illegible] fact, provided the Bank with an additional R700-million in foreign exchange since September 1980.

As far as the Reserve Bank's gold marketing policy is concerned, the favourable balance of payments situation of 1980 enabled the Bank to increase its gold holdings by 2,1-million fine ounces to a total of 12,2-million fine ounces at the end of that year. Since that time, the deficit on the overall balance of payments has resulted in virtually the full current South African gold production being sold. The Bank is constantly reassessing its gold marketing strategy to ensure that South Africa's gold continues to be sold to the best advantage of not only the producers but also the country as a whole.

MONETARY CONDITIONS AND POLICY

Fiscal - monetary policy "mix"

There is widespread agreement among economists that in most developed countries the "mix" of fiscal and monetary policies has in recent years been less than ideal, in the sense that it has contained too much monetary and not enough fiscal policy. This is one reason why nominal interest rates have risen to record levels in several countries. There accordingly exists a strong body of opinion which holds that in those countries more strenuous efforts should have been made to curb government spending and/or to increase taxes, so as to avoid large budgetary "deficits before borrowing" or "public sector borrowing requirements."

In South Africa the position in recent years has been somewhat different. In our case the fiscal-monetary policy "mix" has contained relatively more fiscal policy and relatively less monetary policy than in most other countries — using the term "monetary policy" in the wid[e] [illegible] including [illegible] serves did not prevent the Budget from having a contractionary impact on the domestic economy.

Whether or not fiscal policy should have been even more restrictive in view of the overheating of the economy, is a matter for debate. But by no stretch of the imagination can the Government be accused of exerting a net inflationary effect on the economy by overspending, under-taxing or money creation during the fiscal year 1980/81.

It is still too early to reach conclusions as to the impact on the economy of the 1981/82 Budget introduced only two weeks ago. Although not designed to place the same degree of restraint on the economy as last year's Budget, with a view to avoiding "overkill", it is still intended to assist in curbing inflation and in bringing about the required balance of payments adjustment. The nature of its final economic effect will depend to a large extent on the methods used to finance the new "deficit before borrowing."

Monetary expansion; disintermediation and re-intermediation

Why, then, did monetary demand rise at an excessive rate during 1980 and the early months of 1981? Let us consider the facts:

At a seasonally adjusted annual rate, the broadly defined money supply (M2) increased by 17 percent in the first quarter of 1980, 27 percent in the second quarter, 41 percent in the third quarter, 25 percent in the fourth quarter, and 46 percent in the first quarter of 1981, before slowing down to 29 percent in the second quarter. During the latest two months for which figures are available, namely May and June, the seasonally adjusted annual rate of increase amounted to about 11 percent.

For reasons which I shall attempt [illegible] out, [illegible] forms. One was increased inter-company borrowing and lending. Another was the selling by banks of assets under repurchase agreements to the private non-banking sector. Of particular importance was also the sharp increase in the utilisation of acceptance facilities and the rediscounting of such acceptances outside the banking system by companies seeking to invest their liquid funds. A fourth form of disintermediation which became popular at one stage was the discounting of bank endorsed trade bills with large depositors, rather than by banks for their own account. The low interest rates on these acceptances and bills relative to prime overdraft rates naturally encouraged their use, while the credit ceilings prevented the banks from greatly increasing their own holdings of money market paper. In combination with the high cash reserve and liquid asset requirements for banks, the credit ceilings also reduced the possible use the banks could make of deposits and accordingly caused their rates on ordinary deposits and negotiable certificates of deposit to fall below those available on money market paper and from building societies and other non-bank institutions.

One consequence of this extensive disintermediation was a marked increase during 1979 and the early part of 1980 in the velocity of circulation of money (V) — an abnormal development, since velocity increases normally occur during periods of tightening financial conditions and rising interest rates. This, in turn, meant that during that period MV was, in fact, rising even more rapidly than the money supply (M).

All of this added up to an over-expansionary monetary environment, which was further exacerbated during the second quarter of 1980 by [illegible] with further sales of stock issued on tap. All these steps formed part of an evolving broad market-oriented approach to monetary policy.

Although much remains to be done, it is encouraging that, in addition to the marked tightening of conditions in most financial markets, the broadly defined money supply (M2) increased during May and June at a seasonally adjusted annual rate of only about 11 percent, while the narrowly defined money supply (M1) showed only a marginal increase.

An essential part of the tightening process since October 1980 was the replacement of "disintermediation" by the opposite movement of "re-intermediation," including a return to "onbalance sheet bank lending." Thus, although the utilisation of acceptance facilities remained large because the rates on acceptances were initially still low relative to overdraft rates, an increasing proportion of acceptances outstanding were taken up by the banks themselves. This is illustrated by the fact that the banks' holdings of acceptances as a percentage of total utilised acceptance facilities, which had declined from 68 percent at the end of 1975 to below six percent in May 1980, subsequently increased again to 47 percent at the end of June 1981. In this way the banks also strengthened their liquidity base.

The re-intermediation also took the form of the substitution of bank credit for the discounting of bank endorsed trade bills outside the banking system and the curtailment by the banks of the practice of selling assets under repurchase agreements to the private non-banking sector. Understandably, the bank overdraft also came back into its own, particularly after the cost of acceptance and bill [illegible] South Africa is nominal terms, it has on various past occasions been much higher in real terms. In 1968, for example, it was about 4 percent in real terms, compared with the present minus 2 percent. In the same year, the real building society mortgage rate was about 6 percent, as against the present small negative rate.

The importance for South Africa in the period immediately ahead of maintaining realistic market-related interest rates cannot be stressed enough. Neither the present deficit on our balance of payments on current account nor the "deficit before borrowing" in our Budget is unduly large in relation to gross domestic product and, in themselves, they need not cause us any concern. But they are nevertheless deficits, and deficits have to be financed. In the case of the balance of payments, this means that increased use must be made in the months ahead of foreign trade credits and other loans, and in the case of the Budget, the deficit has to be financed without undue recourse to money creation through the banking system. Both these objectives should be attainable without too much difficulty — provided our interest rates remain at market-related levels.

SUMMARY AND POLICY IMPLICATIONS

The picture I have painted of the South African economy in August 1981 exhibits the following features:

— The economy is strong, prosperous, expanding and still experiencing some excess monetary demand and an unacceptably high rate of inflation.

— After registering 8 percent in 1980, the real growth rate is slowing down, thus far mainly owing to a critical shortage of skilled labour and to other physical constraints in a still fully stretched economy.

— Following [illegible] ous economic gains of recent years, curbing inflation and assisting the balance of payments in adjusting to the lower gold price and the other external factors now adversely affecting the South African economy?

The Reserve Bank has no hesitation in choosing the latter course, thereby fully associating itself with the approach of "consolidation and adjustment" announced by the Minister of Finance in his Budget Speech two weeks ago.

The Bank has already taken strong anti-cyclical expansionary action by permitting the rand to depreciate against the US dollar by 22 percent since the beginning of 1981, as well as by making extensive use of its own foreign credit facilities and, more recently, also quoting attractive forward discounts on dollars in order to encourage the use of foreign trade credits and loans. It has also continued to perform its function of "lender of last resort" by granting accommodation, albeit at higher interest rates, to discount houses and other banking institutions at times of seasonal financial tightening. In addition, it has actively employed a number of techniques designed to prevent or offset undue fluctuations in money market conditions. Far from "forcing up" the interest rate structure, it has in these ways actually moderated the upward movement in interest rates resulting from basic changes in supply and demand in the financial markets.

But this is as far as the Bank is prepared to go in the expansionary direction at this stage. Curbing inflation remains a high priority, not least because it will promote sound economic growth in the long run. Equally important, in South Africa's long-term interests the "balance of payments adjustment process" must be permitted [illegible] encouraged [illegible] about 4½ percent higher during the first half of 1981 than during the first half of 1980, and 3½ percent higher at a seasonally adjusted annual rate than during the second half of 1980. But the degree of prosperity, the general standard of living and most forms of real economic activity not only continued to rise but actually increased to new record levels. Indeed the moderation of the real growth rate was as yet not due to any inadequacy of nominal monetary demand but primarily the result of physical constraints — in particular the shortage of skilled and semi-skilled labour and the absorption of most of the surplus production capacity which had still existed at the beginning of 1980 and which had made the attainment of the exceptionally high growth rate of 8 percent in that year possible.

Excess Monetary Demand

Unfortunately the behaviour of the real rate of economic growth of the past year and a half does not tell the whole story. The "bad news" is that fuelled by an unduly large increase in the money supply total monetary demand expanded too rapidly during 1980 and the early months of 1981 and increasingly came to exert undue pressure upon available resources. Inevitably this resulted in general demand inflation and sharply rising imports which eventually contributed to the emergence of a deficit on the current account of the balance of payments.

In other words, a satisfactory rate of real economic growth was combined with an unsatisfactory and excessive rate of increase of total monetary demand. The distinction between these two concepts must be drawn. Obviously, they are related in the sense that a certain minimum rate of increase in monetary demand is a prerequisite for any given real rate of growth. But to reason that monetary demand had to rise by as much as it did in 1980 in order to produce a rate of real growth of the order actually attained, would be fallacious. developments, has adversely affected the general economic situation and prospects in South Africa, as I shall set out more fully later on.

Present phase of the business cycle

Against this background the question naturally arises in what phase of the business cycle the South African economy finds itself at present. The latest indications are that the cyclical upswing which began from about the end of 1977 and which has already been one of the longest South African upswings on record, has reached an upper turning-point. In other words, the South African economy is about to move into what is technically called a "downward phase of the business cycle," if indeed this movement has not already begun. In the South African context, this technical term does not denote "depression," "stagnation" or even a decline in real gross domestic product. It does mean, however, that many of the economic variables which increased sharply during the upswing will either rise at a slower rate, level off or actually decline during the downswing which lies ahead.

As often in the past, a major reason for the anticipated cyclical downturn must be sought in the adverse effect on South Africa's exports of recessionary tendencies in the main industrial countries, reinforced on this occasion, as during the previous downturn, by a decline in the price of gold.

The rate of real economic growth is therefore likely to decline further in the period immediately ahead, this time not primarily because of physical constraints but owing to a moderation of demand. Real private consumption is expected to rise at a more moderate rate and sales of certain consumer durables, such as motorcars, might even level off or show an actual decline. In such conditions the inducement to invest in new construction, plant and equipment is likely to be reduced, so that real private fixed investment will million during the first half of 1981, of which more than half consisted of long-term funds. Nevertheless, after rising by over R1 100-million during the third quarter of 1980, South Africa's net gold and other foreign reserves declined during the subsequent nine months by R1 417-million.

Exchange rate development and policies

The effective exchange rate of the rand, which had increased by 14,5 percent between the introduction of the system of managed floating in January 1979 and the end of 1980, declined by 6,7 percent during the first half of 1981 and by a further 4,8 percent during July. Against the US dollar the depreciation of the rand during the first seven months of 1981 amounted to nearly 22 percent. The Financial Rand discount, however, narrowed from 30,2 percent at the end of 1980 to 23,5 percent at the end of July 1981.

In recent years the Reserve Bank has devoted increasing attention to its policy in the fields of spot and forward exchange rates, reserve management, gold marketing, gold swaps, foreign loans and exchange control. In this regard many of the recommendations made by the Commission of Inquiry into the Monetary System and Monetary Policy in South Africa in its **Interim Report on Exchange Rates**, which was accepted by the Government in January 1979, have already been implemented and others are currently receiving further attention.

Although the functioning of the exchange rate system of managed floating introduced in January 1979 is still not ideal, substantial progress has been made in this field and the Reserve Bank has in recent months been actively engaged in exploring ways and means of improving the system with the authorised foreign exchange dealers. In the meantime, the new system has greatly assisted the monetary authorities in dealing with the marked balance of payments fluctuations to which I have referred. The depreciation of the a useful role in promoting fixed investment by foreigners in the South African economy at a time when it was important to inspire confidence and to ensure the attainment of an adequate rate of real economic growth and job creation.

Exchange Control

In the field of exchange control, further relaxations have been announced during the past eighteen months. Firstly, the limits on the transfer of funds overseas for certain current transactions, including tourist, maintenance and study allowances, were raised in March 1980 and again in February 1981. Secondly, various procedures were simplified to reduce unnecessary delays in handling exchange control applications. And thirdly, the amounts which foreign-controlled South African companies may borrow in the domestic financial markets were increased appreciably. Ways and means of further relaxing and simplifying exchange control are constantly being examined.

Foreign loans and gold transactions

The Reserve Bank has also remained active in the field of foreign loans and gold swaps. During the years 1977 to 1980, when the balance of payments on current account showed substantial surpluses, the Bank used the opportunity to repay all its foreign borrowings, amounting to about R750-million. At the same time the Bank extended its range of available foreign credit facilities with a view to future needs. This turned out to have been a wise move, as some of these facilities have proved extremely useful to the Bank in its reserve management during the past ten months.

In similar manner the Bank during 1979 and 1980 bought back a substantial part of the gold which it had swapped with foreign banks during 1976 and 1977. A part of the initial gold swaps were, however, maintained at the earlier low prices with a view to renegotiating the transactions at higher prices at a later stage when required for balance of payments purposes. Such renegotiations have, in ary "deficit before borrowing," public debt management, exchange rate policy and reserve management. This was particularly evident during 1980 and the early months of 1981 when, in spite of a contractionary fiscal policy, the money supply and total monetary demand rose at excessive rates and brought about a state of general demand inflation.

As far as fiscal policy is concerned, the facts presented by the Minister in his recent Budget Speech have demonstrated clearly that the net effect of the Government's fiscal operations during 1980/81 was contractionary and therefore anti-cyclical. Once again the experience has shown that the net economic impact of a Budget can never be assessed by looking only at changes in tax rates and loan levies. The substantial tax and loan levy concessions announced in the March 1980 Budget did not prevent it from exerting its intended contractionary influence on the economy. This was evident from three developments:

The first was that real government spending, as measured in the Budget, increased by only about 2,6 percent during the year ended March 1981, as compared with an increase in real gross domestic expenditure of more than 12 percent.

The second development was that the "deficit before borrowing" declined to a mere R288-million, or about 0,5 percent of gross domestic product — the smallest figure in recent South African budgetary history.

And the third development was that the Exchequer exerted a contractionary influence on the money supply by transferring over R1 200-million to the Stabilisation Account. It is true that the funds in the Stabilisation Account were not "sterilised" in the normal sense of the term but used to finance the stockpiling of oil and other strategic commodities. But since these commodities were almost entirely imported and not consumed but stockpiled, this substitution of strategic commodity reserves for foreign exchange re- groups y distorted and need to be interpreted with caution. Nevertheless, even with this qualification, they do indicate excessive monetary expansion.

The origin of this monetary expansion lies in the simultaneous existence during 1979 and 1980 of a record surplus on the current account of the balance of payments — to which the enormous increase of the average dollar price of gold in each of these years made a substantial contribution — and the continued application, in spite of a number of relaxations, of extensive exchange control. It was this combination of circumstances which inevitably resulted in the accumulation of money in the hands of companies and individuals, as well as in a sustained increase in the liquidity of the banking system, which, in turn, enabled the banks to create even more money by expanding their credit to the private sector.

In these circumstances interest rates understandably declined sharply during 1979 and remained at abnormally low levels during the first three quarters of 1980. Moreover, within our own interest rate structure, this accumulation of liquidity together with the retention of ceilings on bank credit to the private sector, helped to reduce interest rates on call money, Treasury bills, bank acceptances, trade bills and promissory notes to levels which were out of line with the then existing Bank Rate of 7 percent and prime commercial bank overdraft rate of 9½ percent. Thus, throughout the first three quarters of 1980 the Treasury bill rate remained close to 4½ percent and acceptance credits could be arranged freely at an all-inclusive cost of between 6 and 7½ percent.

Under these conditions the natural working of market forces inevitably brought about large-scale "disintermediation" or borrowing and lending "outside the banking system," including "off-balance sheet lending," ie credit intermediated by banks off the balance sheet. This phenomenon took several different [illegible] then by a sharp increase over R1 100-million in the net foreign reserves during the third quarter. These developments were doubly inflationary since they not only increased the money supply directly but also added to the liquidity base of the banking system, thereby paving the way for the enormous rise in bank credit to the private sector which in the end constituted by far the most important statistical "cause" of the excessive money supply increase.

Although both the money supply and total monetary demand continued to rise at an excessive rate until about April 1981, the underlying situation began to change fundamentally from the fourth quarter of 1980, following the abolition of the bank credit ceilings in September of that year and the commencement in October of the downward trend in the net gold and other foreign reserves to which I have referred. From that time onwards, conditions in most domestic financial markets began to tighten and both short and long-term interest rates began to rise sharply. These tendencies gained considerable momentum during the first eight months of 1981.

This monetary metamorphosis can be attributed to a combination of natural economic forces and a restrictive monetary policy. In implementing this policy, the Reserve Bank consciously permitted the tightening of the various financial markets and the upward movement of interest rates, and gave these tendencies its official endorsement by raising the Bank Rate in four stages from seven percent at the beginning of 1981 to its present level of 12½ percent, thereby permitting the prime overdraft rate of the banks to rise from 9½ to 16 percent. It also made increased use of restrictive open-market operations, rediscount policy and variations in the discount it offers on forward dollars. In addition, the Treasury made a highly successful new issue of government stock in May and the Bank followed this up

The inevitable result of all this was a virtual explosion in bank credit to the private sector, which increased at a seasonally adjusted annual rate of 23 percent during the first half of 1980, 3 percent during the second half of that year and 49 percent during the first half of 1981, and which therefore contributed strongly to the high rates of increase of the money supply during these periods. However, just as the rates of increase of the money supply during the earlier period of disintermediation had not fully reflected the extent of the increase of monetary demand, the rates of increase of the money supply during the period of re-intermediation greatly exceeded that of actual monetary demand and therefore grossly exaggerated the position. During this latter period there was clearly a marked decline in the velocity of circulation of money, which to some extent offset the increase in the quantity.

Significance of real interest rates

A basic feature of the monetary developments of the past year has certainly been the sharp increase in both short and long-term interest rates. The point must nevertheless be made that, even after these increases, the present level of South African interest rates is not high in relation to either the domestic rate of inflation or real interest rates abroad. If the rate of inflation in South Africa is taken at 14.5 percent, Bank Rate in real terms is still minus 2 percent, the yield on long-term government stock minus 1½ percent and the new maximum building society mortgage rate slightly negative. This compares with a Bank Rate in real terms of 7,7 percent in Canada, 4,4 percent in the United States and 1,5 percent in Germany, and a real yield on long-term government stock of 4,8 percent in Germany, 3,8 percent in the United States and 3,1 percent in both the United Kingdom and Canada.

Moreover, although the present Bank Rate of 12½ percent is a record for nomy has already been to, or is about to, move into a downward phase of the business cycle, during which real gross domestic product, investment and consumption will probably all rise at lower rates, while some economic indicators might actually decline.

— The economy as a whole, the balance of payments and the Exchequer are all being adversely affected by the decline during recent months in the gold price and by the recessionary conditions in many industrial countries, which have resulted in a decline in either the price or the volume (or both) of some of the country's major exports.

— Largely as a result ous factors, the surplus on ous factors, the surplus on the current account of the balance of payments has been transformed into a deficit, the net foreign reserves have declined and the rand has since the beginning of 1981 depreciated substantially against the rapidly rising United States dollar.

— For basically the same reason and in spite on continued restraint on Government spending, the "deficit before borrowing" in the Budget has increased from an exceptionally low figure in 1980/81 to a higher but not abnormal level in the present fiscal year.

— After a period of excessive monetary expansion and abnormally low interest rates, the money supply has now been brought under better control, financial markets have tightened considerably and interest rates have risen sharply to more realistic levels, which are, however, still low relative to overseas rates and the domestic rate of inflation.

The policy dilemma arising from this state of affairs is clear: Should fiscal and monetary policies now be directed at an anti-cyclical stimulation of spending and economic activity in an attempt to prevent the growth rate from declining much further, keeping in mind the inevitable time lags involved, or should the present conservative and restrictive approach be maintained with a view to consolidating the enorm- based on the domestic economy in the short term. The lower average gold price and the other adverse external developments I have outlined are facts of life which cannot be ignored or neutralised by money creation or fiscal manipulation. We can argue about the appropriate methods of adjustment, weighing up their different costs and benefits. But the inevitability of adjustment must be accepted. We can and must take our medicine.

The Bank will therefore persist as long as necessary with its current restrictive monetary policy aimed at reducing the rate of increase of the money supply and maintaining tight conditions in the various financial markets. In this process it is essential to achieve and maintain realistic market-related interst rates, particularly in view of the need to finance both the prevailing current payments deficit and the Budgetary "deficit before borrowing" in a sound manner. The only alternative would be for the Reserve Bank to extend more credit, thereby creating more bank liquidity and money — a course the Bank rejects out of hand in present circumstances. South Africa cannot try to be an island of low interest rates in a sea of high interest rates if it wishes to deal effectively with its present economic difficulties and to maintain a strong economy.

It is evident that, like most other countries, South Africa faces difficult and challenging economic circumstances in the phase of consolidation and adjustment which lies ahead. The ability and resolve of the monetary authorities to deal with these difficulties will be tested to the full. But with continued co-ordination between fiscal and monetary policy, and with the support of the public, I have no doubt that the necessary adjustments can and will be made. In this manner a solid foundation will be laid not only for the next cyclical upswing but also for the realisation over the longer term of the enormous growth potential of Southern Africa as a whole.

RESERVE BANK

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Confidence in the corridors 49

The Governor of the Reserve Bank, Dr. Gerhard de Kock, delivered his first annual address to stockholders on Tuesday. It is tempting to say it ushered in a new era of monetary management. But he has already been in office for more than six months and in this time he has swiftly introduced a series of telling market-related measures.

As a result, in that relatively short time, interest rates have more than doubled and the annual rate of growth in the money supply (M2) has plunged from a dangerous 46% to 11%.

Nevertheless, soon after De Kock stood up in the elegant boardroom of the Bank's Church Square headquarters, under the portraits of his predecessors (one of whom was his father), stockholders were left in no doubt that monetary policy is now under firm control. That alone is in sharp contrast to the position a year ago.

He quite rightly rejected the view that some stimulation now might reduce the trough in business activity as the downswing of the business cycle progresses. Fully stretched as the economy is, that course of action could only increase inflationary pressures immediately.

Although the economy is growing more slowly than the inordinately high level of last year, it is still moving at a cracking pace. Nor are there sufficient skilled workers and/or productive capacity to raise output in the short run to meet a demand fanned by past monetary profligacy.

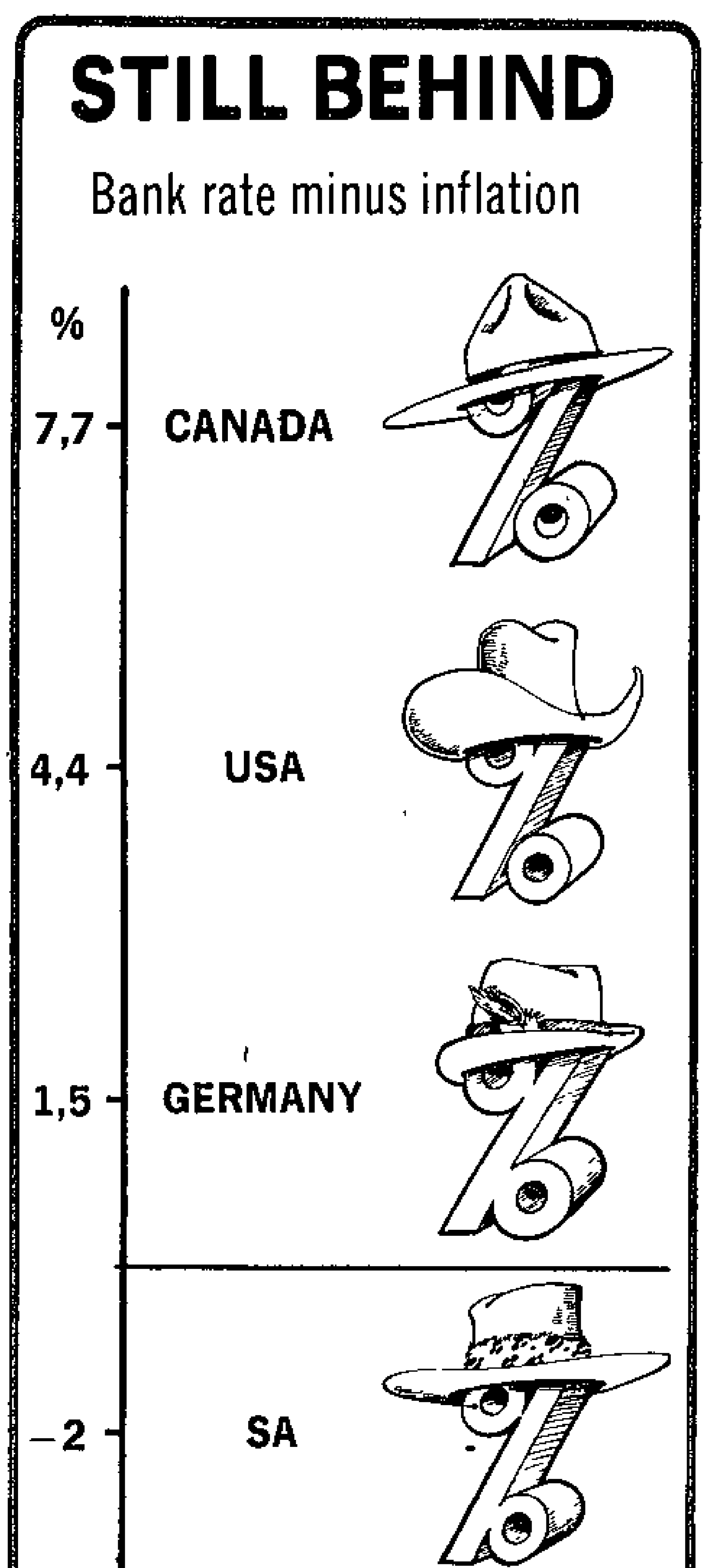
Instead, in a lucid policy statement, De Kock left no doubt that both short and long-term interest rates could rise further in the months ahead. He pointed out that the deficits on the balance of payments and in the Budget before borrowing, while not unduly large, would nevertheless have to be financed without creating money. That, in turn, means that the authorities will have to sell securities — and to do that, they are going to have to be priced at market related levels.

Even after the recent sharp rise in rates, it remains doubtful that interest rates are high enough relative to demand. For in real terms, money can hardly be said to be tight. As De Kock pointed out, if domestic prices are rising at 14,5%, Bank rate (at 12,5%) is still in real terms minus 2%, the yield on long-term gilts minus 1,5% and the new building society mortgage rate "slightly negative." He contrasted these rates with those in various other Western countries. For instance, real Bank rate in Canada is 7,7%, in the US 4,4% and in West Germany 1,5%.

Moreover, while nominally SA Bank rate has never been higher, it is in real terms substantially below the 4% of 1968, which, as De Kock remarked, was hardly 100 years ago. At that time the real mortgage rate was about 6%, which suggests this rate still has some way to go.

In view of what De Kock has said, life is going to be increasingly difficult for those who are already paying as much as they believe they can afford in mortgage and interest repayments. One way to soften the blow for them would be for building societies to start adjusting their rate structures in gradual steps.

It is difficult for them to do so until the commission of enquiry into the last but one rise in mortgage rate produces its report, which had been expected in Pretoria before the Budget. The procrastination of the commission — over a not very complicated topic — is hindering the natural adjustment of a market mechanism; an adjustment which De Kock has been trying to encourage in other markets.



It is also evident now, from De Kock's remarks, that the extent of excess monetary demand over the last 12 months was far greater than indicated by aggregate figures, which were themselves bad enough. The growth figures for M2 were 17% in the first quarter of last year, rising to 41% in the third. In the fourth quarter it was 25%, rising to 46% in the first quarter of 1981, but down to 26% in the second.

The cause, as the *FM* has frequently pointed out, was high gold revenue, swollen by a rand exchange rate that was too low, and bottled up behind exchange controls. But there was another factor for which the previous governor of the Bank must also take the blame. He did not allow Bank rate to fall in line with the consequent collapse of money market rates and only belatedly removed the credit ceiling.

The result was a massive amount of non-bank lending (disintermediation) at below Bank rate which was not reflected in the money supply figures, as it was not on banks' balance sheets. Lenders were able to earn more if they went straight to borrowers, who, in turn, had to pay less than prime bank overdraft rate.

Of course, since January as interest rates have moved to more normal relationships with one another, these non-bank loans have flowed back to the banks (they are being re-intermediated) and were reflected in the very high money supply growth figures of the first quarter. The extent of the disintermediation and re-intermediation can be seen from the banks' holdings of acceptances as a percentage of total acceptance facilities. They declined from 68% at the end of 1975 to 6% in May last year and then increased to 47% this June.

While the disintermediation artificially reduced official-recorded monetary growth and the re-intermediation accelerated it, the inflationary effect during the disintermediation was aggravated by a marked increase in the velocity of circulation of money. Normally this only happens when credit is tight.

It is indeed a tribute to De Kock that within six months he was able to bring run-away monetary demand down in May and June to an annual 11% growth rate for M2, while the narrowly-defined money supply (M1) hardly increased at all. He did so without major technical reforms (such as the greater use of cash ratios) or resorting to a credit ceiling.

Essentially, he let market forces — fortuitously influenced by a lower gold price — do the work. But in addition he moved key administered prices (the spot

THE ECONOMY

Holding M2 (49)

FM 28/8/81

Growth in aggregate monetary demand started a "welcome levelling off" in the first half of this year, according to the Reserve Bank's 1981 annual economic report.

The average annual rate of increase of broadly defined money supply M2 (money and near-money) slowed to 29% in the second quarter of this year, after a peak of 46% in the first quarter. During May and June, the seasonally adjusted annual rate of increase amounted to only about 11%.

The bank points out that the high money supply growth figures after September last year in part reflect the process of re-intermediation which followed the abolition of credit ceilings and relative changes in interest rates.

However economists warn against undue optimism. Standard Bank's Andre Hamersma says while the money supply situation looks healthier, one must be careful about how one interprets the figures given in the Reserve Bank report because of intermediation and re-intermediation.

"There are indications that disintermediation is taking place again at present, so that the latest money supply figures may understate the demand for credit," he says.

There has been much talk of firm monetary policies on the part of the government and Reserve Bank, but the improvement in the money supply situation does not necessarily reflect only their success. It is as much a result of cyclical factors in the economy, in particular the declining current account of the BoP and the related slowdown in overall demand.

Santam economist Frank Shostak says it is far too early to attribute the latest trends to monetary policy. The significant factor, he argues, is the supply of money rather than the demand Interest rates damp down the demand but do not curtail the supply.

Over the next few months, Shostak says, "money supply growth will slow irrespective of whether the authorities act or not, because the sources of the money stock are the main factors. Exchequer spending, which hopefully will be neutral, and the negative contribution of the BoP,

1973 COMPANIES ACT

1. LIST OF IMPORTANT SECTIONS

Sections marked "x" are

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will reduce the potential money stock."

Last year's sharp increase in demand exerted upward pressure on costs and prices as excess capacity was taken up, and contributed to the emergence of a deficit on the current account of the BoP — an inflationary situation which has continued into this year.

After showing a substantial surplus in the three years 1978 to 1980, the current account of the BoP moved into moderate deficit in the first quarter of this year and showed a substantially larger deficit in the second quarter, according to the Reserve Bank.

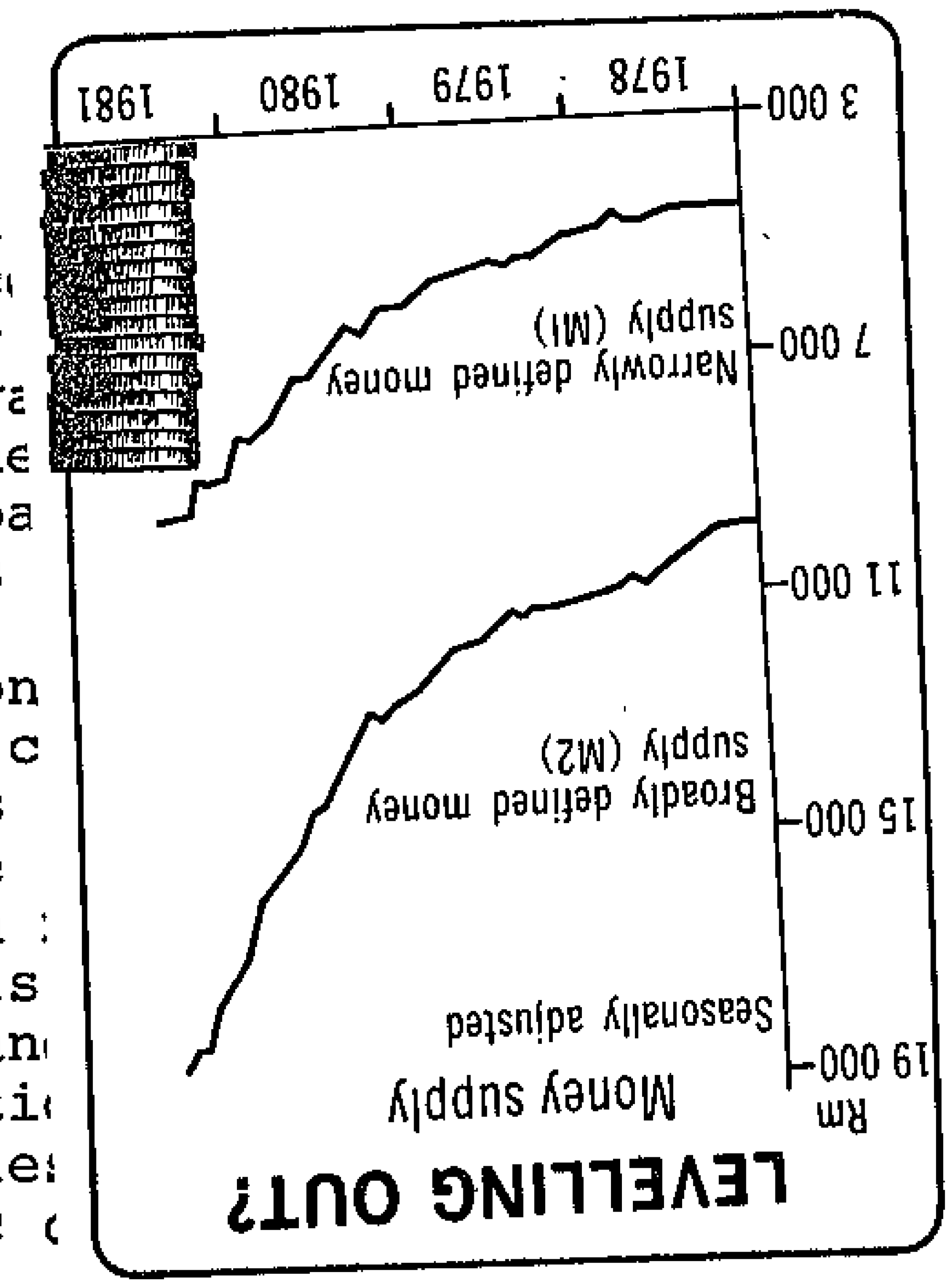
The annualised current account deficit for the first half of the year amounted to R3.1 billion, or about 5% of the gdp, compared with a surplus of R2,8 billion last year.

But this deficit was not unexpected, adds the Reserve Bank. In fact, it emerged much later in the economic upswing than did deficits in previous cycles. And it was balanced on the capital account side by a net inflow of capital of almost R500m in the first half of this year, after a net outflow of capital funds had been recorded every year from 1977 to 1980.

The inflow, which includes short and long term funds, represents overseas borrowing aimed at neutralizing the contractionary effects of so much money leaving the country.

The Reserve Bank forecasts a real gdp growth rate of between 4% and 5% this year, in line with 4.5% growth rate achieved in the first half. Shortages of skilled labour and very high levels of utilisation of production capacity put the brakes on the economy, which could not sustain 1980's 8% growth rate. The 8.5% increase in private consumption expenditure last year slowed down to about 6% in the first half of this year. Following a huge real increase of 24,5% in 1980, private fixed investment rose at 12,5% in the first half.

The pressure on production resources resulting from the substantial increase in demand added a strong element of demand-pull inflation to already existing cost-push inflation, the Reserve Bank says. The consumer price index rose by 13,8% in 1980 and was on average 15,5% higher in the first half of this year than in the corresponding period last year.



BUDGET (49) FM 28/8/81

Sour and sweet

Finance Minister Owen Horwood has wasted little time cracking down on inflated cost suspensive sale agreements and leases calculated to rip off the incentive allowance scheme.

Winding up the second reading debate on the Budget, he announced that amended regulations under the Income Tax Act would be promulgated with immediate effect.

Where possible, the new regulations would try to achieve a neutral basis on which allowances would be calculated "regardless of whether the allowances are claimed by the tax-payer who buys plant or equipment, or by the lessor from whom the plant or equipment is hired."

The new basis of calculation will apply to all transactions concluded after Monday's announcement even though the precise nature of the new regulations will probably not be known until the 1981/82 Income Tax Act is published. However the remainder of Horwood's speech was mainly good news. He announced that the increased ploughback allowance against upt for public companies (from 35% to 50%) will come into effect from years of assessment ending on or after April 1 this year.

Moreover, the marketing of the new-style Treasury issues has been advanced by a month. The two existing issues — Treasury bonds and national defence bonds — will close at the end of the month and the new issues will open September 15, not October 15 as announced in the Budget.

As announced, the new tax-free Treasury bonds will open at 8,75% and the defence bonds at 11%. An interesting departure from past practice is that the bonds will bear a variable rate and run indefinitely. Rates will be adjusted from time to time "in line with current conditions" but will always be market-related. Minimum term to redemption is 12 months or after a rate adjustment. A further concession is that the ceiling on the tax-free Treasury bonds is to be raised to R60 000/tax-payer, from the present R40 000. Winegrowers excepted, there was mainly good news for farmers too.

Drought relief for stockmen in the north-west Cape is to be boosted R5m. Deciduous fruit growers, who took a beating in Euro-markets this season, are to receive an additional R9m in "indirect assistance," on top of the R5,4m paid out this season.

The R9m, which will be disbursed in amounts of R3m and R6m, will come to farmers in the form of interest rate subsidies and a price stabilisation scheme.

In another breakthrough for farmers, Horwood hinted strongly that, in addition to export incentives they receive in terms of section 11 bis of the Income Tax Act, the possibility is being studied of including the agricultural sector in the list of exporters who will be eligible for rewards under the new, improved incentive scheme administered by the Department of Commerce.

The new scheme, which provides for two new categories of assistance, was announced in October last year. The possible inclusion of farmers in the Department of Commerce scheme is bound to raise a few eyebrows, notably in the mining sector, because previous Treasury thinking on the subject was that farmers and miners should be excluded because of their "natural propensity to export."

SA Reserve Bank

(49) FM 28/8/81

CHAIRMAN'S ADDRESS

ADDRESS BY DR. GERHARD DE KOCK, GOVERNOR OF THE SOUTH AFRICAN RESERVE BANK, AT THE ANNUAL GENERAL MEETING OF STOCKHOLDERS OF THE BANK ON 25 AUGUST 1981

I have pleasure in formally presenting to you the Annual Accounts of the Bank, and the Reports of the Board and the Auditors, for the year eneded 31 March 1981.

I also submit to you the Bank's *Annual Economic Report,* which should be regarded as furnishing a background to my remarks today.

At the commencement of this Address I would like to pay tribute to my predecessor Dr. T. W. De Jongh, who served as Governor for 13½ years. Dr. De Jongh not only made an outstanding contribution to monetary management and economic stabilisation in the broad national interest, but also set a standard of integrity and competence in central banking which has greatly enhanced the standing of the South African Reserve Bank both inside and outside the country.

DOMESTIC ECONOMIC CONDITIONS AND PROSPECTS

Real economic growth

That 1980 was one of the best years ever for the South African economy is well appreciated. It was a year of continued cyclical upswing during which real gross domestic product increased by about 8 per cent and trade, employment and general economic activity expanded substantially. It was a period of prosperity and, despite the continuation of a relatively high rate of inflation, also of rising living standards for the great majority of our people.

What is perhaps less well appreciated, is that the economy's forward surge continued with considerable momentum during the first half of 1981. Certainly, real gross domestic product showed a lower *rate of increase* than during the preceding year — it was about 4½ per cent higher during the first half of 1981 than during the first half of 1980, and 3½ per cent higher at a seasonally adjusted annual rate than during the second half of 1980. But the degree of prosperity, the general standard of living and most forms of real economic activity not only continued to rise but actually increased to *new record levels.* Indeed, the moderation of the real growth rate was, as yet, not due to any inadequacy of nominal monetary demand, but primarily the result of *physical constraints* — in particular the shortage of skilled and semi-skilled labour and the absorption of most of the surplus production capacity which had still existed at the beginning of 1980 and which had made the attainment of the exceptionally high growth rate of 8 per cent in that year possible.

Excess monetary demand

Unfortunately, the behaviour of the real rate of economic growth of the past year and a half does not tell the whole story. The "bad news" is that, fuelled by an unduly large increase in the money supply, total monetary demand expanded too rapidly during 1980 and the early months of 1981, and increasingly came to exert undue pressure upon available resources. Inevitably this resulted in general demand inflation and sharply rising imports, which eventually contributed to the emergence of a deficit on the current account of the balance of payments.

In other words, a satisfactory rate of real economic growth was combined with an unsatisfactory and excessive rate of increase of total monetary demand. The distinction between these two concepts must be drawn. Obviously, they are related in the sense that a certain minimum rate of increase in monetary demand is a prerequisite for any given real rate of growth. But to reason that monetary demand *had* to rise by as much as it did in 1980 in order to produce a rate of real growth of the order actually attained, would be fallacious. Demand clearly increased by *more* than was required to produce the high real growth rate of 1980. A more moderate rise in monetary demand would almost certainly have resulted in less demand inflation and a stronger underlying balance of payments position, with relatively little sacrifice of real output and income.

In retrospect, it is clear that early in 1980 the domestic upswing had not yet gained its full momentum and that, given the existence of surplus production and import capacity, the economy was capable of more rapid growth without immediately running into demand inflation or balance of payments difficulties. It was only as the year progressed that aggregate monetary demand began to rise at an excessive rate and brought about the overheating of the economy to which I have referred. The monetary and financial circumstances in which this occurred therefore require careful analysis if similar developments are to be prevented or more effectively countered in future. I shall return to this basic issue later in this Address.

Thus far in 1981 the state of excess monetary demand appears to have persisted. It is true that there has been a welcome slow-down in the rates of increase of all the main components of real gross domestic expenditure, namely private and government consumption expenditure and fixed and inventory investment. But total monetary demand has still been too high rather than too low — a conclusion borne out by such developments as the substantial further rise in imports, the unusually strong demand for bank credit, the further decline in unemployment and the worsening shortage of skilled and semi-skilled labour. This state of affairs, together with the decline in the price of gold and certain other unfavourable exogenous developments, has adversely affected the general economic situation and prospects in South Africa, as I shall set out more fully later on.

Present phase of the business cycle

Against this background the question naturally arises in what phase of the business cycle the South African economy finds itself at present. The latest indications are that the cyclical upswing which began from about the end of 1977 and which has already been one of the longest South African upswings on record, has reached an upper turning-point. In other words, the South African economy is about to move into what is technically called a "downward phase of the business cycle", if indeed this movement has not already begun. In the South African context, this technical term does not denote "depression", "stagnation" or even a decline in real gross domestic product. It does mean, however, that many of the economic variables which increased sharply during the upswing will either rise at a slower rate, level off or actually decline during the downswing which lies ahead.

As often in the past, a major reason for the anticipated cyclical downturn must be sought in the adverse effect on South Africa's exports of recessionary tendencies in the main industrial countries, reinforced on this occasion, as during the previous downturn, by a decline in the price of gold.

The rate of real economic growth is therefore likely to decline further in the period immediately ahead, this time not primarily because of physical constraints but owing to a moderation of demand. Real private consumption is expected to rise at a more moderate rate and sales of certain consumer durables, such as motor cars, might even level off or show an actual decline. In such conditions the inducement to invest in new construction, plant and equipment is likely to be reduced, so that real private fixed investment will probably expand at a lower rate. In addition, inventories will most likely be allowed to run down, resulting in negative inventory investment for a period.

How long the impending downward phase of the cycle will last before the next upswing gets under way, is impossible to forecast with any certainty. Much depends on the strength and timing of the anticipated economic recovery in the main industrial countries in the period immediately ahead and on the behaviour of the gold price. But, as we know from past experience, it is only a matter of time before the next upward phase of the South African business cycle commences.

BALANCE OF PAYMENTS

Current and capital accounts

The Reserve Bank's Annual Economic Report describes in detail how the strong upswing in domestic economic activity, together with the decline in the price of gold and in the value of merchandise exports, transformed the surplus on the current account of the balance of payments into a deficit from the fourth quarter of 1980 onwards, i.e. before seasonal adjustment. At a seasonally adjusted annual rate, this deficit amounted to over R3 000 million or about 5 per cent of gross domestic product during the first half of 1981, compared with a surplus of R2 830 million in 1980. Up to a point these developments were fully in accordance with expectations and quite typical of the final stages of economic upswings in South Africa. They have, however, created a situation which has to be taken into account in the formulation of monetary and fiscal policy in the months ahead.

As always, the capital account of the balance of payments adjusted itself to a considerable extent to these changes in the current account. Thus, the total net outflow of capital amounting to about R2 300 million in 1980 was followed by a net inflow of nearly R500 million during the first half of 1981, of which more than half consisted of long-term funds. Nevertheless, after rising by over R1 100 million during the third quarter of 1980, South Africa's *net* gold and other foreign reserves declined during the subsequent nine months by R1 417 million.

Exchange rate developments and policies

The effective exchange rate of the rand, which had increased by 14,5 per cent between the introduction of the system of managed floating in January 1979 and the end of 1980, declined by 6,7 per cent during the first half of 1981 and by a further 4,8 per cent during July. Against the U.S. Dollar the depreciation of the rand during the first seven months of 1981 amounted to nearly 22 per cent. The financial rand discount, however, narrowed from 30,2 per cent at the end of 1980 to 23,5 per cent at the end of July 1981.

In recent years the Reserve Bank has devoted increasing attention to its policy in the fields of spot and forward exchange rates, reserve management, gold marketing, gold swaps, foreign loans and exchange control. In this regard many of the recommendations made by the Commission of Inquiry into the Monetary System and Monetary Policy in South Africa in its *Interim Report on Exchange Rates*, which was accepted by the Government in January 1979, have already been implemented and others are currently receiving further attention.

Although the functioning of the exchange rate system of managed floating introduced in January 1979 is still not ideal, substantial progress has been made in this field and the Reserve Bank has in recent months been actively engaged in exploring ways and means of improving the system with the authorised foreign exchange dealers. In the meantime, the new system has greatly assisted the monetary authorities in dealing with the marked balance of payments fluctuations to which I have referred. The depreciation of the rand against the sharply rising U.S. Dollar during the past seven months has, of course, served to cushion the adverse effects on South African mines and other exporters of the sharp decline in the dollar prices of gold and other commodities, while at the same time assisting the normal process of balance of payments adjustment. It has also prevented the kind of currency speculation which would almost certainly have occurred under the old system of relatively fixed but adjustable dollar pegging.

The Bank has also been investigating methods of promoting the development of a proper forward exchange market in South Africa, and further steps in this direction can be expected in the months ahead.

During the past year and a half the Bank has found the use of variable forward exchange discounts (or premiums) as a means of encouraging or discouraging foreign trade financing to be very useful and potent instrument. For most of the period since September 1980 the Bank has set its discount on forward dollars at a level designed to discourage foreign financing of imports and exports, with a view to permitting the balance of payments deficit to drain excess liquidity from the domestic economy. In recent weeks, however, the Bank has again quoted more attractive forward discounts on U.S. Dollars, with a view to facilitating its reserve management.

Since the substitution of the financial rand system for the old securities rand system in January 1979, the Reserve Bank has approved applications to use financial rand for investments in forms other than quoted securities to an amount of more than R1 000 million, of which R260 million was approved during the first seven months of 1981. These transactions played a useful rôle in promoting fixed investment by foreigners in the South African economy at a time when it was important to inspire confidence and to ensure the attainment of an adequate rate of real economic growth and job creation.

Exchange control

In the field of exchange control further relaxations have been announced during the past eighteen months. Firstly, the limits on the transfer of funds overseas for certain current transactions, including tourist, maintenance and study allowances, were raised in March 1980 and again in February 1981. Secondly, various procedures were simplified to reduce unnecessary delays in handling exchange control applications. And thirdly, the amounts which foreign-controlled South African companies may borrow in the domestic financial markets were increased appreciably. Ways and means of further relaxing and simplifying exchange control are constantly being examined.

Foreign loans and gold transactions

The Reserve Bank has also remained active in the field of foreign loans and gold swaps. During the years 1977 to 1980, when the balance of payments on current account showed substantial surpluses, the Bank used the opportunity to repay all its foreign borrowings, amounting to about R750 million. At the same time the Bank extended its range of available foreign credit facilities with a view to future needs. This turned out to have been a wise move, as some of these facilities have proved extremely useful to the Bank in its reserve management during the past ten months.

In similar manner the Bank during 1979 and 1980 bought back a substantial part of the gold which it had swapped with foreign banks during 1976 and 1977. A part of the initial gold swaps were, however, maintained at the earlier low prices with a view to renegotiating the transactions at higher prices at a later stage when required for balance of payments purposes. Such renegotiations have, in fact, provided the Bank with an additional R700 million in foreign exchange since September 1980.

As far as the Reserve Bank's gold marketing policy is concerned, the favourable balance of payments situation of 1980 enabled the Bank to increase its gold holdings by 2,1 million fine ounces to a total of 12,2 million fine ounces at the end of that year. Since that time, the deficit on the overall balance of payments has resulted in virtually the full current South African gold production being sold. The Bank is constantly reassessing its gold marketing strategy to ensure that South Africa's gold continues to be sold to the best advantage of not only the producers but also the country as a whole.

MONETARY CONDITIONS AND POLICY

Fiscal-monetary policy "mix"

There is widespread agreement among economists that in most developed countries the "mix" of fiscal and monetary policies has in recent years been less than ideal, in the sense that it has contained too much monetary and not enough fiscal policy This is one reason why nominal interest rates have risen to record levels in several countries There accordingly exists a strong body of opinion which holds that in those countries more strenuous efforts should have been made to curb government spending and/or to increase taxes, so as to avoid large budgetary "deficits before borrowing" or "public sector borrowing requirements".

In South Africa the position in recent years has been somewhat different. In our case the fiscal-monetary policy "mix" has contained relatively more fiscal policy and relatively less monetary policy than in most other countries — using the term "monetary policy" in the broad sense of including the financing of the budgetary "deficit before borrowing", public debt management, exchange rate policy and reserve management. This was particularly evident during 1980 and the early months of 1981 when, despite a contractionary fiscal policy, the money supply and total monetary demand rose at excessive rates and brought about a state of general demand inflation.

As far as fiscal policy is concerned, the facts presented by the Minister in his recent Budget Speech have demonstrated clearly that the net effect of the government's fiscal operations during 1980/81 was contractionary and therefore anti-cyclical. Once again the experience has shown that the net economic impact of a Budget can never be assessed by looking only at changes in tax rates and loan levies. The substantial tax and loan levy concessions announced in the March 1980 Budget did not prevent it from exerting its intended contractionary influence on the economy. This was evident from three developments:

The first was that real government spending, as measured in the Budget, increased by only about 2,6 per cent during the year ended March 1981, as compared with an increase in real gross domestic expenditure of more than 12 per cent.

The second development was that the "deficit before borrowing" declined to a mere R288 million, or about 0,5 per cent of gross domestic product — the smallest figure in recent South African budgetary history.

And the third development was that the Exchequer exerted a contractionary influence on the money supply by transferring over R1 200 million to the Stabilisation Account. It is true that the funds in the Stabilisation Account were not "sterilised" in the normal sense of the term but used to finance the stockpiling of oil and other strategic commodities. But since these commodities were almost entirely imported and not consumed but stockpiled, this substitution of strategic *commodity* reserves for foreign *exchange* reserves did not prevent the Budget from having a contractionary impact on the domestic economy.

Whether or not fiscal policy should have been *even more restrictive* in view of the overheating of the economy, is a matter for debate. But by no stretch of the imagination can the Government be accused of exerting a net inflationary effect on the economy by overspending, under-taxing or money creation during the fiscal year 1980/81.

It is still too early to reach conclusions as to the impact on the economy of the 1981/82 Budget introduced only two weeks ago. Although not designed to place the same degree of restraint on the economy as last year's Budget, with a view to avoiding "over-kill", it is still intended to assist in curbing inflation and in bringing about the required balance of payments adjustment. The nature of its final economic effect will depend to a large extent on the methods used to finance the new "deficit before borrowing".

Monetary expansion; disintermediation and re-intermediation

Why, then, did monetary demand rise at an excessive rate during 1980 and the early months of 1981? Let us consider the facts:

At a seasonally adjusted annual rate, the broadly defined money supply (M_2) increased by 17 per cent in the first quarter of 1980, 27 per cent in the second quarter, 41 per cent in the third quarter, 25 per cent in the fourth quarter, and 46 per cent in the first quarter of 1981, before slowing down to 29 per cent in the second quarter. During the latest two months for which figures are available, namely May and June, the seasonally adjusted annual rate of increase amounted to about 11 per cent.

For reasons which I shall attempt to set out, all these figures are grossly distorted and need to be interpreted with caution. Nevertheless, even with this qualification, they do indicate excessive monetary expansion.

The origin of this monetary expansion lies in the simultaneous existence during 1979 and 1980 of a record surplus on the current account of the balance of payments — to which the enormous increase of the average dollar price of gold in each of these years made a substantial contribution — and the continued application, despite a number of relaxations, of extensive exchange control. It was this combination of circumstances which inevitably resulted in the accumulation of money in the hands of companies and individuals, as well as in a sustained increase in the liquidity of the banking system, which, in turn, enabled the banks to create even more money by expanding their credit to the private sector.

In these circumstances interest rates understandably declined sharply during 1979 and remained at abnormally low levels during the first three quarters of 1980. Moreover, within our own interest rate structure, this accumulation of liquidity together with the retention of ceilings on bank credit to the private sector, helped to reduce interest rates on call money, Treasury bills, bank acceptances, trade bills and promissory notes to levels which were out of line with the then existing Bank Rate of 7 per cent and prime commercial bank overdraft rate of 9½ per cent Thus, throughout the first three quarters of 1980 the Treasury bill rate remained close to 4½ per cent and acceptance credits could be arranged freely at an all-inclusive cost of between 6 and 7½ per cent.

Under these conditions the natural working of market forces inevitably brought about large-scale "disintermediation" or borrowing and lending "outside the banking system", including "off-balance sheet lending", i.e. credit intermediated by banks off the balance sheet. This phenomenon took several different forms. One was increased inter-company borrowing and lending. Another was the selling by banks of assets under repurchase agreements to the private non-banking sector. Of particular importance was also the sharp increase in the utilisation of acceptance facilities and the rediscounting of such acceptances *outside* the banking system by companies seeking to invest their liquid funds. A fourth form of disintermediation which became popular at one stage was the discounting of bank endorsed trade bills with large depositors, rather than by banks for their own account. The low kinterest rates on these acceptances and bills relative to prime overdraft rates naturally encouraged their use, while the credit ceilings prevented the banks from greatly increasing their own holdings of money market paper. In combination with the high cash reserve and liquid asset requirements for banks, the credit ceilings also reduced the possible use the banks could make of deposits and accordingly caused their rates on ordinary deposits and negotiable certificates of deposit to fall below those available on money market paper and from building societies and other non-bank institutions.

One consequence of this extensive disintermediation was a marked increase during 1979 and the early part of 1980 in the velocity of circulation of money (V) — an abnormal development, since velocity increases normally occur during periods of tightening financial conditions and rising interest rates. This, in turn, meant that during that period MV was, in fact, rising even more rapidly than the money supply (M).

All of this added up to an over-expansionary monetary environment, which was further exacerbated during the second quarter of 1980 by a temporary increase in bank credit to the government sector and then by a sharp increase of over R1 100 million in the net foreign reserves during the third quarter. These developments were doubly inflationary since they not only increased the money supply directly but also added to the liquidity base of the banking system, thereby paving the way for the enormous rise in bank credit to the private sector which in the end constituted by far the most important statistical "cause" of the excessive money supply increase.

Although both the money supply and total monetary demand continued to rise at an excessive rate until about April 1981, the underlying situation began to change fundamentally from the fourth quarter of 1980, following the abolition of the bank credit ceilings in September of that year and the commencement in October of the downward trend in the net gold and other foreign reserves to which I have referred. From that time onwards, conditions in most domestic financial markets began to tighten and both short and long-term interest rates began to rise sharply. These tendencies gained considerable momentum during the first eight months of 1981.

This monetary metamorphosis can be attributed to a combination of natural economic forces ,and a restrictive monetary policy. In implementing this policy, the Reserve Bank consciously permitted the tightening of the various financial markets and the upward movement of interest rates, and gave these tendencies its official endorsement by raising the Bank Rate in four stages from 7 per cent at the beginning of 1981 to its present level of 12½ per cent, thereby permitting the prime overdraft rate of the banks to rise from 9½ to 16 per cent. It also made increased use of restrictive open-market operations, re-discount policy and variations in the discount it offers on forward dollars. In addition, the Treasury made a highly successful new issue of government stock in May and the Bank followed this up with further sales of stock issued on tap. All these steps formed part of an evolving broad market-oriented approach to monetary policy.

Although much remains to be done, it is encouraging that, in addition to the marked tightening of conditions in most financial markets, the broadly defined money supply (M_2) increased during May and June at a seasonally adjusted annual rate of only about 11 per cent, while the narrowly defined money supply (M_1) showed only a marginal increase.

An essential part of the tightening process since October 1980 was the replacement of "disintermediation" by the opposite movement of "re-intermediation", including a return to "on-balance sheet bank lending". Thus, although the utilisation of acceptance facilities remained large because the rates on acceptances wre initially still low relative to overdraft rates, an increasing proportion of acceptances outstanding were taken up *by the banks themselves*. This is illustrated by the fact that the banks' holding of acceptances as a percentage of total utilised acceptance facilities, which had declined from 68 per cent at the end of 1975 to below 6 per cent in May 1980, subsequently increased again to 47 per cent at the end of June 1981. In this way the banks also strengthened their liquidity base

The re-intermediation also took the form of the substitution of bank credit for the discounting of bank endorsed trade bills outside the banking system and the curtailment by the banks of the practice of selling assets under repurchase agreements to the private non-banking sector. Understandably, the bank overdraft also came back into its own, particularly after the cost of acceptance and bill finance increased to levels in excess of the prime overdraft rate.

The inevitable result of all this was a virtual explosion in bank credit to the private sector, which increased at a seasonally adjusted annual rate of 23 per cent during the first half of 1980, 36 per cent during he second half of that year and 49 per cent during the fist half of 1981, and which therefore contributed strongly to the high rates of increase of the money supply during these periods. However, just as the rates of increase of the money supply during the earlier period of disintermediation had not fully reflected the extent of the increase of monetary demand, the rates of increase of the money supply during the period of re-intermediation greatly exceeded that of actual monetary demand *and therefore grossly exaggerated the position*. During this latter period there was clearly a marked decline in the velocity of circulation of money, which to some extent offset the increase in the quantity.

Significance of real interest rates

A basic feature of the monetary developments of the past year has certainly been the sharp increase in both short and long-term interest rates. The point must nevertheless be made that, even, after these increases, the present level of South African interest rates is not high in relation to either the domestic rate of inflation or real interest rates abroad. If the rate of inflation in South Africa is taken at 14,5 per cent, Bank Rate in real terms is still minus 2 per cent, the yield on long-term government stock minus 1½ kper cent and the new maximum building society mortgage rate slightly negative. This compares with a Bank Rate in real terms of 7,7 per cent in Canada, 4,4 per cent in the United States and 1,5 per cent in Germany, and a real yield on long-term government stock of 4,8 per cent in Germany, 3,8 per cent in the United States and 3,1 per cent in both the United Kingdom and Canada.

Moreover, although the present Bank Rate of 12½ per cent is a record for South Africa *in nominal terms,* it has on various past occasions been much higher in real terms. In 1968, for example, it was about 4 per cent in real terms, compared with the present minus 2 per cent In the same year, the *real* building society mortgage rate was about 6 per cent, as against the present small negative rate.

The importance for South Africa in the period immediately ahead of maintaining realistic market-related interest rates cannot be stressed enough. Neither the present deficit on our balance of payments on current account nor the "deficit before borrowing" in our Budget is unduly large in relation to gross domestic product and, in themselves, they need not cause us any concern. But they are nevertheless *deficits,* and deficits have to be financed. In the case of the balance of payments, this menas that increased use must be made in the months ahead of foreign trade credits and other loans, and in the case of the Budget, the deficit has to be financed without undue recourse to money creation through the banking system. Both these objectives should be attainable without too much difficulty — provided our interest rates remain at market-related levels.

SUMMARY AND POLICY IMPLICATIONS

The picture I have painted of the South African economy in August 1981 exhibits the following features:

- The economy is strong, prosperous, expanding and still experiencing some excess monetary demand and an unacceptably high rate of inflation.
  - After registering 8 per cent in 1980, the real growth rate is slowing down, thus far mainly owing to a critical shortage of skilled labour and to other physical constraints in a still fully stretched economy.
  - Following one of the longest cyclical upswings on record, the economy has already begun to, or is about to, move into a downward phase of the business cycle, during which real gross domestic product, investment and consumption will probably all rise at lower rates, while some economic indicators might actually decline.
  - The economy as a whole, the balance of payments and the Exchequer are all being adversely affected by the decline during recent months in the gold price and by the recessionary conditions in many industrial countries, which have resulted in a decline in either the price or the volume (or both) of some of the country's major exports.
  - Largely as a result of these adverse exogenous factors, the surplus on the current account of the balance of payments has been transformed into a deficit, the *net* foreign reserves have declined and the rand has since the beginning of 1981 depreciated substantially against the rapidly rising United States dollar.
  - For basically the same reasons and despite continued restraint on government spending, the "deficit before borrowing" in the Budget has increased from an exceptionally low figure in 1980/81 to a higher but not abnormal level in the present fiscal year.
  - After a period of excessive monetary expansion and abnormally low interest rates, the money supply has now been brought under better control, financial markets have tightened considerably and interest rates have risen sharply to more realistic levels, which are, however, still low relative to overseas rates and the domestic rate of inflation.

The policy dilemma arising from this state of affairs is clear: Should fiscal and monetary policies now be direced at an anti-cyclical stimulation of spending and economic activity in an attempt to prevent the growth rate from declining much further, keeping in mind the inevitable time lags involved, or should the present conservative and restrictive approach be maintained with a view to consolidating the enormous economic gains of recent years, curbing inflation and assisting the balance of payments in adjusting to the lower gold price and the other external factors now adversely affecting the South African economy?

The Reserve Bank has no hesitation in choosing the latter course, thereby fully associating itself with the approach of "consolidation and adjustment" announced by the Minister of Finance in his Budget Speech two weeks ago.

The Bank has already taken strong anti-cyclical expansionary action by permitting the rand to depreciate against the U.S. dollar by 22 per cent since the beginning of 1981, as well as by making extensive use of its own foreign credit facilities and, more recently, also quoting attractive forward discounts on dollars in order to encourage the use of foreign trade credits and loans. It has also continued to perform its function of "lender of last resort" by granting accommodation, albeit at higher interest rates, to discount houses and other banking institutions at times of seasonal financial tightening. In addition, it has actively employed a number of techniques designed to prevent or offset undue fluctuations in money market conditions Far from "forcing up" the interest rate structure, it has in these ways actually moderated the upward movement in interest rates resulting from basic changes in supply and demand in the financial markets.

But this is as far as the Bank is prepared to go in the expansionary direction at this stage. Curbing inflation remains a high priority, not least because it will promote sound economic growth in the long run. Equally important, in South Africa's long-term interests the "balance of payments adjustment process" must be permitted and encouraged to work, even if this has a certain pro-cyclical restraining effect on the domestic economy in the short term. The lower average gold price and the other adverse external developments I have outlined are facts of life which cannot be ignored or neutralised by money creation or fiscal manipulation We can argue about the appropriate *methods* of adjustment, weighing up their different costs and benefits. But the *inevitability* of adjustment must be accepted. We can and must take our medicine.

The Bank will therefore persist as long as necessary with its current restrictive monetary policy aimed at reducing the rate of increase of the money supply and maintaining tight conditions in the various financial markets. In this process it is essential to achieve and maintain realistic market-related interest rates, particularly in view of the need to finance both the prevailing current payments deficit and the Budgetary "deficit before borrowing" in a sound manner. The only alternative would be for the Reserve Bank to extend more credit, thereby creating more bank liquidity and money — a course the Bank rejects out of hand in present circumstances. South Africa cannot try to be an island of low interest rates in a sea of high interest rates if it wishes to deal effectively with its present economic difficulties and to maintain a strong economy.

It is evident that, like most other countries, South Africa faces difficult and challenging economic circumstances in the phase of consolidation and adjustment which lies ahead The ability and resolve of the monetary authorities to deal with these difficulties will be tested to the full But with continued co-ordination between fiscal and monetary policy, and with the support of the public, I have no doubt that the necessary adjustments can and will be made. In this manner a solid foundation will be laid not only for the next cyclical upswing but also for the realisation over the longer term of the enormous growth potential of Southern Africa as a whole.

continued.

He placed character above educational attainment and urged his community to leave nothing undone to foster and develop that standard of character that was the fundamental trait of every great community. He then congratulated the Afrikaner Nasionale Bond, urging better relations and co-operation between the Cape Muslims and the other coloured nations in the land. He concluded that he could think of no better ideal than that they must work together with the white man and strive to make South Africa the finest country in the world.[127]

Gamiet's presidential address is of great significance in the political history of the Cape Muslims. It was a most decisive break from the Abdurahman tradition, in both content and style of presentation. There was none of the Abdurahman rhetoric or

No. 157, 1981

DIE UITVOERING VAN DIE BEPALINGS VAN DIE WET OP FISIESE BEPLANNING, 1967 (WET 88 VAN 1967)

Kragtens artikel 13B van die Wet op Fisiese Beplanning, 1967 (Wet 88 van 1967), dra ek hierby die uitvoering van die bepalings van die Wet soos volg op:

(a) Artikel 2, aan die Minister van Gemeenskapsontwikkeling;

(b) artikel 3, aan die Minister van Nywerheidswese, Handel en Toerisme;

(c) artikel 4 (2), vir sover dit betrekking het op grond wat kragtens artikel 4 (1) (a) voorbehou is en artikel 6B, aan die Minister van Mineraal- en Energiesake;

(d) artikel 4 (2), vir sover dit betrekking het op grond wat kragtens artikel 4 (1) (b) voorbehou is, aan die Minister van Waterwese, Bosbou en Omgewingsbewaring;

(e) artikel 6, aan die Administrateur van die Provinsie waarin die betrokke grond geleë is; en

(f) die ander artikels, aan die Eerste Minister.

Proklamasie 78 van 3 April 1981 word hierby herroep.

Hierdie proklamasie tree in werking op 1 September 1981.

Gegee onder my Hand en die Seël van die Republiek van Suid-Afrika te Pretoria, op hede die Een-en-twintigste dag van Augustus Eenduisend Negehonderd Een-en-tagtig.

M. VILJOEN, Staatspresident.

Op las van die Staatspresident-in-rade:

P. W. BOTHA.

No. 157, 1981

THE ADMINISTRATION OF THE PHYSICAL PLANNING ACT, 1967 (ACT 88 OF 1967)

By virtue of section 13B of the Physical Planning Act, 1967 (Act 88 of 1967), I hereby assign the administration of the provisions of this Act as follows: 49

(a) Section 2, to the Minister of Community Development;

(b) section 3, to the Minister of Industries, Commerce and Tourism;

(c) section 4 (2), with reference to land reserved under section 4 (1) (a) and section 6B to the Minister of Mineral and Energy Affairs;

(d) section 4 (2), with reference to land reserved under section 4 (1) (b), to the Minister of Water Affairs, Forestry and Environmetal Conservation;

(e) section 6, to the Administrator of the Province in which the land are situated;

(f) the other sections, to the Prime Minister.

Proclamation 78 of 3 April 1981 is hereby repealed.

This proclamation shall come to operation on 1 September 1981.

Given under my Hand and the Seal of the Republic of South Africa at Pretoria this Twenty-first day of August, One thousand Nine hundred and Eighty-one.

M. VILJOEN, State President.

By Order of the State President-in-Council:

P. W. BOTHA.

such extension only for the coloured people. This does not

UNIVERSITY OF CAPE TOWN

DEPARTMENT OF ACCOUNTING

TAXATION AND ESTATE DUTY II - 1981

COURSE OUTLINE/READING LIST - 3rd & 4th QUARTER

LECTURE DATE	LECTURE NO.	TOPIC	THE INCOME TAX ACT	MEYEROWITZ	ILLUSTRATIVE EXAMPLES	TUTORIALS
31 August	20	Tax Planning for Asset Acquisitions - leasehold improvements - lease or buy decisions - leverage leasing	ss.1 'gross income' definition paras.(g),(h); 11(f),11(g),11(h),12,13, 8(4),8(5)	513 - 524, 765 - 786, 534 - 537, 1423 - 1426	-	T.1319 T.1409 T.1411
VACATION - 5						
14 September	21	Tax Planning for Business Acquisitions - partnerships and joint ventures (briefly) - acquiring assets and liabilities - acquiring shares - interest payable on acquisition	ss.11(22,22A			(b) 1425 1432 4.5
21 September						

EXAMINATION - OCTOBER 1981

N.B. THE TUTORIALS REFER TO 'QUESTIONS ON S.A. INCOME TAX 1980' AND THE SOLUTIONS ARE PREPARED ON THE BASIS THAT THE QUESTIONS ARE UPDATED BY ONE YEAR.

Loans to SA doubled

RDM 1/9/81

(49)

GENEVA. — Foreign loans to South Africa more than doubled last year rising to nearly $800-million, according to a UN study.

The study, prepared for a meeting in Geneva of the UN Commission on Transnational Corporations, said identified foreign loans to South Africa increased from $295-million in 1979 to nearly $800-million in 1980. Most of the loans, which equalled abbout two-thirds of the central Government's foreign debts, were arranged by individual transnational banks operating in South Africa or by consortiums.

The study, which predicted that foreign borrowing would probably continue to play a critical role in the South African economy, said Pretoria had spent most of the money on energy projects, with nearly 50% going to State-sponsored coal-fuelled and nuclear power projects.

It rejected claims that multinational corporations in South Africa helped to improve conditions for black workers.

The 48-member commission, which opened a two-week meeting in Geneva yesterday, is due to review progress on drafting a code of conduct for multinationals.

The study, prepared by the UN Secretariat, said South africa planned $27 000-million of capital investment over the next few years, but falling gold prices had contributed to a shrinking current account surplus.

The study estimated that between 200 000 and 315 000 blacks worked for multinatonals in South Africa, and represented 2,6 to 4,6% of the black work force.

It added that a sample study of manufacturing enterprises — where most foreign investment was located — and banks "suggests that the practices of transnational corporations with regard to the wages of african workers do not differ significantly from that of domestic companies".

SA conditions and industrial practices determined wages and not outside efforts. Not all transational corporations seemed to live up to wage standards set by codes of conduct established outside South Africa, it said.

The study said SA borrowing patterns had changed, including longer terms for the loans. Loans of three to five years in the late 1970s had reflected the "risk factor".

Individual loans had also been larger and the South African Government had floated its first large bond since 1972 in June last year. — Sapa-Reuter.

Star 1/9/81 (49)

Foreign loans to SA near 800-m dollar mark

GENEVA — Foreign loans to South Africa more than doubled last year rising to nearly 800-million dollars, according to a UN study released yesterday.

The study, prepared for a meeting in Geneva of the UN Commission on Transnational Corporations, said identified foreign loans to South Africa increased from 295-million dollars in 1979 to nearly 800-million dollars in 1980.

Most of the loans, which equalled about two-thirds of the Government's foreign debts, were arranged by individual transnational banks operating in South Africa or by consortia, the study added.

The study, which predicted that foreign borrowing would probably continue to play a critical role in the South African economy, said Pretoria had spent most of the money on energy projects, with nearly 50 percent going on State-sponsored coal-fueled and nuclear power projects.

It also rejected claims that multinational corporations in South Africa helped improve conditions for non-white workers.

The 48-member commission, which opened a two-week meeting in Geneva yesterday, is due to review progress on drafting a code of conduct for multinationals.

The study, prepared by the UN Secretariat, said South Africa planned 27 000-million dollars of capital investment over the next few years, but falling gold prices at the end of last year had contributed to a shrinking current account surplus.

It added that a current account deficit was forecast for this year and that some sources estimated the gold price would have to reach 600 dollars an ounce to keep the account in balance.

The study estimated that between 200 000 and 315 000 non-whites worked for multinationals in South Africa, and represented 2,6 to 4,6 percent of the non-white workforce.

It added that a sample study of manufacturing enterprises — where most foreign investment was located — and banks, "suggests that the practices of transnational corporations with regard to the wages of African workers do not differ significantly from that of domestic companies."

Local conditions and industrial practices determined wages rather than outside efforts and not all transnational corporations seemed to live up to wage standards set by codes of conduct established outside South Africa, it said.

The study said that the South African subsidiary of the Barclays Bank Group (United Kingdom) was at the top of the list of transnational banking institutions in South Africa. Barclays National Bank Ltd had 9 360-million dollars assets in mid-1980, after increasing by 20 percent in 1979, it added.

The Standard Bank Group (United Kingdom) network was next in size. — Sapa-Reuter.

Volkskas prediction of tough Budget next year

2/7/81
(49)

The Budget for 1982 will be far more problematical than that of this year unless the gold price improves considerably in the coming months, says Volkskas.

The bank's latest economic spotlight, released in Pretoria, says that given the current economic realities, it associated itself wholeheartedly with this year's economic philosophy — consolidation and adjustment — as stated by the Minister of Finance, Mr Horwood.

It says that the current economic realities are:

- Full utilisation of production capacities has been achieved in nearly all sectors of the economy.
- Domestic demand exceeds the local ability to satisfy it by a fair margin, leading to sunbstantial imports.
- Exports are performing poorly as a result of the international recessionary conditions and show no prospect of a marked improvement for some time.
- The gold price has weakened appreciably.
- The current account of the balance of payments shows a meaningful deficit while the external value of the rand is weakening.
- Given all these factors it would have meant economic suicide not to consolidate our position in the economic sphere and make the necessary adjustments to bring the economy closer to equilibrium.
- The Minister gave a clear indication of our present economic position by saying in his budget speech that "a country cannot solve its economic problems by attempting to live beyond its means." This timely warning should be taken to heart by many individuals and business undertakings.

The spotlight predicts that expenditures in 1981-82 can be expected to exceed the budgeted expenditures by at least R500-million.

This, the spotlight says, would mean that comparable spending this year will be closer to R16 500-million — an increase of 21 percent.

"Even if expenditures are controlled still more strictly, we cannot foresee the Minister being able to limit the increase in expenditure to only 16,8 percent. As far as increased expenditure is concerned, it could thus be said that the Budget will be slightly less contractionary than was anticipated.

"The estimate of revenue, on the other hand, appears to be somewhat low. Roughly R100-million more could be collected than has been budgeted for and consequently the deficit before loans will probably be closer to the R3 100-million mark," Volkskas says.

"It is imperative that the financing of the deficit must not be done through bank credit. Therefore the money must be found on the capital market."

World oil glut could benefit SA – Sanlam

Star 2/9/81

(49)

By Patrick McLoughlin

The glut of oil on world markets should make it easier for South Africa "despite sustained threats of sanctions" to obtain sufficient crude oil, Sanlam predicts in its latest economic report.

But the country had not benefited directly from the declining trend of the dollar price of oil because the more than 20 percent depreciation of the rand against the US dollar in the past eight months actually caused an increase in the rand price of oil.

INDICATION

"It was for this reason, among other things, that Government increased the domestic price of fuel last July 6. The results might have been more serious if the dollar price of oil had increased recently or even if it had remained constant."

The survey said that for the immediate future the indication was that the glut of oil could last "at least" to the end of next year.

An increase in the demand for oil could be expected in conjunction with the recovery in the world economy, but Opec would probably boost its production to improve its financial position.

"In so far as movements in oil prices also affect the price of gold, South Africa is also affected directly and indirectly over the short term by the current developments in the oil markets," Sanlam said.

This was because the decline in Opec income from oil could reduce member country's available funds for gold investment and the favourable effect that lower oil prices have on international inflation could make other assets more attractive investment fields than gold.

DOMESTIC FRONT

This especially applied if foreign interest rates remained at comparatively high levels.

However, in the longer term "the more favourable oil situation should have a beneficial effect on the growth rates of the industrial countries which will stimulate the industrial demand for gold and the demand for other exports from South Africa," the survey said.

On the domestic economic front, Sanlam appeared to back the rationale behind a Budget that was formulated against a background of continuing strict monetary policies of the governments of the most import industrial countries. These policies would retard the growth rate of the world economy until mid-1982.

The economy had "sufficient momentum" to realise a 4 percent growth rate in real GDP in 1981, but the economy had already entered a cooling phase and State policy would contribute to a further slowing down to 2 percent next year.

PREDICTIONS

In other predictions, Sanlam said:

- The CPI would move at a comparatively high level in the next few months.
- Inflation would average about 15 percent for 1981.
- The comparatively high rate of increase of merchandise imports will decline "appreciably" in the next year.
- Short-term interest rates would rise in the next six months but long-term interest rates would not change.

Reserve Bank view on growth rate

Star 4/9/81 (49)

South Africa could not expect a substantial boost in its growth-rate from abroad until after next year, the vice-president of the SA Reserve Bank, Dr Bramie van Staden, said in Pretoria yesterday.

Addressing the Economic Society of South Africa, he said that the monetary authorities were, nevertheless, determined to create a firm basis for the next upswing by consolidation and adjustment.

The inflation-rate had shown another upward trend since July and the increase from July last year to July this year had been 15,5 percent.

"This rate of increase in consumer prices is significantly higher than the average of our major trading partners, which was about 10 percent," he said.

Curbing the inflation rate should, therefore, remain high-priority economic policy.

"In spite of practical problems monetary authorities are determined, under current conditions, to follow a policy of consolidation and adjustment to create a solid basis for the next economic upswing as well as the most effective utilisation of South Africa's huge economic-growth potential in the long term."

The duration of the adjustment process would depend a great deal on developments overseas, Dr Van Staden said.

The gold price would, as in the past, be an important factor. It also depended on how quickly the US, West Germany, the UK and Japan, among trading partners, would show an upswing in economic activities.

where: ... ies listed in ... parentheses, and the

(3) It is no... in the referencing program...

Examples:

(1) The foll... is 0.5):

```
      DOUBLE P
      DATA PI/


      Y = DSIN
      WRITE (M
   10 FORMAT(1
```

(2) This example shows a basic external function reference containing another function reference in the list of actual arguments:

```
      Z = SQRT(AMAX1(A,B,C) + AMAX1(D,E,F))
```

(3) This example shows a basic external function reference in a logical expression:

```
      IF(AMIN1(A,B,C) .LT. -0.5 .AND. SQRT(D) .GT. 0.5) GO TO 30
```

8.5.2. Function Subprograms

Function subprograms permit the programmer to create external arithmetic and logical procedures and refer to these many times in the body of the program using function references. The first statement of the external function subprogram definition must be a FUNCTION statement, and the last line must be an END line; between these there must be at least one RETURN statement and a definition of the function name. Each reference to a subprogram in an arithmetic or logical expression will have a value returned to it at the point of reference. Additional values may be returned for use in statements that follow the reference.

DEPARTEMENT VAN FINANSIES

No. 1867 4 September 1981

Staat van Inkomste ingevorder gedurende die tydperk 1 April 1981 tot 31 Julie 1981.

Tesourie, Pretoria.

DEPARTMENT OF FINANCE

No. 1867 4 September 1981

Statement of Revenue collected during the period 1 April 1981 to 31 July 1981.

Treasury, Pretoria.

49

Inkomstehoof	Head of Revenue	Ingevorder vir die jaar geëindig 31 Maart 1981 / Collections for year ended 31 March 1981	Maand Julie / Month of July 1981	Maand Julie / Month of July 1980	Totaal 1 April tot 31 Julie / Total 1 April to 31 July 1981	Totaal 1 April tot 31 Julie / Total 1 April to 31 July 1980
		R	R	R	R	R
Staatsinkomsterekening	*State Revenue Account*					
Doeane en Aksyns—	Customs and Excise—					
Invoerreg	Customs Duty	735 834 201	95 856 877	57 931 496	334 655 014	201 603 814
Aksynsreg	Excise Duty	1 243 200 329	107 663 024	101 724 886	446 931 300	365 498 420
Verkoopreg	Sales Duty	593 812	Dr 1 110	21 823	43 297	146 854
Bobelasting	Surcharge	Dr 2 796 134	Dr 222 850	Dr 486 707	Dr 489 155	Dr 1 253 089
Diverse	Miscellaneous	46 748 303	6 667 460	Dr 995 417	15 624 076	13 568 110
	R	2 023 580 511	209 963 401	158 196 031	795 764 532	579 564 109
Oordrag na Sentrale Inkomste Fonds	Transfer to Central Revenue Fund (a)	Dr 41 500 000	Dr 4 000 000	Dr 3 000 000	Dr 23 849 498	Dr 12 500 000
Betalings Ingevolge Doeane- Unie-ooreenkomste	Payments in terms of Customs Union Agreements (b)	Dr 504 919 434	Dr 116 540 417	Dr 118 426 750	Dr 242 333 167	Dr 236 853 500
	R	Dr 546 419 434	Dr 120 540 417	Dr 121 426 750	Dr 266 182 665	Dr 249 353 500
	R	1 477 161 077	89 422 984	36 769 331	530 581 867	330 210 609
Binnelandse Inkomste—	Inland Revenue—					
Belasting op Inkomste	Tax on Income	7 522 124 818	664 642 036	514 904 242	2 152 268 993	1 847 979 962
Ander Belastings en Ontvangste—	Other Taxes and Receipts—					
Goudmynhuurkontrakte	Gold mining leases	838 195 071	111 634	832	120 287	Dr 368
Ander mynhuurkontrakte	Other mining leases	23 565 081	1 392	11 046	2 790	127 479
Staatseiendomsregtinkomste op diamantmyne	State Ownership Revenue on diamond mines	18 456 561	59 995	676	430 791	30 566
Uitvoerregte op diamante	Export duty on diamonds	24 797 439	3 978 851	2 801 190	7 552 334	7 639 724
Belasting op buitelandse aandeelhouers	Non-Resident shareholders' tax	296 557 601	29 776 791	18 689 760	114 840 441	78 671 417
Rentebelasting op buitelanders	Non-Resident's tax on interest	12 081 878	1 083 503	1 217 045	4 385 317	4 586 288
Belasting op onuitgekeerde winste	Undistributed profits tax	2 435 157	286 318	235 338	1 016 136	745 834
Belasting op geskenke	Donations tax	1 961 296	81 619	312 702	717 774	623 170
Seëlregte en gelde	Stamp duties and fees	137 503 002	13 709 298	12 095 859	47 413 856	43 170 209
Hereregte	Transfer duties	153 917 914	14 734 908	11 280 856	50 923 359	45 042 305
Boedelbelasting	Estate duties	61 314 662	5 509 377	4 274 883	22 740 092	20 364 023
Belasting op bemarkbare sekuriteite	Tax on marketable securities	33 615 310	1 993 464	2 790 274	7 843 349	9 726 265
Lisensies	Licences	2 576 432	47 979	85 791	250 801	257 180
Kinematograaffilmsbelasting	Cinematograph films tax	850 775	89 078	78 390	288 790	284 016
Ander	Other	2 138 199	781 218	Dr 718 783	4 795 854	Dr 96 838
Departementele en Diverse Ontvangste—	Departmental and Miscellaneous Receipts—					
Staatsdiamantdelwerye	State Diamond Diggings	5 495 004	—	—	—	2 367
Bosinkomste	Forest revenue	44 629 737	4 737 463	3 516 410	6 869 067	11 516 871
Waterinkomste	Water revenue (c)	61 254 893	7 519 434	3 210 230	12 922 487	11 955 135
Boetes en verbeurdverklarings	Fines and forfeitures	13 355 412	1 238 536	926 560	4 823 027	4 073 350
Verhalings van voorskotte	Recoveries of advances	14 597 158	223 466	1 438 578	2 527 639	4 168 241
Verkoop van staatsgrond	Sale of state land	2 957 208	21 478	153 452	21 478	313 452
Verhuring van staatseiendom	Rental from state property	15 837 640	1 582 807	1 151 374	5 928 787	3 130 054
Algemeen	General	227 155 551	41 159 824	11 016 519	61 035 047	50 134 066
Rente en Dividende	Interest and Dividends	571 828 440	39 297 851	73 347 693	138 786 448	210 122 043
Terugbetaling van Lenings	Repayment of Loans	90 739 979	2 374 977	3 520 191	3 713 432	28 323 361
Algemene Verkoopbelasting	General Sales Tax	1 653 097 825	170 222 363	140 760 706	642 901 023	508 494 846
	R	11 833 130 043	1 005 225 660	807 201 804	3 295 135 399	2 891 385 018
	R	13 310 291 120	1 094 648 644	843 971 135	3 825 717 266	3 221 595 627
Staatsoliefonds	State Oil Fund (d)	277 424 571	23 808 440	20 575 386	93 588 645	85 500 718
Nasionale Padfonds	National Road Fund (e)	140 782 649	11 818 035	10 000 000	47 124 107	42 790 477
Suid-Afrikaanse Ontwikkelingstrustfonds	South African Development Trust Fund (f)	13 227 673	712 372	572 877	2 054 295	1 969 489
Rekening vir Swart Vervoerdienste	Account for Black Transport Services (g)	15 570 716	1 889 209	893 713	4 651 373	4 325 693
Fonds vir Sorghumbiernavorsing	Sorghum Beer Research Fund (h)	1 019 556	529 652	750 000	553 161	950 000
Suidwes-Afrika Gebiedsinkomstefonds	South-West Africa Territorial Revenue Fund (i)	17 403	1 115	2 354	1 133	4 237
	R	448 042 573	38 758 883	32 789 330	147 975 714	135 540 615
Totaal	Total R	13 758 333 693	1 133 407 527	876 760 465	3 973 692 980	3 357 136 242
Aansuiwering met opgaaf gepubliseer by Goewermentskennisgewing 1730 in Staatskoerant van 14 Augustus 1981	Reconciliation with statement published by Government Notice 1730 in *Government Gazette* of 14 August 1981					
In transito, 31 Maart 1981	In Transit, 31 March 1981	—	—	—	59 648 694	—
In transito, 30 Junie 1981	In Transit, 30 June 1981	—	18 404 146	—	—	—
Invorderings soos hierbo	Collections, as above	—	1 133 407 527	—	3 973 692 980	—
	R	—	1 151 811 673	—	4 033 341 674	—
Oorbetaal 31 Julie 1981	Overremitted 31 July, 1981	—	12 046 444	—	12 046 444	—
In Skatkisrekening ontvang	Received into Exchequer Account R	—	1 163 858 117	—	4 045 388 118	—

(a) Artikel 22 (1) (d) van Wet 25 van 1969.
(b) Artikel 51 (2) van Wet 91 van 1964.
(c) Voorheen ingesluit onder "Algemeen".
(d) Artikel 1 van Wet 38 van 1977.
(e) Artikel 2 (1) (a) van Wet 54 van 1971.
(f) Artikel 8 van Wet 18 van 1936.
(g) Artikel 7 van Wet 53 van 1957.
(h) Artikel 19*bis* (1) (a) van Wet 63 van 1962.
(i) Artikel 22 (4) (a) van Wet 25 van 1969.

(a) Section 22 (1) (d) of Act 25 of 1969
(b) Section 51 (2) of Act 91 of 1964
(c) Previously included under "General"
(d) Section 1 of Act 38 of 1977.
(e) Section 2 (1) (a) of Act 54 of 1971
(f) Section 8 of Act 18 of 1936.
(g) Section 7 of Act 53 of 1957
(h) Section 19*bis* (1) (a) of Act 63 of 1962
(i) Section 22 (4) (a) of Act 25 of 1969

De Kock proud of balance of payments

8/9/81

49

South Africa had one of the strongest underlying balance-of-payments positions in the world, Dr Gerhard de Kock, Governor of the Reserve Bank, said in Johannesburg today.

Addressing the Unisa School of Business Leadership, Dr de Kock said that the business cycle had passed its upward turning point and had entered a downward phase. However, this did not mean the country's economy was about to enter a depression.

Indicators

It did imply that, in the months ahead, the rate of increase of the real gross-domestic product would probably decline further. Many of the economic indicators which had increased sharply during the recent upswing would rise at a lower rate, level off or actually decline.

"If we apply reasonably appropriate monetary and fiscal policies, the present deficit on the current account of the balance of payments need cause us no concern," Dr De Kock said.

"South Africa has one of the strongest underlying balance of payments positions in the world.

Important

"In addition, according to all known criteria, South Africa must be one of the most under-borrowed countries."

It was most important that the balance-of-payments adjustment process be permitted to work. The lower average gold price, the recessionary tendencies overseas and the high nominal rates of interest in the main industrial countries were facts of life that could not be ignored, Dr De Kock said.

Inevitability

said. "We cannot — we have to adjust."

One could argue about the method of adjustment, but the inevitability of adjustment must be accepted.

"We can forget about soft options. In the short term we can finance the balance-of-payments deficit, but in the long term we have to adjust it."

Interest rates had been allowed to rise from their abnormally low and distorted levels during 1979 and the first three-quarters of 1980 to their present more realistic levels.

Coupled with the judicious use of the Reserve Bank's discount on forward dollars, current level of interest rates should ensure the necessary foreign financing without undue difficulty, Dr De Kock said.

Gold price

It was impossible to say, at this stage, if interest rates would rise further in the months ahead or start a downward movement.

Much depended on the behaviour of the gold price and overseas interest rates.

Turning to inflation, he said that the economy was cooling down, but its temperature was, for the time being, too high.

If the country was to minimise the rate of inflation, the cooling off process must be allowed to continue for the time being.

Apart from the difficulties of reducing the rate of inflation, there was always a danger of further increasing the rate. It was imperative that the rate of increase of the money supply and total monetary demand be reduced further.

Next upswing

"The whole object of the exercise, it must be emphasised, is to promote stability and growth," said Dr de Kock.

"If South Africa played its cards right it could, with justification, already look forward to the next upswing in the 1980s. — Sapa.

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Economy low but healthy — De Villiers

CT 8/9/81

(49)

HOUSE OF ASSEMBLY. — The economy was entering a lower cycle following the high which peaked last year, but was nevertheless still healthy, the Minister of Industries, Commerce and Tourism, Dr Dawie de Villiers, said yesterday.

Replying to the debate on his vote, he said that according to revised figures of the Department of Statistics, the growth rate last year had been seven percent.

"This downward economic adjustment after the high economic level of last year is normal.

"The South African economy must now consolidate in preparation for the next economic upswing."

The minister said he would like to express a word of caution in respect of the psychological effects of such a downward move.

Businessmen were often either over-enthusiastic or over-pessimistic.

"Lets not talk the economy down."

Dr De Villiers said the government had a difficult task in maintaining growth and work opportunities without promoting inflation.

It would be possible to maintain this balance only if private initiative was encouraged and the market forces were given a free hand.

South Africa had a mixed economic system. While the government stood for free enterprise, it was still essential that certain State regulations and controls were imposed.

"You cannot have no State interference in the economy at all, and then call on the State to supply various socio-economic services.

"South Africa will have to meet the challenges of the future with a balanced form of co-operation between the private and the public sectors."

The minister said the Soviet Union had set its sights on Southern Africa, with South Africa as a priority. However, it could not promote its ideas where there was order and stability.

He said it was not government policy to use import control as a protective measure for local industries.

In the past six months the value of import permits had increased by 36 percent over the same period last year.

"But 83 percent of the import component was essential for industrial development and the provision of an infrastructure.

"Rather than use quantitative control, we will use customs tariffs for the protection of local industries.

"It is not our intention to eliminate overseas competition, but we must at least allow our own products to compete on equal footing with imported goods." — Sapa

June reporters' growth slows to 39% from 52%

Company profits trotting along

(49) RDM 10/9/87

By DAVID CARTE

COMPANY profits have slowed from the hectic pace of last year, but are still growing at a fair clip, a Business Mail survey of 75 companies reporting for the period to June shows.

The 75 June-reporting companies lifted earnings a share on average by 39% this year. The same companies last year hoisted earnings an average of 52%.

Forty-six companies reporting for the six months to the end of June lifted earnings a share on average by 33%. The same companies achieved an average interim earnings increase of 51% last year.

Twenty-nine companies reporting for the year to June lifted earnings on average by 48% against 55% a year ago.

No fewer than 22 of the 75 companies increased earnings growth more this year than last year.

Some, such as Tedelex, Trencor, Berzack, Micor, Consol, I&J, Aberdare, Sage and Assmang, performed far better this year than they did last year.

Four companies — Toyota, Saan, Anglo-Alpha and McCarthy — lifted earnings more than 100% both in 1980 and in 1981.

Last year, more than this year, many companies came back from low bases and achieved earnings growth of up to 300%. These abnormal increases distort averages to a degree.

If companies whose earnings grew more than 100% both in 1980 and 1981 are excluded, average earnings growth of the June-reporting companies this year was 30% — 35% last year.

But nearly all companies, even those reporting large earnings gains in both years, have warned of an impending profit slowdown.

Whereas last year many were making huge profits merely out of bigger throughput, plant and personnel capacities today are strained.

Skilled labour shortages are hurting production and skilled and semi-skilled wages continue to soar.

But the biggest immediate threat to earnings and dividend growth is higher interest rates.

As Mr Rudi Frankel has pointed out, last year many companies were borrowing at less than 8%. Now short-term funds cost 16% and more. At the same time, borrowings are tending higher as companies increase more expensive stocks and debtors.

Higher interest costs are expected to deter consumers from buying big-ticket durables on HP, a threat to motor, furniture and white goods companies and to banks.

Most companies have husbanded resources in the boom, increasing dividend cover and repaying debt, so that balance sheets generally are in good shape.

Nevertheless, dividend payments may well be restrained merely by the opportunity cost of dividend payments in an era of high interest rates.

Several analysts, who believe earnings growth will continue to outstrip inflation, say they would not be surprised if dividends overall show only minimal growth in the year ahead.

Most companies can pass on higher raw material costs, but some — especially in non-essentials — might experience consumer resistance.

Some trading companies are less affected by deteriorating consumer confidence than others. The more essential the product, the smaller the price tag, the less affected sales are by consumer confidence.

Food sales can thus be expected to hold up, though there could be switching to more basic foods. Beverage sales are expected to more than hold their own, if only because of the legalisation of shebeens.

Motor, furniture and white goods suppliers and all stores could feel diminished consumer confidence, although higher salaries and wages for skilled workers should offset any such trend.

Analysts expect engineering companies to continue doing well, as much of their work lasts several years and private fixed investment has more than made up for lower State spending in this area. But civil engineering companies report a lower volume of road and other State civil work. This kind of work first feels the pinch when Government turns off the taps.

After a tough first half, reflected in the lesser fortunes of Barclays and Stanbic, banks are expected to do better in the second half. This is because of the higher bank rate, which stopped round tripping, but banks are up against tough comparative numbers and margins between their borrowing and lending rates are still under pressure.

A weaker rand will help exporting companies, such as the mines, Haggie, and Amic's Boart and Scaw, as well as companies that convert foreign profits into rands, such as Safmarine and Rembrandt.

But it will hurt importers such as Trek, Tedelex, Bromaine, Protea, Toyota and all motor manufacturers and dealers.

No. 1945 11 September 1981

Staat van Ontvangste in en Oordragte uit die Skatkisrekening vir die tydperk 1 April 1981 tot 31 Augustus 1981.

Tesourie, Pretoria.

No. 1945 11 September 1981

Statement of Receipts into and Transfers from the Exchequer Account for the period 1 April 1981 to 31 August 1981.

Treasury, Pretoria.

14

ONTVANGSTE—RECEIPTS

Inkomstehoof	Head of Revenue	Maand Augustus / Month of August		Totaal 1 April tot 31 Augustus / Total 1 April to 31 August	
		1981	1980	1981	1980
		R	R	R	R
Skatkissaldo, 31 Maart 1981	Exchequer Balance, 31 March 1981	—	—	214 788 279	—
Skatkissaldo, 31 Julie 1981	Exchequer Balance 31 July 1981	532 846	—	—	—
Staatsinkomsterekening	*State Revenue Account*				
Doeane en Aksyns	Customs and Excise	170 010 266	140 432 581	699 933 981	452 972 148
Binnelandse Inkomste	Inland Revenue	1 652 039 828	1 891 400 029	5 011 981 205	4 846 294 403
		1 822 050 094	2 031 832 610	5 711 915 186	5 299 266 551
Staatsoliefonds	State Oil Fund	25 591 513	24 167 543	122 050 617	111 716 901
Nasionale Padfonds	National Road Fund	13 362 976	12 113 845	62 277 843	56 775 618
Suid-Afrikaanse Ontwikkelingstrustfonds	South African Development Trust Fund	713 000	513 000	5 589 673	6 105 552
Rekening vir Swart Vervoerdienste	Account for Black Transport Services	817 151	1 691 943	5 471 524	6 017 636
Fonds vir Sorghumbiernavorsing	Sorghum Beer Research Fund	464 507	750 000	1 081 137	950 000
S W A Gebiedsinkomstefonds—Verkoopreg	S W A Territorial Revenue Fund—Sales Duty	—	918	1 379	5 651
		1 862 999 241	2 071 069 859	5 908 387 359	5 480 837 909
Ander Ontvangste	*Other Receipts*				
Skatkisbiljette *Binnelands*	Treasury Bills *Internal*	909 007 000	—	3 081 541 000	—
Binnelandse Effekte, Obligasies en Lenings Opgeneem—	Internal Stock, Bonds and Loans Raised—				
8% Tesourie-obligasies Tweede Reeks	8% Treasury Bonds Second Series	3 251 700	—	42 595 750	—
9% Nasionale Verdedigingsobligasies	9% National Defence Bonds	605 650	—	5 739 300	—
Verdedigingsbonusobligasies	Defence Bonus Bonds	15 969 760	—	88 936 795	—
Nasionale Verdedigingsobligasies	National Defence Bonds	22 750	—	22 750	—
7% Tesourie-obligasies	7% Treasury Bonds	—	—	Dr 111 000	—
Binnelandse Geregistreerde Effekte—	Internal Registered Stock—				
12,5%, 2003	12,5%, 2003	160 036 024	—	1 760 975 120	—
9,5%, 1984	9,5%, 1984	75	—	335 277 700	—
12,90%, 1992	12,90%, 1992	—	—	100 000 000	—
12,50%, 1983	12,50%, 1983	200 000 000	—	200 000 000	—
Buitelandse Lenings en Krediete Opgeneem—	Foreign Loans and Credits Raised—				
1981/86	1981/86	—	—	3 131 161	—
1979/84	1979/84	—	—	2 833 089	—
1983/87	1983/87	—	—	64 856 451	—
1978	1978	43 767 507	—	43 767 507	—
	R	3 195 659 707	—	11 637 952 982	—
Totaal (insluitende Aanvangssaldo)	Total (including Opening Balance) R	3 196 192 553	—	11 852 741 261	—

UITBETALINGS—ISSUES

1 Staatspresident	State President	40 000	35 000	205 000	174 000
Statutêre Bedrag	Statutory Amount	4 550	4 170	22 750	20 838
2 Parlement	Parliament	205 000	350 000	1 518 000	1 846 000
Statutêre Bedrag	Statutory Amount	330 000	378 000	1 627 000	1 891 000
3. Eerste Minister	Prime Minister	660 000	211 000	2 483 500	1 490 000
Statutêre Bedrag	Statutory Amount	3 750	—	18 750	—
4. Mannekrag	Manpower	2 424 000	3 400 000	16 949 300	16 849 000
5 Samewerking en Ontwikkeling	Co-Operation and Development	60 000 000	35 820 700	215 000 000	129 929 700
Statutêre Bedrag	Statutory Amount	39 480 000	30 000 000	218 615 000	167 735 700
6 Vervoer	Transport	42 000 000	18 000 000	120 000 000	90 000 000
7 Finansies	Finance	365 000 000	233 700 000	1 721 550 000	1 205 015 600
Statutêre Bedrag	Statutory Amount	59 029 314	54 029 314	777 387 879	661 529 879
8 Oudit	Audit	540 000	400 000	2 695 000	2 468 000
9 Binnelandse Aangeleenthede	Internal Affairs	61 508 000	51 630 000	304 989 000	230 464 000
10 Buitelandse Sake en Inligting	Foreign Affairs and Information	14 440 000	14 500 000	92 920 000	76 000 000
Statutêre Bedrag	Statutory Amount	7 520 000	5 565 000	22 585 000	26 637 000
11 Mineraal- en Energiesake	Mineral and Energy Affairs	50 500 000	19 500 000	172 200 000	143 700 000
12 Polisie	Police	39 000 000	25 000 000	183 000 000	135 000 000
13 Kommissie vir Administrasie	Commission for Administration	500 000	620 000	15 837 000	14 610 000
14 Statistiek	Statistics	1 300 000	2 250 000	5 440 000	12 600 000
15 Gesondheid, Welsyn en Pensioene	Health Welfare and Pensions	85 000 000	68 000 000	401 000 000	354 700 000
Statutêre Bedrag	Statutory Amount	14 000	26 000	73 000	78 000
16 Onderwys en Opleiding	Education and Training	30 000 000	20 000 000	153 000 000	103 000 000
17 Waterwese, Bosbou en Omgewingbewaring	Water Affairs, Forestry and Environmental Conservation	25 500 000	23 164 000	123 800 000	109 110 000
18 Nasionale Opvoeding	National Education	49 000 000	12 660 000	291 000 000	226 193 000
19 Weermag	Defence	307 000 000	197 000 000	1 203 000 000	962 000 000
20 Landbou en Visserye	Agriculture and Fisheries	40 000 000	51 000 000	196 000 000	204 400 000
21 Nywerheidswese, Handel en Toerisme	Industries, Commerce and Tourism	27 500 000	25 130 000	124 500 000	181 525 000
22 Justisie	Justice	18 000 000	15 000 000	98 200 000	74 865 000
Statutêre Bedrag	Statutory Amount	375 000	340 000	1 900 000	1 600 000
23 Gemeenskapsontwikkeling	Community Development	58 100 000	64 950 000	348 600 000	323 550 000
	R	1 384 973 614	972 603 184	6 816 116 179	5 458 981 717
Staatsoliefonds	State Oil Fund (a)	25 591 513	24 167 543	122 050 617	111 716 901
Nasionale Padfonds	National Road Fund (b)	13 362 976	12 113 845	62 277 843	56 775 618
Suid-Afrikaanse Ontwikkelingstrustfonds	South African Development Trust Fund (c)	713 000	513 000	5 589 673	6 105 552
Rekening vir Swart Vervoerdienste	Account for Black Transport Services (d)	817 151	1 691 943	5 471 524	6 017 636
Fonds vir Sorghumbiernavorsing	Sorghum Beer Research Fund (e)	464 506	750 000	1 081 137	950 000
S W A Gebiedsinkomstefonds—Verkoopreg	S W A Territorial Revenue Fund—Sales Duty (f)	—	918	1 379	5 651
	R	40 949 146	39 237 249	196 472 173	181 571 358
	R	1 425 922 760	1 011 840 433	7 012 588 352	5 640 553 075

Inkomstehoof	Head of Revenue	Maand Augustus / Month of August 1981	Maand Augustus / Month of August 1980	Totaal 1 April tot 31 Augustus / Total 1 April to 31 August 1981	Totaal 1 April tot 31 Augustus / Total 1 April to 31 August 1980
		R	R	R	R
Ander Uitbetalings	*Other Issues*				
Terugbetaling van Skatkisbiljette Binnelands	Treasury Bills repaid Internal	1 114 945 000		3 441 616 000	—
Leningsheffing 1966/80 gedelg	Loan Levy 1966/80 repaid	1 230 430	—	4 337 4[illegible]2	—
Delgingsfondsvoorskotte	Sinking Fund Advances	2 631 183	—	7 908 1[illegible]7	—
Stabilisasierekeningvoorskotte	Stabilisation Account Advances	608 000 000	—	—	—
Binnelandse Effekte, Obligasies en Lenings Gedelg	Internal Stock, Bonds and Loans Redeemed				
Vyfjaar obligasies vir Nie-inwoners	Five Year Non-Resident Bonds	249 000	—	1 033 500	—
8% Tesourie-obligasies	8% Treasury Bonds	5 291 900	—	20 952 [illegible]00	—
Premie-obligasies	Premium Bonds	23 800	—	11 735 200	—
Tweede Reeks Premie-obligasies	Second Series Premium Bonds	176 000	—	9 947 800	—
7% Tesourie-obligasies	7% Treasury Bonds	10 182 300	—	67 189 600	—
Nasionale Verdedigingsobligasies	National Defence Bonds	7 631 000	—	146 705 800	—
Tweede Reeks Nasionale Verdedigingsobligasies	Second Series National Defence Bonds	7 476 500	—	55 452 300	—
Derde Reeks Nasionale Verdedigingsobligasies	Third Series National Defence Bonds	4 500	—	21 011 400	—
8% Nasionale Verdedigingsobligasies	8% National Defence Bonds	2 092 750	—	34 255 750	—
Verdedigingsbonusobligasies	Defence Bonus Bonds	9 283 165	—	37 416 930	—
8% Tesourie-obligasies Tweede Reeks	8% Treasury Bonds Second Series	24 700	—	60 200	—
Binnelandse Geregistreerde Effekte	Internal Registered Stock				
5,625%, 1981	5,625%, 1981	—	—	836 844 660	—
5,875%, 1981	5,875%, 1981	—	—	121 400 375	—
Buitelandse Lenings en Kredite Gedelg—	Foreign Loans and Credits Redeemed—				
6% Uitvoerkrediet Fasiliteit	6% Export Credit Facility				
1979/81	1979/81	—		1 707 274	—
1978/81	1978/81	—		5 583 836	—
Uitbetalings, Staatsinkomstebegrotingsposte 1980/81	Issues, State Revenue Votes, 1980/81	—	—	12 888 925	—
		-		1 677 790	—
	R	1 770 142 228	—	4 840 025 344	—
	R	3 196 064 988	—	11 852 613 696	
Skatkissaldo, 31 Augustus 1981	Exchequer Balance, 31 August 1981	—	-	-	-
Kontant	Cash	127 565	—	127 565	—
Totale	Totals ...R	3 196 192 553	—	11 852 741 261	—

(a) Artikel 1 van Wet 38 van 1977
(b) Artikel 2 (1) (a) van Wet 54 van 1971
(c) Artikel 8 van Wet 18 van 1936
(d) Artikel 7 (1) van Wet 53 van 1957.
(e) Artikel 19*bis* (1) (a) van Wet 63 van 1962
(f) Artikel 22 (4) (a) van Wet 25 van 1969

(a) Section 1 of Act 38 of 1977
(b) Section 2 (1) (a) of Act 54 of 1971
(c) Section 8 of Act 18 of 1936
(d) Section 7 (1) of Act 53 of 1957
(e) Section 19*bis* (1) (a) of Act 63 of 1962
(f) Section 22 (4) (a) of Act 25 of 1969

No. 1951 11 September 1981

UITGIFTE VAN ONBEPAALDE TERMYN NASIONALE VERDEDIGINGSOBLIGASIES

Inskrywingslyste ten opsigte van die Onbepaalde Termyn Nasionale Verdedigingsobligasies word op 15 September 1981 oopgestel en sal oop bly tot nadere kennisgewing.

Prospektusse met aangehegte aansoekvorms sal by takke van geregistreerde handelsbanke, lede van die Bankiers-verrekeningskantoor, effektemakelaars, poskantore waar poswisselsbesigheid gedoen word, en die Sekretaris van die Tesourie, Abattoirhuis, Pretoria, verkrygbaar wees.

Hierdie obligasies—

(1) word vir inskrywing deur enige beleggers, BEHALWE Nie-inwoners en finansiële instellings soos omskryf in artikel 1 van die Wet op Inspeksie van Finansiële Instellings, 1962, beskikbaar gestel en aansoeke in veelvoude van R50 moet vergesel gaan van die volle bedrag waarom aansoek gedoen word, maar die Tesourie kan na sy goeddunke enige aansoek van die hand wys of 'n belegging deur bemiddeling van 'n agent gemaak, terugbetaal;

(2) sal rente teen 'n koers soos deur die Minister van Finansies van tyd tot tyd bepaal om by heersende rentekoerse aan te pas, kweek en die rentekoers op bestaande obligasies van hierdie uitgifte sal outomaties na die nuwer koers aangepas word. Wysigings van koerse sal in die *Staatskoerant* aangekondig word. Die koers van toepassing vanaf 15 September 1981 is op 11 persent per jaar bepaal tot nadere kennisgewing. Rente teen die koers soos van tyd tot tyd van toepassing is halfjaarliks op 15 Januarie en 15 Julie betaalbaar;

(3) word vir 'n onbepaalde termyn uitgereik maar die Minister kan by kennisgewing van die *Staatskoerant*, 'n vervaldatum bepaal waarop alle obligasies van hierdie uitgifte sal verval;

No. 1951 11 September 1981

ISSUE OF INDEFINITE PERIOD NATIONAL DEFENCE BONDS

Subscription lists in respect of the Indefinite Period National Defence Bonds will open on 15 September 1981 and remain open until further notice.

Prospectuses, incorporating application forms, will be obtainable from branches of Registered Commercial Banks, Members of the Bankers Clearing House, Stockbrokers, Post Offices which transact Money Order business and the Secretary to the Treasury, Abattoir House, Pretoria.

These Bonds—

(1) are made available for subscription by any subscribers OTHER than Non-Residents and financial institutions as defined in section 1 of the Inspection of Financial Institutions Act, 1962, and applications in multiples of R50 must be accompanied by the full amount applied for, but the Treasury may in its discretion refuse to accept any application or may refund any investment made through an agent;

(2) will accrue interest at a rate determined by the Minister of Finance from time to time in order to adapt the rate to ruling trends current at such time and the interest rate on existing Bonds of this issue will automatically be adjusted to the new rate. The changes in interest rates will be published in the *Government Gazette*. The rate applicable to investments made from 15 September 1981 will, until further notice, be 11 per cent per annum. Interest at the rate applicable from time to time is payable half-yearly on 15 January and 15 July;

(3) are issued for an indefinite period but the Minister may by notice in the *Government Gazette* determine a maturity date on which all bonds of this issue will mature;

Reflation out of the question, says Dr De Kock

CT 15/9/81

"TO REFLATE or not to reflate" — that is not the question in monetary policy in South Africa at present (September 1981). It might become the question in 1982. But at this point, even though the economy appears to have moved (technically) into a downward phase of the business cycle, a monetary policy of reflation or stimulation is literally out of the question as far as the Reserve Bank is concerned.

For the present it is decidedly in the national interest that the monetary authorities should permit and encourage the twin processes of "cooling-off" or "consolidation" in the domestic economy and of "adjustment" in the balance of payments to continue.

Such a policy stance is essential if we are to minimize inflation, maintain a strong currency and prepare the ground not only for the next upswing of the business cycle but also for a high average annual rate of growth in the (1980s).

It is to this central theme that my remarks today will be directed. This choice of subject reflects the firm belief that sound money is a prerequisite for optimum growth in South Africa in the decade ahead.

Dr Gerhard de Kock

A fundamentally changed environment

To deal with this theme in a meaningful way it is, perhaps, useful to remind ourselves, first, that in framing and applying monetary and fiscal policies in South Africa in the early 1980s, the monetary authorities are operating in an environemnt which differs in many fundamental respects from that which prevailed during most of the period since World War II The main differences are the following:

First and foremost we now have a sharply fluctuating gold price, whereas formerly, until the institution of the two-tier gold marketing system in 1968, we had a fixed dollar price of gold, namely $35 per fine ounce It is my considered opinion that we have not yet appreciated the full implications for the South African economy and for monetary policy of this fundamental change.

Secondly, we are now living in a world of fluctuating exchange rates and no longer under the system of fixed exchange rates — the so-called Bretton Woods par value system — which prevailed from 1946 until the early 70s.

In these circumstances, South Africa took a wise decision in January 1979 to cease pegging the rand at a fixed rate to the United States dollar and to institute instead its own system of managed floating for an independent rand. But even if we had decided to continue with a system of pegging the rand to either a single currency or a "basket" of currenies, the rand would, of course, in the changed international currency circumstances, still have floated in terms of most other individual currencies in the world

Thirdly, the South African economy now finds itself part of a world economy which is still struggling hard to adjust to the enormous increases in energy costs during the '70s.

This structural change has fundamentally altered the relative economic positions of countries in the world and has contributed greatly to the combination of inflation, greater cyclical instability and balance of payments disequilibrium in the international community

Fourthly, in recent years the authorites in the United States, the United Kingdom, Western Germany and many other important countries have increasingly come to realize the vital importance of improved control of the money supply and monetary demand as an essential ingredient in any set of policies for dealing with their present economic problems.

They have also, quite rightly in my view, accepted that in the short-term the purposeful implementation of such policies of increased financial discipline necessarily implies much higher rates of interest — a conclusion which has in varying degrees been accepted by both monetarists and Keynesians.

Fifthly, inside South Africa, most financial markets have developed rapidly and have become much broader and more active and competitive than formerly.

Indeed, it is widely recognized that for a country in its stage of general economic development, South Africa has a remarkably sophisticated financial system. The far-reaching implications which these developments have for monetary policy are currently being investigated by the Commission of Inquiry into the Monetary System and Monetary Policy in South Africa.

All these changes taken together have not weakened the South African economy. On the contrary, their net effect has been to strengthen the underlying economic situation and prospects in South Africa.

Certainly, some of these developments, such as the increase in oil prices, world inflation and increased international cyclical instability, have affected us adversely. But, on balance, mainly as a result of the structural 10-fold increase in the price of gold over the past 10 years and the growing importance of many of our other exports, the South African economy has emerged from the '70s in a stronger position than formerly.

This, however, in no way changes the fact that we are now operating in a fundamentally changed economic environment and that this economic acitivity in an attempt to prevent the growth rate from declining much further, keeping in mind the inevitable time lags involved, or should the present conservative and restrictive approach be maintained with a view to consolidating the enormous economic gains of recent years, curbing inflation and assisting the balance of payments in adjusting to the lower gold price and the other external factors now adversely affecting the South African economy?"

I immediately added that the Reserve Bank had no hesitation in choosing the latter course and that it fully associated itself with the approach of "consolidation and adjustment" announced by the Minister of Finance in his Budget speech two weeks earlier.

There is no doubt in my mind that this is the correct policy and I wish to emphasize today that we shall persevere with this strategy for as long as necessary, i.e. until it has achieved its objectives.

The question has been asked, however, whether it tively employed a number of techniques designed to prevent or offset undue fluctuations in money market conditions.

These these and other ways it has to a significant extent "cushioned" the domestic economy against the adverse impact of the decline in the gold price and in the value and volume of many of our other exports — not only by preventing the rand prices of the export commodities in question from declining as much as their dollar prices, but also by moderating the upward movement in interest rates and the tightening of conditions in the financial markets.

As far as fiscal policy is concerned, the recent Budget provides for an increase in expenditure of 16,8 percent in nominal terms and contains no increases in either income tax rates or general sales tax and no imposition of loan levies.

Even allowing for "fiscal drag" or "bracket creeping", the net outcome is expected to be an increase in the "deficit before borrowing" from 0,5 percent of gross do-

Background to current monetary policy

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By PAUL DOLD
Financial Editor

RESERVE BANK Governor, Dr Gerhard de Kock, in a recent major address outlined the policy options open to the authorities to ensure rapid growth during the eighties. The governor's address covered inflation, monetary policy and interest rates.

He spoke at Unisa's School of Business Leadership seminar in Johannesburg and gave the background to the current monetary policy as well as sketching likely developments.

His view on interest rates is of particular interest emphasizing that Church Square's policy is not one of high rates or low rates but one of realistic and flexible market-related interest rates resulting from effective control of the money supply.

Dr De Kock also said that leading Western countries had accepted that the improved control of the money supply and monetary demand was a key ingredient in policies aimed at solving current economic problems.

"They have also, quite rightly in my view, accepted that in the short-term the purposeful implementation of such policies of increased financial discipline necessarily implies much higher rates of interest — a conclusion which has in varying degress been accepted by both monetarists and Keynesians."

adjustment process" to work, even if this implies a temporary "pro-cyclical policy" in some respects.

Curbing inflation

As far as inflation is concerned, there can be no doubt that the development of excess monetary demand during the course of 1980 and the early months of 1981 exerted undue pressure on available resources and contributed to price and cost increases.

The advent of this state of demand inflation was long delayed by two factors, namely restraint on government spending and the considerable scope for imports to rise as long as the balance of payments on current account showed a large surplus.

This gave us a long upswing and in 1980 an eight percent growth rate. But for reasons now well-known, monetary demand increased excessively from the middle of 1980 onwards and brought about an overheating of the economy.

Although the economy is now cooling down, its temperature for the time being is still too high rather than too low. The evidence for this is to be found in the continued critical shortage of skilled and semi-skilled labour, the relatively full utilization of production capacity, the strong demand for bank credit and the continued sharp rise in imports.

Thus, if we are to minimize the rate of inflation, this cooling-off process must be allowed to continue for the time being. Quite apart from the difficulties of reducing the rate of inflation, there is always a danger of a further increase in the rate.

Experience in other countries has shown that, with permissive monetary policies, a rate of inflation of, say, 15 percent can easily rise to much higher levels.

Whatever else may be needed in the fight against inflation, it is therefore imperative that the rate of increase of money supply and total monetary demand be reduced further.

The balance of payments adjustment process

Equally important is the need to permit the balance of payments adjustment process to work effectively. The lower average gold price, the recessionary tendencies overseas and the high nominal rates of interest in the main industrial countries are all facts of life which we in South Africa cannot ignore.

It is naïve to think that we can neutralize or off-set these adverse external developments by domestic money creation or fiscal manipulation. We cannot. We have to adjust.

We can argue about the appropriate methods of adjustment, but the inevitability of adjustment must be accepted. We can forget about soft options. In the short term we can finance the balance of payments deficit, but in the longer term we have to adjust it.

If we apply reasonably appropriate monetary and fiscal policies, the present deficit on the current account of the balance of payments need cause us no concern. South Africa has one of the strongest underlying balance of payments positions in the world.

In addition, according to all the known criteria, South Africa must be one of the most "under-borrowed" countries in the world.

Moreover, in recent years there has been an enormous switching of trade financing from expensive overseas sources of credit to cheap domestic sources. To reverse this process to the required extent would be relatively easy.

The proviso, however, is that we achieve and maintain effective control over the rate of increase of our money supply and that we do not attempt to keep our interest rates artificially low.

That is one of the principal reasons why we have been following a deliberate monetary policy of permitting our financial markets to tighten in response to changes in supply and demand, and of permitting interest rates to rise from their abnormally low and distorted levels during 1979 and the first three quarters of 1980, to their present more realistic levels.

Coupled with judicious use of the Reserve Bank's discount on forward dollars, our present level of interest rates should ensure the necessary foreign financing without undue difficulty.

Future interest rate movements

Whether our interest rates will have to rise still further in the months ahead before they start their next downward movement, is impossible to say at this stage. Much depends on the behaviour of the gold price and of overseas interest rates.

It is certainly possible to envisage a number of scenarios for the coming months which would result in a decline in South African interest rates. If these rates come down for the right reasons, i.e. because the economy is cooling down or the rate of inflation is falling, the Reserve Bank will permit and encourage them to decline.

Conversely, it is possible to imagine circumstances in

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for South African monetary policy in the decade ahead.

Against the background of these fundamental changes, I now return to my central theme — the present policy stance of the monetary authorities.

Present stance of monetary policy: Pro-cyclical or anti-cyclical?

In my recent chairman's addressed to the Reserve Bank's stockholders I summed up the policy dilemma presently confronting the South African monetary authorities in the following terms:

"Should fiscal and monetary policies now be directed at an anti-cyclical stimulation of spending and

appears to be a pro-cyclical rather than an anti-cyclical policy at this stage. This is a good question which deserves an answer.

It is true that the South African business cycle has now passed an upward turning point and has entered a downward phase.

Although this does not mean that the economy is about to experience a "depression", it does imply that in the months ahead the rate of increase of real gross domestic product will probably decline further and that many of the economic indicators which increased sharply during the recent upswing, will either rise at a lower rate, level of or actually decline.

Keeping in mind that changes in monetary and fiscal policies normally only take effect after a certain time lag, the question therefore arises whether it would not now be desirable to apply an anti-cyclical policy of encouraging spending by such measures as increased government outlays, lower taxes, increased bank credit expansion and money creation, and lower rates of interest.

First let us consider the question whether official policy has, in fact, been procyclical in recent months, as alleged. In this regard it is relevant to note that the Reserve Bank has taken strong anti-contractionary action by deliberately permitting the rand to depreciate against the rapidly rising United States dollar by 22 percent since the beginning of 1981, as well as by making extensive use of its own foreign credit facilities and, more recently, also by quoting attractive forward discounts on dollars in order to encourage the use of foreign trade credits and loans.

It has also continued to perform its function of lender of last resort by granting accommodation, albeit at higher interest rates, to discount houses and other banking institutions at times of seasonal financial tightening, in addition, it has ac-

3,5 percent in the fiscal year. Although

signed to be expansionary, fiscal policy is therefore clearly meant to be less contractionary than last year.

Nevertheless, in spite of all this "leaning against the contractionary wind," it is technically correct to describe monetary and fiscal policy during recent months as "pro-cyclical", in the sense that the authorities have, on balance, permitted "pro-cyclical" forces such as the decline in the value of our gold output and other exports, the tightening in the financial markets and the resultant rise in interest rates, to exert a certain restraining effect on monetary demand.

The essential point, however, is that a deliberate anti-cyclical policy involving such measures as large increases in government spending, tax reductions, increased money creation and lower interest rates would be totally inappropriate and irresponsible at this stage.

Given the existence of demand inflation, the critical shortages of skilled and semi-skilled labour, the large current deficit on the balance of payments and the high interest rates overseas, any such expansionary "anti-cyclical" policy could have extremely adverse consequences for the South African economy.

The inflation would almost certainly be exacerbated, the balance of payments deficit would increase, the rand would depreciate, South Africa's credit rating would decline, and we might end up with the worst of all worlds, in the form of low growth, high inflation and a serious balance of payments problem.

To gamble with South Africa's economic stability and strength in this way would be highly irresponsible. The Reserve Bank will not take the economy to the casino!

In monetary policy top priority will therefore be given at this stage to curbing inflation and permitting the so-called "balance of payments

De Kock outlines monetary policy

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which it would be in South Africa's interest to permit its interest rates to rise still further. If necessary to strengthen our economy and to achieve our policy objectives, we shall permit such a further increase and not prevent it by creating more money.

Our policy is not one of "high" interest rates or "low" interest rates but one of "realistic and flexible market-related" interest rates resulting from effective control of the money supply.

Importance of sound money

It is heartening to note that the money supply (M_3) is now rising at a much lower seasonally adjusted annual rate than before — only 11 percent during May and June — and that nearly all the financial markets have tightened considerably and are producing realistic market-related interest rates.

If our restrictive policies continue to work in this way, however, they will no doubt attract increasing criticism. Not everyone will recognize the anticipated cyclical slowing down in general economic activity as the natural and unavoidable consequence of the prevailing combination of adverse external forces and normal internal cyclical influences.

Some commentators will, no doubt, blame it all on the "pro-cyclical" policies of the monetary authorities, with the implication that it could largely have been avoided if only a more expansionary anti-cyclical policy stance had been adopted.

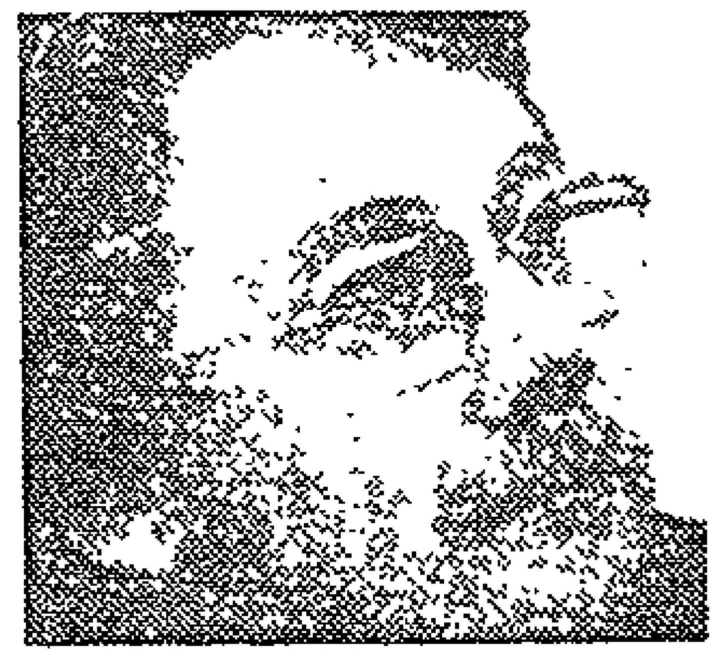
Such ill-informed criticism will not, however, deter the monetary authorities from their course. The present conservative policy stance will be maintained as long as necessary.

The whole object of the exercise, it must be emphasized, is to promote stability and growth. If we play our cards right, we can, with every justification, already start looking forward to the next cyclical upswing and to a high average annual rate of economic growth in the 1980s.

But to attain these objectives we must first "consolidate and adjust". Only in this manner can we lay a solid foundation for the realization of our enormous growth potential. Sound money is a pre-requisite for optimum growth in South Africa in the decade ahead.

— AS THREE EXPERTS SEE IT

Not all players have the skills to play the game



PROF SIMPSON
desirable in the long term

system, I think one has to be sufficiently pragmatic to see that until the end of the 80s, we're just not going to see it.

"Clearly, there is every reason for us to cajole, pressure and indeed threaten the Government, if we feel it necessary, to make conditions more conducive to moves in that direction.

"But in doing so, we must not forget that it favours the strong and assumes that ability and attitude are equally spread — and there is much doubt in South Africa about this."

Business, too, has a responsibility to invest in the society around it, even when its employees are not the direct beneficiaries.

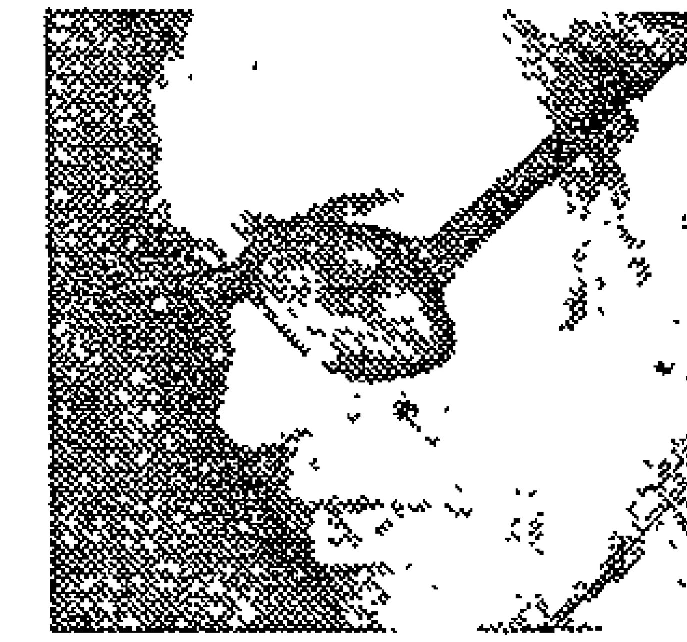
He warned also against the attraction free enterprise posed for the businessman as a philosophy talking the same simple, direct language, saying: "The complexity of other doctrines should not be the reason for their rejection."

"Free enterprise is overwhelmingly attractive for South Africa ... but we must be pragmatic about it.

"The rules of the game that have been set are not always congruent with 'real' free enterprise, and not all the players have the skills needed to play.

"I see it as a desirable long-term system for South Africa, but doubt whether it is what we need in the short term to solve our most pressing problems."

It tends to give people more faith in the future



STEVE MULHOLLAND
power to the people

APARTHEID hasn't, in fact, made South Africa's whites rich, said Mr Mulholland.

Instead, it has impoverished everyone in the country, he said, agreeing with both Mr Schwarz and Prof Simpson that the South African economy masqueraded as free enterprise.

"Had we had a free society, and not one in chains as is the case for the bulk of our blacks, without barriers to the ability to achieve, we would have a more free and prosperous country than we do.

"The system" in South Africa, for example, seemed designed to destroy the family unit and the stable ideals it fostered to the good of the work ethic.

"The system is not without its sins ... but it has shown that where the market is allowed to act and allocate scarce resources by itself, people tend to have greater [illegible] liberties and be better off, with more faith in the future.

It was no coincidence, Mr Mulholland said in the blunt language of supply and demand, that capitalism boomed side by side with human rights, wealth and well-being.

With a strong individualism that contrasted sharply with Mr Schwarz's idea of a centralised social democracy, he said: "What I ask for my country is that we tap and encourage the natural desire of individuals, set them free by reducing the role of the State to those areas where a political decision is necessary.

"A political decision must be imposed whether people agree or not, but the market method of decision-making is superior because it allows us all to follow our own choices."

Mr Mulholland agreed that education spending should be equalised, but urged that it should be done at local and not national level.

"I say give the power to the people ... the trouble with Government spending is that the chap who is spending your money believes he has the right to impose his curricula on you.

"I would rather see those funds given to local authorities, who will decide with parents where to spend it — it would be much more wisely spent."

There should also be incentives to give money to black education — "I'd give willingly, but not to give to Dr Treurnicht to spend for me."

South Africa was not wealthy because of the whites: "It is wealthy because we brought a system here ... it is limited, restricted and polluted by (the Government) but it has a role to play and enables our society to cope with change."

For Mr Mulholland the greatest threat facing capitalism is the self-destructive spinoff of its success, personified in radical students who are supported by a system that they end up wishing to destroy.

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FREE ENTERPRISE IN

(49) RDM 6/9/81

How to achieve success with a social conscience

HARRY SCHWARZ
no unnecessary rules

In Wits University's plush Senate Room on Monday night a politician, an academic and a journalist met to discuss the future of free enterprise in South Africa in a Convocation Forum. The debate saw the PFP spokesman on finance, Mr Harry Schwarz MP, the director of the University of Cape Town's Graduate School of Business, Professor John Simpson, and the editor of the Financial Mail, Mr Stephen Mulholland — free marketeers all — agree that capitalism, one way or the other, is what South Africa needs. But under the adroit chairmanship of the head of Assocom, Mr Raymond Parsons, they wrote differing prescriptions for its role in the 80s. MARTIN FEINSTEIN sums them up.

CAPITALISM and free enterprise are difficult commodities to market in Africa, said Mr Schwarz.

Not only does South Africa's mutant strain feature Government-distorted market mechanisms, an over-regulated economy and socialist-scale public ownership, but it is seen by many blacks as part of the same package as colonialism, apartheid and exploitation.

As Dennis Etheridge put it when president of the Chamber of Mines: "Blacks appear to reject capitalism because it is identified with whites and with a system they believe is oppressing them . . . it is equated in their minds with selfishness, greed and exploitation."

Since neither unbridled capitalism nor a pure free market system operating by the ideals of free marketeers was feasible, said Mr Schwarz, the only future for the present economy was to "take the realities as they really exist and apply those mechanisms which will enable our economic objectives to be achieved — with a social conscience".

But in moving away from the status quo — "defined as the mess we are now in" — those inside and outside the marketplace must beware of "unbridled freedom of action . . . which can only lead to chaos".

"There is no reason why there should not be rules for economic activities; but not rules which are unnecessary, which inhibit or stifle, but rules which ensure equality of bargaining power and prevent exploitation and abuse of power."

Against this background, the greatest economic challenge of the 80s is whether the rising expectations of the black community can be satisfied in respect of living standards, the removal of discrimination and the provision of State services.

"Removing apartheid boards on bridges and beaches and opening parks is cheap — but giving equal quality in education and pensions involves a completely new attitude to public expenditure.

"It is unfortunate that at this time, when the issue of equalising social services is becoming an important factor in the stabilising process, that some over-enthusiastic free-marketeers are advocating a disengagement of Government from social services."

At a time when moderate blacks saw hope for real progress, this could only result in disillusionment not only with the chances for peaceful change, but with the system of free enterprise itself.

The cost of equalising education would be 38% of total Government expenditure by 1990 — "but this may in the end be a small price to pay for peace".

"If (education) is accelerated, there can be greater productivity; real wages will increase and more demand will be created; the market will be enlarged; the tax base will increase and so the real income of the Government will increase, and in the end education more than pays for itself."

CT 16/9/81

Pay rises likely to equal inflation

By GORDON KLING

THE downturn in the South African business cycle is clouding the outlook for year-end pay rises but most employees in the private sector are likely to keep up with inflation.

Adjustments for the introduction of a real income-eroding tax on fringe benefits from early next year, however, are ruled out.

Economists, personnel consultants and major employers yesterday put average December wage and salary increases for the coming year at between 12 and 17 percent, compared with an expected rise in the consumer price index (CPI) this year and next of about 15 percent.

No public sector increases are in the pipeline.

"Economic growth is slowing down and the over-full employment position won't be as pronounced as last year so one would expect less job switching for higher pay," said Nedbank's chief economist, Mr Merton Dagut, from Johannesburg.

"It's also clear that the rate of increase in company profits will decline and that must influence managements to moderate increases, but on the other hand the CPI is still at a very high level, 15,5 percent for the year to July, and people will expect compensation."

Mr Dagut had an "intuitive feel" for an average pay rise of slightly under 15 percent.

The director of the University of Stellenbosch Bureau for Economic Research, Professor J L Sadie, was more optimistic, predicting people a company really needs, and by that I don't necessarily mean top management, will get up to 25 percent while the other 80 can expect about 12 percent across the board.

Salary leaps

"Nobody is going to make any adjustments on account of fringe benefits till the legislation is passed. In fact employers are still trying to find new fringe benefits to offer. A lot of people tend to disbelieve that the government will really do something and I even find myself in that category although I know it's coming," he said.

"We went through some really incredible salary leaps last year, particularly in accounting and engineering where there were regular gains of up to 50 percent, but things have calmed down a lot and there isn't such an acute shortage of key people."

A spokesman for the Industrial Council for the Building Industry in the Peninsula said an agreement had just been accepted which would raise wages of artisans by 12 perecent and semi-skilled workers, essentially labourers, by 15 percent from November 1.

Over at the banks nobody was talking about rises.

"We're negotiating with the SA Society of Bank Officials right now for a whole new pay structure effective from the beginning of next month and this will also affect the year-end increases," said a spokesman for Barclays National Bank, who could not comment on the likely outcome.

Hard-pressed

Salary increases of 12 to 15 percent were predicted in the hard-pressed building society movement. The manager of the Cape Town branch of the E P Building Soceity, Mr Roy van Litsenborgh, said this was likely to be the range but much would depend on merit.

"I don't personally think people will be paid more in anticipation of fringe benefits being hit. Things seem to be getting a bit tough and most people just won't be able to change jobs."

The managing director of Renwick Management Services, Mr Mat Leach, believed pay boosts would be be nowhere near as high as last year.

Rises this year, he maintained, would fall into two categories based on what he called the 80-20 principal: "The 20 percent of the an increase of about 16 to 17 percent. The economy was still short of skilled manpower and businesses were still trying to bid workers away from each other. Professor Sadie believed this would cause wages and salaries to lead the inflation rate rather than follow it.

Mr Ralph Parrott, head of the Manpower temporary staff services group, lashed out at employers linking rises to the cost of living and doubted there was a case for rise averaging 15 percent.

"I don't think employers are seriously considering what they are getting for their salary money in the same way they do for advertising costs, floor space and other factors, and the time has come to do this."

Problems likely to run on into '82

CT 17/9/81 (49)

HOUSE OF ASSEMBLY. — Economic bottlenecks such as the scarcity of skilled labour and an unsatisfactorily high rate of inflation experienced during the 1980/81 financial year were expected to continue in 1981/82, the Minister of Transport, Mr Hendrik Schoeman, said yesterday.

Introducing the Railway Budget, he added that the economies of the Republic's major trading partners were not expected to show a significant recovery.

"There will, therefore, be only a moderate increase in the demand for most South African raw materials."

But it was expected nevertheless that the manufacturing, agricultural and construction sectors particularly would still show relatively high growth rates, mainly as a result of the high level of investment which still prevailed and the record maize crop.

Reasonable growth

"We therefore anticipate a real growth of 4,5 percent in the economy for 1981/82."

"The poor demand overseas for some raw materials was reflected in the expected decline in the export of asbestos, granite, marble and unworked steel.

Exporters of iron and manganese ore were optimistic that a reasonable growth rate would be maintained. A considerable increase in coal and maize exports would contribute to an anticipated increase of 4,3 percent in low-rated traffic generally.

"The expected increase in the value of imports will have a favourable effect on revenue derived from wharfage dues. It is estimated that high-rated traffic will increase by only 1,5 percent," Mr Schoeman said.

An increase in expenditure was anticipated mainly as a result of higher cost pressure owing to salary adjustments already granted and the expected rate of inflation of 15 percent for the financial year.

The 1980/81 financial year was highlighted by various achievements by the SA Railways in the conveyance of passengers and goods. Several new services were introduced and good progres was made with improvement schemes.

During the year under review, Mr Schoeman said, the gross domestic product had increased by 6,3 percent.

"The period was characterized by high liquidity and a considerable increase in consumption expenditure.

"However, economic bottlenecks, such as the scarcity of skilled labour and an unsatisfactorily high rate of inflation, were encountered. These bottlenecks are expected to continue in 1981/82," the minister said. — Sapa

Budget of gloom, says Swart

CT 17/9/81

(49)

Political Staff

HOUSE OF ASSEMBLY -- Both opposition parties fear that there could be worse to come for the South African traveller in next year's Railway budget following yesterday's fares increases announced by the Minister of Transport, Mr Hendrik Schoeman.

Mr Ray Swart, the chief opposition spokesman, described yesterday's announcement as "a budget of gloom" and Mr George Bartlett, spokesman for the NRP, said "the past year's operating figures are a grim warning of what will happen to tarrifs during a bad year".

"This is a budget of gloom because it can only add substantially to the increasing cost of living," said Mr Swart.

The only "hoor, hoor" the minister had received during his speech was when he said he would not be increasing other tariffs.

"I should say so, but even here it seems that there was a narrow escape for the other tariffs," said Mr Swart.

Referring to the increases earlier this year, Mr Swart asked: "Where does it all end?"

Yesterday's budget had come at the end of an upswing in the economy and he wondered what would happen if there were a downturn in the economy.

The next budget, presumably, would be in March next year and all he could say to the travelling public was "beware the Ides of March. Much worse is ahead".

Mr Bartlett said Mr Schoeman had acted with "cynical disregard" for travellers who were losing the fight against inflation

'Sitting on R100m'

Having increased fares earlier this year, he added to the burden while "sitting on nearly R100 million in his Rates Equalization Fund and with a profit of R44m from the past year".

This approach conflicted with the statement by the Minister of Finance, Mr Owen Horwood, who had said that strict discipline would have to be applied to prevent further undue price increases.

"When one takes into account the tremendous boom conditions of the past year and the vast capital expenditure on modernization in recent times, the past year's operating figures are a grim warning of what will happen to tarifs during a bad year," said Mr Bartlett.

The minister should do an in-depth investigation into the Railways' finances if he was to make any worthwhile contribution to fighting inflation.

De Kock's measures on money problems

Star 18/9/81

(49)

DURBAN—To achieve its objectives, the monetary policy would have to consist largely of market-oriented methods in the years to come, said the Governor of the SA Reserve Bank, Dr Gerhard de Kock.

Delivering his presidential address to the Economic Society of South Africa congress in Durban yesterday he said that the monetary policy was at present in the middle of a transitional phase. The transition was mainly from non-market oriented to market-oriented methods of monetary control.

Given the large free-enterprise component in the "mixed" economy and the country's reasonably well-developed set of financial markets, direct control could at best affect only a limited range of financial activities, Dr De Kock said.

Even in those spheres, control could be circumvented too easily to be effective. "They tend to work only when they are not needed and to fail every time they are really required," he said.

"To achieve its objectives, the monetary policy will therefore have to consist largely of market-oriented methods in the years ahead."

For this reason it could be expected that the monetary authorities would increasingly concentrate their attention on public-debt management.

This was the most appropriate method of financing normal "deficit before borrowing" in the Budget, Reserve Bank policy and open-market operations as well as other forms of central bank intervention in the financial markets. This included the spot and forward foreign exchange markets.

Flexible and market-related interest and exchange rates would form an essential part of this approach. "This will be true, regardless of whether the monetary policy framework to be adopted would be 'monetarist,' 'Keynesian' or some combination of the two," Dr de Kock said.

MEASURES

He listed a number of measures now needed to solve monetary problems:

- There was a need for greater recognition of the significance of short-term financial markets.
- In future it would be desirable to focus more attention on the role played in the various financial markets by banks, other participants and the central bank itself.

"It is imperative, therefore, that developments in the various financial markets be closely monitored. The central bank should be viewed as consisting mainly of 'intervention' (buying and selling) or non-intervention by monetary authorities in these markets."

A broader view of monetary policy was needed. The tendency to equate monetary policy largely with control of credit extended by the banking sector to the private sector needed to be reviewed. On the other hand, fiscal policy was seen mainly as changes in Government spending and taxation.

In current circumstances the term "monetary policy" should rather be viewed as embracing all measures designed to influence the monetary aggregates, interest rates and the flow of funds in general.

Additional techniques of monetary analyses were needed. It had in the past been based largely on the Reserve Bank's quarterly bulletin and annual economic report. This had proved most useful, but had contributed to a narrow interpretation of monetary policy.

If effective market-oriented policies were to be applied it would be necessary to supplement existing monetary analyses with new techniques.

To know the cause of developments deeper analyses were needed. To this end, a closer look would have to be taken at financial markets and how they were influenced by fiscal, balance of payments and other factors.

Other measures needed were:

- A new approach to monetary aggregates and interest rates.
- A new approach to exchange rate and exchange-control policy.
- Better recognition of the relationship between natural economic forces and monetary policy.—Sapa.

De Kock's plea for market rule

RDM 18/9/81 (49)

A SHORTCOMING of past monetary policy in South Africa had been an inadequate recognition of the significance of financial markets, said Dr Gerhard de Kock, Governor of the Reserve Bank, yesterday in his presidential address to the Economic Society of South Africa in Durban.

By HAROLD FRIDJHON

These financial markets included short-term markets, such as those for Treasury bills, short-term public stock, bank acceptances, trade bills, deposits, overdrafts and other bank loans, inter-bank loans and call loans to discount houses.

In future it would be desirable to focus more attention on the role played in these various financial markets not only by the banks but by the other participants and the central bank.

South Africa had a series of reasonable well-developed or developing financial markets for dealing in a wide variety of financial claims.

This was something which should be welcomed as evidence of progress and strength in the economic and financial field. It was in SA's interests that these markets should function as efficiently as possible and that their further development should be encouraged.

The existence of these markets meant that monetary policy could be fully effective in influencing the money supply, monetary demand, interest rates, spot and forward exchange rates and other relevant variables if they were basically market-orientated.

Non-market orientated or "direct" methods of monetary policy, particularly credit ceilings and deposit rate controls, could not achieve the desired results because they inevitably led to large-scale "disintermediation" which was borrowing and lending outside the banking system, including off-balance sheet lending.

This sort of development rendered direct control measures largely ineffective. It also resulted in distorted interest-rate patterns and in an inefficient allocation of available financial resources, thereby harming economic growth and welfare.

It was imperative that developments in the various financial markets be closely monitored in future and that central banking be viewed as consisting mainly of intervention — buying and selling — or by non-intervention by the monetary authorities in the markets, including the spot and forward foreign exchange markets.

Another aspect of past monetary policy which needed to be reviewed was the tendency to equate monetary policy largely with the control of credit extended by the banking sector to the private sector. Fiscal policy was viewed mainly in changes in Government spending and taxation. This diverted attention from more basic policies affecting money supply, interest rates and aggregate monetary demand.

Dr De Kock said that in the South African circumstances monetary policy should rather be viewed as embracing all measures designed to influence the various monetary aggregates, interest rates and the flow of funds in general.

Between the extremes of Government spending and taxation and of direct measures to control bank credit to the private sector lay a large and strategically vital area of monetary policy.

This area covered the financing of the budgetary "deficit before borrowing", public debt management, interest rate policy, including open-market operations and rediscount policy, and both exchange rate and exchange control policy.

If effective market-orientated

6.2. ELEMENTS OF READ AND WRITE STATEMENTS

AD or WRITE statement may reference a FORMAT statement or specification ical unit, and may contain an I/O list.

Unit Number

ical unit number is an unsigned integer that designates the I/O device contain- ile being referenced. A file may be transferred from one medium to another. If es necessary to access the same file later on, it will have a different logical er than the one originally used. In previous examples, the integers 1 and 3 d to denote a punched card reader and a printer, but these numbers were only

$i = m_1, m_2$

or

...1,...2,...3

ted WRITE of list, E

n or as

ll

6. INPUT/OUTPUT AND FORMAT STATEMENTS

6.1. GENERAL

Input statements fetch data from input and auxiliary storage devices to be used in the program. The input statement is the READ statement. Output statements store results obtained in the program on auxiliary storage devices or display the results ... devices. The ... is the WRITE statement.

would be necessary to supplement the existing monetary analysis with new analytical techniques in order to find out what increased the liquidity base of the banking system, to examine closely developments in the various financial markets and to ascertain how they were influenced by fiscal, balance of payments and other economic developments.

In the past a clear defined approach to either monetary aggregates or interest rates and the relationship between them had been absent. Indeed for long periods interest rates did not feature in monetary policy with the result that at times the monetary authorities appeared to be taking action in the interest rate field which conflicted with their objectives in the money supply field — and vice versa.

There were different ways about handling the problem in the future, but these were being considered by the present Monetary Commission. What was clear, however, was that the successful application of monetary policy required full recognition between monetary aggregates and interest rates and of the folly of trying to determine these two sets of variables independently.

...gure 1–8 illustrates use of the READ and ...n be used without change for different data ...ticular application is the deck of data cards.

...me control over external devices with the ...r positioning such devices as magnetic ...E statement can be used to demarcate files.

...f *sequential files* to and from the processor. A *file* is the entire set of data on the I/O device designated in an I/O statement. A file may be subdivided into records. In an 80-column card reader, each record is an 80-column punched card; in a printer, each line is a record; in a magnetic tape unit, each record may have a different size (in characters) up to a maximum which is specified for each computer. Tape records are usually separated by a gap which contains no data. Each record may be subdivided into *fields*, the size of which is determined by the programmer.

The term *sequential file* is used as opposed to a random access or direct access file. For example, with standard I/O statements it is not possible to read the fifth record of a file directly; it is necessary to indicate that the preceding four records are to be passed over. Once the fifth record is read, it may be impossible (as in the case of a card reader) to go back and read the third record; however, this can be done where the BACKSPACE or REWIND statement is effective (as on magnetic tape).

READ and WRITE statements may refer to a FORMAT statement which describes the characteristics of the data being transferred. Such statements are called *formatted statements*. FORTRAN also provides for the transfer of information from one medium to another without change or conversion; these I/O statements are called *unformatted statements*. In addition, a READ or WRITE statement usually contains a list that identifies the items being transferred.

The remainder of this section describes:

- elements of I/O statements
- FORMAT statement
- formatted READ and WRITE statements
- unformatted READ and WRITE statements
- auxiliary I/O statements

No 1996 18 September 1981

AANSTELLING VAN DIREKTEURE VAN DIE NASIONALE FINANSIEKORPORASIE VAN SUID-AFRIKA

Dit het die Staatspresident behaag om kragtens die bevoegdheid hom by artikel 9 van die Wet op die Nasionale Finansiekorporasie, 1949 (Wet 33 van 1949), verleen, ondervermelde persone met ingang van 1 September 1981 vir 'n tydperk van drie jaar as direkteure van die Nasionale Finansiekorporasie van Suid-Afrika aan te stel:

Die heer Gavin Walter Hamilton Relly as verteenwoordiger van beherende goudmynmaatskappye.

No. 1996 98 780 1 (49) 18 September 1981

APPOINTMENT OF DIRECTORS OF THE NATIONAL FINANCE CORPORATION OF SOUTH AFRICA

The State President, acting under the authority of section 9 of the National Finance Corporation Act, 1949 (Act 33 of 1949), has been pleased to appoint the undermentioned persons as directors of the National Finance Corporation of South Africa for a period of three years with effect from 1 September 1981:

Gavin Walter Hamilton Relly, Esquire, as representative of gold mining houses.

Die heer Henri Paul de Villiers as verteenwoordiger van handelsbanke.

Die heer Andries Francois Viljoen Viljoen as verteenwoordiger van bouverenigings.

Die heer Frans Jacobus Davin as verteenwoordiger van versekeringsmaatskappye.

No. 1999 18 September 1981

UITGIFTE VAN BINNELANDSE GEREGISTREERDE EFFEKTE VAN DIE REPUBLIEK VAN SUID-AFRIKA

Die Tesourie maak bekend dat inskrywingslyste vir die ondergemelde effekte op 1 Oktober 1981 oopgestel word:

A. *Binnelandse Geregistreerde Effekte, 13,00 Persent, 2002*

Die kapitaal in hierdie effekte belê sal op 15 September 2002 teen pari terugbetaalbaar wees en die rente sal halfjaarliks op 15 Maart en 15 September betaal word.

Die uitgifteprys sal in 'n *Buitengewone Staatskoerant* op 28 September 1981 gepubliseer word en sal ook deur die Tesourie op dieselfde dag deur middel van 'n persvrystelling bekendgemaak word.

By aansoek kan die bedrag betaalbaar op die nominale waarde van die effekte waarom aansoek gedoen word ten volle betaal word of minstens 10 persent van die nominale bedrag, en die saldo van die bedrag betaalbaar op die bedrag toegeken, moet in een of meer paaimente op die datum(s) wat die inskrywer verkies, maar nie later nie as 13 November 1981, betaal word.

B. *Binnelandse Geregistreerde Effekte, 12,75 Persent, 1984*

Die kapitaal in hierdie effekte belê sal op 1 September 1984 teen pari terugbetaalbaar wees en die rente sal halfjaarliks op 1 Maart en 1 September betaal word.

Die uitgifteprys sal in 'n *Buitengewone Staatskoerant* op 28 September 1981 gepubliseer word en sal ook deur die Tesourie op dieselfde dag deur middel van 'n persvrystelling bekendgemaak word.

Die volle bedrag betaalbaar op die nominale waarde van effekte waarom aansoek gedoen word, moet by aansoek betaal word.

Inskrywingslyste ten opsigte van kontantaansoeke word op 1 Oktober 1981 oopgestel en sal voor of op 9 Oktober 1981 gesluit word.

Prospektusse en aansoekvorms vir kontantinskrywings sal op 22 September 1981 versprei word en gedurende die tydperk wat die inskrywingslyste oop is, by banke in die Republiek en by die Tesourie, Pretoria, verkrygbaar wees.

Henri Paul de Villiers, Esquire, as representative of commercial banks.

Andries Francois Viljoen Viljoen, Esquire, as representative of building societies.

Frans Jacobus Davin, Esquire, as representative of insurance companies.

No. 1999 18 September 1981

ISSUE OF INTERNAL REGISTERED STOCK OF THE REPUBLIC OF SOUTH AFRICA

The Treasury announces that subscription lists for the undermentioned stocks will be opened on 1 October 1981:

A. *Internal Registered Stock, 13,00 Per Cent, 2002*

The capital invested in this stock will be redeemable at par on 15 September 2002 and the interest will be paid half-yearly on 15 March and 15 September.

The issue price will be published in a *Government Gazette Extraordinary* on 28 September 1981 and will also be announced in a press release by the Treasury on the same day.

On application the amount payable on the nominal amount of stock applied for may be paid in full or, not less than 10 per cent of the nominal amount of stock applied for and the balance of the amount payable on the stock allotted must be paid not later than 13 November 1981 in one or more instalment(s) on such date(s) as the subscriber may elect.

B. *Internal Registered Stock, 12,75 Per Cent, 1984*

The capital invested in this stock will be redeemable at par on 1 September 1984 and the interest will be paid half-yearly on 1 March and 1 September.

The issue price will be published in a *Government Gazette Extraordinary* on 28 September 1981 and will also be announced in a press release by the Treasury on the same day.

The full amount payable on the nominal value of stock applied for must be paid on application.

Subscription lists for cash applications will open on 1 October 1981 and will be closed on or before 9 October 1981.

Prospectuses and application forms for cash subscriptions will be distributed on 22 September 1981 and be obtainable from banks in the Republic and from the Treasury, Pretoria, during the period that the subscription lists are open.

No. 1645 18 September 1981

Staat van Inkomste ingevorder gedurende die tydperk 1 April 1980 tot 31 Maart 1981 (Finaal).

Tesourie, Pretoria.

No. 1645 18 September 1981

Statement of Revenue collected during the period 1 April 1980 to 31 March 1981 (Final). 49

Treasury, Pretoria.

Inkomstehoof	Head of Revenue	Begroting Estimates 1980/81	Ingevorder vir die jaar geëindig 31 Maart 1980 Collections for year ended 31 March 1980	Maand Maart Month of March 1981	Maand Maart Month of March 1980	Totaal 1 April tot 31 Maart Total 1 April to 31 March 1981	Totaal 1 April tot 31 Maart Total 1 April to 31 March 1980
		R	R	R	R	R	R
Staatsinkomsterekening	*State Revenue Account*						
Doeane en Aksyns—	Customs and Excise—						
Invoerreg	Customs Duty	480 000 000	453 033 408	77 822 686	38 735 150	735 834 201	453 033 408
Aksynsreg	Excise Duty	1 111 026 000	1 013 806 740	106 918 545	94 010 914	1 243 200 329	1 013 806 740
Verkoopreg	Sales Duty	500 000	1 170 527	9 285	10 800	593 812	1 170 527
Bobelasting	Surcharge	1 000 000	250 577 340	Dr 58 896	16 639 379	Dr 2 796 134	250 577 340
Diverse	Miscellaneous	19 000 000	21 837 962	2 313 322	180 516	46 748 303	21 837 962
	R	1 611 526 000	1 740 425 977	187 004 924	149 576 759	2 023 580 511	1 740 425 977
Oordrag na Sentrale Inkomste Fonds	Transfer to Central Revenue Fund . (a)	Dr 41 100 000	Dr 44 495 546	Dr 6 000 000	Dr 12 495 546	Dr 41 500 000	Dr 44 495 546
Betalings ingevolge Doeane-Unie-ooreenkomste	Payments in terms of Customs Union Agreements . (b)	Dr 500 200 000	Dr 402 465 893	—	—	Dr 504 419 434	Dr 402 465 893
	R	Dr 541 300 000	Dr 446 961 439	Dr 6 000 000	Dr 12 495 546	Dr 546 419 434	Dr 446 961 439
	R	1 070 226 000	1 293 464 538	181 004 942	137 081 213	1 477 161 077	1 293 464 538

Inkomstehoof	Head of Revenue	Begroting Estimates 1980/81	Ingevorder vir die jaar geëindig 31 Maart 1980 Collections for year ended 31 March 1980	Maand Maart Month of March 1981	1980	Totaal 1 April tot 31 Maart Total 1 April to 31 March 1981	1980
		R	R	R	R	R	R
Staatsinkomsterekening	*State Revenue Account*						
Binnelandse Inkomste—	Inland Revenue—						
Belasting op Inkomste	Tax on Income	5 990 800 000	5 234 057 755	554 443 709	433 218 721	7 522 124 818	5 234 057 755
Ander Belastings en Ontvangste—	Other Taxes and Receipts—						
Goudmynhuurkontrakte	Gold mining leases	635 000 000	334 270 081	43	Dr 48 993	838 195 071	334 270 081
Ander mynhuurkontrakte	Other mining leases	16 000 000	15 434 763	4 755 127	6 662 423	23 565 081	15 434 763
Staatseiendomsreginkomste op diamantmyne	State Ownership Revenue on diamond mines	44 000 000	40 476 448	18 248 783	40 288 658	18 456 561	40 476 448
Uitvoerregte op diamante	Export duty on diamonds	31 000 000	31 365 265	1 571 804	2 484 330	24 797 439	31 365 265
Belasting op buitelandse aandeelhouers	Non Resident shareholders' tax	200 000 000	161 508 119	35 405 164	20 107 840	296 557 601	161 508 119
Rentebelasting op buitelanders	Non-Resident's tax on interest	16 000 000	15 540 840	1 319 600	1 877 457	12 081 878	15 540 840
Belasting op onuitgekeerde winste	Undistributed profits tax	5 000 000	4 207 096	208 524	205 149	2 435 157	4 207 096
Belasting op geskenke	Donations tax	1 500 000	1 476 340	193 567	157 405	1 961 296	1 476 340
Seëlregte en gelde	Stamp duties and fees	150 000 000	123 571 930	18 708 573	17 252 922	137 503 002	123 571 930
Hereregte	Transfer duties	95 400 000	89 430 559	13 149 136	11 446 895	153 917 914	89 430 559
Boedelbelasting	Estate duties	48 800 000	57 871 049	4 378 821	3 672 206	61 344 662	57 871 049
Belasting op bemarkbare sekuriteite	Tax on marketable securities	20 000 000	23 667 167	2 145 085	3 642 988	33 615 310	23 667 167
Lisensies	Licences	3 000 000	2 478 509	147 000	166 658	2 576 432	2 478 509
Kinematograaffilmsbelasting	Cinematograph films tax	1 000 000	896 263	64 086	64 636	850 775	896 263
Ander	Other	1 400 500	2 082 588	17 995	396 399	2 138 199	2 082 588
Departementele en Diverse Ontvangste—	Departmental and Miscellaneous Receipts—						
Staatsdiamantdelwerye	State Diamond Diggings	13 585 000	28 313 100	5 492 637	1 681 958	5 495 004	28 313 100
[illegible]	Forest revenue	28 000 000	33 971 807	4 701 848	3 561 691	44 629 737	33 971 807
[illegible]	Water revenue (c)	44 000 000	46 937 753	11 597 609	7 497 545	61 254 893	46 937 753
[illegible]	Fines and forfeitures	12 000 000	11 689 757	1 326 403	1 084 177	13 365 412	11 689 757
[illegible]	Recoveries of advances	2 787 000	4 204 125	1 379 781	626 287	14 597 158	4 204 125
[illegible]	Sale of state land	2 500 000	487 824	723 196	130 289	2 957 208	487 824
[illegible]	Rental from state property	13 469 000	14 417 226	5 450 136	4 351 816	15 887 640	14 417 226
Algemeen	General	191 022 800	183 874 829	16 542 450	33 805 164	227 155 551	183 874 829
Rente en Dividende	Interest and Dividends	670 595 700	662 337 441	Dr 921 548	52 062 777	571 828 440	662 337 441
Terugbetaling van Lenings	Repayment of Loans	54 357 500	120 778 281	22 303 593	19 746 033	90 739 979	120 778 281
Algemene Verkoopbelasting	General Sales Tax	1 550 000 000	1 248 735 251	145 781 239	113 368 278	1 653 097 825	1 248 735 251
	R	9 841 217 500	8 494 082 166	869 134 361	779 511 709	11 833 150 043	8 494 082 166
	R	10 911 443 500	9 787 546 704	1 050 139 303	916 592 922	13 310 291 120	9 787 546 704
Staatsoliefonds	State Oil Fund (d)	270 000 000	259 158 006	24 530 459	20 248 639	277 424 571	259 158 006
Nasionale Padfonds	National Road Fund (e)	133 000 000	129 854 005	12 941 051	10 871 296	140 782 649	129 854 005
Suid-Afrikaanse Ontwikkelingstrustfonds	South African Development Trust Fund (f)	6 454 000	14 501 552	3 475 349	4 196 097	13 227 673	14 501 552
Rekening vir Swart Vervoerdienste	Account for Black Transport Services (g)	12 500 000	11 448 948	2 192 050	1 350 641	15 570 716	11 448 948
Fonds vir Sorghumbiernavorsing	Sorghum Beer Research Fund (h)	850 000	1 118 520	69 556	—	1 019 556	1 118 520
Suidwes-Afrika Gebiedsinkomstefonds	South-West Africa Territorial Revenue Fund (i)	13 000	41 462	321	2 239	17 408	41 462
	R	422 817 000	416 122 493	43 208 786	36 668 912	448 042 573	416 122 493
Totaal	Total R	11 334 260 500	10 203 669 197	1 093 348 089	953 261 834	13 758 333 693	10 203 669 197
Rekonsiliasie met opgaaf gepubliseer by Goewermentskennisgewing 830 in Staatskoerant van 16 April 1981	Reconciliation with statement published by Government Notice 830 in *Government Gazette* of 16 April 1981						
In Transito 31 Maart 1981	In Transit, 31 March 1981	—	—	—	—	51 088 619	—
Te veel oorgemaak 28 Februarie 1981	Overremitted 28 February 1981	—	—	6 863 953	—	—	—
Invorderings soos hierbo	Collections, as above	—	—	1 093 348 098	—	13 758 333 693	—
	R	—	—	1 086 484 136	—	13 809 422 312	—
In Transito 31 Maart 1981	In Transit, 31 March 1981	—	—	59 648 694	—	59 648 694	—
In Skatkisrekening ontvang	Received into Exchequer Account R	—	—	1 026 835 442	—	13 749 773 618	—

(a) Artikel 22 (1) (d) van Wet 25 van 1969
(b) Artikel 51 (2) van Wet 91 van 1964
(c) Voorheen ingedeel onder "Algemeen"
(d) Artikel 1 van Wet 38 van 1977
(e) Artikel 2 (1) (a) van Wet 54 van 1971
(f) Artikel 8 van Wet 18 van 1936
(g) Artikel 7 van Wet 53 van 1957
(h) Artikel 19bis (1) (a) van Wet 63 van 1962
(i) Artikel 22 (4) (a) van Wet 25 van 1969

(a) Section 22 (1) (d) of Act 25 of 1969
(b) Section 51 (2) of Act 91 of 1964
(c) Previously included under "General"
(d) Section 1 of Act 38 of 1977
(e) Section 2 (1) (a) of Act 54 of 1971
(f) Section 8 of Act 18 of 1936
(g) Section 7 of Act 53 of 1957
(h) Section 19*bis* (1) (a) of Act 63 of 1962
(i) Section 22 (4) (a) of Act 25 of 1969

DEPARTEMENT VAN GEMEENSKAPS-ONTWIKKELING

No. 1969 18 September 1981

WET OP HUURBEHEER, 1976

VERKLARING DAT SEKERE WONINGS, MOTORHUISE, MOTORSTAANPLEKKE EN BEDIENDEKAMERS VAN HUURBEHEER ONTHEF IS

Kragtens die bevoegdheid my verleen by artikel 51 (g) van die Wet op Huurbeheer, 1976 (Wet 80 van 1976), verklaar ek Pierre Cronjé, Adjunk-minister van Gemeenskapsontwikkeling, hierby dat—

(a) die wonings in die woonstelgebou in die Bylae hiervan, vanaf die datum van publikasie hiervan, van huurbeheer onthef is; en

DEPARTMENT OF COMMUNITY DEVELOPMENT

No. 1969 18 September 1981

RENT CONTROL ACT, 1976

DECLARATION THAT CERTAIN DWELLINGS, GARAGES, PARKING SPACES AND SERVANT'S ROOMS ARE EXEMPTED FROM RENT CONTROL

Under the powers vested in me by section 51 (g) of the Rent Control Act, 1976 (Act 80 of 1976), I, Pierre Cronjé, Deputy Minister of Community Development, hereby declare that—

(a) the dwellings in the block of flats mentioned in the Schedule hereto, are exempted from rent control as from the date of publication hereof; and

Steel subsidies on the way out

RDM 18/9/81 (49)

By JOHN MULCAHY

WORLD steel prices will have to rise sharply this decade to compensate for a likely reduction in government subsidies, says Dr Tommy Muller, chairman of Iscor.

He told a South African German Chamber of Trade and Industries luncheon in Johannesburg yesterday it had become fashionable to subsidise industries to keep people employed.

However, governments and industries had realised that this situation could not endure for much longer, and in Western Europe it had been said that subsidies would be phased out by 1985, which could only be done by putting up prices because costs remained high.

Dr Muller said the Western world was in bad economic shape, and the steel industry was in an even worse state than the general economy, with most producers either running at losses or at unfavourable returns for shareholders.

He forecast that within the next few years much of the steel-producing equipment now in operation would become obsolete, if only because of the pollution problem, and that the present glut of steel on the world market could become a shortage.

South Africa, with its relatively low labour and power costs, and availability of raw materials, would then be in a position to "cash in" on the steel market.

It was exporting 25% to 30% of its steel production into unwilling markets, but the domestic market was growing and demand would eventually catch up with capacity, reducing low-profit exports.

There was a gradual shift of steel production from developed countries to developing countries, in which category he included SA.

He saw this as a natural development as Western Europe did not have raw materials, labour was expensive, and the concentrated population made pollution a serious problem.

US steel production was declining, and SA was selling "quite a lot" of steel in that country. UK production was also falling and West Germany's production was either static or declining marginally.

The increase in SA steel production over the past 10 years had been rapid, and output from countries such as South Korea, Taiwan, Brazil and Australia was also rising.

This tendency was likely to continue, with more and more steel being produced by developing countries.

Engineering technology had become highly sophisticated in recent years, requiring high grades of steel, and producers were forced to improve their products.

He gave as an example the Sishen-Saldanha Bay railway line, where the South African Railways insisted on a particularly sophisticated alloy for the rail which Iscor was unable to produce and had to be imported.

Dr Muller said SA was well equipped to deal with any reasonable demand that might arise in the next few years.

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Report warns on black job needs

Star 22/9/81 (49)

CAPE TOWN — South Africa could ill afford the substitution of technology for labour, the Bureau for Economic Research at Stellenbosch University argues in its September analysis of economic trends.

The report said the use of capital instead of labour was a trend expedited by the comparative cost advantages.

As tax incentives also tended to encourage capital intensive projects, it was not surprising that the rate of growth in black employment was not much more than keeping pace with the aggregate growth of the black population.

Commenting on regional activity, the report said the cycles seemed to confirm a degree of latent momentum still present in the economy.

The cycle for Port Elizabeth — a region which experienced a phenomenal rate of growth in building activity in 1980 was still being influenced by the high level of building plans approved in previous periods.

Cape Town, normally a source of interest if not concern, was keeping abreast of most regions, the report said.

In the South African business cycle, the only growth sector in liquor production was beer production.

The bureau report said South African wine and spirits producers would either have to look to export markets or devise highly ingenuous marketing and pricing strategies to overcome economic, and lately, social resistance to their products on the local market.

Clothing and textile production was still showing commendable growth, while tobacco and food products were showing a decline in the volume of production.

The report, said judging from the trends emerging from vehicle sales in the first seven months of this year, more than 400 000 new vehicles would probably be sold in 1981.

The announced expansion plans of the industry were clearly justified in view of the growth potential.

In the production goods sphere, machinery production — in contrast to metal products — was maintaining a steady growth rate.

In the private sector building activity, the aggregate value of building plans was tending towards a no-change situation, which in real terms meant that the volume of building approved was declining.

The bureau report said the hotel sector was emerging as a service industry for the business community. The improved occupancy rate was a feat achieved despite stagnation in the growth of bed-nights sold.—Sapa.

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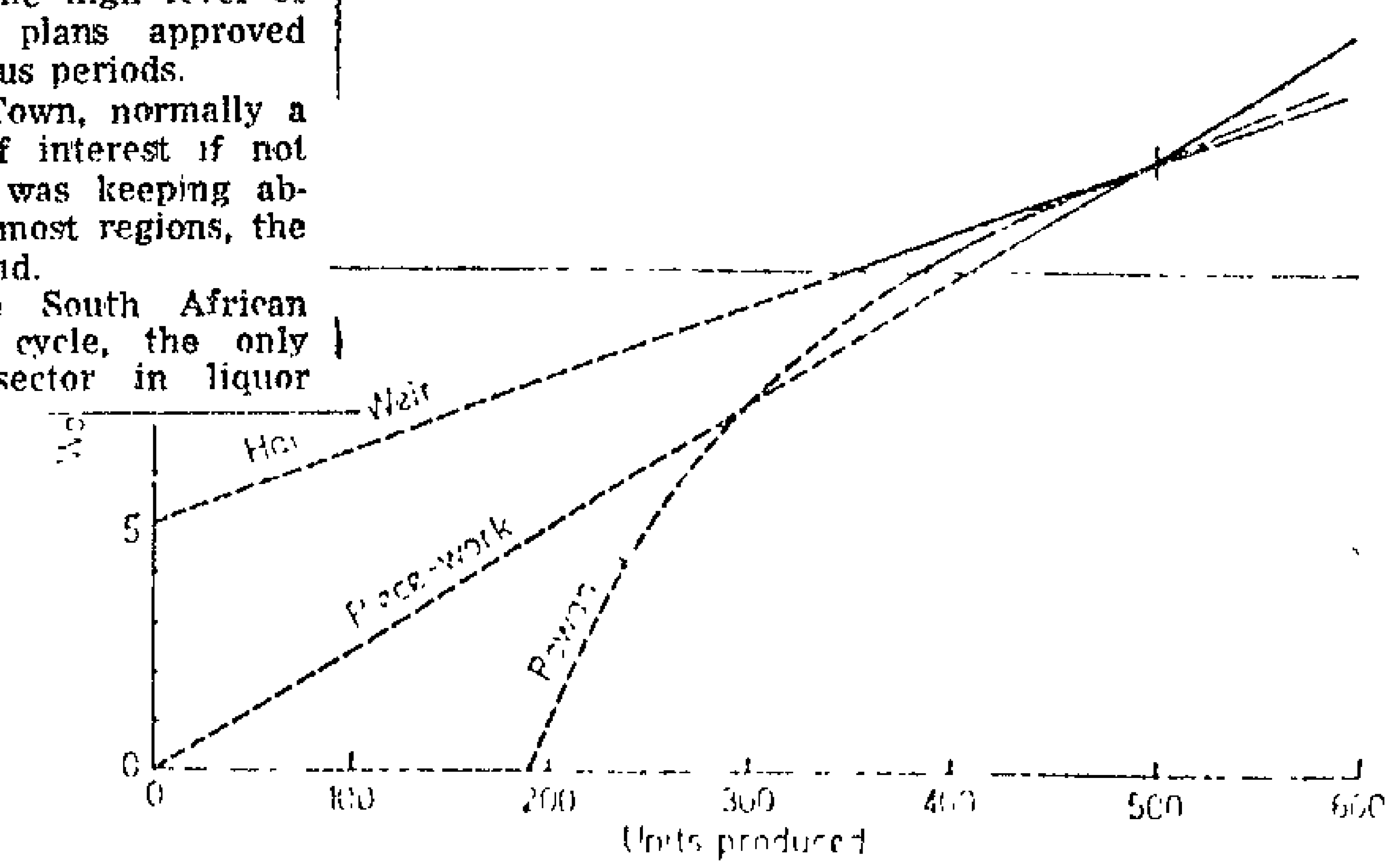


. *Operator's Earnings under Piece-work, Halsey-Weir and Rowan Schemes, all Adjusted to Give the Same Earnings at one Point*

RDM 23/9/81

(49)

'Flexibility' to meet downturn

THE South African economy has started its "export-led" downswing and its ability to weather next year's more difficult circumstances will be basically determined by economic flexibility — and good luck and good management.

By HAROLD FRIDJHON

This was said by Mr Raymond Parsons, chief executive of Assocom, who spoke to the Maritzburg Chamber of Commerce yesterday on "Economic policy — handling the downturn".

Mr Parsons explained that the flexibility of the economy was a portmanteau term for the degree to which the economy could escape the necessity of accepting lower incomes by shifting resources to alternative uses.

Economic policy could have a significant influence in removing or promoting rigidities in the economy such as in the labour field or in exchange rate policy.

Although the growth rate was falling for cyclical reasons, the main national worry was inflation which is even more worrying and alarming than the prospect of slow growth. If inflation does not decelerate significantly, then the ultimate outcome could only be less real growth.

In trying to curb inflation, reliance could not be placed on monetary and fiscal policy alone. Administered prices had bedevilled the anti-inflationary programme by simply putting up business costs. Administered prices included the rates and tariffs of State corporations, the key prices set by agricultural control boards and private sector production subject to price control.

A co-ordinated and disciplined policy concerning administered prices was essential. No longer was it adequate to talk about only the main Budget as being pro-cyclical or anti-cyclical. The railway budget, the post office budget and Escom tariffs should also be regarded from those points of view.

The handling of the present phase of consolidation and adjustment required correct timing and the coordination of policy decisions.

Mr Parson urged that the 1982 Budget should see more emphasis on "supply side" incentives as part of the stabilisation policy. If it is taken for granted that the growth rate will be lower, that fiscal drag will have an impact, that fringe benefit tax will be introduced and that the programme of tax reform must not lose momentum, then the Budget should allow for:

- A raising of the tax ceiling;
- A further lowering of marginal tax rates.

Business confidence also depended upon the evaluation by the business community of the report-back meeting to the private sector on socio-economic change which the Prime Minister had called in Cape Town on November 12.

Example:

The following sequence changes all negative values in array MAP to their corresponding positive values. Because the last logical operation is an arithmetic IF statement, a CONTINUE statement is added and made the terminal statement of the DO range.

```
      DIMENSION MAP(100)
         .
         .
      DO 10 K=1,100
      IF(MAP(K)) 20,10,1
   20 MAP(K) = -MAP(K)
   10 CONTINUE
```

5.6. PROGRAM CONTROL STATEMENTS

A program control statement either temporarily halts ... PAUSE statement) or terminates execution of a progr...

5.6.1. PAUSE Statement

Function:

To temporarily halt execution of a program.

PAUSE

or

PAUSE *n*

where: *n* is a string of one to five octal digits (t...

...e method ...the pro- ...s usually ...layed or ...icular ...gram ...e.

49

SA 24/9/87

Black advancement is 'key to economic boom'

South Africa has the potential to become an economic wonder on the lines of West Germany, Japan or Taiwan, says prominent economist Professor Jan Lombard.

Professor Lombard was delivering the keynote address at yesterday's opening session of the 25th International Convention of the Institute of Personnel Management in Pretoria.

The theme of the convention is "The Second Industrial Revolution — Southern African Dilemma."

The professor said that projections by the Bureau of Economic Policy at the University of Pretoria showed that, if annual economic growth were maintained at the relatively low average of 4,5 percent for the next two decades, the difference in the quality of life of blacks and whites could be narrowed "to a surprising extent."

But even to maintain a growth rate of 4,5 percent would require drastic advancement for the country's black population.

The study considered three basic elements of life — food, housing and education.

Black expenditure per head on food amounted to 30 percent of that of whites in 1960, Professor Lombard said. By 1980 the figure had moved up to 45 percent and the projection for 2000 was 70 percent, assuming that the gap continued to be closed at the present rate.

By the turn of the century total urban black food consumption would be three times that of the white group

Yet this could be achieved without placing a greater burden on the economy. All that was required was an increase in the food supply growth rate from the present 4,3 percent to 4,7 percent.

To eliminate the urban housing backlog — including that of the squatter population not included in official statistics — over the next two decades would not push expenditure on housing as a percentage of the gross domestic product any higher than it was during the immigration boom of the '60s.

The projection assumed that the average quality of housing would improve by 10 percent for whites, 100 percent for coloureds and 300 percent for blacks.

This would mean an explosion in the tempo of construction of black housing from 20 000 units a year in the '70s to 120 000 units a year in the '80s and 200 000 a year in the last decade of the century.

Assuming the introduction of parity for all groups in primary and secondary education and open tertiary education facilities, expenditure on education would rise from R1 600-million in 1970 to R2 300-million in 1980, R4 500-million in 1990 and R10 000-million in 2000.

Expenditure on education would have to be raised from its present level of 4,7 percent of the gross domestic product to 7 percent by 2000 — but this was roughly the level of expenditure in most industrialised countries.

There would be "no mean material future to look forward to" provided the expectations of all population groups were allowed to play a rôle in development, Professor Lombard concluded.

It is po... analyse... sults ar... es, to... re-

of the process remains a lacuna in any account of unemployment.

The main explanation for the discrepancy between my estimate and the CPS estimate of agricultural employment, then, is probably that I have overestimated employment in homeland agriculture. It may also be the case that the 1979 level of employment in 'white' agriculture is lower than that in 1976, continuing the trend between 1970 and 1976. This tendency for agricultural employment to contract in absolute and, a priori, in relative terms is a major 'demand-for-labour' factor against which to understand unemployment. The lack of a detailed understanding of the process remains a lacuna in any account of unemployment.

SA goes deeper into red as imports rise in first 8 months

Star 25/9/81

49

—By Mervyn Harris

South Africa has gone deeper into the red in its trade with the rest of the world as imports rose and exports declined in the first eight months of the year.

Preliminary figures published by the Commissioner of Customs and Excise show that imports increased by R2 886-million to R11 970-million, while exports were down by R1 656-million to R11 728-million.

However, the higher import figures is an aftermath of the boom as many payments were for plant and machinery ordered during the economic upswing but only delivered during the period under review.

Declined

Imports from Europe rose from R3 658-million to R4 886-million in the first eight months of the year. But exports declined from R3 531-million to R3 158-million.

Imports from the United States jumped from R1 336-million to R1 970-million while exports declined slightly from R1 358-million to R1 289-million.

Exports to Asia were however higher, rising from R1 305-million to R1 326-million, but imports jumped even more sharply from R1 099-million to R1 830-million.

In the case of Africa, imports increased from R187,4-million to R204,1-million and exports decreased from R742-million to R674,6-million.

Jump

Trade with Oceania showed an import jump from R64,9-million to R108,5-million while exports increased from R63,9-million to R66,4-million.

Other unclassified goods and balance of payments adjustments in the first eight months of the year were R2 971-million in terms of imports and R5 185 million in exports.

The corresponding figures for last year were R2 737 million and R6 351-million.

The Steel and Engineering Industries Federation reports that output of the export-sensitive ferro alloy manufacturing industries in the first seven months of the year reflected a 17,5 percent decline compared with the same period a year ago.

Output

Output of steel mills for the first seven months showed a decrease of 1,6 percent but output of pig iron increased by 1,3 percent.

Private sector foundry output for the first seven months reflected the generally slower tempo of growth in the overall economy.

Tonnages reported for steel casting showed a drop of 10,5 percent, but there was some further firming in demand for iron and non-ferrous castings during July.

Iron castings for the seven-month period reflected gains of four percent and non-ferrous castings an improvement of six percent compared with the same period a year ago.

Assocom will ask Government to look at priorities

S. Tribune Finance Editor (38) (49)
27/9/81

GOVERNMENT will be urged to take a hard look at the priorities it accords the capital expenditure programmes of all State corporations and statutory bodies when the 79th Assocom Congress opens in Durban on October 13.

The resolution on the financing of state corporations by the Cape Town chamber is one of many and varied issues to be discussed. These include:

- Priorities in state spending
- Taxation
- Co-ordination of transport facilities
- National housing policy
- Black housing and the private sector
- Education
- Developing trading opportunities and entreopreneurial skills
- Metropolitan organisation and finance
- Fuel and energy policy
- Credit agreements legislation

The Johannesburg chamber says that in view of the inflationary effect of legislation curbing and controlling the grant of credit in connection with the sale and leasing of goods (especially when the cost is compared with the benefits of the legislation) Government should review the Credit Agreements Act and the Limitation and Disclosure of Finance Charges Act.

Durban and Cape Town chambers want Government to:

- Open white Centre Business Districts to businessmen of all races immediately.
- Phase in the opening of other business areas at present limited to the use of a particular racial group to all races.
- Repeal existing legislation which prohibits the use of black, coloured and Asian managers in white-owned businesses in white urban areas.

The congress which lasts three days, will be officially opened by Chris Saunders, chairman of the Tongaat Group.

Remove inequities Dr Vosloo urges

SOV 29/9/81 A4(49)

By Frank Jeans

The public sector will have to revise its priorities in its spending to "remove the inequities" in public services such as education, technical training, housing, recreation and transport, says Dr W B Vosloo.

Speaking on the guidelines for change in South Africa, at a meeting of the South Africa-Britain Trade Association (Sabrita), Dr Vosloo, managing director of the Small Business Development Corporation said such reform could only take place in an "environment for the protection of the creativity of the small man."

Emphasising that a society cannot be stable if the difference between rich and poor is large, Dr Vosloo said: "The private sector must widen its spectrum of participation and partnership in pension funds, insurance companies and building societies thus broadening the scope of individuals who have vested interests in the prosperity and growth of these financial institutions."

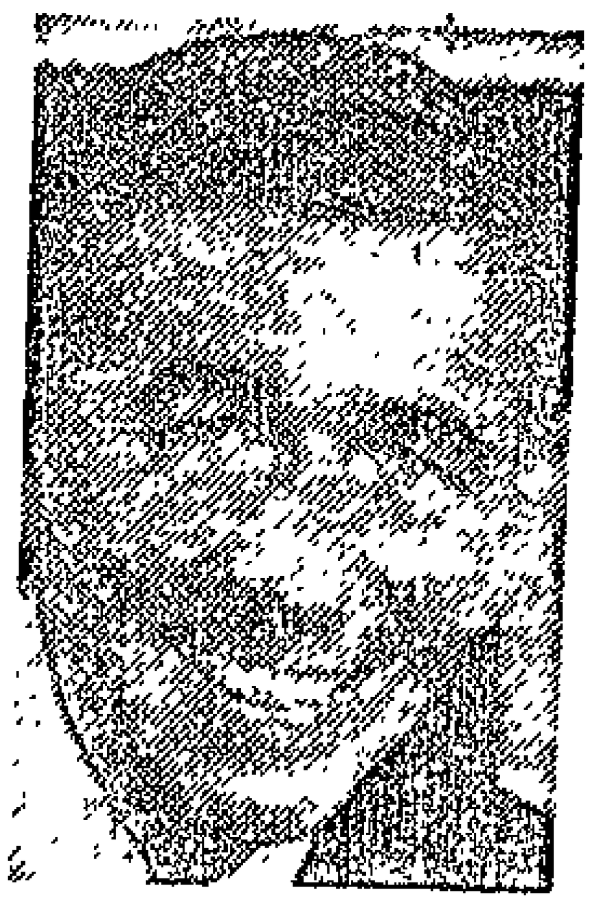
Dr Vosloo told Sabrita members: "Economic prosperity facilitates peaceful adjustment and stability.

"Conversely, when an economic decline encounters a rising curve of expectations, the tendency towards riotous, violent, subversive and revolutionary activities are likely to increase."

Mr Denis Etheridge, chairman of Anglo American's gold and uranium division, urged the sweeping away of the "web of legislation which impede private enterprise."

"There are 1 000 laws and 200 boards which control our lives," said Mr Etheridge.

Urging the spread of



Mr Basil Landau

the cottage industry concept in Bophuthatswana — a small business drive undertaken by the country's National Development Corporation, Mr Basil Landau, chief executive, industries of General Mining Union Corporation told a businessman's banquet at Sun City:

"Bophuthatswana with its impressive strides economically with its food production, tourism and wealth of minerals, must be the most famous officially - non - existent country in the world.

"Much of Japan's economic success since World War 2 was based on the cottage industry and in Japan today there are more than 5-million small businesses employing an average of about six people each," he said.

"Yet, the 31-million people employed by these 'small men' represent 80 percent of all the people engaged in private enterprise in Japan."

RDM 30/9/81 (49)

Current a/c deficit over R5bn

By JOHN MULCAHY

LOWER gold output and substantially higher imports hefted South Africa's deficit on the current account of the balance of payments to R5 050-million in the second quarter of this year, from R1 290-million in the quarter to March.

Before the first quarter of this year the current account was last in deficit in the first quarter of 1977, and the surplus last year was R2 830-million.

The second quarter's deficit is the biggest for at least eight years.

The Reserve Bank Quarterly Bulletin shows that at a seasonally-adjusted annual rate, the value of net gold output fell to R7 610-million in the second quarter from R8 490-million in the first quarter of this year.

The change was entirely due to a decrease in the volume of net gold output, reflecting lower production and an increase in mine inventories as a result of a decline in Krugerrand sales, says the bulletin.

While the dollar price of gold declined further in the second quarter, the depreciation of the rand against the dollar caused the rand price of gold to rise slightly from R400 an oz in the first quarter to R401 in the second quarter.

Merchandise

The volume of net gold output increased notably in July because of higher Krugerrand sales and lower mine inventories, causing the value of the net gold output, at a seasonally-adjusted annual rate, to rise to R8 330-million, in spite of a drop in the average gold price to R377. (The gold price rose slightly to R390 in August).

The value of merchandise imports increased considerably in the second quarter, to R18 210-million from R15 800-million in the first quarter.

The rise in imports was attributable mainly to the further increase in domestic demand — including the build-up of strategic inventories — from an already high level.

However, it also reflected an easing of the congestion in the flow of containerised imports and the settlement of a dockworkers' dispute which had delayed import traffic from the UK.

In July the value of imports rose even further to a seasonally-adjusted annual rate of R19 710-million.

Merchandise exports, at a seasonally-adjusted annual rate, increased slightly in the second quarter to R8 940-million from R8 780-million in the first quarter.

Considerable increases were recorded in exports of maize, coal, platinum and base metals, while exports of uranium and diamonds declined substantially.

The slight increase in the value of exports reflected a rise in export prices resulting from the depreciation of the rand against the currencies of most trading partners.

The volume of exports decreased further because of slack trading conditions in the trading-partner countries, and at a seasonally adjusted annual rate exports amounted to R8 900-million in July.

The capital account of the balance of payments to some extent adjusted itself to the growing deficit on the current account, and the R269-million net capital outflow in the first quarter was followed by a R758-million net inflow in the second quarter, consisting of R129-million in long-term capital and R629-million in short-term capital.

A net inflow of long-term capital occurred during each of the past four quarters, amounting to a total of R415-million, most of which represented foreign loans raised by public corporations and the South African Railways Administration.

From the beginning of this year there was also a net inflow of long-term capital to the private sector, and the inflow of short-term capital consisted mainly of a net inward movement of funds to the private sector.

(2) The following sequence shows how to set all array elements of a three-dimensional array to zero.

```
      INTEGER SET(3,4,5)
      .
      .
      DO 10 J=1,5
      DO 10 K=1,4
      DO 10 L=1,3
10    SET(L,K,J)=0
```

(3) The following example is an illustration of processing by DO

```
      DIMENSION INTGRS(15)
      .
      .
      DO 10 K=1,15
10    INTGRS(K)=K*K
      DO 20 K=3,15,2
20    INTGRS(K)=INTGRS(K-2)
      .
      .
```

After the first DO (with terminal statement 10) has been satis... elements of INTGRS will contain, in succession, square numb... 225. After the second DO has been satisfied, all odd-numbere... will contain the value 1; the even-numbered array elements a...

The heady days of that historic conference have long faded away

By CHRIS FREIMOND

IT IS likely to be a highly disillusioned group of businessmen who meet the Prime Minister in Cape Town on November 12 for a follow-up to the historic Carlton Conference of 1979.

In the two years since the cementing of an alliance between Government and big business the partnership has withered.

Visions of the State relaxing its iron grip on vast sectors of the economy have faded along with hopes of sweeping political reform and meaningful progress towards a better future for all South Africans.

Outlined

There was new hope in the stifled air of the business world when Mr P W Botha said in his opening address to the Carlton Conference in Johannesburg on November 22, 1979: "From my side I want to consult with you on how we can all co-operate in mobilising the extensive resources of our community towards the best advantage for our country, our region, and all its inhabitants. It is important that we seek clarity and the greatest possible measure of agreement . . .

". . . There has been much criticism in the past that the South African economy, and business in particular, labours under too many rules, regulations and restrictions. The Government has not let these criticisms pass unnoticed."

The 20 business leaders who addressed the conference and others who took part in discussions added to the air of optimism and pledged themselves to the co-operation that Mr Botha offered.

Political

In the Constellation of States plan outlined by the Prime Minister for the first time at the conference they saw the possiblity of massive regional growth and prosperity coupled to more enlightened political and economic policies.

The chairman of Anglo American, Mr Harry Oppenheimer, probably summed up the mood of most delegates when he said: "Much more remains to be done, but at least it is now possible to look to the future of the country with greater hope than for many years past."

Those were heady days, but they are long past. Many businessmen have come to realise that no really significant economic changes have been made and none are likely.

On the political front, many moves have been retrogressive in the National Party's panic to check Right-wing drift, and it is now clear that the constellation plan has little hope of success. Even independent homeland leaders have rejected the idea.

Why then has Mr Botha called another "Carlton" debate?

He said in Parliament last month that the conference would ensure that that 1982 would be the start of another period of development for South Africa and her neighbours.

He also wanted to review the progress made over the past two years.

His political opponents are more sceptical. The Progressive Federal Party MP for Groote Schuur, Mr Brian Bamford, said in Johannesburg this week that the conference was just an attempt to hide the Government's swing to the Right behind a reformist image.

And the PFP MP for Port Elizabeth Central, Mr John Malcomess, said in Parliament on Monday that businessmen should use the conference to call on the Government to introduce wide-ranging political reform, without which economic reform was impossible.

But the most damming condemnation of Mr Botha's Carlton initiative have come from the businessmen themselves.

Congress

Many who spoke at the first conference are reluctant to say publically how they view the past two years, or if they are hopeful that a second meeting might revive the "Spirit of Carlton."

But with little doubt they have been hurt. Their illusions have been shattered and they are bitter men. Some have even said they will refuse an invitation to the Cape Town conference.

However, some business leaders have expressed their disappointment publically.

In July, an executive director of Anglo American, Mr Dennis Etheredge, told a congress of the National African Federated Chamber of Commerce that in the 18 months since the Carlton Conference, "the dismantling of legislative constraints has not proceeded far enough to leave South Africa firmly in the saddle of the free enterprise horse."

The conference turned the spotlight on free enterprise in South Africa in a way that had not been done before.

"What has become more and more obvious is that a major advance of free enterprise is not possible within the apartheid philosophy and while discriminatory laws pervade the life of the majority of people. In essence, you can't ride two horses at once — apartheid and free enterprise," Mr Etheredge said.

P W BOTHA
another conference

And last month the chairman of the giant Volkswagen motor company in South Africa, Mr Peter Searle, expressed similar views.

Speaking at a gathering of businessmen in Johannesburg to back a business-initiated Manpower Foundation, Mr Searle said the sense of euphoria that followed the Carlton Conference had proved unjustified.

He said he had the feeling that many things had been left unsaid at the conference.

The real problem in South Africa was not manpower training, but white myopia in an unequal society. The more blacks were trained and educated, the more they would realise their depravation.

The Manpower Foundation would have to become involved in education, housing, recreational facilities and the repeal of discriminatory laws. This would mean getting involved in politics, Mr Searle said.

While he would rather run his business and stay out of politics, the policies of the Government made it impossible for him to run his business. In other words, until the Government removed the political restraints inhibiting free enterprise in South Africa, progress would be retarded.

And even Mr Oppenheimer, who has repeatedly expressed optimism about the Government's intention to change, is publically stating his reservations.

At the "Southern Africa in the World" conference of the SA Institute of International Affairs in Johannesburg last week, Mr Oppenheimer said reform had not been brought about as fast as he had hoped it would a year ago. Many people saw this as a classic understatement.

In his annual chairman's report in July he said he was still "reasonably" confident that the Government intended to continue with the programme of reform to which it had committed itself.

However he warned that economic growth and racial discrimination were in fundamental opposition to each other.

But in an address to foreign correspondents in Johannesburg in February, Mr Oppenheimer expressed greater disillusionment over the Government's reformist policies.

Promises

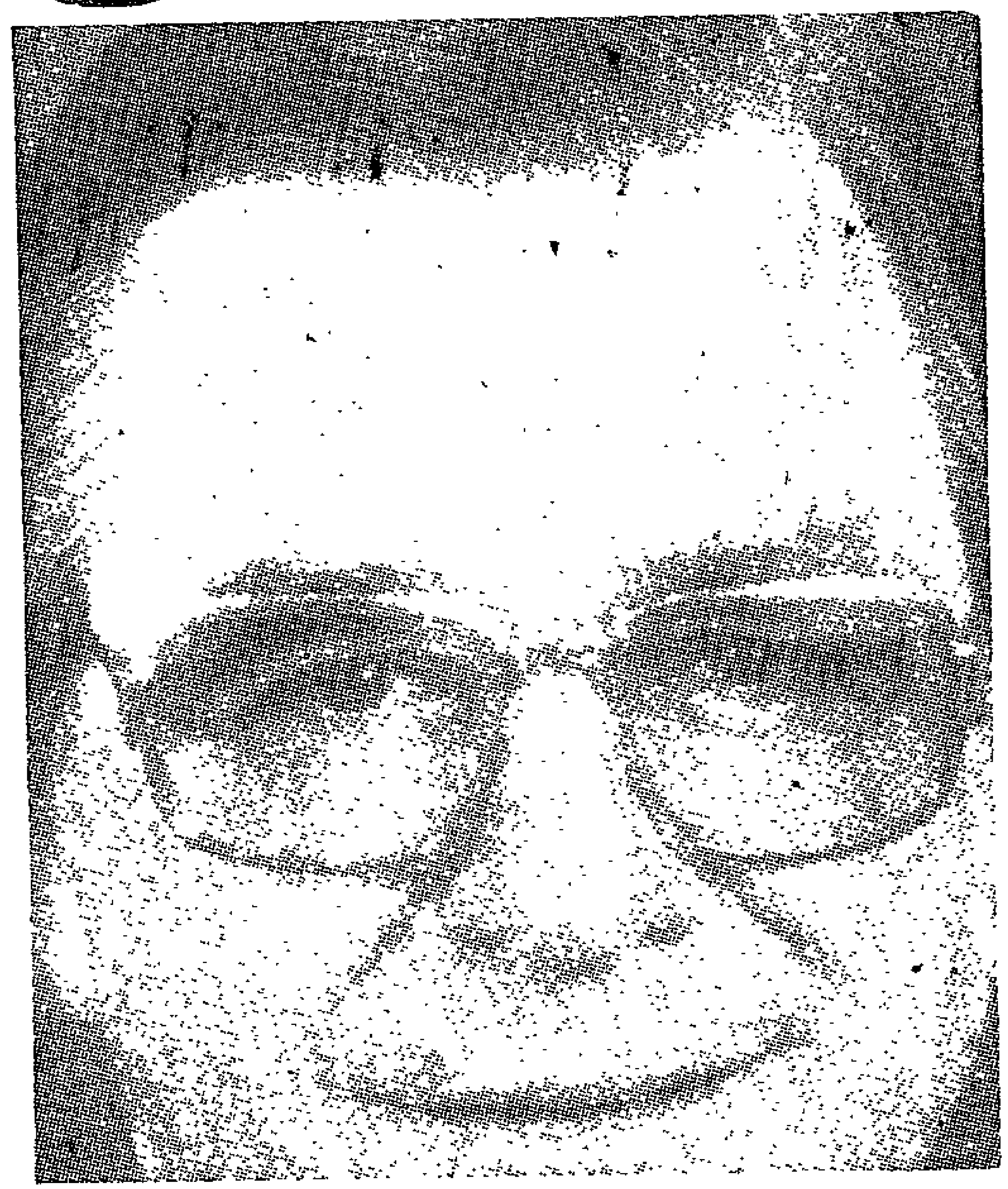
At the same time he said he felt that "quite a lot" had been done towards implimenting the reforms spoken about at the Carlton Conference.

"But of course , while something has been done, a great deal more has been promised and we've got to see whether this rhetoric is going to be turned into action," Mr Oppenheimer said.

Since February there has certainly not been much action; at least not in the direction that businessmen had hoped for.

So it is likely to be a very different atmosphere to "Carlton" when they get together with Mr Botha and his colleagues in Cape Town in November, and this time there is likely to be far less optimism

Is the 'Spirit of Carlton' just the ghost of hope?



ANGLO AMERICAN'S OPPENHEIMER AND ETHEREDGE AND VOLKSWAGEN'S SEARLE . . . among businessmen disillusioned by the Prime Minister's progress.

Reinventing the economy

Can free enterprise survive in socialist Africa? In a talk at Wits University this week, Harry Schwarz MP (left), PFP spokesman on finance, renewed his call for a South African system that is neither capitalism nor socialism. These are some excerpts from his talk.

Star 17/9/81

(49)

It is a myth that South Africa has a free enterprise economy.

Free enterprise in South Africa is restricted to carefully circumscribed sectors. For the rest, the economy is highly regulated, the market mechanisms are substantially distorted by Government action, and there is public ownership of crucial sectors of the economy.

How can there be said to be a free market, when there are restrictions placed on the movement of some individuals, and restrictions on the ownership of land?

Where the Government has created machinery for black economic advancement, it has frequently done so by the creation of State corporations, and land purchases for transfer, not to individuals, but to black-run public authorities.

The basic fabric for a socialist state therefore exists. Its apparatus is largely (except for the homelands) in the hands of representatives of the whites.

A change in political control to another power group would therefore mean that the same apparatus could readily be used to divert benefits from the constituency of the present power group to that of the new power elite, and to extend the elements of public ownership into the further aspects of the remaining private enterprise activities.

The dice are therefore loaded against free enterprise in the existing structure.

To this must be added other historic facts:

"They (the blacks) appear to reject it (capitalism) because it is identified with whites and with a system they believe is oppressing them. It is associated in their minds with selfishness, greed and exploitation."

Mr Dennis Etheridge said this while President of the Chamber of Mines.

"Imperialism and colonialism in this country (Zimbabwe) were certainly the political instruments of modulating and extending capitalism in the region."

This view was expressed by Mr Robert Mugabe when addressing the Zimbabwe Economic Society.

This was said of Zimbabwe, and has been said of other parts of Africa by other speakers in other, but similar, words, again and again.

Colonialism, apartheid and capitalism are therefore seen in the eyes of many Africans as a package, of which they want neither the whole, nor any part.

To sell capitalism, by whatever name it is called, is therefore no easy task in Africa.

Having looked at the marketing difficulties, let us look at the commodity itself.

There is probably no country today where pure capitalism operates, nor can there be many free market systems which function in the ideal conditions in which free marketeers would like to see them.

To allow unbridled freedom of action, whether in the market or elsewhere, can only lead to chaos.

The State must have a role in the economy. The only question is — how far does this role go?

Laws protect the person of the individual, so they must his property, not only in the corporeal but incorporeal sense.

Freedom is supported not only politically, but economically. But there is a distinction between liberty and licence, and a line between the exercise of rights and the detriment of others.

Rules there must be. Without them there will be chaos. The strong or unscrupulous alone may flourish, and the weak will not have a fair chance.

It is relatively easy to repeal discriminatory laws and abandon discriminatory practices.

These involve no expenditure of money — or certainly relatively little.

Removing apartheid boards on bridges and beaches, and opening parks are cheap. But giving equal quality in education and equalising pensions involves a completely new attitude to public expenditure.

Dr Simon Brand says to bring blacks up to the level of whites in education means that by 1990, 38 percent of total State expenditure would have to be on education.

It is unfortunate that at this time, when the issue of equalising social services is becoming an important factor in the stabilising process, that some over-enthusiastic free marketeers are advocating a disengagement of Government from social services.

Just at a time when moderate blacks see hope of real progress, this campaign can only result in disillusionment, not only with the chances of peaceful progress, but with the system of free enterprise itself.

Free high standard education was good for whites as a State service.

Now that it is to be available for everyone, question marks are placed over the whole issue. Surely this cannot be right.

What then is the economic package we need?

It cannot be unrestricted capitalism, but it must give incentive to work.

It needs a market mechanism in which there is equality of bargaining power, so it needs ground rules for conduct and with Government as the umpire to ensure fair play.

It certainly does not need nationalisation, as in the main, productive activities are best left to the initiative of the private sector. But it does involve a role for Government.

It needs to operate in a manner which will close income and wealth gaps. Failure to do so will have serious social and political consequences.

It needs policies aimed at full employment, and needs to care for those who, by reason of incapacity or age, cannot care for themselves.

It needs management action by Government in both the fiscal and monetary fields.

Government must not interfere, or seek to own or manage where it is unnecessary.

Private incentive enterprise must have a major role, but the State too must play its part.

The economic policy package by its nature will not be capitalism nor socialism, nor can it be given those names.

The name is not important. It is the contents of the package, its acceptability and its ability to achieve the stated objective, which are important.

STAR 30/9/81 (189) (49)

Steelmetals hope to better record profit

Despite several negative economic factors, it is expected that Steelmetals — the Anglovaal group's engineering supplier and contractor, will ". . . perform soundly in the current year and that profit will again improve," chairman Mr J C Robbertze states in his review for the year ended June 30.

As at July 1, outstanding orders amounted to R35-million, which was R10-million higher than the figure a year ago while the order intake for July and August was more than R15-million.

The company again benefited from the high level of fixed investment: Demand for both capital and non-capital goods was buoyant and consolidated turnover increased by 25 percent to R61 647 000 (1979/80, R49 200 000).

Profit margins were maintained in the group's principal trading sectors and this led to a record pre-tax profit 41 percent higher at R6 487 000 (R4 586 000).

After allowing for taxation and extraordinary items, the attributable profit rose to R3 776 000 (R1 461 000).

Because of the one-for-two-rights issue, the earnings of 149c (13c) a share have been computed on the basis of the weighted average of shares in issue.

The dividend was increased by 5c to 40c a share and was covered 2,9 (3,2) times by earnings. — Sapa.

A DO range can have an *extended range* if it is a nonnested DO or the innermost nest of a completely nested nest and both of the following conditions are true:

- The range contains a GO TO, or arithmetic IF, or a logical IF containing either of these two statements, that can pass control out of the range to another set of executable statements.
- This set of executable statements contains a control statement that could return control back to the DO range.

Examples of extended ranges are:

```
      DO 10 . . .                        DO 10 . . .
        .                                  .
        .                                  .
      IF (. . .)20,20,30                 DO 10 . . .
20    executable statement                 .
        .                                  .
        .                                IF (. . .)GO TO 20
40    exec
        .
10    term
      GO
30    exe             extended range
      IF
50    e
```

The extended range o[...] a DO statement that has an

Summer crops lift GDP growth rate to 6,5%

RDM 30/9/81 (49)

By JOHN MULCAHY

AFTER slowing down considerably in the first quarter of this year the rate of increase in real gross domestic product (GDP) re-accelerated to an annual rate of 6,5% in the second quarter.

This acceleration was entirely due to the harvesting of part of the record agricultural summer crops during this period, and excluding agriculture GDP rose by an annual rate of 2,5% in the second quarter, around the same level as the first three months, and significantly lower than the 8% average growth achieved last year.

In its latest quarterly bulletin the Reserve Bank notes that although the rate of increase in gross domestic expenditure, which had declined in the first quarter, accelerated considerably in the second quarter, a moderation of the rate of growth in the real GDP of the non-agricultural sectors of the economy occurred during the first and second quarters.

The major growth constraints were shortages of skilled labour and certain production inputs, and an almost full utilisation of production capacity in several branches of industry.

Pressure

While total monetary demand remained excessive, there was a decline in the foreign demand for South African goods and a lower rate of increase in some components of gross domestic expenditure.

The bank says that to an important extent the sharp rise in nominal as well as real GDP in the second quarter was caused by a substantial increase in strategic inventories and in the fixed investment expenditure of public corporations and the SAR, all of which have a high import content, and by a build-up of diamond and agricultural stocks, "owing partly to special circumstances".

However, the increase in other expenditure components was sufficiently strong to maintain pressure on available domestic resources and also on prices of domestically produced goods and services.

"In these circumstances, despite some deceleration, the rate of inflation remained at a high level."

In the second quarter the real product of the industrial, wholesale trade and services sectors showed little further growth, says the bank, while the real value added by both the gold and non-gold mining sectors declined.

The real product of the retail and motor trade increased moderately in response to a renewed rise in real private consumption expenditure on durable and semi-durable goods.

As a ratio of GDP, gross domestic saving declined from a peak of about 33% in the third quarter of last year to 24% in the second quarter of 1981, and in the second quarter gross domestic saving was substantially lower than gross domestic investment, reflecting the extensive use of foreign funds to finance investment.

The different components of gross domestic saving showed divergent changes in the second quarter. Corporate saving remained around the level of the first quarter, while provision for depreciation continued to rise in accordance with the increase in fixed capital assets.

Personal saving declined as a result of the marked increase in private consumption expenditure, while a decrease in current receipts and a strong rise in Government expenditure led to a drop in general Government saving.

Monetary expansion slows — Reserve Bank

RDM 30/9/81 (49)

THE strong monetary expansion during the first four months of this year slowed considerably in the subsequent three months, the Reserve Bank quarterly bulletin shows.

By JOHN MULCAHY

At a seasonally adjusted annual rate, the broadly defined money supply (M2) rose by 53% during January to April this year, but by only 14% in the May to July period.

The narrowly defined money supply (M1) increased by 56% in the first four months of the year, and by 12% in the following three months, while monetary banks' short and medium-dated repurchase agreements with the private sector declined during the first five months of the year, but rose sharply during June and July.

Overnight repurchases declined again during July after a considerable increase during June, and if these agreements are included in the money supply on the grounds that they are close substitutes for money, the seasonally-adjusted annual rates of increase in M2 and M1 amounted to 40% and 34% respectively for the first four months of the year, and 21% and 7% respectively for the May to July period.

Bank credit

According to the Bulletin the major statistical "cause" of the increase in M2 during May to July was a strong expansion of the monetary banking sector's claims on the private sector.

Net bank credit extended to the Government sector also increased slightly, but negative contributions to the growth in the money supply during the May to July period were made by a substantial further decline in the monetary banking sector's net gold and other foreign reserves and a small increase in the long-term deposits of the private sector with monetary banking institutions.

Bank credit extended by the monetary banking sector to the private sector increased at a seasonally-adjusted annual rate of 42% during May to July, compared with an increase of 53% during the first four months of this year.

Until the further increase in Bank Rate in July, the moderation of bank credit expansion was countered by so-called "round-tripping" — the practice of borrowing on overdraft from banks and investing these funds at higher rates, mostly in bank deposits and negotiable certificates of deposit.

Cash credit

There was a sharp increase — R514-million — in cash credit advances by the Land Bank in the May to July period, says the bulletin, reflecting the financing of part of the record summer crops.

During the same period discounts, loans and advances of commercial, merchant and monetary general banks increased by a substantially smaller amount than during the first four months of the year.

The average monthly increase in loans and advances other than hire-purchase credit and leasing lion during the three months to July, compared with R365-million in January to April.

Bank liquidity remained at a low level during the second quarter and during July, and was adversely affected by a sharp rise in the banks' required liquid asset holdings resulting from their large-scale creation of liabilities by the extension of credit.

Open-market

Open-market operations by the Reserve Bank during the period April to August were aimed at supporting the general monetary policy objective of curbing the rate of growth in the money supply, says the Bulletin.

Operations during this period consisted mainly of sales of long-term Government stock, which amounted to a net R393-million. From August 21 the Reserve Bank also engaged in operations aimed at refinancing Government debt maturing later this year.

By the end of August purchases of Government stock maturing October 1 and December 1 amounted to R156-million, while simultaneous sales of new two-year Government stock, issued on tap to the Reserve Bank, totalled R197-million.

Horwood urges a 'gold-based' system

RDM 1/10/81 (49)

Owen Horwood, Minister of Finance

WASHINGTON. — A formal appeal to the world's financial leaders to return to some kind of gold standard was made yesterday by Mr Owen Horwood, the Minister of Finance.

By HOWARD PREECE

He was speaking at the annual meeting in Washington of the 143-nation International Monetary Fund.

Mr Horwood conceded, however: "I doubt whether a return to a full international gold standard is feasible at this stage." But he told the IMF: "I remain convinced that an orderly move to a more formal gold-based system is both practicable and desirable. The ideal would be for the United States to take the lead by restoring convertibility of the dollar into gold at a realistic price.

"The merits and modalities of doing this are currently being formally investigated by the Gold Commission in the US and I welcome this."

Mr Horwood said: "Given the important international monetary functions being performed by gold at present the case for reahing agreement through the IMF on a new code of conduct for the use of valuation of gold by monetary authorities — for clarifying and formalising gold's present monetary role — is now irrefutable.

"Agreement on such a code of conduct need not by itself imply either a new par value system or a fixed price of gold in terms of the dollar or other currencies.

"If considered desireable the pricing of official transactions in gold could be based on a fluctuating price, such as the London fixing price, or be kept within a given price band.

"This band would be supported by central bank purchases and sales but subject to monthly or quarterly adjustments based on market tendencies."

Mr Horwood said: "By themselves, of course, steps like these, representing to a greater or lesser extent a return to a more formal gold-based system, could in no way serve as a substitute for appropriate domestic monetary and fiscal policies.

But he added: "Given the general distrust of paper currencies and the faith millions of people all over the world have in gold as a monetary asset, an officially-recognised gold-based system might well assist treasuries and central banks in gaining wider acceptance of their policies in making these policies more effective.

"Certainly a gold-based system would place automatic restrints on monetary and fiscal excesses, restraints which would be deeply rooted in history and widely understood."

Mr Horwood concluded: "We appear to stand on the threshold of important new international monetary arrangements involving gold.

"Opinions will differ as to how precisely we should now proceed.

"In my mind there is no doubt that they key to better domestic and international monetary arrangements lies in a new alliance between the dollar and gold — an alliance which, I believe, will enhance the status of both."

RDM 1/10/8 (49)

Horwood supports hard US line and high rates

By HOWARD PREECE

WASHINGTON — Strong support for tough economic policies by the United States, including high interest rates, was given yesterday by Mr Owen Horwood, the Minister of Finance.

He also said the best way for rich countries to help poor ones was by real transfers of wealth and not by printing money.

Mr Horwood was speaking at the annual meeting in Washington of the International Monetary Fund. He told other finance ministers that after 8% real economic growth in 1980, South Africa was now applying "conservative fiscal and monetary policies with a view to minimising inflation and sustaining the balance of payments".

Mr Horwood said the world economy generally was facing "continued inflation, slow growth, high unemployment and large payments imbalances. Once again the world economic outlook for the year ahead is gloomy".

He commented: "Part of this is cyclical and part still represents the aftermath of the sustained upsurge in energy costs in recent years. But much of it is the inevitable consequence of past mistakes in the form of excessive money creation and government spending, unrealistic interest and exchange rates, undue reliance on mandatory price and wage controls, unjustified protectionism and the inordinate use of subsidies and a general lack of financial discipline."

Mr Horwood said: "In these circumstances I find it encouraging that more stringent monetary and fiscal policies have been applied during the past year by a number of industrial countries, especially the United States, the United Kingdom and West Germany.

"These policies have resulted in high interest rates and have encountered opposition. But they have been courageous and fundamentally appropriate. "Indeed, they represent our only hope in the struggle against inflation and in the quest for greater economic stability in general.

"It is ironical to recall that there was a time when the US was regularly admonished at IMF meetings to take appropriate fiscal and monetary steps to put its own house in order, to curb inflation and to cease flooding the world with excess dollars. That was good advice.

"Although I understand the short-term difficulties being created for other countries, including my own, by the ruling high American interest rates and the strength of the dollar, I nevertheless believe that the American reliance of financial discipline is basically correct, and that it bids fair in the end to yield handsome dividendss not only to the US but also to the world economy as a whole."

"For the first time in many years the US, Britain and West Germany and a number of other industrial countries are simultaneously on the right economic track. It is my hope that they will persist with their present restrictive monetary and fiscal policies and will not yield to either internal or external political pressures to abandon these policies prematurely."

Turning to the problems of the developing countries Mr Horwood said their problems have been excerbated in the short term by the restrictive monetary policies of a number of the major industrial countries.

"As a representative of a country on the African continent, I have some knowledge of the plight of many developing countries and I support their case for increased and more effective forms of development finance.

"But the answer does not lie in a premature relaxation of monetary and fiscal policies on the part of the industrial countries. Nor is to be found in a relaxation of IMF "conditionality" or in the creation of more special drawing rights.

"Permissive steps of this kind will only result in more inflation and instability and will in the long run do more harm than good to the developing countries. The most effective way of assisting the developing countries is through appropriate and properly transfered to them of real resources — transfers which will entail sacrifices on the part of the industrial and oil-producing countries."

C.T. 11/10/78 (69)

Job boom slows down

Staff Reporter

THE NEXT 12 months will see a slowing-down of "boom" economic conditions, according to the latest employment prospects survey conducted by Manpower, the international temporary services organization.

The survey confirms an earlier finding that in terms of manpower requirements there has been a "slight falling away" in the demand for white staff.

There is still considerable reluctance in the private sector to increase training efforts. Employers prefer the "soft option" of recruiting from a small pool of available skilled workers, according to the survey.

The recruiting of skilled overseas workers was a strong possibility, but was only a short-term solution to the country's skilled-manpower shortage.

Economy may face sudden change

RDM 3/10/87

49

Brand

By HOWARD PREECE

EAST LONDON. — A warning that the continuing boom conditions in the economy may "change fairly rapidly" was given yesterday by Dr Simon Brand, head of economic policy at the Ministry of Finance.

He was speaking in East London at the Executive Council Meeting of the Federated Chamber of Industries Dr Brand said "We will not have the same buoyant conditions in the economy next year."

Dr C J de Swart of the Reserve Bank also told the FCI that the authorities had no option but to maintain a conservative policy approach to the economy. He said "The process may not be entirely painless but a conservative policy stance is called for."

Dr Brand and Dr De Swart were speaking at the end of the FCI's main economic debate.

Several industrialists expressed the fear that economic policy might become too restrictive, leading to "overkill" and a dangerously high rise in unemployment.

The FCI's economic affairs committee said: "There is broad agreement that excessive stimulation would be inappropriate in the phase of structural adjustments facing South Africa On the other hand, there is a need for support measures to maintain the economic momentum in spite of the persistent world recession and international unemployment."

Dr Brand said there was little risk that policy would be too restrictive. The danger lay rather the other way. After five years of tight control over State spending, pressures for increases were building up. This applied in particular to education, and low cost housing.

Economy may face sudden change — Brand

RDM 24/10/81

(49) (133)

By HOWARD PREECE

EAST LONDON. — A warning that the continuing boom conditions in the economy may "change fairly rapidly" was given yesterday by Dr Simon Brand, head of economic policy at the Ministry of Finance.

He was speaking in East London at the Executive Council Meeting of the Federated Chamber of Industries Dr Brand said "We will not have the same buoyant conditions in the economy next year."

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SA inflation rate to drop, says Horwood

RDM 2/10/81 (49)

By HOWARD PREECE

WASHINGTON. — A clear fall in South Africa's rate of inflation is expected over the next few months, according to the Minister of Finance, Mr Owen Horwood.

He said in Washington yesterday that he would be "very disappointed" if this did not happen.

Mr Horwood was addressing a Press conference at the annual meeting of the International Monetary Fund.

Among the points he made:

- South Africa is strongly committed, in principle, to further relaxations of exchange control. Any further actions on this must await, however, the second report of the De Kock commission which is expected next year. The timing of further easing would depend on circumstances
- One reason for the high inflation rate in South Africa has been the "deliberate policy" of the Government in boosting black wages.

Mr Horwood said: "If it were not for that policy inflation would certainly be lower."

Exchange

- The foreign exchange value of the rand should show a fairly stable level against the dollar over the next few months.
- South Africa, Mr Horwood, said, was not urging the IMF to return the "old fashioned gold standard". But it was arguing that a return to a greater gold link in the world monetary system would reduce international inflation and bring greater discipline to money and foreign exchange markets.

Mr Horwood said the first step would have to be a return to gold convertability of the dollar by the US.

Such a decision would obviously depend in the first event on the findings of the US gold commission which was now considering the issue.

- South Africa had no plans for any "radical change" in its gold marketing policy. But, Mr Horwood said, it was trying to assess the enormous impact of US futures markets on the gold price and to see what implications, if any, for marketing flowed from them.
- Mr Horwood denied categorically that South Africa was involved in any gold price or gold sales deals with the Soviet Union.

Regan

- South Africa regarded its relations with the US as of the highest importance.

The US was now South Africa's largest trading partner, at least as important to the country as Britain.

The Minister said that while at the IMF he had had valuable private talks with Mr Donald Regan, the US Treasury Secretary.

- The best way for South Africa to maintain the living standards of all its peoples was to ensure that the countries around it had stronger economies.

South Africa was offering major development assistance to help this.

- There had been no signs of political animosity to South Africa at this meeting of the IMF. Mr Horwood could not, however, give any indication as when, if at all, the country might get back direct or indirect representation on the executive board of the IMF which it lost in 1974.
- The Government was giving urgent attention to spending money on education and training for peoples of all races as the best way of improving productivity in the economy.

Handling the export-led economic downswing

CT 3/10/81 (49)

By R W K PARSONS

THE past two years have seen record growth performances in the South African economy. Over the period 1980 and 1981 the economy will grow at about 13 percent in real terms — and even if 1982 is no more than three percent, the average for 1980, 1981 and 1982 will be about five percent.

This is broadly in line with the growth target laid down in the Economic Development Programme.

In spite of this impressive recent performance, soft spots are becoming more apparent, and more plentiful. The sagging of retail sales generally and of motor vehicle sales in particular are "early warning" signals of what is beginning to happen.

Other economic indicators point in the same director. Higher mortgage rates from October 1 — a significant component in many household budgets — will cut into disposable income.

The economy has commenced its "export-led" downswing and some forecasters are expecting no more than two percent growth in 1982. Now, it is possible that no-one takes such a gloomy forecast very seriously. After all, those same forecasters were saying a few months ago that growth in 1981 would hardly reach four percent, whereas as now it is already too late to expect less than between four percent and five percent for this year.

Yet business confidence seems to be holding up reasonably well in spite of these forecasts, including the robust behaviour of the Johannesburg Stock Exchange.

Disbelief must be ruled out as the main reason why the forecasts of a business slowdown have so far been so readily acknowledged. One explanation is that responsible business opinion does not wish to damage its credibility by crying "wolf" too soon. That is a partial reason. Another could be that the slowing down is still gradual and imperceptible to the naked eye. After all, this is not 1976 all over again, and the gold price is recovering!

The most likely explanation is that, in spite of some mutterings about avoiding "overkill", the prospect of continued high inflation is even more alarming than the prospct of slow growth.

The CPI continues to hover around 16 percent — and although the wholesale price index shows signs of dropping — the inflation picture has not improved. If inflation does not decelerate significantly, then the ultimate outcome can only be less real growth. On the other hand, if the worry about "overkill" becomes decisive, monetary and fiscal policies might be shifted onto a more expansionary track. Is this shift likely to happen soon?

The direction of policy

No — not if recent official statements are anything to go by. In a recent address, the Governor of the Reserve Bank said that "the Reserve Bank has no hesitation in choosing the latter course (i.e. maintaining the present conservative and restrictive policy), thereby fully associating itself with the approach of "consolidation and adjustment" announced by the Minister of Finance in his Budget speech".

The authorities are convinced that giving short-run priority to cutting inflation will serve to bolster real growth in the long-run "To reflate or not to reflate — that is not the question in South Africa at present," added Dr De Kock. There will clearly be no U-turn in our economic policy Interest rates seem likely to remain high for the rest of 1981, and possibly even into 1982

It is important to recognize that even an improvement in the gold price now does not obviate the need for internal adjustments to our economy or prevent the emergence of a lower growth rate. A better gold price in the immediate future is more likely to have important implications for our exchange rate policy, and for the possible appreciation of the rand next year as one additional instrument against inflation.

All this should not be seen as the outcome of a slavish adherence to one or other economic dogmatism. Even more important is the mood of the man-in-the-street, the consumer. As the current public debate demonstrates, inflation is the number one national worry. This gives the Minister of Finance and the Reserve Bank the "green light" to reduce inflation, even if it means lower growth in the interim

As we do not live in a frictionless economy the

Opportunities and challenges

By PAUL DOLD, Financial Editor

ASSOCOM chief Executive, Mr Raymond Parsons, recently outlined his view on how the authorities should handle the economic downswing. The boom is now clearly over and soft spots are appearing in several sectors including vehicle sales and retail sales.

Business confidence, however, remains strong but he concludes that continuing confidence will depend on the evaluation by the business community of the Prime Minister's post Carlton summit scheduled for November 12 in Cape Town.

Mr Parsons' speech is ahead of the annual Assocom congress to be held in Durban from October 13 with the theme "Opportunities and challenges in a changing South Africa."

Key speakers include Professor J Lombard,who heads the economics department at Pretoria University and is a special adviser to the Reserve Bank, OK Bazaars managing director Mr Meyer Kahn, and Dr J G H Loubser general manger of the South African Railways. Their respective topics will be "Internationally and regionally", " The business outlook" and "Labour relations".

With every quarter that passes, another segment of economic and business opinion will probably be found moving over from the side of deflation to reflation. I suspect that the critical period for taking decisions in this regard will be the first half of 1982. We must read the signs early

Implications for the 1982/83 Budget

As the next Budget is in the middle of that period, are there any guidelines which ought to be borne in mind in relation to economic policy as a whole?

Yes — there are a few aspects to be weighed, even at this early stage. the 1982/83 Budget is only six months away

If export earnings and the growth rate fall as far in 1982 as some economists expect and inflation remains stubbornly high, then the 1982/83 fiscal year will be a difficult one. It could see a revival of the argument about the proportion of resources being diverted from the private sector to the public sector

Any decline in the rate of inflation may be temporary if 1982 sees another Budget struggle with spending departments, State Corporations and local authorites, the net effect of which is to put GST, other charges and "adminsitered prices" up.

By simply putting up business costs, the "administered prices" have bedevilled the anti-inflationary programme and are a major reason why monetary and fiscal policies alone will not solve the inflation problem. In any case, the study by the Economic Advisory Council of the whole area of "adminsitered prices' should hopefully be completed before the 1982 Budget is finalized.

By "adminsitered prices" we mean, of course:

- the rates and tariffs of State corporations;
- key prices set by Agricultural Control Boards;
- private sector production subject to price control.

The issue also concerns the degree to which State corporations, enjoying a monopoly position, ought to be allowed self-financing through higher tariffs The Franzsen Commission laid down a guideline of 50 percent of new investments by such corporations being financed out of current revenue.

Circumstances have changed considerably since that recommendation in 1970 — about which in any case there were misgivings at the time — and the matter needs fresh critical evaluation The Treasury should have a bigger say in the financing policies of State corporations and investment cash should depend on cost control.

It should not be possible, in view of the monopoly element, to simply put tariffs up Extra funds should only go into public investment schemes that show definite evidence of being properly cost-controlled

Neither is it adequate any longer to only talk about the main Budget as being "pro-cyclical" or "anti-cyclical" — in future we must examine the Railway Budget, the Post Office Budget, the Escom tariffs from that point of view as well.

We must see more "supply side" incentives in the 1982 Budget. Orthodox monetary and fiscal measures are being given a good run for our depreciating money If it is taken into account that

- the growth rate will be lower.
- "fiscal drag" will have an impact,
- fringe benefits taxation will be introduced;
- State spending has been allowed a moderate increase in the 1981/82 Budget, and
- the programme of tax reform must not lose momentum

Then the 1982/83 Budget must be so devised as to allow for.

- a raising of the tax ceiling and/or
- a further lowering of marginal tax rates.

The Minister of Finance should, in March 1982, take a leaf out of President Reagan's book, and offer the carrot of tax cuts, not the stick of tax increases, to handle the situation as it is likely to unfold by then This can only be achieved if a tight rein is kept on State spending and if the deficit before borrowing is not excessive in relation to GDP.

"Denationalization" of certain State services?

In this regard the time has arrived to take a fresh look at State services which ought perhaps to be denationalized" and taken over by the private sector

One of the inevitable penalties of holding down State spending as a whole is that certain State services suffer. A close study of trends in State spending in recent years show that the need to allocate more resources to defence and education — while maintaining overall financial discipline — has been at the expense of other State departments.

This broad picture is confirmed statistically in the current Barclays Bank Economic Review, which states

"Because of shifts in the composition of total government expenditure towards defence and education, the rate at which economic services (transport and the various services provided by government departments to agriculture, mining, industry and commerce) has been expanded, has lagged behind, with the contribution of this category of services falling from 19,3 percent in 1973/74 to only 11 percent in the 1981/82 fiscal year.

The provision of "social services (health, welfare and pensions, police, justice and community development) has also lagged behind somewhat with the percentage of total government expenditure devoted to this category of services decreasing from 16,8 percent in 1973/74 to 14,7 percent in 1981/82."

A critical examination of certain State services — to see which could be handled by the private sector — could well also make a major contribution to alleviating the current critical manpower shortage in the public service. Available manpower and financial resources could then be concentrated in those spheres of State activity where the State alone can provide the necessary essential social services or infrastructure.

Summary and conclusions

The ability of the South African economy to weather more difficult economic circumstances next year will basically be determined by the flexibility of the economy — with a measure of good management and good luck thrown in!

The "flexibility of the economy" is a portmanteau term for the degree to which the economy can escape the necessity of accepting lower incomes by shifting resources to alternative uses, and is extremely difficult to quantify

Economic policy can have a significant influence in removing or promoting rigidities in the economy — such as in the labour field or in exchange rate policy As the Governor of the Reserve Bank has said "We can argue about the appropriate methods of adjustment weighing up their different costs and benefits But the inevitability of the adjustment must be accepted"

Economic policy-making is often like playing billiards with a twisted cue But successful handling of the current phase of "consolidation and adjustment" in the economy nonetheless revolves around a recognition by policymakers

- that the growth rate is falling anyway for cyclical reasons, but inflation is at the moment the main national worry, inflation is also eroding the international competitiveness of South African goods,
- that reliance cannot be placed on monetary and fiscal policy only to curb inflation.
- that a co-ordinated and disciplined policy in respect of "administered prices" is also essential.
- of the importance of correct timing and co-ordination of policy decisions,
- that to avoid "overkill" the crucial period to watch for the economy will be the first six months of 1982.
- that the 1982 Budget should see more emphasis on "supply side" incentives as a part of stabilization policy,
- that the recent boom has demonstrated only too clearly the extent to which our future economic performance will be decided by the rate at which we upgrade the total skills of our total labour force.
- that business confience also depends upon that evaluation by the business community of the "report-back" meeting to the private sector on socio-economic change which the Prime Minister has called in Cape Town on November 12.

THE ECONOMY

(49) FM 6/11/81

New dampers for demand

Pretoria has already begun a new phase in an intensified anti-inflation policy. Further moves, including gold swaps, will be undertaken soon. As a result, the economy will move into a lower gear; it will grow but at a relatively slower and steadier pace.

The essence of the shift is that exchange rate policy, which has been inflationary for most of the year so far, with the rand sinking 23% against the dollar, is being swung into line with a tighter domestic monetary stance.

If this is successful, it should soon reverse the recent decline in short-term interest rates and it could put renewed pressure under some longer-term rates. In particular, the home mortgage rate could be vulnerable to further adjustment, although it is unlikely to reach the 22% that home loans cost in Canada.

There are two juxtaposed elements of the new foreign financing policy:

☐ The forward dollar discount is being narrowed so that importers will find that the terms of foreign trade finance become less attractive.

This means that traders who borrow dollars short term to finance imports, will find it increasingly more expensive to obtain dollars forward to repay their credits when they fall due.

When traders receive the dollar credits abroad, they simultaneously buy forward an equivalent amount from the Reserve Bank, which undertakes to deliver the dollars at a predetermined rate on a future date. This is timed to coincide with the maturity of the traders' dollar credit. And they use the Reserve Bank's forward dollars to meet that maturity.

To encourage traders to borrow abroad, the Reserve Bank has been delivering slightly more dollars — the exact amount depending on the time scale — than the prevailing spot dollar-rand rate. Ostensibly, therefore, the forward dollar is at a discount to the rand and the costs of the traders' foreign credits are cushioned.

When this discount was first introduced, the rand was rising against the dollar. This meant that the Reserve Bank was able to obtain dollars for forward delivery at below the then current spot rate.

But over the past year the position has been reversed. The dollar has been strengthening, as US interest rates have risen, against the rand. So the Reserve Bank should have been providing importers with fewer — not more — forward dollars. In other words there should have been a forward dollar premium and not a discount.

Nevertheless, as the Reserve Bank wanted to encourage foreign borrowing, it has artificially maintained the forward dollar discount. This has meant that to provide forward dollars relatively cheaply to importers, while it paid a rising price for them, the bank has chalked up massive currency losses. Ultimately these losses have to be met by the Treasury from tax receipts.

That is not the only drawback. Banks are also able to obtain forward dollars advantageously and thus have borrowed short-term abroad. These loans provide them with additional liquid assets on which to increase domestic lending. This has helped also to fan domestic demand which is already running ahead of supply.

PTO

The obvious question is why did the authorities encourage foreign borrowing in this way, knowing that the cost would be high; both directly in the form of the Reserve Bank's foreign exchange dealing losses and indirectly by making their own attempts to control the money supply more difficult.

The answer is that they were using these foreign trade credits, along with a devaluing rand and outflow of reserves, to finance temporarily a widening trade deficit (see *FM* October 30). But it is clear now that the economic situation facing the country is not a temporary one. It is going to persist.

Had domestic demand declined, the gold price firmed, or Western economies revived faster than they are now going to do and provided SA with rising export earnings, the men at Church Square might have had a less pressing need to tighten all the screws. But the facts are that they got their timing wrong and, even with domestic interest rates doubling over nine months, they under-estimated the persistence of domestic demand.

Nor were they alone in misjudging domestic demand. But they were not as wrong as some. In the opening months of the year there were distinguished academic economists forecasting a severe recession when Church Square allowed interest rates to rise. They could not perceive that demand would continue to rise when the growth rate was halved. They accused Pretoria of "overkill." But the rate of growth of aggregate expenditure has risen to an annualised figure of 9% while that of output has declined to 4,5%.

Nevertheless, with hindsight, the Reserve Bank can be seen now to have been too complacent about its foreign financing policy. Allowing domestic interest rates to double is clearly not enough. To beat inflation demands total commitment.

The capital inflow contrived through artificial forward dollar discounts, coupled with the 23% rand devaluation, has cushioned the economy from international realities. An economy such as ours cannot for long isolate itself from trends among its major trading partners, whether it likes their policies or not, without encouraging price instability. The price of isolation is inflation.

The plain facts are that economic growth is far higher here than in the economies of our trade partners. Yet their interest rates are higher than ours and their inflation rates are lower. If we do not timeously adjust our policies accordingly, the rand will plummet and prices will soar.

There was another reason for the unfortunate encouragement given to foreign traders to borrow abroad. A further element in the financing of the growing trade deficit was a reduction in the foreign exchange reserves. Net reserves (after foreign bank loans) have been declining fairly fast, although not nearly to the extent of the plunge in 1976.

It was obviously not convenient for the authorities to top up international liquidity by selling gold into a soft market. Instead, foreign trade credits provided this.

☐ The second element in the new foreign financing policy is a number of gold swaps, which will be coming on top of the renewal of the previous swaps.

They will provide adequate cash reserves without the need to sell excessive amounts of gold. They will reduce the need to encourage foreign trade financing thus making control of the money supply less difficult. The proceeds of the new gold swaps will flow to the Reserve Bank and not directly into the private sector.

Once these changes in foreign financial policy have been brought fully to bear, the money supply should be under much firmer control. As this begins to happen and domestic interest rates rise and prices stabilise, there should be a corresponding reduction in what downward pressure there might be on the rand. And a more stable rand will, in due course, have a correspondingly reduced inflationary impact.

In these circumstances (as the *FM* argued last week) it remains of vital importance that the trade deficit be allowed to continue its cooling influence on domestic demand. It may call for some caution, but the deficit is by no means cause for alarm.

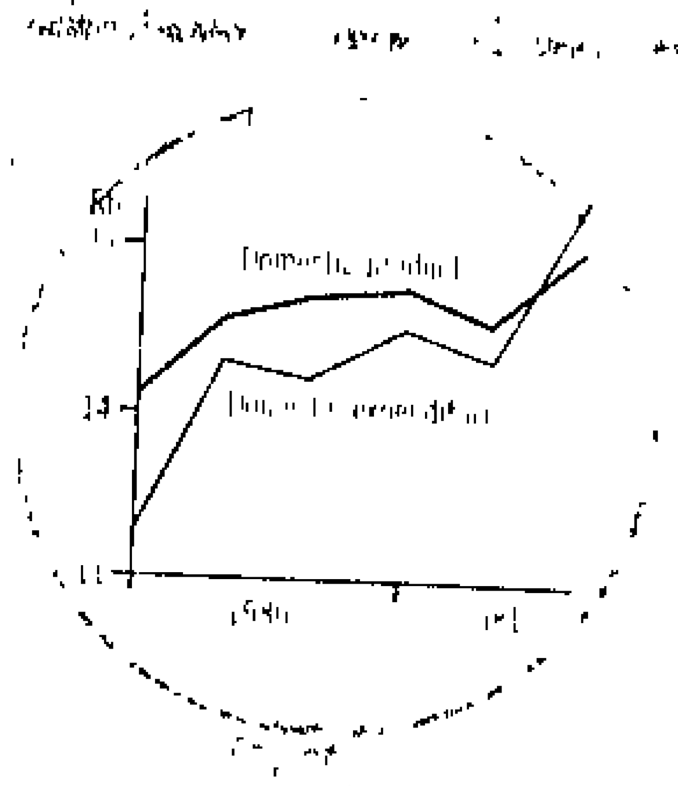
Steadfastness is essential now as further rises in prices can be expected for at least the balance of this year. This process has been set in motion and cannot easily be reversed. The reason is that some very inflationary developments earlier this year are only now beginning to work through the economic system.

It should not be forgotten that the rand has declined in value over the past nine months by more than the shock September 1975 devaluation. The money supply was rising at an annual rate of 53% in the first four months of this year. Bank credit to the private sector (an important contributor to the money supply) was rising then at an annual rate of 65%.

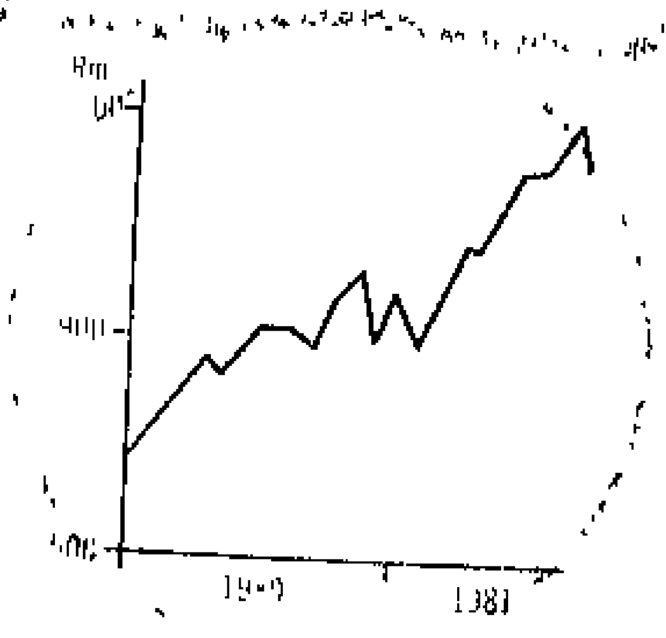
This high domestic liquidity has been reflected in declines in recent months in bankers' acceptance and negotiable certificate of deposit rates; in buoyant share prices; and rising retail sales (of cars, among other durables). These clear indications of an excessive level of demand came when the growth in manufacturing production has fallen dramatically. There is limited factory capacity, a shortage of skilled workers and at times congested means of distribution. In these circumstances, prices must rise.

Notwithstanding all that, there are also some encouraging signs. Growth in the money supply (M2) over the past four months was down to an annualised 12%. Bank credit to the private sector was down in August, despite the record R2 billion advances to the Land Bank to finance unusually large crops. As the recent policy shift in Pretoria begins to bite, these trends should be reinforced. In due course, they will have an automatic stabilising influence on prices.

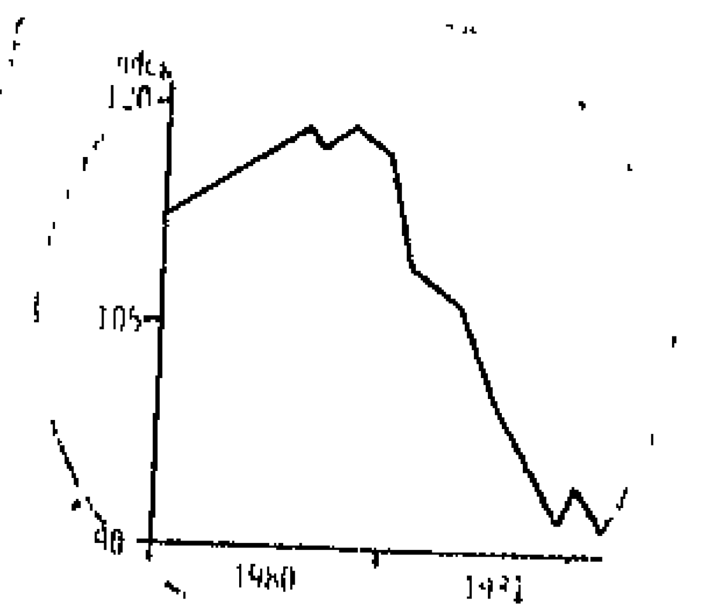
To sum up, there is for the time being still far too much demand in the economy to suggest the country is staring a recession in the face, or that there is danger of overkill in official policies. But it is important for businessmen to adapt to a more realistic pace of business activity. For instance, inventories should be adjusted accordingly and funds committed with increased caution and circumspection. It is not so much the end of a boom to which they must face up, but the dangers of misjudgment through the extremes of either euphoria or gloom.



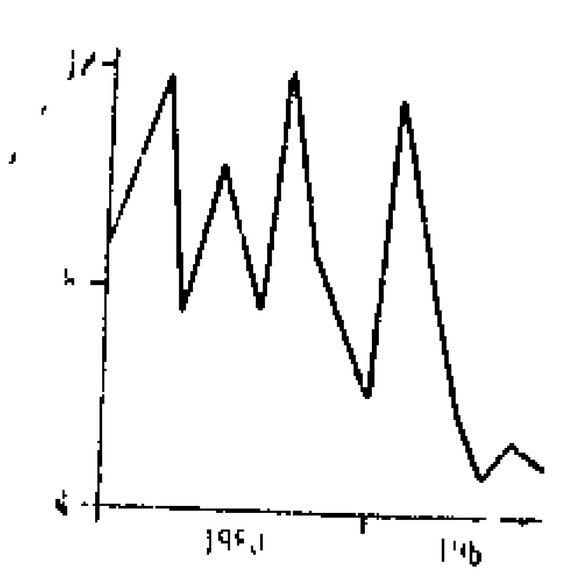
DEMAND EXCESSIVE



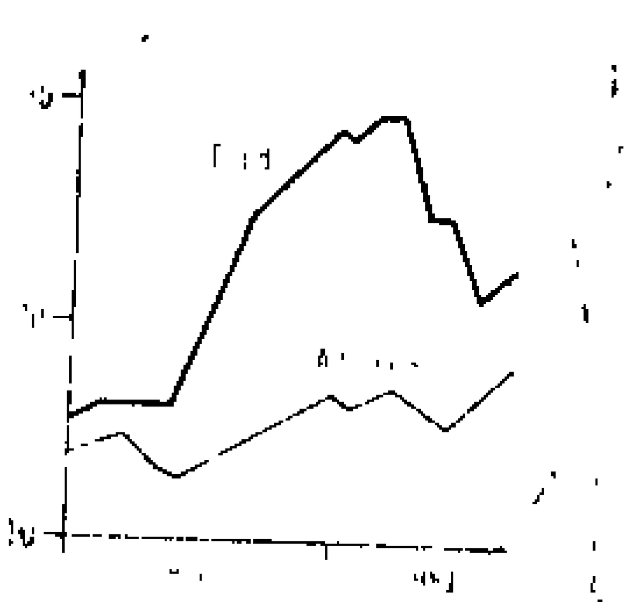
IMPORTS SHOOT UP



RAND SLIDES



PRODUCTION FALLS



PRICE RISE

PFP's 'economic democracy' plan

Ct 7/10/81 (49)

By MICHAEL ACOTT
Political Correspondent

THE Progressive Federal Party yesterday released proposals for a mixed economy which were described as a unique answer for South Africa's unique economic situation.

The proposals emphasize the need for complementary political, social and economic reforms and are aimed at achieving prosperity and equal opportunity for all in a free society.

Described as guidelines for a policy of "economic democracy", they will be debated at the PFP national congress in Cape Town next month.

The proposals are the result of a two-year study by a PFP economics commission under the Opposition finance spokesman, Mr Harry Schwarz. The commission was asked to design an economic policy consistent with the PFP's constitutional policy.

Mr Harry Schwarz

The commission says injustice and inequality must be removed from both the political and economic systems, as one cannot be remedied without the other. "Freedom is incomplete if it is to be enjoyed in miserable degradation."

The proposals are based strongly on the free enterprise system, recommending retention of the market mechanism, individual ownership of property and assets, and rejection of nationalization as a general rule.

Profit-sharing

It also supports a basic minimum wage and progress towards "industrial democracy", with consideration of profit-sharing schemes and worker participation in decisions.

The State's function should be "indicative not compulsive". Its duties included the creation of a realistic system of labour relations, the provision of social and other services private enterprise could or did not offer, and special action to reduce the wide gaps in income and wealth.

Two of its central themes are the creation of wealth by the individual and the removal of all discriminatory laws to allow each person to realize his full potential.

Mr Schwarz told a press conference yesterday that the policy had been called "economic democracy" because it had been designed specifically for South Africa's unique situation.

People might see in it elements of capitalism, free enterprise and social democracy, but it took the best out of a variety of economic systems wihout complying with any one economic doctrine.

Reallocation

While the commission saw the State as an organ for the reallocation of resources, this did not mean a redistribution of wealth in the sense of taking from the rich to give to the poor. The commission was equally opposed to a system in which the rich got richer and the poor became poorer.

The creation of wealth meant "a larger cake" which all should be given equal opportunity of sharing on a non-discriminatory basis.

Mr Schwarz said the State had to have a social conscience and show a greater degree of compassion and care for those who could not help themselves.

Wealth, however, had to be created before it could be redistributed and taxation should not damp individual incentive or ingenuity.

He described the major difference between the proposals and present government policy as the emphasis on equality of opportunity.

Mr Schwarz hoped the proposals would start a real debate on South Africa's economic alternatives. While constitutional proposals were "produced in battalions", there was virtually no discussion of the economic systems which had to accompany them.

Answer

"If we are going to avoid revolution in South Africa, we have got to have economic progress."

He said he had been surprised at the degree of unanimity in the PFP federal executive on the proposals. There had been some questioning of the propoasals for a minimum wage, but he believed the commission had found an answer to this question.

The commission has drafted a number of position papers on specific recommendations. These will be released in the course of the next few months.

Charter for economic and social progress

27/10/81 (49)

THE economic commission of the Progressive Federal Party has released its "Charter for Social and Economic Progress".

The commission was appointed in October 1979 to "within the constitutional policy and recommendations of the PFP, investigate and make recommendations on guidelines for a general economic policy".

In its report, released at a press conference this morning, the commission recommends what it calls "a policy of economic democracy".

It emphasizes that its envisaged policy is intended to deal with South Africa and its situation and with its particular problems.

Solutions

"It says it believes that what is important is finding solutions for problems and encouraging debate on real issues, rather than the advocating of "isms" without regard for their practicality in the South African situation.

The report was presented to the PFP Federal Executive on Saturday.

At its meeting the federal executive resolved that the report be submitted to the PFP national congress to be held here in November for adoption with or without amendment.

The recommendations of the commission will also be discussed at meetings to be held in various regions. These meetings will be addressed by the leader of the party, Dr F van Zyl Slabbert, the chairman of the commission, Mr Harry Schwarz, and other members of the commission.

The report says that in a world of both starvation and affluence, the task of those vested with responsibility of governing is not only to give political and spiritual freedom, but also to strive for economic well-being for all.

"In our South African society, we see both riches and poverty, unemployment and affluence, privilege and disadvantage."

The object was, therefore, to create an economic environment which will facilitate the achievement of economic well-being by all and to lay the foundations for a society in which there is no discrimination based on skin colour or sex and no privilege by reason of class, race, birth or sex.

"A society in which there is true equality of opportunity in an economic system in which we aim for as high a degree of efficiency as is compatible with an acceptable level of economic justice, in which povert... elimin... able under a democratic system.

"However, democratic systems give a variety of economic alternatives, from which one should be selected on the basis of equality of opportunity and efficiency.

"Though the latter two concepts are not mutually exclusive, it is sometimes necessary to modify aspects of one to ensure essentials of the other."

In the society for which it strives, anyone able and willing to work should be able to obtain work, therefore the policies formulated are aimed at full employment.

"Those who work should at least be able to satisfy basic needs for the present and future in food, clothing, shelter, medical care and education for their children.

"The society to which we are committed should also be able to offer reasonable leisure and recreational needs and a suitable and healthy environment."

In order to bring this about the commission commits itself to the following:

"All people should be free — free not only spiritually and politically, but free from squalor, poverty and degradation, free to work and to progress — the right to these freedoms is indivisible.

Right to share

"Everyone has a right to share in the goods and services produced, if he in turn is prepared, within the limits of his own ability, to contribute to this production and to co-operate to further the welfare, not only of himself but also of his fellow men.

"However unequal the environment may be, all people ought to be equal, not only in the exercise of political rights and in the eyes of the law, but equal also in the opportunity to create, to achieve, and to procure the well-being of themselves and their families.

"The economic environment should give encouragement to the individual to work and incentive to use his ingenuity and further his ambitions in fair competitive circumstances.

"To achieve this means that some measure of protection must be given to the weak and that the strong must be restrained, so that justice can be done between them.

"Provision should be made for a minimum level of food, clothing and shelter for those who by reason of age, ...

Is this fellow captured

45

4% growth after good first half

RDM 7/10/81

49

By JOHN MULCAHY

BECAUSE of the comparatively high economic growth rate achieved in the first half of this year, it is possible that a growth rate of about 4% in real gross domestic product (GDP) can be reached in 1981.

Sanlam says in its Economic Survey it may be expected that the economy's low expansion rate will decline further in the second half of this year, with this trend being observed in real private spending, particularly on durable goods.

The rate of increase in real fixed investment, particularly in the private sector, will also slow further.

Sanlam says the real GDP in the first half of this year was about 4,5% higher than in the same period of 1980 compared with a growth rate of 8% for the whole of last year.

"A deceleration of economic activity in most sectors (but particularly in manufacturing and commerce) occurred in the first half of 1981 in comparison with the second half of 1980. Nevertheless, it still represents a satisfactory growth achievement from an already high base."

There was a moderate slowing down in private and Government consumption expenditure in the first half of this year, and in gross domestic fixed investment.

However, a comparatively sharp increase in real inventories contributed to the real gross domestic expenditure in the first half of 1981 being about 10% above that of the corresponding period last year.

Sanlam says that as long as building societies keep instalments on existing mortgage loans unchanged, and merely extend the redemption periods to accommodate increased mortgage interest rates, the consumer-price index does not present a true indication of many consumers' financial position.

The rate of increase in the prices of imported commodities has slowed sharply since the middle of 1980, attributable largely to the fact that the oil price has not been increased further after the steep increases in the second half of 1979 and early last year.

Because of the rand's considerable depreciation since the beginning of 1981, it is remarkable that the rise in prices of imported commodities is not yet showing any signs of acceleration, says Sanlam.

"The fact of the matter, however, is that the major part of the rand depreciation occurred only in the past few months, and the decline in the external value of the rand against most currencies was considerably less than the decline against the US dollar."

It can be assumed, though, that the unfavourable course of the rand exchange rate will in time take effect on the producer prices of imported commodities and on domestic inflation.

Offsetting this, says Sanlam, is the expected further slowing in world inflation and prospects that the oil price will stay low in the foreseeable future, restricting to some extent rises in the producer-price index.

The sharp rise in the producer prices of SA-manufactured goods is a reflection of the sustained cost pressure — due to increased salaries and wages and the high cost of financing — which manufacturers are experiencing.

Sanlam believes the easing in short-term interest rates recently was a temporary phenomenon, and the trend is largely bound up with the considerable amounts of foreign short-term capital which the banking sector brought in to ease the seasonal tightness caused by heavy tax payments and to boost the cash content of foreign reserves.

Demand for credit is expected to stay comparatively high, and the general financial situation in the economy will tend to be tight until early next year. Sustained high short-term interest rates in this time seem probable.

Sanlam says the gold price remains difficult to forecast, and although economic factors, such as high international interest rates, lower inflation rates and the dollar's solid performance, are not conducive to a higher gold price, increased jewellers' and industrial demand could lead to a higher price within the next few months.

"With regard to the longer term, we believe that developments such as lower real international interest rates and signs that the struggle against inflation possibly will not come up to expectations, could bring about a resurgence in the investment demand for gold in the course of 1982."

Standard Bank's forecast for next year

Star 8/10/81

49

By Ann Crotty

A growth rate of 2,2 percent, an inflation rate of 13,5 percent and a gold price of 500 dollars an ounce are part of Standard Bank's forecast for 1982.

The bank says that the economy is beginning to reflect the conditions created on the balance of payments by poor world environment and is also beginning to react to the internal distortions created by the boom. However, it emphasises that the slowdown which lies ahead is unlikely to deteriorate into a recession and that the economy will begin to improve in 1983.

CONSTRAINTS

Weak external demand, internal physical constraints and the shift in official policies are expected to bring about a positive adjustment to changed circumstances and to contribute to a significant further slowing in the pace of business activity from the second half of 1981.

The 2,2 percent national growth rate will be the lowest in five years but it is still considerably higher than the recent performances in many industrialised countries.

Other features of the forecast are:

- Manufacturing production up by 3,6 percent (6,7 percent) — because of a lower domestic demand which will affect durables hardest.
- Government spending up 4,5 percent (3,5 percent) — a lower rate of increase in tax revenues and conservative policies will restrain spending.
- Tight credit, lower wage increases and rising unemployment will weaken commercial demand.
- A private overdraft rate of 14,5 percent (16 percent).
- Net gold output up by 14 percent (17.8 percent) because of the significant gold-price recovery.

The bank pointed out that the most important determinants of the economy's prospects continue to be the performance of the US economy and the gold price.

JSINESS MAI

2% growth for 1982 forecast

RDM 8/10/81

But Standard Bank sees no recession

(49)

A SLOWDOWN in the economy — but not a recession — is forecast by the Standard Bank economic research division with 1982 producing a growth rate of 2,2% against a projected 4,2% for 1981 and nearly 8% in 1980.

Taking a bead on the distant future the bank says: "The slowdown which lies ahead is unlikely to deteriorate into a recession and an improvement in the economy's performance is expected by 1983."

By HAROLD FRIDJHON

Much of the momentum of 1980 was carried over into 1981 and activity remained high in the first half of this year. The economy's performance has now begun to reflect the poor international environment of the past two years, particularly the lower gold price and the physical constraints on business activity.

The tendency to a much lower growth rate has been reinforced by a shift in the authorities' policies from relative neutrality to a more conservative fiscal outlook and a mild restrictive monetary stance, as well as from more goal-orientated flexible exchange-rate policies.

Although next year's forecast growth rate of 2,2% will be the lowest rate of growth in almost five years, the overall growth rate is still likely to be positive and considerably higher than the recent performance in many industrialised countries in the northern hemisphere.

Excessively high consumer spending of last year and early this year will be "substantially reduced" over the next 18 months, fixed-investment growth will slacken significantly and the building boom will end. The resulting weaker import demand should contribute to an easing of pressures on the balance of payments.

On the other hand, exports and gold earnings are expected to recover as a result of improving world growth and the present huge current account deficit is likely to diminish progressively next year.

The bank expects that conservative fiscal and monetary policies will be applied fairly consistently throughout this year and next, with Government spending kept in check and the Exchequer deficit held to reasonable limits. Interest rates can be expected to be kept high.

While many of the present excesses and imbalances in the economy can be expected to be brought under better control by the end of next year, neither the rate of money supply growth nor the level of inflation is likely to drop to acceptable levels because the of the authorities' reluctance to apply harsh restrictive measures

The timing of recovery will depend on balance of payments trends and expansionary policies are unlikely to be adopted before the current account position has shown a fundamental improvement.

The bank assumes that the drop in the gold price ended in the third quarter of this year and that the price will climb in 1982. If the gold price should move up rapidly to $600 and beyond and other exports should recover sooner than expected, a current account surplus might materialise by the second half of next year and the growth rate could approach 4% — not 2,2% — next year.

The bank's forecasts are:

- **Manufacturing production:** 1981 +6,7%; 1982 +3,6% with durable consumer goods worst hit.

PFP social charter 'a worthwhile beginning'

CT 8/10/81 (49)

By GORDON KLING

ECONOMISTS and the business community yesterday opened debate on the Progressive Federal Party's embryo "economic democracy" doctrine for South Africa. There was an early consensus that the proposals are well-intentioned if somewhat vague.

Most commentators, whilst emphasizing that they still had to study the document in depth, saw the charter for social and economic progress as a worthwhile beginning to an extremely complex issue which could never be factually resolved.

"It strikes me as being fairly general. Actually, I think there is nothing one could really take exception to," said the head of the University of Stellenbosch Bureau for Economic Research, Professor Jan Sadie. However, he expressed concern on the reference to a minimum wage.

"One of the terrible things about the principle of giving each employee a better wage is that it doesn't take into consideration the millions of people who don't have decent jobs."

Brian Kantor, professor of economics at UCT, believed the policy expressed largely admirable sentiments. "But the question is how one implements these things — that's what economic policy is all about.

"I think it's naive to think that governments can actually eliminate poverty. You can blame poverty on nature, then government's rôle is to establish an appropriate environment of laws and institutions in which people can make economic progress. You don't eliminate poverty by waving some magic wand, or by disliking it."

Professor Kantor — who emphasized that he was not coming out against the charter, but believed it could benefit from reaction — also believed it tended to avoid making "hard choices."

"If you choose to redistribute income, for example, towards the poor in order to help them, you reduce the incentive of others, the successes, to make econmic progress. And it's out of the successes that the whole economy is improved and poverty overcome in time."

Professor Kantor maintained that the commission formulating the policy had clearly recognized that there was a trade-off between equality and economic growth. "Economic policy, of course, is taking a position on the trade-off curve, and politicians choose an economic policy which is popular.

"If you want to extend the franchise, then you would have to limit the power of the state to redistribute income because the demands for redistribution at the expense of growth would be irresistible.

"This seems to me to be the crux of economic policy issues — how we can extend the franchise and at the same time limit redistribution of income. Unless you do that, you'll limit economic growth and then one can't get anywhere on poverty."

An appeal for greater inclusion of black attitudes was made by Mr Vic Razis, a lecturer in the Department of Business Sciences at UCT. "In the end it's black perceptions on what type of economy they want that is going to play the final role, not what you or I or the PFP want."

Sacrifice ahead as economy cools down

RDM 1/10/81 49

By JOHN MULCAHY

THE process of consolidation and adjustment which the South African economy has now entered will possibly be completed within the next year.

Volkskas says in its Economic Spotlight the slower growth tempo since the beginning of this year should not have come as a surprise to anyone concerned with business.

With the available human and other productive resources fully used, it was impossible for SA to maintain last year's exceptionally high real growth rate.

It is urgently necessary that the cooling off in the economy be maintained and even assisted, says Volkskas, implying a firmer hand over the increase in the money supply and over the rate of increase in monetary demand.

"The country's overstrained production resources and the large deficit on the current account of the balance of payments are serious matters that must get the attention they deserve."

The restrictive economic policy measures of bank credit controls and particularly high interest rates will adversely affect turnover of durable goods. Inventories will increase initially, but will eventually decline.

Unit production costs could also rise faster than before, and more competitive conditions will emerge that will make it difficult to recover rising costs through price adjustments.

Volkskas notes that some of these tendencies are already noticeable in the motor, furniture and household electrical appliance industries. The bank believes it is only a matter of time before these trends emerge more generally.

Profits will unavoidably be affected and this, along with the high cost of credit, will make heavy demands on the financial management of business undertakings to avoid cash-flow problems.

"However the matter is viewed, it cannot be denied that the time ahead will lead to financial sacrifices in one way or another. No-one likes to see his return on capital reduced, or to see dividend cheques rise more slowly or — even worse — fall."

An alternative is that the slower real economic growth rate could last until 1983, having a negative influence on living standards.

The higher profits attained over the past three years can be ascribed mainly to the better use of factors of production, which meant that the increase in labour costs for a unit of output produced was kept within bounds, and in some cases they even fell, says Volkskas.

The tendency towards a slower rate of increase in production is already evident if it is noted that the growth rate slowed in the second quarter of this year to 4,8% in comparison with the previous year. The trend line of the seasonally adjusted figures shows a definite flattening out in the rate of increase.

There is a tendency for unit wage costs to accelerate in the manufacturing industry, says Volkskas, although unit costs in production do not necessarily follow the same pattern, and generally total unit costs of production rise more slowly as a result of a slower rate of increase of certain raw material inputs.

"This pattern can continue, as was found in the last downswing. It could even be the case again that as demand conditions become less favourable so the gap between unit costs and prices narrows because costs are increasingly absorbed in an attempt to stimulate sales."

49

3. Ambassade van die Verenigde Koninkryk van Groot-Brittanje en Noord-Ierland.

Mnr. S. Catlin.
Mev. M. V. Catlin.
Jongejuffrou C. L. Catlin.
Mnr. M. G. Ogden.

4. Ambassade van die Verenigde State van Amerika.

Mnr. J. J. Carragher.
Mev. D. D. E. Carragher.
Mej. D. C. Carragher.
Mej. B. A. Carragher.
Mej. D. J. Hecht.

3. Embassy of the United Kingdom of Great Britain and Northern Ireland.

Mr S. Catlin.
Mrs M. V. Catlin.
Miss C. L. Catlin.
Mr M. G. Ogden.

4. Embassy of the United States of America.

Mr J. J. Carragher.
Mrs D. D. E. Carragher.
Miss D. C. Carragher.
Miss B. A. Carragher.
Miss D. J. Hecht.

KANTOOR VAN DIE EERSTE MINISTER

No. 2152 9 Oktober 1981

AANSTELLING VAN WAARNEMENDE MINISTER

Hierby word bekendgemaak dat die Staatspresident goedkeuring geheg het aan die aanstelling van 15 Oktober 1981 af van Sy Edele dr. C. V. van der Merwe as Waarnemende Minister van Gesondheid, Welsyn en Pensioene gedurende die afwesigheid uit Suid-Afrika van Sy Edele dr. L. A. P. A. Munnik.

OFFICE OF THE PRIME MINISTER

No. 2152 9 October 1981

APPOINTMENT OF ACTING MINISTER

It is hereby notified that the State President has approved the appointment from 15 October 1981, of Dr the Honourable C. V. van der Merwe as Acting Minister of Health, Welfare and Pensions during the absence from South Africa of Dr the Honourable L. A. P. A. Munnik.

DEPARTEMENT VAN FINANSIES

No. 2134 9 Oktober 1981

Staat van Inkomste ingevorder gedurende die tydperk 1 April 1981 tot 31 Augustus 1981.

Tesourie, Pretoria.

DEPARTMENT OF FINANCE

No. 2134 9 October 1981

49

Statement of Revenue collected during the period 1 April 1981 to 31 August 1981.

Treasury, Pretoria.

Inkomstehoof	Head of Revenue	Ingevorder vir die jaar geëindig 31 Maart 1981 Collections for year ended 31 March 1981	Maand Augustus Month of August		Totaal 1 April tot 31 Augustus Total 1 April to 31 August	
			1981	1980	1981	1980
		R	R	R	R	R
Staatsinkomsterekening	*State Revenue Account*					
Doeane en Aksyns—	Customs and Excise—					
Invoerreg	Customs Duty	735 834 201	91 360 872	59 361 924	426 015 886	260 965 738
Aksynsreg	Excise Duty	1 243 200 329	74 422 472	63 996 280	521 353 772	429 494 700
Verkoopreg	Sales Duty	593 812	41	1 395	43 338	148 248
Bobelasting	Surcharge	Dr 2 796 134	Dr 37 904	Dr 367 249	Dr 527 059	Dr 1 620 338
Diverse	Miscellaneous	46 743 303	3 795 270	5 552 445	19 419 346	19 120 555
	R	2 023 580 511	169 540 751	128 544 793	966 305 283	708 108 903
Oordrag na Sentrale Inkomste Fonds	Transfer to Central Revenue Fund (a)	Dr 41 500 000	Dr 4 000 000	Dr 3 000 000	Dr 27 849 498	Dr 15 500 000
Betalings Ingevolge Doeane- Unie-ooreenkomste	Payments in terms of Customs Union Agreements (b)	Dr 504 919 434	—		Dr 242 333 167	Dr 236 853 500
	R	Dr 546 419 434	Dr 4 000 000	Dr 3 000 000	Dr 270 182 665	Dr 252 353 500
	R	1 477 161 077	165 540 751	125 544 793	696 122 618	455 755 403
Binnelandse Inkomste—	Inland Revenue—					
Belasting op Inkomste	Tax on Income	7 522 124 818	1 073 414 954	1 326 570 698	3 225 683 948	3 174 550 660
Ander Belastings en Ontvangste—	Other Taxes and Receipts—					
Goudmynhuurkontrakte	Gold mining leases	838 195 071	292 117 693	266 181 316	292 237 980	266 180 948
Ander mynhuurkontrakte	Other mining leases	23 565 081	3 890	136 592	6 680	264 071
Staatseiendomsreginkomste op diamantmyne	State Ownership Revenue on diamond mines	18 456 561	3 532	—	454 323	30 566
Uitvoerregte op diamante	Export duty on diamonds	24 797 439	4 145 511	2 305 933	11 697 846	9 945 657
Belasting op buitelandse aandeelhouers	Non-Resident shareholders' tax	296 557 601	23 169 756	20 007 704	138 010 197	98 679 121
Rentebelasting op buitelanders	Non-Resident's tax on interest	12 081 878	915 765	746 102	5 301 101	5 332 791
Belasting op onuitgekeerde winste	Undistributed profits tax	2 435 157	109 521	291 023	1 125 657	1 036 857
Belasting op geskenke	Donations tax	1 961 296	134 493	62 471	832 265	685 641
Seëlregte en gelde	Stamp duties and fees	137 503 002	10 471 275	9 847 278	57 885 131	53 017 487
Hereregte	Transfer duties	153 917 914	13 990 841	13 451 355	64 914 200	58 493 660
Boedelbelasting	Estate duties	61 344 662	4 988 024	4 270 112	27 728 114	24 634 135
Belasting op bemarkbare sekuriteite	Tax on marketable securities	33 615 310	1 947 050	3 553 238	9 795 399	13 279 503
Lisensies	Licences	2 576 432	48 981	60 479	289 782	317 659
Kinematograaffilmsbelasting	Cinematograph films tax	850 775	64 705	61 210	353 495	345 226
Ander	Other	2 138 199	178 405	362 738	4 975 259	265 900
Departementele en Diverse Ontvangste—	Departmental and Miscellaneous Receipts—					
Staatsdiamantdelwerye	State Diamond Diggings	5 495 004	—	—	—	2 367
Bosinkomste	Forest revenue	44 629 737	2 912 852	—	9 781 919	11 516 871
Waterinkomste	Water revenue (c)	61 254 893	4 287 519	4 310 928	17 210 006	16 266 963
Boetes en verbeurdverklarings	Fines and forfeitures	13 365 412	1 267 392	1 237 680	6 060 419	5 311 030
Verhalings van voorskotte	Recoveries of advances	14 597 158	348 422	1 726 218	[illegible]	5 894 459
Verkoop van staatsgrond	Sale of state land	2 957 208	—	36 524	21 478	349 976
Verhuring van staatseiendom	Rental from state property	15 887 640	512 438	1 148 745	6 441 225	4 278 800
Algemeen	General	227 155 551	16 316 612	45 965 849	77 351 659	96 099 914
Rente en Dividende	Interest and Dividends	571 828 440	37 989 438	38 481 784	176 775 885	248 603 826
Terugbetaling van Lenings	Repayment of Loans	90 739 979	1 159 517	6 067 480	4 872 949	34 390 841
Algemene Verkoopbelasting	General Sales Tax	1 653 097 825	172 092 137	131 195 192	814 993 160	639 690 038
	R	11 833 130 043	1 662 570 740	1 878 078 649	4 957 706 139	4 769 463 667
	R	13 310 291 120	1 828 111 491	2 003 623 442	5 653 828 757	5 225 219 070

Inkomstehoof	Head of Revenue	Ingevorder vir die jaar geëindig 31 Maart 1981 / Collections for year ended 31 March 1981	Maand Augustus / Month of August 1981	Maand Augustus / Month of August 1980	Totaal 1 April tot 31 Augustus / Total 1 April to 31 August 1981	Totaal 1 April tot 31 Augustus / Total 1 April to 31 August 1980
Staatsoliefonds	State Oil Fund (d)	277 424 571	25 591 513	24 167 543	119 180 158	109 668 261
Nasionale Padfonds	National Road Fund (e)	140 782 649	13 362 976	12 113 845	60 487 083	54 904 322
Suid-Afrikaanse Ontwikkelingstrustfonds	South African Development Trust Fund (f)	13 227 673	1 179 141	459 109	3 233 435	2 428 599
Rekening vir Swart Vervoerdienste	Account for Black Transport Services (g)	15 570 716	817 151	1 691 943	5 471 521	6 017 636
Fonds vir Sorghumbiernavorsing	Sorghum Beer Research Fund (h)	1 019 556	527 976	—	1 081 137	950 000
Suidwes-Afrika Gebiedsinkomstefonds	South-West Africa Territorial Revenue Fund (i)	17 403	—	918	1 133	5 154
	R	448 042 573	41 478 757	38 433 358	189 454 470	173 973 972
Totaal	Total R	13 758 333 693	1 869 590 248	2 042 056 800	5 843 283 227	5 399 193 042
Rekonsiliasie met opgaaf gepubliseer by Goewermentskennisgewing 1945 in *Staatskoerant* van 11 September 1981	Reconciliation with statement published by Government Notice 1945 in *Government Gazette* of 11 September 1981					
In Transito, 31 Maart 1981	In Transit, 31 March 1981	—	—	—	59 648 695	—
Te veel oorgedra 31 Julie 1981	Overremitted 31 July 1981	—	12 046 444	—	—	—
Invorderings soos hierbo	Collections, as above	—	1 869 590 248	—	5 843 283 227	—
	R	—	1 857 543 804	—	5 902 931 922	—
Te veel oorgedra 31 Augustus 1981	Overremitted 31 August 1981	—	5 455 437	—	5 455 437	-
In Skatkisrekening ontvang	Received into Exchequer Account R	—	1 862 999 241	—	5 908 387 359	—

(a) Artikel 22 (1) (d) van Wet 25 van 1969.
(b) Artikel 51 (2) van Wet 91 van 1964
(c) Voorheen ingedeel onder "Algemeen"
(d) Artikel 1 van Wet 38 van 1977
(e) Artikel 2 (1) (a) van Wet 54 van 1971
(f) Artikel 8 van Wet 18 van 1936
(g) Artikel 7 van Wet 53 van 1957.
(h) Artikel 19*bis* (1) (a) van Wet 63 van 1962.
(i) Artikel 22 (4) (a) van Wet 25 van 1969

(a) Section 22 (1) (d) of Act 25 of 1969
(b) Section 51 (2) of Act 91 of 1964
(c) Previously included under "General".
(d) Section 1 of Act 38 of 1977
(e) Section 2 (1) (a) of Act 54 of 1971
(f) Section 8 of Act 18 of 1936
(g) Section 7 of Act 53 of 1957
(h) Section 19*bis* (1) (a) of Act 63 of 1962.
(i) Section 22 (4) (a) of Act 25 of 1969

No. 2150 9 Oktober 1981

PLAASLIKE GEREGISTREERDE EFFEKTE, 8½ PERSENT, 1996, SERTIFIKAAT 3999 VIR R10 000 UITGEREIK TEN GUNSTE VAN MNR. R. B. MILLAR

Aangesien daar by die Tesourie aansoek gedoen is om 'n duplikaat van bovermelde effektesertifikaat wat verloor of verlê is, word hierby bekendgemaak dat, tensy die oorspronklike sertifikaat binne vier weke na die datum van publikasie van hierdie kennisgewing by hierdie kantoor ingelewer word, die verlangde duplikaat uitgereik sal word.

No. 2151 9 Oktober 1981

Hiermee word bekendgemaak dat die oordragboeke van ondergenoemde plaaslike/binnelandse geregistreerde effekte van 15 Oktober 1981 tot en met 15 November 1981 gesluit sal wees en dat die rente betaalbaar op 15 November 1981 aan die effektebesitters wat op die datum van sluiting van die oordragboeke geregistreer is, betaal sal word:

5¼ Persent Plaaslike Geregistreerde Effekte, 1982.
8½ Persent Plaaslike Geregistreerde Effekte, 1996.
Binnelandse Geregistreerde Effekte, 9¼ Persent, 1999.
Binnelandse Geregistreerde Effekte, 9¾ Persent, 1994.
Binnelandse Geregistreerde Effekte, 9¾ Persent, 1999.
Binnelandse Geregistreerde Effekte, 9½ Persent, 1990.
Binnelandse Geregistreerde Effekte, 9½ Persent, 1984.
Binnelandse Geregistreerde Effekte, 10¾ Persent, 1999.
Binnelandse Geregistreerde Effekte, 11 Persent, 1997.

DEPARTEMENT VAN GESONDHEID, WELSYN EN PENSIOENE

No. 2122 9 Oktober 1981

OORDRAG VAN BEVOEGDHEDE EN PLIGTE KRAGTENS ARTIKEL 31 (2) (a) VAN DIE WET OP GESONDHEID, 1977 (WET 63 VAN 1977)

Kragtens die bevoegdheid my verleen by artikel 31 (2) (a) van die Wet op Gesondheid, 1977 (Wet 63 van 1977), gelas ek, Lourens Albertus Petrus Anderson Munnik, Minister van Gesondheid, Welsyn en Pensioene, hierby dat al die

No. 2150 9 October 1981

LOCAL REGISTERED STOCK, 8½ PER CENT, 1996, CERTIFICATE 3999 FOR R10 000 ISSUED IN FAVOUR OF MR R. B. MILLAR

Application having been made to the Treasury for a duplicate of the above-mentioned stock certificate the original having been lost or mislaid, notice is hereby given that unless the original is produced at this office within four weeks from the date of publication of this notice, a duplicate as applied for, will be issued.

No. 2151 9 October 1981

Notice is hereby given that the transfer books of the undermentioned local/internal registered stocks will be closed from 15 October 1981 to 15 November 1981, both days inclusive, and that the interest due on 15 November 1981, will be paid to the stockholders registered at the date of closing of the transfer books:

5¼ Per Cent Local Registered Stock, 1982.
8½ Per Cent Local Registered Stock, 1996.
Internal Registered Stock, 9¼ Per Cent, 1999.
Internal Registered Stock, 9¾ Per Cent, 1994.
Internal Registered Stock, 9¾ Per Cent, 1999.
Internal Registered Stock, 9½ Per Cent, 1990.
Internal Registered Stock, 9½ Per Cent, 1984.
Internal Registered Stock, 10¾ Per Cent, 1999.
Internal Registered Stock, 11 Per Cent, 1997.

DEPARTMENT OF HEALTH, WELFARE AND PENSIONS

No. 2122 9 October 1981

TRANSFER OF POWERS AND DUTIES IN TERMS OF SECTION 31 (2) (a) OF THE HEALTH ACT, 1977 (ACT 63 OF 1977)

Under and by virtue of the powers vested in me by section 31 (2) (a) of the Health Act, 1977 (Act 63 of 1977), I, Lourens Albertus Petrus Anderson Munnik, Minister of Health, Welfare and Pensions, hereby order that all the

Horwood warns of decline in growth

RDM 17.10.81

(49)

Mail Reporter

SOUTH AFRICA should register "quite a respectable" growth rate for the whole of 1981, the Minister of Finance, Mr Owen Horwood, said in Johannesburg last night.

Addressing the annual banquet of the South African-German Chamber of Trade and Industry the Minister warned, however, that in view of international economic prospects it was only realistic to expect a further decline next year.

But he said the pause in the growth rate could well be afforded at this stage.

Fiscal and monetary policy would be aimed at keeping the balance of payment deficit on current account in check, and at curbing inflation, which was still too high in spite of recent indications of a moderating tendency.

Achieving these aims would require continued strict discipline on Government spending.

Interest rates, the Minister said, could be expected to remain at a relatively high level for some time to come.

The Minister stressed that this did not mean the Government had forsaken its growth objectives.

On German trade Mr Horwood said last year total imports from SA amounted to R800-million, and total West German exports to SA to R1 860-million.

The figures amounted to 4% of total South African exports, and 12,9% of total imports. They placed West Germany in third place among SA's trading partners.

Mr Horwood said South Africa was an important source of minerals for industrialised countries and was a reliable supplier.

This was being increasingly recognised by Western countries.

There was one disappointing aspect of economic relations with West Germany — the balance of trade was heavily in favour of Germany.

Stressing the importance of West German investment in South Africa, the Minister said these amounted to between R2-billion and R3-billion.

n court

Mr Simelane said he saw Mr Nzama stab her twice.

After Mr Nzama had taken various articles from the car, Mr Simelane left him.

Mr Nzama has denied any knowledge of the incident.

Both men were remanded in custody until October 28. — Sapa.

13/10/81

Reserves plummet

49

Mercury Correspondent

JOHANNESBURG — The official foreign exchange holdings of the Reserve Bank fell by R476 million in September to only R263 million, but while this is the lowest level since 1974 — when they reached R190 million — the cash ratio of the reserves is very much lower than then in relation to the import bills in money terms.

Imports in 1974 were R5 768m against R14 207m in 1980 and R8 411m in the first half of 1981.

The overall reserves position is not in any dangerous position.

Net reserves, taking into account the huge repayment of foreign debt over 1977 to 1980, are stronger than they have generally been for South Africa.

Also the value of the gold holding at the end of last month, on the Reserve Bank's market-related formula, was R 4 638 m — R318 m higher than the end of August because of an increase in the official valuation price from R352,90 an ounce to R375,29.

It is clear that the Reserve Bank ran into an acute shortage of foreign exchange at the end of last month.

No doubt steps have been taken to remedy this and the October figure will probably show a major increase.

The September crash was accentuated by the decision to add 116 000 ounces of gold to stocks, bringing it to about 12,36 m ounces — its highest ever.

On the surface it seems odd to be holding back gold at a time when the foreign exchange holding was under such pressure. But the October figures should show the effect of a smoothing out of the problem.

The foreign exchange drain is a reflection of the heavy deficit that now confronts the current account of the balance of payments.

South Africa could, of course, mount a gold swop on the lines of the 1976 and 1977 deals to raise foreign currency.

It is far more likely that the Reserve Bank will, if it has not already done so, simply raise large short-term credits from overseas banks.

In the slightly longer term the foreign exchange holding should gain appreciably from a higher forward dollar exchange discount and thus form a reversal of the flow of trade finance.

Sapa reported that the total gold and foreign assets of the Reserve Bank declined by R158 824 705 from August 31 and stood at R4 901 024 401 on September 30.

According to the monthly statement of the bank the gold holdings increased by R317 699 042 to R4 637 764 009 at the end of September.

Foreign bills dropped from R57 020 746 at the end of August to R48 614 074 at the end of September, while foreign investments increased from R38 370 713 to R40 430 961.

A poised for a g gold swop deal

KDM 14/10/81 ~~39~~ 49

SOUTH Africa is now on the brink of a major "gold swop" deal to raise hundreds of millions of rands worth of foreign exchange.

Contingency arrangements for a deal with overseas banks have already been cleared.

By HOWARD PREECE

It seems certain to be put into action unless there is a remarkable and almost immediate turnaround on the balance of payments and the official reserves positions

If it does go ahead, however, the swop is unlikely to involve as much physical gold as the two previous swops — in 1976 and 1977 — when around 4-million ounces were mobilised each time.

However, with the gold price today well over three times the level of the average London fixings at the time of the 1976 and 1977 deals that is hardly surprising.

A total of at least R700-million was raised in those two operations.

The intention, assuming the 1981 swop goes ahead, will be to keep it within 1976-77 proportions.

Basically a gold swop involves using gold as collateral for a foreign loan.

It avoids selling gold, and thus depressing the market.

The profit for the lender comes in the fact that the gold is sold spot by South Africa and repurchased forward at an agreed higher level.

In 1976 and 1977 the swops led to large rises in the reserves because gold was then valued at its official price of R29,55 but could be used for foreign exchange worth very much more.

A gold swop now, with gold already at a marked-related value, would rather mean a change in the composition of the reserves than an increase.

Liquidity would be boosted.

Large short-term borrowings from overseas central banks have already been made this month by the Reserve Bank.

This follows the whopping fall in the official foreign exchange holdings of the bank in September by R476-million to only R263-million.

This does not mean there is a "reserves crisis".

The official gold holding is worth over R4 500.

Also, over the four years 1977-80 South Africa piled up surpluses of more than R7 500-million and made massive repayments of foreign debt.

The result was that the country was actually under-borrowed.

However, the current account is now back in deficit — R1 412-million in the first half of 1981 — and that puts the reserves under pressure.

More particularly, it has put the "cash content" — the foreign exchange component of the reserves — under special strain in recent weeks.

There has now been a big shift in official thinking on how to tackle this.

Even last month the view in Pretoria was that after the first line of defence — official borrowing from central banks — the next line would be to create of reversal of the outflow of trade finance.

This would be done by raising the forward dollar discount to the level necessary to make it commercially sensible for traders to switch heavily from borrowing locally to borrowing overseas.

Dr Gerhard de Kock, the Governor of the Reserve Bank, had said several times that as much as R2 000-million could be mobilised over the medium term this way.

Gold swops, which have some disadvantages in terms of the effective interest cost, were seen as the third line with borrowing from the International Monetary Fund as the backstop.

In any case the foreign exchange holding looked sufficient to cope with the help of official borrowing from overseas.

That last point was changed considerably by the huge September ouflow.

However, the crucial point is that the authorities have changed their mind over the respective priorities of trade finance reversals and gold swops.

The problem with trying to create a flow of funds into the reserves through trade switching is that it also has an expansionary effect on domestic money supply.

Although the growth in money supply was cut down to an annual rate of 14% for May to July (and even less in August) the running rate for the broadly defined M2 in the first four months of the year was a horrendous 53%.

With the latest 12-month rise in the consumer price index at 15,5% inflation is clearly the most pressing danger in the economy.

The advantage of a gold swop deal for foreign exchange is that it bolsters the reserves but has no direct effect on domestic money supply.

Indeed, in so far as it allows the authorities to let the current deficit flow on it permits a more restrictive monetary policy.

This consideration has proved paramount in Pretoria.

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BUSINESS

● Financial Editor Michael Chester reports from Durban on the annual congress of the Association of Chambers of Commerce.

Warning on tax increases as Assocom meets

Star 14/10/81

49

Warning was sounded today at the outset of the 1981 annual congress of the Association of Chambers of Commerce that income-tax rates look set to curve higher over the next year or two as the boom subsides.

Mr J M Kahn, managing director of OK Bazaars, one of the biggest retailers in the country, told business leaders that the signas had been flashed by recent increases in cigarette-and-liquor duties.

He estimated that while 1980 tax cuts had held the brakes on rises in overall individual tax payments to about seven percent last year, it was likely that the tax collector will net no less than 25 percent more in the current financial year.

FORECAST

Mr Kahn forecast that the 1981 inflation rate will prove by the year end to have accelerated from 13,8 percent to about 15,5 percent. Simultaneously, the boost provided by the boom in the creation of new job opportunities will reverse and unemployment will be on a climb again.

Moreover, he added, the wage spiral inspired by the boom had slowed down and the real buying power of paypackets at the moment was at best stagnating. He predicted that families will tighten the strings on their savings accounts.

Mr Kahn calculated that almost half of the rise in spending at the peak of the boom last year was financed by credit and dipping into savings. Now, as interest rates go higher and make it more attractive to save while families fret about future finances, more cash is likely to go into the piggy bank.

The fall in consumer demand, he said, was being made steeper by the scarcity and higher cost of credit compared with a year ago — with an impact on buying of items from cars and houses to garden tools and furniture.

Even so, Mr Kahn said, he remained an optimist. Barring a full-scale collapse of the gold price he reckoned the chances were good that the current downward phase in the business cycle would be relatively brief and mild.

CONVINCED

It was most unlikely, he insisted, that South Africa would experience in 1982 and 1983 — a recession as painful as in the mid-1970s when economic growth toppled to zero.

He forecast that the economy as a whole would grow by at least two percent next year and swing higher to from three and four percent in 1983 and on to five percent in 1984.

Most economists were now convinced that demand from export markets was likely to improve markedly over the next 12 months — meaning benefits to the internal economy by early 1983.

"The course of the gold price," he said, "has become a subject for astrologers and horse-racing tipsters, but here again there seems to be broad agreement that the price will turn up within the next 12 months and probably much sooner."

Playing in the national favour, he argued, was that several big investment programmes were likely to be continued, irrespective of the general business climate — gold and coal-mine expansions, Sasol developments, new Escom power stations and new ventures in commerce.

Moreover, dependence on overseas energy supplies was on a steady decline "so that future oil price shocks will hopefully have only a relatively mild impact."

Still, the outlook differed form sector to sector. Export industries, he predicted, would be among the first to recover but consumer spending would he a late starter in the next upswing.

Increases in spending by consumers looked set to slide from five percent this year to 2,5 percent in 1982 and down to two percent in 1983.

The brunt of the down turn in spending, he said, would be in what he called big-ticket items — such as cars, big domestic appliances, and furniture, bringing the increase in sales of durables down from 10 percent for 1981 to no more than one or two percent in the next

GREEN LIGHT

Businessmen were warned that high-profit margin operators would suffer most as consumers came under pressure to economise.

Companies would be wrong to pull in their horns, cut advertising budgets, curtail promotions and shelve expansions, merely hoping to survive until the next upturn.

"The lights should not be on amber during the downturn," he said. "They should be on green. A downswing is a time for courage and nerve — not timidity."

A second industrial revolution predicted – on skills of blacks

(49)

NM 15/10/81

Financial Editor

SOUTH Africa is entering a second industrial revolution which will be based on the skills of trained black people and not on the skills of white immigrants as was the case in the Sixties.

This is the view of Professor J A Lombard, of the 'Lombard Report' on Natal, former special adviser to the S A Reserve Bank and head of the Department of Economics at the University of Pretoria.

Speaking at the Assocom congress in Durban yesterday he said: 'There will be a massive migration of Africans from the rural areas of southern Africa to the industrial growth poles of the region.'

The Government could be expected to 'seriously embark upon a major programme of sub-regional decentralisation of economic activity.

'Unless the Government of Mr Botha does undertake such a major decentralisation programme, the entire tradition of political pluralism in South Africa must be mortally endangered.

'And with the disappearance of the present geographic distribution of ethnic pluralism will also disappear the chances of a peaceful transition to normal participation by blacks in the political processes of the southern African region with a confederal or a federal constitutional dispensation.'

Spending

Professor Lombard said that if it were assumed that such a programme was launched next year 'a very considerable adjustment in the geographic distribution of physical capital formation must be expected.'

He said that at least R18 000 million would have to be spent in the rest of this decade in areas outside the PWV and Durban's metropolitan area. That would be about R2 000 million a year, of which half might come from the public sector.

He said that the economic outlook in the region for the 1980s was bright. From the international economy, exciting injections of business activity in the short run could not be expected 'since the Reagan policy must have its sanitary impact'.

In the long run stable real growth in international trade would benefit the South African economy.

The mining industry would not repeat its performance in the 1980s but should see a relatively more stable period of expansion.

Welfare

South Africa had the economic means to spread material welfare to all its people through the process of rapid economic growth — the sucess hinges on 'our manpower training programmes — including the general educational basis of our economy.'

The training programmes had to take the place of immigration.

Some of the implications were that the building industry would have to provide more modest houses for black middle-class urbanites.

The De Lange Report had indicated that 250 000 teachers would have to be trained in the next 20 years.

'The social and political implications of this second industrial revolution will be immensely different from the implications of the earlier process based on European immigration.

Adjustments

'While these immigrants were imperceptibly absorbed into the existing political institutions of the domestic urban society, this is obviously not what is going to happen to the African migrants.

'If the convergence of people from rural areas to the Pretoria, Witwatersrand-Vereeniging (PWV) area is to continue so that over the next two decades say 40 percent of the population is concentrated in that area instead of the present 26 percent, the political adjustments and reforms which will be required will undoubtedly be completly unacceptable in terms of the political philosophy of the supporters of the present South African government, and these adjustments may well be equally unpalatable to many leaders of the black states in southern Africa as well.'

Meyer Kahn sees marked slowdown in consumer spending in next three years

CT 15/10/81 (49)

By **PAUL DOLD**
Financial Editor

A marked slowdown in consumer spending over the next three years with the growth rate sliding from this year's five percent to 2,5 percent in 1982 and around two percent in 1983 has been forecast by OK Bazaars' managing director Mr Meyer Kahn.

But he was confident that the environment for business in the next few years would not be bad — merely less good than in 1979 and 1980.

Speaking at the Assocom conference on the business outlook, he said there was little doubt that business activity was now on the downswing and even those sectors which were still relatively buoyant would experience a marked falling off in business over the next few months.

"I make no bones about being an optimist. Barring a sustained collapse in the gold price, chances are good that the present downward phase in the business cycle will be relatively brief and mild.

"It seems most unlikely that South Africa will experience in 1982 and 1983 a recession as painful as that of the mid-seventies when the growth rate dropped to zero.

"My prediction is that the economy as a whole will grow by at least two percent next year, before accelerating to between three percent and four percent in 1983 and five percent in 1984."

The economy would benefit from several factors including:

- An upswing in South Africa's major export markets next year with the benefits being felt by the internal economy by early 1983.
- The gold price should turn up within the next 12 months at the latest.
- The economic growth rate would benefit from the large investment programmes which continue irrespective of the general business climate.
- The country's dependence on foreign energy supplies is steadily falling.

"Despite this fairly bullish scenario of a recovery in the overall growth rate within 18 months or so the outlook obviously differs from one sector to another. Export-oriented industries will be among the first to recover with sectors serving the domestic market following later.

"It will take some time for higher export earnings and corporate profits to be translated into tax cuts, wage increases, higher employment and increasing confidence with the result that consumer spending is one of the late starters in an upturn.

"Private consumption outlays are unlikely to rise significantly in real terms before the end of 1983 and perhaps even early 1984.

The downturn would be most severely felt in durable goods most of which are expensive, such as cars, large appliances and furniture.

Spending on durables rocketed by 27% in real terms in the boom.

"Sales of durable goods are likely to rise by around 10 percent in real terms this year but there will probably be a sharp drop in 1982 and 1983 to a marginal increase of no more than one or two percent."

In contrast, food sales should remain fairly steady over the next two years. Food and non-durable sales had risen by a relatively modest five percent in 1980 and the growth rate was unlikely to fall below an average three percent a year between 1981 and 1983.

But Mr Kahn say marked changes in food purchaisng patterns over the next few years, such as a shift away from luxury goods including imported delicacies.

"The recent history of meat consumption should be a sobering lesson to all business men. The steep rise in meat prices last year (prices rose by over 50 percent for most cuts) has resulted in a dramatic swing away from meat towards lower price

Continued on page 10.

Tips on how to profit from the downswing

MR KAHN, who dramatically vaulted the OK Bazzaars back into the super growth profit stakes after being appointed managing director, gave retailers some tips on managing the downswing.

He predicted that more women would go to work as family finances became tighter. This would lead to increasing demand for relatively inexpensive, labour-saving products in the home, including fast foods.'

Calls for extended shopping hours would grow and businesses offering quick, convenient ways to shop will reap particular benefits.

The significant geographic shift in consumer spending (from investment projects in the platteland) would lead to faster growing job opportunities and more buoyant wages in areas such as Richards Bay, the south eastern Transvaal and the Free State goldfields.

P.T.O.

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More jobs the top priority — Horwood

RDM 16.10.81 (49)

SOUND economic growth remained one of South Africa's highest priorities, the Minister of Finance, Mr Owen Horwood, said in Cape Town yesterday.

It was estimated that South Africa's population could total about 45-million over the next two decades, said Mr Horwood, who was opening the SA Championship Wine Show at Goodwood in the Cape.

At the same time the present economically active population of about 10-million would probably increase to 18-million.

Strategy

"By then our economy must have grown to such an extent that it can provide about 480 000 new job opportunities annually. Another estimate is that our average real economic growth rate must be about 5% a year to meet this requirement," Mr Horwood said.

South Africa would have to follow a strategy which recognised the importance of creating job opportunities.

Although the wine industry was experiencing a surplus of production, the longer term prospects were more favourable, Mr Horwood said.

With improved production, marketing and packaging methods, the improved quality of the wines and the growing market among blacks, surpluses might become a thing of the past. — Sapa.

Downturn in economy poser for FCI

Star 19/10/81

By Mervyn Harris

Delegates at the opening in East London today of the annual convention of the Federated Chamber of Industries (FCI) heard that the national economy was firmly in the grip of an export-led downturn.

The basic question was whether to permit the momentum of the cycle to carry the economy towards a low rate of growth or to sustain the pace of economic activity nearer the longer-term growth potential in the interests of income and employment creation.

WARNING

The question was posed by the executive director of the FCI, Dr J C van Zyl, who warned in a report for consideration at the convention:

"It is necessary to ensure that, as the authorities gain control over the money supply, conditions do not become over-restrictive, precipitating recessionary conditions."

He said that the chamber emphasised the danger of using monetary instruments alone to regulate the economy.

The FCI accepted the desirability of broad and realistic monetary targets, but it opposed mechanistic application of a money rule with policy adjustments keyed automatically to money-supply statistics.

The FCI would continue to monitor developments and make representations to the authorities as and when necessary.

Dr van Zyl said that the chamber had redefined its policy on industrial protection in view of the need to maintain economic momentum to create employment and, at the same time reduce inflation.

The methods of protection being granted to domestic industry was thus of considerable importance.

The removal of price control from a large number of industries was welcomed and the chamber was in the process of making representations to the government over general policy on price control.

DISTORTIONS

"A less-satisfactory position has been reached with price control under the Marketing Act affecting a large number of food products

"Not only has price control introduced wide distortions into this sector but the adjustment mechanism in terms of which the value of capital assets is adjusted for inflation has proved ineffective.

"Equally important under these circumstances is the policing of effective competition.

"The chamber has made a number of submissions to the Competition Board designed to align competition policy with the needs of the country, especially in the area of guidelines for acquisitions and mergers."

WATCHING BRIEF

The FCI continued to hold a watching brief over possible unfair competition between co-operatives and the proprietary sector.

The package deal arrived at between the government and the proprietary sector as far back as 1977 had not as yet been put into effect.

At the same time the Department of Agriculture had been engaged in a major revision of the Co-operatives Act.

In the first draft of the new legislation the chamber was greatly alarmed to see a number of changes which went far beyond a consolidation of the legislation and introduced a number of principles and privileges.

FUNDAMENTALLY

These conflicted fundamentally with the terms of the package deal as understood by the chamber.

This was a matter of deep-going concern and the FCI had pledged itself to curbing the power of co-operative societies to use their privileges. These had been given as part of an agricultural-support programme in such a way as to disrupt activities of the proprietary sector.

Change to set the tills ringing

49

Mail Correspondent

THERE was no alternative to "economic paternalism" in South Africa, Professor J L Sadie, director of the Bureau for Economic Research at the University of Stellenbosch, told the President's Council yesterday.

African communities would have to undergo a "complete metamorphosis" to produce the entrepreneurial material needed for economic development, Prof Sadie said in evidence to the PC's science committee.

It would be almost impossible in South Africa to produce the entrepreneurs needed to keep pace with the demands of the economy, he told the committee, which is investigating demographic trends and population growth in South Africa.

Recent changes in labour practices had improved the chances of producing entrepreneurs, but it would still be difficult to find people to fill the top positions.

Inborn

Prof Sadie was responding to questions from Mr Jac Penn, plastic surgeon and a member of the science committee, who said it "puzzled" him that while people could be taught skills their ability to apply these skills was "a different thing" which was "inborn"

"To create entrepreneurs of value you have to have initiative, which seems to be scarce in the rest of Africa," he said

Prof Sadie agreed that one needed "a certain kind of talent or approach or mentality to produce the right type of person in the first class (of entrepreneurs)".

"You need a certain type of achieving society with achievers with driving initiative, people wanting to achieve something in the economic field."

Mr Penn said in 30 years the Natal medical school had produced many coloured and Indian specialists but very few black ones.

Prof Sadie replied that the prospects of producing more black medical men would be improved by the increasing flow of black matriculants, but it would be more difficult to produce enough engineers and businessmen.

Warning to NDMF on slowdown

Star 2/10/81 (49)

By Ann Crotty

In his address to the NDMF conference today, Dr C J van Wyk, joint managing director of the Trust Bank, warned the government to be moderate in economic-policy actions to avoid too long and too deep a recession.

He said that the present slowdown is a normal reaction of market forces to disruptions caused by last year's high growth.

Because of high inflation, excessive monetary growth and large current account deficits the government has little scope for a stimulatory policy in the near future.

Dr van Wyk expects the economy to slow down from a real GDP growth rate of 4.5 percent in 1981 to less than 2 percent in 1982 in the absence of a bumper agricultural crop.

He said that care should be taken in applying stringent monetary policies for too long during the phase of economic contraction.

"Monetary and fiscal policies are in themselves ineffective measures to control double-digit cost-push inflation. The effects of a sustained stringent monetary and fiscal policy on interest rates and the exchange rate proved to have far-reaching negative effects on the real sector of the economy."

Mr Rudolf Gouws, senior economist of the Nedbank Group, said that he expected to see the economy bottoming out in early 1983. He feels that total real spending will not rise at all in 1982 and that there will be a cutback in aggregate living standards and a reduction in black employment.

● More NDMF reports on Page 35.

MERVYN HARRIS REPORTS FROM THE FCI CONGRESS

Employment and growth strategy needed — Brand

Star 21/10/81 (19)

EAST LONDON — Dr Simon Brand, economic adviser to the Prime Minister, said yesterday that growth projections for the 1980s showed that five percent growth should keep unemployment in check.

Unemployment was, however, expected to rise again with the pause in growth, especially among the unskilled.

The past three years had confirmed economic development programme (EDP) conclusions that attainable growth in itself was not enough to wipe out accumulated unemployment.

Employment strategy was therefore required in addition to growth strategy.

Measures recommended included removal of impediments to employment creation and elimination of measures that encourage replacement of labour by captial.

One element directly relevant to regional development was the importance of using capital as sparingly as possible. This meant giving priority in decentrlisation to places where there was already an infrastructure rather than have to create one, said Dr Brand.

With growth and unemployment relationships sorted out, a big step would have been made to the second important objective of a more acceptable distribution of economic opportunities.

This was obviously important if the economic system was to be widely accepted in a multi-ethnic society.

The first thrust had already been made in the manpower field with the opening up of opportunities and equipping people to use them.

The second thrust was through the movement to parity in the provision of public services.

Two related questions were:

- To what extent should government accept responsibility.
- At what level of provision should parity be aimed.

Next Budget will be critical — economist

The next Budget would be critical in the transition from the current overheating of the economy to sustained growth in the longer term, said Mr Arthur Hammond-Tooke, economist of the Federated Chamber of Industries.

Addressing industralists at the economic affairs debate, he said: "Technically we are in the downward phase of the business cycle but statistics show the economy is still at a high level of activity.

"There were signs of revival in the third quarter and employment is still on an upward trend. We were asking for a soft landing from the business boom but we are caught in an important time problem — we are within six months of the next budget," said Mr Hammond-Tooke.

"If we still have a high rate of inflation there will be a strong tendency to allow the economy to cool off."

Survey at Stellenbosch underlines slowdown

Star 22/10/81 (49)

By Ann Crotty

The most recent opinion survey from the Bureau of Economic Research at Stellenbosch University indicates clearly that the slowdown in the economic growth rate is well under way.

The sector most hard hit is consumer durables and to a lesser extent non-durables. However, the demand for semi-durables is still going strong.

The survey stated that inflation will remain the biggest problem but should show some signs of easing marginally during the forecast quarter (October to December). During the same period the growth rate will start to show a progressive downturn.

The survey points out that the slowdown in demand is not yet strong enough to bring it in line with supply with the result that:

- Capacity utilisation in manufacturing is still most high.
- The shortage of skilled and to a lesser extent, unskilled workers has been aggravated further.
- Expectations about future price increases have not yet been basically altered although an increasing number of respondents feel that prices will increase at an easier rate.

In a breakdown of the results the bureau states that in manufacturing volumes of production, of sales and of orders received were better than those of a year ago but the growth rate was slowing down. The slowdown was not evenly spread — investment and intermediate goods improved but consumer goods showed a drop.

In the wholesale sector the expected slowdown occurred and a continuation is expected. Nonconsumer goods were hit harder than consumer goods.

Most of the respondents in the wholesale sector expect buying and selling prices to rise.

In the retail sector there was an unexpectedly sharp slowdown in demand in all types of goods with the exception of semi durables.

The slowdown in demand and the expectations of high price increases resulted in a sharp deterioration in business mood in retailing.

Nedbank lists slowdown factors

Nine steps to next upswing

2DM 22/10/81

49

By JOHN MULCAHY

THE South African economy has entered a time of consolidation which may last until early in 1983, with real gross domestic product growth falling to about 2% next year.

Mr Rudolf Gouws, senior economist of the Nedbank group, told the National Development and Management Foundation Business Outlook conference in Johannesburg yesterday that total real spending in the first half of this year rose at a near-record rate.

However, the business cycle's prime movers — private consumer spending and private fixed investment spending — rose marginally, and general Government consumption spending also increased more slowly.

"Preliminary signs — from indicators such as real retail and wholesale sales, motor-car sales and manufacturing production — are that growth in the economy slowed even further in the third quarter."

Mr Gouws forecast a probable average inflation rate of about 15% this year, and next year's average should be about 12,5% or 13%, with the 1982 year-end rate approaching single figures.

Mr Gouws gave nine conditions which would have to be met before a new upswing could begin.

- Capacity constraints — domestic spending must slow further, or even decline, to give some breathing space after the pressures on domestic economic resources that built up in the upswing of the past three years.
- Consumer spending will have to slow further to allow consumers to consolidate debt and rebuild savings All previous consumer booms in SA have been preceded by a rise in the personal savings ratio.

"According to our forecast, consumers are unlikely to be well placed for the start of a renewed upsurge in the spending cycle before early 1983."

- Growth in the import bill, which was 48% last year, and an annualised 28% in the first six months of this year, must slow sharply. This is expected to happen late this year, or certainly in 1982.
- Export earnings must revive before the domestic economy can The 11% decline in SA's merchandise export earnings in the six quarters to the middle of 1981 is the biggest in the post war period, and there is no indication yet of this trend bottoming out.

The rand depreciation since the beginning of this year has cushioned the fall in the value of exports to an extent, but an improvement in the current account of the balance of payments cannot be based on an exchange-rate adjustment alone.

The economies of SA's major trading partners must first revive, as only in response to this can the "real" demand for exports revive.

- Soundness of the overall balance of payments — net gold and foreign exchange reserves have been declining for a year, but may start to improve sooner than the current account does because of expected inflows on the capital account

Net capital inflows may start to exceed current account deficits well before the end of the year, implying an end to the declining trend in net reserves at that stage.

- Money-supply growth will have to ease substantially, and at this stage the monetary authorities appear to have regained control over the money supply.

Further declines are expected in the light of the expected further decline in the net reserves up to the middle of next year as well as the further softening of credit demand which is likely to accompany the slowdown in consumer spending and in fixed and inventory investment.

- The seventh precondition for the start of the economic upswing, says Mr Gouws, is that by then interest rates should have been on a declining trend for some time.

"As a broad rule of thumb, interest rates in South Africa tend to peak cyclically about halfway through an economic downswing."

- Inflation will have to fall. It is risky to forecast a "safe" level of inflation from which the next economic upswing can begin, but the present rate of about 16% is neither safe nor acceptable.
- The last precondition is a change in the emphasis of economic policy. "I do not expect the emphasis of policy to switch towards stimulation of economic growth until the authorities start to feel that the preceding eight preconditions are being met to a sufficient extent"

It is also unlikely that the authorities will feel confident enough about the balance of payments, the money supply and inflation for a stimulatory Budget to be contemplated.

"It is quite possible that the March 1982 Budget will contain small tax increases".

CLOTHING giant Seardel increased sales by nearly 89% in the first quarter.

Shareholders were told at the annual meeting in Cape Town by the acting chairman Mr M Schaffer — Mr Aaron Searll is on business in Japan — that sales totalled R84 600 000.

Although these figures included Dubin's turnover for the first time, the results of the Seardel group itself show a large rise

"If the trend continues the group should achieve its budget sales forecast for the year ended June 1982 of not less than R260-million The other forecasts contained in the report appear to be reasonable — provided there are no unforeseen circumstances."

The group has forecast pretax profits of R20-million with earnings a share of 245c

Seardel, SA's largest clothing manufacturer, says the overall on-order position is satisfactory and major retail chain stores expect reasonable trading condi-

Stellenbosch sees pay claim resistance

RD17 23/10/81 (49)

Financial Reporter

EMPLOYERS will try to resist wage and salary demands now that the economy is slowing. But there will still be major upward pay pressures from the continuing surge in new private fixed investment.

These are the views of the Bureau for Economic Research of Stellenbosch University in its October survey of business opinion.

It says: "With capacity utilisation still very high it must be expected that fixed investment by the private sector will continue at a high rate for some time to come to increase production in line with demand.

"Such a development will no doubt aggravate the shortage of skilled workers, thus putting further pressure on wages and salaries and if acceded to pushing up inflation further

"However, with entrepreneurs seeing the start of a definite slowdown in demand and expecting this to accelerate they will resist, as far as possible, salary and wage demands, thus preventing the inflation rate from going up further and possibly letting it even decelerate somewhat

"Economic activity of the sectors covered by our survey (manufacturing, wholesale trade, retail trade and motor trade) showed definite signs of slowing down

"This slowdown is from a very high base, with the result that the ameliorating effects thereof on the bottlenecks in the economy and on inflation will not be immediately discernible

"Inflation will thus remain the biggest problem area, but should show some signs of coming down, even if only marginally, during the forecast period.

"The growth rate will, however, start to show a progessive downturn in this period"

Looking at manufacturing the BER says: "A net 43% (of those surveyed) employed more workers during the survey quarter (July to September) compared to the position a year ago while 23% reported that employees worked longer hours

"In spite of this increase in employment, no less than 89% indicated that a lack of skilled labour constitute a bottleneck hampering current activities

"A shortage of semi-skilled workers and of adequate production capacity also affected activities adversely.

"The levelling-off in business activity can also be gauged from the responses of participants regarding general business conditions.

"Only a net 23% judged that it had improved during the survey quarter compared to the 38% net having that opinion at the time of our previous survey.

"A mere 3% net see this situation continuing in this quarter."

Bull Brand

A BULLISH view of the longer economic term was taken yesterday, however, by Dr Simon Brand, chief of financial policy at the Department of Finance.

He told the NDMF business outlook conference in Johannesburg: "The South African economy should be well able to maintain an average annual growth rate of at least 5% in real gross domestic product with the balance of payments remaining strong and with the inflation rate at worst not rising above its present level, but possibly coming down towards a single digit rate.

"Such an economic performance should at least stabilise unemployment at its present level, but could well make possible some further reduction.

"It should offer more than adequate opportunities for people from all sections of society to improve their earnings

"It should also afford the necessary scope for making progress towards parity in the provision of public services at realistic standards"

Economy 'winding down'

Mail Correspondent

THE South African economy is showing definite signs of slowing, according to a survey released yesterday by the University of Stellenbosch Bureau for Economic Research.

Since the slump is from a very high base, benefits such as reduced inflation and bottlenecks in the economy will not be immediately discernible.

Growth would show a progressive downturn in the fourth quarter and inflation would remain the biggest problem.

Entrepreneurs will resist salary and wage demands, thus preventing the inflation rate from going up further.

Confidence of respondents in food manufacturing had dropped in the third quarter while an expected revival in business activity in beverages failed to materialise.

In textiles, though, sales and production remained "vigorously high" and were expected to remain so.

Turning to the wholesale trade, the bureau found business turning down and respondents less optimistic, while the retail sector experienced "quite a sharp slowdown in demand" in the past quarter.

Economy slowing down, says survey

CT 23/10/81 (29)

Industrial Reporter

THE SOUTH African economy is showing definite signs of slowing down, according to the latest survey by the University of Stellenbosch Bureau for Economic Research.

The survey, released yesterday, says that since the slump is from a very high base, benefits expected to flow from it — such as a reduction in the rate of inflation and the reduction of bottlenecks in the economy — will not be immediately discernible.

Growth in the economy would start to show a progressive downturn in the fourth quarter and inflation would remain the biggest problem area.

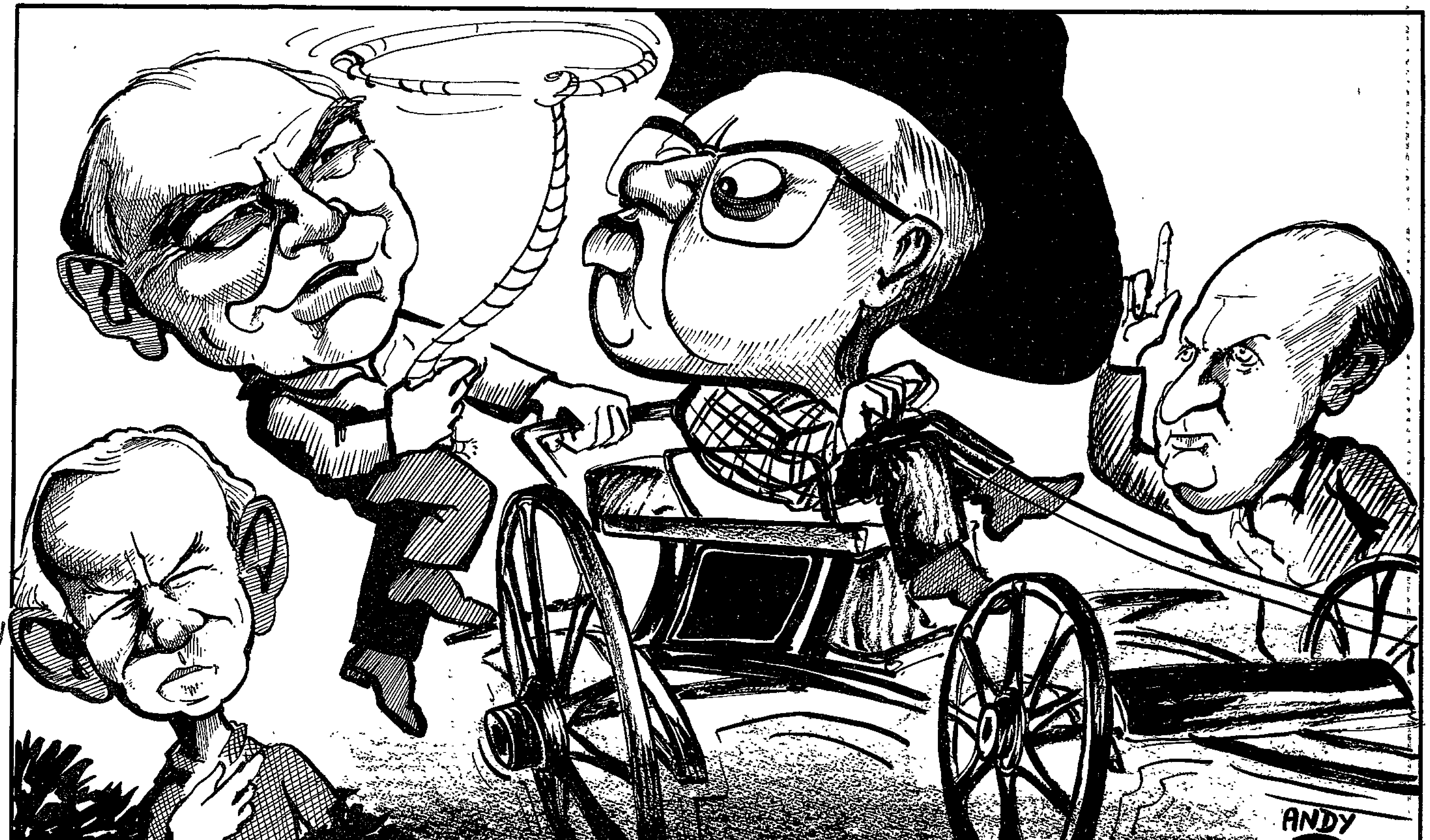
"However, with entrepreneurs seeing the start of a definite slowdown in demand and expecting this to accelerate, they will resist as far as possible salary and wage demands, thus preventing the inflation rate from going up further and possibly even decelerating somewhat."

The downturn was evident in virtually all manufacturing sectors of the economy.

Confidence of respondents in food-manufacturing had dropped substantially in the third quarter of the year, while an expected revival in business activity in beverages had failed to materialize. An exception was textiles, where volume of sales and production remained "vigourously high" and were expected to remain so for the rest of the year.

Turning to the wholesale trade, the bureau found business turning down and respondents less optimistic than previously, while the retail sector experienced "quite a sharp slowdown in demand" in the past quarter.

SON OF CARLTON



TO Mr P W Botha it is going to be a "consultation" and part of a continuing process of dialogue. To at least some leaders of South Africa's powerful business and professional community, the men who effectively control the economy, it is going to be a "confrontation" — a showdown at which there will be lots of tough-talking and an end to vacillation.

Either way, "Carlton 2", or "Son of Carlton", as it is being variously dubbed, is undoubtedly going to be a meeting of cardinal importance to the future of South Africa. An "indaba" that could, in time, come to be regarded as a watershed in our history.

Will it be STILLBORN?

By BRUCE LOUDON

Sunday Times 25/10/81 (49)

For when, on November 12, the Prime Minister enters the Civic Centre in Cape Town to meet the 600 leaders he has handpicked to attend the successor to his original Carlton Conference of two years ago, he will find big business in an apprehensive and anxious mood.

Not bitter, as has been suggested in some quarters, but downright worried.

Not determined upon confrontation for the sake of confrontation, but resolved to be brutally frank with the Prime Minister and his colleagues.

Not unsympathetic towards his obvious political problems, but bent upon persuading him that unless he is prepared to lead and face down the right wing yapping at his heels, "all our hopes, all our plans for peaceful evolution in South Africa will go down the plughole," as one captain of industry put it to me.

He may, as he implied in his speech to farmers in Durban the other day, want to talk to them about industrial growth points and incentives for investing in presently-inactive areas.

That, however, is not how most of those called to the Cape Town conference perceive its objectives.

Disappointed

For big business is undoubtedly disappointed by the past two years since the first Carlton Conference.

Happily, the goodwill engendered by that first meeting has not been dissipated [illegible] fluential of those invited to the Cape Town meeting, summed up all the apprehensions of businessmen when he spoke of the promised change in South Africa.

"Moving at the rate of the oxwagon a real danger exists", he declared, "that the climate of changed expectations will be used by those forces inside and outside South Africa who are seeking to promote change by apocalyptic rather than by incremental means".

Do nothing, and disaster stares us in the face.

[illegible] to change means [illegible] litical conflict there is more common ground among South Africans of all races than is often supposed, he continued, arguing forcefully against a system of universal suffrage in a unitary state in South Africa.

Like Mr Saunders, he then went on to counsel change without delay.

"I fully accept the Government's goodwill ... but it is extremely important that they should move rapidly.

"Nothing is more dangerous in a time of change such as we have at present than [illegible] which gives the im- housing policy, in working conditions for blacks, in industrial relations, and in various other fields.

Two years later they are gloomily pondering the reality as they see it.

Only on the question of industrial relations and black trade unions, thanks largely to Mr Fanie Botha, has there, in their eyes, been significant change.

Gloom

In other fields, most notably in areas concerned with the portfolio of Dr Piet

It is known to have been completed weeks ago and sent to the Government.

But it has not been published.

Again, big business regards it as disastrous that there should be any delay in relaxing influx control.

It should, in its view, be a primary aspect of the reform process.

Apartheid was predicated on the notion that over the years the black population living in or near white cities would gradually decrease.

That concept is in ruins.

In 1948 only about 1,7-mil-

"He may not immediately accept De Lange, but give him a few months and he will.

"You should see the Prime Minister's position as follows," one of those closest to him told me.

"He's rather like someone setting out on a long march, say from Johannesburg to Pretoria.

"You can say he's never going to get there — but the fact is that he is on the road, and he is going in the right direction, so let's help him forward."

There is, indeed, a view that there was too much, entirely unjustified, euphoria after the first Carlton Conference — that businessmen who rushed off expecting change overnight were bound to be disappointed.

This euphoria, it is suggested, ignored the historical reality that it would take time to evolve a satisfactory relationship between government and business.

For though much of big business is now in Afrikaner hands, it is still dominated by English-speaking magnates ... the same people so distrusted by Afrikaner nationalism down the years.

Mr Botha is the very first Prime Minister to embrace business as an ally.

For his boldness in this, alone, he must surely deserve praise, and if, in the first two years, it has not been an easy relationship, then it is, in the view of some commentators, wrong to be unduly disappointed.

It is of no little importance that at Cape Town Afrikaans-speaking businessmen will be as strongly represented as English-speaking businessmen, and that they will find common cause in arguing their case for rapid reform to Mr Botha.

Sympathy

The Prime Minister will find sympathy for his political problems from his interlocutors in Cape Town.

But this, almost certainly, will be tinged with cynicism.

For business, at least, believes that Mr Botha is too concerned with the far right — and that, in any case, the urgency of South Africa's predicament is such that there is no time for playing undue court to the Treurnichts of this world.

"We recognise his problems vis-a-vis the right, but our answer to him is still: For God's sake get on with it (reform).

"You deal with the politics and we'll deal with the economics and we'll make an unbeatable team," an industrialist told me.

This notion of "a team" at work — an extremely potent team linking government and business — is, indeed, still uppermost in the minds of the captains of industry.

In Cape Town, business will, as a whole, not seek confrontation.

There may be individual exceptions, but talk of ultimatums and walk-outs appears to be a misreading of the situation.

For business recognises that Mr Botha is a "reactive" man.

He is not a great visionary, but he is a tough political infighter and above all a pragmatist.

He reacts to situations as they develop.

Quest

They still see Mr Botha as their greatest ally in the quest for change and reform.

He must be, they say, otherwise there is no way of averting disaster.

Do nothing, and disaster stares us in the face.

That is the message that awaits Mr Botha in Cape Town.

If he sends the captains of industry packing, and offers them no hope for further change, those in a bullish mood about South Africa's future will be hard to find.

and cooperate with the Prime Minister remains undiminished?

But in the eyes of the business community Mr Botha stands accused of backtracking on the high hopes of change raised at the first Carlton meeting.

He stands condemned, in their eyes, for having paid far too much attention to his verkramptes and the political problems they represent for the National Party.

"For God's sake get out of neutral and lead the country: we're behind you and you can do it — that's the message I'd give the PM if I saw him now," one top businessman said to me.

A few days ago Mr Chris Saunders, chairman of Tongaat and a director of the Anglo American Corporation, and one of the most intelligent ... the demise of our society.

That, in short, was the pungent message from Mr Saunders.

Detested

It is rather like that for Mr Harry Oppenheimer, the most powerful of the invitees to the Cape Town "indaba".

In years past it was fashionable in National Party circles to condemn Mr Oppenheimer as the "Mr Big" of opposition politics, the "Hoggenheimer" detested by Afrikanerdom.

Who, today, can question his credentials as one of the wisest of South Africans?

The situation in South Africa, he argued in a speech in London last week, was more fluid than at any other time he can remember.

Beneath the surface of ... pression of being half-hearted."

That, really, is the nub of the criticism directed towards Mr Botha by businessmen.

Why, they ask, did he so dramatically advise his supporters to "adapt or die" and then do so little about it?

When South Africa's business leaders dispersed from the last Carlton Conference, they were, almost without exception, in a bullish mood.

Natural

Their reading of Mr Botha was, that while he was not in any way a natural reformer, he had seen the writing on the wall.

They looked forward to sweeping reforms in education, in influx control, in ... Koornhof (condemned as a "weak" Minister and a spent force even by some of those closest to the Prime Minister), business believes that the Government has hardly moved, if at all.

And nowhere is the gloom more total than in relation to the De Lange Commission's report on education.

The Government's effective rejection of one of the report's key recommendations is seen in business circles as nothing short of disastrous, and perhaps the most discouraging single event since the last Carlton Conference.

At least, however, the De Lange Report was published.

What, it is asked, has happened to the Grosskopf Commission's report on influx control? ... lion of the total population of 8-million blacks were urban workers.

By 1970 this figure had grown to more than 5-million and the projection for the end of the century is 20-million.

Argued

These are the sorts of figures that will be argued with Mr Botha in Cape Town as businessmen press their case.

And there will be much more.

Why, he will be asked, is the country still beset by Nyanga-type situations which do so much damage to its image abroad?

Why are the iniquities and injustices of the Group Areas Act still enacted each day, for the whole world to see and judge?

And all this is before businessmen even get into the question of a new constitution for South Africa.

On this they hold equally strong views, and almost certainly many of them would find common cause with Mr Botha.

The piecemeal reforms in social and economic policy are clearly no substitute for real constitutional reform.

A foretaste of what Mr Botha will be told was articulated in London the other day by Mr Oppenheimer.

Unacceptable

A "winner takes all" system based on universal suffrage in a unitary state, so beloved of liberal opinion in America and Europe, despite all the evidence against it, was "not only unacceptable (and for good reason) to the whites, but is also not in accord with the tradition and practice of the blacks", Mr Oppenheimer noted.

On this, too, the message to Mr Botha from the businessmen in Cape Town will be a forceful one.

Namely, do not delay — get on with producing the new constitution.

Those close to Mr Botha strongly deny that there has been no movement since the first Carlton Conference.

Specifically, they argue that in the fields of financial and economic controls, there has been considerable liberalisation.

They are a little contemptuous of what they term big business's political naivete. "Surely," they argue, "businessmen can appreciate the Prime Minister's political problems.

SA heads for deficit

r curren

e returned to its former positi
ies — but at a more realistic
nancial commentator.,

RDM 26/10/81 (49)

Current account worst since 1975

By HOWARD PREECE

SOUTH Africa is heading for a deficit of close to R4 000-million on the current account of the balance of payments for 1981. The previous highest current deficit was R1 813-million in 1975.

However, such has been the growth of the gross domestic product in money terms since then that a shortfall of R4 000-million this year would actually be a smaller burden for the economy.

Even so, it is clear that unless there is a quite remarkable, and quite improbable, surge in the gold price over the next two months the balance of payments position for 1981 will be under more strain than was expected by any analyst earlier this year.

Indeed, in the middle of the year Mr Horwood, the Minister of Finance, was still bravely suggesting that the current account might yet end in surplus.

Although the Reserve Bank has not made a formal calculation for the current account for the third quarter of this year, preliminary figures indicate there was a deficit of as much as, or more than, the R1 314-million in the second quarter.

Dr C J de Swardt, head of the bank's economic research sector, told the conference of the Federated Chamber of Industries in East London last week that the deficit in the third quarter was about R5 000-million a year on a seasonally adjusted basis.

The R1 314-million shortfall in the second quarter was also calculated by the bank to be the equivalent of R5 000-million a year seasonally adjusted.

I am told that the seasonal factors between the second and third quarters are not greatly different and, therefore, the actual deficit was presumably in the R1 200-million to R1 500-million range.

There was only a minimal deficit of R98-million in the first quarter (R1 290 a year seasonally adjusted).

Thus the actual deficit in the first six months of 1981 was R1 412-million.

The preliminary estimates for the third quarter make it certain that the running deficit for the first nine months of the year was R2 600-million to R2 900-million.

There is little chance that this trend will ease in the final quarter of the year unless, as said, gold hits an unscheduled short-term boom.

In the fourth ...

Of course, such has been the scale of official debt repayment over 1977-80 that this burden should have been reduced.

Gold-mine dividends are also being pared.

But when all these factors are considered it would obviously be no surprise if the October to December deficit was also in the R1 200-million to R1 500-million area — and that would put the shortfall for 1981 about R4 000-million.

It is necessary, however, to put this into some greater perspective.

The 1975 deficit of R1 813-million was roughly equal to 6,6% of the GDP of R27 454-million.

GDP this year will be about R75 000-million, so a deficit of R4 000-million would be in the 5% to 5,5% range.

Also, the 1975 balance of payments problem followed a hefty current deficit of R998-million in 1974 and a small deficit of R52-million in 1973.

Against that South Africa piled up combined surpluses of more than R7 500-million between 1977-80 and by the beginning of this year was definitely underborrowed for this kind of semi-developed economy rich with resources.

Still, there would have to be some concern if there is a huge deficit again next year.

In 1976 that was what happened with a current shortfall of R1 671-million, although that was partly a reflection of the fact that the 1975 devaluation took time to make itself fully felt.

There has also been an effective though smaller devaluation of the rand this year and that should help the current account next year.

Gold remains the crucial unknown.

If it stays around present levels though and if imports slacken as the domestic economy winds down the current deficit in 1982 should be well below that of this year.

Nedbank gloomy on 1982 export prospects

49

RDM 26/10/81

Financial Reporter

THERE is little to justify optimism for South Africa's export prospects for most of 1982, according to a survey by Nedbank's Economic Round-Up.

The survey looks basically at the relationship between the US economy and South Africa.

It says: "The South African economy continued to grow relatively rapidly in the first half of 1981.

"In contrast, since the beginning of 1980 its major merchandise export markets, with the exception of Japan, experienced slow or in some instances declining economic activity.

"The result was a fall in the value of merchandise exports at a time when merchandise imports were rising rapidly.

"After increasing by 9.7% during 1980, the value of merchandise exports fell by 8% on a seasonally adjusted annualised basis in the first half of 1981.

"The US economic performance and the dollar's strength also directly affected the gold price.

"After averaging $614 in 1980 it dropped to an average of $499 an ounce in the first half of 1981.

"This fall partly reflected the drop in the US inflation rate as gold bullion is considered to be an important inflationary hedge.

"The bullion price was depressed also by the high levels of real US interest rates as they increased the opportunity cost of holding the metal and the cost of financing its purchase."

The bank says: "In the light of the disappointing performance of the world economy during 1980 and 1981 and its lagged effects on South Africa's export earnings there is little to justify optimism about South Africa's export performance for most of 1982.

"Any early recovery will depend on the success of the supply-side experiment introduced by the new US administration though the rand's depreciation on an effective basis may also help.

"However, supply-side economics is an untested hypothesis. Furthermore, the currently high level of US interest rates and businessmen's concern over the size of the US Federal Budget deficit threaten its success.

"The likely outcome for 1982 is a small increase in US economic activity and consequently the volume of world trade.

"This can be expected to lend impetus to South African exports only towards the end of 1982 or early 1983.

"The current account of the balance of payments is, therefore, likely to be in deficit for the whole of 1982."

Looking at the South African economy, it says: "The course of domestic economic activity through 1982 will be determined by a combination of internal and external factors.

"The main internal factors are the present capacity constraints, the very high inflation rate and the auhtorities' determination to retain control over the increase in the money supply.

"The few indications since midyear show that domestic demand is now responding to the tighter monetary conditions.

"If the past is to be a guide, personal savings will first have to be built up and debt consolidated before the next consumer spending boom can be expected.

"No post-war economic upswing has started in South Africa without some prior revival in export earnings.

"In this respect, too, the next upswing is likely to follow the normal cyclical pattern."

SA company reports below world class

(49)

By DAVID CARTE RDM 26/10/81

SA COMPANIES' annual reports are not yet in the top league internationally, says the SA Institute of Chartered Accountants in its first survey of financial reporting.

The survey, undertaken for the SAICA by the Wits University accounting department, covered 93 of the top 100 financial and industrial companies. It is to become annual.

The survey says that nationally, the annual reports of some companies are of "very high quality", but internationally they are wanting.

If companies wish to attract investment from countries with high standards of financial reporting they will have to improve their standards, the survey finds.

The Financial Times World Survey of Annual Reports included 10 SA reports. In a scale from A to F, none attained the A grade, three were in the B grade, five in the D grade and two in the E grade.

"In the overall ranking of countries, SA fell in the middle group, but did poorly in the disclosure of non-financial, segmental, inflation accounting and employment information."

The survey says companies have had few problems meeting the requirements of the Companies Act.

"However, when analysing the non-statutory requirements of the statements of standard accounting practice, it is evident that a great deal of confusion must exist in the minds of the preparers of the annual financial statements."

The surveyors say confusion arises from vague wording of accounting standards and lack of guidance on how to apply standards.

"The blame for this must be laid at the door of the standard setters."

On inflation accounting, the surveyors said: "It is disappointing that only 8% of the copanies surveyed presented current cost information as recommended by Guideline 4003."

Although the International Accounting Standards Council has issued 13 accounting standards, SA's Accounting Practices Board has issued only four.

"There sees to be an inordinate delay, which has not been explained satisfactorily, in issuing definitive standards. Once again a finger can be pointed at the standard setters."

SA's APB is unique in representing not only the profession but commerce and industry, the JSE and the universities.

"Since the number of standards issued in other countries far exceeds the number issued in SA, one questions the effectiveness of the present structure."

The authors suggest that the JSE be more acive in the enforcement of standard statements.

The JSE and the APB should agree on non-financial matters to be disclosed in annual reports and such disclosure should be compulsory.

UNIVERSITY OF CAPE TOWN
EXAMINATION ANSWER BOOK

EVERY CANDIDATE MUST enter in column (1) the number of each question answered (in the order in which it has been answered); leave columns (2) and (3) blank.

SA faces R5000-m deficit

Star 28/10/87

49

The deficit on the current account of the balance of payments is now running at an annual rate of R5 000-million, Dr Gerhard de Kock, Governor of the Reserve Bank, told the annual meeting of the National Finance Corporation in Pretoria.

He said that the balance of payments, and the economy as a whole, had been hit by the sharp decline in the gold price and by the recession in many industrial countries.

DECLINED

This caused a marked contraction in the value and volume of the country's exports. Dr de Kock said this had transformed the surplus on the current account of the balance of payments into a deficit which was now running at an annual rate of about R5 000-million or seven percent of gross domestic product.

Net foreign reserves declined by about R1 880-million between the end of September, 1980 and the end of August this year.

Since the beginning of 1981, the rand had depreciated by 23 percent against the dollar.

Inflation had also remained a major problem, Dr de Kock said. The seasonally adjusted consumer price index rose by 15,5 percent during the past 12 months.

The inordinate rise in total money demand last year and the first four months of this year had been fuelled by an excessive increase in the money supply.

The root cause of this was to be found in the record surplus in the balance of payments and the continuation of extensive exchange control.

This enabled the banks to create even more money by expanding their credit.

Dr de Kock said the Reserve Bank then gave the upward movement of interest rates its official endorsement by raising the bank rate to its present level of 12,5 percent thus permitting the prime overdraft rate of the commercial banks to rise to 16 percent.

It was not surprising, he said, that the National Finance Corporation should show a net loss of R2 755 000 in the past financial year.

This was largely the result of sharply rising rates of interest which had to be paid on deposits.

Dr de Kock said it was widely anticipated that the Commission of Enquiry into the monetary system and monetary policy would recommend significant changes in the functions and operations of the corporation.

He said the period immediately ahead was bound to be a difficult phase of transition for the economy.

The fact was that the world economic situation and outlook had deteriorated in recent months and that external influences beyond South Africa's control would affect the economy adversely in 1982.

South Africa was marching out of step with its main trading partners. Its rate of real growth and inflation were significantly higher and real interest rates lower.

Dr De Kock said the medium and long-term prospects for the economy were excellent, provided adequate control was exercised over the money supply and Government spending.

PRESSURES

Inflationary pressures by excess money demand should diminish, the skilled labour shortage and the upward pressure on wages and salaries should ease. Imports could be expected to level off.

Since exports were bound to recover as the next world economic upswing gathered momentum the present deficit on the balance of payments should then decline.

Dr De Kock said the economy should then move into a new export-led upswing, which should carry economic activity to record heights without immediately raising the spectre of accelerating inflation again.

NOTE CAREFULLY

1. Enter at the top of each page and in column (1) of the block on this cover the number of the question you are answering.
2. Blue or black ink must be used for written answers. The use of a ball point pen is acceptable. Red or green ink may be used only for underlining, emphasis or for diagrams, for which pencil may also be used.
3. Names must be printed on each separate sheet (e.g. graph paper) where sheets additional to examination book (s) are used.

WARNING

1. No books, notes, pieces of paper or other material may be brought into the examination room unless candidates are so instructed.
2. Candidates are not to communicate with other candidates or with any person except the invigilator.
3. No part of an answer book is to be torn out.
4. All answer books must be handed to the commissioner or to an invigilator before leaving the examination.

Any dishonesty will render the candidate liable to disqualification and to possible exclusion from the University

Trade balance is back in the black

RDM 28/10/81

(49) ~~77~~

SOUTH Africa's export-import balance moved back into the black last month with a surplus of R10-million, according to provisional figures from Customs and Excise.

By HOWARD PREECE

That followed deficits in July and August of R210-million and R194-million.

There was, however, a small surplus of R6 500 000 in June.

For the first nine months of the year the trade deficit, as measured by Customs, was R232 400 000.

In the January to September period last year there was a surplus of R4 673-million, which means a swingaround of R4 905-million.

Exports include gold bullion and Krugerrands and imports include oil and military equipment.

The figures do not, however, include so-called "invisibles" — shipping, insurance, dividend and interest payments and others.

South Africa now runs an average monthly shortfall of around R250-million on invisibles.

In September exports totalled R1 524-million and imports R1 514-million.

For the nine months of the year exports were R13 252-million — 13,8% down on the 1980 equivalent of R15 075-million.

The R1 823-million drop would be primarily accounted for by the fall in the gold price.

Imports for January to September were R13 484-million, about 29,5% higher than the R10 402-million level in the corresponding period last year.

There is now some evidence that the import flood is moderating, which would certainly be expected as the economy moves steadily into the downswing.

In the first four months of this year imports were running at 35% above the 1980 level so there has clearly been some easing over the last few months.

At the beginning of the year the best guess of private sector economists was that imports would be abput 25% up on those of 1981.

That does not look like being too far out.

Although Customs figures are provisonal and should always be treated with caution they do broadly support the view that the overall deficit on the current account of the balance of payments will be around R4 000-million this year.

A shortfall of R250-million a month on invisibles would give an annual deficit of R3 000-million.

Trade could add close to another R1 000-million if imports show their normal seasonal upturn.

Since there was an upturn last year as well, of course, that would not be incompatible with a moderating increase over the 1980 figures.

Trade with Europe totalled R5 519-million in imports and R3 535-million during the first nine months this year.

In the case of the United States the nine months' import figure was R2 243-million (R1 531-million last year), while export figures were R1 461-million this year (R1 582-million last year).

For Africa imports were up from R213-million last year to R246-million this year.

Exports were down from R848-million last year to R767-million.

De Kock sees blue sky ahead but . . .

Storm clouds are gathering

RDM 28/10/81 (49)

By HOWARD PREECE

A BLUNT warning that the economy is now moving into rough water — with the worst of the storm yet to come — was given yesterday by Dr Gerhard de Kock, the Governor of the Reserve Bank.

At the same time, however, he held out the prospect of a new and sustainable upswing once the economy could be put back onto a sound basis.

Dr De Kock was speaking in Pretoria at the annual meeting of the National Finance Corporation, of which he is chairman.

He said "The only realistic way to deal with our present short-term problems is to persist with tight control of the money supply and government spending and to accept that this inevitably implies continued high nominal interest rates, general financial discipline, a cooling down of the economy and a lower real rate of growth in 1982.

"Reflation at this stage is out of the question. Adjustment is inevitable.

"No fancy financial footwork will eliminate the need for us to live within our means"

Dr De Kock added, however: "It is gratifying to know that we are dealing with what is basically a short-term transition problem and that if we play our cards right we can already anticipate the next cyclical upswing and a decade of prosperity and rapid growth in South Africa

"But first we have to negotiate the difficult passage which lies ahead in 1982 This is the challenge which now confronts us."

He told the NFC "Provided adequate control is exercised over the rate of increase of money supply and government spending the medium and long-term prospects for the South African economy are excellent

"As the economy cools down in the months ahead those inflationary pressures emanating from excess monetary demand should diminish, the skilled labour shortage should ease and imports can be expected to level off.

"Since exports are bound to recover as the next world economic upswing gathers momentum the present deficit on the current account of the balance of payments should then decline considerably.

"Indeed, if the gold price also resumes an upward trend the current account deficit will probably be transformed into a substantial surplus again.

"In due course the economy should then move into a new export-led and soundly based economic upswing which should carry most forms of economic activity to new record heights without immediately raising the spectre of accelerating inflation again"

Dr De Kock warned, however "The period immediately ahead is bound to constitute a difficult transition phase for the South African economy.

"There will have to be consolidation and adjustment.

"The plain truth is that the world economic situation and outlook have deteriorated in recent months and that external influences beyond our control are bound to affect the South African economy adversely in 1982.

"We are marching out of step with our main trading partners.

"Our rates of real growth and inflation are significantly higher and our real interest rates are lower than theirs."

Dr De Kock said: "In addition to permitting the rand to depreciate in the foreign exchange markets we have thus far dealt with this situation by employing a variety of techniques, including Reserve Bank overseas borrowing and the use of artificial discounts on forward dollars to neutralise the differential between South African and overseas interest rates and thus to encourage the use of overseas trade credits by South African banks and their clients

"But it would obviously not be prudent to rely unduly on measures of this kind, which are basically bridging operations."

On the balance of payments Dr De Kock said "In combination with continued excess domestic demand .. adverse external factors have transformed the surplus on the current account of the balance of payments into a deficit which, during the second and third quarters of 1981, was running at a seasonally adjusted annual rate of about R5 000-million or 7% of gross domestic product.

"Moreover the net foreign reserves declined by about R1 880-million between the end of September 1980 and the end of August 1981."

BER forecasts tax rise, high inflation next year

ARGUS 29.10.81 (49) ~~(183)~~

FINANCE

AN increase in taxation, continued high inflation, including another rise in the price of petrol, and a further slowdown in the growth rate are some of the developments which the Stellenbosch Bureau for Economic Research expects next year.

The bureau makes these forecasts in its publication Prospects for 1982, prepared by its deputy director, Mr A J M de Vries, and two Volkskas Merchant Bank economists, Dr I J Botha and Mr A J Jacobs.

The bureau sees the rate of increase in economic activity continuing to slow. It expects the overall growth rate to drop to 2,2 percent in 1982 from an estimated 4,1 percent this year.

HARDEST HIT

However, the primary sector is expected to be the hardest hit with a 3,2 percent decline in output in real terms.

This forecast is based on the lower mineral production and the assumption that farmers will experience more average climatic conditions.

The growth rate of the secondary sector is expected to decline to 3,7 percent from this year's 4,8 percent, while the rate of growth in the tertiary sector is estimated at 2,9 percent against 3,8 percent this year.

TERMS OF TRADE

The bureau says the continued relatively weak price for gold and most other export commodities as well as the rapid increase in the prices of imported goods will turn the terms of trade further against South Africa.

As a result the growth in the gross national product — a more accurate indicator of living standards — will slow from 9,5 percent in 1980 and 2,5-3,0 percent this year to below 3 percent next year.

As the population will grow by more than 2 percent next year, the average standard of living must decline.

'South Africans cannot escape from the adverse effects of a recession in the economies of our main trading partners and our own persistent high population growth,' the bureau says.

It expects the Government to run short of money next year.

At current tax rates it sees the Budget deficit rising to 6 percent of GDP from 4 percent this year and 0,5 percent in 1980.

To reduce this deficit the bureau assumes that the Budget next year will.

- Increase the general sales tax from 4 to 5 percent.
- Re-introduce a 10 percent loan levy on companies and individuals.
- Sharply reduce the rate of increase of subsidies.
- Leave direct tax rates unchanged.

But in spite of these tax increases the Budget deficit is expected to remain high, causing the Government to make use of bank credit.

COMPETITION

The bureau expects the inflation rate next year to be only a little less than this year.

Increased competition and better control over the money supply are the main forces that could assist towards a deceleration in the rate of inflation. However, factors that could aggravate the inflation rate are:

- The depreciation of the rand in foreign exchange markets.
- The expected increase in general sales tax.
- An above-average increase in administered agricultural prices.
- Slower productivity growth.
- The widespread abolition or reduction of subsidies.
- Continued substantial cost-push pressures.

For these reasons the bureau is pessimistic about the outlook for inflation and is forecasting a rate of around 14 percent for next year.

Grim tone entering reports

Star 29/10/87 (49)

By Patrick McLoughlin

Companies appear to be making plans to adjust for the coming economic downturn, judging from the grim tone of two chairmen's annual reports.

Although certain companies in the Anglo-Transvaal Industries group had not yet experienced any impact from the slow-down in the economy's growth rate, the rate of profit improvement in the current year was "bound to be affected" by current prevailing economic conditions, the chairman, Mr Basil E Hersov, said.

He said the economic growth rate over the past two years had now peaked and the economy seemed to be entering a phase of lower growth.

GOLD PRICE

The downturn followed a sharp fall in the gold price, an adverse balance of payments, tight money market conditions and interest rates at levels "never before experienced in South Africa."

Despite "rampant inflation" remaining a major problem, all the group's companies — with the exception of Denver Metal Works — performed well and turnover rose by R376-million to R1 029-million. This led to a pre-tax profit of R98,9-million (R68-million).

These results were achieved after a downward adjustment of about R5-million following a change in some subsidiaries' stock valuations from a fifo to a lifo basis.

* * *

On the export front, opportunities for South African exporters to increase sales to the industrialised world remained limited because of the depressed state of economies of those nations, reported the chairman of Credit Guarantee Insurance Corporation, Mr C H J van Aswegen, in his annual report.

"LITTLE HOPE"

There was also "little hope" of any marked recovery in the economies of South Africa's major trading partners.

He said that many commodities, especially semi-processed minerals and steel, were over-supplied worldwide — resulting in depressed prices which, in turn, had an effect on insured turnover and premium income.

Credit Guarantee turned in an underwriting profit for the year of

Santam paints gloomy picture for economy

RDM 29/10/81

49

By Ann Crotty

The US will not introduce a gold standard according to the most recent forecast of the Economic Department of Santam Bank.

Mr Efram Shostak, who is head of the Department, says there would be no logic to the introductin of a gold standard — it would create the problem of fixing a price on gold and would not solve the problem of controlling the money supply.

The fluctuations in the US reserves that the variations in the gold price on the world market would bring about "would just not be feasible."

Santam's forecast for the economy over the next 18 months is generally more pessimistic than most.

Highlights are:

- Real gross domestic product will grow by 4,2 percent in 1981 and 1,98 percent in 1982. (Standard Bank's comparable figures are 4,2 percent and 1,98 percent respectively).
- Private consumption in real terms will grow by 4 percent in 1981 and by minus 3,04 percent in 1982. (Standard Bank's figures are 4,8 percent and plus 3 percent respectively).
- Real fixed investment will increase by 10,8 percent in 1981 and 4 percent in 1982. (This compares with Standard's 8,5 percent and 6 percent).
- The balance on the current account of the balance of payments will show a deficit of R3 075-million this year and R2 782-million in 1982.
- The inflation rate will be 15,68 percent in 1981 and 14,73 percent in 1982.
- There will be sharp rises in capital market rates in the second quarter of 1982 because of high inflationary expectations and the large financial requirement of the exchequer to finance the deficit which will crowd out the private sector.

No easy options

(49) FM 30/10/81

There can be no doubt that it takes courage for the nation's policymakers to watch the annualised cost of imports rise to a massive R5 050m above export earnings. They must be under tremendous pressure to reverse economic policy and attempt to stem the haemorrhage.

That, of course, would solve nothing. It would, in fact, compound the nation's problems. There is very little — if anything — that can be done now to swing the trade deficit into surplus. Western economies are simply not yet ready to buy more from us. Nor does demand for our raw materials exports respond quickly to price changes.

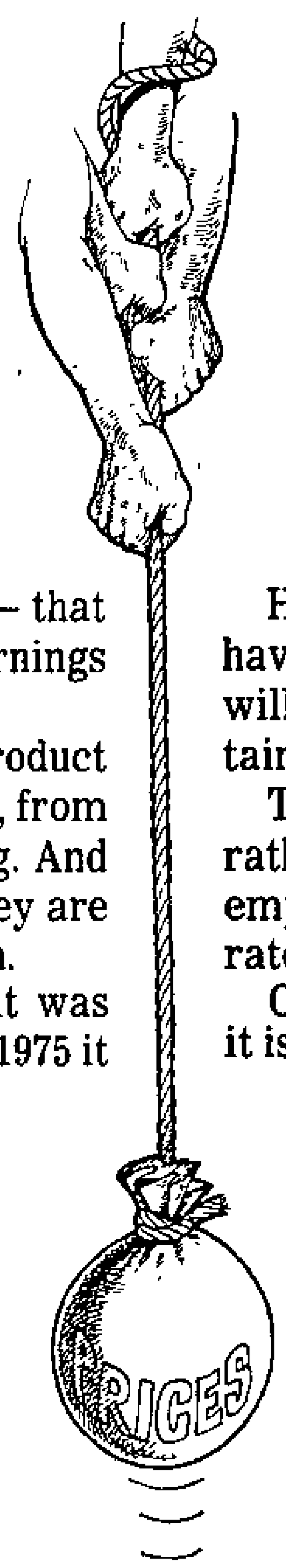
Domestically, the consequences of a U-turn now would be serious. Prices are already rising too fast on the back of an overheated economy. Import controls in current circumstances would put a rocket under them. And in the long run nothing erodes wealth as inexorably as inflation.

Now is not the time to be fainthearted. The men in the Union Buildings and Church Square must brace themselves against the indignation of the pusillanimous.

First, there needs to be some perspective on the R5 050m annualised deficit in the second quarter on the *current account* of the balance of payments — that is, the difference between import costs and export earnings less the cost of financial services.

Certainly, it has swung to 7% of gross domestic product (gdp), which is the total value of the year's production, from 2% in the first quarter. It is a singularly large swing. And the figures themselves are large in SA terms. But they are neither inordinately so nor out of historic proportion.

In the first quarter of 1976, the annualised deficit was within a whisker of 8% of gdp. In the third quarter of 1975 it was 7% and for that year it was 6,6%.



Moreover, current account deficits tend to be higher in the first half of any year. They tend also to be financed increasingly as the year progresses by a capital inflow. Significantly, after the capital flight of 1979 and 1980, the latest annualised statistics show a rapidly recovering inflow. It will not be enough to cover the shortfall. But, unlike the country's position in 1976, our international credit standing is high, which is encouraging.

As the money supply is brought back under control and demand is, in time, correspondingly arrested, so imports should begin falling in the second half of the year. It is unlikely, therefore that the actual deficit for the year as a whole will be as bad as R5 000m, unless the gold price should plunge.

Nor, by allowing the deficit to rise, are the authorities guilty of benign neglect. They are enabling an economic process to run its course — one that is draining liquidity from the economy and thus assisting in reducing a level of demand that domestic resources cannot satisfy. That is an important means of implementing monetary policy.

However, the real economic problem to be tackled is not the current account deficit, for little can be done about export earnings. The crux is excessive domestic demand. This is indicated by the continuing high level of imports. In the first quarter of this year they were R15 800m (25% of gdp) and are now in excess of R20 000m (about 29% of gdp after having been about 20% from 1978 until last year). Clearly, the country is unable to produce sufficient to satisfy demand.

The excessive level of domestic demand is indicated, too, by the fact that in the second quarter of this year total expenditure exceeded the value of total output.

In these circumstances, Pretoria's policy options present it with an agonising choice. It can let the rand decline to make imports more expensive, thus cooling demand, reducing the current account deficit and taking pressure off the reserves, which had declined but have been shored up subsequently.

However, if it does so, increasing dollar earnings will have an expansionary influence on the money supply. This will make Church Square's attempts to reduce and maintain a curb on money supply growth all the more difficult.

The priority should be on reducing domestic demand rather than shoring up the current account. So Pretoria's emphasis should *not* be on engineering a lower exchange rate.

Of course, as the rand's exchange rate is a managed one, it is difficult to say whether the present rate coincides with a market rate or not. There are indications that the rand might even be slightly undervalued against a market rate. It is low in relation to the gold price, the financial rand discount has been narrowing, and share prices remain buoyant. The trade deficit clearly is not the main concern of financial markets.

Nor is the money supply growth under satisfactory control. It is still rising at about 20% a year, even after being pulled in dramatically.

Time is not on the side of the authorities. The longer high interest rates have to prevail, the more political opposition there is likely to be to present policies.

What Pretoria must do, therefore, is allow the trade deficit to run its course and simultaneously intensify efforts at domestic monetary discipline.

If that should mean higher domestic interest rates short-term, then let us bite the bullet. For lack of resolve now will simply prolong the painful fight against inflation.

End in sight for money boom

S/Star 30/10/81

(49)

By David Breier, Chief Reporter

South Africa's economic boom is over. There will be fewer jobs next year, smaller pay increases, and a falling economic growth rate, say top businessmen and economists.

Many believe, however, that a "cooling off" period will curb inflation, encourage economic consolidation, and benefit the nation — provided the slow-down does not last long.

Last year the growth rate was a phenomenal 8 percent. This year it is likely to end up at about 4,2 percent.

Next year, according to many economists, it may fall to less than 2 percent.

But according to widespread predictions, including those of Dr Gerhard de Kock, Governor of the Reserve Bank, the economy will pick up again in 1983 in line with expected world trends.

Mr Tony Bloom, chairman of the Premier Group, said South Africa was caught in the classic squeeze between inflation and the need to provide jobs to counter unemployment.

He said the lesser of the two evils was unemployment.

Mr Bloom, speaking on the eve of next month's private enterprise summit with the Prime Minister, Mr P W Botha, criticised the Government for permitting the recent overheating of the economy.

Arguments

Mr Arthur Hammond-Tooke, Federated Chamber of Industries econo-

Steam going out of the economy

S/Star 30/10/81 (49)

from page 1

rage growth rate could be achieved by smoothing the cyclical fluctuations in the economy instead of having a high growth rate one year and little growth the next

Dr Skippie Scheepers, deputy chairman of the National Manpower Commission, said it was impossible for the Government to prevent fluctuations as trends such as the gold price and overseas recessions affected South Africa.

Dr Scheepers said that the shortage of trained manpower would be less urgent in next year's downturn, but he said there would still be a shortage.

Ideally industrialists should use this opportunity to prepare themselves for a future boom by training manpower and using the Government's subsidies for in-house training.

But he said he doubted industrialists would follow this course as they were businessmen and tended to reduce training when they had less need of workers.

He predicted that pay increases next year would be lower than over the past year.

Dr Scheepers said employees would not fire black workers during the recession, but the unemployment problem could be aggravated when new workers entering the market could find few jobs. At present there are about 500 000 unemployed blacks in the country, he said.

Professor Geert de Wet, Randse Afrikaanse Universiteit economist, said the Econometric Study Group at RAU had predicted a growth rate of only one percent or even nil for next year.

He said inflation could be reduced from 15 percent to 12 percent, but he regarded this as still too high.

"We can only start crowing that we have beaten inflation when we have reduced it to five percent or even to nothing," he said

He said South Africa would have to restore its balance of payments by reducing imports and increasing exports before it could experience an economic upsurge in 1983.

He said next year's economic lull would be "pleasant" for businessmen who could take it easy, but it would not be good for the country as a whole.

Mr Meyer Kahn, managing director of OK Bazaars, said the economic downturn would have a positive effect on reducing inflation, and would result in less job mobility as jobs would be hard to find, while salaries would not go up at the rate of the past years.

broth
run
Park
front

Question 3 a

Demand for money (M_D). The M_D is the demand to hold money not the demand for more money eg in the form of increased Y. ✓

In equilibrium the demand for money must equal the supply for money ie M_D = ... st ∴ be equal to money M.

In a system at FE, w... , etc the no of transactions T is constant. The ... (V) is the no. of times money changes hands ... tant.

We know that P ... . As was proved above M is equal to D for mo... in equilibrium
There fore P = ... V & T are constants ∴ the M_D = P.

If your money ... e people will want to spend more but we ... to keep system stable the Prices must rise, ... creased demand for this extra money that is o...

If the demand f... ses then the price will also decrease

If the rate of ... the D for money falls

ie if Prices increa... falls & Dm increase and conversely is ... then i increases and demand for money decreases.

10

mist, said there were arguments that the slowdown would benefit the economy in the short term.

These were:

- The lull would give industry a chance to train skilled manpower as the shortage creates a ceiling to economic growth.
- As demand for goods cools off, there would be less demand inflation.

But to prevent the overall effects of rising black unemployment, Mr Hammond-Tooke suggested possible support for the economy through a moderate and well-timed expansionist policy including increased Government spending.

Irresponsible

However Mr A Engelbrecht, chief economist of Volkskas, said it was irresponsible to stimulate the economy now.

He said that before the problems of unemployment could be solved, the issues of inflation and the adverse balance-of-payments had to be solved.

Mr Engelbrecht said he doubted inflation would be solved by the economic down turn. The drop in the value of the rand would lead to higher import prices which would aggravate inflation, he said.

He said the Government could not be blamed for the abnormally high growth rate last year as this was due to the high gold price.

But Dr Johan Cloete, group economist of Barclays Bank, said the Government had failed to control the economy properly and had allowed a stop-go syndrome.

He said a higher ave-

To Page 3, Col 8

'Strategy to boost regional economies'

ARGUS 30.10.87 (49)

THE main aim of the Government's regional economic development strategy was to stimulate economic activity outside the metropolitan areas, the Minister of Co-operation and Development, Dr Piet Koornhof, said last night.

It was hoped through this, among other factors, to achieve a more even spread of urbanisation inside and outside the black 'states'.

MAGNETIC

Dr Koornhof was addressing a dinner of the Graduate School of Business Association.

He said one of the main instruments of the Government's economic strategy — about which the Prime Minister would make certain announcements at next month's meeting with business leaders — was the industrial decentralisation policy.

It had bcome clear in recent years that the existing incentives for industrial decentralisation had not been sufficient to counteract the magnetic influence of the major metropolitan areas.

A significant share of the industrial growth had to be channelled to other regions in Southern Africa, although it was not the Government's intention to smother industrial development in the existing metropolitan areas.

RECOGNITION

There had been increased recognition of the economic interdependence of territories and states in Southern Africa.

Dr Koornhof said the Government envisaged economic co-operation across political boundaries to help each community develop along its own lines.

The 'relatively poor performance' of the Cape Town metropolitan region could be ascribed, among other factors, to the decline in the region's manufacturing share of the country's total industrial production.

49

REPUBLIC OF SOUTH AFRICA

GOVERNMENT GAZETTE

STAATSKOERANT

VAN DIE REPUBLIEK VAN SUID-AFRIKA

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OFFICE OF THE PRIME MINISTER

No. 2341. 6 November 1981.

It is hereby notified that the State President has assented to the following Act which is hereby published for general information:—

No. 98 of 1981: South African Reserve Bank Amendment Act, 1981.

KANTOOR VAN DIE EERSTE MINISTER

No. 2341. 6 November 1981.

Hierby word bekend gemaak dat die Staatspresident sy goedkeuring geheg het aan die onderstaande Wet wat hierby ter algemene inligting gepubliseer word:—

No. 98 van 1981: Wysigingswet op die Suid-Afrikaanse Reserwebank, 1981.

Arresting urbanisation 'will not work'

Argus 13/11/81

Political Staff

MR Harry Oppenheimer, chairman of Anglo American, has warned that attempts to check or arrest the natural process of urbanisation were both expensive and ineffective.

Mr Oppenheimer made the warning at the Prime Minister's business leaders conference.

Speaking immediately after Mr P W Botha, Mr Oppenheimer said decentralisation of industry 'must be economically sound, otherwise the cost to the country will be so great as to be entirely unacceptable.

'And I am sure that the Government would not expect the support of the private sector for decentralisation if its primary motivation were perceived to be not economic but political.'

No substitute

Neither could regional development be a substitute for tackling the main economic and social problems 'which lie and will continue to lie in the existing metropolitan areas,' he warned.

Later at a Press conference Mr Oppenheimer said it was not clear in his own mind whether the decentralisation proposals announced by Mr Botha had a political or economic base.

There was a possibility that the plan 'went too far and they have put industries in the wrong places.'

In his speech Mr Oppenheimer pointed out that in the past 30 years the black population had multiplied two-and-a-half times from eight million to about 20 million, while the black urban population had multiplied more than five times to about nine million people.

Necessary

The figures indicated that metropolitan areas would continue to grow rapidly and they would offer the 'most important and fruitful field for co-operation between the Government and the private sector.'

From the economic point of view 'urbanisation is not only not objectionable, but absolutely necessary if we are to secure the rapid growth of the national income which we vitally need.'

Mr Oppenheimer said the disappointment of many businessmen with the progress made since the Carlton conference was because it seemed to them that the Government 'either will not accept or is unable or unwilling to act' on these facts.

'It is only in the field of industrial relations that major, solid progress has so far been made.

'We all know the three other main areas in which reform is still needed in order to set the private sector free to realise its potential for the country.

'The first is the mobility of labour. The second is in relation to black education with particular reference to technical education and the third is in respect of housing.

'It is particularly frustrating to businessmen when practical measures to improve the situation are rejected for what appear to be ideological reasons, as for instance when blacks are refused entry into half-empty technical colleges.'

Confidence

Mr Oppenheimer concluded by saying the Carlton conference, which was an imaginative initiative on the part of the Prime Minister, had given greater reason for confidence than in many years past.

'I stilll believe that to be true. It is my hope that at this conference we will rebuild the spirit of mutual trust and co-operation that animated us two years ago but on a more realistic and therefore more solid basis.'

DD 14/11/81 41 49

Tarr: new plan is big improvement

EAST LONDON — The new decentralisation incentives plan is a "vast improvement" on the old incentives and would attract more industry to Transkei, Mr Sonny Tarr, Managing Director of the Transkei Development Corporation, said yesterday.

In the first reaction of the TDC, Mr Tarr said the corporation warmly welcomed the announcement by the Prime Minister, Mr P. W. Botha, at the business leaders conference in Cape Town on Thursday.

"We are thrilled that Transkei is being included in the highest priority development region and we are even more pleased that Ezibeleni in the northwest corner of Transkei near Queenstown has been established as an industrial growth point," Mr Tarr said.

"There is a desperate need for jobs in this area.

"We are vitally concerned about further development in Transkei and the new proposed concessions are a great improvement on the existing ones.

"One of the most important is the 125 percent rebate on training costs because now emphasis can continue to be placed on training," Mr Tarr said.

He said the TDC would now be able to attract many more new industrialists to Transkei.

Transkei's Foreign Affairs Minister, Mr M. Lujabe, said it was essential that the South African Government discuss its proposals for industrial growth with the Transkeian Government before they were implemented.

He said Transkei had not been consulted about the plans to promote economic development, especially in the Eastern Cape-Transkei-Ciskei area, which were announced by Mr Botha.

We must participate in the decision-making," Mr Lujabe said. "There must be consensus, otherwise I foresee problems."

He said he had not had time to study details and implications of the industrial incentives. "However, we are keen to promote decentralisation of labour intensive industries."

Mr Lujabe said Umtata, Butterworth and Ezibeleni had long been regarded as growth points in Transkei.

The chairman of the East London chamber of commerce, Mr Tony Selley, said he was "extremely delighted" with Mr Botha's announcement.

"We believe that at last the government is doing something positive and we are pretty hopeful that if we in East London get going we can draw industry here. We must draw people here."

Mr Selley said he thought the time was now right for strong co-operation between the Border and the neighbouring national states of Ciskei and Transkei.

The fact that there was not much offered to the Port Elizabeth-Uitenhage area in the Prime Minister's economic package "was a disincentive in itself," the national chairman of the Federated Chamber of Industries, Mr Rod Ironside, told our Port Elizabeth correspondent.

The head of the department of economics at Rhodes University, Prof Mike Truu, who is also a member of the Prime Minister's Economic Advisory Council, said the policy of decentralisation made good economic sense.

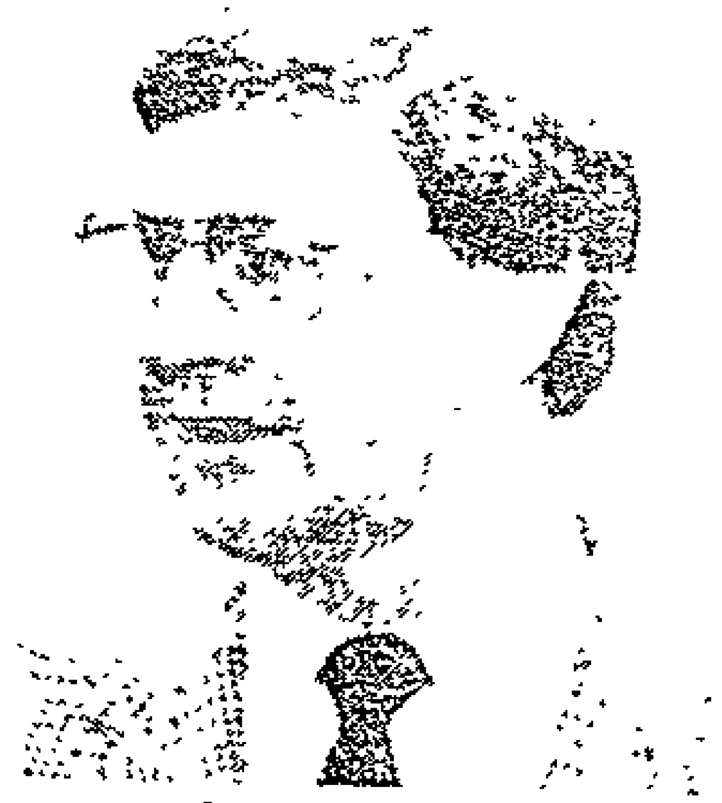
He said it was "a very odd situation" that there were only four major economic growth points, and he did not expect that the Prime Minister's announcements would bring any "revolutionary" economic changes. Only marginal changes could be expected—DDR.

Editorial opinion, page 6.

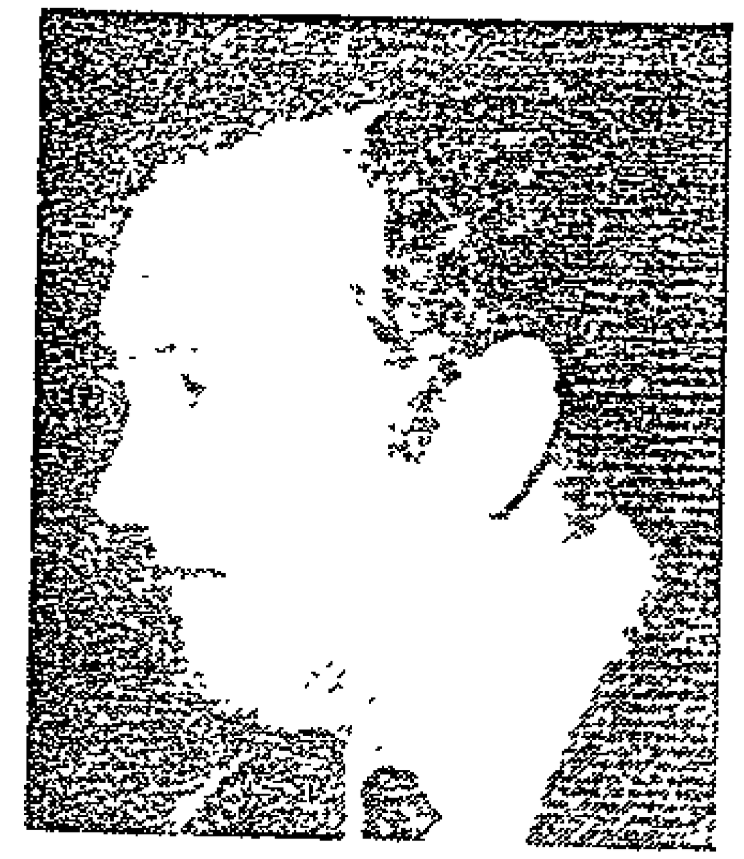
How concessions will work, page 7.

Aftermath of the Good Hope talks: to sell the area

MR RICH



MR SPRING



MR CARD

DD 19/11/81

(49)

By TOM LOUW
Business Editor

After the Good Hope conference, the question being asked now in East London and the Border is: Where do we go from here?

The Government has offered a series of incentives and concessions to the industrialist who sets up business in an area which incorporates Ciskei, Southern Transkei and the white corridor between them. There are other development areas where incentives are also offered, but this region is given special priority in the government's plans to encourage economic decentralisation.

The package that is being offered is a good one. It puts the industrialist on an equal footing with his competitor in the Transvaal (and because there's no shortage of labour here, he might be even better off).

But those incentives, admirable as they may be, will not by themselves bring a golden age of development. That is the consensus already apparent among business and civic leaders.

Mr Donald Card, chairman of the East London City Council's industrial portfolio, puts it this way: "We have got to prove to industrialists that they will benefit from coming here in terms of dollars and cents. We can sell this thing; there's no doubt of that and we must get going and sell it."

The president of the Chamber of Commerce, Mr Tony Selley, comments that it is most important to see the details of how the incentives will be applied. Those details have not been worked out yet, and when they are, says Mr Selley, a committee should be formed to get out and sell the area. He says: "This will take money, but if we can really draw industry it will be worth it."

Mr John Rich, who ends today a stint as President of the Border Chamber of Industries, agrees, and adds: "This is going to take a considerable amount of work. We can't compete with the development corporations in Ciskei and Transkei if we don't have an organisation to go out and sell.

"The effort has to have direction, co-ordination and planning and it will take someone virtually full-time."

Mr Rich said much hinges on whether consensus can be reached between Ciskei and Transkei and the Border area . . . "If Ciskei and Transkei can agree to come in, it will give a broader base. We hope there will be co-operation."

It is clear that there will have to be a period of possibly delicate negotiation to bring about that co-operation. The point that is being made by responsible people is that economic development anywhere in the region will benefit all of it. Therefore, the reasoning goes, all three sections need to work together in the common interest.

The Mayor of East London, Mr Errol Spring, agrees that planning should begin at once. He makes the point that nothing concrete can be achieved until the details of the incentives are known and the Government's proposed advisory committee for the region has been appointed. His hope is that this committee will serve as an umbrella body under which various local sectional interests can be co-ordinated.

"We must not lose sight of the agricultural potential of the area," he says, "and we must bear in mind the key role of the East London harbour as a major natural resource."

Mr Spring sees the real challenge as a matter of marketing, which should not wait for the setting up of the regional committee.

"We should set up a central marketing body and we should pursue the marketing of this area very soon and very aggressively," he says.

He suggests, further, that the marketing drive should reach out worldwide, with real efforts to attract business investment from North America, Europe and the Republic of China.

For all this to come about, somebody must take the initiative, and that, says Mr Spring, is an East London responsibility.

Accordingly, as a first move, he is planning to initiate steps to create a marketing planning group in the immediate future.

ECONOMIC DEVELOPMENT

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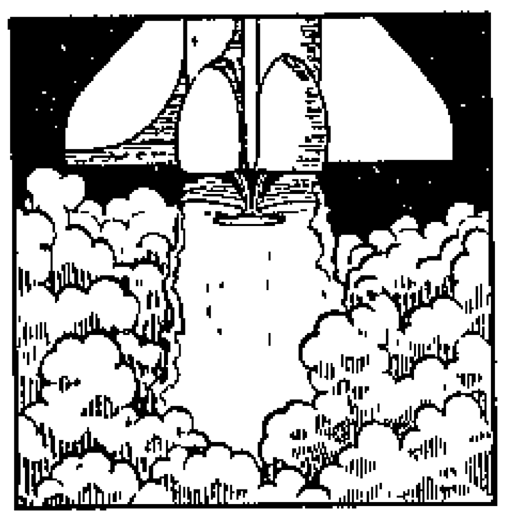
Planning for boom times



The revised Economic Development Plan is an extremely useful document for businessmen, particularly in a country where it is difficult to look ahead with much certainty. It is, therefore, a document that will form the basis of much corporate planning this decade.

Of course, economic forecasts almost anywhere in the world have been shown to be of more questionable accuracy the longer the period they cover. The frequent revision of the EDP is, therefore, essential if it is to be used as the basis of any worthwhile corporate projections. One of the greatest flaws of the old EDP was that it was not revised frequently enough.

While remedying this, the new plan is still essentially an exercise in econometric crystal gazing — by virtue of the period it covers. And it is important to bear that in mind when assessing it.

The only successful econometric forecasts have been those which take into account the inevitable consequences of past events. Of necessity, that limits the period of the forecast. Usually they can be accurate, even on that basis, for little more than about two years.

Policy making insight

The importance of this revised EDP is as much the insight it gives into government policy-making as the figures it extrapolates. To try and evaluate the plan on the likely accuracy of the statistics alone is no more than an arcane exercise in econometrics.

Viewed in broader perspective, the revised EDP is no less than a verligte clarion call. The plan recognises with remarkable clarity the inter-relatedness of economics and politics, with emphasis on a greater role for the private sector in an economy freed from government controls.

The most important feature is the recognition that a high growth rate is dependent on training blacks for skilled work, and is a political necessity to defuse the unstable potential of high black unemployment.

In so doing, the EDP acknowledges the need for an "acceptable geographic distribution" of economic activities. The whole of the original territory of the Republic (including the Transkei and Bophuthatswana) appears to be viewed as one unit for purposes of economic development.

Most significantly, the plan cites Wiehahn's conclusion on manpower policy: "the maintenance and furtherance of individual economic freedom by the elimination of unjustifiable discrimination between the different population groups; the expansion of labour market knowledge and information; and the promotion of the vocational and geographical mobility of manpower."

The planners claim that "at the statutory level" considerable progress has been made over the past three years towards enabling all population groups to become part of the skilled manpower pool. But a "chronic shortage" of skilled workers remains, despite the existence of a vast pool of unemployed.

Black unemployment

In SA (including Venda) black unemployment fell from 9,2% in the second quarter of 1979 to 8,1% in the first quarter of 1981. (Coloured unemployment over the same period fell from 8,1% to 6,4%).

But if Transkei and Bophuthatswana are included, black unemployment would have been higher on average. Their unemployment could be at least as high as in non-independent black states like KwaZulu — say around 10%. The planners note wryly that "SA should remember that in many respects it is faced with Third World unemployment problems."

Despite the general optimism of the EDP, unemployment remains the ore large and looming cloud. As the plan says "The continued high level of black unemployment, and particularly its structure, for example the fact that 43,5% of those unemployed in March 1981 were in the age group 20-29 years, makes it still one of SA's most urgent economic and political problems." Everything possible will have to be done to accommodate at least the addition to the work force in the long run.

The plan points out that the number of black matriculants is increasing sharply and that there will be more black matriculants than whites within 10 years

As to the need for educating SA's blacks, it is at pains to explain that greater expenditure on education may dampen economic growth in the short-term by diverting resources from more directly productive uses. However, it is essential to the maintenance of a high growth rate in the long run.

But brave words alone are not enough. Government needs to show more resolve in warding off diversions from the Right and from those pleading special interests. It must continue to move towards greater economic freedom and to mobilise more efficiently black labour resources.

The plain fact is that while through fiscal measures considerable resources have been released to the private sector, progress on other fronts has been slow. Sometimes there has even been retrogression.

The Competition Board has not succeeded in bringing about greater competition. In fact, in the liquor industry the trend has been in the opposite direction — and this has been with the connivance of government.

Progress towards greater decontrol has not progressed at any great pace, although some has taken place. Apparently, it is being delayed until the economy is made more competitive.

Among these measures is rent control. While government is committed to remove it, there has been a "temporary" reinstatement. This, in turn, is distorting housing investment and creating a chronic shortage of rented accommodation.

Unless there is renewed progress towards a more efficient economy, with fewer physical constraints, the gdp's expectations of inflation and, as a result, real economic growth could be rather wide of the mark in the time allowed.

Tight fiscal policy

The EDP implies, too, that a tight fiscal policy will have to be maintained. And if the ratio of tax revenue to gdp is to remain constant — as required in the original EDP — normal tax rates will have to be reduced on average to counter fiscal drag on the progressive income tax scale. This pushes taxpayers into higher tax brackets with every increase in earnings, if only to adjust for inflation. In effect, it erodes real earnings rapidly.

Real government expenditure should increase at an annual rate of 4,4%. This rate compares with an average rate of 2,0% for 1978-80. Public authorities' capital investment must increase at 5,5%, against an average reduction of 5,8% during 1978-80.

The capital investment of public corporations must grow at 3,6% annually, against an average of 6,6% during 1978-80. (The figure for 1978-80 has been distorted by the cost of Sasols 2 and 3).

If these goals are achieved, unemployment will still be a problem. It should, how-

PLEASE TURN OVER

ever, be lower than estimated in the original EDP, which was 11,5% in 1987 at an average growth rate of about 5,0% from 1977-87.

The revised gdp puts the average annual growth rate for the next seven years at 5,1% against its previous 4,5% forecast. It is not difficult to see why.

The higher than expected gold earnings over the past two years have enabled the installation of a great deal of productive capacity. In the past, a rising contribution by gold to the domestic production has generated long cycles of economic growth. The magnitude of gold's more recent contribution has set the foundation for the growth ahead.

This should, as the plan envisages, be bolstered by the diminishing costs of oil (due to Sasol 2 and 3) and rising earnings from coal and other mineral exports.

What has already taken place in these respects will cushion and circumscribe the decline in business activity over the next few years. Thereafter, the future — and the viability of the plan's forecast — depends to a greater extent on two other factors.

One is the speed of recovery of the large industrial nations that consume SA's exports. As an open economy, SA is sensitive to international growth trends, although the effects are often lagged.

The second factor is the gold price. The plan envisages an average gold price of $490 in 1981, $500 in 1982 and a maintained real value in terms of rising prices thereafter. On the trend of the past week, that may appear optimistic. Indeed, some would argue that it is as great an over-estimation of the gold price as was the plan's under-estimation over the past two years.

However, gold has held its value remarkably well in the past, despite short-term fluctuations. It cannot be argued with any conviction that in this respect the EDP is misguided. In any event, should greater prosperity and calm prevail in the West, constraining the rise in the gold price, demand for other minerals produced here will grow correspondingly. This may not compensate entirely for lower gold revenues, but it will reduce the country's dependence on gold.

Considering the government policies tacitly envisaged by the plan, an averge annual rate of inflation of 11.8% is depressing. After all, if the policies come to fruition, demand should be held in check by monetary, exchange rate and Exchequer financing policies. Simultaneously, supply should be increased by the transfer of assets through fiscal policy to the more productive private sector. And labour and educational reforms should reduce some of the physical constraints that kept prices rising prior to the economy overheating last year.

These are not factors that can easily be reduced to mathematic symbols and extrapolated. The *FM*'s guess is that the EDP is rather too pessimistic in its views on inflation.

Provided political and labour reforms continue, the plan's outlook for inflation could be more encouraging after the next revision. If it is not, the plan will certainly be indicating that businessmen must be extremely cautious when evaluating government policy for their own planning purposes.

LOOKING AHEAD

	EDP forecast	Revised EDP forecast		
			Realised	Remaining period
	1978-1987	1978-1987	1978-1980	1981-1987
ECOMOMIC GROWTH				
GDP (market prices) (real)	4,5	4,9	4,6	5,1
Private consumption expenditure (real)	4,2	4,9	3,9	5,4
Private gross domestic fixed investment (real)	6,7	7,1	6,8	7,2
FOREIGN TRADE				
Imports, goods and non-factor services (real)	4,5	4,6	4,7	4,6
Exports: goods and non-factor services (net gold production excluded (real)	5,1	5 0	4,3	5,3
Balance on current account of the balance of payments (10-year average) (Rm)	54,0	32,0	—	—
EMPLOYMENT				
In the non-agricultural sectors	2,8	3,0	1,7	3,6
FISCAL AND MONETARY POLICY				
Taxes:				
Direct: Company (current)	9,4	19,2	33,2	13,7
Direct: Personal (current)	17,9	13,4	5,5	17,0
Indirect. (current)	14,9	18,0	20,2	17,1
Money supply	13,1	16,9	16,2	17,2
PRICE LEVELS				
Consumer price index	7,9	12,0	12,4	11,8

All figures are average annual growth rates (%) unless otherwise stated

Assumptions about factors influencing economic performance.

1) Gold will average $500 in 1982, rising to $1 000 in 1987.
2) Oil will rise to $90 in 1987.
3) The rate for the rand will decline over the period
4) Government's real current consumption will increase at an average of 4,4% per year, gross domestic real fixed investment will increase by 5,5% per year for public authorities and 3,6% per year for public corporations.

economies of scale. The government on the other hand might be able to see in the future and also see in what direction the industry or firm is likely to go. Because of this it is argued that the government should help the industry by supplying more information ~~to~~ to the infant industry so that it is able to see in the future so that expansion can be easily assessed. Or, on the other hand the govt. could supply the industry with a direct subsidy. But it is argued that just how valid and accurate is the information? will the information

ECONOMIC POLICY

Horwood stands firm

(49) FM 20|11|81

The government is firmly convinced that its current policy of economic "consolidation and adjustment," the conceptual basis of the 1981-82 Budget, is the correct one. There will be no "premature reflation or stimulation of the economy."

This is the central message of the keynote address made by Finance Minister Owen Horwood at the opening of the *FM*'s annual investment conference at the Carlton Hotel on Thursday.

Horwood described the dilemma facing him when he drew up this year's budget. "On the one hand, the growth in real domestic product was slowing down and there were signs that the economy was about to enter a downward phase of the business cycle. On the other hand, total monetary demand was clearly still excessive and the current account of the balance of payments was showing a large and increasing deficit. The crucial question was whether to direct fiscal policy at an anti-cyclical stimulation of spending and economic activity or to adopt a more conservative approach aimed at restraining public and private sector spending."

In the event, the latter course was chosen, and Horwood has "not regretted that decision. Inflation is still a major problem and the adverse influences of external circumstances can neither be shrugged off nor neutralised by fiscal or monetary manipulation. The self-adjusting balance of payments process must be permitted to work."

Horwood cited the performance of the economy over the past year as a vindication of his fiscal decisions. The decline in 1980's gdp growth rate of 8% to what will probably be between 4,5% and 5% for the current year is due less to a weakening of domestic monetary demand than to physical constraints — skilled labour shortages and the absorption of surplus production capacity. But a 4,5%-5% growth rate in itself represents "another excellent growth performance and a further significant rise in the general standard of living in SA." And the large deficit on the BoP current account testifies to the continued strength of aggregate demand. Real gross domestic expenditure will probably increase by 11% this year, against 14% last year. And real gross domestic fixed investment is likely to rise another 10% in 1981, as opposed to 13,5% last year.

Given this, it could be argued that fiscal policy should have been even more restrictive than it was. But account was taken of the other element in overall policy — a restrictive monetary approach. At its core was the conscious decision by the Reserve Bank to allow economic forces, including the decline in the value of the net gold output and other exports, to bring about a tightening in the financial markets and a marked rise in interest rates.

This is not to deny, Horwood added, that the economy may now have moved into what is technically called "a downward phase of the business cycle". But, he explained, this does not necessarily imply any

Finance Minister Horwood . . . urging pro-cyclical restraint

actual decline in real gross domestic product. "It merely refers to a period during which many of the economic variables which had increased sharply during the preceding cyclical upswing rise at a lower rate, level off or actually decline temporarily."

The government would not be deterred from its course by the charge that it was guilty of overkill in following a pro-cyclical policy of restraint. Countering this, Horwood pointed out that the Treasury and the Reserve Bank had "leaned over backwards to shield the domestic economy from adverse external influences." It had cushioned SA exporters from lower dollar commodity prices by allowing the rand to depreciate 23% against the dollar since the beginning of 1981. The Reserve Bank had also encouraged foreign trade financing by its forward discount policy and accommodated the domestic financial system when seasonal tightening made it necessary.

While encouraging growth, these measures had also made it more difficult to curb inflation and correct the BoP disequilibrium. "These latter objectives," warned Horwood, "must now be accorded a higher policy priority, even if this has a certain pro-cyclical restraining effect on the domestic economy in the short term."

This will involve maintaining strict control over the money supply and over government spending, the latter to minimise the deficit before borrowing. And, said Horwood, financing both this deficit and the BoP deficit without losing grip of the money supply "will require even tighter financial discipline and continued high nominal rates of interest in 1982."

Hence next year would be a difficult one for the SA economy. International recession and high interest rates abroad have already affected SA exports and must in due course affect detrimentally domestic economic activity. The implications are a gdp growth rate next year of between 2% and 3%, a deceleration in the growth of real private consumption expenditure to about 4% and a real fixed investment growth rate of between 3% and 4%.

At the same time, "a certain measure of inflation will be with us for some time to come," and will be exacerbated by the lag effects of 1981's depreciation in the rand exchange rate. On the other hand, money supply is under better control and the lower rates of inflation of SA's main trading partners will exercise a beneficial influence.

Horwood concluded by warning that "we have to accept tight monetary conditions, continued high nominal interest rates, a cooling down of the economy and a lower real rate of growth in 1982. To try to spend our way out of trouble would be to invite disaster. The answer to our problems lies in discipline, not permissiveness."

FM (49) 4/12/81

ECONOMIC DEVELOPMENT

Awaiting a pivot

The long overdue process of rationalising and centralising the whole gamut of development corporations in SA is beginning to move into gear. But the government's delay in getting the proposed Southern African Development Bank off the ground is threatening to bring the process to a halt.

Financial Mail December 4 1981

It had been anticipated that the Development Bank would play the pivotal role in streamlining the cumbersome development apparatus in southern Africa.

Architects of the bank envisaged that the existing independent state and homeland development corporations, which are still directly responsible to the state-run Corporation for Economic Development (CED), would sever their ties with Pretoria. They would then become the independent development arms of their own governments under the aegis of the multilaterally controlled bank. The CED itself would be incorporated into the functioning of the SA department of the bank, alongside bodies like the SA Development Trust, the Bureau for Economic Research, Co-operation and Development and the aid organisations attached to the Department of Foreign Affairs.

But this is still in abeyance as the government drags its feet on the crucial questions plaguing the birth of the bank — multilateral control and international co-operation (*Economy*, November 20).

Meanwhile, some progress is being made in other areas. By the end of the year the old Indian and coloured development corporations, the Indian Industrial Development Corporation (IIDC) and the Development and Finance Corporation (DFC) respectively, should be fully incorporated into the functioning of the newly established Small Business Development Corporation (SBDC). The idea is that these should lose their racial character and operate as regional arms of the SBDC.

The Industrial Development Corporation (IDC), which is concerned with financing development outside the homeland areas, has already transferred its small industry assets and responsibilities to the SBDC. And the sections of the CED's portfolio which relate to small business will also be subsumed by the SBDC.

These initiatives are to be welcomed. The sooner government comes clean on its proposals for the Development Bank, the sooner the role of the regional and homeland development corporations can be sorted out.

Then only one area remains outstanding — who is to bear responsibility for development in the black urban areas and how this is to be carried out.

Financial Mail December 4 1981