ECONOMY

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The two economic options

Finance Reporter

SOUTH Africa's economic policymakers have two distinct roads they can travel this year, according to Barclays chief economist Dr Johan Cloete.

They can opt for a tough line to eliminate the current account deficit completely and decide to finance their entire loan requirements from local taxpayers.

This would result in a real growth rate of less than 2,5 percent which must be considered negative growth.

Government could go for the moderate line, however, in which it would be prepared to merely halve the current account deficit and finance its loan requirements by borrowing from overseas. Together with gold swops the rate could be kept above the 2,5 percent level.

Cloete ... two paths

"The annualised current account deficit is now about R5 000-million, but will probably work out to R4 200-million on a calculated basis," says Cloete.

"This is putting tremendous pressure on the Reserve Bank to supply dollars to the market every day. If those pressures become so great they feel they will have to bring about a fairly rapid reduction in the current account, they may decide to apply even tighter monetary measures.

"That will drive rates up even further and chances are that it will kill growth completely.

"On the other hand," said Cloete, "if the Government decides on a more balanced approach and is prepared to accept a deficit of R2 000-million, about half, it will leave enough buoyancy in the system to enable the economy to achieve a 2,5 percent growth."

Cloete said the Government was committed to heavy expenditure on items such as defence, housing and education and would find it difficult to finance these commitments next year. The falling growth rate of the economy and the fall in the price of gold would seriously affect its revenue from taxation.

"It will have to borrow money, I would say about R4 000-million, to finance those commitments," he said.

Cloete said the fact that Finance Minister Owen Horwood has stated publicly that he expects a growth of between 2 and 3 percent next year is an indictation that he will probably opt for the more moderate policy.

An advantage of maintaining a 2,5 percent growth rate would be that if there was only a moderate recovery overseas the second half of 1982 South Africa would be able to increase its growth rate in 1983.

"But if we have a zero growth rate we won't be able to benefit from a moderate recovery overses because once you go down you disrupt your economy to such an extent that you need a strong impetus from overseas to get out of recession," he said.

"With a moderate policy, a moderate recovery overseas would enable us to push our growth rate up to the 5 percent average we need. Otherwise it could take three years to push the economy back to 5 percent, as it did in 1975.

"We were lucky then. The gold price rose, but it took three years to recover significantly from the depths. However, you cannot rely on the gold price when formulating policy."

Cloete said there was a real danger that if the American economy showed signs of revival, the authorities there might decide to end that recovery to control inflation by monetarist methods.

"The American economy is going into a deeper than anticipated recession. Even if there is an upturn there, we do not know to what extent authorities will allow the money supply to grow again to finance the upturn, especially if it leads to more inflation, which is likely.

"When you have inflation in a system and you want an upturn you have to first finance inflation and create more money to finance real growth.

"Because of their heavy reliance on monetary policies to control inflation, the authorities in America could well abort the next upturn if they are not careful.

You can bank on Standard ...

FOR those who may run out of money during this New Year weekend Standard Bank are opening their automated telling machines today from 9am to 2pm. This will apply every Sunday and public holidays in future.

Are the Government's strict policies working?

By MIKE PEIRSON
Finance Editor

THE BIG question all industrialists and businessmen will be asking themselves in the early months of this new year is: are the Government's restrictive monetary policies really working?

On the one hand we have Consumer Price Index figures showing an annual inflation rate drop in November (latest available statistics) to 14,4 percent — the lowest in 1981 — with the prospect of further percentage drops in the next few months.

On the other hand there are the recent price increases (tyres and other consumer items) and this week the latest five percent rise in air fares — the hardy multi-annual.

Add to this high interest rates and the resultant slowdown in industry and one begins to get confused about where the real state of the economy lies.

There can be no doubt, however, that the restrictive policies are having some positive effects, although not necessarily tangible to the man-in-the-street.

Although disappointed to a degree with the success of the policies Standard Bank for instance does concede some progress has been made. The rate of increase in bank lending which shot up dramatically early last year has definitely slowed, although the level still remains high.

This slowdown in credit demand is possibly a little overstated, however, because since mid-1981 there has been a noticeable trend towards off-balance sheet financing by banks and also towards direct inter-company lending. These activities are not reflected in published bank lending data which, therefore, need to be interpreted with care.

Standard points out that the Reserve Bank's controlling hand has been strengthened recently because some of the short-term obstacles in the way of effective monetary management have been eliminated and others are likely to become less troublesome in the near future.

The gold swops policy with foreign banks has activated a sizable proportion of the country's gold reserves in a way which does not enhance domestic liquidity.

The swops obviate the need to encourage inflationary foreign borrowing and have enabled the Reserve Bank to quote premiums rather than the accommodating discounts on forward dollars. The cost of covered offshore financing is now considerably less attractive than of late.

A significant tightening of the financial markets will continue to be felt, especially in the first quarter of this year. Bank liquidity pressure will grow and short-term interest rates could again come near the peaks reached in July last year.

One sector not happy with the latest bank rate increase is the farmers. Chairman of the National Maize Producers Organisation Mr S. E. S. Ferreira, said this week it would put up the cost of production of the country's maize crop by R23-million.

The cost of storing the five million tons of export maize the railways could not carry to the ports in time would increase by as much as R26-million.

Maize producers could not absorb such additional losses said Ferreira. Many of them had not been able to pay their debts to their co-ops, although they had reaped a record crop.

Ferreira added that the maize farmer would do his bit by trying to cut costs wherever possible but the consumer also had to contribute to the survival of the maize industry by paying a realistic price.

Sunday EXPRESS Business

Low gold price will restrain economy in 1982

THIS is the time of the year for forcasting and I may as well have a stab at prospects for the stock market.

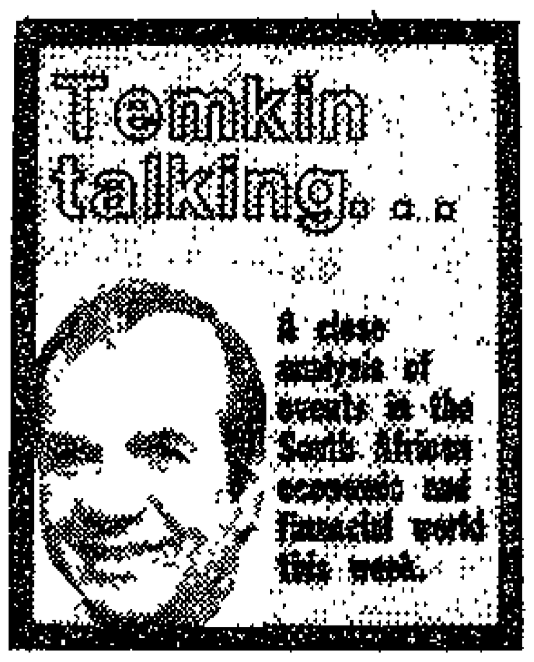
Let's begin by looking at the gold sector. As with industrials, any marked boom depends on a revival in the price of gold. It's almost impossible to be optimistic in this regard — especially as some of the best-known forecasters have gone cold on the metal.

With no fundamental factors signalling a near-term rise in the price of gold and with the technicals still very gloomy, it seems that things could get worse on this front before they get better.

It's not too speculative a view to suggest that the price will remain in the doldrums — probably after falling further — for some time, drifting along rather aimlessly until currency uncertainties or inflationary fears trigger another rise.

This suggests there will be a prolonged opportunity to buy gold shares in the course of next year.

No forecaster should fail to hedge — my warning is that commodities, including gold, are subject to very rapid speculative pressure. Poland may not have done much to the gold price right now — but it could give it a boost tomorrow or next week.



Nobody really knows.

As most stock market investors know, the industrial market is closely related to the gold market — and the rise in the gold price can trigger an industrial boom.

If my forecast on gold is correct, then don't expect fireworks on the industrial front. Further, the economy in general will be restrained by a low gold price.

Add to this the generally slower economic tempo expected next year and it seems that the industrial market will be no place to make capital gains.

Against this it has to be accepted that we are likely to see positive real economic growth in 1982. This means that the profits of good companies will rise in real terms.

As interest rates show little sign of falling, especially if the gold price remains in the doldrums, many share prices may adjust to take account of high interest yields relative to dividend yields.

In short, the industrial share market is not especially strong — neither has it great underlying strength.

Both the gold price and high interest rates are negative factors and slower real economic growth will affect company profits.

This does not mean that investors should stay away from the stock market in 1982. It [illegible] very good time to buy both golds and industrials — golds while the price is weak preceding [illegible] sustained rise, industrials while dividend yields are attractive [illegible] preceding the next period of [illegible] economic growth.

Sight should also not be [illegible] the profits to be made [illegible] special situations and [illegible] should watch carefully [illegible] takeovers and mergers in tighter economic conditions.

1982 growth must top 2,5%, says Cloete

ANYTHING less than a 2,5% growth rate, the minimum required to keep pace with population growth, must be regarded as negative growth, says Dr Johan Cloete, Barclays Bank's chief economist.

'GOVERNMENT MODERATION IS THE ONLY REAL SOLUTION'

By DAVID PINCUS

The only way he thinks it can be obtained in 1982 is for the Government to adopt a moderate policy to the way it finances the current account deficit and its loan requirements.

The current account deficit, on an annualised basis, will be about R5 000-million and about R4 200-million on a calculated basis. He expects the Government's loan requirements in 1982 to be about R4 000-million.

"The current account deficit is putting tremendous pressure on the Reserve Bank to provide dollars to the market every day," he said.

"It may decide it will have to effect a fairly rapid reduction in the current account by introducing even tighter measures than we have now, which will force rates up even further.

"Chances are that will kill growth completely."

Cloete said that if the Reserve Bank decided on a more moderate approach, in which it was prepared to reduce the deficit to about R2 000-million, it would still be possible to achieve a 2,5% growth rate in 1982.

"The same applies to Government borrowing requirements," he said. "The Government is committed to spending large sums on items such as defence, education and housing.

"Its tax revenue will decrease because of slower growth and the fact that the price of gold has tumbled.

"If the Minister of Finance decides he will finance the Government's loan requirements through taxation he will kill consumer spending.

"However, if he decides on a moderate tax increase and borrows the rest of the money on capital markets overseas, we could still maintain a 2,5% rate of growth."

Cloete said the fact that Dr Owen Horwood, Minister of Finance, has already said he expects the growth rate in 1982 to be between 2% and 3% seems to indicate that he favours the more moderate policy.

"One of the advantages of maintaining a 2,5% growth rate in 1982 would be that we would be able to push up our growth rate in 1982 if there is a moderate recovery in overseas economies," he said.

"But if we allow it to go right down we would not be able to benefit from a moderate recovery overseas. Our economy would be disrupted to such an extent that we would need a strong impetus from overseas to get out of recession.

"If we leave ourselves in a situation where we can benefit from a recovery overseas, however moderate, we will be in a position to increase our own growth rate to a point where we will be able to maintain the desired average of 5%."

Cloete pointed out that when the economy was allowed to go down to a very low growth rate in 1975 it took until 1980 before growth rose above 5%.

"We achieved our high growth rate in 1980 because we were lucky. The price of gold rose to almost unbelievable heights," he said.

"But you cannot rely on gold price increases in policy-making. It took three years for the price of gold to recover when it fell back in 1974."

Cloete, certainly no monetarist, favours a wage-price-control method to bring inflation under control and fears monetarists will abort any revival in the American economy prematurely in their efforts to curb inflation.

"The American economy is going into a deeper recession than was anticipated," he said.

"We still have moneterists in control there and we do not know to what extent they will allow the money supply to grow again to finance an upturn."

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Bank's optimism on growth rate

By Pieter de Vos

South Africa is set for massive capital expansion in the 1980s that will allow a higher growth rate than has been possible in the 1970s.

The list of plans on the drawingboards will create a strong and diversified industrial base in the years ahead, says Standard Bank's latest economic review.

It will allow a higher average growth rate than has been possible during the 1970s, the bank predicts.

The bank lists about R50 000-million expansion programmes in the next five to six years, pointing out that these represent by no means a complete account of capital investment in the next few years.

Escom has expansion plans of about R14 500-million in the pipeline and the Post Office plans to spend R8 500-million in the next 15 years, to mention the capital programmes of but two public corporations.

Even allowing for temporary cutbacks in planned expenditure due to difficult financing conditions, the Railways and Escom will retain the two highest capital expenditure budgets of any single enterprise.

In the gold and uranium mining, Standard lists capital programmes of about R3 200-million. In coal and related fields R700-million will be spent on projects to fulfil export quotas and nearly R1 000-million on new collieries for Escom power-stations. In chemicals, AECI, Sentrachem and Sasol plan to spend about R5 500-million in the next three to five years.

Other big programmes are:

- Railways — rails, rolling stock, buildings and electrification of lines costing about R5 340-million to be spent from this year.
- Housing — Soweto upgrading and electrification and Alexandra upgrading at about R600-million, set for completion between 1983 and 1986.
- Water and forestry — various water schemes costing about R1 400-million over the next five yars.
- Sappi — expansion of about R600-million until 1984

R45-billion capex programme for SA — bank

(49) RDM 6/1/82

By HAROLD FRIDJHON

CAPITAL expenditure in South Africa during the next five to six years could exceed R45 000-million according a survey which appears in the current issue of the Standard Bank Review.

The biggest spender will be Escom whose outlays between the years 1982-90 will top R14 500-million. Second highest will be the South African Railways which has a programme which involves R5 340-million.

These budgets, says the bank, are possibly the largest of any single enterprise in the southern hemisphere.

After the high rate of gross domestic fixed investment during the past two years, a slowdown in investment spending this year is inevitable in line with the changed economic outlook. But the reduction is unlikely to be as drastic and as long as during the last recession.

What is significant is that the next few years are likely to bring about a shift in emphasis in the direction of non-infrastructural expenditure.

Export ventures and import replacement projects have a high priority. This can be seen in the gold, coal and chemical industries.

Previously major expansion plans had been aimed at necessities such as arms and fuel production. The emphasis has changed to projects making established industries more sophisticated and to add downstream production with a view to improving self-sufficiency, job creation and export potential.

"Real gross domestic fixed invetsment for the first three quarters of 1981 was up 7,5% from the corresponding period of the previous year, a total investment increase of 21% from 1979.

"Despite high current borrowing rates, prospects for tighter financial conditions and a relatively poor near-term outlook for domestic growth, both public and private sector investors appear to continue adopting an optimistic attitude towards the long-term growth outlook."

There is the possibility that there might be some temporary cutbacks in planned expenditure because of difficult financing conditions. Indeed there have been some cutbacks in the gold mining industry because of the currently low gold price but the establishment of major new mines and expansions to existing facilities are going on in anticipation of a gold price recovery.

A growing reliance on coal as a fuel and an export commodity has triggered expansion by the Railways, Escom, Sasol, AECI, Shell, BP and most major coal mines.

Biggest planned spenders are:

- Escom (to 1990) R14 500-million;
- Post Office (over the next 15 years) R8 500-million;
- Chemical industry R5 847-million;
- SA Railways R5 340-million;
- Gold mining industry (some expenditure will run into 1990) R3 636-million
- General industry, including cement and steel, R1 843-million;
- Coal mining, including coal for Escom and for export, R1 700-million;
- Paper, pulp and wood R1 134-million;
- Iscor R1 000-million;
- Other mining activities R500-million.

Coal mining has very far-reaching down-the-line implications. The research into alternative fuels and the production of chemical feedstocks continues at a fast pace. The bank says that the achievements in these fields are among the best in the world and have made South Africa self-sufficient in many chemicals. In addition products such as PVC are now being exported.

The chemical industry, however, is faced with two major problems which could seriously affect current expansion plans: a serious shortage of skilled technicians and supervisors, and insufficient import protection in the short term which could affect the viability of some projects.

Industries in the manufacturing sector which are proposing large capital spending prgrammes include those making cement, packaging, motor vehicles and accessories.

In the services area additional housing, hospitals, transport other than the railways, water schemes and forestry and other services will have a combined budget over the next five or six years of more than R3 000-million.

The Standard Bank says that the list it compiled was not intended to provide a complete account of capital projects. The object of the exercise was simply to point out various areas of investment and indicate directions of growth. In broad terms the construction and structural steel industries will benefit from existing plans.

"The list of plans on the drawing boards also implies the creation of a strong and diversified industrial base in the years ahead, with sufficient infrastructure to facilitate the next economic upswing, and to allow a higher than average growth rate than has been possible in the 1970s."

THE crucial 1982 session of Parliament opens this month with two key questions still waiting to be answered:

How much reform will Government be prepared to dole out to an impatient South Africa, and;

How much will it attempt to shift the burden of change to the private sector? In two articles this week, a leading economist warns against Government attempts to kill the goose that lays the golden egg by burdening the taxpayer with the costs of black urbanisation, and a political philosopher asks: Why do we need reform?

SOUTH Africa is experiencing an urban revolution. Its social structure is being rapidly transformed by the progressive urbanisation and the industrialisation of black workers.

But what is to be the private sector's share of the costs of social welfare services to urban blacks?

Lay off the taxes, and leave it to f

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Sunday Times 17/1/82

This question is becoming increasingly relevant as future demands on the Treasury are being added up and as Government leans further towards a free enterprise approach and direct private sector participation in urban development for blacks.

Employers are being asked to carry the "full cost" for housing, transport and civic amenities for their workers.

The De Lange Commission Report on Education, and the currently sitting Browne Commission on Health Services, are following the trend towards the decentralisation and privatisation of services for which the State has traditionally accepted for itself the primary (and often exclusive) responsibility.

Conservative population projections show that the black urban population will rise from about nine million in 1980, to more than 20 million by the end of the decade. This compares to an increase from four million to some 4,8 million in the case of urban whites.

Burden

Black urbanisation means a quantum jump in the demand for social welfare services, housing, health, education and transport.

The budget for these services, if financed on traditional lines, would be approximate to the present defence expenditure.

We now recognise that if these services continue to be supplied only by the State at the cost to the taxpayer, an insupportable burden will be thrown on the tax system.

Alternatively, the authorities could be forced to finance this social infrastructure by resorting to the printing press with catastrophic inflationary consequences.

Dr Jan Lombard, Special Adviser to the Reserve Bank, correctly sees this migration to the towns as the mainspring of a new phase of South Africa's growth and industrialisation.

A high growth rate, averaging more than 4,5 percent in real terms on a sustained basis, will be needed to absorb the additional labour supply and to match rising aspirations for improved urban standards of living.

Rapid and widespread economic growth is essential if unemployment and under-unemployment is to be avoided in our cities.

There are welcome signs that Government is prepared to make far-reaching policy and institutional changes to meet the problem of black urbanisation.

It has accepted the principle of the permanence of blacks in urban areas. It must now apply this principle to questions of land tenure, housing, education, social amenities and local self-governance for blacks.

Crucial tests of a new policy stance will be:

- The awaited Bills on black local authorities, Co-operation and Development and Black Community Development (incorporating the recommendations of the Rickert Commission) to change the basis of influx control and to facilitate the urban development of black communities.
- The development of open trading areas, de-restricting black trading rights and permitting trading partnerships across the colour line.
- Changes in housing policy (as recommended by the Economic Advisory Council and the Viljoen Panel) to incorporate the principles of free enterprise, self-governance and community participation.
- Changes in education and the organisation of the health services permitting a greater degree of local autonomy and financing to make these services more responsive to community needs and to reduce the cost burden on central Government.
- The financing of black urban areas in a more locally autonomous tax collecting system and the possible integration with existing metropolitan areas.

The potential for a breakthrough is well illustrated by low cost housing.

Broader application of the principles employed by the successful Urban Foundation and Community Development housing experiments at Khutsong and Steilloop would encourage blacks to build or

ree enterprise

xtend their homes.

Pre-requisites for a dy-[illegible]ic market in black [illegible]using are:

- Security of tenure.
- Transferability of itle.
- Relaxation of building standards.
- Active promotion of elf-help and "sweat equity" investment.

There is enormous pent-up demand in the black housing sector and he opening of a market in ow cost housing is the key engine of development.

Hundreds of thousands of informal sector jobs could be created as new [illegible]anpower resources sy-[illegible]hon directly into the pro-[illegible]uctive sector.

The demand for building materials would be increased. Already property developers can enter the market through the temporary title mechanism.

Security of title gives building societies the necessary backing for final investment in low cost housing. Relatively small interest rate subsidies could make this an attractive investment for other financial institutions such as pension and insurance funds.

Internationally, labour absorption by modern industry has been much smaller than expected and especially in Third World countries the "trickle down" effect of industrialisation has been disappointing.

Thus industrialisation has accelerated the migration to the towns. But it has not solved the problem of urban unemployment.

A new economic dualism has developed in the cities. Side by side with the workers in the formal industrial economy exists a reservoir of workers in the so-called "informal sector", often living in serious poverty.

Emerging mass poverty in the informal sector is the biggest development headache to the Third World.

The World Bank figures show that the number of "workers" in the informal sector range from 37 percent in Malaysia, 58 percent in Zambia, to 90 percent in Ethiopia.

Providing enough jobs during this phase of urbanisation in South Africa presents major challenges to Government, management and labour.

We must accept the new dualism in the developing urban economies of South Africa and encourage informal sector activities characterised by:

- Ease of entry.
- Reliance on indigenous resources.
- Family ownership of enterprises.
- Small scale of operation.
- Labour-intensive and adapted technology.

A greater measure of private ownership, individual choice and equality of opportunity would make additional resources available to satisfy the aspirations of growing urban populations.

At the same time the removal of the constraints on the use of resources would bring about the essential gains in productivity and informal sector employment opportunities which have been elusive in South Africa's industrialisation processes so far.

The real challenge facing the Small Business Development Corporation is to encourage and stimulate development in the urban informal sector with the necessary injections of aid and management training.

Responsibility

Obviously the employer has some responsibility for his workers beyond the factory gate, especially where this provides direct returns through increased labour stability and productivity.

But it is not in the interests of the country that the business community should be levied with an additional and sectional tax to pay for services which could be provided by free enterprise or the people themselves.

This would directly depress the production, investment and job creating ability of private enterprise.

It would effectively kill the goose that lays the golden egg.

The answer once again is to remove restrictions and let the market work.

Star (49) 7/1/82

Prospects excellent for long-term growth — Seifsa

JOHANNESBURG. — Capital investment programmes now being implemented in the metal and engineering industries underscore Seifsa's viewpoint of excellent long-term growth prospects.

Seifsa (Steel and Engineering Industries Federation of South Africa) states this in a summary outlook for this year. "However, any assessing of the near-term growth prospects must take into account that the economy, generally, during this year will be in a downswing situation and there are continuing external factors, beyond South Africa's control, which have a significant impact on developments."

Of predominant concern is the price of gold during 1982 and for the purpose of its forecast, Seifsa used a fluctuation of between 400 and 450 dollars.

"The assumption is also made that oil prices will not exceed the average inflation rate in major Western economies and that there will be some containment of South Africa's own current high inflation rate, estimated for 1982 at between 14,5 and 15 percent."

Seifsa states that a further factor is that recovery in the economies of a number of South Africa's major trading partners is now likely to be delayed until the end of this year, indicating that Seifsa's export-related sectors can only maintain similar levels to last year, with some possibilities of an upturn early in 1983.

Boom predicted

South Africa will be well placed among the front-runners in the next world economic boom by the late eighties, according to Mr Ern Brenner, National Mutual's newly appointed manager for South Africa.

He sees the outlook for the economy this year as one of slower growth, but says economists foresee recessionary conditions throughout the West for the next couple of years.

But these same people are looking for one of the biggest booms in history by the late eighties, he writes in the annual report of the National Mutual's EFG Fund, the company's specialist pension fund investment system.

Mr Selwyn Herberg, investment manager at the Cape Town head office, says in the report that the strategic importance of South Africa's vast mineral resources, its greater self-reliance in the energy field through the development of Sasol II and III and the human resources available to the economy in the longer term are likely to sustain continued high economic growth. — Pieter de Vos.

Santambank's growth forecast

0,6% 1982 growth — none next year

49 RDM 19/1/82

By HAROLD FRIDJHON

THERE will be precious little real growth in the South African economy this year and no growth next year, according to a forecast made by Mr E Shostak of the Santambank economic department using an econometric model.

He sees the economy growing by 0,6% this year compared with an estimated 4% to 4½% for 1981, and next year his model predicts negative growth of 1%.

The only brightness shining through this gloom is that the average inflation rate for this year will be 13,5% with the rate dropping down to an annualised rate of 10,58% by the fourth quarter where it will remain during 1983.

The background to this forecast is that the US economy will show a negative growth of 1% this year, but a positive real growth of 3% next year. American inflation is expected to be 9% this year and 7,6% in 1983.

Another assumption is an expected average gold price of $425 an ounce this year and $470 in 1983.

Mr Shostak and his team expect SA Government expenditure to increase by 22% this year and 20% next year. They believe the Reserve Bank will allow the rand to find it "true" market value — whatever that might mean.

On this basis, the forecast is that next year the deficit on the current account of the balance of payment will amount to R2 558-million with a third-quarter deficit of R523-million and the fourth quarter shifting into a modest surplus of R7-million.

After deficits in the first half of 1983, the forecast is that second half will produce surpluses. The year's surplus will be R800-million.

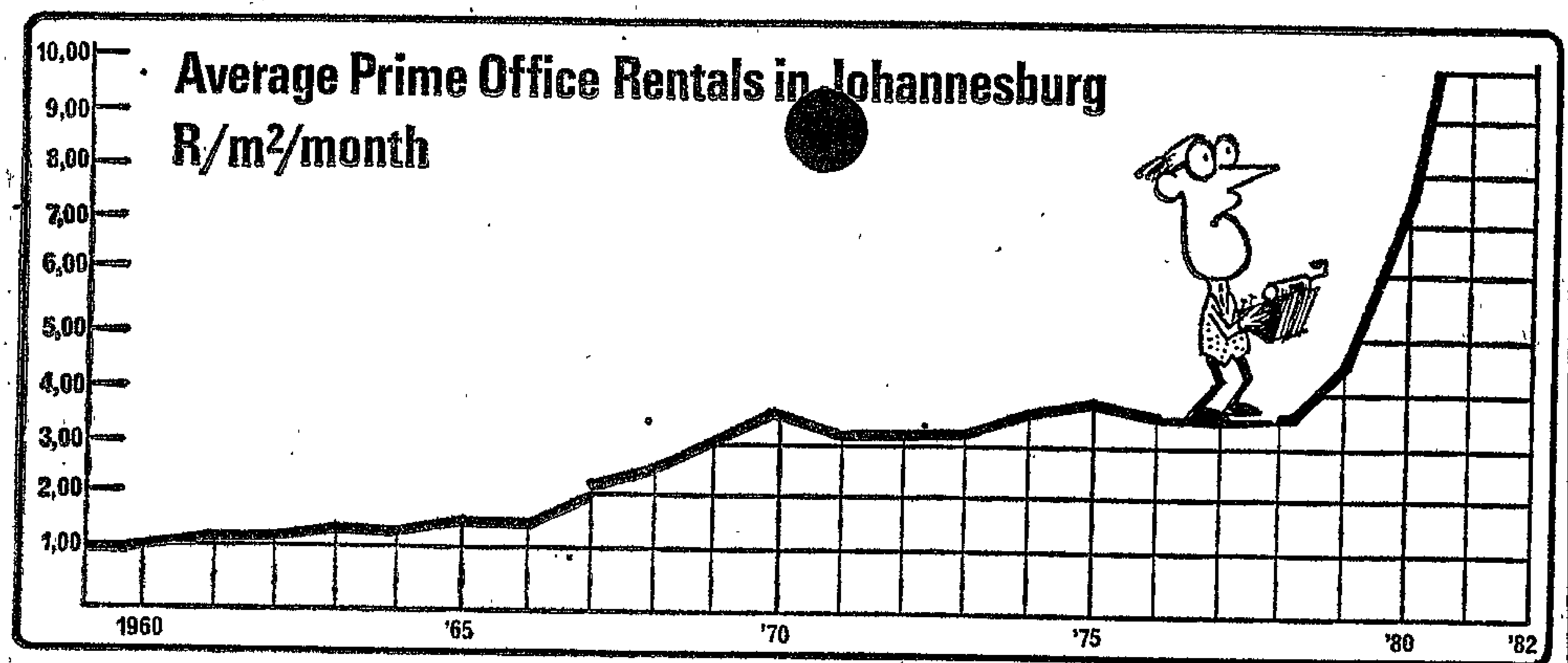
The forecast on rates is interesting.

One the capital market side, the Santambank prediction is that in the first quarter of this year the 25-year Escom rate will be 14,456% — the current rate is 13,7%-plus — moving up to 15,67% in the second quarter and to a peak of 16,65% in the third quarter.

Thereafter it will start to ease, dropping quarter by quarter to 16,6%, 16,17%, 15,7% reaching 14,76% by the third quarter of 1983 and coming down to 13,87 by the last quarter of next year.

Money-market rates, as represented by 90-day bankers' acceptances now 14,9%, show a different pattern. The peak will occur in the first quarter of this year at 16,082% and will slowly decline through the rest of this year into the last quarter of next year when the rate is forecast to be 12,36%.

The prime overdraft rate is expected to remain at 17% until the end of the June quarter when it is predicted to fall to 16½%. It will remain there until the end of the year. Next year, money will still remain dear with prime at 16% for the whole year.



The rentals before 1967 cannot be compared with those since 1967 because the former buildings had no central air-conditioning and little parking. Data source: Old Mutual and Richard Ellis.

(49) Star 23/1/82

Prospects for prime property look good

By Alastair Barclay

The last year has been characterised by the scramble of the institutions to buy the few remaining buildings unwillingly taken over by the banks because of the insolvency of many property companies in the late 1970s.

Other avenues for institutional investment were portfolios of properties belonging to public companies that were leased back to institutions to release capital for their former owners. This cash was probably invested in more profitable areas of their businesses.

A further characteristic of the market-place over the last year has been the buying of existing buildings for owner-occupation by companies needing additional space for their own occupation. This has been a further demand factor on the limited available supply, in addition to the normal investment demand from institutions and other investment purchasers.

the optimism?

This is founded on two broad bases:

- The supply funds for property investment will remain strong in a market of diminishing supply. The market is also more stable and professional than it was during the previous boom in the late 1960s — the market now being dominated by the institutions. This was not the case 10 to 15 years ago.
- The market is now only roughly halfway through the current cycle of rental increases which only started to rise significantly about 2½ years ago.

Reasonable

If the average lease is for a period of five years it is reasonable to assume that it will take an average of five years before most of the leases will have been renewed at the sharply increased rental levels now prevailing.

It must be remembered that during this period office rentals have risen on average between two and three times: industrial and

PORTFOLIO

years without being recklessly bullish.

It is the slow-reacting nature of property that is now its strength. It has at last turned its back on the lean property years of the 1970s and appears set for several years of inexorable growth already locked into current lease situations. It is not likely to be affected by anything other than the longest and most severe economic downturns.

Increasing recognition of this by many institutions has started to exert a slow but steady downward pressure on yields and a concomitant rise in values that, by contrast, runs counter to the current experience of the long-term capital market.

The phenomenon of lower yields and higher values is almost a worldwide experience and would seem to have little relationship to prevailing fixed interest and inflation

creating their own property investments by developing themselves, or having others create new investments on their behalf. This process is likely to continue providing the current slowdown in the economy is neither prolonged nor deep.

In order

In recent years building costs have risen at rates from 25 to 32 percent a year — well above the increases in the Consumer Price Index over the same period. This inflationary situation encourages further commercial and industrial development for investment purposes on the basis that to wait causes increased costs and higher risks. This approach is in order so long as it is judged that there is a strong market for the space created.

This development is undertaken on the basis that once a building

Unanimous

What are the prospects for 1982?

Economists are unanimous in prophesying difficult times ahead for the next year to 18 months, with long-term interest rates set to harden further and with little prospect of the inflation rate reducing substantially.

The prospects for prime and good secondary property in this economic environment as an avenue for sound, growth-orientated investment still looks good, with a distinct possibility that this section of the investment market might outperform shares in the growth stakes. Why warehouse rentals have risen by only a slightly lesser amount from a higher base during the same period. Therefore, the locked-in growth that already exists, waiting for release as leases expire over the next few years, is truly enormous.

Lean years

If a conservative view is taken that rentals will not rise much further over the next year or so then, at the least, properties on a broad-portfolio basis can be expected to see steady increases in capital value of the order of about 22,5 percent. In all probability, strong growth rates can be extended beyond the next two to three

rates. The experience and prospect of future inflation is sufficient to maintain a downward pressure on yields on prime-property investments in most countries. South Africa has until recently tended to lag behind in this movement.

Fundamental

A contributory factor to the fundamental reassessment of property as a hedge against inflation that has taken place over the last 2½ years is the new-found ability of owners to pass more and more expense increases on to tenants, thereby rendering the investment relatively inflation-proof. This change in lease terms has come about because of the gradual movement from a long-standing tenants' market to a strong landlords' market over the last two or three years.

The shortage of existing prime-property investments will cause the institutions, who now dominate the prime and good secondary property investment markets, to continue the trend towards

has been erected it can always be let on a defensive basis at less than the rental that a subsequent developer will be forced to charge for his premises if he completes it a few months later. If the market is still buoyant at that time, the chances are that the premises can be let and an even higher rental to take in increased building costs.

Bull factors

With all these bull factors going for the commercial and industrial property investment market in the next two or three years, it will take a major economic setback to deter it from the present upward path.

As far as the Witwatersrand is concerned, rents in all areas of the property market are likely to continue to increase, underpinning the investment trends that have been highlighted.

A blueprint for growth in PE

(49) E. Post 23/1/82

By Fred Roffey

Business Editor

THE establishment of an Armscor facility, a naval base, a ship repair yard and a soda ash plant, plus increased tourist facilities, are among the many recommendations in the long-awaited blueprint for the industrial growth of Port Elizabeth which has now been published.

The Pretoria-based consultant firm Louis Heyl Associates (Pty) Ltd, who were commissioned to investigate the region's economic potential, have now given their recommendations in a final report.

One of their major findings is that although manufacturing will remain a key ingredient in the economy of the Greater Algoa Bay area, other sectors such as tourism, agriculture-related activities and ship repairs might be well placed to play a leading role in expanding the regional economy.

Their report emphasises that labour is a key issue in the region's economic development, and that to use labour to best advantage,"proper housing and general social upliftment is of paramount importance, especially for the lower income groups".

It suggests much more emphasis should be placed on developing the entrepreneurial skills of the poorer social classes by introducing concepts such as "industrial parks".

The report — *Conclusions and Recommendations on the Economic Growth Potential of the Greater Algoa Bay Area* — was prepared for the Greater Algoa Bay Development Committee (Gabdec), which comprises representatives of the Port Elizabeth City Council, the Uitenhage Town Council, the local chambers of commerce and industry, and the East Cape Administration Board.

The report follows an earlier study (Weekend Post Business and Property, November 7, 1981) in which 18 product areas were suggested as being worthy of investigation by local industrialists.

In the latest report, a number of specific projects are named. In order of priority suggested by the consultants, they are:

- Development of the lower Sundays River irrigation potential.
- The creation of "industrial parks" for small entrepreneurs.
- Further research into a soda ash plant (original estimate, R150 million).
- Mohair processing.
- Ship repair yard (original estimate, R230 million).

Some of these projects might require assistance from the Industrial Development Corporation.

The report recommends that small dedicated development groups/committees be formed for each of these projects for future follow-up and project development.

Gabdec is already planning to put this recommendation into operation.

The report says good growth opportunities exist in the exploitation of the region's economic strengths and resources, such as its tourist industry, the further processing of wool and mohair, and the utilisation of available mineral resources in producing soda ash and associated chemicals.

Development and training of the labour pool and the development of latent entrepreneurs are regarded as a high priority, and the private sector is seen as playing a significant role, especially in providing financial aid for the creation of industrial parks.

"The Greater Algoa Bay area should not be grouped with the other three metropolitan areas in terms of the country's future economic growth strategy," says the report.

"Indications are that an acceptable longer-term economic growth is not sustainable and in order to prevent further unemployment and labour unrest, growth should be encouraged by direct Government incentives," says the report.

"These could include the establishment of deconcentration points close to the location of labour resources in the area, or direct incentives such as those applicable to preferential growth regions or growth points."

The report indicates that the region could be turned into a metropolitan area comparable with the other three by Government-backed development.

Suitable projects suggested are:

- A major Armscor expansion.
- A naval base.
- Benificiation plant for unprocessed materials currently exported through Port Elizabeth.
- Enlargement of the University of Port Elizabeth to include engineering, medical and business management facilities.

Diamonds don't lack their lustre in the doldrums

49

IT IS a matter of record that diamonds impressively outperformed all other popular growth investments through the decade of the 1970s.

But what about the 1980s? Recently the investment diamond market has been in the doldrums, says Len Gullan of the Hard Asset Group.

Reviewing diamonds' past performance he says that the growth in values of investment grade stones over the period 1970-1980 was nothing short of spectacular.

As can be seen from the table on this page diamonds outperformed shares, fixed interest, gilts and inflation by enormous margins.

They also convincingly outstripped other popular hard asset investments such as Proof Krugerrands, silver and gold, he points out.

Although the long-term price trend for diamonds is one of impressive growth, this growth as with all investments, is subject to short-term price cycles, he explains.

Mr Gullan says that in keeping with most other hard asset investments there is something of a correlation between the movement and timing of diamond price cycles and that of the US inflation cycle.

"Both the US inflation rate and the prices of investment grade diamonds have been in a cyclical decline since early 1980.

"To see this decline in perspective, however, one should bear in mind that while diamond prices have come down about 35% on average, the price of gold has declined as much as 53% and silver has plummeted a whopping 81% from their peaks of early 1980 to their lows of recent months.

"In the last few months, US inflation has once again edged upwards and many analysts believe this is the commencement of a new inflationary wave.

Already the prices of gold and silver have bounced up sharply which could well be the signal that another bull market in investment diamonds is imminent," he says.

Mr Gullan says that the diamond trade, however, is still in the doldrums and this has led to recent speculation that diamonds may have permanently lost their lustre as investments.

"There has been some speculation in the Press that De Beers, which has long exercised a rigid control of the diamond market, may have lost their grip on the situation.

"I do not for one moment believe this to be the case. What has happened is that the nature of De Beers' control has changed in keeping with market circumstances and this is likely to lead to somewhat more volatility in the price of diamonds in the future than has been experienced in the past.

"From an investor's point of view, however, this should be seen as a welcome development because for an investment to be worthwhile its price must move up and down in order to keep bringing new buyers into the market and allow earlier investors to take profits.

"I am afraid that the traditional diamond trade may have to get used to the fact that 'Big Daddy' (in the form of De Beers) may no longer be prepared to smooth out the price cycles for them. But for those who can adapt their thinking, diamonds could prove an even better investment medium in the future than they have in the past," he explains.

Mr Gullan said another factor which has exerted a bearish influence on the diamond market has been the fact that Zaire and Australia have opted to market their diamond production outside of the De Beers "syndicate".

However, investors should understand that only a small proportion of the diamond production of both these countries will fall into the 'investment grade' category, he says.

□ □ □

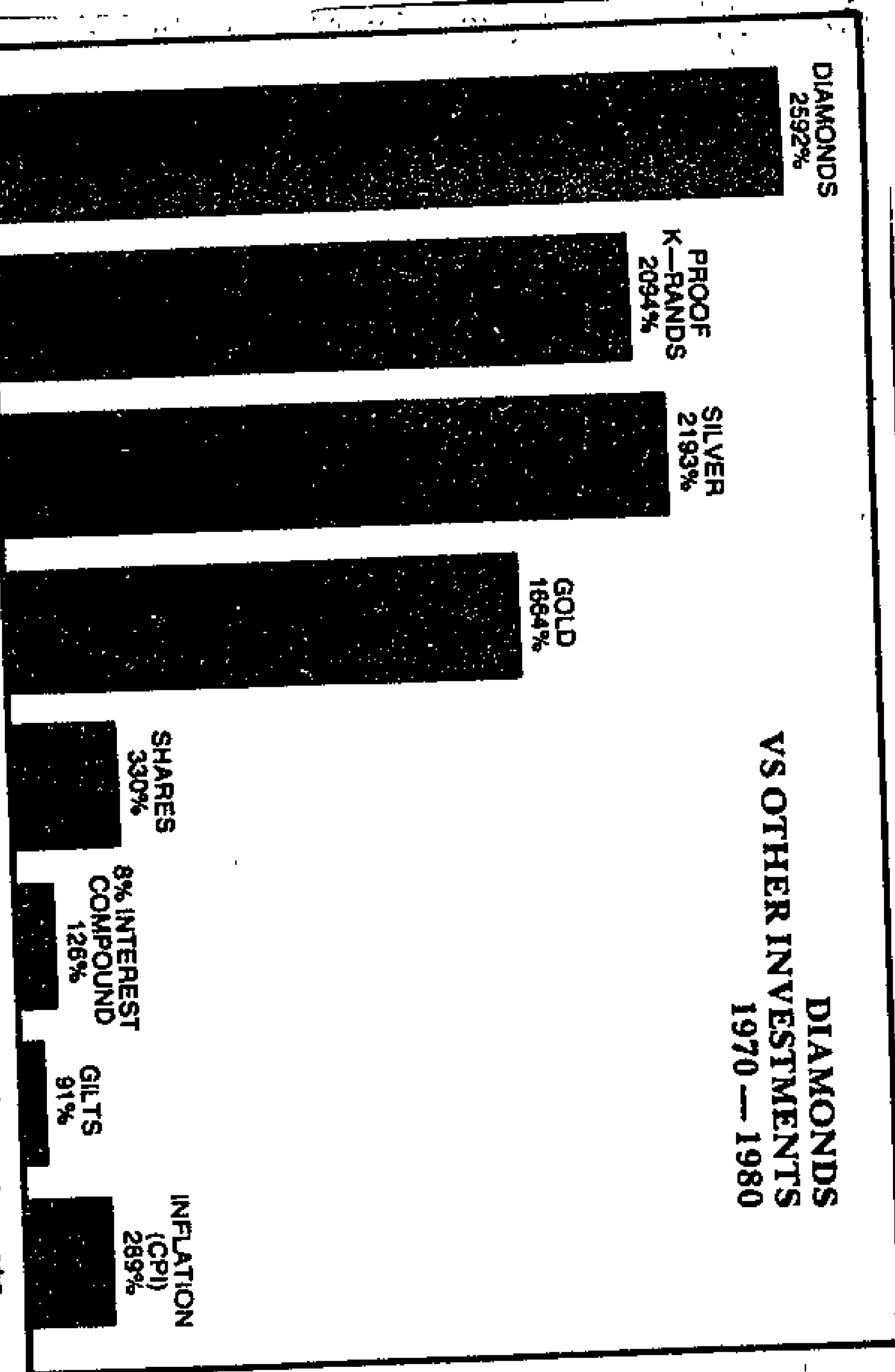
"Personally, while I believe that the syndicate will continue to retain a degree of control on the market, I do not see it as a material factor for investors whether they do or not.

"Investment grade diamonds constitute less than 2% of total production and this percentage is steadily diminishing. As such these stones are valid rarities and their prices will continue to appreciate long term no matter what developments occur within the diamond industry as a whole."

He stresses that investors would be well advised to only buy stones which meet international investor requirements because their added rarity value is likely to underpin their price appreciation regardless of developments in the industry as a whole.

"It would appear to be an excellent time for serious long-term investors to buy investment-grade diamonds. The risk of substantial price declines must surely be limited, while the potential for large-scale profits looms larger as each week goes by, says Mr Gullan.

"Remember, however, when investing in diamonds, that it is important not to overpay as this can offset much of your profit potential," he warns.



□ Table showing how diamonds performed against other investments.

THE ECONOMY 49

Toward the trough

FM 29 1 82

During 1982 real economic growth in terms o gross domestic product is expected to be 0,6%, according to the latest forecast from Frank Shostak, chief economist at Santambank. Next year, a negative growth rate could materialise, he adds.

Private consumption in real terms is expected to decline by 6% in 1982, and zero growth is forecast for 1983. In the current year the deficit on the current account of the balance of payments could be R2,5 billion, but this could swing into a surplus of R800m the following year.

As for the inflation rate, Santambank expects it to come out at 13,5% this year and 11,5% in 1983.

The forecast adds: "Sideways movement in the money market rates will take place until the end of the first quarter of 1982, and thereafter a gentle downward trend is expected.

"The long-term capital market as measured by the long-term Escom rate will peak somewhere between the second and third quarters of 1982. Thereafter, sideways movement until the second quarter of 1983 is expected, and only then a downward trend could materialise."

As background the economic department of Santambank assumes that the US will show negative growth of 1% for real gross national product for the current year with the inflation rate at 9%.

The average gold price for 1982 is assumed to be $425/oz, and $470/oz in 1983.

The latest Standard Bank review argues that the near-term outlook for gold is not very positive. For the first two quarters of the year at least the gold price may well average at $400 or even less.

The review suggests the economy as a whole is beginning to adjust to the slackening of demand and business activity which became evident in the final months of last year.

It adds: "In response to the persistently difficult international environment and the domestic economy's overheating, the authorities have adopted a number of deflationary measures. Others, including curbs on public spending as well as possible tax increases, have become almost inevitable given the difficult financing position the public sector is likely to be faced with in 1982."

A more cheerful note is struck by Barclays National Bank's latest business brief which notes that businessmen are still basically optimistic about prospects, although manufacturing firms in particular expect to begin to feel the impact of the business cycle contraction.

Barclays' Cloete ... a more cheerful note

The brief, compiled by Johan Cloete, the group's economic consultant, says the main reasons for the continued optimism were expanding demand with orders at satisfactory levels, coupled with adequate supplies of raw materials, merchandise and labour.

"There was, however, a slight increase in the percentage of respondents who were pessimistic about business prospects over the next six months or so, with the main reasons given for this pessimism being declining demand, lower profit margins, labour shortages, stronger competition and financing problems," says Dr Cloete.

Growth was better than in 80

49 COM 12/2/82

SOUTH Africa's growth performance in 1981 had in a number of ways been even better than in 1980, the Minister of Finance, Mr Owen Horwood, said yesterday.

The South African economy remained strong.

"While the rate of increase of real gross domestic product of about 4,5% in 1981 was lower than the 8% in 1980, it represented a further upward surge from a record base in an economy already operating at full capacity.

"Although an upper turning point of the business cycle appears to have been reached in the second half of 1981, earlier predictions that the economy would move into a sharp downturn in 1981 have been proven wrong," said Mr Horwood.

"Total monetary demand has continued to increase and the economy has in general remained bouyant."

Economic prospects for the short term had been adversely affected by developments abroad such as the drop in the gold price and the world economic recession, Mr Horwood said.

Tight money policies and high interest rates abroad had contributed to higher interest rates and a general tightening in South African markets.

"The South African economy is therefore confronted by certain short-term problems which, although of a transitional nature, require immediate attention," he said.

Symptom

The Balance of Payments position was a symptom of these difficulties, he said.

According to preliminary estimates, the current account deficit for 1981 was about R4000-million — or 5,7% of the gross domestic product.

"As the economy cools down, and imports decline, this deficit should decrease in the months ahead," he said.

"Indeed, there are already signs that this process of balance of payments adjustment has begun."

"According to preliminary estimates, the seasonally adjusted deficit on the current account of the balance of payments declined from an annual rate of R59 000-million in the third quarter of 1981 to one of about R36 000-million in the fourth quarter.

"Nevertheless, for 1982 as a whole, the current account deficit will probably remain substantial," said Mr Horwood.

There had been considerable pressure on the Government's own finances, partly as a result of the decline in revenue from gold mining and taxation and leases.

Mr Horwood said the deficit before borrowing for the current fiscal year might be reasonably close to the Budget estimate of R2 707-million.

The Reserve Bank had obtained substantial foreign credits. It also permitted the rand to depreciate by 13,9% on average against all other currencies during 1981. In these ways, it had shielded the domestic economy from the worst effects of the world recession.

Results

To ensure the required cooling down of the economy and restore equilibrium in the Balance of Payments, the bank had also permitted the financial markets to tighten and interest rates to rise sharply in response to market forces.

"This policy has already yielded good results and should increasingly take effect in coming months."

Two new problems in monetary policy arose during the fourth quarter of last year, Mr Horwood said.

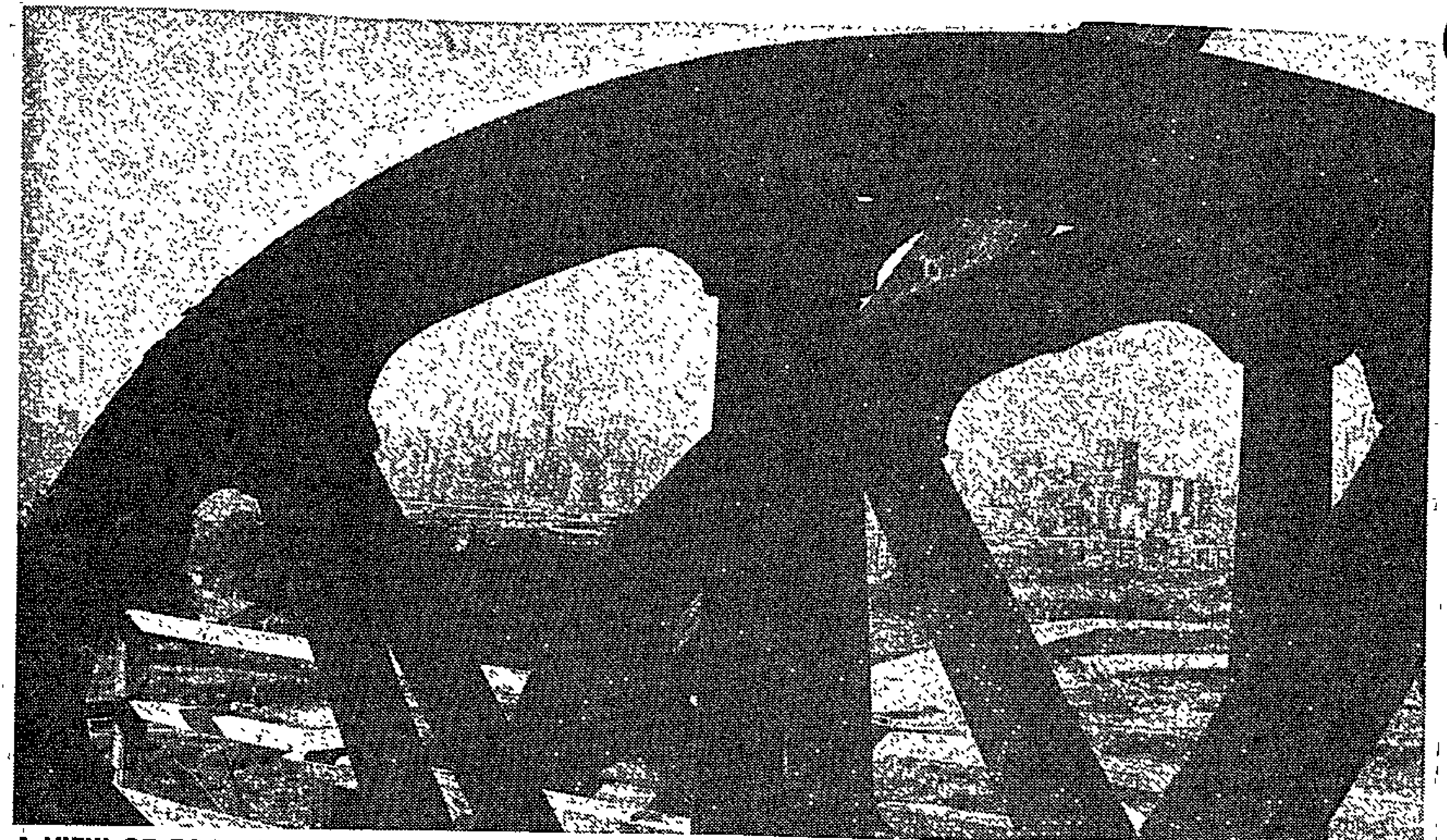
"The first was the financing of the record maize crop and other farming activities through bank credit extended to the Land Bank — at present, the amount of outstanding bank credit to the Land Bank is about R2 300-million," he said.

The second had been the temporary increase in the use of bank credit by the Government sector. — Sapa.

Horwood stresses strict financial discipline

(49)

RDM 2/2/82



A VIEW OF EGOLI FROM THE TOP ... but the plummeting price of gold has hit the South African economy again and led to a 1% increase in GST.

A tough year ahead

THE Minister of Finance, Mr Owen Horwood made it clear in his Mini-Budget speech yesterday that South Africa was in for a tough year and that there would be no deviation from strict financial discipline.

Overall expenditure would have to be curbed and he expected the private sector to "exhibit a due sense of financial responsibility", according to a Mail Correspondent.

THE MINI-BUDGET

The gold price was the prime problem.

It had declined from an average $613 an ounce in 1980 to $460 in 1981 and an average this year of $383.

"The significance of this weakening of the gold market is underlined by a simple example.

"If the gold price falls on average over a period of a year by $100 an ounce, it means a reduction in South Africa's earnings from gold sales abroad of about R2 100-million, with a consequent loss in revenue to the exchequer of perhaps R1 100-million, and that as I say in 12 months," said Mr Horwood.

Also, economic conditions abroad had affected South Africa's export performance and tight money policies in industrial countries had contributed to higher interest rates and a general tightening in South Africa's own financial markets.

These conditions confronted South Africa with short-term problems which required immediate attention.

One of the symptoms of these problems was the balance of payments position.

The balance of payments deficit was estimated at around R4 000-million but this was expected to decrease as the economy cooled down. There were already signs of this.

"According to preliminary estimates the seasonally-adjusted deficit on the current account of the balance of payments declined from an annual rate of R5 900-million in the third quarter of 1981 to about R3 600-million in the fourth quarter," he said.

"Nevertheless for 1982 as a whole the current account deficit will probably remain substantial."

Sapa reports that the Minister said the 1% rise in GST and the 10% mport surcharge had become necessary to rectify what he believed to be short-term adverse trends in the economy.

The higher GST and the import surcharge would raise an estimated R1 150-million in additional revenue for the 1982/83 financial year.

Mr Horwood said he expected the large deficit to decrease as the economy cooled down and imports declined. There were already signs that this adjustment to the Balance of Payments had begun.

As a result of the decline in earnings from gold mining taxation and leases, considerable pressure had been, and was likely to be, exerted on the Government's own finances, Mr Horwood said.

He would deal more fully with Government accounts in the main Budget but for the present he wanted to draw attention to two broad developments.

The first was that the "deficit before borrowing" for the current fiscal year was expected to be reasonably close to the Budget estimate of R2 707-million.

Secondly, as a result of changed economic circumstances, the Government had to make use of temporary money creation by the banking system in financing part of this deficit.

Largely as a result of these developments the annual rate of increase in the money supply rose to 21% in the fourth quarter of 1981.

Trial

In response to this the Reserve Bank further increased its rate from 12,5% to 13,5%.

It also motivated the Minister's move last week on Government issues and a new trial method of issuing Government stock by tender.

It was hoped these steps would help the Treasury raise funds in a non-inflationary manner.

"The time has now arrived to take stronger corrective action," Mr Horwood said.

The measures he was to announce could have been held over till the main Budget in March but he judged it in the national interest to act promptly and decisively, eliminating uncertainty and speculation.

"I also deem it essential from the fiscal point of view to garner additional revenue at the earliest possible opportunity in order that the exchequer's deficit before borrowing in both the present and the coming financial years is kept to a total whoich can be financed without undue recourse to bank credit."

This discipline had been the hallmark of south africa's State finances since the middle 70s and he was determined to continue with it, Mr Horwood said.

He had decided to impose with immediate effect a 10% surcharge on all imported goods, including imported goods qualifying for industrial and other rebates.

continued ->

SENATOR OWEN HORWOOD ... Govt looking to lighten the bill a little.

PAYE to cut a little less deep

Mail Reporter

MR HORWOOD also announced that certain categories of Pay as You Earn tax deductions would be lowered with effect from March 1.

"The effect of the increase in GST will be ameliorated for certain groups by a decrease in "AYE deductions," he said.

This decrease in deductions was brought about by the new final deductions system of tax payments announced last year for people whose taxable incomes amounted to less than R7 000 a year and were derived entirely or almost entirely from salaries or wages, including pensions.

A married person earning R500 a month would find his PAYE deductions reduced by R5 a month, an amount equal to the additional GST on the purchase of goods amounting to his total monthly income of R500.

Tax deductions for those over 70 years old would be reduced by nearly R12 a month and this more than compensated for the extra sales tax.

Mr Horwood also announced that the Department of Finance was investigating the whole question of food subsidies to find some kind of alleviation.

For various reasons, not the least of which was the insurmountable administrative difficulties, it was unfortunately not possible to vary the incidence of the additional sales tax so as to bear more heavily on non-food items.

"As a first step I have instructed my department to look very closely again at the whole question of food subsidies within the constraints of the Budget with a view to possible alleviation in one form or another as soon as possible," he said.

A mini reaction from the man in the street

By CHERYL VAN EYSSEN

THE Minister of Finance's "Mini Budget" yesterday seemed to have a mini reaction on the street.

No-one seemed happy over the one percent increase in General Sales Tax.

Generally, people felt that the lower-income groups were to suffer most following the one percent increase in GST.

"It's not the increase in GST on bread, milk and other foodstuff which will affect the poor, but that on more expensive items like refrigerators, stoves and motorcars," Mrs Shirley Breyton, a Berea, Johannesburg jewellery representative said.

She added that it was the lower-income groups who would suffer.

"If you are not in that group, you can sympathise but you do not really know how the increase in GST affects them," she said.

Another woman, Mrs Adelaide Scorgie, 30, of Eldorado Park said the increase in GST was "terrible".

"If one wants to buy a car, for instance, one has to pay a few hundred rand GST. And a car no-longer is a luxury," she said.

A Cape Town textile manufaturer yesterday said the 10 percent surcharge on imports "was not much".

The buisinessman, who did not want to be named, said the surcharge on imports would help protect the labour market and local industries.

It would not affect the importers that much either as they would pass it on to the consumers, he said.

Exemptions

No surcharge could be imposed on goods subject to the 1947 General Agreement on Tariffs and Trade and in terms of certain other agreements and customs conventions a number of further imports would also have to be excluded.

The exclusions in his proposals already reflected an unavoidable yet significant percentage of the country's imports and, apart from exeptional circumstances, no further exemptions of any nature would be considered.

The minister expected to raise about R550-million a year from the new surcharge and about R100-million during the rest of the current financial year.

"But this will not suffice for the year ahead," he said. He would have to look further afield.

A more immediate and broadly based source of income was General Sales Tax.

The rate of GST would go up to 5% with effect from March 1.

The minister said he expected to raise an additional R600-million in the 1982/83 financial year from the extra 1%.

No additional income was expected from the tax in the current year as proceeds of tax collected by vendors were only payable to the exchequer in the course of the following month.

The earlier announcement would allow traders operating on the inclusive system opportunity to adjust prices while those on the exclusive system would have ample time to adjust cash registers accordingly.

Gold is rocking the boat and YOU have to pay

49 S. Express 14/2/82

HORWOOD HITS THE PANIC BUTTON IN HIS MINI-BUDGET

By JOHN GILMORE

THE introduction of the mini-Budget by the Minister of Finance, Mr Owen Horwood, shows all the signs of a panic reaction to a fall in gold revenue — and as usual the consumer is going to pick up the tab.

While the announcement of an increase in GST had been widely expected, if not deliberately leaked in an attempt to soften up the public, it had been hoped that lower income groups would be given relief in the shape of food being exempt, but no category of spending is being spared.

In this way the Minister will draw in an extra R600-million or so which, with R550-million from the imposition of a 10% import surcharge, will ease the pressure on the Government's finances.

Yet the introduction of a mini-Budget now, rather than waiting another month, only serves to underline the seriousness of the situation — as the Minister implied on Thursday.

He said the measures could have been held over until March, but judged it in the national interest to act promptly to eliminate uncertainty and speculation.

The import surcharge will operate immediately and the extra GST will have to be paid from March 1. In this way the Minister could garner as much as R100-million in the first month alone from the surcharge, which would help him balance his books in the current fiscal year.

Surprise is still being expressed that a mini-Budget was necessary ahead of the main Budget at the end of March. Economists consider that worse could follow.

The chief economist at Barclays Bank, Dr Johan Cloete, feels that at least one of the aims of the early Budget is "to soften the blow" for what could follow — probably an increase in the loan levy and possibly higher excise duty on cigarettes and drinks.

The surcharge of course, includes oil imports so a rise in the price of petrol must be a strong possibility. And the increase in GST being across the board will hit everyone and lead them to seek compensation through wage and salary increases, which will only worsen the inflationary spiral.

In Cloete's opinion the least harmful way of raising extra revenue would be to raise GST by no less than two or three percentage points, but on a selective basis, leaving out essential foodstuffs. People then would at least have a choice of whether to spend or not.

What Mr Horwood has done, however, is to boost inflationary expectations and it is now going to be almost impossible to bring down the rate in the current year. Not surprisingly, therefore, he admitted that South Africa was in for a tough year.

His main problem is the depressed price of gold and on this front he can expect little or no help in the short term. The gold price has declined from an average of $613 an ounce in 1980 to $460 in 1981 and an average this year of $383.

And for every drop of $100 an ounce it means a reduction in South Africa's earnings from gold sales abroad of about R2 100-million.

What is now being asked is whether Mr Horwood has acted too heavily too late, since the price of bullion has been falling steadily since it hit a peak more than two years ago.

While Mr Horwood has no real control over the gold price, economists point out that the downward trend was apparent at a fairly early stage. They say steps could have been taken before now that would have lessened the blow for consumers and restrained the increase in the rate of

Greatermans sets the pace

RETAILING again held the spotlight on the JSE this week after the recent rush of takeover bids.

Though no more bids materialised, rumours were running strongly, supported by heavy dealing in certain shares with Greatermans to the fore. In just three days' dealings 174 000 Greatermans 'A' shares were traded, pushing up the price from 1 160c to 1 220c.

It is thou ht the ubiquitous Natie Kirsh

The other stock to attract attention was Tedelex and its associate Ellerines. More than 72 000 Tedelex shares were traded in four days — worth more than R500 000. Chairman Benny Slome pooh-poohed takeover rumours.

However, one large firm of brokers was bidding aggressively for stock and a dealer went so far as to put a 900c-a-share price on Tedelex for a bid from Jan Pickard, whose Picfood operation is sitting on a pile of cash.

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It is thought the ubiquitous Natie Kirsh was in the background, having recently bought 49% of controlling company Griffon.

The other stock to attract attention was Tedelex and its associate Ellerines. More than 72 000 Tedelex shares were traded in four days — worth more than R500 000. Chairman Benny Slome pooh-poohed takeover rumours.

However, one large firm of brokers was bidding aggressively for stock and a dealer went so far as to put a 900c-a-share price on Tedelex for a bid from Jan Pickard, whose Picfood operation is sitting on a pile of cash. Pickard could not be contacted for confirmation.

Six-week total exceeds last year's $50(

(49) ROM 15/2/82

SA goes on forei(

borrowing spre(

LONDON. — South African public corporations and other organisations are rushing into international markets to borrow money.

South Africa has already borrowed more in six weeks this year than it did all last year when the total was about $500-million.

Since the beginning of the year organisations like Escom and the South African Railways have been negotiating foreign loans totalling about $1 000-million.

This is the biggest borrowing spree since the early Seventies. According to the Agefi Bond newsletter there have been several independent deals with French and German banks in the past few weeks.

Indo Suez, a French bank is assembling a $250-million Euroloan for Escom. The loan has a maturity of seven years and carries a 0,75% spread over libor (London inter-bank offer rate) which is currently 16,6%. There are also complementary buyers' credits equivalent in French francs to $250-million.

The $500-million package will finance contracts awarded to France's Stein Industries and Alsthom Atlantique for equipment for the Matimba power station. Indo Suez, through its subsidiary French Bank of South Africa, is the agent of both the Euroloan and buyers credits.

There is also a Government-backed $160-million Soweto loan at 0,88% above libor.

By NEIL BEHRMANN

The respected Agefi newsletter says: "The South African Railways, now known as South African Transport Services (Sats), expects to renew a Deutsche-mark 67-million (R28-million) loan at a spread of between 0,5% and 0,75% above libor.

"Standard Bank Import & Export Finance Company raised a three-year loan of Swiss francs 50-million (R27-million)."

London banking sources confirm that there are several other small loans under negotiation, all Government backed. The amounts range between $39-million and $50-million.

Agefi estimates that South Africa borrowed $510-million in 1981 compared with $568-million in 1980. These borrowings were carried out on the Eurocurrency markets — the international money markets. Last year South African loans on the international capital market, known as the Eurobond market, totalled Swiss francs 172-million (more than R90-million). There were no dollar or mark bonds (gilts) last year.

Including the bonds, SA foreign borrowings in 1981 totalled $600-million. The spate of foreign borrowing this year follows a campaign to sound out the international banking community.

At the end of last November, several hundred international bankers, brokers and industrialists attended meetings in London and Frankfurt. A four-page advertising supplement was placed in the Wall Street Journal at the same time.

In spite of a marked deterioration in the balance of payments and international concern on the Steyn Commission and Dr Neil Aggett's death, bankers say there has been no pressure on South Africa's borrowing activities.

Agefi comments that when South African Transport Services signed the 67-million marks facility, which is now being renewed, the spread above libor was 1,25%. This high spread lasted for the full three years and was to be raised › 1,5% for an additional hree years. The spread is now expected to be much lower.

Agefi says borrowing conditions have changed. South African Euroloans are carrying a spread of 0,63% to 0,75% over seven years.

"We personally know of a South African three-year facility which last year had a spread of only 0,25% above libor.

"As a whole, Eurobankers agree that the average price for South African three-year facilities guaranteed by the Republic is a spread of 0,5%. Bankers say that international financial conditions rather than South African economic and financial circumstances may make borrowing difficult this year. For example, South Africa will be competing against countries such as Australia for funds in the Euromarkets, while Polish and the third world debts have made bankers jittery."

The Bank for International Settlements reports that between the second half of 1980 and the first half of 1981 loans from international banks soared from $7 700-million to $10 000-million.

Moreover, developing countries like South Africa and Australia were forced to borrow on a much shorter-term basis. About 46% of South Africa's borrowings on the Eurocurrency markets had a maturity of up to one year. In 1980 the percentage was 35%. Australia had a similar increase in its short-term borrowings.

Although the information is well out of date the bank also shows that there was a sharp reversal in the leads and lags situation last year. At the end of 1980 net South African liabilities to major international banks were $5 080-million. By June 1981 net liabilities were $6 070-million.

It is likely that the situation has deteriorated considerably in the past few months. South African institutions must borrow heavily abroad because of the domestic credit squeeze. In 1980 and early 1981 the Reserve Bank could also rely on trade finance held overseas.

- Simpson Frankel investment conference
- SA Eagle's disasters offset by investment income surge
- Back to the bad old days — Howard Preece looks at 1982

49

SA's problems temporary — Horwood

RDM 18/2/82

By DAVID CARTE

THE 10% import surcharge and the one percentage point rise in general sales tax were designed to head off "external negative factors" of a "short-term and transitional" nature, says the Minister of Finance, Mr Horwood.

In the keynote address read to the Simpson Frankel investment conference yesterday by Dr Chris Stals, Deputy Governor of the Reserve Bank, Mr Horwood listed the short-term adverse factors as the low gold price, a further deterioration in the world economic situation, restrictive monetary policies aborad that had inhibited demand and led to high interest rates.

He said that for every $10 fall in the gold price SA lost R200-million in foreign exchange and the Exchequer R100-million in tax revenue. Depressed economic conditions abroad had lowered exports, and high interest rates abroad had eroded the capital account of the balance of payments and tightened SA financial markets.

Mr Horwood said he was not in favour of a return to the gold standard, but he did favour "a more formal gold-based monetary system".

Strenuous attempts to demonetise gold had failed. Gold had been put to the test and passed with flying colours.

"Suggestions for undertaking a serious reappraisal of the monetary role of gold can no longer be dismissed as simply a ruse to give gold producers a higher price for their product.

"Much more is at stake. We are dealing with nothing less than monetary and political stability in the Western world and the survival of the capitalist system."

The European Monetary System was step in the direction of a gold-based monetary system, but the dollar held the key.

The notion that gold was the enemy of the dollar was fallacious.

"The free world needs both the US dollar and gold."

The US had more gold than any other country and had nothing to fear from gold.

The best way of moving to a new gold-based system would be for the US to take the lead by restoring convertibility of the dollar into gold at an agreed price or range of prices, he said.

SA squandered gold boom riches say overseas experts

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Star 22/2/82

By David Bamber, Financial Correspondent

LONDON — The decision by the South African authorities to unpeg commercial lending rates from the official bank rate is an effective way of "shifting the blame for high interest rates away from politicians."

This is the view of a Financial Times columnist and several London bankers.

Under the headline, "Golden Hangover on the Cape" the columnist, Lex, said the move was "clearly designed to kill several birds with one stone".

He pointed out that the weakness of gold and other commodity prices had confronted South Africa with a current account deficit which, on an average gold price assumption of 400 dollars might total 3 000 million dollars (R2 941 million) or more this year.

"The Reserve Bank is already working hard to defend the rand's one-to-one parity with the dollar — after a 25 percent fall in the currency in 1981 and could not afford to let its net foreign exchange reserves fall much further without recourse to more gold swops with foreign banks.

"At the current gold price this is not an attractive option.

PUSHING

"The authorities have already sought to plug the current account gap by pushing public sector borrowers abroad for funds and, most recently, slapping on an import surcharge.

"A modest drawing on the IMF (International Monetary Fund) has also been arranged.

"But in the last resort, the Government needs to make the prospect of speculating against a managed float for the currency less enticing. This it may now have achieved."

The bankers said it was disappointing to see South Africa experiencing the balance of payments problems following the increase in the gold price during 1980 which had given the country such "a wonderful opportunity."

It was, however, not surprising as the pattern was "pretty much the same" as that following the 1974 boom when the Government allowed "things to go over the top."

"Dr de Kock (Governor of the SA Reserve Bank) should not feel happy about allowing the rand to devalue by 25 percent in one year," commented another banker.

He added that the gold price would have to rise to at least 500 dollars an ounce if the balance of payments problem was to be solved.

However, an economist said Dr de Kock should be praised for the bold steps he had taken in nearly doubling interest rates in such a short period to bring the money supply under control.

His latest move had also allowed rates to be market-related and had generally made the banking sector "more free," so that competition among the banks had been enhanced.

Surcharge may help balance of payments crisis

49

RDM 24/2/82

Howard Preece

Economic Spotlight

JUST how critical are South Africa's balance of payments problems?

The Government's decision to impose a special 10% import surcharge suggests they are pretty grim.

The surcharge is a clumsy weapon which can encourage inefficiency and will certainly add to inflationary pressures.

It is not a policy measure that would naturally appeal to Mr Horwood, the Minister of Finance, or to Dr Gerhard de Kock, the Governor of the Reserve Bank.

Needs must, however. They have obviously decided that the balance of payments is in a state of at least potential crisis and that the surcharge is necessary as a direct way of curbing imports.

It will also, of course, pull in some R550-million a year for the Treasury.

Given the big difficulties Mr Horwood faces in balancing the state's books for 1982-83 — without a hefty rise in direct tax or another hike in the regressive GST — that is an important factor.

But for all that the surcharge would surely not have been introduced unless there was considerable anxiety about the balance of payments.

How valid are the anxieties? What has gone wrong?

What are the policy options now?

It is only a year ago that Dr De Kock was suggesting that a fundamental change had taken place in the structure of South Africa's balance of payments.

His argument, basically, was that the oil price shocks of the 1970s had changed the international economy.

A side effect, he said, was that it seemed to have greatly helped South Africa.

The oil revolution had created the conditions for a remarkable upsurge in the gold price.

Dr De Kock said that it looked as though South Africa could expect shorter-running and less severe periods of deficit on the current account of the balance of payments than had been the case for the 30 years or so after 1945.

	GDP (A)	Imports (B)	Imports/GDP B as % of A	Import Growth	(CPI) Inflation	Real Economic growth
1973	R19 918m	R3 550m	17,8%	—	9,9%	4,2%
1974	R24 472m	R5 768m	23,6%	62,5%	14,1%	7,6%
1975	R27 454m	R6 742m	24,6%	16,9%	11,7%	1,6%
1976	R30 908m	R7 443m	24,1%	10,4%	10,8%	1,4%
1977	R34 536m	R6 881m	19,9%	-7,6%	11,1%	0,0%
1978	R39 833m	R8 019m	20,1%	16,5%	11,6%	2,2%
1979	R47 590m	R9 739m	20,5%	21,4%	14,0%	3,9%
1980	R62 217m	R14 207m	22,8%	45,9%	15,8%	7,9%
1981	R74 000m‡	R17 700m‡	23,9%‡	24,6%‡	13,9%	4,5%‡

‡ Estimates

In the end, however, that analysis still depended on the vagaries of tne gold price and I urged at the time that Dr De Kock should not be taken too literally. The Governor seemed, to some extent anyway, to be trying to head off any undue panic as the current account moved cyclically back into the red.

The fact is that South Africa remains deeply vulnerable to sharp downward movements in the gold price.

This vulnerability is accentuated by the country's high propensity to import in boom times.

The accompanying table shows this propensity.

In 1974 imports soared by 62,5% as real growth bounded up to 7,6% and inflation reached 14,1%.

This general economic boom was partly natural and partly the product of the oil-aided gold price surge that year. (The oil price also had a hand in the quite exceptional leap in the value of imports).

A balance of payments crisis erupted, however, in 1975 and continued through 1976, in spite of a hefty rand devaluation, as gold went on the slide but the import momentum carried on.

It was only in 1977 as economic growth ground to a complete halt, devaluation was fully felt and a 15% import surcharge was introduced that the current account moved back into surplus — for the first time since 1972.

Imports even fell in money terms, meaning a much sharper drop in real terms.

In 1978 and 1979 the resumption of import growth was moderate — not much more than the growth of the overall economy.

But now the cycle ready to start over.

Gold exploded upwards and triggered another massive economic expansion.

Growth shot up to 7,9% in 1980 — and imports raced up by 45,9%.

The 1981 sequel was almost inevitable. Gold fell back heavily, economic growth eased but imports flowed on strongly.

A current account surplus of R2 830-million in 1980 was changed into a deficit of over R4 000-million in 1981.

With combined surpluses of some R7 500-million over 1977-80 that was not of itself cause for concern. Indeed, it was even welcome as a way of restraining inflation.

Dr Chris Stals, senior Deputy Governor of the Reserve Bank, pointed out last February: "At this juncture the total of South Africa's net foreign liabilities . . . amounts to only about R3 000-million, or less than 15% of last year's exports of merchandise and the value of gold production."

In other words, South Africa was "under-borrowed", and had a high international credit rating. A current deficit was no cause for alarm.

Gold, however, has crashed a long way since then — and who knows where the bottom is?

Most private sector economists were originally expecting a current account payments deficit of around R2 000-million this year.

But with gold still on the down that figure could easily end up in the R3 000-million to R4 000-million range.

Add that to the 1981 deficit and South Africa certainly does face major financing problems on the balance of payments.

These can be met, but the menacing uncertainty in the gold market compels supportive action.

It is, in my opinion, unrealistic to suppose that the exchange rate depreciation of the rand and the natural downswing in the economy can do this alone.

These are essential factors, but the severity and swiftness of the adjustment required needs more.

The table shows just how savage a recession was endured over 1975-77. With gold faling heavily, however, that still had to be reinforced in 1977 with a surcharge on imports to help the balance of payments.

Thus, for all its unlovely qualities, I think the import surcharge is a sensible precaution at this stage.

It should, however, be removed as quickly as the balance of payments permits this.

Meanwhile some thought should be given to the huge and ultimately excessive surges in imports that accompany booms in the South African economy.

Such periods of uncontrolled import flood may well not to the long-term interests of economic growth, efficiency or even, ironically, freer trade in South Africa.

(2) Premiums Treated as an Asset

01, Jan 1:	Life Policy	300	
	Bank		300
Dec 31:	Income Statement	300	
	Life Policy		300
	(Surrender value of policy is zero - therefore no amount can be capitalised)		

Continued/ ....

Banks raise prime rate to record 19%

Overdraft cost through the roof

By HAROLD FRIDJHON

FOR THE second time in a week prime overdraft rate has been raised one percentage point.

Barclays, Standard, Nedbank and Trust Bank are putting their rate up from the previous record 18% to 19% today. Volkskas will probably go up from Monday.

Barclays set the ball rolling and was soon followed by Standard and Nedbank. The Trust Bank announcement came a little later.

It seems that technical reasons have delayed the Volkskas announcement until Monday morning.

The move to a higher prime rate was expected because interest rates in the money market are soaring.

A major bank was paying up to 21¼% yesterday for money to carry it over the weekend. The base rate appears to be pitched about 20% with the market talking of unidentified deals at 22% and 23%.

The latest rise indicates that banks' prime rate will be considerably more flexible than it has been in the past when it was rigidly linked to Bank Rate. Borrowers can now expect the rate to fluctuate from time to time according to the prevailing cost of money.

But the cost of money is not the only factor which contributed to the raising the baseline overdraft rate.

"Round tripping" also influenced the banks' decision. Round tripping is borrowing at prime rate from one bank and lending the money to another at money-market rates.

It is believed that major businesses and businessmen who enoy prime rates have been making a turn of two percentage points by these transactions in the current monthend hysteria in the money market when the banks are scratching the barrel for funds to balance their books.

Yesterday the deficiency in the market was reported to be R837-million — an increase of R90-million in 24 hours. Today will be the crucial day although the banks and the discount houses will be trading tomorrow morning to garner the last remaining money they can lay hands on.

Most banks, however, will not wait to the last moment. It is believed that the majors will be bringing in several hundreds of millions of rands today from overseas to ensure that their positions are balanced.

This money will be in SA for at least three months not only because three-month money is cheaper than one-week money but because the banks expect the money tightness — and therefore high rates — to last into May.

If money-market rates remain high, a further lift in the prime rate cannot be ruled out. But even if the money-market rates were to ease to 17% it is doubtful whether prime will come off the 19% peak.

The banks need a margin of at least 2% between cost of borrowing and cost of lending.

But if one bank is prepared to accept a narrower margin and lowers its prime, fierce competition will result in the others following.

The present prime gives the banks a narrow spread of one percentage point between their best rate and their top, 19% to 20%, because of the ceiling imposed by the Limitation and Disclosure of Financial Charges Act (Ladofca). The maximum charges for loans between R5 000 and R100 000 is 20%. There is no control for more than R100 000.

Theoretically, the banks couild have a prime of 21%, but the facilities would only be available to their bigger borrowers. This would not be acceptable to any banker.

It is unlikely that there will be any change in the Ladofca ceilings. The Registrar of Fiancial Institutions, Mr Naas van Staden, is probably waiting to see whether the 19% prime is a temporary phenomenon or whether the shortage of funds will result in its being retained for a long time.

The raising of the interest rate at which the Land Bank can borrow money from the commercial banks, 14%, has resulted in Land Bank lending rates rising from March 1.

Interest on harvest loans will rise from 13½% to 15%, and to 15½% in some case. Market-related interest rates will go up from 14½% to 16%.

These rates, which are well below those available to commercial borrowers, encourage farmers with sufficient resources to do a little round tripping.

(49)

Solution to GL5 (Cont'd)

- 2 -

(49) Cape Times 27/2/82

Company liquidations soar as liquidity crunch tightens

By PAUL DOLD
Financial Editor

COMPANY liquidations nation-wide are rising sharply for the first time in more than a year and the country's commercial undertakers believe the increase signals the start of the economic downswing.

Two leading experts in judicial management and liquidation, Cape Trustees' Ralph Millman and Syfrets' David Rennie said this week that the number of corporate liquidations and applications for judicial management in Cape Town had rocketed this month to 26.

What is more significant is that for the first time in some 18 months firms with assets of over the million-rand mark are involved.

David Rennie says the cause undoubtedly is the sharp rise in interest rates.

"Rates are starting to bite into the highly-geared companies. The current trend is occuring somewhat earlier than I expected. While there will not be a repetition of the 1976 — 1978 recession we are certainly expecting a heavy work load."

In August 21 firms featured in applications in the Cape Supreme Court roll, in September there were 15, October 19, November 17, December 26 , and January nine. While the December total equals that of February it was made up of mostly small firms.

Ralph Millman says a similar situation is reflected in other main centres. The firms affected range from carpet companies to luggage manufacturers.

"The spectrum is now far wider and the volume twice as much as the year-ago period. The only reason for the increase is the liquidity crunch."

While there is no sign that banks are calling in existing overdrafts analysts feel that banks are not increasing their lending in line with Reserve Bank policy aimed at controlling the money supply. Thus, there is a severe squeeze on new money. Clearly, some highly-geared firms need new finance to survive.

The whole of 1981 was a very quiet year for the trust companies specializing in liquidations and even 1982 was off to a slow start until this month. But pencils are being sharpened in preparation for a busy 12 months.

American Eagles no threat to Krugerrands

(49) 28/2/82 Sunday Tribune

Mackay-Coghill pooh-poohs claims that SA coin will be wiped out in US

By MIKE PEIRSON

Finance Editor

SUGGESTIONS from overseas that South Africa stands to lose millions of rand in foreign exchange if the Americans decide to issue a tax-exempt rival coin to the Krugerrand were discounted in Johannesburg this week.

A 17-man US commission of inquiry has just recommended to the Federal government in Washington that it mints gold coins again (The last one was the Double Eagle which was discontinued after the US went off the gold standard in 1933).

Don Mackay-Coghill

The coins, tentatively called American Eagles, would not be considered legal tender. A business creditor would not have to accept them in payment unless it was specified in the original sales contract.

But many experts feel that the coins could be used in settlement of private debts.

The disturbing factor from the South African point of view is that unlike the Krugerrand, the coins would be exempt from capital gains tax and sales tax.

One New York metals analyst Charles Stahl is on record as saying that there would be such a demand for the US coins that the Krugerrand, of which he claims 3-million are sold in the US each year, would vanish from the scene.

Working on a base of 400 dollars per Krugerrand this could mean a loss in sales to this country of R1,2-billion.

Don Mackay-Coghill, chief executive of the International Gold Corporation, marketing arm of the South African Chamber of Mines, told me from Johannesburg this week that he strongly disputed the claims.

"You are one of many people who have jumped to this conclusion and it is understandable," he said. "But the picture is nowhere near as bad as it has been painted.

"The US market is at a low ebb at the moment. We have always had a good market there and are still achieving reasonable results. But in the past two years we have had a big effort to sell into other areas to diversify our marketing. This has been very successful in places like Japan, Hong Kong and many parts of South America.

"We are confident we can maintain sales this year and figures for the first two months show that we are achieving our target. Sales for January were 370 000 and for February 300 000. Anything 300 000 and over is on target."

Last year's total Krugerrand sales were 3,559-million ounces. This is well down on the record 6,012-million ounces sold at the peak in 1978. This is the year when Mackay-Coghill says 3-million were sold into the US. Since then figures have dropped considerably.

Intergold has stopped publishing details of what areas the Krugerrand is specifically sold into as it is "too confusing", because of the secondary market where coins are resold by the original buyers into other areas.

"There are two points in our favour over the proposed US medallion — it's not technically a coin. The first is that it will not be legal tender and the second that because it is not of international value it will be have limited appeal," he said.

"The Krugerrand is an integral part of the gold market these days. Admittedly Americans are very patriotic and the incentive would be there for them to buy this medallion, but I doubt if it would have a serious effect on our total Krugerrand sales.

"Any new US minting would attract competition — the same as the Canadian Maple Leaf and the Mexican coins. But if the American version were made legal tender and its launching was coupled with a major international marketing campaign, then it would be an entirely different ball game.

"As I have said we are confident we will maintain the sales of last year in 1982 — which must be recognised as an achievement in the light of the bad times gold is going through at the moment."

Mackay-Coghill said some very positive statements had come out of the American commission of inquiry. The fact that it had recommended the US (which holds some 8 500 tons) and the International Monetary Fund do not sell any more gold was very bullish.

"It means we have seen the last of the gold auctions," he added.

Asked if he was, therefore, optimistic about the sale of Krugerrand in relation to the American developments he said: "I am fairly relaxed about the outcome."

Head of the South African Gold Coin Exchange, Eli Levine, says he anticipates a drop of between 15 and 20 percent in US sales if Washington accepts the commission's recommendation.

He feels also that it could widen the market, as the Canadian and Mexican coins did. His opinion was reached as a result of an extensive tour of North America which he has just completed.

There is one other factor which could be beneficial to the Krugerrand. Opinion seems divided on whether if the new US coin is exempt from capital gains and sales tax, that this will be extended to other gold coins.

Some experts feel there is no reason why it shouldn't, on the basis of fair trading. Others feel that the Americans would want to protect their new baby to get maximum benefit for the Treasury.

Treasury Department officials have predicted that Americans might rush to buy 20 million ounces worth of coins in the first year. If this were so, on the basis of 375 dollars an ounce, it would reduce the 1983 US budget deficit by 7,5-billion dollars.

It is suggested, too, that by cutting back on the amount of gold bought by Americans overseas it would help their balance of payments to the tune of 5-billion dollars annually.

Big firms go to the wall

ROM 1/3/82 (49)

By PAUL DOLD

COMPANY liquidations are rising sharply for the first time in more than a year.

Two experts in judicial management and liquidation, Mr Ralph Millman of Cape Trustees and Mr David Rennie of Syfrets, say the number of corporate liquidations and applications for judicial management in Cape Town rose to 26 in February.

What is significant is that for the first time in 18 months firms with assets of more than a million rands mark are involved.

Mr Rennie says the cause is the sharp rise in interest rates.

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Last August, 21 firms featured in applications in the Cape Supreme Court roll, in September there were 15, October 19, November 17, December 26, and nine in January. Although the December total equalled that of February it was made up of mostly small firms.

Mr Millman says a similar situation is reflected in other cities.

"The spectrum is now far wider and the volume twice as much as the year-ago period. The only reason for the increase is the liquidity crunch."

Although there is no sign that banks are calling in overdrafts, analysts believe they are not increasing their lending — in line with Reserve Bank policy aimed at controlling the money supply.

Solution to GL5 (Cont'd)

(2) Premiums Treated as an Asset - Cont'd:

Year 02 - same as year 01

03, Jan 1:	Life Policy	300	
	Bank		300
Dec 31:	Income Statement	60	
	Life Policy		60
	Policy written down to surrender value (See Note 1 below)		
04, Jan 1:	Life Policy	300	
	Bank		300
Jan 2:	Debtor (Insurance Company)	24 000	
	Life Policy		540
	Income from Life Policy		23 460
	being accrual of proceeds receivable		
Jan 2:	...icy	23 460	
			23 460
Jan 31:	l...	24 000	
	t... ceeds		24 000

Note 1:

At the end of yea... ...flected on the partnership balance sheet as ... lue of R240.

Note 2:

The death of a par... ...tership as legal and accounting entitie... ...ume statement would have to be drawn up fo... ...the partner so as to ascertain the cor... ...he proceeds from the life policy would be s... and NOT credited direct to the partners' ...

Flat out at SA factories

49

ROM

3/3/82

By HAROLD FRIDJHON

TO ALL intents and purposes, industrial production reached capacity at the end of last year when the statistics showed 90,2% use of machinery and plant. This compares with 84,2% in 1978.

To achieve 100% capacity is almost impossibile — but not entirely for the reasons given in a release by the Department of Statistics which attributes the shortfall of 6,3% to insufficient demand.

The department's reason appears to be exploded in the section dealing with the production of motor vehicles, parts and accessories. Plant use is shown as being 92,6% last November, with the shortfall explained as 1,8% by a scarcity of raw materials, 0,7% by a shortage of white labour and 0,3% by a shortage of black labour and 4,6% by insufficient demand.

At the end of last year, there were waiting lists of customers wanting new vehicles. So this appears to demolish the lack of demand reason.

To achieve full use of plant, raw materials must always be on hand. Machinery must not idle. Staff must keep going at full pressure — all improbable.

More than 90% is practical full use and this was recorded last November in many industries including textiles, clothing, leather goods and footwear (97%), wood and furniture, paper and printing, industrial chemicals, rubber products, pottery and glass, and motor vehciles.

Of those industries which did not make the grade, the most significant were the food producers who achieved 87,9% use of capacity. In 1978 the average use of plant was 87% and in 1979 it was 87,1%. Unless there has been an increase in productive capacity since then, the figures suggest that there has been only a slight increase in demand in spite of the boom and increased employment.

In 1978, 9% of unused capacity was caused by lack of demand and 3,3% by a shortage of raw materials. In November lack of demand had dropped to 7% and the shortage of raw material had increased to 4%.

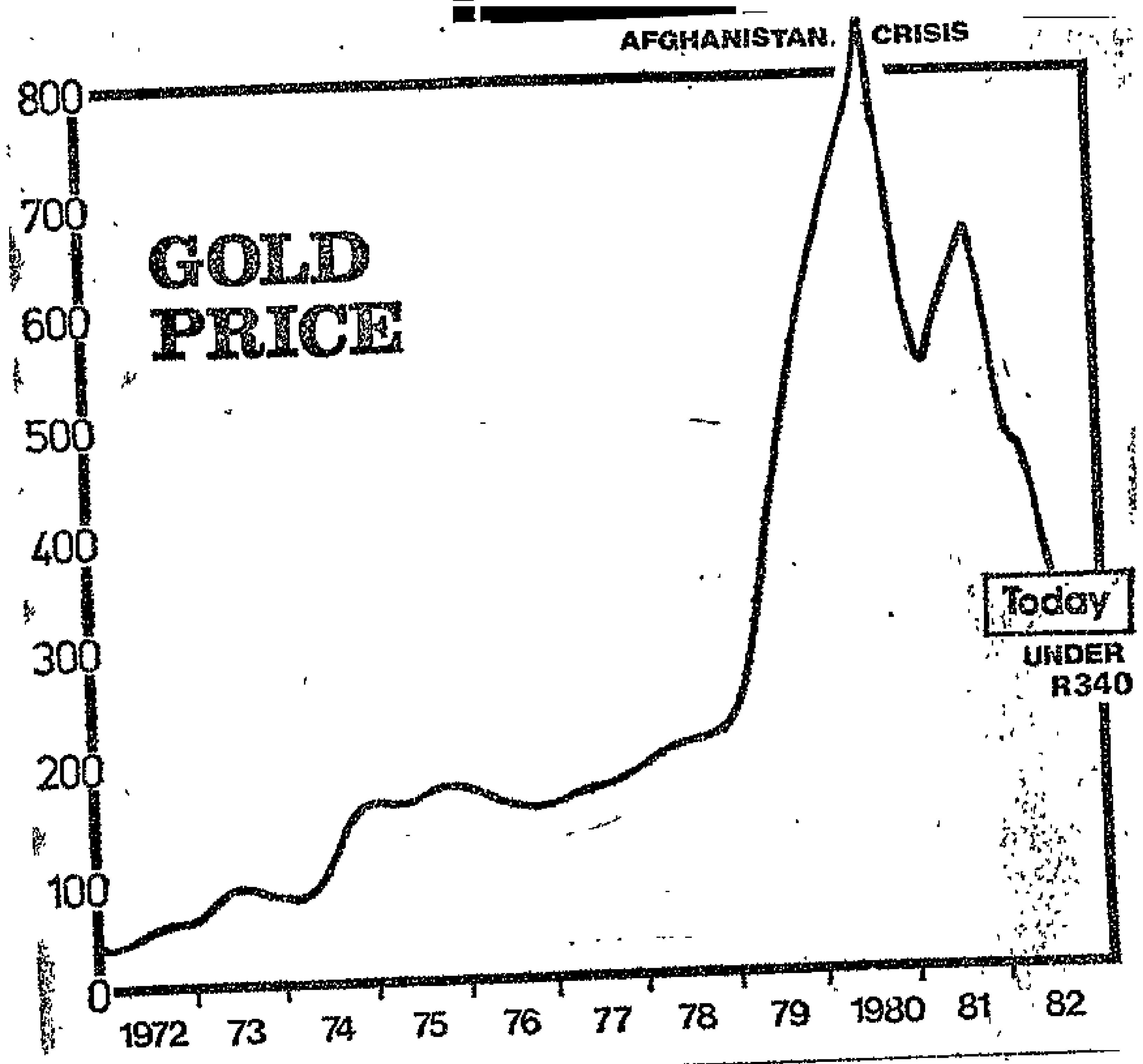
Other industries below the 90% level included drink (85,6%), machinery 87,6% where a major reason for the lack of production was a shortage of white labour, transport equipement excluding motor vehicles (85,1%) with lack of demand accounting for 10% of the below-par performance and a shortage of white labour accounting for 3,3%.

Loan levy looms

Star 5/3/82

49

Gloom for Budget as gold plunges



By Michael Chester, Financial Editor

The gold price skidded to its lowest level in 2½ years today, signalling the inevitability of more tough measures in the Budget on March 24.

After slumping below the psychologically important barrier of 350 dollars an ounce on all main world markets yesterday it sagged further in trading today.

First it dropped to 345 dollars in Hong Kong and as the time zones carried business across to Europe the price fell still further to open at 339,50 dollars on the key London market.

Gold later slid to 338,50 dollars in London and on down to 337,50 dollars in Zurich.

The price paused at the morning fixing session in London at 340 dollars.

And analysts saw no technical resistance points to avert a deeper fall to 325 or even 300 dollars.

Bank economists now fear that the 1982-83 Budget deficit facing the Minister of Finance, Mr Horwood, may run even higher than the R5 000 million estimated only weeks ago.

Most of them now consider a re-introduction of loan levies as virtually certain — probably a 10 percent rate for companies and five percent for individuals.

And there may be more shocks.

Mr A T Jacobs, an economist at Volkskas, fears cuts may be made in subsidies on basics such as food and transport.

"Everyone must be prepared for the impact of high interest rates on prices and a tightening of the credit squeeze in the months ahead," he said.

"Inflation will still run at 15 percent, or perhaps even higher, this year."

Several economists are also speculating about stricter rules on hire-purchase deals as well as higher repayment rates.

"The impact of tumbles in the gold price is tremendous" said Dr Johan Cloete, chief economist at Barclays Bank.

"It now looks as if we face the sort of dismal outlook we faced in 1976."

Just as the sky-high prices of gold in 1980 fuelled the recent boom, so the persistent slide since is the main factor behind the economic slowdown now forecast for this year.

The crucial importance of the gold price can be weighed by calculations that every fall of only five dollars an ounce means a loss to South Africa, as the largest producer of all, of more than R100 million a year.

The price of 345 dollars an ounce in Hong Kong today compared with a peak of a staggering 875 dollars an ounce little more than two years ago when the Afghanistan crisis caused world jitters.

The Volkskas economic team sees little chance of an economic resurgence until 1984 at the earliest.

The credit squeeze screws were turned even tighter today when Barclays and Nedbank raised their prime overdraft rates — the lowest interest rate charged even the biggest company borrowers — to an unprecedented 20 percent.

Other banks said they would try to hold their rate at 19 percent as long as possible.

But there were clearly increasing pressures on ... rates that

BY GEORGE

"Jolly lucky we're being paid in cash, not Krugerrands."

Consumer spending explosion

49

By Elizabeth Rouse

7/3/82 S. Times

SOUTH African private consumer spending rose by 19% to around R37 000-million in 1981, with more than R9 000-million a quarter being laid out in the last three quarters of the year.

However, allowing for an inflation rate of 14,5%, the increase in real spending has been estimated at only 4,5% by the Reserve Bank.

Spending on non-durable goods was running at over R4 000-million quarterly for most of the year.

The public, with bigger take-home pay, decided to indulge itself from the middle of 1980, when quarterly non-durable goods expenditure rose to R3 600-million . . . and kept on rising to last year's record level.

They could also afford to replace durable goods such as cars and white goods, and semi-durable goods — clothes, furnishings.

Quarterly spending on durables rose to more than R1 000-million a quarter for the first time in history at the end of 1980, and stayed above that level over the four quarters.

Expenditure on semi-durables peaked at almost R1 700-million in the December 1980 quarter and probably surpassed that mark in the December 1981 quarter after running at around R1 600-million in the September quarter.

But inflation takes big bite

Taken at current prices, total private consumer spending increased by 136% from R15 675-million in 1975 to R31 154-million in 1980.

However, a comparison based on constant 1975 prices gives a truer picture of the real growth in private consumer spending. The increase is 15,2% to R18 058-million in 1980 from the 1975 base.

The perspective is slightly distorted, however, as the buying scene has changed since 1975, especially in the television and electronics consumer sector.

Nevertheless, the 1975 constant price comparisons of spending in various sectors give an interesting view of how real spending has changed in eight years.

Based on current prices, spending on petrol, oil and grease rose by an astonishing 181%. Based on constant 1975 prices, car owners actually decreased fuel spending by 5,3%.

Similarly, they cut down on buying of books, newspapers and magazines by 5,2%.

Although spending on household services and domestic servants rose in 48% over the eight years, the real increase was a mere 3,1%.

People were either healthier or reluctant to spend money on medical and pharmaceutical products. The current price increase was 96,5% while the real increase was 5,6%.

At current prices they spent 87,6% more on entertainment, recreational and cultural services (except hotels, restaurants and cafes) and education. The real increase was 4,5%.

People were prepared to splurge on satisfying their craving for tobacco (spending up 28% in real terms over eight years), beverages (up almost 25%) or on raising their living standard by spending 26,7% more on non-durable household goods.

Medical services, which include doctors, did not do badly over the past eight years. On a current price basis, 120% more was spent on medical services while in actual terms the increase was 25%.

Credit may be needed later in year

SA seeks new IMF stand-by

(49) RDM 8/3/82

By HOWARD PREECE

SOUTH Africa is negotiating further stand-by credit facilities from the International Monetary Fund in case these are needed later this year to support the gold and foreign exchange reserves.

These would be on top of the R223-million facilities arranged with the IMF at the beginning of last month.

An IMF team is in SA vetting the economy. South Africa is conveniently using the occasion to arrange more credit facilities.

The IMF visit was scheduled for about a year ago, but at that time the South African economy was still so strong — and the IMF "inspectors" so busy elsewhere — that it was held over.

The IMF makes routine, although infrequent, on-the-spot studies of the economies of all member countries.

This visit to South Africa is particularly timely because of the imposition of the 10% import surcharge last month by the Minister of Finance, Mr Horwood.

South Africa must persuade both the IMF and Gatt, the General Agreement on Tariffs and Trade, that South Africa's balance of payments problems are of such magnitude that the surcharge is justified.

The IMF team should be easily persuaded of the need for the surcharge.

But it will certainly want a firm guarantee that it will be phased out as soon as possible.

In February, Mr Horwood announced that South Africa "as part of its action to obtain foreign bridging finance has made arrangements to utilise that part of South Africa's official foreign reserves held in the form of Special Drawing Rights and to draw the so-called reserve tranche at the International Monetary Fund".

"Amounts which can be made available in this way and as foreign currency if and when necessary total R107 400 000 and R115 200 000 respectively."

Dr Joop de Loor, the Director-General, Finance, said last September that South Africa could raise about $700-million (about R690-million) from the IMF virtually automatically.

There is, therefore, more than R400-million of outstanding credit facilities that this country can arrange with the IMF almost as a matter of course.

After that extra facilities and borrowing under various heads become subject to more and more conditions — that is, to undertakings about economic policy.

At the absolute crunch, however, Dr Loor said SA could draw more than $4 000-million altogether from the IMF.

IMF drawings can be more attractive than other forms of overseas borrowings because of lower interest rates.

They would also be particularly useful to South Africa now because repayments would not be needed for three years or so.

Gold crash: what it means

~~79~~ 49

ROH 9/3/82

Financial Editor HOWARD PREECE assesses the implications for South Africa of the falling gold price which tumbled to $330,50 yesterday afternoon.

TUMBLING share prices on the Johannesburg Stock Exchange reflect the agonising reappraisal of South Africa's economic prospects in the wake of the gold market crash.

The news is obviously grim. But how grim? What new burdens will Mr Owen Horwood, the Minister of Finance, be forced to impose in his Budget on March 24?

How much further can the share market fall? What is the outlook now for employment, wages and prices?

Just how dependent, in fact, is South Africa on gold?

Let us look at the role of gold in the economy.

In 1980, when bullion was at its peak, gold sales totalled a massive R10 141-million (more than all other exports put together).

That was over R4 000-million higher than in 1979 and well over R6 000-million more than in 1978.

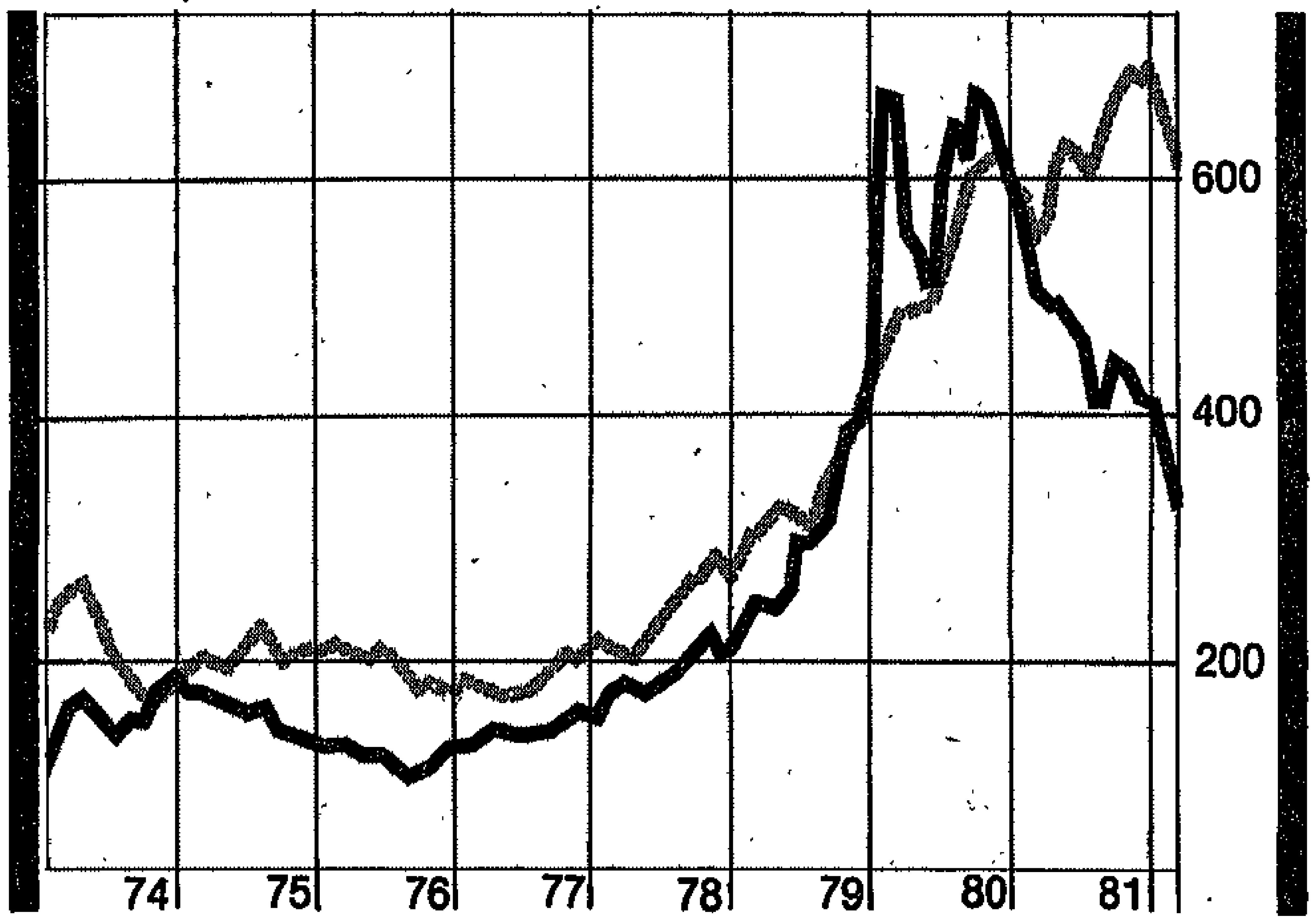
The gold price explosion was the equivalent (very over-simplified) of an overseas gift over those two years worth some R260 a head for every man, woman and child of South Africa's 25-million population.

This windfall injection of thousands of millions of rands into the economy turned a moderate upturn into a runaway boom.

For Mr Horwood it was one continuous Christmas.

RDM Industrial share price index (Index 1958 = 100)

Gold Price (monthly average) ($/fine oz)



THIS is how the tax and lease payments from the gold mines to the Treasury soared in the fiscal years to March 31.

1977-78 R446-million.
1978-79 R862-million.
1979-80 R1 501-million.
1980-81 R3 633-million.

That giant bonanza, plus the introduction of General Sales Tax, enabled Mr Horwood to make sweeping cuts in personal income tax that included bringing the top effective marginal rate down from 72% to 50%.

According to the Chamber of Mines gold was responsible for 17,2% of the country's gross domestic product — the total value of all goods and services produced — in 1980 against only 5,5% in 1970.

The message is clear. Gold is overwhelmingly more important to South Africa than any other single economic factor, internal or external. The severe drop in the bullion price threatens to turn the natural economic downswing into a full scale recession.

That means, most worryingly perhaps, that the unemployment situation is bound to worsen. Wage rises are bound to slow in money terms and probably fall in real terms.

But what about this month's Budget? The further slump in the gold price in the last couple of weeks obviously adds to Mr Horwood's problems — but not quite as drastically as seems generally supposed.

It is known that gold tax revenue for the 1981-82 year now ending will be down to about R2 185-million, nearly R1 500-million less than 1980-81. That, however, had been estimated in the Budget last August so there is no shock there.

Standard Bank had also already calculated last month — before the mini-Budget rise in GST and the introduction of the 10% import surcharge — that with gold averaging $400 tax from the mines would be down to R1 460-million in 1982-83.

But the further fall in the gold price over the past month means that Mr Horwood must allow for the possibility that gold tax could even drop below R1 000-million in the year starting this April 1.

Since he will in any case have to borrow heavily in the capital market to help finance the 1982-83 Budget he is most unlikely to want to try and raise even more money that way.

Further tax increases are, therefore, certain.

The most likely choice, for starters, is a 10% loan levy on both companies and individuals.

This would pull in around R660-million.

It would also, in my opinion, be far preferable to a further rise in GST, from 5% to 6%.

Another GST hike would add even more to the inflationary pressures in the economy and would put proportionately much greater burdens on the poorest sections of the community.

However, Mr Horwood's problems are not simply a matter of balancing the Budget sums.

The gold price plunge has greatly reduced South Africa's ability to pay for floods of goods from overseas.

The country's import bill soared from R9 739-million in 1979 to R14 207-million in 1980 and to an estimated R18 000-million in 1981.

After four years of surplus in 1977-80 the current account of the balance of payments showed a deficit last year of over R4 000-million.

In itself that was neither surprising nor alarming.

South Africa repaid huge amounts of foreign debt between 1977 and 1980 and was even "under-borrowed."

However, a further deficit of R4 000-million or so this year and the prospect of a further shortfall in 1983 is cause for concern.

SOUTH Africa's suspect political position makes it hazardous to depend on the availability of large and continuing capital flows.

Mr Horwood may well decide, therefore, to impose some additional taxes in the Budget to reduce spending power and thus imports.

Increases in duties on liquor and tobacco would be candidates here.

It is also possible if gold falls much more that further direct measures to check imports could be taken in addition to the 10% surcharge already announced.

Stiffer hire purchase regulations must also be on the cards.

With all this uncertainty and with no sign yet that gold is at the bottom share prices must still be vulnerable generally.

So, too, must house prices at the upper end of the property range.

Winter has come a little early this year. It will be quite a long while before summer returns.

Sinking rand and gold hit economy

Cape Times 10/3/82 (49)

By GORDON KLING

THE EXCHANGE rate of the rand slipped below one United States dollar for the first time in history yesterday as South Africa's currency mirrored the serious economic implications facing the country in the wake of the collapse in the gold price.

There was hectic trading On the Johannesburg Stock Exchange as investors rushed to sell shares in one of South Africa's biggest companies, De Beers, following release of its latest results which showed profits halved and a halved final dividend — the first dividend cut in the company's history.

Investors on the JSE continued to suffer the early consequences of the deteriorating economic outlook as share prices in most sectors continued the slide which began more than two weeks ago. De Beers, long regarded as a blue chip or very safe share, shed 117c in minutes to close at 620c.

Gold closed at $325,25 after being fixed at $329,25 an ounce on the London bullion market yesterday afternoon, up from $325,50 in the morning but down some $30 an ounce on a week ago to levels ruling 2½ years ago, and less than half the value of the metal at the peak of the gold boom in early 1980. The mines are considered to need a price of about $300 an ounce to break even.

A spokesman for the Reserve Bank in Pretoria said the rand's fall of about 2c to 99 US cents was a logical consequence of the poor gold price and the large deficit in the current account of the country's balance of payments.

The fall comes in the face of record high interest rates — the last of the major banks to delay implementation of a 20 percent prime rate is to begin charging borrowers this rate from today — which usually encourage an inflow of funds and a strengthening of the domestic currency.

The Governor of the Reserve Bank, Dr Gerhard de Kock, described the sharp plunge in the gold price as "very unsettling, to say the least", and agreed that the fall in the rand below parity with the US dollar was a serious, if short-term, development.

The lower rand — it has lost about 35 percent in value against the dollar over the past 18 months but considerably less against most other major currencies — will make imports, already hit by a 10 percent surcharge in the mini-budget last month, still more expensive.

Blow to travel

South African exports, however, will be relatively cheaper on world markets in a process which should eventually lead to an improvement in the country's trading position, a swing into surplus on the balance of payments and the next upturn in the business cycle.

Economists now believe this to be some way off; most do not expect any recovery until late next year at the earliest and some believe the wait will be much longer. The Minister of Finance, Mr Owen Horwood, is accordingly considered almost certain to introduce measures intended to extract more funds from the public in the national budget on March 24.

Travellers going abroad are going to be hard hit. The value of their travel allowances is being sharply pruned by the depreciated rand and many might have to curtail projected holidays because of a shortage of cash. They will not be able to pay for their traveller's cheques at the spot price of 98,82 US cents because in addition to the quoted rates they will have to meet banks' commission and other charges.

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.

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2. Blue or black ink must be used for w answers. The use of a ball point pen is a able. Red or green ink may be used or underlining, emphasis or for diagrams, for pencil may also be used.
3. Names must be printed on each separate (e.g. graph paper) where sheets additioı examination book (s) are used.

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Any dishonesty will render the candidate li nd to possible exclusion from the

Mr O tells students: 'Business and ideology not the best bedfellows'

Star 11/3/82

(49)

Own Correspondent

STELLENBOSCH — The chairman of Anglo American, Mr Harry Oppenheimer, told Stellenbosch students last night that there was a basic and mutual misunderstanding between the Government and private enterprise and this, to some extent, explained the relative failures of the Carlton and Good Hope conferences.

Private enterprise, he said, operated best when "doing its own thing." Obviously this had to be done within the social and legal frameworks laid down by the State.

On the other hand, the Government had sought to make private enterprise a partner in an overall strategy for the improvement of the economy of the country. This sort of thing simply did not work because it went against the grain of what private enterprise was.

Mr Oppenheimer was speaking at a function of the Stellenbosch Aktuele Aangeleentheidskring on the Government and private enterprise in the light of the Carlton and Good Hope Conferences.

The government, he said, had to operate under the pressures of ideology whereas the only pressure that should apply to private enterprise was good busines. Good business and ideology were not always the best of bedfellows.

Referring to the split in the National Party, Mr Oppenheimer said that most businessmen would welcome the split — he was applauded by the large student audience when he said this — because it was now expected that Mr Botha would follow a course of "sound conservative government."

This fact would probably attract more English speakers into the National Party and by inference the business people of South Africa.

In answer to a question, he said that investments by the Anglo American group in homelands did not in any way suggest support of the concept. These investments were made to improve the environment and as part of a process of "enlightened self interest" for shareholders.

(49) S. Times 14/3/82

Prophets of doom are out of touch

By John Spira

THE layman can be forgiven his confusion over where the country's economy is headed.

He can also be forgiven his impression that forecasting South Africa's growth rate has evolved into a national sport.

Dozens of forecasts have been forthcoming in recent weeks. And very few tally with one another.

Some are so pessimistic as to imply virtual disaster for the economy.

A recent prediction actually projected real economic growth in 1982 at as low as 0,6%, to be followed by a negative of 1% in 1983.

With a view to placing the whole issue in perspective, Business Times has produced the accompanying graph from figures contained in the SA Reserve Bank's statistical presentation of South Africa's national accounts for the period 1946 to 1980.

Looking at the chart of real (inflation-adjusted) gross national product at 1975 prices, it is significant that on only two occasions (in 1975 and 1977) in the past 25 years did the economy register negative growth.

On one other occasion (1959) zero growth was recorded.

These were years of serious recession exacerbated by political upheavals.

In particular, the mid-1970s were years during which the Soweto riots seriously undermined overseas confidence in the country, leading to large-scale capital outflows.

It was a period during which the gold price slumped to a 30-month low of $103 and in which the value of retail sales actually declined in terms of 1975 prices (from R3 672-million to R3 445-million between 1976 and 1977) for the first time since World War II.

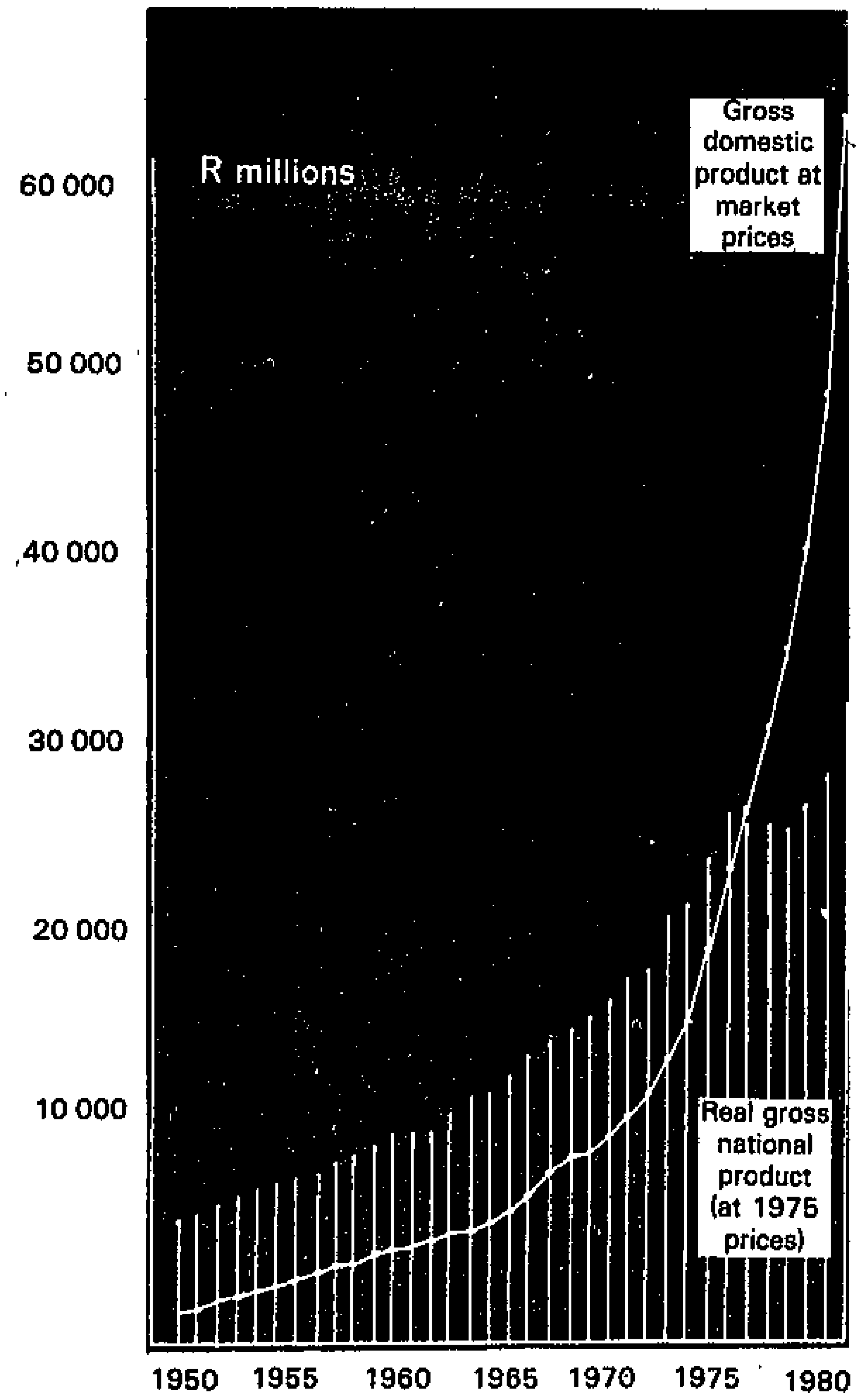
The value of manufacturing output, too, declined (from R6 141-million to R5 922-million between 1976 and 1977), along with construction, agriculture, forestry and fishing.

The level of inventories declined for three years running (to 1978), private consumption expenditure (at constant 1975 prices) declined from R15 787-million in 1976 to R15 602-million in 1977, while gross domestic fixed investment slumped from R8 110-million to R7 095-million between 1975 and 1978.

It is highly unlikely that the country will be faced with a similar confluence of adverse events in 1982 and 1983.

For it would require nothing less than seriously deleterious political factors, combined with a further sharp gold price decline and a worsening of the recession among South Africa's trading partners, to produce two years which, together, would result in negative real economic growth.

Accordingly, seen in a historic context and taking a view of the probable (and not the improbable) future, those predicting negative real growth for the South African economy in the immediate future appear to be out of touch with reality.



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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

Gold holds SA on knife edge

S. Times

49

21/3/82

BY ANDREW McNULTY

THE gold price will have to rise to above $500 before South Africa can confidently get back on the track of buoyant economic growth and avoid rising unemployment.

This is the harsh dilemma faced by Owen Horwood, Minister of Finance, on the eve of Wednesday's Budget.

The plummeting gold price in the past fortnight has left the economy balanced on a knife edge.

An austere Budget that could bring higher taxes for companies and individuals, higher excise duties and a new loan levy looks an inevitable consequence.

At the same time, Mr Horwood will be at pains to avoid deflating wilting confidence, a vital factor in ensuring that the economy yet achieves the 3% to 3,5% growth that some economists and leading businessmen believe is still possible this year.

The source of about 51% of South Africa's foreign-exchange earnings, the gold price sank on Monday to $312, the lowest point since August 1979, and by Friday had recovered only slightly to $316.

A small but growing band of leading bullion and gold-share analysts believe that the floor has been reached — particularly as gold shares reacted only mildly to Monday's low point — and are forecasting a steady rise to above the $400 level in coming months.

Even if the gold price stabilises and goes on to a rising trend, virtually nobody sees any compelling reasons to expect a dramatic upwards movement.

Mr Horwood is almost certain to assume in his Budget that gold will average no more than $350 to $370.

The average price so far this year is only $368,50.

In its forecast for minerals earnings in 1982, the SA Minerals Bureau calculates that, on an average gold price of $425, foreign-exchange earnings by gold would be about R8,6-million compared with R8,5-million last year, when South Africa had a huge balance-of-payments deficit of R4 080-million.

This forecast may even be optimistic because it assumes that South Africa gold production will rise by as much as 12 tons to 670 tons compared with 658 tons in 1981, based largely on expansions and new mines such as Beisa coming on stream.

If the gold price averages $350, gold's foreign-exchange earnings would fall by at least R1 122-million.

Taxation from the gold mines — an important source of revenue for the Government — would be substantially lower, a result of the large capital expenditure programmes under way (which the taxman assists) but mainly of the fast-sinking profitability of the gold industry.

In sharp contrast to the dramatic days of two years ago, the gold industry is in a parlous state, with 11 mines facing losses at the current gold price: Deelkraal (whose break-even point is $351,00), Durban Deep ($310,77), ERPM ($414,14), Elandsrand ($417,00), Leslie ($319,51), Loraine ($398,97), Marievale ($316,74), Venters ($309,55), WR Cons ($351), W Areas ($360,97) and Wit Nigel ($178,42).

Eight of these mines — Durban Deep, ERPM, Leslie, Loraine, Stilfontein, Venters, WR Cons and Wit Nigel — are on the state assistance scheme, and the rest are also candidates, which is a further drain on the taxman's resources.

The grim climate was emphasised again this week by ERPM's announcement that the

1982

Productivity crisis scary

~~226~~ ~~247~~ ~~480~~ 49

S. Times 21/3/82

By John Spira

THE wages of South Africa's unskilled workers have been increased to a point where labour intensivity in industry is a certain formula for uncompetitiveness.

This is because the wage increases at the lower levels have taken place with no relation to productivity, according to Dr Charles Skeen, newly elected president of the SA Institution of Civil Engineers.

At the annual meeting of the insitution this week, Dr Skeen pointed out that Japanese, German and American workers produce in excess of $25 000 per worker per annum.

South African workers produce a mere $4 000.

He added: "In Japan, large numbers of workers operate in service functions and operate competitively in that function because they have achieved an increase in productivity of approximately 8% per annum — a truly remarkable figure.

"There is some doubt as to whether we in South Africa have achieved 0,5% per annum.

"It is a fact that in some activities productivities have actually dropped."

He rejected the solution that technology-based jobs be made more labour-intensive and considered that industrial decentralisation policies provide no more than an insignificant part of the solution.

"Job creation must be sought at a very basic level, starting with agriculture, and this can only take place in the underdeveloped areas of our country.

"I believe this can be done without jeopardising the large-scale food production which takes place in the more developed areas using more mechanised methods."

He pointed out that the need for placing a new emphasis on agricultural development is dictated by the fact that production rates six to seven times those now prevailing in the underdeveloped areas are easily attainable.

This warrants even greater attention when it is estimated that the cost of creating a job in the underdeveloped areas in agriculture is around one-third of the least expensive job created in industry in these areas.

He stressed that this is the most important area to which the institution should direct its attention.

Another vital problem area, he continued, was the lack of effective communication between engineers in the private sector and their counterparts in the public sector.

Effective communication cannot happen while the present earnings disparity exists.

The conditions of employment must be such that an easy movement of individuals between the public and private sectors is possible.

A "slimmed down" public sector, super-competent and suitably remunerated, must enjoy all-round respect when entrusted with the conceptual planning of national projects which are to be managed and executed by the private sector.

In effect, Dr Skeen concluded, a steeply inclined public sector hierarchy with a peak comparable to that of the private sector must operate in conjunction with the private sector.

In this way, two-way horizontal mobility as an essential to success will be facilitated.

A prime target for spending axe

(49)

RDM 23/3/82

Howard Preece

Economic Spotlight

TAX increases are obviously what many people will be most concerned about in tomorrow's Budget.

But the decisions announced by Mr Horwood, the Minister of Finance, on Government spending for 1982-83 will perhaps be of greater overall economic importance.

The economy seems generally better prepared today to weather the slump in the gold price than it was in 1975-76 when gold also plunged heavily.

One reason for that is that the excessive Government expenditure in the early 1970s was brought back under control by Mr Horwood.

As the table shows real increases in State spending were kept down to an average of about 1% a year between 1977-78 and 1980-81.

In judging this year's Budget, however, it would be wrong to look only at whatever total rise in expenditure is proposed by Mr Horwood.

To do so would be to ignore two vital points:

● In the end what will matter is how much is actually spent, not what the Budget says will be spent.

Take 1981-82. Mr Horwood orginally put forward estimates for a spending rise of about 15%.

There have, however, already been supplementary estimates for another R400-million.

Standard Bank's provisional forecast is that the realised increase for 1981-82 will come close to 20%.

Even if it turns out to be "only" 18% to 19% it will still give a rather different perspective to the policy of financial discipline.

I have no doubt that Mr Horwood will have some extremely tough words to say tomorrow about Government spending for 1982-83.

I am sure, too, that he will include in his Budget estimates some painful cutbacks in real terms that will cause grief to a variety of interests.

But that does not mean that things will necessarily turn out that way.

It will only be towards the end of this calendar year that we shall begin to see how everything is working out in practice.

● It is not enough to consider the total numbers.

What matters enormously is the composition of Government spending.

Suppose, for example, that Mr Horwood proposes for the coming year a rise in money terms of 13% to 14%, or a rough standstill in money terms on current inflation expectations.

That would (subject to the reservation above about what might actually happen) probably seem admirably restrained to most private sector economists.

But any analysis must surely go further.

It must examine how the money is to be spent.

There is, for example, a temptation for any government to find economies in areas where there will be least political outcry and to be most indulgent where the going will be most difficult.

But the long-term needs of the economy and the country may demand the reverse.

The South African economy is desperate for a better trained, better educated working population.

Measures now to scrimp in this direction may well save money without too much opposition from the white electorate.

The consequences of any such actions, however, would almost certainly be to add to menacing political problems and to reduce the potential growth capacity of the economy.

Some of the Prime Minister's key economic advisers — such as Dr Simon Brand — have regularly pointed to the immense challenge already required to narrow the vast and divisive standards enjoyed by white and black in health and housing as well as education.

There may be some scope for making whites more self-reliant, but in the medium term there is no feasible alternative to the state for blacks.

This means again that real spending cuts in these areas could ultimately be far more costly than any short-term gains.

It would also be folly to hack away at necessary physical infrastructure projects.

The economy needs the removal of productive bottlenecks, not their extension.

Clearly there must be a general curb on State spending.

The economic situation leaves no choice.

But the best way of achieving this would be to reduce the overall role of government in the economy rather than to search for short-term expedients that run counter to long-term interests.

And the best way to reduce that role is to look critically at the structure of apartheid.

That is the direction in which Mr Horwood's fiscal restraint of the past five years must now be developed.

Trends in Government Expenditure

	1976/77	1977/78	1978/79	1979/80	1980/81	Estimate 1981/82
Expenditure (R'000m)	8,3	9,0	10,0	11,5	13,6	16,3
Nominal increase (per cent)	21,2	8,8	11,7	14,6	18,6	19,8
Real increase (per cent)	10,0	−2,3	0,5	0,9	2,8	4,8

Source: Standard Bank.

Municipalities get limited aid

CAPE TIMES 25/3/82 (49)

Own Correspondent

JOHANNESBURG. — Municipalities, many of them crippled by financial stringencies, received limited additional income yesterday from a Budget designed to tide them over until alternative sources of revenue are found.

The Minister of Finance, Mr Horwood, announced that municipalities would receive a further R14 million from assessment rates on state-owned properties.

And for Johannesburg, this amount — once it has been shared among municipalities on a *pro rata* basis — may mean an additional R1,8 million, which barely covers the city council's expenditure on the additional one percent on General Sales Tax and the new surcharge on imports.

Mr Horwood also disclosed yesterday that the government would keep a close watch on the rate of expenditure of local authorities, and added that municipalities had already been asked to keep their overall expenditures below the current rate of inflation — now about 13,6 percent.

Considerable

Mr Horwood said expenditure by local authorities had reached "considerable proportions" in recent years, and added that while central and provincial government expenditure had been subjected to clearly defined control, the same had not applied to local government.

Johannesburg's city treasurer, Mr Manie Venter, said last night he was "generally pleased" with the Budget in that no further taxes had been placed on local authorities.

"We are not going backwards," Mr Venter said, and added that Johannesburg was at least "getting something back" after paying out about R1 million on increased GST and about R900 000 on the new imports surcharge.

Strong feeling

There was a strong feeling in municipal circles before yesterday's Budget that the additional expenditure on GST and the imports surcharge had robbed local authorities of the financial advantages gained in concessions announced in last August's budget.

Mr Horwood disclosed then that government departments, provincial administrations and government business enterprises would in future pay assessment rates to local authorities, and that these payments would be gradually phased in.

As the first instalment of the phasing-in process, R20 million was made available — which came on top of the token R9 million which was already being distributed to local authorities from this source.

Now, with yesterday's R14 million concession, municipalities will receive a total of R43,6 million from rates on state-owned properties.

Benefits

Local authorities will also receive R2,8 million from rates on Post Office properties, R24 million from rates on Railway land, and in addition, municipalities will soon the reap the full benefits of recently introduced transfer payments made to local authorities for ambulance and fire services.

It is estimated that all these payments will amount to about R92 million for local authorities.

However, these payments are widely viewed as being measures to tide municipalities over until the Croeser working committee has restructured existing sources of revenue and, more essentially, identified additional ones for local authorities.

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The Th[eory] ... is formulated
to pro... both
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The theory is hypothetical ... take a case of two countries pro[ducing] ... ist two goods

Commodity	COUNTRY A
X	1000
Y	1600

We measure the cost of pro[ducing the]se goods in terms of labour units. Say country A using one ... it can produce 1000 X ~~and~~ per y[ear] ... and country B using one labour ... produce 1600 X ~~and~~ or 2000 Y per yea[r] ... is obvious that country B is much more ... than country A at producing both goods ... it would not seem that tra[de] ... be feasible but if both countries spe[cialise in pro]ducing the good in which their op[portunity c]ost is best ~~there~~ and then tra[de] ... will be

BUDGET

Delicate balancing act from Horwood

Political Correspondent
The Assembly

Individual taxpayers will have to pay a 5 percent Loan Levy and companies higher taxes to finance the Budget presented to Parliament today.

General Sales Tax (GST) has been extended to include advertising, and another 5 percent extra tax slapped on luxuries such as jewellery, photographic equipment and furs.

But the Minister of Finance, Mr Owen Horwood, had some good news for pensioners, Public Servants and wine drinkers.

In a complex Budget of give-and-take, he has avoided upping personal income tax — but found himself forced to take more from companies.

The effective rate of tax on all companies will jump from 42 percent (40, plus 5 percent surcharge) to 46,2 percent (42, plus 10 percent surcharge).

Even the gold mining and diamond mining companies have to cough up an extra 10 percent surcharge, putting R115 million more into the State's coffers in a full year.

Long-term insurance companies will have to pay tax according to a new measurement which will garner an extra R38 million in tax.

Public servants have been given an extra R800-million for service improvements — an increase of 18 percent on last year's salary bill.

One pleasant surprise in the Budget was the scrapping of the 3 cents a ...

Pensions —bonus handouts

By Peter Sullivan,
Political Correspondent

THE ASSEMBLY — Pensioners, public servants and those in favour of bread subsidies were yesterday given a pleasant surprise in the "gloom" Budget presented to Parliament by the Minister of Finance, Mr Horwood.

His Budget provides

Social pensioners will receive their two bonus payments in May and November.

Increases for social pensioners are R16 a month for whites, bringing them to R138 a month, R12 a month for coloured people and Indians, giving them R83 a month, and R9 for blacks, giving them R49 a month.

Teachers chalk up 15 pc pay rises

By Carolyn Dempster

This year's R3,16 billion injection into education, which includes a 15 percent pay rise for teachers, has drawn mixed reaction from educationists.

Mr Koos Steyn, secretary of the Federal Council of Teachers Associations (FCTA) and the Transvaalse Onderwysers-vereniging said the 15 percent increase was as good as could be expected in the circumstances, and he believed white teachers would be satisfied.

However, it was a pity the Government obviously did not have the resources to promote further parity between male and female teacher salaries. Parity at this stage only extends to Level 4, which comprises departmental heads and principals.

Transvaal Teachers Association spokesman, Mr Jack Ballard said English-speaking teachers had expressed disappointment with the low percentage increase.

"We had hoped that the recommendations of the Venter report regarding parity between men and women, and the professional differentiation in education would be applied."

There was a danger of teachers once again slipping far behind the commercial sector in pay, he said.

The Department of National Education, which controls all white education in South Africa, received a 23 percent boost — of R119 million, bringing the 1982/3 budget up to R631 million

The Department of Internal Affairs which handles Indian and coloured education was granted an additional R194 million this year, taking the budget to R914 million.

Indian and coloured teachers are also to receive a 15,02 percent salary increase.

Th president of the coloured Union of Teachers Associations, Mr Franklin Sonn said the increase would have very little effect on the bulk of coloured teachers who remained in the low pay categories because of inadequate qualifications.

"What we would like to see is a review of the system of categorisation," he said.

The president of the Indian Teachers' Association, Mr Pat Samuels, said he thought teachers would be satisfied "for the time being."

"Teachers, like everybody else, are going to have to make some sacrifices."

The Department of Education and Training, which provides for black education, was given the greatest percentage boost of 28 percent — R106 million — bringing their budget to R475,7 million. Black teachers are also expecting a 15 percent raise.

Mr Peteni, president of the African Teachers' Association, said he was not prepared to comment until he had studied the exact allocation of money.

Top women say tax deduction of R200 is 'feathers'

By Sue Garbett

Resignation, frustration and a terse comment: 'It's feathers," sums up the general reaction of some of South Africa's leading women to the Minister of Finance's announcement that there would be no end this year to the system of joint taxation of working married couples.

Many women expressed disappointment that in view of the extended military call up announced this week which would necessitate more of them stepping into businessmen's shoes, the Minister had not provided an incentive to get women back into the labour force.

In announcing an increase from R1 400 to R1 600 in the tax deduction from the earnings of married women, Mr Horwood said it was still not possible to find an alternative to the present tax system.

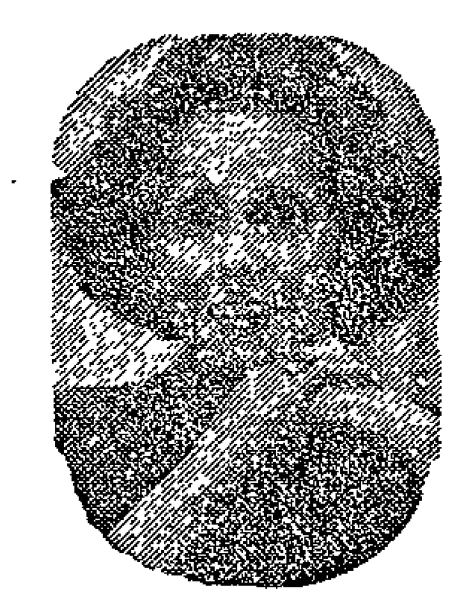
"Mr Horwood is just avoiding the issue of separate taxation and until the Government recognises this is really important, we will not be able to get married women to join the labour force in any numbers," said Mrs Velia Kirkpatrick.

She is chairman of Womanpower 2000 whose aim it is to alleviate the present skills shortage.

"Increased military service means women will be needed more than ever," she stressd.

Mrs Kate Jowell, a member of the standing commission of inquiry into taxation policy said she would have found it surprising "in such a conservative budget" if any change had been made to married women's taxation.

Dr Truida Prekel



Velia Kirkpatrick

"The amount of revenue forgone would have been substantial and this year Mr Horwood is not in a position to give anything substantial away," she commented.

Mrs Jowell said that in 1983 she looked forward to a thorough reform of the tax structure "into a non-discriminatory integrated system where people will not be singled out and discriminated against by virtue of their sex or colour."

Mrs Diana Steenkamp, national taxation chairman for the Business and Professional Women's Club said: "Mr Horwood is pandering to the lower income group.

"When you are looking at the incomes of two professional working people, R200 (in deductions) is feathers."

Mrs Truida Prekel, senior lecturer at the University of South Africa's Business School of Leadership, who also spoke on behalf of the SA Women's Bureau said: "We are disappointed although we didn't really expect anything different."

She pointed out that inflation would rapidly erode the R200 tax deduction for married working women.

She said she hoped the Government would continue to look seriously at a new system of taxing a married working woman's income.

Mrs Prekel said: "We hope part of the Manpower Budget will be earmarked for the training and retraining of women because special efforts are required in this field on account of neglect."

SOME QUOTABLE QUOTES

The Budget speech was punctuated with quotations by Mr Horwood. Here is a selection.

● *Samuel Johnson: "Resolve not to be poor: whatever you have, spend less."*

● *Russel Paskue: "If living conditions don't stop improving . . . we're going to run out of humble beginnings for our great men."*

● *Anon: "The best way to double your money is to fold it and put it back into your pocket."*

● *Anon: "What this country sorely needs is, as the saying goes, 'a non-skid coin, guaranteed not to slip through the fingers'."*

● *Samuel Butler: "All progress is based upon a universal inate desire on the part of every organism to live beyond its income."*

● *Anon: "A subsidy is a formula to return your own money to you with such a fanfare that you regard it as a gift."*

Mr Horwood added a gem of his own.

● *"We in South Africa should not be sorry if the bottle is half-empty. We should be grateful that our bottle is still half full."*

Opposition fears that more is to come

Political Staff

THE ASSEMBLY — The Budget was "rich in quotations but poor in attractions," Mr Harry Schwartz (PFP, Yeoville) Chief Opposition spokesman on finance, said yesterday.

In his reply to the Budget speech, Mr Schwarz said that, although Mr Horwood could be complimented on some of his proposals, when it came to ... try's economic affairs, Mr Schwarz said.

In a statement issued after the Budget debate was adjourned, Mr Schwarz said he did not regard the taxation package presented as satisfactory.

The increased company tax did not appear to be an appropriate remedy when the country was moving into a recession and dividends were likely to fall, he said.

GST will hurt us, say ad agencies

By Andrew Walker

The imposition of GST on advertising from August 1 will be counter-productive and could lead to cuts in advertising and retrenchments in the industry, advertising officials have claimed.

Mr Tim Hamilton-Russell of J Walter Thompson felt the move would be counter-productive.

"It is in effect charging tax on a product before it is sold."

The tax could also lead to escalating costs of goods as advertising was necessary for a high turnover, which ...

ing of R18 042 million.

Defence, manpower and education are depicted as priorities.

But for pensioners there is a wide range of i creases plus two special bonus payments for social pensioners.

The public service, where critical staff shortages have been blamed on poor pay, is to get an extra R800 million package of improvements in conditions of service.

If this is simply added to last year's salary bill it amounts to an 18 percent increase.

Mr Horwood said the major improvements contemplated were a general salary adjustment, a further narrowing of the wage gap between the different races and an extension of the practice of salary differentiation in certain professional categories of work.

Social, military and civil pensions have all been increased.

Civil and military pensioners will get their increases from April 1. Social pensioners will get theirs on October 1.

up by 15 percent while civil pensioners go up by a basic 10 percent with "older" pensioners receiving more.

Civil pensioners will receive, in addition to the 10 percent, an extra one percent for every complete year of retirement worked backwards from March 31 this year.

Civil pensioners who did not belong to medical aids will be able to become members of official societies from October this year with the Government providing R5,2 million for the purpose.

Mr Horwood announced that the bread subsidy would be calculated from October at the rate of 5 percent of a loaf of white bread and 20 percent of the cost of a brown loaf.

He provided an extra R45 million for the subsidy.

"Buyers of brown bread, however, will have the benefit of a much bigger subsidy and will, therefore, pay a considerably lower price per loaf."

... w nes, and a one cent reduction in the tax on non-alcoholic beverages. This will deprive the Treasury of R16-million.

This year's Budget brings the country's defence allocation close to R3 000 million, compared to only R260 million ten years ago.

The total expenditure provided for is R18 042 million, with defence, manpower and education depicted as priorities.

Education spending has jumped to a massive R3 160 million for all population groups, while manpower's budget increased by 22,8 percent to R63 million.

The National Housing Fund was given a 28 percent increase to R330 million.

The other main points of the Budget are:

- A 22,8 percent increase in the Manpower Vote to R63 million.
- Spending on education for all races estimated at R3 160 million compared with R1 270 million in 1977-78.
- Spending by the National Housing Fund to rise by 28 percent to R330 million.
- R800 million more for the Public Service.
- Cost of public debt likely to rise from R1 978 million in 1981-82 to R2 294 million.
- Local authorities will get R82 million from Government.
- Social pensions up for whites by R16, coloured people and Asians by R12, and for blacks by R9 a month.
- R64 million made available for land consolidation.
- Bread subsidy formula to be changed—white bread subsidy to be 5 percent, brown bread subsidy 20 percent.
- Defence spending to rise R203 million to R2 668 million.
- Police expenditure to rise R132,5 million to R481,6 million
- Total expenditure to rise 14,9 percent to R18 238 million.

Defence again to receive the lion's share

Political Staff

THE ASSEMBLY — Defence will again receive the lion's share of the Budget this year.

According to the printed estimates tabled in Parliament today the Defence Budget has been increased by R203 million to R2 668 million.

Co-operation and Development is next on list with its budget up by R88 million to R1 238 million.

The Department of Health and Welfare has received an increase of R166 million, giving it a total of R1 119 million.

All the departments handling education have received big boosts.

The Department of Education and Training — which deals with blacks — received an increase of R106 million to R475.7 million.

Internal Affairs, which controls Indian and coloured education, has gone up by R194 million to R914 million.

The Department of National Education (white) goes up from R5!2 million to R631 million.

Manpower, another Government priority, has had its share increased by R11,7 million to R63 million.

With housing receiving much attention, Community Development is expected to spend R887,5 million this year—up by R45,3 million on last year

The Department of Prisons has received an increase of R54,7 million (to R134 million) while Police receives R132,5 million, giving it R481,6 million.

... says the consumer

Consumer spokesmen called the Budget fair and reasonble, but said it had to be seen together with the heavy economic blows already dealt to consumers.

Mr Jan Cronje, director of the Consumer Council, said consumers had already been burdened by the Railways and Post Office budgets, increased GST and import surcharge, and higher prices for many commodities.

"The 3c a litre petrol price increase and the loan levy of five percent will further aggravate the position of consumers, especially those whose salaries barely keep pace with inflation," he said.

Mr Cronje welcomed the increase in company tax since it meant the full burden did not fall only on the consumer.

Concessions to pensioners were particularly welcome.

"The Budget emphasises that difficult days are ahead for consumers. The key words will be efficient family budgeting and judicious spending."

Mrs Joy Hurwitz, president of the Housewives' League, thought pensioners' increases were not adequate to cover the increased cost of living.

She said Mr Horwood's tax concessions would not encourage married women to return to the market place, but they would ease the financial burden of the lower income groups.

Mrs Margaret Lessing of the Consumer Union said the 5 percent subsidy on white bread was welcome as the subsidy was removed last year and put on brown bread.

Mr Gordon Utian, managing director of Checkers, said Mr Horwood had ignored the opportunity to remove GST from basic foodstuffs despite constant pleas from the retail industry.

... is all for some

Own Correspondent

CAPE TOWN —This will be the last year for making a tax return in the cases of many thousands of South Africans.

People with low incomes derived entirely or almost entirely from wages and salaries will not have to submit tax returns for the 1982-83 tax year, according to yesterday's Budget proposal.

This would affect those whose taxable incomes — that is their net salary after deduction of medical expenses, pension and retirement annuity contributions and the allowance in respect of the earnings of spouse — do not exceed R7 000.

They will have to submit a tax return for the immediate past tax year.

For all taxpayers the first R100 of income from interest and dividends will be exempt from tax.

... race pay gap move

By David Breier, Chief Reporter

The Public Servants Association, which represents white Government workers, has welcomed the principle of equal pay for equal work for all races.

In the Budget yesterday, it announced that the wage gap in the public service was to be narrowed further.

Dr Colin Cameron, president of the PSA, said the association favoured the principle of equal pay for equal work — and if salary adjustments were made on this basis the PSA supported them.

He said the R800 million announced by Minister of Finance Mr Horwood as the pay increase package for the public service appeared to be in line with the recent announcement by the former Minister of State Administration, Dr Andries Treurnicht, that the rises would not be less than the inflation rate.

Dr Cameron welcomed the R200 million additional allocation to be spent on salary differentiation among selected professional categories — designed to attract sought-after staff.

He said the PSA would study the application of this principle over the next year.

An additional amount should also have been found to attract junior staff, he added. The general pay increase, equal to the inflation rate, merely retained the status quo, instead of advancing public service pay.

Dr Cameron also supported the civil pension rises based on a sliding scale which give higher increases to former public servants in proportion to the number of years they had been retired.

dable package."

Mr Schwarz said the average citizen had been "hit three times in the past 72 hours," by increases.

The Minister had failed to achieve the necessary balance between the degree of growth needed to maintain the economy at a reasonable level and the fight against inflation.

When last year's economic position was compared with this year's the question should be asked whether there was something wrong with the Government's administraion of the country.

create an additional burden for ordinary taxpayers.

"The taxpayer has been subjected to a whole series of blows which have culminated in the present Budget and we do not see this as having come to an end," said Mr Schwarz.

The New Republic Party's spokesman on finance, Mr George Bartlett, commended the Minister for holding back on government spending.

In a statement reacting to the Budget he said that the shocks imposed on the public in recent months should be borne in mind.

Mr Darryl Phillips, chairman of the Grey group of advertising agencies, predicted that the introduction of the tax would cause some concern to cut their budgets.

"The extra five percent advertisers will have to pay will be entirely non-productive, so I think you will find that clients are going to cut their budgets by that much," he said.

He did not object to the tax, but to the timing of its introduction. With it being introduced at a bad time, it could possibly lead to retrenchments in the advertising agency.

Fringe tax plan still on

Political Correspondent

The Minister of Finance, Mr Owen Horwood, yesterday stated that the controversial proposed fringe benefits taxation would not be dropped.

And he has again refused to drop the joint taxation of married couples who both work.

Mr Horwood said there had been Press reports that the proposals for the taxation of fringe benefits had been "shelved."

"I wish to give the assurance that this is not the case."

Cash for training welcomed by Tucsa

By Drew Forrest

The sharp increase in the Manpower Department's vote announced in yesterday's Budget speech has been welcomed by the general secretary of the Trade Union Council of South Africa, Mr Arthur Grobbelaar.

The Minister of Finance, Mr Owen Horwood, announced a 22,8 percent increase to R63 million.

He said the increase was needed to maintain a high level of trained manpower as a prerequisite for economic growth.

Mr Grobbelaar said he was particularly pleased that R7 million had been earmarked for the Manpower Development Fund which is used to subsidise training.

Commenting on the 10 percent effective increase in company tax proposed in the Budget speech, Mr Grobbelaar said the Minister "had correctly found his taxes in the right areas.

"Profits have been extremely good in the past few years," he said. "Despite the apparent downturn in the economy, employers can meet this without too much trouble."

Mr Grobbelaar added that he would have favoured a greater increase in social pensions and a reduction in the disparity between the proposed pension payouts for the different races.

The point was taken up by the general secretary of the National Union of Clothing Workers, Mrs Lucy Mvubelo, who said: "This sort of discrimination is unacceptable. Every year we feel slighted.

"Why is it that we blacks — who are the largest and poorest section of the community, as well as the producers — are always last in the pensions queue?"

Those 3c were only a nuisance

The abolition of the tax on cinema tickets announced yesterday by the Minister of Finance, Mr Owen Horwood, will not bring down the price of tickets, a spokesman for Ster-Kinekor said yesterday.

The 3c tax on admission tickets costing more than 35c was imposed in 1960 and had become a great administrative nuisance, said Mr Philip MacDonald.

A spokesman for CIC-Warner said no decision had yet been made on changing the price of their tickets.

Blacks 'reject capitalist system'

Mercury Reporter

THE attitude of the Nationalist Party was responsible for the rejection of the capitalist system by blacks.

This was said by Mr P G Gumede president of the Inyanda Chamber of Commerce and Industry and deputy president of Nafcoc, in his presidential address delivered at the chamber's 18th annual conference in Durban yesterday.

Warning on the dangers of the Nationalist Party putting party interests above the country's interests, Mr Gumede asked how long the private sector was prepared to sit back and watch the destruction of all that the capitalist system had produced in the country.

Basing his argument on the Nationalist Party's rejection of the findings of the Buthelezi commission, Mr Gumede said that 'just as the Nationalists prefer to die rather than sacrifice their policies, the blacks too prefer to die mercilessly at the hands of the Nationalists rather than subject themselves to Nationalist policies ad infinitum'.

Mr Gumede said the Buthelezi commission acknowledged that both blacks and whites were permanent and interdependent in this country, and that the logical conclusion was that we would either survive or perish together

'We can only reject the findings of the commission at our own peril', he said

Mr Gumede added that he continued to believe that the private sector in Natal had something to offer the rest of the Republic 'I still believe that the coming forward of so many associate-member companies is an expression of the goodwill that only exists in Natal,' he said.

Mr Ian Hetherington of the Small Business Advisory Services (Pty) Ltd in Johannesburg addressed the conference on the subject of supporting small business.

Mr Hetherington said one of the obstacles facing small businesses was the numerous laws governing them. The laws often fell under the same Companies Act and had to comply with the same returns to the Registrar of Companies and audit procedures, that were applicable to companies such as Anglo American

'A recent study at Pretoria University,' he said, 'has so far unearthed more than 500 laws, regulations and procedures which in one way or another impinge on small businessmen. It is not surprising that the civil service finds itself understaffed.'

Mr Hetherington said the situation was even worse for the small black businessman.

Licence

'In one self-governing State where I am familiar with the situation, a licence is required if you employ 10 or less people. To get a licence, there are 37 required steps through the bureaucracy which have been known to take five years to accomplish.'

Mr Hetherington urged associate members to support small businessmen by purchasing a portion of their requirements from small suppliers and manufactures. This would aid Nafcoc's efforts to move South Africa towards free enterprise, he said.

Company and mine profits hit by tax rise

49 ROM 25/3/82

Budget blows for Diagonal Street

By DAVID CARTE

INCREASED taxes will reduce gold mines' distributable earnings by 14% at current gold prices, and higher company tax means non-mining companies will have to increase pre-tax profit 7% merely to stand still.

These were the major shocks in yesterday's Budget for the Johannesburg Stock Exchange.

But there was widespread relief among brokers and institutional investors that personal tax had not been raised more, that State spending was being held in check and at the Government's lower than expected borrowing requirement.

A mining analyst estimated that higher effective tax for gold mines would knock distributable earnings by 14% at the current gold price.

One of the big disappointments of the Budget, analysts said, was that most of the increase in company tax took the form of a surcharge and not a loan levy.

A 10% loan levy would have reduced company cash flows, but would not have affected earnings and dividend growth.

An industrial analyst said that a company on full tax of 42% with pre-tax profit of R1 000 000 last year would have had declared earnings of R580 000.

With the effective rate of company tax up to 46,2%, it would now declare R538 000 — 7% less.

If the same company increased pre-tax profit 13% in line with most forecasts next year, declared taxed profit would be R608 000 — a rise of 5% on a 13% increase in pre-tax profit.

"I would say that is the measure to which this Budget hits earnings growth," said the analyst. "Most of us have been expecting at least maintained dividend cover, so we would now be looking at dividend growth of less than 5% as well. This could disappoint the market."

Mr Peter Bieber, head of Old Mutual's investment department — Old Mutual is the biggest investor on the JSE — said the Budget was negative for the market in the short term, but positive in the longer term.

Mr Marinus Daling, his counterpart at Sanlam, the second-biggest JSE investor, said the Budget would reinforce the market's downward trend.

Mr Bieber said: "The deficit is surprisingly low, and so is the borrowing requirement. That should take upward pressure off interest rates. If R1 400-million is all Mr Horwood needs and R600-million is to be rolled over, the requirement is less than it was last year."

Company tax, raking in an extra R400-million, and mining tax taking R115-million, would hit the market in the short term.

Mr Bieber said it was "a very reasonable Budget with concessions to married women and the lower paid and an increased burden for companies and the rich".

It was a good Budget for the economy and therefore for the market in the long run.

Mr Daling said the Budget was good for the economy, but bad for the stock market. The 11,5% rise in Government spending would dampen demand, and higher company tax would depress earnings and dividend growth.

"There may be relief that individual taxpayers were saddled with only a 5% loan levy, but sight should not be lost of the effect on personal incomes of the recent increase in GST and the import surcharge."

Mr Daling said shares dependent on Government spending, particularly in the construction and engineering sectors, would be hurt by the Budget. Life insurers would also suffer.

He was surprised at the small borrowing requirement and agreed that this could put the top on long-term interest rates.

"But with the current balance of payments deficit, I don't see rates falling in any hurry."

An arbitrage broker said SA would be lucky to achieve 1% growth this year. Contraction brought about by the Budget, particularly on the import side, could cause the commercial rand to bottom out.

Another broker said the Budget was hard on companies but lenient on individuals.

The authorities appeared reluctant to curb the consumer. By dropping the exchange rate they had "molly coddled him from the winds of change". He believed the authorities were gambling on the hope that gold and other export receipts would soon recover.

But this was a forlorn hope.

A research team said increases in mining and company tax were the major adverse factors in the Budget.

Positive factors were the absence of hire-purchase curbs, no further rise in GST, no additional tax on beer and tobacco and the comfortable Government financing requirement. The team was sceptical that Goverment spending could be held to an 11,5% rise.

Other commentators said certain shares might benefit from investor relief at the lack of pressure on the consumer sector. SA Breweries and Rembrandt counters might benefit from the lack of further excise duty and motors and banks might go better on the strength of no further HP curbs.

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BUDGET '82

● Continued from Page 26

is a serious matter for the country as a whole.

Together with the Honourable the Minister of Agriculture and Fisheries and certain other colleagues, I was present when the President and other executive members of the South African Agricultural Union recently called on the Honourable the Prime Minister to to acquiant him of the latest position, and I can attest to the constructive and sympathetic discussions which took place. The government lost no time in referring the matter to the Jacobs Committee for urgent study and report. As soon as the committee's recommendations are received, the necessary steps will be taken for the relief of what is plainly a serious situation, subject only to the financial means at the government's disposal.

Since the extent and nature of financial assistance required still needs to be determined, funds for this purpose are not provided for in these Estimates, but will in any case be made available at the right time.

The supplementary expenditure estimates outlined above add up to R196m. If this amount is added to the printed Estimates of Expenditure of R18 042m, aggregate expenditure for the year 1982-'83 will amount to R18 238m.

Let us next consider the revenue side of the Government's Accounts.

Revenue 1982-'83

Estimated total revenue on the current basis of taxation amounts to R15 417m, which is 7,9 percent higher than the revised 1981-'82 estimate of R14 290m. Receipts both from Inland Revenue and from Customs and Excise are expected to increase — Inland Revenue by R912m and Customs and Excise by R215m. These estimates already include the increased proceeds to be collected from the one percentage point increase in General Sales Tax and the 10 percent import surcharge announced last month.

The additional revenue expected from these two sources, now estimated to amount to about R1 235m, will in itself only partly offset the decrease in the collections from income tax on gold mines and gold mining leases. Estimated receipts from the gold mining industry during 1982-'83 most probably will amount to no more than R900m, compared with R2 171m in 1981-'82 — a reduction of nearly R1 300m in one year. This huge loss in revenue is the direct result of the adverse effect that the drop in the gold price and cost escalations are expected to have on the operating results of the gold mines

Uncertainty regarding the future behaviour of the gold price certainly makes it extremely difficult, if not virtually impossible, to predict with any degree of accuracy Exchequer revenues from this source. While I am certainly not pessimistic on the longer term outlook for gold — anything but — it would only be prudent to assume that the average gold price for the year 1982-'83 will be significantly below the average realized during the current financial year, and I have framed my estimates accordingly.

To sum up, on the current basis of taxation, total tax revenues of R15 417m are R6 000 was eight percent and for taxable income from R6 001 to R7 000 it was 10 percent. The proposed new rate results in an additional R120 gross tax payable, before the deduction of rebates.

The increase in the rate is not intended to be an additional impost on taxpayers but has been decided upon as part of the scheme for the elimination of unnecessary income tax assessments in the case of salary earners whose taxable incomes doe not exceed R7 000, as explained. To neutralize the increase in the gross rates, an additional rebate of R120 was provided for in last year's Income Tax Act as part of the substantive provisions I mentioned earlier to bring about the PAYE final deduction system as from 1 March 1982.

The sacrifice of revenue, which is confined to the R0 — R7 000 income sector, is estimated at R40m and has also already been taken into account in the printed Estimates of Revenue.

The increase in the primary rebate, taken together with the standard deductions for medical and certain other expenses and the standard insurance rebate provided for in last year's Income Tax Act, will have the effect of raising the tax thresholds of individuals without children or dependants as follows:

● Married person: Under 60 — present threshold R2 500 and proposed threshold R3 800; 60 but under 70 — present threshold R4 000 and proposed threshold R5 000; 70 and over — present threshold R5 000 and proposed threshold R5 800.

● Unmarried person: Under 60 — present threshold R1 500 and proposed threshold R2 850; 60 but under 70 — present threshold R3 000 and proposed threshold R4 050; 70 and over — present threshold R4 000 and proposed threshold R4 850

Married women

HONORÉ de Balzac once said that "women are always afraid of things which have to be divided". This does not seem to be the case with the vexed question of the taxation of the income of married women, a matter which continues to enjoy the attention of the Department and the Standing Commission on Taxation Policy.

It has still not been possible to formulate a preferable alternative to the present system whereby the incomes of married persons are aggregated for taxation purposes. However, as I announced during my 1981-'82 Budget Speech, one of the consequential adjustments which would be necessary to facilitate the introduction of the Final PAYE Deduction System referred to, is that the deduction allowed from the earnings of a married woman would need to be increased in two stages, from the R1 200 applicable in the 1980-'81 tax year, to R1 400 in 1981-'82, and to R1 600 in 1982-'83.

I trust that this concession will further reduce the real tax burden of women engaged in gainful employment or in a trade or profession. The loss of revenue for the 1982-'83 financial year is estimated to amount to R19m.

(The total loss of revenue as a result of the introduction of the Final PAYE Deduction System, including amounts already accounted for in the printed Estimates of Revenue, will aggregate no less than R109m in a full year).

The effect of the final deduction system with its inbuilt standard deductions and rebates and increased deduction from a married woman's earned income, can best be illustrated by an example. Take the case of a married couple under the age of 60 years with no children, where the husband earns R4 000 and the wife R2 500 per year, a total of R6 500. In the tax year which ended on 28 February 1983, total tax will only amount to R109, and no further tax returns or adjusting assessments will be issued. I ther inland revenue matters to which I would like to refer.

Fringe benefits

THE taxation of fringe benefits arising from exmployment or from the holding of an office, which has been part of our income tax law ever since its inception, has in principle been reaffirmed by government. The question in regard to the uniform *valuation* of such benefits is, however, one which should be approached very circumspectly.

Certain proposals were first put forward by the Franzsen Commission in 1970. The matter was subsequently investigated by Inland Revenue and the Standing Commission on Taxation Policy. After protracted and wide-ranging discussions, it was decided that the Taxation Commission's valuation proposals should form the basis of a in-depth inquiry by a Parliamentary Commission.

Although reports have appeared in the press to the effect that the proposals for the taxation of fringe benefits have been shelved, I wish to give the assurance that this is not the case. The recommendations of the Parliamentary Commission, will, upon receipt, be considered by Government without delay and, if found to be acceptable, will be notified to employer and employee organisations in good time so that any legislation which may be required can be introduced early in the next year in order to ensure that the recommendations take effect as from 1 March 1983, that is for the 1983-'84 tax year.

Fiscal incentive measures

IN MY Budget Speech on 26 March 1980 I indicated that I had directed the Standing Commission on Taxation Policy to investigate the initial and investment allowances accruing to manufacturers and to make recommendations to me in this regard. The matter is one of extreme complexity and, as I previously said, caution is needed before any change is made to the *status quo*. I am informed that the Standing Commission

In the case of natural fermented apple, pear and orange beverages I propose that the excise duty be similarly withdrawn. The loss of revenue in this case will be minimal.

Natural fruit juices are, of course, not subject to any excise duty.

Non-alcoholic beverages

THIS industry has had to cope in recent times with substantial increases in input costs, one of the latest examples being an increase in the price of sugar of some 13 percent. Any tax concession will grant a measure of relief not only to the producer and the consumer but will also, I understand, tend to be helpful to the small businessman in the rural areas.

I wish to propose, therefore, that the excise duty on non-alcoholic beverages be reduced by one cent per litre. This will mean an estimated loss of revenue in 1982-'83 of some R10m.

Government notices to give effect to these proposals will appear tomorrow *(March 25)*.

The total cost of these two concessions will amount to R16m and will reduce the income from customs and excise duties in the printed Estimates of Revenue to R2 203m.

Financing of deficit

The estimate of total revenue is now R15 367m, which leaves me with a deficit before borrowing of R2 871m at this stage.

After adding to the deficit an amount of R1 246m to provide loan redemptions and other loan expenditures — the latter figure is very substantially lower than total redemptions for the 1981-'82 financial year — the total financing requirement will amount to R4 117 m.

rate of interest will also apply to all existing unredeemed investments made since the inception of the scheme *provided* that the Bonds are not redeemed before 1 April 1983. Interest on redemptions made before that date will continue to be calculated at the existing simple interest rate.

These adjustments should at least ensure a positive flow of investment funds into these two investment media.

The loan programme set out above presupposes that funds be obtained in the domestic market in a non-inflationary manner at realistic market-related rates and care will therefore be taken to limit the individual stock issues to smaller amounts obtainable without undue difficulty and without placing undue pressures on the money and capital markets and thus on interest rates. Smaller stock issues will also ensure a more even distribution of cash flows to the Treasury throughout the year.

I also believe that the Exchequer should approach the markets for its loan requirements on a more regular basis than hitherto. The success of the Treasury's first tender issue has been most heartening considering the difficult conditions pertaining in the market at the time, and this method will again be used for the April issue and probably for further issues during the year.

It is imperative that the shortfall of R597m be financed in a non-inflationary manner, most suitably by way of taxation. Various options are open to me in this respect, but considering all the postive and negative effects of the various taxes, a choice had to be made as to the most desirable package under present-day and expected conditions.

I wish to turn, then, to the additional taxation proposals. As Henry Ward Beecher so aptly states it: "In this world it is not what we *take* up, but what we *give* up, that makes us rich". Let us not give up grudgingly for the rewards will be plentiful.

Ad valorem excise duties

within the ambit of the Act as from 1 August 1982. There may be certain practical problems in this regard and I have, therefore, instructed the Commissioner for Inland Revenue to liaise with the advertising industry and media in order to iron out these problems before the legislation is drafted.

The additional revenue from this source is estimated at R31m for a full year and at R20m for the current financial year.

Company tax

DURING 11 of the last 14 years a surcharge ranging from 2,5 percent to 10 percent was imposed on the income tax payable by companies. In addition, in most of the years a loan levy was also applied. The present surcharge on the basic rate of 40 percent amounts to 5 percent, which makes the effective rate of tax on all companies (excluding gold and diamond mining companies) 42 percent.

This is a low rate by world standards. In view of the fact that basic company tax rates have remained unchanged since 1970, I propose that the 5 percent surcharge be incorporated in the basic rate. I propose, further, that a surcharge of 10 percent be levied on the new basic rate for all companies excluding gold and diamond mining companies.

The additional tax that will be collected by the increase in the effective rate from 40 to 42 percent and the 10 percent surcharge is estimated at R400m for a full year and at R300m for the 1982-'83 financial year.

I do not propose to increase the basic rate of tax applicable to gold or diamond mining companies. Gold mining companies pay tax according to a formula which varies with profitability, and to which is added to 5 percent surcharge, while the tax on diamond mines is 45 percent plus a 5 percent surcharge, an effective rate of 47,25 percent.

In the circumstances prevailing, however, I consider it is not in appropriate to increase the surcharge in the case of the gold mining as well as the diamond mining companies by 10 percent, that is, from 5 percent to 15 percent, to provide in this way much needed additional revenue from which to meet, inter alia, the increased demands which will be made on the Exchequer in the form of assistance to the marginal gold mines. In this way the more profitable mines will contribute partly to the strengthening of the total gold mining industry.

The yield from the additional surcharge on gold and diamond mining companies is estimated to amount to R115m in a full year and R105m in the 1982-'83 fiscal year.

Long-term insurance companies

The taxable income of companies carrying on long-term insurance business cannot, because of the nature of their business, be determined according to normal accounting principles and it has always been necessary to provide special rules for this purpose. Since 1959 the basic measure for the determination of taxable income from life insurers has been 30 percent of gross income derived from investments.

Over the years the long-term insurance industry has grown enormously and I feel it is only fair that it should make a greater contribution to the Exchequer. I propose, therefore, that the percentage of gross investment income used as a yardstick for measuring taxable income be increased from 30 to 40 percent.

The taxation position of the long-term life insurance industry is a matter which requires further investigation and I have

estimate for 1981-'82. At the present rate of inflation this implies an actual decline in expenditure in real terms Since additional appropriations later in the year will be kept to the absolute minimum, the final expenditure out-turn should therefore show little, if any, increase in real terms in 1982-'83.

Secondly, the deficit before borrowing is estimated to rise only moderately from R2 060m in 1981-'82 to R2 380m in 1982-'83. These amounts both represent 2,8 percent of gross domestic product, compared with the average of 3,4 percent over the past 22 years.

Thirdly, provision is made to finance this expected deficit in such a way that not only the Exchequer but also the government sector as a whole, including the extra-budgetary funds, will be able to avoid a net recourse to bank credit. In other words, the Budget is designed to ensure that the government sector's financial operations do not contribute to any increase in the liquidity base of the banking system or in the broad money supply over the financial year as a whole.

The Budget is therefore a strict and conservative one which should achieve its basic objective of contributing to the consolidation of the domestic economy and the adjustment of the balance of payments — the two main economic policy priorities at this time. It has signally succeeded in its twin objectives of keeping the deficit before borrowing to a minimum, in order to place as little pressure as possible on interest rates; and in keeping a firm hand on government spending, both because of the huge drop in gold mining revenues and the imperative need to counter inflation.

To design such a Budget in the face of the expected decline of some R1 300m in tax and lease payments by the gold mining industry and the increased cost of maintaining essential government services, was no easy task. It inevitably meant a combination of restrictions on government expenditure and increases in tax rates. Such budgetary measures are never popular, but in situations like that of today they are clearly essential to preserve the basic strength of the South African economy.

I believe furthermore that the Budget spreads the burden of adjustment in a fair and equitable manner. The increase in General Sales Tax from four to five percent and the imposition of the 10 percent surcharge on imports introduced in the Part Appropriation Bill last month are, of course, indirect taxes, which affect a broad spectrum of people. They have now been supplemented, firstly, by increases in *ad valorem* excise duties on mainly non-essential goods and, secondly, by increased *direct* taxes or surcharges on companies, including gold and diamond mines, as well as on the investment income of insurance companies I have refrained from raising the rate of income tax on individuals, mainly because of the incidence of "fiscal drag" or "bracket creeping", which results from the combination of inflation and a preogressive tax system — although I have made concessions in the case of married women and those earning salaries, wages and pensions below R7 000 per annum. I have preferred, rather, to impose a loan levy of 5 percent on individual taxpayers, which is a compulsory savings measure.

Another major feature of this Budget is that, by increasing the fiscal component in the policy "mix", it should in due course

Essential Budget figures

THIS table gives (in millions of rands) the main figures of the Minister of Finance, Mr Owen Horwood's, Budget:

COMPARATIVE STATEMENT OF THE STATE REVENUE ACCOUNT

		Revised figure 1980-'81 Rm	Budget figure 1981-'82 Rm	Percentage change %
EXPENDITURE				
Printed Estimate (R.P.2-'82:				
First print			18 042	
Plus:				
Supplementary appropriations i.r.o.	Rm			
Social pensions	77,2			
Pension bonus	47,3			
Military pensions	3,3			
Civil pensions	4,0			
Medical aid contributions for civil pensioners	5,2			
Land consolidation	12,0			
Subsidy on bread	45,0			
Dried fruit industry	2,0		196	
Total expenditure		16 350	18 238	11,5
Revenue:				
Printed Estimate (R.P.3-'82: First Print):				
Customs and Excise existing rates			2 219	

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available to finance total expenditures of R18 238m. The deficit before borrowing at this stage thus amounts to R2 821m.

Despite the financing problems we are faced with now, I wish to announce the following concessions.

Final PAYE deduction system

IN MY Budget speech last year I announced that, with effect from the tax year which commenced at the beginning of this month, persons in the lower income categories who derive their income intirely, or almost entirely, from salaries or wages will no longer be required to submit annual returns of income. In the majority of such cases the PAYE, which will be deducted in terms of the new deduction tables which came into operation on the first of this month, will represent a final settlement of their tax liability. A substantive amendment was included in last year's Income Tax Act to make this possible.

Persons affected by this measure are those whose taxable incomes, that is, net salary after deduction of medical expenses, pension and retirement annuity fund contributions, and the allowance in respect of the earnings of a spouse, do not exceed R7 000.

The new measure cannot, of course, be applied to persons who receive substantial investment income not taxed at source, or to those whose income is received in a form other than fixed salaries, wages or pensions.

It is gratifying to note that even at these relatively low income levels, many persons are still able and willing to save, and in order to encourage savings and not to deprive them of the benefits of the new system, I furthermore propose that the first R100 of the aggregate income derived from interest and dividends be exempt from tax. This exemption will, in fairness, be granted to all taxpayers irrespective of their income, and I estimate the concomitant loss of revenue to the Fiscus for the 1982-'83 financial year at R13m.

Although taxpayers in the category I have mentioned will not in future be required, as a matter of course, to submit returns of income for assessment purposes, I realise that many factors, such as the birth of a child or abnormally high medical expenses may result in over-deductions of PAYE. In such cases, taxpayers will still be entitled to ask for an assessment and a refund of tax overpaid.

There is a point which I would like to stres in regard to the new system, and that is that *it does not affect the year of assessment which eneded on 28 February this year.* Income tax returns in respect of that year were recently mailed and must still be completed by all taxpayers. The Commissioner for Inland Revenue will in due course advise all those taxpayers who will not in future be required to complete returns of income.

The adjustments and simplifications which I have referred to will make the tax collection system that much more cost-effective and is a further positive step in our overall tax reform programme.

Primary rebate

IT IS apparent from the new normal tax rate table which will be tabled today, that the rate of tax applicable to the first R7 000 of an individual's taxable income is 10 percent. Previously the rate of tax for the first

Africa.

Housing

AS INDICATED earlier, the provision of adequate and sufficient housing remains a problem which enjoys a very high priority with government. Not only have substantial public funds been allocated over the years for the provision of housing, but employers have also been encouraged by means of tax concessions to assist employees in either acquiring their own homes or in obtaining rental accommodation.

The provision of adequate financial resources, particularly for housing the lower income groups, is at present being studied in depth by an expert committee representing the private and public sectors under the chairmanship of the Deputy Minister of Finance.

The private sector will be called upon to make a much more substantial contribution towards solving this problem, but in the meantime I feel it appropriate for government to offer further tax concessions specifically to encourage the construction of new rental accommodation, at present at a premium throughout the country.

Various schemes and suggestions have been researched, but most were found to be either impracticable, too open to abuse, or even in conflict with sound taxation principles.

I am prepared, nevertheless, to offer the following concessions to investors who plan on erecting housing accommodation for rent: The annual depreciation allowance of two percent at present applicable to new industrial buildings will be extended to include all new housing projects which offer not less than five family housig units for rent. This will apply to all qualifying housing projects the erection of which commences on or after 1 April 1982.

In addition I wish to propose that an initial allowance of 10 percent of the cost of the project be allowed as a deduction from income in the year in which the project is completed and the accommodation is first let to tenants.

If the developer of the housing project should dispose of such property either by means of an outright sale of the whole project or through section title selling of individual units, or in any other way, the allowances previously granted will be recouped and included in his taxable income. Details of the allowances will be contained in the Income Tax Bill which will be presented to Parliament later in the session.

I am confident that these concessions will stimulate the provision of rental accommodation for the benefit of those dependent on rental accommodation for the benefit of those dependent on rental units for accommodation, and will assist investors materially with their cash flow problems and return on investment.

It is estimated that the loss of revenue which this consession will entail in 1982-'83 will not exceed R1m, but it could amount to approximately R500 000 for each R10m invested in such projects in a full year.

Cinematograph films tax

THE cinematograph films tax has been in operation in its present form since 1960. It is imposed at the rate of three cents on admission tickets of more than thirty-five cents, and has remained unchanged over the years. The tax has never been a substantial contributor to the State coffers and, in fact, the yield has declined dramatically over the last five years: From R1,9m in 1975 to R0,9m in 1980, no doubt mainly due to the advent of television.

The Standing Commission has recommended that the tax be abolished I am in agreement with this recommendation and, in the interest of more efficient administration, accordingly propose that the tax be abolished with effect from 1 April 1982. The loss of revenue will amount to R1m.

The total of the concessions I have just outlined amount to R34m and will reduce receipts from Inland Revenue from the printed figure of R13 198m to R13 164m.

Before turning to certain proposals for relief from excise duties, there are two fur-

	Rm			
Excise duty on natural wine	6			
Excise duty on mineral water	10		16	
Plus:				
Taxation proposals i.r.o.:				
Ad valorem excise duty	28		28	
Total for Customs and Excise		2 004	2 231	11,3
Inland Revenue at existing rates (excluding loan levies):			13 198	
Less: Taxation proposals i.r.o.				
PAYE final deductions	13			
Married women	19			
Construction of rental accommodation	1			
Cinematrograph Films Tax	1			34
			13 164	
Plus: Taxation proposals in respect of:				
Surcharge on companies and other mines	300			
Surcharge on gold and diamond mines	105			
General Sales tax on advertisements	20			
Tax on Invesment income of Insurance companies	38			463
Total for Inland Revenue		12 286	13 627	10,9
Total Revenue		14 290	15 858	11,0
Deficit: (before borrowing)		2 060	2 380	15,5
Loan Redemptions:				
Domestic Loans:				
Stock		2 068	614	
Bonds		821	351	
Foreign Loans		69	32	
Loan Levy		90	239	
Other loan expenditures		24	10	
		3 072	1 246	-59,4
FINANCING REQUIREMENT		5 132	3 626	-29,3
FINANCING				
Domestic Loans				
Public Debt Commissioners		1 152	1 290	
Reinvestment of maturing stock		2 963	614	
New Government Stock issues			800	
Non-marketable Securities:				
Treasury Bonds	300			
Bonus Bonds	200			
National Defence bonds	50	398	550	
Foreign Loans		501	250	
Loan Levy		44	115	
Surplus (carried forward from previous year)		90	16	
TOTAL FINANCING		5 148	3 635	
SURPLUS		16	9	

has made good progress in its task and am hopeful that it will be possible for the Commission to submit its recommendations within the next few months. It appears unlikely, however, that any consequential legislation will be introduced during the current session of Parliament.

I wish now to propose two concessions in regard to excise duties.

Excise duty concessions

Natural wines

THE agricultural industry in the Western Cape is one of the main supports of the regional economy and provides an important impetus to development and growth. It is also true that agriculture in this region is much dependent upon the weal and woe of the products of the vine.

At the same time wine provides the State with not inconsiderable excise revenue and in this way assists in financing necessary expenditure. Yet it is also true that in the case of natural wines, notwithstanding a slight, albeit consistent upturn in demand, consumption per capita today is still below the 1975 level and this despite an annual average producers' price rise of less than nine percent during this period.

I wish to propose, therefore, that the full excise duty of three cents per litre on natural wines be abolished. Though the incidence of this duty is small, I am told the concession will bring South Africa into line with other wine producing countries such as West Germany, Italy, Austria, Switzerland and Australia.

The loss of revenue is calculated to amount to R6 million in 1982-'83.

I propose that this amount be financed as follows:

Table A

	R million
Public Debt Commissioners	1 290
Reinvestment of maturing stock	614
New stock issues	800
Non-marketable security	550
Foreign loans	250
Surplus carried forward from 81-'81	16
	R3 520m

This still leaves me with a shortfall of R597m.

National Defence Bonds and Defence Bonus Bonds

I SHOULD explain that non-marketable securities comprise (tax-free) Treasury Bonds, (tax-free) Bonus Bonds and (taxable) National Defence Bonds.

I recently announced an increase in the interest rate on Treasury Bonds and indicated that I would also deal with improvements in the terms of issue of National Defence Bonds and Defence Bonus Bonds in due course.

It has now been decided that the interest rate payable on fully taxable National Defence Bonds — which have a minimum currency of 12 months — be raised from 11 percent to 14 percent with effect from 1 April 1982 to make them more attractive and competitive in the market.

From the same date the method of calculating interest on the tax free Defence Bonus Bonds will be changed from the current 5 percent simple interest basis to a 5 percent *monthly compounded* basis, which will yield an effective 5,66 percent per annum over a five-year term. This compound

IN 1978 certain *ad valorem* duties were imposed on less essential goods such as jewellery, photographic equipment, furs and the like. I feel it essential for these items to make a further contribution to the State coffers and wish to propose that the present *ad valorem* duties on certain locally produced goods as well as their imported equivalents be raised from 20 percent and 25 percent to 25 percent and 30 percent, respectively.

This proposal is expected to yield additional revenue of some R28m in the 1982-'83 financial year and should also assist in curbing consumer demand. The increased duties will become effective as from 25 March 1982 and will be applicable to all imported goods concerned which have not been entered for home consumption before that date and to all similar locally manufactured goods which by tomorrow have not been removed from the premises of manufacturers and owners of warehouses licensed by the Commissioner for Customs and Excise.

Advertising services General Sales Tax

GENERAL Sales Tax is levied on a wide variety of commercial and industrial services, for example repair services, the services of tailors, hairdressers, launderers, photographers, signwriters and printers, to mention only a few. The omission from this list of advertising services is somewhat anomalous and I feel that the taxation of such services for the purpose of producing revenue is fully justified and will not prove to be unduly burdensome.

It is, therefore, proposed to amend the Sales Tax Act to bring advertising services

Taxation Policy and the Commissioner for Inland Revenue to consider the matter in depth during the recess in consultation with the whole industry and to report as soon as practicable.

The additional revenue to be collected during the current financial year as a result of this proposal is estimated to amount to R38m.

Loan levy on individuals

THE total additional tax to be collected based on the proposals I have just made amounts to R491m, which still leaves me with a deficit of R106m.

Few will differ from Thomas Jefferson when he remarked: "The purse of the people is the real seat of sensibility. Let it be drawn upon largely, and they will listen to truths which could not excite them through any other organ."

I wish thus to propose, finally, the imposition of a 5 percent loan levy on income tax payable by individuals, but subject to exempting the following taxpayers:

(a) Persons of all age groups whose incomes are R7 000 or less. These taxpayers, the majority of whom will fall under the Final PAYE Deduction System to which I referred earlier on, will be taxed at a fixed rate. I do feel that no further loan levy should be added to their tax;

(b) Persons, other than those I have just mentioned, whose basic normal income tax before the addition of loan levy amounts to R150 or less; and

(c) In the Year of the Aged, persons who are 70 years of age and older and whose taxable incomes exceed R7 000 but do not exceed R15 000 per annum, though remaining liable for normal income tax, will not be liable for loan levy.

Not only will the levy yield the revenue required to leave me with a small surplus for the 1982-'83 financial year, but it should also contribute, albeit moderately, to curb consumer demand by reducing personal disposable incomes and thus help in the fight against inflation. Additionally, it has the advantage that it does not presuppose an increase in the marginal rates of tax which I have striven so hard to bring down to, and keep at, lower and more realistic levels.

The levy is a compulsory loan to be repaid within a maximum period of 7 years, at simple tax-free interest. Up to now the rate of interest has been 5 percent per annum, but I now propose that this rate be raised to 8 percent.

The yield expected from the loan levy in the 1982-'83 financial year will amount to around R115m and R157m for a full financial year.

After all these revenue proposals have been taken into account, there will remain a small surplus of R9m.

The deficit before borrowing

WHEN I last mentioned the "deficit before borrowing" the figure was R2 871m. This deficit is actually the shortfall between the finally adjusted estimates of aggregate revenue and aggregate expenditure. To the estimates of revenue on the existing basis of taxation, R15 417m, must be added the proposed increases in taxation, R491m, and from this aggregate must be subtracted the proposed tax concessions, R50m, to give a finally adjusted aggregate revenue estimate of R15 858m. Likewise, to the printed Estimates of Expenditure, R18 042m, must be added the amount of the proposed supplementary expenditures, R196m, to give a finally adjusted aggregate expenditure estimate of R18 238m

The deficit before borrowing is then the difference between R15 858m and R18 238m, a shortfall of R2 380m.

Conclusion

I believe that the Budget I have presented today complies with the three minimum requirements to which I referred earlier.

First and foremost, in nominal terms it provides for an increase in total expenditure of only 11,5 percent above the revised

ease the burden of adjustment currently being carried by monetary policy. It should, in particular, counteract the upward pressure on interest rates and assist in maintaining the strength of the rand in the foreign exchange market.

In this regard it might be argued that the Budget is still not strict enough and that it should have provided for even larger tax increases, particularly in view of the recent further decline in the gold price and the urgent need to curb monetary demand with a view to balance of payments adjustment. It is my considered opinion, however, that the Budget is adequate for the task at hand. Of course, we shall have to continue relying on a strict monetary policy with full acceptance of the relatively high level of nominal interest rates which that implies. But in our present circumstances I believe that is preferable to further increases in tax rates.

Although monetary demand is still high, the economy is now finally "cooling down" and the real growth rate is gradually declining. The balance of payments adjustment process is well under way and will certainly be accelerated by today's Budget. In these circumstances, I believe that further tax increases above and beyond those already included in this Budget, might prove to be more contractionary than necessary Hence our preference for continuing with the present tight money and high interest rate policy as part of a broader and well co-ordinated fiscal and monetary strategy.

If, however, conditions were to change materially as a result of unexpected external or internal economic developments in the months ahead, I shall not hesitate to take such further fiscal measures as might be necessary to safeguard the basic strength of the economy.

Today's Budget once again underlines the recognition by the government of the changed economic realities of the present time. It also signifies our resolve to take the steps necessary to ensure that the South African economy makes the required adjustments to these realities timeously and in a fundamentally sound way. Given the present parlous state of the world economy, this will inevitably entail a measure of sacrifice on our part. But if we have the courage and determination to persist with the cohesive package of economic stabilisation policies we now have in place, we shall undoubtedly reap the benefits. We shall then find ourselves in a position to take full advantage of the next world economic recovery, which cannot be too far in the future.

South Africa's economy is basically so strong and so versatile that I have no doubt that, whatever the state of the world economy and the vagaries of the business cycle, our economic future is assured. As it is, our economic performance in the world depression of the last two years and more bears comparison with the very best.

In conclusion, I wish to pay tribute to Mr W G Schickerling, who retires as Auditor-General on 30 April, 1982 after a long and distinguished career in the Public Service. I trust that he and Mrs Schikerling will enjoy a long and well-deserved retirement. I congratulate Mr A P Ellis on his appointment as Auditor-General as from 1 May, 1982.

CAPE TOWN
24 MARCH, 1982

The Cape Times
Business Report
THURSDAY, MARCH 25, 1982

Budget blow for market as company taxes raised

Cape Times 25/3/82 (49)

By PAUL DOLD
Financial Editor

FINANCE MINISTER, Mr Owen Horwood, yesterday presented a deflationary Budget with the twin aims of cutting consumer expenditure and booming imports.

Both industrial, gold and diamond shares can be expected to ease today in reaction as the rise in company tax and the mining surcharge will lead to a fairly heavy additional burden on company profits at a time when corporate earnings are already weakening.

While some of the Budget measures, such as the loan levy, may have been partly discounted, the Budget is bearish news for the market.

A surcharge was not expected to be incorporated into the basic rate and the new measures for mining companies could lead to a marking down of the gold sector both in London and Johannesburg.

Gold mines

First reaction last night was that gold mine distributable earnings could fall by as much as 14 percent while a 30 percent rise in industrial companies profits would be reduced to around 20 percent. Clearly, fairly sharp reductions in profit growth and dividends can be anticipated.

The industrial market could move down by another 15 percent on the Budget, although part of the bearish impact could be negated by the recovery in the gold price. It is must be borne in mind, however, that the industrial sector has already been sliding. Thus, the Budget may merely provide an extension to the bear trend.

With the economy's soft landing option now firmly excluded due to the continuing recession in the United States — it had earlier been hoped that leading Western economies would begin reflating as the South African downswing began — the Budget will help to bring the South African economy rapidly into line with the trend overseas.

At first glance the consumer escapes virtually unscathed apart from a loan levy and it raises the question of whether the minister has, in fact, taken sufficiently tough measures to substantially cut consumer spending and relieve pressure on the booming import bill.

However, in assessing the impact it is cardinal that the Budget should be seen in combination with various recent measures such as the increase in GST, the petrol price rise, higher post office tariffs and the import surcharge.

'Hidden teeth'

Mr Horwood has patently tried to avoid overkill and, of course, has the option of raising GST again later in the year if need be.

It has hidden teeth, too. If Mr Horwood manages to hold Government spending to the incredible 11,5 percent rise this could hit scores of companies serving the public sector extrmely hard.

Coupled to higher company taxation at a time

Mr Owen Horwood

● The economic realitites are such that it is at this juncture of paramount importance that we draw in our belts and live within our means.

● I am thankful that with the co-operation of my colleagues and everyone else concerned and the sustained efforts of the Treasury I have been able to contain Exchequer expenditures to a level I feel we can afford.

● I owe a particular debt of gratitude to the Prime Minister. Not only has our Prime Minister been a tower of strength to the Treasury but he firmly grasps the economic realities on which our strategy is built.

The swing on the current account has been some R7-billion over the past two years and in the third quarter of last year the deficit was running an a seasonally adjusted annual rate of nearly R5,9-billion.

In 1980 some 25 percent of state rervenue flowed from the mining industry. Last year it was probably around 12 percent and it will drop further this year.

Then, too, the strong American dollar, responding to an unexpected new upturn in American interest rates, had its effect on the rand.

But a major criticism of economic policy in the past year was that the authorities did not take timeous action to cool off the economy. Had this been done more drastically in the previous Budget the package yesterday, coupled with the import surcharge and heavy devaluation of the rand, could have been less severe in the corporate tax area.

The country could now be faced with stagflation — low growth and a high inflation rate — and possibly the worst consequence of all — a delayed recovery which may not be fully felt until 1984.

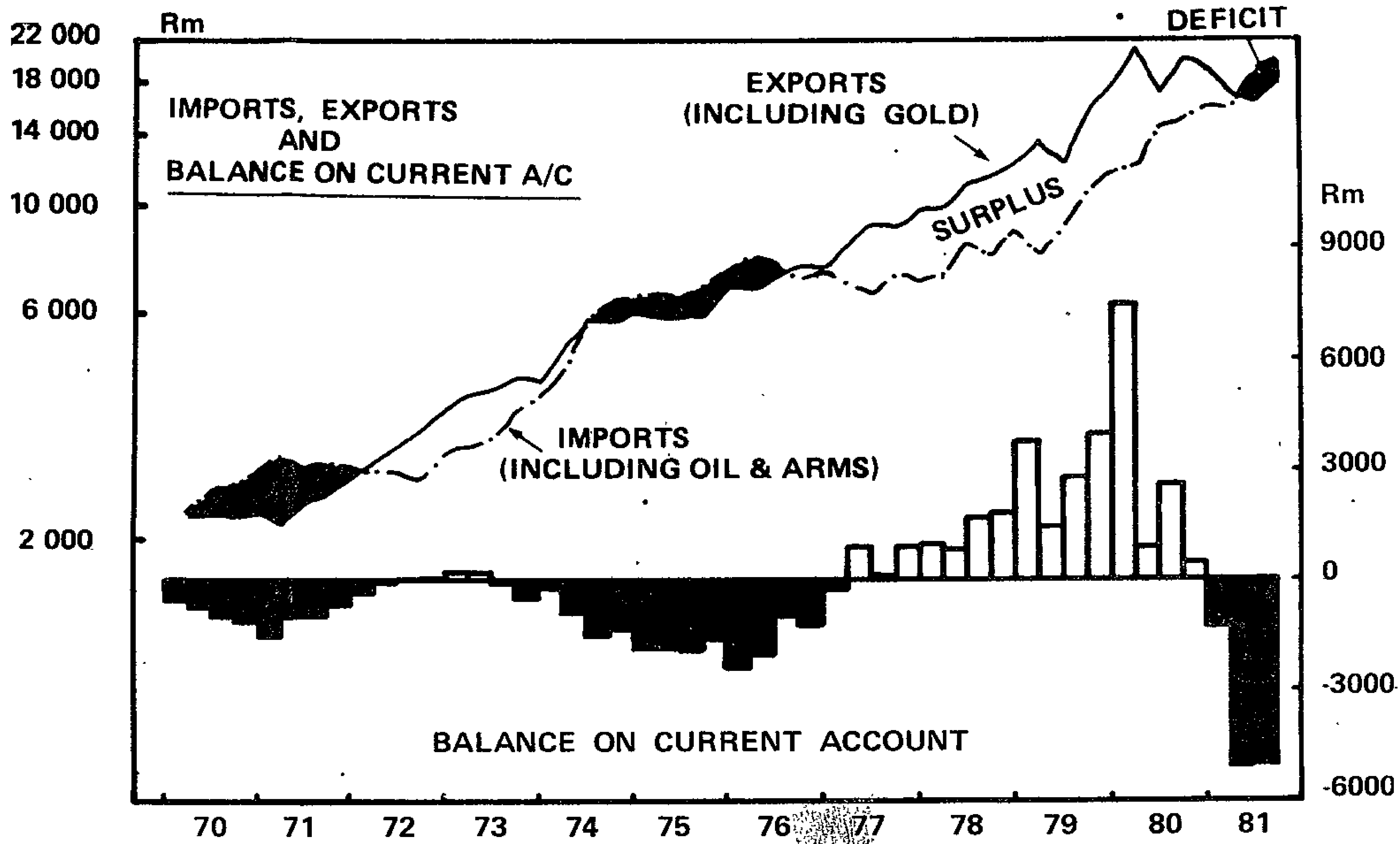
On the other hand, Mr Horwood can point to the average growth rate of 16 percent of the past three years — one of the longest cyclical upswings yet in the economy — and huge additions to the economy's production capacity as well as the creation of new job opportunitities.

Anti-inflationary

Sound steps have been taken in this excellent Budget to correct the situation with the authorities electing for a fairly sharp but short downswing and cutting the inflation rate.

The Budget is decidely anti-inflationary, particularly the way in which the deficit is being financed.

The downswing across the economy this time will not be anywhere as [illegible]



The Budget is aimed at sharply reducing the country's booming import bill and thus lowering the deficit on the current account of the balance of payments. The deficit reached a peak of R5 880m in the third quarter of 1981. This graph by Martin's shows the sharp change in the current account from the vast surpluses of R1979 — 80 to the deficit in 1981. Historically, this is a record deficit and far higher than the other two deficit phases shown on the graph.

How higher taxes will hit mines and industry

Cape Times 25/3/82 (49)

By DAVID CARTE

JOHANNESBURG. — Increased mining taxes will reduce gold mines' distributable earnings by 14% at current gold prices, while increased company tax means non-mining companies will have to increase pre-tax profit 7% just to stand still.

These were the major shocks in yesterday's Budget for the Johannesburg Stock Exchange.

But there was widespread relief among brokers and institutional investors that personal tax had not been raised more, that state spending was held in check and at government's lower-than-expected borrowing requirement.

A top mining analyst estimated that higher effective taxation for gold [illegible] growth", said the analyst. "Most of us have been expecting at least maintained dividend cover, so we would now be looking at dividend growth of less than 5% as well. This could disappoint the market."

Mr Peter Bieber, head of Old Mutual's investment department, the biggest investor on the JSE, said the Budget was negative for the market in the short term, but positive in the longer term.

His counterpart at Sanlam, the second biggest JSE investor, said the Budget would reinforce the JSE's recent trend downwards.

"The deficit is surprisingly low", said Mr Bieber,"and so is the borrowing requirement. That should take upward pressure off interest [illegible] crease in GST and the import surcharge."

Mr Daling said shares dependent on government spending, particularly in the construction and engineering sectors, would be hurt by the Budget. Life insurers would also suffer.

He, too, was surprised at the small borrowing requirement and agreed that this could put the top on long-term interest rates.

"But with the current balance of payments deficit, I don't see rates falling in any hurry."

An arbitrage broker said SA would be lucky to achieve 1% growth this year. He said contraction brought about by the Budget, particularly on the import side, could cause the commercial rand to [illegible]

Closing gold prices

(In $ an ounce)
LONDON:
332,25-332,75
Fixing am: 333,00
Fixing pm: 331,75
ZURICH:
331,00-334,00
— Reuter

Kruger rands

JSE Closing

Buyers	Sellers	Sales
405	410	410
—	—	—

Money market

JOHANNESBURG. — Short-term money market rates held steady in quiet trading ahead of yesterday's budget, dealers said.

The three-month bank acceptances rate was held unchanged at 19 percent while on the long-end, RSAs were traded around 14,46 percent.

The overall market shortage widened with the Reserve Bank's accommodation to discount houses at R824m on Tuesday compared with Monday's R801m.

The following buying

London nervous

LONDON. — Gold shares ended mixed after the tax surcharge on mining companies was raised to 15 percent from five percent in the South African Budget, dealers said.

Trading throughout the session was nervous and prices were volatile in spite of the rally in the bullion price.

CLOSING MIDDLE PRICES

Mining

Afex Corp	20	Johnies	$48
Cor Syn	54	Kinross	$918
Portlnd	14p	Kloof	$22-5/8
Falcon	88	Leslie	183c
Glb Phnx	53p	Libann	$12-3/8
Lonrho	75p	Loraine	198
MTD (M)	21p	Lydenbrg	120p
Nchart	7	Marievale	183c
Elbar	110p	Messina	228p
Roan Con	75	Mid Wits	470p
Wankie	22p	N Cnt Wt	275p
ZCI	18	New Wits	300c
Am Gld	$60-1/2	P Brand	$29
AA Crp	850	P Steyn	$24-1/2
AA Inv	$47	Tongaat	93p
Ang Vl A	$17	Rndftn	$40
Barlow	370p	Rust Plats	159p
Bracken	215c	Sentrust	575
Blyvrs	$850	SA Land	280
Buffels	$30-1/4	Southvl	$23-3/4
Chrtr Cn	231p	St Hlna	$25-1/4
Cn Gld	392p	Stilfnt	$12-1/4
Cn Mrch	235p	Gldfd P	55p
Debr Dfd	425p	Vl Rfs	$45-1/2
Doorns	$11-7/8	Venter	$525
Drieftn	20-1/8	Ang A	$11
Durban	$10-3/4	Vlaks	188
E Daggas	133	Vogels	70p
ER Prop	$835	W Hldg	$33-3/4
ER Gld	528	WR Cn	188
Elsburg	175	GFSA	$49-1/2
Freddies	175p	Wit Nigel	86
FS Gdld	$23-1/2	Welkom	$775
GM Min	$14-3/4	W Area	255
Grootvl	610	W Deep	$24-1/2
Harmny	$10-1/4	Ind Mns	220
Harties	$39	Winkels	$23-3/4

Industrials

Abercom	120p	Rex True	210p
Rd Nmpck	325p	SA Brews	175p
CNA Inv	260p	Sappi Ltd	350p
Grtmn A	288p	Sasol Npv	127
OK Baz	675	Std Ch	665p
Grtmn O	425p	Tvl Cn	18
Hullets	315p	Tiger Oat	600p
Imp Cld	90p	Un Stl Cr	35p
Nthn Eng	86	Unisec Gp	150p
Ntl Cnvs	225p	Unisel	$775
Rennies	170p	Utico	100p
CG Sug	600p	Ver Ref	325p

CAPE TIMES 25/3/82 11A

ANC aim was 'confidence not terror'

Staff Reporter

ATTACKS on strategic targets during 1980-1981 by the African National Congress were carried out "to inspire confidence amongst the dominated population rather than terror within the white community", according to a new book on black politics to be released soon.

An extract from the book, "Black Resistance Politics in South Africa 1945 — 1981", by Tom Lodge, has been published in the latest edition of Reality, a journal of radical and liberal opinion.

Mr Lodge, a lecturer in political science at the University of the Witwatersrand, said attacks by the military wing of the ANC, Umkhonto we Sizwe (Spear of the Nation), were aimed at targets with a special significance to blacks and sabotage attacks were often co-ordinated with local mass struggles.

The attack on the Soekmekaar police station in 1980 followed the mass resettlement of communities in the area, while the bombing of Soweto police stations coincided with massive rent increases in the townships.

Incidents in which white civilians had died, such as the Goch Street shootings and the Silverton bank siege, "do not appear to have been preconceived and have rather been the consequence of only superficially trained men being forced on the defensive".

Mr Lodge said that in the period following the Soweto uprising in 1976, the ANC had emerged as the political movement with the greatest degree of popular support in black townships.

Umkhonto we Sizwe insurgents had been able to "capitalize on the political exhilaration which was generated by the disturbances themselves in mounting an, at times, spectacular campaign of sabotage and guerilla warfare".

Thousands of young men and women had fled the country after the disturbances "to provide Umkhonto with a new army of highly motivated and well educated saboteurs". In mid-1978, an estimated 4 000 refugees, most of them under the auspices of the ANC, were already undergoing insurgent training in Angola, Tanzania and Libya.

"Together with the scale and frequency of the Umkhonto attacks, this makes it the most sustained violent rebellion in South African history and all the indications are that it will develop into a full-scale revolutionary war."

Mr Lodge says that during 1980-1981, the ANC had chosen targets of "considerable strategic or economic importance", such as the Sasol II oil-from-coal plant at Sasolburg, power stations in the Transvaal and the Voortrekkerhoogte military base. Several police stations in or near black townships had been attacked with grenades, rockets and bombs.

Although a number of black security policemen were assassinated because they were regarded as "collaborators", Umkhonto we Sizwe's campaign was guided by the principle that civilian casualties were to be avoided.

However, in August 1981, the ANC's president, Mr Oliver Tambo, announced that the movement would in future attack "officials of apartheid".

Soon afterwards, a bomb exploded in a crowded Port Elizabeth shopping centre during working hours. The attack was considered a reprisal for the assassination of the ANC's representative in Zimbabwe, Mr Joe Gqabi, who was gunned down as he left his home in a Salisbury suburb.

Mr Lodge says the movement appeared to be determined "to gain for itself sole legitimate representative status in the view of potential allies".

The author concludes that the "stodgily petit-bourgeois respectability" of the Tambo leadership was important in ensuring that internal support for the ANC remained widely based.

'Put in irons' says reporter accused of Brixton plot

CAPE TIMES 25/3/82 11A 84A 331

Own Correspondent

JOHANNESBURG. — A reporter on trial in the Brixton Tower bomb hearing yesterday told

It is also alleged that they tried to send the report and photos to the ANC to be used in destroying the tower

Putting your money where his mouth is

HOUSE OF ASSEMBLY. — While economic experts ponder the implications of yesterday's Budget, here is a quick analysis of the quotations with which Mr Owen Horwood peppered it.

The very first one, by Russell P Askue (whoever he is), hastens to tell taxpayers that deep down, underneath, they have never had it so good.

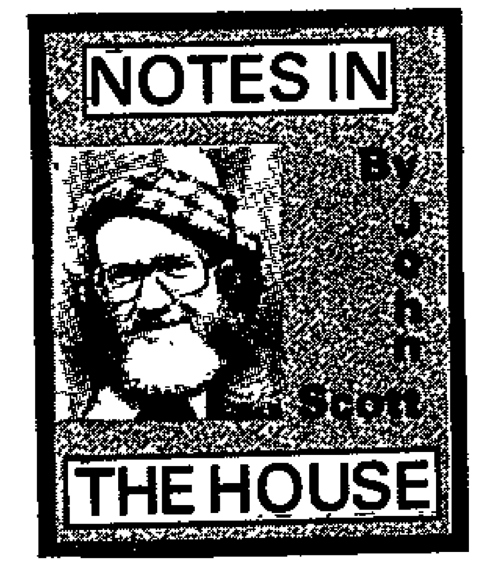
"If living conditions don't stop improving we're going to run out of humble beginnings for our great men," said Mr Askue.

That's a good scene-setter for any budget. It immediately gives a finance minister an excuse to fiddle around a bit with people's incomes, even to the extent of making it easier for a future great man to have a humble beginning in the new tax year.

But a man without money is useless to the Treasury. Therefore encourage him not to get rid of it too quickly.

"The best way to double your money," said Anon, well-known for his pithy sayings, "is to fold it and put it back into your pocket."

Samuel Johnson also urged people not to be



Thus the Arab proverb: "According to the amount of money a man has in his coffers, so is he respected."

Mr Horwood was actually referring to South Africa's need to retain the respect of foreign investors, but by this time the taxpayer is taking everything personally. And so he should.

Next quote is by Samuel Butler, who is very scathing indeed about people spending more money than they have.

"All progress is based on a universal innate desire on the part of every organism to live beyond its income," he said.

By now the message is pretty clear. Nobody, not even the government, dare succumb to universal innate desires. And in ase the poor think they re excluded from all this dvice, Thomas Paine reinds them: "No beggar ies who has not also ade his small contribu- on."

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"A subsidy," said someone, "is a formula to return your own money with such a fanfare that you regard it as a gift."

Government members laughed their heads off over that one.

They also laughed at Balzac's observation: "Women are always afraid of things which have to be divided."

But Balzac probably wasn't referring to a decision to divide an increase in the tax deduction allowed to married women into two parts, one for this year and one for next.

Having persuaded everybody to save their money, Mr Horwood at last revealed for what purpose.

"In this world it is not what we take up, but what we give up, that makes us rich," declared Henry Ward Beecher. He meant, of course, the giving up of jewellery, cameras and furs, all taxed by another five percent.

Those who own gold and diamond mines will now also have to pay an additional 10 percent surcharge. It's tough at the top.

And finally, the man who yesterday put the nation's money where his mouth is showed he understood why he had a million people hanging on to every word for nearly two hours.

For he quoted Thomas Jefferson's: "The purse of the people is the real seat of sensibility. Let it be drawn upon largely, and they will listen to truths which could not excite them through any other organ."

It certainly applied to the very first opposition

are already weakening the net impact could be far more severe than it appears. In fact, a period of stringent belt-tightening can be anticipated.

The fiscal package will reinforce the current tight monetary policy and was made necessary by the record R4 000m deficit on the current account of the balance of payments and the steady fall in the reserves over the past year due to lower export earnings and the sharply lower gold price.

— the net reserves were down R1 500m in the third quarter of last year — the Reserve Bank and the commercial banks borrowed heavily in overseas markets, raising some R2,1-billion.

The balance of payments adjustment process will soon be under way and with it the realization that the necessary economic downswing has begun and that the sharp 8 percent growth rate in 1980 was abnormal.

Last year the minister appeared to have adopted a gold price of around $320 as the basis for the Budget. A similar figure seems to have been taken this year.

World trends

The exposure of the South African economy to uncertain world trends leads to a high vulnerability with shifts in world interest rates and economic growth rates upsetting economic planning.

This is clearly seen by the dependence on gold.

ic sectors supplying government departments will be hard hit — and in general companies are in better shape as well. Nor should general unemployment be as severe a problem given the recovery outlook.

For much of 1980 and 1981 the money supply was out of control due to the record current account surpluses and this in turn fuelled bank lending to the private sector.

However, the authorities, following the implementation of a tight monetary policy, have brought the money supply under control again and M2 is showing a continuing declining trend and, as the minister pointed out, a rate well below the inflation rate.

Hopefully, the United States reflation will take place around mid-year giving a much needed lift to our depressed export earnings and in turn leading to a strengthening of

Continued on page 23

at the current gold price.

One of the big disappointments of the Budget, analysts said, was that most of the increase in company tax took the form of a surcharge, rather than a loan levy.

A 10% loan levy rather than a surcharge would have reduced company cash flows but would not have impacted on earnings and dividend growth.

An industrial analyst pointed out that a company on full tax of 42% with pre-tax profit of R1 000 000 last year would have declared earnings of R580 000.

With the effective rate of company tax up to 46,2%, it will now declare R538 000 — 7% less.

If the same company increased pre-tax profit 13% in line with most forecasts next year, declared taxed profit would be R608 000, a rise of 5% on a 13% increase in pre-tax profit.

"I would say that is the measure to which this Budget hits earnings

R600m is to be rolled over, the requirement is less than last year."

Company tax, raking off an extra R400m, and mining tax taking off R115m, he said, would hit the market in the short term.

Mr Bieber said it was "a very reasonable Budget with concessions to married women and the lower paid and an increased burden for companies and the rich."

It was a good Budget for the economy and therefore for the market in the long run.

Mr Daling said the Budget was good for the economy but bad for the stock market. He said the 11,5% rise in government spending would dampen demand, while higher company tax would depress earnings and dividend growth.

"There may be relief that individual tax payers were saddled with only a 5% loan levy but sight should not be lost of the effect on personal incomes of the recent in-

Budget was hard on companies but lenient on individuals.

He said the authorities appeared reluctant to curb the consumer. By dropping the exchange rate they had "molly coddled him from the winds of change". He felt the authorities were gambling on the hope that gold and other export receipts would soon recover but said this was a forlorn hope.

A top research team said the rise in mining and company tax were the major adverse factors in the Budget.

Positive factors were the absence of HP curbs, no further rise in GST, no additional tax on beer and tobacco and the comfortable government financing requirement. The team was sceptical that goverment spending could be held to an 11,5% rise.

Unless otherwise stated all financial news in this issue was compiled by Paul Dold and sub-edited by E V Honeyman.

1/10 oz	4300	4500	4500

Cape Gold Coin Exchange

	Buyers	Sellers
1 oz	404 (394)	406 (494)
1/2 oz	202 (202)	218 (218)
1/4 oz	101 (101)	124 (124)
1/10 oz	41 (41)	49 (49)
Proofs	140%	140%

SA Gold Coin Exchange

	Buyers	Sellers
1 oz	408 (397)	410 (400)
1/2 oz	199 (199)	210 (206)
1/4 oz	101 (101)	105 (105)
1/10 oz	41 (42)	45 (43)

Bank prices

JOHANNESBURG. — Intergold said Kruger rand bank selling prices for today are as follows:

1 oz	R414,91
1/2 oz	R212,64
1/4 oz	R108,91
1/10 oz	R44,95

Financial rand

JOHANNESBURG. — Standard Bank's financial rand quotation, followed by percentage discount in brackets: 73½ — 74 (23,73 — 23,06). — Sapa

BAs: One month 20,00; two months 19,00; three months 19,00.

NCDs: Three months 20,00; six months 19,50; one year 18,50.

Treasury bill: 15,84.

Discount house call: 15,00. — Reuter

Actuaries

JOHANNESBURG. — JSE actuaries indices for selected shares in order of yesterday, previous, move, dividend yield and earnings yield were:

Overall 546,4, 546,8, 0,4-, 9,7, 20,8. Mng Prod 594,3, 596,6, 2,3-, 11,6, 21,7. Coal 1 253,1, 1 230,7, 22,4, 5,8, 17,5. Diamonds 1 018,2, 1 027,2, 9,0-, 8,8, 31,3. All Gold 455,3, 458,5, 3,2-, 13,4, 21,3. Met & Min 212,8, 212,1, 0,7, 8,3, 15,6. Mng Fin 601,3, 595,2, 6,1, 10,1, 21,7. Fin & Ind 659,9, 661,7, 1,8-, 7,6, 20,0. Fin 426,8, 426,7, 0,1, 7,7, 15,9. Ind 556,9, 558,8, 1,9-, 7,6, 20,8. Sapa

RDM indices

Coal 1279,4.
Diamonds 1029,1.
Golds 473,2.
Metals 191,7.
Mining Finance 507,5.
Industrials 574,6.

Cape Times 25/3/82 11A

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'Put in irons' says reporter accused of Brixton plot

Cape Times 25/3/82 11A BUA 331

Own Correspondent

JOHANNESBURG. — A reporter on trial in the Brixton Tower bomb hearing yesterday told the Rand Supreme Court that security police put him in leg-irons before asking him to become a State witness.

Mandla Temba, 25, of Jabulani, was giving evidence before Mr Justice Boshoff in the case of which he is appearing with Robert Martin Adam, 26, of Yeo Street, Yeoville, on five charges under the Terrorism Act. They pleaded not guilty.

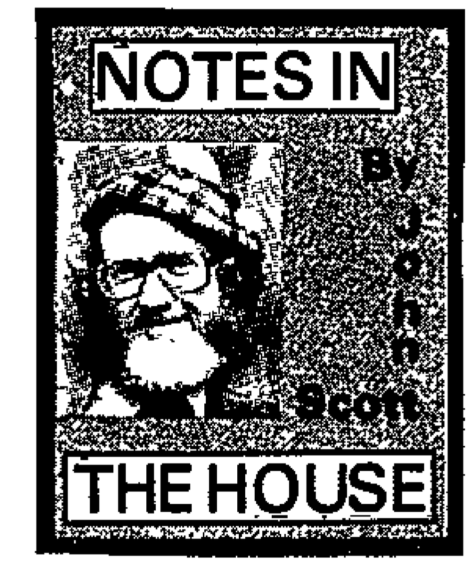
It is alleged that the two [illegible]

It is also alleged that they tried to send the report and photos to the ANC to be used in destroying the tower, and otherwise endangering law and order in South Africa.

The men are also being charged with inciting a Mr Ghandi M Badela to undergo military training which could be of use to any person intending to endanger law and order.

The court was told they had conspired to further the aims of the ANC in South Africa, to obtain support for the ANC in South Africa and to attempt to overthrow

Putting your money where his mouth is



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"The best way to double your money," said Anon, well-known for his pithy sayings, "is to fold it and put it back into your pocket."

Samuel Johnson also urged people not to be poor.

"Whatever you have, spend less," he cried.

"That's my approach," admitted Mr Horwood.

But the Minister of Finance wasn't leaving anything to chance. Two quotations discouraging the shelling out of shekels might be regarded as sufficient in ordinary circumstances but this is, after all, 1982 and the gold price shows no sign of rising.

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It certainly applied to the very fir[illegible]osition gress and that in . uly last year they toured the SABC-TV Tower in Brixton, prepared a report on the installation and took photographs.

means of violence.

Mr Temba said that after he finished matric, he was a reporter for The World, the Rand Daily Mail and The Star and now worked for the South African Council of Higher Education as a journalist on the magazine The Reader.

He met Mr Adam at Sached where Mr Adam was employed as a mathematician. He went with him to the Brixton Tower and on September 22 he was arrested in the street opposite the Sached building, Mr Temba said.

He was handcuffed and taken to the security police at John Voster Square where he was taken to the 10th floor and put in a cell. The next morning when he was taken out he was put in leg-irons. "I was shocked and frightened," Mr Temba said.

He was taken to the office of Major A Cronwright, where the major told him "The game is up, we know everything about the tower".

Major Cronwright told him he would make him a State witness if he did not lie.

Later he was taken to Warrant Officer W Smith where he told how he had gone to the tower to take photos for a story on TV2 and 3, and Mr Adam had gone because he wanted to write a story on the operation of terrorism.

Later still, a Warrant Officer Raymond Mapope had told him it would be better for him to co-operate.

Mr Temba had told WO Mapope that Major Cronwright told him he would be a State witness

R3½m Bifsa tech going up

Cape Times 25/3/82 (53) (33) (178)

Staff Reporter

THE Building Industries Federation of South Africa (Bifsa) has started work on a new R3½m technical college and training centre complex for all races in Belhar.

The complex is expected to be completed by April next year and will train between 700 and 800 artisans annually for the building industry. The project, the first of its kind in the Western Cape, is funded entirely by Bifsa to ensure manpower training in the industry.

Bifsa's executive director, Mr Lou Davis, said this week the training facilities would be open to all races. "As Bifsa, we ask: 'What does race mean?' We have been training all races for the past two years."

Mr Davis said that besides regular apprenticeships, the technical college and training centre would also offer "learnerships" for prospective artisans who had not attained the necessary academic level.

Tests

Candidates for "learnerships" would be as-

Two of the Nyanga squatters fasting in St George's Cathedral hold handkerchiefs to their faces to ward off the smell that pervaded the cathedral yesterday after a white man had dropped a stinking liquid in the front pew. They are Mr David Ntlanganiso, 26, left, and Mrs Langaliyakhanya Mlanjeni, 30.

Dean angry over second smell attack

Cape Times 25/3/82 (28) (307)

Staff Reporter

THE Dean of St George's Cathedral, the Very Rev E L King, is considering laying a charge against a man who, for the second time, dropped an evil-smelling fluid inside the cathedral yesterday.

Several of the 54 Nyanga squatters who have been fasting in the cathedral for 16 days in a bid to win legal resident status in the Peninsula, say they can identify the offender.

On Friday last week the offender, a white man, struck for the first time, forcing cathedral staff to burn incense and buy air freshener in an attempt to dull the smell.

At 10.30am yesterday the man dropped fluid on the kneeling section of the front pew, about two metres from where the squatters sit.

He was described as middle-aged and was wearing a khaki safari suit.

About 10 of the squatters said the man was familiar to them. "He was at the No-Name Camp last year. We saw him always walking there. When we were deported he was looking for babies who were separated from their mothers," said squatter Mr Theophilus Tayo.

Mr Tayo said squatters had also seen the man at St Gabriel's Roman Catholic Church in Guguletu. He usually drove a white Valiant car.

The Dean said afterwards that he was considering laying a charge against the man with the police, particularly since many of the squatters claimed to be able to identify him.

Meanwhile the mystery of the sudden weight gains among the fasting squatters has been solved.

The chairman of the Civil Rights League, Mr Brian Bishop, said a nurse had discovered that children had tampered with the adjusting lever on the "cheap" bathroom scale they were using.

"The children have been playing with this scale since we started weighing everybody six days ago, so all our readings are out. Tomorrow we'll bring in a proper medical scale and start all over again," Mr Bishop said.

town topics

Daily snippets from the entire community — phone Oleńka Brink at 41 3361

THE PFP will man a voter registration table outside the Ailsa Road Shopping Centre, Ottery, on Saturday morning.

□□□

EASTER MARKETS will be held by the NRP at the Mowbray Town Hall and at the Masonic Hall, Main Road, Newlands on Saturday at 8.30am. All welcome.

□□□

THE INSTITUTE OF CITIZENSHIP meets at 1.10pm today in the Cathedral Hall, Queen Victoria Street. Commandant A M Joynt will speak on "The Association of Retired Persons and Pensioners".

□□□

AN EXHIBITION OF WILDLIFE PHOTOGRAPHS by Peter Johnson entitled "The Sappi Collection" is open to the public until April 10 at the Shell Gallery, 9 Riebeek Street. There is no entry fee.

This US visitor is in just the right place

By CLARE STERN

AN American woman is proving an interesting "exhibit-on-wheels" for surgeons attending the Orthopaedic Congress at the Good Hope Centre.

When surgeons ask Mrs Maria-Elizabeth Curtiss of Boston how she landed up in a wheelchair, she whips out a set of X-rays from the back of her chair and shows them.

"They understand the X-rays far better than any explanation," says Mrs Curtiss, wife of Dr Paul Curtiss, president of the American Orthopaedic Association.

Mrs Curtiss chose to at-

Mrs Maria-Elizabeth Curtiss of Boston, United States, an "exhibit-on-wheels" delegate to the orthopaedic congress being held in

French boats vie for lead

Chief Reporter

THE French sloop Kriter IX, skippered by Andre Viant, has taken over the handicap lead from another French entry, Charles Heidsieck III (Alain Gabbay) in the fourth and final leg of the Whitbread Round-the-World Race, from Mar del Plata in Argentina to Portsmouth, England.

On distance, Kriter IX is in fifth place and Charles Heidsieck III is third.

The latest position reports, relayed to the Cruising Association of South Africa in Cape Town yesterday, show

Budget blow as company

By PA
Finan

FINANCE MINISTER, Mr Owen Horwo with the twin aims of cutting consumer

Both industrial, gold ... Budget ... and diamond shares can be expected to ease today in reaction as the rise in company tax and the mining surcharge will lead to a fairly heavy additional burden on company prof its at a time when corpo rate earnings are already weakening.

While some of the Bud get measures, such as the loan levy, may have been partly discounted, the Budget is bearish news for the market.

A surcharge was not ex pected to be incorporated into the basic rate and the new measures for mining companies coul lead to a marking down o the gold sector both in London and Johannes burg.

Gold mines

First reaction last nigh was that gold mine distri butable earnings coul fall by as much as 14 per cent while a 30 percen rise in industrial com panies profits would be reduced to around 20 per cent. Clearly, fairly sharp reductions in profit growth and dividends ca be anticipated.

The industrial marke could move down by an

THURSDAY, MARCH 25, 1982

The Cape Times Business Report

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BUDGET '82

● Continued from page 25

and a half needs to be put into proper perspective. As recent experience in the United States, the United Kingdom, and many other industrial countries has demonstrated once again, a policy of curbing money creation at a time of excess demand will almost inevitably result in a rise in interest rates in the short term. This certainly was the case in South Africa during the past 18 months. Indeed, the only effective way in which South African interest rates could have been prevented from rising during this period would have been for the Reserve Bank to have arranged the creation of even more credit and money — something which would, of course, have aggravated the inflation and the balance of payments deficit.

Three further basic points have to be made regarding interest rates. The first is that the sharp increase in South African interest rates during the past 18 months occurred from a level in 1979 and most of 1980 which was *artificially and abnormally low.*

The second point is that, even at their present levels, South African interest rates are not high *in real terms*, that is after correcting for the rate of inflation — and, of course, to measure the impact of any interest rate one must look at the *real* rate. If the consumer price index is used to deflate nominal interest rates, the present real yield on long-term government stock is only 0,7 percent, compared with, for example, 4,6 percent at the end of 1961 and 4,4 percent at the end of 1967. Similarly, the new maximum building society mortgage rate of 15,25 percent represents a real rate of interest of only about 1½ percent, compared with real mortgage rates of about 6 percent in 1961 and 1967, and over 4 percent in most years between 1955 and 1970. Even the present prime overdraft rate of 20 percent in nominal terms is not a record in South Africa at its present real level of about 5½ percent — in real terms it has often been as high or higher in the past.

The third point is that in real terms most South African interest rates are at present still considerably lower than those of our main trading partners. The present real rate of interest on long-term government stock in South Africa of 0,7 percent has to be compared, for example, with rates of about 5 percent in the United States, nearly 2 percent in the United Kingdom and 3½ percent in West Germany. Similarly, the present real prime overdraft rate in South Africa of about 5½ percent is still lower than its counterpart of over 7 percent in the United States and West Germany

From many points of view it is to be welcomed that most interest rates in South Africa are now once again positive in real terms. This not only contributes to more effective fiscal and monetary policies but also encourages thrift and provides a better return to the many holders of savings and time deposits with building societies and banking institutions. Redressing the balance between real wages, which have risen substantially in recent years, and real interest rates, should also contribute in the longer term to the creation of employment opportunities for our rapidly rising population. Now at least we are again in a position where we can in truth proclaim to the saver that "the best way to double your money is to fold it and put it back into your pocket".

Nominal interest rates may confidently be expected to decline again as the economy cools down, the demand for loanable funds decreases and the balance of payments improves, particularly if this process is also accompanied by some decline in the rate of inflation. In the meantime, any attempt to reduce interest rates artificially, circumstances, the authorities, if anything, perhaps did too much to shield the domestic economy from adverse external influences.

Policy implications for the year ahead

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Like most other countries, South Africa is at present confronted by difficult economic problems. Moreover, in recent weeks and months our policy options for dealing with these problems have been narrowed by external developments beyond our control. In the long run it remains our aim to achieve an optimum combination of rapid economic growth, reasonable price stability and balance of payments equilibrium. In the short term, however, priority must be given to further consolidation of the domestic economy and adjustment of the balance of payments.

I am fully aware that the economy appears to have entered a gradual downward phase of the business cycle and that the rate of real economic growth will almost certainly be lower this year than last year. But the decline in the gold price and other adverse external developments of recent months rule out any possibility of "reflation" or "stimulation" at this point in time. On the contrary, the balance of payments adjustment process now needs strong support from fiscal and mometary policies, *even if this means restraining demand at a time of slower real growth.* The situation therefore calls for firm control over government spending, over the cash and liquidity base of the banking system and over the money supply.

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To comply with these three requirements in a year in which gold mining taxation is expected to decline substantially, will obviously be difficult. It is a challenge, however, which must be met in the interest of the country as a whole.

Against the background of events, I shall now proceed to deal with the Govenment's Accounts, and start with the 1981-'82 financial year.

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The under-estimates were due to the fact that the economy remained exceptionally buoyant, with the result that imports and consumer demand continued at high levels throughout the financial year. Higher profits and increased employment had a pronounced effect on income tax receipts. In these matters, as in most others, it is better to err on the conservative side. The resul- South Africa amongst overseas investors is high and it is my firm resolve to keep it high — hence the attempt to keep our coffers from running dry.

Sales of non-marketable debt instruments yielded some R152m less than the original estimate of R550m. Both Bonus Bonds and National Defence Bonds performed below expectations.

In the result, the borrowing programme of the Exchequer is expected to yield a total amount of R5 148m, which is marginally higher than the financing requirement and leaves me with a small surplus of R16m to carry forward to the 1982-'83 financial year.

I now wish to deal with the 1982-'83 Accounts.

The financial year 82-'83

Expenditure

THE printed Estimates of Expenditure tabled today provide for total expenditure of R18 042m. To this must be added my supplementary expenditure proposals, with which I will deal shortly, amounting to R196m. Aggregate expenditure will then add up to R18 239m, only some 11,5 percent higher than the revised Estimate of Expenditure for 1981-'82, and on a main-budget-to-main-budget basis only 14,9 percent higher — remarkably low figures if one takes account of the inflation rate and the very heavy demands made on the Exchequer.

The pressure is always there to spend much larger sums, especially on the highest priority items. But, once again, we deliberately chose the course of firm financial discipline, which has served us so tower of strength to the Treasury, but he firmly grasps the economic realities on which our strategy is built.

A proper control over expenditure has been achieved despite the effects of inflation and despite substantial increases in the cost of servicing the public debt, in salary and wage adjustments for the Civil Service, in social and civil pensions, and in the equitable allocation of funds for a great variety of services according to carefully determined priorities, of which defence and security are the biggest.

I now wish to direct the attention of the House to certain Votes which I think deserve special mention.

Manpower

THE favourable economic conditions prevailing in 1981 once agin pinpointed the need to develop and maintain a high level of trained manpower as a prerequisite for economic growth. A very high priority was therefore once again accorded to improving the manpower situation.

The Manpower Vote reflects an increase next year of 22,8 percent, to R63m, R7m of which has been earmarked for the Manpower Development Fund.

Education

FIVE years ago, in 1977-'78, the total amount expended on education by the Exchequer and disbursed by the various educational authorities for *all* population groups aggregated R1,27 billion. In this coming financial year, that is, five years later, and notwithstanding serious constraints in overall government spending, this total will rise to no less than R3,16 billion. This represents an increase of nearly 150 percent in only five years. This record clearly proves the government's belief that investment in education is the best long- ry and related improvements brought about in the present Budget will do much to alleviate the manpower problem in the Public Service, the smooth functioning of which is essential to the country's administration.

South Africa's public administration has a magnificent record of efficient and dedicated service, and every possible effort must be made to enable it to uphold its high standards.

Public debt

PRUDENT as we have been with our borrowing programme, the cost of the public debt service shows an increase of 29,5 percent on a main-budget-to-main-budget basis. This is largely due to the often unpredictably sharp increases in interest rates, both here and abroad. The cost of public debt was originally estimated at R1 771m in 1981-'82, but is now expected to reach approximately R1 978m, compared with an estimate for 1982-'83 of R2 294m. The policy to offer investors realistic market-related interest rates is a sound one and I propose to continue with it.

Local authorities

IN my Budget Speech last year I announced that the government had accepted the recommendation of the Croeser Working Group to the effect that the State would in future assume responsibility for the payment of assessment rates to local authorities in respect of government property. For this purpose I made available a sum of R20m as a first instalment in the phasing-in process agreed upon. Despite the Exchequer's constrained financial position, a further amount of R14m is being proposed for 1982-'83, bringing the Treasury's total direct allocation to local authorities in the coming year to R43,6m.

pensioners and other social beneficiaries, as well as to military and civil pensioners.

The details of these concessions are set out in the document I will Table this afternoon.

(a) Social pensions and allowances

THE consessions I propose include an increase of R16 per month in the case of whites, R12 per month for coloures and Asians, and R9 per month for blacks. This means that the social pension for whites will rise to R138 per month, that of coloureds and Asians to R83 per month, and that of blacks to R49 per month. These increases are the largest absolute amounts proposed since the inception of the respective schemes and, as is customary, will apply from 1 October 1982. The cost of these concessions will amout to a record R77,2m in 1982-'83 and to R154,4m in a full financial year.

During the past few years it has been customary to pay bonuses to social pensioners and other social beneficiaries, and it affords me great pleasure to be able to announce that another two bonus payments will be made in the coming financial year. A total of R30 for whites, R24 for coloureds and Asians, and R18 for blacks will again be paid to all social pensioners and other social beneficiaries in May 1982 and again in November 198. The cost of these bonuses will amount to R47,3m in 1982-'83.

(b) Military Pensions

ALL military pensions will be adjusted by 15 percent from 1 April 1982, which means that in cases where there is a 100 percent disability an increase of R50,40 per month will be forthcoming. The cost of this concession is R3,3 million.

(c) Civil Pensions

THE government is well aware of the problem experienced by former employees of the State, now retired. There is special regard and sympathy for the "old guard", that is, those persons who retired some time ago on relatively low pensions.

The government has decided, by the application of a special formula, to increase, as from 1 April 1982, the pensions of all ex-employees and other civil pensioners of the State by 10 percent, plus one percent in respect of each complete year of retirement as at 31 March 1982.

The cost of these increases is estimated at R66,4m. The Civil Pensions Stabilization Account and the various pension funds will carry R62,4m of this cost and the Exchequer the balance of R4m.

In adition to this formula adjustment, it has been decided to help civil pensioners who have not been members of an official medical scheme by enabling them to become members of one of the official medical schemes as from 1 October 1982. An additional R5,2m will be provided for this purpose during 1982-'83.

Land Consolidation

AFTER due consideration of official commitments in respect of the purchase of land for the consolidation of the black states, I am pleased to be able to propose that apart from an amount of R52m included in the printed Estimates, a further R12m be provided in the Supplementary Estimates for this purpose. This increase will enable the Department of Co-operation and Development to make meaningful progress with the consolidation programme.

Subsidy on bread

IN the tight financial situation we are now experiencing, a reduced amount of R113m was provided for bread and bread meal subsidies in the printed Estimates. It has been decided that the bread subsidy should in future be determined on a more rational basis. The present system of susidization will remain in force until 30 Sep-

INKOMSTEBELASTING BETAALBAAR: 1978, 1982 EN 1983 / INCOME TAX PAYABLE: 1978, 1982 AND 1983

BELASBARE INKOMSTE	GETROUD: 1 KIND : ONDER 60 / MARRIED: 1 CHILD: UNDER 60						GETROUD: 2 KINDERS : ONDER 60 / MARRIED: 2 CHILDREN: UNDER 60					
TAXABLE INCOME	1978	1982	1982(A)	1983	VERSKIL DIFFERENCE 1982(A)/1983	VERSKIL DIFFERENCE 1978/1983	1978	1982	1982(A)	1983	VERSKIL DIFFERENCE 1982(A)/1983	VERSKIL DIFFERENCE 1978/1983
R	R	R	R	R	R	R	R	R	R	R	R	R
1 000	-	-	-	-	-	-	-	-	-	-	-	-
1 200	-	-	-	-	-	-	-	-	-	-	-	-
1 400	-	-	-	-	-	-	-	-	-	-	-	-
1 600	-	-	-	-	-	-	-	-	-	-	-	-
1 800	9	-	-	-	-	- 9	-	-	-	-	-	-
2 000	27	-	-	-	-	- 27	-	-	-	-	-	-
2 500	72	-	-	-	-	- 72	27	-	-	-	-	- 27
3 000	120	-	-	-	-	- 120	72	-	-	-	-	- 72
3 500	204	-	-	-	-	- 204	120	-	-	-	-	- 120
4 000	264	20	-	-	-	- 264	204	-	-	-	-	- 204
4 500	324	60	6	-	- 6	- 324	264	-	-	-	-	- 264
5 000	387	100	46	20	- 26	- 367	324	-	-	-	-	- 324
6 000	552	180	126	120	- 6	- 430	480	80	26	20	- 6	- 460
7 000	740	280	220	220	-	- 520	656	180	120	120	-	- 536
8 000	964	400	334	351	+ 17	- 613	868	300	234	246	+ 12	- 622
9 000	1 224	540	468	491	+ 23	- 733	1 112	440	368	386	+ 18	- 726
10 000	1 518	700	622	653	+ 31	- 865	1 392	600	522	548	+ 26	- 844
11 000	2 532	880	796	836	+ 40	- 1 696	1 704	780	696	731	+ 35	- 973
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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BUDGET '82

● Continued from page 25

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(a) Social pensions and allowances

THE concessions I propose include an increase of R16 per month in the case of whites, R12 per month for coloures and Asians, and R9 per month for blacks. This means that the social pension for whites will rise to R138 per month, that of coloureds and Asians to R83 per month, and that of blacks to R49 per month. These increases are the largest absolute amounts proposed since the inception of the respective schemes and, as is customary, will apply from 1 October 1982. The cost of these concessions will amout to a record R77,2m in 1982-'83 and to R154,4m in a full financial year

During the past few years it has been customary to pay bonuses to social pensioners and other social beneficiaries, and it affords me great pleasure to be able to announce that another two bonus payments will be made in the coming financial year. A total of R30 for whites, R24 for coloureds and Asians, and R18 for blacks will again be paid to all social pensioners and other social beneficiaries in May 1982 and again in November 198. The cost of these bonuses will amount to R47,3m in 1982-'83.

(b) Military Pensions

ALL military pensions will be adjusted by 15 percent from 1 April 1982, which means that in cases where there is a 100 percent disability an increase of R50,40 per month will be forthcoming. The cost of this concession is R3,3 million.

(c) Civil Pensions

THE government is well aware of the problem experienced by former employees of the State, now retired. There is special regard and sympathy for the "old guard", that is, those persons who retired some time ago on relatively low pensions.

The government has decided, by the application of a special formula, to increase, as from 1 April 1982, the pensions of all ex-employees and other civil pensioners of the State by 10 percent, plus one percent in respect of each complete year of retirement as at 31 March 1982.

The cost of these increases is estimated at R66,4m. The Civil Pensions Stabilization Account and the various pension funds will carry R62,4m of this cost and the Exchequer the balance of R4m.

In adition to this formula adjustment, it has been decided to help civil pensioners who have not been members of an official medical scheme by enabling them to become members of one of the official medical schemes as from 1 October 1982. An additional R5,2m will be provided for this purpose during 1982-'83.

Land Consolidation

AFTER due consideration of official commitments in respect of the purchase of land for the consolidation of the black states, I am pleased to be able to propose that apart from an amount of R52m included in the printed Estimates, a further R12m be provided in the Supplementary Estimates for this purpose. This increase will enable the Department of Co-operation and Development to make meaningful progress with the consolidation programme.

Subsidy on bread

IN the tight financial situation we are now experiencing, a reduced amount of R113m was provided for bread and bread meal subsidies in the printed Estimates. It has been decided that the bread subsidy should in future be determined on a more rational basis. The present system of susi-

INKOMSTEBELASTING BETAALBAAR: 1978, 1982 EN 1983 — INCOME TAX PAYABLE: 1978, 1982 AND 1983

BELASBARE INKOMSTE / TAXABLE INCOME	GETROUD: 1 KIND : ONDER 60 / MARRIED: 1 CHILD: UNDER 60						GETROUD: 2 KINDERS : ONDER 60 / MARRIED: 2 CHILDREN: UNDER 60					
	1978	1982	1982(A)	1983	VERSKIL DIFFERENCE 1982(A)/1983	VERSKIL DIFFERENCE 1978/1983	1978	1982	1982(A)	1983	VERSKIL DIFFERENCE 1982(A)/1983	VERSKIL DIFFERENCE 1978/1983
R	R	R	R	R	R	R	R	R	R	R	R	R
1 000	-	-	-	-	-	-	-	-	-	-	-	-
1 200	-	-	-	-	-	-	-	-	-	-	-	-
1 400	-	-	-	-	-	-	-	-	-	-	-	-
1 600	-	-	-	-	-	-	-	-	-	-	-	-
1 800	9	-	-	-	-	- 9	-	-	-	-	-	-
2 000	27	-	-	-	-	- 27	-	-	-	-	-	-
2 500	72	-	-	-	-	- 72	27	-	-	-	-	- 27
3 000	120	-	-	-	-	- 120	72	-	-	-	-	- 72
3 500	204	-	-	-	-	- 204	120	-	-	-	-	- 120
4 000	264	20	-	-	-	- 264	204	-	-	-	-	- 204
4 500	324	60	6	-	- 6	- 324	264	-	-	-	-	- 264
5 000	387	100	46	20	- 26	- 367	324	-	-	-	-	- 324
6 000	552	180	126	120	- 6	- 430	480	80	26	20	- 6	- 460
7 000	740	280	220	220	-	- 520	656	180	120	120	-	- 536
8 000	964	400	334	351	+ 17	- 613	868	300	234	246	+ 12	- 622
9 000	1 224	540	468	491	+ 23	- 733	1 112	440	368	386	+ 18	- 726
10 000	1 518	700	622	653	+ 31	- 865	1 392	600	522	548	+ 26	- 844
11 000	2 532	880	796	836	+ 40	- 1 696	1 704	780	696	731	+ 35	- 973

BUDGET '82

New impetus for out of town industry

CAPE Times 25/3/82

49

Political Staff

HOUSE OF ASSEMBLY — The government's decentralization programme is to be boosted by a number of new incentives, including a doubling of the money to be spent on it.

The Department of Industries budget for decentralization is to increase by R56 million to R106,5 million during the current financial year.

In an explanatory memorandum, issued yesterday, the department said the increase "arises from the government's decentralization policy which is an important element in the overall strategy for the economic development of the Republic of South Africa and its neighbouring states".

Streamlining

The department said it was "essential that the policy be adjusted and the incentive measures be improved from time to time to make them more effective and streamlined".

The changes in the decentralization incentives followed the report of the Riekert Commission and the Brand/De Waal investigation panel.

The proposals had already been accepted in principle by the government and been set out by the Prime Minister at the Good Hope Conference in November last year.

Incentives

The new incentives would be put into operation on April 1 this year after negotiations with the national states and other interested parties had been finalized.

The budget for the Decentralization Board had been estimated at R50 million.

The department said the railage rebates granted on outgoing traffic to industrialists outside metropolitan areas, which compensated them for the higher transport costs they had to bear, "have been increased considerably and vary from region to region.

Rebates

"Railage rebates will in future be granted to all existing industries at industrial development points.

"In exceptional cases a rebate may also be considering on incoming traffic."

The department said the compensation for the transfer of factories to decentralized areas would be improved to 20 percent of the approved cost to provide for unquantifiable costs.

"This scheme will probably also be applicable to foreign industrialists wishing to settle in decentralized areas.

"A maximum amount of R500 000 per industry will be allowed and may only be exceeded in exceptional circumstances."

Electricity

A new concession for the subsidization of electricity costs in the industrial development points and adjacent urban areas would also be introduced.

Another concession would be the interest subsidy on loans for industrial investment and on housing for key personnel.

The department said this concession would enable decentralized industrialists to be free to obtain finance from a financial institution and the interest subsidy would be paid by the Decentralization Board to the financial institution or to the industrialist direct.

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Chamber of Mines on extra burden

By JOHN MULCAHY

JOHANNESBURG. — Already reeling from the devastating slump in mineral markets, the gold and diamond industries have received another body blow from Finance Minister, Mr Owen Horwood.

The increase in the tax surcharge to 15% from 5% announced in yesterday's Budget will have a significant impact on all gold and diamond producers, and some mining analysts forecast a 5% to 10% softening in gold and diamond share prices on the Johannesburg Stock Exchange.

Reacting to the Budget shock, the president of the Chamber of Mines, Mr Lynne van den Bosch, said the Chamber was concerned that in these difficult times the minister found it necessary to place an additional burden on the gold mining industry.

"The gold mining industry is under severe pressure, as a result of the substantial fall in the gold price, a depressed uranium market and continuing escalation of mining costs.

"Furthermore, immediate prospects for any really significant improvement in the gold price are not favourable," said Mr Van den Bosch.

At a gold price of $325 an ounce gold mines' distributable earnings will be slashed by between 10% and 14% as a result of the increased surcharge, with direct implications for dividends.

While market sources expected some form of additional tax, the manner chosen in raising mining tax has come as a surprise, as it penalizes the 'good' mines and is less harsh on high cost producers.

Dissension with the existing state assistance scheme has arisen in the past because of its impact on the tax liability of low cost producers.

It has been suggested that marginal producers be allowed to suffer the consequences of gold price declines, and avoid the "rob Peter to pay Paul" syndrome.

While it could be argued that the Budget burden had been placed on all companies, Mr van den Bosch said the mining industry was such a sensitive nerve in the economy that the increased tax on gold and diamond mines would have disproportionately adverse effects.

Had the 15% surcharge been in effect last year, De Beers Consolidated Mines tax bill would have been about R10m higher, and distributable earnings would have been around 3c lower.

One analyst expressed the fear that the increased tax bill could be a decisive factor when the De Beers board comes to an assessment of the interim dividend.

The diamond market is as weak as ever, and with no immediate signs of an upturn the interim dividend may have to be passed.

De Beers last year paid an interim of 25c a share, and analysts suggest that the interim may be passed and the final left at 25c

The surcharge will have the most serious impact on the low cost producers, and analysts estimate that at a $325 gold price Driefontein's distributable earnings could fall 14% as a direct result of the additional tax.

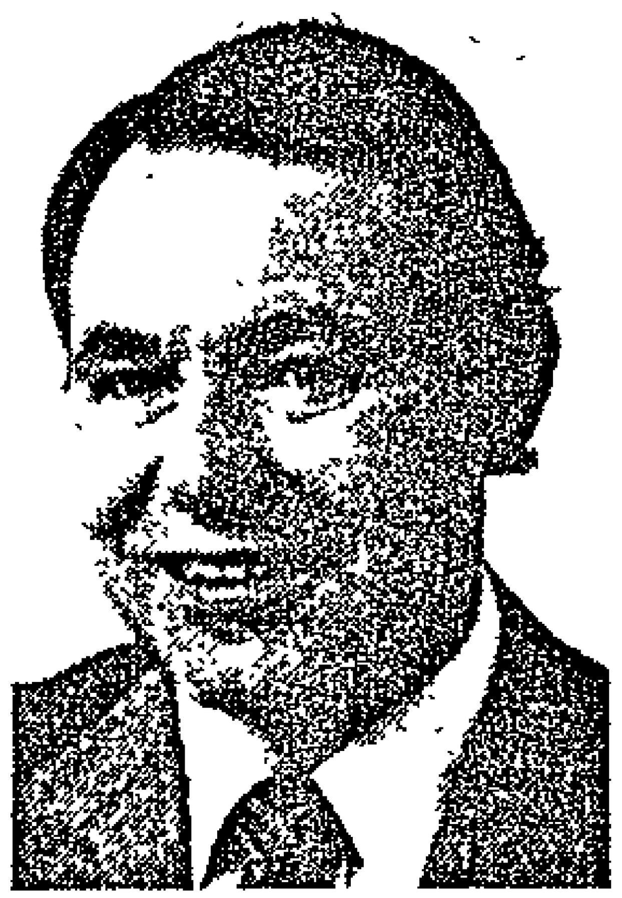
Total gold mining tax in calendar 1981 dropped to R1 685m from R2 279m the year before, and Mr Horwood estimated additional revenue of R115m to flow from the higher surcharge.

One industry source said the increased burden would have a retarding effect on the gold and diamond industries's ability to stage a recovery when the markets improved.

The two industries were already struggling to cope with immense market and cost problems, the source said, and some producers already on the brink of losses would find great difficulty in operating at a profit.

Another view is that the gold and diamond industries contribute a lower proportion of earnings when profits are under pressure, and it was to be expected that they would be called on to assume more of the burden.

However, some analysts contend that the industry is ill-equipped to cope with this setback, and the authorities should beware of "killing the goose"



Old Mutual's Mr Peter Bieber

Sanlam's Marinus Daling

Business reactions varied

JOHANNESBURG. — Responsible, realistic, disappointing, surprising — these were only some of descriptions of the Budget by business leaders.

Surprise centered upon the cutback in government expenditure and the avoidance of direct taxation on the man-in-the-street, save a five percent loan levy, previously expected by most commentators to be at least that, or more.

Disappointment was expressed in most quarters on increased company taxation in the form of loan levies, and particularly on the gold and silver mining industries.

In these cases, with turnover and profits down and the gold price at a 30-month low, it was felt that "below the belt" tactics had been employed.

The president of the SA Federated Chamber of Industries, Mr C H W du Toit, said the minister had succeeded in achieving a sound balance of tax and financial measures, through constraint over government expenditure and by financing the deficit in a rigidly non-inflationary way. He added that the Budget would have only a moderately dampening effect on the economy, which was necessary.

In Cape Town, however, chairman of the Life Offices'

Mr R "Ralph" Roseman, assistant general manager of Old Mutual, has been elected president of the Insurance Institute of the Cape of Good Hope.

US business inventories

WASHINGTON. — United States business inventories fell $2,08-billion, or 0,4%, to a seasonally adjusted $509,67-billion in January, the commerce department said.

The January drop followed a revised 0,7% drop in November and left inventories 6,3% higher than a year earlier.

SA inflation rat

February, have burdened the French franc. The currency has tumbled to its lower limit of 2,62 against the mark and efforts to support it have in turn whipsawed other currencies, especially the

(R14,700 m) to 140 000-million francs (R22 000m) foreign exchange dealers are worried about accelerating inflation, which is currently near 14 percent.

"The franc was already suspect well before the

on the JSE

Own Correspondent

JOHANNESBURG. — "A total non-event" was how one broker aptly described trading on the stock exchange yesterday when investors took time-out to await the Budget.

Turnover was well down and not even a firming bullion price could inject much enthusiasm.

ue to grapple with a serious recession and stubbornly high interest rates.

A few economists had believed prices in February might actually decline for the first time since 1965, but food, housing and medical care showed little change, while clothing costs increased during the month. — Sapa-Reuter

Gold expected to earn even less

CAPE Times 25/3/82 (49)

Political Correspondent

HOUSE OF ASSEMBLY. — The sharp drop in the gold price has meant a massive loss of government income in the past year — and this revenue is expected to drop still further in the year to come.

Giving these figures during his Budget speech yesterday, Mr Owen Horwood, also expressed continuing confidence in the long-term prospects for gold.

The Minister of Finance said estimated receipts from the gold mining industry in the 1982-83 financial year would probably not exceed R900-million, compared to the R2 171m in the current year.

This represents a reduction of nearly R1 300m in one year.

"This huge loss in revenue is the direct result of the adverse effect that the drop in the gold price and cost escalations are expected to have on the operating results of the gold mines," he said.

"While I am certainly not pessimistic on the longer term outlook for gold — anything but — it would only be prudent to assume that the average gold price for the year 1982-83 will be significantly below the average realized during the current financial year."

Long-term insurance tax up

HOUSE OF ASSEMBLY — The Minister of Finance is to push up tax on long-term insurance companies and has instructed the Commissioner for Inland Revenue to investigate the taxation position of these companies further.

"Over the years the long-term insurance industry has grown enormously," Mr Horwood said. "I feel it is only fair that it should make a greater contribution to the Exchequer."

He proposed that the percentage of gross investment income used as a yardstick to determine taxable income be increased to 40 percent. The additional revenue expected from the insurance industry in the current fiscal year was R38-million. — Sapa

BUDGET '82

Cape Times 26/3/82

'Largely anticipatory'

(49)

Staff Reporter

THE Budget was largely an anticipatory one, Mr John Simpson, director of the UCT Graduate School of Business Administration, said yesterday.

He said the Minister of Finance, Mr Owen Horwood, was aware of the gold price situation and that the economy was part of a business cycle. His decision-making was based on this and awareness of external economies.

As far as income was concerned, the Budget was relying on natural growth and tax increases.

Mr Simpson said it was unclear what Mr Horwood expected to spend on defence. He had also avoided issues such as fringe benefits and single tax.

Seen in the short term, it restricted growth in real terms as far as disposable income and investment were concerned.

Overall, the Budget was an anticipatory one which anticipated possible changes in international economics and the gold price.

● Professor Brian Kantor, professor of economics at the University of Cape Town, said yesterday that he was "very happy" with the controls on expenditure announced in the Budget.

Budget

Cape Times 25/3/82

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Continued from page 22

the balance of payments and reserves.

This will once again be followed by a consumer-led recovery and the gateway to what economists believe will the the high growth rate era of the "golden eighties".

Consumer spending

In the interim businessmen will be faced with lower consumer spending, higher costs and intensified competition for market share.

Inventories are still far too high in relation to expected demand and will be wound down after the big rises in 1980 and 1981. In 1980 alone stocks rose by R2 736m, more than double the last boom figure of R1 155m in 1974.

The question must arise as to whether the minister should have adopted a contra-cyclical policy to cushion the economy against the downturn.

With the net reserves under pressure and no sign as yet of an American recovery this could not be considered at this stage but must be an possibility for next year.

The fiscal — monetary mix in this Budget will be closely analysed in coming weeks but it is clear that the fiscal package will reinforce the monetary policy. Possibly there shoud have been more of a fiscal bite.

Although the South African economy has been out of step with world economies for some two years, thanks to the high gold price, the major constraint remains the shortage of skilled manpower and great deal more will have to be done to ensure that the country has the productive capacity for the envisaged high growth rates.

Overall, faced with a sharply reduced tax flow from the gold mines — a drop of at least R1-billion is likely to around the R1,3-billion mark — the minister has done well in constructing his sources of revenue and even if he overshoots the spending target this Budget will cool the economy.

ARGUS 25/3/82 (49)

Budget 'anti-worker, discriminatory'

THE 1982 Budget has been described by black leaders, community workers and trade unionists as an anti-worker, discriminatory Budget which has again hit hardest the people who can least afford it.

The Rev Alan Hendrickse, leader of the Labour Party, said from Uitenhage today the Budget should be condemned in the strongest terms because of the increase in basic essentials.

"Once again the Budget is a discriminatory one in which the people who can least afford it are forced to pay for defence, homeland consolidation and the related ideologies of separation.

'Also now the gap between what white and black pensioners receive has been stretched further, instead of being narrowed.'

The Budget was described by Mr John Erenstzen, secretary of the Cape Town Municipal Workers' Association, as anti-worker Budget.

WORKERS

The Budget, he said should not be viewed in isolation, but together with the mini-Budget of a few months ago which hit workers particularly.

"The general sales tax had been increased and as a result of yesterday's Budget, prices will again increase.

"This will mean that the worker's standard of living will drop and thousands more will be pushed below the breadline."

Except for 'a pittance' of a subsidy on bread, said Mr Erenstzen, there was nothing in the Budget for the worker.

Mr Adam Small, director of the Western Cape Foundation for Community Workers, said the Budget was particularly abhorrent in the way it affected the less privileged people, especially pre-school children and pensioners.

BREAD

He said he was perturbed at how the increase in the price of bread would again affect pre-school services which provided meals for children.

"I think every social worker will be outraged by the discrimination in the pensions and it will make everyone realise that the Government is not committed to change."

Mr Small said the Budget was abhorrent in terms of the large amount

BUDGET '82

Govt to spend less on land

HOUSE OF ASSEMBLY. — The government's spending on consolidation will slow down during the current financial year.

The Minister of Finance, Mr Owen Horwood, said in his Budget speech that R52-million had been provided in the printed estimates for consolidation and a further R12-million would be provided in the supplementary estimates.

This means that R64-million has been budgeted for consolidation during the 1982-3 financial year.

In the 1981-2 financial year, R81-million was budgetted in the printed estimates for consolidation. This means that in spite of increasing land prices, the amount allocated for consolidation will have decreased by R15-million.

Yesterday, Mr Horwood said the increase in the supplementary estimates "will enable the Department of Co-operation and Development to make meaningful progress with the consolidation programme".

Treasury to monitor local govt spending

CAPE TIMES 25/3/82 (49)

Political Staff

HOUSE OF ASSEMBLY. — The government is to crack down on the spending rates of local authorities.

The Treasury has already appealed to all local authorities to keep their overall expenditures below the current inflation rate, now running at about 13,8 percent.

In his Budget speech yesterday, the Minister of Finance, Mr Owen Horwood, said the government had accepted a recommendation from the Croeser Working Committee on Local Authorities to allow the Treasury to regulate the expenditure of branches of the third tier of government.

This would be achieved through "a measure of surveillance" by Treasury, said Mr Horwood.

However, following on his announcement last year that local authorities were to benefit for the first time by the phasing in of the taxation of government property, Mr Horwood yesterday increased the total amount available to the third tier to R43,6-million.

Last year the Treasury allocated R20-million for taxation payments to local authorities. This year Mr Horwood has allocated an extra R14-million.

"But to this amount must be added the transfer payments already being made to local authorities for ambulance and fire protection services as well as the government's loss of revenue for commuter services which resulted from the decision to allow administration boards to retain their full profits from the sale of liquor."

The government's full contribution to local authorities during the year will total R92-million.

Mr Horwood said the expenditure by local authorities had reached "considerable proportions" in recent years.

While central and provincial government expenditure were subjected to clearly defined control, the same did not apply to local authorities.

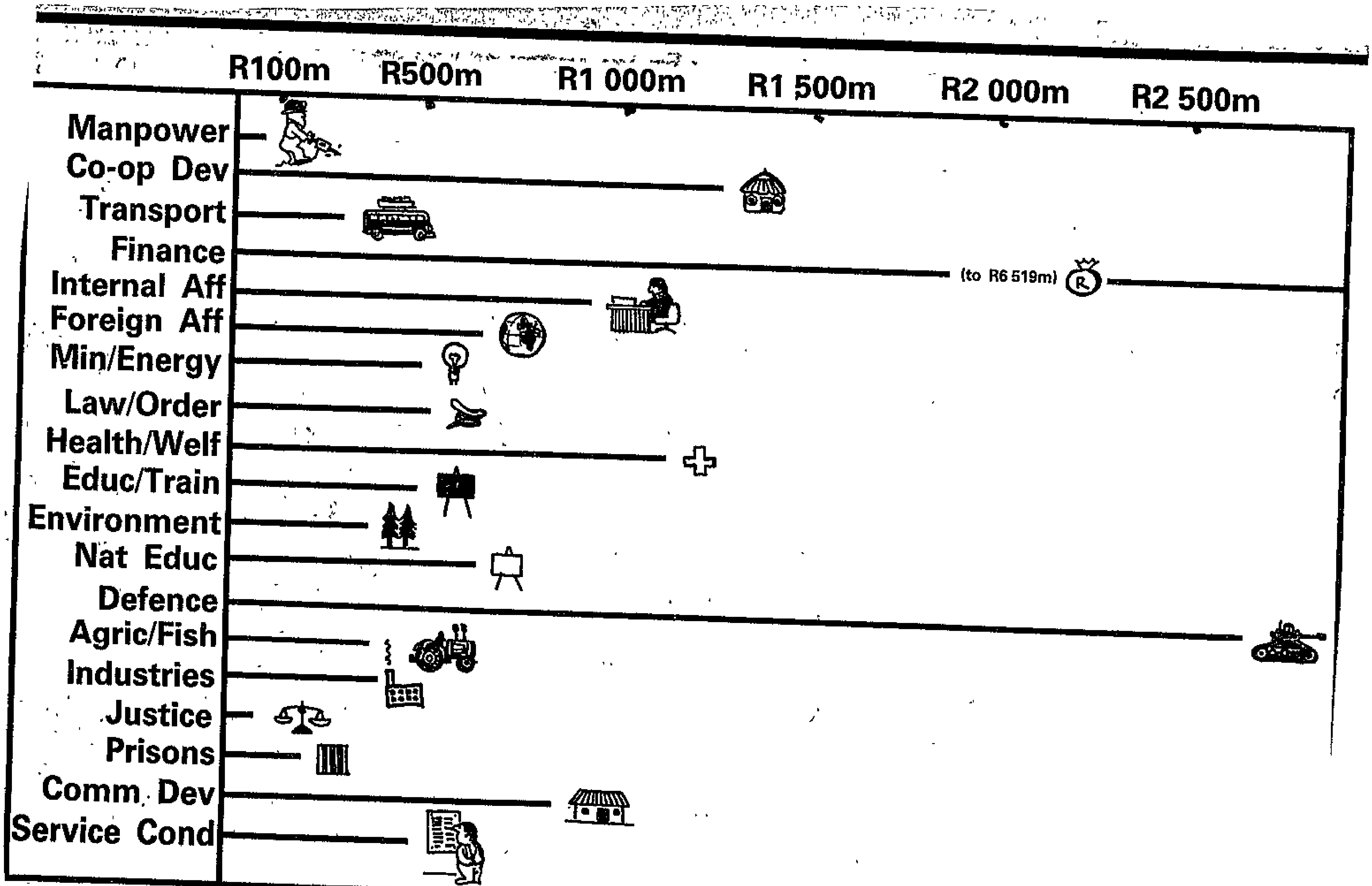
"After careful consideration the working group and the government accepted that their should be a measure of surveillance over the aggregate expenditures of local authorities.

"The best way to do this will be worked out after consultation with those concerned.

"It is clearly essential that all levels of government adopt and maintain effective financial discipline over their expenditure."

Mr Horwood said it would not be an easy task for local authorities to keep their expenditure below the inflation rate, but with the co-operation of everybody involved, it should be possible to limit the demands made on ratepayers, users of municipal services and on the captial and money markets to more realistic and sustainable levels.

He said the R20-million paid by the government to local authorities last year for the taxation of government property had already resulted in some local authorities reducing their property rates and others being able to avoid increasing them.



Compared on this graph are some of the major expenditures anticipated in the Budget.

CAPE TIMES 25/3/82 (49)

What govt depts will get

Political Correspondent

HOUSE OF ASSEMBLY. — Government departments expect to spend nearly R16 000 million more next year.

Only one department, that of Agriculture and Fisheries, expects to spend less. Its budget has dropped by R108,5 million compared with its estimates for the current financial year.

The anticipated expenditure for 1982-83 for each department, with the increase or decrease compared to last year's budget in brackets, is:

State President R1 368 600 (R871 500).

Parliament R10 584 000 (R3 555 000).

Prime Minister R11 250 140 (R2 883 000).

Manpower R63 246 000 (R11 763 000).

Co-operation and Development R1 238 196 000 (R88 084 000).

Transport Affairs R283 244 000 (R22 714 000).

Fianance R6 519 512 000 (R 1 159 143 000).

Internal Affairs R914 030 000 (R194 192 000).

Foreign Affairs R646 090 000 (R259 939 000).

Mineral and Energy Affairs R477 645 000 (R92 011 000).

Law and Order (police) R481 632 000 (R132 582000).

State Administration R21 641 000 (R1 533 100).

Statistics R15 939 000 (R3 936 000)

Health and Welfare R1 119 620 000 (R166 281 000).

Education and Training R475 758 000 (R106 010 000).

Environment Affairs R354 430 000 (R33 392 000).

National Education R631 519 000 (R119 581 000).

Defence R2 668 000 000 (R203 000 000).

Agriculture and Fisheries R352 411 700 (R108 500 700).

Industries, Commerce and Tourism R383 830 400 (R50 202 400).

Justice R86 680 000 (R24 077 300).

Prisons R189 075 000 (R54 770 000).

Community Development R887 575 000 (R45 365 000).

The last budget item is improvement of conditions of service. This is estimated at R200 940 000, a decrease of R495 560 000.

The grand total of R18 042 092 840 shows a net increase of R2 173 211 500.

BUDGET '82

Cape Times 25/3/82

49

Opposition fears more shocks in store

Political Correspondent

HOUSE OF ASSEMBLY. — Opposition parties expressed fears yesterday that budget shocks may not be over this year for consumers or taxpayers.

Reacting to yesterday's Budget, both the Progressive Federal Party and the New Republic Party felt that more shocks may be in store before the next budget.

The chief Opposition spokesman on finance, Mr Harry Schwarz, criticized the Budget in parliament as being "rich in quotations but poor in attractions".

Both then and in a later statement on behalf of the PFP finance group, he said the Budget did not achieve the delicate balance needed to maintain growth on the one hand and fight inflation on the other.

'Series of blows'

He criticized in particular the decision to impose further taxes on already hard-hit gold and diamond mines and to raise company taxes as the country moved into a recession.

Referring to "a whole series of blows" from postal and rail increases to this week's announcement of a petrol price increase, he said the PFP did not believe such increases had come to an end.

"We approach the whole budget with a feeling of uneasiness, that there is something more to come in the near future," his statement said.

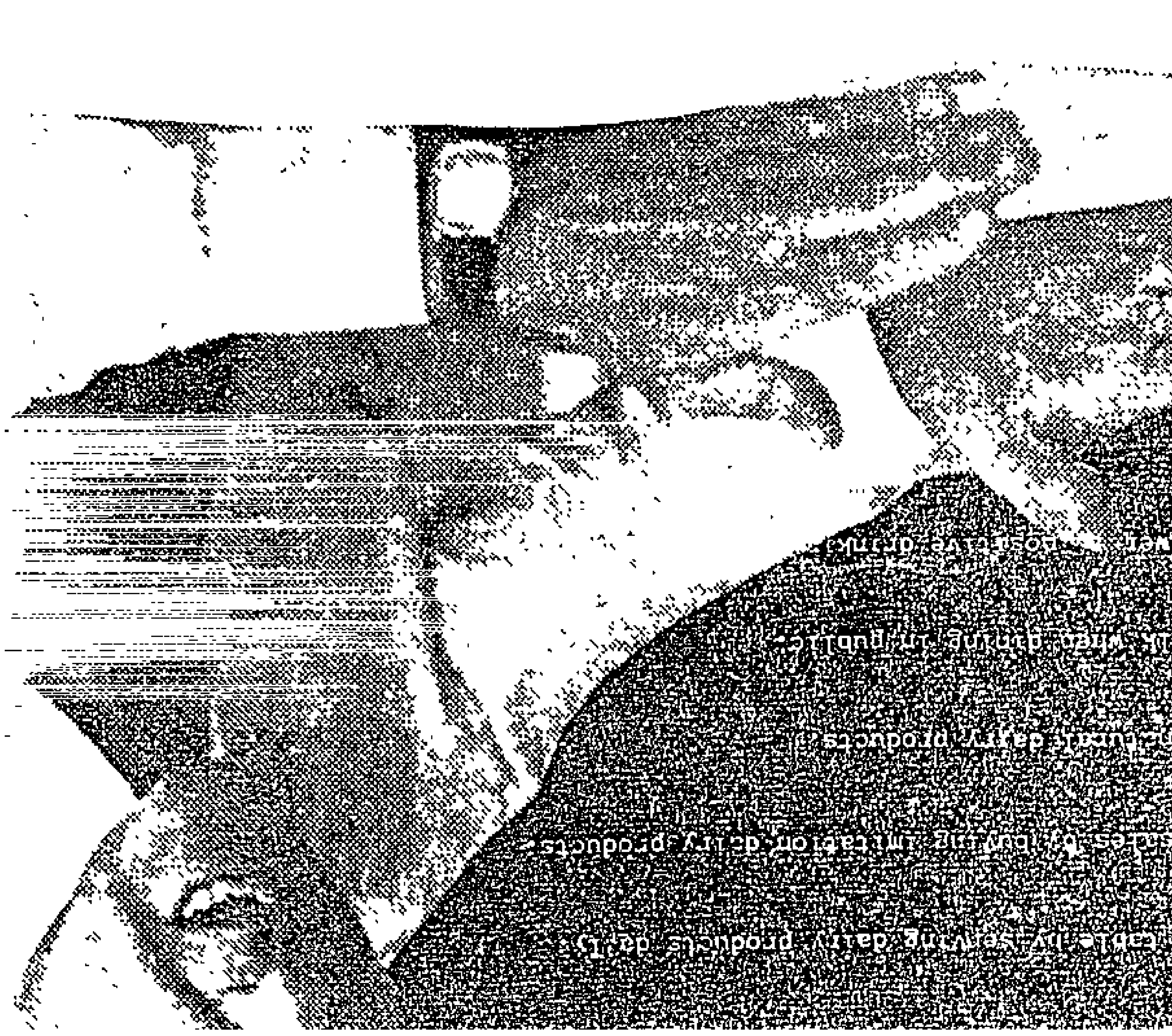
"While the rate of increase of Government expenditure has been kept down, we anticipate that these figures may well increase as the year goes on and that the minister may come with other provisions to raise revenue at a later stage.

"All in all, we regard the Budget as not providing solutions to South Africa's economic problems."

The NRP finance spokesman, Mr George Bartlett, described it as "a first aid budget" to try to halt the situation brought about by the excessive money supply Mr Horwood had allowed last year.

"I sincerely hope that this first aid treatment will work and that the minister will not find it necessary to resort to major surgery later in the year."

Both spokesmen welcomed the increases in pensions but said they would not enable pensioners to keep up with inflation. Mr Schwarz said the gap in pensions paid to various race groups was widening in absolute terms.



BUSINESS 3

(49) Star 25/3/82

SA back with a vengeance in the international borrowing market

From the Financial Times

LONDON — South Africa is back with a vengeance in the international capital markets. After several years of modest borrowing and net repayment of outstanding debts, there has been a flurry of activity in recent months.

A regular flow of bonds and medium term credits has been accompanied by a marked increase in short-term borrowing by commercial banks and the South African Reserve Bank.

Details of loans are hard to come by, for South African borrowers, private and government, are notoriously secretive, for fear of attracting political hostility.

Higher tempo

However, there is no doubting the increase in tempo. The list includes:

● AECI, the largest South African chemicals producer in which Britain's ICI and the De Beers mining group own equal 40 percent shares, which is seeking a R100 million seven-year credit in December.

● Escom — the Electricity Supply Commission — which is likely to be by far the biggest South African borrower of medium-term funds this year, which launched a R250 million seven-year credit last month. It has also placed lately a Swiss franc bond, with Union Bank of Switzerland as lead manager with a coupon of 8,25 percent, maturing in 1985 and priced at par.

● South African Transport Services (SATS), the State enterprise which runs the railways, harbours, and South African Airways, has already negotiated three medium-term credits each for about R25 million this year.

● Soweto, the black township outside Johannesburg currently investing in a major electrification scheme, which is due to sign a loan agreement for R160 million again for seven years next month.

Liabilities

At the same time as medium-term borrowers have returned to the markets, there has been a sharp increase in short-term borrowing by the banking sector. Short-term foreign liabilities of the banks (mostly with maturities of three to six months), more than quadrupled in the first nine months of last year, from R632 million to R2 800 million.

Meanwhile the South African Reserve Bank's borrowing to support the balance of payments jumped from nothing at the end of 1980 to R650 million last October.

Encouraged

The Reserve Bank also encouraged the commercial banks and trading companies to borrow abroad — and thereby to protect the balance of payments — by adjusting the rand's forward exchange rate against other currencies. At the end of last month, private banks arranged loans worth several hundred million rand, when the domestic money market was at its tightest.

The return to foreign borrowing, as with most other recent developments in the South African economy, is a function of the fall in the gold price. The gold movement turned the country's R2 800 million current account surplus of 1980 into a R4 000 million deficit last year. Even if the gold price recovers to an average 450 dollars this year, the 1982 deficit will exceed R2 000 million.

Drained

The squeeze on the balance of payments has drained the economy of liquidity, and pushed domestic interest rates up to record levels, with the commercial banks' prime lending rate on 20 percent. This in turn has made overseas interest rates attractive once again high though they may be.

Balance of payments financing has continued at a high level. The Reserve Bank pledged a quarter of its gold holding — or about 3,1 million ounces — as collateral for foreign exchange in gold "swaps" with foreign banks late last year. In February, it activated about R300 million in International Monetary Fund facilities.

Ambitious

Corporate borrowing has been required to finance large inventories and ambitious investment programmes, at a time of dwindling cash flows because of the economic downturn.

AECI's credit, believed to be the largest Euromarket borrowing made by a privately owned South African company, had Citicorp as the lead manager.

Several other companies are understood to have borrowed smaller amounts, while others have negotiated, but not yet drawn, substantial lines of credit. Barlow Rand, South Africa's largest industrial group, began arranging medium-term credit facilities with foreign banks 18 ... to "We fore-

South Africa is increasing its calls on the international capital market, against the background of the fall in the price of gold, but political pressures constrain it to do so discreetly. "It took us some time to get interest margins down," says Dr Joep de Loor (left), the Director-General of Finance, "and we would not want them to go higher."

February carried a spread of 0,75 percent above Libor, with Banque de l'Indochine et de Suez as lead manager.

Post Office

Sats declined to reveal details of the pricing its credits, but plans to raise a total of about R450 million in new foreign borrowing for the financial year to March, 1983 including a R50 million floating rate bond later this year.

Iscor, the State-owned steel producer, the South African Post Office, Armscor — the weapons procurement and manufacturing agency which has bor- ...

Long battle

Referring to South Africa's long battle to restore its acceptability in world capital markets after loans dried up during the disturbances in black urban areas in 1976-77, Dr de Loor says: "It took us some time to get margins down, and we would not want them to go higher."

With the notable exception of Swiss and German banks, many foreign institutions are still nervous about the political controversy surrounding loans to South Africa. Citicorp has been subjected to public criticism over its

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..nce of payments — adjusting the rand's ·ard exchange rate. nst other curren- . At the end of last :ih, private banks ·nged loans worth .:al hundred mil- rand, when the ·estic money market at its tightest.

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ne squeeze on the ence of payments drained the eco- y of liquidity, and shed domestic erest rates up to re- d levels, with the mercial banks' me lending rate on percent. This in ıı has made overseas erest rates attractive ce again high ugh they may be.

Balance of payments ancing has continued at a high level. The Reserve Bank pledged a quarter of its gold holding — or about 3,1 million ounces — as collateral for foreign exchange in gold "swaps" with foreign banks late last year. In February, it activated about R300 million in International Monetary Fund facilities.

Ambitious

Corporate borrowing has been required to finance large inventories and ambitious investment programmes, at a time of dwindling cash flows because of the economic downturn.

AECI's credit, believed to be the largest Euromarket borrowing made by a privately owned South African company, had Citicorp as the lead manager.

Several other companies are understood to have borrowed smaller amounts, while others have negotiated, but not yet drawn, substantial lines of credit. Barlow Rand, South Africa's largest industrial group, began arranging medium-term credit facilities with foreign banks 18 months ago. "We foresaw that there would be a need to have facilities offshore. We are prepared," the company says.

Power stations

The Euromarkets are an important source of funds for large public sector projects which are continuing in the face of the overall economic downturn.

Escom is currently building four 3 600 MW coal-fired power stations, and will probably unveil plans for another three over the next two years.

The utility estimates that it will need R800 million during 1982 in bank credits, mainly for downpayments on equipment, and another R1 100 million in buyers' and suppliers' credits. Its R250 million credit in early February carried a spread of 0,75 percent above Libor, with Banque de l'Indochine et de Suez as lead manager.

South Africa is increasing its calls on the international capital market, against the background of the fall in the price of gold, but political pressures constrain it to do so discreetly. "It took us some time to get interest margins down," says Dr Joep de Loor (left), the Director-General of Finance, "and we would not want them to go higher."

Post Office

Sats declined to reveal details of the pricing its credits, but plans to raise a total of about R450 million in new foreign borrowing for the financial year to March, 1983 including a R50 million floating rate bond later this year.

Iscor, the State-owned steel producer, the South African Post Office, Armscor — the weapons procurement and manufacturing agency which has borrowed surreptitiously in the past — and one or two large municipalities are expected to raise smaller amounts.

Saturation

The Government itself is unlikely to be a heavy borrower. According to Dr Joep de Loor, the Director-General of Finance, offshore loans to finance this year's budget deficit will be "about the same, maybe even less" than the R250 million budgeted for the 1981-82 financial year.

With other borrowers' demands on the Euromarkets increasing, the authorities are well aware of the dangers of saturating foreign lenders with South African paper "We won't be pressing the banks," Dr de Loor says, "we want to give Escom a little more scope."

Long battle

Referring to South Africa's long battle to restore its acceptability in world capital markets after loans dried up during the disturbances in black urban areas in 1976-77, Dr de Loor says: "It took us some time to get margins down, and we would not want them to go higher."

With the notable exception of Swiss and German banks, many foreign institutions are still nervous about the political controversy surrounding loans to South Africa. Citicorp has been subjected to public criticism over its joint management of a R250 million credit for the Government in September, 1980.

US banks

US Banks these days confine their activities largely to private sector customers. "There 's still a problem with US banks and government loans," according to a representative of one US bank in Johannesburg.

One way out has been to tie loans to specific projects benefiting blacks though critics maintain that this simply frees other funds for the enforcement of apartheid. The current loan for Soweto is given as an example. The September 1980 credit was also linked to projects in black and coloured townships.

Income tax loan levy raised

CAPE TIMES 25/3/82

49

HOUSE OF ASSEMBLY. — The Minister of Finance, Mr Owen Horwood, yesterday proposed the imposition of a five percent loan levy on income tax payable by individuals, with certain exceptions

He said the total additional tax to be collected based on other proposals made yesterday amounted to R491 million, which still left him with a deficit of R106m.

He therefore proposed a five percent loan levy to obtain the necessary funds.

Exempted from the loan levy would be:

- People of all age groups whose incomes were R7 000 or less, the majority of whom would fall under the final PAYE deduction system, and be taxed at a fixed rate
- Those whose basic normal income tax before the addition of loan levy amounted to R150 or less
- In the year of the aged, people of 70 and older whose taxable incomes exceeded R7 000 but not R15 000 a year who, though remaining liable for normal income tax, would not be for the loan levy.

Compulsory loan

The levy was a compulsory loan to be repaid within a maximum period of seven years at simple tax-free interest.

"Up to now the rate of interest has been five percent per annum, but I now propose that this rate be raised to eight percent."

The yield expected from the loan levy in the 1982/83 financial year would amount to about R115m and R157m for a full financial year.

After all the revenue proposals had been taken into account, there would remain a small surplus of R9m, Mr Horwood said. — Sapa

Police may get more money

CAPE TIMES 25/3/82

49

By STEPHEN WROTTESLEY

A MASSIVE 44 percent boost in personnel expenditure for the police force could mean that the man on the beat is in for a large pay hike this year.

If a lot of the money goes on salary increases, it could stop the flow of experienced men out of the force and lead to more recruitment — both of which would help the hard-pressed police force which at the moment has to use national servicemen to supplement its manpower.

In the estimate of the expenditure to be defrayed from the State Revenue Account released with the budget in the Assembly yesterday, an increase of over R132 million, or about 37 percent, in police spending next year was announced.

This year's police spending will be nearly R482-million.

Of this, about R355 million will go on personnel expenditure, or about 74 percent. Other sections went up smaller amounts.

The report of the Commissioner of Police, General Mike Geldenhuys, for the year July 1980 to June 1981 has not yet been tabled in Parliament and so it is impossible to say what the manpower shortage is. The previous report indicated that the force was short of about 5 000 men.

Later figures released last year by the now retiring Deputy Commissioner of Police, Lieutenant General F L Engels, showed that 400 men had left the force in two months in early 1981.

While the flow of experienced policemen to the private sector seems to have slowed down in recent months as a result of the present financial slump, the manpower figures for the police are probably still not good.

CAPE Times 25/3/82

Time to snap up cameras

(49) (280)

Own Correspondent

JOHANNESBURG. — Retailers and wholesalers dealing in luxury goods do not believe the increase in excise duty of five percent on cameras, furs and jewellery is likely to affect prices or volume of sales immediately.

Nor did they believe prices would rise much in the long term.

The Minister of Finance in his Budget speech announced an immediate increase in ad valorem excise duties on luxury goods.

Spokesmen for a major photographic chain and a luxury-goods wholesaler said suppliers and retailers had at least two months' stock so prices would not rise during that time.

Much photographic equipment had been ordered and received before the February announcement of an import surcharge, which would help keep short-term prices down.

The duty on imported goods will rise from 25 percent to 30 percent, but importers say it is unlikely to cost the consumer more than three percent extra and many discounters might opt for absorbing the cost.

The spokesman said that because furs and jewellery were luxuries, people were unlikely to resist buying them because of the five percent duty increase.

Cameras were not affected by the 10 percent import surcharge, but lenses and projectors were.

● Spokesmen for the cosmetics and jewellery industries last night criticized Mr Horwood for increasing sales tax on "so-called luxury goods".

Mr Bob Steele, managing director of Revlon, called the minister's announcement "a smokescreen" and said he was hoodwinking the public.

And the Jewellery Council of SA said that jewellery made locally from South African gold, diamonds and platinum could now often be bought more cheaply overseas.

Mr Steele said: "The minister mentions furs, jewellery and photographic equipment as luxuries, which makes the average person relax, thinking it doesn't affect him.

"But this tax will affect toiletries and cosmetics, shampoos and deodorants as well.

"Consumer expenditure on toiletries and cosmetics is in the R200 to R300 million a year bracket and the minister is going to make a lot more out of it than the R28 million he mentioned."

The Jewellery Council said the increase in excise duty on watches and jewellery was further evidence of the government's short-sighted view of the industry. It was a bad example to other countries for South Africa, as a producer of gold, diamonds and platinum, to tax jewellery.

"The combination of sales tax now takes the tax on jewellery to an effective rate of 36.5 percent."

The council forecast that a drop in jewellery sales as a result of the increases could lose revenue for both the industry and the government.

It called on the minister to consider a programme which would enable South Africa to take its rightful place as a leader in jewellery manufacture.

(49)

'Package' for public service to cost R800m

CAPE TIMES 25/3/82

HOUSE OF ASSEMBLY — The Minister of Finance, Mr Owen Horwood, yesterday announced a "package" of improvements in conditions of service in the public service costing a record R800 million for 1982/83.

Introducing the main Budget, he said that because an early decision was reached on the remuneration package, the greater part of the provision could be allocated to the various votes, leaving a balance of R200 million to be included in the improvement of conditions of service vote.

"The major improvements contemplated are a substantial general salary adjustment, the implementation of a further phase of the programme to narrow the wage gap among the different population groups and an extension of the practice of salary differentiation among selected professional categories."

"The government trusts that the substantial salary and related improvements brought about in the present Budget will do much to alleviate the manpower problem in the public service, the smooth functioning of which is essential to the country's administration." — Sapa

BUDGET '82

Pension increases 'close the gap'

(49) Cape Times 25/3/82

Staff Reporter

THE director of the National Council for the Aged, Mrs Zerilda Droskie, said yesterday that the council was "very pleased" with the pension increases announced yesterday.

"It truly is a Year of the Aged Budget and we are very pleased that Mr Horwood remembered."

In addition to the increases of R16 a month for white pensioners to R138, R12 for coloured and Asian pensioners to R83 and R9 a month for blacks to R49, one had to take into account the double bonus that would be granted.

A bonus of R30 for whites, R24 for coloureds and Asians, and R18 for blacks would be granted in May and November.

"We are also pleased that the gap between white and coloured pensions is closing in monetary terms. In the past it has been widening.

"In 1981 the gap between white and coloured pensions was R58 and now it is R55 so there is a move to close the gap.

"However, the gap between white and black pensions is still R89 — exactly the same. But at least if it isn't closing, it isn't widening either."

"We are also very pleased about the increase in military pensions and the 10 percent for civil pensioners plus one percent for every year that they have been retired."

Commandant H M Joynt, chairman of the Association of Retired Persons and Pensioners, yesterday welcomed the concessions to pensioners.

"We must be grateful for any thing that comes our way," he said.

'Not enough to combat inflation'

Cape Times 25/3/82 (49)

Political Staff

HOUSE OF ASSEMBLY. — The government has handed out nearly R200-million in pension increases and benefits but opposition spokesmen were critical yesterday of the differences between what is paid out to white, coloured and Asian, and black people.

Both Mr Harry Schwarz, chief opposition finance spokesman, and Mr George Bartlett, spokesman for the New Republic Party, said they believed that a greater effort should have been made to narrow the gap.

They said too that the increases were not enough to combat inflation.

Mr Owen Horwood announced yesterday that social pensions would go up from October 1 by R16 a month for whites, R12 a month for coloureds and Asians, and R9 a month for blacks.

There would also be two "bonus" payments amounting to R30 for whites, R24 for coloureds and Indians and R18 for blacks which would cost the state R47,3-million.

Military pensions would be adjusted by 15 percent from April 1 at a cost of R3,3-million and an upward adjustment for "old-guard" civil pensioners. This will be 10 percent plus one percent for every year of complete retirement before March 31 this year.

The civil pensions stabilisation account would carry R62,4-million of the cost and the Exchequer R4-million.

In addition, civil pensioners who had not been on medical aid before would be enabled to join from October 1 at a cost to the state of R5,2-million.

Mr Schwarz said that one of the positive aspects of the budget was the pension allowances and the previously requested medical aid for civil pensioners.

"However, we are still concerned that there has been no adjustment to the means tests and the gap in absolute terms between the race groups is actually increasing," said Mr Schwarz. "In any event, the increases will not really enable them to keep up with inflation."

Mr Bartlett said that although attempts to assist pensioners were appreciated, the effects are being substantially diminished by delaying payment until October when inflation will have eaten away half of it anyway.

"We also believe that more should have been done to reduce the gap between white and coloured and Asian, and black pensions."

'Long time to wait for an increase'

DURBAN. — Representatives from old-age welfare communities here yesterday strongly criticized the Minister of Finance's announcement that social pensions would increase by an overall 10 percent from October 1.

Mr Owen Horwood announced yesterday that pensions were to rise by R16 a month for whites, R12 for coloureds and Indians, and R9 for blacks. This means that from October 1, whites will receive R138 a month, coloureds and Indians R83 and blacks R49.

Speaking for Durban's white community, the director of Tafta, Mr M H Claye, said the R16 rise was far below the inflation rate. Although he was thankful something had been done to improve the lot of the pensioners in the present economic situation, it was "a long time to wait for an increase".

"The situation is certainly no cause to jump for joy."

The former secretary of the Durban Senior Citizens' Association for the coloured community, Mrs I McDonald, said the new budget would hit the coloured people particularly hard because the cost of living and high rentals.

"It's the usual disappointment. October is a long time to have to wait."

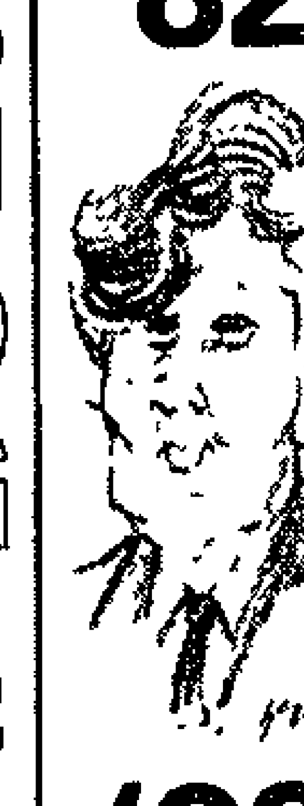
A Durban social worker in the Indian community, Mrs A Maistry, said Mr Horwood's promise to "bridge the gap" had not been fulfilled.

"What we want is equal pay for everyone," said Mrs Maistry. "If white pensioners can hardly make out on R138 a month, what are the other races supposed to do? It all comes down to the question of humanity."

A Kwa Mashu town councillor and active welfare worker, Mrs Albertina Mnuguni, was stunned at the discrepancy between the pensions of blacks and whites.

"The situation is very unfair. If everbody, no matter whether they are black or white, is charged the same prices for food and general sales tax, why is there such a large discrepancy."

BUDGET '82



'82

High rents 'are likely to stay'

Cape Times 25/3/82 (49)

Municipal Reporter

TAX concessions to "stimulate" the construction of rented accommodation meant virtually nothing in the light of current high interest, building costs and expected rentals, property developers and architects said yesterday.

At first glance, however, the concessions were given as a boost for the development of much-needed flats and, as such, were described as "a step in the right direction" and "a positive factor".

But the verdict in view of the present economic situation was: "Not nearly far-reaching enough". And the one thing which developers did not expect to happen was a rush to build flats and houses for rent.

In initial reaction to the Budget announcement of tax concessions to property developers, in a bid to alleviate the rented housing shortage, local property experts were downcast.

The concessions to investors planning to erect housing accommodation for rent included a 10 percent tax deduction on the total cost of a project in the year of its completion; and an annual depreciation allowance of two percent (at present only applicable to new industrial buildings) was extended to all new housing projects offering not less than five family units from April 1.

These allowances fall away if the project is sold outright or through sectional title.

Mr Owen Horwood, the Finance Minister, said he was confident that the concessions would stimulate the provision of rental accommodation and would assist investors materially with their cashflow problems and return on investment.

He estimated that the loss of revenue which the concessions would entail in 1982/83 would be less than R1 million, but that it could amount to about R500 000 for each R10 million invested in such projects in a year.

Spokesmen, who included the City Engineer, Mr Jan Brand, agreed yesterday that there would be no marked swing to the building of flats.

Rental accommodation is at a premium in South Africa, with nothing new being built. The present accommodation is being whittled away by the more financially attractive sectional title sale of units.

An architect, city councillor and former mayor of Cape Town, Mr Louis Kreiner, said the price of money was too high for any effect. "If the interest rates were around 12 percent — instead of 16 percent upwards if you can get the money — then it would have been tremendous."

Beyond reach

He said the tax concessions "seemed like nothing".

"Even if more rented accommodation were built, rentals would still not be within reach of the man-in-the-street. A minimum rental of R500 a month for a small flat would have to be levied.

"Even if the land was given free to a developer, he still could not make it pay."

Another architect, Mr Douglas Roberts, said that coupled with the high interest rates was the fact that the building cost index had been running above inflation in recent years.

'Inducement'

At present, developers simply could not build to rent. This would only happen if the price of money became more favourable.

Mr Revel Fox said only "a massive inducement" would result in new rental accommodation. While acknowledging the shortage, especially in the central City area, he said the main problem was low-income housing with which the private sector could not easily cope.

"However, the stated policy of home-ownership should not be lost sight of."

BUDGET '82 25/3/82

CAPE TIMES 25/3/82. (49) (25#) (49)

Rise in defence spending is relatively modest

Defence Reporter

THE war business might be booming in Southern Africa, but the estimated defence expenditure for 1982/3 is up by a relatively modest R203 million, a rise of about eight percent on last year

In real terms, in fact, defence spending is down when the eight percent rise in spending is compared with the 13,8 percent rate of inflation

R2 600m the sum the SADF estimates it will need to carry it through to 1983 yesterday generated no shocks — unlike the 1981/2 estimates, which were up by a hefty R847m to R2 465m

As was the case last year, R100m which had not been spent was carried over

The relatively low profile defence spending occupies in this year's Budget is reflected in Mr Owen Horwood's speech, which dismissed the whole topic in three paragraphs:

"As in the past, defence and security must remain one of our highest priorities. In a military context it has been the government's aim, within the limits of the resources at its disposal, to place the Republic in as strong and secure a position as possible.

"It has done this not only by developing a well-trained and hard-hitting defence force, but also by building up a highly effective armaments industry.

"The facts speak for themselves. At the beginning of the Seventies, in 1970-71, total expenditure on defence amounted to less than R260m. Today the figure is fast approaching R3 000m."

Of the eight main divisions of defence spending, only three show significant increases — personnel support, command and control and logistic support, which includes the manufacture and procurement of arms and associated research and development

Logistic support shows one of the largest jumps, with R90m more than last year, but border war or no border war, landward defence ("the defence of land territories by combined ground and air forces") has actually decreased by a significant sum.

Spending in this year's estimates are as follows:

Command and control ("to provide and maintain a co-ordinated command and control structure") is up by R34,5m to R282m.

The largest rises in this category are for personnel expenditure, up by R34,4m to R153,3m; administrative expenditure, up by R5,6m to R34m; and professional and special services, up by R4,4m to R44 854 100.

Under "miscellaneous expenditure", unspecified *ex gratia* payments are up by R15 000 to R60 000.

Landward defence has decreased by R19m to R1 508m, although several items within this category have risen. Personnel expenditure is up by R40,3m to R234 226 600, while professional and special services are up by R9,3m.

Air defence ("to secure the RSA's strategic air space for the protection of vulnerable targets in the heartland") is up by R3,4m to R73 833 000. The figures for administrative expenditure and stores and livestock are down, while personnel expenditure is up by R2,8m to R11,9m, and professional and special services by R2,4m to R9,7m.

Maritime defence ("to conduct the defence of the RSA's coastal and ocean areas by combined sea and air forces") has risen by R3m, with small increases in personnel and administrative expenditure and the cost of stores and livestock.

General training ("to train personnel in broader fields not specifically related to other programmes") is up by just over R2m to R102m. Money for unspecified "foreign courses" has dropped dramatically from R719 000 in 1981/2 to R7 800.

Logistic support ("to supply logistic support including overhead costs of procurement, storage, supply, maintenance and transport") is up by R91,2m to R802m. The largest rise is in Armaments Corporation spending under the heading of "Acquisition", which is up by R36,5m to R168m.

Various items show a decrease, but unspecified foreign courses are up by R705 200 to R1,4m, while "operational reserves" are up by R25,4m Repairs and maintenance are up by R13m to R106,5

Personnel support ("to provide operationally essential personnel care services which are also available to Defence Force personnel and their dependents in time of peace") is up by R21m to R74m. Departmental medical services' costs have risen by just over R20m, while personnel expenditure is up by R11m.

General support ("to render supporting services and services associated with the department"), which covers everything from administering the SADF journal Paratus to making grants-in-aid to the Red Cross, is markedly down, by almost R2m. Among other things estimated expenditure on "ceremonial activities in support of military morale and discipline" is down by R1,9m to R874 400, but nature conservation — on which nothing seems to have been spent last year — has been allocated R29 300.

Bait for builders 'not enough'

ARGUS 25/5/82.

Property Editor

THE bait of tax concessions announced in the Budget is not likely to encourage developers to build flats for letting.

The two percent a year depreciation allowance is an important psychological breakthrough, but it is not much of an incentive, says Mr Don Kennedy, executive director of the South African Property Owners' Association.

The entire concession was negated by the developer having to pay back all his tax concessions when he sold the building, said Mr Geoffrey Seeff, chairman of the Cape branch of the Institute of Estate Agents.

He calculated the concession could mean that small, two-bedroom flats in a new block could be let at R300 a month each and give the developer an after-tax return of 8,8 percent in the first year, 7,1 percent in the second year and 5,7 percent in the third year.

NEGATIVE

'He could get a better return for his money by making a risk-free investment in a building society.'

Some developers, however, might be prepared to accept a negative return on their property for the sake of appreciation.

The concession was not enough, said Professor W Kilian, head of the department of building science at the University of Cape Town.

'It is a step in the right direction but developers don't trust the Government and fear rent control might come back if flat rents remained high because of high building costs.'

Job situation will have to be watched, says chamber

Cape Times 25/3/82 (49) (1/8)

Chief Reporter

THE economic affairs committee of the Cape Chamber of Industries said last night that the Budget would, as expected in the circumstances, dampen growth and expansion and that its effects would have to be closely watched "in relation to the creation of jobs for our growing population".

The committee said "regettable circumstances, many of them of external origin", had left Mr Horwood little alternative but to take the fiscal action he had announced yesterday.

"His efforts to restrain State expenditure are to be commended, as well as the priority he has accorded education and the country's manpower needs.

"He has attempted to finance the State's requirements in a non-inflationary way, but taking into account the additional tax on companies, the recent rail and postal tariff increases, the rise in fuel costs, high interest rates etc, industrialists are bound to feel the cost-squeeze.

"They are also likely to experience cash-flow problems."

The committee said the position would be exacerbated by an expected drop in consumer demand, which the increase in general sales tax and personal income tax was likely to have.

These may also encourage demands from labour for higher wages

"The smaller entrepeneurs who need to be encouraged are likely to be particularly affected, and in the interests of employment creation it is important that their situation should not be overlooked.

Insurance tax a 'serious blow'

CAPE TIMES 25/3/82

Staff Reporter

THE government's decision to increase the taxable income of life assurers by 10 percent was a very serious blow to the industry, the chairman of the Life Offices' Association, Mr Jack van Wyk, said yesterday.

The increase, from 30 to 40 percent of gross investment income, would mean that policy holders would receive a "less beneficial product".

Mr Van Wyk criticized the move, saying the goose which laid the golden egg for South Africa's economy should be petted and not castigated.

"Our country's capital needs are so vast that our system of providing for this through the private sector instead of through state schemes should be encouraged rather than impeded."

The industry worked hard to provide financial security for the public thus lightening the government's social responsibilities towards charity and assisting the economy to grow. In the process the industry also held down consumption and therefore inflation.

"An increase in the general company rate will, as the minister said, mean a total increase of R38 million for life insurers and total tax payable of R100 million.

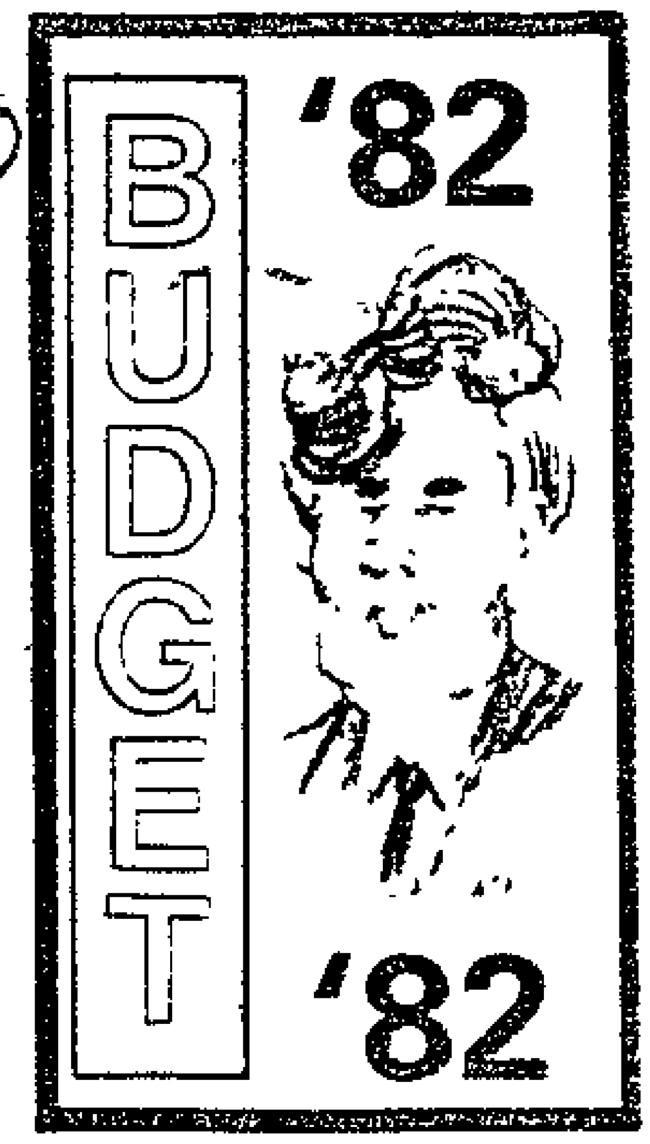
"To the industry this is a very serious blow because it amounts to taxation of policy holders with the result that they will at some time or other receive a less beneficial product," he said.

"We are still awaiting the De Kock report to give us relief from prescribed assets and now we get this knock."

Cinema tax abolished

HOUSE OF ASSEMBLY — The Minister of Finance, Mr Owen Horwood, announced yesterday that the cinema tax would be abolished from April 1.

The tax, imposed at the rate of three cents on admission tickets of more than 35 cents, had been in operation since 1960 and had remained unchanged, he said.



Dried fruit

HOUSE OF ASSEMBLY — The government had decided to extend a five-year interest-free loan of R2 million to the sole registered packer of dried fruit, the Minister of Finance, Mr Owen Horwood, said yesterday.

Mr Horwood said that present state assistance to the canning industry was based on a system of marketing quotas to discourage over-production and the accumulation of unsold stocks of canned fruit.

In the short term, however, this policy had resulted in an over-supply of fruit —

Increase in tax causes concern

CAPE TIMES 25/3/82

(49)

Chief Reporter

MR Bob Wood, chairman of the taxation committee of the Cape Town Chamber of Commerce, said the chamber was concerned that the sharp increase in direct taxation announced in the Budget, both on individuals and companies, would have a depressing effect on business confidence and inhibit new investment.

He said this after welcoming what he referred to as Mr Horwood's success in restricting the increase in State expenditure to 11,5 percent over the previous year.

"This is particularly remarkable in the light of the severe pressures there must have been on him, especially in the fields of defence, education and housing."

Mr Wood said the extent of the increases in taxation announced by Mr Horwood was greater than had been anticipated by the private sector. He added that it was felt the minister could have resorted to a greater measure of borrowing without adversely affecting the economy.

'Positive features'

"Positive features in the Budget are the concession relating to the construction of rental accommodation by employers, which is expected to be more meaningful in future; the exemption of lower-level income earners from the loan levy; and the additional benefits to pensioners."

● Mr A J de Vries, deputy director of the University of Stellenbosch's Bureau for Economic Research, said in an immediate reaction to the Budget that he had no doubt it would curb domestic demand considerably and that as a result, the South African economy would "accelerate into a downturn".

Mr Horwood, he said, had had to gamble in the sense that he could not be sure what the gold price was going to do, and if the strong measures he had taken were seen as overkill, this was perhaps the lesser of the two evils he had been faced with.

Boost for married women

Cape Times 25/3/82

HOUSE OF ASSEMBLY. — The tax deduction allowed from the earnings of married women is to be increased from R1 400 to R1 600, the Minister of Finance, Mr Owen Horwood, announced yesterday.

He said the "vexed question" of the taxation of married women's income was still being considered by the Taxation Commission.

"It has still not been possible to formulate a preferable alternative to the present system whereby the incomes of married persons are aggregated for taxation purposes," Mr Horwood said.

'Reduce burden'

"I trust that this concession will further reduce the real tax burden of women engaged in gainful employment or in a trade or profession."

The loss of revenue resulting from the concession would amount to an estimated R19m.

The effect of the final PAYE deduction system, with its in-built standard deductions and rebates and increased deduction from a married woman's earnings, was "a very meaningful concession to the lower-income groups in South Africa", Mr Horwood said. — Sapa

Cape Times 25/3/82 (49)

Increased duties on luxury goods

HOUSE OF ASSEMBLY. — The Minister of Finance, Mr Owen Horwood, yesterday proposed an increase in *ad valorem* excise duties on less essential goods such as jewellery, photographic equipment and furs.

Introducing the Budget, he said he felt it essential for these items to make a further contribution to the State coffers.

"I wish to propose that the present *ad valorem* duties on certain locally-produced goods as well as their imported equivalents be raised from 20 percent and 25 percent to 25 percent and 30 percent respectively."

This proposal, he said, was expected to yield additional revenue of about R28-million in the 1982/83 financial year and should also assist in curbing consumer demand.

The increased duties will become effective today.

They will be applicable to all imported goods concerned which have not been entered for home consumption before this date and to all similar locally-manufactured goods which by today have not been removed from the premises of manufacturers and owners of warehouses licensed by the Commissioner for Customs and Excise. — Sapa

Council 'must readjust'

CAPE TIMES 25/3/82

Municipal Reporter

ALTHOUGH local authorities recognized the need for stringent financial control, the squeeze by central government would mean continuous readjustment of priorities at the cost of the ratepayer, Cape Town's Town Clerk-elect, Dr Stan Evans, said last night.

This, with the latest price increases, will make the City Council's task of containing expenditure so much harder when it starts its sums in August for 1983's budget.

The increased general sales tax alone is expected to add about R1 million to expenses, and then there are the petrol and postal price rises.

Commenting on the Budget announcement that local authorities would have to limit increases in overall expenditure to below the inflation rate, Dr Evans, who takes over from Mr H G Heugh on April 1, said the City Council had done this for 1982.

Because the Cape, unlike the Transvaal, set its budget from January to December and not July to June, it had already fixed its budget and was forced to review it.

By readjusting certain priorities and shelving certain schemes, the council had contained this year's increase to the inflation level of 13,5 percent. This would have to continue, he said.

Property men mildly pleased

Cape Times 25/3/82 49 123

Own Correspondent

JOHANNESBURG. — Property experts have cautiously welcomed Mr Horwood's concessions to developers but they feel he has not gone far enough.

The minister — in an attempt to encourage the building of rental accommodation — has proposed an annual depreciation of two percent for all new housing projects of not less than five family housing units. An initial 10 percent of the cost of a project is also allowed as a deduction from income in the year in which the project is completed and the accommodation is first let to tenants.

Mr Don Kennedy, executive director of the Property Owners' Association, (Sapoa), described the moves as stimulants but noted they had limitations.

"The two percent depreciation is an important pyschological breakthrough but is not enough to be a real stimulant at this stage. My organisation feels four percent would have had the necessary effect.

"The 10 percent allowance will be a help in solving some cash flow problems and is welcomed."

He described the restraint under which the developer would have to pay back the allowance if the housing project is sold as "fair".

Mr Pieter Rautenbach, director of the Master Builders' Association in Natal, said the concession to rental developers was long overdue. But he wondered why the Minister had decided to exclude developments of less than five units which would prove disappointing to small developers.

Mr Bruce Forssman, financial director of estate agents R M S Syfrets, said of the concessions: "It's a start. The important fact is the acceptance of the need for tax concessions which can become better in the future. It is important, too, that the principle has been agreed as it has been turned aside in the past."

ie the Isocost and Isoquant lines will represent the least cost combination. For a given output the least cost combination of the different factors is where the marginal products of these factors equals their market price.

17/21

1982

A good answer

Budget boost for education, housing hailed

ARGUS 25/3/82

Consumer Reporter

NEWS that Government spending on housing and education will be increased has been warmly received in local government and trade union circles.

But industrialists warn that although the measures taken in the Budget are necessary, they will hamper growth.

Their effects on the provision of more jobs would have to be carefully watched.

The industrialists expect consumer spending to fall as people feel the effects of higher income tax and general sales tax and think this could trigger off demands for more pay.

The general feeling about the Budget, however, seemed to be out of relief that it was not as bad as many people feared.

Mr Jack Roos, director of the Cape Chamber of Industries, said: 'The general feeling in industry is that the Minister had very little option.

Problems

'There are things in the Budget we don't like but when you think of the tremendous problems the Minister has, he has done as well as he could.'

Mr John Barry, director of operations for Pick 'n Pay in the Eastern and Western Cape, said that in spite of the rise in company tax — which would not affect the man in the street — he thought it was a very fair budget.

Mr H G Heugh, Town Clerk of Cape Town, thought it was 'tremendous' news that the money allocated to the National Housing Fund would be increased by 28 percent, from R258-million to R330-million.

But he and the City Treasurer, Mr J B Watkins-Baker, said they could not comment in more detail until they knew how much of this would be available to the city council to provide more housing.

'Thrilled'

Mr D V L Moore, treasurer of the Divisional Council of the Cape, said he was 'naturally very thrilled' to hear that more money would be available for housing.

He said the council — which had been forced to cut back on some schemes for lack of funds — was still waiting to hear its final allocation.

Mr Norman Daniels, deputy chairman of the Trade Union Council of South Africa (Tucsa) in the Western Cape, said: 'I welcome the news that more money will be spent on housing and education, for they are both very important items.

Backlog

'There is certainly a backlog in the provision of housing throughout the country and we can do with all the help we can.'

But, Mr Daniels said, he hoped the policy of providing housing a long way from places of work would be changed.

A statement by the economic affairs committee of the Cape Chamber of Industries said the Minister's efforts to restrain State expenditure were to be commended as well as the priority he had given to education and the country's manpower needs.

However, taking into account the additional company tax, rail and freight tariff increases, the rise in fuel costs and high interest rates, industrialists were bound to feel a cost squeeze and cash flow problems.

Consumer

'The position will be exacerbated by an expected drop in consumer demand which the increase in general sales tax and personal income tax is likely to cause,' the statement continued.

'These may also trigger off demands from labour for higher wages.

'The smaller entrepreneurs, who need to be encouraged, are likely to be adversely affected and, in the interests of job creation, their position should not be overlooked.'

Wine

The committee also said the wine industry was of great importance in the Western Cape and the removal of excise duties on natural wine was therefore welcomed.

But the committtee was concerned about the removal of an important export incentive — the export finance charges and scheme.

It could have been worse

Quoting Samuel Johnson, Mr Horwood said:

'Resolve not to be poor. Whatever you have, spend less; that's my approach.'

CAPE CESS 25/3/82

49

Price of bread set to rocket

THE COUNTRY faces a massive bread price rise from October 1, probably about 20 to 30 percent, following changes to the subsidy system announced in the Budget.

In terms of the present system, which is to remain until the end of September, the subsidy on brown bread is 30 percent and on white 10 percent.

From October this will change to a subsidy amounting to 20 percent of the total cost including the retailer's profit margin on a brown loaf and five percent on white.

The cost price of brown bread is now 40c a loaf and the subsidized selling price 28c, but calculations utilizing an inflation rate of near 15 percent indicate that the cost price can be expected to rise to about 46c a loaf when the next price is fixed in October.

Under the new subsidy system this would work out to a subsidy of about 9c a loaf on the cost price.

White bread's new subsidy will simply cancel out the effects of General Sales Tax and lead to a selling price of about 48c a loaf for an increase of about 20 percent.

This massive rise appears likely in spite of the fact that the total subsidy in money terms is only slightly reduced from last year because of the effective thinner spreading of the subsidy through increased consumption and rising costs.

Sources in the Department of Finance yesterday maintained that the magnitude of the inevitable increase in October provided a good indication of why the change in the subsidy system was necessary to prevent it from rising to unmanageable proportions, draining funds from other necessities.

Making hay while the bread price rise still looms is Theodore Hartzenberg of Factreton. From October 1, as a result of changes in the subsidy system, consumers will face bread price increases between 20 and 30 percent.

Picture: Ivor Markman

Squeeze put on businesses

CAPE TIMES 25/3/82

49

By GORDON KLING

BARRING a massive rise looming in the price of bread, the man in the street has been left largely unscathed from a tough Budget introduced in Parliament yesterday by the Minister of Finance, Mr Owen Horwood. But businesses are being squeezed hard.

Opposition financial spokesmen fear there is still worse to come.

The R18 238-million package reflecting the combined effects of the world recession and the plunge in the gold price, is considered by economists as likely to accelerate the downswing in the economy with all the implications this could have for unemployment, pay and company profits. But Mr Horwood said he had placed the emphasis on financial discipline to hold back inflation and consolidate the base for the next upturn expected in about two years.

Budget '82 has an element of Robin Hood with concessions to the less-well-off being financed largely by greater contributions from big income earners:

- The main burden on individual taxpayers, a five percent loan levy on assessed tax, is lifted from those earning R7 000 a year or less, those whose normal income tax before the levy amounts to R150 or less, and those who are 70 years or older with taxable incomes not exceeding R15 000.

Pensions up

- Pensions are up by the largest rand amounts ever and civil pensioners who are not members of official medical aid schemes will have their membership fees paid by the State from October 1st.
- The deduction allowed from taxable income for married women is increased by R200 to R1 600.
- Family, child, settler and parent allowances and maintenance grants have been increased.
- A final PAYE deduction system has been introduced from the beginning of this month which will make it unnecessary next year for most persons with net taxable incomes of less than R7 000 to submit tax returns.
- Primary rebates have been increased by R120.
- The first R100 of income derived from interest and dividends has been exempted from tax.

Hit hard

Companies on the other hand have been hit so hard that fears of an overkill have been expressed:

- Incorporation of the present five percent surcharge into the basic company rate (excluding gold and diamond mining companies) and the introduction of a new 10 percent surcharge means an effective rate of 46,2 percent, compared with 40 percent previously. The surcharge on gold and diamond mining company tax has been increased by 10 percent to 15 percent.
- Advertising services previously untouched by General Sales Tax on turnover must now pay.

Concessions to the business community are confined to measures intended to encourage the construction of new rental accommodation through an annual tax deduction of two percent of the cost on all developments of at least five family housing units and an initial allowance of 10 percent of the cost of such projects to be deducted in the year the project goes on stream.

BUDGET INSIDE

BUSINESS BRIEF

Gold (close) ...	$332,50
FT index (close)	562,60
RDM 100	574,60

Blacks respond to budget with dismay

CAPE TIMES 25/3/82

49

Staff Reporter

BLACK civic leaders, trade unionists and politicians have greeted the coming increase in the bread price and racially discriminatory increases in social pensions — announced in yesterday's parliamentary budget speech — with dismay.

Mr David Curry, national chairman of the Labour Party, said: "The government has accepted the principle of moving away from discrimination, but it is not implementing this principle by a long shot. With pension increases at this rate we will never narrow the gap between white and black.

"It is deplorable that the price of bread will have to rise again. This price increase will just about cancel out the paltry increase in pensions. Poorer people in general will be very hard hit."

Mr Curry added that the increase in expenditure on National Housing fell far short of providing relief to lower-income groups paying rentals in housing schemes.

Mr Dawood Khan, PRO for the Western Cape Traders' Association described the pensions and bread price rise as "shocking".

He said: "Through the government's own making, particularly the Group Areas Act, people of colour were moved into the bundu making life much more expensive for them than it needed to be.

"For this reason the government should subsidize every increase in the cost of living which affects black people. As far as pensions are concerned, it is scandalous that an African person should receive R49 a month while Whites get R138. How do you justify this discrimination? White and Black have to pay the same price for basic foodstuffs."

Dr Frank Quint, educationist and President's Council member, said: "With the high rate of inflation people in the lower-income brackets will suffer more and their rand will go a much shorter distance. Even the White pensioner will not be able to make ends meet, let alone the Black pensioner. The imminent hike in the price of bread will certainly be a bitter pill to swallow."

Mr Gopi Munsook, trade unionist and President's Council member, said: "Bread is a staple food of the poorer classes, and putting up its price once again will bring about great hardship on these people. This is one commodity the government should not have touched.

"As regards the old-

To Page 8 B

Price of wine to drop by 3c a litre

CAPE TIMES 25/3/82

49

Staff Reporter

ALTHOUGH marketers yesterday welcomed the abolition of the 3c-a-litre excise duty on natural wines, they did not expect it to boost sales significantly.

The Minister of Finance, Mr Owen Horwood, abolished the full excise duty on natural wines and reduced the excise duty on non-alcoholic beverages by one cent a litre in his Budget speech yesterday.

He said proclamations giving effect to these notices would appear today. To the man-in-the-street, it means a 2,25c reduction in the price of a 750ml bottle of wine and a 15c reduction in the price of the popular five-litre cellar cask.

A spokesman for Stellenbosch Farmers' Winery said that although his company welcomed the concessions and would put them into effect from today, it was difficult to say if sales would be significantly boosted.

Impact

The price reduction on wine sold in 750ml bottles would be negligible, but the 15c drop in the price of the five-litre container would have more impact on the consumer, he said.

Mr Peter Fleck, marketing director of Gilbeys, said the concession was encouraging and that a "few cents here and there" all helped.

"But the basic price of wine is already so high that I don't think it will have a marked effect on sales.

"The real question to ask here is how does wine relate to beer. South Africa is on a 'beer-kick' at the moment even though it is an expensive drink," he said.

A spokesman for the Oude Meester Group said he was happy to hear the news, although he felt it was a little early to comment.

"It can only help the most important industry in the Western Cape," he said.

A spokesman for a Peninsula beverage company approached for reaction to the one-cent reduction in excise duty for non-al-

To Page 8 A

Budget: Stock Market unhappy

Cape Times
26/3/82
49

By GORDON KLING

THE Stock Market yesterday gave a thumbs down to the Budget and share prices dropped across the board.

"It's like kicking a man when he's down," complained one broker who said the general attitude was that the additional 10 percent surcharge on company tax announced by the Minister of Finance, Mr Owen Horwood, on Wednesday was unduly harsh.

"The feeling is that he has gone too far and put the whole thing into an overkill situation."

Analysts yesterday believed the Budget had been based on an average gold price of about \$275 an ounce for the year, which was too low.

"I think we're going to see a big surplus on the government's accounts at the end of the financial year and in the meanwhile we have to take the sad consequences.

"Look at a company like De Beers, they have to stockpile diamonds in a depressed market and they're short of money. Now they get hit with another 10 percent surcharge. It's crazy."

Badly mauled

Gold shares on the Johannesburg Stock Exchange, badly mauled by the collapse in the bullion price in the past few months, plunged by up to 10 percent yesterday in reaction to the Budget and other sectors of the market were also weaker. De Beers shed another 20c to close at 550c.

Investors on the London Stock Exchange echoed local sentiment, driving down South African shares listed there.

● This week's Budget contained few shocks for consumers, but the man in the street is going to be hit next week by a series of increases on a wide range of goods, reports **Michael Acott.**

These increases, coming into effect on April 1, were announced earlier in ministerial statements, the Post Office Budget and the Railways Budget.

In addition, general sales tax went up from 4 percent to 5 percent on March 1 and a 10 percent import surcharge has been in effect from mid-February.

The increases coming

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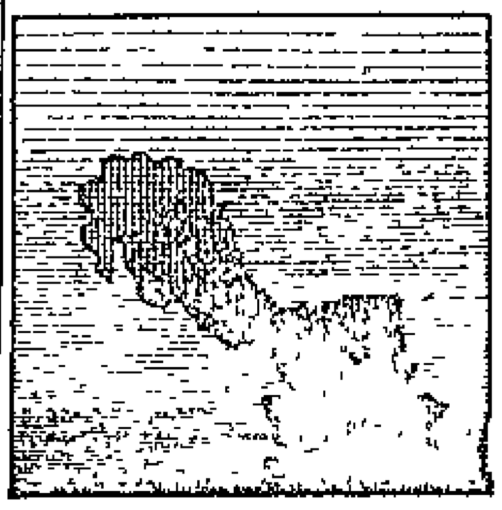
To page 2

P.T.O

THE BUDGET

Turning to taxes FM 26/3/82

(49)



Financially prudent, politically well-judged. That, in essence, is how the Budget is being perceived. The political component is astutely hidden — as it had to be with government fully aware of the attraction the Right holds for lower-income voters in a period of uncertainty.

In its presentation, the Budget must be recognised as a shrewd political instrument. Its remarkably fine balance will probably have deprived the NP's rightwing opposition of much of the sting they would doubtless have tried to inflict on P W Botha and his Cabinet colleagues when the Budget debate opens next week.

It is significant, too, that there were no official attempts to tone down dire predictions of severity that abounded in government-supporting newspapers and the SABC. The fact that these predictions proved ill-founded will clearly impress ordinary taxpayers and economic commentators alike. The political dividends arising from the sense of relief that will doubtless pervade the country — including the Waterberg — should not be underestimated.

Horwood has kept certain options open for the Botha administration. An early election should find the lower-income voters in no particular mood to regard the NP leaders as having deserted their cause while seeking an alliance with big business (for the benefit of blacks).

On the other hand, while they may not have got as much from the Exchequer as they may have desired, the railwaymen, civil servants, defence and security personnel are not in a weak position *vis a vis* the coming economic contraction. An election called to coincide with the upturn — say in 1984 — should see them happy enough to turn out, in the old tradition, for the NP.

Most of the visible pain is inflicted on business and mining interests, with middle-income taxpayers seemingly let off lightly. But the actual, necessary burden has been spread rather more widely, particularly if account is taken of two items:

☐ The increase in gst to 5% announced in advance of the Budget; and

☐ The effects of fiscal drag on personal income tax — a point to which Horwood alluded in his speech.

The effects of fiscal drag show up through a comparison of the revenue from income tax on individuals for the 1981-82 and 1982-83 fiscal years. (The comparison is made on the existing basis of taxation, without inclusion of the loan levy.)

The revised figure for the earlier year is R3,1 billion. For the current year it is R3,9 billion. The increase in revenue is nearly 26%. As personal incomes cannot possibly have increased anywhere near this rate, around twice the inflation rate, the proportion of income — in terms of real purchasing power — owed to the State in the current year is much higher.

Furthermore, the actual purchasing power of that slice of income left to the taxpayer after tax will have been reduced compared with last year — even before account is taken of the impact of the loan levy.

Still, when a line is drawn through all the budgetary measures, the added burden on business is considerable. The 10% increase in the surcharge on tax on gold and diamond mining is a heavy burden indeed at present, even if some of the tax take is handed back to the low-grade mines by way of State assistance. And life assurance companies will pay tax on 40% of their investment income, instead of on 30% as before.

Also within the business sector, advertising revenue will for the first time be subjected to sales tax.

The single set of concessions — a 2% depreciation allowance and a 10% initial allowance on blocks of rental flats with five or more units — is only a modest start to providing incentives in this vital area. From the viewpoint of free market philosophy, the concessions are a not-very-generous *quid pro quo* for the continued menace of rent control.

The Budget is an exercise in sharing out the pain, but, in terms of the familiar aims of "consolidation and adjustment," the accent is decidedly on adjustment — particularly to the R4 billion balance of payments deficit. A free-falling rand and crisis-level interest rates accelerated the process. Fiscal policy has now been brought into line.

The Budget package — including the courageous act of shaving government spend-

WHO GETS MOST?

DEPARTMENT	Total estimated expenditure 1982-83 (R000)	Actual expenditure 1981-82 (R000)	% change
State President	1 368	497	64
Parliament	10 584	7 029	33
Prime Minister	11 250	8 387	26
Manpower	63 246	51 483	18
Co-operation and Development	1 238 196	1 150 112	7
Transport	283 244	260 530	8
Finance	6 519 512	5 360 368	18
Audit	7 876	6 490	17
Internal Affairs	914 030	719 838	21
Foreign Affairs and Information	646 090	386 151	40
Mineral and Energy Affairs	477 645	385 634	19
Police	481 632	349 050	27
Commission for Administration	21 641	20 107	7
Statistics	15 939	12 003	25
Health and Welfare	1 119 620	953 339	15
Education and Training	475 758	369 748	22
Environment Affairs	354 430	321 038	9
National Education	631 519	511 938	19
Defence	2 668 000	2 465 000	8
Agriculture and Fisheries	352 411	460 912	−31
Industries, Commerce and Tourism	383 830	333 628	13
Justice	86 680	62 602	28
Prisons	189 075	134 305	29
Community Development and State Auxiliary Services	887 575	842 210	5
Improvement of conditions of service	200 940	696 500	−71

4. Do not write in the left-hand margin.

Any dishonesty will render the candidate liable to disqualification and to possible exclusion from the University

details about the "substantial general salary adjustment" government plans to grant them.

The implications of the Budget for interest rates is in itself neutral, or even bullish. The burden of the balance of payments adjustment process has been slightly removed from short-term interest rates. There is less need for them to remain at crisis levels for longer than necessary.

It has similar implications, though for different reasons, for long-term rates. A tight goverment spending programme, and the lucky coincidence of a sharply lower State debt redemption schedule, have combined to substantially reduce the total financing requirement. This fiscal year it is about R3,5 billion against more than R5 billion last year.

This means that, despite a lower Public Debt Commission contribution and no increase in the non-marketable debt component, Pretoria will be going to the private sector for only R600m in new money and R614m in roll-overs. These total just over R1,4 billion, compared to more than R2,7 billion in the previous year.

Government will not have to mount an aggressive marketing operation to sell this to the private sector. And it will not crowd out the markets. Government will not, on its own account, bring substantial upward pressure to bear on long-term interest rates in the coming year.

In addition, Horwood has announced his intention to market government debt in smaller, more regular issues. This should dispense to a large extent with the uncertainty that disrupts the market weeks before each government issue. The continuation of the tender method of issues could lead to a smoother rate pattern.

And it will mean that, although Pretoria may meet the market at its own levels, it will not lead it — either up or down.

As for the insurance proposals, R M Potgieter of Old Mutual points out that the insurers have effectively been clobbered twice. The compound effect of the 10% increase in company taxation plus the 33% increase in gross investment income threshold is considerable. The deduction, probably around 0,5%-0,75%, will reduce

TIME SAVER

Once again this year, the *FM* was able to get immediate coverage of the Budget speech through facsimiles transmitted by the Qwip 1300. At a transmission rate of one A4 page every two minutes, the facsimile system is seven times faster than telex.

The Qwip 1300 is made by Exxon Office Systems and distributed locally by the Lucem group's Wardal Information Systems. Its ability to transmit pictures, words and drawings over a telephone line has been compared to a "photocopier divided in half at each end of the telephone cable."

While telex tapes need transcribing once they have come through, Qwip's time-saving facsimiles are transmitted directly onto paper.

The system is also easy on the pocket. Wardal estimates that one can save up to 50% by using Qwip for local transmitting. Use of this facsimile technology instead of telex can cut costs of transmission to Europe by up to 70%, and to the UK and US by about 60%.

THE STATE OF THE ECONOMY

In his economic review, Finance Minister Owen Horwood said SA was confronted by difficult economic problems. He said a policy priority would be to consolidate the domestic economy and restore equilibrium to the balance of payments position.

The balance of payments "adjustment process" needs strong support from fiscal and monetary policies, even if this means holding down demand at a time of slower real growth.

The remedy calls for firm control over increases in government spending, over the cash and liquidity base of the banking system and over increases in the money supply.

This means there is little scope for an increase in real disposable per capita incomes. "The laws of economics cannot be evaded. One way or another, real disposable income will be affected."

Horwood outlined three planks of his Budget: first, restrictions on the rate of increase in government spending; second, the deficit before borrowing must be reduced well below the average of 3,4% of gdp over the past 22 years; and third, the deficit must be financed without recourse to bank credit.

Real gross domestic spending rose 10,5% in 1981 after 13,5% in 1980. Real private consumer spending increased 6,3% in 1981, while real government spending rose a modest 2,3% and real fixed investment 6,7%.

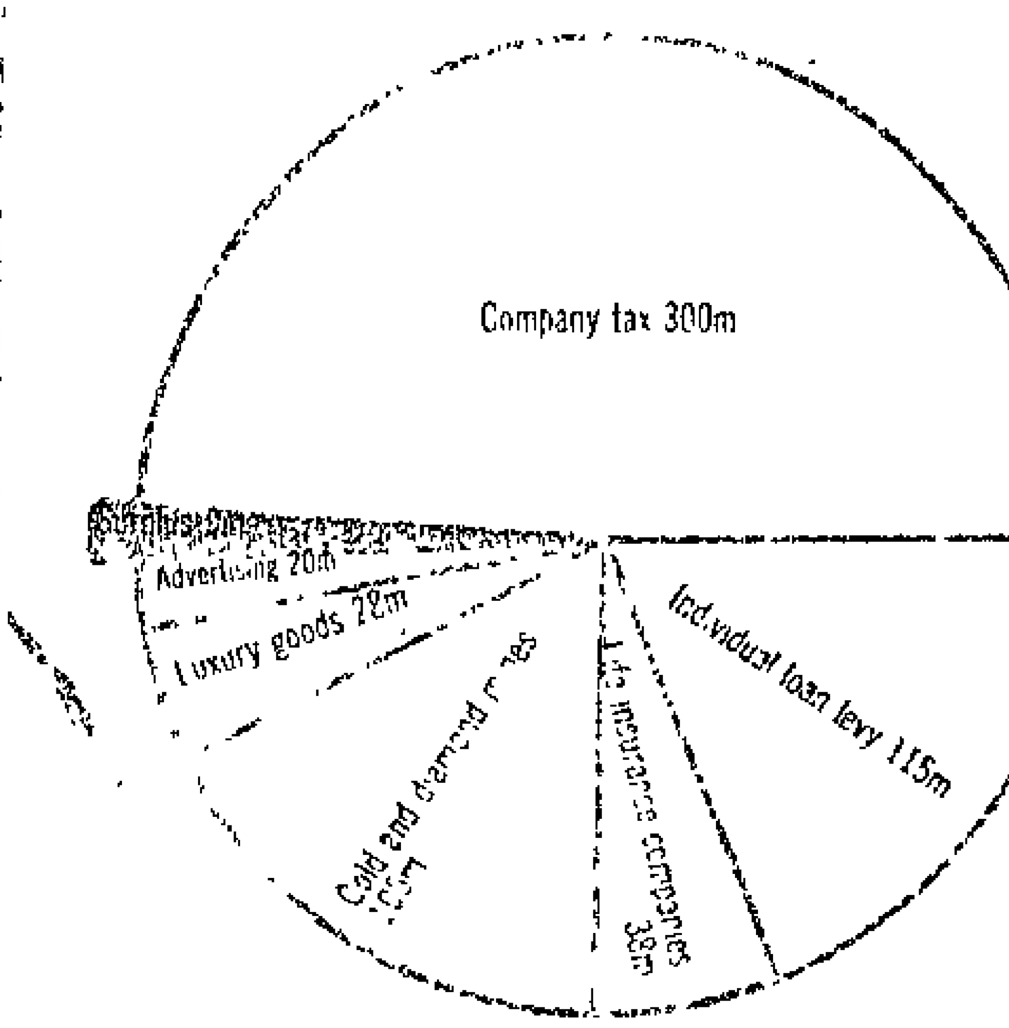
The February on February rate of inflation was 13,6%, largely due to excess monetary demand. Real per capita gdp increased 2,2% last year after 4,9% in 1980.

The rand value of gold output fell from R10,1 billion in 1980 to R8,3 billion and "will show a further substantial decline this year." Non-gold exports declined 3% in rand terms last year — 14% in volume. At the same time, imports rose 28% by value and 16% in volume. As in the past, 85% of imports were in the form of capital and intermediate goods.

The balance of payments position reflects a slide of nearly R7 billion, from a surplus of R2,8 billion in 1980 to a negative R4 billion at the end of last year. The external value of the rand against the US dollar depreciated 30% in line with the deteriorating BoP position.

Money supply (M2) increases recorded 17% in the first quarter of 1980 to 41% in the third quarter and a further 25% in the final quarter, before leaping 46% in the first quarter of 1981, 26% in the second and 10% in the third quarter. But just as matters appeared to be coming under control, M2 shot up 21% in the fourth quarter because of government's financing of the record maize crop. A massive R2,3 billion passed through the Land Bank and the co-ops into the hands of farmers. As a result, government was forced to resort to bank credit and the banks expanded their credit extensions from these additional cash reserves.

APPORTIONING THE PAIN



Figures in rands

Finance Minister Owen Horwood did not want to place undue pressure on the local capital markets or the Treasury's interest bill.

The problem he faced, therefore, was how to reduce the deficit before borrowing, which was almost R2,9 billion. This is a breakdown of the method he chose to spread the burden. It is a judicious mixture of pinpricks, rather than an all-out assault on a single sector.

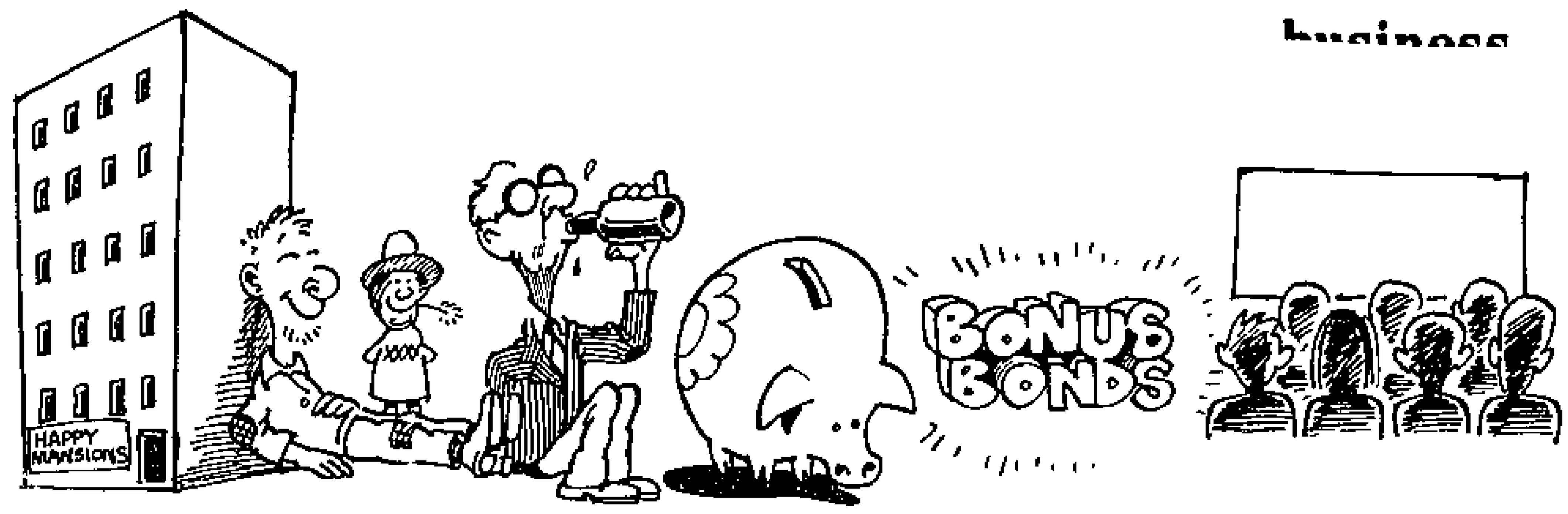
The whole will raise R606m this year and reduce the deficit to under R2,3m.

"Developers are not likely to go rushing into flat building. For a start, flat rentals have not risen to the point where they can justify an adequate return on investment."

With a 28% hike in the allocation to the National Housing Fund, government is clearly placing high priority on the need to catch up on the housing backlog. The increase, from R258m to R330m, is proportionately the Budget's biggest.

Of course, it's still not enough. At last count, the countrywide backlog of black housing was 420 000.

At the same time, however, Horwood will be helping the sagging building industry. "It will be a big asset to the merchants who have seen sales volumes slacken off," says Building Industries' Federation past-president Bob Stevenson. "Unfortunately the number of people who handle mass housing contracts in the building industry is limited. The big gains will be for the suppliers of materials."



While the R3,2 billion allocation for education represents a 150% rise over five years, leading educationalist Franz Auerbach points out that priorities are not yet clear: "A large proportion of the allocated figure is always for tertiary education. With the planned Vista University and the black medical training hospital, the tertiary share must be greater this year. The increase in expenditure on black schooling remains to be seen."

Predictably, defence was the largest vote. Nonetheless, the 8% increase was the lowest for several years and reflects a decrease in real terms.

TYING IT UP

"If living conditions don't stop improving ... we're going to run out of humble beginnings for our great men." — Russell P Askue, quoted by Owen Horwood.

Personal income tax: The system of PAYE tables up to R7 000/year has been rationalised. The deduction rate will be 10%. However, the primary rebate has been increased by R120. Tax thresholds and tax-free allowances for married women have been raised.

Loan levy: A 5% loan levy on income tax payable by individuals has been imposed. The term of the levy is seven years and attracts a tax-free interest rate of 8%. Subject to exemption are those earning R7 000/year or less and those over 70 years with incomes of less than R15 000.

Pensions: Social pensions have been increased by R16/month for whites and R9/month for blacks. Special bonuses of R30 for whites and R18 for blacks are included. Military and civil pensions have been raised.

Cinema tax: The 3c duty on cinema tickets has been abolished.

Sales tax: All advertising services will be subject to the 5% gst from August 1.

Long-term insurers: The portion of gross investment income subject to tax has been increased from 30% to 40%. The basic tax rate is the same as company tax.

Company tax: Basic rate has been increased to 42% and the surcharge raised to 10%, making an effective rate of 46,2%. For gold and diamond mining there will be a rise in the surcharge rate from 5% to 15%.

Excise duty: The 3c/l excise duty on natural wines and fermented fruit beverages has been abolished. Ad valorem duties on all "less essential" goods have been raised, from 20% to 25% for local goods, and from 25% to 30% for imported goods.

Defence: The departmental vote has risen 8% to R2,7 billion.

Education: Total spending on education for all population groups will amount to R3,16 billion this fiscal year.

Housing: An annual depreciation allowance of 2% will be made for those investors erecting rental accommodation of five units or more, with effect from April 1. An initial allowance of 10% of the cost of the project will be deductible from income in the year of completion. The National Housing Fund is to receive a 28% increase to R330m.

Land consolidation: A further R12m has been proposed, bringing the total for land purchase to R64m.

Bread subsidies: The subsidy on bread has been rationalised. The total allocation is virtually equivalent to last year's. Nonetheless, bread prices are expected to rise.

Public services: A record R800m package has been approved for improved working conditions. Major improvements include a substantial general salary adjustment and the narrowing of the wage gap among different population groups.

Local authority finance: Rates on government property will be the responsibility of government. An amount of R34m has been allocated. After including transfer payments for ambulance, fire services and other matters, a total of R92m will accrue to local authorities.

Savings: The first R100 of income from interest and dividends is to be exempt from tax. Interest on National Defence Bonds is to be increased from 11% to 14%, effective April 1.

Agriculture: The dried fruit industry is to receive a 5-year interest-free loan of R2m to acquire new processing facilities. Tobacco and drought subsidies are under investigation.

Public debt: Cost of public debt is now estimated at R2,3 billion, an increase of 16% on the previous financial year.

Exchequer expenditure: The total rises to just over R18,2 billion, about 11,5% higher than the revised estimate of expenditure for 1981-82.

Financing: Total revenue is estimated at just under R16 billion, leaving a deficit before borrowing of about R2,3 billion.

a voluntary tree reduction programme for

THE BUDGET

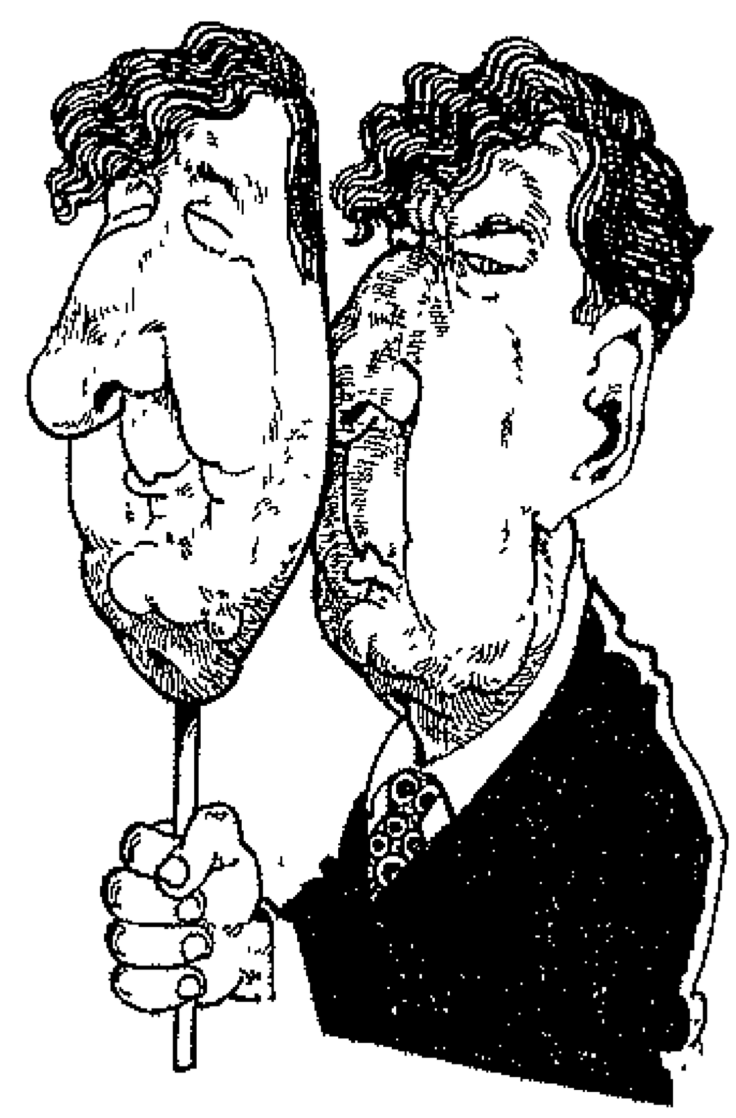
(49) FM 26/3/82

For whom the bell tolls

Let there be no mistake about it. This is a tough budget. If government spending is curbed as promised it will bite hard, it will cut into disposable incomes and it will punish the improvident. It is a mix aimed at cutting demand, shoring up our reserves of foreign exchange and balancing the books of our trade with the world.

It is a budget which Finance Minister Owen Horwood could not have enjoyed delivering, but one in which he can take satisfaction.

Given a weak gold market and a depressed world economy, he and his advisers have coped well. Taken together with the earlier increase in the general sales tax and the 10% import surcharge, it is a sophisticated document.



Its grand strategy is summed up in Horwood's determination to (1) curb government spending, (2) cut back the "deficit before borrowing" to below the long run level of 3,4% of gdp and (3) finance this deficit without printing money.

Faced with an adverse swing of *R7 billion* in our trade with the world and rampant domestic demand, Horwood has little option but to turn the screw.

And let it not be forgotten that we are paying now for the sins of the past. The explosion in money growth which fed the demand for imports was ignited by the events of 1979 and 1980. It was then that gold boomed and money poured into the economy. That money was dammed up by exchange controls when it should have gone abroad seeking the higher returns that were available.

Instead, it sloshed about in an overheated economy with matters made worse by other artificial controls such as bank credit ceilings.

This led to a sharp increase in direct transactions between borrowers and lenders avoiding the banks altogether and setting their own terms — the process known as "disintermediation" (in which the intermediary role of banks is eroded). In that climate the Reserve Bank lost influence over the money supply and its velocity, and over interest rates.

Thankfully, those days are behind us. It is not too much to say that we have entered a new economic era in our history in which the we can adjust to the forces at work, most beyond our control, in a far smoother way.

This week's Budget is evidence of this new and sophisticated approach. Its psychological impact has, sensibly, been muted with announcements of the burden strategically spread.

In addition, it has been designed to suit the current, and pressing, political needs of the Prime Minister for, on the face of it, it is a populist affair.

But let us not be deluded. While companies have been hard hit, it is as well to remember not to ask for whom the bell tolls. We are all part, one way or another, of the corporate world and we will all suffer accordingly. There is no abstract entity such as "big business" which has to bear new taxes.

In our market economy, executives are merely stewards of assets: in their stewardship they have no choice but to pass on the burden. Business is also the source of new job creation. This will now slow down as demand dwindles, the cost of money stays high and profit growth is cut by the new tax load.

It is unfortunate that Horwood felt it necessary to add to the burdens of the mining industry while smokers and drinkers escaped unscathed.

Further evidence of an historic shift in our affairs has been the merciless treatment of government spending. Once again, the target is for no *real* growth at all which must spur the shift of resources from the public to the private sector, a process which, to his undying credit, the PM has supported.

At the heart of this philosophy lies firm control of the money supply. Without that as its centerpiece, the whole edifice falls apart.

Sadly, last last year the policy came adrift when a record R2,3 billion was advanced to the farmers while government spending on strategic stockpiles led to a rapid increase in its indebtedness to the banking sector.

This is the fastest and most ruinous method of creating money. These twin blows led to a 21% increase in the money supply in the last quarter of 1981.

A repetition of this cannot be countenanced; it would make a mockery of Horwood's ministry, destroying his credibility and that of his advisers.

SA to spend more on education than SADF

(49) CAPE TIMES 26/3/82

Political Correspondent

HOUSE OF ASSEMBLY. — For the second successive year, South Africa is to spend more on education for all races than it is spending on defence.

The Minister of Finance, Mr Owen Horwood, said in his Budget speech this week that the total amount to be spent on education for 1982-83 was R3 160 million.

The Budget estimates show the amount planned for defence spending this year as R2 668m — nearly R500m less than Mr Horwood's total for education.

A senior official in the Department of Finance said yesterday that total education spending overtook total defence spending for the first time in the 1981-82 financial year.

The estimates then were R2 880m for education and R2 465m for defence.

While the defence estimate is provided as a total in the defence department's budget, totalling education spending is a complicated task involving figures from at least five departments.

Education itself is divided into four racial compartments falling under three ministries. These are the Department of National Education (white education), the Department of Education and Training (black education) and the Department of Internal Affairs (coloured and Indian education).

Other departments

Mr Horwood's calculation includes in addition money spent on schools and other educational institutions by the public works section of the Department of Community Development and the budgetary aid paid to various homelands by the Department of Co-operation and Development which is used for educational purposes.

This year's estimates show, however, that the government is still spending more on white education than for any other race group.

The Department of National Education Budget is R631,5m compared to R475,8m for education and training of black people, R391m for coloured education and R197,1m for Indian education.

'Sins' of SA 'cry to heaven'

ARGUS 26/3/82

48

Religion Reporter

THE Ned. Geref Kerk has called for a day of humility and prayer on April 4 for South Africa's sins which 'cry to heaven' — horse racing and activities on Sundays.

Die Kerkbode, official organ of the Ned Geref Kerk, reminded readers in an editorial article this week of the call by the General Moderamen of the church for a special day on Sunday, April 4.

'Perhaps the most important reason for the observance of a day of humility and prayer is our national sins (volksondes) which cry to heaven.

WAGERS

'More than R700-million alone is wagered on horse races! Millions upon millions are spent on lottery-investments!

'And what of desecration of Sunday and other fields in which the norms of God's Word are thrown overboard?

'Come, believers and church people, let us on April 4 come before the Lord in humility and act for ourselves, for our country, for our people, for our (Ned. Geref) Kerk, for our future.'

DROUGHTS

Elsewhere, the Kerkbode article referred to droughts in certain areas, 'the declining price of gold, balance of payment difficulties, rising prices, high rents and decreasing buying-power of our money' which filled thousands of people with concern.

'One must also consider the fact that the latest political differences could result in unsavoury strife and bitterness in our church societies, because those involved are mainly members of our Afrikaans churches.'

State spending unlikely to be constrained

RDM 27/3/82

(49)

Sleight of hand in Budget figures

By JOHN MULCAHY

THE 11,5% increase in Government expenditure announced by Mr Horwood in his Budget may be a misleading figure, and the actual increase is likely to be about 15%.

This emerged from a symposium organised by the Associated Chambers of Commerce (Assocom) in Johannesburg yesterday.

A bank economist said Mr Iorwood appeared to have compared apples with ɿears" when arriving at the .1,5% increase.

Budgetary expenditure is .n two parts, the first being 'normal" expenditure and relating to the various votes, and the second part comprises statutory appropriations, which relate to items such as the National Road Fund and the National Housing Fund.

Total expenditure for 1981-82 was R16 350-million, which included the "normal" and "statutory appropriations".

The estimate of R18 238-million for 1982-83 includes only the first part of expenditure.

When additional appropriations are included expenditure shows an increase of 14,9%, reflecting a real increase of 1,3% at the current inflation rate.

Another area of contention in the Budget has arisen over the revenue estimates.

The Budget deficit in the coming year is scheduled to be 2,8% of gross domestic product, the same proportion as before, but this implies a GDP growth rate of between 1,5% and 2%, somewhat higher than conventional wisdom indicates.

Yesterday's symposium concluded that the economy was facing a significant adverse change, brought about by two major factors.

These were the R7 000-million turnaround in the current account of the balance of payments to an estimated deficit of R4 000-million last year from a surplus of R3 000-million in 1980, and high inflation.

Presenting the public sector's view of the Budget was Dr Joep de Loor, Director-General of Finance, who said that although an 11,5% increase in Government expenditure had been budgeted for, there would be other expenditure.

For this reason a clearer picture on expenditure could be gained from the expected "Budget-on-Budget" increase of 15%.

He gave as examples of unforeseen additional expenditure relief to the agricultural sector if drought conditions worsened, and defence requirements.

There was another R150-million to come out of the private sector and R100-million from the special defence equipment account.

Dr De Loor said three minimum requirements were kept in mind in formulating this year's Budget:

- Public expenditure should increase by as little as possible — "You must cut away all the fat that you have."
- The deficit before borrowing should not be proportionately higher than in the previous year, and borrowing requirements should not be greater. The deficit in the coming year was expected to be 2,8% of GDP again.

Dr De Loor said the International Monetary Fund team had pressed for a smaller deficit, but was satisfied that it had been kept to the same proportion as last year.

The deficit over the past 22 years had averaged 3,4% of GDP.

- Total expenditure by Government should be financed from current income, and any deficit should be financed by the non-bank private sector.

Realising that the economy had to be cooled down further to establish a firm base, Dr De Loor said all options had to be considered, and a decision taken on where to find the revenue.

The alternative to higher tax or a fiscal policy mix was depreciation of the rand.

In determining the extent of the fiscal measures all of those previously announced should be included, such as the increase in general sales tax, the 10% import duty and higher rail and postal tariffs.

"This is the price to be paid to avoid a much higher price in interest rates and inflation."

Mr Ian Lamont, chairman of Assocom's economic affairs committee, in presenting the private sector's view of the Budget, said it was not surprising that the "man in the street" thought he was getting off lightly.

The Budget itself provided for an additional R93-million from consumers, but ignored the previously announced measures, especially increased GST, which were taking another R1 100-million from consumers' pockets.

In arriving at the deficit before borrowing these extra-budgetary measures had been included, which had the effect of falsifying the actual financing requirement.

If the additional R1 100-million was added to the deficit, the proportion of GDP rose to well over 3%.

In combating inflation South Africa was faced with three specific difficulties, said Mr Lamont::

- A social conscience, which required the wage gap between whites and blacks to be narrowed, forcing an increase in wages without a concomitant lift in productivity.
- The need for a high State of military preparedness.
- Enormous interference with the private sector through administered prices.

Summing up prospects for the economy, Mr Ron Bethlehem, chief economist of Johannesburg Consolidated Investment Company, said that in the past the rand had cracked when SA's inflation rate was out of kilter with that in the US.

This had happened in 1976 when the rand was devalued by 18%, and again last year when the rand fell by 25% against the dollar. SA inflation was running at 13% to 14% now against the effective US rate of only 5%.

If SA remained out of step on inflation there could be further adverse effects on the rand, Mr Bethlehem said.

SA could not be an island of low interest rates in a sea of high rates, and he predicted that long-term rates would continue high as long as inflation perceptions remained high.

[I]MF PLAYED KEY [R]OLE IN THE BUDGET

(49) S. Tribune 28/3/82

Finance Reporter

FOREIGN bankers and the International Monetary Fund played a key role in the economic strategy spelt out by Finance Minister Owen Horwood in his Budget on Wednesday.

An IMF report on the South African economy, compiled by a team of officials which visited South Africa recently, pinpointed several of the weaknesses in Pretoria's economic strategy which the Budget is designed to overcome.

It suggested, for isntance, that Horwood take firmer action to control the money supply and that the burden for cooling the economy should be spread more evenly between fiscal and monetary policy.

The IMF "very definitely influenced the Budget in strengthening the way of thinking and the approach which we had", Director-General of Finance Joep de Loor told a post-Budget discussion group organised by Old Mutual and Nedbank.

According to De Loor, the IMF advised this country to keep the Budget deficit even lower than the 2.8 percent of gross domestic product achieved.

He said the IMF's overall impression of the economy was "extremely favourable", though it criticised the 21 percent spurt in money supply during the last three months of 1981.

Chris Stals, senior Deputy Governor of the Reserve Bank, indicated that South Africa was neither able nor willing to sustain heavy offshore borrowings.

"We must be realistic," he said. "We cannot go on borrowing to the extent of R3,5 billion to R4-billion a year to finance a balance of payments deficit.

He warned that "foreign bankers are looking to their exposure to South Africa. Margins are increasing already."

Banks might also have political problems raising loans for South Africa in the future.

Gerry Muller, Nedbank's chief executive, agreed that margins on South African borrowers' foreign loans "are getting a little stiff."

Stals disclosed that the Reserve Bank's foreign borrowings have jumped from zero at the end of 1980 to R3,5-billion in the first quarter of this year.

In addition, private sector borrowers have raised around R1-billion over the past year.

The loans have been needed to cover South Africa's soaring current account deficit on the balance of payments. Although the Budget aims to bring down the deficit by cooling demand for imports, Stals conceded that "we delayed the adjustment process for too long."

Budget showed up Government's changing priorities

(49) E.Post 30/3/83

By BRIAN POTTINGER, Political Correspondent

THIS year's estimates of Government expenditure reveals continuing heavy emphasis on law, order and security with a massive investment in homeland development.

They also show cutbacks in consolidation expenditure, still insignificant sums for urban black development and a hike in influx control expenditure.

Welfare service increases during the year remain negligible and throughout the Budget runs the continuing — but in most cases narrowing — inequality of State spending on white and black South Africans.

A comparison of State spending over the last six years paints a picture of a Government suddenly and belatedly realising its neglect in some of the key areas and then valiantly battling to make up — only to be caught short this year in a financial squeeze.

In the last six years the Government has spent a total of R15,4 billion on Defence, Police and Prisons. Justice accounts for another R376 million. Defence spending has doubled since 1977 to its present level of R2,6 billion although this year's increase is in percentage terms only 2,5.

Police spending shows a 270% increase since 1977, Prisons the same amount and Justice 220%. Hundreds of millions were also spent during the year on constructing military bases, police stations, prisons and court houses.

Security and strategic planning has drawn the same attention. The security planning section of the office of the Prime Minister has enjoyed a twentyfold increase in allotted spending in two years — from R45 000 in 1980 to R490 000 in 1981 to R1,7 million this year.

Part of th... ment but it also reflects a heavier emphasis on security.

To buttress its formidable military power the Government has spent more than R1 billion in arms development through its parastatal Armscor. Since 1977 the outlay has more than trebled.

Expenditure on strategic minerals, mineral research, uranium enrichment and energy development such as Sasol is also high — nearly half a billion rand this year.

The overall impact is of a country with a formidable arsenal, expensive security apparatus and a heavy investment in self-sufficiency and strategic industry.

Spending on black South Africans reflects what Government critics would charge is its idealogical bias and what the Government claims is simply sound economics and "good neighbourliness".

The total budget for the Department of Co-operation and Development has increased 230% in six years and this year for the first time breaks the R1 billion mark.

The vast proportion is spent on homeland development and "development of black areas towards self determination".

Assistance to homelands — whether by the Department of Co-operation and Development or through the Department of Foreign Affairs for the locally independent homelands — amounts to R990 million for this year.

The amount to be spent by the Government on development of independent states' townships and infrastructure shows a big jump from R10 million last year to R46,1 million this year — much of it on already agreed project aid for the Ciskei Government.

Ironically, consolidation, one of the keystones to the homeland policy, has been the first victim of the financial squeeze in which the Government now finds itself.

Land purchases for consolidation have dropped from R79 million last year to R64 million this year — 37% down.

Over the last six years the Government has spent R357 million on consolidation — a costly idealogical exercise even Government spokesmen admit will not add to the economic viability of the territories.

The greatest political bias revealed by the last six years of estimates has to do with the black population living outside the homeland boundaries, particularly in relation to housing.

Negligible amounts — usually only several millions of rands — have consistently been spent on urban black development in accordance with the previous policy of the Government to regard all urban blacks as temporary sojourners.

This year's Budget for the first time gives counter indications. A total of R18,5 million is budgetted for bridging finance for the West Rand and another R10 million in subsidies for Soweto. The Western Cape also has R6,5 million budgetted for bridging finance.

The figures reflect the Government's concern over the "show-case" Soweto area and the political embarrassments caused by lack of housing in the Cape Peninsula.

Although the absolute amount made available for black housing has jumped dramatically and the percentage share of available housing funds increased, needs still far outstrip the resources provided.

In six years only R287 million has been spent on black housing in common SA — 2% of the amount spent on Defence and Law and Order during the same period.

In 1978, R8 million was provided for black housing out of a total housing budget of R168,8 million — a derisory 4,5%.

Since then the amount spent on black housing has increased 25-fold — R98 million this year — and now amounts to 30,12% of the total housing budget.

Last year black housing accounted for 33% of housing expenditure.

In hard cash terms blacks came off second best to coloureds in housing allocations over the last six years — the former getting R283 million and the latter R458 million.

Areas in which the Government has shown a belated awareness of key priorities can be found in the amounts set aside for manpower, black education and black vocational training.

Allocation to manpower has increased three-fold in the last six years with a massive 82% hike last year alone.

This year — again due to the pinch — it is a more moderate 22%.

Since 1979, the amount set aside for vocational training for blacks jumped ten-fold, but according to Government critics is still inadequate.

Last year the hike was nearly 300%, this year it is under 20%.

Black education shows large percentage increases in secondary education (46%), tertiary education (38%) and primary education (19%).

But in real terms the amounts spent on black education still remain a fraction of that devoted to white education.

This skewing of government spending on racial lines is nowhere better reflected than in welfare services.

This year black welfare services administered by the Department of co-operation and Development will total R165 million, while welfare on whites through the Department of Health, Welfare and Pensions is R817 million.

Although the ratio of black welfare to white welfare has decreased from 1:6,4 to 1:5 since 1978 this year's Budget represents a 14% increase in spending on whites and only 10% on blacks. Pension pay-outs, rather than narrowing the gap, have increased it.

Hardly relevant.

If good relations are established between the work ... es usually bene ... ers are usu ... rder and give ... tra money spent ... st while becau ... her output is the ... proble ... only prepar ... d probably use ... us of tech ... . This woul ... ment and The ... untry would ... workers and ... rofits to p ... t. comm ... se of the of ... ir amount ... ut on

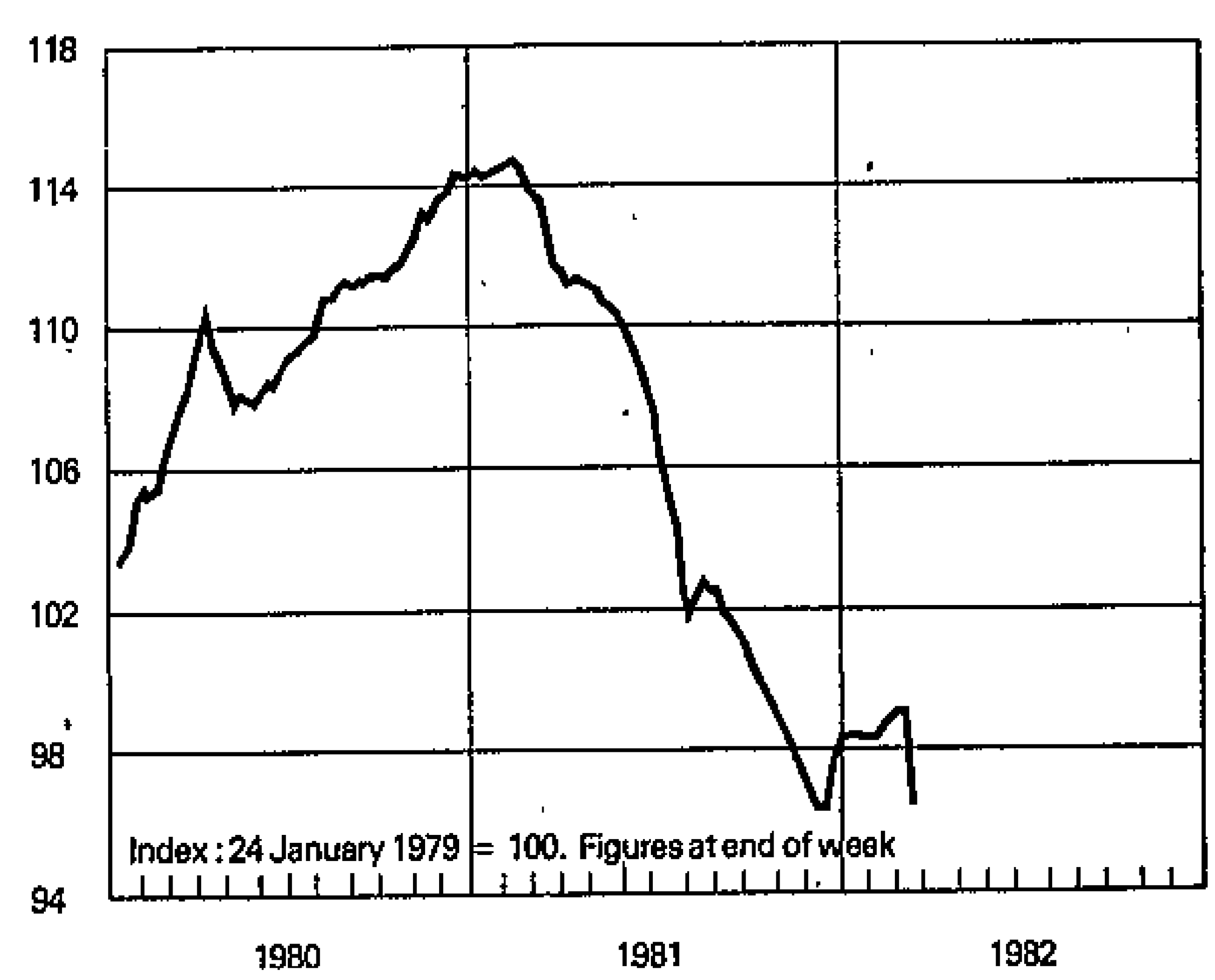
RAND DAILY MAIL, Thursday, April 15, 1982 9

RIGHT: In 1980 the rand bounded up on a weighted average basis against all other major currencies. Then came the slump in the gold price — and the rand tumbled with it.

BOTTOM RIGHT: In 1980 the rand moved up against all major currencies — except the Japanese yen. The Reserve Bank calculates, for example, that the rand gained 26,1% against the German mark and 23,4% against the Swiss franc that year.

But in 1981 the rand fell almost across the board — most importantly by 22,1% against the US dollar. It has lost more ground to the dollar this year.

Effective exchange rate of the rand



Changes in the exchange rate of the commercial rand
%

	1980	1981	1982 Jan. and Feb.
Effective exchange rate	10,9	−13,9	0,6
U.S.A. dollar	10,9	−22,1	−2,4
British pound	3,2	−2,7	2,0
German mark	26,1	−10,6	2,8
Swiss franc	23,4	−21,0	2,2
Japanese yen	−5,7	−15,8	5,0
French franc	25,1	−2,2	3,9

charities and welfare institutions. If their sole objective was profit maximisation, this revenue would be kept for the firm rather than being spent on external institutions.

Also firms will try to support government policies to a certain extent. If the government decides there are too many unemployed people in the country, then many firms will increase their labour intake to ease the problem. Or if the government wishes to increase exports, then firms will, to a certain extent, either increase their total production so that

1) MC = supply.

2) Nondifferentiated good.

3) Production factors — same.

4) Perfect knowledge.

5) Many No of firms.

Free entry/exit

perfectly elastic demand curve.

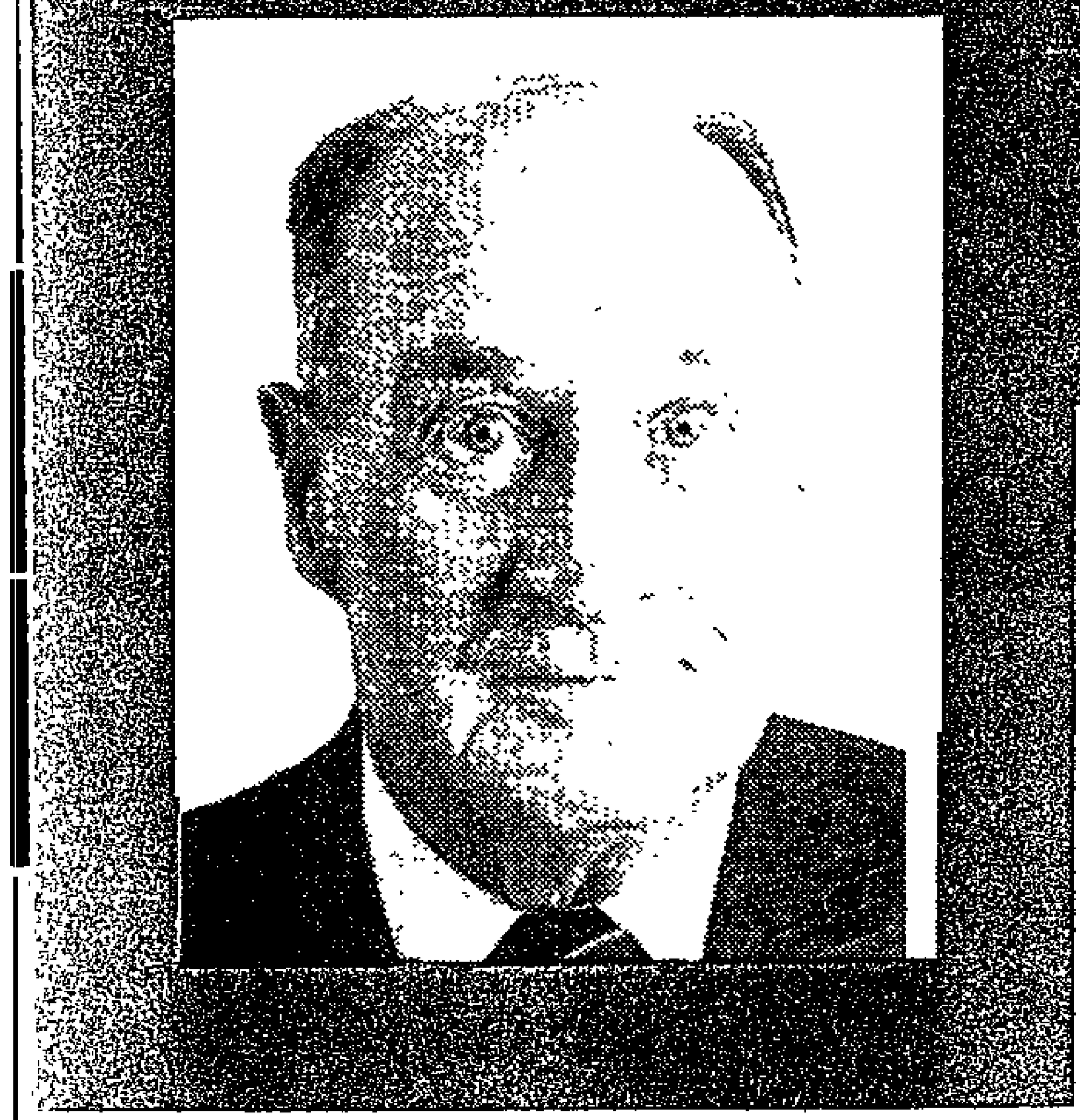
M.C.

$TC - TC_{+1}$.

Looking back at a year of growth

● SUPPLEMENT TO THE NATAL MERCURY ●
● Tuesday, April 27, 1982 ● VOL. 3-92

(49) whole section



Higher than ever

● *Fred Beard makes his annual assessment of the most important companies on the Johannesburg Stock Exchange of interest to shareholders — those which improve their dividend payments year by year. In this, the sixth year in which the Natal Mercury has worked with Mr Beard to present this important and valuable list, the findings are that growth has been higher than ever with more companies reporting higher growth and a record number of ROYAL companies, those which have shown an increase in earnings in excess of 20 percent during each of the past six years.*

THIS is the seventeenth year in which I have ranked the top 100 financial, industrial and commercial companies listed on the Johannesburg Stock Exchange — having started this annual survey away back in 1965.

The purely mining companies are excluded because of the amortisation factor — i e their dividends include an element of return of capital depending on the lives of the mines. However I include all the mining houses and mining holding companies which own these mines. I do not agree, though, that DE BEERS and ANAMINT should be classified as a diamond mining companies, so I have treated DE BEERS as a mining house and ANAMINT as a mining holding company.

The basis of ranking the top 100 companies is the compounded annual growth in dividends per share over the past five years. This year's survey covers the period from and including 1977 (the base year) to and including 1982 (the latest year).

I made it crystal clear last year why earnings per share can no longer be utilised to compare the companies *inter se* — because a number of companies use equity accounting (picking up the full attributable profits of associated companies), while a number of other companies do not use this method of accounting (bringing only the dividends received to account).

Equity accounting, of course, materially increases the total earnings and, of course, the earnings per share. Again, the advent of the LIFO basis of accounting for stock invalidates comparison with previous years when the *LIFO basis was not used.*

The emphasis in today's share market, moreover, is very definitely on dividend returns and no longer on price-earnings ratios.

It will thus be seen that dividends per share are factual whereas earning per share depend upon whatever system of accounting is adopted and, just as important, the purely subjective judgment as to whether certain items of income and/or expenditure are extraordinary or not. According to accounting convention, earnings per share must be calculated without these extraordinary items.

Because I am measuring positive growth (I contend that measuring negative growth is a contradiction in terms), I have eliminated those companies which have reduced or passed their dividends in any one year or years during the period. I have also eliminated those companies where the dividends in the base year are lower than the dividends in the previous year.

Like last year, I have left out the pyramid companies — i e those companies holding 50 percent or more of another listed company and which rely on dividends therefrom for their sole or main source of income.

I am told that investors prefer to invest in the companies where the action takes place rather than in these pyramid companies. I believe that the London Stock Exchange will not allow pyramid companies to be listed — and rightly so.

Where companies have paid dividends in excess of earnings — such as OTIS ELEVATORS — these companies have also been eliminated because their dividend growth is distorted. Where extraordinary or bonus dividends have been paid, these special dividends have been ignored because they also distort the growth pattern.

In order to be fair to all the other companies, I have eliminated an electronics company and two companies listed under the Clothing, Footwear and Textiles section.

These three companies have exceedingly high dividend growth — the electronics company because it merged with two other companies in 1978 and changed the structure and size of the company — one of the companies in the Clothing section because the dividend cover was reduced from over eleven times in the base year to under five times in the latest year — and the other company in the Clothing section because the dividend in the base year was abnormally low after passing the dividend in 1975 and 1976.

When using dividends per share as a basis for measuring growth, of course, there are a number of adjustments which must be made.

Where — for instance — dividends have been paid in respect of periods in excess of one year, these dividends have been proportionately reduced to twelve months. Conversely, where dividends have been paid in respect of periods of less than one year, these dividends have been proportionately grossed up to the full twelve months.

Obviously, where there have been capitalization issues or share splits or consolidation of par values, all dividends have been adjusted retrospectively for comparative purposes.

ON OTHER PAGES

THE BUSINESS CYCLE — Dr Bramie van Staden, Reserve Bank Deputy Governor provides some pointers on inflation and interest rates. Page 8

UNIT TRUSTS — An examination of their satisfying performance in the past and in the ... econom...

EXPORTS — Norah Hill, Safto manager, Natal, says shareholders should not be impatient with export potential Page 10

THE YEAR AHEAD — Mr Richard Lurie, President the Johannesburg Stock Exchange provides some pointers ...

100 top growth companies in 1981

TOP 100 DIVIDEND GROWTH COMPANIES FOR 1981

(Compounded annual growth in dividends per share over the past five years — 1977 — 1981

Rank 1981	Rank 1980		%
		MORE THAN 60 PERCENT	
1	-	SOUTH AFRICAN BIAS BINDING MANUFACTURERS LTD	64,57
		MORE THAN 50 PERCENT	
2	-	ERIKSEN CONSOLIDATED HOLDINGS LTD	56,51
3	2	MATHIESON & ASHLEY LTD	54,62
4	7	SOUTH AFRICAN ASSOCIATED NEWSPAPERS LTD	53,88
5	-	U.C. INVESTMENTS LTD	51,97
6	1	METRO CORPORATION LTD	50,86
		MORE THAN 40 PERCENT	
7	25	BERZACK BROTHERS (HOLDINGS) LTD	47,89
8	10	CONSOL LTD	44,63
8	34	GYPSUM INDUSTRIES LTD	44,63
10	-	FREE STATE DEVELOPMENT & INVESTMENT CORPORATION LTD	44,16
11	13	ROMATEX LTD	44,07
12	22	SAPPI LTD	44,01
13	11	DUNLOP SOUTH AFRICA LTD	43,46
14	71	ABERDARE CABLES AFRICA LTD	42,52
15	4	UNION & LONDON INVESTMENT TRUST LTD	41,85
16	-	KANHYM INVESTMENTS LTD	41,43
16	71	PICARDI INVESTMENTS LTD	41,43
18	19	PICK 'N PAY STORES LTD	40,88
19	8	GENERAL MINING UNION CORPORATION LTD	40,43
20	51	THE NATAL CHEMICAL SYNDICATE LTD	40,15
21	12	W & A INVESTMENT CORPORATION LTD	40,05
		MORE THAN 30 PERCENT	
22	17	BTR SOUTH AFRICA LTD	38,83
22	54	TRENCOR LTD	38,83
24	14	CADBURY SCHWEPPES (SOUTH AFRICA) LTD	38,51
25	5	KOHLER BROTHERS LTD	38,26
26	23	JOHANNESBURG CONSOLIDATED INVESTMENT COY. LTD	37,07
27	50	MOBILE INDUSTRIES LTD	37,02
28	16	GRAND BAZAARS LTD	35,55
29	89	EVERITE LTD	35,13
29	62	ANGLO AMERICAN CORPORATION OF SOUTH AFRICA LTD	35,13
31	27	CLAUDE NEON LIGHTS (S.A.) LTD	33,75
32	17	CONSOLIDATED GOLD FIELDS LTD	33,13
33	39	INDUSTRIAL & COMMERCIAL HOLDINGS LTD	32,96
34	9	TRADE & INDUSTRY ACCEPTANCE CORPORATION LTD	32,45
35	27	AECI LTD	32,22
36	26	FOSCHINI LTD	32,07

Pick 'n Pay

Our people policy has put us in our place. Again.

Once again, the support of the South African public has brought us honour by placing us in the Natal Mercury 'Top 100' companies and smoothed the way to the prized 'Royal Companies' award.

We will continue to be of service to the consumer who will always remain sovereign where our company is concerned.

Pick 'n Pay *where the consumer is sovereign.*

Hedley Byrne (Retail/C) 4609


Go

Because we're the bank with the go.

<u>Over 22 000 staff with go.</u> We employ more staff than any other bank in the country. And that gives us more highly trained specialists in finance.

From our managers who can give you up-to-the-minute international market trends.

To our receptionists at the information desks who assist you in day-to-day cheque account problems.

And because our people are so highly motivated, and so highly trained, they can get you going quickly and expertly.

Barclays people always try that much harder.

<u>Over 1 100 outlets with go.</u> In fact, we have nearly 1 200 outlets throughout South Africa. Even in the smallest towns and villages.

So we make it exceptionally easy for <u>you</u> to do business with us. Even the smallest outlet has access to the vast bank of information and services we can put at your disposal.

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In short, Barclays can put together a package tailormade to suit your individual requirements.

<u>Over 10 billion rand assets with go.</u> With that kind of money, you can hardly begin to imagine the clout we have in the market.

We can raise millions overnight.

When you're working on vast projects or simply managing your monthly salary, it's good to know you're where the big money really is.

<u>Over 75 international banking companies with go.</u> We're part of an international banking group represented in over 75 different countries throughout the globe.

So if you're into import and export, an overseas trip, or foreign exchange trends, remember this.

Barclays can get you going in no time at all.

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We've got the go to get you going.

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The leaders and the 'royals'

Continued from page 1

THIS brings us, then, to the list of top 100 dividend growth companies for 1981

It will be noted that there is much higher growth in 1981

In 1980, only one company exceeded 50 percent — in 1981 there are six companies with growth in excess thereof, the top company having growth of nearly 65 per cent.

Again, there are 15 companies over 40 percent as against only two in 1980 — 21 companies over 30 percent as against 18 in 1980 and 58 companies over 20 percent as against 45 in 1980. There are no companies below 20 percent in 1981 — in 1980 there were 34.

At the top

The top company is S A BIAS BINDING MANUFACTURERS with a magnificent growth of 64,57 percent — the highest we have ever had. Hearty congratultions to the chairman and managing director, Michael Newman, and his management team.

The company in second place is (not unexpectedly) a motor company — ERIKSEN CONSOLIDATED HOLDINGS with a growth of 56,51 percent. Ronnie Eriksen and his team are certainly to be warmly congratulated.

Third on the list is MATHIESON AND ASHLEY with a growth of 54,62 percent. It will be remembered that I gave this company some thought last year before including it on my list but I am pleased to see that their high growth has been maintained. Congratulations to Lionel Jossel and his colleagues.

In fourth place is SOUTH AFRICAN ASSOCIATED NEWSPAPERS with growth of 53,88 percent. Ian MacPherson and his Board are no doubt justly proud of their team. It is not often that a newspaper company is among the growth leaders anywhere in the World.

In fifth place is UC INVESTMENTS with growth of 51,97 percent. This company increased the dividend by approximately 7 percent in 1982 although the profits were some R1,5 million down on the previous year. Nevertheless, the Chairman, Hugh Smith, and his co-directors and management team are to be congratulated on their spectacular growth from 1977 to 1980.

Now for the ROYAL companies for 1981. It has been a long time since fifteen companies have been rated as the crême de la crême companies in any one year and I think it is a fairly safe bet that this will not happen again for some time due to the downturn in our economy.

Once again, PICK 'N PAY STORES is included in this august company. This means that Raymond Ackerman's company has been a ROYAL company every year since I started this top rating away back in 1970. This is indeed a proud and unique record.

Section Leaders

And, finally, let us look at the Section Leaders for 1981.

I have found over the years that the Chairmen and their co-directors are keenly interested in how well their companies performed in the particular section or classification to which they belong — in fact, some companies consider that being the leader of their section is more important than their ranking in the list of top 100 companies — on the grounds, presumably, that beating the other companies in more or less the same kind of business is much more gratifying than competing with hundreds of other companies engaged in a multiplicity of business activities, often totally unrelated.

Continued from page 1

37	71	SEARDEL INVESTMENT CORPORATION LTD	31,61
38	86	CURRIE FINANCE CORPORATION LTD	31,20
39	40	CARLTON PAPER CORPORATION LTD	30,60
40	38	T.W. BECKETT & COY LTD	30,02
40	79	THE UNISEC GROUP LTD	30,02
40	52	ANGLOVAAL LTD	30,02
		MORE THAN 20 PERCENT	
43	-	THE SOUTH AFRICAN BREWERIES LTD	29,85
44	66	CULLINAN HOLDINGS LTD	29,01
44	33	ANGLO-ALPHA LTD	29,01
44	56	UNION WINE LTD	29,01
47	-	GRINAKER HOLDINGS LTD	28,83
48	20	BARCLAYS NATIONAL BANK LTD	28,65
49	21	TRANSVAAL CONSOLIDATED LAND & EXPLORATION COY LTD	28,63
50	64	EDGARS STORES LTD	28,36
51	48	METAL CLOSURES GROUP SOUTH AFRICA LTD	28,26
51	-	SELECTED MINING HOLDINGS LTD	28,26
51	41	ASEA ELECTRIC SOUTH AFRICA LTD	28,26
54	35	BARLOW RAND LTD	28,10
55	42	DIROYAL INVESTMENTS LTD	27,81
55	-	M & S SPITZ FOOTWEAR HOLDINGS LTD	27,81
55	71	SUIDERLAND DEVELOPMENT CORPORATION LTD	27,81
56	93	MICOR HOLDINGS LTD	27,29
59	-	CHEMICAL HOLDINGS LTD	26,90
60	49	DARLING & HODGSON LTD	26,84
61	-	SEARLES HOLDINGS LTD	26,64
62	68	THE LION MATCH COY. LTD	26,57
63	-	THE COMMON FUND INVESTMENT SOCIETY LTD	26,28
64	81	INDUSTRIAL SELECTIONS LTD	25,75
64	-	C.N.A. INVESTMENTS LTD	25,75
64	-	STERNS DIAMOND ORGANISATION LTD	25,75

Section Leaders

	Compounded Annual Growth
Mining Houses	
GENERAL MINING UNION CORPORATION	40,43
Mining Holding Companies	
U.C. INVESTMENTS	51,97
Banks & Financial Services	
TRADE & INDUSTRY ACCEPTANCE CORPORATION	32,45
Insurance	
NED-EQUITY INSURANCE COMPANY	23,89
Investment Trusts	
UNION & LONDON INVESTMENT TRUST	41,85
Property	
RAND MINES PROPERTIES	21,00
Industrial Holding Companies	
PICARDI INVESTMENTS	41,43
Beverages & Hotels	
THE SOUTH AFRICAN BREWERIES	29,85
Building & Construction	
GYPSUM INDUSTRIES	44,63
Chemicals	
THE NATAL CHEMICAL SYNDICATE	40,15
Clothing, Footwear & Textiles	
S.A. BIAS BINDING MANUFACTURERS	64,57
Electronics, Electrical & Battery	
ABERDARE CABLES AFRICA	42,52
Engineering	
BERZACK BROTHERS (HOLDINGS)	47,89
Food	
KANHYM INVESTMENTS	41,43

64	46	EVELYN HADDON & COY. LTD	25,75
64	27	TREK BELEGGINGS BPK	25,75
70	-	MALBAK LTD	25,17
71	-	SAM STEEL HOLDINGS LTD	24,84
72	45	BLUE CIRCLE LTD	24,55
73	-	AFRICAN GATE HOLDINGS LTD	24,47
74	69	NATIONAL SELECTIONS LTD	24,36
75	44	NEDBANK GROUP LTD	24,33
76	35	AFRICAN OXYGEN LTD	23,91
76	56	ANGLO AMERICAN INDUSTRIAL CORPORATION LTD	23,91
78	27	NED-EQUITY INSURANCE COY. LTD	23,89
79	55	ABC SHOE CORPORATION LTD	23,60
79	52	FIRST UNION GENERAL INVESTMENT TRUST LTD (FUGIT)	23,60
81	85	ANGLO-TRANSVAAL INDUSTRIES LTD	23,37
82	98	PLASCON-EVANS PAINTS LTD	22,79
83	-	ANCHUSA HOLDINGS LTD	22,48
84	90	WOOLWORTHS TRUWORTHS LTD	22,48
85	94	PROTEA HOLDINGS LTD	22,22
86	61	SENTRACHEM LTD	22,10
87	-	BEARES LTD	21,94
88	-	RUSSELL HOLDINGS LTD	21,79
89	87	THE TONGAAT GROUP LTD	21,54
90	-	ANGLO AMERICAN INVESTMENT TRUST LTD	21,39
91	-	THE GENERAL TIRE & RUBBER COY. (S.A.) LTD	21,33
92	-	PRETORIA PORTLAND CEMENT COY. LTD	21,15
92	-	ASSOCIATED ENGINEERING (S.A.) LTD	21,15
94	-	RAND MINES PROPERTIES LTD	21,00
94	56	NATIONAL TRADING COY. LTD	21,00
96	60	VOGELSTRUISBULT METAL HOLDINGS LTD	20,86
97	43	HIGHVELD STEEL & VANADIUM CORPORATION LTD	20,86
98	-	SOUTH ATLANTIC CORPORATION LTD	20,74
98	96	CENTRAL AFRICAN CABLES LTD	20,74
98	-	GLOBE ENGINEERING WORKS LTD	20,74

ELLERINE HOLDINGS	25,75
Motor	
ERIKSEN CONSOLIDATED HOLDINGS	56,51
Paper & Packaging	
CONSOL	44,63
Printing & Publishing	
MATHIESON & ASHLEY	54,62
Steel & Allied	
CULLINAN HOLDINGS	29,01
Stores	
METRO CORPORATION	50,86
Sugar	
THE TONGAAT GROUP	21,54
Tobacco & Match	
THE LION MATCH COMPANY	26,57
Transport	
TRENCOR	38,83

Higher dividends?

ONE view of the economy and the likely trends given at a recent seminar by Mr Koos Heymann, of the Sanlam investment team, was that industrial dividends would rise 17 percent in 1982 and 12 percent in 1983. He predicted that gold share dividends would rise 10 percent this year.

Banks and financials, he contended, would raise their dividends 7 percent this year and 15 percent next year, while metals and mineral dividends would stagnate this year and rise about 30 percent next year..

Coal dividends would rise 25 percent this year and 30 percent next year.

The 'Royals'

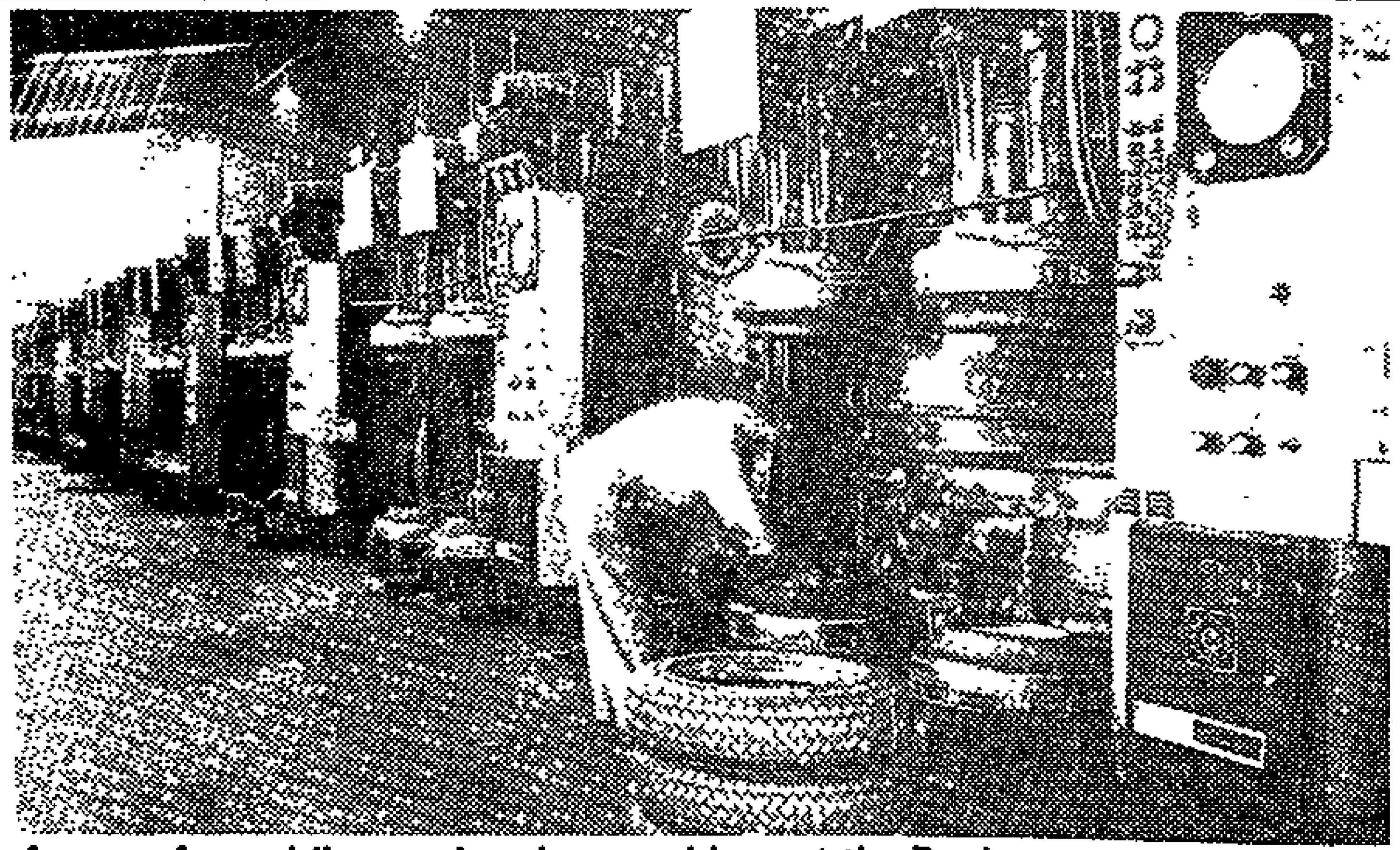
THE ROYAL COMPANIES FOR 1981

(Increase in dividends of not less than 20% each and every year)

RANK 1981	1980		ANNUAL GROWTH PER CENT 1977/78	1978/79	1979/80	1980/81	Compounded Annual Growth
1	-	S.A. BIAS BINDING MANUFACTURERS	47	82	40	96	64,57
2	1	METRO CORPORATION	100	54	22	38	50,86
3	-	BERZACK BROTHERS (HOLDINGS)	26	31	53	90	47,89
4	-	ROMATEX	31	41	64	42	44,07
5	-	DUNLOP SOUTH AFRICA	53	31	50	41	43,46
6	-	KANHYM INVESTMENTS	47	36	47	36	41,43
7	4	PICK 'N PAY STORES	32	40	33	60	40,88
8	-	W & A INVESTMENT CORPORATION	38	28	74	25	40,05
9	2	KOHLER BROTHERS	92	22	28	22	38,26
10	-	GRAND BAZAARS	38	45	38	23	35,55
11	-	CLAUD NEON LIGHTS (S.A.)	20	25	67	28	33,75
12	-	IND. & COM. HOLDINGS GROUP	38	21	25	50	32,96
13	3	TRADE & INDUSTRY ACCEPTANCE CORP.	27	36	33	33	32,45
[illegible]	-	AECI	22	36	50	22	32,22

Comments from the leaders

Dunlop plan R56 million expansion



A row of moulding and curing machines at the Dunlop car tyre factory in Ladysmith.

DUNLOP SOUTH AFRICA plans to invest R56m over the next three years in the expansion and modernisation of its existing production facilities and in the extension of its range of industrial and consumer products, Mr Clive Hooper, the group's managing director, announced yesterday.

To provide part of the capital required, Dunlop has announced a rights offer of 2,7 million shares at a price of 575c per share. These shares will rank from the interim dividend to be declared in July. The Dunlop board intends to maintain a dividend of at least 72 cents on the increased capital.

Mr Hooper pointed out that the past five years had been characterised by increasing productivity in the company from men and machines.

'If one looks back 10 years to 1972, Dunlop's turnover has quadrupled with only eight extra employees (from 4 958 to 4 966), while the cost per employee has more than trebled,' he said.

'In addition the motor industry has recovered from a recession which bottomed in 1977; asset management has led to investment in growth areas, such as consumer and industrial, with disinvestment from unprofitable areas and products; and efficient management of cash flow has seen debt/equity gearing drop from 53 percent in 1976 to only 3 percent last year.'

Mr Hooper said the improvement in the fortunes of the motor industry meant that about 60 percent of Dunlop's sales and profits now came from this source, which was supplied by four of the five product divisions.

'While motor vehicle sales are expected to decline from 453 000 to 405 000 this year, high vehicle sales in 1980 and 1981 will lead to strong growth in the replacement market, which is nearly double the size of original equipment sales in our product ranges.

'We believe the authorities cannot permit the situation to continue where the 1981 value of imports of new and second-hand tyres for retreading has doubled in the last two years and, in fact, now exceeds the value of natural rubber imports used in the tyre industry.

'This is especially so when a duty of about 75 percent is under consideration to protect 1983 local manufacture of polyisoprene as an eventual 50 to 60 percent substitute for natural rubber.'

Mr Hooper said the substantial capital expenditure over the next three years would enable the group to meet its objective of real growth in sales and profits in line with the South African economy and maintain dividends on an almost twice covered basis.

Long-term faith in gold

Mr H A Smith

'DURING the past five years the price of gold has risen strongly and in parallel with this, the price of platinum also moved sharply upwards,' reports Mr H A Smith, chairman U C Investments.

'As more than 70 percent of the company's investments are directly in gold and platinum mining companies, the effect on our income has been dramatic. Many of the other investments are in mining financials and other mining companies and these too have done well during the period.

'Over the past five years the company's income after taxation has grown almost fivefold. This sensitivity to precious metal prices works two ways, however, and in 1982 there seems little likelihood of a major recovery in gold and platinum metal prices to the levels ruling during most of 1982.

'Accordingly the results for 1982 will probably be lower than for the previous year. I retain my long-term faith in the value of gold and am confident that in the not too distant future we shall see the resurgence in the price of this metal to more realistic levels considering the uncertainties in the world and the ravages of inflation.

'The future outlook for this company is sound as overall it has a broadly spread portfolio but, as stated above, is highly geared to the movement of metal prices.

'I have been asked to give a prediction of the growth in Gross Domestic Product in 1982 and believe that it will be marginally less than 2 percent in real terms.

'I have also been asked to give a prediction of the average gold price for the current year but I believe that there are too many unknowns at this time and it could be irresponsible for me to give a firm prediction.

'Time for a breather'

THE GROWTH of the S A Bias Group over the past five years has been most pleasing says the chairman, Mr M Newman.

The Seardel

divisions, the more effective ut.. isation of our resources with a view to taking advantage of our position as market leaders in many of the fields in which we operate and expanding our activities in the field of trade finance.

'Of course, the economic conditions prevailing over the past few years have contributed considerably to our rate of progress.

'We have disposed of many of the unprofitable properties held by us which has resulted in a satisfactory level of liquidity being maintained within the group.

'We have taken the necessary steps to improve the quality and depth of management of our divisions and much of our growth is as a result of their motivated efforts in expanding their spheres of activity.

'In view of the downturn of the economy and the period of rapid growth that we have experienced, we view 1982 and 1983 as years of consolidation for the S A Bias Group.

'We nevertheless anticipate further steady but less dramatic improvement in our asset management and further penetration in our traditional markets, but I do not go along with the general economic pessimism that seems to be reported continually in the Press.

'Although low compared to the last two years, the growth rate is satisfactory for an economy in a downturn and in any event, we need a breather after the excessive growth of the last two years.'

Keeping tabs on debtors

GROUP policy at Mathieson and Ashley is to further increase dividend cover 'at times like these' says Mr L F Jossel, the chairman.

'We are particularly interested in keeping tabs on our debtors. Our group goal remains that of quality profits which manifest themselves through cash flow and — at this date — the group is not operating with any borrowed funds whatsoever.

'This should be borne in mind when considering that group capital expenditure exceeded the R2 000 000 mark over the past twelve months.

'Once agains the primary reason for our group achievements has been the outstanding efforts of personnel at all levels and in all subsidiaries and it is this factor, above all others, that provides us with the confidence to maintain group profits for the current financial year.'

Comments from the leaders

Significant role in import substitution

By Mr Denys N Marvin,
Managing Director,
AECI Limited

IT IS indeed gratifying to learn that AECI has qualified as a Royal Company among the top 100 Growth Companies in South Africa.

The chemicals industry as a whole has traditionally shown a growth rate some 1,6 times that of the Gross Domestic Product in this country and plays a significant role in import substitution, making a substantial contribution to national growth.

AECI's performance has been considerably above this average in the last four years and can be attributed to many factors, not least of which is the contribution made by all our employees.

Added to this are such important factors as accurate market forecasting and technical expertise in depth which, in the case of AECI, have been of a high order.

When the time is right

Sound planning backed by timeous investment in plant, equipment and manpower has been more than adequately justified.

In this context I should stress that AECI policy is to raise its finances and build its plants when the market is appropriate for it do so so. In this way the long term benefits far outweigh some short term holding costs.

Looking ahead, however, whilst I see no reason for alarm or despondency, it must be realised that South Africa is in an economic downturn phase which will probably continue well into 1983.

The economy is linked to that of Western Europe and the United States and accordingly no major upswing is likely until the overseas economies begin to emerge from their present depressed state.

To maintain a high level of profitability in the present economic climate will represent a major challenge.

For a company such as AECI, it must be realised that the substantial decline in the international gold price and the fall in the value of the rand against the dollar are factors over which it has no control.

Every one cent fall in the dollar/rand parity means an extra cost to the group on imports of approximately R2,5 million.

It will obviously not prove possible to pass on all these costs by raising prices so that profitability will consequently suffer unless productivity can be improved even further.

The 10 percent import surcharge and extra taxes which are to be levied as a result of the recent budget are also factors to be faced by industry as a whole.

Mr N Marvin

The former does provide some extra relief in those areas of AECI's business currently being hit hardest by competition from imports as is the case in the fibres and plastics sectors, but higher raw material costs resulting from the surcharge contribute to the inflationary spiral.

Just as South Africa cannot be insulated from the international economic climate, so AECI cannot escape the adverse factors influencing the South African economy and the outlook for this group is little different from that for the rest of the country.

Where it will be particularly affected, certainly in the short term, is in the low price of imported finished goods and unless local industry is adequately protected, these imports will have a serious effect on local business prospects, even with a 10 percent general surcharge.

Furthermore it must not be forgotten that there were substantial quantities of import goods in the pipeline before this surcharge was introduced.

Looking to the medium/long term prospects for the company, I am optimistic.

Six percent annual growth

The abnormal ammonia production problems experienced in 1980/81 have now been overcome and additional capacity for new products is coming on stream, notably linear low density polyethylene at Midland Factory, Sasolburg, and calcium carbide from the new Holland Electro Chemical Industries furnace at Ballengeich in Natal.

The group's target is to achieve a six percent annual real growth rate.

I have been asked to predict the growth in Domestic Product for 1982 and the average gold price for the year.

The answer to the first question depends to some extent on the second, but I would go along with a figure of one to two percent.

With regard to the average gold price, however, if I could answer that question I would be out in the market place, hopefully making a fortune for the group.

No need for

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says R D Ackerman, chairman Pick 'n Pay Stores

R D Ackerman

N THIS our 15th year of trading, and 14th year as public company, I am particularly pleased with ur satisfactory performance in a difficult econom-c climate, giving us strength to face the downturn n the economy with confidence in the ensuing ear.

Our earnings per hare at 863,1c are 20,3 percent up on last year, as over 361 000 prefer-ence shares were con-erted into ordinary shares during the year. Our policy of reducing dividend cover was con-tinued and we have re-duced this to 2,52 times, as part of our stated policy to ensure that our dividend growth would not suffer through the conversion of the prefer-ence shares into ordi-nary shares. Our cash resources are in a very healthy situation.

Six new stores

New stores opened during the year are one hypermarket, one super-store and four super-markets. All opened successfully and are trading very satisfactori-ly.

During the year our holding company, Pikwik, was listed and received overwhelming support from our share-holders, enabling the company to establish clearly that control is vested in myself and my family.

Prophetic

This move proved ter-ribly prophetic in the light of what has hap-pened in the retail in-dustry to two other major groups recently. The morale of our com-pany is high because the protection from an unwanted takeover is now safeguarded.

As regards the year ahead I feel that, al-though anticipated to be a tough one, it will not produce the gloom and doom that many people predict.

Although it does not hold the same promise for business as in recent years, with inflation showing no signs of abat-ing and taxation and high interest rates re-moving much of the average man's spending power for consumer goods, I feel that our company is well placed in terms of its structure, management skill and product range, to remain competitively successful during the expected downturn and to take quick advantage of any upturn in the economy. Six new supermarkets and one hypermarket are scheduled for open-ing in the year ahead, to-gether with further ex-pansions and consolidations.

Share of market

I believe that Pick 'n Pay with its greater geo-graphic penetration into the prime trading areas of South Africa will in-crease its market share, and I am confident that the company will produce an increase in sales of 25 percent with pre-tax profits following the same pattern.

It must be borne in mind however that the higher tax rate will re-duce the growth rate in earnings.

To compensate for this, we have not ruled out the possibility of dividend cover being re-duced still further, but this will of course de-pend on the company's needs for finance depen-dent on its expansion plans.

Team performance

Mr Len Dean

'THE dividend growth ranking achieved by the BTR South Africa Group rated on the compounded an-nual growth in dividends per share over the past five years is recognised as an excellent rating for sharehold-ers and management alike,' says Mr Len Dean, chairman of the group.

'I consider that Mr Fred Beard in this annual evaluation of his pro-vides a sterling service to the South African market.

'In our annual report we endeavour to pinpoint the cardinal considerations contributing to our achievements and we ascribe our success to the twin considerations of flexibility to respond to market con-ditions and our ability to sustain our planned development of manpower and other resources.

'This discipline builds a sound pro-ductivity growth which complements our overall growth rate.

'Add to this a highly selective ac-quisition programme and we consid-er that we have been able to justify shareholder confidence.

'Our progress to date is a compli-ment to the team performance that we have built over the years. Our path into the future is planned with loyalty to our members and responsi-bility to our shareholders.

Demand for semi-durables

Mr Jack Ward, chairman Romatex.

IN the five full years that have passed since Romatex started operations as a group, the earnings per share attributable to equity share-holders have grown by an annual average of about 37 percent.

While this has been the average rate of growth, the actual annual growth rate over that period started at around the 30 percent level and accelerated to over 40 percent in the last couple of years.

This increase in tempo was largely in line with the general improvement in the economy and, in particular, with the boom in consumer demand for semi-durables.

.nevitably the rate of rowth cannot be sus-od and the cooling off in general economic growth must be reflected to some degree in the group's activities.

It seems likely that the growth in the Gross Domestic Product this year could be nearer to 1 percent than 2 percent compared with 4,5 percent last year and 8 percent the year before.

Furthermore, whilst the demand for necessi-ties and consumer goods is likely to grow at a level higher than the GDP, semi-durables are expected, in fact, to show a negative rate of growth.

However, there is no reason why the long-term average growth rate should not be main-tained at a satisfactory level, despite the

Service and availability

'THE growth of Gypsum Industries can primarily be attributed to the ability to meet the demand and to give good service to our customers,' says Mr R A P Fockema, vice-chairman and managing director.

'Even when building activity was at a peak, and we were at the top of the boom we were proud to state that we have never let our customers down. There was never a waiting list for our products.

There is currently a downturn in economic activity and we are likely to experience a recession, in spite of this we have developed a sound base and it is expected that some of its new developments will, to a certain extent, counter the effects of the recession.

In the longer term we are confident of achieving a satisfactory rate of growth.

Comments from the leaders

Mr C Jowell. Chairman. Mobile Industries

Transport industry growth

MOBILE Industries derives the major portion of its income from its 49,3 percent shareholding in Trencor whose main activities are road transport and the manufacture of road trailers and tankers through its subsidiary, Henred Fruehauf. Being allied to the road transport industry, the group is closely related to growth in GDP and the group's recent performance has been significantly influenced by the boom conditions in the country.

Conversely, a significantly lower growth in GDP will result in reduced profits.

In the long term, however, I believe the growth of the economy and the development of the country's infrastructure should result in the transport industry growing at a higher rate than the GDP.

Our subsidiary, Mobile Acceptances, has developed well because of its knowledge of the operations of, and markets served by, the group's customers and its ability to provide finance to support the sale of Group products.

Systematic search for new markets

MR BASIL LANDAU, chairman of Kohler Brothers rated amongst the fifteen Royal Companies this year, attributes the sound growth of the company to an imaginative and systematic search for new market opportunities within the packaging industry, strongly supported by high standards of asset management.

'Constant attention to tight asset management ensures a high performance on our existing operations but also releases the potential of the cash flow for the development of new ventures', Mr Landau comments.

'This makes it possible for us to be continually exploring new ways of extending our activities within the packaging industry.'

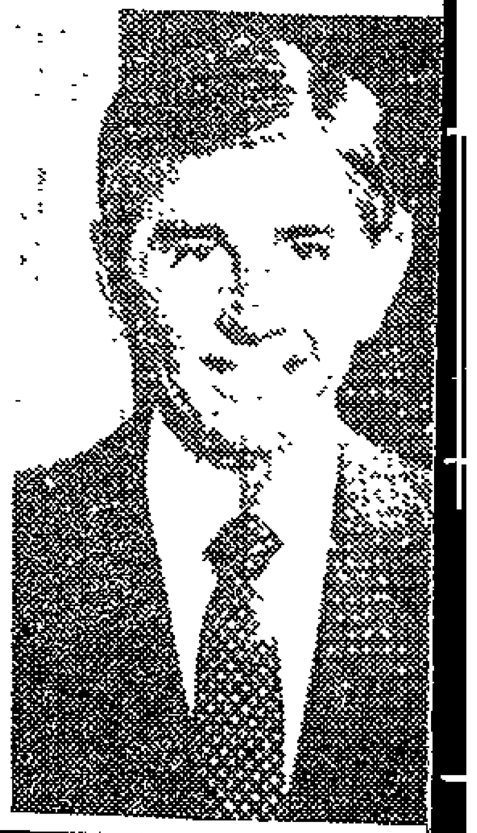
Mr Landau points out that when he firt became involved with Kohler about six years ago, turnover and profits were dominated by their traditional activities in the corrugated container field.

'Although our output of corrugated containers has expanded steadily', says Mr Landau, 'we have constantly widened our product range so that corrugated containers now represents less than half of our earnings.'

Over the past five years Kohler has moved into the printed forms field, with its acquisition of Master Forms, has made several acquisitions in the sphere of rigid plastics and has started new ventures in the bag-in-box market, multiwall sacks and liquid packaging.

More recently the scope of the company's activities has been widened in the flexible packaging field by the acquisition of British Flexible Packaging from Wiggins Teape.

This fulfills the strategy of supporting a national marketing approach by manufacturing facilities in all major centres.



Kohler's profits have grown by a compounded annual growth rate of 26 percent over the last five years, comments Basil Landau, 'and our business plan for the next five years calls for that rate of growth to be maintained.

'I am of course well aware that variations in the business climate will make that objective either more or less easy to attain in any particular year but Kohler is not looking to spectacular short term performance but rather to maintaining high standards of management and consequentially consistent growth over the long term.

'We measure ourselves carefully by those aspects of growth which comes to all companies without any great degree of effort and would consider ourselves under-performing if we could not better the combination of the inflation factor and the national growth rate as an average performance.'

'Productivity starts at the top'

MR Basil Landau, who is also chairman of Sappi, rated number 12, places a very strong emphasis on corporate strategic planning

'Productivity', Mr Landau says, 'must always start at the top and sound strategic planning has a pay-off far in excess of any productivity effort that can be accessed from the direct mobilisation of productivity at the lower levels. 'No amount of individual productivity effort can hope to offset a bad strategic decision, just as good salesmanship can never overcome the deficiencies of a badly designed, or poor quality product'

Several years ago Sappi took stock of its corporate philosophy and made a systematic appraisal of its products, its markets and its resources. The first result of this was that Sappi declared itself to be a forest products company, dedicated to the optimum exploitation of every value-added opportunity resulting from the growing and processing of trees.

'Quite apart from taking us into the field of processed timber products resulting in such developments as the acquisition of Novobord,' Mr Landau says, 'this overall strategic thinking has given us a new evaluation of our total timber interests and the long term prospects for various types of paper production based upon self-sufficiency in pulp manufacture.

'This has led to the major decision to spend R800 million on capital expansion projects in the next five years, principally in the form of the new mill at Ngodwana in the Eastern Transvaal, located right in the heart of the company's forest plantations.

'It is however possible,' says Mr Landau, 'to be so caught up in the process of strategic planning, that day-to-day management suffers and I am pleased to say that this has not been the case with Sappi.

'Earlier increments of capital expansion have begun to pay off in the last two years which, when combined with a tight control of production costs and asset management, have been directly responsible for the company's impressive growth rate which takes it into the forefront of company performance in South Africa.'

More liberal view on dividends

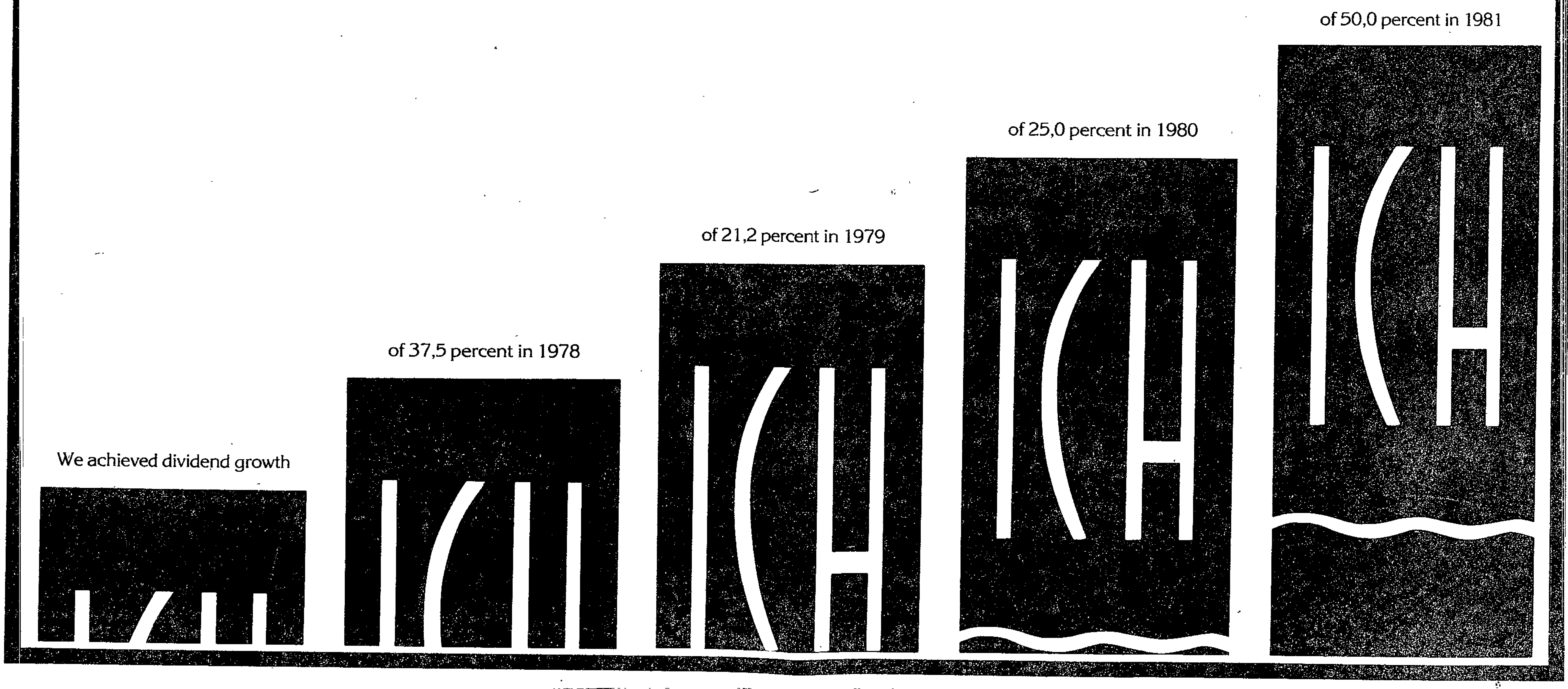
'We are indeed proud to have achieved this high ranking in compounded annual growth in dividends per share. This achievement is, without doubt, a vindication of the policies adopted in the past by the group,' says Mr J A J Pickard, chairman of Picbel. He rated the two most important of these policies as:

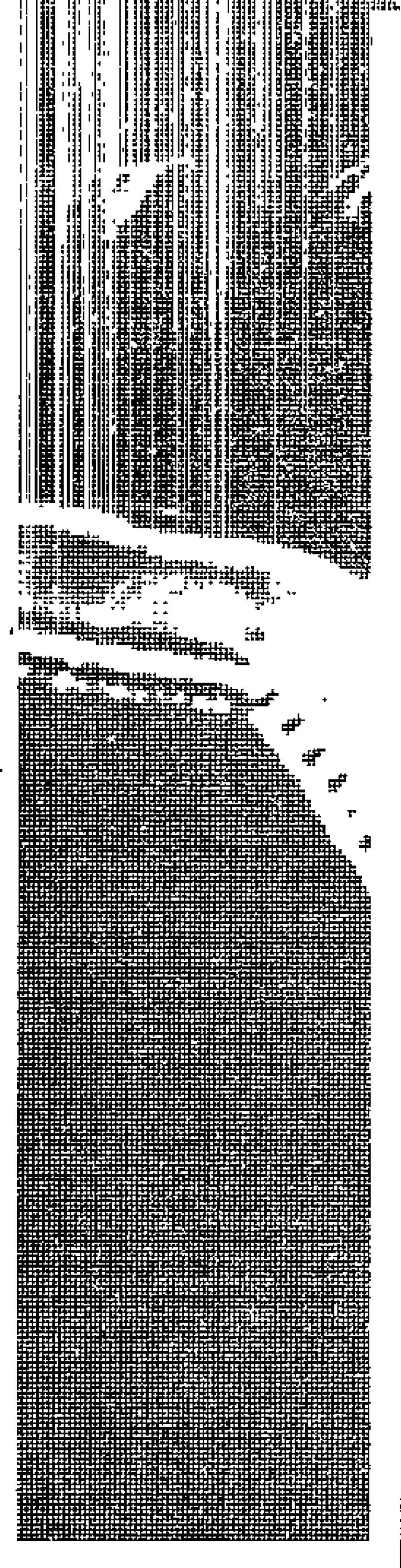
- flexibility to adapt quickly to changing times without losing sight of the need for long term sustained growth, and
- the conservation of cash resources within the group to allow for greater internal growth, and to take up investment opportunities without delay

'These policies,' he says, 'will continue to be pursued by the group, excepting that we will take a more liberal view on dividend cover. The prospects for the group remain very good, both in the short and long term, even though the South African economy is experiencing a lower growth rate at present.'

I.C.H. DYNAMIC GROWTH CROWNED WITH ROYAL SUCCESS

Of the top 100 companies only a handful achieve "Royal Company" status. That means companies which have shown a dividend increase of at least 20% in every year over the last five year period. Industrial and Commercial Holdings Group Limited is one of those select few, with a dividend growth far in excess of the requirements. Achieved through our Motor and Hydraulics, Property and Investment divisions.





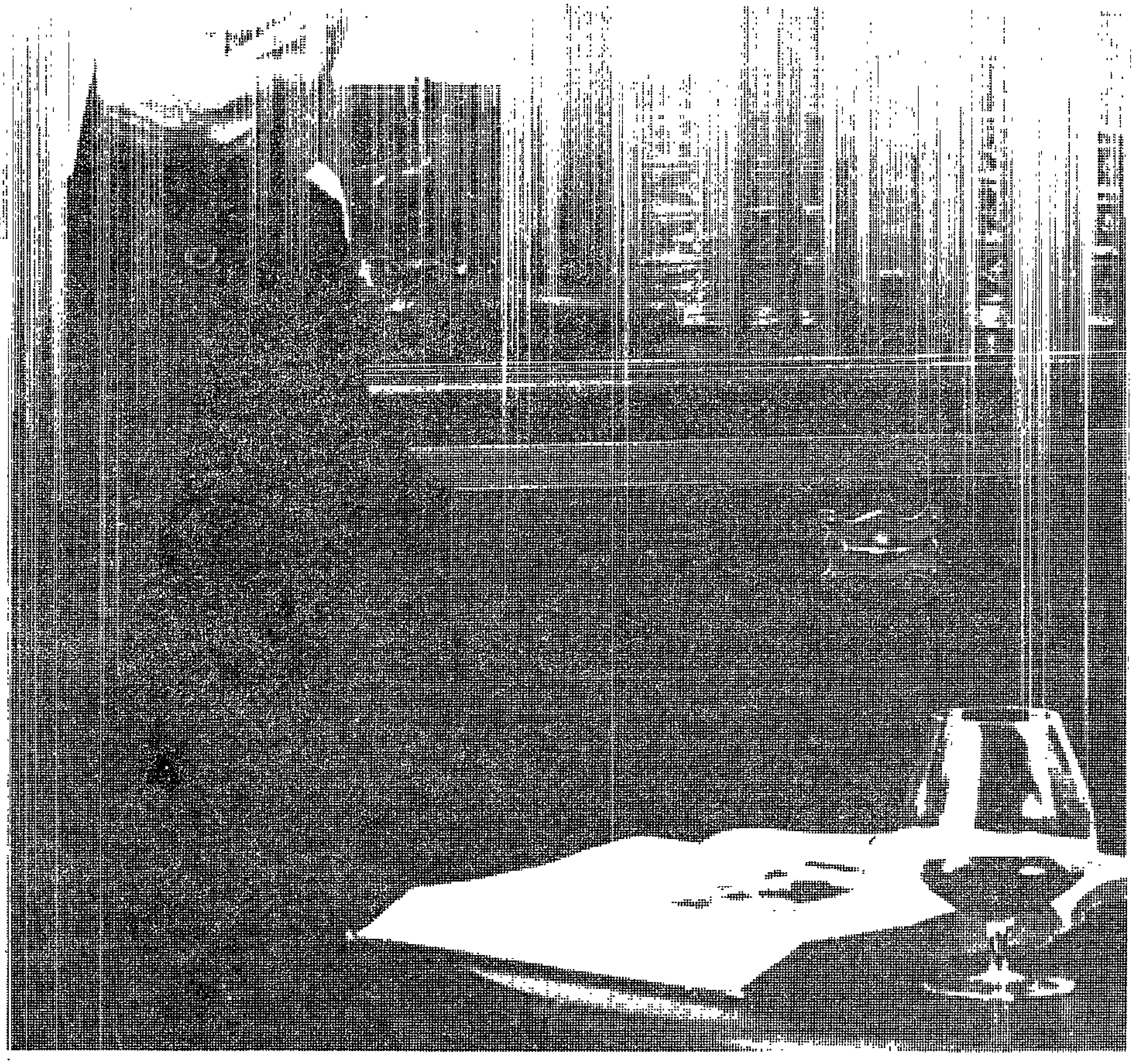
It's rated by "The Banker" as top South African banking group in the world's Top 500.

It's also the bank of top South Africans.

Makes you think, doesn't it?

NEDBANK

Nedbank Limited Registered Commercial Bank



As a matter of interest: The internationally respected British financial journal "The Banker" placed [illegible] in the world's top 500 banks – and top of the South African banks. The Nedbank Group's assets (today over [illegible]) helped [illegible]. A [illegible] simple philosophy that combines quality thinking with management experience. The [illegible] of the most successful people and companies have banked with Nedbank since the 1890's. People [illegible] as their bank.

GREY-PHILLIPS BUNTON MUNDEL & BLAKE 68893

Stating the case for unit trusts

Keeping ahead of inflation

EVERY insurance salesman understands the power of compound growth. He knows only too well that if one invests R1 000 a year at a 10 percent interest rate, one will have R17 000 at the end of 10 years and R489 000 at the end of 40 years.

At a more attractive growth rate, say 15 percent, he also knows that the numbers look even more dramatic. That R1 000 invested each year grows to R23 000 at the end of the first decade and has escalated to over R2 000 000 at the end of 40 years.

But the question being asked increasingly, is where can one find a flexible and secure investment which grows at a compound annual rate of 10 percent, let alone 15 percent?

After all in these days every investor is seeking to protect his investment from the ravages of inflation which is at present running at 15 percent.

The South African economy is also losing steam and the only indicator which shows no sign of abating is the inflation rate. On a year-on-year basis it is running at between 14 and 15 percent which means that anyone earning less than 15 percent on their investments is losing out.

So the search is on for investments which earn in excess of 15 percent and yet which are not high risk and offer a measure of liquidity.

One need not search too far or too wide to find such an investment — an investment which has shown an average compound growth rate of 18 percent over the past 10 years during which time inflation averaged 11,5 percent.

This inflation-beating investment, the unit trust, has been neglected for some time by the mainstream investing public but this has in no way affected its appeal.

The unit trust industry was started some 16 years ago when the first fund was formed with assets of only R600 000.

Today, the industry comprises 12 different funds with total assets in excess of R700 000 000. It also has a very creditable track record.

When in mid-May 1965, the infant unit trust industry took its first steps, there was a measure of uncertainty as to how the funds would perform over time.

Now 16 years later, one can see that had one invested R100 a month in a trust in mid-June 1965 (R19 600 in total) that sum would today have a present value of some R81 000 — a growth of 14,78 percent.

This return has far outstripped the most relevant yardstick — the inflation rate which averaged 8,75 percent over the same 16 year period — and has outdistanced, by a comfortable margin, fixed interest investments.

A unit trust is one of the simplest forms of investment and capitalises on the fact that over the long-term, prices on the stock exchange have consistently advanced to higher levels in line with the growth of the economy as a whole.

A unit trust enables the investor to do collectively, what he cannot do individually. The money from a number of individuals is pooled, invested in a wide spread of public companies and liquid assets and professionally managed by experts who have the time and skills not available to the average individual.

Not only that, one can invest in unit trusts in a number of ways. One can make a regular investment of as small an amount as R20 a month or one can make lump sum investments whenever one chooses. There is no maximum investment.

Investing as they do across a wide spectrum of investments, the trusts offer the investor the minimum exposure to risk, while at the same time giving him the opportunity to participate in the good fortunes of many public companies.

The unit trusts strive to achieve for their holders a sound rate of capital appreciation (which is tax-free) over the long-term, a growing income, and a direct participation in the long-term growth of companies.

There is little doubt that the unit trust is a vital component of any comprehensive personal financial plan and one which because of its excellent track record, has an increasingly appeal for the investor.

1981 was another successful year

THE unit trust industry notched up another excellent year in 1981. The 12 trusts in the Association of Unit Trusts have shown a steady capital appreciation over the 12 months and outstanding income growth.

The highlight of the past year's performance is the extent of income growth which reflects the continued escalation in company profits and the high level of interest earned on liquid resources which themselves have increased significantly.

The unit trust income index stood at 741,42 at December 31, an all-time peak for the 16-year-old industry. At this level the index shows a 35,15 percent rise over the past year and a 10,3 percent improvement on the September 30 index of 672,44.

The unit trust index also gained in the past year and at the end of the December quarter, stood at 425,0. This reflects the growing confidence of investors in participating in the long-term growth of the economy and the market.

'In particular, risk exposure is reduced to an absolute minimum where unit-holders put rand cost averaging to work for them by accumulating their investments through regular monthly plans,' he said.

The past year was also a good year for the unit trusts themselves as there was a dramatic fall in the level of repurchases resulting in a much lower net outflow.

Repurchases during 1981 amounted to R58,0 million as against R107,9 million in the previous year and as sales of units were maintained at encouraging levels, the outflow from the funds was cut significantly.

The funds experienced a R15,8 million net outflow for 1981 as against an outflow of R43,3 million in 1980.

Looking at the analysis of the funds' portfo-

Increased payouts

THE unit trust income index, which measures the income distributed by the 12 South African unit trusts, has risen by almost 800 percent since 1966, compared with a 400 percent rise in the consumer price index over the same period.

In the quarter to March 31 the index rose by 50 points to a record 791,83, and the six trusts distributing in the quarter all paid substantially more than in the same 1981 quarter.

The increased payouts reflected the trusts' further shift into liquid assets, and the high interest earned on cash resources.

Statistics released by the Association of Unit Trusts show that total liquid assets amounted to R180,3 million at March 31, compared with R158,2 million at December 31 and R118,5 million at March 31 last year.

The 12 trusts held 30,1 percent of their assets liquid on March 31, compared with 22,1 percent on December 31 and 22,1 percent on March 31, 1981.

The proportion of liquid assets was, however, boosted by the drop in the trusts' market value to R599,8 million on March 31, its lowest value in over a year, from R718,8 million on December 31. The unit trust index fell to 353,0 from 425,0.

Unit sales were slightly higher at R12,4 million compared with R12,2 million in the December quarter, while repurchases fell to R12,4 million from R14,7 million.

last quarter of 1981 and a 6,6 percent increase from December 1980.

Chairman of the Association of Unit Trusts, Mr Bernard Nackan says that these results show what an excellent investment opportunity unit trusts offer.

'With the South African economy heading for a period of reduced growth and the international economic picture becoming bleaker, a cautious approach to the stock market is essential.'

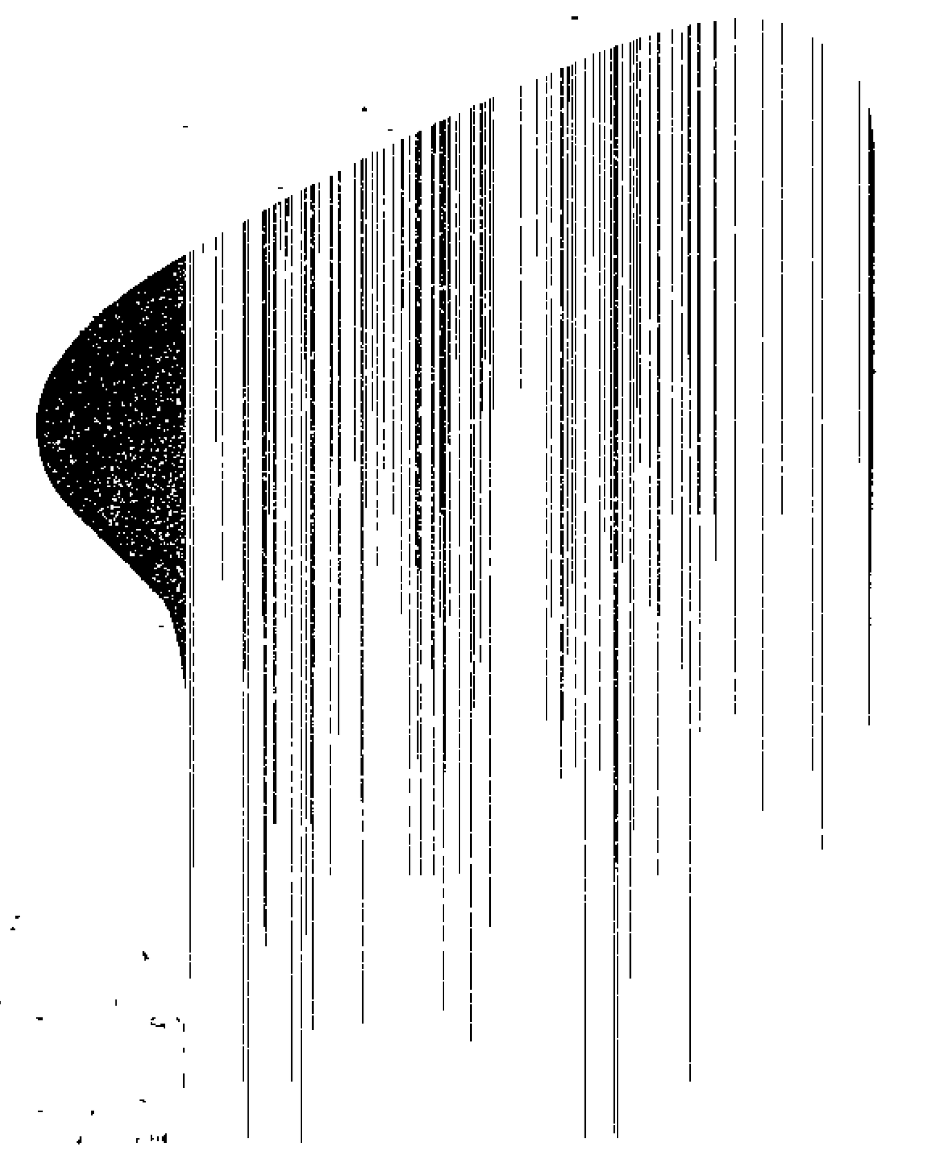
In times of uncertainty the attraction of unit trusts is all the more compelling as they provide a uniquely secure, convenient and diversified medium for participation in investment strategy.

Over the past year the funds have substantially reduced their exposure to the gold and mining sectors and channelled these funds into liquid assets.

The liquid assets of the 12 funds totalled R83,9 million or 12,3 percent of their portfolios at the end of 1980 and 12 months later this had climbed to 22,1 percent or R1158,2 million of the combined portfolios.

Again reflecting the strong stock market, the market value of the funds appreciated further during the December quarter and the funds' total assets stood at R717,5 million at the year end.

NUMBER



Exports and dividend benefits

Norah Hill - Safto manager, Natal

SHAREHOLDERS with short-term interests of insufficient foresight are, too frequently, an opposition force within the export company's own ranks.

How often in the last couple of years have we heard a company chairman's desperate cry of, 'But what about the shareholders!' when he has been questioned on the wisdom of his company's retreat from foreign markets in favour of a booming and more lucrative domestic one?

Perhaps his reaction is understandable when one sees the criticism levelled at companies which have maintained their export business: for one, or maybe two years, their profit performance has not quite matched the exhilarating peaks of those who chose to take quick advantage of local sales opportunities.

Hard lessons

But have shareholders — and some corporate managers — really forgotten the hard lessons of the recession of the mid 70s? That recession lasted for longer than the recent boom and it is a matter of record that export earnings were then the lifeblood which kept many companies, and their shareholders in a state of solvency.

Do shareholders — and corporate managers — really believe that in the competitive world of the 1980s, that companies can switch markets with impunity and attempt to move into neglected markets only when it suits them?

In every worthwhile world market, competition is growing, as developing countries become more sophisticated in their manufacturing activities. This is evident here on our very doorstep, where eager low-cost manufacturers in the Far East are competing against our own producers.

If South African companies are to keep their hold on foreign markets, they must not look to non-existent

mon in clothing, food products, agricultural requisites — increased profits may be derived not only merely by increased sales but by the better utilisation of plant and labour, leading to reduced unit costs and hence improved unit profits.

Shareholders are, quite rightly, more confident if their company is efficient in its management and production.

Satisfactory export performance over the long term can be taken as a good efficiency indicator, for the company that exposes its management, marketing and production capabilities to the harsh winds of foreign competition in the foreign market-place must be efficient to survive.

The efficiency achieved through exports has several facets and implications.

The company with an international flavour more easily attracts and keeps the cream of available manpower — both local and immigrant.

Exposure to international competition means awareness of new production techniques and new product design.

With access through its foreign market activities to international finance, the exporting company can make more efficient use of interest rate differentials between countries.

Long-term growth

A major reason why shareholders — and corporate managers with them — should be concerned in export possibilities is the long-term growth potential of the company.

For a surprising range of companies — from the small assembler of moulded plastic components to the large-scale producer of metals — exports offer either the only, or the easiest, avenue for increased sales.

Given the limits of the South African market, even with the growth in black spending power, it is clear that a company wishing to achieve above-average [illegible] ity and continuity of supply.

These are very real attributes which time and again have enabled South African companies to penetrate markets in Europe and Africa where strike action, transport difficulties or other supply hindrances have created disillusionment with more traditional suppliers.

Why throw these advantages to the wind by a stop/go export policy?

The recent budget speech by Finance Minister Mr Owen Horwood emphasised the disastrous effects on the whole South African economy — and on individual companies and persons — of the fall in gold earnings.

What, perhaps, needed equal emphasis was how essential it is for non-gold exports and especially manufactured exports to be increased more rapidly. In fact, as the figures show, some non-gold exports have made substantial progress; but this should rather be taken as an indication of South Africa's export potential than as an acceptable level of achievement.

Shareholders, of course, looking to their dividend income, can be forgiven if they view macro-economic arguments for export growth as purely academic.

The reasons for a company to look at exports as a means of attaining sustained growth are, however, no less cogent.

Firstly, we again relate to the experience of the last recession: exports sales help to even-out the downturns in local demand.

It is seldom, if ever, that every export market hits a down-phase at exactly the same period as the South African market.

Seasonal cycles

Sales peaks and valleys can be due to seasonal cycles as well as to economic cycles. Here again, companies can use export sales to northern hemisphere markets to attain an overall higher annual volume of production-sales with consequent advantages to their shareholders.

In such instances — they are compelled to increase its domestic market share or look to other markets.

Increasing its share of the domestic market often requires a marketing effort and cost which is uneconomic.

Moving into a larger foreign market usually creates little disturbance to established suppliers — a South African company would be able to supply such an infinitesimally small part of a market as large as, say the United Kingdom, West Germany, let alone the United States, that its presence would scarcely make an impact on domestic producers (the present difficulties vis-a-vis steel products to the United States are an exception, involving as they do suppliers from a dozen other countries also).

The expansion of market opportunities brings, naturally, increased throughput, economies of scale and resultant improved profits.

Weakness

One of the great weaknesses of manufacturers in South Africa is that plant capacity is based on domestic market requirements alone and that all too often export outlets are not taken into account in long-term planning.

Perhaps, shareholders should criticise further and demand more long-term planning form the companies they invest in.

This would undoubtedly require a more serious long-term commitment to export than is currently the case.

The conflict between shareholders' interests and export commitment exists only where shareholders have short-term interests.

The shareholder looking for sustained growth in his company will generally be more than satisfied with the dividend performance of a company with a sustained and intelligent policy regarding export development.

The last recesson will have proved the point, as will the one looming ahead; exceptional circumstances apart, the dividend yield over several years from such a company will exceed that of the non-exporter or the fair-weather exporter.

Sound shares can override inflation

By Richard Lurie
President
Johannesburg Stock Exchange

MR F G Beard's survey again provides a valuable guide for investors interested in the track records of leading industrial and financial companies listed on the Johannesburg Stock Exchange.

Readers will be aware that the investment scene has changed markedly in the past three month. When this survey was published a year ago the JSE Actuaries Industrial Index stood at 628,5, showing earnings and dividend yields of 14,1 and 5,4 percent respectively.

By 31 December, 1981, the index had advanced to 692,0. Since then the index has declined by some 21 percent to stand (31 March, 1982) at 548,1 with earnings and dividend yields of 21,3 and 7,8 percent respectively.

Restrictive steps

The underlying reason for this decline is, of course, the drop in the gold price from an average of 460 dollars for the whole of 1981 to the current level (end March, 1982) of around 320 dollars.

Although the effects of this drop have been mitigated by the decline in the exchange value of the rand versus the dollar, the resultant swing into large current account deficits (fanned by the upsurge in imports during 1981) has strained South Africa's balance of payments position to the point where the authorities have deemed it necessary to take a number of restrictive steps.

The most important of these, particularly affecting the level of Stock Exchange prices, has been the tightening of the money supply and the consequent steep increase in interest rates.

There appears little doubt that we are now entering a period of reduced economic activity and that the growth rate, in real terms, of 8 percent in 1980 and 4,5 percent in 1981 will be reduced to somewhere around 2 percent for 1982 and, in the absence of any marked increase in the gold price or upsurge in Western economies, to possibly less than that in 1983.

Thus with higher interest rates and falling economic activity the outlook for industrial company profits during 1982 is not bright.

However, in the medium to longer term (say 18 months onwards) I believe that our economy will again move into a pattern of growth relatively higher than in most Western economies and accordingly that there will be opportunities for advantageous investment during 1982 in the shares of sound and well financed industrial companies which have demonstrated over the years that they can out-perform the rate of inflation.

Excellent hedge

Although inflation is reducing in the West it does not appear probable that we will succeed in reducing the South African rate of inflation to single figures and accordingly industrial equities, carefully selected with due attention to timing and individual merit, will continue to offer an excellent hedge against inflation.

I remain optimistic for growth prospects for South Africa for the decade of the 80's.

Management and training

THE approach of the Gencor group can best be explained by an extract from the Group Policy which was established in 1971 after an in-depth investigation. This policy has been confirmed after reviews in 1978 and 1980.

● Gencor acts as a group management company for the underlying concerns in areas of investment in which the group has technical and management ability and which have possibilities for the future.

● Gencor will confine itself as far as possible to strategic and portfolio investments. Strategic investments are investments which are controlled or managed by the group. Portfolio investments are built up and utilised to obtain strategic investments.

● Gencor applies the principles of decentralised management within the frame-work of strategy, policy, procedures and control, which includes the allocation of available funds for expansion and development. The responsibility for profits and growth withint established goals and the establishing of their own strategy are allocated to the underlying concerns.

● Gencor focuses on the improvement of management through advice, training and especially through ensuring that trained and able management is available in the individual concerns.

Against tis background, it is clear that the group is only interested in concerns, especially in the industrial sector, which have achieved the size to afford a thoroughly competent delegated management.

Training

The training and development of workers at all levels is regarded as a priority of the highest order as a means of expanding a severely limited leadership group. Accordingly, the group's development policy provides for workers of all categories to progress increasingly to higher positions.

Internal management training programmes are presented on a continuous basis, and during the past 10 years, 24 000 members of management and staff (black and white) have attended these courses.

More than 1 000 presentations of these management courses, to be attended by 19 700 employees, have been scheduled for the period up to 1984. Two hundred top and senior managers have already attended advanced management courses at local and overseas institutions.

Technical training of the highest possible standard has been implemented in the group to satisfy the acute shortage of skills, a problem experienced by all employers in South Africa.

The group's endeavour to use every opportunity to promote sound industrial relations is borne out in its industrial relations training. From 1972 a total of 4 024 managers and workers have undergone industrial relations training, to ensure a healthy worker — management relaionship.

The success of Gencor's policy and strategy is reflected by the income of earnings from 39 cents in 1972 to 401 cents in 1981.

Gold coins as an investment

GOLD coins, whether bullion or numismatic, have proved to be a good investment for the future, provided the buyer avoids the pitfalls and obtains advice before spending his money.

The proof of this is that while gold dropped in price by 32 percent in 1981, the value of evaluated proof Krugerrands rose by 43 percent.

The main reason for this rise is that the rarer gold coins, or numismatic items, depend on their scarcity more than the gold price for a market value.

Until a few years ago, the buying of numismatic coins was considered a hobby rather than a serious investment venture. However, in the last few years more and more people have turned to gold coins as a potentially excellent investment avenue.

It led to Robin Duthy commenting in his book *Alternative Investments:* 'It is said that there are no more coin collectors now, just investors.'

Since 1976, Krugerrands have become the most sold gold coin in the world and this will tend to ensure the proof Krugerrands will become increasingly popular in the foreseeable future.

Here is some advice on buying the coins:

SA Mint List — only one Proof Kurgerrand per subscriber a year.

Buy up 1982 Proof coins as they come onto the market provided the prices are reasonable. Concentrate on the higher point values.

Buy up 1982 Proof fractionals that come onto the market at reasonable prices.

Points to remember

There are several points to bear in mind concerning tax and estates angles:

- In South Africa, there is no GST, VAT or capital gains tax on Krugerrands and Proof Krugerrands.
- It is possible to profit from

Krugerrands and, more particularly, proof Krugerrands without being taxed, provided a person does not trade in these. It is best to consult an accountant or tax expert for clarification.

- By lending his coins to his company, a person can trade to advantage.
- Gifts to children and grandchildren have tremendous benefits where growth, estate duty and taxation are concerned.

One of the most important aspects of considering gold coins as an investment for the future is to study what has been taking place in the last few years.

In South Africa, there are perhaps 2 000 serious investors in gold coins and perhaps 15 000 collectors.

However, estimates are that there are at least 80 000 South Africans who own one or more Krugerrands.

Between 1980 and 1981, at one outlet alone sales moved up from coins worth R14,02-million in 1980 to R34-million in 1981 — an increase of 143 percent.

Taken for a silver ride?

Mercury Corrrespondent

NEW YORK— Silver rand coins offered at eight to twenty times their true worth have the Krugerrand's American marketing arm alarmed but seemingly helpless.

The coins are being sold by a Vermont mail order firm, which entices with the advertised si... es- ... Krugerrand, put the silver rand's worth at about R3 on the silver market, or about R1 on the foreign exchange market.

'Investors think we are selling a new product and we are not,' a corporation official grumbled.

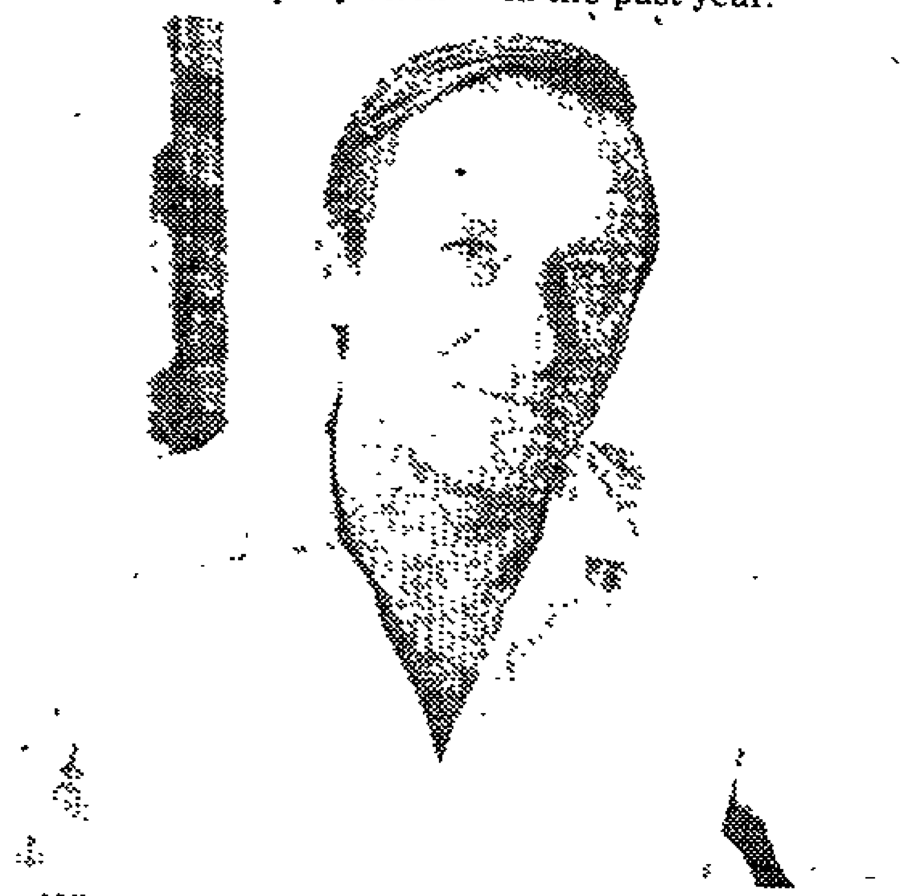
The mail order firm reported the R25 silver rand selling very well

Portfolio contest

They banked on pharmaceuticals

Financial Editor

The Stock Market did not go against all our competitors in the Share Portfolio contest with the main prizes going to entrants who decided to spend their R100 000 on pharmaceutical company Alex Lipworth.



Winner Mr G M Loudon works hard at his hobby.

Main R150 prizewinner is Mr G M Loudon, an industrial engineer who has invested on the exchange for the past 15 years. He 'bought' 52 631 shares at 190 cents and 'sold' them for 305 cents - producing a 60,5 percent gain and taking his portfolio to R160 524-55.

Hot on his heels to take the R50 second prize were a team composed of David Schuster, university physics lecturer, and artist Diana Kenton who also chose Alex Lipworth but only bought 52 600 shares and so the final value was less than Mr Loudon's.

The winner's tactics were to examine each sector and chose those shares under 200 cents each, he then looked at the dividend and other ...

proaching the financial year end (March 31).

A bit of local knowledge also helped as in his job he is aware of how well the medical and pharmaceutical companies have done in the past year.

His best performance so far: 'I bought Sorec during the boom and saw a 450 percent rise in three months.'

Mr Loudon is a firm believer in working hard at his hobby and keeps voluminous point charts of the gold price and certain shares.

'Team One' comprised of David Schuster and Diana Kenton was the winning entry from a group that took a gloomy view of the contest.

'We sold short in a number of our entries, and it was surprise when a 'straight' purchase went in the opposite direction to the rest of the market,' Mr Schuster said.

There was no particular reason for them to choose the share which was at a reasonable level at the time ... contest buy than the Krugerrand' at a price of 'just 25 dollars'

The rand and the dollar are rough equivalents at present.

The International Gold Corporation, which promotes the

they were rare.

Coin experts, however, said there was no market for them and warned that the silver price would have to shoot up from R7 an ounce to R75 for the content to be worth the mail order price.

Last year Lipworths had reached a 210 cent high and he expected a 25 percent rise as the net asset value was below the share price and the stock was ap-

'We were convinced that the market would fall — and this proved to be the correct view, it was certainly a surpise that it went the other way.'

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The Star Friday April 30 1982 19

Govt follows up Good Hope talks

Critical issues affecting businessmen would be discussed at a series of meetings between the Government and commerce starting today the office of the Prime Minister announced in Pretoria.

A major function of the meetings, which would last until May 14, would be to assist the office of the Prime Minister, Mr P W Botha, in long-term economic - development planning.

HIGH LEVEL

A statement said that this would be the first series of meetings to be held since the revised economic-development programme had been released during the Good Hope conference between the Government and business leaders.

The meetings, at high level, would be held countrywide and would deal mainly with sectoral development.

"Critical issues affecting businessmen will be discussed at these meetings," the statement said.

The following items have been included in the agenda:

- Sectoral development: these discussions will focus on recent developments in particular sectors of the economy and major problems encountered.
- Short-term business-cycle developments and long-term economic prospects.
- Government proposals for improving industrial relations and for promoting manpower-training.
- The success of recently announced industrial - development proposals which are totally dependent on active participation of commerce. These proposals will be discussed in detail during the meetings.

The meetings would be held in Johannesburg, Pretoria, Cape Town and Port Elizabeth.

Commerce would be represented by 31 Sectoral Advisory Committees (Sacs), each drawn from a different sector of the economy. (The Sacs act as subcommittees of the Prime Minister's Advisory Council. Members are usually nominated by representative bodies in commerce and industry).

About 450 leading businessmen would take part and several government departments would be involved.

Other bodies to take part in the talks are the Human Sciences' Research Council, the Council for Scientific and Industrial Research and the National Productivity Institute.

A FORUM

The meetings are being organised by the planning branch of the office of the Prime Minister and will be led by senior officials.

"The meetings also serve as a forum where the private and public sectors can openly discuss all aspects of government policy which affect and regulate specific aspects of the various sectors," the statement added. — Sapa.

DE LOOR REPLIES TO CRITICS OF TOUGH BUDGET

Bus. Argus 1/5/82

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By Derek Tommey, Financial Editor

AS the severity of this year's Budget slowly dawns on businessmen, politicians and other interested groups, the Government is coming in for increasing criticism over its financing policies.

The Budget was a tough one containing the biggest tax increases for several years. But at the same time it was notable for curbing in real terms the growth in Government spending.

Together these aspects of the Budget are expected to have a marked contractionary effect on the economy in coming months. As a result economists are forecasting smaller growth in company profits and in some eases a drop.

Sanlam's economists pointed out this week that the drastic curtailment of Government spending — which includes a sharp cut in capital expenditure would in particular hit the construction and engineering sectors hard.

They also reported that price and tax increases would have a significant effect on consumer spending.

These gloomy prospects have led to attacks on the Government's policy of trying to finance most of its Budget by taxation instead of by increasing its borrowings.

Borrowing

Critics have pointed out that the deficit before borrowing this year, at 2,8 percent of gross domestic product, is actually smaller than the 3,4 percent average for the past 22 years. There should thus be considerable room for the Government to increase its domestic borrowings.

Alternatively, it has been argued that as South Africa's credit rating abroad in high, the Government should have lessened the impact of the Budget on the economy by borrowing funds overseas.

This week Dr J H de Loor, Director-General, Finance, replied to critics of the Budget.

At a meeting sponsored by Mercabank and attended by many of Cape Town's leading businessmen and several members of Parliament Dr de Loor outlined the factors for and against increasing State borrowing.

He said in its choice between taxation and borrowing as a means to finance the deficit, the Government had to take into account the effect of each on growth and stabilisation.

Financing a deficit through higher taxation had less effect on capital spending and economic growth than financing it through increased borrowings.

If the Government were to borrow more it would "crowd out" the loan market and lead to private sector investment having to be curtailed. This would have adverse effects on growth, the fight against inflation and the public's expectations.

Greater borrowings by the Government could increase interest rates and in this way too have a negative effect on growth and expectations. However, in deciding whether the Government should borrow or increase taxes it was necessary to compare the effects of both on the expectations of the community as a whole and on the distribution of income.

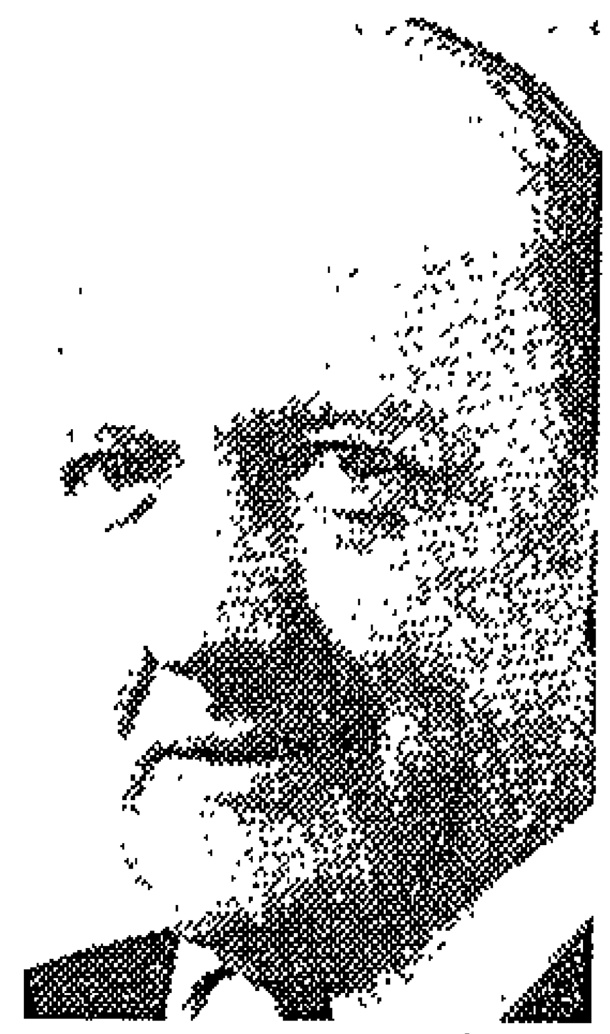
Problems

As for foreign borrowings, Dr de Loor said this was limited by a number of practical problems.

South Africa was not a popular borrower abroad. Many banks were not prepared to lend money to the Government and the number of dependable sources of foreign loans was small.

Moreover, if South Africa were to get into financial difficulties and had problems meeting its debts, it could not expect to be allowed to reschedule them, as Poland and Brazil were doing.

For these reasons the Government had to rely on the local market for much of its borrowings.



DR J H de Loor, Director General: Finance.

Recession starts to bite — hard!

(49) S. Times 9/5/82

By Colin Bower

SCORES of engineers are experiencing — many for the first time — the bitter taste of retrenchment as the South African economic slowdown tumbles into outright recession.

Professional placement agencies report that the construction industry is offloading professional engineers and well-qualified technicians in droves, and warn that a wide range of supply industries will shortly feel the pinch. Accompanying the retrenchments, and a contributing factor, is the shelving of a number of multi-million-rand projects (see story on AECI below) and the recent or imminent termination of a wide range of large projects, including Richards Bay, Sishen, Sasol 2 and 3, Koeberg power station and Atlantis Diesel Engines.

The cancellation of Sentrachem's R630-million ammonia plant is a further exacerbating factor.

"There can be no doubt that the economy is sickening faster than anyone dared anticipate six months ago," says Martin Westcott, managing director of Human Resource Development, the P-E Consulting Group subsidiary.

"Major contracting companies have embarked on large-scale cost-cutting programmes. The pessimistic view is further strengthened by the cancellation of a number of multi-million-rand projects which would have provided work for thousands during the next two to three years.

"At least three large contracting companies have already dismissed hundreds of staff, including many professional engineers, in a development which has stunned engineers who were riding the crest of a wave of demand for their services less than a year ago."

David Hutton-Wilson, a consultant with Renwick Management Services, describes the situation as "quite frightening. All the major construction companies are laying off people".

Confirming the view that engineers are having to cope with new and possibly unprecedented market conditions, Sasol reports a turnround in recruiting success for chemical engineers.

In August a large display advertisement for a number of engineering posts resulted in a trickle of applicants and no appointments.

An advertisement placed in February resulted in "a very good response", says a spokesman, and a number of appointments.

The trend means that the frenetic job-hopping among engineers in recent times will diminish, and that management secondment services offered by some placements consultancies will flourish.

The bad news for engineers is that the halcyon years of annual increases upwards of 15% are over.

Sugar chief's freedom plea

49

S. Tribune 9/5/82

Tribune Reporter

CHRIS Saunders, chairman of the Tongaat Sugar Group, yesterday made an impassioned plea for freedom.

He called for freedom of speech, conscience and trade.

And he added: "Economic freedom cannot be divorced from political or religious freedom."

Mr Saunders was speaking after receiving an honorary doctorate of economics at the University of Natal in Pietermaritzburg.

He said society could not always be made up of "haves" and "have nots".

"No nation — no matter how great or small — can conserve political or economic freedom to itself while denying the benefits to others," he added in a clear reference to non-whites.

"Freedom is the one thing we can keep by giving it to others.

"In politics you have to share, in economics you have to grow.

"The end result of compromise and growth is that the social order will not only offer opportunity, but will be peaceful, prosperous and progressive."

A record 2 000 degrees and diplomas will be conferred on students this year.

(49) S. Tribune 9/5/82

Pinetown and New Germany

A supplement to the Sunday Tribune 9th May, 1982

PINETOWN is second to Durban as a manufacturing centre in Natal. Many nationally significant industries have been established in the town notably the giant SA Bata Shoe Company, which is one of the largest production plants in South Africa and is an integral part of the international Bata Shoe Organisation.

It is estimated that in the past 20 years more than 110 000 new touring caravans of various makes were sold in the Republic — 60% of them were made by CI Industries in Pinetown making it the caravan manufacturing centre of the Republic.

The Mayor of Pinetown, Councillor M. W. Wheelwright.

C.I. Industries have two sites in Pinetown, one of 4,89ha and the other 31,30 ha. The group employs nearly 900 people and annual turnover exceeds R21 million.

Compiled by Mick Thomas

Other large industries include Smith and Nephew Limited — which employs more than 1 000 people, occupies a 9 ha site, and is South Africa's largest producer of surgical dressings — and Glacier Bearings. The Glacier Division of Associated Engineering Manufacturing Limited was established in Pinetown in 1962 and produces millions of bearing shells annually for both engine manufacturers and the replacement market, bearings for structures such as bridges and fly-overs and for numerous industrial applications. Many other industries flourish with textiles, plastics, chemicals and metal products prominent while paint is produced on a large scale.

There are currently more than 30 heavy industries and 400 light industries established in the industrial areas in Pinetown with some 600 ha of land still available for industrial expansion. One area of some 230 ha in the vast Umhlatuzana Valley has received a grant of application and merely awaits the installation of basic services while need and desirability applications have been made for the balance of the industrially zoned land. The Umhlatuzana Valley's geographical position makes it ideally suited for industrial use.

A survey undertaken in January 1980 revealed that more than 23 000 people of all races (18 percent are females) are employed in the industrial areas of Pinetown and more than 5 000 (45 percent are females) in the Central Business District.

Pinetown has ample water and electricity. Water is supplied by the Pinetown Regional Water Services Corporation while electricity from Escom's national grid is reticulated throughout the area by the Durban Corporation.

LABOUR: Pinetown has within its area of jurisdiction land zoned for whites, Indians and coloured and is adjacent to extensive black homelands where new black townships are being rapidly developed.

The first phase of Mariannridge Township for coloureds was completed in 1976 and is now fully occupied.

Phase two has been laid out and serviced and dwelling units will be built as demand dictates.

Plans are underway for the development of an Indian Township to be known as Savanna Park, in the Klaarwater area to the south of the Umhlatuzana Valley.

The initial phase of about 2 000 units is expected to be completed by the end of 1982.

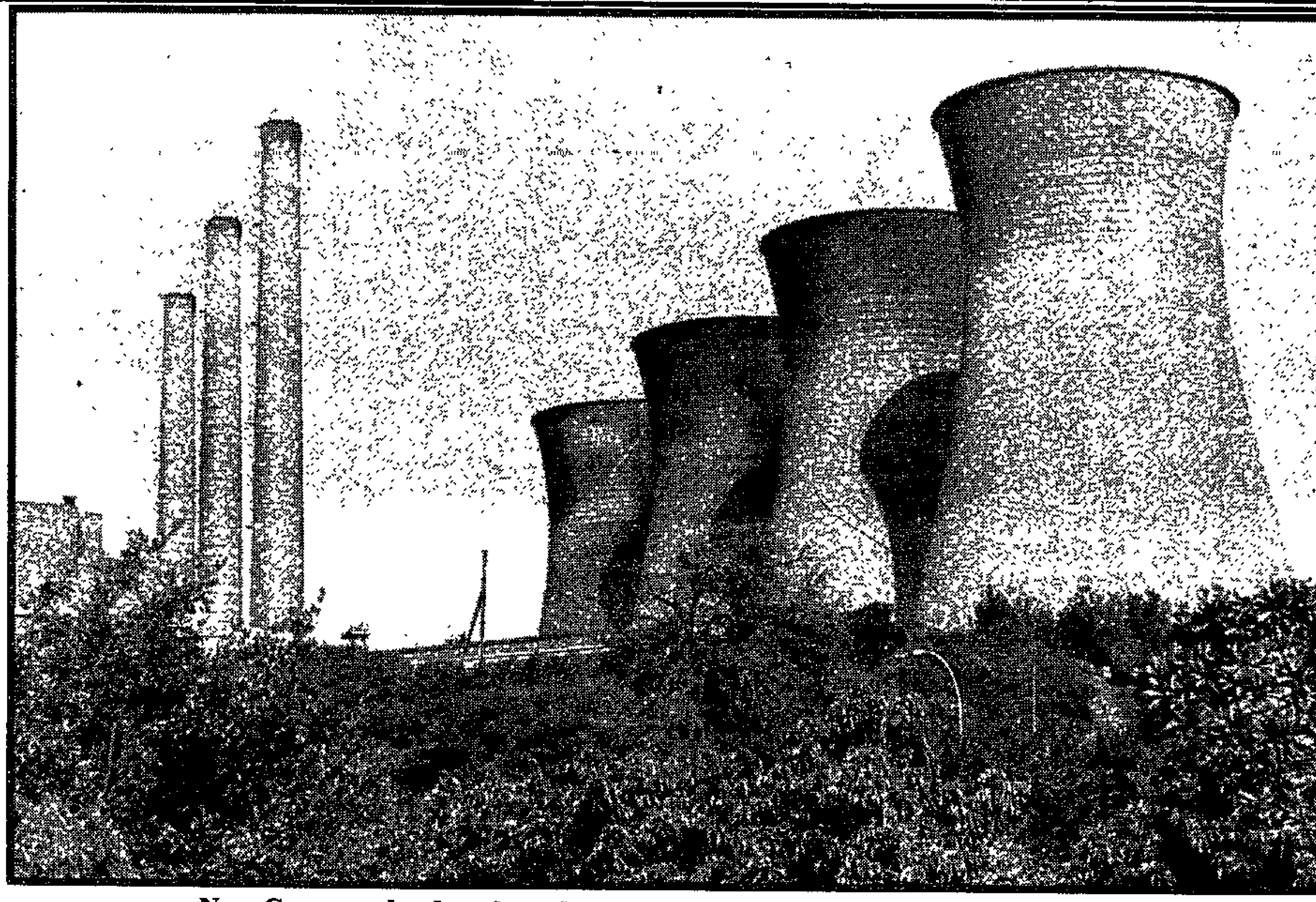
Comprehensive and competitive — these two words describe the range of goods and business attitude of the estimated 1 800 commercial and other business concerns in Pinetown.

The central business district consists of spacious supermarkets, modern shops and speciality stores interlaced with interesting and intriguing malls and walkways.

The CBD is the subject of an overall development plan which aims at co-ordinating and stimulating growth in the central area.

Not only are residents able to obtain all their needs in Pinetown but many people from adjacent towns make frequent shopping visits to the town which, with banks and building societies, is completely independent commercially.

Making good business – Pinetown and New Germany


New Germany landmark — the cooling towers of the Umgeni Power Station.

New Germany — growing area

NEW GERMANY has long been the site of light and heavy industry, and although enormous numbers of people work there, commercial development has never been a major factor due to the excellent facilities of Pinetown, five kilometres away.

Service industries, such as banks, building societies, chemists, fast food outlets and garages are, however, well represented. They are situated predominantly in a modern precinct-type shopping centre with plenty of parking space.

In August 1951, the local authority became a Town Board, and realistic planning proposals began to emerge, which were heavily influenced by the very considerable advance in industrial investment which was already prominent in Durban/Pinetown region. In the early 1950's the Electricity Supply Commission decided to locate a new Power Station in the Town, and the Umgeni Power Station, the second largest in Natal, marked the first major change.

Later in that decade, an event of major significance to the future of the Town took place when Philip Frame, purchased a large area of industrial land and announced his intention to set up a large cotton mill, together with staff houses. He expanded his activities rapidly during the 1960's, is the largest employer of labour in the Borough — and the Council's largest ratepayer.

Other industries followed, and it is notable that New Germany has attracted giants of industry both from South Africa and many countries abroad.

There are over 150 manufacturing firms operating in the Borough, covering the spectrum of light and heavy industry, from a large iron and steel foundry, many plastic processing industries, chemical plants, television manufacture, a wine and spirit processing and bottling plant to a proliferation of small but vital concerns.

Though primarily known as an industrial area, New Germany actually has an extensive and attractive residential area on the hills above the town, looking out over the Indian Ocean.

An interesting feature of the borough is the attractive developments of cluster housing, and the virtual nonexistence of high rise apartment blocks.

The current population is 6 500, but the Boroughs facilities are designed to accommodate 20 000, and sporting and recreational provisions are more than satisfactory. A waterborne sewerage system serves the entire residential area.

Duys exports R65 000 machine to Malawi

PINETOWN-based Duys Engineers' latest export initiative is a specialised R65 000 laminating machine for the shoe industry in Malawi.

The firm has long served this industry, both locally and in other countries, with specialised equipment. Duys is currently anticipating an order for a similar machine from Zambia.

Duys, which offers an all-round engineering service, has satisfied a number of interests which called for the manufacture of a variety of custom-built, high precision equipment.

Some of the company's more recent export contracts include equipment for the mineral wool processing industry in New Zealand, textile examining machines to Zimbabwe, a timber treatment plant to Israel and equipment for the new sugar terminal in Mauritius.

"The laminating machine was designed in our own drawing office and built by our mechanical department, utilising our extensive fabrication and machining facilities," says managing director Henk Duys.

"While this project was originally undertaken as an import replacement exercise, it has now opened up a new source of exports for Duys," he added.

Duys recently installed one of the largest universal boring mills in Natal. The R100 000 machine should prove invaluable to industry throughout the province, particularly in the Pinetown area.

The 110 mm mill also has a digital readout facility which will enable Duys Engineers to do accurate specialist machining operations working to extremely close tolerances.

The horizontal unit — with 2m cross travel, 1,8m vertical travel and 2,4m longitudinal travel — has a table size of 1 220mm x 1 525mm and can take a load of more than four tons, making it one of the larger mills of its kind in Natal.

"The new mill complements our total machine shop facility, making us one of the most versatile engineering works around," explained Henk Duys.

The mill is ideally suited for the machining of base plates, large fabrications, gearbox and pump casings as well as a wide variety of other applications. The unit's existence would also be of interest to the earthmoving equipment industry for repair work such as the line boring of excavator buckets.

The mill is situated in Duys' factory in Progress Road which is well served by overhead cranes and operational on a 24-hour basis to cater for emergencies.

FROM A MODEST START CI INDUSTRIES HAS GROWN INTO A DYNAMIC GROUP TODAY

☐ **CI Caravan employees Archie Ndlovu, left, and Christopher Msomi receive their keys to their new homes from chief executive Richard Cardo. As part of the company's housing scheme the men were lent the deposits for their homes and bonds were financed.**

CI INDUSTRIES, today one of the most dynamic groups in Pinetown, started from modest beginnings in 1959 as Sprite Caravans.

Now part of the giant Murray & Roberts group and a fully owned South African company, CI Industries is based on a 32-hectare tract of Surprise Farm and consists of three key divisions: CI Caravans, CI Parkhomes and CI Commercial Vehicles.

Although many people immediately associate the letter "CI" with caravans, and not withstanding the fact that CI Caravans holds the lion's share of the South African caravan market (70 percent), CI Industries means a great deal more than the manufacture of caravans.

The Parkhomes division is involved in building mobile homes, industrial accommodation, kitchen, ablution and office units, and holiday accommodation.

With the country's housing shortage problem becoming increasingly apparent, CI Industries is sure to play a vital role in this area as it moves into factory-built residential housing.

The Commercial Vehicles Division consists of the CI Flambo, Trailers and Cargo Vans subsidiaries, and is responsible for such varied products as luggage trailers, pantechnicons, heavy trailers, tippers, horse floats and special aluminium truck bodies.

Something that CI is particularly proud of is that the Canvas section (a subsidiary of Caravans), has the official contract to supply Government departments and the Defence Force with the South African Flag. CI Canvas also produces a wide range of canvas products including tents, tarpaulins and custom canvas equipment for caravans.

Managing Director Rob Heywood has been associated with CI for 22 years, since the days when the company was still a fledgling assembler of completely knocked down (CKD) caravan kits supplied by the United Kingdom.

In 1961 the company began producing caravans locally and turnover grew — enabling it to buy out the main competitor, Gypsey Caravans.

In 1964, CI in Britain took over the company.

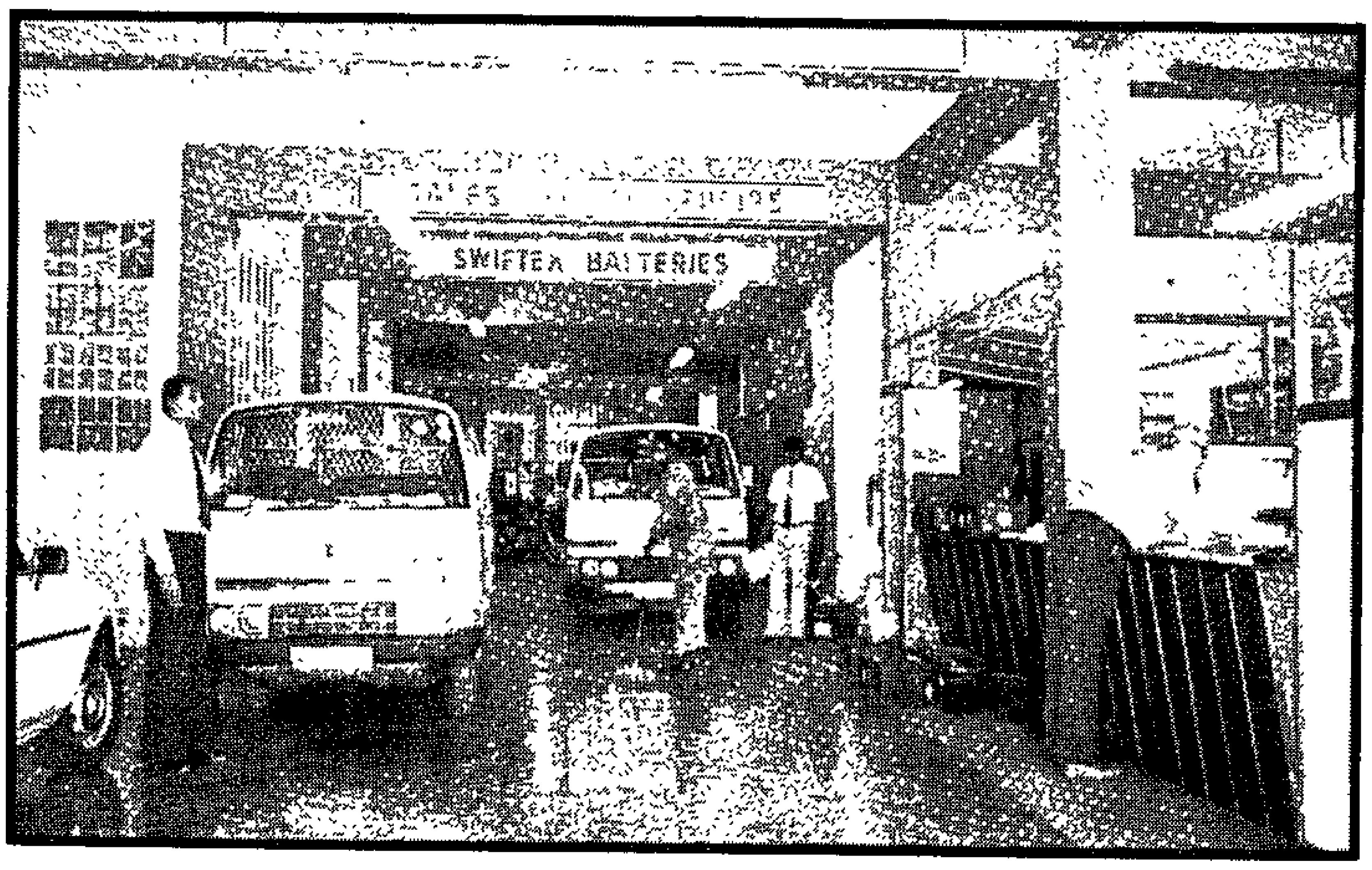
Heywood was appointed financial director, and in 1970 when managing director John Moody left for the United States, he was put in to the driving seat of the flourishing business.

It was then decided that CI diversify, a move which placed the company in a position to ride out the recession of the mid seventies and become as secure as it is today.

In 1979, CI bought out two businesses that were running at break-even levels, Flambo and Premier Cargo Vans, and built them into profitable operations. That was the start of the Commercial Vehicles division, now the most rapidly expanding arm of CI. In 1980, CI entered the Murray & Roberts group of companies.

Over the past 22 years, CI Industries has built 75 000 caravans, more than 6 000 mobile homes, more than 12 000 luggage trailers, plus thousands of truck bodies and specialised units.

More than 2 000 men and women of all races are employed at CI, and as the group expands in coming years, this figure is expected to grow significantly.



□ A Swiftex battery centre

SWIFTEX SUPPLY BATTERIES TO NATAL

ALTHOUGH it was only introduced 11 years ago, Swiftex batteries now supply a third of the Natal replacement battery market.

Swiftex batteries are made by Natal Battery Manufacturers of New Germany. Managing Director Danny O'Connel started the company in 1971 and, using hand-casting and hand-pasting techniques, built production up to 225 units a month by 1975.

Then, in 1974, Swift Industrial Supply Co. (Pty) Limited took over the marketing of the batteries. The plant was modernised and extended, with the addition of an automatic small parts and automatic feed-pasting machine.

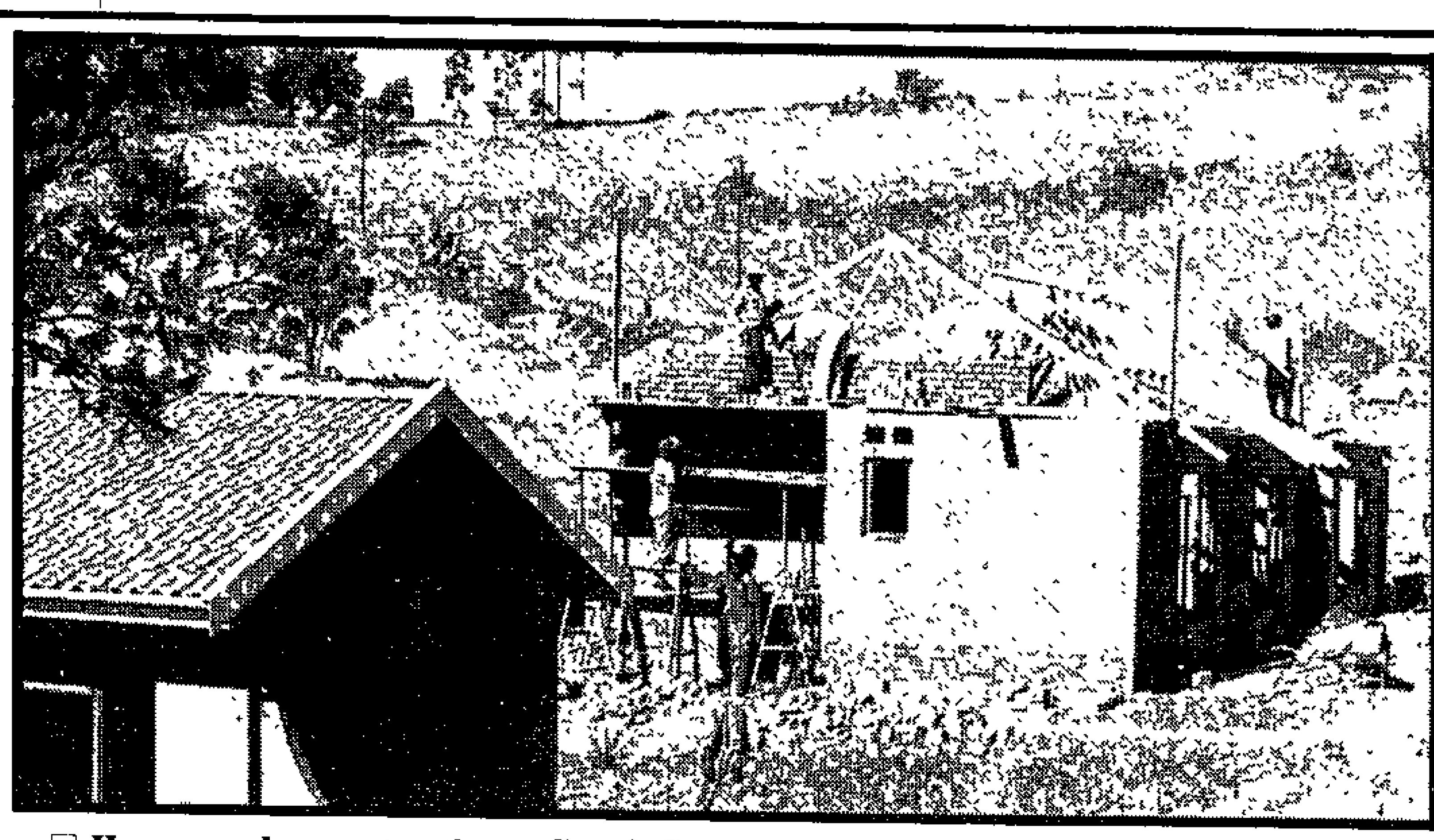
By 1977 production had quadrupled, and continues to rise year by year.

Recently, the company built a new plant at its New Germany facility to cope with the demand.

Public and semi-public bodies have given the battery their blessing and Swiftex supplies its batteries on most of the major tenders in the Natal market.

Marketing is through Swift Industrial Supply Company under the direction of Hamish McLeod and Wally Keene in Durban and seven branches or associated companies in the country areas.

Landscaping is here



□ Houses under construction at Gough Cooper's Glamis Heights development project

Glamis Heights – park setting but close to shops

GOUGH Cooper, one of South Africa's top three home builders, is currently engaged on a 400-house building development at New Germany.

Glamis Heights, the company's latest development project, is within easy reach of the industrial areas, shopping centres and sporting facilities. It is also set in parklike surroundings.

Gough Cooper specialises in homes for the "first time" buyer and has built more than 12 000 homes over the past 30 years.

The company recently bought 50 stands in the Manors district of New Germany and will shortly be developing this project for prospective home owners.

The company's one-stop plan relieves home buyers of the worrying of finding bonds and other financial problems.

A Gough Cooper home buying plan covers:

- Immediate transfer;
- No escalation clause;
- No bond costs;
- Quality carpets;
- Coloured tiles in kitchen and bathroom;
- Fencing; and
- Driveway.

These New Germany developments are directed from the company's regional office at 19 Union Lane, Pinetown, where enquiries for areas of development will be attended to.

LANDSCAPING has now firmly arrived on the Natal industrial property scene

One of the main plus factors in the Old Mutual Industrial Park at New Germany is its landscaped environment.

John Hayes of Old Mutual Properties says that a unique feature of this development is the full landscaping of the grounds surrounding the premises.

"Following extensive studies in the US and Europe, Old Mutual Properties instructed landscape architects to harmonise land and buildings in a balanced co-ordinated package designed to ensure aesthetic appeal and enhance the corporate image of the tenant.

The buildings and surroundings have been designed to provide a low-cost maintenance programme. Windows and doors are glazed in glass with aluminium frames, external walls are in face brick and all-metal is galvanised with a painted finish.

All external paving is in concrete pavers, which allows for extension of underground service with the minimum of disturbance.

Internal walls to factory spaces are unpainted bagged brickwork, floors are power floated concrete and ceilings are insulated with aluminium foil. Office walls and ceilings are plastered and painted and floors are covered with vinyl/asbestos tiles.

Individual units vary in size from 800 square metres to 3 500 metres.

The first unit is now ready for occupation and could be used either as a manufacturing plant or a warehouse. Eleven further units should be available in September.

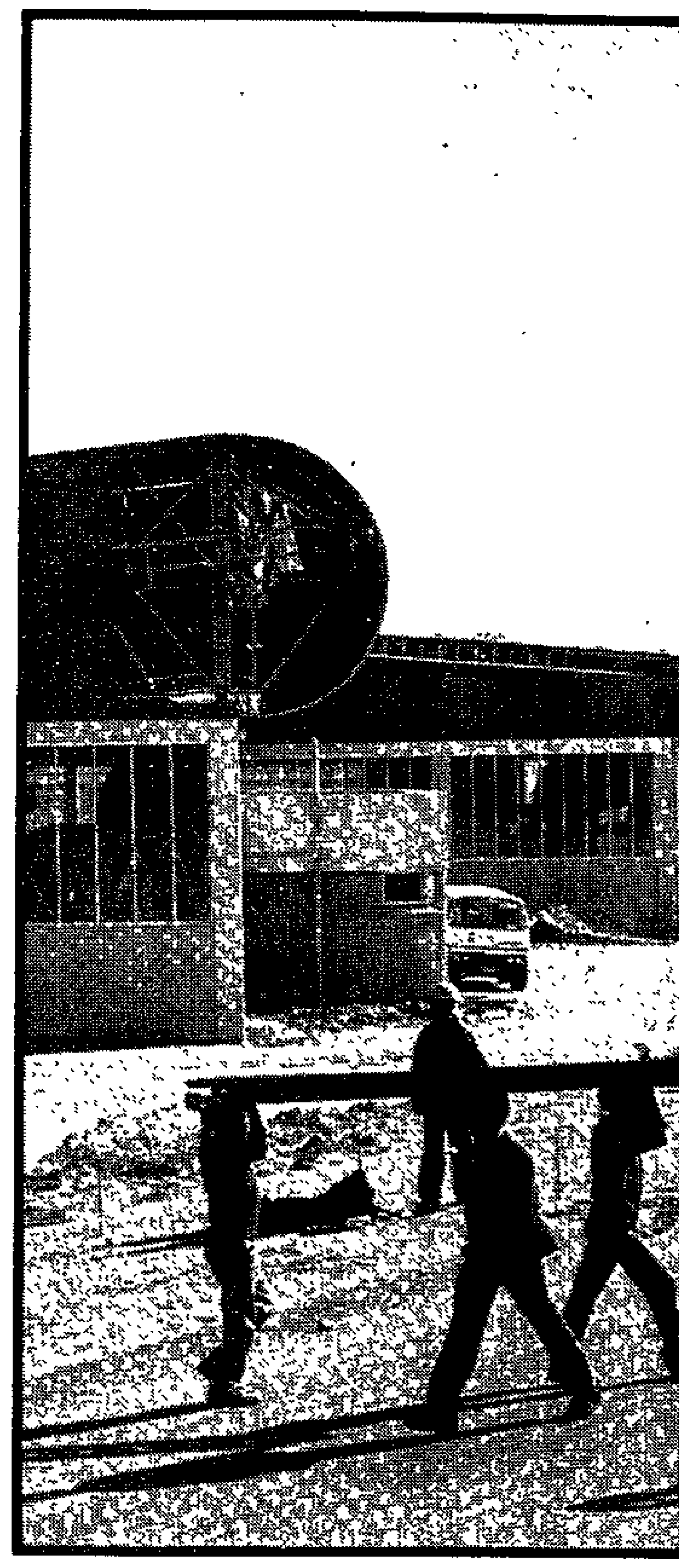
Self-contained office accommodation is provided for each factory space, including entrance, offices, toilets and tea kitchen.

Factory lighting is by high bay or fluorescent fittings mounted on ducts.

There is a telephone conduit to one outlet per office.

Automatic telephone connection between fire alarm system and power station will be provided for each factory space.

A load of one amp per 10 sq m of floor area will be supplied to tenant distribution board. Any further power required by tenant will be to his own account.



□ Builders putting the finishing touches to the first unit available for occupation at Old Mutual Industrial Park in New Germany.

Provision has been made for a riser from the distribution board to an electrical tray running the length of the factory at ring beam level (approximately 4.750 metres). The tenant will be responsible for the power distribution board, including the cost of increasing supply cable, main switches, etc.

TRAFFORD PARK SETS A NEW LAY-OUT STANDARD FOR FACTORIES

TRAFFORD Park, latest industrial development project in the Pinetown area, sets a new standard in factory architecture.

Instead of taking up the conventional 70 percent of site space, buildings at Trafford Park take up only 43 percent.

This leaves plenty of open ground for parking, landscaping, gardens and lawns — a garden factory project that gives a pointer to future industrial property development.

Trafford Park is situated in Trafford Road which borders the Pinetown/Westmead industrial area and has easy access to Pinetown central, New Germany and the major freeways heading north, south, east and west. It is about 18 kilometres from the centre of Durban.

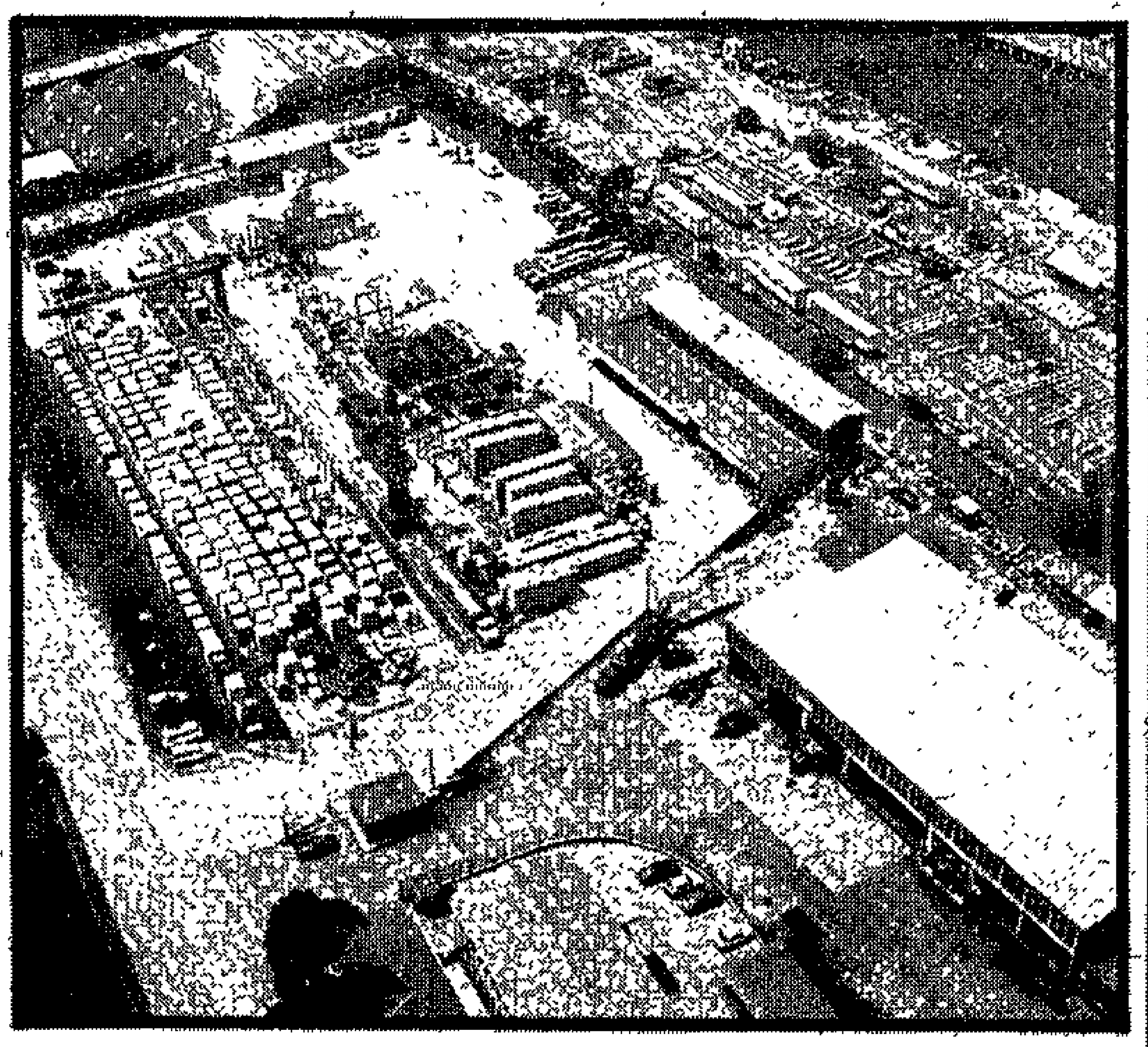
The project will incorporate 7 600 square metres of modern buildings designed so as to be adaptable to users' requirements, with considerable flexibility in matters of floor space, future expansion, offices and ancilliary accommodation.

Trafford Park will provide the following amenities:

- High-volume, spacious, well-lit factory accommodation from 350 square metres to multiples thereof, with all modern features including container size doors.
- Landscaped garden setting, to be maintained as such.
- Generous front-door parking for all users and their customers.
- Security fencing and watchman for front-gate reception and screening of all arrivals and departures to and from the premises.
- On-going supervision and maintenance of all driveways, gardens, 'services and building exteriors

Occupation is scheduled for July next and the agents for Trafford Park are RMS/Syfrets.

Grinaker leads the way with precast sleepers



An aerial view of the Grinaker factory in Pinetown

IN 1934 a young Norwegian engineer, Ole Grinaker, established a concrete construction and reinforcing company in Durban. Today his company, Grinaker Holdings, is one of the four biggest construction groups in the country and has a broad base of operations and a diversity of businesses encompassing the construction industry, property development and electronics field and with active and internal operations in Australia, New Zealand, Malawi, Brazil and Argentina.

Innovation has always been the group's watchword and Grinaker's unrelenting drive for innovations led them to examine precast concrete.

They realised that traditional methods were dependent on natural resources such as clay, timber and slade, and these were becoming less readily available. Concrete, although derived from natural sources, did not face these problems.

So, in 1959, Grinaker formed the precast concrete division, unique in that its management pivoted round a group of civil engineers — a group specially chosen to enable the company to offer a service not previously available.

Initially Grinaker specialised in prestressed railway sleepers and substantial tenders were granted by the S.A.R.

The Saldanha-Precast contract, awarded by Iscor at a value of R14 million, confirmed Grinaker Precast as the biggest supplier of precast concrete sleepers in this country and probably the largest manufacturer of this type of product in the world.

The Trojan mould and plant manufacturing division in Brakpan is proof of Grinaker's growth and success in exploring modern prestressing and moulding techniques and the company's moulds are exported from this plant to licence holders over the world.

Grinaker have subsequently moved into the segmental paving market. Concrete block paving and the reinforced concrete stelcon raft has proved to be one of the most innovative civil engineering developments since the Forties. About 2,5 million square metres are laid annually in South Africa.

Grinaker Precast manufactures, under European licence four different concrete paving products suitable for domestic and industrial application. These are the Stelcon raft, G-blok, Uni-Decor and Classipave.

In addition, Grinakers offer a Turnkey paving operation, which has not previously been available. The package deal includes:

1. **Site survey and soil testing.**
2. **Drawing of plans and base design.**
3. **Ground preparation.**
4. **Manufacture of blocks.**
5. **Installation.**
6. **Guarantee and after sales service.**

This package deal concept is unique in that it relieves the client of the difficulties of dealing with the separate specialists and contractors.

Making good business — Pinetown and New Germany

Bucco is up among top three

This Sasko delivery truck is fitted with a Bucco fibreglass reinforced polyester modular body

BATA walks it after a modest start

BATA started to become a world name in shoe- a world name in shoe production from the time that Thomas J. Bata's Czechoslovakian father founded a factory in that country in 1894.

Eighty-eight years later it is a success story that has crept into the economic annals of more than 100 countries with almost as many factories churning out millions of shoes, boots, slippers and other footwear each year.

And so it is with SA Bata Shoe Company, a factory set in park-like surroundings on five hectares in the industrial complex of Pinetown.

For, from a modest start with 428 staff and an output of 750 000 units in 1955, SA Bata's development has taken them to the stage where, within a quarter of a century, they produce 7 500 000 pairs a year.

Their footwear market share in South Africa is now 18 percent and their customers among retailers, wholesalers and their own depots number about 7 000.

When one in every four South Africans is tramping round in a pair of Bata products, standards have to be kept high and sources of raw materials carefully watched and cultivated.

Which is why 45 percent of SA Bata's leather comes from a tannery the company owns in Uitenhage.

And to streamline the distribution of their goods, Bata have seven area sales depots and sales offices in Mafikeng, Johannesburg, Cape Town, Port Elizabeth, Windhoek, East London and Bloemfontein.

The Pinetown plant is not the only manufacturing operation Bata have in South Africa although this central plant is the headquarters of the company's South African operations.

Smaller factories are based at Greytown and two in KwaZulu, at Keate's Drift and Loskop.

Getting back to raw materials the Pinetown factory uses 60 percent leather and 40 percent synthetics in the manufacture of shoe uppers.

These materials go into the making of a wide range of goods from industrial, steel toe-capped boots to sandals for infants.

Management officials, however, make no bones about the fact that Bata's success formula is in sticking to basic lines like school shoes in the medium to lower price ranges, casual week-end shoes, moccasins and slippers.

TRUCK BODIES MADE TO MEASURE

SINCE its establishment 20 years ago the Pinetown-based Bucco group has forged its way to one of the top three spots in the vehicle body market in South Africa.

Bucco switched from steel and aluminium to fibreglass in 1970 and today the Bucco fibreglass reinforced polyester modular bodies are available for every make of pick-up on the South African market, together with a variety of special-purpose bodies.

The revolutionary concept of modular construction allows Bucco to tailor-make a body for virtually any size chassis/cab vehicle.

Main advantages of the Bucco body include:
- Total resistance to corrosion and rust;
- Light in weight, allowing more goods to be transported;
- Robust modular construction;
- High tensile strength;
- Smooth interior finish allowing easy cleaning.

Proof of the durability of Bucco bodies comes from Sasko Bakeries. They agreed to fit a Bucco modular body to one of their trucks servicing northern Zululand, driving it over some of the roughest terrain and poorest roads in the area.

After an eight-month test, examination of the body showed none of the problems normally encountered by trucks in this area, such as structural damage due to flexing or body twisting.

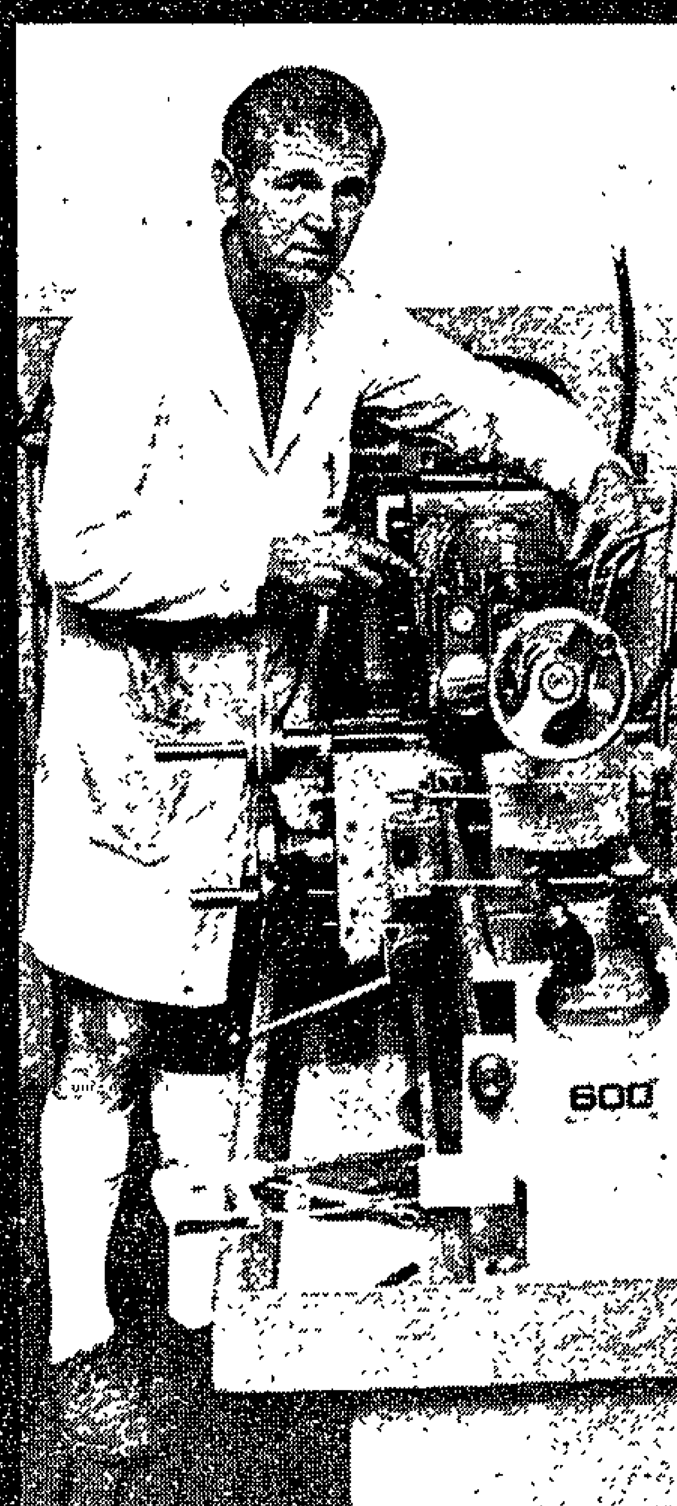
In recent years Bucco have moved into the insulated transport field and today the company is a leader in insulated/refrigerated bodies.

The Bucco insulated body is of sandwich construction with 4 mm GRP panels making up the internal and external faces, separated by polyurethane.

For milk carriers the company incorporates a specially reinforced floor. Meat vans call for stronger side walls. Shelving and tracks can be fitted as required.

Latest Bucco venture is in glass reinforced plastic pressings for industry. When specifications call for components metting the following criteria the advantages of Bucco cold pressings should be considered: low tooling cost . . . short lead times . . . high quality surface finish . . . light weight . . . corrosion resistant . . . engineering plastic standard . . . suitable for internal and external applications.

Reid makes the tools for the job...



Reid Rogers at work in his Pinetown workshop

WITH some 14 tool and die firms in the area, Pinetown is the centre of the toolmaking industry of Natal.

The toolmaker is often taken for granted by industry but he is an indispensable part of the manufacturing scene, for it is his tools and dies that keep the production lines going.

The toolmaker is a versatile craftsman, a generalist, for his work varies from job to job.

Take Reid Rogers, for instance. He founded Rogers Tools and Dies in 1978 in Pinetown and today this Australian-born toolmaker does work for a wide range of industry, covering, among others, the following: footwear . . . food . . . cosmetics . . . timber . . . chemicals . . . paper . . . components and so on.

The toolmaker's tools are general purpose tools capable of being applied to a wide variety of jobs. The standard machine tools and accessories that make them more versatile are of necessity tools of the toolmaker. Machine tools that have added features to make them universal are known as toolmakers machines.

For example, a small engine lathe with a wide range of speeds and feeds along with a complete set of accessories and attachments to make it more versatile is known as a toolmakers lathe.

And so toolmakers develop special techniques that are unique to him.

In this way Reid Rogers has built up his own special clientele covering industry throughout Natal.

Bonus' new branch proves its worth

BONUS Equipment's new branch in Nicholson Road, Pinetown, has proved itself of great use as a supplier to the engineering industry and inplant workshops throughout the area.

Branch manager Brian Lock said this week that requests for sections in short lengths, plate offcuts, square tubing, second-hand piping up to 500 mm had been increasing by the day.

HELPFUL

He went on to explain that the company endeavoured to supply the trade with low-priced material and be as helpful as possible when customers requested shorter than stock lengths.

"We do not pretend to cover the entire range of mild steel products but at the same time the stock coverage is vast," he said.

POLICY

"Our marketing policy is one of vigour and enthusiasm coupled with a congenial and friendly service, fast delivery and, of course, competitive prices."

Bonus Equipment's customers range from the biggest engineering companies to the one-man-band type who perhaps specialises in a particular field and serves the complex in varied industries in one of the fastest growing areas in the country.

GLACIER OFFERS A COMPREHENSIVE SERVICE


Jamie McKin of Glacier Bearings demonstrates the ease of fitting Straub couplings.

GLACIER Bearings is the largest manufacturer of plain bearings in South Africa and forms an integral part of the Pinetown industrial complex.

The company offers a comprehensive service to the automotive, civil, industrial and marine sectors of the South African economy.

Glacier is a division of Associated Engineering and only began its South African operation in 1961. Within eight years the company was producing one million automotive bearings a month.

The company has since developed a full range of spherical and "pot" bridge bearings. In 1973 the manufacture of expansion joints under licence to Maurer Sohne of West Germany began and in 1978 the Robek bolt-down expansion joint was added to the company's range of civil products.

Glacier also manufactures and repairs industrial and marine bearings. The techniques used, including centrifugal lining of bearings, numerically controlled machining processes and the application of stringent quality control standards make this unit one of the most sophisticated of its kind in South Africa today.

Glacier and the Swiss firm Straub Kupplungen soon intend marketing through Glacier, the Straub range of patented couplings in Southern Africa.

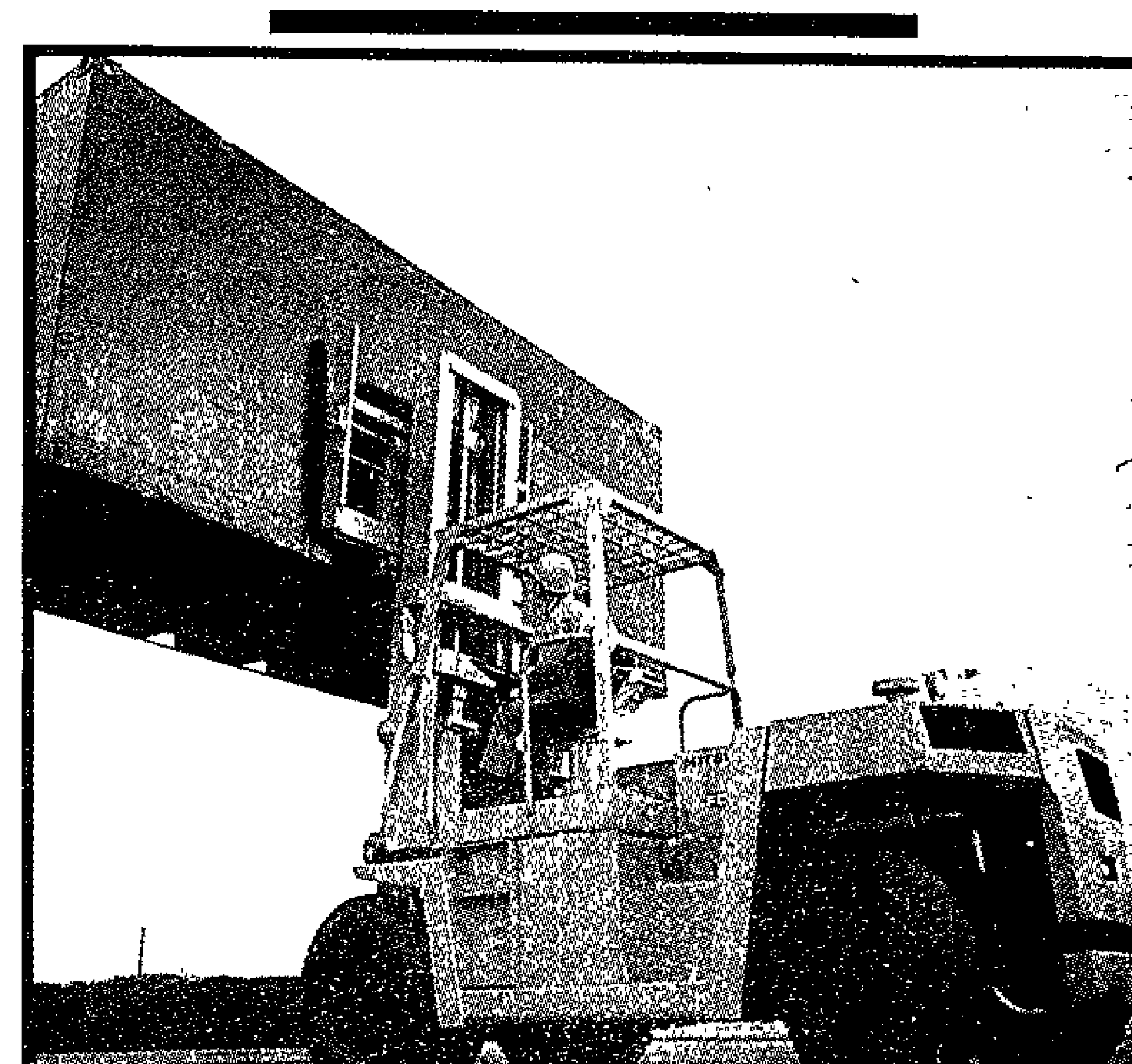
For years the couplings have successfully been installed worldwide in numerous sectors of the general and also the specialised pipeline industry. They have overcome enormous technical and economic problems associated with conventional joining methods, according to Glacier's marketing managing director Grenville Loder.

"Once we have established the market potential our eventual aim is to manufacture the full range locally under a licence agreement from Straub Kupplungen."

Straub pipe joining techniques have impeccable credentials, are already approved by a number of classification authorities including, in the marine industry, for example, Lloyd's Register of Shipping, American Bureau of Shipping and the US Coastguard.

Some of the most important technical properties and advantages compared to older joining methods are:

- Plain-end, untreated pipes made of carbon steel (black, galvanized, plastic coated or with other surface finishes), stainless steel and non-ferrous metal can be connected.
- Pipes with rough or rusty surfaces can now be perfectly sealed and axially anchored together.
- Unskilled labour without special training can be used to fit piping in a few minutes.
- A large fitting tolerance makes it unnecessary to work with extreme accuracy.
- A permitted deviation from the pipe axis of up to two degrees in every direction eliminates all difficulties and troublesome adjustment at the construction site.
- The necessary installation time can now be calculated correctly in advance, as no unexpected problems occur during installation.
- Great space saving on installation is possible due to the compact shape of the coupling (e.g. narrow bundling, smaller distance from wall to wall or to the ceiling); also one lock point on the circumference makes for easy fitting in very tight quarters.
- The standard EPDM rubber gasket of the coupling is resistant against chemicals and sewage within a pH range of two to 11. Alternatively nitrile (Buna N) gaskets are available for natural gas and petroleum applications.


☐ The Mitsubishi forklift truck, model FD120 has a carrying capacity of 12 000 kg.

The forktruck brought about a revolution

THE big surge forward in South African industry, mining, and agriculture over the past 20 years owes much to the introduction of fast and efficient handling equipment unheard of in the immediate post-war era.

Take the forktruck, for instance. This ingenious piece of equipment, which cuts both loading time and labour costs, brought about a revolution in the handling industry and in the process created an entirely new branch of commercial activity.

Illustrating the growth of the forktruck business is the Pinetown firm of Forktruck (Natal) (Pty) Ltd, a member of the Induna group of companies.

Forktrucks is South Africa's only importer of Mitsubishi forklift trucks and Mitsubishi NYK electronic forklifts and reach trucks.

For the past four years Forktrucks have concentrated on the 1,5 to three ton class, in order to ensure adequate spares availability on machines sold.

But the demand for units has risen dramatically in the past couple of years and the firm has been forced to broaden its range.

Now available are the bigger FD40 4-ton through to the FD120 12-ton models.

At the recent materials handling exhibition at Milner Park the Mitsubishi FD120 fitted with a telescopic spreader capable of stacking 40' containers three high was one of the highlights of the show.

Of the electronic units Mitsubishi-NYK have now released two new models: the FBT10 and FBT15 one-ton and 1,5-ton three-wheelers.

Panoramic wide vision uprights, dual drive motors and electronic control are standard features on both these confined space operators.

Forktruck (Natal) is completely independent, having its own low-bed transporter for deliveries and collections and its own fully-equipped workshop and fleet of field service vehicles with radio control.

New marketing concept keeps Pinetown boiling

A NEW concept in marketing industrial properties is short circuiting high interest rates and is setting the trend for rapid development in Pinetown.

It also gives ordinary investors the opportunity of entering a lucrative market dominated at present by large institutions.

Mike Helman, industrial and commercial manager for Max Dales and Company, says syndicates are buying and redeveloping properties with equity finance instead of high interest rate bond money.

"A lot is saved on interest. We form a company, buy or build a property, design and plan redevelopment to the date of occupation and arrange tenancy. Investors, big or small, are invited to participate," he says.

So far, two industrial and two commercial projects have been put together. The return is about 16 percent as well as capital growth. He says the syndicate development is gaining momentum steadily.

"A lot of backroom work is involved. The builder comes in without a speculative element, usually resulting in lower construction costs. The developer and the investor are involved and the tenant has somewhere to go," he says.

There is tremendous pressure for industrial premises in Pinetown, New Germany and Westmead with demand far outstripping supply.

Mike Helman of Max Dales and Company

Helman says suitable premises can still be found for good tenants provided a reasonable period of notice is given. Factory rentals are now more than R3,50 a square metre with occasional letting at R4,20 or more. Rents in Pinetown have risen from R3 to R4 a square metre so far this year but they are still below areas such as Isando near Johannesburg where space costs about R5,20 a square metre.

Most of the space in Pinetown, for long one of the fastest growing industrial areas in the country, has been taken up. There is the odd exception such as 7 000 square metres at present on Helman's books but generally the momentum will continue through redevelopment of existing properties which will raise the productive use of the available space. Syndicates will play a major role in the redevelopment of properties.

Pinetown, already the home of old established factories for companies such as Barlows, AECI, Caravans International and Bata, is still forging ahead despite the national economic slow-down and the tight money supply.

"I am terribly confident about demand for industrial premises this year," says Helman.

J and B — the firm for all seasons

Turbine from Huletts paper mill at Felixton being re-bladed in J and B Engineering Services workshop

WHEN J and B Engineering Services (Pty) Ltd. was established in 1976 its main purpose was to provide a turbine overhaul service to industry in Natal.

But the company has moved progressively into other fields of turbine engineering and today provides a comprehensive service to industry.

Initially J and B serviced shipping and the sugar industry, later moving in to the petrochemical field.

In 1978 the company opened its first workshop in Pinetown, installed a few machine tools and started to manufacture its own spare parts.

Here it also started steel fabrication section to manufacture base plates which would take turbine pump sets.

To augment this work in the fabrication section the firm took on the fabrication and erection of polypropylene piping, an area which has gone ahead well.

J and B Engineering Services recently completed projects at Tongaat sugar mill and Sappi Fine Papers at Stanger.

Two new developments have taken place in the company this year.

First, in the turbine field, J and B are now associated with a division of A.E.G. — Kanis Turbinen Fabrik — GMBH, A.E.G. Telefunken Power Engineering and Industrial Systems Group, servicing their turbo-generator and centrifugal compressor range in South Africa.

Second, the firm has been awarded the agency to market Kelburn steam, gas, air and water separators in Natal.

This application is fairly new in South Africa but is being widely used overseas. Manufacturers supplying new plant, such as turbo generators, now supply these as standard equipment with their turbines.

J and B have also installed a furnace and melting oven to enable it to manufacture and remetal white metal bearings.

A large horizontal boring mill has been installed plus an additional medium-sized lathe to assist with the extra machining which should accrue from the re-metalling division.

GREAT GOING FOR BARLOWS IN THE COOL

The development of Barlows Airconditioning Company since its inception in October 1978, has been one of tremendous growth (prior to that date National Airconditioning units were distributed through Barlows Appliance Company.)

Based in the Pinetown/New Germany area, they have developed into one of the leading distributors of airconditioning, supermarket refrigeration equipment and extractor fans. The brand names are NATIONAL and FUCHSWARE:

This tremendous growth can be attributed to the excellence of the National units and the biggest and best range of airconditioning on offer. Window/wall units, consoles, floor mounted splits, ceiling mounted splits and now multi splits.

Multi-splits are systerms whereby you have three indoor units and only one outdoor unit with each indoor unit operating independently of the other.

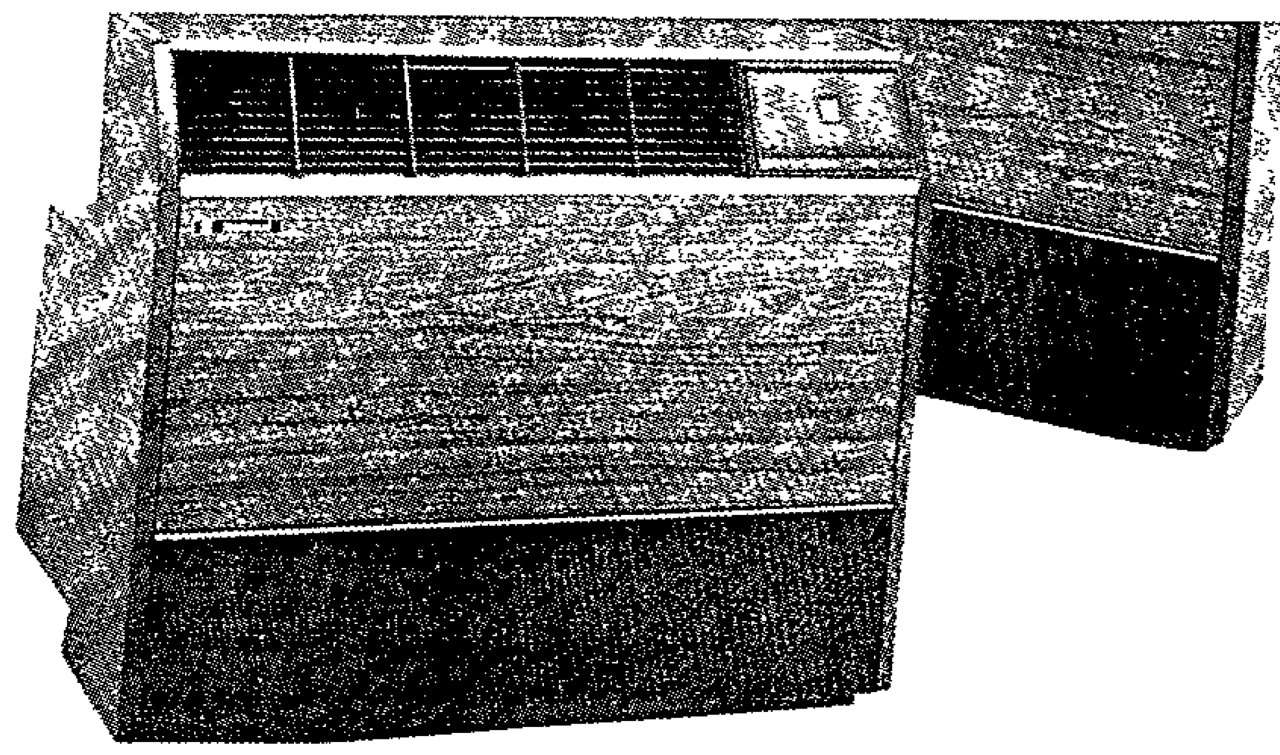
During the past 18 months, the introduction of split systems installed at ceiling level has proved to be highly successful. It has enormous savings in certain applications as opposed to "ducted" systems. They are extremely quiet, efficient, reliable and relatively inexpensive.

These days airconditioning has ceased to become a luxury, it is in fact a necessity.

In the hot and humid conditions of our territory it is important to "get on top of it" if we are to maintain productivity in this competitive world. The position has now been reached when so many people have airconditioning in offices etc., and come home to relax, but do not have airconditioning. We therefore see a tremendous increase in the home buyer.

Before purchasing airconditioning or extractor fans, seek expert advice. The expert looks at the volume of the room, the number of people who use it and factors like whether the windows face north or south etc. "We have to know just how much cooling is necessary in selecting the size of unit and the position."

Also remember to clean filters regularly i.e. at least once every two weeks and have the unit serviced once a year preferably in the winter months when the serviceman is not rushed and under pressure.



☐ The National console-type airconditioner, distributed by Barlows Airconditioning Company

Blakey and Hope — 400 percent growth

BLAKEY and Hope, the Pinetown manufacturer of kitchen units, have notched up a record-breaking 400 percent growth rate over the past four years.

When the company moved to its new Pinetown showroom and factory complex in 1980, turnover was hovering around 150 000 a month.

By the beginning of the second quarter of 1981, the new factory and showroom were in full swing and by the third quarter sales had peaked at just over 300 000.

The high growth rate is attributed to well-designed showroom, up-to-date kitchen designs and plant considerations.

The latter half of 1981 brought Blakey and Hope into the position of holding a major share of the Natal Melamine kitchen market and it was decided to expand to other market areas, notably Pietermaritzburg, Newcastle and Johannesburg.

In early 1982, the company amalgamated with the well-known Darling and Hodgson group of companies.

Blakey and Hope plan to realise R4 000 000 in sales during the 1982 financial year, bearing in mind the current economic situation and its past high growth rate.

Making good business – Pinetown and New Germany

Watertite case for guttering!

WHEN the Watertite Guttering company was established in 1975 in Pinetown, it introduced a new concept in the fight against constantly rising building maintenance costs — the non-corrosive aluminium gutter.

Today, because of inflated replacement costs, homeowners, industrialists, government and provincial authorities are turning more and more to Watertite guttering to replace conventional systems corroded by smog-laden air and rainwater.

The Watertite system revolves round its fleet of mobile factories where the guttering is made-to-measure on site from aluminium coil.

In the process Watertite takes aluminium and pre-paints so that it will not peel or rust, wraps it into coils, loads it into its mobile factories, then roller-forms it into exact made - to - measure lengths for house or factory. It then instals it and gives the owner a 10-year guarantee.

A Watertite mobile guttering factory on the road

Watertite uses a special aluminium alloy, tempered and milled specifically for rainwater system. — Apart from never rusting or corroding, the gutters are extremely strong. Yet they are so light no additional strain is placed on the roof structure.

A double coat of enamel paint is applied to the aluminium and fused into a permanent bond in high temperature ovens. This process results in a beautiful coating that cannot peel or flake and enhances the appearance of the building.

SMITHS INDUSTRIES HAS COME A LONG WAY SINCE 1840

☐ Windscreen wipers coming off the production line at Smiths Industries, Pinetown

SMITHS Industries was born in London some 20 years after the arrival of the 1820 settlers in South Africa. Although this company was established originally to manufacture clocks, the theme of the company's growth has been design and manufacture, primarily of light engineering products and more recently, electronic devices and systems.

Smiths Industries' extensive range of expertise includes the manufacture of aerospace, marine, medical, tubing and building equipment; air moving, hydraulic and vehicle equipment; clocks and watches; car radios; industrial ceramics and instruments, and the distribution of parts and accessories for vehicles and for plant and machinery.

Today Smiths Industries is a multi-business organisation embracing Smiths Industries Limited with headquarters at Cricklewood, London, and its numerous subsidiary companies in the UK. Internationally other subsidiary companies are established in Australia, Sweden, US, Canada, Singapore, Japan and South Africa.

The original SI investment in South Africa was made in 1962 through the acquisition of Lodge spark plugs, which had a 50% interest in a subsidiary in Pinetown, manufacturing spark plugs.

In 1966, SI set up its own car heater manufacturing assembly unit in South Africa, as a result of a market survey which prompted the support of the motor vechicle local content programme. This was followed in 1969 by the acquiring of a 100% interest in the spark plug company and the setting up of an assembly line to manufacture and assemble DC motors.

In 1971 the first air-conditioning units were being manufactured in the factory for installation as original equipment by one of the leading car manufacturers in South Africa. In addition, the manufacture of windscreen wiper motors began for installation as original equipment by car manufacturers.

With the opening of the hooter assembly line in 1976, SI became the first and, to date, only company within the SI international group to produce hooters.

In 1977, the marketing division came into being with sales offices established in Johannesburg and Cape Town. In addition, the manufacture of pliable and flexible conduit was started with an assembly line to assemble imported component parts for precision fans.

With the increased use of plastics in South Africa, a plastic injection moulding company, Injex, was acquired and in the interest of efficiency, a purpose-built factory was established on the adjacent property in 1979 for this company.

To date, about one million motors and one million heaters have been produced in the factories in Pinetown.

In April 1980, an agreement was signed with NGK in Japan to manufacture and distribute spark plugs in South Africa.

To control viably the continuing diversification of the company in South Africa, Smiths' Industries (Pty) Limited has formed two subsidiary companies — SI Marketing Southern Africa (Pty) Limited and SI Automotive Southern Africa (Pty) Limited.

The former company will be responsible for generating sales of a widely diverse range of products under four divisions, namely:- consumer products, electrical products, technical/specialist products and security products. A new factory has been established in Wynberg, Johannesburg, to manufacture and assemble these products.

In order to overcome the increased requirements of the motor industry, the automotive company has established a new factory for manufacturing air-conditioning systems and will extend and re-design the Pinetown factory to increase its production capacity by more than 50%; increase the moulding capacity of the plastic injection company, and consolidate the tool-making facilities to provide the capacity to manufacture both plastic moulding and press tools.

The capital outlay involved in these expansion programmes will be about R3-million.

The policy of the South African company is to continue to broaden its base through the development and extension of locally manufactured products in support of the many industries in South Africa. This will benefit the country by the introduction of SI's vast wealth of technical know-how, making a larger contribution to the economy by the strengthening of local manufacturing facilities, the creation of greater employment opportunities and savings in foreign exchange.

TRUCK HIRE BUSINESS GOOD IN NATAL, SAYS ANN

"BUSINESS is good in Natal," says Ann Robinson, Regional Manager of Imperial Truck Hire in Westmead.

"We have opened our Natal operation only recently but we have already proven that we made the right decision in making available our considerable range of services."

Imperial Truck Hire in Natal is backed by the vast Reef based company that specialises in service to the industrial community.

"We have a branch in every industrial area in the Pretoria/Witwatersrand/Vereeniging complex and it was only natural that we should branch out to prospering areas like the Natal region," Robinson explained.

Imperial Truck Hire was one of the first operators in its field and played a considerable part in promoting the concept of hiring rather than owning trucks.

Today, the company has a proud record of having introduced many important innovations such as the Flexi Fleet concept and specialised vehicle services.

Customers have on call, apart from the usual selection ranging from one ton bakkies to eight ton heavy vehicles, specialised vehicles such as crane trucks and horse and trailer combinations.

"Imperial Truck Hire is a dominant force in the truck hire market because of its long experience in the business," said Robinson.

"Truck management is an extremely sophisticated occupation requiring expert knowledge about preventative maintenance, projected kilometres, servicing, applications and so forth.

"Imperial Truck Hire customers rely heavily on them for expertise in this field.

"One must bear in mind that most businesses were founded to sell products and services unrelated to transport and yet they have to run considerable fleets.

"No matter what level of services they get from Imperial Truck Hire, they soon realise that it is cheaper to have us to do the worrying even if they are big enough to have transport managers."

It is simply impossible and too expensive for any company to run a fleet large enough to satisfy its maximum needs since that will imply that a number of vehicles stand idle for most of the year. The solution to most of those problems is to consult an expert organisation such as Imperial Truck Hire which is able to supply vehicles for small transport tasks as well as extended and long term maintenance and leasing contracts.

BOOM CAUGHT THEM NAPPING

DURING the past two to three years, the property market in Pinetown/New Germany boomed beyond all expectations. The numerous empty factories were suddenly occupied again and so quick was the change from the dismal situation of the middle and late 1970's that most developers and entrepreneurs were all caught napping. However, when new buildings did start going up, they were fully let long before completion. As late as 1979 there was still a wide choice of vacant land, not only in Westmead Industrial Township, but also in the older parts of the town.

Quite suddenly the factors of demand and scarcity had an almost overnight effect on rentals. In 1979, R1,40 a square metre for modern industrial premises was regarded by landlords, as a good rental.

Today R4,00 is the norm.

But there is now a decline in the Pinetown/New Germany industrial market — not due to the lack of finance or tenants or entrepreneurs, but due to the most difficult of all problems to solve, the lack of vacant premises and worst of all, there is virtually no industrial land left. Westmead Industrial Township has been sold out and those odd pockets of land in the older area have, with few exceptions, been developed.

Without the availability of industrial land, the industrial growth of the area, as we have known it for several decades, will come to a grinding halt. There are new industrial townships on the drawing boards, but for the next two to three years the choice of property in the area will be limited indeed. The most important factor for the future growth of the area, is the proclamation, as quickly as possible, of additional land.

It is unfortunate that the scarcity of industrial land should come at a time when the Westmead Interchange will shortly be opened, making Pinetown even more desirable as a locality for industry.

However, the industrial property market will not lie down and die, as Mr Micawber said "Something is bound to turn up," but should you want to establish your business in the Pinetown or New Germany areas, do not expect a wide choice of properties for the next few years.

Slump in economy cuts deep

(49) RDM
14/5/82

Financial Reporter

MORE evidence of the sharp downswing in the South African economy came yesterday.

Tough conditions in world diamond markets are beginning to make themselves felt in local diamond mines.

De Beers, in line with its latest policy of reducing operating costs, is cutting its work force at the Premier Mine in the Northern Transvaal by 9%.

The number of employees is to be reduced by 498 from the present 4 275.

The company says, however, that every effort will be made to re-absorb affected employees within the De Beers and Anglo-American groups — and where this cannot be achieved compensation will be paid.

- Barlow Rand, the mining and industrial giant, reported a growth of only 1,8% in attributable profit — a clear fall when inflation is discounted — in the six months to March 31.
- Messina's mining operations had a disastrous six months' trading to end March and incurred attributable losses of R5 600 000 that completely offset a continuing good performance from the Datsun motor division.

See Page 11.

(49) Star 15/5/82

Mine closure will put town future at stake

Own Correspondent

KIMBERLEY — The future of Copperton, near Prieska in the northern Cape, is in the balance with the announcement that the copper mine which led to the founding of the town will close in 1985.

The closure of the mine, started in 1970, will put 3 700 employees out of work.

Prieska Copper Mine, Anglovaal's copper and zinc producer, has said that all operations will cease in late 1985.

An Anglovaal spokesman said that of the 3 700 employees who will be affected by the closure, 400 are white, 325 coloured and the rest black.

The company would make every effort to employ workers at operations in other parts of the country, but not all could be retained, he said.

Commenting on the future of the town, he said: "We will have to give this a lot more thought nearer the time. In view of the fact that an entire infrastructure has been created, it is highly unlikely the town will be abandoned.

"But at this stage there are no plans for the company itself to continue using the town after 1985."

Copperton has about 400 homes, its own telephone exchange, banks, primary schools and churches, shops, restaurant and several mine-related businesses.

It is 64 km from Prieska.

A senior Prieska municipal spokesman said that because of that town's infrastructure, it would not be affected adversely by the mine's closure.

"Prieska will be affected in some way. While I am not able to say to what extent, I am confident we will cope with whatever the future has in store for us," he said.

He noted that Prieska had no problems with water or electricity supplies. It was linked to main rail and road routes, and had sufficient areas for industrial and general development.

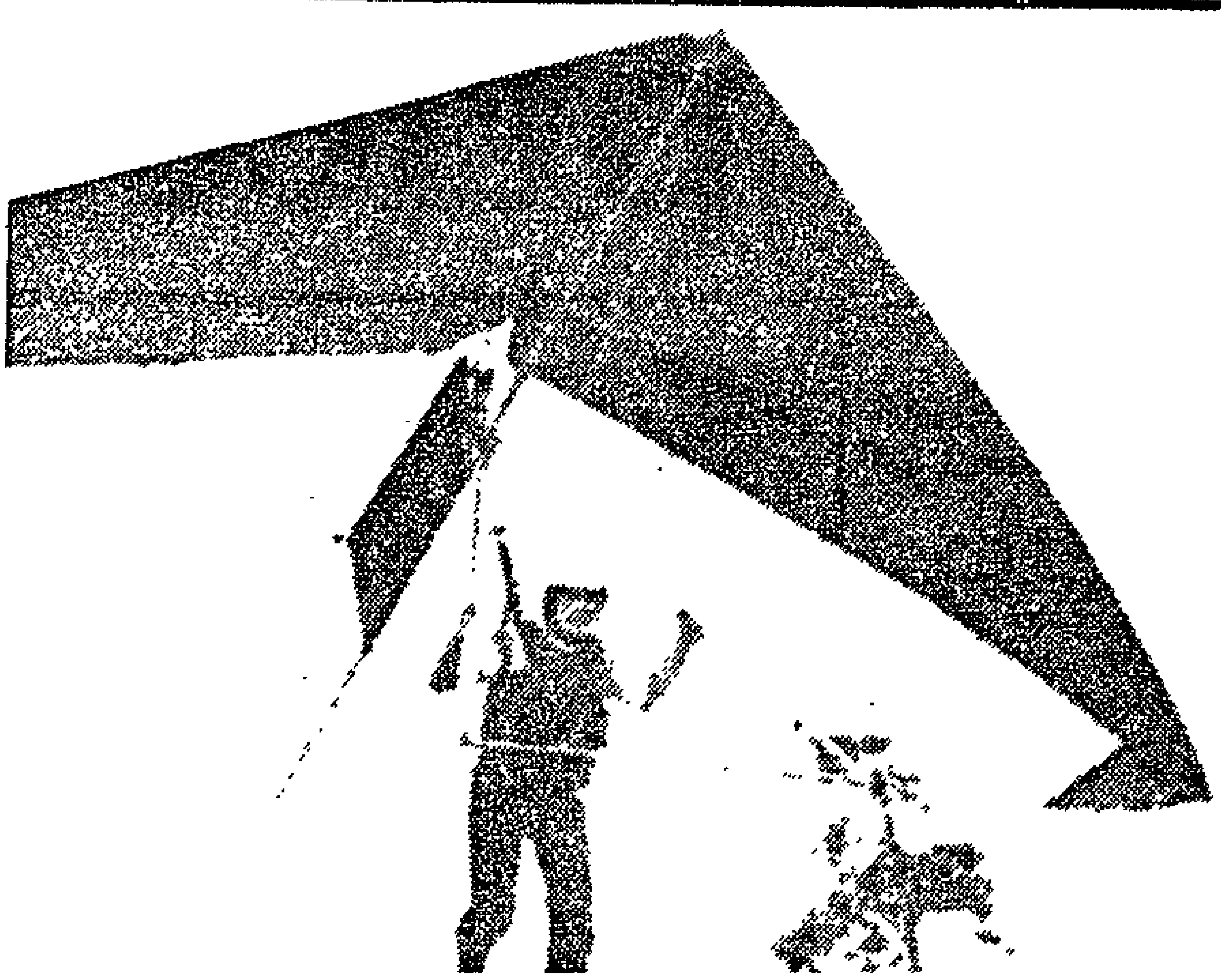
He concluded: "In view of the drop in the price of copper the closure of the mine is understandable."

An Anglovaal spokesman explained why the mine has to cease.

"Feasibility studies, which take into account the results of further exploration have been carried out to assess the economic viability.

"This indicates that about one million tons of ore could be recovered over the remaining life of the mine.

"Low prices for copper and zinc have adversely affected the company's cash resources, and because of uncertainties on future prices and exchange rates, the board considers that the additional R9 million needed to mine a deeper level is not justified."



McCarthy, gets in some practice in preparation for his attempt to break the titude record.

plans to soar to fame

Hang glider will plunge from height of 11 500m

minutes it will climb — higher than the height of Everest, beyond the known limits of unpressurised human survival, into minus 100 deg C of airless cold.

At 11 550 theoretically level with a jumbo jet passenger's eyes, Rory will detach himself from the icy balloon, entrust himself to the frailty of a pair of wings and attempt to break the world's solo hang glider altitude record.

From that moment, immediately above Edwards Air Force Base in California, his progress will be monitored and televised by Nasa equipment which last observed the space shuttle launch.

Rory, of London, is Britain's only fulltime professional hang glider pilot.

Already he has nearly twice.

Once he was riding his motorcycle at 112 km/h when he struck a car, was thrown through the air and on to the road. He broke a finger.

Then, just over a year ago, he was on top of Mont Blanc with four other hang glider pilots when they were trapped by a blizzard. The rescue helicopter reached them six hours later.

Next birthday Rory will be 22.

He, Gregory Rogala and John Moody hope to raise R930 000 for the Stoke Mandeville Appeal Fund through the sky voyage.

McCarthy says nothing will stop him taking the jump.

"I will not cut away until I've got to 11 550m," he says. "My flight will then take something like three-and-a-half hours, but all the danger will be in the first minute."

"After that it will be an unforgettably wonder experience."

Desire facing toughest test

Desire Wilson — all set to qualify.

By Geoff Dalglish
Motor Editor

South African supergirl Desiré Wilson faces the toughest test of her motor racing career today and tomorrow when she attempts to qualify for the Indianapolis 500 race on May 30.

"She's doing great, just great," a member of the team enthused as the 28-year-old Brakpan-born star lapped her Theodore Eagle-Cosworth at an average speed of 305 km/h.

But she will have to go about 5 km/h quicker to qualify for one of the 33 places in the world's most famous motor race.

Promising a superhuman effort to become the first South African to compete at the legendary "Brickyard" which has claimed so many lives, she said she was confident she would be able to go faster in qualifying practices today and tomorrow.

Taking part at "Indy" is one of her three major ambitions, along with a drive in Europe's famed Le Mans 24 Hours and a regular Formula One "works" drive.

Yesterday her husband, Alan Wilson, manager of Britain's Brands Hatch circuit, disclosed that negotiations had been finalised for her to partner Alain de Cadanet at Le Mans in the new Ford C100 sports car.

low fantasies 200 workers Th

CAPE TIMES 21/5/82 (49)

Figures show spreading of SA's economic slump

By GORDON KLING

IMPLICATIONS of the worsening slump in the South African economy are now beginning to show across a broad front.

The latest short-term economic indicators released by the Central Statistical Services at the Office of the Prime Minister show declines after years of strong growth in employment, production and trade volume.

Growth in the Republic's Gross Domestic Product, excluding agriculture, had almost come to a standstill by the fourth quarter of last year, according to the statistics.

Reflecting the depressed outlook in the housing market hit by rising costs and a shortage of mortgage bond finance, work on hand in the residential buildings construction sector at the end of last year showed its first decline since early 1978.

A slide in employment in the mining industry, which began in mid-1981, accelerated throughout the year with a cut in about 30 000 jobs to a total of 710 000 in December, while employment in manufacturing declined by about 10 000 from a peak in October — for the first time in the four years that the statistics cover — to about 1 477 000 by the year-end. Employment in construction began to fall from September, declining by 5 000 workers to 438 000 in December.

The physical volume of mining production began to slip in the second quarter of last year, and the gold index is the worst in the period for which figures are provided.

Although no decrease was evident in the physical volume of manufacturing production, a slump cannot be far off since wholesale and retail trade sales began to level off from the third quarter of last year.

In an indication of the drubbing speculators have endured on the Johannesburg Stock Exchange, share price indexes included in the statistics have more than halved from a value of 328 in October, 1980, to 152 by January this year.

About the only sets of figures to show no signs of decline are the production and consumer price indexes, graphs of both of which are soaring strongly into the current year.

23/5/82 (49) S. Times

Smiling in the wilderness

From Page 1

ners, providing us with better export markets.

He remarked that SA had experienced significant economic growth recently and it was time for consolidation, a word he preferred to recession.

"The upturn in the international economic cycle might already have begun, he said."

Yes, but what did the Governor himself believe?

"None of us can deny that the news from overseas is getting worse than even some pessimists have been predicting.

"The relatively frightening negative growth in the US just announced for its latest three months is a shock. So is the latest news from the British economy.

"Also, one thinks of oil producers like Nigeria, which everyone thought were beyond trouble a year ago and is now immersed in hot water.

"Then there's the Argentine, Poland and numerous Third World economies deep in the red. And this week's Wall Street shock (see Page 4).

"I must say I don't think most people have yet realised that the big news is not the Falklands and Sophia Loren going to jail. It is the creep towards a full-blown depression.

"Somehow, we're now in a new ball game. I've no doubt at all that it will bring its own salvation. But it's tricky trying to determine how. . . ."

More specifically, it was good to hear that Dr De Kock and his team on the commission are burning the midnight oil to crack the added problems of the building society/banks interface, the Land Bank and so forth, in order to be able to complete a "*practical, useful* new comprehensive report" before the year end.

"There have been too many theoretical volumes which have not helped change the real world. We want to produce something that can be used and will relieve actual problems.

"The financial rand? More than ever, we are being told overseas that a unitary currency will bring us a surprising new lease of life, because it will be a great builder of confidence in our economy. So unification remains a key priority.

"But there's still work to be done to fit it all together in the overall package we're evolving. . . ."

If the days get darker, it seems there are at least some excellent heads working together to bring back the sun.

If only gold would play lifebelt — for the umpteenth time — yet again.

R18 000-m axed off share values

(49) S. Times 23/5/82

By JOHN SPIRA

MORE than R18 000-million has been ripped off share values since the beginning of the year, making the past five months the worst period for investors on the Johannesburg Stock Exchange since the slump of 1974.

The decline has been gaining momentum in recent weeks as industrial shares, which have held up remarkably well in face of the threatened economic recession, fell sharply away from their November 1981 peaks.

Investors are clearly starting to take belated note of predictions of zero growth rates for this and next year by several of the country's leading economists.

Thus, while gold shares have shed a whopping R4 400-million in market capitalisation since the end of 1981, industrial shares have tumbled even faster in value — by more than R5 000-million.

During May alone, industrials lost nearly R1 000-million, while golds recorded declines of only marginal dimensions.

To date this month, the market as a whole has declined by R2 660-million (to R53 000-million).

The collapse has been exacerbated by steep falls among the JSE's giant corporations.

Since these companies have large share capitals, their market value represents a significant proportion of the JSE's total capitalisation.

Thus, since January 1 1982, De Beers has had its share-market value trimmed by a massive R1 357-million.

Smaller declines have been registered by Barlows (R372-million), Sasol (R319-million), SA Breweries (R167-million) and Remgro (R100-million).

The JSE's poor performance in recent months is being interpreted as an indication that the South African economy is stumbling in a recession, the severity of which could well eclipse that of 1975 to 1977.

The economic setback suffered during that period was heralded by a share-market slump which depressed the RDM industrial index from a three-year high of 292 to a low of 154 in September 1974 — a decline of nearly 50% in the space of 15 months.

● To Page 3

. . . but industrial prices are higher

INDUSTRIAL share prices are currently appreciably higher than they were at the equivalent stage of the 1973-74 share-market slump.

Some six months after the 1973 peak, Barlows was trading at 410c (755c now), SA Breweries was 180c (now 415c), Remgro was 300c (now 950c), AECI was 330c (now 715c) and OK Bazaars was 930c (now 1800c).

These statistics serve to illustrate that, in spite of the JSE's precipitate fall in 1982, current share prices are nevertheless way above their levels of nearly nine years ago.

De Beers, which can be justifiably classified as an exceptional case, is currently priced at 483c — below the 575c ruling in September 1973.

SECTION C (6)

Reserve Bank support ruled out

Benefits of a falling rand

(49) RDM 17/6/81

NEIL BEHRMANN talks to GERHARD DE KOCK in Basle

THE decline in the rand's value is accelerating. It closed at a new low of 89,38/45 US cents yesterday having fallen by 34 "pips" during the day. In a week, it has shed 1,81 US cents — equivalent to a devaluation of nearly 2%.

THE STRENGTH of the dollar and weakness in the gold and commodity markets indicate that the rand will continue to slide, especially as the Reserve Bank has given no indication that it will support it.

The Governor of the Reserve Bank, Dr De Kock, said in an interview that the effective exchange rate of the rand against all currencies had fallen by about 20% since the beginning of 1981.

Dr De Kock, in Basle for the meeting of the Bank for International Settlements, said that the disadvantages of imported inflation from the rand depreciation were offset by export benefits for the mining and agricultural sectors.

"The decline in the rand has protected miners, farmers and other exporters from the world recession," said Dr De Kock.

Gold and other primary product exports were priced in dollars on the international markets. Dollar prices had fallen considerably, but the depreciation of the rand meant that the rand revenue and profitability of the mines had fallen by a much lesser extent.

The smaller decline in gold-mining revenue also helped the State. If the rand had held steady against the dollar, mining tax would have fallen by an even greater amount than it had.

Dr De Kock stressed that the rand should be assessed against all currencies. The depreciation against the mark, for instance, was much smaller than the decline against the dollar.

"For South Africa, the dollar is an important export currency. It is much less important on the import side," he said.

With a sliding gold price and deep world recession, the greater export revenue from a declining rand outweighed the disadvantages of higher-priced goods from the United States. Oil, however, was priced in dollars.

Dr De Kock said that SA had sufficient oil stocks.

South Africa imports a large quantity of goods from the United Kingdom, West Germany and Japan. Although the rand has fallen sharply againt the pound, declines against the other two currencies have been smaller.

Dr De Kock acknowledged that the effective depreciation of 20% against all currencies was steep, but said the rand appreciated by 11% in 1980.

Dr De Kock and the senior Deputy Governor, Dr Chris Stals, thought that there were signs of improvement. Although the deficit on the current account of the balance of payments was running at an annual rate of R6 700-million in the first quarter of this year, the volume of imports was falling sharply.

Unfortunately, the value of imports had remained the same because the rand's depreciation had increased prices.

It was evident from the interview that the Reserve Bank does not intend supporting the rand — at least at this stage.

Dr De Kock said the rand's depreciation against the dollar was a result of the dollar's strength. He hoped that US interest rates and dollar would fall.

Swiss currency managers, however, forecast that the dollar will remain strong. They are also bearish on the gold price.

"To me the disadvantages of a currency devaluation far exceed the advantages, but I would not know what to do if I was in the Reserve Bank's shoes," said a Swiss banker.

"If the gold price continues weak — and I believe it will — the rand cannot be strong."

The financial rand at 80,5 US cents is at a discount of only 10,25% against the commercial rand. High South African interest rates are boosting the financial rand.

Dr De Kock dispelled rumours that there would be a merger between the two currencies.

"It is still a long-term objective to merge the commercial and financial rands, but this is not the time," he said.

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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.
4. Do not write in the left hand margin.

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

June 27 1982

S. Times 27/6/82

Bang goes business

49

By GEOFFREY ALLEN

SOUTH African businesses are being sent reeling into bankruptcy, skittled out of business by soaring interest rates, a fall-off in consumer demand and the plunging gold price.

Firms ruined by high interest, falling sales, lower gold price

Between February and March the number of sequestration orders granted by the Supreme Court of the Transvaal alone doubled over the number for the same period in 1981.

Meanwhile the professional liquidators who make their money from bankruptcies reported this week that business was booming.

Startling figures from Dun's Gazette (published by Dun and Bradstreet) show a clear trend over the past 18 months:

- When the bank overdraft rate rose from 11,5 percent in April 1981 to 16 percent in July 1981 legal hearings (which precede applications for liquidation and sequestration orders) rose by 40 percent; and final sequestration orders doubled.
- From December 1981 to February 1982, while the interest rate remained at 16 percent, the figures fell back to pre-April 1981 level.
- At the end of March 1982, when the overdraft rate rose to 20 percent, both hearings and sequestrations doubled over the pre-April 1981 figures.

The cumulative effect of the overdraft increase from 11,5 percent to 20 percent is now catching up with over-extended companies.

Mr Leslie Cohen, a senior liquidator at Westrust, said, "I see a very great increase in the number of liquidations coming up because the high interest rates are not likely to fall for a long time; companies which have been booming are holding high inventories of stock in the face of falling demand by consumers; and banks are starting to call in money.

"Highly capital intensive industries are facing particularly difficult times because they are paying off leases at high interest rates on their machinery and with a high bank rate that costs a lot of money.

"In the long run it's all related to the gold price."

Veteran liquidator Mr Albert Ruskin agreed that the number of liquidations had increased but said that this was not because of the economic slide.

"Most of the companies which are going now are over-capitalised with loan capital and are financially over-extended," he said.

"They have to meet substantial liabilities on interest and have failed to consolidate their positions.

"They simply haven't learnt the lesson of the Bible that there will be seven fat years and seven lean years."

The recession in the United States and tumbling world gold and diamond prices has hit South African businesses across the board.

Experts this week warned that businessmen would have to hang on to their hats as they skated down an economic slide which is not expected to hit the bottom until the first half of 1984.

With gold hovering around 300 dollars an ounce and the threat of a 100 000-man lay-off, the supply industries which provide machinery and services for the mines are already feeling the pinch.

This week the Witwatersrand Division of the Supreme Court granted an urgent application for provisional liquidation of Tel Electrical Distributors whose business was to supply electrical switchboards to the gold mines.

In the application a director of the company, Mr Hendrik Mulder, said the company, which owes R144 000, was illiquid because turnover had been drastically reduced.

Offer

In the diamond industry — the country's third biggest source of exports — the pinch has already been felt with one large firm being given until July 15 by its banking consortium to find some means of recouping its financial position.

At M and A Goldstein, which was recently put into provisional liquidation owing its bank R18,5-million, the possibility of an offer of compromise is being discussed between Protea Diamonds and the Standard Bank.

According to an affidavit by the Standard Bank, the company's wholly owned subsidiaries could be in debt for more than R30-million.

At a seminar, "Tactics for the Downturn", arranged by the Manpower and Management Foundation of Southern Africa, Professor G L de Wet of the department of economics at the Rand Afrikaans University, said:

"It is not expected that the economy will reach the lower turning point before somewhere in the first half of 1984. In general the situation is bound to become worse than at present."

SA big business gets a warning

27/5/82

S. Times

By TONY WEAVER

BIG business in South Africa was yesterday warned that unless it began taking a firmer stand against apartheid and injustice, its future was on the line.

Addressing the annual general meeting of Lawyers for Human Rights held at the University of the Witwatersrand, the chairman of Anglovaal Holdings, Mr Clive Menell, said: "The future of free enterprise is very much in the dock

"If business is seen to be grasping, anti-social, an instrument of apartheid or even benignly neglectful, it could spell the end of flourishing business in South Africa."

Mr Menell, who is also the Transvaal chairman of the Urban Foundation, spoke on the "Social Responsibilities of Business in South Africa in the '80s".

He said that since the "great watershed" of the 1976 Soweto revolt, a new awareness had come about in the business world that businessmen could no longer afford to be apolitical bystanders or "passive supporters of apartheid".

Black views

After the rise of black consciousness ... businessmen were suddenly being told by black leaders they were seen as part of the system, he said.

Spelling out ways for business to counter this negative image system, Mr Menell said business must:

- Work for basic changes in our society.
- Develop and monitor codes of employment practices, which would include developing black talent through "affirmative action" and improving collective bargaining mechanisms.
- Speak out against the Group Areas Act and influx control and other legislation which restricts the mobility of labour.
- Press for one education system for all races, "killing that dangerous myth of separate but equal".
- Examine the "broader but vital issue" of one nation for all South Africans, both economically and politically.

Addressing the meeting on "The Role of the Press in the Protection of Human Rights", the editor of the Sunday Times, Mr Tertius Myburgh, called on the Government to withdraw the controversial Newspaper Amendment Bill.

Press abuse

He said it was unfortunate, that soon after the Government had chosen to disregard the "quaint ideas" contained in the Steyn Commission report on the mass media, it should introduce this "disagreeable statute".

The Newspaper Amendment Bill meant that an "element of statutory compulsion" will be introduced in the regulation of the media

"The possibilities of future abuse are limitless and even at this late stage, therefore, one would appeal to the Government not to promulgate this bill and to undo its hasty handiwork at the earliest moment in the new year," Mr Myburgh said.

Replying to Mr Myburgh, the dean of the law faculty of the University of Cape Town, Professor Barry Dean, said freedom of the Press was one of the few remaining democratic freedoms in South Africa.

He said what was happening in South Africa at the moment was "a movement away from some of the grosser forms of discrimination" while at the same time moving towards "greater and greater authoritarian government".

Private sector slams State's rôle in economy

Excessive curbs in SA – businessman

(49) Sowetan 30/6/82

SOCIALISM in South Africa was regarded almost as the equivalent of marxism, the executive chairman of Barlow Rand, Mr A M Rosholt, said at a luncheon of the Free Market yesterday.

By STAN MHLONGO

Mr Rosholt said if such an opinion was genuinely held it would be an exaggeration of the position, although "we do operate in a mixed economy with the State participating to a considerable and unjustified extent.

"In many cases it should be the prerogative of the individual to make his own decision — even if it ultimately proves to be the wrong one."

He defined "excessive State regulation" as that that that "goes beyond that that is necessary to protect public interest and keep the national economy in balance".

Mr Rosholt said he felt the State was going beyond the limit in indulging in the affairs of the economy.

"To be fair, there has recently been a marked policy change. The Government over the last few years has publicly opted for the free-enterprise system.

"The Prime Minister, Mr P W Botha, has on numerous occasions told businessmen that the role of the Government was to be limited to ensuring the security of the State and to producing a climate of stability conducive to economic growth for the benefit of all population groups."

Mr Rosholt said another way in which the Government could obstruct the working of the free-enterprise system was by excessive controls and regulations.

The examples Mr Rosholt referred to were:

- The many restrictions on labour. In particular, the operations of the labour bureaux, which affect labour mobility and recruitment;
- Job reservation, still a considerable bar to blacks in the mining industry;
- Land tenure, which specifically prohibits freehold title for blacks in urban areas and which to a large extent prevents white participation in the development of homelands;
- Housing regulations, where slowly progress is being made but restrictions such as housing-standard laws obstruct the provision of urgently required low-income housing;
- Restrictive licensing regulations;
- The use of certain security laws that interfere in the operations of the trade-union movement;
- The plethora of control boards whose operations cut right across the free-enterprise system.

"This is the fundamental problem that the private-enterprise system faces in this country today. It starts with a great disadvantage — the majority of blacks are not supporters of capitalism. The environment in which they live is communalistic, a form of voluntary socialism."

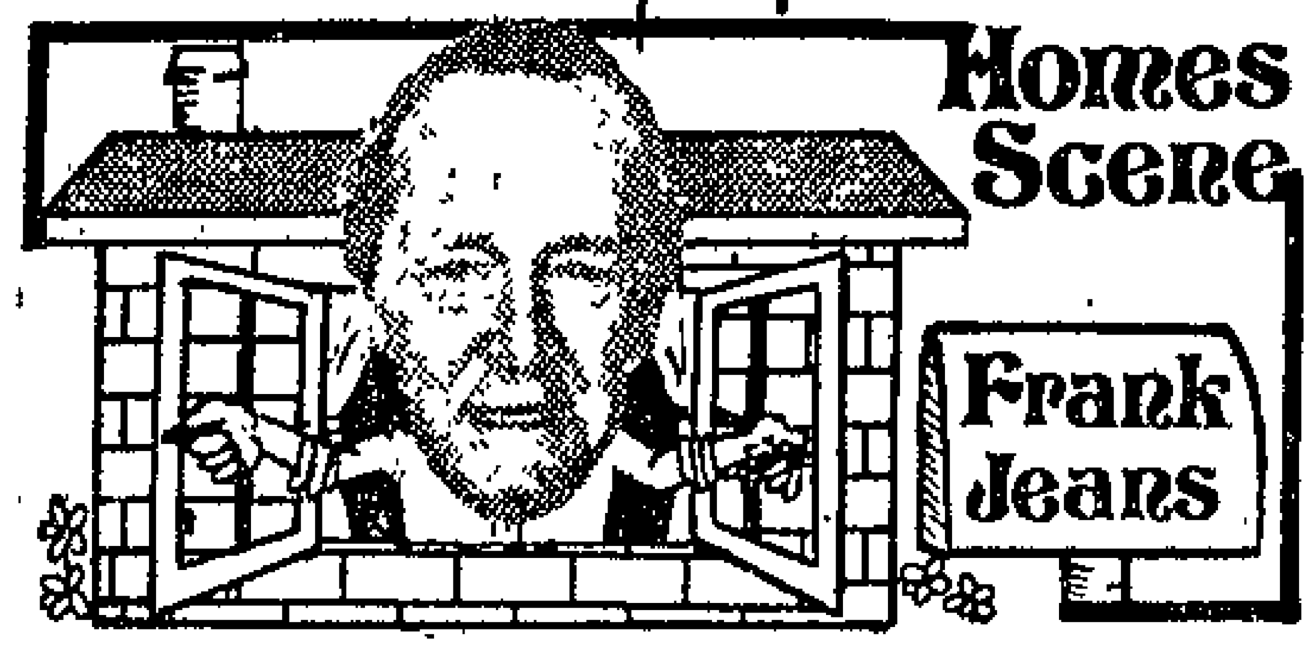
Mr Rosholt said unless blacks were allowed a fair share of the system they would reject the system. As he represented the majority group in this country, it went without saying that the future of the system would be seriously endangered.

"There are too many examples to the north of us in Africa for us to be complacent or comfortable about this possibility," Mr Rosholt concluded.

The setting for Vanderbijlpark's own pleasure complex — a 6 km stretch along the Vaal.

Development plan heralds property boom at the Vaal

49 Star 3/7/82



By Frank Jeans

The Vaal is poised for a property boom which could eventually bring to its banks a miniature complex of cabanas, chalets, caravan park, marina, golf course and conference centre.

This is a major development plan costing R15 million which the Vanderbijlpark Municipality is closely studying since it earmarked 400 ha of riverside land for private enterprise.

There has been excellent response to the development opportunity with the municipality handing out a bonus by way of a free 30-year lease over the 6 km stretch between the Holiday Inn and the proposed new campus for Potchefstroom University.

The R15 million project would also comprise a water sports and wild life park and indoor swimming pool.

A strong draw for businessmen would be a conference centre, particularly with 100 chalets nearby for the weekender.

The decision is expected at the end of this month and work will begin within 90 days of tender acceptance. The first phase of the complex, valued at R1,5 million will be completed within a year.

Another proposal before the municipality involves a cableway across the Vaal and an 80 m viewing tower and alpine-style ski resort.

Vanderbijlpark is firmly on prosperity road by following a policy of making land available for private development on a lease basis — a trend which can only be beneficial to the local ratepayers.

One developer who is taking advantage of the Vaal build-up is Leonard Greenberg of the Bramley company Gyp-Clad, which is to create a Spanish-style 13-unit townhouse scheme at Vaalmarina near Villiers on the Vaal Dam.

Set in a 7 800 sq m site, with pool, court and clubhouse, the project will be made up of eight three-bedroomed duplexes, three three-bedoom simplexes and two three-bedroom, study, family room simplexes.

And they appear to be good value for money in today's townhouse market, ranging in price from R60 000 to R78 000.

The total capital cost of the project is R825 000.

Star 7/7/81 (49)

Power of the public sector

A relatively small or even diminishing public sector may still have an immense and a growing influence upon economic activity in the private sector.

This is the view of Mr Patrick Gardiner, senior lecturer at the School of Economics, University of Cape Town.

REGULATIONS

Writing in "Businessman's Law," Mr Gardiner said all legislation, and the rules and regulations from such legislation, both at central and local levels of government, affect the behaviour of individuals and firms.

"Any attempt to evaluate the extent and effect of intervention of the public sector must take this legislation into account.

"The pervasive nature of much legislation in the economy is not directly reflected in statistics on participation of the public sector, except possibly in such indicators as increases in employment by the public sector of personnel to administer the legislation, or in capital expenditure on office buildings to accommodate them.

"It is quite conceivable that a relatively small or even diminishing public sector, measured in terms of total output, employment, investment, tax revenue or expenditure, may have both an immense and a growing influence upon the behaviour of firms and upon the amount of economic activity in the private sector."

He said this influence may be achieved through widespread controls over business activity and individual choice

Controls over prices and wages, conditions of employment, the mobility and utilisation of resources, foreign trade and the location of industry were obvious examples.

"Government policy in relation to incentives for investment, the promotion of saving or discouragement of consumption may have crucially important effects on the development of the economy generally and upon the rate of growth of industries and regions in particular.

"The influence exercised through legislative controls may be far wider and have more significant effects than that achieved by the ownership by the public sector of particular industries such as electricity and rail transport or its operation of particular activities such as postal and telegraph services.

QUOTAS

"For example, the imposition of quotas on imports increases the demand for domestically produced items by limiting the quantity of imported substitutes, and the results may be evident in many industries." — **David Braun.**

~~10~~ 49 Star 19/7/82

Get out advice as SA flounders

By David Bamber
nancial Correspondent

ONDON — Six onths ago the strength of South African shares amazed British investors. Now stockbrokers are advising clients to get out.

From their positions among the top performers of last year, the gold and industrial indices have crashed to the bottom of the international stock-market pop chart.

Looking at changes in markets over half a year may not be the best way of judging performances, especially when the index on the last trading day of each month is used as the sole indicator.

Nevertheless there would be few financial commentators who would argue that the picture reflected by the graph does not represent the trend of the markets since the beginning of January.

Trendline

Sadly the trendline of South African gold shares has been sharply downwards. Reflecting a sliding gold price and rising mining costs, the index crashed by 40 percent during the six month period ending June 30.

There have of course been reactions to a rally in bullion since the end of last month and the index has at last moved through 1982's bear trend.

Most in London believe that the bottom of the gold market has either been reached or will be reached soon if there are setbacks to the current rally.

Understandable

Many are, however, still cautious in their recommendations and will probably feel a lot easier once the index has passed the 400-point mark.

The gold price has also given a boost to industrial shares which reached a low point at the end of last month.

With the industrial index having fallen 26,8 percent in the half-year to record the third largest fall in the international market, it was understandable that foreign ... were generally keeping well away.

Even though the 1982 bear trend has been broken, high interest rates and the inflation rate will dampen interest until the index moves strongly above 550 points.

Shares in London have put in a remarkable performance considering the flatness of the British economy.

The market received a boost from the Falklands crisis, with defence stocks leading shares to record levels.

The conflict also proved good for confidence and tended to mask the increasing number of labour disputes and worse-than-expected industrial output figures released during the period.

The index is now moving below the year's upward trendline but is still around four points higher than at the beginning of 1982.

New factors

Positive factors which could push the market back on to an upward trend include falling interest rates, lower inflation and cheaper energy and raw material costs.

On the negative side growth has been a bit too slow to encourage investment; labour disputes have been on the increase and the world recovery from recession has fallen short of expectations.

The two major European markets — West Germany and France — are at their lowest levels since mid-February after being among the top performers in the six months to June 30.

Gains on the French market were better than those in any other financial centre and despite the latest losses the market indicator is still six percent above the beginning of the year levels.

However, confidence is on the wane and further price falls can be expected.

German fall

The steady fall in German shares since March seems to have bottomed out with prices not far off those ruling at the start of the year.

Despite concern expressed about the German economy, brokers feel that the short-term downside potential of the shares is not much more than 10 percent.

Across the Atlantic shares on Wall Street have drifted down lazily since the beginning of the year.

There was a rise in prices in April and there has been another slight rally over the past few days.

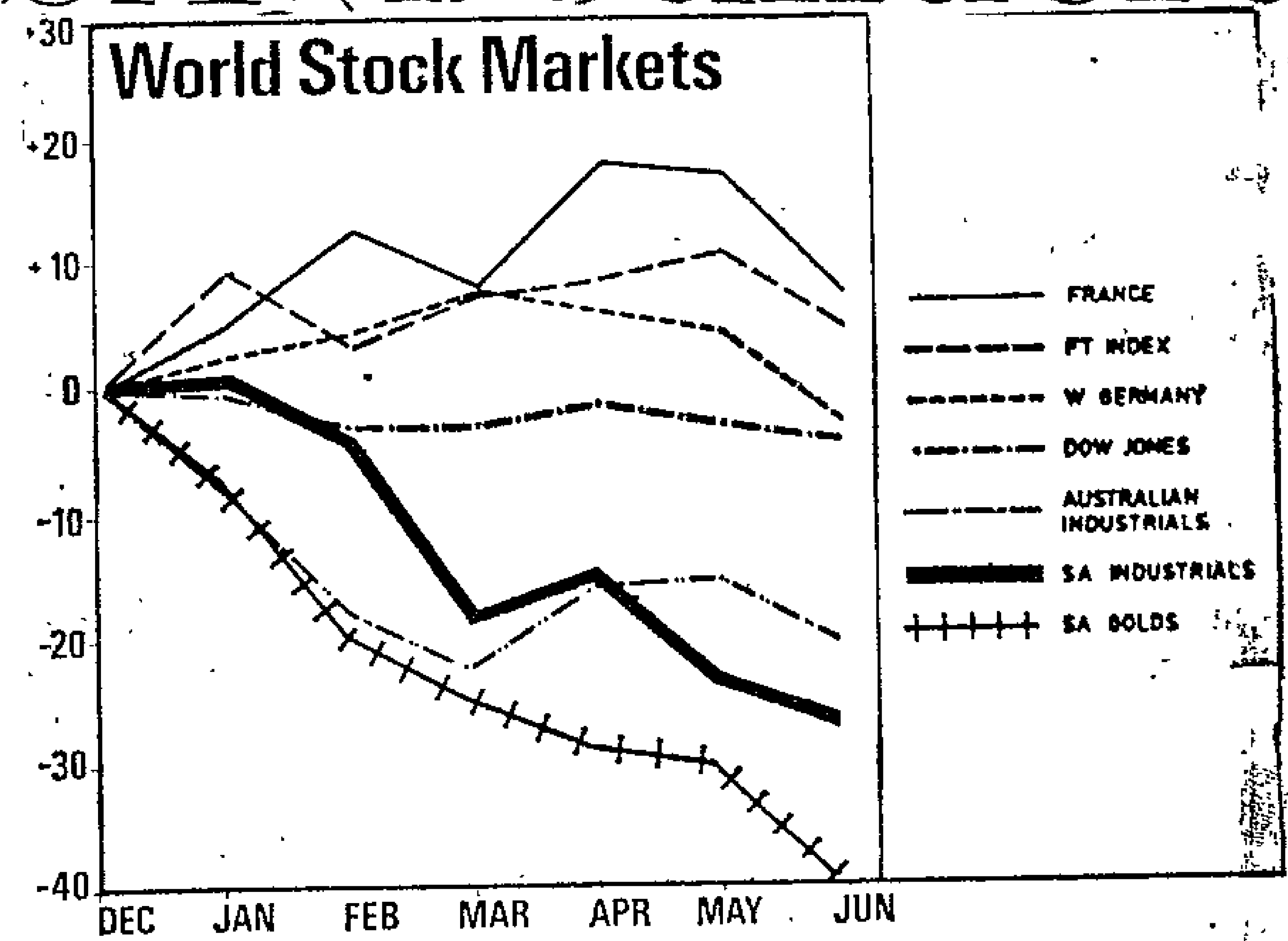
But the general trend is still downwards and the Dow Jones industrial average could soon be testing last month's lows again.

Like South Africans, Australians will want to forget the performance of their market in the first six months of this year — and it looks as though there is worse to come.

The all ordinaries index crashed by more than 20 percent during the period and losses since then have driven it down to a level 35 percent below the January mark of 595,5.

Two smaller markets which deserve a mention are those in Holland and Belgium.

Their market indicators at the end of June were 2,2 percent and 7,5 percent above their respective opening levels at the beginning of January, placing them among only five markets which showed gains during the six months.



US rates are key to recession, says Oppenheimer

(49) RDM 21/7/82

By JOHN MULCAHY

UNTIL United States real interest rates revert to more normal levels it is difficult to see an end to the recession in South Africa.

Mr Harry Oppenheimer, chairman of Anglo American Corporation of South Africa, says in his annual statement that the persistence of a recession in SA "would seriously retard the process of economic advancement for black South Africans which is now well under way, with the risk of social and political consequences that are highly disagreeable to contemplate".

Mr Oppenheimer notes that although some observers see some signs of recovery in the US economy, "expert opinion is still hopelessly divided as to whether it can be sustained".

In SA, in spite of the lower gold price, activity continued strongly for most of last year, and it was only in the first quarter of 1982 that a marked slowdown became apparent.

Over the year the gross domestic product (GDP) growth rate fell to 4,7% from 7,8%, "but that was not caused by any aggregate fall in demand, which continued to increase".

Accelerated inflation and a surge in imports were the result.

Praising the authorities' change in approach to curbing excess growth, Mr Oppenheimer says the previous methods of meeting such situations "by tighter application of direct controls", resulted in serious economic distortions.

"On this occasion, however, determined attempts are being made to handle the problem by restrictive monetary and fiscal policies and flexible exchange rates, operating through the normal mechanisms of the market.

"The process is a painful one, but if it succeeds, the recovery when it comes will be altogether more soundly based than in the past."

The difficulties faced by the Treasury and the Reserve Bank are formidable, says Mr Oppenheimer. Interest rates, in spite of their unprecedented rise, generally do not offer savers a real return, "and this is the main reason why the money supply has not until very recently been brought under a measure of control".

"In 1981 GDP at current prices rose by only about 14%, yet money supply apparently increased by no less than 32%. I use the word 'apparently' because the tightening in the market led to a return in borrowing from the banks, which must to some extent have artificially increased the money supply figure."

Factors largely outside the control of the monetary authorities are creating an inflationary bias throughout the system, Mr Oppenheimer adds.

He points to "pervasive rigidities" caused by price and other controls, and the firmly established agricultural policy, "which last year resulted in a huge expansion of credit through the Land Bank when the national interest called for a deceleration in money supply, were major obstacles to the successful implementation of the Government's policy".

"These elements are deeply entrenched in our economic structure, so it is encouraging that a more realistic approach is being adopted to the financing of this year's maize crop."

The high level of military expenditure "which however necessary in the circumstances" is also increasing inflationary pressures.

"These are serious difficulties but they by no means invalidate the drive toward a market-orientated policy that the authorities have courageously embarked upon.

"They will however cause it to work more slowly and less smoothly."

The policy will reduce inflation and strengthen the balance of payments, says Mr Oppenheimer, but "it is certainly not sufficient in itself to restore prosperity to SA".

"For that we need improved productivity and more urgently an end to world recession and a resumption of growth in the great industrial economies of the world, particularly the United States.

"South Africa is dependent on world trade to a far greater extent than most countries, and we cannot hope to isolate ourselves from the fortunes of our major trading partners."

Mr Oppenheimer believes the key factor is the course of events over the next year. "For good or evil the present state of affairs cannot possibly continue indefinitely."

SA warned of 'harsh economic winter'

ARGUS 22/7/82 (49)

SOUTH AFRICA is entering an "economic winter."

The Director General of Finance, Dr Joop de Loor, today warned the country that it faced up to two years of painful adjustment and consolidation on the economic front.

His speech to an Afrikaanse Sakekamer meeting in the city, is seen as the first public admission by the Government that the economic slump could be as bad as some private-sector "prophets of doom" have been forecasting.

"The situation is serious but not critical," Dr de Loor said.

"But it is necessary that you as businessmen and also the consumer, the man in the street, must realise what awaits you. If we are prepared, the storm can do no lasting damage."

He said the situation would get worse before it got better.

Adjustments would have to be made to South Africa's fiscal and monetary policies to clamp down on income-generating expenditure.

And these measures would have to come in the next few months.

"At this early stage of the cooling-off in the economy, there can be no talk of any 'stimulation,' especially not through greater budget deficits,

(Contd on Page 2, col 10)

ARGUS 22/7/82 (49)

Economy

(Continued from Page 1)

the creation of more money, lower interest rates, lower taxes and the like.

"Our task is rather now to adapt as soon as possible to the realities of our economic position so that we can live within our country's means.

"The adjustment has already been postponed too long.

"The softer we want to make the landing, the more drawn-out will be the adjustment process, and we will experience a much longer and more painful depression — not a recession — than now appears necessary."

Dr de Loor said South Africa could not simply take over the economic cures which appeared to work so well overseas.

Large-scale unemployment would be too high a price to pay. The country did not have a national unemployment system which could check social unrest caused by high and continued unemployment.

Rather South Africa would have to find her own unique solution, a delicate balance of wide-ranging factors.

Long, severe recession on way — experts

ARGUS 23/7/82

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JOHANNESBURG. — Leading economists today agreed the country was heading for a severe recession, as outlined by the Director-General of Finance, Dr Joop de Loor. One economist blamed the Government for the bleak outlook.

Dr de Loor said the country faced up to two years of painful adjustment and consolidation on the economic front.

"I am convinced that a cold economic winter can be good for South Africa. Just as in nature, it will rid us of many pestilences."

Mr Andre Hamersma, chief economist at Standard Bank, said he believed Dr de Loor was being optimistic. The recession would probably last longer than two years.

LONGER

"Dr de Loor is basing his forecast on favourable assumptions. He may be right, but the imbalances in the economy are so great, I am afraid it's going to take longer than two years to put them right."

He said the balance of payments deficit was so large it would not disappear overnight.

"And the inflation rate is so high, we will not be able to grow again until it is worked out of our system.

"Our priorities are to correct our balance of payments, build a surplus, repay a lot of our international debts and then build to finance our next growth phase. That does not look like it's going to happen overnight."

Dr Johan Cloete of Barclays Bank said the Government had made no attempt in the past years to smooth out the boom.

This had resulted in a deeper recession than would otherwise have been the case.

The measures suggested for combating the recession in Dr de Loor's speech yesterday would artificially aggravate the slump, Dr Cloete warned.

Inflation could not be cured by monetary means alone.

EFFORT

A concerted effort of all State departments should be made to improve efficiency.

Dr Cloete said the Government had treated import control as an untouchable.

If import control could cure the balance of payments and remove the necessity of an impoverishment policy, then it should be used.

Mr Johan Willemse, chief economist of the South African Agricultural Union, said while monetary discipline had its proper place, the state of our economy was the result of structural ills such as the neglect of productivity.

You could not cure them by spreading poverty and taking as much money as possible out of circulation.

Mr Flip du Plooy, secretary of the Transvaal Agricultural Union, said trying to combat inflation by poverty was like fighting horse-sickness by shooting the horse.

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THE ARGUS, THURSDAY AUGUST 5 1982 49

'Nuisance' — with right to be heard

SHAREHOLDERS, who provide the finance for South Africa's public companies and indirectly pay the salaries of company executives, are often treated "like absolute nuisances", according to Mr Roly Campbell, chairman of the Shareholders Association of South Africa.

"And it is to help shareholders to deal with people like this that SHASA exists," he added.

"It has been our experience that in general the larger and more successful a company, the more courteous its officials and the more prepared they are to answer the queries of shareholders.

"Many smaller companies, however — and sometimes the larger ones, too — seem to consider it a cheek that shareholders should ask questions about company affairs, questions their participation in the company gives them every right to ask."

Constituted

Registered as a non-profit organisaion 25 years ago, the SHASA has a 12-member board of directors, of which Mr Campbell is chairman.

It was constituted to further the rights and interests of shareholders, to make representations to boards of directors of public companies, to attend general meetings and to make representations to Government or any other authority for the enactment, repeal, amendment or variation of legislation affecting the rights and interests of shareholders.

"The problem with this is that as a non-profit, non-funded body we are unable to employ the technical experts such as accountants and attorneys when this is necessary," Mr Campbell said.

As an example he quoted the recent attempt at a take-over of Greatermans by Mr Natie Kirsh.

Greatermans shares are divided into two categories — ordinary shares, which have voting rights, and A shares, which do not, although both categories were quoted at the same price and received the same dividends.

During the takeover bid, an offer was made for the voting stock, but not for the A shares, which subsequently lost price on the market.

"Fortunately, someone with enough money and enough outrage took the matter to court, and won his case. The Johannesburg Stock Exchange was ordered not to consent to the offer unless it was extended to both ordinary and A category shares.

"Had this court case not been fought, many shareholders could have lost money.

Injustice

"One of the great injustices, of course, is that if a shareholder is forced to challenge the company in court, he is forced to do so with his own money while the company can use its great reserves of money, reserves put there by shareholders, to defend the case," Mr Campbell said.

A strong shareholders' lobby in Europe and the United States prevented the directors of public companies from sometimes behaving in a high-handed and autocratic manner when questioned by the very people who pay their salaries.

There was no such lobby in South Africa except for the SHASA.

The US also provided for establishing minority representation on the boards of public companies. In South Africa this suggestion was regarded as "an absolute effrontery."

The best

In spite of this both he and Mr Issy Goldberg, who attends shareholders meetings "on an ad hoc basis for the protection of myself and any other shareholders," consider shares in carefully selected public companies to be the best investment opportunity available.

"There is no doubt in my mind that investors can achieve a higher return on the stock market, at marginal risk, than they can through other investments such as participation bonds," Mr Campbell said.

"And there is the additional and very important advantage of knowing that your capital is working for the commercial and industrial development of South Africa."

Invisibles key factor in SA recovery

(49) RDM 5/8/82

By HAROLD FRIDJHON

A STRONG and sustained upswing in the US business cycle is essential for a satisfactory recovery in the South African economy by 1984 and beyond.

This is especially so because of the large services deficit that has to be met on the current account of the balance of payments, says Dr Johan Cloete, group economic consultant to Barclays National Bank.

He writes in the bank's Business Brief that it is not generally recognised that services contribute more than trading to the final outcome on the current account.

Services — sometimes called invisibles — include tourism, insurance, freight, dividends and interest.

Dr Cloete says that in the medium term, the surpluses normally obtained on trading account are more than offset by the deficits which South Africa as a developing country incurs on services.

The result is that on balance South Africa runs a deficit on current account which has to be financed by a net inflow of funds through the capital account of the balance of payments.

From 1960 to 1970 the annual deficit on services account averaged R356-million a year, and the average annual surplus produced by trade account was R255-million. In this time the trade account was consistently in surplus.

But in the following 10 years the position changed. The trade account became more unstable and started to show deficits after peaks in the business cycle. In addition, annual deficits on services account widened substantially from 1974 onwards. In 1975-76 both accounts were heavily in deficit.

In 1977-80, the trade account, mainly under the influence of the sharp increase in the gold price, moved heavily into surplus. Although the deficit on current account also increased, trade account surpluses were so large that current account surpluses were accumulated.

Last year trade account swung into deficit and the services deficit widened. Indications are that this state of affairs will continue in 1982 unless the gold price rises significantly.

The annual deficit on services account is now so big that it will require an exceptionally large turnaround on the trade account to produce a current account surplus even by 1983.

"In fact, the extent to which the annual service account deficit has now risen appears to place a serious structural obstacle in the way of bringing about a smooth and necessary turnaround of the current account of the balance of payments in the period ahead.

"It is very likely that the services deficit will not fall substantially ... unless we should be prepared to accept a real recession in the period ahead."

A zero growth rate would almost certainly result in a turnaround on trade account, but the services deficit is so large that a consideable turnaround would be required — possibly R3 500-million in 1983 — to finance the services deficit.

Trade surpluses of this magnitude were produced only in 1979 and 1980 with the help of exceptional increases in the gold price.

Exports will have to put up an exceptional performance or gold might have to record a big price increase if the current account surplus is to be large enough to finance the services deficit as well as the foreign exchange and bank cash needed for the next economic upswing.

Such an exceptional performance will depend largely on conditions overseas and on the performance of the American economy. It seems that the American economy will experience a moderate and relatively short recovery. This will not produce the trade surplus South Africa needs.

The alternative is that a recession considerably more severe than that of 1977 would be required in the next year or two to reduce the services deficit so that a moderate trade surplus could finance a satisfactory upswing by 1984.

A severe recession might become an uncontrollable slump "the adverse consequences of which might take years to redress".

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Apartheid limits system, PC told

Staff Reporter

IT WAS difficult to see how economic discrimination in apartheid laws could be eliminated without abolishing the laws completely, Professor Jan Lombard, the head of the Department of Economics at Pretoria University, told the economic affairs committee of the President's Council yesterday.

Professor Lombard said apartheid limited the effective functioning of the free market system.

In some cases, such as the Group Areas Act, the aim of the legislators was not economic discrimination. In such cases it was advisable to see if the actual aims of the State could not be served through "other instruments" which were not economically discriminatory.

While the State President had ruled out an examination of influx control for the PC inquiry, the end and the means of the legislation could not be separated.

"There are economically-positive ways to indirectly, though effectively, stem the undesirable influx of people to certain areas."

Looking at control measures, Professor Lombard said that when new measures were introduced, they were measured only in terms of direct costs — such as the salaries of officials — but these were only a fraction of the indirect costs for the private sector, which in the United States had been found to be on average 20 times higher than the direct costs.

"The costs are naturally loaded onto the public in the form of higher prices for products. These indirect 'hidden' taxes are more regressive than the normal 'public' income tax," Professor Lombard said.

The consequences of control included expenditure on "defensive" measures to combat the encroachment of laws and regulations rather than on research and development, limitations on the creation of capital because of the costs of statutory requirements such as factory laws, workers unable to get jobs because of minimum wages and business concentrations which existed because small concerns could not by themselves carry the expensive regulations.

An important cost of control was that competition was impeded by, for example, import duties, currency control, job reservation and trade licences.

As the free enterprise system was based on competition, all measures which limited competition and undermined monetary discipline led to "hidden" costs and destroyed opportunities for "John Citizen".

Probe into free market

Staff Reporter

THE President's Council committee for economic affairs will be hearing evidence this week by leading economists on measures that restrict the effective functioning of an economic system with a free-market orientation, "with due allowance for the plural composition" of the population of South Africa.

Professor Jan Lombard, head of the department of economics at the University of Pretoria and special adviser to the South African Reserve Bank, gave evidence yesterday.

Professor J L Sadie, of the University of Stellenbosch, and Professor B Kantor, of the University of Cape Town, will testify before the committee today. Professor S C van Niekerk Fourie and Mr E Beukes, both of the University of the Orange Free State, Professor P Niewenhuizen, of the Rand Afrikaans University, and Professor D J J Botha, of the University of the Witwatersrand, will testify later in the week.

The committee's investigation is limited to factors that hamper the participation of members of the various population groups within the country's plural society in the economic system.

It is to examine the factors that restrict the freedom of people to participate in the economic system, and wider publicity for the market-orientated system and its advantages.

Particular attention will be given to actions by which the functioning of and advantages attached to the free market system can be more widely publicized for the benefit of the less-sophisticated consumer in particular.

The committee will consider actions by which consumer information and advice could be disseminated more effectively, particularly among the less-informed and less-sophisticated consumers.

Steps through which potential entrepeneurs could be indentified, motivated and equipped to make a more significant contribution to the economic development of those population groups that have a smaller share in the economy, will be examined.

Wealth the way to win blacks, UCT told

ARGUS 18/8/82

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Education Reporter

ANY Government which did not apply some kind of redistribution of wealth, even if this violated rational economic principles, would never win the support of the black community, the head of the University of Cape Town political science faculty said yesterday.

Dr Robert Schrire was taking part in a debate on the effects of the President's Council recommendations on the political and economic lives of South Africans.

AGAINST STAND

He was arguing against the stand taken by Professor Brian Kantor, who said that if the growth of the past 60 years was continued for another 25 there would be more for everyone than economic redistribution could achieve at any given moment.

He believed central government should be minimised so that people could realise their economic aspirations through the free market, rather than through the Government.

NOT ECONOMIC

The President's Council promised to contribute to this "minimising".

Dr Schrire maintained that the issue of "distributive justice" was political and not economic.

After 40 years of inequality the demand within the black community for a reverse of previous injustices would be overwhelming, he said.

"NO SUBSTITUTE"

"A new constitution is not a substitute for socio-economic reform. Reform may be a prerequisite to constitutional change."

Mr Denis Davis, senior law lecturer, said constitutions "don't just arrive".

"The Westminster and United States federal systems of government evolved for historical reasons," he said.

"Members of the President's Council are not representative of their communities.

"You cannot expect such a ramshackle organisation to bring about something which will start a process towards change."

Black wage growth: 'No need to worry'

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ARGUS 18/8/82

Political Staff

DISTRESS about the advancement of black wages in South Africa was unwarranted, Professor Brian Kantor, professor of economics at the University of Cape Town, told the economics committee of the President's Council yesterday.

"It is difficult to imagine a system in which blacks would have done better, or would have experienced such fast growth in income, as the South African system," he said.

"If we keep it going for another generation, we will have a very affluent society indeed."

Professor Kantor, one of several prominent academics to address the economics committee this week, added that had blacks enjoyed the franchise, paradoxically there would have been more redistribution of wealth in the country and less growth.

INTERVENTION

But he stressed that the free enterprise system in South Africa was subject to extensive Government intervention, which reduced its effectiveness and diminished the benefits which blacks and other South Africans of colour could and should derive from it.

The Group Areas Act was an example of Government intervention and was a form of wealth redistribution which excluded the poor, who were easily identified by race in South Africa. Influx control, likewise, was a form of Government intervention which re-distributed wealth in favour of the rich, or axiomatically, the whites.

Such forces should be removed from the economy, so that a truly competitive system could be established to which all South Africans had access. "As far as incomes are concerned, what matters most is that the process should be fair, that market forces be allowed to prevail."

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Another ... new industries may come ~~......~~ ... the difficulty to get capital to ... their firms. The capital market ... towards new firms with no reputation, ... they have to compete with older mor... firms. By imposing a tariff, investors ... -duced to invest in infant-firms. A... ...ment is to perfect these capital markets, but it would most probably be less costly to follow a ~~......~~ policy of protectionism than to perfect the capital markets.

"What Mr Botha has done is give the private sector an opportunity to have dialogue with him — what I like to call Bothalogue," said Mr Maree.

Spectrum

"He is not only talking to members of his own party, but to the wider spectrum of business. His open door policy to business is in complete contrast to that of his predecessors.

"Decisions are made with regard to the interests of the private sector and not in ivory towers. The Prime Minister is seeking advice from the private sector as can be seen in the committees he is forming.

"The bigger opportunities of the private sector to determine policy places a responsibility on it to participate and not merely criticise and stand aloof which companies have tended to do in the past.

"If the Prime Minister asks for assistance and advice we must give it. Business is not finding this role easy.

"But there is now much greater mutual confidence between government and business. Economic policies can be expected to become much more sensible.

"Bigger corporations are aware of the additional and new responsibilities and are carrying them out. As time goes on we will see much greater participation by the private sector in shaping and carrying out economic policy."

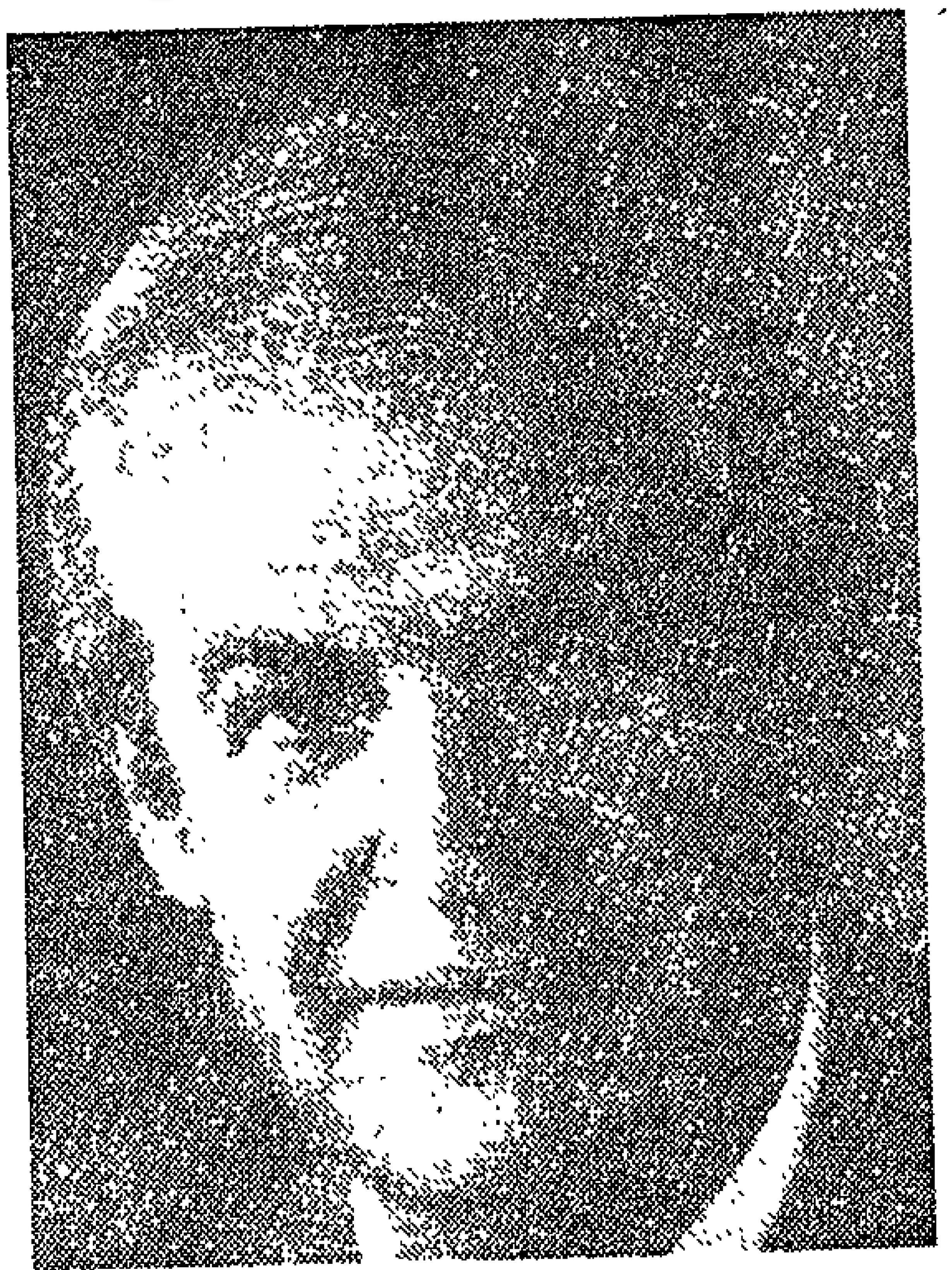
Mr Maree said what the Prime Minister was doing fitted in with the challenge facing the country: how to maximise the limited skills available.

"When the world economy recovers, prices of raw materials will shoot up, boosting

Mr John Maree returned to his post as executive director of Barlow Rand last month after a three-year stint as chief executive of Armscor at the request of the Prime Minister. One of the few people in big business to get close to the public sector, he spoke to MERVYN HARRIS about his experiences.

How 'Bothalogue' is working on business

(49) Star
19/8/82



Mr John Maree — no ivory-tower thinking.

Much greater participation by the private sector in shaping and carrying out economic policy will be seen as time goes on, says Mr John Maree, an executive director of Barlow Rand.

He returned last month to the sedate atmosphere of Barlow Park — as chairman of the group's building and construction supplies division — after a three-year secondment as chief executive of Armscor at the request of the Prime Minister, Mr P W Botha.

"Armscor was a fascinating period in my life," Mr Maree said.

"Few people in big business in Johannesburg have had the opportunity of getting close to the public sector, officialdom, politicians and military people.

"My career has now enabled me to get to know the personalities in big business and in Pretoria."

Co-operation

Mr Maree said Mr Botha's decision in the late '60s to build the defence industry on skills and capabilities in industry reflected Mr Botha's philosophy of involving the private sector.

"When Mr Botha became Prime Minister he took this further with the Carlton and Good Hope conferences and it can also be seen in the basic pillars of his economic policy.

These were:

- Less involvement of the state in the economy.
- The Constellation of States with its decentralisation policy depending on the private sector.

the value of our exports.

"Our economy will probably double in 12 to 15 years but who will manage it?

"We thus cannot afford to waste any skills, knowledge or experience. Future management style in South Africa must be to draw these skills and use them to the maximum.

"There are not enough skills in one area of our society to think and plan for the country as a whole. We will have to draw on whatever managerial skills there are irrespective of colour.

"If South Africa has had difficulty in integrating management on a language level, it will be even more difficult on a racial level.

Black power

"There are hardly any black company executives but there are undoubtedly enough blacks leaving school with higher education who can be trained to fill sufficient managerial positions.

"We have no experience of how a black man will be incorporated in what is predominantly a white man's domain. But it just has to be done.

"Black managerial skills and multi-racial managerial teams must be utilised. Companies that cannot make this adjustment in the years to come will not hold their competitive position."

Mr Maree found his task at Armscor "very demanding," working long hours to turn the business into the direction he wanted it to go.

"It was not easy to make the adjustment to work in a different environment with its strong state, military and political influences."

His stint of duty there cemented a bond of close co-operation and good working relations with the Government at all levels which he established during his business career.

Property job

In 1970, after Barlows acquired Rand Mines, Mr Maree was asked to become chairman of Rand Mines Properties which owned about 25 percent of the land in the Johannesburg municipal area.

The friendly relations he established with people in provincial and central government was of great benefit in making a success of this property giant.

Four years later Mr Maree became a full director of Barlows with responsibility for all the group's property interests and its fledgling electronic division.

Good relations with Pretoria and knowledge of the administration also helped to build these important contributors to Barlows profits.

The conviction and restrained enthusiasm which Mr Maree conveys was probably tuned during his days as cheer leader at Witwatersrand University, where he obtained a B Comm degree and picked up a few prizes.

Harvard link

Born at Middelburg, Cape, in 1924, he had to work for five years to save money to go to university.

In 1966 he attended the Advocate Management Programme at Harvard and is a past president of the Harvard Business School Club.

Since returning to Barlows from Armscor, Mr Maree has had time to reflect and integrate his experiences.

"One of the advantages of Barlow Park is that we are not sitting on top of our operations. Our real job is to think and plan longer term and we are able to do this here," he said.

Management techniques are changing. The image of the top manager as someone who makes and hands down decisions is no longer viable, according to Mr Maree.

"The operating unit and the company are becoming too big and society too complex. We must move much more towards participative management gathering skills together in a strong team and using them to the full.

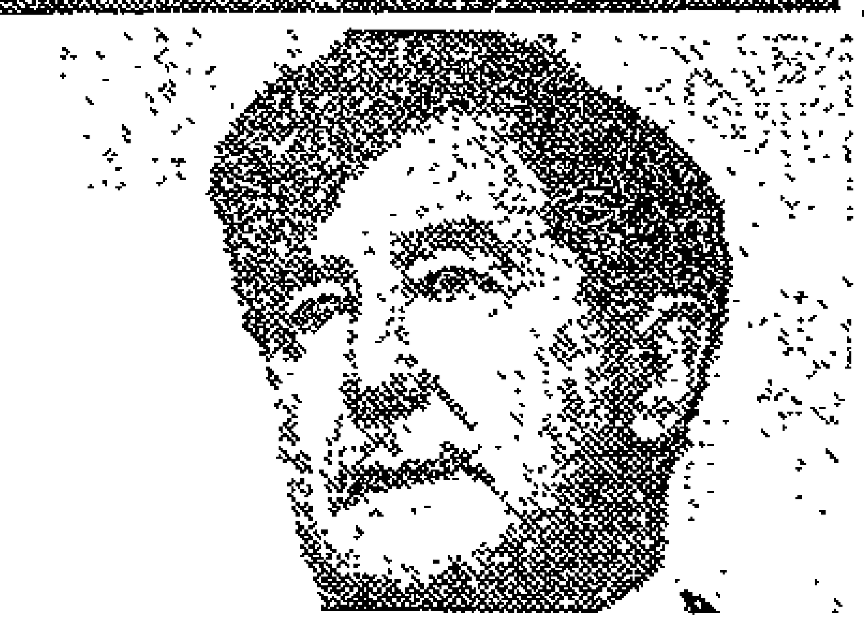
"This is why whizz kids are like comets. They do well when a company is small but fade when it grows because few learn how to build strong teams and to use their skills."

'GOLD RISES: SA COULD BE ON VERGE OF ECONOMIC RECOVERY'

HORWOOD SEES UPTURN

49

W/k Argus 21/~~12~~8/82



MR OWEN HORWOOD

Political Staff

DURBAN. — Against the background of the rising gold price, the Minister of Finance, Mr Owen Horwood, has predicted that South Africa could be on the verge of economic recovery.

He said in an interview it was too early to say whether gold was now set on the path to recovery, but he was confident that even if the rise was an aberration in the market, gold would be on an upward trend before the end of the year.

"In the long run, I am optimistic. Unlike some others I have confidence in gold."

A report from The Weekend Argus Bureau in London supported Mr Horwood's confidence.

The report said the gold price was threatening to repeat its performance of January 1980 when it soared to 850 dollars an ounce.

Tumbling American interest rates and fears of an international banking crisis had sent bullion surging ahead in daily rises not seen since those heady days of two years ago.

The metal closed at 387,25 dollars in New York last night, posting a gain of more than 45 dollars in a week.

Obviously pleased by the price rises, Mr Horwood said a price of 400 dollars an ounce would benefit South Africa.

Although the man-in-the-street would feel no immediate benefits the increased price would greatly help to reduce the deficit in the balance of payments, which in itself was good.

If gold continued to gain it would relieve the financial stringency in the country and would stimulate growth.

US interest

Benefits for the ordinary South African would take time to work their way into the economy, because tax on mines could be assessed only after the end of their financial years.

The main reason for the low price over the past few months had been high interest rates particularly in the United States. People had put their money into high-yielding investments.

The easing of interest rates would have an effect on the gold price.

However, demand from the manufacturing industry was a major reason for an upward swing.

Industrialists had stocked up on gold, but stocks were running down.

Mr Horwood said demand also came from investors and from banks as a monetary reserve asset, and it was clear that "total supply is falling short of total demand."

FM 27/8/82

(49)

SA Reserve Bank

GOVERNOR'S ADDRESS

ADDRESS BY DR. GERHARD DE KOCK, GOVERNOR OF THE SOUTH AFRICAN RESERVE BANK, AT THE SIXTY-SECOND ORDINARY GENERAL MEETING OF STOCKHOLDERS OF THE BANK ON 24 AUGUST 1982

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 ended 31 March 1982.

I also submit to you the Bank's *annual economic report*, which should be regarded as furnishing a background to my remarks today.

DOMESTIC ECONOMIC CONDITIONS AND PROSPECTS

Impact of the world recession

Like most other countries, South Africa is at present confronted by serious economic problems. The medium and long-term prospects for the economy remain excellent. But for the moment the country finds itself in the middle of a phase of adjustment to changed economic circumstances — an adjustment which is well within its capabilities, but which will inevitably entail discipline and a measure of sacrifice.

The main cause of our difficulties has been, and still is, the severe and persistent world economic recession of recent years. The anticipated economic recovery in the United States and the other major industrial countries is now only expected to commence during the second half of 1982. According to the latest forecasts of the organisation for Economic Co-operation and Development, the United States is expected to show rates of real economic growth of *minus* 1½ per cent in 1982 and only 2¼ per cent in 1983. For the European Economic Community as a whole, the growth rate is estimated at ½ per cent in 1982 and 2½ per cent in 1983.

As a major trading nation, South Africa has been seriously affected by the depressed world economic conditions. To begin with, they have contributed to the sharp decline in the gold price from an average of $613 per ounce in 1980 to averages of $460 per ounce in 1981 and $346 per ounce thus far this year. The effect of this decline has been to reduce the *dollar* value of South Africa's net gold output from about $13 billion in 1980 to an expected $7 billion in 1982 — a decline of about 45 per cent. A related factor adversely influencing the gold market during this period was the persistent application in the United States and a number of other important industrial countries of restrictive monetary policies involving high real rates of interest. By reducing the rate of inflation, slowing down economic activity and restoring confidence in the United States dollar, this strategy reduced both the investment and industrial demand for gold.

The severe world recession also created stagnant conditions in the international markets for many of South Africa's other exports, including diamonds, platinum, iron ore, chrome, manganese, maize and sugar. Together with the fall in the gold price, this resulted in a considerable decline in our total foreign exchange earnings and brought about a marked deterioration not only in our balance of payments but also in our general economic situation.

Downward phase of the business cycle

From the Reserve bank's *Annual Economic Report* it is clear that, although general economic activity in South Africa is still at a high level, the economy has since August 1981 been in a downward phase of the business cycle. Most economic indicators have either tended to level off or have actually declined in real terms. Thus far the downswing has been mild and has not shown the characteristics of a full-scale recession It is, however, expected to continue in the period immediately ahead.

Real economic growth

Reflecting the downward cyclical phase, the annual rate of growth of real gross domestic product, which on average amounted to 4,6 per cent per year between 1949 and 1981, seems certain to decline from the high levels of about 8 per cent in 1980 and 4½ per cent in 1981 to a much lower figure in 1982. Taking into account that the contribution of agriculture to the real gross domestic product is likely to register a significant decline this year, the growth rate of real gross domestic product in 1982 might be in the vicinity of 1 per cent or less. Moreover, on present indications, it would be unrealistic to expect it to be significantly higher in 1983.

Inflation and real remuneration per worker

The rate of inflation, as measured by the increase in the consumer price index, amounted to 14,4 per cent between July 1981 and July 1982. It is true that this figure was distorted to some extent by the statistical effects of the introduction of the 10 per cent import surcharge and the increase in general sales tax from 4 to 5 per cent earlier this year. Nevertheless, the rate is unacceptably high, particularly since it is almost double the present average rate of inflation of our main trading partner countries.

Inflation is a complex phenomenon, but the excessive increases in the money supply and in monetary demand during the past three years, and the accompanying depreciation of the rand in terms of other currencies since the beginning of 1981, must be counted among its main causes. It is only during recent months that the rate of increase of monetary demand appears to have declined to more acceptable levels.

The state of excess demand during 1980 and 1981 was also reflected in the labour market, where active competition for skilled workers, together with certain inflation-related upward adjustments in salaries and wages, led to a continued sharp rise in the average remuneration per worker in all non-agricultural sectors — a rise which clearly outstripped the increases in the consumer price index. Thus, in 1980 the average remuneration per worker rose by 18 per cent in nominal terms and by 3,7 per cent in real terms, i.e. after correcting for inflation. This was followed in 1981 by a further rise of 20,5 per cent in nominal terms and 4,6 per cent in real terms. Moreover, during the first quarter of 1982 the average remuneration per worker was still 20,1 per cent higher in nominal terms and 5 per cent higher in real terms than during the corresponding period last year.

BALANCE OF PAYMENTS

Current account

Despite the slowing down of the economy, the deficit on the current account of the balance of payments, which in 1981 amounted to R3,7 billion or 5,2 per cent of gross domestic product, increased during the first quarter of 1982 to a seasonally adjusted annual rate of R6,9 billion or 9 per cent of gross domestic product. This deterioration was largely the result of the further sharp decline in the price of gold during the early months of 1982 and the weak performance of other exports. In addition, although showing a significant decline in *volume terms,* imports increased further in rand value terms. In the second quarter of 1982, however, the current account deficit declined to an annual rate of R5,4 billion or 7 per cent of gross domestic product, as the volume of imports decreased to a level 11½ per cent below the peak of the second quarter of 1981.

Present indications are that the current account deficit will continue to decline and will amount to about R5 billion for the year as a whole. As a percentage of gross domestic product, this would be equivalent to about 6 per cent, which is not abnormally large for the present phase of the business cycle. The comparable percentages in 1970, 1971 and 1975, for example, were 6,7 7,4 and 6,6 per cent, respectively. In view of the anticipated further cooling down of the economy and the accompanying decline in imports, the current account deficit is expected to show a considerable further decline in 1983, even if the predicted recovery in the major industrial countries is relatively moderate.

Capital account; special financing arrangements

Of the cumulative deficit on current account of R6,4 billion during the eighteen months to June 1982, R1,5 billion was financed by a normal net inflow of capital "not related to reserves". The remaining R4,9 billion was financed out of gold and other foreign reserves to the extent of R803 million and by "reserve-related" short-term credits of R4,1 billion taken up by the Reserve Bank and the other banks.

During 1981, the Reserve Bank itself provided R2,0 billion of the total financing of R2,8 billion required during that period. This was done partly out of need, because the high liquidity and low level of interest rates in South Africa at that stage provided little incentive for either banks or other private companies to utilise overseas credit facilities. The Bank's borrowing, however, also formed part of its policy of allowing the balance of payments deficit to exert a negative influence on both the money supply and the liquidity base of the banking system. The only temporary departure from this policy occurred in August and September 1981 when, in order to relieve pressure on its reserves, the Bank quoted attractive discounts on forward dollars in order to encourage the use of overseas trade credits by South African banks and their clients. This technique proved useful as an instrument of short-term reserve management, but since it weakened the restrictive impact of domestic monetary policy, it was abandoned as soon as other financing arrangements could be made.

During the first half of 1982, after domestic interest rates had risen to nominal levels above those in the United States, the pattern of financing was somewhat different. Of the total financing of R2,1 billion required during that period, the Reserve bank provided only R472 million. The rest was obtained by the other banks in the form of short-term foreign credits. This shift in the relative contributions was encouraged by the Reserve Bank through the quotation of relatively low premiums on forward dollars. This policy was, however, applied in moderation as the Bank did not wish to see its restrictive monetary policy weakened by an unduly large inflow of short-term foreign capital.

Gold transactions

In view of the balance of payments situation, virtually the full current South African gold production was sold during the nineteen months up to the end of July 1982. In addition, in order to obtain additional cash foreign reserves, the Reserve Bank entered into a number of gold swap agreements with foreign financial institutions in the fourth quarter of 1981 and again in July 1982. In terms of these agreements, it sold gold to the institutions concerned at market-related prices and simultaneously repurchased it on a forward basis. Mainly as a result of these swap transactions, the Bank's gold holdings declined from 12,2 million fine ounces at the end of 1980 to 7,7 million fine ounces at the end of July 1982.

Exchange rate developments and policies

After rising by 14,5 per cent between January 1979 and the end of 1980, the average weighted value of the commercial rand in terms of other currencies declined by 22 per cent between the beginning of 1981 and the end of July 1982. Against the United States dollar as such, the commercial rand depreciated by 35 per cent during this period. As I shall indicate later, the decision to permit market forces to bring about a depreciation of this magnitude formed an integral part of monetary policy during this period.

The value of the financial rand remained relatively more stable than that of the commercial rand and depreciated in terms of the United States dollar by only 15.6 per cent between the end of 1980 and the end of July 1982. This resulted in a narrowing of the discount on the financial rand from 30 per cent in December 1980 to 9 per cent in July 1982.

It remains the longer-term objective of the monetary authorities to merge the financial and the commercial rand into a unitary currency and to abolish exchange control over non-residents while relaxing and simplifying it in the case of residents. The increase during the past year and a half in South African interest rates to levels more comparable with those in the major industrial countries, and the accompanying decline in the financial rand discount, represented steady progress in that direction. However, the time is not yet considered opportune for the introduction of such a unitary exchange rate.

MONETARY CONDITIONS AND POLICY

Initial accommodative monetary conditions and policy

During most of the fifteen months to March 1982, monetary conditions and policy in South Africa remained more accommodative than the monetary authorities would ideally have desired them to be. Certainly, they were less expansionary than during the preceding two years, when the rise in the gold must be counted among its main causes. It is only during recent months that the rate of increase of monetary demand appears to have declined to more acceptable levels.

The state of excess demand during 1980 and 1981 was also reflected in the labour market, where active competition for skilled workers, together with certain inflation-related upward adjustments in salaries and wages, led to a continued sharp rise in the average remuneration per worker in all non-agricultural sectors — a rise which clearly outstripped the increases in the consumer price index. Thus, in 1980 the average remuneration per worker rose by 18 per cent in nominal terms and by 3,7 per cent in real terms, i.e. after correcting for inflation. This was followed in 1981 by a further rise of 20,5 per cent in nominal terms and 4,6 per cent in real terms. Moreover, during the first quarter of 1982 the average remuneration per worker was still 20,1 per cent higher in nominal terms and 5 per cent higher in real terms than during the corresponding period last year.

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Capital account; special financing arrangements

Of the cumulative deficit on current account of R6,4 billion during the eighteen months to June 1982, R1,5 billion was financed by a normal net inflow of capital "not related to reserves". The remaining R4,9 billion was financed out of gold and other foreign reserves to the extent of R803 million and by "reserve-related" short-term credits of R4,1 billion taken up by the Reserve Bank and the other banks.

During 1981, the Reserve Bank itself provided R2,0 billion of the total financing of R2,8 billion required during that period. This was done partly out of need, because the high liquidity and low level of interest rates in South Africa at that stage provided little incentive for either banks or other private companies to utilise overseas credit facilities. The Bank's borrowing, however, also formed part of its policy of allowing the balance of payments deficit to exert a negative influence on both the money supply and the liquidity base of the banking system. The only temporary departure from this policy occurred in August and September 1981 when, in order to relieve pressure on its reserves, the Bank quoted attractive discounts on forward dollars in order to encourage the use of overseas trade credits by South African banks and their clients This technique proved useful as an instrument of short-term reserve management, but since it weakened the restrictive impact of domestic monetary policy, it was abandoned as soon as other financing arrangements could be made.

During the first half of 1982, after domestic interest rates had risen to nominal levels above those in the United States, the pattern of financing was somewhat different Of the total financing of R2,1 billion required during that period, the Reserve bank provided only R472 million. The rest was obtained by the other banks in the form of short-term foreign credits. This shift in the relative contributions was encouraged by the Reserve Bank through the quotation of relatively low premiums on forward dollars. This policy was, however, applied in moderation as the Bank did not wish to see its restrictive monetary policy weakened by an unduly large inflow of short-term foreign capital.

Gold transactions

In view of the balance of payments situation, virtually the full current South African gold production was sold during the nineteen months up to the end of July 1982. In addition, in order to obtain additional cash foreign reserves, the Reserve Bank entered into a number of gold swap agreements with foreign financial institutions in the fourth quarter of 1981 and again in July 1982. In terms of these agreements, it sold gold to the institutions concerned at market-related prices and simultaneously repurchased it on a forward basis Mainly as a result of these swap transactions. the Bank's gold holdings declined from 12,2 million fine ounces at the end of 1980 to 7,7 million fine ounces at the end of July 1982.

Exchange rate developments and policies

After rising by 14,5 per cent between January 1979 and the end of 1980, the average weighted value of the commercial rand in terms of other currencies declined by 22 per cent between the beginning of 1981 and the end of July 1982. Against the United States dollar as such, the commercial rand depreciated by 35 per cent during this period. As I shall indicate later, the decision to permit market forces to bring about a depreciation of this magnitude formed an integral part of monetary policy during this period.

The value of the financial rand remained relatively more stable than that of the commercial rand and depreciated in terms of the United States dollar by only 15,6 per cent between the end of 1980 and the end of July 1982. This resulted in a narrowing of the discount on the financial rand from 30 per cent in December 1980 to 9 per cent in July 1982.

It remains the longer-term objective of the monetary authorities to merge the financial and the commercial rand into a unitary currency and to abolish exchange control over non-residents while relaxing and simplifying it in the case of residents. The increase during the past year and a half in South African interest rates to levels more comparable with those in the major industrial countries, and the accompanying decline in the financial rand discount, represented steady progress in that direction. However, the time is not yet considered opportune for the introduction of such a unitary exchange rate.

MONETARY CONDITIONS AND POLICY

Initial accommodative monetary conditions and policy

During most of the fifteen months to March 1982, monetary conditions and policy in South Africa remained more accommodative than the monetary authorities would ideally have desired them to be. Certainly, they were less expansionary than during the preceding two years, when the rise in the gold price and the accompanying balance of payments surplus had resulted in an accumulation of excess liquidity, abnormally low interest rates and eventually a state of general demand inflation. But until the second quarter of 1982, the attempts of the Reserve Bank and the Treasury to restrain the expansion of money, credit and total demand met with only moderate success. The need for a less expansionary or more restrictive monetary policy was recognised throughout this period, but because of the excess liquidity and unduly low interest rates inherited from the high gold price years, it took some time to re-establish adequate control over the monetary situation. In addition, certain new weaknesses developed in the policy during the latter part of 1981, to which I shall refer again.

Since October 1980 the reserve Bank has followed a conscious policy of permitting the changed balance of payments situation and other natural economic forces to bring about a tightening in the financial markets and a rise in interest rates. As an integral part of this strategy, Bank Rate was raised in four stages from 7 per cent in the beginning of 1981 to 12½ per cent in July. Given the then existing link between Bank Rate and the clearing banks' prime overdraft rate, this permitted the latter to rise from 9½ to 16 per cent.

At one stage, this restrictive policy stance appeared to be achieving its intermediate objectives. After amounting to 32 per cent in the second half of 1980 and 46 per cent in the first quarter of 1981, the seasonally adjusted annual rate of increase of the broad money supply (M2) slowed down to 27 per cent in the second quarter and to a most gratifying 10 per cent (i.e. less than the rate of inflation) in the third quarter of 1981. In addition, as a result of "reintermediation", the velocity of circulation (V) of the broad money supply declined from 4,5 in 1980 to 3,8 in the first half of 1981. MV therefore increased at a much lower rate than M.

Following this initial success, however, monetary policy suffered a number of setbacks which temporarily reduced its effectiveness. The first such setback was an increase from R968 million in March 1981 to R2,3 billion in March 1982 in the advances extended by the clearing banks to the Land Bank to finance the record 1981 summer crops and production credit extended by the agricultural co-operatives to farmers. These advances were made at the request of the Reserve Bank and at interest rates well below market levels. Partly because of delays in exporting the surplus maize, they also did not show the normal seasonal decline between October 1981 and June 1982. Moreover, since advances to the Land Bank qualify as liquid assets for banks, this method of financing the Land Bank increased the credit-creating ability of the banking system in direct conflict with the Reserve Bank's monetary policy.

The second setback was the temporary use of bank credit by the government sector during the fourth quarter of 1981. The major reason for this was an unexpected decline in the net inflow of funds to the Public Debt Commissioners during the second half of 1981, which greatly reduced the amounts they were able to invest in government stock. The situation was exacerbated by the need to finance substantial imports of strategic materials through the national Supplies Procurement Fund and by the losses realised by the Treasury on the forward exchange cover operations of the Reserve Bank, which resulted in a substantial increase in the Bank's claims on the Government.

A third difficulty, to which I have already referred, was the weakening of monetary policy caused by the temporary use by the Reserve Bank during the third quarter of 1981 of attractive discounts on forward dollars to encourage an inflow of short-term capital.

As a consequence of these various developments, the banks gained additional cash reserves and liquid assets, which enabled them to continue expanding their credit to the private sector on a scale which would not otherwise have been possible. The end result was that the annual rate of increase in the broad money supply rose to 20 per cent in the fourth quarter of 1981 and to 41 per cent in the first quarter of 1982.

Stronger corrective monetary action

To overcome these setbacks, the Reserve Bank decided from November onwards to take stronger corrective action and to permit interest rates to rise further in response to market forces. As part of this process, it not only raised Bank Rate by another 1 per cent to 13½ per cent in December, which caused the prime overdraft rate to rise to 17 per cent, but also allowed the Treasury bill rate to rise above Bank Rate to more realistic levels. Another major policy change was the abolition on 16 February 1982 of the previously existing direct link between Bank Rate and prime overdraft rates. Following this step, the latter rates rose in response to market forces to 20 per cent. At the same time, the Reserve Bank discouraged banks and discount houses from excessive recourse to its discount window by applying severe penalty rates, well above Bank Rate, to all such financial accommodation.

A good indication of the tightness which developed in the money market during this period was the fact that the discount houses had to resort to reserve Bank accommodation continuously from 14 December 1981 to 7 April 1982. This accommodation reached a peak of over R1 billion early in March 1982. Indeed, the money market became so tight that the Reserve Bank was able to reduce the banks' cash reserve requirements by about R400 million from the end of March, without undue expansionary effects on the money supply.

Another move to make monetary policy more restrictive was the introduction by the Treasury of a new tender system of issuing government stock in February 1982. This system proved successful and further use was made of it in May and July. The more realistic interest rates on government stock which resulted from the new system also assisted the Reserve Bank in making increased and more regular use of tap issues of government stock and other open-market operations as a major instrument of monetary policy. During the year ended June 1982, the Reserve Bank's net sales of government stock amounted to R1,1 billion, compared with R133 million during the previous twelve months. During the second quarter of 1982 alone, the Bank sold stock to a net amount of R699 million. This was followed by further net sales of R535 million between the beginning of July and 20 August 1982. These security operations proved extremely useful to the Bank in its efforts to control the cash and liquidity base of the banking system and the money supply.

Further progress was made from the beginning of July 1982, when the system of Land Bank financing was changed in certain fundamental respects. The major part of the clearing banks' advances to the Land Bank, which at that stage amounted to about R2,2 billion and on which the rate of interest until the end of June has been only 14 per cent, was transformed into Land Bank bills and debentures issued at reasonably market-related interest rates. On the remaining bank advances to the Land Bank, the interest rate was raised to 16 per cent. The initial impact of these new arrangements was to raise the effective cost to the Land Bank of the funds in question by about 2,15 per cent, so that the Land Bank naturally also had to raise some of its short-term lending rates. However, special Government assistance enabled the Land Bank to provide interest rate relief in the case of production credit extended to farmers via the co-operatives. As part of the new arrangements, the clearing banks also undertook to provide an additional R800 million to the Land Bank during 1982/83, bringing the bank's former commitment of R2,3 billion in respect of advances to the Land Bank up to R3,1 billion in the new diversified form.

Taken together, all these various measures to tighten monetary policy began to show positive results during the first half of 1982. Most financial markets tightened further and both short and long-term interest rates continued to rise. After reaching 41 per cent during the first quarter of 1982 — a figure again distorted by re-intermediation — the seasonally adjusted annual rate of increase of the broad money supply declined to as low as 3,4 per cent during the second quarter. This brought the annual rate of increase for the first half of 1982 to 21 per cent and the increase between June 1982 and June 1982 to 18 per cent.

Monetary policy and growth

From the facts I have presented, it is evident that the view which still exists in certain quarters that the authorities have since the beginning of 1981 applied an unduly strict and contractionary monetary and fiscal policy, is erroneous. Until recently the Reserve Bank and the other banks have created *too much* rather than *too little* credit — for the Treasury, the Natonal Supplies Procurement Fund, the Land Bank, the marketing boards and, mainly via accommodation to the discount houses, also for the banking system as a whole. For every rand which left the country as a result of the balance of payments deficit during the eighteen months to June 1982, the Reserve Bank and the banking system as a whole created R1,74 in the domestic economy. Although interest rates increased from their abnormally low levels in 1979 and 1980, the money supply therefore expanded unduly, enabling total monetary demand and expenditure to continue rising at an inordinate rate.

Furthermore, when these developments aggravated the existing demand inflation and increased the pressure on the balance of payments, the Reserve Bank did not resort to harsh deflationary policies in an attempt to defend an overvalued rand, but permitted the rand to depreciate considerably in terms of other currencies. The result was that the income of South African mines and other exporters declined by much less in terms of rand than it would otherwise have done. At the same time the competiveness of South African manufacturers was protected. In these and other ways the depreciation helped to keep the domestic economy more buoyant and the real growth rate higher than would otherwise have been the case.

If, therefore the monetary authorities erred, it was not in applying an unduly contractionary policy, but in being too accommodative and in over-protecting the domestic economy against the cold winds of the world recession — with certain adverse effects on inflation, the balance of payments and longer-term growth.

Monetary policy and inflation

A related conclusion which must be drawn, is that the experiment to determine whether a policy of control over the money supply can effectively curb inflation was not carried out in South Africa in recent years. The experience of the past three years does not indicate, as some observers have suggested, that monetary policy is ineffective in combating inflation. All that it shows, is that an excessive increase in the money supply and inflation go well together.

It is true that during the later stages of the 1978-81 upswing the monetary authorities identified the curbing of inflation as the highest priority of fiscal and monetary policy. Almost everything else seemed to be in order at that time — the growth rate was high, the balance of payments position was strong and the real standard of living of most residents was increasing rapidly. In those circumstances inflation was clearly the one blemish or dark spot that needed urgent attention. But before this anti-inflationary strategy could be put into full operation, the South African economy was overtaken by the decline in the gold price and the other external events I have described earlier.

To deal with the new set of problems confronting them, the authorities had no acceptable alternative in the short term but to change the order of their policy priorities. For the moment, top priority inevitably had to be given to the financing and adjustment of the balance of payments deficit. Moreover, since the normal cyclical forces were already producing a recessionary tendency in the domestic economy, there was also a need to handle the balance of payments situation with the minimum disruption of production and employment. It was a case of "first things first". This in no sense implied an abandonment of the objective of curbing inflation; it merely meant that **in the short term** other policy objectives had to be given a higher priority. Reducing the rate of inflation remains a fundamental objective of official policy.

A clear indication of this temporary change in the order of policy priorities was the policy of permitting the rand to depreciate in terms of other currencies, which by definition was inflationary. The alternative approach of trying to maintain the external value of the rand at a much higher level by means of a strict deflationary policy would no doubt have reduced the rate of inflation, but was rejected because of the disruptive contractionary effects it would have had on domestic production, income and employment.

POLICY IMPLICATIONS

Assessment of past policy

In passing judgment on the nature and effectiveness of monetary and fiscal policy during the recent past, there are those who would say that, given the decline in the gold price and the other external shocks to which the economy was subjected during this period, the policy was, on the whole, appropriate and successful. Their verdict would be that the authorities succeeded in bringing about a reasonably "soft landing" for the economy and in shielding it from the worst effects of the world recession. They would approve of the policy of permitting the rand to depreciate against other currencies, thereby preventing the rand income of the mines and other exporters from declining as much as their dollar income. They would commend the Reserve Bank for borrowing substantial amounts abroad and entering into advantageous gold swap agreements, and for its accommodative credit policy on the domestic front. They would view all these actions as defensible moves to support domestic growth and employment under difficult circumstances, and would consider the depreciation of the rand and the higher rate of inflation as a worthwhile price to pay for these advantages. And their prescription for the period ahead would be a continuation of this approach, to be followed before long by an actual stimulation of the economy to revive the flagging rate of real economic growth.

As I have indicated earlier, the Reserve Bank's own assessment of recent monetary and fiscal policies in South Africa is less sanguine. The Bank is naturally pleased at the progress made and the results achieved by the official monetary-fiscal strategy during the period under review, in particular the relatively smooth adjustment of the economy to the severe external economic shocks which it experienced. In retrospect, however, the Bank believes that for the reasons I have mentioned, the overall strategy was not restrictive enough, at least not until the second quarter of 1982.

It is true that our financial strategy has succeeded in protecting the domestic economy against the worst effects of the world recession. But the costs of doing so have not been negligible. Firstly, South Africa now has a rate of inflation which, at about 14½ per cent, is significantly higher than the average of those of its main trading partner countries. While the inflation rates in most of those countries have been sharply reduced by restrictive monetary policies, our own inflation rate has not shown a similar declining tendency. Secondly, our

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Of course, if the earlier prediction by many experts that the decline in the gold price and the cyclical downturn in the world economy would be reversed before the end of 1981 had been fulfilled, the situation would have been different today and the policies actually followed might have been vindicated to a greater extent. But this did not happen. Instead, the gold price continued to decline well into 1982 and the United States and the other major industrial countries experienced a further recessionary movement in their economies in late 1981 and early 1982.

Future policy

The implications of all these developments for monetary and fiscal policy in the coming months have to be carefully considered. Much, of course, depends on economic developments in the United States and Western Europe in the period immediately ahead. It seems reasonable to assume that at some stage a new economic upswing will occur in the major industrial countries and that this will have marked expansionary effects on the primary producing countries of the world. Once such an upswing gains momentum, it should be only a matter of months before South Africa itself moves into a new export-led upswing. According to the latest official forecasts, however, the recovery in the United States economy will not show much vigour until well into 1983, and world commodity markets might therefore still remain relatively stagnant for some time.

In these circumstances, South Africa inevitably faces a further period of consolidation and adjustment. For the time being, the hard realities of the situation rule out any anti-cyclical policy of reflation or stimulation. By such means as foreign borrowing, currency depreciation and money creation, we have already done as much as we can to ease the economic situation. As a nation we are still living beyond our means. The adjustment process must now be permitted and encouraged to run its course. The longer we delay, the sharper and more disruptive the eventual adjustment is likely to be.

In the months ahead, monetary and fiscal policies must therefore be kept as strict as necessary. This implies continuing the admirable restraint on government spending of recent years and keeping the budgetary "deficit before borrowing" relatively low. It further means maintaining strict control over the money supply and accepting the market-related interest rates which would logically flow from such a policy. This does not necessarily rule out some decline in interest rates in response to a softening of overseas rates and other market forces in the period ahead. But particularly since South African interest rates are still very low in **real** terms, i.e. after correcting for the rate of inflation, there can be no question of artificially reducing interest rates by excessive money creation.

If we fail to apply appropriate monetary and fiscal policies, the need for adjustment will not go away — the adjustment would merely occur in other and more painful ways. The inevitable temporary decline in the average real disposable income of South African residents would then probably be brought about by the spiral of increased inflation and currency depreciation. This method of "adjustment" is to be avoided as far as possible, not least because it would place too much of the burden of adjustment on pensioners, savers, civil servants, teachers, and other fixed-income recipients who are not always in a position to have their incomes adjusted rapidly enough to compensate for the inflation. The degree of injustice which this would involve may cause even more resentment than the actual decline in the standard of living, and may at times have even worse social consequences than increased unemployment.

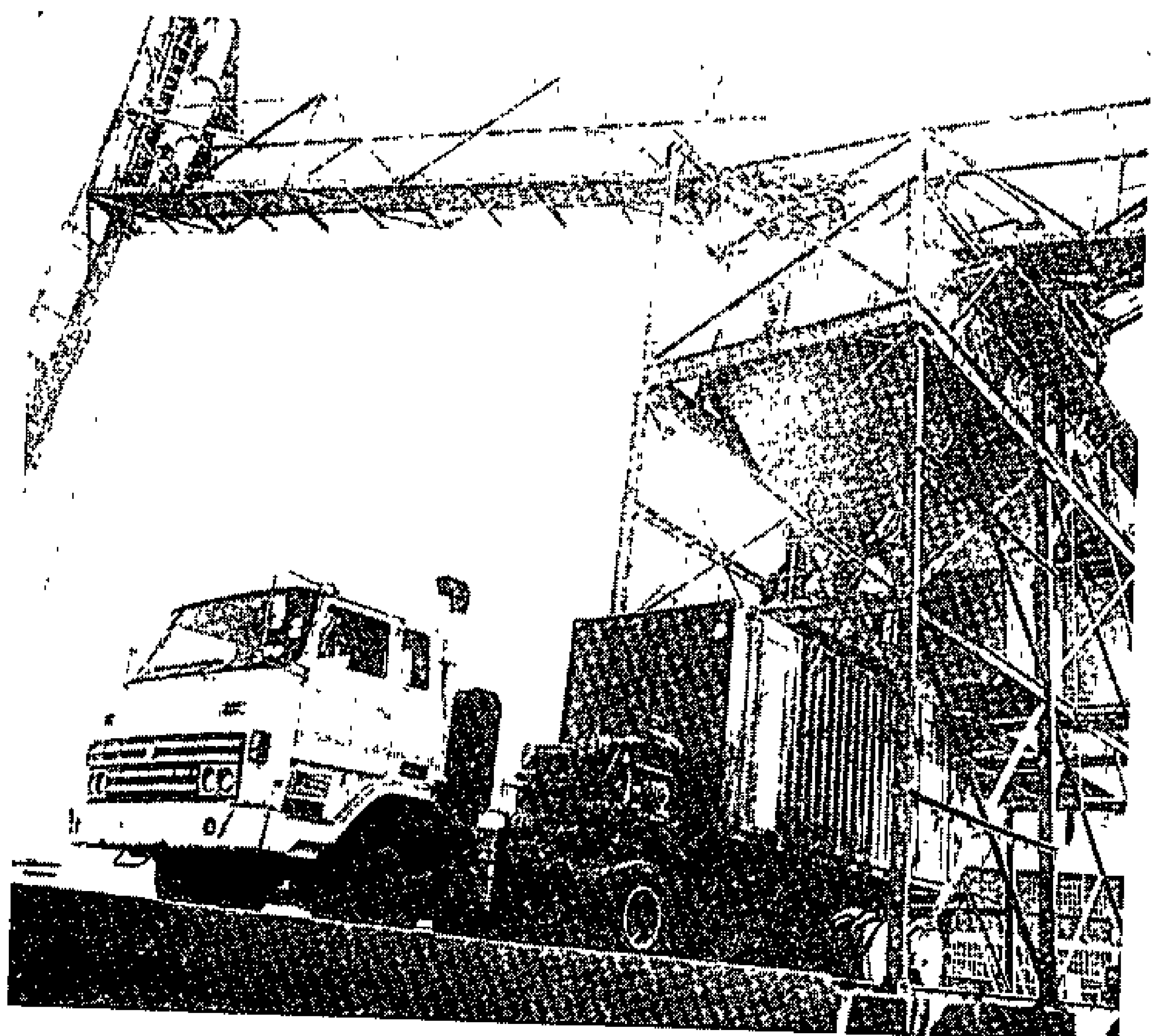
Fortunately, the required process of adjustment is now well under way. The economy is in a moderate downward cyclical phase and monetary demand is rising at a greatly reduced rate. The deficit on the current account of the balance of payments appears to have turned the corner and should show a steady further decline in the rest of 1982 and in 1983. This will probably be the case even if the expected world economic upswing is as moderate as current indications suggest, and even if the *average* gold price during this period remains at the relatively low level of about $346 per ounce registered thus far this year. If the recovery in the United States and Western Europe turns out to be more vigorous than expected and/or if the gold price rises significantly, as recent developments indicate that it might, our balance of payments will, of course, improve more rapidly and to a greater extent.

Be that as it may, it is surely only a matter of time before the United States "locomotive" pulls the world economic "train" out of the present recession. When that time arrives, the South African economy will have cooled down adequately, demand inflationary pressures will have abated, the volume of imports will have declined substantially, and we shall be extremely well placed to take full advantage of the world economic recovery and the resultant increase in the demand for our exports.

The proviso is that the monetary authorities must persevere with appropriately restrictive monetary and fiscal policies for as long as the situation might require. To relax these policies prematurely would have adverse consequences for our balance of payments and internal economic stability, and would deepen and lengthen the current downward phase of the business cycle. The average rate of real economic growth in the longer term would then be lower instead of higher. In present circumstances, sustained monetary and fiscal discipline is essential if the South African economy is to combine a lower rate of inflation with a higher rate of real economic growth in the decade ahead — an ideal which is well within our reach.

CONTAINERS

Staying powder



Conflo ... a versatile hold for granules

Transporting powders and granules can be a hassle. Transfer is difficult and multiple handling causes wastage.

No more, says Powder Tainers (PT), whose new Conflo non-pressurised container is the first to incorporate a fluidised bed and a slatted discharge conveyor.

Powders are fed into the container through two upper manholes. They rest on the fabric-covered floor which, with the application of air from below, becomes a fluidised bed. This allows easy discharge through the lower manhole. In the case of coal, a slatted conveyor is used.

Once on site, the containers can be put on legs and left to discharge contents when needed. This obviates the need to transfer products such as cement, sugar and pelleted materials from one receptacle to another and reduces the possibility of contamination.

The 6 m container holds up to 20 t and the 3 m version takes 9 t. To protect delicate cargo like foodstuffs, special internal finishes are available. These include epoxy coatings, stainless steel and fibreglass.

The containers lease for R8,70-R10/day.

Phone (031) 71-1776.

Water program

Farmers can now hand their irrigation supervision to a Motorola computer-controlled system.

It works for 24 hours a day, opening and closing valves at preset times to send the right amount of water to pre-determined points.

Water-flow to each outlet is monitored to detect losses caused by leaks or blockages.

Any interference, such as a pipeburst or unauthorised operation of the valves, sets off an alarm and is registered on the computer printout.

Three systems are available — the Matarol 2 000 for 16 valves, the MIR 3 000 for up to 252 valves and the MIR 1 080, which can serve several farms.

Motorola claims its system differs from others because it is more accurate and more cost-effective. Cost range is R2 500-R100 000.

Phone (021) 59-9231.

Close-up on bags

HiPak now distributes a self-sealing plastic bag designed to make sealing machines redundant.

The cube-shaped, block-bottomed valve bag is filled through a slit at the top. The slit is closed by an inside flap from pressure of the contents.

HiPak says this saves time, especially when bulk loading commodities such as fish meal, chemicals and fertiliser. And its shape makes it good for stacking.

Sizes range from widths of 37 cm-70 cm and lengths of 39 cm-113 cm.

A 50 kg capacity bag sells for about 50c.

Phone (011) 51-9611.

Watch your smoking

You cannot be sure that someone will be around to give the alarm when a fire starts. But a Sesco Smoke Detector always will.

The detector's built-in alarm is set off when smoke intensity in a room reaches danger level. It is powered by a battery which lasts about a year and another alarm lets you know when power runs low.

Sesco says the R80 unit is easily fitted and can be connected to a burglar alarm system.

Phone (031) 391211.

Spray it again

The aerosol container was hailed as one of the best inventions of its time. But the Jenni Can, says distributor Ares Enterprises, goes one better — it is re-usable.

This drawn aluminium aerosol container can be filled with anything from insecticides and paint to industrial lubricants. It comes with six nozzles, which give a range of sprays from extra fine to coarse.

The only equipment needed to refill it is a foot pump or bicycle pump and an airhose which pressurises the container to about 3,5 bar. A lacquered surface makes for easy cleaning.

Its versatility, claims Ares, makes the Jenni Can a valuable addition to laboratories, workshops, farms and homes.

Price: R29.

Phone (011) 724-2308.

CHECKLIST

Institute of Marketing Management: Pharmaceutical Marketing. September 3. Sunnyside Park Hotel, Johannesburg. Phone (011) 37-4455.

MMF: Can Collective Barganing and In-plant Bargaining be Made Compatible? September 7. Sunnyside Park Hotel, Johannesburg. Phone (011) 39-6231.

Hewlett Packard: Managing Information Systems. For those about to install one and those whose systems do not work. September 7. Southern Sun's Hotel, Jan Smuts. Phone (011) 802-5111.

Assocom: Tourism Workshop. SA tourism now and in the future. September 9. Southern Sun Hotel, Jan Smuts. Phone (011) 726-5309.

Damelin: How to Manage it With Mini-Computers. For first-timers and old-hands. September 14-15 and October 6-7. Four Ways Garden Hotel, Sandton. Phone (011) 37-5745.

AMR/Whitehead: Creativity and Lateral Thinking for Management. Educationist and author Dr Edward de Bono, creator of the term "lateral thinking," on ways to tap creative resources and generate new ideas. September 20, Maharani Hotel, Durban — phone (031) 32-7361. September 22, Mount Nelson Hotel, Cape Town — (021) 22-0012. September 24, Holiday Inn, Sandton — (011) 783-5262.

SA Federation of Civil Engineers: Natal Regional Conference on the Engineering Industry. September 22. Maharani Hotel, Durban. Phone (031) 81-2205.

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Bob and George examine SA's economic prospects for 1982-83

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THE following discussion took place in a Johannesburg restaurant between George, an economist, and Bob, a prominent businessman.

uftext,1,10,22p6

BOB: I am confused about the recent economic developments in the South African economy.

On the one hand, the central authorities and the economists are telling us that the economy is in a recession — yet the average man-in-the-street is still spending as before and the banks continue to lend as usual.

GEORGE: Your description of the recent development is quite correct. This does not, however, contradict economic analysis, because fundamentally the economy is in a bad way.

B: What do you mean by economic fundamentals?

G: Basically, the state of the balance of payments, the growth in the money supply, the inflation rate and the level of interest rates.

B: Could you be more specific about these economic fundamentals.

G: Well, as far as balance of payments is concerned, this is the most important item to watch, since it provides an indication of whether the country as a whole can support given economic growth.

For example, if a country wants growth, it has to import goods and services.

This, in turn, means that foreign currencies are required — which implies that South Africa should be in a position to earn sufficient foreign currencies through exports of goods and services.

B: So, in other words, every bit of economic activity requires imports and consequently foreign reserves.

G: Absolutely correct. If one hasn't got enough money one can't drive a Mercedes 450 but, rather, one may have to ride a bicycle.

B: So what are the prospects for an improvement in the level of foreign reserves?

G: The prospects are not all that good, since the performance of our exports is heavily reliant on the gold price.

B: What about non-gold exports?

G: Non-gold exports are very sensitive to the economic performance of our trading partners — mainly the major Western economies, which are in the throes of the worst economic slump since the Great Depression.

B: I know that the gold price is difficult to forecast. But could you identify the major fundamentals determining its price movements?

G: To my mind, the health of the major Western economies is the key factor in determining the gold price.

The concept of economic health is associated with lower inflation rates, steady real economic growth and, consequently, reasonable real returns on investment.

If the lower inflationary trend in the US is to become a permanent phenomenon, this, coupled with steady positive real economic growth, will result in a positive real return on dollar-denominated assets, which will adversely affect the propensity to hold gold.

B: So, what is your view about the gold price?

G: I am bearish because the Western economies in general, and the US economy in particular, are being subjected to structural changes.

The entire philosophy of the Reagan Administration is to reduce the share of government interference in economic activity.

The Administration, in conjunction with the Federal Reserve, is maintaining a tight monetary policy, which has already produced satisfactory results as far as inflation is concerned.

The new economic philosophy is to provide more incentive to private enterprise, which, coupled with a low inflation rate, will eventually be translated into a much healthier economic system.

Since the Reagan Administration has zero options, it will have to pursue the present policy until it ultimately succeeds.

Because the investor invests in the future and not in the past or present, the prospects for future dollar-denominated assets look promising.

Supported by an expected healthier US economy, little room is left for investment in gold.

One should also take into account that the present worldwide recession has "caught" many oil-producing countries that went on a spree of rapid industrialisation.

Thus, in order to restore their stock of foreign reserves, they might be sellers of gold.

In addition, Russian agricultural incompetency, coupled with bad weather conditions, might force the Soviet Union to increase its sales of gold.

B: Why is tight monetary policy so important in curbing the inflation rate?

G: In modern economies, nearly everything is denominated in terms of accepted means of payments, which you and I call money.

We say that one litre of milk costs R2, or one kilogram of meat R3 and so on. In other words, the price of goods is expressed in terms of money.

Since goods are expressed in money terms, there is nothing to prevent me from expressing money in terms of the goods and services it can purchase.

For example, R1 is worth half a litre of milk, or one-third of a kilogram of meat.

This means that the price of money, or its value, is the amount of goods or services it can buy, or 1 divided by the price level.

The price of money is determined, as any other commodity, by the law of demand and supply — that is, if the quantity of money supplied exceeds the quantity demanded at the given price, then the price of money will have to decline. In other words, the price level will rise.

All this means that, whenever the central authorities pump relatively more money balances into the economic system than is required, the value of money declines, or the price level rises — that is, there is inflation.

B: Recently I had a quick look at the money-supply statistics, and they don't look too good to me.

G: I think my recent analysis will tend to confirm your statement, since on a trend basis the money stock has grown by an excess of 17% over the past seven years, which is roughly the supporting level for the inflation trend rate.

B: If your analyses are correct, then we might end up with a relatively high inflation rate again next year?

G: That is correct!

B: Is there any immediate action the authorities could take to stop the expected inflationary bulge?

G: It is doubtful whether the authorities could change the inflationary path drastically in the short run, although they can lay solid foundations for a lower inflation rate in the future by adopting, as soon as possible, correct monetary and fiscal policies.

B: Could you be more specific.

G: Yes, I mean that the central authorities — namely, the Reserve Bank, should start curbing the excessive growth in the money supply.

Bob: How do you think this can be done?

G: Basically, the Reserve Bank should exercise much tighter control over banks' reserve assets, since by doing so the Reserve Bank will gain control over bank lending and therefore bank deposits.

B: George, your explanations have resolved some of the things that have been puzzling me.

G: What do you mean?

B: As you probably know, in May 1981 the Reserve Bank stated that a tighter monetary policy would be pursued. But, funnily enough, the banks are chasing me with the aim of lending me more money.

Now after the exposition provided by you, I realise that the monetary policy cannot be considered a great success.

G: You are absolutely spot-on. I would even add to this by saying that, most likely, the Reserve Bank never had a money-supply policy, but rather an interest-rate policy.

B: How can the Reserve Bank influence interest rates?

G: Very simple — through open-market operations, by selling and buying short-dated treasury bills.

Unfortunately, open-market operations of this nature are fairly ineffective as far as controlling the reserve assets of the banks are concerned, since treasury bills are, according to the Bank Act, classified as a reserve asset.

This, in turn, means that, whenever the Reserve Bank sells a treasury bill, it replaces one form of reserve assets with another — that is, the structure of the reserve portfolios of the commercial banks is affected, but not the levels. And, naturally, the banks' lending potential hasn't changed.

In the process of open-market sales the relative supply of treasury bills rises and this increases the treasury-bill rate.

It should also be emphasised that the biggest holder of treasury bills is the Reserve Bank itself, through the NFC, and this enables the Bank to buy and sell treasury bills to itself, and consequently to affect the interest rate.

B: Let's leave that point for now and concentrate on the likely movement of the money and capital market rates. Do you think interest rates have peaked?

G: I think interest rates will still have to climb much higher before they reach a peak.

We are still running a huge deficit on the current account of the balance of payments and our inflation rate is on a rising path.

If one inspects previous slower phases in the economic cycle, one would discover that interest rates — in particular money-market rates — reached a peak in the middle of the downward phase.

This peak in interest rates is almost always associated with the process of foreign reserves accumulation, since the balance on the current account moves into a surplus.

When interest rates are peaking and moving downward, the real economy is more than halfway into the consolidation phase and, finally, the inflation rate is edging downward.

Those typical symptoms associated with the natural downward movement in interest rates cannot be identified at present.

First, the deficit on the current account was at a record high annual rate of around R6 000-million in the second quarter, after R6 700-million in the first quarter.

The inflation rate is in excess of 16%, while the real economy is still relatively strong despite certain pockets of slower economic growth.

All this implies that the economy hasn't gone through the ultimate consolidation process as yet.

This, in turn, means that any premature softening in interest rates will arrest the process of adjustment and will result in greater depletion of foreign reserves.

And, since without foreign reserves no economy can grow, the economic relapse can be very severe.

It is also important to emphasise that during the previous cyclical downward movement in interest rates the other Western economies experienced strong economic recoveries which boosted our foreign reserves through strong demand for our exports.

At present, I am afraid, this is not the case. And no one is quite certain when economic recovery will start in the West.

B: You have mentioned that, unless the economy goes halfway through the adjustment period, there is no scope for interest rates to move downward. Is this correct?

G: Not exactly. You should add to this a reasonable improvement in the balance on the current account.

B: Do you maintain that the economy hasn't been adjusted adequately?

G: Yes. For example, in 1981, when the adjustment process started to take place, it was aborted through various policy shocks, like allowing more money supply into the economic system.

B: How do these shocks arrest the consolidation process?

G: A monetary shock creates an illusion. It indicates that all is well but also disguises the weak economic fundamentals. Thus, for a short period the consumers and companies are satisfied.

Since it is impossible to generate something out of nothing, the fundamentals eventually become dominant and the economic relapse becomes severe.

The economy as a whole is a funny creature. What is good for the individuals is not necessarily good to the economy as a whole.

Whenever the money supply rises excessively in the immediate to medium term, it's quite good for the individual, since he can buy more goods and services.

But the rise in demand for goods and services implies an increase in demand for imported goods, and, when the stock of foreign reserves is depleted, the country as a whole cannot afford this increase in imports.

Suppose the Reserve Bank would offer you an extra R2 000 and let's assume that instantaneously the Reserve Bank issues a warning about the parlous state of the foreign reserves.

In such circumstances, it would be patriotic not to take this R2 000, since it will add to your purchasing power and therefore to imports and to the further depletion of foreign reserves.

Most likely your reaction will not be a patriotic one, and you will accept the R2 000.

Frankly, I think this is quite rational, since you are concerned with your own wellbeing first, and only thereafter with the economy as a whole.

B: It follows that an increase in means of payments, which apparently keeps everyone happy, can be disastrous.

G: Precisely. And, I would like to add, at present our economy is heading for a crack — unless the growth in the means of payments is arrested.

Why? Because the components of the economy, namely the individuals, still want to spend and to grow as a result of a relatively high stock of money balances.

Yet the economy as a whole is indicating, very strongly, a need to block this attempt by pointing out to the individuals that the stock of foreign reserves are depleted.

B: So when do you think the interest rates will turn?

G: Only when the economy has cooled properly and, consequently, the balance on the current account has moved into a surplus.

This article is an extract from Santambank's latest Economic Forecast. It was written by the bank's chief economist, Frank Shostak

World on the brink of cash crash

(49) S. Times

By STEPHEN ORPEN
Business Times Editor
in TORONTO 2/9/82

THE world economy is teetering on the brink of a series of disastrous banking and national bankruptcies.

If these cannot be staved off, a gargantuan crash will plunge the world into an economic abyss which could make the great depression of the thirties look like child's play.

That, in a nutshell, is the message which the world's leading analysts and financial commentators are drawing from proceedings at the annual International Monetary Fund and World Bank meetings in Canada.

The deluge of scare reports in recent days has seen an unprecedented rush into gold, near-panic on US and world stock exchanges, and a sudden loss of faith in the existing world economic order.

Rift

There is a great rift between delegates at the IMF: there are those who tacitly support the wave of black tidings.

And there is a more restrained voice of reason from a smaller group of more senior monetary chiefs who feel the whole crisis is being blown out of all proportion by the media and the poor countries represented in Toronto.

The problem is simply this:

From 1977 onwards, the governments and banks of the so-called First World — the advanced economies like the US, West Germany, France, Britain and Japan — have been guilty of lending astronomic sums to the less developed and still developing countries.

It should have been clear all along that these borrower nations would be caught short.

But the sheer pressure of money available for investment by the West closed the eyes of its banking luminaries to the day of reckoning.

The lending through IMF and World Bank agencies grew in four years by about 600 percent to more than 525 000-million US dollars.

The national accounts of the borrower nations moved by a similar margin ever deeper into the red.

Catastrophic

Mexico's problems (see Business Times this week) brought the broader catastrophic scenario into focus.

Suddenly, the message was grasped right down to the smallest investor.

Owing was 525 000-million US dollars, of which 250 000-million US dollars was due for repayment this year, plus 80 000-million US dollars in interest.

There was no way the borrowers could come close to meeting their obligations. They could not even begin to reduce the amount of interest they owed.

The so-called Group of 24 developing and less developed nations demanded over the weekend a doubling of the hundreds of billions they receive each year in assistance from the IMF and World Bank.

Collapse

The Group of Ten advanced nations which was still in session yesterday had predicted unofficially that if the lender countries, namely themselves, do not call a halt, the First World (being the wealthy economies) will be unable to save themselves from collapse.

First one major US bank will founder, then another. This will lead to a rush on all banks.

The domino effect will take command and paper money will be worth next to nothing.

Share prices round the globe which have been galloping ahead will fall in on themselves like so many packs of cards.

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South Africa: Growth and Political R

By THOMAS J. BRAY

JOHANNESBURG — One of the most striking aspects of the South African economy these days is the shortage of skilled manpower. The situation was underlined recently when the National Manpower Commission announced that it has been looking into ways the situation might be alleviated but that many of its proposed studies have been shelved—because it couldn't find enough trained staff to carry them out.

The skills shortage is bad news and good news. Bad, because it reflects the decades of apartheid, in which blacks, "coloreds" and Asians, constituting 87% of the population, were systematically stripped of political and economic liberties by the white minority. Restricted in where they can live, denied equal access to education and training, prevented from holding higher-paying jobs reserved for whites, denied property and voting rights, the majority of South Africans remain a Third World people in a First World economy.

But the lack of skilled manpower is also good news, because it is forcing South Africa to reevaluate many of those same repressive laws. Job reservation for whites has been largely abolished, at least statutorily. Blacks, coloreds and Asians are freer to move to where the jobs are, and to hold property if they can earn enough to pay for it. Spending on black education and training is soaring, and so are wages. South Africa in recent years has even allowed the formation of black labor unions, despite the obvious threat that they will become politicized and be used as a wedge for further change.

"In so many ways, the economy is moving around apartheid, making a hash of its assumptions," says a Johannesburg banker. "The politics are following."

A Dismal Fact of Life

It's debatable whether anything fundamental has changed, or is likely to simply as a result of economic forces. South Africa remains more or less a democracy for its 4.7 million whites, but more or less a police state for its 22 million other inhabitants, especially its 19 million blacks. The "pass laws," "group areas acts" and security legislation that give the white minority almost total control remain a dismal fact of life.

"Economic discrimination has proved to be an impossible system, but a one-man, one-vote system is also impossible in South Africa," flatly states Jan Lombard, a free-market economist and adviser to South Africa's central bank, who is among the more openly liberal of the country's leadership.

But there's no doubt there has been movement on the political front, and that much of it has been driven by the economy. South Africa's ruling Afrikaner elite is mulling bringing the coloreds and Asians into a sort of tricameral parliamentary system, albeit one in which whites would retain effective control.

Some Afrikaners—the Dutch-descended settlers who wrested parliamentary control of South Africa away from the British Empire despite their defeat in the Boer War of the early 1900s—even assert that such a system could be the forerunner of a "consociational" or confederal system in which power would be shared with the 19 million blacks, though again with white privilege firmly entrenched. "We must adapt or die," is the way Prime Minister P.W. Botha put it several years ago in the first flush of reformist optimism.

Currently a backlash is threatening even the modest steps Mr. Botha's government has managed to take. But most observers believe there has been a fundamental change, if not in the political structure, then at least in the climate of opinion. "Debate has become respectable, and this creates its own dynamic," asserts Simon Brand, a close economic adviser to the prime minister. "It would make no sense for the government to start backtracking."

The business elite is solidly behind reform. "The lesson really came home in the 1978-80 period, when our economic boom made it plain that the white population couldn't manage alone," says Mike Rosholt, chairman of the big Barlow Rand mining and manufacturing concern. "We could have tried to import more whites, but that would have been an expensive and temporary solution. The only answer was to start bringing the blacks into the system."

Many multinationals, under the pressure of world opinion, some years ago began to challenge aspects of apartheid which they felt were crimping their operations. But South African businessmen argue things were changing anyway. "The craft unions haven't been able to provide enough skilled persons," says George Clark, general manager of General Mining Union Ltd., another of South Africa's biggest—and most conservative—concerns. "The bulk of the vacuum has been filled by blacks. This is happening because the jobs are there, not because some bosses are sitting in their ruddy offices and saying they need more blacks."

It's also happening because of an expanding economy. South Africa during the latter part of the 1970s had one of the highest growth rates in the world, thanks in large part to an array of policies that nowadays might be called supply-side economics.

Personal income tax rates were reduced, with the top marginal rate falling to 50% from 72%. Government spending was reduced to 23% of GNP from 26%. A start was made in reducing overall government involvement in the economy: price and capital controls were relaxed, labor laws liberalized and public-sector investment reduced to 47% of the total from 54% in 1977 and around 60% during the 1960s.

The rate of real economic growth, which had been zero in 1977, the year after the Soweto riots which caused a flight of capital and general collapse of business confidence, increased to 3.2% in 1978, 5.5% in 1979 and a phenomenal 8% in 1980. Government was flush with revenue despite the cut in tax rates. Partly this was due to higher gold prices; the South African government taxes gold production heavily. But even after a downturn in gold prices in 1981 caused a 41% decline in government tax receipts from this source, overall revenue continued to rise sharply.

Much of the extra revenue went for social spending. From about $83 million in fiscal 1974, spending on black education has exploded to about $400 million currently; current expenditure has grown at an average annual rate of 21% over the past five years.

Black wages have also showed sharp gains: Average annual earnings of black wage-earners quadrupled between 1970 and 1980, rising more than 5% a year in real terms (while the earnings of white workers were declining in real terms by a fractional amount). According to a study sponsored by the Rockefeller Foundation, the ratio of white wages to black wages in manufacturing dropped from about 6-to-1 to 4.3-to-1 in the same period; in mining it dropped to 6.6-to-1 from 19.8-to-1. Black per capita income is about $1,200 a year, far above the average for black Africa.

On balance, economic growth would seem to offer the best climate for non-violent, lasting change in South Africa, creating space for political development.

That still leaves a big gap within South Africa, of course. Per capita education spending on whites is still 10 times the level of that for blacks, for example. It is against South African whites, rather than other African blacks, that black South Africans are most likely to measure themselves.

Nor, obviously, is economic progress the measure of all things: A visitor to the black township of Soweto outside Johannesburg is struck by the quality of the housing; large sections would do credit to affluent suburbs anywhere else in the world. But it is not easy to forget that Soweto is a gilded ghetto, a bedroom reservation to which one million blacks must return, by law, after working in the even more glittering white areas. Moreover, blacks can be banished from Soweto to desolate tribal "homelands" should they displease their masters. It is a fragile balance indeed that weighs economic progress against such continued political insult.

The recent recession, which came late to South Africa but threatens to be sharp, is also a reminder that there is nothing inevitable about economic growth. Indeed the reformers' redistributionist impulses could worsen the situation if carried to extremes. Force-feeding of education, massive housing programs and increases in wages not accompanied by increases in productivity have already brought persistent, double-digit inflation. Eventually this

South Africa: Growth and Political Reform

J. BRAY

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The recent recession, which came late to South Africa but threatens to be sharp, is also a reminder that there is nothing inevitable about economic growth. Indeed the reformers' redistributionist impulses could worsen the situation if carried to extremes. Force-feeding of education, massive housing programs and increases in wages not accompanied by increases in productivity have already brought persistent, double-digit inflation. Eventually this could lead to stagnation.

And it would seem that South Africa itself is the best argument against the notion that economic growth necessarily brings political liberalization. Official repression coexisted quite nicely with economic growth during much of the past 50 years or longer.

On balance, however, economic growth would seem to offer the best climate for non-violent, lasting change in South Africa. Economic growth at least creates space for political development; as University of Capetown economists Brian Kantor and David Rees argue in a provocative new book, "South African Economic Issues" (Juta & Co., South Africa); the process of economic change "brings about new constellations of interests and disrupts old alli ances."

Whether that undermining of the statu quo works for good or ill is another ques tion. In the opinion of Messrs. Kantor a Rees, the real question is not whethe blacks will eventually share power wi whites, but whether blacks and whites reach agreement on a political system t would limit the powers of central govern ment to redistribute income. The error most new black African governments h been to embark on vast redistribution pro grams which are doomed not only to f on their own visionary merits but to cho off incentives for economic growth.

Continued Economic Success

White supremacy in South Africa h meant that redistributionist schemes ha been limited to a small minority of population—the whites. Ironically, probably accounts for South Africa's c tinued economic success more than the old Marxist stereotype of an econo built on "cheap" labor and mineral tr sure. Indeed, one can argue that illitera unskilled labor isn't really cheap in te of productivity, and that gold-mining is high-risk industrial endeavor that requi a lot more than a shovel and sweat.

In a sense, then, the "reform" path South Africa may prove to be a trap. T temptation will be to buy social peace ever-greater social spending on educat housing, income transfers and the like. T white Afrikaner elite has always favo strong state intervention in the econom the state owns a number of basic indu tries, and nearly 40% of the workforce employed by government, partly as a fo of jobs program for whites.

So it's a fair question whether the wh elite, despite its rhetorical commitment the last few years to the marketplace "free enterprise," is in much of a posit to resist the social welfare demands of black, colored and Asian majority, even the latter don't become fully enfranchis "Enlightened" world opinion and a conscience will demand it. But unless careful balance is maintained, wha slim chance exists that South Africa grow its way out of its problems may lost forever.

Mr. Bray is an associate editor of Journal's editorial page.

PE business is feeling an economic chill

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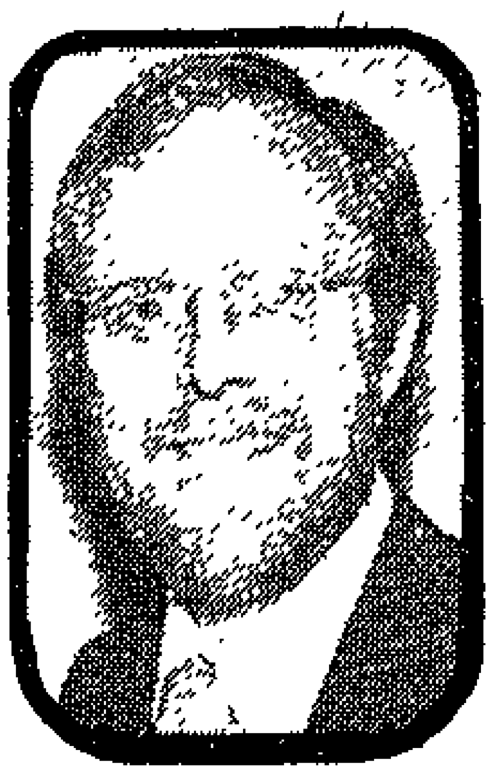
11/9/82



By Louis Beckerling
Business Editor

PORT ELIZABETH businessmen, it appears, began to feel the chill of the economic downturn in March, and judging by the latest survey of business conditions by the Midland Chamber of Industries the temperature is still dropping.

More than half of PE's businessmen now admit that their expectations are unlikely to be met, as the cumulative impact of a restricted money supply and high interest rates begins to take effect.

"Since the end of March," reports MCI executive director Mr Brian Matthew, "there has been a steady increase in the number of respondents reporting worsening economic conditions."

Naturally there are some exceptions to this rule, and respondents in the food processing, clothing and footwear sectors of the local economy to date remain relatively insulated from the cold. (The economic trend survey is compiled on the basis of 40 questionnaires mailed to companies covering the broad spectrum of manufacturing in Port Elizabeth.)

The downward spiral evident since March continued into July, points out Mr Matthew. Whereas only 5% of respondents reported in February that business conditions were "worse than" last year, the number of negative responses grew to 35% in July.

On the other side of the coin, the number of businessmen reporting improved conditions has steadily declined, from 65% in February, to 38% in July.

In an attempt to anticipate conditions in the immediate months ahead, the Midland Chamber of Industries also asks respondents to comment on the volume of orders in the pipeline. Respondents are asked to answer in one of three ways to a question: "The trend in new orders (in volume terms) for the next three months confirms that:

- "Expectations will be exceeded.
- "Expectations will not be met.
- "Results will be as expected."

And the responses underline dramatically the effects of the economic squeeze: whereas in February this year only 12% of respondents believed their expectations would not be met, this band of worried men had reached 49% in July (the latest survey), and showed signs of steadily increasing. Even those who might have better anticipated the downturn and reported that results will be "as expected" (75% in February), had shrunk to 48% in July, while a fortunate few (16%) remained confident that expectations would be better than expected.

An allied question on stock levels "tends to support the conclusion that conditions are unlikely to improve over the short term", notes Mr Matthew, as the number of manufacturers now "running down" stocks has almost doubled since February, from around 17% to 30% of the respondents.

Comments on unit sales for the month of July reveal that a steadily shrinking group of PE businessmen are achieving better-than-expected sales. In March just over a third of the respondents to the questionnaire reported higher-than-expected sales; by July this group had halved to 16% of those businessmen polled. Over the same period those reporting lower-than-expected sales grew from 25% to 40%.

The optimistic group of men (20%) who said in March that plant capacity would have to be increased to meet demand had shrunk to a bare 5% in July, while those expecting to shut down more machines and reduce capacity doubled (from 17% of all respondents in March to 35% in July).

Not surprisingly the contraction in demand has had serious implications for the local wage economy as well. Whereas 75% of respondents reported in March that their workforce had been asked to work overtime, only 59% did so in July and whereas 45% of businessmen reported in March that the availability of labour exercised a limiting factor on producttion, only 19% felt this was the case in July (all who did so added that the shortage of labour was in skilled categories).

The survey, points out the MCI, covers these sectors: food, beverages, textiles, clothing and footwear, paper and paper products, printing and publishing, leather and leather products, rubber and allied products, chemical and allied products, non-metallic minerals, basic metals, metal engineering products, electrical machinery, and transport equipment

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.
4. Do not write in the left hand margin.

1. No books, notes, pieces of p rial may be brought into the unless candidates are so ins
2. Candidates are not to comn candidates or with any pers gilator.
3. No part of an answer book is
4. All answer books must be h missioner or to an invigilato examination.

Any dishonesty will render the candidate liable to disqualification and to possible ex University

IN FOUR YEARS THE NATION'S BIGGEST METROPOLIS PLANS TO CELEBRATE ITS CENTENARY — BUT IT'S . . .

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Sowetan 12/9/82

SOUTH Africa's premier city, Johannesburg, is on the decline.

By JEAN LE MAY
Political Reporter

A shock report by a group of university economists shows that the economic growth rate of the Golden City is slowing down dramatically — and that it is being outstripped by most other cities in South Africa.

This emerges from a survey by the Market Research Bureau of the University of South Africa into black incomes and expenditure in Johannesburg.

Professor Piet Nel, head of the bureau, said a second survey was expected to define Johannesburg's ailing economy even more explicitly.

The survey would be published within the next few months and "could give chapter and verse to the decline of Johannesburg", he said.

Some alarming statistics about the city's economic decline were disclosed in the bureau's initial survey (on income and expenditure patterns of black families in the city).

The bureau found that between 1976 and 1980:

- The 0,4% annual growth rate of the total value of goods and services produced in Johannesburg was substantially less than that of other South African metropolitan areas, which was 2%, and was also less than the average 3,4% for the country as a whole:
- Incomes of black families in Soweto dropped 0,5% yearly.
- The increase in the supply of black labour in Johannesburg outstripped the increase in demand — which meant that not enough new jobs were being created to provide for the local population.

It was shown in the survey that the percentage increase in black employment in Johannesburg (expressed as an index of the black population growth rate) was only 81,9 over the past 10 years, while comparable figures for other towns in the PWV area were: Vereeniging/Vanderbijlpark 102,8: West Rand 130,6: East Rand 113,7 and Pretoria/Wonderboom 103,5.

- The slow growth rate of black employment in Johannesburg meant a slower increase in pay rates for blacks.

In this Johannesburg lagged behind badly, shown by an index of 100 for black wage increases in Johannesburg from 1970 to 1980 while those for other towns were: Vereeniging/Vanderbijlpark 300, West Rand 226, East Rand 246, Pretoria/Wonderboom 191.

Thus in Vereeniging the growth in black pay increases was three times that of Johannesburg over the past 10 years.

A property expert said that Johannesburg was slowing down because "Government red tape no longer attracts industrialists and businessmen to the city".

"There are too many restrictions on the number of people they can employ and the proportions of black

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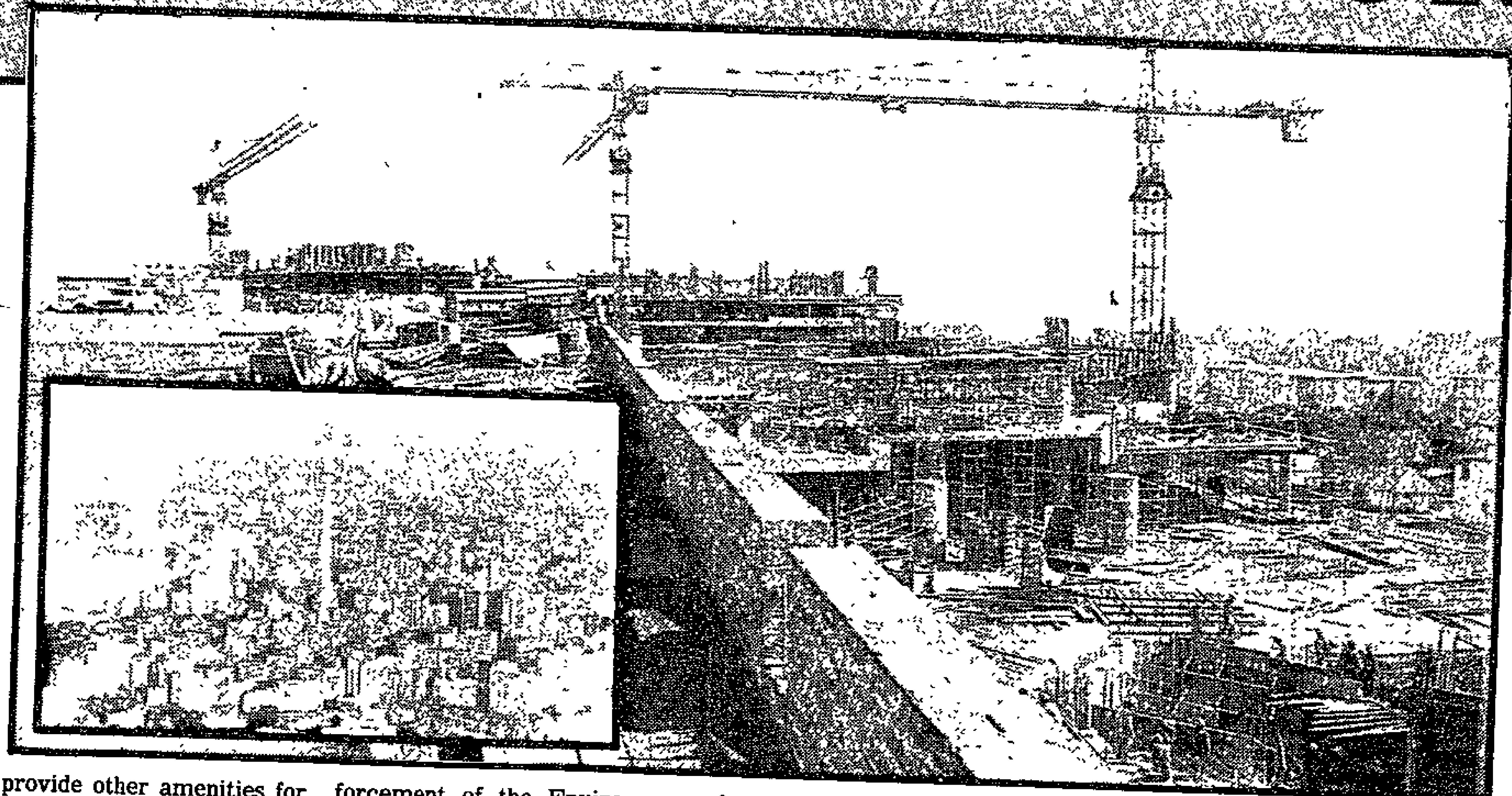
Joeys — a city with a knife in its back



● Sandton is where it's all happening ... with Jo'burg's economy slowing, development in surrounding towns is forging ahead with cranes rising above new shopping centres and office blocks. Picture by DOUG LEE

workers to those of other races.

"There are endless hassles with the registration of black workers; there are problems with transport for people and goods; there are problems with housing for workers of every race, since nobody can find a place to live that is convenient to the city.

"Do you blame them for moving out? Do you blame them for building their new premises in Randburg or Sandton or Benoni or on the West Rand?"

There have also been allegations that the city is deep in debt.

Mr Koos Sadie, a member of the Southern Johannesburg Ratepayers' Federation who was later elected to the city council, said late last year that while the council's assets stood at R1 200-million, its debts — repayable by the end of the century — were approaching R500-million.

However Mr Francois Oberholzer, chairman of the city's management committee, denied that the situation was serious.

And in June last year the city's chief engineer, Mr Eric Hall, resigned because, he said, he was frustrated working for a council that was made impoverished and powerless by the existing Government structure.

provide other amenities for a major metropolis.

Last year Johannesburg also lost its city treasurer, Mr A J de Villiers, and its deputy city engineer, Mr R O Bailey, to the private sector.

And this week the crucial shortage of workers in the municipal services was highlighted when the Sunday Express was told that it would be "impossible" to obtain a summary of building plans passed during the last five years in the city because "we don't have the staff to do it"

Mr Nigel Mandy, chairman of the Johannesburg Central Business District Association, said that while the forcement of the Environmental Planning Act (which sets a colour-based labour ratio for metropolitan areas) had made no noteworthy contribution to decentralisation but had in fact hampered normal growth, production capacity and the creation of new jobs for the settled black population.

"It reduced job opportunities for blacks, but had not decreased the black population," he said.

Government regulations for the regulation of industrial development in the metropolitan areas penalised rather than encouraged roads, water, electricity, transport and communications.

"In other words, the Government is penalising those who successfully create jobs in Johannesburg — and this is surely contrary to normal management practice," said Mr Mandy.

Mr Mandy also commented on the flight of business and industry from Johannesburg, impelled not only by labour restrictions and taxes but by problems with transport.

"The core city of Johannesburg has done a magnificent job as a de facto voluntary metropolitan body for the whole region, but constitutional arrangements are inadequate and frustrating."

Mr Mandy identified one of the reasons for the slowing-down of Johannesburg as "transport problems".

"By major city standards the densities in Johannesburg are low, but access for people and goods is not good enough.

"We are talking about a problem of management: people will commute in a metropolis and facilities are needed to convey and receive them."

It was important to realise that "even if workers were commuting daily by rail or even by aircraft from Bophuthatswana or the Free State, they are still part of the metropolitan community and its problems."

Mr Mandy quoted a speech made by a delegate to a major conference held in Canada some years ago on the problems of metropolitan areas, in which it was said: "Efforts of governments to decentralise and stimulate growth in outlying regions are often induced by their inability to cope with the problems caused by the rapid rate of change in large urban centres."

S MAIL

SA: 'no growth, high inflation'

By JOHN MULCAHY

SOUTH Africa faces a year of nil or negative economic growth combined with an unacceptably high inflation rate.

Mr Raymond Parsons, chief executive of Assocom, addressing a meeting of the Johannesburg Chamber of Commerce yesterday, said SA still had to complete the process of "consolidation and adjustment", which he described as a euphemism for recession.

In the absence of fundamental change in external or internal circumstances, the full tide of prosperity in SA should not be expected to return before 1984.

Painting a stark picture for the economy in 1983 Mr Parsons outlined his "post-Toronto guesstimates":

- Economic growth at between 0% and −1%
- Growth in real consumption spending at 1% to 0%
- Private fixed investment at −7% to −10%
- Public fixed investment at −2% to −5%
- Balance on the current account of the balance of payments ranging from a deficit of R500-million to a surplus of R500-million, assuming an average gold price of $450 an ounce
- Consumer price index of 13% to 15%.

He said the main message from Toronto (he was a member of the official SA delegation to the meetings of the International Monetary Fund and World Bank) was that SA had no option but to continue with its broad policy of monetary and fiscal discipline.

"We are at a crucial stage where it is essential that South Africa sticks to the broad policy course that has already been set. This includes a firm but flexible approach to monetary policy."

Mr Parsons warned, however, that while monetary restraint was a necessary condition, it was not sufficient for success. "We must distrust easy solutions, from whatever source."

Although SA's economic performance was closely linked to the world economy it did not mean that any country could abdicate its policy-making responsibilities.

"The quality of the economic performance of individual countries is a clear reflection of the quality of their policies."

He did not see the international monetary system in "near-apocalyptic" terms, although the system was highly vulnerable.

"Even with optimistic assumptions as to policies and the outlook, it is clear that financial imbalances in the world economy will continue to be large in the years ahead, particularly for the non-oil developing countries, as well as some industrial countries."

He said that in spite of signs of progress towards adjustment that had been emerging internationally there was no promise of an immediate let-up from current pressures.

"Enough has been decided by the bankers and the IMF in Toronto to stave off immediate disaster, but obviously not enough to deal with the long-term fundamental problems."

The choice of policy instruments and the timing were related to the circumstances of the country concerned, said Mr Parsons, and were open to debate and criticism.

"Policy makers cannot shield behind the world economy if they make mistakes."

The gloomy outlook for 1983 did not suggest a sound launching pad from which to embark on another boom, even if the balance of payments did look better then.

"And if next year looks like that, the policy makers will have to take a close look at the following year as well."

Mr Parsons said high interest rates were likely to prevail in SA for the time being, but this did not rule out some decline in rates in response to a softening in overseas rates and other market forces.

"Long-term interest rates appear likely to be sustained for the present by the low level of savings and high inflation in SA."

Turning to exchange rate policy, Mr Parsons said it would be wrong to allow the rand to appreciate now, purely because of the recent gold price improvement.

Other exports were still in the doldrums and would be seriously disadvantaged if gold alone was permitted to push up the exchange rate.

A first priority if the gold price held its current level was to remove the import surcharge imposed in February — "It is a temporary measure; it will no longer be needed; it is a "dirty tax"; it is inflationary and it should never have been imposed in the first place."

The general sales tax should have been shifted up to 6% from 4% in February, "if that is what the numbers indicated, instead of a second increase in GST and a continuing import surcharge".

Mr Parsons concluded that in the difficult conditions overshadowing the world economy each country had to show courage and perseverance in the struggle to bring down inflation and to strengthen its productive base.

"Only in this way can the stage be set for a durable recovery including in South Africa."

IMF ~~loan~~ likely — Parsons

(49) RDM 15/9/82

By JOHN MULCAHY

SOUTH Africa is likely to borrow from the International Monetary Fund in the next few months, subject only to the usual conditions imposed on such loans.

Mr Raymond Parsons, chief executive of the Association of Chamber of Commerce (Assocom) said yesterday he "had reason to believe" the SA authorities were planning to draw from the IMF.

The higher gold price, the high level of interest rates and the overall record of financial prudence made SA look under-borrowed now, said Mr Parsons, and it was not surprising that bankers in Toronto approached SA representatives with offers of extended loans and credits.

Business Mail's correspondent at the IMF and World Bank meetings reported last week that SA might draw on close to R1 000-million from the IMF over the next few years.

The governor of the Reserve Bank, Dr Gerhard de Kock, said the money would be used to re-finance SA's deficit on the balance of payments at more favourable rates than were current available from other sources.

Both Dr De Kock and Finance Minister Mr Owen Horwood did, however, stress that formal applications for new IMF drawings had not yet been submitted. "We have merely sought to establish what we might do if it were necessary," they said last week.

Before the IMF meetings there seemed little doubt that the SA authorities would seek funding facilities of between R500-million and R1 000-million, especially in view of the static gold price performance.

By the time the meetings commenced, however, the gold price had surged and the picture had altered significantly and the need for re-financing the balance of payments deficit had become less urgent.

Mr Parsons also confirmed that speculation on SA's possible suspension from the IMF and the World Bank had been a non-issue last week.

"The question never arose in Toronto. It is most unlikely that countries needing money desperately would be willing to jeopardise their chances by political attacks on South Africa."

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.

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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

business

How PE lags months behind Rand

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E. Post 18/9/82

A 34-year career with General Motors comes to an end this month for Mr J B WATSON.

He retires on September 30 as director of purchasing and logistics.

During his years with the company Mr Watson served in a management capacity in every branch of the supply side of General Motors and in 1975 was appointed a director, heading the purchasing and logistics department.

He was also appointed a director of Praınkar at its inception in 1972.

Mr Watson will be succeeded by Mr I D J van der Linde, formerly manager of the parts and accessories department of GM.

By LOUIS BECKERLING
Business Editor

WITH January 1970 expressed as a base (index = 100), the level of economic activity in Port Elizabeth climbed fairly steadily from the last quarter of '77 until it peaked at the end of the first quarter of '79 and suffered a brief and mild downturn.

By November of '79 recovery commenced and economic activity rose firmly, to peak at 125 in October, 1980.

The following six months saw business output slacking-off, though a mid-year rally took the index to a new peak of 134,5 by November. Since this date and up to February (the latest month recorded in Trend Survey published by the University of Stellenbosch's Bureau of Economic Research), the index has see-sawed erratically.

However, Midland Chamber of Industries trend surveys suggest that from March this year there has been a steady decline in business conditions in the Port Elizabeth/Uitenhage area.

By contrast Johannesburg businessmen escaped the mid-'79 slump and have seen a sure increase in the weighted regional economic activity index up to February this year.

Closer examination of the turning-points established by the bureau's figures shows that in Port Elizabeth economic activity shrank 7.4% from January, 1977, to September of that year (when it reached a nadir), and then grew 8,3% to the following September.

By contrast the low-point in economic activity in Johannesburg came three months earlier and from June when the index slumped to 89,4%, it rose only 1% to 90,4% by the following June.

This statistical analysis would thus appear to confirm popular wisdom, which suggests that Port Elizabeth lags several months behind the Reef and demonstrates a generally more erratic growth curve.

Underlying this general pattern are indices for nine different sectors which the University of Stellenbosch analysts have isolated and contrasted on a regional basis. The indices reveal that during the course of 1981 the following movements ocurred:

● Building plans passed. After adjusting for inflation the index at December, 1981, for the value of plans passed for the country as a whole was 17,6% down on the opening levels in January. The corresponding decline for Johannesburg was 23% and for Port Elizabeth 1,5%.

(Bear in mind that this elementary calculation does not take into account peaks and troughs recorded during the year and in the case of Johannesburg a strong rise took the index from 87 in January to 121 in July — an increase of 39%).

● Buildings completed. Countrywide — −2,25%, Johannesburg — −13,7%, Port Elizabeth — −24,7

● Passenger car sales. Countrywide — +8,7%, Johannesburg — −2,0%, Port Elizabeth — −10,4% (Cape Town showed a 21,8% increase)

● Commercial vehicle sales. Countrywide — +3.5%, Johannesburg — −23.1%, and Port Elizabeth — +15.7%

● Retail sales volume. Countrywide — −47.3, Johannesburg — +41.[illegible], Port Elizabeth — +67.9%

● Hotel revenue (real terms). Countrywide — −21.4, Johannesburg — +10.8%, Port Elizabeth — +27.6%

● Bank debits adjusted for inflation). Countrywide — +21.4%, Johannesburg — +10.8; POrt Elizabeth +17.6%.

A gloomy forecast for SA economy

Rbm 23/9/82

Pretoria Bureau

A GROWTH-RATE close to zero next year and increasing unemployment was forecast yesterday by the head of the economics division of the SA Reserve Bank, Dr C J de Swardt.

Addressing a Pretoria Chamber of Commerce seminar, Dr De Swardt said the downswing would continue during the rest of this year and during most, if not all, of 1983.

A major reason was the duration of recession in the industrial countries had turned out to be longer than expected.

He said it was expected the real rate of growth would fall below 1% in 1982, and could remain close to zero in 1983.

In 1982 and 1983 there would be fairly static employment levels and an increase in unemployment.

This year's inflation rate would remain high, Dr De Swardt said, but it would ease in 1983.

However Dr De Swardt said looking beyond the current economic downswing, South Africa was well placed to resume a higher rate of real growth.

R400m projects for Richards Bay

(49) Mercury 23/9/82

Finance Reporter

TWO MAJOR projects for Richards Bay, worth more than R400 million, are to be announced within the next six months Dr J C van der Walt, the town's Mayor said yesterday. But no details of the deals are available.

Dr van der Walt was speaking at the regional conference of the Natal branch of the South African Federation of Civil Engineering Contractors.

He spoke of the forthcoming projects after Mr Paul Leisegang, managing director of Atlas Construction in Richards Bay, said the audience may well have got the impression from Dr van der Walt's speech that Richards Bay was still the boom town it had been in the late 1970s.

The future

'The future is not as bright as can be imagined. There are a lot of contractors who were attracted to the town when times were good and there was plenty of work.

'These contractors employ a lot of people who may well be without employment within the next few months, unless something happens soon,' Mr Leisegang said.

Richards Bay has completed civil engineering projects valued at R1 500m since its development 12 years ago.

Current projects were valued at R1 878m before the South African Transport Services postponed some of their developments, Dr van der Walt said.

Capitalism 'isn't just for white people'

Star 27/9/82

49

By Stuart Flitton

Africans were not inherently socialist and as soon as African states were independent of colonial countries, they practised capitalism, the president of the Black Management Federation, Mr Eric Mafuna, said at the weekend.

Mr Mafuna was part of a panel of top business people who answered questions posed by schoolchildren who had completed a youth leaders' business programme.

Most of the questions concerned the free enterprise system, socialism and inflation.

Mr Mafuna said he had heard no persuasive argument that blacks were not capitalists.

"If you are born in South Africa you have no idea what communism or socialism is all about. You are a capitalist," he said.

He said that during the colonial era Africans thought the alternative to capitalism, with its political overtones, would be better than capitalism.

"Because blacks ran to the opponents of capitalism, people assumed they were anti-capitalist.

"After the African states used the communists to achieve their independence, they wanted to be capitalist," he said.

Mr Mafuna said that he and most other blacks were "through and through" capitalists and wanted to enjoy the fruits of capitalism.

Answering an earlier question he said the free enterprise system in South Africa was not very free when applied to blacks.

"Its free for whites — to an extent," he said.

Dr Zac de Beer, an executive director of the Anglo American Corporation, said he was in Zambia when the copper mines were nationalised.

"The government felt it wrong that the valuable mines should be owned by outsiders, and they wanted the mines to be owned inside Zambia, and the only people who had the money to buy the mines was the government," he said.

Various panel members agreed that the free enterprise system allowed business people to make their own decisions and was based on "consumer sovereignty."

The panel felt socialism was inefficient because a few politicians and civil servants controlled the market.

Business Mercury

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Plea for faster training of black people

Mercury 29/9/82

Financial Editor

THOSE who think that the economy has deviated little from the 1979-80 era will have sober reading in the Natal Chamber of Industries' annual economic review the president, Mr Ken Lunn, told the annual meeting yesterday. Other points he made were:

- The reluctance of employers to train black people — which they should be doing if they wanted to see the emergence of a stable middle class.
- The current downswing was forcing employers to grasp the nettle of cutting back from the levels of a more prosperous period — this could be in overtime, days worked, unpaid leave or staff cuts.
- Redundancy and retrenchment were proving fertile grounds for unions to negotiate retrenchment agreements and severance pay.

Reverting to the economy Mr Lunn said: 'Many people say that we should not talk ourselves, or the economy, into a recession or depression. Up to a mendable but it would be undesirable — even dangerous to allow this philosophy to lead to a disregard of cold hard facts.'

Mr Lunn said that industry had, in the past, been rightly criticised because of the slow training of black people.

'It is taking a long time for industrialists to absorb into the system black persons who can fill positions which call for higher practical and managerial skills.

Stability

which we are vulnerable as output rises rapidly under conditions of economic boom.'

He said that if these black people can be trained to fill better positions it would help provide the country with the longer term stability which it needed.

'They are the blacks who when all obstacles are finally cleared away will become property owners who will adopt a Western way of life, who will see the benefits which flow from the private enterprise system and who will form our firmest bastion against onslaught from abroad.'

The chamber planned to expand its labour relations services to members 'in what I believe to be an exciting and, from our members point of view, a most valuable way.'

Growth of 1,6pc expected for 1982

Financial Editor

REAL growth for 1982 should be no more than 1,6 percent — compared with 7,8 percent in 1980 and 4,7 percent in 1981, the economic report of the Natal Chamber of Industries presented at the annual meeting yesterday said.

The year from July 1981 to June 1982 showed a 'well-defined shift in the economic circumstances of the land.'

In the first quarter of 1982 the physical volume of manufacturing was well maintained, showing an increase of 5,8 percent over the same period in 1981.

In the second quarter the position began to deteriorate and in May an actual decliune in output was recorded for the first time in almost five years.

The report said private consumption expenditure began to ease slightly in the first quarter with an annualised increase of 2,2 percent compared with 6,3 percent in 1981.

Services

'Outlays on semi-durables and durables levelled off and it was in the categories of non-durables and services that real increases were recorded.'

Consumer spending should be cut back as a number of factors start to bite more deeply. These are:

- A reduction in take home pay as tax rises;
- An increase in GST;
- A reduction in overtime by the civil service and private enterprise;
- Higher interest rates;
- A sharp reduction in the level of personal savings.

'These pressures will take increasing effect in the second half of 1982 and coupled with careful monitoring of the money supply and firm control of Government expenditure, should bring about a cooling of the over-heated domestic economy.'

Debts grow at record rate in SA

Star 29/9/82

(59)

By David Braun

South Africans are running into debt at an unprecedented rate. The amount owed to the banks by consumers is expected to reach almost R1 000 million by the end of the year, and hire purchase deals are heading for a total of nearly R1 500 million.

The growing debt problem is outlined in an economic survey released today by the Sanlam insurance company which says South Africa is living beyond its means.

For two years running spending has outstripped real disposable income.

The insurance giant quotes figures supplied by the Reserve Bank and the Central Statistical Services which show money owed by consumers to commercial banks has soared from R441 million in 1980 to R500 million last year and is running at an annual rate of R948 million this year.

Hire purchase debt will probably be more than R1 400 million and retail credit could be more than R500 million.

Evidence of the country living beyond its means were the soaring number of personal judgments for debt and the fact that private consumer spending still exceeded the national personal disposable income.

"Excess demand for goods and services had

To Page 3, Col 4

"Moreover, the sustained high inflation rate and the expectation that it will remain high, have encouraged consumers to adopt an attitude of 'buy now, pay later'."

The growth rate of private consumer spending actually exceeded that of personal disposable income in the past two years.

Saving as a percentage of income dropped in the first half of this year to its lowest recorded level.

Record growth of debts

Star 29/9/82

(59)

from page 1

to be satisfied by higher imports, with a resultant sharp increase in South Africa's net foreign debt."

A spokesman for Barclays National Bank said today the decline in savings was accompanied by an increasing tendency to borrow from the banks.

Many customers who had been granted overdraft facilities years ago were now using them for the first time.

The Barclays spokesman said the increase in hire purchase debt was also connected with the motor dealers' discount war and promotions to keep production lines going and stocks low.

CARD DEBT

Mr Dennis Matfield, general manager of Standard Bank Card, said money owed by cardholders was substantially less in recent months.

This was a result of high interest charges and the fact that screened cardholders were financially responsible.

Sanlam says the weakening of South Africa's total saving effort was such that gross domestic saving had not been sufficient to finance the high level of gross domestic investment. To finance the deficits both foreign financing sources and the country's foreign reserves had to be used extensively.

"A spending spree by private consumers in the past two years contributed greatly to this undesirable situation. An important reason for the steep increase in private consumer spending was the sharp rise in the average earnings of workers: 18 percent and 21 percent in 1980 and 1981 respectively.

West Wits at risk

Planning to prevent ghost towns

49

Stew 29/9/82

By Tony Davis

Long-term plans are being made to ensure that towns on the far West Rand do not become ghost towns when the gold mining industry goes into decline.

This was the subject of a one-day symposium entitled "Strategy for the Future" which was held in Carletonville today.

The symposium was organised by the West Wits Regional Planning Committee which was formed in 1978 to study planning on the far West Rand.

The West Wits Line is the country's richest gold-producing region and has 10 major gold mines employing about 130 000 people.

The line includes the towns of Carletonville, Fochville and Westonaria.

The University of Potchefstroom's Institute of Regional Planning initially undertook a study of the area and subcommittees representing the three towns, central government, provincial planners and the mining industry were also involved in the study.

It was estimated that by the turn of the century some gold mines would have ceased production and others would be on their last legs.

The function of the West Wits Regional Planning Committee was to examine means to ensure that the closure of the mines would not mean a collapse of the region's economy and the turning of the three municipalities into ghost towns.

Professor F J Potgieter, director of the Institute for Regional Planning, told the symposium the West Wits Line was making a major contribution to the strength of South Africa and to employment.

Unless the region planned for its own future, no one else would do it, and the committee hoped to learn something of how the public felt about such planning, Professor Potgieter said.

There were two essential features to the planning of the area, he said:

- An effort had to be made to bring decentralised residential areas into the orbit of existing municipalities, to create as much order as possible for residential planning.
- To plan for the maintenance of economic activity and to phase in alternative ac- activities began to de- acitivites began to decline.

People on the far West Rand had to be assured of a long-term future, Professor Potgieter said.

He called on mining houses to diversify their interests to ensure thf they had a role to play in industrial development which was bound to come to the region.

Most of the infrastructure was already in the region and would be available to any new entrepreneurs, Professor Potgieter said.

The general manager of gold operations for Gold Fields, Mr P R Janisch, told the symposium that about 220 tons of gold, or one-third of South Africa's total gold production, came from the West Wits Line.

Several mines would be closing down by the end of the century and production would decline rapidly by the year 2020, when only five mines would still be operating, he said.

The number of jobs on the mines would drop and for the industry to continue in any major way, there would have to be extensive capital expenditure, he said.

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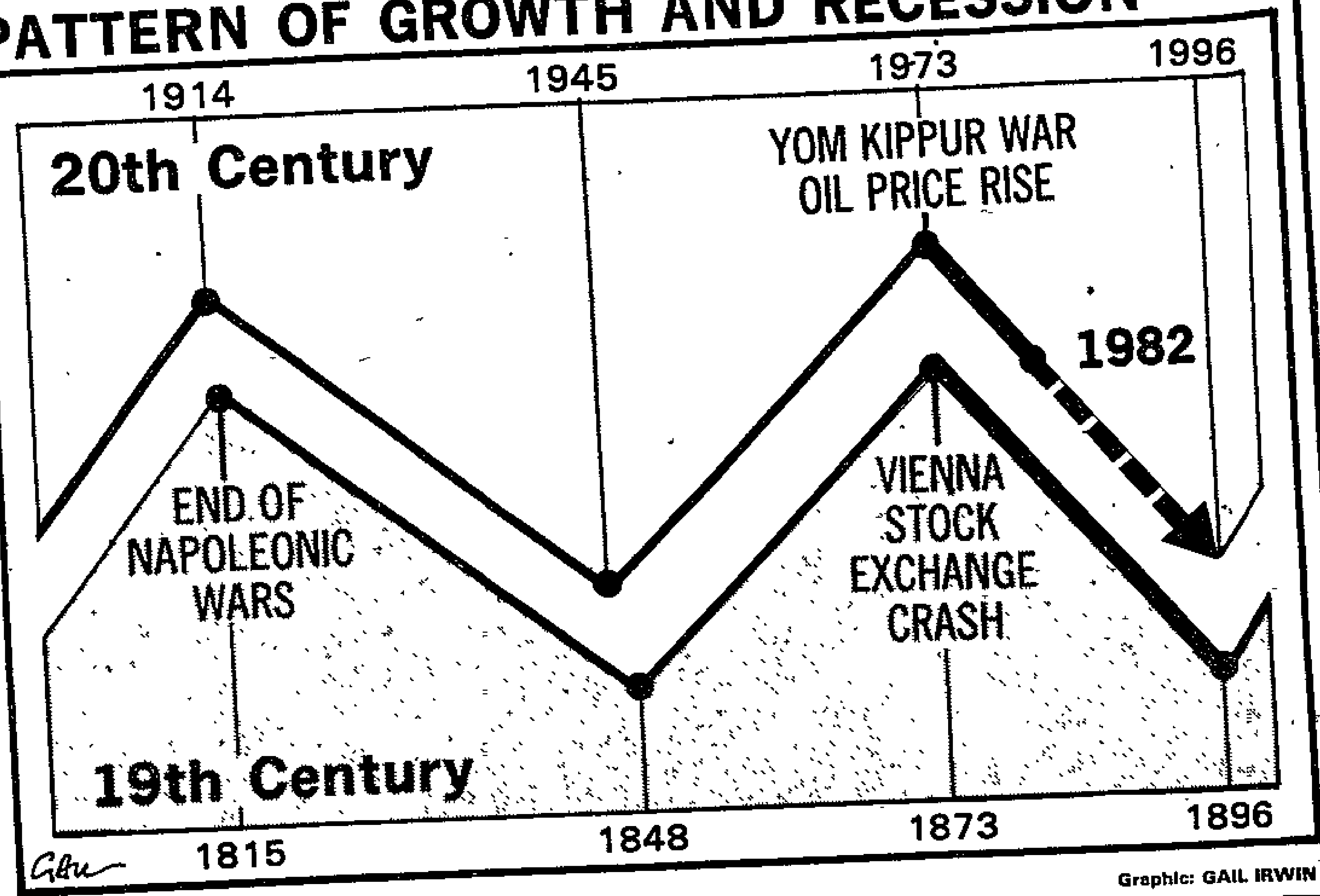
Why you could feel low until 1996

It's anyone's guess how long the current world recession will last. JONATHAN STEINBERG, a lecturer in history and tutor at Trinity Hall, Cambridge, heeds the lessons of history and suggests the present long wave of decline could last all the way to 1996.

PATTERN OF GROWTH AND RECESSION



Graphic: GAIL IRWIN

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ON MAY 9, 1873, the Vienna Stock Exchange crashed. A wave of panic swept the other European bourses and the New York Stock Exchange. Within a short time a sharp depression in prices and production followed in German industrial production and American and British industrial activity.

This, the so-called "Great Depression" lasted for a generation. During the period 1873-1898 there were two very sharp recessions, one in the 1870s and another in the first half of the 1890s. During the entire period there were 15 years of crisis against six of recovery, and the recoveries were shallow and short.

In October 1973 the Arab-Israeli Yom Kippur war broke out. Within a few months oil prices had quadrupled and the world had plunged into the present sharp recession. Stock market flurries cannot make up for the lack of American economic expansion, massive debt problems in Mexico, Argentina, Brazil and Poland, or severe strain on some of the giants of European and American industry.

Is there a case for seeing more than a coincidence of dates in the onset of these two depressions separated by 100 years? I think there is an historical case. On the principle that onto every face some egg must come, here it is.

Early this century economic historians began to notice a curious feature about economic activity in the developed world. In addition to the seven- to 10-year business cycle there appeared to be longer trends of growth or decline which lasted beyond the time span of any one business cycle. The Russian Marxist, Kondratieff, was a pioneer in this work and the long waves are frequently called "Kondratieff cycles." As you would expect, economists and economic historians do not agree on the existence, the measurement and, above all, the causes of such long waves.

Oddly enough, they do agree on the dates and for our purposes that is the most important point. Starting with the end of the Napoleonic Wars, the pattern of growth and recession looks, in a very simplified form, like this: 1815-1848 down; 1848-73 up; 1873-96 down; 1896-1914 up; 1914-45 down; 1945-73 up.

Long waves are hard to define precisely. Up to 1914 both prices and other indices of economic activity seem to fit the pattern neatly. Evidence from the 19th Century suggests that prices and trade moved in long waves.

If we are now in a long downward wave, ours — like the others in the 20th Century — has new features. Economists disagree about the effect of the two world wars on the operations of the long waves and the depression starting in 1973 has managed to combine inflation and depression in one package.

Wages and prices now appear to operate on a rigid ratchet system; once up they cannot go down. What links the phase that began in 1973 to previous down phases is the severity, length and apparent irreversibility of the depressed conditions.

My own hunch is that the present long wave will end when the full consequences of the micro-chip revolution have worked themselves into place. Society will then find it cheaper to send bundles of electronic impulses along lines than masses of human beings along roads. There are all sorts of attractive visions.

Governments for the next 15 years will make promises they cannot keep and be punished for them. It is certainly clear that no government, anywhere, has any idea what to do to get out of the present "stagflation". In the 19th Century "Great Depression" liberalism carried the blame and by the 1890s every one of the great continental liberal parties had begun an irreversible decline.

In the inter-war (1914-45) depression the political parties of the developed world were pulled sharply to the Right or to the Left. So far the political fluctuations have been milder but the signs are there; the rise, very sudden rise, of new socialist parties or old ones re-upholstered; sharp swings of public opinion for and against governments; the emergence of an ominous new under-class of the never employed, a rootless and growing *lumpenproletariat* in decaying central cities. The political horizon is heavily overcast.

There is no way of knowing if I am right. As Governor Dewey so memorably observed in the American presidential campaign of 1948, "the future lies ahead". In the meantime, wisdom suggests that one should distrust easy solutions from whatever quarter. The chances are that we shall have to wait a long, long time before recovery comes. — Financial Times.

'SA lived beyond its means'

RDM 30/9/82

By HAROLD FRIDJHON

SOUTH Africa has been living beyond its means during the past two years says the September economic survey produced by Sanlam.

Gross domestic expenditure was markedly higher than the gross national disposable income.

"This excess demand for goods and services had to be satisfied by higher imports with a resultant sharp increase in South Africa's net foreign debt.

"This also explais why the current account of the balance of payments has shown considerable deficits since the beginning of 1981."

Excessive spending led to a weakening of the savings effort and during the past two years gross domestic saving has been insufficient to finance the high level of gross domestic investment. This meant that extensive use had to be made of foreign financing sources and the foreign exchange reserves.

"A spending spree by private consumers in the past two years contributed greatly to this undesirable situation."

Consumers went on the rampage because of the sharp rise in the earnings of workers as a result of the considerable shortage of skilled labour.

"The sustained high inflation rate and the expectations that it will remain high have encouraged consumers to adopt an attitude of 'buy now, pay later.'"

This resulted in an appreciable increase in private consumer debt.

The levelling off in the growth rate of personal disposable income, the high rate of inflation and the steep increase in consumer debt and the higher interest rate burden have weakened consumers' financial position. The number and value of civil judgments for private debt have increased sharply in the past year.

The next recovery in the world economy is expected to be relatively moderate, and it is therefore clear that the solution to the main economic problems faced by South Africa lies in an effort by the country as a whole to live within its means.

"Sharp increases in the gold price should be regarded as no more than a windfall and should be used with caution. The Government will therefore have to persist with its stringent monetary and fiscal policy for the foreseeable future."

Rapport 20/9/82

SA is living beyond its means

Financial Reporter

SOUTH Africa is living beyond its means, says the latest economic survey issued by Sanlam.

"The growth rate of private consumer spending actually exceeded that of personal disposable income in the past two years. This resulted in an appreciable increase in private consumer debt.

"The tendency among consumers to incur additional debts in excess of the increase in their disposable income despite the downswing in the economy, is especially worrying. The availability and the relatively low real cost of credit until fairly recently encouraged the use of debt.

"The levelling off in the growth rate of personal disposable income, the high rate of inflation, the steep increase in consumer debt and the higher interest burden have weakened consumers' financial position," says Sanlam.

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● See Page 20

GENERAL NEWS

Accept lower standard of living, warns bank

Star 12/10/82

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Lower living standards are expected as a cash squeeze takes a grip on household incomes.

That is the message today in an economic report prepared by Volkskas Bank which paints a bleak picture for the next few years.

The report warns that increases in pay during the last three years will not be sustained. Future pay rises will not be as high.

The bank also predicts:

- more taxation,
- fewer jobs,
- a high inflation rate and
- an overall reduction in personal spending both this year and in the next two years.

"We would like to appeal to the individual to accept the realities of the moment," says the bank. "These are inescapable."

The bank warns that anyone not prepared to make adjustments will be caught out as the cash squeeze takes control of the family budget.

"If you are not prepared to make the necessary adjustments of your own free will, you may have to pay a heavy price in that your financial position will be further weakened and you may even find yourself in serious difficulties."

The bank also warns people to buy with care and compare prices first. This should result in increased competition. "The scales have tipped in favour of the buyer and in this buyer's market those who pay cash can insist on discount for cash," says the report.

It goes on to warn of the temptations of nibbling away at savings, trying to borrow more or even breaking the law in a bid to maintain former standards of living.

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Growth rate 'will stay below 3,2%'

Own Correspondent

The average annual growth rate for the South African economy in the next complete business cycle — 1981 to 1985 — is likely to be lower than 3,2 percent.

At a forecasting symposium in Pretoria yesterday, Dr Johan Cloete, senior economist for the Barclays Bank group, said the average growth rate in the next business cycle would be lower than that in the 1975 to 1980 cycle.

But the economy should be capable of achieving a higher average growth rate in this period than the Organisation for Economic Co-operation and Development (OECD) countries.

PRODUCTIVITY

Dr Cloete said there could be severe constraints on South Africa's growth rate in the supply side and the skilled labour shortage was unlikely to be overcome in the short to medium term.

Labour relations were also likely to become increasingly difficult and low productivity to continue.

Rates of new investment and employment should be significantly higher than in the advanced industrialised countries with static population increase in many instances.

There were still many new investment opportunities in South Africa. The growing population would promote these to meet the corresponding need for consumer goods as well as for infrastructural services.

"The growth rate should also benefit from a continuation of import replacement of oil, other industrial raw materials and even capital goods.

"The country is also well placed to push up exports faster than the OECD countries because of available capacity to export as well as the availability of coal, other minerals and food needed by the rest of the world," he said.

Blacks were likely to enter increasingly the modern sector as workers and consumers.

This should lead not only to more rapid demand for consumer goods — and hence promote new fixed investment — but also promote economies of scale, help to keep down unit costs and so benefit growth.

Downturn has far to go, says Nedbank

STAR 15/10/82

(49)

The economic downswing still has a long way to go, despite the higher bullion price, Nedbank says in its latest quarterly economic roundup.

The report says the fall in the gold price, which began in 1980, is only one of several reasons for the economy entering a down-phase.

A major factor behind the economic decline was the sharp drop in total real exports last year.

The fall was sharper than the big fall in 1974, the bank says.

Changes in real growth usually lag far behind changes in real exports, the bank adds.

The previous downswing started exactly seven years before the present cyclical downturn. By June 1975, it was also nine months old, as it was in June this year.

PERFORMANCE

From September 1974 to June 1975, gross domestic expenditure dropped by 2,8 percent and gross domestic product still showed a marginally positive 0,6 percent. In the comparative period to the end of June this year, gross domestic expenditure dropped by 3 percent and gross domestic product by 1,5 percent.

"If, as the downswing continues, imports fail to react to falling domestic defand to the same exmand as in the previous downswing, South Africa will have become even more dependent on a world recovery than last time," Nedbank says.

"But it is not only because of the world's economic problems, less downward flexibility of imports and sharply increased foreign debt that the economy may have to remain in a downswing for some time.

INFLATION

"Inflation is at present still well above the rate at a similar stage in the previous downswing: 14,6 percent in the first eight months of this year against 13,1 percent in the comparative period in 1975.

Capital's shady role in early Jo'burg

Europe's technologies, rather than its capital exports, dictated the pace of early mining developments on the Rand. MERVYN HARRIS reviews a new book on the subject.

The South African gold mining industry is a classic case study for theories of imperialism in the late 19th century.

The subject comes under scrutiny in a new book, "Economic Imperialism in Theory and Practice — the Case of South African Gold Mining Finance 1886-1914" by Robert V Kubicek (Duke University Press.

INTERACTION

Three main schools of thought have emerged to explain the interaction between European capitalism and local developments. These can broadly be summarised as follows:

- Imperial expansion resulted mainly from the need of European economies to find places to dump surplus capital or goods or services.

Rivalries among nations states, priorities and perceptions within government and the commitments of social classes.

- Local problems — such as Milner's intrigue and the Uitlander dispute with President Kruger — impelled further involvement rather than internal stresses in capitalist countries.

FRESH LOOK

Professor Robert Kubick of the University of British Columbia has taken a fresh look at the subject by examining capital flows into the gold mining industry on a company-by-company basis.

He comes to the conclusion that the European capitalism and South African developments should be seen basically as a function of clashing priorities among international capitalism, British imperialism and Afrikaner nationalism, and the inability of any one or combination of these forces to achieve supremacy.

He also argues that capitalism was in competition if not in conflict with imperialism and nationalism.

The last thing the capitalists wanted or needed in 1899 was a war, and certainly not one instigated and won by Britain when the capitalist institutions most engaged in the industry were French or German.

While the book is addressed to specialists in economic imperialism and economic history, Professor Kubicek's discussion of the fringe - promoters and houses of ill repute throw interesting light on the early entrepreneurs.

The mining magnates were not a homogeneous lot and employed different strategies to profit from the claims and the shares they held in the mines.

Some, like the Corner House organisation, were development-oriented. Others, especially Gold Fields before 1895, and the houses of ill repute throughout combined a development function with extensive speculative operations.

Operators like Carl Hanan — who was more responsible than any other fringe-promoter for undermining the Rand's reputation in the years after the Anglo Boer War — were pure and simple speculators. Actual gold production played little or no part in their financial plans.

All sought capital through stock markets and from banks but while Gold Fields was mostly dependent upon the London market eGneral Mining was dominated by large German banks.

The magnates siphoned large amounts of capital into their personal fortunes through stock market operations. Much of what they did not spend on conspicuous consumption was redirected into safe government stocks or new extractive ventures outside South Africa.

These strategies prevented the industry from developing its full potential as a steady provider of substantial dividends, as far too many magnates stressed market operations rather than gold production.

This impaired the ability of the industry to draw and hold investment as distinct from its dependence upon speculative capital.

The financial practices of the magnates and their self-defeating competition for capital led to even speculative stock exchange booms bypassing the Rand market.

The volatile market, infested with irresponsible operators and the gross overvaluation of shares of sound producers, convinced Berlin and Paris that the Rand's profits, though substantial, could not offset the ravages of speculation.

The mining magnates as a group were primarily absentee controllers. But if these magnates and their mining groups were extensions of Europe's capital markets they were also exporters of Europe's machine and chemical technology.

New kinds of technology were crucial determinants in the foundation and development of the gold mining industry.

Without the energy unleashed by chemical processes, metallurgical developments and electric power, the Rand could not have become the economic juggernaut of South Africa.

ECONOMY MUST ADJUST TO WORLD CONDITIONS — Nedbank

BUS ARGUS 16/10/82

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JOHANNESBURG. — The South African economy needs to adjust to the weak economic conditions in the rest of the world, Nedbank says in its latest economic roundup.

It says it is also evident that domestic imbalances have to be corrected.

Certain indicators, such as the labour market, capacity constraints, money supply, and inflation have recently started to move in the right direction.

But, as the governor of the Reserve Bank has said, much of the adjustments required of the South African economy still have to take place and these adjustments have relatively little to do with the price of gold.

The bank says the need for strictly domestic corrections is not removed by a higher gold price.

The recent rise in the gold price raised the hope that the remainder of the downswing in the South African economy might be shorter and less severe than had been thought.

But in spite of the higher gold price, the downswing has a long way yet to go, mainly because the earlier fall in gold — which began in 1980 — was only one of several reasons for the economy entering a downphase in 1981.

Among the most important of the other reasons was the sharp decline last year in total real exports. The fall was larger than the previous biggest — that of 1974.

By June 1982 the downswing was nine months old.

Correction

"During these months some adaptation in the depressed state of export markets had taken place and the correction of the imbalances that had developed in the domestic economy during the preceding upswing had commenced.

"But these processes are far from complete. A comparison of the state of the economy during the first nine months of the present downswing with the same stage of the previous downswing highlights the adjustments that are still required."

Nedbank says another reason for the economy slowing was the intensification of capacity constraints and supply bottlenecks in 1980 and 1981.

A sharp rise in the money supply, and therefore in total nominal spending when the economy was unable to meet this demand, led to accelerating inflation.

Subsequently the downswing had some favourable impact on the rate of price increases.

"But inflation now is still well above the rate during the similar stage of the previous downswing. From January to August 1975 the annualised rate of increase in consumer prices was 13,1 percent. This time round it was 14,6 percent."

An explanation for this shift is to be found in changes in the import content of total domestic spending.

"Of every rand spent in the third quarter of 1974, 31,6c was spent on imports. In the third quarter of 1981 this was only 25c.

"But while the aggregate dependence on imports has been reduced, the remaining imports seem to have become more 'hard-core'. This may imply that imports have become less sensitive to changes in domestic demand than they were in 1974.

Foreign debt

"If, as the current downswing continues, imports fail to react to falling domestic demand to the same extent as in the previous downswing, South Africa will have become even more dependent on a world economic recovery than it was last time."

On the current account and foreign debt situation, the roundup says the demand-supply import-export imbalance have had a significant impact on South Africa's financial relations with the rest of the world.

The sharply rising import bill and poor exports led to a large current account deficit. This had to be financed.

The bill, which amounted to more than R6 000-million and was built up in 18 months, was met largely by R4 100-million short-term foreign borrowings.

"Repaying this debt is likely to assume first priority when the balance of payments current account situation improves.

"The larger the foreign debt is allowed to become — that is, the longer the adjustment is postponed — the longer it will take before any recovery of exports can be allowed to translate into a new private consumer spending boom, and therefore before private sector fixed investment recovers." — Sapa.

...day, September 23, 1982

Lette...

Dissatisfied wi...

SIR — I believe that we of the National Automobile and Allied Workers' Union are fast getting fed-up with the tactics and blatant lies we have been fed here at Sigma Motor Corporation in Pretoria

The uni... here is run by the most incompetant double - talkers I have ever...

...pany and the truth only came out this year when management said the union was no longer representative as it had only plus minus 45 percent membership in the company

The union negotiated, without our mandate, for the introduction of a training scheme with...

During the period 1969 – 1977 the growth of national output fell to 3,9% and the rate of unemployment rose to 22% Simkins estimated that underemployment has

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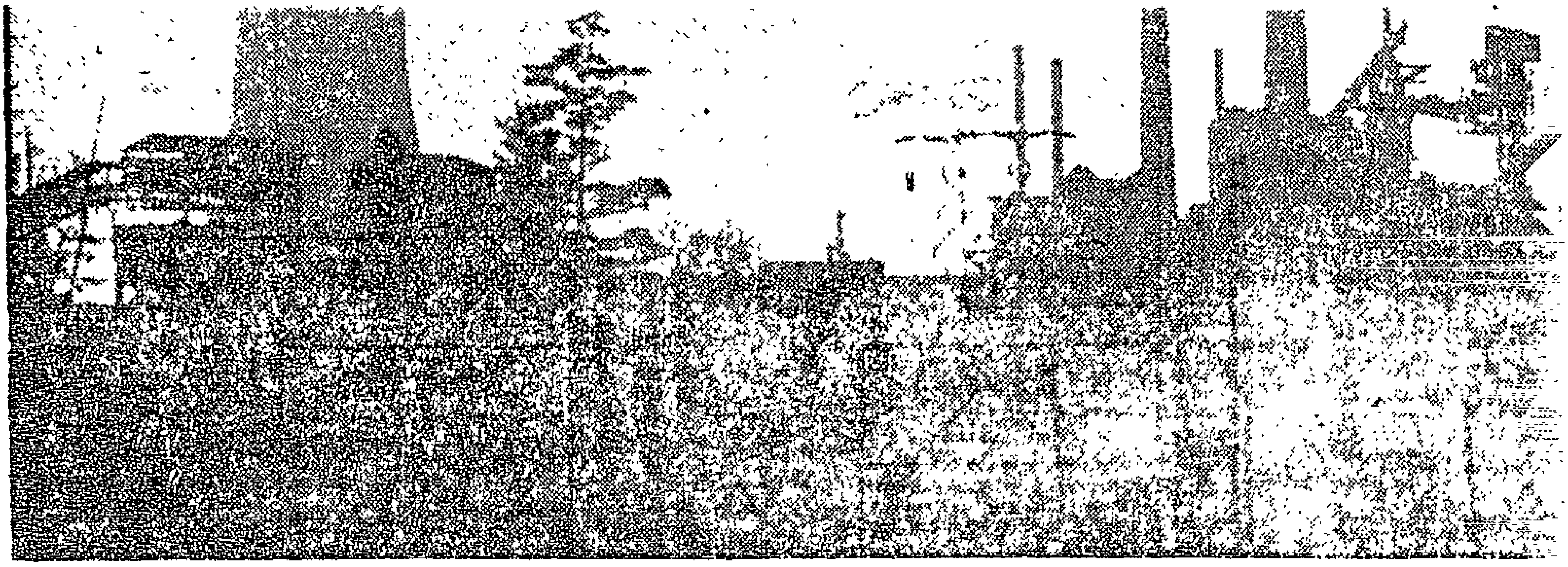

ISCOR's South Works in Newcastle — two furnac

S. Tribune 17-10-82 (49)

NEWCAS
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GROWTH town Newcastle is afflicted by an epidemic of rumour and uncertainty.

And it has grown a lot quieter since Iscor suspended operations of sections of its South Works and cut overtime for nearly all of its 14 000 workers. So quiet, quipped one local, that you can almost hear people biting their nails.

Added to the Iscor cutbacks — announced in September — and the general recession has been the completion of the construction of the giant capital-intensive Carbo-Chem factory. The withdrawal of the multi-national contractor, Fluor, and some of its sub-contractors is shaking some 200 high earning, free spending overseas families out of the local economy and putting about 2 000 people of all races back on the over-crowded jobs market.

Last week's Sunday Tribune quoted estate agents in the town as seeing a 15-20 percent drop in house prices, and the reappearance for the first time in a long while of houses to rent.

Nevertheless some prominent townsfolk, including Town Clerk, Len de Wet, believe there has been an over-reaction to these setbacks.

The people of Newcastle, he said, were so accustomed to an above-average growth rate that when they returned to more normal growth they assumed things were very bad.

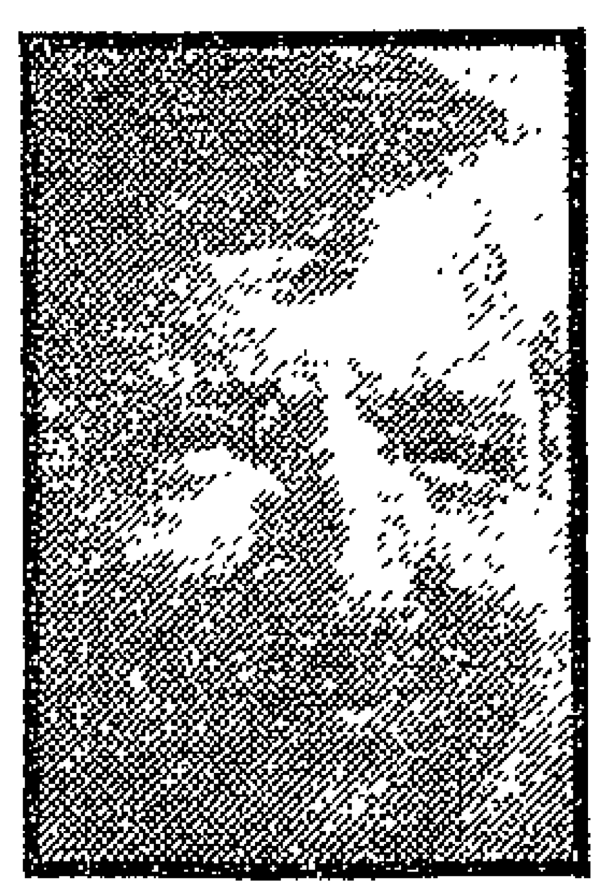
Mr De Wet expressed surprise at the housing situation. Building plans passed this year were projected to be up 27 percent on last year and were running at more than R20-million at the end of August. Power consumption was up by more than 50 percent and the council is proceeding with major projects such as its R1,8-million Olympic swimming pool and R2-million city centre office block despite some trimmings in terms of Government requests for cutbacks.

Mr de Wet believes that in terms of the town's 28 000 white population the numbers leaving for one reason or another are not all that significant.

However, there has been a significant rise in black unemployment and banks are experiencing a marked rise in repossessions.

Many businesses in the town report a fall-off in trade — ranging from dramatic 50-70 percent drops to a slowing down of growth. It is clear that the ending of overtime by Iscor is taking a considerable amount of money out of the town's tills.

While workers told me their overtime earnings had been in the hundreds, general works manager Hans van Vuuren said this was an exaggeration. 10 000-11 000 of his workforce "wouldn't be be earning more than R30 a month. About



Gordon Dowsett — the town will steady

Town Clerk Len de Wet — the council has proceeded with major projects

David Travers-Jackson — businessmen are jumpy

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Report by ANTHONY SWIFT

400-500 families were being displaced from the town as a result of production suspensions.

The consequence for businesses is mixed.

Some report better returns than last year — one shoe shop proprietor asked: "Slump? What slump?" — while another reported 50 percent drop in takings.

Two motor-cycle outlets — said to be bedevilled nationally by rising prices and waning bike craze — reported 70-80 percent drops in sales, adding that accessories and spares sales had, however risen dramatically. "We got a lot of custom from contract workers," said manager Mark Benson. "I can't think of one contractor customer at the moment."

Jeweller Premlal Makenjee said trade was down by 20 percent and he expected the new year to be very difficult.

Quality furniture dealer Franz Ludick thinks Christmas will be a damp squib. He reckoned business was down by 40 percent. "I can't even entice people with bargains."

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in Newcastle — two furnaces have been closed

CASTLE HIT BY SLUMP

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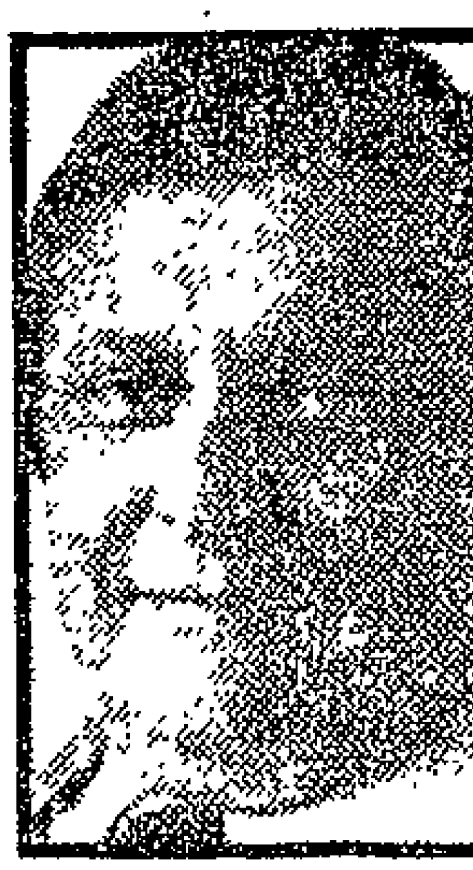

David Travers-Jackson — businessmen are jumpy

Furniture dealer Frank Ludick — 40 percent down but able to ride it out for a year

Jeweller Premlal Makenjee — a lot of small businesses are worried

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Jeweller Premlal Makenjee said trade was down by 20 percent and he expected the new year to be very difficult.

Quality furniture dealer Franz Ludick thinks Christmas will be a damp squib. He reckoned business was down by 40 percent. "I can't even entice people with bargains," he said. "The crunch came in September. Iscor suspended the purchasing financing scheme it ran for its employees out of its pension funds."

Compounding the problems of the smaller retail businesses has been the recent arrival in the town of giant Game and Clicks stores. Checkers manager, Louis Korff, said his store had also been affected by the coincidental arrival of Game and the Iscor cuts. Luxury lines in particular had taken a drop but food sales had grown. "I can only think the new stores are bringing customers who don't normally shop here."

But the happy-go-lucky feeling had gone out of spending.

President of Newcastle's Chamber of Commerce, David Travers-Jackson, said that while the town had gained some independence from Iscor it remained the major employer. "It's still a case of when Iscor sneezes the town catches cold," he said. The Iscor cuts, on top of the recession, had landed a double punch and businessmen who were around when Iscor decided not to proceed with its phase 2 in 1974 were "terribly jumpy".

Many businessmen were ready to embark on expansion programmes but were holding back." We are very keen to get a statement of policy out of Iscor and an indication of where it is going in 1983."

Among the strong rumours unsettling the town were that there will be a 25 percent retrenchment by Iscor in January. Another is that the corporation will sell houses of workers who leave the town, further undermining house prices.

Iscor's Mr van Vuuren said he did not think there would be sizeable retrenchments in January and the company was too jealous of its housing facilities for workers to put its houses on the market. If the corporation had to cut back further on production it would have a 4-5-months warning period.

He said he would take the businessmen of the town into his confidence if there was any change in the situation — "but at the moment there is nothing in the wind".

The corporation was planning nothing drastic. It was just seizing the breathing space of the recession to refurbish some of its plant and increase its efficiency.

Mr van Vuuren said there was no possibility of Iscor permanently closing any plants as had happened overseas, and he believed there would be an upturn, following an anticipated upturn in the US economy, at the end of 1983.

Other rumours were that more than 50 "developments" in the town had been shelved and that major stores were planning to withdraw. However, there appears to be no substance to them.

Mr van Vuuren said he believed the uncertainty in the country had led some people to believe the situation to be far more fluid than it really was.

The feeling among prominent businessmen is that people who saw the recession coming and took precautions will ride out the lean months to an anticipated upturn.

Company owner Gordon Dowsett, who is active in central business development, summed it up: "Some people will get hurt but basically the town will steady."

It was perfectly poised and equipped to take advantage of the Government's decentralisation programme when the upturn in the economy came.

"Because of our physical setting — right in the centre, between Richards Bay and the hinterland, I think Newcastle is set for some very very strong growth, despite any setback in the short-term we might have."

Kantor takes Reserve Bank to task

(59) Star 22/10/82

By David Braun

PORT ELIZABETH — The Reserve Bank is making the control of money supply more difficult by resisting financial market fundamentals, says Professor Brian Kantor of the University of Cape Town.

Professor Kantor, who represented the Cape Town Chamber of Commerce at the Assocom congress, said in an interview there was no question that the current growth in money supply represented generally tight money supply policies.

Improvement

"The economy is now at a turning point similar to the one in 1979 and 1972 where the balance of payments outlook began to improve significantly. In fact, the balance of payments fundamentals are looking very good.

"The question is whether the authorities will succeed in keeping the money supply under control during the next balance of payments-led upsurge, which might be quite soon.

"It appears to me that in the light of this, and the improved gold price, generally tight monetary policy and subsequent fall in world interest rates, there is a much better chance of the exchange rate of the rand appreciating rather than depreciating.

Irrational

"If you believe the exchange rate is going to appreciate, you don't take out what would appear to be very expensive forward cover, and the price the Reserve Bank is charging is not consistent with rational exchange rate expectations."

Assocom briefs

PORT ELIZABETH — The control-board system in the maize industry was not negotiable, Mr I S Geldenhuys, chief director, marketing, of the Department of Agriculture, told the Association congress yesterday.

"But there is a need to look at the methods used to determine the price of maize. That is why the Minister of Agriculture hts initiated an inquiry into the system," he added.

The congress resolved to:

- Call on Government to investigate the effects asd implications of continued price and tariff controls on essential agricultural inputs and the presest method of determining the price of maize, with the objective of developing a market-related approach.
- Press Government to enforce standardisation of tender documentation and procedures used by various State and semi-State organisations.
- Ask Government to implement legislation subjecting the buying of all goods and services by authorities in the public sector to uniform controls and disciplinary structure and a framework similar to that of the State Tender Board.

Barclays housing loans at R125-m

Star 22/10/82 (58)

Financial Staff

Barclays National Bank has granted R125 million in loans — R3 million each working day — since it moved into home financing on August 30. This amount funded a total of 3 419 bonds.

Top drawing area for home loans was the Western Cape, which borrowed R18,8 million.

Other totals were: Eastern Transvaal R16,4 million, Natal R16,3 million, Northern Transvaal R12,4 million, Johannesburg central R11,2 million, Eastern Cape R6 million, and the Free State R3,6 million.

Loan No 2 755, which took the bank's total loans through R100 million mark, went to a Natal couple, Mr and Mrs M J Murphy, of New Germany.

Average size of the loans granted is R36 000.

A Burclays spokesman said: "The loanlist confirms that the vast majority of loans apply to the middle-range housing sector, which dispels speculation that our home loans will only appeal to upper-market buyers."

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.

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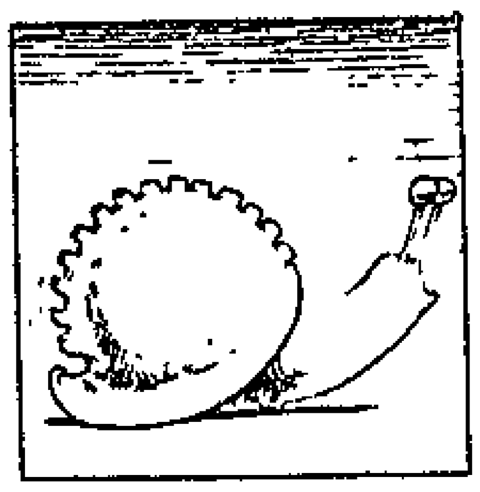
RECESSION

The squeeze tightens

FM 22|10|82

(49)



Many salary-earners still see the present recession as little more than a series of gloomy articles in the financial press. But it is only too real for manufacturers, especially those supplying the mines, farming and government.

Drastically reduced farming incomes caused by poor crops and higher Land Bank interest rates have dampened agriculture's demand for manufactured goods.

Low gold and diamond prices and weak international demand for iron ore, platinum, ferroalloys and other minerals have caused cost-cutting and delay of many capital projects on the mines. And reduced tax receipts from these sectors have helped put a brake on government spending; this has been particularly heavy in SA Transport Services (SATS), which is normally a big buyer from SA industry.

It has left many manufacturers with spare capacity — much of which was hurriedly brought on stream during the last boom.

Unlike the last downturn, which occurred when other economies were in a recovery phase, the present slide began while the rest of the world was still deep in recession. Thus some local manufacturers now find themselves in eyeball-to-eyeball competition with foreigners who have been desperate for sales for far longer than they.

Tractor sales for the year to August are more than 55% down on the same period last year. Dr Leon Knoll, MD of Fedmech, which produces market leader Massey Ferguson tractors and runs the biggest agricultural implements plant in Africa, says capacity utilisation in the industry has dropped from an "over-occupation" last year to a present level of about 65%.

He says his company's 2 000-odd workforce has been reduced over the last few months by "several hundred," through non-replacement of departing staff and outright layoffs.

"To make matters worse, imports of equipment at very low prices have also increased as the industry throughout the world is in a state of extreme depression," he says. "In the US, for example, the index of agricultural machinery output has declined from 151 in 1979 to 106 this year."

Capacity utilisation of plants supplying wire ropes to the mines has dropped from about 90% in 1980 to about 60% this year. There have been no staff layoffs, but through non-replacement and the elimination of overtime, man-hours worked have come down by about 20%.

Once again imports, notably from Korean manufacturers, are putting pressure on prices and are cutting into volumes both in the local market and abroad, where one SA producer sells about 20% of its output.

A spokesman for this firm says: "SA companies are at a disadvantage, because we are regarded by Gatt as a developed country, unlike countries such as Korea and Brazil which are regarded as developing countries. This means they benefit fully from their government subsidies without being subject to the countervailing duties which apply to us. They are also allowed to prohibit SA imports to their countries while being allowed to sell in competition with us here."

Companies which design and erect new plant are also suffering. Much of Armscor's capital plant has been completed; so have a number of chemical installations and the Sasol Secunda projects. Even the coal mines, SA's star performers in the export growth stakes, are now proceeding cautiously with some of their more ambitious plans.

The coal projects, along with new steel, cement and sugar plants, the giant Escom power station programme and the new paper and pulp plants for Sappi and Mondi are now the only big ticket items worth talking about.

According to one contractor, local companies which put up these plants are now losing business even in this declining market to "firms in countries not so friendly to SA."

He names as examples the contracts for paper and pulp plant granted to Swedish and Finnish companies.

"The economies overseas are so depressed," he says, "that some are now supplying capital plant at dumped prices. They are taking on work for survival at prices local customers cannot refuse."

This has come not so long after the US Fluor Corporation and Germany's Uhde set up local operations under pressure to increase "local content" of engineering and construction services for capital projects.

Not surprisingly, the iron and steel industry, which supplies to all these other sectors, is also feeling the pinch. Iscor forecasts a 16% drop in total domestic demand for steel over the next year and expects to be running at only 70% of capacity in 1983. Its exports should rise by about 4% but these are likely to come under increasing price pressure from producers in other countries. Steel-making capacity utilisation in Europe is only 50%-60% and in the US, 39%.

Recession victims ... how low on the priority list?

Iscor is using the slump to decommission old plant to make way for more modern equipment. However, this must be small consolation to the workers who have lost their jobs in the process.

Manufacturers of intermediate and consumer goods have also been hit by imports. The plight of some has been made worse by the fact that they are obliged to buy their raw materials from protected local "strategic" producers of plastics, synthetic rubber and textiles.

Shirt and knitwear producers have suffered, as have producers of rubber products, footwear and flooring. But some have recently been helped by higher tariffs on imports which take greater account of their higher material costs.

A spokesman for a plastics producer says companies abroad are exporting for "foreign exchange and not for profits." He says that with world plastics prices at about half SA levels, the local industry would collapse if import controls were removed and a totally free market allowed. He points out, however, that the European plastics producers charging these prices are presently making combined losses of R2,4 billion/year.

Under its obligations to Gatt, SA is pledged to remove import controls and replace them with tariffs which, under present market conditions, would have to be astronomical to keep out imports.

"The authorities are not moving as quickly as they might to abolish import controls," says the *FM*'s informant. "This is probably because some sections of government are committed to free enterprise while others fear the social and political consequences of large-scale black unemployment. We are exhorted by some officials to cut costs and compete more vigorously while others plead with us not to lay off staff."

So far the recession has been felt more severely by industry and the increasing numbers of jobless unskilled workers than the relatively well-trained, salaried consumers. This is shown by the fact that manufacturers of consumer goods have not experienced anything like the volume declines suffered by the rest of industry.

In some markets, such as beer, soft drinks, cigarettes, TV sets and video games, sales are still hitting record levels. And although furniture sales are well down, footwear, clothing, food and even motor car sales are still only a few percentage points below the record levels of last year.

Even so, increasing costs and price competition are attacking profits from two fronts. In some cases consumers are benefiting from this competition for their custom.

Mike Bosworth, MD of FVB subsidiary Tek Corporation, a major producer of audio and TV equipment, has put all staff, including himself, on a four-day week with corresponding reductions in pay. He notes that although TV and video equipment sales will be up in volume terms this year, the company is battling against cheaper imported radios and tape players, as well as higher costs.

Premier Group chairman Tony Bloom says that to maintain dividends, his group will have to increase pre-tax profits by R7m this year because of increased tax payments. He adds that his industry is facing slightly lower volume sales, increased interest rates and more pressure on prices in both local and export markets.

His group is now not replacing staff who leave.

"The recessions of the early Sixties and 1976 were consumer-led through blows to confidence dealt by Sharpeville and Soweto," says Colin Adcock, MD of Toyota and president of the National Association of Automobile Manufacturers of SA (Naamsa). "But this time it has been caused by the downturn in the business cycle which has had its initial effect on primary industry rather than on consumer demand.

"In the previous recessions motor car sales were among the first to suffer, which is not the case this time."

The figures bear him out as sales of cars, a consumer item, are expected to be only 6% down this year on last year's record figure, but sales of heavy trucks should be down by about 29%.

Morris Shenker, the MD of UCDD which makes Mercedes cars and trucks, believes that sales of trucks will take longer to recover than cars.

"Heavy truck sales are more closely linked to the economic circumstances than quality car sales," he says.

However, he predicts a decline in the quality car market to "more normal" levels after the unprecedented boom of the last two years.

Toyota has increased its sales volumes during the recent overall market contraction. But Adcock expects conditions to get worse next year and has reduced output from 430 to 412 vehicles/day and is not replacing departing staff.

The situation for motor manufacturers which have lost market share in this period is much worse.

Despite greater staff cutting, skilled workers and those with marketable qualifications and experience are in little danger of losing their jobs: this category now includes a growing number of blacks. And if the economy picks up again in 1984, as many industrialists hope, these workers will suffer little more than a small drop in living standards next year, due to inflation and relatively small pay increases.

The outlook for the country's unskilled workers is far more bleak and many businessmen have greater fear for the political than the economic consequences of the recession.

"Like the UK and US governments, our government appears to have placed balance of payments, inflation and employment in that order of priority," says one. "But unlike these countries, we do not have the same social benefit programmes.

"In this country economics and politics are inextricably linked, and we cannot solve the problems of one by ignoring the other."

Of course this is correct. All societies deal with *political economies* and none more so than SA. In the *FM*'s view, the long-term political interests of the nation will not be served by quick-fix reflationary policies. Clearly a very deliciate balancing act is called for. But if real, sustained growth over the long term is the aim, then it would be wrong to take the easy option and go for reflation.

Inflation is the real enemy of stability and growth. It would be foolish now to try to win a short-term battle for jobs and lose the war for survival.

State's hand is too heavy

SWS 23/10/82

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By David Braun

How big a role should the State play in the economy?

At the Assocom Congress in Port Elizabeth this week, Professor Gideon Jacobs, director of the University of the Witwatersrand's Business School, said Government had played an excessively dominant role in the South African economic process.

EXCESSIVE

"In a truly free enterprise system, freedom of the market place is a key element and government's role is restricted to providing the relevant data for business planning, creating adequate infrastructure, educating and training the workforce and ensuring internal economic stability."

Some examples of the Government's excessive role in South Africa were:

- By 1980 the Government controlled more than 60 percent of the nation's capital stock.
- There were 22 marketing boards, with 2 500 employees, costing about R25 million a year and regulatting almost 60 percent of total agricultural output.
- The public corporations constituted the worst form of monopoly and jointly represented so large a role in the economic life of the country that the system borders on State capitalism.
- The policy of import replacement had resulted in a situation where the country produced the bulk of its consumer goods but could not compete effectively on world markets because it had become tied to technologies introduced for strategic rather than commercial reasons.
- Price control had resulted, in practice, in a form of profit-control.
- The employment of the bulk of the labour force was controlled in most of its aspects.

Professor Jacobs said there was, in addition, a whole gamut of other controls including financial controls, import controls, exchange controls, regulated interest rates, rent control, restrictive licensing and many others.

Professor Gideon Jacobs . . . "excessive powers."

Mr Harry Schwarz . . . "social obligations."

"Furthermore, there has developed in South Africa a reliance on inputs from the private sector to make good deficiencies in the provision of housing and education and training of the black labour force. The private sector is also expected to make a reality of the Government's plans for constitutional development that place an abnormal burden on free interprise."

Mr Harry Schwarz, Opposition spokesman on finance, who attended the congress, said in an interview there were many activities in which the State was involved which could best be left to the private sector.

"A further review of the Government's participation is called for at this time, if it is serious about a commitment to private enterprise."

Mr Schwarz said there were, however, urgent problems which could not be solved without further government action. One of these was housing which, without government assistance, was almost incapable of solution.

DILEMMA

"The problem appears to be that on the one hand the Government is involved in activities which would be better carried out by private enterprise, and on the other it is not devoting sufficient attention and resources to social conditions which, if not alleviated, could have serious political consequences."

This dilemma was highlighted in the general discussions and motion at the congress. For every speaker who rose to ask for less government interference in the business sector there was another pleading for export incentives, more money for housing or some other form of government involvement.

Mr R J Draper of Durban wanted to know who was to pay for the Government's regional development plans while Mr B D D Gibson of Port Elizabeth asked for something to be done to create new jobs and bring down inflation.

CRIME

Mr R B Reunert of Johannesburg and Mr H N Groom of Cape Town urged the authorities to do more to crack down on crime. Mr D G Paxton, a past Assocom president, called on the Government to control its spending. He was also concerned at the trend towards sectional taxation in the form of levies and surcharges.

Professor Brian Kantor of Cape Town felt the Reserve Bank was not allowing free market forces to bring down interest and exchange rates. This was making its goal of controlling money supply more difficult.

An analysis of the motions proposed at the congress show, however, that the thrust of the business community's needs and desires is to get government off its back.

CONTROLS

Less controls, bureaucracy and arbitrary powers will unleash the full potential of the business community to make profits and grow, and in so doing plough back into the economy the fruits of entrepeneurship and hard work.

PC told economic system 'heartless'

ARGUS 26/10/82

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THE FREE enterprise system had a tarnished image among blacks and younger blacks did not have a good word for it, the National African Federated Chamber of Commerce (Nafcoc) told the economics committee of the President's Council yesterday.

Giving evidence to an open session of the committee, a Nafcoc delegation said the general impression among blacks was that the system was "heartless and exploitative" and had helped to enrich a few at the expense of the majority.

"It is commonly associated with racial discrimination, poor working conditions, low wages and other forms of exploitation to which blacks in particular are generally exposed," the delegation, led by the the Nafcoc president, Mr Sam Motsuenyane, said in a memorandum.

"The system appears to operate best in truly democratic societies in which people irrespective of their racial differences enjoy certain given fundamental rights, among which are freedom of movement, ownership of property, equal citizenship rights, freedom of choice of enterprise and equal protection under the law," the memorandum said.

Political comment in this issue by J M W O'Malley, J R Colman, H S Roberton and M Leigh. Headlines and sub-editing by R W Bowley. Cartoon by G Linley. All of 122 St George's Street, Cape Town.

Screws tightening on business, survey finds

EPost 26/10/82 (49)

THE screws are well and truly on business in Port Elizabeth, judging by the latest survey of business conditions by the Midland Chamber of Industries.

The survey shows a dramatic increase in the number of respondents suffering from the accelerating downturn in trading conditions and a similarly large rise in the number of manufacturers who believe plant capacity will decrease over the next three months.

The message emerging from the survey is therefore clear: times are growing distinctly tougher, and getting worse.

The monthly survey is compiled on the basis of a questionnaire circulated by the chamber to some 40 companies representing a wide cross-section of interests. And in a general observation attached to the survey results, the chamber's executive director, Mr Brian Matthew, notes that "only isolated respondents, in such sectors as food, chemicals, pharmaceuticals and clothing, were able to report unit sales in excess of the level achieved for the same month a year ago".

The results are for the month of August and reveal that the downward spiral in business is gathering momentum. For example, in March the number of respondents reporting business conditions 'worse than' last year accounted for 15% of the sample poll; within three months this had doubled to 31% (in June), and in August no less than 57% of businessmen polled reported that output was down on last year's levels.

In the process it is not surprising to find that over the same period the number of repondents reporting 'better than expected" results when reviewing general business conditions for the month has shrunk from 28% to 5%.

Only 2% of respondents believed in August that over the next three months their expectations regarding new orders would be exceeded, while 58% reported that their short-term expectations would not be met.

An important indicator of what's in the pipeline is the question regarding expected utilisation of plant capacity over the next three months, and as Mr Matthew points out in his footnote to the survey results: "The trend in this indicator deteriorated further, with 50% of participants reporting that utilisation will decrease over the next three months.

"This indicates that production levels are likely to fall even lower and this deduction is supported by the trend in new orders, where 58% reported that they did not expect to meet their budget levels over the next three months."

THE planning committee of the President's Council — headed by former Cabinet Minister Mr Hennie Smit — last week visited Namaqualand and the Richtersveld, a region now apparently moving into the spotlight of development. The visit, so the local authorities repeatedly told the committee, was the beginning of "great things" — Namaqualand, "the slumbering economic giant of South Africa", was about to awaken.

Wasteland could be turned into vast garden

ARGUS 26/10/82 ~~40~~ ~~45~~ 49

LOOKING north from the top of Helspoort in the Richtersveld, just below the Orange River.

By Johann Potgieter

THE ARID north-western corner of the Cape Province may be on the brink of spectacular development, with plans for a nature reserve in the Richtersveld and an irrigation project that could turn the northern coastal plains of Namaqualand into a vast garden.

The area is almost permanently drought-stricken, and farming, mining and fishing activities fluctuate either seasonally or in the wake of international metal and diamond prices.

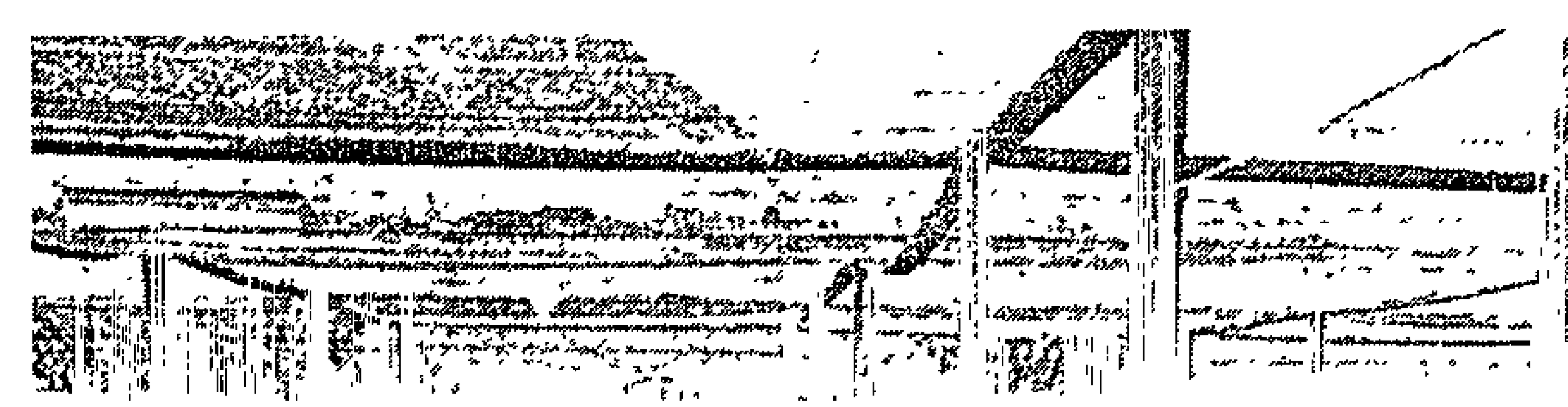
More than half the white farmers

The other Namaqualand ambition — fuelled, amongst others, by a vigorous Regional Development Association at Springbok — now seems close to being realised.

FIRST PROPOSALS

The first calls were made a decade ago to establish a conservation area in the Richtersveld proper — more than 500 000 ha of almost unbelievably rugged mountain wastes, stacked around undulating semi-desert plains in the crook of the Orange below SWA/Namibia, and a top-level National Parks Board delegation first visited the area

Legend blends



into a vast garden.

The area is almost permanently drought-stricken, and farming, mining and fishing activities fluctuate either seasonally or in the wake of international metal and diamond prices.

More than half the white farmers have reportedly left Namaqualand in 30 years, and farming by the Nama, Baster and coloured people in the reserves is limited by the harsh, almost rainless climate. The economic and demographic problems are clear, for example, in the sprawling shanty-towns on the outskirts of Port Nolloth.

The development plan — drafted a few years ago — proposes the irrigation from the Orange River of the West Coast plains more or less opposite Alexander Bay and Port Nolloth.

The multi-million-rand plan includes dams on the Orange River either at the SWA/Namibian border or further east; canals and tunnels running to the south-west; storage dams in the eastern Richtersveld and further south, and the development of Buchuberg below Alexander Bay as a commercial and military port.

Brandkaros, one of the State farms in the river valley east of Alexander Bay — the driest and most arid land in South Africa — is the prototype for the agricultural development of the semi-desert Namaqualand plains.

The 78 ha farm, launched in 1948 and presided over by Mr Floris Mostert, chief of the farming section of the Mines Department, supplies fruit and vegetables to the community of 3 500 working the State alluvial diggings in the Alexander Bay area, and is eloquent proof of the astonishing fertility of the barren land.

It has 4 000 decidious fruit trees, 1 500 sub-tropical trees, 14 000 vines and 1 500 citrus trees.

Irrigated from the river, the farm produces tomatoes for eight to 10 months a year; potatoes throughout the year; and excellent citrus, avocado pears, apples, papaws, mangoes, pears, pomegranates, apricots, prickly pears, bananas, and almost any fruit and vegetable variety imaginable.

The produce is sold to the mining employees at astonishingly low prices. A pocket of oranges brought from Cape Town would cost perhaps R2,50 here: Brandkaros oranges sell for 35 c a pocket.

the Richtersveld proper — more than 500 000 ha of almost unbelievably rugged mountain wastes, stacked around undulating semi-desert plains in the crook of the Orange below SWA/Namibia, and a top-level National Parks Board delegation first visited the area in 1973.

At present the Cape Provincial nature conservation authorities act as custodians for the area, working from the Hester Malan reserve outside Springbok. A vast collection of succulents is grown there, including the legendary "halfmens" (*Pachypodium namaquanum*), and endangered specimens collected throughout the area.

The Richtersveld is one of seven Rural Coloured Areas in the north-western Cape, each controlled by a management council (something like a divisional council). The towns are run by the customary management committees (the coloured "municipalities").

COUNCIL CONCERNED

The nine-member Richtersveld Council (six members are elected, two are appointed by the State, and one by the Ned Geref Sendingkerk) meets on a rotation basis in Lekkersing, Kuboes, and Eksteenfontein — the three settlements in the area — and has been concerned that the conservation plans should not reduce the rights of the nearly 3 000 inhabitants.

A year ago now, after discussions with the State's working committee, the Management Council listed preconditions for the establishment of a 75 000 ha conservation area.

MAPS SEEN

These included guarantees that existing prospecting and mining rights would not be disturbed; that income from prospecting and mine leases would still go to the council; that the people of the Richtersveld would be given preference in whatever job opportunities arose from the development, and have representation on the controlling body.

Last week's President's Council party — headed by the committee chairman, former Cabinet Minister Mr Hennie Smit — ascended the Helspoort below Paradysberg in the Sendelingsdrift area, and were shown detailed maps of the proposed reserve.

.egenc blends with history

THE RICHTERSVELD, 500 000 ha of almost primeval landscape, comes at you straight from the furthest recesses of West Coast desert history — a history which is largely unwritten.

First, the legend says, the animals strayed into the wasteland; then the San people who knew the secrets of the animals; then the Khoi-Khoi who tracked the San to the water; then the whites.

As the luxury bus passes, a lone Nama herdsman stands leaning on a staff. For others, the veld is an ashen, monotonous waste; for the nomads it is alive with a thousand plants — some so poisonous that if they killed a goat and a dog were to eat the goat, it too would die.

One hardly ever sees the strange "halfmens" (pachypodium namaquanum) of Nama mythology — tall, cactus-like plants with their dark tips always turned north and growing, perhaps, 5 mm a year. A man-sized plant could be 150 or 200 years old; many are double a man's height, or more.

THE chairman of the President's Council planning committee, former Cabinet Minister Mr Hennie Smit, centre, with nature conservation and Internal Affairs officials. They are inspecting the extended succulent beds at the Hester Malan reserve, Springbok

Problems ahead, warns De Kock

Financial Editor

A WARNING that South Africa is bound to face wide-ranging economic problems in the short-term was sounded yesterday by Dr Gerhard de Kock, the Governor of the Reserve Bank.

He said: "Neither the recent moderate recovery in the gold price nor the decline in overseas interest rates ... can disguise the continued weakness of the underlying world economic situation.

"For South Africa this means that the present cyclical downswing will almost certainly continue for some time."

Dr De Kock said the country could expect a further reduction in production, an increase in unemployment and either lower rates of growth or further declines in real investment, consumption, sales, profits, salaries, wages and exports.

He was giving his chairman's address in Pretoria at the annual meeting of the National Finance Corporation.

Dr De Kock said that although the immediate period ahead would be difficult for both the business and personal sectors of the economy the country could look forward "to the medium and long term with confidence based not on wishful thinking, but on the realities of the situation".

He said economists expected that the United States and the other main industrial countries would at some stage move into a new cyclical upswing and that the South African economy would follow with the normal time lag.

"Present indications are that the recovery in the industrial countries will remain sluggish for some time and that South Africa will not derive much benefit from it before 1984," he cautioned.

Dr De Kock said that monetary and fiscal conditions in South Africa were sounder at present than they had been for more than two years.

Although the process of adjustment for the economy as a whole was still far from complete and inflation remained firmly entrenched, evidence increasingly suggested that the country's monetary and fiscal policies were having the desired effect.

Factors supporting this included:

- The broad money supply (M2) showed a seasonally adjusted annual rate of increase of 19% during the first eight months of 1982 and of only 8% between April and August.
- On a seasonally adjusted basis net bank credit to the Government sector declined by R447-million during the first quarter of 1982 and by a further R530-million between April and August.
- The deficit on the current account of the balance of payments declined from a seasonally adjusted annual rate of R6 900-million in the first quarter of 1982 and R5 400-million in the second quarter to a figure which could be as low as R2 000-million (in the third quarter).
- After declining further by 4,4% during the first quarter of 1982 and by 5,6% during the second quarter the effective exchange rate of the commercial rand, in terms of a weighted basket of other currencies, appreciated by 1% during the third quarter.
- While the credit rating of many other countries deteriorated sharply in overseas capital markets during recent months South Africa's increased noticeably.

Dr De Kock said: "Against the background of these favourable developments the conclusion can be drawn that while any relaxation of our monetary and fiscal policies at this stage would be premature there is no need to intensify them any further."

He announced: "Barring unforeseen developments the screws have been tightened enough."

With one or two possible exceptions interest rates appeared to have peaked and might well tend to decline in the weeks and months ahead.

The experience of the past four months also suggested that the recent phase of commercial rand depreciation in terms of a weighted basket of other currencies had come to an end.

Dr De Kock said it was no exaggeration that the world economy as a whole had during the past two years constituted a "nightmare of low growth, high unemployment, payments imbalances, declining world trade and debt servicing problems — to which has recently been added the threat of international banking failures."

The one great success had been the achievement of the US, Britain and other countries in reducing inflation sharply.

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Securities will correct imbalance

Reserve Bank acts on erratic money supply

Star 29/10/82 (49)

By David Braun

The Reserve Bank is taking positive steps to control erratic movements in short-term interest rates while still retaining a free market system.

The move is seen by the money market as a significant change in the open market operations of the bank, bringing the control process in line with the current system successfully operated by the Bank of England.

But a senior spokesman for the Reserve Bank said today there was nothing unusual about the "normal money market" operation.

"What happens is that there is a large withdrawal of bank notes from the system towards the end of each month as people take money home in their pay packets and to pay their bills."

"The banks lose the cash and replace it by drawing money from the discount houses which, in turn, borrow from the Reserve Bank.

"To ease the present situation somewhat we have decided, in a normal money market operation, to buy Government securities on a buy-back basis. In this way we put cash into the economy and, after the end of the month, when there is more money in circulation, we sell the securities and so take back the cash."

NARROWER MARGINS

A spokesman for National Acceptances said today that the facilities had hitherto been available to the discount market on a continuous basis but the decision to take bills from the banking sector as well could have the effect of stabilising or depressing the 90-day liquid bankers' acceptance rate and make the trading margins narrower.

"It is quite conceivable that longer repurchase agreements will be introduced and even outright purchases in various banks up to 90 days. This would allow the Reserve Bank to check a too-rapid downward fall in rates or, alternatively to seek to push rates up in accordance with monetary policy.

"The present agreement is designed to curb erratic month-end rate movements but the Reserve Bank is to be congratulated on introducing a tool which can only improve the South African money markets," said the National Acceptances spokesman.

New guidelines shaped

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By Julian Kraft

S. Times 7/11/82

IMPORTANT guidelines for the practical implementation of free-market principles in South Africa were shaped at a high-level congress of the Free Market Foundation in Johannesburg this week.

The single most important step was that the two-day congress recognised the need for political and economic reforms to be married before any progress could be achieved.

"For the first time a multidisciplinary collection of experts has given attention to the political and economic problems together," Leon Louw, the foundation's executive director, told Business Times.

"Hitherto the two have tended to be treated in isolation on the unsupported assumption that there is a dovetailing of interests.

"In fact, democratic participation in government by the population can lead directly to economic intervention which serves vested interests at the expense of the national interest."

Recession in full swing

RDM 15/11/82

(49)

By HOWARD PREECE

THE economic downswing is gathering pace and moving into a genuine phase of recession.

This is clear from most of the latest batch of company results and chairmen's comments as well as from the analyses of most economists.

In the first half of this year trading conditions held up better than many businessmen had expected.

Now the long-expected 1982-83 downturn is clearly being felt.

● New car sales were down by 26% in October compared with the same month in 1981. This was a steeper fall than the industry had been predicting.

● Dr Johan Cloete, chief economist of Barclays National Bank, has forecast negative real economic growth in 1983.

● Standard Bank says its business activity index is falling as fast now as it did in the worst of the 1976-77 recession.

● Mr Tony Bloom, the chairman of food giant Premier Group, warned shareholders last week that he was "concerned about the very real softness in retail sales".

● Mr Adrian Bellamy, chairman of Edgars stores, said: "National retail sales have deteriorated markedly since August 1982 and are now below last year's in real terms.

"This sales trend will almost certainly continue throughout 1983."

● Mr Dick Goss, managing director of SA Breweries, said: "The downward trend in consumer spending appears to be gathering momentum and October trading was particularly slack."

● Anglo American's coal group, Amcoal, announced: "During the month of September 1982 coal sales to the general domestic trade through the Transvaal Coal Owners Association were at a level of 21% below that of a year previously — and a lower level of sales is expected to persist into 1983."

● The Gallo musical group cut its interim dividend from 24c to 20c after a confident prediction in June that the total for the year would at least be maintained.

● Xactics, the paper and packaging company, reported a drop in pre-tax profit from R1 723 000 to R1 411 000 for the six months to August 31 after a forecast in the annual report that pre-tax profit would rise 20% this year.

● Stewarts & Lloyds, the steel group, reported an annual earnings rise to September 30 of 6,5% — helped by some capital profits — against a forecast of 12,5%.

The chairman, Mr Henry Kuiper, also warned that any general economic upturn seemed further away than many people seemed to be assuming.

● Dunswart Steel announced that it was making 80 men redundant, closing its Benoni works for most of December and was set to incur a loss and pay no dividends in 1982.

It referred to "depressed market conditions" which had led to a shortage of orders.

● Carlton Centre property company said that the Carlton Hotel's results for the six months to September 30 were well below budget because of "the rapid decline in general economic activity during the period under-review".

Q. 1978

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16/11/82

Customs takings down 20%

Recession cuts imports

By HAROLD FRIDJHON

THE slowdown in the economy has hit Government revenue. Customs duty collections for September were down 20% on those for September 1981.

Custom duties brought in R93-million in September 1981.

This dropped to R75-million this September and reflects the sharp decline in imports, the improved current account of the balance of payments and the sharp decline in Railways' earnings.

In the first quarter of the present fiscal year Customs duties collections were running ahead of 1981 — not by a great amount, but sufficient to show that importers had not acknowledged that the economy was slowing down.

In the first quarter it was estimated that the annualised deficit on current account was running at more than R6 000-million.

By June, Customs collections were only marginally higher than those for the same time last year, and the estimated current account deficit for the second quarter had fallen to R4 000-million.

The turnaround in imports has been apparent in recent months. Duty receipts for the first half of the fiscal year are 9,4% lower at R489-million than they were at the same period of last year.

The annualised current account deficit at the end of the third quarter was said to be down to R1 000-million.

Excise duty is running ahead of last year's figures with collections at R771-million — 17,3% more than last year.

The import surcharge brought in R55-million in September and R370-million for the six months.

Income-tax collections appear to be better than last year's.

In the six months to September R4 220-million was received against R3 784-million for the comparable period of last year. In 1981 total collections were R7 941-million and in the current year, the Minister of Finance, Mr Horwood, estimated collections would be R8 630-million.

Payments on gold-mining leases are sharply down — as was expected when the Budget was presented. Collections for the half-year amount to R184-million against R291-million last year.

Another head of revenue which looks as if it will not yield the money Mr Horwood was looking for is non-resident shareholders' tax. Against last year's R176-million for the six months, it has so far brought in R135-million. Two reasons are probable for the decline in this impost.

The first is that dividends of public companies, particularly mining companies, have been cut and many overseas subsidiaries which are not listed have trimmed payments to their parent companies to avoid having to borrow funds in SA at high rates of interest.

The other reason is that, in the case of mining shares, overseas shareholders have sold their investments and less scrip is held abroad.

Proof that property transactions have not slumped as severely as many people expected is that transfer duties have netted R92-million compared with R80-million for the first half of last year.

After the quiet patch on the Johannesburg Stock Exchange earlier this year, business picked up in September when marketable securities tax brought in R2 586 000 against R1 659 000 in 1981. But over the six months this year's collections are, at R9 613 000, nearly R2-million lower.

Collections on general sales tax were more than doubled in September. They amounted to R310-million against R150-million last year. This reflects the higher rate of tax as well buoyant sales in monetary terms at consumer level. For the half-year to September GST yielded R1 486-million against last year's R965-million.

At the halfway mark, the Treasury has taken in a little more than half of the expected total of R15 858-million. The normal pattern is that collections run at a higher rate in the second half than in the first half of the fiscal year. If the pattern holds true this year revenue will exceed the estimates, but the imponderable is income-tax collections.

Tax from individuals should continue to run at a high rate, but company tax might well be lower, judging from the public company results that have been published in recent months.

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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.
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Banker warns on 'free market'

CAPE Times 17/11/82

49

Staff Reporter

PROMOTION of an effective free market system in South Africa would be difficult without simultaneous changes to the country's political structure, one of the Republic's leading bankers told the President's Council yesterday.

The chairman of the Nedbank Group, Dr Frans Cronjé, also told the council's committee for economic affairs that all attempts to "sell" capitalism to blacks would be ineffective so long as influx control was applied as strictly as at present.

Dr Cronjé said "publicity campaigns to convey the advantages of the free market system to the 'less sophisticated' members of the public will either have no effect or else they will be counter-productive".

'Stumbling blocks'

Propaganda campaigns to "sell" capitalism would be seen by many blacks as a "justification by the goverment and 'big business' of the existing ('unjust') system".

A large section of the black population would reject a campaign, which was seen to be coming from the government, "unless that same authority has already removed the largely political stumbling blocks which stand in the way of a completely free economic system".

"The same credibility gap would apply to a campaign which is carried out by the mainly 'white' private sector," Dr Cronjé said.

Blacks would simply see such a campaign as a protection and defence of the status quo.

Dr Cronjé said this situation would not change till blacks perceived that educational and training facilities had become equal and restrictions on black business, one-man concerns and hawkers had been removed.

Mobility

Furthermore, "so long as the geographical mobility of black workers is curbed, any propaganda campaign coming from the authorities and which propagates the advantages of the free market system, could be presented as false and could lead to a counter-campaign".

He emphasized that he was not debating the merits and demerits of, for example, influx control or the education system, but was merely pointing to factors which could influence black South Africans against a free market.

Oppenheimer criticises key policies

ARGUS 19/11/82

(49)

JOHANNESBURG. — Certain Government policies were unrealistic and self-contradictory in their influence on South Africa's economy, Mr Harry Oppenheimer said here yesterday.

He told the Financial Mail investment conference that over the years the South African economy had been kept on an even keel by the sound conservative policies almost always pursued by the monetary authorities.

Contradictory

This was sometimes in contrast with other Government policies which were unrealistic and self contradictory in their economic consequence.

"As a result there has been built into the economic structure a whole series of rigidities and taboos which impede our avowed policy of relying increasingly on the operation of market forces rather than on direct controls for the regulation of the economy."

Influx control

In his sharp criticism of key aspects of the Government's economic policies, Mr Oppenheimer said he was referring to "the huge superstructure of controlled prices, of the rigid and sometimes illogical way in which the agricultural industry is organised and more fundamentally still of the economic effects of influx control, of the Group Areas Act and of the obstacles placed in the way of the development of the informal sector of the economy.

Acceptable level

"It is no wonder that in these circumstances the Government's courageous monetary policy has not so far, in spite of the business depression and of the improvement in the balance of payments, been successful in reducing the rate of inflation to anything approaching an acceptable level.

Mr Harry Oppenheimer

"This is particularly serious because of the sharp contrast with the situation in the United States and Great Britain where the rate of inflation has been falling rapidly."

Political

The motivation behind the formation of the Southern African Development Bank in particular was surely just as much political as economic.

Why otherwise should those homelands that had opted for independence be treated differently in relation to the new bank than those that had not?

It was not in any case difficult to maintain that there were already enough banks in South Africa or that their resources were inadequate to meet the real economic needs of the whole area including the homelands.

Not justified

"Why then a new, publicly controlled Southern African Development Bank?

"It looks rather as though it is in order to have a financial institution prepared to undertake operations which, while not justified by normal economic considerations, appeal to some people on political grounds.

"In other words, it looks as though this will be an institution whose activities are designed to cut across the market-oriented private enterprise policy of the Treasury and Reserve Bank, which is after all ostensibly the policy of the Government as a whole," Mr Oppenheimer said.

See page 20.

Hard times for HP car buyers

Cape Times 20/11/82 (49)

By STEVE GORDON

REPOSSESSION of cars by finance companies has become so frequent that one company must clear its City warehouse of vehicles in an auction this morning to make way for a new batch of repossessions expected next week.

Investigation among finance houses showed that the tight money situation is causing a large number of people to fall behind with their payments, resulting in what one firm's credit manager acknowledged was an unprecedented number of repossessions for this time of year.

The managing director of Wesbank, Mr Dennis O'Brien, said yesterday that while the number of repossessions had increased, he did not feel this to be out of proportion to the overall increase in business experienced by his firm in recent months

Pointing out that law obliged companies to store repossessed vehicles for 30 days before reselling, Mr O'Brien nevertheless emphasized that an auction was a "last resort" after normal sales to motor dealers had been exhausted.

Although finance charges on new cars have risen from 20 to 24 percent since January this year, it appears that it is the effect recession has on the cost of living which is causing default of payments.

"People have to pay their rents and buy food. Something like a car becomes a luxury in these times," commented a City banker.

The regional manager of another finance company confirmed a marked increase in repossessions. Some people were also voluntarily coming to hand in their cars. He also has a large number of cars in "custody" while customers try to catch up on payments.

For sale in the City yesterday were repossessed cars ranging from the latest in computerized luxury to a two-door economy model. A Green Point garage contains more than 50 recently reclaimed motorcycles.

Industry survey finds little optimism as production, employment and demand all drop

DOWNTURN IN NATAL

49 21/11/82
S. Tribune

By Mike Peirson, Finance Editor

THE economic downturn is beginning to bite the manufacturing sector in Natal.

This is evident from the latest quarterly figures, to September 30, published today by the local Chamber of Industries.

Compared with results of the previous quarter there was a rise in the number of respondents reporting a downturn in production (+32 percent) and sales (+24 percent).

Areas mainly affected were textiles, clothing and footwear, furniture, metal products machinery and electrical machinery.

This decline has had an inevitable impact on job levels and 21 percent of companies reported employment strengths down significantly.

Said NCI executive director Roland Freakes: "Most subsectors have found it necessary to reduce their workforce, in some degree, by retrenchment or other means.

"A lack of demand emerged as the most powerful limiting factor on manufacturing activity, but it is interesting to note that 10 percent of all respondents were still unable to satisfy their skilled labour needs."

Costs of production continued to rise in almost all subsectors and there is an absence of optimism in expectations for the current quarter. Some 32 percent of respondents anticipate a further significant deterioration and another 57 percent are predicting unchanged conditions.

Only 11 percent are expecting a significant improvement and this includes industries which are subject to seasonal influences.

Added Freakes: "While it seems, that contraction in the local manufacturing sector is set to continue for a few months yet, the depth of the present cyclical downturn is not alarming when viewed against the exceptionally high peak from which it has developed."

SUMMARY OF BUSINESS CONDITIONS in MANUFACTURING INDUSTRY : NATAL : QUARTER ended 30 SEPTEMBER 1982
(This survey is conducted among member firms of the Natal Chamber of Industries)

	Food	Textiles	Clothing and Footwear	Wood and timber products	Furniture	Paper & paper products	Printing & publishing	Transport equipment	Construction	Chemicals & allied products	Metal products	Machinery	Electrical machinery	Miscellaneous	TOTAL No.	TOTAL %	Total - quarter ended 30 June
SALES	%	%	%	%	%	%	%	%	%	%	%	%	%	%	No.	%	%
Significantly up	33	9	22	-	25	-	-	50	-	10	5	-	12	22	18	12,8	15,6
Significantly down	22	55	67	43	50	20	17	25	25	37	50	86	63	39	61	43,6	35,1
Generally unchanged	44	36	11	57	25	80	83	25	75	53	45	14	25	39	61	43,6	46,1
PRODUCTION																	
Significantly up	33	9	22	14	25	-	-	50	-	16	5	-	25	22	21	15,0	15,6
Significantly down	22	55	56	43	50	20	17	25	25	37	50	71	63	43	60	42,9	32,5
Generally unchanged	44	36	22	43	25	80	83	25	75	47	45	29	12	35	59	42,1	46,8
EMPLOYEE STRENGTH																	
Significantly up	33	9	11	-	-	-	-	25	-	-	-	-	12	9	9	6,4	8,4
Significantly down	11	36	22	14	25	20	-	25	12	26	15	29	-	30	29	20,7	15,6
Generally unchanged	56	55	67	86	75	80	100	50	88	74	85	71	88	61	102	72,9	75,3
PRODUCTIVE CAPACITY																	
Significantly up	11	18	11	14	25	40	33	-	37	16	15	29	12	17	26	18,6	19,5
Significantly down	11	18	-	14	-	-	-	25	-	5	5	-	-	9	9	6,4	7,1
Generally unchanged	78	64	89	72	75	60	67	75	63	79	80	71	88	74	105	75,0	66,2
LIMITING FACTORS																	
Shortage of skilled labour	-	-	11	-	-	-	33	25	25	-	5	14	25	17	14	10,0	10,4
Shortage of raw materials	11	-	-	-	-	-	-	-	-	5	-	-	-	-	-	-	3,9
Shortage of funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,5
Other (demand, facilities)	89	100	89	100	100	100	66	75	75	95	95	86	75	83	126	90,0	60,4
EXPECTATIONS																	
Significant improvement	11	9	11	14	25	-	-	-	12	5	10	29	25	13	*16	11,5	14,3
Significant deterioration	-	45	33	57	50	-	33	25	37	16	55	29	25	26	*44	31,7	32,5
Generally unchanged	89	45	56	29	25	100	67	75	50	79	35	42	50	61	*79	56,8	54,5
OVERALL COST OF PRODUCTION																	
Significantly up	44	36	78	43	-	40	67	75	75	58	60	57	37	56	*76	54,7	60,4
Significantly down	11	-	-	-	-	-	-	-	-	5	-	-	-	4	* 3	2,2	3,2
Generally unchanged	44	64	22	57	100	60	33	25	25	37	35	43	63	39	*60	43,1	30,5
No. of respondents	9	11	9	7	4	5	6	4	8	19	20	7	8	23	140	100	100

* one respondent did not reply to this section of the questionnaire

Sombre mood was dominant at investment conference

CAPE TIMES 23/11/82

By A H HEARD 49

ONCE A year the moguls of business spend two days in the Carlton Hotel in Johannesburg testing the pulse of the nation's economy.

The event is the Financial Mail's investment conference, which is going strong after more than a dozen years. But the economy is not — and the warning from the chairman of Thursday's opening session, Mr Ian MacPherson, chairman of SA Associated Newspapers, was simple and apt: "It's going to be a tough year."

The FM conference is an occasion for a meeting of minds among those who guide the South African economy and well-selected speakers from abroad. It is run on impressive lines under 30 Venetian-glass chandeliers in the luxury hotel, complete with luncheons and parties. The occasion, however, is not as splendiferous as the annual meetings of the International Monetary Fund and World Bank, vividly described by Anthony Sampson in his recent book "The Money Lenders". But, as a modest local equivalent, the FM event recalls Sampson's description:

"No convention in Washington is quite so overwhelming as the gathering of 4 000 dark-suited men who arrive in the fall, flying in from 140 countries, to take over the Sheraton Washington Hotel. They seethe into the lobbies, lurk round the entrances and crowd into the garish elevators impregnating every floor with their intensity."

Not all men

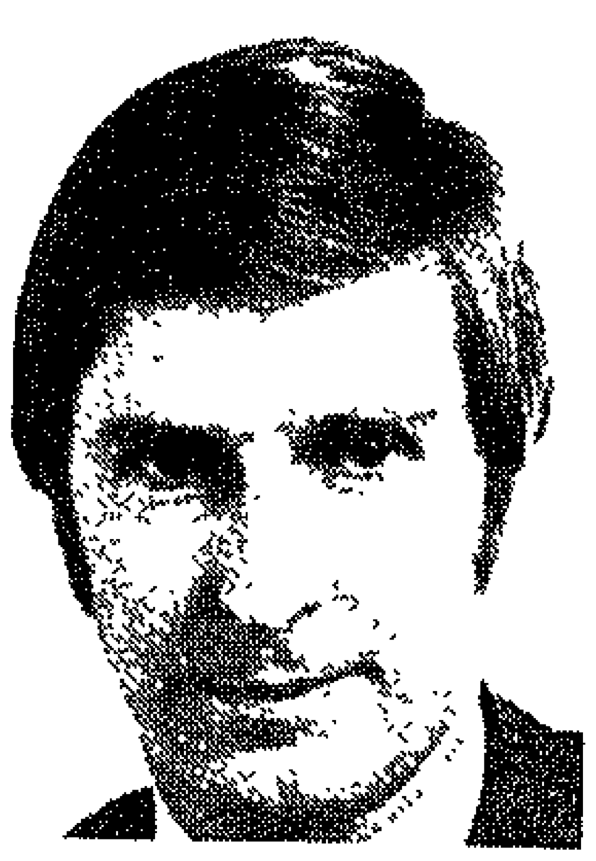
The Johannesburg occasion draws hundreds not thousands, usually dark-suited but, increasingly, not all men. Hawk-eyed, smartly-dressed women, with their FM folders and poised felt-tipped pens, sprinkle the auditorium, as a reminder of new breezes in traditional business circles. The elevators are not garish, and the intensity is not so obvious as at the IMF.

This year the enrolment, in an economic downturn, was a record 310 delegates, showing that when times are hard business people turn to this occasion for guidance.

The technical trends and details are being canvassed fully in the financial pages. But what general mood emerged from the Carlton Hotel last week? The most-mentioned word that remains with me is "sombre". Caution was king. No despairing gloom, but an unpreparedness to stick necks out. The optimists expect an export-led recovery late in 1983. Yet it all depends on that strained and puffing engine that pulls the Western economy, the United States.

So the local strategy is to batten down hatches, and wait, hoping that the SA downturn will trip-switch into a Western recovery. In brief, what is expected is a year's economic siege, plus lots of hope.

Prognostications about the gold-price, which underpins our mining economy, were Delphic. Urbane Robert Guy, the youngish Rothschilds director who chairs the gold-fix in London, was even more cautious than on past appearances at the conference, saying only that, although long-term prospects are good, they are not "immediately bullish". The bullion broker refused to give a questioner a two- to three-year price prediction. One gained the impression that most crystal-gazers found their ball misted up — that buying gold just now could be as pot-luck as going to Sun City.



Mr Robert Guy — a bullion broker's caution

The conventional wisdom seems to be that the gold roller-coaster will swing sharply in the 300- to 500-dollar belt over the next year... barring some major event to send it crashing or soaring (e.g. Andropov Armageddon or some other unpredictable, more local madness).

Mr Owen Horwood, minister of finance, stressed the all-important role of gold, pointing out that a major gold-price rise *of it self* could turn the SA economy around. The sombre corollary was not dwelt on.

Forecasts

The conference was littered with facts and forecasts to confirm the ruling mood: Real GDP unlikely to show appreciable increase this or next year. Rising unemployment, with the threat of social unrest. Inflation still well over the level of major trading partners — and also raising the spectre of social unrest. The prospect of an informal incomes policy, with a virtually crumb-less year for civil-servant salaries. Continuing financial restraint from Pretoria. No tax relief. Heavy, and clearly inflationary, military spending. Dividend cuts. Company profit fall-backs. Costs and prices spiralling. Rather painful assorted ills.

And abroad, amid the most savage recession since the 1930s and in spite of the undertaker having been beaten from the door of the world banking system, plenty of gloom. As stockbroker Mr Ian Lamont picturesquely described it: "Banks have refused to bury their dead. Instead of turning undertaker, they have become taxidermists." Anyway, Mr Lamont *was* prepared to brush the mist from his crystal ball and forecast a gold-price average for next year: about 440 dollars.

Disruptive

There was grim food for thought in the warning that inflationary salary increases and financial policies could, in the medium term, be as socially disruptive as the unemployment caused by salary and financial restraint. Mr Lamont: "If we fail to get to grips with inflation, what is euphemistically called social unrest will be far worse in a few years from now." The invidious choices facing a country with a high inflation rate AND a high unemployment rate were obvious. Yet there is the added knife in the wound: the lack of skilled workers is as great a problem as ever. Mr Lamont recalled a telling remark by Mr Mike Rosholt: "This is one of the only countries in the world where we still have a shortage of skilled labour in a recession."

Amid the technical business discussions came a compelling black voice, that of Mr Piroshaw Camay, general secretary of the Council of Unions of SA, who warned that the government's clampdown on trade unions meant that managements could be placed in the "peculiar situation" where there was no one to negotiate with, because of bannings, detentions etc.

Mr Camay pitched his speech pretty strongly, possibly over-much so, if his intention was to penetrate the natural defences of conservative business leaders. But it was wise and realistic to create a forum for these strong views, and it would be folly to ignore his warnings of the increasing militancy of trade unions as South Africa enters a year of heavy retrenchment. As he put it: "Managements are shedding surplus labour as if they are getting rid of old furniture". And this, he said at a time when they should be creating more jobs.

Mr Piroshaw Camay — strong black voice

Homelands

His line on homelands was implacable opposition to the ideological base, but preparedness to accept the concept of regional development on ordinary economic grounds. Though couched in less velvety, hence less persuasive words for this particular audience, they were not unlike the homelands opinions of Mr Harry Oppenheimer. Apt, too, was Mr Camay's warning that to produce effective workers, training should be open to all, uncluttered by apartheid. Indeed, one might ask Mr Fanie Botha: How can people, after separate, inferior training, compete on an open market?

Mr Harry Oppenheimer — retiring on optimistic note

It was left to Mr Oppenheimer to give the *coup de grâce* to government decentralization dogma, based, as he termed it, on the "neo-Verwoerdian plan to shift population to the homelands". An impressive counter to the nonsense talked by (particularly Cape) Nationalists about taming the flood of Africans to the cities was his remark that cities like Johannesburg, Cape Town, PE and Durban are, in world terms, only medium-sized. His observations prompted the thought: Why, then, the panic which sends big blue administration vans to pick up thousands from our streets? Is it not based, plain and simple, in racialism?

Reaganomics

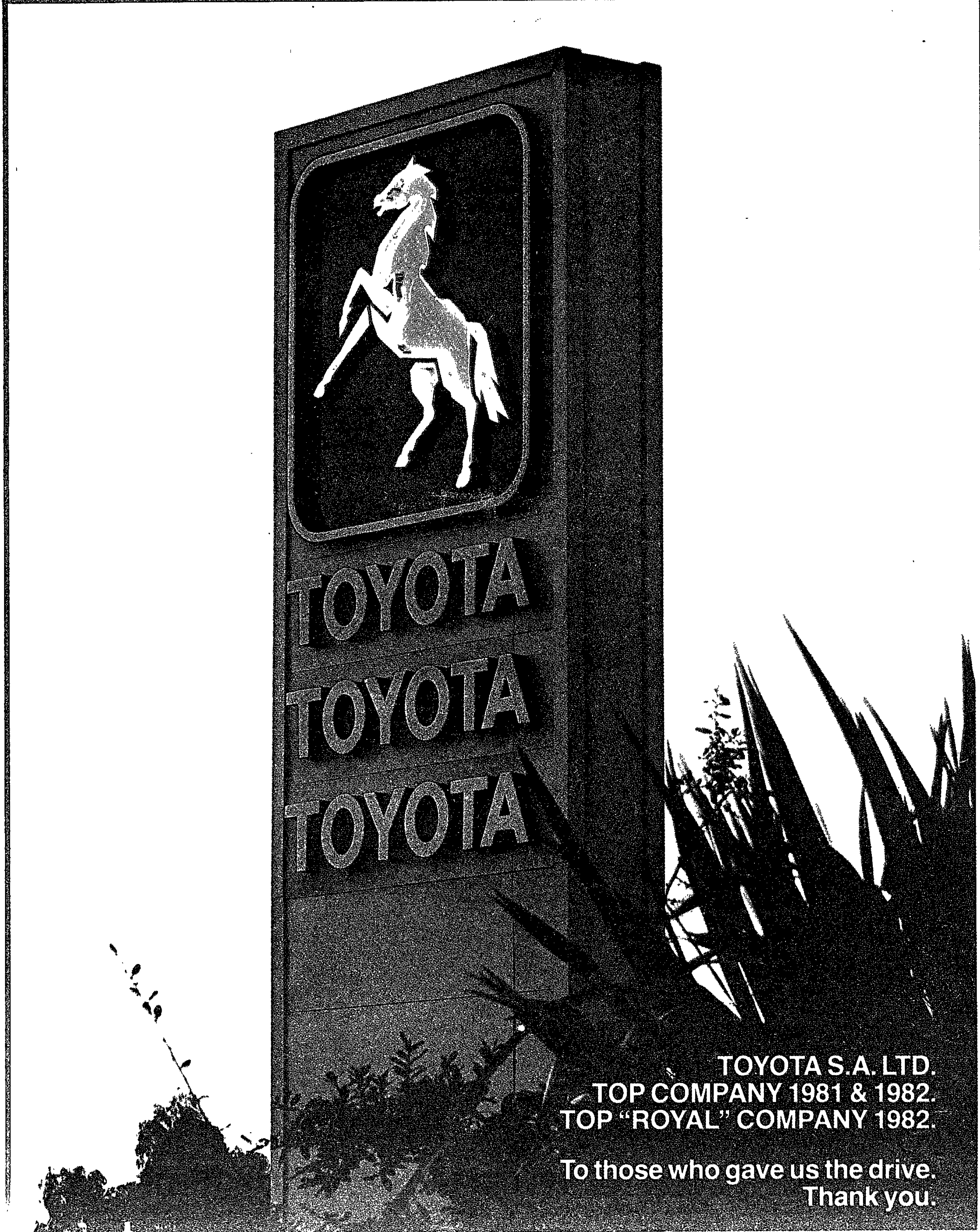
Mr Oppenheimer left the conference with some hope that Reaganomics would work, that US recovery would in fact come by the second half of 1983, and that the Western world, democratically strengthened by Reagans and Thatchers prepared to carry out the voters' mandate, was seeing the beginning of the end of the painful adjustment brought about by the energy crisis.

● Which means the private-sector's Most Important Person ends his many years as Anglo's chairman on an optimistic note, in spite of the tough year ahead. That brings some comfort.

(49) Please file this whole section

THE TOP COMPANIES OF SOUTH AFRICA

Sunday Times
BUSINESS TIMES
DECEMBER 12 1982



HERE THEY ARE . . . THE TOP 100 COMPANIES

HARDLY a year passes without a puzzled company chairman querying his company's ranking in the Business Times Top 100, or complaining that the company should have been near the top but was not included at all.

The bewilderment among those not involved in drawing up the list is understandable.

The Top 100 is not a mere repetition of bottom-line figures in corporate financial statements.

The Top 100 rules spelt out

Doug Gair, manager of the JSE listings department, who oversees the compilation of the Top 100, notes that "it's not just a question of taking out balance sheets and putting them through a computer.

"Decisions and adjustments have to be made." The final decisions rest with the Business Times editor.

Inevitably, there are grey areas. Last year's list consisted in the end of 101 companies, simply because of the difficulty of deciding whether one well-known group fell within the criteria for inclusion.

"It's done as fairly as possible," says one of Mr Gair's team, noting that "we haven't got an axe to grind".

There are some firm ground rules and guiding principles. Since Protea's Fred Beard began drawing up the Top 100 list, the basic yardstick used to measure all companies has been earnings per share, (EPS) rather than sales (used by Fortune magazine for its Top 500), assets (the criterion preferred by the Financial Mail for its Top Companies) or return on capital (used by Management Today and others).

One reason for plumping for earnings per share is that the Business Times list aims to measure performance rather than size.

EPS gives a good idea of a company's growth record, and a small company thus has as much chance of heading the list as a giant conglomerate.

Performance

Barlow Rand and SA Breweries, SA's two largest industrial groups, are well down in the rankings.

To eliminate brief flashes of good or bad luck (and management) in a company's performance, the growth in EPS is measured over a period of five years.

Before the JSE took over the Top 100 in 1976, earnings in the most recent year were simply compared with those five years previously.

Now annual growth is compounded derived from a mathematical formula devised by the JSE based on the concept of regression analysis.

Several sectors are automatically excluded from the list. The performance of mining companies is difficult to compare with that of industrial groups because of the special amortisation methods used by the mines.

They normally charge the replacement cost of mining assets to revenues only when new equipment is purchased.

Banks and insurance companies are left out. Their published results, distorted by transfers to and from hidden reserves, frequently do not give a true picture of trading performance. Only Barclays and Stanbic have so far disclosed the extent of these transfers.

Even among the 390-odd industrial companies currently listed on the JSE, several do not qualify for inclusion.

False impressions

Any group which has posted a loss in one or more of the past five years will not find itself in the Top 100.

A loss complicates the computation of annual growth in earnings per share. In any case, it is unlikely that any such company would find itself near the top of the list.

Because of the need to assess performance over a five-year period, any group listed on the JSE after 1978 has not been considered for this year's Top 100 honours.

Similarly, companies which have been delisted in the past five years are ignored.

Some companies have been excluded for special reasons. Putco's state subsidy for its bus services mean that its results are not an accurate reflection of trading performance.

The rules lay down that the base year on which a group's compound growth is calculated must be "normal".

The definition of "normal" is obviously subjective, but the aim is to weed out those cases where growth in earnings per share may give a false impression of trading achievement.

One example is Bertrams, the wine and spirit producer, which — had it been included — would have been near the top of last year's list.

Bertrams earned a mere 0.7 cents a share in 1976. From this abnormally low base its EPS more than trebled in 1978 and doubled again to 5,3 cents in 1979.

Mergers and takeovers create a major headache for the adjudicators. In terms of the rules, a change in the basic structure of a company or the nature of its business disqualifies it from the Top 100.

A cash shell which is transformed into a large manufacturing or retailing group is normally excluded.

Allied Technologies was not in the running for several years after its reverse takeover of STC in 1977.

The reorganisation of Barlow Rand's sugar interests earlier this year in the wake of the Tiger Oats takeover make it unlikely that C G Smith will be considered for the next five years. (It was included this year because the last set of accounts available to the adjudicators was for the year to September 1981).

Pyramid companies, in other words those which derive the bulk of their earnings from another quoted company, are out of the runniing for the Top 100.

One example is Jaff-Delswa, the investment holding company whose main source of income is dividends from Delswa Ltd.

If annual comparisons are invalidated by a far-reaching change in accounting policies, the company in question will not be included.

Stock valuation

But a switch from the Fifo to Lifo method of stock valuation, which has become increasingly popular in the past year or two, is not sufficient grounds for disqualification.

Results for accounting periods longer or shorter than the usual 12 months have been adjusted to reflect annualised figures.

The general aim of the Top 100 is to track results related to trading activities which are repeatable.

As a result, extraordinary items stemming from, say a property sale, are likely to be excluded — provided they are listed in the accounts as extraordinary or abnormal profits or losses.

If they are not specifically mentioned, the adjudicators have little way of knowing about them.

One of the compilers of the list reckons that the items eliminated from a company's accounts are those which are "quite fortuitous and non-recurring and invalidate a reasonable comparison".

The usual cut-off date for inclusion in the Top 100 is a financial year ending on June 30, with the proviso that financial statements must be received by September 30.

The few companies with a July or August year-end are also considered if their results are published by the September 30 deadline.

Business Times also publishes a list of "Royal" companies. To qualify, companies must have notched up a growth rate of at least 10% in the first year and 20% a year for the remaining part of the five-year period.

The "Royal" list also excludes companies, such as Bertrams, which have been disqualified from the Top 100 because of an abnormal base year.

Position 1981	Rank	Company	Earns Growth	Market Sector
1	1	Toyota (South Africa) Ltd	129,9	Motor
4	2	Goldfields Industrial Corporation Ltd	87,8	Engineering
18	3	Plate Glass and Shatterprufe Industries Ltd	87,1	Industrial Holding
31	4	The Union Steel Corporation of SA Ltd	86,8	Steel & Allied
11	5	Duro Industries Ltd	85,1	Engineering
43	6	B & S Steel Furniture Company Ltd	78,2	Furn & Household
61	6	Delswa Ltd	78,2	Cloth., Foot, Text
5	8	Saficon Investments Ltd	75,9	Motor
11	9	Mathieson and Ashley Ltd	75,3	Printing & Publish
—	10	Mooi River Textiles Ltd	74,9	Cloth., Foot, Text
16	11	Associated Furniture Companies Ltd	72,1	Furn & Household
89	12	Gold Fields Property Co Ltd	66,6	Property
14	13	Anglo American Gold Investment Co Ltd	66,3	Mining Holding
24	14	Boumat Ltd	61,4	Building & Cons
35	15	Trencor Ltd	60,3	Transportation
71	16	Television & Electrical Holdings Ltd	60,0	Furn & Household
47	17	Premier Paper Ltd	58,0	Paper & Pack
25	18	C.N.A. Investments Ltd	57,1	Stores
2	19	Press Supplies Holdings Ltd	56,9	Paper & Pack
22	20	Amalgamated Retail Ltd	56,4	Furn & Household
15	21	Seardel Investment Corporation Ltd	56,1	Cloth, Foot, Text
23	22	Gypsum Industries Ltd	55,5	Building & Cons
3	23	McCarthy Rodway Group Ltd	55,3	Motor
—	24	Rand Mines Properties Ltd	54,9	Property
20	25	U.C. Investments Ltd	54,4	Mining Holding
37	26	S.A. Bias Binding Manufacturers Ltd	52,2	Cloth., Foot, Text
32	27	Suncrush Ltd	51,6	Bev & Hotels
13	28	Free State Dev & Invest Corp Ltd	51,0	Mining Holding
53	29	SAPPI Ltd	49,8	Paper & Pack
18	30	Eriksen Consolidated Holdings Ltd	49,5	Motor
29	31	Anglo-Alpha Ltd	48,7	Building & Cons
10	32	Berzack Brothers (Holdings) Ltd	48,5	Engineering
73	33	B T R South Africa Ltd	48,2	Industrial Holding
84	34	Burlington Industries Ltd	48,1	Cloth., Foot, Text
94	35	Rennies Consolidated Holdings Ltd	46,2	Industrial Holding
—	36	Scottish Cables Ltd	46,1	Elect, Elec & Bat
38	37	W & A Investment Corporation Ltd	45,5	Industrial Holding
28	38	Sentrust Bpk	45,3	Mining Holding
26	39	Bradlows Stores Ltd	44,9	Furn & Household
39	40	Union & London Inv Trust Ltd	44,8	Investment Trusts
—	41	Federale Volks Bpk	44,3	Industrial Holding
76	42	Malbak Ltd	43,3	Industrial Holding
69	43	Blue Circle Ltd	43,0	Industrial Holding
33	43	General Mining Union Corp Ltd	43,0	Mining Houses
—	43	South African Assoc Newspapers Ltd	43,0	Printing & Publish
36	46	Consol Ltd	42,3	Paper & Pack
27	47	Cadbury Schweppes (SA) Ltd	41,9	Food
—	48	Aberdare Cables Africa Ltd	40,7	Electr, Elec & Bat
7	49	Allied Technologies Ltd	40,4	Electr, Elec & Bat
82	50	Romatex Ltd	40,1	Cloth., Foot, Text
55	50	Micor Holdings Ltd	40,1	Industrial Holding
40	52	Dunlop SA Ltd	39,7	Motor
69	53	Trade and Industry Accept Corp Ltd	38,8	Banks & Fin
63	54	Evelyn Haddon & Co Ltd	38,6	Paper & Pack
—	55	Blaikie-Johnstone Ltd	38,3	Building & Cons
6	56	New Wits Ltd	37,8	Mining Holding
—	57	Rex Trueform Cloth Company Ltd	36,8	Cloth., Foot, Text
8	58	Gold Fields of SA Ltd	36,6	Mining Houses
90	59	SA Breweries Ltd	36,5	Bev & Hotels
48	60	Everite Ltd	36,3	Building & Cons
9	61	Middle Wits (Western Areas) Ltd	35,8	Mining Holding
65	62	President Catering Suplies Ltd	35,7	Furn & Household
42	63	Searles Holdings Ltd	35,3	Cloth., Foot, Text
76	63	National Selections Ltd	35,3	Investment Trusts
54	65	Chemical Holdings Ltd	35,2	Chemicals & Oils
63	66	Vereeniging Refractories Ltd	35,1	Steel & Allied
93	67	The Huletts Corporation Ltd	35,0	Sugar
78	68	Industrial Selections Ltd	34,8	Investment Trusts
—	69	The Unisec Group Ltd	34,7	Industrial Holding
66	69	Metal Box SA Ltd	34,7	Paper & Pack
66	71	Grinaker Holdings Ltd	34,5	Building & Cons
49	72	Pick 'n Pay Stores Ltd	33,9	Stores
—	73	Ellerine Holdings Ltd	33,8	Furn & Household
84	74	World Furnishers Group Ltd	33,5	Furn & Household
72	75	Argus Printing & Publ Co Ltd	33,0	Printing & Publish
—	76	Metal Closures Group SA Ltd	32,8	Paper & Pack
88	76	The Tongaat Group Ltd	32,8	Sugar
—	78	Carlton Paper Corporation Ltd	32,6	Paper & Pack
45	79	Grand Bazaars Ltd	32,3	Stores
—	80	Murray & Roberts Holdings Ltd	31,6	Industrial Holding
101	80	First Union General Invest Trust Ltd	31,6	Investment Trusts
54	82	DiRoyal Investments Ltd	31,4	Industrial Holding
60	82	Natal Chemical Syndicate Ltd	31,4	Chemicals & Oils
75	82	Berkshire International SA Ltd	31,4	Cloth., Foot, Text
—	85	Williams, Hunt SA Ltd	31,2	Motor
—	85	The Lion Match Company Ltd	31,2	Tobacco & Match
—	87	Eastern Province Newspapers Ltd	31,1	Printing & Publish
—	88	Plascon-Evans Paints Ltd	30,8	Chemicals & Oils
—	89	Chubb Holdings Ltd	30,7	Engineering
—	90	The Sterns Diamond Organis Ltd	30,6	Stores
41	90	Currie Finance Corporation Ltd	30,6	Industrial Holding
100	92	AECI Ltd	30,5	Chemicals & Oils
—	93	Pretoria Portland Cement Company Ltd	30,4	Building & Cons
92	93	Barlow Rand Ltd	30,4	Industrial Holding
—	95	Darling & Hodgson Ltd	29,8	Industrial Holding
57	96	Vogelstruisbult Metal Holdings Ltd	29,5	Mining Holding
—	97	Central African Cables Ltd	28,7	Elect, Elec & Bat
87	98	Garlick Ltd	28,3	Stores
50	99	Transvaal Consol Land & Explor Co Ltd	27,9	Mining Houses
58	100	Protea Holdings Ltd	27,8	Industrial Holding

In a recession . . . a record performance

By STEPHEN ORPEN, Editor, Business Times

LAST year, the Top 100 belonged to the motor industry. The year before it was dominated by mining houses.

This year the list belongs not to any one corporate sector, but to them all.

Collectively, the 100 companies have produced their best performance in the seven years since the "new" Top 100 formula was introduced in 1976 — when the calculations went electronic at the Johannesburg Stock Exchange data bank.

Other records have also tumbled this year.

Under the ranking basis — average annual compound growth in earnings per share over five years — the top company has produced the most impressive figure since 1976.

Also, the cut-off figure at the bottom of the current list is virtually equal to the previous highest ever — in 1976, when the earnings figures in the top half of the list were at significantly lower levels.

Not least, 1982 has delivered more "Royal" companies (earnings per share growth of at least 20% compound in each of the past five years) than in any previous period since the exercise was computerised.

During a severe recession, how can this be?

Professional analysts will answer immediately. Most of the Top 100 figures for 1982, they will say, include operating results covering at least the second half of 1981 (for companies with financial years to end-June).

Further: in a significant number of cases, which include the number one company, the earnings growth cut-off is as early as the year to end-December last year.

The first message may seem obvious. A goodly slice of boomtime riches helped boost the 1982 Top 100 figures.

The second message may also appear self-evident. Over the turning points in cyclical swings — as a boom changes to a downswing, or vice-versa — straightforward comparisons of company performances according to their latest financial years can be dramatically distorted.

There are two main points with a direct bearing on the Top 100:

● The most recent change, from boom to recession, in the South African business cycle was the most sudden, turbulent and acute for many years.

Thus one would have expected it to have greatly exaggerated the difference in performance between those Top 100 companies with early year-ends and those with the latest possible within the deadlines for the programme.

● While effects of the change in cycle and difference in year-ends can certainly be traced in the Top 100 figures, these are not as marked as one might have expected.

Why? Because trading for most of the companies remained reasonably buoyant well beyond the stage (early 1982) when the recession was already supposed to be biting deeply.

Thus the top company, Toyota, would easily have held its position even if its figures for the year to end-June 1982 had been taken, instead of the figures for its latest audited financial year — to end-December 1981.

That the same cannot be said for some other motor companies — for instance, McCarthy Rodway — illustrates the distortionary impact of the change in cycle and different year-ends.

It shows that factors like market positioning, product and product mix, and management excellence and flexibility may be just as important even within a given sector.

They may not eliminate the cycle/year-end effect but they can go a fair way towards off-setting it.

Of course, inasfar as Toyota may have benefitted from its earlier year-end (six months before McCarthy's) it can be expected to suffer when the economy swings back into the sunshine.

Thus the acid test remains performance over a period sufficiently lengthy to encompass at least two changes in cycle — and here the Business Times Top 100 formula cannot — or could not — be faulted.

Why "could not"? Because the very fact that the 1982 Top 100 results are the best since 1976 suggests, among other things, that a period of more than five years may have to be considered in future to guarantee that at least two cyclical turns are encompassed.

Nevertheless, there is no gainsaying that, whatever adjustments may be necessary to the Top 100 formula, companies like Toyota will continue to outstrip all others as long as they are managed as well as they are.

Like a number of the other Top 100 companies, Toyota has proved that outstanding management will keep delighting shareholders whatever the basis of performance measurement.

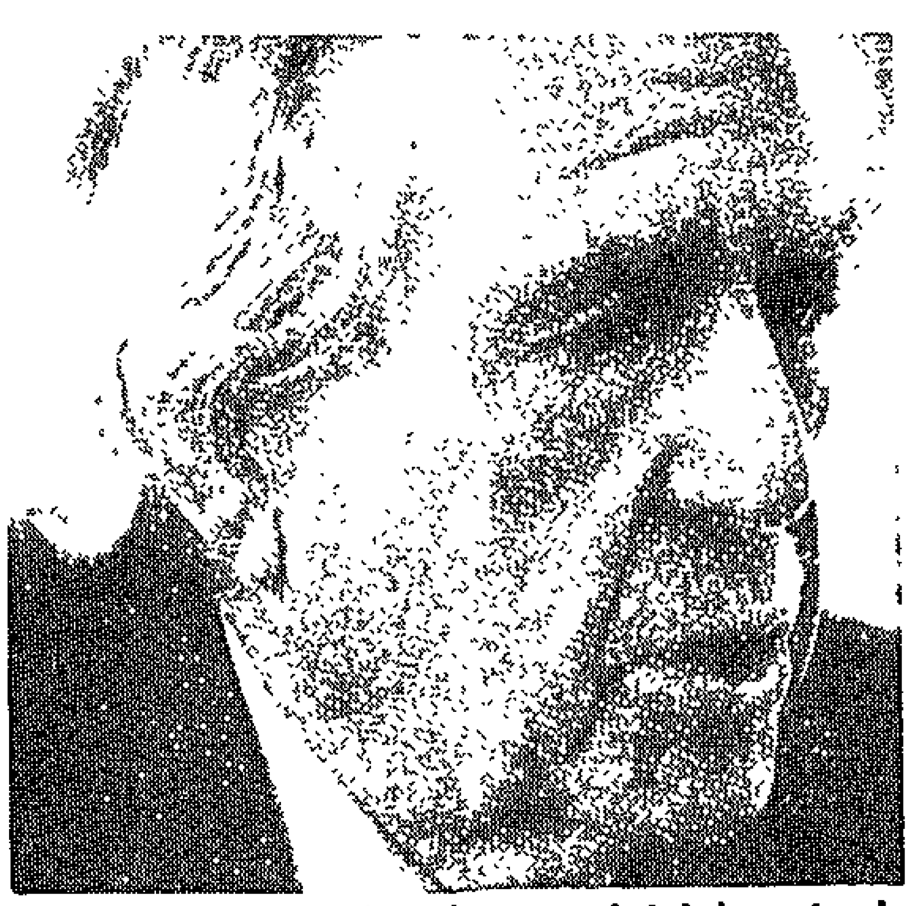
To head the Top 100 list for the third time while also leading the "Royal" companies (see page 4) is the best possible confirmation Toyota could have supplied of the value of the BT Top 100 programme, whatever the possible shortcomings.

Needless to add, it is also a tremendous accolade for the Toyota team.

21 YEARS LATER, TOYOTA HAS ITS COMPETITORS RUNNING SCARED

Albert's baby is a BIG boy now

TOP 10



Chairman Albert Wessels . . . maintaining steady growth

MD Colin Adcock . . . "value for money"

By BERNARD SIMON

A SENIOR executive of one of Toyota South Africa's rivals pays the company a backhanded compliment.

Only by relying on heavy subsidies from suppliers in Japan, he asserts, could Toyota have reached its present position in the South African motor industry.

Subsidies or not, Toyota has had its competitors running scared. Its share of the passenger car market has soared from less than 8% in 1978 to a point in the second half of 1982 where one in every four cars bought in SA was manufactured by Toyota.

Likewise, Toyota accounts for about one-third of the light truck and mini-bus market.

The surge in sales is reflected in the company's financial results. Net profit has jumped 34-fold from the depths of the 1976-77 recession to R43,8-million (before Lifo adjustments) in 1981. Earnings per share are 23 times higher.

Few will begrudge Toyota the number one slot in the Top 100 for the second year running.

Toyota's recent performance is a far cry from the shaky franchise set up 21 years ago by Albert Wessels after he turned a textile-buying trip to Japan into an opportunity to persuade Toyota to appoint him as its agent in SA.

A total of 384 Toyotas were sold in SA in 1962.

Toyota SA is still controlled by Wessels' family company, Wesco. But JCI has recently built up a sizeable stake. During 1982 it increased its direct share in Toyota from 14.7% to almost 19%. It also has a substantial interest in Wesco.

Toyota Japan has no shareholding in the South African company because of the Tokyo government's prohibition on direct investment by Japanese companies in SA.

Its income from Toyota SA consists of licensing fees and royalty payments, as well as payment for CKD kits imported from Japan.

Toyota's products are aimed at every segment of the motor vehicle market, with the exception of the top-of-the-line luxury cars.

It has assembled and marketed Renault vehicles, but Renault is setting up its own distribution network from the beginning of 1983, and some Renault models will be produced by Leyland.

Colin Adcock, Toyota's MD, ascribes the success of the last few years to "a value-for-money concept".

"There has been no subsidy from Japan," he says with feeling, although he notes that "we get keener prices because of volume."

During the 1980-81 boom, that meant selling Toyotas at prices well below those of its competitors.

A two-door Corolla last year cost R500 less than the cheapest Datsun and R1 000 less than a Ford Escort.

Some Toyota models are still cheaper than their rivals. A notable example is the Hi-Ace, which sells for R1 200 less than a VW Microbus.

But most other manufacturers have fought back and Toyota cannot claim to be selling the cheapest cars in SA.

Interestingly, Toyota was among the laggards in this year's discounting war, offering far smaller reductions than some of its rivals, notably Sigma. "We never became involved. There was no feeling that we were in any trouble," says Mr Adcock.

Instead, Toyota dealers pushed their vehicles' higher trade-in value. The tactic appeared to work. Toyota's share of the car market was 14,6% last January; by September it had climbed to 25%.

The question now is how Toyota will fare in the recession. It will certainly not be immune.

Mr Adcock forecasts that total car sales will drop to around 260 000 vehicles in 1983, light commercial vehicles to 108 000 and heavy trucks to 17 500.

"That decline will affect us," adds Albert Wessels, still the company's chairman.

It already has, and in more ways than a drop in overall sales volumes.

Purchases of Toyota cars slipped from 5 537 units in September to 4 362 in October. More disconcerting was a sudden dip in its share of the market, from 25% to 21,6%.

Its slice of light commercial sales was also down, from 33,8% in September to less than 30% in October.

Mr Adcock asserts that his aim is to maintain Toyota's share of the car market at 25% in 1983 (which is, in fact, a two-percentage point increase, representing Renault's share, which will not be reflected under Toyota's name from January). He admits, however, that "it will be very difficult."

Toyota faces stiff competition not only from the discounters, but also from several popular new models, such as the Datsun Skyline, the revamped VW Passat, Honda's Ballade and, from next year, the Ford Sierra.

Mr Adcock will not disclose Toyota's own plans, but the chances of a totally new design seem small.

Pressure on profits is increasing. Despite higher sales in the first half of 1982, Toyota's pre-tax earnings fell by 35% to R23-million and attributable earnings by 40% to R9,5-million.

One stockbroking analyst forecasts earnings per share for 1982 as a whole at 420 cents, down from 798 cents (including Lifo adjustment) last year. year.

The entire motor industry, which still imports a substantial part of its inputs, has been hit by the fall in the rand against major currencies.

Because of weakening demand, it has been difficult to pass on cost increases to consumers.

"We're being very careful with retail price increases," says Mr Adcock. "A sudden increase would bring the market to a standstill."

He reckons that Toyota has had to absorb virtually the full impact of the rand's decline against the Japanese yen.

Toyota has learnt from hard experience that volume is more important than price, because of the high fixed costs of an assembly line.

During the recession in the mid-1970s, its sales fell by only around 15%, but profits plunged by more than half.

Not surprisingly, it is doing its best to keep up production at its Durban plant.

By mid-November it had not laid off a single worker and the assembly line was still turning out 412 vehicles a day — not much below the plant's capacity of 436 units.

Mr Adcock is budgeting for a production rate of "just over" 400 in the early months of 1983, but won't be drawn on what might happen after that if the market continues to soften, as seems likely.

He reckons that black spending will underpin the motor market during the recession. At present, blacks (including coloureds and Asians) account for one-tenth of Toyota's car sales and 23% of light commercials.

Despite rising unemployment among blacks, Mr Adcock asserts that "those that are in jobs are earning more than in 1976/77."

The high priority of the black market in Toyota's planning is reflected in the rapidly-growing number of black-run dealerships. There were 12 at the end of 1981.

Since then the number has risen to 17, and another eight are likely to open in 1983.

Despite the decline in half year income, a higher dividend is on the cards for 1982.

Even the interim payment of 55 cents (up from 50 cents) was 4,3 times covered by earnings. Toyota can probably comfortably afford a total dividend of 130 cents.

Albert Wessels (who says he will "seriously consider" retiring next year when he turns 75) avers that his dividend policy is to maintain "steady growth" rather than aim for a specific level of cover.

Indeed, the dividend cover has ranged from 2,1 to 7,0 in the past six years, and analysts suspect that JCI is keen to increase its dividend income from Toyota.

But Dr Wessels may be forced to lower his target if the recession is as deep during 1983 as most economists forecast.

Despite his good intentions, Toyota has cut dividends before. The 1977 dividend was barely one-sixth of that paid two years previously.

"I would be a seller of the stock," says one stockbroking analyst bluntly.

Rank	Company Name	Earns Growth	Market Sector
1	Toyota (SA) Ltd	129,9	Motor
7	Delswa Ltd	78,2	Clothing, Footwear, Textiles
8	Saficon Investments Ltd	75,9	Motor
9	Mathieson and Ashley Ltd	75,3	Printing and Publishing
10	Mooi River Textiles Ltd	74,9	Clothing, Footwear, Textiles
12	Gold Fields Property Co Ltd	66,6	Property
15	Trencor Ltd	60,3	Transportation
18	CNA Investments Ltd	57,1	Stores
26	SA Bias Binding Manufacturers Ltd	52,2	Clothing, Footwear, Textiles
27	Suncrush Ltd	51,6	Beverages and Hotels
31	Anglo-Alpha Ltd	48,7	Building and Construction
33	BTR South Africa Ltd	48,2	Industrial Holding
35	Rennies Consolidated Holdings Ltd	46,2	Industrial Holding
37	W&A Investment Corporation Ltd	45,5	Industrial Holding
40	Union & London Investment Trust Ltd	44,8	Investment Trust
46	Consol Ltd	42,3	Paper & Packaging
48	Aberdare Cables Africa Ltd	40,7	Electronics, Electrical & Battery
49	Allied Technologies Ltd	40,4	Electronics, Electrical & Battery
50	Romatex Ltd	40,1	Clothing, Footwear & Textiles
51	Micor Holdings Ltd	40,1	Industrial Holdings
52	Dunlop South Africa Ltd	39,7	Motor
53	Ttade and Industry Acceptance Corp Ltd	38,8	Banks & Financial Services
57	Rex Trueform Clothing Company Ltd	36,8	Clothing, Footwear & Textiles
59	The South African Breweries Ltd	36,5	Beverages & Hotels
62	President Catering Supplies Ltd	35,7	Furniture & Household
63	Searles Holdings Ltd	35,3	Clothing, Footwear & Textiles
68	Industrial Selections Ltd	34,8	Investment Trust
72	Pick 'n Pay	33,9	Stores
78	Grand Bazaars Ltd	32,3	Stores
80	First Union General Investment Trust Ltd	31,6	Investment Trusts
110	Irvin & Johnson	26,7	Food

Toast the Blue Bloods!

THE LIST OF ROYALS GROWS — AND THIS YEAR IT'S A MIXED BAG

LAST year's Top 100 survey made a great play of the fact that the list of the Royal companies — 24 in number — was the longest ever.

If you think that was good, then this year takes the cake, with no fewer than 31 companies qualifying for Royal status by notching up growth in earnings per share of 20% or more in each year since 1978.

In 1980, only five companies boasted blue blood — the same number as in 1979.

Among this year's Royals, Toyota takes top spot — the first time that the Top 100 supremo has headed the Royals ranking. That's pretty good going.

Again among the Blue Bloods is Pick 'n Pay, which has appeared in every Royals list since 1974.

Also there are Dunlop, Anglo Alpha and Micor, all of which have been part of the Royals list for the past three years running, implying an annual 20%-plus growth in earnings per share for each five-year period ending in 1980, 1981 and 1982.

An accolade, too, for Prescat and Trade & Industry — both companies out of the same stable and both companies which have earned the Royal crown for two years running.

The companies comprising this year's Royals are a truly mixed bag, although it is noteworthy that the clothing, footwear and textile sector is well represented, with Delswa, Mooi River, SA Bias, Romatex, Rex Trueform and Searles comprising a relatively large percentage of the JSE's listings in this category.

Three motor sector companies — Toyota, Saficon and Dunlop — are also strong sectoral features. In view of the current sharp dip in motor sales, it will be a major achievement for any of these companies to maintain their place in the Royals next year.

Investment trusts are also well represented by Union & London, Industrial Selections and Fugit.

What about those companies which made the Royals in 1981 but didn't make the grade this year?

The disappointing gold performance ensured that New Wits, GFSA and Mid Wits fell by the wayside, along with Press Supplies, Berzack, Cullinan, Kanhym, Claude Neon, Edgars and Protea Holdings.

Clearly, the pace is a hot one and next year it's going to be tougher still.

Companies which did qualify for this year's Royals, as well as last year's, are Pick 'n Pay, Saficon, Altech, Irvin & Johnson, CNA, Anglo Alpha, Suncrush, Consol, Union & London, Dunlop, Searles, Grand Bazaars, Micor, Prescat and Trade & Industry.

John Spira

Improved M & A again shows its business form

TENTH spot in last year's Top 100 couldn't have been an easy act to follow.

Yet Mathieson & Ashley, which has interests in business forms, financial leasing, steel office equipment and the manufacture of office furniture, actually bettered its 1981 performance by taking ninth place this year.

In common with the vast majority of listed companies, M & A is expecting a strong brake on earnings growth this year.

Chairman Lionel Jossel has warned that should sales fail to be maintained, profitability will be adversely affected.

It is, however, significant that the company's operations are well spread, suggesting that its vulnerability to the recession could be limited.

Further, its financial position is sound, with the debt:equity ratio at a low 0,21 and the interest cover at a safe 16 times.

A feature of the most recent set of results was the unusually high 35,7% return on capital employed.

By JOHN SPIRA

Trading and financial operations provide the larger part of the group's earnings, followed by the manufacture of office furniture and equipment, with printing providing the remainder.

The majority of the past year's capital expenditure went on the expansion of the printing division via new plant and equipment.

In the current year (to June 30), capital expenditure will be restricted to essential spending, apart from the R540 000 balance owing on the purchase of the buildings in which the business forms subsidiary is located.

According to Mr Jossel: "Your company's balance sheet reflects the strength of the group to see it through this period and in addition has facilities which are presently unused amounting to in excess of R2,5-million."

It is probably the chairman's cautionary remarks that have been largely responsible for the 10% M & A share price decline this year and for the above-average 14% yield rating currently accorded to this counter.

It is nevertheless noteworthy that in the two years to end-1981, M & A shares appreciated by nearly 380%, suggesting that the the company's spectacular performance of recent years has not gone unnoticed by the market.

Mr Lionel Jossel ... caution

B & S sitting pretty after the recovery

B & S STEEL Furniture Co, which manufactures steel kitchen units, tables, chairs, office furniture and institutional seating, was first listed on the Johannesburg Stock Exchange at the end of 1968.

Sixth in the Top 100 this year, B & S was formed to acquire five companies, most of whose origins went back to the early 1960s.

Since then, like all firms in the furniture industry, it has gone through several ups and downs, and the past five years' earnings represent, to a degree, a recovery from a rather depressed situation in the mid to late 1970s.

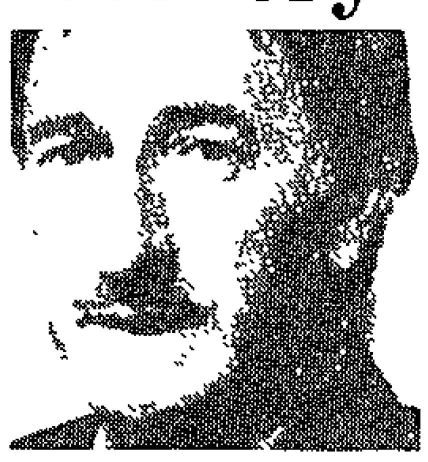
Such recovery has, however, verged on the dramatic, with earnings per share having gained strongly in each year between 1978 and 1982.

The year to December 1981 saw earnings leap from 62,2c to 94,1c, accompanied by dividends which rose from 15,5c to 18c.

Characteristic of B & S's sound management structure is that the group used last year's buoyancy to considerably strengthen its balance sheet. In particular, borrowings were cut back more than 50%, leaving B & S in a healthy position to face the 1982-83 economic storm clouds.

In his most recent annual report, chairman Hymie Back was cautious about the company's profit prospects.

Yet in the six months to June 1982, earnings were up at 31,2c (27,7c) a share.



B & S chairman Hymie Back

Earlier this year, B & S acquired Western Transvaal Industries, trading as Steelbrite, for R5,8-million.

This solved the problem of the planned extension to the group's manufacturing facilities this year, as the WTI plant is alongside B & S's Brits factory and has extra capacity.

The acquisition should improve sales volume and provide a wider range of products. This will come in useful when the economy turns and demand picks up again — especially as B & S expects the black consumer to make his presence increasingly felt in this market.

In spite of the company's outstanding track record, B & S shares offer a return which is slightly higher than the furniture sector's average.

John Spira

From 60th to 7th, Delswa rockets

DELSWA, seventh in this year's Top 100 league, was founded in 1947.

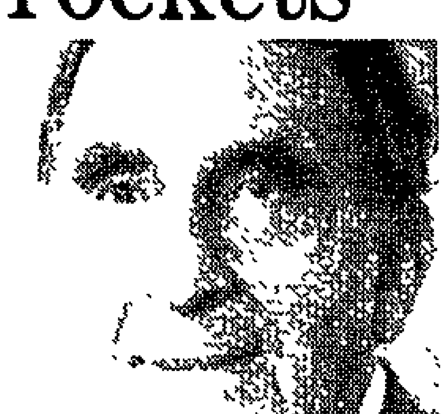
Its principal business is the manufacture and sale of women's and children's outerwear and sportswear; the knitting and sale of women's and girls' knitwear; the manufacture and marketing of schoolwear for girls; and the manufacture and marketing of boys' wear.

The past five years have seen earnings rise at a breathtaking rate, with the performance in the past year in particular having the effect of rocketing Delswa up from 60th position in last year's Top 100 to a lofty seventh this year.

Encouragingly, the growth in per share earnings from 22,3c to 216,9c between 1978 and 1982 has been accompanied by a headlong improvement in return on shareholders' funds — from a lowly 3,5% to a highly meritorious 26,8%.

At the end of the past financial year (April 30), chairman Sam Jaff told shareholders that Delswa's order books for the first half of the current financial year were full.

He said the group's policy would be directed mainly at maintaining and improving efficiency. It was embarking on extensive training programmes and would, at the same time, add to its plant and machinery by the accelerated acquisition of modern and efficient equipment.



Delswa chairman Sam Jaff

The company is in a strong financial position. Fixed assets of R2-million are undervalued and unencumbered. At the end of April, long-term liabilities totalled R73 000; the debt: equity ratio was a low 0,38 and the interest and leasing cover a healthy 6,6.

Mr Jaff has pointed to the pressures of high interest rates, the demands for increased wages and the impact of increased fabric costs and duties as factors which could inhibit earnings growth in the year ahead.

It is this note of caution which probably explains why the shares yield an above-average 10,8%.

Jaff-Delswa Investments, also listed on the JSE, holds 46,3% of Delswa's equity.

John Spira

Disastrous drop in demand for steel, but . . .

Usco goes ahead with expansion

UNION Steel Corp (Usco) has not escaped the precipitous slide of SA's steel industry in recent months.

But a plunge in profits has not deterred it from pressing ahead with ambitious expansion plans, including research work on a chemicals-from-coal process which may give the country another Sasol-type operation before the end of the decade.

Usco's pre-tax income sagged to R2,9-million in the year to September 30, 1982, from R15-million in the nine months to September 1981.

Net income, totalling R7,1-million, was boosted by proceeds from the sale of a subsidiary and hefty tax allowances on new plant.

The ordinary dividend for this year is six cents, only half what was paid in the previous nine months.

MD Jan de Waal notes that the drop in demand for steel since August has been so steep that "it's not a curve, it's a precipice. It's been pretty disastrous."

The suddenness of the turnaround is illustrated by the fact that only three listed companies managed to better Usco's performance in the five years to 1981, the last financial year on which Usco was assessed for this year's Top 100.

The group's earnings per share soared from 3,6 cents in the depths of the last recession in 1977 to 44,9 cents in the nine months to September 1981.

While turnover roughly doubled on an annualised basis in those five years, net profit jumped more than 12 times.

The biggest ordinary shareholder in Usco is Metkor, with 39%. (Metkor's largest shareholders are Iscor, Rembrandt and Volkskas Merchant Bank.)

Anglo American owns about 13% of the ordinary stock and has two executives on Usco's board. In addition, Iscor and Anglo American hold the bulk of R0,5-million worth of preference shares.

Although Usco is now sharing the woes of SA's seven other primary steel producers, it is more fortunate than most of them.

For a start, its steel operations centre on special steels, many of which are not produced by any other local steelmaker and which are not subject to the strictures of price control.

Usco's steel products include hollow-drill steel (used for drills by the mining industry); steels for flat and coil springs in motor vehicles and for tools, nuts and bolts; and high-quality steels for dyes.

The high value-added content of these products has made up for the hassles of a wide product range, with specifications tailored to the needs of individual customers.

Even at the height of the last boom, Usco's continuous casting lines were operating at around three-quarters of capacity.

Usco's second advantage is that it is by far SA's most diversified steel producer. Mr De Waal confirms that the bulk of this year's profits has come from non-steel activities, the most important of which is the manufacture of copper wire and strip drawn from copper rod.

Usco has a half share in Transvaal Copper Rod Co (the other shareholder is Palabora Mining), which produces all the copper rod used by SA's electrical industry. It owns a small copper cable plant.

Recent acquisitions have included Avon Wire, a copper strip and stainless steel wire manufacturer; and a minority stake in Thames Wire, a producer of enamelled copper wire. Usco itself bought equipment for enamelling copper wire.

The group has sizeable interests in aluminium processing. Its Vereeniging plant produces aluminium conductor, used for overhead power distribution.

Alustang, a subsidiary at Richards Bay converting molten aluminium into aluminium rod, is jointly owned by Usco, Alusaf and Aberdare Cables.

Not all Usco's non-steel divisions have contributed to earnings this year.

Veldmaster, which makes discs and scrapers for farm machinery and construction equipment, has been losing money for the past year.

Its exports have shrunk virtually to nothing as a result of stiff competition from suppliers in other countries, notably Australia and France. Local sales have been hit by the impact of the drought on farm finances.

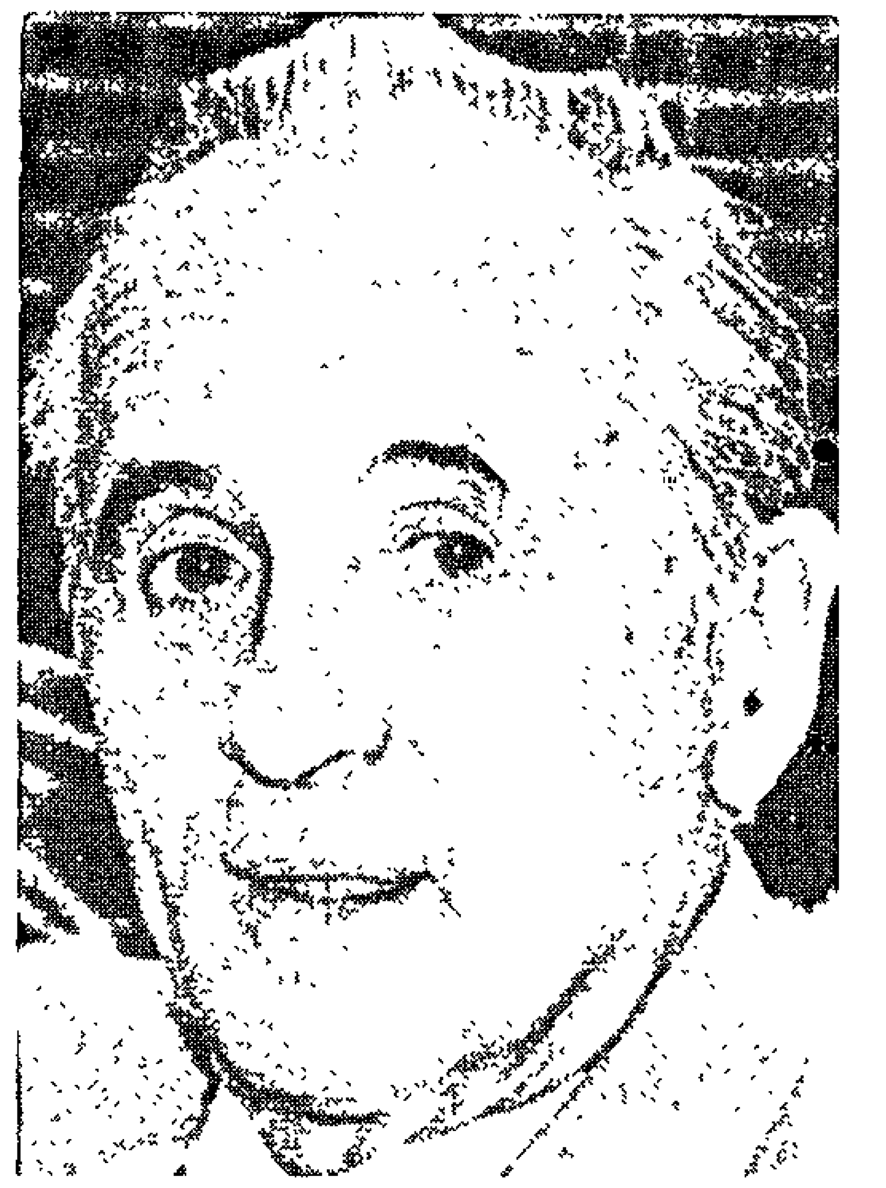
Usco's continuing expansion programme is reflected in the recent surge in the group's financing charges.

Interest payments leapt to R7,5-million in the year to September 1982 from R2,3-million the previous nine months. Depreciation provision more than doubled to slightly over R7-million.

Investments have included the modernisation of some of the company's six furnaces.

The capacity of the Leewekuil mill, which produces light sections has been raised and the mill can now produce one-ton coils and steelrod as thin as 10mm. A new forging machine has been installed.

The centrepiece of future expansion is a 250 000t a year sponge iron plant due for completion in mid-1985. Total cost of the plant and ancillary facilities will be around R32-million.



Jan de Waal . . . "drop in demand for steel has been pretty disasterous"

At present, Usco's steel capacity of around 0,3m t of molten steel depends entirely on scrap metal as a raw material. The company has no iron making capacity at all.

This has two drawbacks. First, the high copper and tin content of scrap (due to its continuous recycling) makes it unsuitable for many of the special steels produced by Usco.

Second, despite the current glut in scrap, the long-term outlook is an increasing shortage and thus spiralling scrap prices.

Usco is not alone in trying to reduce its dependence on the scrap pool. Iscor's expansion plans include a large sponge iron plant at its Vanderbijlpark works.

The sponge iron facility may be the beginning of a major breakthrough for Usco. The reducing agent to be used in the sponge iron plant will be coal gas bought from Sasol.

But Usco is working on producing its own coal gas, as well as a variety of other petro-chemicals and even liquid fuels.

One of its employees has earned a doctorate from Potchefstoom University in developing a suitable process.

Mr De Waal, himself a chemist, is non-committal for the time being. "Everything you start begins with a dream," he says. He adds somewhat optimistically that "we think we have something, but it will take at least two years to come up with an answer."

Some experts doubt Usco's ability to develop technology for a viable coal conversion plant.

One recent report said that cynics thought Usco would not be able to achieve the required conversion efficiencies and it would have endless headaches commissioning a petrochemical plant.

Mr De Waal is not — at this stage anyway — gambling his company's future on petrochemicals.

He observes that "we don't go for big expansions at one time. We would rather iron out one bottleneck at a time."

And with Iscor and cautious Anglo American in Usco's driving seat, it seems unlikely that the company will commit itself recklessly to such an ambitious venture.

Bernard Simon

Durowin: No frills but some record

"WE'VE not a fancy set-up. We haven't got flashy cars or a fancy canteen," says Simon Levin, chairman of Duro Industries (Durowin), the low-profile hardware manufacturers which fill the number five slot in this year's Top 100.

Mr Levin drives a Chevrolet Commodore, but Durowin's modesty shows in other ways too.

The company's dividend was 6,5 times covered by earnings this year, it does not disclose its turnover and the 1982 report is the first to carry any pictures — in the form of a page of uninspiring black-and-white shots of doors, windows and hinges.

Durowin shares are so tightly held that most brokerage firms have done no in-depth research on the company in recent years.

Its unlisted holding company is appropriately called Us Three. Only 38 000 Durowin shares (out of 1,1-million issued) were traded on the JSE in the first 10 months of this year.

Nontheless the group has a financial record for the past five years which many more extrovert companies would envy.

Taxed profit multiplied seven times to reach R1,9-million in the year to February 28, 1982.

Operating income rose even faster, and earnings per share — the yardstick for the Top 100 — shot up from 19,6 cents in 1978 to 168,6 cents this year.

Like most every other company on the list, Durowin's performance in its 1983 financial year (ending next February) will not match recent growth.

Not only are margins narrowing, but interest charges have soared and overheads have risen steeply.

"Business itself is not bad," Mr Levin says, "but the competition to get it is fierce. We have to quote lower prices to get the business."

"The squeeze on profits was clear from Durowin's interim report published earlier this month.

"Taxed income tumbled by half to R516 000 and earnings per share dropped by more than half to 47,6 cents. The interim dividend was cut from 12 to six cents.

Simon Levin ... "pulling up our socks"

"The chances of another dividend cut next February are high, unless dividend cover is substantially reduced."

Judging by Durowin's conservative record, the chances of trimming cover are small.

Noting that two senior executives — deputy chairman Wilfred Tobiansky and MD Len Edelstein — are the company's controlling shareholders, Mr Levin observes that "we try to keep as much capital as possible back for further development."

The same factors which propelled Durowin ahead faster than most others during the boom will probably give it a bumpier ride through the recession.

Its fortunes depend almost entirely on the building industry, one of the most volatile sectors of the economy.

Building and construction companies, hardware stores and do-it-yourself outlets are the biggest buyers of Durowin window frames, door jambs, flyscreens and a wide variety of hinges and brass fittings.

The small proportion of production not sold to the building trade goes to the almost equally volatile motor industry.

These items include bus, truck and caravan window frames.

One of Durowin's tactics to cushion the downturn is an expansion of its product range. It is offering a wider variety of aluminium products, mainly to increase its share of the coastal markets where rust-prone steel is less popular.

"We're pulling up our socks and tightening our belts," is how Mr Levin sums up the company's present priorities.

Durowin has drawn substantial benefits from Government's decentralisation incentives.

Although its head office is in Johannesburg's southern suburbs and a hardware factory is located in Edenvale, several of the company's plants are in border areas.

The managers of several outlying factories are alternate directors on the Durowin board.

One steel doorframe and window factory is in the Babalegi industrial area north of Pretoria. Another, bought in 1972, is near Lichtenburg in the Western Transvaal, and a third at Pietermaritzburg.

A new factory is currently being built in Queenstown. Burgeoning black housing development in the area will be the major market for its products.

The advantages of siting plants in decentralised growth points are clear from Durowin's financial statments.

Loans from the Corporation for Economic Development last year carried an interest rate of only 10%, while a 21-year loan from the BophuthaTswana National Development Corp, used to finance the purchase of the Hammanskraal factory, has an interest charge of 8,5%.

Other benefits of siting a business in border areas include lower wage rates than in the cities and subsidised transport costs.

Railage is a major expense on Durowin's heavy steel products, hence the decision to site its newest plant close to markets in the eastern Cape.

But there are drawbacks too. "The difficulty is to get white technicians to stay (in the rural areas)," says Mr Levin.

Resilient Saficon's cruising along

Saficon's Sidney Borsook

By JOHN SPIRA

SAFICON'S performance over the past several years encapsulates the fortunes of the country's motor industry.

As a group which sells new and used cars and commercial vehicles, distributes parts and accessories and manufactures motor components, it covers a canvas which is pretty representative of the industry in which it operates.

Saficon holds the Mercedes Benz and Volkswagen/Audi franchises on the Witwatersrand, trading as Cargo Motors and Lindsay Saker. It owns 34% of building company, Boumat.

This year, Saficon achieved the eighth ranking in the Top 100 following its fifth spot in 1981 — a track record which highlights the unusually high and growing buoyancy which has been a feature of the motor industry over the past five years.

Since early this year, however, the outlook for the motor industry has taken a sudden turn for the worse.

In his July annual report, executive chairman Sidney Borsook forecast that earnings for the current financial year to March 1983 would be 101c a share, compared with the 140,8c achieved in the 1981-82 financial period.

Saficon's interim report for 1982-83 revealed a deteriorating outlook, with Mr Borsook revising his earlier forecast downwards to 90c.

He had expected vehicle sales to fall by about 10% but the drop was far sharper for Volkswagen — one of Saficon's major franchises. Fortunately, demand for Mercedes Benz passenger cars remained at a high level.

On Saficon's prospects for the remainder of the current financial year, Mr Borsook stated: "The vehicle market is expected to contract and will remain fiercely competitive whilst the building industry will no doubt slow down."

In spite of the depressing outlook, when assessing the merits of the shares, it is difficult to lose sight of Saficon's outstanding record, management's careful nurturing of the group's assets and the healthy financial position.

At the halfway mark, the debt:equity ratio had improved from 0,6 to 0,55; the total debt to equity was better at 1,22 (1,36); and the current asset ratio was sounder at 1,6 (1,47).

The shares might be somewhat out of favour for the time being. But Saficon has emerged triumphantly from difficult periods in the past and will no doubt continue to show its resilience in the years ahead.

Labour relations demand more aggressive approach

TOP management spends 5% of its time on labour relations compared with 80% in the UK and 40% in the US.

Until now, management alone has determined the relationship, says Dr Johan Gouws, newly elected president of the Institute of Personnel Management.

"Personnel managers will have to play a much more aggressive role when handling labour relations," he says.

In future, they will no longer be "advisers", but will be considering policies and strategies when not implementing top management decisions.

He says personnel managers must play a more active role in making line-management aware of the changes taking place in the labour field.

They must anticipate changes rather than react to them, because in the next decade they will be spending more time on labour relations.

"Now that the labour force is becoming more organised, management is obliged to bargain, and this necessitates sometimes taking difficult and often — apparently — strange decisions."

Vera Beljakova

THE UNLISTED GIANTS

SCORES OF COMPANIES ARE 'TOP 100' MATERIAL, BUT THEY PREFER TO STEER CLEAR OF THE JSE

IT is an unfortunate fact that the Top 100 — like most similar lists of "top" firms in SA and abroad — consists only of companies quoted on the stock exchange.

The reason is that these are the only groups obliged to disclose the financial information needed to compile a ranking of companies by assets, revenues, earnings per share, or whatever.

By BERNARD SIMON

But listed companies comprise only a tiny proportion of the total business community. In South Africa, 493 companies are quoted on the Johannesburg Stock Exchange, which is only about 0,3% of the 165 000 firms on the files of the Registrar of Companies in Pretoria.

The listed groups do include the very largest conglomerates — Anglo American, Gencor, Rembrandt, Barlow Rand and so on.

These local giants have needed the stock exchange to raise capital. They maintain their stock market listing, partly because most are likely to turn to outside investors again for funds in the future, and partly to benefit from the publicity which a JSE listing (usually, but not always) brings.

Nonetheless, many of SA's biggest and fastest-growing companies have chosen to keep to themselves, steering clear of the JSE, disclosing the very barest (if any) details of their financial performance and, in many cases, keeping a very low profile.

Robin McGregor, author of 'Who Owns Whom in SA', relates that he wrote to 7 500 companies asking for financial data. "They gave me very little," he recalls.

Categories

Who are the unlisted giants of South African commerce and industry? The bulk of them appear to fall in six categories:

● **STATE CORPORATIONS.** No survey of SA business is complete without a mention of the public corporations, which last year accounted for over one-fifth of fixed investment.

The largest include Escom, Iscor, Armscor and — if Government enterprises are included — SA Transport Services and Posts & Telecommunications.

Escom employs over 50 000 people, some 15 000 more than Anglo American Industrial Corp and more than twice as many as Barclays National Bank.

Barlow Rand and SA Breweries are the only quoted industrial groups whose assets are larger than Armscor's R1,4-billion.

Armscor's assets have expanded tenfold in little more than a decade. Escom's revenues jumped by 21% last year (to R2,1-billion) and its capital outlays by 35% to R2,0-billion.

● Robin McGregor

Iscor's steel sales have almost doubled in volume terms in the past decade, while annual iron ore shipments are now roughly 25 times higher than in the early 1970s.

● **FINANCIAL INSTITUTIONS.** SA's two largest insurance companies are not listed on the JSE.

Old Mutual's assets stood at R5,4-billion in mid-1982, while Sanlam's total around R4-billion. Both groups' premium income bounded up by 34% to R541-million in the year to June 1982.

● **FOREIGN SUBSIDIARIES.** Only a handful of the roughly 2 000 foreign companies with investments in SA are quoted on the JSE.

They include Dunlop, Associated Engineering, Metal Box, Coates, UTC, Afrox (all controlled from Britain) and Masonite (US-owned).

Of the 10 car manufacturers with plants in SA, only Toyota (which is a locally-owned company) is quoted.

The foreign-owned groups have sizeable investments here. For example, Ford's assets in SA are guesstimated at around R300-million and General Motors' at more than R200-million.

Other large investors in the motor and related industries include Goodyear Tyre and Rubber, John Deere and International Harvester.

The biggest foreign investors of all are probably the oil majors. BP, Shell, Mobil, Caltex (jointly owned by Texaco and Standard Oil of California) and Total all have stakes in expensive oil refineries.

Measured in terms of growth, there is little doubt that foreign suppliers of data processing equipment, such as IBM, ICL, Burroughs, Control Data and Nixdorf, have been hard to beat in recent years.

The most that IBM has disclosed about the size of its South African operation is that it contributes less than 1% of worldwide revenues, which would have amounted to no more than $291-million last year.

Siemens is one of the few multinationals which does lift the veil slightly on its operations in South Africa.

Turnover rose by 36% to R363-million in the year to September 30, 1981, while taxed profit jumped by 30% to R10,3-million. Siemens' sales in SA put it on roughly the same level as Highveld Steels, Sappi and Romatex.

Foreign

Other foreign subsidiaries which rank among the biggest businesses in SA include Unilever (food and toiletries), Hoechst (chemicals and pharmaceuticals), Bayer (chemicals, pharmaceuticals and mining), Pilkington (glass), Ciba-Geigy (pharmaceuticals), General Electric (domestic appliances and electrical machinery) and GEC (electrical engineering). Barlow Rand has a 50% stake in GEC South Africa.

● **FARM CO-OPERATIVES.** The 530-odd co-ops in SA are a powerful force in the economy.

Because they are not taxed in the same way as companies and do not publish profit figures, it is difficult to compare their performance with that of commerce and industry.

But in size, the biggest co-ops match SA's leading companies.

Sentraal-Wes, the Klerksdorp-based giant, with extensive manufacturing and commercial interests throughout SA and Namibia, boasted a turnover of R1 002-million in the year to February 28, 1982.

Its assets stood at R831-million and it employs some 6 500 people.

Premier Group, in contrast, had assets of R634-million at the end of March 1982, but revenues of R1 504-million in its 1982 financial year, and almost 30 000 employees on its payroll.

Sentraal-Wes is SA's biggest co-op. It is followed by OTK, the Bethal-based group, most of whose interests are in the Eastern Transvaal; the wool farmers' group Boeremakelaars Co-op; Vleissentraal, the meat industry giant; and Noord-Wes Co-op, whose head office is in Lichtenburg.

The KWV, with an annual turnover of around R60-million, is smaller than the Big Five, but matches the political influence (within its sphere of interest) of any listed or unlisted company or co-op in SA.

● **TRADING HOUSES.** Commodity traders cannot match industrial or mining companies in the assets they own, but their revenues and earnings are often higher than the biggest manufacturing giants.

Phibro, the US trading house in which Anglo American has an indirect interest, was identified by Fortune magazine earlier this year as the largest non-industrial unlisted company measured by sales.

Phibro's annual revenues were estimated at over $25-billion last year, three times higher than the second company on the list.

Phibro's offshoot in SA is Derby & Co, which handles the sale of large quantities of the country's metal and mineral exports, as well as imports of chemicals and other industrial raw materials.

It's a safe bet that Derby's turnover is higher than many of the Top 100 companies.

The largest South African-owned commodity trader is Leo Raphaely & Sons, though it was truncated earlier this year by the sale of its steel trading division to Macsteel.

Another locally-owned trading house which rates a mention is F R Waring, whose turnover has reached over R200-million a year. Finansbank is a sizeable shareholder in F R Waring.

● **LOCALLY-OWNED MANUFACTURERS AND MERCHANTS.** Most of the large SA-controlled groups are listed on the JSE, but there are some exceptions.

They include Anglo American and Barlow Rand subsidiaries, such as Mondi Paper, Scaw Metals and Boart International (mining equipment) in the Anglo stable and Barlow's Robor (steel merchants), Middelburg Steel and Alloys and the group's domestic appliance division Barlows Manufacturing.

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JAPANESE AWARD
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Ascona has won the hearts and awards of the world's best motoring experts:
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The Magnificent Seven

SEVEN years of the Top 100 — that's 700 companies in all — have yielded a mere seven companies that have featured in the Top 100 in each of the past seven years.

The elite seven are W & A, Pick 'n Pay, TC Lands, Grand Bazaars, World Furnishers, Barlows and Industrial Selections.

On grounds of consistency alone, these seven are deserving of the highest accolades.

Although seven years of the Top 100 means that 700 companies have featured in the role of honour since 1976, there are, of course, many duplications because many companies have appeared in the list for more than one year.

Moreover, many companies have vanished from contention as a result of mergers, acquisitions and the like.

That only seven have made it every year is nevertheless a noteworthy achievement — one which suggests that the elite few have achieved a high degree of regularity in terms of substantial per share earnings increases.

THE ELITE SEVEN

	Ranking over past seven years							Ranking Totals
	1976	1977	1978	1979	1980	1981	1982	
W & A	4	11	12	19	14	37	37	134
Pick 'n Pay	23	10	4	7	19	48	72	183
T C Land	33	12	6	6	11	49	99	226
Grand Baz	40	22	23	13	16	44	79	237
World	30	56	90	72	52	83	74	457
Barlows	82	24	31	57	81	91	94	460
Ind Select	82	86	87	92	75	77	68	567

. . . AND THE NEAR MISSES

	Ranking over past seven years						
	1976	1977	1978	1979	1980	1981	1982
Metcash	1	1	5	1	3	51	—
Ellerine	53	19	43	60	85	—	73
Foschini	86	30	26	36	67	96	—
Tongaat	—	41	29	39	74	87	67
Grinaker	44	—	90	85	78	65	71
Sil Tannery	59	72	86	78	33	67	—

The accompanying table lists the Top 100 rankings which the seven have attained during the past seven years, with the right-hand column showing the aggregate of these rankings.

Accordingly, the company with the lowest ranking total — W & A — fills first place among the elite seven, followed by Pick 'n Pay and TC Lands.

Significantly, the track record of these companies is reflected in their respective share price movements over the seven years in question.

Thus, during this period, W & A's share price has multiplied eight-fold, that of Pick 'n Pay seven-fold, of TCL six-fold, of Grand Bazaars nine-fold, of World four-fold, of Barlows four-fold and of Industrial Selections five-fold.

Spare a thought, too, for the near misses.

Metcash in particular is deserving of compassion, since even 71st position in this year's Top 100 would have secured a place for it among the elite seven.

In addition, its extremely high ranking over the years would have shot it into No 1 slot ahead of W & A.

But that's the way it goes. Consistency is the name of the game. And next year, when a similar elitist list is compiled, it is probable that one or two more companies will fall by the wayside.

TC Lands and Barlows look especially suspect, with their Top 100 rankings of 99 and 94 respectively suggesting that they will be hard pushed to make the 1983 cut.

John Spira

The bigger you are . . . the harder the Top 100 going

SIZE tends to be a disadvantage in the Top 100 stakes.

Since growth in per-share earnings is the criterion used in determining the Top 100, and since it is obviously easier to grow from a small base than from a large one, the paucity of really large groups in the Top 100 list is understandable.

Once every year, the Financial Mail publishes a Top Companies survey, which — unlike the Business Times Top 100 — ranks the companies listed on the JSE by total assets.

Giants

The most recent such survey (published in April this year) showed that the following were the 10 largest JSE-listed industrial companies (total assets in parentheses):

- **Barlows (R3 688,6-million).**
- **SA Breweries (R1 507,6-million).**
- **Sasol (R1 232,5-million).**
- **Remgro (R1 221,9-million).**
- **Amic (R1 168,2-million).**
- **AECI (R1 103,6-million).**
- **CG Smith (R940,1-million).**
- **Federale Volks (R812,3-million).**
- **Sentrachem (R745,5-million).**
- **Anglo-Transvaal Industries (R666,6-million).**

Way down

Predictably, only four of these 10 — Barlows, SA Breweries, AECI and Federale Volks — feature in the Business Times Top 100 . . . and then only way down the list, with their respective ratings of 94, 59, 92 and 41.

At the same time, it is apparent that size does not necessarily preclude growth of well above average proportions.

Top 50

For, of the top 50 among the Business Times rankings, seven (Plate Glass, Tedelex, Sappi, Anglo Alpha, Federale Volks, Blue Circle and Romatex) feature among the top 50 of the FM lists.

In addition, Toyota — which heads the Business Times Top 100 — was ranked a high 52nd in terms of assets by the FM.

John Spira

Leadership in the 80s

OVER TO YOU, MR CHIEF EXECUTIVE

CHIEF executives in South Africa are likely to spend 30% of their total working time on "public affairs" in the decade ahead

And the majority of them are woefully ill-prepared for this important area of their business.

The more alert members of our top management cadre are beginning to realise that they are no longer operating under the more placid and stable situation in which they formerly gained their management experience

Present-day uncertainties and turbulence have brought the external environment of organisations directly into the lap of top management, whether they're ready for it or not.

According to David Hilton-Barber, a public relations consultant, senior management will have to spend increasingly more of their time on managing external matters of their firms

And, likewise, the scope of public relations counselling will also be extended to include more "grooming" of managing directors for their new role.

What are the public activities which should command the attention of today's chief executive?

The following list was identified in a survey sponsored by the Public Relations Institute of Australia, and it is unlikely that there will be any major difference in the South African environment.

- Speaking out on behalf of the business system.
- Increasing dialogue with unions.
- Informing the public about business enterprise.
- Counselling young people.
- Getting the attention of government.
- Assessing community needs and expectations.
- Exploring alternative points of view.
- Monitoring the social environment.
- Corporate advertising and publicity.
- Sponsoring scientific activity.
- Reporting on the organisation's social performance.
- Donating to charity and/or the arts.
- Talking to non-relating industry.
- Exchanging executives for short-term engagements in other organisations.
- Communicating with constituents.

Have you begun to move from a figurehead to a more activist role, is the question more shareholders should be asking their chief executives.

Why companies avoid the JSE

STOCK markets ought to flourish in a vigorously growing economy where companies need funds for expansion and investors are looking for worthwhile outlets for their surplus cash.

But there are disturbing signs that the JSE, instead of prospering as an institution, is being bypassed to an increasing degree as a source of capital, while offering fewer alternatives to investors.

Paul Ferguson, the JSE's president, concedes that "I would prefer more companies to come for a listing".

The JSE is currently considering an active promotion campaign among both private sector groups and public corporations, aimed at persuading them of the advantages of a stock market listing.

At the end of 1969, institutions and the public at large could choose between 740 companies listed on the JSE, represented by 982 different securities.

Withdrawals

By mid-1982, the number of companies quoted had dwindled to 493, offering 781 securities.

This year alone, over a dozen listings have been withdrawn, but less than half that number of companies have been listed for the first time.

Groups which have disappeared from the trading board in recent years include such well-known names as Mitchell Cotts, UAL, Calan, Stuttafords, African Products and Shoe Corporation.

Most of the withdrawals have been the result of mergers and takeovers, and in many cases the company in question is still quoted indirectly, in the sense that it is now a subsidiary of a listed group.

Shoe Corporation is a wholly-owned subsidiary of SA Breweries, while African Products is controlled by Amic.

But instead of being able to choose between the merits of Shoe Corporation and SAB, investors who think that shoes are a growth tion a well-managed company, have little choice but to put their money into SAB, hoping that beer, hotels and furniture will perform as well as shoes.

Links with Diagonal Street have occasionally been cut when controlling shareholders abroad have bought out minorities, often with the aim of boosting their dividend income.

Fundraising

Leyland's listing was withdrawn in 1975; Mitchell Cotts is a recent example. It is no longer possible for the great majority of SA investors to buy shares in these companies, even indirectly.

One key reason why companies are delisted, or are not listed in the first place, is that their owners do not foresee a need to raise funds from the public.

Gundle Industries, the plastics-based company, has no objection "in principle" to a JSE listing, according to MD Bert Davids.

But, he adds: "We don't have a need for outside capital. Funds have been internally generated."

In a recent speech to the Economic Society, Anglo American's economic consultant, Aubrey Dickman, highlighted a worldwide trend away from equity financing towards greater reliance on debt instruments and particularly leasing and bank credit.

Lease advances in SA rose by R258-million in the first quarter of 1982, compared with only R44-million raised in equity and loan issues on the JSE.

The ratio of leasing finance to long-term loan stock has risen markedly in the past decade.

Dickman concluded that "this flexible form of finance (leasing), which is the functional equivalent of medium- or long-term credit, together, presumably, with other forms of loans from the so-called official or unofficial market, has become a growing substitute for more conventional borrowings or equity issues." (See also story on corporate funding.)

Furthermore, most companies' dividend policies have become steadily more conservative as the cost of outside funds has risen.

JSE president Paul Ferguson . . . "I would prefer more companies to come for a listing"

Dividends were on average roughly twice covered by earnings in the early 1970s. Now the normal cover is around three times.

This form of inflation accounting has enabled many groups to finance a larger chunk of their investments from retained earnings rather than resorting to banks or outside shareholders.

While the disclosure requirements for public companies are more lax than many investors would like, they are nonetheless a powerful disincentive to many companies which might otherwise seek a listing.

"That's the most important reason for not getting a listing," says the new listings expert of one of Johannesburg's largest stockbroking firms.

Corporate executives confirm that view. The MD of a US-owned manufacturing group which has come close to going public, observes that "it's giving away to our competitors knowledge which hitherto has not been disclosed."

He adds that were the group ever to ask for a listing, it would be the holding company rather than the operating company which applied.

To their credit, a handful of unlisted groups do publish some details of their operations, though usually not enough to reveal key financial ratios and the basic strength of the company.

One of the most comprehensive sets of accounts published by a non-listed company is that of Noristan Holdings, the pharmaceutical, chemical and cosmetic manufacturer.

The only glaring omission is a turnover figure, which, according to MD Hugo Snyckers, would give away more than the company is prepared to disclose to its competitors.

Mr Snyckers maintains that "there are more benefits than disadvantages" in publishing an annual financial report. "You've got a document to promote the company with," he asserts.

The Snyckers family holds around 70% of Noristan's stock; most of the rest is spread among 280 doctors, pharmacists, employees and "friends".

"We geared ourselves for a listing in 1974," Mr Snyckers says, "but the economy took a dive."

Bernard Simon

SOUTH AFRICA'S TOP BANKS surveyed by JOHN SPIRA

BARCLAYS

For Bob Aldworth, the name of the game is . . . innovation

THE logo might be blue, but Barclays has, in the past two years, assumed the mantle of South Africa's green-light bank.

With net profits of R83,6-million, Barclays is the country's largest bank and has, in fact, held this distinction for the past several decades.

Size, however, was not enough to satisfy the aspirations of managing director, Bob Aldworth. For, in order to continue growing, Mr Aldworth saw that he needed to add new dimensions to the world of banking.

Hence the numerous innovations which have been brought to bear on a formerly staid and stodgy sector of the South African economy — innovations which have captured the imagination of the public for their boldness and for their inherent benefits to the small and large Barclays customer alike.

It was, perhaps, the Barclays home loan scheme which promoted Barclays to the top of the class in the innovation stakes.

Gratitude

The gap in the market was as wide as a rugby backline without any centre three-quarters.

Barclays saw it, took it, and is now reaping a broad range of benefits, while simultaneously earning the deeply-felt gratitude of thousands of homeowners who had been spurned by a cash-strapped building society movement.

Criticism has, not surprisingly (success, after all, invariably breeds envy), been levelled at the bank for having introduced a "gimmick" in an attempt to gain new banking business "at all costs".

Besides, argue the critics, a bank cannot borrow short and lend long without running into difficulties.

"Not so," counters Mr Aldworth. "The funds being advanced on our home loans scheme emanate from the bank's savings accounts — accounts which have proved themselves to be highly stable over a long period of time."

Clearly, Barclays is going to

● Barclays MD Bob Aldworth

gain new business as a result of its home loan scheme. "But," Mr Aldworth stresses, "there can be no question of any form of conditional lending. We would never coerce a Barclays home loan borrower to bank with us."

Yet it cannot have been the home loan scheme alone which has rocketed the Barclays share price to all time highs on the Johannesburg Stock Exchange.

The home loan scheme is merely representative of one of many factors which has prompted the share market to appreciate that, in its drive to capture more business in both banking and related spheres, Barclays has become a vigorous profit generator.

The reincarnation process can be traced back to early 1981, when Mr Aldworth instigated a totally integrated marketing programme. It was an imaginative thrust into a banking sector which was conspicuous for its unimaginative image.

Barclays is now nearly two years down the road of this five year programme and the results which it has achieved to date are dramatic by any yardstick.

In the two years prior to the commencement of the exercise, assets grew at average rate of 30% a year. Since the commencement of the programme, the growth rate has increased to a staggering 60%.

Prior to early 1981, profits grew at a maximum annual rate of 39%. Since the commencement of the programme the average growth rate in profits has been a breathtaking 80% a year.

Prior to the launch of the programme, Barclays acquired new accounts at an annual average of 6 000 — about par for the banking industry. Since the programme got underway, 30 000 new accounts have been acquired.

Marketing

The programme covers a wide range of criteria, spanning the bank's structure from top to bottom and including such aspects as training, incentive schemes, recruitment, a corporate identity profile and the redesigning of the organisational structure to introduce a marketing division at top level.

In recent months, this emphasis on marketing has achieved a new emphasis with the formation of Barclays, Sandra van der Merwe — a subsidiary company designed to offer a complete range of marketing-orientated services, not only to Barclays but to corporate entities throughout the country.

Then there's "Bob", South Africa's first 24-hour fully-automatic banking network, through which more than R1 000-million is expected to pass within three years.

All of which strongly suggests that Barclays is a bank which is moving forward fast.

It's achieved a great deal in the past two years. The mind boggles over trying to envisage what it's got up its sleeve in the years ahead.

NEDBANK BEPERK LIMITED

'Quality before quantity' is the recipe for success

NEDBANK has orientated itself towards being a metropolitan-situated bank with the emphasis on quality and not quantity.

Paramount to Nedbank is to project a financial service which, from a quality, a price, a longevity and an innovative point of view, satisfies the needs of an ever more sophisticated financial community.

All this, says senior general manager, Ari van Vliet, implies a strong desire to not only maintain but also develop the bank's lead in the computer and systems arena.

It implies, too, a commitment to shortening the lead times within the bank as far as possible — both from a decision-making and processing point of view.

More importantly, it implies that the bank's emphasis be directed towards definite objectives within the banking sector.

According to Mr Van Vliet: "Nedbank recognises the increasing importance of being able to position and reposition itself in the country's highly volatile financial markets and at the same time to seek out the type of business which will satisfy and preserve the balance-

Favourable

How have these objectives worked for Nedbank?

Pretty well, if one measures progress by the fact that, between 1978 and 1982, total assets of the Nedbank group have risen from R3 287-million to R8 137-million, with group taxed income having grown from R36,7-million to R88,6m over the same period.

In addition, Nedbank's balance sheet ratios are highly favourable — not only in comparison with the local banking scene but also in relation to similar institutions abroad.

Thus, pretax operating income is 31,4% of shareholders' funds; pretax operating income is 1,5% of total assets; group taxed income is 22,8% of shareholders' funds; and taxed income is 1,09% of total assets.

Nedbank's Ari van Vliet

The group's most recent annual report contains the following comment: "The return on shareholders' funds stems from careful management of assets and liabilities and the rendering of quality services to the public."

The Nedbank group's banking subsidiaries made the following contributions to taxed income in the year to September 1982: Nedbank R58,2-million (R51,5-million in 1981), UAL R8,3-million (R7,2-million), Nedfin Bank R12-million (R8,5-million) and Nefic R3-million (R4,2-million).

At the end of June 1982, the credit balances held in current accounts in South African banks amounted to R4 849-million. At the end of June 1981, Nedbank held 8,99% of total current account balances. At the end of June 1982, its share of these balances had risen to 9,96%.

In June 1982 Nedbank held 17,63% of the industry's total interest-bearing deposits of R13 244-million — a dramatic increase on the 13,47% it held last year, when the banking industry's total interest-bearing deposits amounted to R11 236-million.

Nedbank's total interest-bearing deposits have almost doubled since 1978.

Nedfin's lease and instalment sale (hire-purchase) receivables have increased by 258% over the past five years, while its share of the general banks' savings market at the end of June was 26,1% — an increase of 83% over 1978.

Nefic, which provides medium term finance to commerce and industry, has pushed up total advances and other investments from slightly in excess of R90-million in 1978 to just under R150-million in 1982.

Syfrets Trust's administered funds have grown from R789-million in 1978 to R1 370-million this year.

Quality business

It is the market leader in the participation bond market, having held a 35% market share at the end of September 1982, against 28% at the end of 1978.

In the year to September last, UAL, the Nedbank group's merchant banking arm, handled mergers and takeovers of listed companies on its own, or jointly with another merchant bank, to a value of R860-million out of a total of just more than R1 000-million.

The group's most recent review of operations notes: "Nedbank prepared for, and responded to, the exceptionally difficult conditions by competing innovatively and aggressively to increase its market share of chosen target markets. The gain in quality business offset the impact of the decline in margins.

"Further, it prepared the ground for later profit growth as interest margins return to normal."

As to the outlook for the commercial bank: "Despite the general economic slowdown likely to be experienced in the months ahead, Nedbank's business momentum is considerable."

Standard Bank

It's all systems go for the age of the computer

STANDARD Bank has focused its marketing thrust on automatic teller machines (ATMs) in the belief that the fully automated banking era

Accordingly, if Standard has a lead in this vital area, it will be well placed to offer its customers and potential customers that little bit extra.

Standard now has the largest computer network in the country following the installation of (at the beginning of 1982) 3 500 terminal devices, with three computer centres inter-communicating freely with each other.

Plans are for the installation of a further 1 500 terminals by the end of 1982.

For the personal market, Standard Bank of SA had, by the end of last year, installed 87 Autobanks, making the bank the leader among the commercial banks in this field. The number is expected to rise to 200 by the end of 1982.

In the words of chairman, Ian Mackenzie: "The introduction of Autobank cards to current account customers from April 21 1981 proved a resounding success.

Enthusiasm

"From the outset, we were met with an enthusiastic response and customers took readily to the idea that through an accessible machine with extended banking hours, they could obtain cash, make deposits to their accounts, obtain mini statements and be informed about their balance."

Listed on the Johannesburg Stock Exchange is Standard Bank Investment Corp (Stanbic), of which the commercial bank (Standard Bank of SA) forms a major segment.

Between March 1978 and December 1981, Stanbic's total assets and shareholders' funds grew from R3 605-million to

● Standard bank's MD Dr Conrad Strauss

R8 355-million, deposits and advances from R2 143-million to R7 158-million and distributable profits after preference dividends from R31,2-million to R65,7-million.

Profits declined marginally (from R66,8-million to R65,7-million) in 1981 because of difficult trading conditions occasioned by rising interest rates. The commercial bank, however, increased its net income by 40% over 1980.

Stannic's performance (profits declined from R23,5-million to R9,2-million) was the principal factor behind the profit decline because the bulk of its business was written at fixed interest rates.

Standard Bank of SA's current, deposit and other accounts exceeded the R5 000-million mark for the first time in 1981. capital surplus of R16,3-million.

Between March 1978 and December 1981, Standard Bank of SA's total assets increased from R2 680,5-million to R5 419,3-million, while net income rose from R21,3-million to R45,8-million over the same period.

In addition to stressing its rapid advances in the automated banking field, Standard also lays great store by its worldwide network.

Fair deal

A Standard Bank customer has access to 1 500 offices of the Standard Chartered Banking Group in more than 60 countries on five continents.

According to managing director, Conrad Strauss: "Standard Bank of SA is an active participant in the group's overseas business seminar programme. Seminars have been held in Paris, Lyon, Dusseldorf, Stuttgart, Frankfurt, Tokyo, Taipei and Hong Kong over the past three years.

"These seminars bring top management of the South African group into direct contact with the foreign businessman at a senior executive level."

Summing up the Standard Bank's broad philosophy, Dr Strauss comments: "When choosing a bank, a customer must seek a bank that will give a good and fair deal.

"This implies a stable bank that will provide a comprehensive range of services to you where you need it — a bank that is not only interested in making profits but rather making a profit because it cares about satisfying the needs of the market over the long term."

THE TRUST BANK

Focus on client wellbeing, advice and quick service

THE Trust Bank believes it is a professionally managed bank prepared for the future.

It is concerned with client wellbeing and it recognises and meets — specifically professional advisory services on the one hand and electronic quick service aids on the other.

In the past three years, the number of Trust Bank cheque account branches has grown from 102 to 187, or 16,4% a year — an indication of the bank's growing presence in the South African commercial banking market.

This expansion can, according to general manager Mr J H G Kuhn, be ascribed to:

● Dramatic new developments in the technological sphere. The installation of an on-line, real-time computer system for all cheque accounts in the automatic clearing bureau areas (the Pretoria-Witwatersrand-Vereeniging, Durban and Western Cape regions) has recently been completed.

This covers more than two-thirds of total cheque account activities.

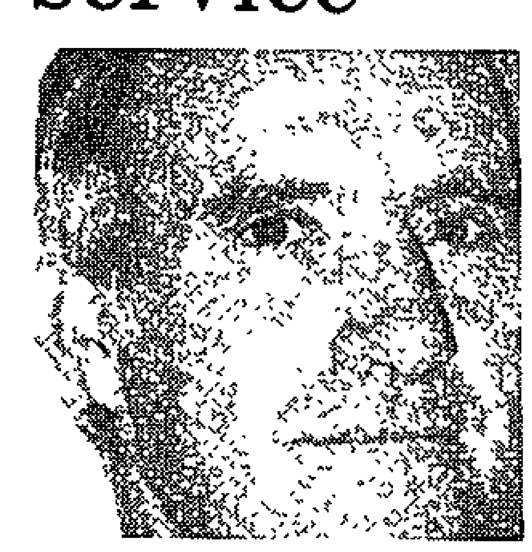
Modernisation

The modernisation of terminals at branches continues. New modular terminals, regarded as the most advanced in the world, are being installed.

Computer programmes have been updated to accommodate the fluctuating interest rates that have become a feature of the investment, savings and loans markets.

The harnessing of advanced laser technology, in company with computerisation, is bringing great relief to administrative pressures, leading to more efficient functioning.

● Banking and financial services are becoming increasingly sophisticated. Trust Bank's recognition of this development is reflected in specialisation evi-



The Trust Bank's J H G Kuhn

denced by the expanded branch network, product development, organisation structure and its strong bias towards training.

● Project finance — which concentrates on sophisticated financial advice and facilities for large, complex capital projects — has made an exceptional contribution to the bank's progress.

Significant success has already been achieved as the lead bank in consortia which handled the financing package for Sappi's pulp and paper project, the Atlantis Diesel Engine plant and its engine block project, Mondi's pulp plant, and various other new capital projects or extensions of existing ones.

The project finance division has been involved in around financing, with a significant proportion including Escom's expansion projects.

● International banking services have growth significantly in the past year.

For example, the value of foreign exchange transactions on behalf of clients was 50% higher than the previous year, while outstanding short-term finance arranged for clients was more than four times higher at the end of last year than at the previous year end.

New dimension

In addition, the opening of Trust Bank's Hong Kong office has added a further dimension to the services which the bank offers its clients trading with the Far East — an important trading area for South Africa.

Trust Bank has joined the International Electronic Fund Transfer and Communications system, SWIFT (The Society for Worldwide Financial Telecommunication).

It will accommodate clients' international payments instructions and documentary transactions faster, more accurately and more efficiently.

Except for its property interests and Suzuki Distributors, Trust Bank has now sold all its non-banking subsidaries, leaving management in a better position to concentrate on banking matters only.

Accordingly, in the year to June 30 1982:

● Disclosed group profit of R30,1-million was 19% up on the previous year.

● Capital and reserves rose by R37,6-million to R148,4-million.

● Total assets increased from R2 576-million to R3 183-million.

IN· THE WORDS OF THE CHAIRMEN . . . GLOOM, GLOOM, GLOOM

BUSINESSMEN are great optimists, often to the point of convincing themselves that good times will never end.

But a more sober mood has descended on SA's boardrooms this year as a growing number of business leaders have realised that tough times lie ahead.

Here's how some of them have summed up business prospects in recent chairmen's statements:

□ **KERNEELS HUMAN, Federale Volksbeleggings:** The medium-term prospects for the South African economy are not favourable and it is essential for us to face this fact.

From certain quarters comes a warning that we should not talk ourselves into a recession which does not exist. I cannot agree with this point of view. All the signs indicate a recession.

□ **ABE JAFFE, Currie Finance:** Surprise has been expressed in some quarters at the manner in which consumer spending has held up in spite of restrictions imposed.

Evidence now points to such continued spending having been at the expense of personal savings, which are at an unusually low level.

If this is so and the authorities do persist with their present policies, we can expect an acceleration in the rate of decline in business activity in the months ahead.

□ **TONY BLOOM, Premier Group:** The economic downturn has been worse than I expected, and I believe it will continue for some time ... Our strategy for the months ahead will be one of consolidation and cash preservation.

Unless an exceptional opportunity presents itself, major acquisitions are unlikely to be made.

□ **BILL BRAMWELL, former president of the Steel and Engineering Industries' Federation:** The economy is now entering a potentially serious recessionary phase.

Continuing inflation, the large balance of payments deficit, the significantly lower gold price for much of the past year, high interest rates, the poor agricultural season for 1981/82 and the failure of the economies of our major trading partners to show any signs of recovery together are inevitably having a severe impact on the South African economy ...

Inflation is tending to reduce the competitiveness of our industries, both internally and overseas, despite the declining value of the rand.

□ **ALLEN SEALEY, Witbank Colliery:** The demand for coal in Europe and the Far East is not expected to improve in 1983 and only substantial growth in the demand for energy in 1984 will bring about an increase in the consumption of coal sufficient to balance the increased surplus of supplies ...

This will lead to some of the weaker exporters, both here and in other countries, ceasing to operate ...

The inland domestic and industrial markets are not expected to show significant increases during 1983.

□ **WILLIAM BATEMAN, Hill Samuel:** Although interest rates are likely to remain high for the remainder of the financial year (to March 1983), the trend is now clearly downwards and will, in due course, have a favourable impact on the bank's profitability.

□ **FRANS CRONJE, SA Breweries:** The downward trend in consumer spending appears to be gathering momentum and October trading was particularly slack.

□ **JACK WARD, Romatex:** Although the recent power tariff revision and forthcoming railage rate increases must have a marked impact, there are signs that inflation may be beginning to slow down.

□ **FRANS CRONJE, Nedbank:** The decline in interest rates, the improvement in the balance of payments and the reduction in pressures on capacity utilisation and the labour markets will all be signs that the economy is readying itself for the next upswing.

Bernard Simon

Life assurance: Pumping lifeblood into business

THE achievements of the life insurance industry in South Africa are frequently and understandably projected into the media in marketing terms.

For instance, in the highly competitive field in which the industry operates in this country, publicity is largely extended by individual life offices to the impressive growth of premium and investment income and of benefits distributed.

Compiled by STEPHEN ORPEN from a report by JACK FRIEDMAN, head of the Life Offices Association of SA

Less frequently is the collective role the industry plays in the economy as a whole underlined.

This applies particularly to its achievements in marshalling much sought-after capital resources for the corporate and public sector growth, and this in a non-inflationary way.

Leaving aside the primary function of the industry — the security which the policyholder and his dependants enjoy in the provision of income against future happenings such as death, disability and retirement — the industry is playing an increasingly important role in making substantial resources available for urgently needed development in South Africa.

The most recent statistics issued by the Life Offices Association (LOA), central body for the industry, show that in the past six months ended 30 June, 1982, total capital for investment was being generated by member companies at the rate of almost R12-million per working day.

Total assets, reflecting security against future claims to be met by the industry and representing investments held in all sectors of the economy, stood at R15 700-million at that date.

Spread over the entire population this represents R600 for every man, woman and child in the Republic.

Contribution

The year-end figures for 1981 for the industry show that, against total Gross Domestic Product of R65 500-million, life insurance contributed R2 580-million. (Comparative figures for Australia for 1979 were A$89 600-million and A$1 200-million respectively.)

The 1981 figures (shown in the accompanying table) illustrate the enormous contribution of the life industry to South Africa's savings and investment needs:

Compared with the R2 340-million-odd contribution made by personal savings in 1981, more than R2 500-million (109% of the net total) was provided by life assurance.

This indicates that, on balance, South Africans reduced their non-life assurance savings substantially in 1981.

The industry's total investments of R14 500-million at the end of 1981 represented a claim of almost one rand in every 12 against South Africa's entire capital stock.

Support

The industry, through its prescribed investments, lends great support to the public sector where securities increased by R1 530-million at the end of 1981 to reach a total of R6 349-million or 43,7% of all assets held.

The latest available figures show that public sector securities held by the industry in this country have climbed to R7 005-million or 45% of all assets held.

In addition, discretionary investments rose to R3 170-million (20%) and property investments to R2 650-million (16,8%).

So, in addition to its direct investment in government, municipal and corporation stocks, which helps to provide South Africa with its essential economic infrastruture such as hospitals, roads, power etc, the industry's further investments in company shares are making capital available for the production of goods and services, bringing with it the generation of employment.

In property, accommodation for commerce and industry as well as for the general public is being provided. Substantial leaseback transactions by the industry, further, have made it possible for many commercial and industrial undertakings to release capital, previously tied up in bricks and mortar, to be turned to productive effort.

The inducement to save through life insurance is playing an increasingly important role, as the five-year growth in premium income shows - from R1 100-million in 1977 to nearly 2½ times that amount in 1981.

Over the same period, investment income — also increasing the industry's potential for further investment — rose by slightly greater proportions, from R507-million to R1 359-million.

The key to economic growth in South Africa, in general, remains the diversion of more resources to investment and more productive use of these resources.

Where voluntary savings are not sufficient to meet the country's needs for economic growth, there is a choice of slower growth or forced savings.

To achieve the latter, higher taxes for an expansion of the money supply become necessary, but by the encouragement of personal saving on a regular and volunatry basis the life insurance industry has made a notable contribution thus far in helping to avoid as far as possible these less effective methods in marshalling the country's capital needs.

SAVINGS	Rm	%GDP
Personal	2 364	3,3
Corporate	6 441	9,1
Depreciation	9 273	13,0
Government	1 881	2,6
Foreign	3 947	5,5
	23 906	33,6
INVESTMENT		
Fixed Investment	18 298	25,7
Inventory	5,608	7,9
	23 906	33,6

Corporate funding — watch your step

By BERNARD SIMON

AT least one big company goes bust in every recession.

During the last downturn it was Glen Anil, and the guessing game has already begun on which pillar of South African business will crumble this time round.

There is little doubt that many well-known groups (and even more lesser-known ones) will be preoccupied next year and during much of 1984 with the problem of how to stave off disaster.

For many of them, the dye has already been cast. Their troubles will be as much the result of misjudgements in the latter stages of the boom as misfortune during the downturn.

Decisions to invest in new capacity when demand is close to a peak, to keep inventories high in case of being caught short of stock, and to finance working capital from heavier borrowing are among the seeds of many companies' downfall.

For the luckier ones, the future depends on decisions taken during the recession.

To some extent, these decisions are not matters of choice. Prices must be cut to remain competitive, costs must be pared and recruiting for new staff slowed.

But there is no easy answer to the question of how companies should finance their operations during the downturn.

Correct funding can help a firm not only to survive the slump but also to maximise profits during the next upswing.

Which financing strategy will be best in coming months? Should a company borrow short or long? At fixed or variable interest rates? On domestic markets or offshore? Should it avoid borrowing and instead raise new equity? If so, when?

● RAU's Geert de Wet ... rand to recover well next year

The answers to these questions depend heavily on the future course of interest rates, the exchange rate of the rand and the performance of share prices on the JSE.

Agreement is virtually unanimous that both long and short-term interest rates will decline next year as the balance of payments improves, demand for credit weakens and inflation begins to come down.

Views on the extent of the drop are not as clear cut. At one extreme, Discount House of SA's deputy chairman Colin Dunn has predicted a prime rate of 12-14% by the closing months of 1983.

Predictions

Barclays, on the other hand, thinks prime will slip only to around 17% over the next year.

Most forecasts are somewhere in the middle. Standard Bank, for instance, has plumped for a 14.5% prime rate in the fourth quarter of 1983, down from 19% in the first three months of next year.

The exchange rate is equally difficult to predict, but most experts agree that, unless the gold price fails to maintain its recovery, the rand will move up in 1983 against major currencies.

RAU's Geert de Wet reckons that parity between the rand and the US dollar will be restored in the first three months of next year, and that the rand will be worth over $1,20 by the end of 1983 and $1,43 a year later.

Most others are not quite as optimistic, because of continuing double-digit inflation, a modest recovery in non-gold exports and Pretoria's cautious exchange rate policy.

Recovery

Standard predicts an average rand rate of only 93 US cents in the fourth quarter of next year.

Stock exchange prices are likely to slip from their recent highs, but should start recovering by the second half of 1983 in anticipation of the next business upturn.

Barry Mason, GM at Hill Samuel merchant bank, says that his general advice to customers is "to continue borrowing short-term, but to start getting ready to get into long-term markets".

He adds that "we are already beginning to think who will be candidates for debenture issues in 1983".

It is about two years since the last straight corporate debenture (in other words, without a conversion option) was floated.

But the unexpectedly sudden plunge in long-term interest rates during September — and the prospect that the trend will continue in 1983 — will probably bring new life to long-term corporate issues earlier than anticipated.

A top-rated corporate debenture normally offers 1,5—2% above the trading rate on Escom stock. The cost of a debenture has thus tumbled from almost 17% to around 14% in the past six months.

With the prospect of the long-dated Escom stock rate moving down to 11% next year, and probably even lower in 1984, companies should be able to borrow long-term at a cost well below the ruling inflation rate.

Borrowers and investors would be encouraged if there was a secondary market in corporate securities in SA.

Development of such a market has been crippled by the 1% marketable securities tax (MST).

"There'll never be a secondary market until they remove that," says one senior stockbroker.

Nonetheless, Hill Samuel's Barry Mason reckons that "there may be ways of avoiding MST by creating different instruments". He refuses to elaborate.

Demand for leases has weakened. Project finance has come to a virtual stop, and leasing business on smaller assets, such as vehicles, office furniture and construction equipment, is 10—15% down on a year ago.

A medium-sized company currently pays about 1,5 percentage points above prime rate for a lease.

Brian Longley, assistant GM at Barclays Industrial Bank, thinks that rentals are unlikely to drop significantly before the second quarter of 1983.

Like many other banks, Barclays currently encourages lessees (and other borrowers) to agree to fixed interest rates on leases and medium-term loans. Fixed rate leases were being written at 19,5—20% at the end of October, compared to 21,5% on variable rate contracts.

Corporate treasurers ought to think twice, however, before committing themselves to a fixed rate for the next 4—5 years.

The reason banks are keen to write fixed rate business (besides fewer administrative hassles) is that they stand to gain handsomely as interest charges decline during 1983 and 1984.

Overdrafts

Conversely, borrowers tied to an inflexible rate will lose out.

Short-term borrowings are likely to rise sharply as weakening demand and excessive inventories cut deeper into corporate cash flows.

The trend is already clear from recent company reports. McCarthy Group's interest burden soared to R6,2-million in the year to June 1982 from R1,8-million in the previous 12 months.

The most popular form of short-term borrowing is a bank overdraft, but a key drawback of an OD is that it can be withdrawn, or lowered, at any time.

Banks have already become more discerning in their approval of OD facilities, and they are likely to look at applications even more carefully during 1983, especially from companies in sectors expected to be hardest-hit by the downturn such as property, building and consumer durables.

Equity funding

Some large commercial and industrial groups have begun to issue their own short-term paper with maturities of between three and 12 months, and a significant market has developed in these notes.

Best of all for borrowers is that rates on this paper are 0,50—0,75% below the all-in cost of conventional banking instruments.

One of the features of 1983 and 1984 is likely to be a pick-up in equity issues on the JSE.

The exchange's president Paul Ferguson asserts that "there are a lot of rights issues in the pipeline which will make themselves seen within six months".

As interest rates fall and share prices rise, the attractions of equity funding will grow.

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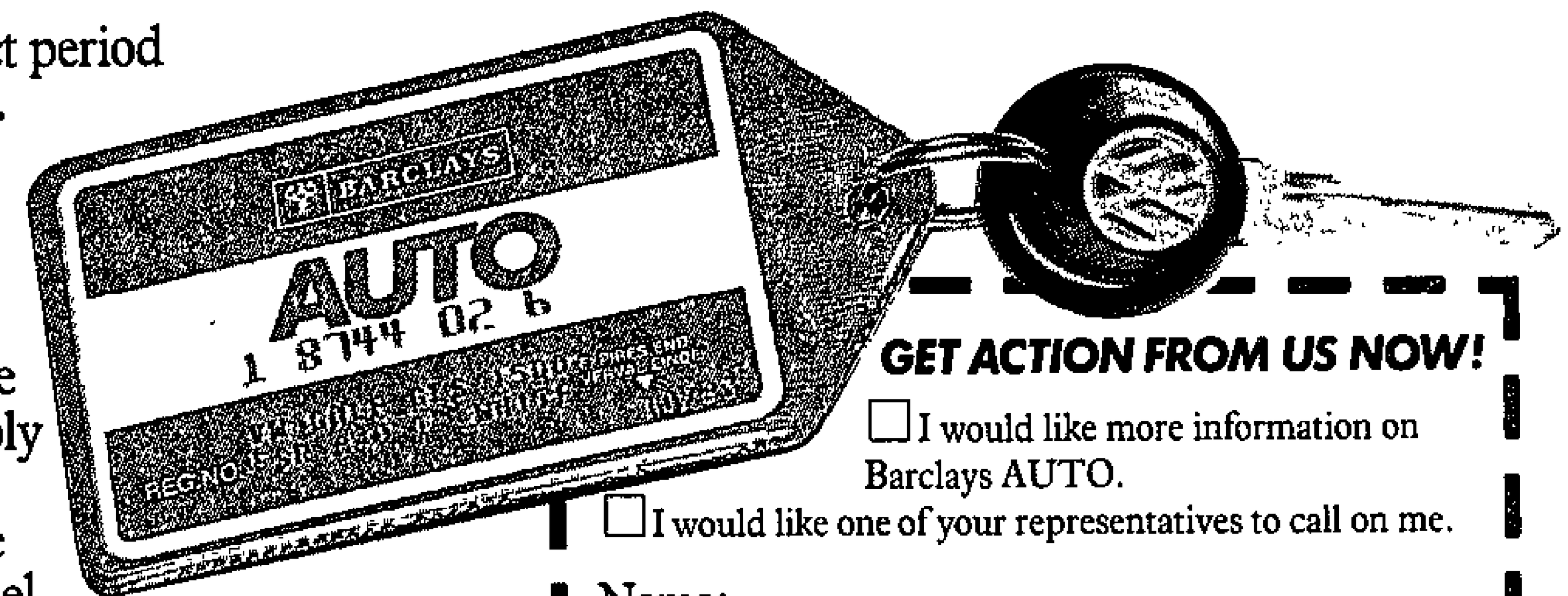

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The pressures that cripple th

A 10-YEAR STUDY OF
EXECUTIVES AIMS TO
STRESSES THAT MAKE

By STEPHEN ORPEN

HE is the man who put his company high on the Top 100 list. He is between 35 and 45, ambitious and dedicated to his work.

The atmosphere in his organisation is highly competitive. He is frequently under pressure to meet the demands of superiors, colleagues or customers.

He often feels that the demands of his work conflict with those of his home life.

That is a simplified picture of a typical executive whose health and ability to perform is at risk from stress.

It is based on the first three years of a 10- year study being conducted into the lives and careers of senior executives and how they relate to stress.

The investigators — who wish for the present to remain nameless — eventually hope to be able to say exactly what factors in a manager's life put him at risk of becoming physically or mentally ill.

Despite the current preoccupation in medical and business circles with executives stress, little long-term research into its causes, its nature or its extent has been launched.

The authors of the current research explain that: "because of this, in the late 1970s we launched a study that would look at the personal and work lives of 500 senior executives over a decade".

The executives in the study are drawn from major companies and the general management programmes of a post-graduate business school.

Such a long-term examination of stress is essential.

A "snap shot" look at an individual in any job at a single time is not enough to reveal the many factors the researchers believe are involved in executive stress.

"Our study is looking in detail at every aspect of the life of each manager involved. As the survey progresses we will be able to document exactly what kind of working life and home life each manager has.

"We will know his personality, his relationship with his boss or his wife, how much he smokes and drinks, how often he is ill and so on.

"Because the study is long term, we should also be able to say which changes in this pattern precipitate illnesses such as heart trouble. As a result we hope to be able to advise managers how to order their lives so as to avoid them."

The data base on which the computerised analysis of the survey is being carried out is collected from an initial questionnaire completed by the managers in the survey.

Each questionnaire takes some three hours to complete. Detailed changes in each manager's work and family environment and state of health during the previous year are measured by subsequent annual questionnaires.

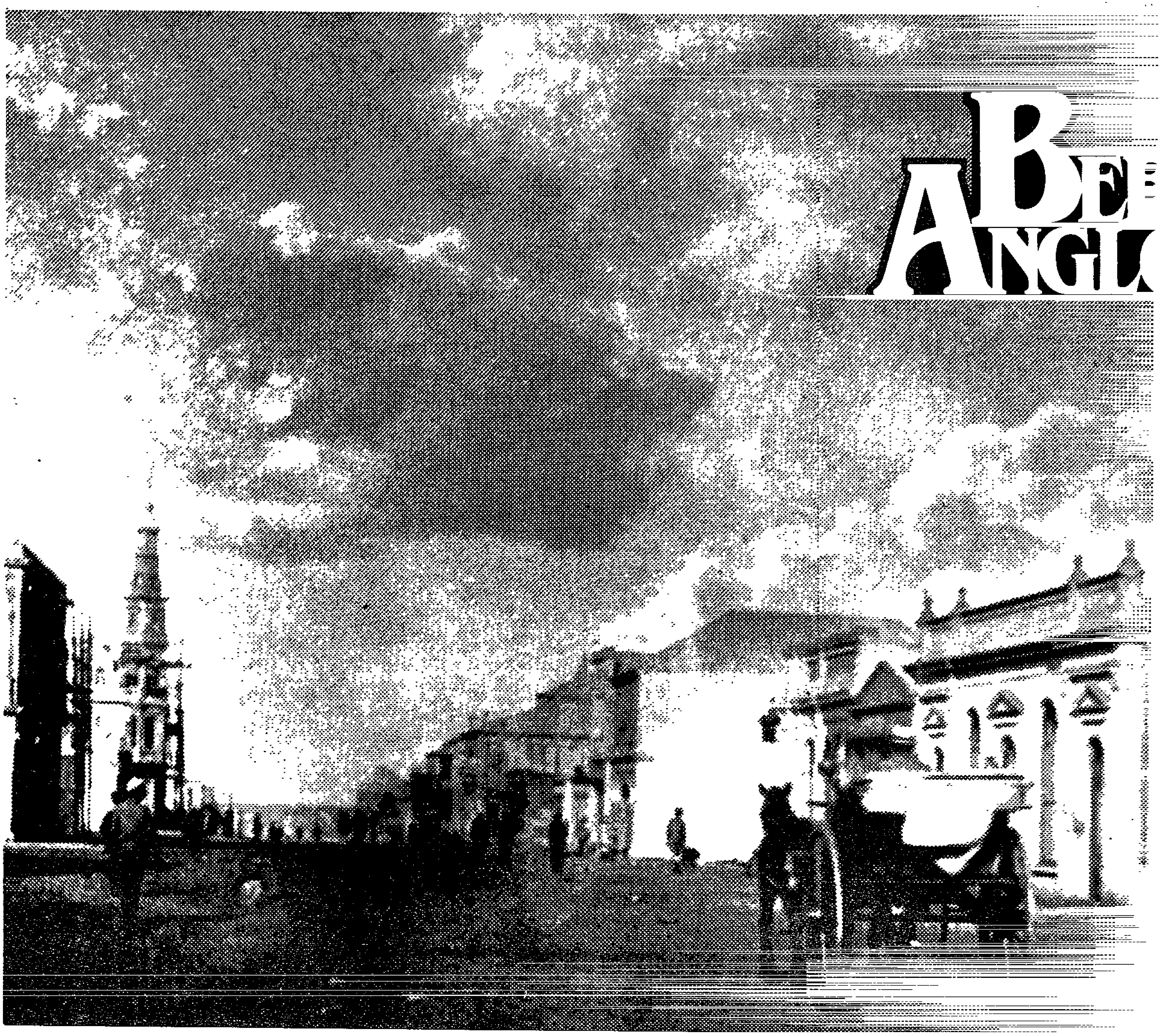
Although the questionnaires are designed to elicit full medical details from the managers, every participant is given a rigorous physical examination at the beginning of the study.

Each will undergo another at the midpoint of the study and a final examination at its conclusion.

The physical examination includes full blood screening, and exercise test and electrocardiograms covering periods of both exertion and rest.

The questionnaires also aim to reveal the personality of each manager, particularly in relation to his drive and ambition and the amount of support he receives from his family and his environment.

In fact, 25% of the wives of managers involved are also being studied in depth to see if there is any relationship between their health and that of their husbands.



A general view of early Johannesburg, 1887.

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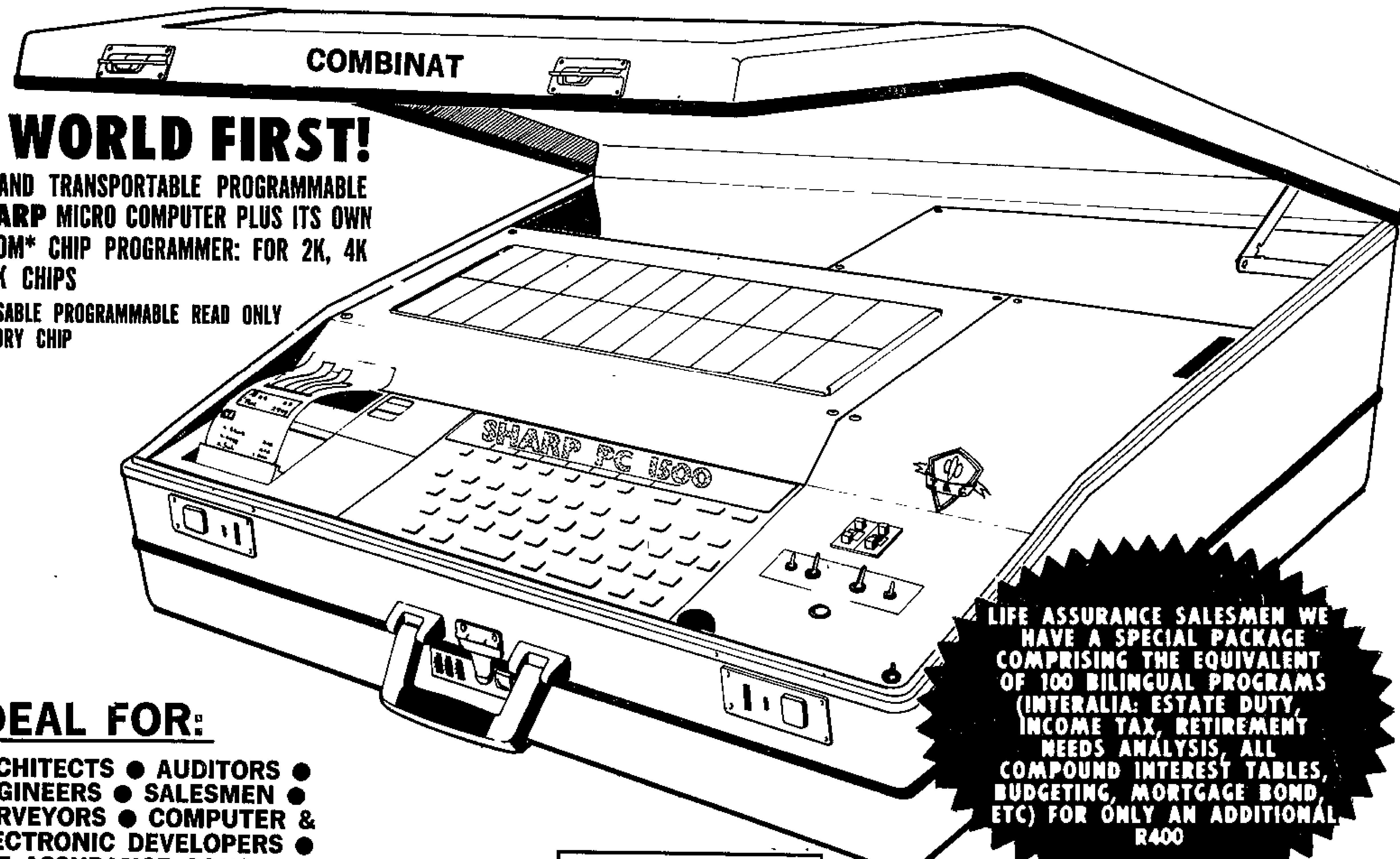

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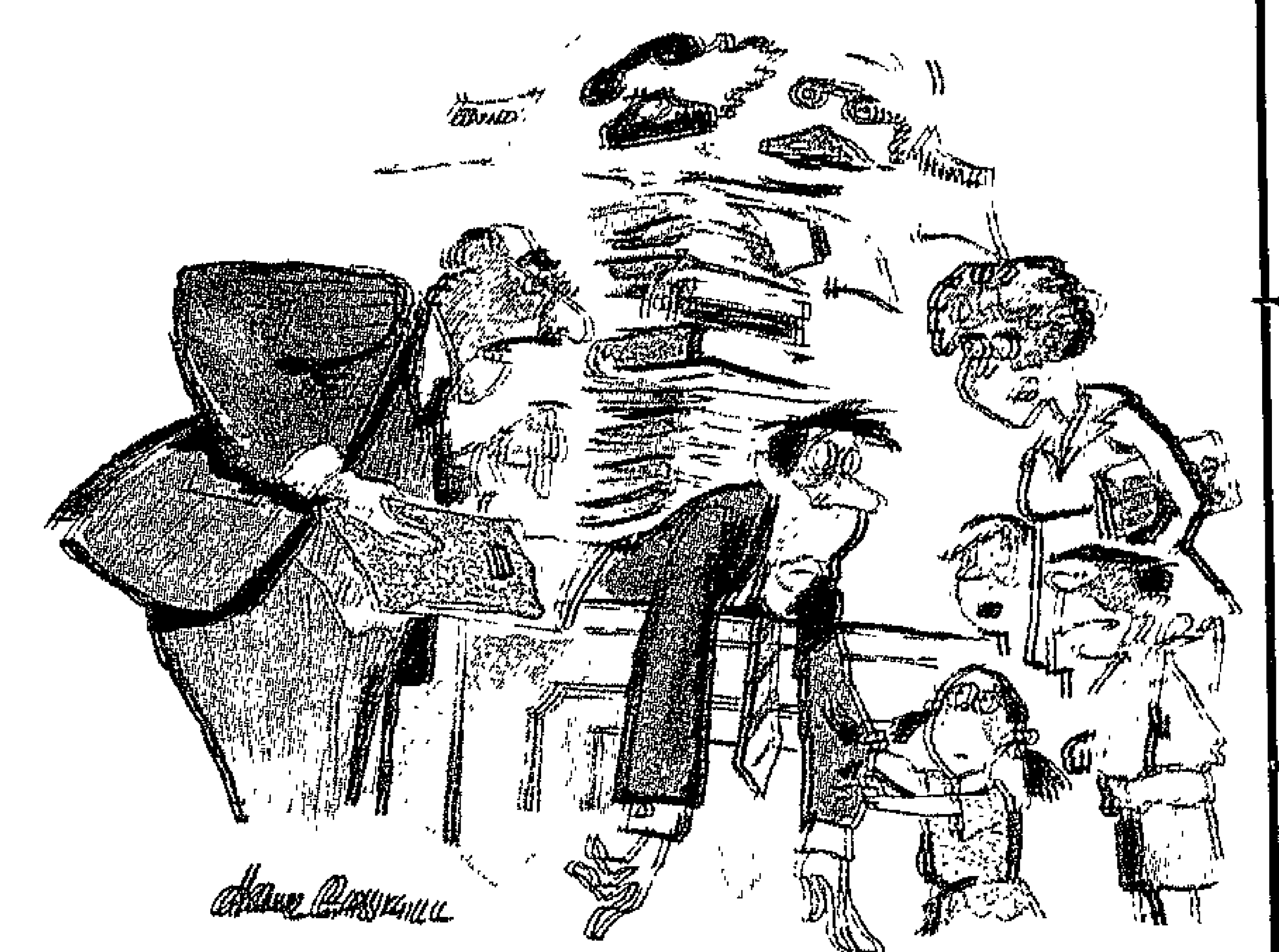

The work environment of the managers is also assessed in great detail through the questionnaires.

The managers are asked to rate the many varied facets of their work as either a pressure or a satisfaction or both.

For the purpose of the study it is considered that harmful stress may occur when pressures exceed satisfactions.

The early results of the study have already revealed interesting sidelights on the life and work of senior executives.

They are, for example, apparently cutting down the number of cigarettes they smoke.

"In our survey, only 26% of managers class themselves as regular smokers, while 65% say they smoke occasionally (possibly when under stress at work). Some 15% of the managers surveyed do not smoke at all.

"On the other hand, a much larger proportion of executives than we had imagined drink alcohol regularly. More than 75% of managers in the survey report having one or two drinks every day; 50% say they have between three and six drinks daily; and 19% admit to having a daily intake of over six drinks.

" One per cent are total abstainers. The majority, regard themselves as "social drinkers".

"Even so, the fact that 50% of senior executives have at least one or two drinks every day seems to us to be rather alarming.

"In addition, we have found that no less than 56% of our sample are taking or have taken tranquillisers.

"Some 18% admit that this was or is because of stress at work."

Similarly, 31% of the sample indicate that they have taken sleeping pills, particularly during business trips or when they have worked long hours.

As a counterpoint to this, however a large number of the executives, about 65%, claim that they take frequent and vigorous exercise.

Where executives admit to being under stress in their lives, the reason most commonly given is simply "work" — reported by 57%.

However, "family problems", cited by 45%, come a close second. The annual questionnaire also probes what are the main causes of stress at work.

In relation to this, 34% of the managers surveyed answer that it is their relationship with their immediate superior.

This was the most commonly given reason and the early results of the study indicates that this relationship could be a crucial variable in both health and job satisfaction.

Other relationships at work, such as those with colleagues or subordinates, appear to be less significant.

The actual time fast-track managers spend at work is "around 60 hours a week", according to the survey results. But on average the managers also spend a further 10,5 hours working at home.

In some cases, as much as 20 hours of additional work are done at home.

The survey so far has also revealed an interesting profile of what senior executives actually do with their time when they are at work.

On average, in terms of hours a week, the managers in the study spend 15 hours working at their desks. Another six hours are spent in scheduled meetings and almost the same amount of time, 5,5 hours in unscheduled meetings.

Another 3,5 hours a week are spent on the telephone. Walking around the place of work takes 3,5 hours a week, business travelling takes 1,5 hours, entertaining nine hours and miscellaneous activities 2,5 hours.

The data collected so far is being subjected to a sophisticated computer analysis.

Using a statistical technique we have produced a single measure of physical fitness for the executives in the survey.

This is made up of a number of factors such as weight, pulse rate and blood pressure, normally associated with good or poor physical fitness.

Added to this, an advanced computer statistical technique known as multiple regression analysis is allowing us to see which of the factors in the personality, job, home and organisational environment of a manager is related to his state of health.

It shows that several factors, such as a poor relationship with his wife, a poor relationship with his superior, anxiety over lack of promotion and a highly competitive work environment can predict poor physical fitness and potential, if not actual ill-health.

From the analysis so far the researchers are able to put forward a tentative profile of the personality, life style and work environment of the executive most likely to suffer from ill health caused by stress.

First, his personality is dominated by a need to succeed in his career. He is ambitious, driving, a "workaholic" and preoccupied with meeting deadlines.

Second, he is likely to work in an organisation where he feels there is conflict between his personal values and those of the company.

He may feel his firm is impersonal. Many managers for example, feel that the amount of business travelling their companies expect from them ignores their own desire for more time at home.

Third, the at-risk executive is likely to feel that his company's management structure is dominated by competition rather than mutual support and teamwork.

There may also be a good deal of office politics.

Fourth, his particular job will probably involve him having to cope with heavy demands on his time and skills by other people, notably his superior and colleagues.

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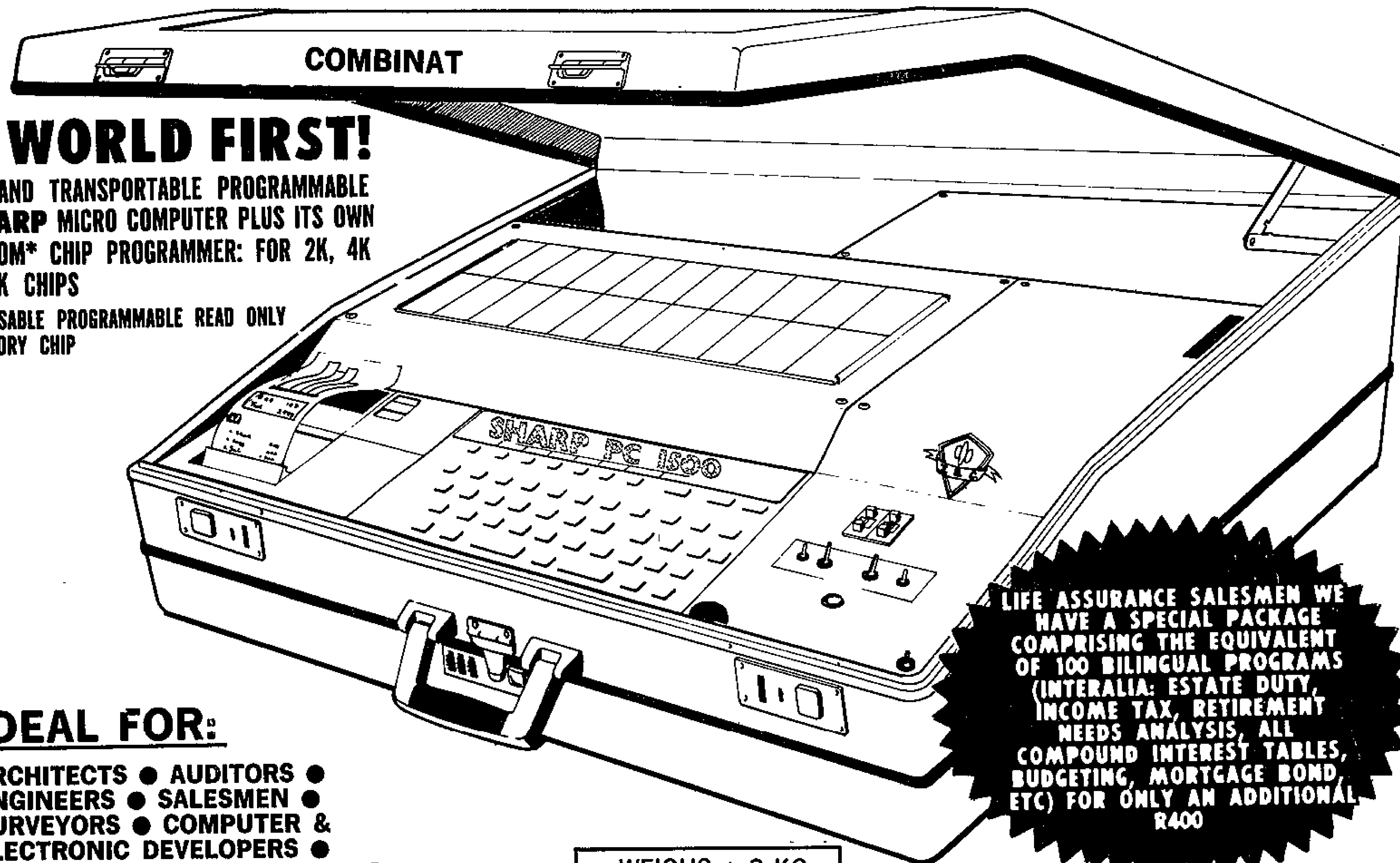

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performance and rewards

ARE TOP ACHVIEVERS PAID ENOUGH? (AND LOW-ACHIEVERS TOO MUCH?)

ment of far more sophisticated measurement techniques which will largely be geared towards achieving strategic objectives.

A number of companies in the United States have successfully pioneered the strategic-related technique and it must only be a matter of time before it is in use here and also becomes common as a remuneration policy.

"The strategic milestone concept, for instance, ties reward to the accomplishment of a scheduled goal and is without doubt a shift away from traditional formularised incentives.

"In addition, overseas firms are introducing more formal and direct relative performance measures.

"In South Africa, salary structures and policies differ significantly but most organisations consider the following factors when determining the remuneration of their executives: total number of employees; annual turnover; net profit before tax; value of tangible assets; annual wage and salary bill.

Evidence

"But international evidence shows that the basic remuneration concepts developed and adopted over the last 20 years are no longer adequate to face today's challenges.

"In fact, in their present form, they may be no more than an obstruction."

Salaries have been drawn further and further away from their idyllic partnership with performance without any real compensation in corporate profitability or return on investment. The main reason ... rampant inflation.

Easily the largest single influence on remuneration development in the last few decades, inflation has invariably resulted in corresponding hikes in salaries and wages.

This, however, has not been accompanied by an increase in gross material product (GNP) or corporate profitability. In fact, internationally they have declined.

Incentives

Some corporations in Europe and America are re-ascertaining both the role and fundamental design concept of incentive schemes, and are exploring ways to slow the pace of executive increases.

Locally, incentive schemes still form an integral part of an executive's remuneration package.

Incentive schemes in South Africa are usually based on profit sharing, return on investment or return on assets. Most companies place limits on the amounts that can be earned this way.

The most common base for determining incentives based on profits is the achievement of a budgeted level of profit of which there are two main kinds.

Either he is paid a certain percentage, say 0,5 to 5% of budgeted profit, or he receives a percentage of annual salary for every percentage point by which budgeted profit is exceeded.

If return on investment is used as the incentive criterion, executives benefit according to the percentage by which investment has been exceeded.

Most companies only pay bonuses if the return on investments (ROI) is over 25% and that it is usually a percentage point of salary for one over the return budget.

The return of assets scheme works in very much the same way with predetermined levels having to be achieved before any payments are made.

Other schemes include: earnings per share schemes; share options; bonus based on meeting of objectives; payment dependent on level within the organisation; length of service bonus; group schemes with incentive based on performance; group schemes based on financial situation of company.

Without doubt, taxation is the overriding reason for the growth of benefits and "perks" in this country as in the United States, Canada and Australia.

In numerous ways they are far more valuable than cash as they are not so easily taxed.

Tax-driven remuneration also serves to force companies into defensive positions as far as planning and compensation programmes are concerned.

And steep marginal tax rates kill or certainly dull the earning incentive of their leaders.

Most companies here pin executive pay against corporate performance. But there could soon be, as there is in the US, a trend toward adopting the level and mix of remuneration for each division or business discipline to the pattern found within a company's sector classification.

This could be prompted by a movement away from historical remuneration patterns caused by companies refining their pay objectives for individual business segments.

Strategic planning, which promises to shift in remuneration from a policy of "how much" to "what for", is the main catalyst and will focus more on the need to identify specific missions or goals of separate divisions and units.

"We are beginning to see performance measures that are tailored to individual units in an attempt to strengthen the strategic objectives and capabilitites of these units in a more meaningful manner.

Of course, if this is to work properly, there must be a high degree of calculated forward planning."

Apart from inflation, a major influence on remuneration levels is market value, which is most reliably pinpointed through a definitive comparison of salaries and conditions available.

There is a need for a focus not so much on forms of reward but on the process of integrating remuneration with other management tools if companies are to compete effectively in today's topsy-turvy economic climate.

(Business Times is indebted especially to Ian Hipkin, manager of the P-E Consulting Group's Salary Survey programme, for the information he provided for this article.)

Afcol just misses the Top 10

AT 11th place in this year's Top 100, furniture manufacturer Afcol improved its ranking from 15th last year but wasn't quite able to squeeze into the first 10.

That it managed to achieve the high rating it did is nevertheless a praiseworthy achievement in view of the company's size and the difficulty that any group experiences in producing large percentage per share earnings increases from an already large base.

Operating in the volatile furniture industry as it does, Afcol will be hard pushed to find a place in next year's Top 100.

The degree of difficulty inherent in such a target is highlighted by Afcol's recently released interim results for the six months to September 30.

Although turnover was 10% higher at R125-million, taxed profit was 10% down at R15,8-million and the interim dividend was trimmed from 35,5c to 33c.

Not a decline of alarming proportions. But look at what the directors had to say in their statement accompanying the interim report: "Since mid-July, the contraction in furniture demand has been particularly marked and increased price competition has further reduced margins.

"In addition, higher tax and interest rates have also impacted on attributable profits."

They added: "The depressed trading conditions being experienced are expected to persist and deepen during the next six months as the downswing in the economy gains momentum.

"In these circumstances, it is most unlikely that the percentage fall-off in profits for the full year will be contained to the level experienced in the first half of the year.

"Management priorities will continue to be focussed on sales and on the productivity of its people and assets."

This focus on productivity and assets has been largely responsible for Afcol's dramatic rise to prominence.

It is a rise which dates back to the previous economic recession and it almost goes without saying that if Afcol was able to rebound from the depressed conditions of 1977-78 as strongly as it has, then there is no earthly reason why it will not produce an encore once the current gloomy phase has passed.

John Spira

High level of liquidity helped boost GFP income

GOLD Fields Properties, 12th in this year's Top 100 roll of honour, was a lowly 88 in the 1981 Top 100.

It has an astonishingly good 1981-82 financial year to thank for this dramatic leap up the ladder — a year during which earnings soared from 28,6c to 49,2c a share and the dividend went up to 18c from 14c.

GFP is a property investment company which is entitled to 25% of residual profits from uranium mining at Luipaardsvlei.

In the current financial year, earnings are expected to drop, although chairman Attie Weideman believes that the dividend can be maintained.

Significantly, the profile of the company may be expected to alter over the next couple of years as it concentrates increasingly on enhancing rental income and moves away from a reliance on non-property investments.

GFP recently sold its stake of 378 500 shares in Vlakfontein in order to invest in longer-life mines with better returns.

The company's investment in Kiln Products, an in-group smelting plant, has been sold, with the proceeds earmarked to be better utilised in the property sector.

A number of new property projects have been instituted with the intention of boosting rental income, among them training centres for GFSA companies on the West Rand, offices at Ellis Park (at a cost of R4,75-million) and some factory development.

Although some leases have already been negotiated, in certain cases income will not flow until 1984.

One of the principal factors that boosted income in 1981-82 was the company's high level of liquidity. At the end of June it held cash of R8,3-million (R4,1-million) and with interest rates hitting record highs, interest income expanded from R403 000 to R1,3-million.

GFSA has a 43,7% stake in GFP and New Wits (also a company in the GFSA group) holds 7,9% of the equity.

GFP's largest share investments at the end of June were Sasol (17% of the company's share portfolio), GFSA (13,4%), Vaal Reefs (11,7%), Commercial Union (11,1%), Amcoal (7,9%) and Deelkraal (7,6%).

The total value of the share portfolio was R9-million.

John Spira

How long the RECESSION?

By
BERNARD SIMON

NOW that most businessmen realise that the recession will not bypass them, the question uppermost in their minds is: when will it end?

The economists can give no clearcut answer. Finance Minister Owen Horwood and the Stellenbosch Bureau for Economic Research talk of the slump touching bottom about a year from now.

Standard Bank, Senbank and RAU's Prof Geert de Wet are less optimistic, predicting that the upturn will not start before 1984, and possibly only in the second half.

Who is right? To use one of the economists' pet phrases: It depends.

Most of all, it depends on the course of SA's balance of payments in 1983.

The present business cycle has once again proved — despite earlier predictions to the contrary — the close correlation between business activity in SA and the balance of payments, in the form of the gold and foreign exchange reserves (net of short-term borrowings by the Reserve Bank).

The reserves fell faster and further during 1981 than almost anyone had expected.

The tumbling gold price and fast-rising imports took their toll on the current account, which swung within two years from R7 000-million annualised surplus to an only slightly smaller deficit.

Sizeable long-term borrowings by the public and private sector, as well as a rush to use offshore trade finance, were not enough to take the pressure off the reserves.

The net reserves plunged by almost R5 000-million in the 18 months to mid-1982.

Even the gross reserves, which include short-term loans to meet the immediate demands for foreign currency from importers, companies paying dividends and interest abroad and those redeeming foreign debt, fell dangerously low.

PRETORIA MAY BE COMPELLED TO PRESS THE BRAKES DOWN EVEN HARDER IN EARLY 1983

By the end of October, just before the IMF approved its R1 200-million loan package to SA, the cash component of the reserves covered less than one week's imports.

Pretoria cannot contemplate another business upswing before the reserves are rebuilt, unless it is prepared to run the risk of an even worse balance of payments crisis later.

Demand for imports is bound to rise as the next upturn gathers steam and, if export earnings are not moving up even faster, the reserves — and in the longer run the economy as a whole — would be in real trouble.

The time needed to bring the reserves to a level high enough to sustain another boom will depend on the strength of the current account, in other words, the rate at which rising exports and service receipts exceed payments for imports and services such as freight rates and insurance.

It is easier to forecast the payments side of the equation than the revenue component.

The slowdown in the economy is bound to cut demand for imports further during 1983.

Standard Bank forecasts a 7,8% decline in import volumes next year, following a 1% rise in 1982. The Stellenbosch Bureau predicts a 14% drop.

Export earnings in 1983 will be overwhelmingly influenced by the course of the US economy.

Not only is the US SA's biggest trading partner, but a recovery there will help pull the economies of our other large markets — Japan, Britain and West Germany — out of recession.

An upturn in the US during 1982 has improved markedly in recent months. Interest rates are falling, inventories and inflation are low and economic policy is likely to become more expansionary as the 1984 presidential elections approach.

An average bullion price of $450-$500 an ounce in 1982 is not a far-fetched prediction. This year's average will be around $380.

Falling South African imports and higher exports are likely to produce a current account surplus some time during 1983, possible even before the middle of the year.

The deficit has narrowed impressively since the second quarter of 1982. In the second half of the year it was probably not much more than R1 000-million on a seasonally adjusted annual basis, compared to a record R6 900-million between January and March.

A current surplus is, however, only the first step in bolstering the reserves. Massive foreign debts have to be repaid.

Much of the offshore trade finance negotiated in 1982 will mature next year. The Reserve Bank's foreign loans totalled R1 900-million in July 1982, compared to zero less than two years earlier.

At some stage the bank will no doubt want to repurchase the 4,8m oz of gold pledged to foreign institutions in the past 15 months in exchange for hard currency. The new IMF loan will have to be repaid.

Unless the gold price zooms to $700 an ounce or beyond during 1983, neither gross nor net reserves are likely to advance to a level comfortable enought to release the brakes on the economy.

On the contrary, Pretoria may be compelled to press the brakes down harder in the early part of 1983.

It is an open secret that the IMF has suggested a hike in GST to 7% and, barring a sudden surge in government revenues over the next month, such an increase (or some other tax hike) is likely in the March budget.

Both Mr Horwood and Reserve Bank governor Gerhard de Kock have promised to keep a tight rein on monetary policy for the time being.

If they keep their word, further significant drops in interest rates may not materialise before mid-1983.

While the balance of payments will remain a constraint on the economy through 1983, policymakers are unlikely to be swayed by a continuing high inflation rate.

Hopes that inflation might slip below double digits at the end of 1983 have evaporated as state corporations like SATS and Iscor have pushed up tariffs to cover huge operating deficits.

The best we can look forward to next year is an inflation rate of 11-12%, though it may drop further in 1984 as the full impact of a more competitive business climate, lower interest rates and the likely appreciation of the rand filter through.

But a fall to levels now prevailing in the US and the UK is out of the question.

Pretoria is unlikely to hold the lid on the economy once the reserves are rising smartly, even if inflation remains disturbingly high.

The highest priority remains a rapid growth rate, and Mr Horwood — as most other politicians would do — is likely to err on the side of too much growth too soon, rather than too little too late.

Though the growth rate will probably be modest in 1984, it may accelerate rapidly in 1985.

Prepare for a heady boom in 1986 and a sudden letdown a year or two later as the familiar bottlenecks of labour shortages, inflation and balance of payments strains reappear.

Mr OWEN HORWOOD ... promise of a tight rein

Diagonal Street bloodbath averted

AT the commencement of the current calendar year, the outlook for the Johannesburg Stock Exchange was grim.

Shouts of pending economic recession were building up to a crescendo and the gold price was declining at a rate far too precipitous for comfort.

Halfway through the year, fears that 1982 would go down in the history books as a Diagonal Street bloodbath looked very much like materialising.

At the end of June, the market value of the JSE's listed ordinary shares had fallen by a shattering R8 200-million (to R47 400-million).

Gold shares were the major casualties, their total market capitalisation having fallen from R14 000-million to R11 200-million over the six month period.

Sighs of relief echoed through the corridors of the JSE building in early July, when the market's soft underbelly started to firm noticeably, spurred on by a gold price which began to lift off bottom levels.

In subsequent months, that tentative recovery gained momentum, with the result that since the end of July to date, total equity market capitalisation has increased by a significant R35 800-million to R83 200-million — well above the figure ruling at the end of 1982.

Just as gold shares made all the running on the downhill slope, so they outperformed all other share categories during the steep recovery of the past five months.

Their headlong advances have been nothing short of spectacular.

In total, the value of gold shares has risen from R11 200-million at the end of June to a current figure of R24 800-million — a staggering increase of R13,600-million, equivalent to a 116% improvement.

It's been a dramatic turnaround, much of which can be ascribed to bullion's buoyancy.

Not so easily explained is the strong performance recorded by industrial shares since mid-year.

In the five months to date, industrials have increased in value from R16 900-million to R24 100-million — a 43% rise which, seen against the background of a deepening economic recession, has taken the vast majority of analysts completely by surprise.

Gold's dramatic performance has had the effect that this JSE sector now boasts a marginally higher market capitalisation than industrials.

Over the years, the relative values of these two major categories have fluctated widely, with, at times, the one or the other assuming top spot in the market capitalisation stakes.

The two together comprise nearly 60% of the value of all listed equities, with the financial mining sector making up around 23% of the total, followed (a long way back) by financial companies, diamonds, metals and collieries (in that order).

In terms of dividend payments, the gold mines are again ahead of industrials.

The latest available official figures show that in the 12 months to June 1982, gold shares paid dividends of R1 589-million, followed by industrials (R1 529-million), financial mining (R927-million), financial (R266-million), diamonds (R251-million), metals (R167-million) and collieries (R122-million).

Interestingly, the dividend figures for the year to June 1982 differ considerably from those paid in the previous year.

Thus, the distributions by the gold mines was significantly lower in the most recent period than the R2 451-million paid in the previous 12 months, while the payouts of industrial companies was R330-million higher in 1981-82 than in 1980-81.

Payments by the mining financials were more or less unchanged, while the reduction in the De Beers Dividend saw to it that the diamond sector paid out less (R251-million in 1981-82 against R359-million in the preceding 12 months).

John Spira

The unlisted giants

□From page 12

Both Middelburg's and Mondi's assets are worth well over R300-million, putting them in the same size league as Nampak and PP Cement. Mondi is the largest paper producer in Africa.

Coalequip, the mining equipment supplier controlled by Amic and Gencor, has made a habit of acquisitions in recent years and is now one of the largest companies in its field.

The only other unlisted Gencor affiliate in the top ranks of SA industry appears to be Sandock Austral, the heavy engineering group.

Freight Services, controlled by Amic and Safmarine, is in a similar position to the trading houses.

While its investment in fixed assets is relatively small, revenues from freight forwarding, travel agencies and trade finance probably match those of some of SA's leading manufacturers. Freight Services' net income was R12,3-million last year.

The 484 grocery stores either owned or franchised by Spar are expected to post sales of around R560-million this year, up from R520-million in 1981. Spar's turnover is roughly on a par with OK Bazaars' grocery division, but still behind Checkers and Pick 'n Pay.

Importance of executive home loan programme

THE transferability, promotion and appointment of management staff in South Africa is aggravated by the absence of any mortgage bond facility in the remuneration package.

By JOHN SPIRA

No longer, says Syfrets Bank managing director, Brian Button, is just the question of salary the main priority.

The structure of the remuneration package is, he believes, vital and scrutinity of all the leading newspapers and publications will provide much evidence of the manner in which companies, personnel consultants and others are setting out details of vacancies in their organisations.

One of the most vital elements in the make-up of any remuneration package for management staff is undoubtedly housing loan facilities.

According to Mr Button: "When one considers that interest rates have almost doubled in 18 months (although they are now easing back), there can be little doubt that they have had a significant impact on the living standards of all South Africans.

"Company profits have been badly dented due to the increase in interest rates payable on total borrowings.

"Disposable incomes as far as employees are concerned have been reduced to all-time lows due to the servicing of debt and unpredictably high interest rates (mostly fixed interest) and the enormous increase in living costs which such employees have had to experience in recent times.

"A major portion of these increased living costs have been the almost doubling of the mortgage bond repayments which has squeezed the employee's capability of meeting other expenses.

"The men who must ensure that the wheels keep turning are the men who must be encouraged to motivate, enthuse and to initiate through their innovation and expertise the improved productivity and profitability of the companies for whom they are responsible.

"Unless such men can see rewards for their efforts, the ultimate objective of improved earnings per share will be difficult indeed to achieve."

This is where an executive home loan programme comes in.

It produces, Mr Button contends, a concept which permits the employee to maximise the benefits that are available to him from his employer by structuring his remuneration package in such a way that his take-home pay is maximised and his living costs are minimised.

The Syfrets programme permits payment periods of up to 25 years with repayments geared via interest only or capital and interest on a monthly basis. In addition, it takes into account variations in the employees' income flow, bonus payments, etc.

From the employers point of view, "financial modelling" clearly illustrates that the substantial benefits which accrue to the employing company are without any administrative and management complications because of Syfrets' sophisticated computerised programmes.

The problems of transferring, promotion and appointing of staff are eliminated entirely.

The programme takes into account all contingencies to the maximum benefit of both the employer and the employee.

With the programme based on a variable rate concept, costs of the programme are always market-related.

Mr Button concludes: "One of the most significant benefits that has been reported by the many companies who are managed within the executive home loan programme are improved loyalty and very much higher levels of productivity.

"These are both vital elements in improving the client companies' profitability."

'Expand pension fund network'

IT IS essential that we get our priorities right in the field of pensions — an industry administering assets of some R20 000-million on a trust basis for members and their dependants.

There is, considers David Strauss, managing director of Price Forbes Federale (Employee Benefits Consultants), little doubt that the major priority is the provision of satisfactory services for all — employers, employees and the community at large.

In keeping with the current movement away from direct state involvement in the economy, the private sector, he feels, should be encouraged, fiscally and otherwise, to expand the existing network of funds to embrace the 40% to 50% of the working population which is not yet covered.

"Second priority is to set in motion wide-ranging discussion on the preservation and transferability of pensions to ensure that assets already built up by individuals are not frittered away.

"But such planning should include all interested parties and should surely also recognise that reform in related spheres (eg unemployment benefits) may well be necessary if opposition to preservation is to be countered realistically.

"The third major priority is to enable pension funds to earn positive yields in excess of the inflation rate — in the main by reducing substantially the statutory requirement to invest in prescribed assets.

"I personally would not advocate the complete removal of the prescribed asset requirement, as it has undoubtedly contributed to the enviable stability of South African pension funds and long-term insurance companies.

"But I would plead for the direction of at least part of such investments towards more socially acceptable goals — such as housing, schooling and other social services."

Mixing business with pleasure

IS your company planning a conference overseas which would double as an incentive perk or even an educational trip?

Then the cheapest overseas destinations are likely to be Spain, Portugal and Greece — not Mauritius, the Seychelles or Reunion, says wholesaler and retailer Anton Thompson, MD of Thompsons.

"As a conference destination, let's take Spain as an example. Some 20 South African conferences take place there every year, partly because of the low air fare alone. It is cheaper to fly to Madrid than Mauritius, even at high-season air fares, and company package tours can be arranged at a lesser cost than to Cape Town.

"In Spain and Portugal — to a lesser degree in Greece — hotel charges for conferences can be as low as R12 per day out of season for a three-star hotel, rising to R18 for four-star accommodation, and R26 for a de luxe hotel."

Mr Thompson recently signed an agreement with Torremolinos's conference specialists, Tourex, who organise such large-scale meetings as that of the 320-delegate Asata congress.

A fully packaged 10-day conference in a four-star hotel would cost R1 300 per person, inclusive of all air fares, three nights in Madrid and five nights in Torremolinos at half board, plus the usual excursions and other entertainment.

Spain, which earns more than R25-million a year from South African travel allowances (excluding fares), is making every effort to diversify its sources of income.

Vera Beljakova

Shock for the ad agencies

A STAGGERING 32% of advertisers would not again choose the agency currently retained, says an advertising research study.

"Advertising agencies in South Africa are not succeeding in communicating their specific individual strengths to the market place," says international strategy consultant Ivan Weltman, MD of IWC Research, which has released a positioning study on the SA advertising industry.

Only two underlying factors are identified by which advertisers differentiate between agencies — size and creativity:

- 72% speak in terms of big, technically proficient agencies.
- 11% see in terms of the dynamic, creative agency.

The larger the agency, the more creative it is perceived to be by advertisers who, in general, lean towards the international agencies.

Advertisers barely associate local agencies with a good track record in the black market, having a creative edge in TV or being cost-effective in production.

"These perceived gaps need to be plugged by 1983," says Weltman, and with the staggering 32% of respondents, it seems there will be a mass movement of accounts in the New Year."

Problems experienced with advertising agencies include poor administration and client service, lack of interest or initiative, too slow, poor creativity and communication.

Vera Beljakova

The little big moneysavers

TODAY it is not just "fashionable" for large corporations to have a computer, it is a necessity. And the applications in which they are being utilised is increasing daily.

From design, stock control, manufacture and even into the boardroom, the computer is increasingly carrying the brunt of the workload and has done a lot to help overcome the shortage of skilled manpower.

Terms such as CAD/CAM computer aided design and computer aided manufacture) are as much in use today as was the word "computer" in the early 1950s.

For corporations computers are now a necessity

By DON ROBERTSON

Cees Roon, group information and communications manager of Barlow Rand agrees and says that computers currently save his company "millions of rands a year", although he as readily accepts that it might be difficult to explain to management exactly how these savings are achieved.

Nevertheless, in keeping track of the manifold operations of a conglomerate the size of Barlows, it is essential to have computers.

Computer use has enabled Barlows to improve control and to save on its inventories, to order the right quantities and to be very much more efficient in its overall performance.

But as any computer boffin will tell you, the computer is only as useful as the staff that is required to programme it and the "trust" that is accorded it.

Decisions

Being a fairly new fad, there are still many "old-school" managers who do not believe in the rather impersonal decisions of the computer. "But these managers are now close to retirement and the new, computer-oriented manager is rapidly taking his place."

Go-ahead Sentrachem has taken the computer into the boardroom for immediate access to information such as debtors, creditors, general ledger, salaries, production planning, raw material investment and finished goods control.

It currently has an investment of about R3-million in computers, comprising 60 processors, and is vital in financial and strategic planning.

At Sentrachem, forecasting systems for up to 13 years are run. When the group's turnover was R80-million annually, it was considering new investments of R300-million most of which was computer "controlled". Its success speaks for itself.

"Plant construction is a complex business", says Sentrachem's information processing manager, Ian van Graan, "and involves durations of up to two to three years.

Financiers and bankers require plans depicting the financial position for a number of years as well. We work on three years of construction and 10 years of operation. The 13 year forecast emerged that way."

The use of computers for design and manufacture is a fairly new concept in South Africa, but it is estimated that by 1984, total world investment in this aspect of computer use will rise to R4 000-million — a figure comparable to the value of TV sales in America.

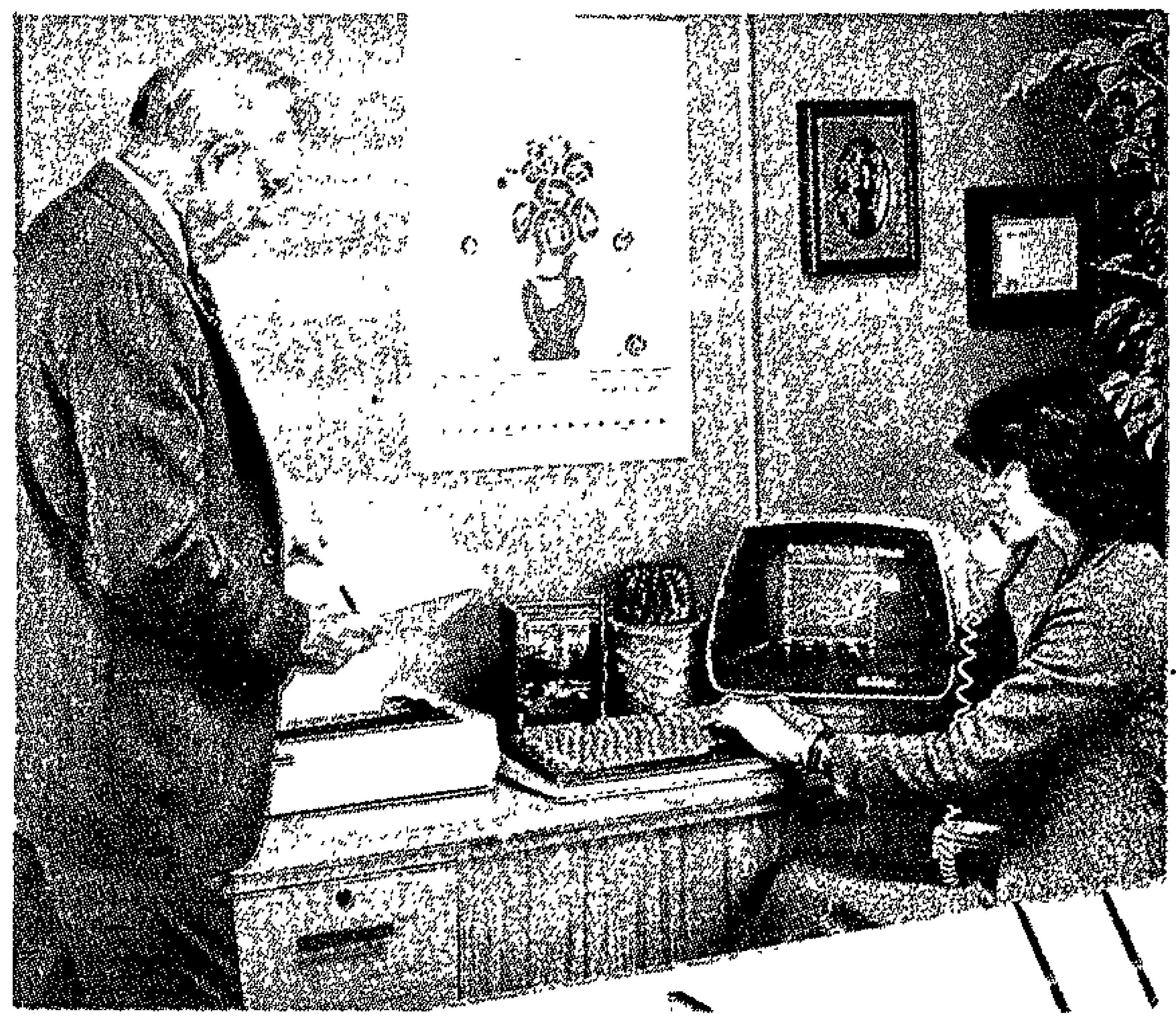
Historically, the main cost of a design or drawing office has been its staff, with very modest equipment costs. In manufacturing, high cost "numerical control" machines have been in use for some time in spite of their high cost.

However, it has been shown that design activities constitute only about 4% of total annual company costs and, hence, for most organisations sums of R150 000 spent on computer design orientated equipment is quite acceptable when measured against the future contribution a fully utilised CAD/CAM system can make.

The growth and development of interactive graphic computing capabilities, whether based on mainframe, mini or micro computers is such that it will become economical for most companies to use these systems, whatever their need.

However, the rapid advance in the development of computer technology and its ability to assist in company affairs, is the cause of "headaches" for the data processing manager.

Kees Roon, of Barlows, believes that he would have to spend four hours a day, seven days a week in reading just to keep abreast of new developments.



The computer in the office ... carrying the brunt of the workload

An alternative to the scalpel — live-cell therapy

IN this youth-conscious era where executives are obsessed with retaining their once athletic bodies and bright-eyed expressions, it becomes something of a blessing that South Africa now offers an alternative to submitting oneself to the scalpel.

Not that facelifts aren't popular among top financiers and eager-beaver businessmen. Surgeons' waiting rooms are increasingly filling up with jaded men keen on remaining in the rat race.

The alternative is live-cell therapy — a lot less painful, though somewhat more pricey, leaving no scars.

Rejuvenation

It is Swaziland's newly opened Swiss-style La Prairie Clinic, which specialises in mental rejuvenation and treating symptoms associated with the ageing process.

Live-cell adherents range from Winston Churchill to the Pope, from Charlie Chaplin to Pablo Picasso.

Already 66% of the Swazi clinic's patients go there specifically for rejuvenation therapy, and 60 of the 100 treated since its opening in September have been executives.

Among the other 40 were black politicians from Nigeria, the Ivory Coast and Kenya, as well as a sprinkling of rich men's wives. The clinic takes some six patients a week for a five-day sojourn.

The Monday-to-Friday course, costing R2 500, includes 50—100 blood tests, all treatments, accommodation and full board.

The world-renowned parent clinic, the 52-year-old La Prairie, was founded by Professor Paul Niehahns, who developed the science of live-cell treatments, which is still continued today with our Professor Chris Barnard sitting on the consulting board.

But what are the drawbacks, besides relearning to cope with regained energy?

Besides the price, the therapy involves subjecting the body to dozens of blood tests, up to 14 injections in the posterior and a compulsory four-day rest in bed.

Another hitch: no smoking, drinking or sunbathing for at least three months after the treatment, otherwise effects are not optimal.

Vera Beljakova

To PRUNE or to STIMULATE?

THE DILEMMA OF ADVERTISERS IN A RECESSION

By VERA BELJAKOVA

ADVERTISING budgets are expected to be cut dramatically as companies start coming to terms with the recession.

And, as is common during every downward trend, advertisers will argue whether it is wiser to cut back on budgets or to stick to the predetermined one so as to maintain, or even increase, market share.

In a jittery climate of increased bankruptcies, rampant inflation, high interest rates and growing unemployment, it is difficult to make decisions.

A prudent manager, with his eye on the bottom line, feels the first step is to cut the advertising budget, reasoning that it is difficult to offload the direct costs of a large organisation in the short term — and reducing "discretionary" expenses is the easy option.

Any hesitation is then crushed by the fallacy which suggests that cutting back part of a campaign will only have a marginal effect on market share, particularly if the company has an established brand.

But the astute executive, following this tenuous course, has not taken into account some pertinent facts: recessions tend to be selective in their effect on different industries.

The recent downturn has seen declining sales of motor vehicles, home furnishings, fast foods and large appliances, while liquor, tobacco, small appliances and computers have remained unaffected.

Recessions tend to be short, and effects on long-term plans minimal. The average US recession during 1948-1975 lasted a year, while in South Africa downturns during 1965-1977 lasted 13 months.

Contrary to common opinion, recessions tend to be mild.

In the US, the GDP fell by 3,3% and, in SA, the GDP fell by 2,9% over the same periods.

A remarkable phenomenon was observed in the US during the severe 1972-1976 period: consumers bought 9% more packages of supermarket products.

Aggression

Brand awareness, therefore, is vitally important at all times — not just in boom conditions — and the only way to increase brand awareness is by marketing more aggressively than one's competitors.

This is confirmed by the American Strategic Planning Institute's survey, "Brand Awareness as a Tool for Profitability", based on 2 000-plus companies' responses.

It found that the more a business spent on advertising and promotion as a percentage of sales, the more it increased its brand awareness.

Economists agree that recessions since 1946 have been fed substantially by underconsumption.

As a result, inventories grow, production slows, unemployment begins and a depressed cycle sets in.

What better way to break this cycle than to stimulate demand for goods and services at the source?

What better way to do this than through advertising?

Pessimism among advertisers who prune budgets in a recession is psychological and hardly warranted by facts.

Maintaining or increasing promotional spending when everyone else is playing it safe can bring a dramatic change in market position.

This is clearly illustrated in the UK recession in the early '70s which prompted advertisers to cut budgets.

When the dust settled and the upswing came, it was discovered that those advertisers who had not panicked were in a powerful position.

Heinz and Mars Pet Foods, who protected their above-the-line appropriation, not only maintained brand shares but, in many cases, improved them.

Companies with a less single-minded purpose found that their brand share declined rapidly. Some have yet to recover.

Supporting this opinion is a US Business Press Project study which tracked the sales and growth of 173 industrial companies from 1972-1977.

Growth

Firms that reduced advertising spending in the severe 1974-75 recession achieved minimal sales growth in 1974, then a sales decline in 1975 and only increased sales by 70% over the five-year period.

But companies that maintained their budgets suffered no slowdown during the recession and grew by 150% over that following five-year period.

Clearly, it is rewarding to maintain a continuous advertising campaign, irrespective of economic peaks.

Regaining a favourable market share lost during a recession costs more in the long run than retaining it by constant advertising, and it becomes impossible to recapture old customers who have adopted competitive brands.

Grey Group chairman Darryl Phillips is adamant that South Africa is going largely through an "emotional" recession.

He says: "In March 1982, a low gold price and the dramatic fall of the rand against the US dollar precipatated advertising budget cuts.

"But this was soon followed by a relatively fast gold price rise over a short period and the realisation that competitors had not cut budgets. The result was a reinstatement of previous budgets. The real drop in consumer spending penetrated only in October."

There is an indication that a certain school feels strongly tempted to postpone advertising spending on the assumption of recovery towards the end of 1983.

"Companies with multinational exposure will not cut budgets, unless forced to by the rand-dollar rate," forecasts Mr Phillips.

ıe money managers

FRETS ENDEAVOUR TO PRESERVE AND INCREASE YOUR WEALTH

nagement is a subject which has attracted increasing focus ars in step with the growing sophistication of savings and media and an increasing awareness by the man in the street options available to him.

been managing people's money for many generations. It is l qualified to comment on these issues.

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	% Depreciation over 5 years
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By JOHN SPIRA

does, result in book losses; after all, bull and bear trends are an inevitable part of share investment.

"Skillful management can help to limit this risk."

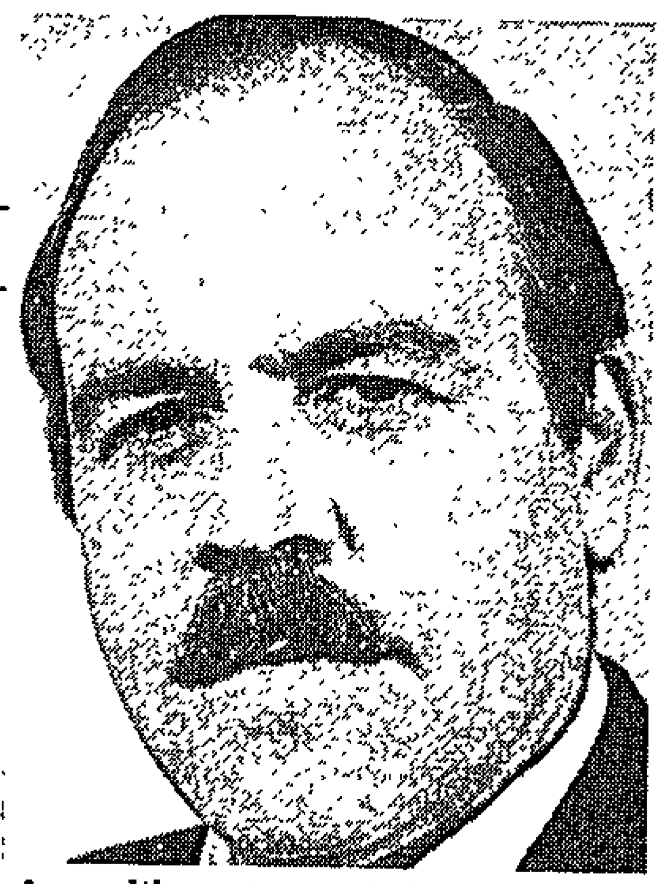
It goes without saying that the prudent investor will at all times strive to eliminate the risk of total loss.

Mr Wiehahn contends that he can achieve this goal by steadfastly refusing to invest in companies which do not meet acceptable criteria of financial strength and above average profit performance — and by aiming for a sound spread of investments.

"Clearly, the risk of inflation could best be avoided by investing 100% of an individual's assets in equity; but, at the same time, the risk of asset price volatility that may occur from such a course of action would not be protected.

"On the other hand, the deployment of 100% of an individual's assets into fixed capital, varying coupon investments, would ensure protection against asset price volatility but would offer absolutely no protection whatsoever against the risk of loss of wealth through inflation.

"In my view, the only way to overcome this dilemma is an asset mix somewhere between the two extremes to obtain the best balance, together with a return in relation to risk."



Syfrets' Conraad Wiehahn . . . matching the client's needs

The final decision, he concludes, depends on two factors:

- The individual's needs.
- Good judgment based on an analysis and distillation of all available information with regard to existing alternatives and future expectations.

Finally: "In the largely affluent investment community in which we live, the need to maintain an individual's real income is frequently overlooked.

"In a market dominated by institutional investors with burgeoning cash flows, share price are frequently pushed to levels which bear no relationship to the dividend receipts which may reasonably be expected on a long-term view.

"We would, in these circumstances, suggest measures deemed necessary to ensure that an acceptable ratio of income to the value of capital invested was maintained."

ompiled by STEPHEN
RPEN from a paper by
ofessor ANDY
IDREWS, dean of the
ts Business School

80s demand complete management rethink

1981, everybody knew, or ght they knew, how to run a ness. It was not all that cult.

e simply developed objectives and gies, had the divisional managers ast sales and the bottom lines, had revised and improved and then ed and screamed if they deviated the plans.

market was moving strongly and, quite frank, it had to be a really anager who made a mess under conditions

fessor Andrews, dean of the Wits Business School, remembers a divisional manager telling him during the 1980/81 boom: "It's simple! All I do is sell my boss on the lowest, easiest forecast I can get him to accept. I tell him that the competition is going to intensify ... and then all I have to do is meet the easy targets".

Everybody seems to like this approach and many seem to use it — but it doesn't work in the current economic climate.

Why? Because our managers aren't thinking deeply enough. They have not taken the time and maybe do not have the inclination to understand the current situation and how to operate in it.

The following may be generalisations but they can apply to a wide section of South African management:

- Our managers rely on obsolete experience and folklore
- They base their decisions on conventional wisdom
- They get caught up in a "group think" — we all agree so we must be correct.

For many organisations these approaches and attitudes were adequate in the past. They are not adequate for the 1980s. In fact, they are dangerous.

The "meet-the-plan" management approach cannot work because the plan is too short-term and is based only on a partial understanding of the factors that determine success or disaster.

Managers must be educated to enable them to initiate and respond to change.

They must be given more time to assess their environment so that they can respond and act appropriately, and management teams must be allowed time to assess the long-term implications of today's (and yesterday's) decisions.

To ensure the plans are meaningful, managers should force planning to be based on valid assumptions about the long-term evolution of the industry and system.

Change creates opportunities and, as has been authoritatively stated, there is no such thing as a growth company, only companies organised to take advantage of growth opportunities.

The existing management structure in South Africa does suffer from its problems, not the least being that much of our mangement is made up of specialists who have got to the top through a large amount of energy and ability.

But inevitably their knowledge in certain areas is limited, and this is reflected in the way they manage their operations.

Research shows that all managers are involved with problems once thought to be outside their normal jurisdiction — in fact some of them report that as much as one half of their time is spent on these problems — and very few of them have received much in the way of preparation for such tasks.

Statesman

George Steiner refers to the manager of today as a "skilled judge of human character, motivation and capabilities; a business statesman in dealing with Government and community leaders; a thoughtful person who can look ahead and know how to get there; a man of action who can make decisions with prompt compliance; an architect of the company's management; an innovator; and a vigilant seeker of opportunities who is willing to come to grips with, and solve, problems."

No wonder that in an organisation of any considerable size the manager must rely heavily on his management team and become less and less involved with detail.

His role is more that of an overall planner.

How well does a manager do his job and on what criteria is he judged? When is he successful and when does he fail? The answers to these questions are remarkably general and vague.

No wonder the economic downturns are viewed with such horror, no wonder the blame for these downturns is immediately laid at Government's door, no wonder myriad excuses are put forward for poor performance under these circumstances.

Anguish

But aren't we really saying we just can't cope, that we haven't got the skill, that we didn't plan ahead, that we didn't have a strategy, that our sales force was really a group of order takers and now that they are having to sell they just can't manage it?

This is not to say that an economic downturn doesn't have its attendant problems. But the screams of anguish would be less deafening if our South African body of management were more professional in their approach.

The eighties will have the economic cyclical swings but these problems will be compounded by a higher degree of competitiveness, and an increasing shortage of personnel.

There is a host of problems which will tax even the well trained. To cope with such stresses management needs to review constantly what they are doing, how and where they are going.

.are gains have taken a dive

By JOHN SPIRA

o, when Business d the share price f the Top 100, gains of 100% to 200% ommon.

gs look rather different. of all the Top 100 comve appreciated by more nine by more than 20% e by more than 50%. figures last year were

transformation, occaby the fact that in 1981 g Stock Exchange was unusually buoyant, while in 1982 it's been static

The accompanying table shows that only 37 of this year's Top 100 gained ground on Diagonal Street. And of the top five, the share price of only one (Toyota) moved in a positive direction.

Suncrush (27th slot in the Top 100) registered the largest share price gain, followed by SA Bias (26th), Aberdare (48th), New Wits (56th) and Delswa (7th).

At the other end of the scale, the BTR share price shed a sickening 43% in spite of its fairly lofty 33rd ranking in the Top 100.

Is there a lesson to be learned from this apparent contradiction?

That share prices do tend to follow earnings is not open to doubt. Which is not surprising, since the shares of a company that does better than most will attract above-average demand from the investing public.

But this maxim generally applies only over a fairly extended period of time.

Thus, the shares of Toyota, numero uno of the Top 100 this year and last, has gained in price by a staggering 260% since the beginning of 1980.

Similarly, Mathieson & Ashley (9th this year and 11th last year) has appreciated by 370% over the past three years.

GIC (2nd this year and fourth last year) is another, with a 78% share price improvement since 1980 — despite its precipitate 36,8% share price fall in 1982.

Looking at the list as it stands, it isn't difficult to find companies which slot into much the same rankings in the share performance tabulation as in the Top 100.

Hence, Delswa is 5th and 7th respectively, GF Props 7th and 12th, CNA 12th and 18th, UCI 15th and 25th, FS Devels 22nd and 28th, Anglo Alpha 26th and 31st, Gypsum 30th and 22nd, Scottish Cables 36th and 36th, Gencor 39th and 44th, SAAN 42nd and 45th, Cadschwep 45th and 47th, Micor 48th and 51st, National Selections 55th and 74th, Trade & Industry 56th and 53rd, Grinaker 68th and 71st, Everite 69th and 60th, Tongaat 70th and 76th, M&R 72nd and 80th, Chemical Holdings 73rd and 65th, Carlcor 76th and 76th, World 80th and 74th, Darling & Hodgson 88th and 95th, EP Newspapers 89th and 87th, Diroyal 90th and 82nd and Cafca 96th and 97th.

These are companies which conform to the general rule that share prices follow earnings.

In all, 26 companies of the Top 100 are separated by 10 places or less when the two sets of rankings are compared.

The valuation of such companies on the JSE is such as to suggest that the behaviour of their respective share prices over the past 12 months accurately reflects past earnings performance.

Further, since share prices tend to anticipate the future, their historical share price behaviour may be construed as indicative that the earnings of the companies in question are expected to reflect much the same trend (relative to the averages) in the years ahead as in the past five years.

Why do only 26 of the top 100 companies jell with the orthodox "share price follows earnings" maxim?

And why are as many as 26 of the Top 100 separated by a difference of 40 or more places in the tabulation of rankings contained in the accompanying table?

Before attempting to answe. these questions, it is enlightening to underline the extent of these discrepancies by pointing out that a share such as Ellerine, which is ranked only 73rd in the Top 100, achieves a lofty 11th place for its share price gain of 18,2% since the beginning of 1982.

Similarly, Metal Closures is ranked 14th in terms of price performance and only 76th in terms of earnings performance.

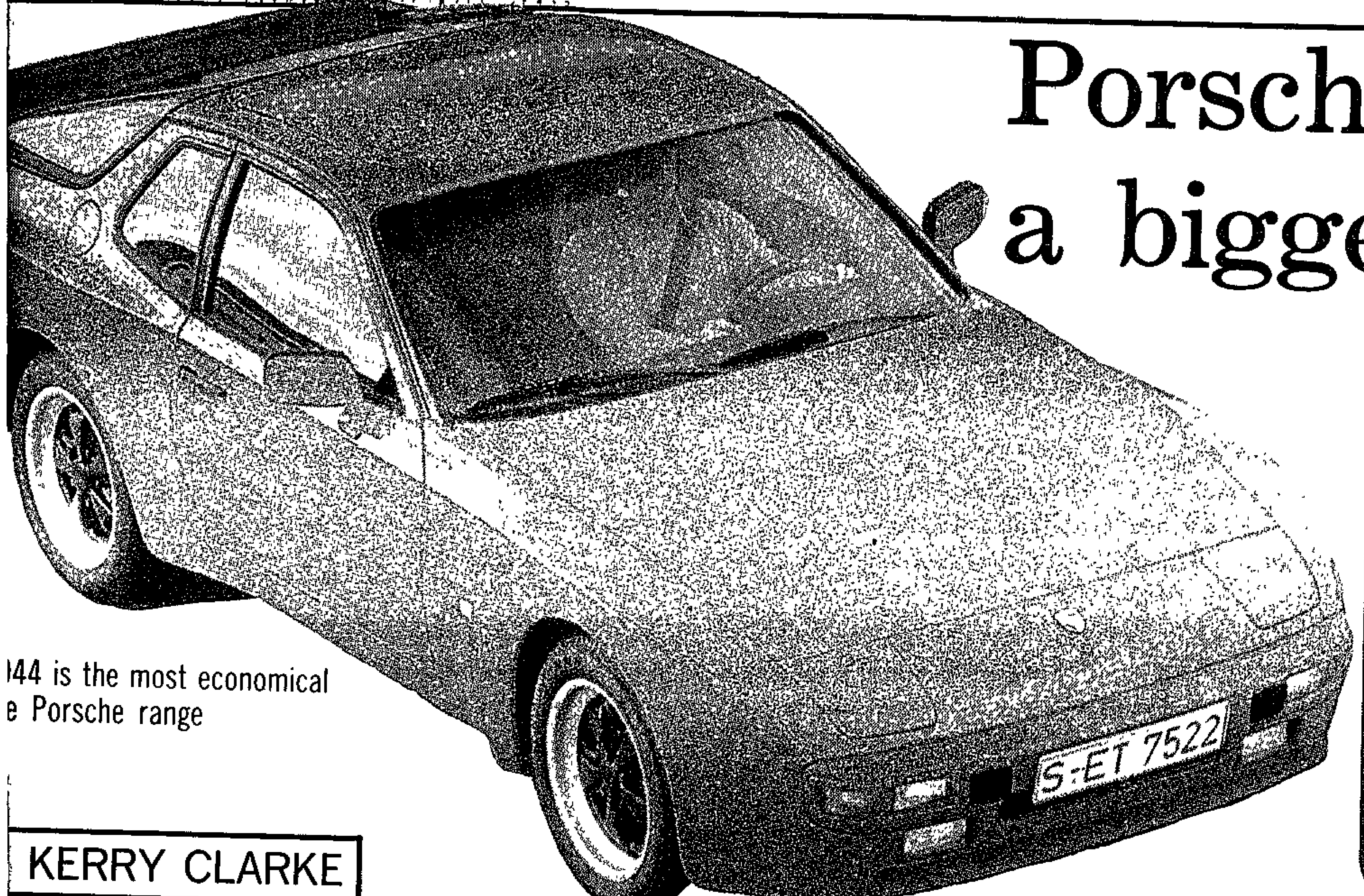
Other striking examples of share prices having moved ahead of earnings gains are Aberdare (3rd and 48th respectively), New Wits (4th and 56th), Altech (6th and 49th), Rex Trueform (9th and 57th), Searles (15th and 63rd), Metal Box (17th and 70th), SA Breweries (18th and 59th), Natal Chemicals (21st and 83rd), Pick 'n Pay (24th and 72nd), Industrial Selections (27th and 68th), Plevans (32nd and 88th), Fugit (34th and 81st), PP Cement (37th and 93rd) and Lion Match (43rd and 86th).

In such cases (and in relative terms), share price increases over the past year

☐ To page 41

	1982 Share Performance (%)	Rank	Top 100 Ranking
	+63,3	1	27
	+61,5	2	26
	+50,3	3	48
	+48,9	4	56
	+42,9	5	7
	+34,3	6	49
	+25,9	7	12
	+24,4	8	38
	+21,7	9	57
	+18,8	10	32
	+18,2	11	73
	+17,1	12	18
	+13,3	13	24
	+13,2	14	76
	+12,9	15	25
	+12,9	15	63
	+12,7	17	70
	+12,2	18	59
	+12,1	19	46
	+10,7	20	52
	+10,3	21	83
	+9,8	22	28
	+8,9	23	10
	+7,7	24	62
	+7,7	24	72
	+7,0	26	31
	+6,7	27	68
	+5,9	28	13
	+5,6	29	1
	+4,5	30	22
	+4,4	31	15
	+3,8	32	58
	+3,8	32	88
	+3,3	34	81
	+2,9	35	69
	+1,3	36	36
	+1,2	37	93
	—	38	75
	−2,2	39	44
	−2,9	40	34
	−3,2	41	14
	−3,3	42	45
	−3,4	43	86
	−3,8	44	17
	−4,3	45	16
	−4,3	45	47
	−4,7	47	19
	−4,8	48	51
	−5,2	49	61
	−6,5	50	20
	−7,5	51	9
	−8,3	52	6
	−9,7	53	35
	−10,3	54	39
	−10,8	55	64
	−11,1	56	53
	−11,7	57	11
	−11,8	58	37
	−11,9	59	91
	−12,1	60	8
	−12,1	60	79
	−12,2	62	89
	−12,8	63	40
	−12,9	64	94
	−13,7	65	84
	−14,3	66	54
	−14,9	67	50
	−15,0	68	71
	−15,6	69	60
	−15,6	70	76
	−16,5	71	29
	−16,6	72	80
	−16,8	73	65
	−17,6	74	98
	−17,8	75	30
	−17,8	76	76
	−18,2	77	90
	−18,4	78	43
	−18,8	79	4
	−19,5	80	74
	−19,7	81	100
	−21,9	82	5
	−22,6	83	3
	−23,2	84	99
	−23,4	85	96
	−24,8	86	42
	−27,4	87	43
	−27,4	88	95
	−30,0	89	87
	−32,6	90	82
	−33,3	91	23
	−33,3	92	92
	−35,3	93	21
	−36,8	94	2
	−38,1	95	66
	−41,4	96	97
	−41,7	97	85
	−42,2	98	55
	−43,0	99	33

Porsche wants a bigger slice



)44 is the most economical
e Porsche range

... AND ROLLS ALSO PLANS A QUIET BID TO DENT BMW, MERCEDES DOMINATION OF THE EXECUTIVE CAR BUSINESS

KERRY CLARKE

ecutive car market is ed by German giants es and BMW, but the ex- ts and luxury car deal- leaving no room for ency.

pressed market has shar- npetition and at least one s decided on a concerted snatch away some of the company car market.

is looking to a market h the aid of a marketing which will present these rman machines as compar- ce and superior in economy es and BMW ranges pres- erred by companies for top

aes, MD of Lindsay Saker raws attention to the price he Porsches — R32 000 for most popular model, and 000 for the 911 Turbo. er range models are com- iced to the upper range ercedes, and the most eco- orsche, the 944, has a far el consumption to the larg- nd Mercedes.

es the size of the Porsche — an executive driving to d use 50 to 70% of the pared to the 25% used in ercedes or a BMW. he executive only needs a large car on average once a year when he takes his annual holiday, and although the Porsche would obviously not be large enough for such an occasion, the executive invariably has a second car which he could use for this purpose.

"The majority of Porsche buyers are professionals or own their own businesses, and we are only now recognising the fleet market potential. We have decided that we would like to be much stronger in this market sector," says Mr Kaes.

South Africans are sophisticated buyers

Rolls Royce is also gunning for a decent share of the market in its own quiet way, although with a price range starting at R205 000 and touching the top at R310 000, it obviously appeals to a restricted field of buyers.

Sales manager Jack Baker has negotiated with the powers-that-be in Rolls Royce and persuaded them to accept the idea of a model with "South African specifications".

"I have found that South Africans are more sophisticated that the usual buyer," says Mr Baker.

"They like accessories such as sound equipment, and they like to be different to their peers — one-upmanship is very important to our buyers. We are trying to cater for this need and offer a lot of exclusive options."

One such option will be a bar with cut glass tumblers and flasks straight out of exclusive Bond Street to be fitted in the back of any Rolls model. Picnic tables and miniature TV sets are other available extras.

The local Rolls Royce office can offer South African buyers anything from the standard Silver Spirit through to the convertible Corniche and the flagship Camague, selling at approximately R310 000 — the most expensive car in South Africa.

The latest in the Bentley range is also available — Mr Baker is bringing in the Mulsanne Turbo which was released in Geneva in March. This model is a snip at R235 000.

And don't believe that the latest recession has killed this luxury car market.

Klaus Grogor, owner of House of Sports Cars, says the most expensive cars are the best-sellers of all his range.

Although an agent for Aston Martin, he also offers Ferrari, Porsche, Jaguar, Mercedes and a range of other unusual sports cars. Some 75% of his business comprises used cars.

He says that now is a good time to buy — there are more sellers in the market and cars are being offered at lower prices.

But he warns that buyers should not wait and hope for lower-priced imports.

In the last 15 months, he says, Ferraris have increased in price by some R10 000 to R15 0000, Rolls Royce's have increased by R25 000 and Porsches by over R10 000.

"We are also expecting another increase in January," says Mr Grogor.

BMW predicts that the period between the present and the end of 1983 will be a time of mixed fortunes for motor manufacturers and notes that manufacturers of cars in the executive and luxury segments of the market have traditionally enjoyed better stability during recessionary times.

It is in these two more stable segments of the total market therefore that BMW has concentrated its efforts.

Trends are towards fuel efficient cars

Marketing manager John Jessup says the executive and luxury segments have recorded spectacular volume gains over the last three years, with increases of 56,5% and 49,8% respectively.

"There is no evidence to show any buying down trend. On the contrary, a general upgrading process has taken place over the last few years and is likely to continue, for example in the five series range which was ninth in the top ten best seller list in 1981 and has moved to seventh place for January to October 1982," says Mr Jessup.

He notes definite trends towards the fuel efficient car demonstrated in the success of BMW's new generation five series range.

"There is also evidence to confirm a trend toward better relative value for money and higher level for specification in cars," he says.

Such specifications were included in BMW's executive concept introduced in 1979 and BMW believes the success of this concept is demonstrated by the increase in the executive percentage of BMW sales which is up from 39,2% in November 1979 to 65,6% by October 1982.

Cargo Motors reports a good demand for Mercedes and is experiencing delays in supply.

Cargo believes its secret to success lies in the choice offered to the executive.

"At that level a car becomes a rather personalised choice," says MD Mr Fritz Borsuck, "not only in the sense of colour but also regarding vehicle equipment and trim combination".

The executive also has a choice of four-door saloon, two-door sedan or station wagon from the Mercedes range.

e big plus of maintenance contract hire

The passenger vehicle fleet — do companies ever assess its true operating costs?

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Ford's vehicle er, Willie van

ome two years dget and Avis te divisions (in a separate penetrate, as this potential et. Dealer net- leasing bank d suit.

JK very few vn fleets. Most om specialist full mainten- t rather than rough a fi- " says Charles ame to South months ago to dget's fleet

r Clark is not w many pas- s his division ages for cli- s, Avis Car ently runs this system.

ages to the ious: a fixed ce (he is re- petrol only) e guesswork erating costs l budget, no cash tied up in depreciating vehicles, no day-to-day worries about servicing and repairs, no restrictions on borrowing for overseas companies operating within the Republic and no concerns about maintaining a high resale value for each unit.

But Hans Steyn, chairman of the National Automobile Dealers' Association, adds a warning:

"Be wary of a full maintenance contract hire scheme which clouds or confuses the financial and maintenance aspects.

"Ascertain just how much this ease of operation with its apparent benefits is costing you."

There are other options to full maintenance contract hire, notably the employment of a professional in-house transport manager and the use of one of the three bank fleet card advice services.

Pioneers Barclays National Industrial Bank now has 60 000 Autocards in the field.

These are marketed not as a convenience card but as a "convenient method of capturing information to be analysed and acted upon by the company's fleet manager", explains assistant general manager Brian Longley.

Early in the new year, Barclays National Industrial is to extend its services to fleetowners by offering to take on the actual purchase of the vehicles — a service seen as complementary to Autocard.

It is generally agreed, however, that many companies do not realise the true costs of operating a vehicle fleet.

Even though fleet cards may be used, the information provided is sometimes not acted on.

Toyota's fleet marketing manager, Len Botha, highlights 14 fleet "expense and cost centres", from accurate specification matching to driver development to insurance.

To Hans Steyn it is the fleet of, say, 20 vehicles that can prove the most inefficiently managed.

It is more than likely that in this case monitoring operation falls to the general clerical staff rather than a professional transport manager.

Cost centres tend, therefore, to remain unidentified and unassessed.

"This small to medium-sized fleet is the prime market for full maintenance contract hire," says Mr Steyn.

Motor manufacturers are keen that, should full maintenance contract hire prove popular with South African companies, the dealer networks become more involved.

"With his knowledge and experience, the dealer must develop into the kingpin," says Toyota's Len Botha.

Adds Ford's Willie van Wyk: "The concept of full maintenance contract hire has grown in some markets, such as the UK.

"There is some benefit for the fleet operator in the areas of fleet operating cost, purchase control and capital outlay.

"However, the sophisticated fleet operator, in investigating this, will clearly establish that these benefits are derived at considerable cost.

"Because of this, fleet owners may be reluctant to adopt full maintenance contract hire."

Whatever current feelings on full maintenance contract hire, companies have been established to market the concept not least, as Budget's Charles Clark points out, because "what catches on in the UK traditionally takes hold in South Africa".

It is a system that will increasingly have to be considered by local companies as a means of controlling those ever-rising fleet operating costs and dealers and specialist agencies alike are equipped to handle market needs.

Ireen Spicer

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earnings from another listed company (examples include Anchusa, Federale Mynbou, Placor and Sakers Finance), are not considered because the holding and operating companies are essentially the same animal.

A feature of the accounts of several JSE-listed companies in recent years has been the switch from Lifo to Fifo for purposes of stock valuation.

It is a switch which has tended to understate the relevant companies' earnings performances because it entails a book-adjusted reduction in earnings in the year in which the change took place.

It has not, however, been possible for the judges to make a retroactive adjustment, because Lifo figures for past years are invariably unavailable.

John Spira

EXCLUSIONS

Name of Company	Major Change in Capital	Change in basis of accounting — incomparable	Major portion of earnings from other listed company
TONGAAT COROGROUP	●		
ANGLO AMERICAN CORP OF SA		●	
AUTOLEC		●	
ANGLO AMERICAN INDUSTRIAL CORP		●	
KANHYM INVESTMENTS	●		
AFRICAN & OVERSEAS ENTERPRISES			●
METRO CORPORATION			●
ANCHUSA HOLDINGS			●
FINTEC		●	
METKOR	●		
FEDERALE MYNBOU			●
INVESTORS CLUB			●
PLACOR HOLDINGS			●
JAFF-DELSWA INVESTMENTS			●
BERZACK ILLMAN INV CORPORATION			●
AUROCHS INVESTMENT CO			●
CAP AUTO INV			●
SAKERS FINANCE & INV CORP			●
REMBRANDT CONTROLLING INVEST			●
TEGNIESE BELEGGINGS KORPORASIE			●
TEGNIESE & INDUSTRIELE BELEGGINGS			●
MOBILE INDUSTRIES			●

Pension funds race against inflation

AN improvement of 1% in yield over the long term can reduce a pension fund's cost by as much as 20% or increase benefits by a similar amount.

So, says L & GV's Ian Last, with higher rates of inflation, it is vital for investment returns to beat increases in the cost of living.

"The Business Times Managed Fund Survey has made businessmen more aware of the need for top yields for their pension funds."

When reduced to basics, Mr Last describes a pension fund as simply an investment fund from which future payments will be made.

The investment portfolio should be designed to maximise overall investment returns, with adequate security, in order to outperform inflation.

He says it is nowadays not unusual for pension fund managers to switch considerable portions of their funds between investment sectors as markets change, which means that the variation between different funds' performances is much greater than it used to be.

The variations in the markets themselves are also greater because of the larger volume of transactions.

John Spira

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page 39

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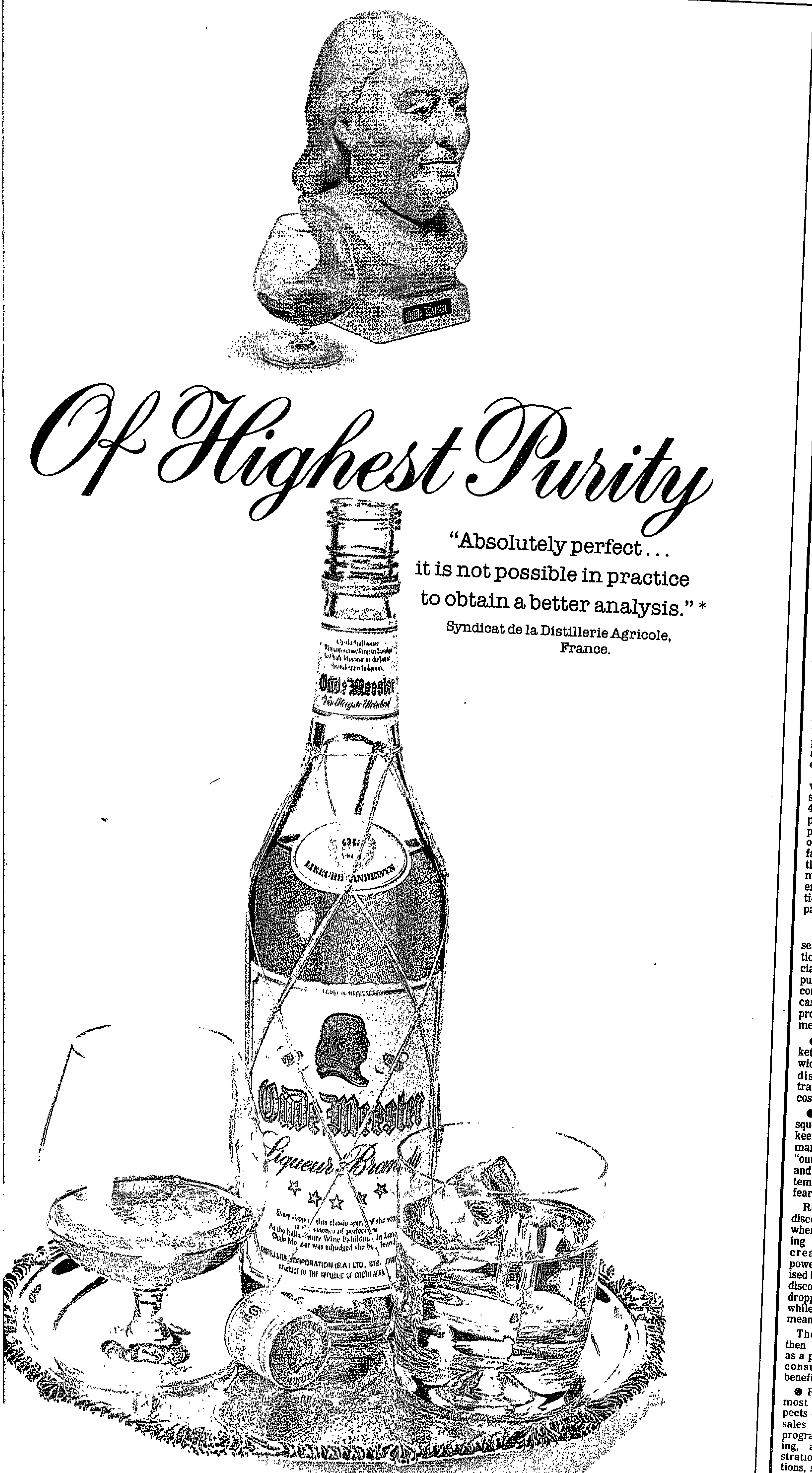


How to market in bad times

MARKETING is not only a sales tool for soap powders, breakfast cereals and liquor companies. Even bricks need marketing, admits Tongaat.

Often recessions play havoc with company marketing strategies: anxious directors start cutting capital expenditure and other so-called non-essential expenses.

First the marketing budget gets pruned, advertising expenses are curtailed, and public relations is shelved along with marketing support programmes, such as customer seminars or training conferences for salesmen — both deemed to be lots of fun but barely essential!

The worst possible action a company can take during downturns is to diminish these activities, says Cedric Savage, chief executive of Tongaat Corogroup.

"This is the time to concentrate on marketing and to enhance and upgrade your resources by employing the very best people. By all means revise your marketing budget, because, if anything it's likely to be too low than too high.

Headaches

"The marketing man has headaches all right: increased pressure to sell at a time when competitors are price-slashing and clients are playing you off against other suppliers."

Now is the time to review marketing concepts such as the "controllable 4Ps" — product, place, price and promotions, plus public relations — in terms of the "uncontrollable four factors" — economic, political and legal environment, cultural and social environment, industry position, resources and company objectives.

Revised rules of the 4Ps:

● PRODUCT: Market research now becomes particularly essential, especially into client needs and purchasing power. Monitor competitors' activities in case they are providing products or services that meet better needs.

● PLACE: As SA markets are relatively thin and widespread, examine your distribution networks, transport and warehousing costs.

● PRICE: Salesmen, squeezed by competitors' keenness, rush blindly to management, sobbing that "our prices are too high" and the marketing man is tempted to drop them for fear of losing market share.

Recessions encourage discounting trends in SA where buyers are decreasing in numbers while increasing their buying power. But being pressurised by them into even a 1% discount is the equivalent of dropping 10% in profits, while 10% discount could mean non-profits.

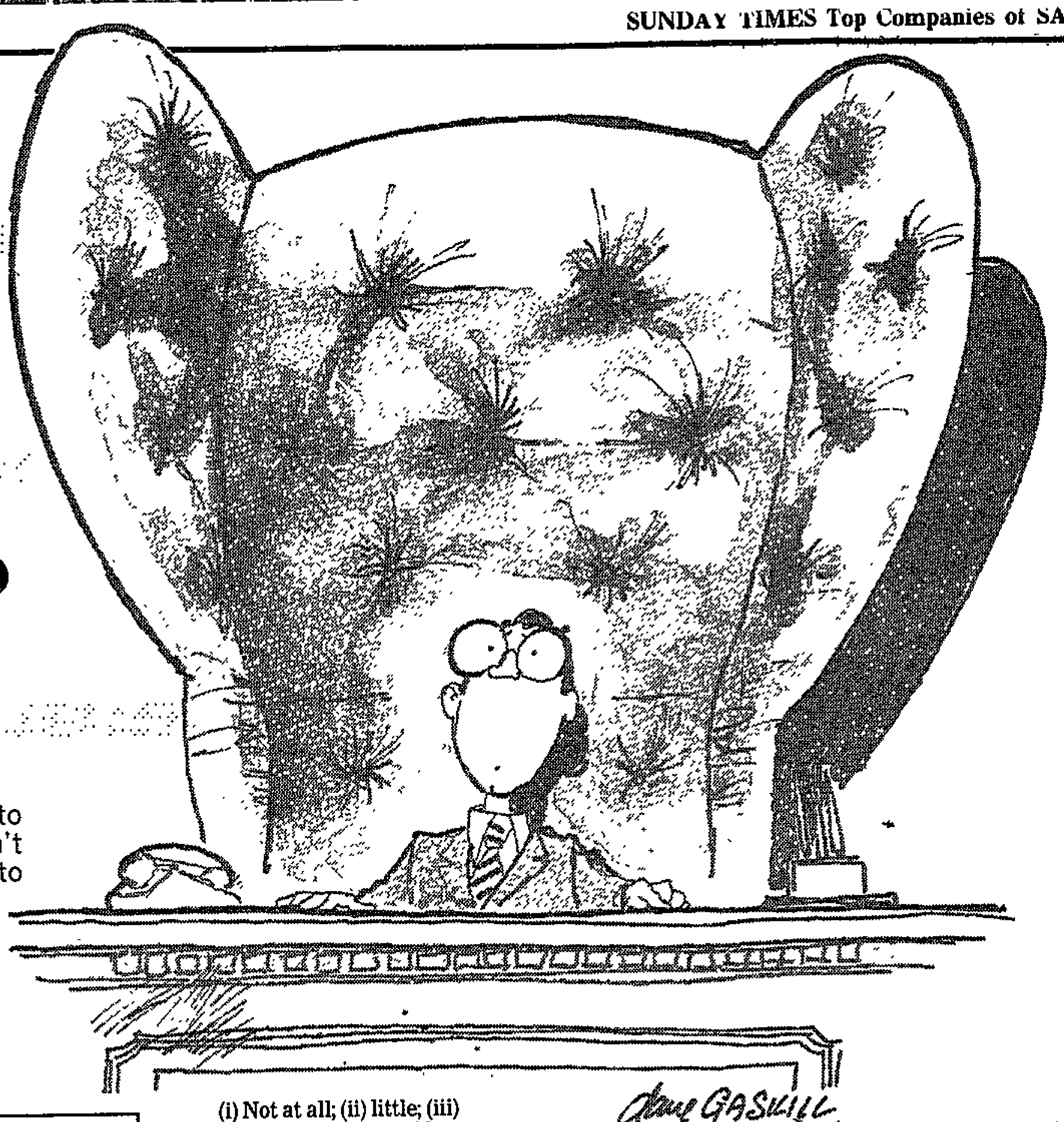
The buyer's company then absorbs the discount as a profit, leaving the end consumer no financial benefit.

● PROMOTION: The most misunderstood aspects of marketing include sales promotions, support programmes, personal selling, advertising, demonstrations and public relations, says Savage.

"But don't advertise unless you are prepared to measure the effectiveness in terms of impact and retention."

Vera Beljakova

So YOU want to be Mr Big?



Just wanting to reach the top of the greasy pole is patently not enough. Tackle this comprehensive quiz to discover whether you have what it takes. If you haven't got it, you may still be a Da Vinci or an Einstein . . . but, to avoid failure, be what you are

By STEPHEN ORPEN

NO ONE knows precisely what makes a successful top executive. Good managers spring from such differing backgrounds and succeed (or fail) with such a startling array of personalities and approaches that any generalisation about executive potential is fraught with exceptions.

Batteries of psychological questionnaires are widely used in the hiring process and management heeds at least some of the results in making its selections.

But, once a man is hired, most executives are greatly disturbed when psychological testers suggest (as they frequently do) that testing be expanded to play a role in promoting them as well.

Promotions, top management insists, should be based on something more solid than test scores.

NOW TEST YOURSELF!

THE following quiz is as authoritative as any brief questionnaire can be, and its validity has been checked in a survey of 150 executives whose scores have been compared with ratings given them by their superiors.

Of course, you will not achieve an accurate self-evaluation unless you answer all the questions with ruthless honesty.

No person from personnel will be interpreting the results, and your boss would most likely ignore them anyway, so there's no reason not to be candid.

Mark the answers which apply in each case then calculate your scores from the guide which follows the questions.

1. How much anxiety or discomfort have you felt when speaking before a large group?
(i) Very little; (ii) little; (iii) some; (iv) much; (v) very much.

2. In the past, how often have people misunderstood your writing?
(i) Never; (ii) rarely; (iii) sometimes (iv) often; (v) very often.

3. How often have people misunderstood what you have said to them?
(i) Never; (ii) rarely; (iii) sometimes; (iv) often; (v) very often.

4. How much difficulty have you had writing reports over the past few years?
(i) Very little (ii) little; (iii) some; (iv) much; (v) very much.

5. How often have you found it difficult to sell ideas to your superiors?
(i) Very seldom; (ii) seldom; (iii) sometimes; (iv) often; (v) very often.

6. Based on past experiences, how self-confident would you say you are?
(i) Extremely, sometimes to an unrealistic degree; (ii) very; (iii) somewhat more than average; (iv) about average, and realistic about it; (v) not very.

7. How often have you set difficult goals for yourself but still attempted to reach them?
(i) Very often; (ii) often; (iii) sometimes; (iv) seldom; (v) never.

8. Over the past year, how often have you taken risks?
(i) Generally; (ii) frequently; (iii) sometimes; (iv) seldom; (v) hardly ever.

9. How comfortable have you been in new places and situations?
(i) Very comfortable; (ii) comfortable; (iii) sometimes comfortable, sometimes uncomfortable; (iv) uncomfortable; (v) very uncomfortable.

10. How have you usually reacted to new opportunities?
(i) Have taken advantage of all; (ii) have generally tried to take advantage of all; (iii) have taken advantage of some and not others; (iv) have not had many opportunities but have taken advantage of ones you've had; (v) have failed to take advantage of many.

11. How often have you found that working with others interfered with getting your own job done?
(i) Never; (ii) rarely; (iii) sometimes; (iv) often; (v) very often.

12. Which of the following comes closest to describing you?
(i) Friendly and outgoing, with many friends; (ii) very jolly, life of the party; (iii) have a few really close friends and a number of acquaintances; (iv) difficult to get to know, but friendly after a time; (v) mostly enjoy being alone.

13. Your favourite jobs are those in which you:
(i) Interact with many people; (ii) work with a medium-sized group; (iii) work with a small group; (iv) work closely with one person; (v) work by yourself.

14. On social occasions, when you have encountered a stranger, you have generally:
(i) Introduced yourself immediately and tried to start a conversation; (ii) introduced yourself immediately and carried the conversation ball; (iii) introduced yourself and waited for him to respond; (iv) waited for him to make the first move; (v) avoided such encounters.

15. How often have you found that working with others increases tension or destroys your concentration?
(i) Never; (ii) rarely; (iii) sometimes; (iv) often; (v) very often.

16. In the past, you have handled your personal finances by:
(i) Closely budgeting yourself and keeping exact records of what you spent: (ii) keeping records and spending according to a general plan; (iii) not keeping records but planning your expenditure; (iv) trying to watch budgets and keep records but without much success; (v) playing it strictly by ear.

17. How do you feel about tasks requiring routine operations and repetitious calculations?
(i) Rather enjoy them; (ii) don't mind them once in a while; (iii) indifferent, can take them or leave them; (iv) dislike them but would undertake them if well paid; (v) don't like them under any circumstances.

18. To what extent do you keep regular hours and run your life by a schedule?
(i) To a great extent; (ii) considerably; (iii) somewhat; (iv) slightly; (v) not at all.

19. If something in your home needs fixing, you typically:
(i) Attend to it immediately; (ii) put if off until a few important matters are cleared up; (iii) put it off until you have most other things out of the way; (iv) let it go until absolutely necessary; (v) call in a repair man.

20. How well organised do you consider yourself?
(i) Extremely; (ii) largely; (iii) moderately; (iv) slightly; (v) not at all.

21. How much have red tape and administrative rules and regulations bothered you on previous jobs?
(i) Not at all; (ii) very little; (iii) somewhat; (iv) quite a bit; (v) tremendously.

22. How do you feel about economic success?
(i) It's the most important thing in life; (ii) it's important; (iii) it's nice to have; (iv) it's not important; (v) it makes no difference at all.

23. How often have you tried out wild or experimental ideas on your business associates?
(i) Never; (ii) rarely; (iii) sometimes; (iv) often; (v) constantly.

24. How much have you enjoyed discussing commonplace topics with conventional people?
(i) Very much; (ii) often; (iii) sometimes; (iv) rarely; (v) not at all.

25. How do you rate your creativity compared with that of your associates?
(i) Not creative; (ii) slightly creative; (iii) average; (iv) more creative than most; (v) very creative.

26. How much has it bothered you to be notified at the last minute of work to be done?
(i) Not at all; (ii) little; (iii) somewhat; (iv) considerably; (v) very much.

27. How would you describe your capacity for tolerating ambiguity, frustration and confusion?
(i) Very great; (ii) greater than average; (iii) above average; (iv) about average; (v) probably less than average.

28. In the past, when you were in the midst of a problem, an interruption:
(i) Didn't bother you at all — you even enjoyed it; (ii) didn't bother you much; (iii) bothered you only a little, but you preferred not to be interrupted; (iv) annoyed you, but not extremely; (v) annoyed you very much.

29.You have generally preferred to work on:
(i) So many things that you can't finish them all; (ii) many things simultaneously; (iii) several things at a time; (iv) a couple of things at a time in order to remain interested in your work; (v) one thing at a time so that you can do a thorough job.

30. When you have thought deeply about something and reached a conclusion, how difficult has it been for someone to change your mind?
(i) Nearly impossible; (ii) very hard; (iii) quite hard; (iv) somewhat difficult; (v) not difficult.

31. When you're out with friends, how often are you the one who suggests where to spend the evening?
(i) Almost always; (ii) frequently; (iii) about as often as anyone else in the group; (iv) rarely; (v) never.

32. How long have you generally persisted in pushing to have an idea or a project accepted?
(i) As long as possible; (ii) a long time; (iii) for a while; (iv) not very long; (v) not at all.

33. When at school, you were:
(i) Extremely ambitious; (ii) quite ambitious; (iii) about average in ambition; (iv) not very ambitious; (v) not at all ambitious.

34. How displeased have you been when your suggestions were ignored?
(i) very; (ii) much; (iii) somewhat; (iv) little; (v) very little.

35. In dealing with a new person, have your initial impulses been co-operative or competitive?
(i) Very competitive; (ii) largely competitive; (iii) about half and half; (iv) largely co-operative; (v) very co-operative,

36. Which of the following was most typical of your school relationships?
(i) You were usually a leader; (ii) you were sometimes a leader; (iii) everyone was about equal; (iv) you usually followed someone else's lead; (v) you generally tried to conform.

HOW TO SCORE

THERE are relatively few fully correct or entirely wrong answers to the questions taken as a whole. However, the most useful guide to whether you have what it takes to reach the top can be gathered by scoring as follows:

- Each answer under the (i) option among the answers to each question scores 4 points. Each (ii) answer scores 5 points. Each (iii) answer scores 3 points. Each (iv) answer rates 2 points. Each (v) answer earns one point.
- A perfect score on this basis would thus be 180 points.
- A score between 140 and 180 means you have the necessary to get to the top and enjoy it.
- A score of 120 to 140 means you can make it, but it may take a toll and you may not enjoy yourself too much about 50% of the time.
- A score of 100 to 120? You might still make it but the price would be heavy, probably too heavy. You would also be vulnerable to defeat in political jockeying.
- Below 100. Accept a less demanding position or select another career.

Property: Own it and gear it

INVESTMENT in prime industrial and commercial property has long been regarded by institutional investors as perhaps the classic method of safeguarding the capital value of investment funds, while at the same time taking an acceptable return along the way.

Currently, as in several years past, the huge volume of institutional investment funds looking for a good home resulted in fairly hot competition among the institutions for the available investment "plums".

Shrinking pool

The trend has thus been for ownership of major properties to move steadily into institutional hands, says Neville Korck, a Syfrets corporate service manager.

He says that once absorbed into an institutional property portfolio, a good property is seldom resold, so that, in a period of burgeoning institutional cash flows, the available pool of investment properties is actually shrinking.

"This, in turn, has a bullish effect on good industrial and commercial property values — and rentals — and the consensus seems to be that in anything longer than the short-term, this effect will accelerate.

"The implications of this situation have not been lost on many companies who need to be occupiers in order to carry on their business or trade.

"There is a growing realisation, particularly among larger companies and groups of companies, that even on a conservative view of the future, the overall benefits of property ownership compared with leasing or renting property are likely to be substantial and not all that far down the road.

"In the past year, we have seen a sizeable number of large companies — prime institutional leaseback potential clients every one — elect to own and gear the properties they occupy rather than tie into a lease or rental situation.

"Syfrets, principally through its participation mortgage bond scheme, has been in the forefront of this type of funding.

"Here, Syfrets' ability to advance very large sums in the form of bond packages has directly provided companies with the option to own or continue to own properties, while minimising their own direct cash investments in these properties.

"While in terms of Syfrets' participation bond lending parameters, roughly two-thirds of an investment method-based mortgage valuation of a property can be advanced directly through the participation bond scheme, in practice in well-secured situations additional medium-term (two-10 years) funding can very often be introduced to supplement the funds available through the participation bond scheme to enable a property to be geared to a very high level, or even totally, where this does not impose undue strains on cash flow.

"That is perhaps the first point which deserves underlining: property funding is available, it can make property ownership or retention possible and it can be available to enable a property to be highly, or completely, geared."

Mr Korck's second major point stems from the first.

Because of the structure of participation bond lending — a five-year fixed term with, in Syfrets' case, capital repayments spread over a further 20 years — this type of borrowing from the company's point of view falls happily into the category of medium/long-term borrowings.

Thus, where property ownership has been funded in whole or in part through short-term borrowings, a normally welcome balance sheet restructuring can be achieved by switching the bulk of property borrowings into the longer-term.

Borrowings

Equally, wholly-owned property can very often be geared either to free working capital or to bring about a balance sheet transformation where, as we find increasingly today, excessive use has been made of short-term borrowings.

According to Mr Korck: "It is worth noting here that the Syfrets' participation bond lending rate has been below prime bank overdraft rate for most of the past two years; another — if unexpected — reason for preferring the longer-term method of funding.

"I have remarked, in effect, that it seems like a good idea to own first-class property because there is considerable demand for it both from people who want to use it themselves and from organisations who would like to own it for investment purposes.

"I have suggested that because of the high level of demand for this property, its price will rise appreciably over the years.

Trends

"Anyone who owns property today will find in the future that its value will have appreciated (at least in money terms), while anyone who rents property will be paying more — and, very probably, a great deal more — than he does at present.

"Thus far, in looking at future property trends, I have dealt purely with the supercharging effect of investment demand superimposed on normal supply and demand influences over what is in many respects an asset in ever-shorter supply.

Build now

"Government policy here additionally plays an increasingly vital role in regulating the supply of available land for development purposes.

"Bringing the inflation factor into account transforms the situation.

"With building, labour and material costs inflating at a faster rate than the CPI, it seems to make sense to build now and accept, if necessary, an initial vacancy factor rather than wait a further year or two — cash flow permitting.

Return

"If it is necessary to gear a property development, the current gross cost of borrowings is very little above the general inflation rate, and tax and building investment allowance considerations reduce the actual effective cost of borrowings to a fraction of the inflation rate.

"In recent years we have seen even the gross cost of borrowing substantially below the rate of inflation and there are clear indications now that we are rapidly returning to that situation.

"From all the aforegoing, my clear message would be that from the corporate point of view it would appear to pay hands-down to own property and pay even more to make maximum use of loan funds to do so."

A WORKER WHO IS BOMBARDED, DAY AFTER DAY, BY NOISE, BAD LIGHTING, BAD SEATING, BAD DECOR SLOWLY BEGINS TO CRACK

Have a heart in the office

STRESS caused by the office environment can and does cause death, psychological and physical illness, car accidents, broken marriages and unhappy children!

These startling facts emerge from a study of stress in the office by Dashing Office Furniture, a subsidiary of Mathieson & Ashley, ranked ninth among this year's Top 100.

According to Dashing's chief executive, Bill Helyar, insensitivity by management to its staff's working conditions is one of the prime causes of physical and mental illness in employees, which causes serious reductions in productivity and, in turn, loss of profits.

By JOHN SPIRA

The study, based on findings by researchers Friedmann and Rosenmann and the Human Sciences Research Council, shows that workers in stressful office environments have more than twice the chance of succumbing to heart disease and that South African managers have three times more chance of getting "executive" heart attacks.

Apart from the physical aspects, mental unhealth and all its ensuing problems stem from stressful offices, comments Mr Helyar.

Aggravation

A worker who is bombarded all day, day after day, by noise, bad lighting, bad seating, bad decor, etc, slowly begins to crack up — often without his knowing it.

The mental aggravation manifests itself in a variety of ways:

- Inability to concentrate for any length of time, which leads to loss of productivity, impaired driving skills and deterioration of sporting abilities.
- Shortness of temper which affects relationships with working colleagues, spouse and children
- Dramatic falls in constructive thinking which can destroy an entire career and, in the case of executives, often a company as well.

The Dashing study points to two main stress-causing factors — the individual work station and office planning in general.

Noise level

The two most important aspects of the individual work station are seating and desking and in the office they are sound, light, colour, air-conditioning and space.

The noise level in an office has a direct bearing on concentration and silence is not the answer. Human beings are gregarious by nature and therefore do not like to feel isolated.

Research found that a sound level of 49 db is the optimum. Higher than this causes disturbance and lower than 49 db is too quiet.

The ideal noise level in an office can be achieved through the use of acoustic ceilings, carpets, curtains, wall treatments, acoustic screens and the use of white sound.

White sound is a soft background sound very similar to the sound of wind through trees (or the sound of an airconditioner) and is created electronically.

In the early stages of development it was thought that the sound of a stream would be very soothing to the staff but unfortunately this resulted in a steady traffic flow to the toilets!

Providing that the noise centres like telex machines and photocopiers are isolated using acoustic screens, the white sound will mask noise in the office.

Privacy for concentration is relevant today with the application of the open office, and this can be achieved through the use of acoustic treatments.

The next principle is that of lighting. Lighting in an office has to be at adequate working levels, properly illuminating all areas of the workstation.

It should be positioned in such a way that shadows are not cast across the workstation, particularly avoiding shadows being cast from behind the worker's writing hand.

The standard for light on the workstation surface is 750 lux. For access areas and passages, 300 or 400 lux is ample.

Glare causes fatigue on the eyes and with the advent of ambient lighting, glare has to a large extent been eliminated.

This is a system where the light is directed upwards and bounced off the ceiling.

The office environment becomes glare and shadow-free. Some organisations have a combination of ambient lighting and task lighting. A task light is mounted on a workstation or an acoustic screen and can then be controlled by the occupier of the workstation.

Colours

There are a number of advantages to this system because the worker only needs the light on when actually at the workstation (thus saving electricity) and also feels in control of his or her workstation.

Ambient lighting has a distinct advantage in the modern office because it does not cause reflection on a VDU.

Natural light is too harsh, causes shadows and can vary with cloud movement and, of course, the sun's trajectory across the sky. Although modern offices have large windows, direct sunlight should be kept out using curtains or blinds.

Regarding colour, Mr Helyar finds it surprising how many South African companies insist on using brown and shades of brown in their offices.

There are, of course, the fair share of oranges and luminous yellows. But, generally, little imagination is shown in office decor.

Temperature

Colour has an effect on people's perception and moods and needs to be chosen with care.

Probably one of the most difficult areas in which to satisfy staff is that of air-conditioning. Very often an office is too hot for some people and too cold for others.

A large open plan office in Cape Town had a battery of individual units down the length of the office. The end result was that while walking the length of the building, one went from the Sahara to Siberia and back again.

The solution, although it sounds devious, was to set the air-conditioners all at the optimum temperature and disconnect all the individual controls.

Result: the staff would "set" their unit the way they wanted it and everybody was happy.

The problem is that it is easier to warm up a building than to cool it down. To achieve the best climatic conditions in an office, the temperature, humidity and air circulation has to be very carefully monitored to maintain the productive output of the staff.

According to Mr Helyar: "The reason for the move to open plan offices is primarily economic. In June 1980, office space in Rosebank was obtainable at R8 a sq m. Today, if you can get the space, it costs R18 a sq m."

Probably one of the most impressive landscape offices in the world is the Volvo headquarters in Sweden. Before deciding to go open plan, the chief executive called in each divisional manager and asked him for his views.

Once he had all 12 opinions, he announced that the new offices would be open plan, much to the amazement of his managers.

Flow

Then he gave his reason: Apparently, each of them had pointed out the improved communication flow, the ease of supervising staff that were close at hand, the space saving, and the subsequent increase in productivity from open plan.

But, each one had said that the other departments should go open plan, their own to remain in cellular offices.

In Europe there is a trend towards "team offices". The increase in productivity of people working in a team situation has been proved many times, and this is the direction of office planning today, proved by the Hawthorne studies.

Departments or teams are given their own area and in some installations even their own colour scheme, to give them a team area that they can identify with.

The loss of identity and privacy is detrimental to the productivity of the individual. This is why one has to be careful in planning so that staff do not sit eyeball to eyeball, or that people can sit gazing out of a window.

Disturbances can be reduced by screening people off from access routes and doorways.

Is our best management talent being squandered?

SOUTH AFRICA has a comparatively young senior executive labour force. Many of the men managing the country's major corporations may reasonably expect to be in similar positions when we enter the 21st Century.

Martin Westcott, director of a specialist human resource consultancy in Johannesburg says: "Many of the management skills and techniques they will use may not differ substantially from those they employ in their work situations at present.

By STEPHEN ORPEN

"But the problems they will address will be even more complex and challenging than today's issues — for South Africa's business leaders are entering an era in which national social and economic issues are already impacting on the business environment.

"Business problems can no longer be viewed in isolation; and decisions cannot be made without taking the influence on the environment in which the company operates into account.

"Apart from political and social problems, bosses in commerce and industry have also to contend with rapidly advancing technology, an explosion of information and new methods of processing it, and new trends in organisational design and development.

"While management theories are evolving rapidly, the ability of South African managers to lead, motivate, direct and control a labour force that is one of the most complex and heterogenous anywhere, will, during the next 20 years, be put to the test more than ever before — and their performance will rub off on all walks of South African life."

Much is written about the tremendous shortage of senior executive talent in South Africa, and of the enormous need for management training and development.

These concerns remain critical when one considers the management needs and challenges that will have to be faced during the next 20 years.

However, says Mr Westcott, sometimes it is equally important to stop and take stock of our strengths — for there are many — and examine the characteristics of South African senior executives.

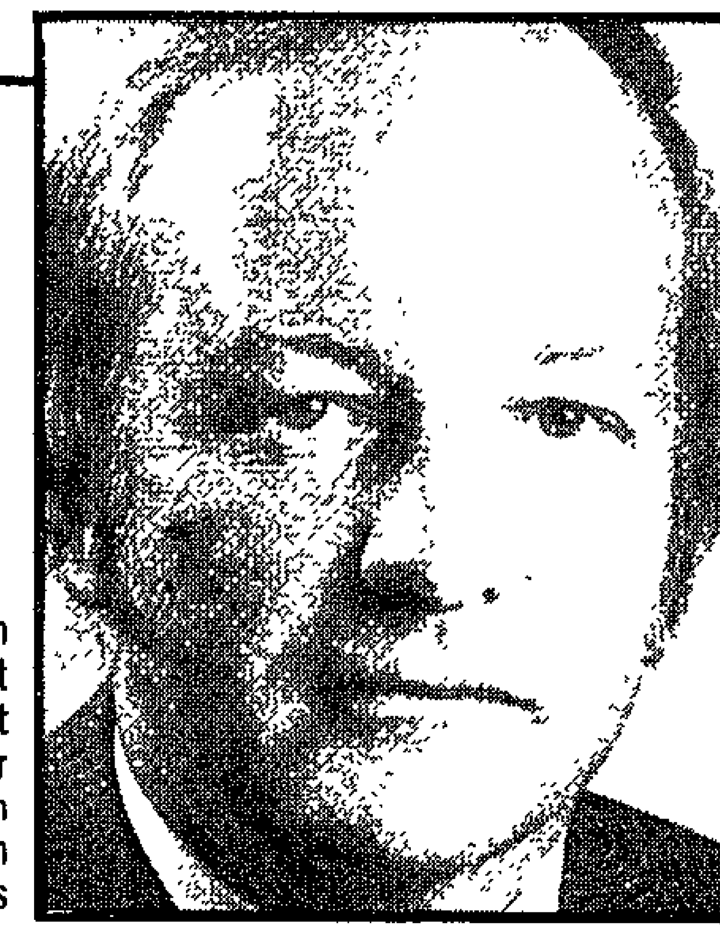
Who are our "captains of industry", how do they reach their positions of power, authority and responsibility, and how well equipped are they to manage an uncertain future?

The South African top executive compares favourably with his overseas opposite number.

As a result of our mixed economy, skills shortages and an embryonic industrial relations system, his responsibilities are wider and less specialised in scope.

They generally result in him being under greater pressure. The typical South African senior executive's training is varied but usually includes at least one bachelor degree and more often than not an MBA or equivalent businesss administration qualification.

And he invariably gets to where he is through his proven ability in financial and technical areas.



Martin Westcott ... the test ahead for South African managers

It is for this sound reason that engineering and science graduates are very often found in top management positions.

Basic technical or engineering training produces rational thinkers who adapt relatively easily to such managerial tasks as objective-setting, decision-making, information analysis and performance control.

Technical training is also an ideal basis from which the potential manager often moves into business school and MBA/MBL performance.

But progress to the top of the organisational pyramid obviously requires much more than an appropriate academic track record.

Every step in the career path is important — not only in contribution to an impressive track record, but also in equipping the potential senior executive with practical skills and experience that can be used and thereby contribute to his subsequent success.

Very often the early career moves determine whether a man makes it to the top or not.

They provide the opportunity to learn how to function effectively in the typical company environment and this creates confidence.

Confidence

It is this confidence which forms the basis of the powerful, assertive leader who subsequently succeeds.

However, academic prowess is far from the major criterion which influences subsequent business success.

At present, considerable literary attention is being given to the "fast-tracker" or highly achievement-oriented individual whose rapid upward mobility is a function of adequately demonstrated job competence coupled with assertive, conforming behaviour.

Also called the "type" employee, the fast-tracker learns the organisational rules and political system quickly.

He is able to employ these to good effect, both in achieving results and in advancing his personal status within the organisation.

The fast tracker is fully aware that his (often impressive) academic record is but one stepping stone in a series of well plotted moves to the top.

Intuitively he or she has set realistic and achievable career goals which will involve orderly progress through a variety of jobs in different organisations.

Trouble-shooter

It is not unusual for such a career path to include varied stints as a production engineer, project leader or trouble-shooter, technical sales production engineer, and marketing or product manager leading to a senior production, operations or marketing executive position — in turn an excellent springboard to an ultimate move into the chief executive's shoes.

While the "high achievers" usually boast highly impressive career records capable of satisfying the most discerning potential employers they can become somewhat erratic and nomadic.

In their desire to accumulate worthwhile working experience they find it difficult to resist involvement in many areas which are strictly outside their immediate area of responsibility.

The slow, steady growth often associated with middle management positions acts as a frustration to the high-flyer who, uncluttered by top management pressures becomes frustrated by his lack of authority to become involved in solving them.

Another stepping stone in the South African manager's progressive accumulation of working experience emanates from business travel and contact with overseas contemporaries.

Inter-action with multinationals and foreign markets, visits to international symposia and time spent at colleges, trade fairs and training institutions in short sharp bursts, all serve to turn out a well-rounded senior executive.

Exposure to other cultures and working philosophies equips the local executive with greater tolerance and understanding of how to accommodate our heterogeneous cultures.

Valuable as the high achievers in our industrial society may be, they represent a limited proportion of our management population.

Let us, therefore, turn our attention to our total management population. How well equipped are we to handle the challenges of the next twenty years? And are we doing enough to ensure an adequate future supply of management talent?

It is glaringly apparent that too little time and money is being spent on training human resources in South Africa — and this includes top management and executive levels.

The comparatively recent government-backed initiatives and financial concessions aimed at encouraging training and development have gone some way towards redressing this situation.

Certainly there has been an obvious increase in training activity during the past year. Unfortunately, however, the professionalism of some of this training effort needs careful attention.

Contribution

The professional standards of most of South Africa's leading training houses are extremely high and bear comparison with those anywhere.

But it is all too easy to enter the training industry and many who do, learn how to train at the expense of their clients and trainees, rather than making an effective contribution to manpower development.

One of the results of this situation is a shortage of suitable leaders. This necessitates the expensive avenue of foreign recruitment and in many cases promotion of under-qualified people as a last resort.

Few managers really take stock of the true costs of recruitment or replacement of senior personnel, which is an involved and expensive process.

To replace a top executive can cost anything between R60 000 and R150 000, bearing in mind recruitment costs, interviewing time, travel and relocation, advertising and lost productivity.

In addition, tangible costs are only a part of the expense to a company that is on the look-out for new bosses.

The "winding down" syndrome leads to considerable loss of effectiveness and productivity on the part of the departing employee.

Commitment is lacking and a once vital individual can become a hanger-on for at least as long as the period of notice.

The replacement of a key man is not an easy process either. Replacing a top executive is like finding a cog for a wheel. If it doesn't fit, it won't work.

Business Times is indebted to Martin Westcott, managing director of Human Resource Development Limited, for special help in drafting information for this article.

A bit of class, in between, for the flying businessman

By VERA BELJAKOVA

ONCE upon a time the average businessman's status in corporate life was measured by his air ticket: ... First Class or just the modest Y/C (international euphemism for Economy).

There was a world of difference between whether he could afford to sip champagne next to multinational moguls or was forced to cringe from some sticky fingers belonging to a howling infant at his side.

Maybe he wasn't even getting his 40 winks as some packaged holidaymaker felt obliged to imbibe duty-free liquor.

That travelling man was very much measured against the cabin class his company was prepared to pay for him.

This status symbol has become more or less obsolete since the advent of the Business Class, also known as the Gold, Executive, Preference, Club or Clipper class.

Today, airlines' Business Class is almost as good as the former First Class, removing him from Economy, Apex or Excursion travellers.

For most airlines, it suffices if the passenger pays full Economy air fare to the required destination for him to be upgraded to the Business Class, and sometimes the discretion of the airline also plays a role in how he travels.

Surchage

Other airlines flying to South Africa impose a small surcharge for seclusion: Alitalia charges 10% and Air Portugal 7%.

In Alitalia's case, the surcharge has been introduced specifically to allow executives a greater privacy and protect them, say, from a contract workers' noisy brats, a jubilantly immigrating family or a drunken sailor, all of whom may well hold fully paid Economy class tickets.

Air Portugal, formerly TAP, on the other hand, introduced its 7% surcharge on its Business Class as a compensation for abolishing First Class — a move which has, in fact, led to an increased load factor.

Both Alitalia's Business Class on its B747 and AP's Executive Class, have only 28 seats, as opposed to airlines with similar facilities, but which squash up to 128 seats into their business classes.

Seclusion

Thus, through surcharges and limited seating, both airlines offer greater seclusion.

Soon Spain's Iberia intends to introduce a 15-seater Preference Class on its DC10s.

France's UTA plans a similar service for its DC10s, while Scandinavia's SAS also hopes to have the new class, but with many more seats — possibly as many as 63.

Among the airlines flying into South Africa without a Business Class are Belgium's Sabena (flying DC10 Combis), Switzerland's Swissair (DC10s) and Greece's Olympic (B747s).

Swissair says it has jacked up its Economy Class, which now offers more services, hence there is little need to seek comfort in an intermediary class.

Olympic points out that it trades basically in tourist and ethnic, rather than executive, travel.

Though Iberia's trade pattern is similarly tourist and ethnic, it feels committed to at least a small 'Preference Class'.

European airlines that fly here with business classes include Holland's KLM, UK's British Airways and Germany's Lufthansa — all using B747s, as do AP and Alitalia.

These lines, however, offer a lesser degree of exclusivity insofar as their business classes must accommodate much larger numbers as there are no surcharges: BA uses 80—143 seats, according to demand, and admits children with fully paid tickets, while Lufthansa seats up to 81 and KLM 111 passengers.

SA Airways, of course, also has a Gold Class for its B747 with 108 seats, B74M with 55 and B74L with 42 seats.

Does Business Class jeopardise First Class traffic?

Some airlines, though not all, can now offer through their newly introduced Business Class, wider seating with a longer reclining position and more area for movement.

Airlines say First Class habits die slowly. Once accustomed to this form of travel — and with budgets still intact — few executives come down-class voluntarily.

"They fought for their privileges and they're sticking to them," says Alitalia.

"Some self-employed businessmen look at their bank balances in times of recession and are only grateful they needn't come down all the way to Economy," says BA.

All airlines remark on the favourable response from clients.

"Previously we were pacifying long-faced executives irritated at being seated next to some 40%-discounted bare-chested package tourists still high on chianti or, just as bad, next to a spitting, bawling infant. Now we can segregate them."

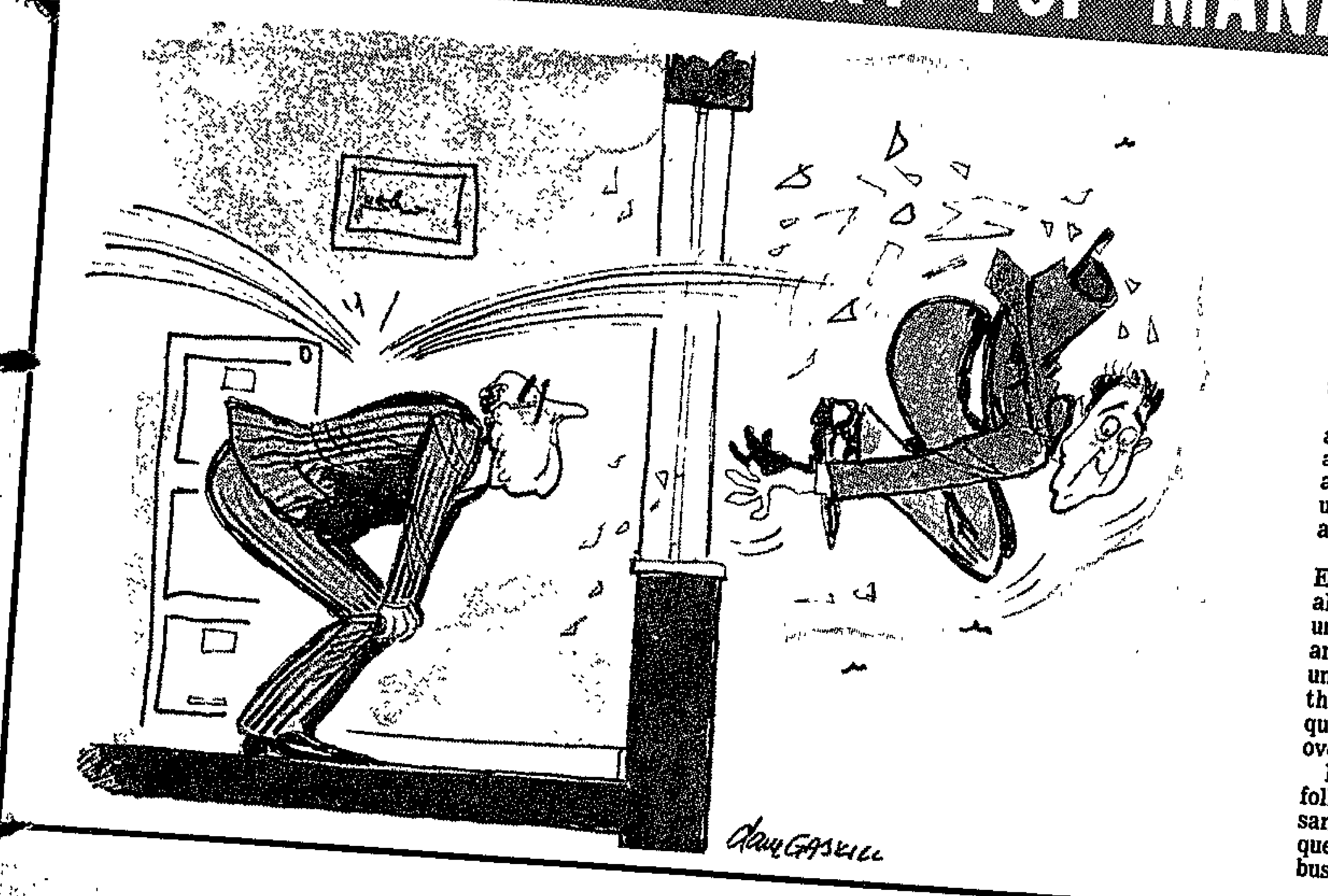
● Lufthansa's general manager, Helmut Schuhmacher, says the two countries' commercial ties are so strong that there is enough business for both classes.

● Alitalia's GM, Piero Porciani, says load factors have improved with the new class.

● AP says it has replaced its old First Class anyway.

● Iberia's GM, Alberto Rueda, is anxious to grab a bigger slice of the executive market by also offering conference facilities.

HOW TO SUCCEED AT TOP MANAGEMENT GAMESMANSHIP



DO any of the italicised statements below sound familiar? They should. According to Brent Green, a communications analyst, the five statements represent common games.

The games of course, are not played by athletes on a playing field. Rather, they are played by executives in their work settings. Instead of athletic equipment, the executives use words and actions.

"Executive games", Mr Green states, "are situations or strategies created by individuals to further their own interests, even at the expense of others.

"Although, like traditional games, there are winners and losers, these situations and strategies often involve unwilling participants who are unaware of the rules."

That's not surprising. Executive games are usually created as a situation unfolds. Successful players are those individuals who understand the politics of the organisation, think quickly, and want control over others.

Mr Green considers the following items to be a sampling of "the most frequently played games in business and industry."

By STEPHEN ORPEN

THE INTIMIDATION GAMES

"What do you mean that you don't know? What is wrong with you? I'm sick and tired of waiting for those reports. You had better get them to me today if you know what's good for you! Do you understand me, Curtis?".

CURTIS has just discovered that the Intimidation Game works. He'll make sure his associate receives the reports by the end of the day.

If you have a loud voice, quick temper, or glassy stare, this game is easy to play. Its purpose is straightforward — scare others into doing what you want, when you want.

Scream, yell, threaten, admonish, or whatever, as long as you're able to intimidate.

Although it helps if the instigator has the power to enforce his tactics, many executives effectively use the Intimidation Game without having any authority — they simply bluff. And it works ... sometimes.

When it doesn't work, the game can create havoc. Peers and subordinates become frustrated and resentful.

THE GOSSIP GAME

"Listen, I just heard that Wilson really mishandled the Teltext account. Don't let anyone know I told you."

BOB Moyers, a junior executive, loves to gossip. Burt Stern, his friend, loves to help him play the game.

Together they start and spread all sorts of rumours around the office.

What's in it for them? First, the more stories they spread, the more attention they receive. Second, it's exciting — always lots of things to talk about.

And third, it helps them avoid being criticised — their colleague won't speak harshly of them for fear that they may become topics of conversation.

THE BLAME GAME

"I know as a senior executive I'm responsible for the Bradley contract. But it was the accounting department that made us late and it was Dan Blackwell's fault that we went over budget."

LARRY Winters knows how to play the Blame Game. As project director he made several major mistakes. As a result, his company will not receive future work from the Bradley Hotel chain.

Mr Winters is in trouble.

When an error is made or when negligence is involved, many executives resort to playing the Blame Game.

Its characteristics are easy to identify. First, the instigator admits he's at fault, next he immediatley makes several "but" statements.

"But they caused ... ", "But if they hadn't ... ", "But they're the ones who ... ", "But I can't be expected to ... " and on it goes.

Sometimes the Blame Game works. Sometimes the Blame Game works too well. Over time it destroys the integrity of the frequent player.

THE PEACE AT ANY PRICE GAME

"You know, Mike, as your boss I think you're doing a fine job, though I'd like to see you try to get along with everyone — even if you think they're wrong. Why cause problems for yourself?"

DICK Schroder, Mike's boss, is an executive who doesn't like conflict. In fact, he'll do almost anything to avoid problems.

Security and safety are the stakes for which the Peace at Any Price Game is played.

Dick has learned, through the years, that executives who fight too many battles or engage in too many disputes just don't last.

"If you want to survive", he advises Mike, "you've got to learn to keep peace".

The danger of the Peace at Any Price Game increases over time. Players become unwilling to take risks, face challenges, or explore alternatives.

THE PRAISE GAME

"Harry, I know you're overworked. I hate to insist, except you're the only one that can handle this portfolio. Harry, I'm sure you can figure out a way to balance your other work. I know we can count on you."

HARRY knows he's being taken advantage of, even though he's not quite sure how it was done.

He had no intention of accepting any additional work. But in light of the compliments given to him by his boss, George Rand, he couldn't refuse.

The unsuspecting participant, like Harry, has great difficulty saying "no" while being lavished with positive attention. The instigator leaves as a "friend" rather than an exploiter.

When George Rand plays this game skilfully, he can get his staff to do almost anything he wants.

He will continue until he turns his productive, loyal employees into frustrated, overburdened subordinates.

HOW TO WIN

● **Awareness**: One of the best ways to defuse executive games is by increasing your awareness of them.

Knowing how they are played, why they are used, what impact they might have, and who frequently participates will help you avoid becoming part of the game.

● **Minimal play**: Although you may not be able to completely avoid games, you can reduce your frequency of participation.

● **Honesty**: Most games are based on some form of deception.

The more you use and encourage open and honest dialogue, the less likelihood of disruptive game playing.

● **Confrontation**: The most direct, and risky, method of ending a game is to confront its players.

When approached, most participants will deny or rationalise their involvement.

That's why it's essential that you carefully document the situation *before* expressing your concerns.

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Upturn early next year, say UCT experts

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By Derek Tommey, Financial Editor

BETTER times will come much sooner than most economists are forecasting, in the opinion of two University of Cape Town dons, Professor Brian Kantor of the school of economics and Dr Graham Barr of the department of mathematical statistics.

As a result of the increase taking place in the money supply they believe spending will begin to rise sharply early next year, leading to increased economic activity.

They say in a review of the country's economic prospects published by a Cape Town stockbroking firm that the economy, measured by the gross domestic product, should grow in real terms by two percent in the 12 months ending June 1983.

As the growth rate since June has probably been below two percent, their forecast implies a quickening in economic activity soon.

In the 12 months ended June this year the growth rate was three percent

Professor Brian Kantor

Increase in spending

In line with the higher level of business they see an increase in spending by the consumer.

Expenditure, after showing a decline in real terms in the third quarter of 1982, is expected to recover quite sharply in the first two quarters of 1983.

As a result they predict that gross domestic expenditure will grow by about 18 percent in the year ending June 1983, implying a real growth of two percent.

They say the money supply is the major driving force in their model of expenditure. They base their forecasts on a 16 percent increase.

Money supply

However, conditions could lead to a greater increase in the money supply, giving rise to increased nominal spending and increased spending on imports.

Given a 16 percent increase in the money supply, the rand could firm to around $0,92 by next June. But on a 20 percent increase it could firm to $0,96

The trend in short-term rates should be firmly downwards and the prime rate should have dropped to around 13 percent by the middle of next year. Against this they see little further decline in long term rates.

Rise in gold price

They are not optimistic about the outlook for inflation, forecasting a year on year increase of 15 percent by next June.

But they do foresee a slow but sustained rise in the gold price as American interest rates continue to fall and inflation increases again.

Gold at $550 an ounce is possible by next June if the American economy grows by two percent. But a price of only $460 is envisaged should the United States attain only a one percent growth rate

ECONOMY
1983
JAN. — DEC

(49) FM 7/11/83

BUILDING TRADE

Down the chutes

With SA facing its first real drop in GDP since World War 2, the Stellenbosch Bureau for Economic Research (BER) is forecasting a 5% real decline in new building work in 1983.

Gross domestic product, according to the BER assessment, will fall about 1% this year and the downturn, dating back to September 1981, will "develop into a recession in the months to come."

And the building trade, long regarded as the frontline in times of economic change, will continue to take it on the chin. The only sub-sector which could hold its own is residential building commissioned by the public sector — with black housing presumably taking the lion's share. But even here the best-case forecast is zero growth.

On the other hand, the BER anticipates that investment in private residential building will fall 4,5%. Although building societies have become more flush in recent months and bonds will be more freely available, pressure on personal finances will be the biggest turn-off for individuals wanting to build a house.

The white residential sector, of course, has been badly hit by the slump already. Seen against the decline of nearly 10% in 1982, the forecast additional 4,5% drop in this the crunch year is thus not as bad as it might have been.

Worst hit will be private sector development of shops, offices and factories in which the decline in investment is expected to be a punishing 10,8%.

With domestic demand set to fall 5% this year, Stellenbosch foresees additional unutilised capacity in both industry and commerce. And, with corporate profits under pressure, it believes business will fight shy of investing in new space.

The cutback in non-residential building by all tiers of government is unlikely to be as dramatic. The need for schools, other training facilities and hospitals should keep a fair amount of work flowing to contractors. Real investment in such building, however, is nevertheless expected to fall 2,5%.

Construction workers ... not so busy

With the exception of face bricks and some plumbing items, materials are now in free supply. And, although there appears to be a slight problem finding artisans, unskilled labour is easily obtainable.

But the biggest brake on building costs this year is expected to be sharply increased competition on tenders, with some contractors already quoting at or below cost. The good news for clients, therefore, is that the increase in building costs is expected to be around 5% this year — way below the inflation rate and the lowest increase since 1978.

For prospective developers who can find the cash, therefore, there seems to be no time like the present.

Survey shows why W Cape's growth lags

Gus Argus 13/1/83

REASONS why the Western Cape's economic growth is lagging behind that of other major industrial areas in South Africa while its population is increasing rapidly are given in a new survey.

By GERALD PROSALENDIS

The survey was undertaken by the Institute for Cartographic Analysis at Stellenbosch University.

Conducted over two years, it was aimed at assessing the benefits and drawbacks of siting businesses and factories in the Western Cape

It was also intended to meet the urgent need for information on industrial linkages by planners and decision-makers.

Questionaires were sent to industrialists throughout the Western Cape

A significant group of industrialists perceived the Western Cape as an area of shrinking markets, uncertainty and high risk

Their replies suggest there is a danger of the Cape becoming more isolated from the major areas of economic activity in South Africa

Prohibitive transport costs feature prominently as the major drawback and could cut the area off from much needed injection of capital for economic development.

Stagnation

This could lead to long-term stagnation

To maintain its present standard of living level of services and competitiviness as a manufacturing region, the Western Cape will have to reverse the trend towards a decline in economic growth. country.

This could be done by stepping up labour productivity and boosting exports of high-unit-cost, low-weight goods — such as electronics

It would also be necessary to press for lower transport rates to overcome the disadvantage of being remote from South Africa's major economic region

The survey showed that 23,9 percent of those interviewed found the biggest drawbacks of being situated in Cape Town, were the distance from the Witwatersrand market, the high cost of transporting goods to this market and of communicating with remote clients

Another 20,3 percent said it was the high cost in terms of time and money of transporting to the Cape materials needed for production.

The high cost of distributing semi-processed and finished products to the distant markets was the most important drawback to 17,1 percent

Benefits

The biggest disadvantage to 10,6 percent was the small buying power and potential of the shrinking Western Cape market

To 5,8 percent it was the high cost of inefficient, unreliable labour that was most prohibitive

These said the labour force was unstable, limited in supply, unwilling to perform heavy manual work and had a high rate of absenteeism

Other drawbacks which were important were the high proportion of materials not available locally (4,8 percent), restrictions on employing blacks (4,5 percent) and the high cost of electricity, water, coal and transport (4,2 percent).

Near suppliers

The most important benefit for industries sited in the Western Cape, said 24,1 percent of those interviewed, was easy access to the Peninsula market

They were followed closely by 23,2 percent who said the Western Cape's labour force — which was established, stable, relatively low cost and skilled — was the most important reason for establishing plants in the area

Access to the broader Western Cape market area was the most important benefit to 12,4 percent interviewed.

The need to be near local suppliers for better contact in business, convenience, flexibility and lower transport costs was seen as most important by 6,6 percent.

Another 6,6 percent said specific materials which were cheaply and easily obtainable in the Western Cape in comparison with elsewhere were most important.

The quality of life, pleasant environment and appeal of the area

Continued on Page 3.

W Cape growth lags

From Page 1.

for attracting overseas technicians was the most important benefit to 6.3 percent

Further down the scale, 5.6 percent said it was nearness to harbour facilities for exports and 3.1 percent said the good transport and communications links were the prime factor

The figures suggest many industrialists think it important to be near the Peninsula and broader Western Cape markets and also that links with local suppliers and local materials are prime factors.

The tables supplied by the survey suggest that smaller businesses tend to be tied to the Western Cape and its market area.

Of these 25.9 percent said they found it their greatest locational benefit and a futher 12.2 percent were attracted by the quality of life

Larger businesses were more attracted by the Cape's supply of labour (28.6 percent)

The biggest drawback to 14.9 percent of smaller firms was the high cost of transporting materials needed for production. These firms are not able to take advantage of economies of scale because of the relatively small amounts of materials needed

Larger firms, on the other hand, found the high cost of transporting products to markets more prohibitive. They are more tied to the need to export products to other regions and are not able to offload all their goods on the relatively small market here

Goss grooms SAB for overseas growth

CAPE TIMES 22/1/83

(49)

BLUE CHIP South African Breweries (SAB) has exciting profit potential over the next decade as black incomes rise substantially.

With its main divisions of beverages, retailing, hotels and selected manufacturing, the group is in a prime position to share in the expected upturn.

Apart from beer, SAB is dominant in several sectors. In retailing it boasts both the OK — the country' largest retailer and Edgars, a leader in clothing sales.

In the hotel sector Southern Sun's strength is undisputed while Afcol and Amrel are the country's largest furniture manufacturers and retailers.

It has 30 percent of Cape Wine, and is probably dominant as well in footwear through the SAB footwear division with household names such as Barker and Crockett & Jones.

Capetonian Dick Goss heads Breweries and, apart from gearing SAB for the next upswing, he is preparing an extensive overseas expansion — the fourth phase of group development.

Already announced is Sol Kerzner's mandate to develop a hotel business overseas and Goss says further overseas programmes involving the other group divisions are being considered.

SAB under Goss has shown impressive dividend and profit growth. Over the past five years dividends have risen from 11c to 34c a share and eps from 22,4c to 75,1c.

Sales are now over the R3-billion. The overseas divisions are no doubt being planned to add additional sparkle to South African profits.

SAB has been at the forefront of the recent stock market boom in industrial shares with the quality of its earnings (return on equity was 25 percent last year) attracting considerable buying.

Major institutional shareholders include JCI (an investment which dates back to Solly Joel at the turn of the century), the Old Mutual, Liberty and Sanlam.

Last year beverages provided taxed profits of R92,4m, retail R47,4m, hotels R37,3m and selected manufacturing R2.6m Beer sales were R981m and retail R1,6-billion.

Recently SAB outpaced the competition to buy Edgars and increased its stake in the soft drinks market through Appletiser.

SAB's market rating is a tribute to Goss who has kept the group in the high growth stakes since being appointed managing director 15 years ago.

An accountant by training, he served articles with the firm of Kenneth White & Co in Keerom Street, Cape Town, and later joined SAB as control was being transferred from London to South Africa.

He spent two years installing a host of totally new accounting, control and costing systems, and later was appointed assistant chief accountant.

In 1967 Goss became managing director after handling probably the toughest job in the group — general manager of the beer division.

In this interview, Goss talks of his business philosphy and SAB's strategy for the late eighties.

Business Report: How do you see the group developing over the next five to 10 years?

Goss: I believe SAB today has a focussed and well-balanced portfolio of activities. Focussed in the sense that they are all consumer-related. Balanced in that one part of the portfolio is fixed capital intensive — beverages and hotels — the other part in retail.

The latter is capital intensive in a totally different way — hp book debtors and stocks. Both have important implications for cash flow cash.

When one is generating cash the other needs cash. Hence we are focussed in consumer goods and balanced in terms of the make up of the investment in the various activities

BR: You are dominant in these sectors?

Goss: We are substantially invested in each sector. In the foreseeable future — the next 3 — 5 years we would be seeking to grow organically off the base established. Expansion in terms of new business activity will probably take place outside of South Africa but within the same fields of competence — beverages, hotels and retail.

BR: You will, in fact, remain in these three fields?

Goss: We feel we can capitalize on organic growth. We do not want to become unfocussed and move into a host of diversified activities Growth prospects off the existing base are certainly very, very exciting

We could go into other areas but then one becomes more conglomerate People can understand SAB. Once we start getting into too wide a field of investment we will loose some of our character.

I would rather remain solidly invested in depth in chosen areas where we have a high degree of expertise

If those opportunities are not available in South Africa I would rather take that expertise and keep going down in depth in terms of more geographic penetration outside of South Africa

The alternative is to become wider, fatter, bigger in SA but not more effective in what we can achieve in terms of results

BR: What progress is taking place in expanding overseas?

Goss: In beverages SAB has expertise and techology which is unique. Our fruit juice know-how is unmatched elsewhere. We are already developing that area with people offshore working on various projects.

Southern Sun has been reorganized for overseas expansion freeing Sol Kerzner to develop a chain overseas.

BR: Are there any particular countries you are looking at, such as the US?

Goss: I would not like to emphasize any particular country. The timing of this investment will depend on the extent to which we have the spare resources in people and finance to deploy them away from South Africa.

BR: Would you buy into existing overseas companies?

Goss: It could be through acquisiton or greenfields

BR: Did SAB overpay for Edgars?

Goss: We certainly did not. Looking back I would repeat that deal There were other companies which could have been less expensive but you get what you pay for. Edgars is a great company with excellent management and compatible with SAB. We regard it as a first-class investment.

BR: It was a difficult acquisition?

Goss: It was not the easiest of acquisitions to put together. It happened when Sydney Press was away which was a complicating factor. It was very difficult for all parties to know what positions to take up. From our side should we have stood by and have watched nibbling from other quarters or have acted in the absence of the major shareholder?

There was no one more aware than I that this could be seen as some dastardly deed. We were very conscious of this.

BR: ~~What is your style~~ of management?

Goss: The only way to run a business is to decentralize — grant the highest degree of autonomy and see the companies are well positioned and motivated to achieve The staff are the achievers I am the one who supplies the resources in terms of finance and tries to ensure the direction of the team is compatible with the direction the group as a whole needs to take

In the process of management at SAB there are four key areas

- Investment policy
- The amount of financial risk that the holding company is prepared to have injected into the business.
- The level of return we would like to see from that policy within the risk constraints.
- The way in which the business is to be conducted.

BR: What returns do you set?

Goss: Each set of returns vary from business to business and the economic cycle. It would depend on if we are looking to gain market share.

BR: Your share price is reflecting the high return on shareholders' funds. Can you maintain this performance?

Goss: Our businesses are in mass markets where the action is going to be in the future — middle lower income group spending As more people are drawn into the economy from the lower group the spending will take place right through the segments where we are positioned — furniture, shoes, clothing retail, and beverages.

We are already sitting there. We do not have to buy into other businesses. We have the range of products. All we need to do is a great job in those segments.

BR: What is your view of 1983?

Goss: The downturn is gathering momentum. One can accept we are at a much lower level of activity. A downturn there will be...it could be more severe than we think. We are hopeful that an upturn will occur early in 1984.

BR: How will beer profits fare in the downswing?

Goss: Beer is not immune to economic downswings, it relates to the economy. If personal disposable incomes erode then beer sales growth erodes. It would seem, though, that the downturn will be less painful for us in the beer business

SAB supports the economic measures being taken. South Africa must not reflate prematurely.

BR: What is the inflation outlook?

Goss: Inflation will come off this year and begin rising on the economic upturn. But if one looks at the longer term there are healthy signs — the manpower training and upgrading of education at colleges will pay dividends.

These schemes are costing money now but 5 — 7 years down the line South Africa will receive the payoff for these substantial investments. SAB is investing heavily in training.

It's 'bye, 'bye, double-D inflation

30/11/83

(49)

S. Times

By John Spira

FOLLOWING a decade of painful double-digit inflation, South Africa can look forward to a dramatic drop in the rate at which prices have been rising.

A culmination of several factors is combining to ensure that inflation will fall to single figures by 1984.

An in-depth report on inflation released by Econostat yesterday points to the following as instrumental in exerting downward pressures on prices:

- The decline in the inflation rate of the country's major trading partners will reduce the rate of growth of imported inflation.
- The appreciation of the rand is making imports less expensive.
- The rise in food prices has slowed.
- Profit margins are under severe pressure, with manufacturers having to absorb increases in costs.
- Capacity utilisation is down to 83% from 89% a year ago.
- Salary and wage increases are significantly below the rise in the consumer price index.
- Money supply growth has fallen to a rate which is comparable with the gross domestic product.
- The authorities seem increasingly committed to lower inflation — witness the decline in petrol prices, zero or very low public service salary/wage increases, adjusted Escom tariff increases, competitive requirements for the agricultural industry and control of the money supply.

Because of these favourable influences, Econostat believes that South Africa's inflation rate will decline to around 11% in 1983 and to fractionally below 10% in 1984.

The applied economics research unit adds: "It is anticipated that international inflation will not rise markedly during these years; if so, and with South Africa's balance of payments no longer a problem, further attempts to reduce the rate of inflation will be renewed and will continue."

The benefits to the country of a sharply lower inflation rate will be significant and widespread.

Those many South Africans living on fixed incomes (and, in particular, pensioners), will find it easier to meet their day-to-day living expenses.

Business, too, will welcome the advantages of slower cost increases and the facility of lower stockholding implied by reduced inflation rates.

Perhaps of overriding importance, the mining industry (still the mainstay of the country's economy) will experience a measure of relief from the constant and sustained cost pressures of past years.

Recession taking toll in insolvencies

(49)

Mercury 1/2/83

Mercury Correspondent

PRETORIA—South Africa's worsening recession is taking a heavy toll in mounting debt and insolvencies, and the trend is expected to intensify during the rest of the year, according to economists.

And the PFP's finance spokesman, Mr Harry Schwarz, warned of an increasing number of jobless blacks as a result of the many company insolvencies.

According to figures released by the Central Statistical Services in Pretoria, the number of civil judgments for debt for the first nine months of last year totalled 104 906.

This compares with 81 923 for the same period in 1981.

During the first nine months last year insolvencies of private individuals and partnerships were also maintained at a high level.

In this category for the January-September period there were 641 insolvencies.

The number of companies liquidated, according to economists, was a strong indicator of the general state of the economy.

According to the latest figures for the period, 1 422 companies were liquidated.

Mr Schwarz said the statistics clearly indicated the continuing deterioration in the economy.

Economic growth was virtually at a standstill, and he agreed with leading economists that this year could see a negative growth rate.

The most serious feature of the statistics was the number of company insolvencies. This meant staff were being laid off.

This on top of the already acute unemployment problem could have serious socio-political consequences.

'A depressing feature of the current economic scenario is that the situation is almost certain to get worse before it gets better.'

He advised workers their top priority should be to retain their jobs.

Economists claimed that the country's 'real' unemployment — as opposed to the official figure — including under-employed workers, must by now have reached 2 000 000.

The official figure for black unemployment compiled by the CSS is still below 600 000 — which labour leaders claim is totally unrealistic.

Firms hit hard as recession deepens

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By GERALD REILLY
Pretoria Bureau

THE worsening recession is taking a heavy toll in mounting debts and insolvencies, and the trend is expected to intensify during the rest of the year, according to economists.

A senior official of the Credit Guarantee Insurance Corporation said insolvencies were expected to increase from an already high level to a record number for 1983.

He estimated that on average the corporation received between 200 and 250 claims a month from companies in severe financial difficulties.

And the general manager of the corporation, Mr C T Leisewitz, said in the last six months of last year R2 500 000 was paid out in claims to companies in difficulties.

This was more than four times the amount paid out in the July — December 1981 period.

Stressing the huge increase in claims, Mr Leisewitz said for the whole of the financial year to the end of June last year the amount paid out in claims amounted to only R1 300 000.

"We don't expect the situation will improve during the rest of 1983. Conditions can only worsen."

Claims this year, he added, could amount to more than R5-million.

And the Progressive Federal Party's finance spokesman, Mr Harry Schwarz, warned that the number of jobless blacks would increase substantially as more companies went insolvent.

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Economic growth was virtually at a standstill, and he agreed with leading economists that this year could see a negative growth rate.

The most serious feature of the statistics was the number of company insolvencies. This meant staff being laid off and a further pile-up of unemployment.

This, on top of the already acute unemployment problem, could have serious socio-political consequences.

"A depressing feature of the current economic scenario is that the situation is almost certain to get worse before it gets better."

He advised workers their top priority should be retaining their jobs.

Economists claimed yesterday the country's "real" unemployment — as opposed to the official figure — including underemployed workers, must by now have reached two million.

The official figure for black unemployment is still below 600 000 — which labour leaders claim is unrealistic.

Section A.

2

IDC tells President's Council

Wage and trade policies are upside down

49

Financial Staff

Wage and foreign trade policies are jeopardising the future of labour-intensive industry.

In a shock report to the Economic Committee of the President's Council, the Industrial Development Corporation in Pretoria says South Africa is largely an importer of labour-intensive goods and an exporter of capital-intensive goods.

It finds only 11 percent of imports are capital intensive and only 23 percent of exports are labour intensive.

This is contrary to what would be expected of a country with a large underdeveloped sector — and of what is needed if South Africa is to meet the development challenge.

The IDC concludes that mechanisation has been pushed further than is desirable in South Africa.

Development economists commented that the shortage of skilled workers without an increasing the real wage of unskilled workers without an increase in productivity had encouraged undue mechanisation.

A rand-dollar rate that climbed with the gold price also drove South African exports from the world market.

An economic planning expert, Dr David Mullins, said Britain had fallen into the same trap as South Africa. North Sea oil income had kept sterling's value artificially high, making British exports uncompetitive.

South Africa was also artificially delaying economic recovery by allowing the rand to rise to levels where export industries could no loner compete. Labout-intensive products usually were first to suffer.

In the face of competition from low-exchange and lo-wage countries, labour-intensive industries such as the textile sector were stagnating and unemployment was mounting, Dr Mullins said.

The exchange rate had to be managed properly and could not be left to the whims of the money market.

Professor D J J Botha of the University of the Witwatesrand said labour intensive industries couldsuvive in a highly productive economy lif labour was highly traine. better training wasthe way to improve the survival rate of labour-intensive industries.

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1. Th m ro w notes, pieces of paper or other material ught into the examination room unless are so instructed.
2. E the block on this cover the number of the question you are answering. are not to communicate with other or with any person except the invigilator.
3. 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.
4. Names must be printed on each separate sheet (e.g. graph paper) where sheets additional to examination book(s) are used.

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

EDSON

CAPE TIMES 4/2/83

Business leader sees SA changes

49

Industrial Reporter

THE continuing dramatic turnabout in attitudes in South Africa was being illustrated by what was happening on the cricket pitch, one of the country's top businessmen told a meeting of the Free Market Foundation in the City yesterday.

"It was less than 15 years ago that the then Prime Minister of our country saw fit to ban an English cricket team from touring South Africa because one of the players was of mixed blood.

"Today we pay hundreds of thousands of rands to engage and watch a side of 15 indifferent black cricketers from Sri Lanka and are euphoric about the visit of a black West Indian side to our shores," said Mr Chris Saunders, chairman of the Tongaat-Hulett group.

With 43 percent of the total population of the Republic being under the age of 15 years, and with the vast majority of the population being non-white, the next 15 years would experience the same dramatic turnabout in attitudes as that witnessed previously.

It was inevitable that within the next two decades South Africa would become mixed, capitalist and free, or mixed, Marxist and dominated.

"The argument is not about whether change is happening, but about what kind of change it is and where it is leading.

"Make no mistake, the changes that are taking place are not cosmetic — you cannot talk of capitalism, tamper with constitutions and call for co-operation among various groups without expecting a new society to develop."

The worst thing that could happen to the country would be for the vast majority of the people who sought a straight capitalist middle road to peace, progress and prosperity, to sit in the grandstand observing but not participating while the liberal left and radical right engaged in protest and violent politics.

The government had shown the courage of its convictions in the area of constitutional development, and given its stated commitment to the capitalist, free market system, it should be urged to promote it as well.

Action was required on two fronts, Mr Saunders said. First there was the need for a statement on the ground rules underlying the free market system in the Republic — an indication of the long-term policy on matters including subsidies, single-channel marketing and conditional selling.

Secondly, there was an urgent need for the removal of the many forms of intervention in the market, such as direct price controls and administered prices.

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RDM 5/2/83

Worst of recession over soon

Financial Editor

SOUTH Africa may reach the bottom of the current recession much sooner than expected — but the economy is still likely to be stuck in a low growth phase for some considerable time.

This is the conclusion of the February economic review from Standard Bank.

On the hopeful side it says: "Under normal circumstances a prlonged sluggishness of the world economy, the virtual disappearance of inflation as a threat in industrial countries and the replacement of the oil crisis by an oil glut should have spelt disaster for South Africa's gold-based economy.

"Precisely the opposite has tended to be the case.

"In the past South Africa has tended to lag the ups and downs of the US and European economies by some 18 months to two years.

"This would have implied a gentle revival of the South African economy towards mid-1984.

"There is, of course, no certainty in economics and particularly none in the gold markets.

"But it appears entirely feasible that this time round the domestic economy will follow the industrial West out of recession with only a short time lag."

However, Standard warns: "Given the pressure on personal incomes and high unemployment in some areas, the short-term outlook for sales is not exactly good.

"But the outturn in the next few months may well prove wrong earlier predictions of large declines in spending levels during 1983.

"Some optimists may interpret the easing of pressures as indicating an impending upswing in the economy.

'Indeed, the Standard Bank composite index of leading indicators has been on a rising trend since mid-1982, which indicates a cycle turning point is in prospect.

"But historically the lead time of this indicator has been well over a year in upswing periods.

"On a purely mechanistic basis, therefore, the South African business cycle should bottom during during the latter part of the year.

"It will stay at that bottom for a while, however. The important export sector has yet to improve its performance and Government has yet to change its fiscal policy.

"Falling interest rates and improving confidence alone will not turn the economy round in the short-term."

Standard says that bad news still continues to dominate the international economic picture.

"The crisis in international credit markets has assumed frightening proportions, with many commodity-producing and third-world countries in serious difficulties. The continuing lack of real momentum in the US, European and Asian economies is an additional worrying feature."

However, an end to the downward slide of economic activity in the major industrial countries now seems to be close even though a vigorous recovery, such as that which followed the last world recession, does not appear to be in the offing.

Encouraging for a resumption of positive world growth is the rapid decline in inflation in many OECD countries, which has permitted a shift in their monetary policies towards greater accommodation.

This has brought with it the significantly lower interest rate structures long regarded as an essential element to promote a resumption of spending and investment. Then, there is also the prospect of further declines in the oil price which will help slow inflation further and encourage economic recovery by allowing both consumers and countries to spend more on other goods.

CAPE TIMES 7/2/83 (49)

SA economy put to test

By GORDON KLING

THE South African financial community will hold its breath today while investors worldwide react to changes in the country's monetary policy announced at the weekend.

Residents will get the best indication in more than 20 years of world assessment of the country's economic prospects.

Travel allowances

They will also be able to get much more money out of the country if they are emigrating, going for a holiday, or benefiting overseas from a local deceased estate.

Ordinary travel allowances are to be increased from R4 000 to R6 000 a person each calendar year. Allowances for businessmen have been doubled to R500 daily, with the ceiling raised from R7 500 to R10 000.

Transfers from deceased estates up to a maximum of R100 000, which previously left the country at the financial rand exchange rate, will now go out through the higher new unitary rate.

The government's abolition at the weekend of exchange control over non-residents amounts to the disappearance of the financial rand.

Financial rand

The financial rand was a currency which induced foreigners to invest here by offering a substantial discount on the exchange rate applicable to residents.

Its abolition has effectively advised investors throughout the world that they can take the country without frills, or leave it.

Exchange control over non-residents was imposed in 1961.

Abolition was a move which the Minister of Finance, Mr Owen Horwood, emphasized had to be taken from a position of exceptional financial strength.

It will also have implications throughout the economy for the man-in-the-street:

- Share prices on the Johannesburg Stock Exchange are likely to decline because they are now relatively less attractive to foreigners. However, this should also offer local investors the opportunity for bargain buys.
- The foreign exchange rate of the rand may drop because it will be easier for everyone to get money out of the country.

Mr Owen Horwood

Compensation

- The recent decline in interest rates may come to a halt because the move could lead to less liquidity in the economy. Hoped-for decreases in everything from mortgage bond costs to HP charges may be delayed.

The advantage given to foreign investors by the financial rand was intended, among other things, to compensate the non-resident for the element of political risk involved in investing here.

It is evident that the government now feels that the economy, particularly in relation to other world economies, is strong enough on its own to encourage foreign investment.

Looked at another way, the FR could be seen as an inducement to immigration by offering settlers a discount on the normal exchange on their funds, while discouraging emigration by forcing departing South Africans to take out the permitted maximum of R100 000 at the FR rate, that is at a loss of about 20 percent.

Now both the emigrant and the immigrant will be governed by the same exchange rate, although those leaving South Africa will still be limited to taking out a maximum of R100 000, and exchange control over residents is to be retained.

Agreeing with some of the country's top businessmen, the chief opposition spokesman on finance, Mr Harry Schwartz, said yesterday that the long-term total abolition of exchange control had always been regarded as desirable and non-residents were expected to be the first to benefit.

"It must, however, be questioned whether the timing is correct," he said.

'Liquidity'

He wondered "whether it would not have been better, as an initial step, to grant permission to South Africans to invest abroad to a greater extent, bearing in mind that such investment would produce foreign exchange earnings which would flow back to the country on a continuous basis in the future and would have had the same results on the feared liquidity situation".

Mr Horwood said at a press conference in Cape Town on Saturday that the move had been made possible by a remarkable improvement in the balance of payments and the country's trading performance. In recent months there had also been a substantial net inflow of private sector foreign capital.

● Bullish impact over long term?, page 7

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Confidence vote in SA economy

CAPE TIMES 8/2/83 (49)

By GORDON KLING

NON-RESIDENTS freed from exchange control for the first time since 1961, yesterday effectively gave the South African economy a strong vote of confidence, raising hopes for the eventual abolition of controls on residents as well.

"Developments have gone according to expectations," said the Minister of Finance, Mr Owen Horwood.

The scrapping of exchange control over non-residents, amounting to the abolition of the foreign investment-enticing financial rand, saw the new unitary rand emerge at a rate about six percent lower against the United States dollar than the old commercial rand, but about 11 percent higher than the defunct financial rand.

Shares sag

Share prices on the Johannesburg Stock Exchange plunged by more than 10 percent in nervous early trading as non-residents downrated their holdings, before recovering substantially in pre-noon trading on encouragement from London.

Prices began to sag again later in the day, closing at or near previous lows.

Brokers noted, however, that the effective six percent devaluation of the rand would produce a similar improvement in the rand income of the country's gold mines and they believed a good reception by Wall Street to the abolition of exchange control on non-residents would eventually lead to an overall improvement.

South African shares on the London Stock Exchange appreciated in value by about five percent, reflecting the change in the exchange rate of the rand.

Mr Horwood said yesterday that he expected the exchange rate of the rand against the United States dollar to begin to appreciate again in the near future.

He was confident that the various rates and prices involved in the major change in monetary policy would settle into an equilibrium that would represent a fundamentally sounder base for the economy.

And brokers, who said the share market downturn was probably assisted by a coincidental decline in the gold price, believed the move would be beneficial in the long term.

Organized commerce and industry agreed.

"We see this as a further step towards the ultimate abolition of exchange control in its entirety, which will enable South African individuals and institutions to invest overseas as they see fit," said the director of the Cape Town Chamber of Commerce, Mr Brian Macleod.

The executive director of the Federated Chamber of Industries, Dr Johan van Zyl, also hoped the measures, which included a relaxation in overseas travel allowances and an improvement in what emigrants could take out of the country, would be a first step towards abolishing controls on residents.

"Otherwise the economy may run into similar problems experienced in 1981, when a favourable balance of payments and a rising gold price bottled up so much liquidity behind a wall of exchange control that the authorities lost control over the money supply and hence over inflationary pressures."

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Weekend Argus February 12 1983

Collectors busy as recession catches the big spenders

W/E ARGUS 12/2/83 (49)

Bad debt boom!

By SYLVIA VOLLENHOVEN, Weekend Argus Reporter

DEBT collectors are on the trail of many people caught short by the recession after the big spending of the recent economic boom.

A Cape Town civil court magistrate says 12 percent more summonses for bad debt were issued last year.

And one of the larger city debt collection agencies says "people are just not paying their bills".

"We started getting more work from about October last year and it's increasing steadily," said the debt collector.

"Thousands"

She said the offenders ranged from big businessmen who fell down on large payments to the poor and out-of-pocket consumer who had been attracted by easy credit.

"It's a wide cross-section of people and they owe amounts from R3 to thousands."

Business people, banks, trust companies and economic experts are warning consumers: "Cut back and be cautious."

Last year business activity in the Western Cape declined more sharply than in most other big centres in the country, according to Professor Jan Sadie, head of the Bureau for Economic Research at Stellenbosch University.

This was indicated by the number of building plans passed, buildings completed, motor vehicle sales, hotel revenue, bank debits, unemployment and civil debt summonses.

Worse coming

There is worse to come. "As far as (economic) growth is concerned 1983 will be the worst since the depression of 1930 to 1933. It will be the first time since then that we will have negative growth — it was around zero last year," Professor Sadie said.

The bureau's indices show that there will not be much change in the economic trend until the "third or fourth quarter of this year".

Professor Sadie said business optimism might be misguided.

● According to the latest figures from the Central Statistical Services (CSS), the State department that monitors economic trends, South African consumers are being hit by 60 000 debt summonses and court judgments totalling R15-million a month as recession and high interest rates bite into family budgets.

● Consumers are nearly R2-million behind with monthly hire purchase instalments.

● Defaults on cash loans are running at about R42-million a year and cheques worth more than R2-million a month are bouncing.

The growing debt problem was outlined in an economic survey published recently by the Sanlam insurance company, which said South Africa was living beyond its means.

Soared

The insurance giant quoted figures supplied by the Reserve Bank and the CSS which showed money owed by consumers to commercial banks has soared from R441-million in 1980 to R500-million in 1981 and last year was running at an l rate of R948-million.

A Cape Town attorney said the crisis had reached a point where many lower income groups were prepared to have their homes repossessed rather than contest ownership in a divorce case.

"The bond repayments have become just another unbearable financial burden for them. Many couples, especially from places like Mitchell's Plain, are not even quibbling about the house any more, they just let it go," said the laywer.

Spokesmen for the Standard Bank said Cape Town consumers fared better than their Transvaal counterparts when times were hard.

"Capetonians are generally far more stable and conservative economically than consumers in the Vaal triangle. In times of an economic downturn they are more level-headed," said one of the bank's managers.

But economic recovery in the region takes much longer mainly because of the nature of the industries here.

Some other indications of the hard times, says the bank, are:

● Customers depositing less into their personal savings.

● Fewer people buying cars.

● Personal incomes not keeping pace with inflation.

● Less use of overdraft and loan facilities because of the high cost of borrowing money.

● Credit card holders buying less — especially luxury items.

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Spring: bridge the skills gap

EAST LONDON — Although the Border region had a massive unemployment problem, commerce and industry was short of 6 000 skilled and semi-skilled people, the mayor, Mr Errol Spring, said last night.

Officially opening the academic year of the East London division of Rhodes University, Mr Spring said the challenge of the future was to provide top and middle management people

"Our problem in South Africa with unemployment is that while we have a vast pool of untrained and unskilled labour, we are desperately short of skilled people."

He said that unless this gap was bridged, the country could not maintain a growth rate necessary to provide jobs.

"We are told that merely to accommodate those coming onto the labour market each year, this country must provide 1 000 new job opportunities every working day up to the turn of the century — a frightening challenge, but a challenge that will have to be met if we are to maintain peace, stability and economic progress."

Mr Spring said that if free enterprise meant that all within the system were free to work and achieve to the best of their potential with minimum restraints, then South Africa fell far short of a free enterprise system.

"The unfair restrictions that have been placed on people in the economy because of their race, colour or creed have been the greatest inhibiting factor in the economic growth of this country."

He said it was because of misguided ideology that South Africa found itself "desperately short of skilled people."

Quoting a survey by Manpower 2000, Mr Spring said that 2,7 million economically active people would have to undertake some form of training before 1987 in order to service growth.

He said such a challenge needed the student of today to qualify in order to meet the challenge.

"The privileged few who come into the economy with a university education are those destined for middle and top management

"I urge you to use this period of preparation to familiarise yourselves fully with the challenges that await you in your time of maturity and contribution."

The Dean of Studies, Mr Jonathan Stead, said that last year the East London division had firmly established itself as a separate identity.

He said student enrolment this year had increased to 160, a 40 per cent increase on last year's enrolment of 72 —"a tremendous increase that was far greater than we expected only three months ago."

Mr Stead announced that the division would soon introduce a mathematics course for teachers who wanted to teach maths but had no real qualification.

The chairman of the division's board, Mr Ashton Chubb, said that a number of black students had been admitted for the first time this year.

He said he was thankful that the authorities had permitted their enrolment, but said that admission, irrespective of race, should be "an absolute right".

Mr Chubb said he did not think that the "thirst for education" in East London had been fully assessed yet, and suggested that the time had come for the establishment of a non-racial technicon in the city.

The official opening of the academic year was attended by the principal and vice-chancellor of Rhodes University, Dr Derek Henderson. — DDR

The mayor of East London, Mr Errol Spring, speaking at
East London division of Rhode

No change in general sales tax

CAPE TIMES 18/2/83

49

HOUSE OF ASSEMBLY — Sales tax is to remain unchanged and the import surcharge is to be reduced by 2,5 percent once the Part Appropriation Bill is approved.

The Minister of Finance, Mr Owen Horwood, said when proposing the bill's Second Reading yesterday that in this year's mini-budget he was asking for about 14 percent more than the R4 900-million required last year, but warned parliamentarians not to draw any conclusions from this figure regarding the main budget.

"I do not want to anticipate the main budget in any way," he said. "It should be clear we have had a difficult year and another difficult year is awaiting us."

'Discipline'

To prevent unnecessary speculation he wanted to make it clear the government would continue with its policy of financial discipline, Mr Horwood said.

South Africa had survived the economic storms that had battered the economies of the large industrial countries and crippled countries such as Mexico, Argentina and Brazil.

South Africa had taken the necessary fiscal and monetary steps to meet this world depression and to make the required adjustments with the least possible disruptions.

"We succeeded in these goals," he said.

The main features of government policy had been:

- Increase in government spending had been kept to the minimum.
- The "deficit before borrowing" in the budget had been kept low by, among other things, increasing General Sales Tax through two notches to six percent within a single year.
- The "deficit before borrowing" had been financed without any net use of bank credit by issues of government bonds and by way of "tap issues" via the Reserve Bank.
- The Reserve Bank and Treasury had reduced the growth rate of the money supply from 27 percent in 1980 and 25 percent in 1981 to a rate of 14 percent in the second half of 1982.
- The exchange rate of the rand had been kept realistic by allowing it to fluctuate according to supply and demand.
- The Reserve Bank had succeeded in obtaining the necessary foreign credit over the past three years and to negotiate gold exchange transactions.

"The results of this fiscal and monetary policy have exceeded our most optimistic expectations," Mr Horwood said. A few examples were:

- The current account deficit in the balance of payments of R6 900-million in the first quarter of 1982 had turned to a surplus of about R1 000-million by the end of the year.
- The capital account of the balance of payments had also shown a remarkable improvement as a result of realistic interest rates which generated a large net inflow of foreign capital.
- Gold and foreign reserves, which had dropped sharply between September 1980 and June 1982, had risen strongly to R2 500-million in the next seven months.
- The depreciating rand had been converted to a strongly appreciating rand since mid-1982.
- Share prices and turnover at the Johannesburg Stock Exchange had climbed steeply since mid-1982.

Mr Horwood then sketched the reasons for and the result of the decision to lift the exchange control measures on foreign capital, saying the financial markets had all adjusted more readily than expected. — Sapa

West Cape like California 20 years ago — US analyst

BUS ARGUS 19/2/83 (49)

By AUDREY d'ANGELO

THE Western Cape is like California 20 years ago says Mr Don McAlvaney, a visiting American economic analyst

Mr McAlvaney, who publishes a monthly intelligence letter in Denver, Colorado is director of the non-profitmaking foundation Americans Concerned for South Africa

He has brought 90 businessmen and their wives on an investment tour of South Africa.

He said at a reception given by the Mayor of Cape Town, Mr M J van Zyl, this week he believed many of the party would invest in property and in labour-intensive factories in the Western Cape.

They were also interested in gold and many already had gold shares

BUYING FLATS

Mr McAlvaney himself is interested in buying flats under sectional title in the Cape Town area.

He said "Property prices have exploded in California in the past 10 years and I believe the same thing will happen here

"Industrial investment here would also make sense, particularly in the small, labour-intensive factories which Wesgro is encouraging people to start up."

Mr McAlvaney founded Acsa eight years ago after his first visit to this country because he found the reality totally different from the picture of South Africa given to Americans through their newspapers and television

"I came here to see for myself what South Africa was like and I was amazed at the difference between conditions here and what we were led to believe

"I decided to set up a non-profitmaking educational foundation to give Americans more accurate information and improve relations between our countries at business and government level.

"Acsa publishes a monthly newsletter which goes to members of the White House staff and other influential people."

Mr McAlvaney has brought several previous tours to this country and tries to arrange meetings with black and coloured leaders as well as influential white people [illegible] help the visiting Americans understand the [illegible] plexities of [illegible] and the problems [illegible] faced

APARTHEID IN US

"Americans tend to have an over-simplified view of the world" he said.

"It is only 30 years since petty apartheid was practised in the United States We did not call it that, but the restrictions were there

"We have come a long way since then and you are moving in the same direction"

SUNDAY TIMES, Business Times,

SA offers 'tremendous investment potential'

(49) S. Times 20/2/83

MORE POSITIVE OVERSEAS ATTITUDE AFTER PART ABOLITION OF EXCHANGE CONTROL

By Elizabeth Rouse

SOUTH Africa's potential as a major international investment centre is "tremendous" says David Walton Masters, international investments expert of leading London broking firm Phillips & Drew.

Commenting on the favourable effects of the monetary authorities' bold step in freeing the commercial rand and abolishing exchange control for non-residents, Mr Masters believes that overseas investors will take a more positive look at the country's possibilities.

He comments that the authorities would not have taken such a step without positive background factors:

- A belief that the gold price would hold steady, not fall, and perhaps continue its uptrend.
- That there were no unfavourable social factors, either on the labour or political front.
- That a favourable balance-of-trade position was assured.

In line with other brokers and investment analysts who attended the Simpson Frankel Kruger investment conference this week, Mr Masters is convinced that this is only the first step in the authorities' plan to "free" the South African economy.

The next step could well be the partial abolition of controls on South African investment overseas, starting with the institutions.

He says the timing of the move has been impeccable because the rand, which was weak during 1982, was bound for recovery.

However, Mr Masters believes that the move will have the opposite effect to the intention to drain the system of liquidity.

In fact, it will bring overseas funds into South Africa now that these are freely transferable.

He suspects that there was an inflow of money, even in the first week of abolition of exchange control.

Phillips & Drew expected huge initial selling of South African equities, as did other UK as well as US broking firms.

The selling was so mild that the firm immediately advised clients to hold South African minings, as did some Wall Street brokers.

It is now taking another view of South Africa as an investment venue.

"Why withdraw money from South Africa when the money-making chances are good?"

However South African investors must be prepared for much greater volatility in the rand as well as in equities now that the country has joined the ranks of free markets.

Mr Masters's $64 000 question is: "Have the authorities considered the effects on monetary and even political policy if, as has happened in the UK, the currency comes under pressure?"

The UK had to raise interest rates, when the natural internal trend was downwards, to offset the run on sterling.

Another effect of free currency and equities markets will be the forced sophistication of South African investment techniques now that it will attract international floating money.

There is tremendous scope for professionals in this field. Inflows and outflows of funds can be massive, and operators will have to be fast on their feet.

"There is only one world as far as money is concerned," comments Mr Masters.

He has found a greater sense of optimism in South Africa and senses a general feeling that the recession will not be as prolonged or as deep as expected.

The JSE appears to have discounted this already, and Phillips & Drew is cautious about South African equities at the moment.

However ultimately all Western economies depend on the US's recovery and on the extent of that recovery.

Phillips & Drew is taking a negative view on the US dollar this year.

Factors militating against a strong dollar are the huge deficit — estimated to reach $30 000-million next year — an inevitable rise in inflation as consumer demand picks up and American inability to compete on world markets because of high production costs.

Better bets are Germany's Deutschemark, which is scheduled for a strong recovery, and Japan's yen, which is sound.

Mr Masters's view on gold is that it is influenced in the short-term only by upsets such as a banking failure.

"It will take a world economic holocaust like the Weimar Republic collapse or a world war to have a major effect."

BUDGET BACKLASH

49 ~~240~~ Industrial Week

Staff Reporter

23/2/83

MINISTER of Finance, Owen Horwood has been accused of creating a "non event" mini-budget at a time when major companies and corporations are feeling the bite of the recession.

The only major announcement in the R5 600-million Part Appropriation Bill was a reduction of 2,5% in the surcharge on imports and there was no cut in General Sales Tax, as had been anticipated

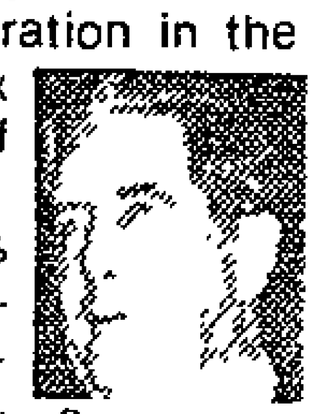
Opposition spokesman for finance Ray Swart expressed disappointment at the budget

Meanwhile, a number of large companies have been showing poor results as the recession takes its toll

Earnings for the motor retailer McCarthy Group took a dive of 40,6% in the second half of 1982.

Share prices have fallen to 28,5c a share for the six months up to December, from 48c in the comparable previous half year. The interim dividend has been cut from 15c to 10c

Chairman of the group, Brian McCarthy has announced that he anticipates a possible further deterioration in the second six months of this year.



Owen Horwood

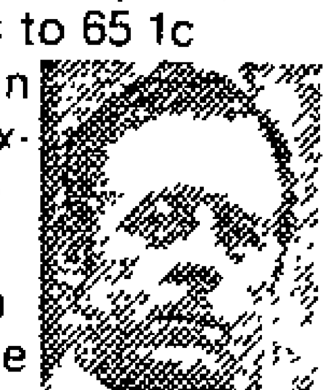
He blames falling demand, coupled with excessive inventories being carried by certain vehicle manufacturers and motorcycle importers and keen competition for the disappointing results

McCarthy's turnover fell 2% in the six months to December to R371 526 000 from R379 671 000 a year ago and operating profits fell by 31% R12 754 000 from R18 537 000.

Another recession victim was Darling and Hodgson who suffered its first fall in earnings in 15 years

The decline has been put down to massive losses of more than R5-million by the recently discontinued structural engineering division, and a R3,5-million loss from the Amardah Shipyards

Attributable profits sank a huge 47,9% from R25 174 000 to R13 125 000, and earnings a share by 48,5% from 126 5c to 65 1c



John Hodgson

Chairman and chief executive John Hodgson said the directors were confident that the group 'will bounce back

He said that without the problems caused by

To Page 2

Mini-budget triggers company backlash

(49) ~~(240)~~ Industrial Week 23/3/83

From Page 1

the group's involvement with Amardah and structural engineering, "we will be back on the track in 1983.

Brian Porter Holdings, based in Cape Town, showed a decrease of 11,8% in pre-tax profits, in the six months to December, despite a turnover increase of 19,6%.

The drop in pre-tax profits to R1 631 000 from R1 851 00 in the equivalent 1981 period, was attributed to a fall off in new car sales and the more competitive trading environment.

W & A investment Corporation suffered a 27% drop in earnings in the six months to December, recording a drop in pre-tax profits to R8 869 000 from R11 954 000 in the first half of the previous year.

Earnings a share were down from 125c to 91c, the first reversal for the company in 10 years.

National Trading Co. also recorded a falling attributable profit of 27,4% to R2 933 000 in the year to December from R3 957 000 in 1981.

Raymond Parsons, chief executive of Assocom, said he did not expect any major changes in tax policy to be announced in the little budget.

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23/3/83

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Tenders are being invited to construct a bridge over the Chatty River and approach roadwork and the Ecab has set the closing date as March 4

"Construction of three prestressed concrete bridges and approach roads has drawn tenders ranging from R1,98-million (by Rintin) to around R2,6-million," an Ecab source disclosed.

He confirmed that Concor had just landed a R5-million Ecab contract to provide full services for 1 500 erven in an extension of Uitenhage's black Kwanobuhle township.

Free market urged for all in SA

ARGUS 7/3/83

49

Staff Reporter

UNLESS all South Africans enjoy the advantages of economic freedom, there is a danger that the free market economy will be thrown out with the "dirty bathwater of discrimination", Mr J H Steyn, executive director of the Urban Foundation, said today.

Mr Steyn, in a submission to the Economic Affairs Committee of the President's Council on behalf of the foundation, said South Africa should move progressively towards the goal of a "healthy" free market economy.

Measures

"Before an economy can be truly free it must be free for everyone. While recent measures to make South Africa economically more free have been instituted, much remains to be done," he said.

Mr Steyn said the foundation addressed itself to three areas: housing, education and training, and the promotion of individual economic opportunities.

Dealing with housing, he said 99-year leasehold for blacks was "unquestionably a vast improvement over previous forms of tenure and confirmed the permanent status of urban blacks".

All areas

"However, it should be available in all areas of the country if the full impact of home ownership and private sector finance is to be felt."

Further, the 99-year leasehold itself was a discriminatory mechanism and the foundation felt freehold title to residential property should now seriously be considered for all, Mr Steyn said.

He also called on the Government to modify the standards required for housing to make these suitable to the needs and incomes of people.

"For instance, authorities might permit the prospective homeowner to acquire a site with adequate water and sewerage facilities on which he may build a temporary dwelling and then be required to improve it to official standards within a designated period.

"The concept of self-help requires to be actively promoted in all low-income communities. To be effective, security of tenure, access to finance and technical advice must be provided."

The foundation felt that the present education system, where the "least policy change" has taken place over the past five years, inhibited the effective functioning of the free market system.

Technical

"The lack of technical and vocational education and the discriminatory basis on which this is provided at present, especially at technical college and technikon level, inhibits the free market system.

"The foundation feels that an early and positive response to the Human Sciences Research Council report is absolutely vital in this regard."

Dealing with economic opportunities, Mr Steyn said: "Extensive laws, regulations and practice still inhibit free development of black business.

"In particular, we would point to the laws which prevent blacks establishing business in economically lucrative areas, especially city centres, and the extremely slow action in respect of the free trading areas advocated in the Riekert Report."

10/2/83 (49) RDM

Erratic pay rises slow SA growth

AN erratic pattern of wage and price increases has caused South Africa to fall short of achieving maximum economic growth potential from 1970.

This view is expressed in Barclays Business Brief.

The bank's chief economist, Dr Johan Cloete, argues in effect that average wage rises may have been too low in relation to price increases.

He says that from 1970 to 1981 average real wages for whites — over and above inflation — rose at a considerably faster rate than those of blacks.

Dr Cloete estimates the respective average annual rises at 5,5% and 0,7%.

He says: "One of the main reasons why inflation is so damaging to an economy is that it proceeds at such an uneven pace in different sectors and industries.

"Hence it exerts such an unequal on different categories of incomes and different groups of income earners, thereby constantly redistributing incomes and wealth in a harmful and unsatisfactory way.

"There is a close correlation between salary and wage incomes and total private consumption expenditure in South Africa.

"It follows that the failure of salary and wage incomes to maintain a sufficient margin above the annual increases in the general price level must have been one of the reasons why the average annual economic growth rate for the period (1970-81) fell short of the country's potential growth rate."

Although nominal salaries and wages increased at an annual average rate of 13,2%, the average real increase was only 1,9% a year as opposed to an average increase of 12,5% a year in the general price level.

Prices increased most sharply in the mining, electricity, gas and water, construction and general government sectors where inflated wages were not accompanied by corresponding increases in labour productivity.

Prices rose at a far slower rate in the transport, manufacturing, wholesale and retail sectors, which experienced growth in labour productivity and hence with relatively low rates of basic wage inflation

Although white workers accounted for 70,1% of the total salary and wage bill in 1970, their share of the total pay packet had dropped to 58,7% by 1981. Black workers in the non-agricultural sectors of the economy saw their stake in the total wage bill climb from 21,1% in 1970 to 29,4% in 1981.

Barclays attributes the black workers' greater share of the total wage bill to more rapid increases in salaries and not a greater number of black workers.

It says the number of blacks as a percentage of the total work force employed over the 11 years was unchanged at 57%.

This, it says, suggests a growing level of unemployment among blacks because the number of black workers increased at an average annual rate of only 2,5% between 1970 and 1981 compared with an annual increase of about 2,8% in the total black population.

The Star/BUSIN

Disappointing 1982 reflected by companies

By Alec Hogg,
Assistant Financial Editor

With the biggest chunk of non-mining December year-end companies having reported, it has become clear that 1982 was a disappointing year for South African companies.

Of the 50 companies which make up our table (right), 26 reported lower earnings and one unchanged. Of these, two (DRG and Dunswart) reported losses for trading over the year as a whole.

Significantly, business conditions declined rapidly only in the second half of the year, and one can expect a far worse performance from the June year-end companies, particularly considering the sharp reverses most reported at the interim stage.

Most companies which recorded lower earnings managed to maintain their dividends. Three, Toyota, Trek and EP Newspapers, increased their payouts despite a fall in earnings.

In the process, the companies' average dividend cover was cut from 2,6 times to 2,3 times.

When the results of financial and property companies are stripped out, the true decline in company profits becomes evident.

Only nine of the non-financial and property companies managed to increase earnings in the year, with just two, SWA Fish (up 40,3 percent) and NEI Africa (up 29,5 percent) posting an increase higher than the inflation rate.

The results of the financial companies (insurance and banks) were sparkling, with the short-term insurers in particular enjoying an excellent year. Cusaf improved 1981's earnings by 84,6 percent, SA Eagle by 67,8 percent and Guardian by 44,1 percent.

Biggest declines were recorded by manufacturers, with Toyota down 50 percent, D&H 49 percent, Veka 45 percent and Standard Brass 39 percent.

By contrast, the stock market has appeared to ignore the results, and is rather looking ahead to the next upswing.

Yields of most companies have fallen from a year ago. A feature is Rennies, which now stands on a historic yield of 7,1 percent compared with nearly 12 percent a year ago.

Anglo Alpha (yield down from 9,4 to 5,8 percent), Haggie (from 7,4 to 5 percent) and Aberdare (from 9,2 to 5,2 percent) also enjoyed reratings.

The rerating was not only limited to those companies which performed relatively well. The yield on Toyota, which suffered a 50 percent setback in earnings, fell from 11,3 to 6,8 percent and Kohler, which reported 23,3 percent lower earnings, dropped from 9,1 to 6,8 percent.

COMPANY	SECTOR	EPS 81	EPS 82	CHANGE %	DPS 81	DPS 82	CHANGE %	HISTORIC YIELD MAR 81	HISTORIC YIELD MAR 82
Aberdare	Electronics	168,0	151,0	—10,1	82,5	82,5	—	9,2	5,2
AECI	Chemicals	102,4	89,2	—12,9	55,0	55,0	—	7,6	6,5
Anglo Alpha	Bldg & Cons	128,4	129,6	0,9	36,0	42,0	16,7	9,4	5,8
Asea	Electronics	66,0	70,0	6,1	23,0	25,0	8,7	6,2	5,0
Barclays	Banks	151,4	190,6	25,9	63,0	75,0	19,0	8,5	4,9
Cad Swep	Food	112,8	125,7	11,4	46,0	52,0	13,0	8,5	6,3
Carlcor	Paper	53,5	42,7	—20,2	32,0	32,0	—	10,0	7,6
Cusaf	Insurance	37,8	69,8	84,6	25,0	28,0	12,0	9,5	7,4
Chemserve	Chemicals	105,1	100,5	—4,4	50,0	50,0	—	16,7	8,3
D&H	Ind Hldg	127,0	65,0	—48,8	44,0	44,0	—	6,5	6,1
DRG	Paper	22,3	—	—100	12,0	—	—100	8,6	—
Dunswart	Steel	42,4	—	—100	18,0	—	—100	13,3	—
EP News	Printing	84,4	77,0	—9,6	32,0	37,0	15,6	8,7	11,6
E Haddon	Paper	164,0	165,0	0,6	60,0	60,0	—	8,8	9,7
Fedfund	Property	16,1	20,3	26,1	16,1	20,3	26,1	10,4	8,2
Fieldair	Engineer	23,9	17,2	—28,0	8,0	—	—100	13,3	—
Fintec	Engineer	26,8	23,8	—11,2	8,0	8,0	—	5,7	7,6
Guardian	Insurance	40,1	57,8	44,1	24,0	38,0	58,3	8,4	9,9
Haggie	Engineer	186,6	163,7	—12,3	70,0	70,0	—	7,4	5,0
Hiveld*	Steel	71,6	67,7	—5,4	32,0	32,0	—	8,5	6,3
Kanhym	Food	151,3	116,0	—23,3	60,0	60,0	—	2,6	5,8
Kohler	Paper	195,5	150,0	—23,2	95,0	75,0	—21	9,1	6,8
Libhold	Insurance	46,3	57,2	23,5	29,0	35,0	20,7	6,3	3,9
Liberty	Insurance	198,3	238,5	20,3	60,0	72,0	20,0	6,8	4,0
Metal Clos	Paper	140,3	148,7	6,0	46,0	54,0	17,4	9,2	7,8
Mooi River	Textiles	57,9	60,5	4,5	26,3	30,0	14,1	15,0	10,0
Nat Trading	Engineer	65,5	48,4	—26,1	30,0	22,0	—26,7	8,8	6,3
Ned Equity	Insurance	10,6	10,6	—	10,6	12,5	17,9	5,7	5,0
NEI	Engineer	159,8	207,0	29,5	61,0	78,0	27,9	7,0	6,2
Ninian	Clothing	141,0	105,0	—25,5	24,0	15,0	—37,5	11,3	9,8
Pioneer	Property	13,0	15,2	16,9	13,0	15,2	16,9	8,9	6,2
Rennies	Ind Hld	105,7	117,2	10,9	51,0	58,0	13,7	11,9	7,1
Sage	Banks	55,1	67,1	21,8	27,0	32,0	18,5	8,6	6,6
Sappi	Paper	217,0	197,0	—9,2	86,0	86,0	—	7,9	7,8
Scot Cables	Electronics	41,8	37,0	—11,5	28,0	25,0	—10,7	8,2	6,3
SAAN	Printing	471,0	365,0	—22,5	185,0	185,0	—	12,8	10,3
SA Bias	Textiles	85,5	85,5	—	27,5	27,5	—	6,5	7,3
SA Eagle	Insurance	53,5	89,8	67,8	40,0	50,0	25,0	8,7	7,5
SWA Fish	Fishing	77,0	108,0	40,3	60,0	70,0	16,7	13,1	11,3
Stanbic	Banks	110,0	135,0	22,7	40,0	44,0	10,0	9,1	4,6
Stand Brass	Engineer	142,2	86,3	—39,3	55,0	40,0	—27,3	8,9	8,5
Toyota	Motor	797,8	398,9	—50,0	115,0	130,0	13,0	11,3	6,8
Trek	Chemicals	44,0	39,6	—10,0	22,5	23,5	4,4	11,0	8,4
Unidev	Property	29,6	40,1	35,5	21,0	29,0	38,1	4,7	3,5
Un & Lond	Inv Trust	114,0	128,7	12,9	85,0	96,0	12,9	8,1	6,7
Unisec	Ind Hldg	44,4	38,8	—12,6	30,0	30,0	—	6,2	6,5
Utico	Tobacco	104,4	115,0	10,2	28,0	30,0	7,1	10,4	7,5
Veka	Textiles	11,0	6,0	—45,4	4,0	—	—100	9,3	—
Wilbarz	Fishing	10,4	5,4	—48,1	8,5	5,0	—41,2	12,1	6,5
Yorkcor	Bldg & Cons	95,0	26,0	—72,6	30,0	10,0	—66,7	7,5	3,3

*Annualised.

Sanlam on factors inhibiting growth

C. Times (49) 17/3/83

By JOHN MULCAHY

JOHANNESBURG. — While 1983 is going to be very difficult for the South African economy the latter part of the 1980s will be good years if the public and private sectors co-operate to remove obstacles in the way of growth.

Dr Fred Du Plessis, addressing his first annual meeting as chairman of Sanlam in Bellville yesterday, highlighted a number of factors which were inhibiting growth.

● **Inflation.** The chances were good for a declining inflation rate in the next year or two, said Dr Du Plessis, in conjunction with the expected sluggish rate of expansion in the economy, lower cost increases for imported machinery and equipment, better co-ordination of fiscal and monetary policies, including exchange rate policy and steps taken by the public and private sectors to limit cost increases.

There were various underlying structural factors which gave SA an inherent inflationary tendency.

Among these were the shortage of managers and certain types of skilled labour, causing wages and salaries to rise without anything like a corresponding increase in productivity.

"In fact, our productivity performance compares very poorly with that of other countries."

Although much had been done to improve training and use of workers in response to the recommendations of the Wiehahn and Riekert commissions, Dr Du Plessis said all sources of labour were not yet being fully tapped.

Another inflationary factor was the exploitation of insufficient competition existing in various markets for goods and services.

Keener competition could be an important way of counteracting monopolistic exploitation, said Dr Du Plessis, as it led to the highest efficiency in the use of resources and brought about constant innovation and progress.

The development of a free-market economy could play a most important part in the elimination of friction among the various population groups in South Africa.

● **Obstacles in the way of entrepreneurs.** An entrepreneur had to deal with so many official bodies to obtain a business license that the whole process could take months and involve considerable costs, said Dr Du Plessis.

"I am convinced that the unnecessarily high requirements set by the central government as well as local authorities restrict the establishment of small undertakings and limit their ability to compete with larger undertakings."

It was important that small entrepreneurs should increasingly emerge as employers, and legislation should make allowances for their specific circumstances.

● **Sufficient capital.** Another essential for achieving optimum economic growth was enough capital, which implied sound savings growth.

"In view of the enormous capital needs of South Africa as a developing country, it is clear that we shall have to improve our savings effort."

Total saving in SA had slackened in the past few years and it was especially disquieting that personal savings had declined drastically.

The proportion of net personal savings to personal disposable income dropped from 11,6% in 1977 to 5,4% in 1981 and reached an all-time low of 4,4% in the first nine months of last year.

"This deterioration in personal saving is in my opinion closely bound up with the high rate of inflation, low returns on savings and the comparatively low cost of credit."

Life assurers had an important role to raise personal savings to a more sound level and any impediments to life offices, such as compulsory investment in prescribed assets and the higher tax rates announced in the 1982 Budget, should be removed.

The industry was looking forward with keen anticipation to the final De Kock commission report in the hope that the obligation resting on assurance companies to invest in the stock of and loans to public authorities would be removed.

Market-related positive real interest rates were essential for achieving a better balance between saving and spending, and for checking the tendency to overspend, but they were equally necessary for ensuring a sound ratio between capital and labour.

Making capital available at a cost that reflected the real state of supply and demand would help to make the cost of labour relative to that of capital more favourable.

"In this way an important contribution may be made towards solving the pressing problem of creating sufficient job opportunities."

● **Taxation methods.** Certain aspects of the SA tax system were not conducive to capital investment and employment, said Dr Du Plessis, and the present high company tax rate was a good example.

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Made in South Africa — Vervaardig in Suid-Afrika

'Lucky' Cape rides SA slump

(49)

C. Times

17/3/83

By GORDON KLING

THE WESTERN Cape appears to be weathering South Africa's economic slump with more success than other regions in a dramatic reversal of developments during previous downturns in the business cycle.

Good luck is an important factor, according to the deputy director of the Bureau for Economic Research (BER) at the University of Stellenbosch, Mr Attie de Vries.

Cape agriculture had not only been spared the drought but stood to gain substantially from it. In addition, the region did not host many heavy industries producing durable goods such as cars and trucks for which demand had plummeted.

Economists and the business community say that the surprisingly strong performance of the Cape in sectors as diverse as manufacturing and the property market can largely be attributed to three main causes:

- Agriculture in the region has escaped the devastating drought which has a stranglehold on the rest of the country.
- Mining, which previously supported industry on the Reef in hard times, has been hit by the world recession.

Contrast

- Light industry, which comprises the bulk of the industrial structure in the region, was doing fairly well because of reasonable demand for its production of semi-durable goods.

"It's quite a contrast to the slump from 1977 when the Cape was hit much harder than anywhere else," said Mr De Vries.

He said the regional economic activity level indicators for the Cape had levelled off in the first quarter of last year while those for the other major centres were still in steep decline.

The director of the Cape Chamber of Commerce, Mr Brian MacLeod, believed part of the reason for the relative economic health of the region could be found in its inherently conservative nature. "We don't take the same risks they take up north, which leaves us in a safer position when business turns down."

The local director of the Industrial Development Corporation (IDC), Mr Frank Pratt, believed concessions offered at Atlantis could be responsible for the better economic picture.

The managing director of Wesgro, Mr Franko Maritz, agreed.

Mr Maritz noted that several foreign investors had indicated a preference for the Cape because they believed it offered a lower political risk by being located furthest from unfriendly neighbouring countries.

Whether the Cape's good fortune would last was another matter.

"I'm not getting overly optimistic but I can confirm that we seem to be doing better than elsewhere," said the director of the Cape Chamber of Industries, Mr Jack Roos.

"But sometimes we tend to follow the trend more slowly. Although we're not doing as badly as the Transvaal or Natal, things don't look all that promising for the future."

Mr Roos believed many industrialists were still worried about the state of the economy; times were hard, particularly in textiles and canning, and unemployment was high.

It was too early to tell if the turn for the better would cause investors to re-rate the region's growth prospects but it was a pleasant possibility.

Turning to the property market, the chairman of the Cape and Western Branch of the Institute of Estate Agents, Mr Geoffrey Seeff, said prices in the region were still moving up very strongly while those in the Transvaal appeared to have stabilized, admittedly at higher levels.

Figures released by Barclays National Bank also back up the relatively strong performance of property in the Cape where a greater proportion of the bank's mortgage bonds had been granted.

Cape Times 31/3/83 49

Private sector may be offered stake in public corporations

By PAUL DOLD
Financial Editor

Budget '83

THE private sector may be offered a stake in public corporations such as Escom, Iscor, the railways, posts and telecomunications and Foskor — repeating the highly successful floating of Sasol.

This could be the spin off of a startling plan to inject low-cost private sector capital into the corporations thus slowing down the sharp escalation in tariffs.

A joint investigation into the feasibility of the scheme was mooted by the Finance Minister, Mr Owen Horwood, in his Budget speech yesterday.

He said the time was ripe in the interests of the country as a whole for the public sector and the private sector to come together and examine the capital structure of the corporations which were an indispensable part of the economy.

The corporations rely heavily on costly borrowed funds to finance their huge expansion programmes which are essential in the expanding South African economy.

This is leading to huge interest bills which in turn result in sharp rises in the corporations' tariffs and increase the inflation rate.

Alternatives

Mr Horwood said there were two alternatives:

- Either the status quo is maintained with the prospect of comparatively higher and escalating tarifffs, or
- the private sector contributed equity capital.

The private sector contribution would be made with expectation of a generally lower than the going rate of investments but would be compensated through lower tariffs.

"Only a thorough joint study can throw light on an issue of first rate national importance. I realize that in some cases the nature of the business may preclude private participation."

Although Mr Horwood did not specifically mention the most likely candidates — both Escom and Iscor could be front runners.

Mr Horwood's suggestion is likely to be welcomed by the private sector which is extremely concerned at the spate of administered price increases.

It would also provide private enterprise with a larger share of the economy.

Share prices

The proposals, if implemented, could have a bearish impact on Johannesburg Stock exchange industrial share prices with a large slice of institutional cash flows being directed to corporation share issues.

One way round this problem would be to relax the institutions' prescribed investments, simultaneously allowing the institutions to invest in the corporations.

Mr Horwood's Budget was in essence a holding operation — to await the anticipated upswing in the United States economy and the ensuing lift off in our export revenues.

But he adroitly spiced the mixture with two popular measures:

- Subsidized home loans for certain taxpayers.
- And the abolition of the loan levy.

It was a Budget which will prove highly popular with the man-in-the-street and yet a major shortcoming was the lack of further measures to control liquidity.

The exchange rate should be used to control the heavy foreign cash inflows which could easily reoccur if the gold prices recovers strongly.

On the last occasion the huge liquidity dam led to the money supply running out of control and record inflation. Highly response spot and forward exchange markets must be a necessity if we are to control liqudity. It should also not be forgotten that South Africa no longer has real interest rates — our rates are close to our major trading partners although inflation remains more than double overseas levels. This has been due to the rising liquidity following the most recent surge in the gold price.

Hopefully the weeks ahead will see the implementation of measures to improve the control of liquidity.

Building societies

Overall, within the limits of current fiscal and monetary policies, Mr Horwood did well. Continuing the basic free enterprise philosophy he disclosed that the building societies are to be placed on an equal footing with the banks in terms of the Banks Act with — after a transitional period — the same cash reserve and liquid asset requirements.

As forecast, their tax-free concessions are being pruned although Post Office investments are being made more attractive.

The authorities have chosen to rather subsidize the individual — in this case the building society borrower than the institution as such. Few can quibble with this philosophy.

The lines dividing banks from building societies will become more blurred and several mergers among the societies can be expected. Some may eventually move into banking in the same way as the banks have diversified into home loans.

The societies, like the banks, in recent weeks are facing the end of the cartel and intensive marketing can be expected in coming months.

Loan levy

Although the Budget contained no direct tax increases fiscal drag will maintain the increased flow of tax revenue. The major concession was the abolition of the loan levy.

Mr Horwood did not increase corporate tax nor was a rise in GST likely. With the economy firmly in a sharp downward cycle the former was out of the question and the inflationary implications precluded a rise in GST.

The estimates of government spending seem low and it would be a remarkable achievement if outflows could be held to the 10,3 percent.

But while there could be an overrun on spending, the revenue figures are certainly conservative, too. The minister appears to have used a gold price of around $370 — $380 and prospects must be at least fair for an average price well above this figure.

The decision to transfer the money market activities of the PDC to the National Finance Corporation is sound with the PDC now concentrating on its role as investment trustee of the large pension and other funds in the public sector.

Disappointment

There will be some disappointment among the institutions that there was little relief for this sector — no decision has been made as yet on the tax basis, nor was there a hint of a relaxation of prescribed investments.

The delay in implementation of the fringe benefits tax was no surprise due to the complexity of the issue and its introduction is now likely only in the 1984 Budget.

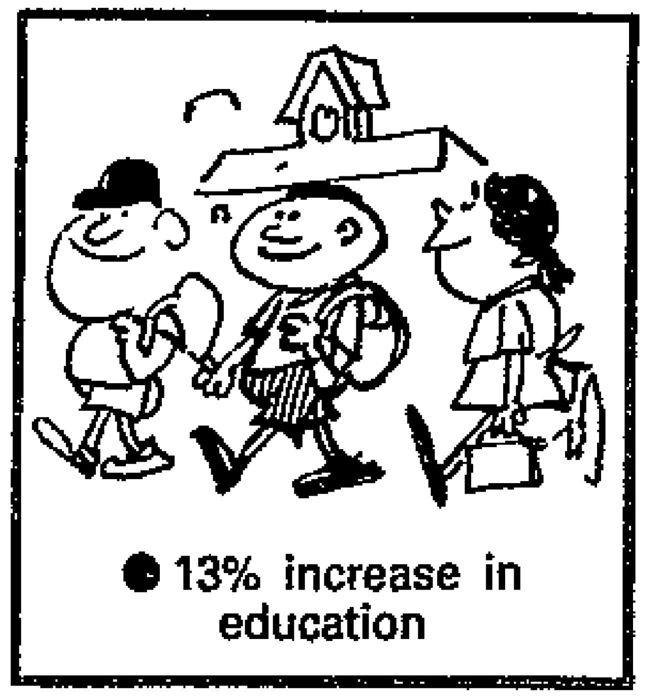
The initial and investment allowance changes were anticipated, as was the limitation of State aid to marginal gold mines.

Mr Horwood was not without largesse: retirement annuities have been made more attractive and the enlarged service bonus tax exemption will find favour.

Budget

BUDGET '83

● Drought relief



● 13% increase in education

● Restraints on government spending

● No fringe benefit tax

● Business leaders happy, page 10
● Tax table, page 8
● Opposition 'disappointed', page 10

Boost to new home owners

OWNERS of new, low-cost homes are to gain a 20 percent saving on bond interest repayments, the Minister of Finance, Mr Owen Horwood, announced in the Budget yesterday.

To qualify, individuals who do not receive other housing benefits must be first-time home owners seeking a new house (one which has not been lived in before), with a full purchase price of not more than R50 000 and requiring a bond of not more than R40 000.

Major blow

However, building societies have been dealt a major blow by the budget announcement that they are to lose their tax concessions on various deposits.

What the proposals come down to is that building societies will have to pay relatively more for funds than previously, meaning existing mortgage bond interest rates will eventually be relatively higher.

Thus, in terms of yesterday's proposals by the Minister of Finance, Mr Owen Horwood, most home-owners can expect to face an increased cost burden, with the effective transfer of subsidies on existin and midd'e-

CMG Times 31/3/83 (49)

Light on pockets

By GORDON KLING

A CONSERVATIVE R21-billion Budget, thin on handouts but easy on the taxpayer and consumer, was presented in Parliament yesterday by the Minister of Finance, Mr Owen Horwood.

New home-owners stand to gain the most, with a 20 percent cut in mortgage bond repayments, subject to various conditions.

In real terms, the planned 10,3 percent increase in State expenditure for financial 1983 amounts to a negligible change, meaning no artificial stimulus is being applied to boost the economy into an early recovery, nor any brakes to hold it back.

Most commentators on the economic front described the package, intended to be counter-inflationary, as "responsible", "reasonable" and "comfortable", while opposition politicians said it would fail to curb rising prices.

Defence gains the largest share of expenditure with a 15,9 percent rise to R3 093-million, closely followed by education for all population groups, up more than 13 percent at R3 410-million.

The biggest concession to the tax-paying public is the abolition of the 5 percent loan levy which will save top earners hundreds of rands but will provide only minimal relief for the majority.

Budget supplement inside

Black taxpayers will now fall under the Income Tax Act with whites, meaning most will pay less.

Other concessions include:

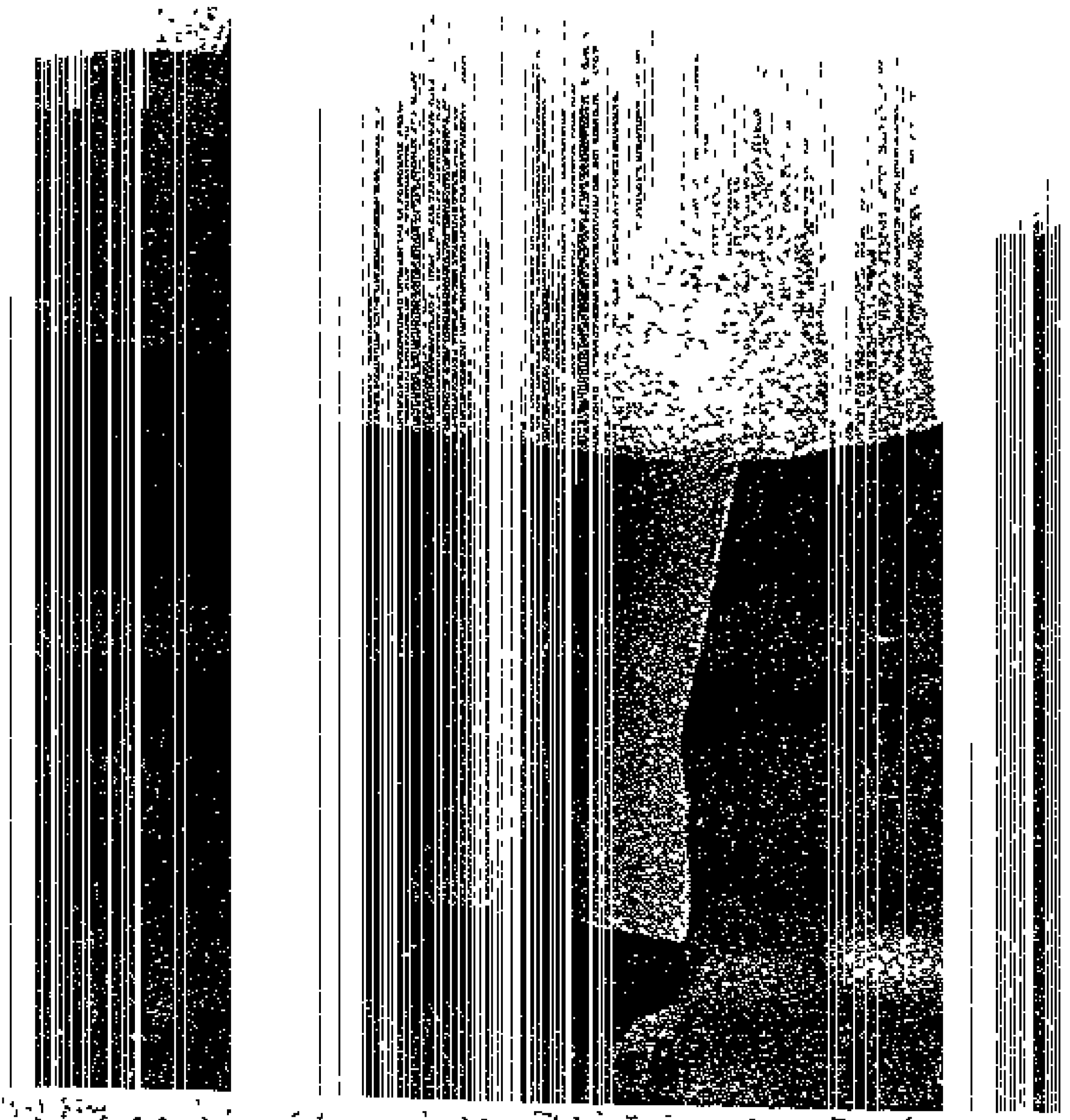
housing to owners of new, low-cost dwelling units.

Privilege lost

In effect, the societies, now in the process of reducing home bond interest rates, have lost their privileged position with regard to the banks in attracting deposits.

The societies have also lost out to the Post Office which is to retain its tax concessions, albeit slightly altered.

Fortunately for borrowers, the process of phasing out building society concessions is expected to take two or three years, otherwise they would have to forego the prospect of lower bond repayments almost immediately.



The Minister of Finance, Mr Owen Horwood, and his wife Helen on their way to Parliament yesterday for the Budget. There were few shocks in the Budget which was seen as a holding operation in anticipation of an upsurge in the economy later this year.

... coloured people and Asians and R8 for blacks from October 1.

Other concessions

- A one-off bonus will be paid to social pensioners next month: R36 for whites, R29 for coloured people and Asians, and R22 for blacks.
- Military pensions are up 10 percent from April 1, while civil pensions will rise 5 percent from the same date.
- The rebate on income tax for those over 70 years old has been increased by R100.
- Farmers will escape tax on the proceeds of drought-induced livestock sales, and rates on various Land Bank loans have been reduced.
- Smokers and drinkers have escaped an almost traditional increase in duties.

Biggest losers

- Mortgage bond subsidies are to be provided to some low- and middle-income earners.
- Retirement benefits have been improved and taxes on donations have been relaxed.

Implementation of the new "final deduction system", in terms of which people earning less than R7 000 will no longer have to submit tax returns, is to be coupled with repayment of loan levies for the three financial years from 1978.

The biggest losers appear to be the building societies which are to lose their tax concessions on investments.

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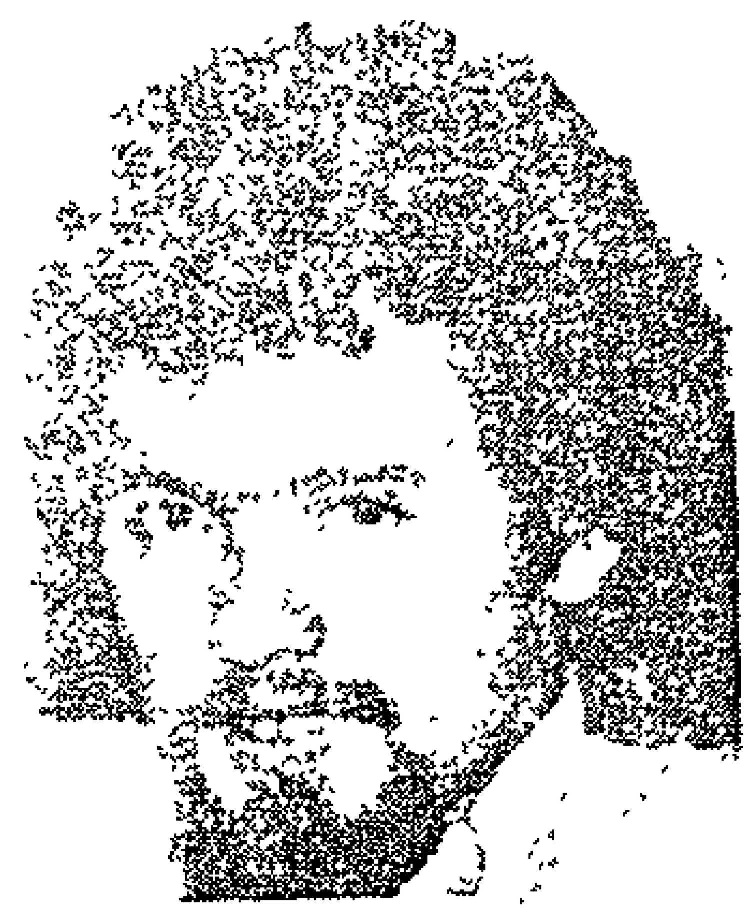
SA — scriptland for TV newsmen

Star 5/4/83 49

A much-publicised American TV film called "Adapt or Die" turns out to focus on four black South African trade unions. But, writes John D'Oliveira after watching the documentary, the producer presents a somewhat one-sided picture.

By John D'Oliveira
The Star Bureau



Two figures who represent opposite sides of an endless South African controversy: Mr Auret van Heerden (left), ex-Nusas president who was detained last year, and Mr Arrie Paulus, general secretary of the Mineworkers' Union.

WASHINGTON — I swear: if South Africa did not exist, American television would be forced to invent the place.

After all, where else are the good guys so obviously good and the bad guys so obviously bad? Where else are the issues so clear-cut, the moral lessons so obvious and the picture painted in such bold strokes of white and black?

Most of all, where else are the participants in such a racist system so accessible? Where else can television producers and their assistants travel in five-star luxury while recording such great evil? And where else can they imply brave defiance of a police state without actually being in any great danger?

Where else can they find both an Arrie Paulus and an Auret van Heerden?

Where else a secret police chief as leeringly sinister as Ciskei's General Charles Sebe? Where else could they serve all this up against a background of the hauntingly beautiful chanting of black South Africans?

EXAMINATION

These thoughts were prompted by Friday's screening of ABC-s hour-long programme entitled "Adapt or Die" and billed as an examination of South Africa's emerging black trade union movement.

In fact, the programme is no more than a look at four South African black unions: a mineworkers' union, two unions at the Ford Motor Company in Port Elizabeth and a dockworkers' union, also in Port Elizabeth.

They do their work skilfully — and they use television's inherent facility for oversimplification and glib commentary to make a breathtaking leap from the specific (the four trade unions) to the general (South Africa itself).

Mr Elliot Abrams, the Reagan Administration's Assistant Secretary of State for Human Rights and Humanitarian Affairs, put it last year when he released the department's 1982 report on human rights around the world: "South Africa is a unique blend of good and evil."

Few people who know South Africa would quarrel with this.

But ABC producer Christopher Eisham acknowledges very little that might be good about South Africa.

He does not even concede that many of the black mineworkers he pictures have come from neighbouring "free" black countries, sometimes waiting weeks or more for the opportunity to work in "racist, repressive" South Africa.

In contrast, last week a select company of Americans — the Chicago Foreign Relations Council — was given a totally different picture by Mr Harry Oppenheimer, chairman of South Africa's mighty Anglo American Corporation.

Mr Oppenheimer stated his opposition to racism, his belief in government by the consent of the governed and the need for peaceful change.

He referred to the economic trends in South Africa's "free" neighbours, said these had been little short of disastrous, bringing a grave restriction of individual liberty and stressed that economic growth was the factor with "much the greatest potential for effecting peaceful change in South Africa."

He gave statistics of what he called the "quite remarkable redistribution of wealth" in South Africa in the past 10 years and said that these statistics made nonsense of the claim that economic growth in South Africa was based on the exploitation of blacks — and that it boosted apartheid.

He spoke of other positive changes in South Africa including the change in government policy towards black unions.

When, in 1973, the government came to realise that black workers were becoming increasingly conscious of their power, it reacted in a conciliatory fashion and, in 1979, extended trade union rights to blacks on the same basis as whites.

He conceded that the growth of black industrial unions would make the lives of employers more difficult and more complicated. However, if the worst came to the worst, strikes were preferable to disorganised violence.

Mr Oppenheimer said he had tried to paint a picture of both light and shade and that it remained to be seen whether South Africa could find its way into the full light of day.

"It can at least be said that South Africa is on the move as never before . . ."

Mr Oppenheimer made a convincing case — and so did ABC.

But ABC failed even to concede that there was another side to the issue: that what it was examining was the effects of a deliberate decision by the Nationalist Government to liberate the South African economy from some of the ravages of apartheid; that for every industrial confrontation in South Africa now there were a dozen satisfactory negotiations and that for every Arrie Paulus there were 10 white trade union leaders trying to accommodate the new situation.

Imports drop 30% by volume

11/4/83 RDM

49

SOUTH Africa's imports seem to have been well over 30% down in volume in the first quarter of 1983 compared with the January to March level in 1982.

This indicates the severity of the economic recession.

By HOWARD PREECE

It is clear that the 5% import surcharge — it was 10% when imposed early in 1982 — is being kept this year purely for revenue.

There is patently no need to deter imports for balance of payments reasons.

The Minister of Finance, Mr Horwood, said in his Budget speech: "Having already reduced the surcharge on imports by two successive amounts of 2,5% since December last year I do not propose to make any further adjustments at this stage.

"However, in terms of the agreement with the International Monetary Fund (South Africa arranged an IMF credit of more than R1 200-million last year) I am expected to phase out the balance of this surcharge by the end of this year."

He said of the 1983-84 revenue estimates: "Receipts from Customs and Excise are expected to fall by 12,1% to R2 060-million.

"This decline can be ascribed to an expected decrease in revenue from the reduced import surcharge."

Had Mr Horwood scrapped the surcharge he would not have been able to abolish the 5% loan levy on individual taxpayers — or at least not unless he was prepared to increase other taxes, or run a larger Budget deficit before borrowing.

The cost of removing the levy was estimated at R230-million, much the same as the likely revenue from continuing the surcharge at 5%.

It seems, therefore, at this stage that what Mr Horwood will do is to keep the surcharge in operation until almost the end of 1983.

In that way he will still satisfy his commitment to the IMF — but he will have to give up only a small amount of revenue over the fiscal year as a whole.

Of course, if gold picks up this year and the revenue account looks healthy Mr Horwood might then phase out the surcharge more quickly.

Such action would have some anti-inflationary benefits.

The Reserve Bank says in its latest quarterly bulletin: "Reflecting the slowdown in domestic economic activity and, more specifically, in gross domestic expenditure the seasonally adjusted value of imports declined by 18,5% from the first to the fourth quarter of 1982.

"Total merchandise imports in 1982 were, however, only marginally lower than in 1981.

"Despite lower rates of inflation in the industrial countries, import prices in terms of rand rose by 17,5% in 1982 because of the depreciation of the rand during a large part of the year.

"On the other hand, the volume of imports, which had begun to decline from the third quarter of 1981, was 15% lower in 1982 than in the preceding year.

"From the first quarter of 1982 to the fourth quarter the import volume fell by as much as 26,5% to reach a level that was equivalent to 15% of the real gross domestic product.

"This ratio was well below the average of 21,5% for the post-war period."

According to provisional figures from Customs and Excise, imports in the first two months of this year were down from R2 870-million to R2 363-million.

On that basis import volumes must have been at least 30% lower in the first quarter of this year than in the January to March period last year.

Schwarz: 'Vital turning points'

Argus 11/4/83

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By TOS WENTZEL
Political Correspondent

A TOP Opposition spokesman warned today that the South African economy was at one of its most serious lows since World War 2 and that its political problems had reached vital turning points.

Mr Harry Schwarz, the Opposition's chief spokesman on financial matters, was speaking at the resumption of the second reading debate of the Budget.

In this major debate of the second part of the present session of Parliament the Government's decision to hold a referendum among whites on a new constitutional system will feature prominently.

ATTITUDES

Nationalist speakers are determined to hammer the Progressive Federal Party on its attitudes to the referendum. The PFP in turn will retaliate that the Opposition cannot be expected to finally put its attitudes when the question to be asked in the referendum is not even known.

Today Mr Schwarz said that there was conflict over the constitutional future of the country.

When the honeyed words of the Minister of Finance and his officials were brushed aside there were a number of realities.

RECESSION

These were:

- The country was in deep recession.
- There was no growth in gross domestic or national products.
- South Africa had an abnormally high inflation rate in comparison with its major trading partners.
- Unemployment was increasing and the number of people in jobs were declining in spite of a substantial population increase.
- People were short of housing.
- It was necessary to spend more on defence.
- Crime was on the increase.

INFLATION

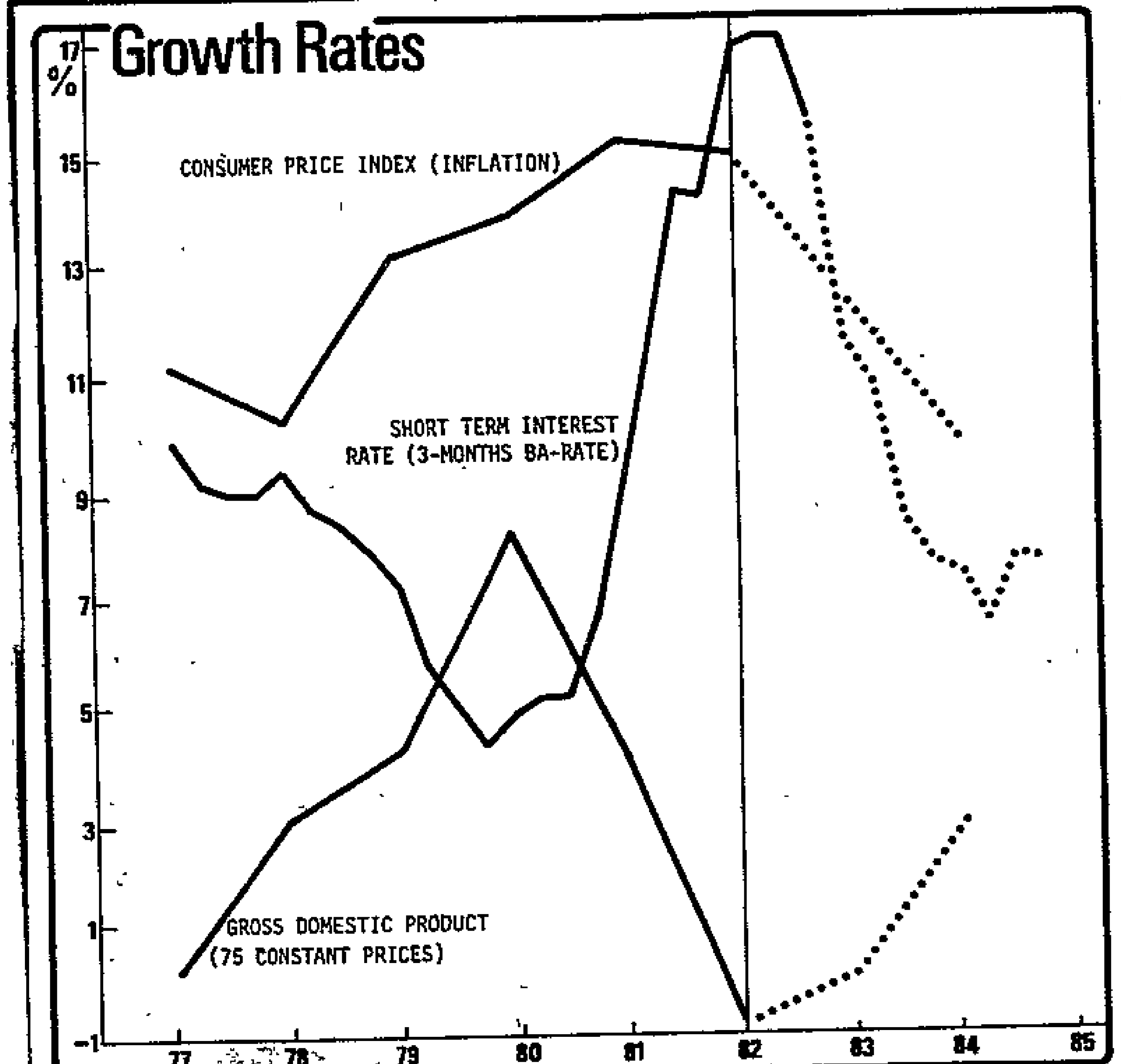
The Budget contained no meaningful measures to deal with inflation. The Minister could have abolished the import levy, reduced or removed general sales tax and reviewed some ad valorem duties.

Mr Schwarz moved an amendment calling on the Assembly to decline to pass the second reading of the Appropriation Bill because the Government had failed to plan effectively for the economic, social and political future of the Republic.

The Star/BUSINESS 20 APR 1983

(4a) Star

Recovery is unlikely before 1984 second half — RAU



The graph shows the Rand Afrikaans University's forecasts of key growth rates in the South African economy in 1983 and 1984.

By Duncan Collings

The Rand Afrikaans University forecasts zero growth in the South African economy for 1983, but growth of 2,5 to 3,0 percent next year.

Its quarterly econometric forecast says negative rates are expected for the first half of 1984, recovery really getting under way only in the second half, then proceeding rapidly.

The recovery will be brought about directly by an exports rise of 5,7 percent in 1983 and 11 percent in 1984, following economic recovery in the US.

Imports are forecast to decline further by 13,8 percent in 1983, before starting to move up in 1984 by about three percent.

The current account of the balance of payments will improve further in 1983 and 1984, reaching a surplus of R7 000 million to R8 000 million towards the middle of 1984, bringing a rise in reserves.

Short and long-term rates will decline during 1983 and the first half of 1984. Short-term rates may be about six percent and long-term below 10 percent. The main causes: the surplus on the current account which will pour money into the country and the recession which will retard demand for money.

Unemplyment will rise during 1983 and 1984, as employment in the non-agricultural sector is expected to increase by less than two percent in both years, well below the increase in the economically active population.

As the surplus on the current account grows and the dollar weakens on world markets, the rand will strengthen against the dollar. From about 114c a dollar in the fourth quarter of 1982, it should rise to about 91c a dollar towards the end of 1983 and 74c towards the end of 1984.

Money (M1) is forecast to grow by slightly less and slightly more than 15 percent during 1983 and 1984.

Inflation is expected to drop to about 12,4 percent in 1983 and 9,8 percent in 1984, the main reasons being the severe recession and strict monetary and fiscal measures which will purge the economy of excess demand.

Even 9,8 percent is too high, says RAU. Only if serious attention is paid to cost-push structural factors will inflation decline further and remain lower.

Industry must face regional challenges

The Star

By Colleen Ryan, Consumer Reporter

22 APR 1985

Commerce and industry in the regional areas of South Africa must face up to the challenges of free enterprise or must accept more State intervention.

This was the message of Mr P N Palmer, senior lecturer in business economics at Unisa, delivered at Assocom's regional congress in Rustenburg today.

Opportunities

The regional economic development programme envisaged by the Government presented businessmen with a number of challenges and opportunities, said Mr Palmer.

"The challenge is for regionally located businessmen to prepare themselves if they are to exploit these opportunities to the full," he said.

These challenges included:

- The training and retraining of staff to ensure they could cope with technological changes.
- The need to increase productivity.
- The importance of situating enough branches in areas where business activities and spending power were increasing.

Implications

Mr Palmer said many businessmen were concerned about the implications of the Government's development programme.

"The Government's plan is to promote growth, but it remains to be seen whether their strategy has the desired effect," he added.

RECESSION

Worst in decades

49 FM 22/4/83

The SA economy has plunged into a recession more comprehensive and frequently deeper than the last. There are oases of prosperity — but they are few.

Sales of the luxury German sports car, Porsche, are forecast at about 300 this year, almost unchanged from the number sold in 1982. Most stable demand is for the R80 000 928 model, says Lindsay Saker MD Jonathan Treagus. If you want the R40 000 944, you go onto a three-month waiting list.

And, inevitably, when the Johannesburg Stock Exchange is still robust and property prices firm, demand for many other luxury items is also high. Sources at two of Johannesburg's leading jewellery retailers agree they expect to achieve real growth this year. "Stones purchased from R15 000 upwards, usually as investments, are a particularly active area," observes the director of a major Sandton City jeweller.

Recession? Better believe the economy is indeed in a recession. In fact, looking for buoyant sectors in the economy, now 15 months into a cyclical downturn, calls for an exacting search — they are hard to find.

One conclusion of a sectoral analysis is inescapable: contrary to many confident forecasts made 12-18 months ago of a relatively mild business downturn, the SA economy is battling through its worst recession in decades.

"By no means have all individuals' financial positions deteriorated. But, on aggregate, this downturn has been more sudden and more comprehensive than the previous one," agrees Nico Czypionka, of the Standard Bank's economic department.

There are notable exceptions. Generally, these fall into one of three categories: new technology, services and effective management. Each has spawned instances of prosperity amid gloom; although, in some cases, it's merely a delayed effect before demand or orders already placed dry up.

For the rest, a number of factors absent in the last recession are combining to exert an almost blanket grip on economic and business activity. Unlike previous occasions, the downturn in SA has coincided with a severe recession overseas, so overseas demand for primary and manufactured exports has tumbled. Interest rates are high both overseas and locally, leaving no sources of relatively cheap finance.

The drought will exact a wide toll. "Its economic implications should not be underestimated," says Louis Geldenhuys, Senbank's chief economist. "Much of the harm may be felt only later."

So far, the drought has lopped some R900m off agricultural export earnings (which normally constitute 20% of all exports excluding gold), greatly increased agricultural debt and slashed farmers' spending power. It has reduced activity in export ports like East London and Cape Town and has added to woes in areas like Natal, where earnings are already depressed by poor prices. Its effects have spread into industry, where sales of agricultural implements are down 50% and fertiliser 13%.

Real public and private sector fixed investment is declining and won't shield companies selling primary goods and services this year or next.

Low metal and energy prices have depressed mines. Apart from the economic effect of lower foreign exchange earnings, mines' capital expenditure will not provide much stimulus to equipment and engineering companies.

Unemployment has soared, another factor depressing disposable incomes. Growth of employment of whites, Asians and coloureds has sunk to the lowest levels ever (see graph). And, while there are no reliable statistics for black unemployment, it's almost certain that unemployment has climbed even faster among unskilled

Computer shops ... booming new business

Economy: New study sees sunshine

49

S. Times 24/4/83

ADJUSTMENT MECHANISM IS WORKING 'LIKE A DREAM'

By Don Robertson

THE South African economy is poised on the threshold of a new economic recovery which should see the surplus on the balance of payments grow substantially, the inflation rate come down and the rand strengthen considerably against the dollar.

These predictions are contained in the latest econometric quarterly survey compiled by Professor G L de Wet and Professor A I van der Westhuizen of the department of economics at the Rand Afrikaans University, and presented to a Southern Life management forum in Cape Town this week.

They point out that the adjustment mechanism in the South African economy is working "like a dream", and that the economy has satisfactorily moved through a sequence of events leading to the next recovery.

The gross domestic product declined at a rate of 0,91% in 1982 largely because of the drought, which still prevails, and no growth is forecast for 1983.

However, this should be followed by a growth rate in excess of 2% in 1984.

Negative rates are forecast for the second and third quarters of this year, followed by a positive rate in the last quarter and mildly negative rates in the first and second quarters of next year.

"Thereafter, the economy seems to be off into the next upswing phase."

The recovery is expected to be led directly by an increase in exports of 5,7% this year and 11% during 1984 — in line with the recovery in America.

Although it seems that the worst of the recession will be over by the last quarter of 1983, it is nevertheless forecast that the recovery will not really begin before the second half of next year.

"However, when it does get under way growth will be strong and rapid."

Other points made by Prof de Wet and Prof van der Westuizen are:

- The balance of payments on current account is expected to improve throughout 1983 and 1984, averaging a surplus of about R2 500-million this year and between R6 000-million and R7 000-million next year.
- Wage rate increases are expected to be below 10% on average in 1983 and 1984 in the non-agricultural sector. Growth in employment is forecast at below 2% for both years, leading to increased unemployment.
- Money growth is forecast at 15% for both years. Short-term rates should continue to decline to between 7% and 8% by the year-end, falling below 7% in the second quarter of 1984. Long-term rates are also forecast to decline through 1984.
- The average rate of inflation for 1983 is expected to be 12%, dropping below 10% in 1984.
- The rand is expected to average about par with the US dollar this year, moving to about 80 SA cents to the dollar, or 126 US cents to the rand, in 1984.

(49) CAPE TIMES

Figures wrong, says economist

Labour Reporter

ALLEGATIONS of a gross miscalculation of official economic statistics which would "virtually destroy the basis of existing government economic planning" are contained in a research paper on productivity produced by a University of Natal economist, Mr Charles Meth.

Mr Meth's findings are contained in a Federation of South African Trade Unions (Fosatu) publication released at the weekend. A Fosatu statement said the figures showed the "complete bankruptcy" of government economic policies and that such policies could not possibly resolve South Africa's "deep-rooted economic and social problems".

Mr Meth's two major findings are that the South African economy grew at 5,9 percent between 1970 and 1980, and not the officially accepted 3,6 percent, and that most productivity figures based on the national accounting statistics are wrong.

The major basis for his claims are a "gross miscalculation" in the official figures dealing with mining, particularly gold mining. He shows that the "current" value of output on the mines was 11 times higher at the end of the Seventies than at the beginning, largely because of the increase in the gold price.

Yet using the official Central Statistical Services (CSS) method of deflating the output — based on the amount of tons produced — the value of output is presented as having decreased in "real" terms over that period.

Mr Meth shows that by deflating the value of output on the basis of the Consumer Price Index and the price index of materials, the "real" increase in the value of output on the mines was almost fourfold.

This would greatly alter the figures for the national output and show that South Africa's national growth rate was some two percent higher than the official figures reflect.

Yet in spite of this very high rate of growth over a long period — more than five percent between 1960 and 1980 — South Africa still had poverty and unemployment on a "massive scale".

The paper also pinpoints various other "anomalies" in the national accounting statistics dealing with manufacturing and construction, and sets out to show that all productivity estimates for the total economy based on existing statistics are wrong.

'Outpourings'

The Fosatu statement said: "This proves that the stream of accusations about low worker productivity are nothing other than uncritical anti-worker outpourings What now seems a very much more correct story is that the increased worker productivity not only earned the increases in real wages but also resulted in marked increases in the surplus which went to the owners of wealth."

● Dr C J Swanepoel, assistant head of the economics department of the South African Reserve Bank, said yesterday that he disagreed with Mr Meth, as the method of calculating real output on the mines adhered to international recommendations.

Professor Brian Kantor, head of the department of economics at UCT, said he could not comment overall as he had not seen the paper, but it was a fair point to make that the value of mining output was being understated.

Too late for classification

DEATHS

POZEL. — Charles, our beloved husband and father, passed away peacefully 24 April. Deeply mourned and sadlky missed by his wife Ray and daughters Jean and Matty. Prayers Monday and Tuesday, 6pm at 7 Exmer Avenue, Vredehoek.

Suzman supp

Own Correspondent

LONDON. — Mrs Helen Suzman, South Africa's internationally-acclaimed MP, yesterday said she welcomed the publication of "blacklists" of British and other foreign subsidiaries which underpaid black workers.

In an interview recorded for Britain's Channel Four television she said the blacklists should be encouraged.

The statement formed part of her argument to interviewer John that industrial soc nomic developm save South Afric bloody revolution.

The old days of ism and apartheid hand in hand we ing, she said.

"It is industrialis want the change. want to be able skilled black lab the major opposit that has come capitalists but white trade unio

6 die at weeke in road accide

Staff Reporters

SIX people were killed and 50 injured in 33 road accidents reported in the Peninsula at the weekend.

There were 183 assaults, of which nine were fatal.

A six-year-old child, R Galant, was killed when she was run over by a car in Bottelary Road, near Kraaifontein, at 6pm on Saturday.

Mrs Lillian Rose Sprules, 64, of Kraaifontein, was killed in a car accident at the corner of Van der Byl Street and Eighth Avenue, Kraaifontein, at 11.30am on Saturday.

Her husband, Mr Joseph Sprules, 68, was admitted to Tyg Hospital with bo broken.

A man of about has not yet been fied, died in a mo accident in Fran Zyl Drive, Elsie's between 4pm and Saturday. He was Conradie Hospital, he was certified arrival.

A man not yet fied, was run ov bus near the Sir tein Pavilion at 7 Saturday. He was Victoria Hospital, he died of his inj

Two unidentifi were killed in a c dent in Spine Ro chells Plain, ea Sunday morning.

Detective shot de

Own Correspondent

JOHANNESBURG. — A Brixton Murder and Squad detective-sergeant was found shot dead his home in Soweto at the weekend. He had b the squad for 17 years.

Detective-Sergeant Mannikie Makhobo, found in the street with a bullet wound in the

His body was discovered at 8.30am on about 1 000 metres from his house in Mak Street, Diepkloof, Zone 3. His service pistol is

It is believed he was shot with a 9mm pi Brixton Murder and Robbery Squad detecti yesterday that at this stage they were looking possibilities.

Sergeant Makhobo is the second Brixton Mu Robbery Squad sergeant to be shot in six ye

In 1977 Detective-Sergeant Ophen Cha gunned down outside his house in Rockville, as he opened the gate coming home one nig

CAPE TIMES 25/

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nailed them," "However, having gated the whole a decided not to p further. I do not CP has a case."

It is underst senior sources examined parlia records that the matter was unan

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The Star

1,5% GDP fall forecast in 1983

By Duncan Collings

Sanlam predicts that real gross domestic product will drop about 1,5 percent this year.

In its latest economic survey, Sanlam says it expects Government expenditure to be higher than planned in the Budget and that tax revenue estimates from sources other than mines may have been too optimistic.

Fiscal actions of Government therefore may prove to be slightly expansionary.

GOLD PRICE

Sanlam expects company profits to continue to decline, although the interest burden of undertakings making extensive use of loan capital will decrease materially thanks to lower interest rates.

The average increase in the consumer price index will be about 12 percent this year.

Forecasting an average gold price of $450, Sanlam expects a surplus on the current account of the balance of payments of R1 500 million, compared with last year's R3 000 million deficit.

The Budget proposals will not significantly affect money market conditions and therefore short-term interest rates will resume their downward trend from the second quarter.

The authorities may issue stocks by open market operations to counteract excessive liquidity in the domestic economy. Stocks available may be substantially higher than the R930 million provided for in the Budget.

The loan requirements of semi-public institutions may be markedly higher this year than in 1982. But Sanlam believes the capital market will be able to accommodate the total loan requirements of the public sector with ease and there will be a downward trend in long-term interest rates for the rest of 1983.

Looking to the international oil market and its effects on South Africa, Sanlam says 1983 will be a fairly poor year for the world economy; at most only a slight rise in oil consumption is expected.

Because of the expected acceleration in economic growth in 1984 and 1985, a moderate rise in consumption is forecast.

The downward pressure on oil prices could continue during the next 12 months but moderate increases are seen for 1984 and 1985.

Apart from the obviously favourable effect the international oil market has for South Africa in oil procurement and easier payment terms, Sanlam says there are other significant implications.

As the lower oil price may contribute to inflation, it could effect investment demand for gold in the short term.

The lower oil price makes the short-term prospects for coal less rosy, but the expected faster growth in the world economy could create more favourable export opportunities for other South African goods.

INFLATION RATES

The rate of inflation in South Africa's main trading partners is already appreciably lower than here and the chances are that these countries will benefit more from reduced oil prices as far as inflation is concerned.

"As such a course of events could seriously impair the competitiveness of South African products on overseas markets, it is imperative that we make every effort to bring down our rate of inflation," Sanlam says.

WE WON'T FORGET

NEIL AGGETT

HE IS BUT ONE OF MANY

On February 5, one year ago, Neil Aggett died in detention. He was found hanging in his cell in Johannesburg's central security building - John Vorster Square. Today we mourn his death, and learn from it.

Dr. Aggett was not the first to die in police custody. Since 1963, 53 people have lost their lives whilst in detention. In the crisis-ridden Chesterville, and ...

Govt figures wrong — researcher

Bombshell claim over economy

49 RDM

25/4/83

By STEVEN FRIEDMAN
Labour Correspondent

OFFICIAL Government production figures, which are used daily by Cabinet Ministers, economists and employers to explain low wages and rising unemployment, are wrong, according to a bombshell research document.

The economy grew far faster in the 1970s than official figures claim and workers produced far more than has been believed.

Repeated suggestions that worker productivity has lagged behind the wage increases they received are based on wrongly-calculated figures, it claims.

These startling claims are made in a research paper by University of Natal economic researcher Mr Charles Meth, which was released at the weekend as an occasional publication of the Federation of SA Trade Unions.

Mr Meth claims there are "huge errors" in calculations of output in the key mining industry by the Pretoria-based Central Statistical Services (CSS), which compiles Government economic figures, and that calculations for the construction industry are also wrong.

If he is correct, wages have actually been lagging behind workers' productivity — a trend which flies in the face of all current Government and employer thinking on this issue.

It would also mean unemployment rose steadily in the 1970s, even though the economic growth rate was much higher than was believed, and that higher growth in the years ahead is unlikely to cut unemployment.

"South Africa has, contrary to popular belief, experienced high growth and high productivity from 1970 to 1980 in spite of two recessions ... this good performance has not produced sufficient jobs for workers nor has it rewarded them sufficiently for its efforts," Mr Meth claims.

Mr Meth says he has shown his research to economists at the University of South Africa, Natal University, and the University of the Witwatersrand and acknowledges help from a CSS official.

The fact that Fosatu has published it means unions are certain to use it to attack economic justifications for pegging pay rises and retrenching workers.

Mr Meth's key argument is that official figures on mining output produced by the CSS do not take into account changes in the gold price.

If this error is corrected, he claims, the country's economic growth rate from 1970 to 1980 becomes nearly 6%, rather than the 3,5% quoted by the Government, economists, and businessmen.

He says that late last year the official output figures for manufacturing were "quietly changed" by the CSS to show a growth rate of 5% between 1970 and 1980, rather than the previous 2,6% — almost double.

This, says Mr Meth, "is precisely what one would expect if the huge incomes from mining were translated into extra demand" by consumers.

He argues that the change reflects his argument that the economy grew much faster than was thought and that the demand for manufactured goods was therefore double what was thought.

Officials said the change in manufacturing output occurred because they calculated on 1975 rather than 1970 prices, Mr Meth says.

But he says there is no reason logically why this change should produce such a startling change on its own.

He also argues that productivity calculations, used in claims that the country has the lowest productivity rate in the developed world, are based on incorrect figures.

Meth 'has got his concepts wrong'

Govt experts deny economist's claim

(49) RDM 26/4/83

By STEVEN FRIEDMAN
Labour Correspondent

GOVERNMENT statisticians yesterday hit back at Natal economist Mr Charles Meth, whose controversial paper, arguing that official figures on production and the economy's growth rate were wrong, was released at the weekend.

But they confirmed Mr Meth's claim that production statistics for the manufacturing industry between 1970 and 1980 had been changed to show a growth rate double the original official figure, because the original figure had been inaccurate.

They denied, however, this had been done "quietly", as Mr Meth charged.

Mr Meth argued that, because the official figures on mining production did not take into account changes in the gold price, the country's growth rate in the seventies had been almost double that reflected in official figures.

He also said all claims about worker productivity based on the figures were incorrect.

Local workers were not the least productive in the developed world, as had been claimed, nor had wages grown faster than workers' production, he charged.

Yesterday a Reserve Bank source said Mr Meth had "got his concepts wrong".

And Dr S F Thirion, of the Central Statistical Services, which bore the brunt of Mr Meth's attack, said the CSS method of calculating the growth rate and the output of the mining industry was in accordance with United Nations guidelines on national accounting.

Dr Thirion confirmed the CSS had not taken into account large changes in the gold price in its figures on the economic growth rate, as Mr Meth charged.

"But that is standard national accounting practice. Price changes have nothing do with the gross domestic product (GDP), which is the concept we use to measure the growth rate."

The CSS, Dr Thirion said, worked out two GDPs, one at current prices — which would reflect changes in the gold price — and another at constant prices.

"But the one at current prices is not used to calculate the growth rate. This is standard practice both here and abroad. All the GDP or growth rate does is to measure how much is being produced, regardless of price."

Dr Thirion agreed that the GDP figure of the CSS did not, therefore, reflect the extent to which the country was growing richer, but that there were other figures which did that.

Changes in the manufacturing figures — which had pushed the growth rate in the seventies from 2,6% to 5% — had been made because the CSS had changed its entire system of calculating manufacturing production, Dr Thirion said.

"But that does not affect our mining figures. Mining production can be measured precisely, but manufacturing cannot, which is why the unfortunately large change occurred."

Another official body criticised by Mr Meth was the National Productivity Institute.

Dr Jan Visser, director of the NPI, said yesterday his organisation would comment "only after we have studied the full text of the paper".

(49) RDM 27/4/83

Row on growth figures rages on

Labour Correspondent

THE row sparked by a paper by Natal economic researcher Mr Charles Meth, in which he attacked key Government economic statistics, continued yesterday as a senior Reserve Bank economist attacked Mr Meth's findings.

But Mr Meth hit back, saying he stood by his findings and that "despite what the Government statisticians say, the figures in the national accounts have little credibility with professional economists".

And Dr Jan Visser, director of the National Productivity Institute, which Mr Meth attacked in his paper, said yesterday the NPI would not comment on the paper "because it is not really worth any comment — it is total nonsense".

Mr Meth charges that the NPI's productivity figures, which indicate that the country's productivity is the lowest in the developed world, are wrong because they are based on incorrect figures in the national accounts.

Yesterday Dr Kerneels Swanepoel of the Reserve Bank, who works with the Government's Central Statistical Services in compiling the national accounts, said there was nothing wrong with the Government's figures.

He said similar criticisms to those raised by Mr Meth had been raised by a Cape Town economist some years ago.

"We checked at the time with the United Nations and the Organisation for Economic and Co-operation Development (which is made up of developed nations) and they agreed that our methods were correct."

He said the method used by officials to calculate the growth of the gold mining industry was similar to that used by Britain to calculate the growth of the North Sea oil industry.

He warned, however, that economic growth rate figures compiled by the Reserve Bank and CSS should be "treated with caution".

"Figures showing the growth of the Gross Domestic Product — the growth rate — do show the rate at which production is growing, but that does not say anything about whether the country is richer or poorer. Production could be dropping while the country grows richer."

Dr Swanepoel also defended the use of the official figures by bodies like the NPI to calculate productivity, saying the GDP was accepted internationally as a measure of productivity.

But the fact that productivity dropped in an industry did not mean it was becoming poorer or that it could become richer if productivity grew.

Dr Swanepoel also said Mr Meth's method of calculating growth — which he suggested was more accurate than the Department's — was "totally wrong".

Mr Meth said yesterday his own method was also recommended by a UN guidebook on national accounts. "There are two methods recommended and the one I used gives a far more accurate account."

He added: "The real issue is that the official national accounts are drastically in need of an overhaul — they don't help us to understand productivity and they don't help economic planning."

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The Star/BUSINE

SA's economic plight will worsen, says BER

(49)

By David Braun

South Africa's economic plight will get even worse before the year is out.

This gloomy outlook is part of the latest revised prospects for the economy in 1983 by the University of Stellenbosch's Bureau for Economic Research.

The bureau says the continuation of an overall restrictive policy stance by the authorities — with the emphasis on the further restriction of Government spending, as well as the constraining effects of the Railways and Post Office Budgets — will probably aggravate the downturn in the months to come.

"The discretionary income of individuals may also decline in real terms, limiting their ability to spend.

"This, in turn, will have a negative effect on company profits and consequently on fixed investment by the private sector, while that of the public sector remains severely restricted.

"The current drought will have a further negative effect on the immediate growth prospects of the economy," says the BER.

It says that although the downswing has been experienced by all, the brunt has been borne by two sectors — agriculture and mining.

Agriculture had been affected by the drought, while mining was reeling from the deep recession experienced by the country's main trading partners.

Skilled labour was in short supply in the secondary and tertiary sectors and salaries and wages rose at the high rate of 18,9 percent in 1982.

It was therefore not surprising that the inflation rate in 1982 was 14,7 percent, marginally below that of 1981.

In the first months of 1983 inflation had accelerated again, basically as a result of the effects of the drought on food prices.

BER says the turnaround on the current account of the balance of payments is fragile because it is not underscored by a sustained increase in non-gold exports and because of a large amount of outstanding short-term debt.

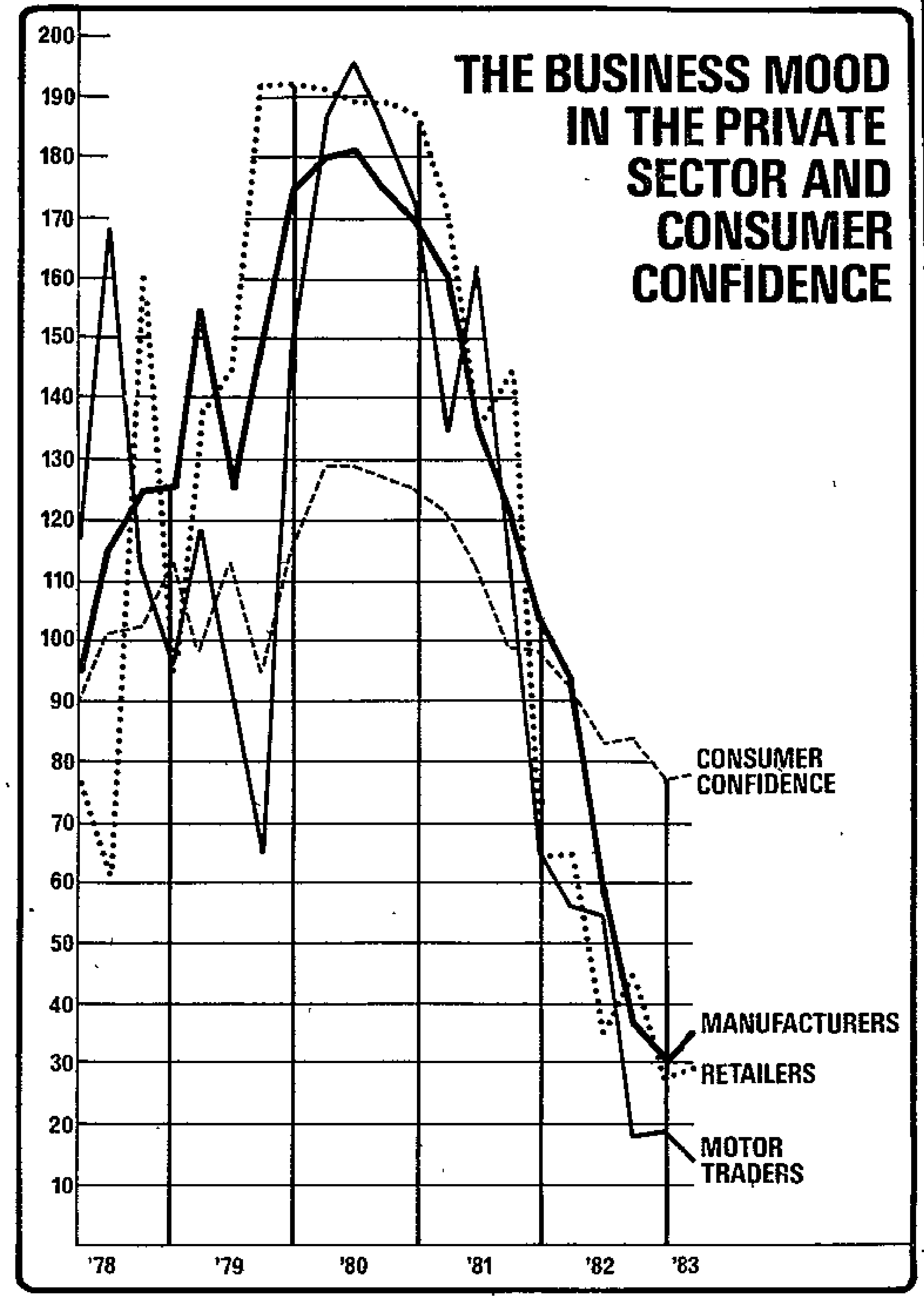
BER assumes the authorities in the developed world will not easily relinquish their hard-won gains on the inflation front.

No financial crisis is foreseen in 1983 and a way will be found to accommodate developing countries who have problems in repaying and servicing debts.

The gold price has already discounted the effect of the lower oil prices on inflation. The expected recovery in the major world economies will cause a steady increase in demand for industrial gold. This should make for an average gold price of $475 for the year as a whole.

COMPARISON BETWEEN PREVIOUS AND PRESENT RECESSION

	Total % Change	
	1975-1977	1981-1983 (expected)
Private consumption expenditure	0,8	—0,2
Government consumption expenditure	7,6	6,8
Gross domestic fixed investment	—9,5	—12,2
Gross domestic expenditure	—8,7	—8,9
Exports	13,7	—2,0
Imports	—22,9	—26,0
Expenditure on GDP	1,5	—2,9



The business mood trends in the private sector are based on weighted net opinions of respondents to the BER opinion survey — 100 indicates neutrality, above 100 optimism and below 100 pessimism.

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29 APR 1983 (149) STAR

Horwood sees upturn under way by 1984

By Duncan Collings

Provided gold stays at $430 to $450 an ounce, South Africa will have a balance of payments surplus of R1 500 to R2 000 million this year.

Finance Minister Owen Horwood said indications were that the current account of the balance of payments remained in surplus in the first quarter, after swinging into the black towards the end of last year.

He told businessmen at a University of Pretoria dinner there were indications that a recovery was already under way in the United States and an export-led recovery of the South African economy could be expected to begin towards the end of 1983 or early in 1984.

Mr Horwood said real gross domestic product would continue to decline somewhat in the months ahead before an expected recovery in 1984. Real GDP growth was expected in 1984.

Gross domestic expenditure was expected to drop this year, while private consumption expenditure would fall with a decline in real disposable incomes.

With manufacturing capacity expected to remain in surplus, combined with lower expenditure, gross fixed investment this year would fall.

Rejecting any form of reflation, Mr Horwood said this would lead to a dramatic worsening of inflation, a weakening of the balance of payments, a fall in the rand, a decline in foreign reserves and an undermining of SA's credit rating.

This would undermine any chance of a real recovery.

"We are not going to make the mistake of trying to spend ourselves out of the recession." But this did not mean economic policy would remain static.

It would be adjusted almost continuously to changing circumstances on financial markets. "This is an essential part of our preparation for the next cyclical upswing in the economy.".

The present situation called for a fiscal-monetary policy mix with continued restraint on Government spending, a relatively small Budget deficit before borrowing and effective control over the money supply.

As far as possible the authorities would continue relying on market forces to determine interest and exchange rates.

Fighting inflation remained a Government priority and he expected a distinct moderation in the rate in 1983 and 1984.

With the expected strong current account of the balance of payments, Mr Horwood saw the rand strengthening in 1983.

To counter the drought's effects on the economy, the Government had already allocated more than R150 million above anything provided in the Budget — compared with R20 million to R25 million overspent each year on agriculture.

He said South Africa would have a "second industrial revolution" in the next two decades.

Despite the Government's decentralisation policy, this would result in an enormous movement of people — particularly blacks — to the urban areas.

Great strain would fall on the Treasury in providing infrastructure, and Mr Horwood reiterated his statement in the Budget that the private sector would have to become involved in financing infrastructural development — citing housing and education as two examples.

But this could not be done by the private sector relying on bank cedit as this would lead to hyper-inflation.

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2% drop in GDP this year

World recovery slow, says bank

By HAROLD FRIDJHON

GROSS domestic products will probably decline by about 2% in real terms this year even if there is a modest recovery in both the gold price and export earnings — but the Standard Bank Review sees light at the end of the tunnel.

It says a world recovery is on its way, but it is slow in working through to South Africa.

"What lies ahead in the next few months is a further downward adjustment in activity and demand. However, a change for the better by the end of this year or early in 1984 is almost certain, given the emergence of broadly stimulatory policies abroad.

"The domestic recovery that is shaping up for 1984 should therefore be soundly based on a broad improvement in the export sectors.

"Given, in addition, normal agricultural conditions in place of this year's disaster, plus a rising gold price, the increase in GDP could approach 4% next year."

The Standard Bank says the rise in the gold price in the second half of last year raised hopes for an early recovery of the economy after only a few months of serious contraction.

These expectations were underpinned when economic activity in some industrial countries showed signs of reviving. But early this year, the picture paled. The gold price dropped, bounced back and then drifted. The world recovery is moving at a slower rate than expected and there is no sign of the revival abroad coming through to South African exports.

The performance of many segments of the domestic economy is not encouraging.

"Nevertheless, the economy's performance is better than could have been expected, given the circumstances. Although the decline in the economy may now come to an end later than was predicted early this year, the light at the end of the tunnel is now at least visible."

The world recovery is here to stay, although the early promises it held for a significant recovery in prices and demand for raw materials have not been fulfilled. Growth in the US is likely to be achieved only in the second half of this year with its effects then spreading throughout the world.

Prospects for South African exports are bleak with the position aggravated by the drought, which has eliminated maize as a foreign-exchange earner and affected sugar and wool production.

The current period is the first in post-war years when a reduction in domestic demand has coincided with stagnating exports and a major drought.

"From a national accounting point of view the country's performance during 1982-83 will turn out to be the worst by far in the entire post-war period."

In an extraordinary set of circumstances the economy has proved to be resilient. There is a slower rate of decline in business activity. Unemployment is not rising at its previous pace. There has been a revival in the private housing market. Conditions in some areas of the retail sector have improved.

But no significant economic revival can take place without fundamental improvements in the mining, manufacturing and construction sectors. This is unlikely to happen before late this year or early next year. In addition, domestic liquidity must grow as a result of a fundamental improvement in the balance of payments.

The most unpleasant prospect is that inflation promises to reman high. What is encouraging is the use of the rand exchange rate to gain improved control over domestic liquidity and the money supply. It has reduced pressures from imported cost increases.

"It also indicates a willingness to manage the economy in a sound and conservative fashion, regardless of internal pressures for reflation until external conditions are conducive to a return to faster domestic growth."

CAPE TIMES 14/5/83 ~~50~~ 449 ~~235~~

Private sector 'must help' cope with urbanization

HOUSE OF ASSEMBLY. — The private sector would have to help finance the challenges of a restructured society, another industrial revolution and large-scale increasing urbanisation, the Minister of Finance, Mr Owen Horwood, said yesterday.

He said at the resumption of the debate on the Finance vote that parents, for instance, would have to realize that the days of free schooling for their children would run out.

In the long term, the challenges facing South Africa were those that would accompany structural changes to the country, a third industrial revolution, and the urbanisation of large numbers of people. Possibly 18 to 20 million blacks would become urbanised in the next two decades and 85 percent more coloureds would move to cities.

At the same time the decentralization of economic activities throughout South Africa in the next two decades would have to be taken into account.

"It is out of this process that the economic problems, and I stress, the opportunities will arise."

Mr Horwood said he did not think decentralization would reverse the process of urbanisation in the existing metropolitan areas.

"I say it will arrest the present or recent flow of migration to the big metropolitan areas. Chances are that decentralization will slow the process down and will mean more urbanisation in the rural areas, if I can put it that way."

As Minister of Finance he had to take note of what the effect of this would be on the economy.

"When people move to big cities or to new cities a whole series of material needs come into effect."

Although South Africa was able to cope with the challenges ahead, it was unreasonable to expect the government to finance it all.

"The private sector has done a great deal to develop this country and is doing so every day," Mr Horwood said.

"But I sometimes wonder whether the private sector or parts of it realize first of all the magnitude of the challenges ahead and secondly the necessity for the whole country to finance them."

He believed the private sector was going to have to play an increasingly important part.

"Just one aspect, for example, is education. The days of so-called free education will run out and that means parents and others will have to help the government to finance this extremely important service.

"I think as long as we can all be aware of these magnificent opportunities and realize it requires a national effort to finance them, our future is assured and this country will go from strength to strength," Mr Horwood said.

The balance of payments had improved substantially as a result of the government's fiscal and monetary policies, foreign reserves had been rising steadily and the economy as a whole was stable, he said.

It was true that the inflation rate in the short term was still too high, but its present rate of 13,5 percent was by no means unreasonable.

"I would say looking at the shorter term there is no reason for pessimism. There is no doubt that in the United States, which has an enormous effect on world economy, there are signs of improvement, Mr Horwood said.

"This will spill over and is already doing so in the European economy and we are geared to take advantage of this gradual improvement in the world economy.

"By the end of this year we will see distinct signs of that recovery in South Africa," he said. — Sapa

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FM 20/5/83

ANDREW SAVAGE

All but the destination

Andrew Savage of the Progressive Federal Party is the Member of Parliament for Walmer.

Owen Horwood has delivered his budget. The annual flutter in the economic dove cote has ended, leaving one with a strong feeling that the extensive media comment has failed to examine our economic situation comprehensively and has missed many fundamental issues.

This is in large measure due to the remarkable success which the government has achieved in conditioning both economists and the business community to accept the compartmentalisation of the SA political economy into politics and economics.

We cannot allow economists to accept the political design of our society as the exclusive concern of politicians — a "given" situation to which they must attempt to fit the best financial compromise they can devise. This would be the approach of good bookkeepers rather than professional economic advisers.

The national budget reflects both these aspects of the management of the economy. On the one hand there is an accounting function which concerns itself with the planning, authorisation and control of finances. On the other there is a far less stereotyped character to the budget. This will reflect the policy of the government of the day and how it intends to use the many economic instruments in its power.

Less than half

The second aspect of the budget should concern the economist more than the first. Not only does it reflect government policy; it will determine priorities and the allocation of resources.

Media comment tends to confine itself almost exclusively to financial considerations. This comment may be valid and useful. But it concerns less than half the story, and then the better half, because one must acknowledge that the technical administration of the country's finances is, generally speaking, competently handled.

A budgetary analysis which confines itself exclusively to such matters as the money supply, interest rates, exchange rates, the balance of payments, reserves and taxation is like the investigation of an air flight which examines everything but the direction, destination and purpose of the flight.

The most important aspect of the budget, that is, the budget as a reflection of the ruling party's flight plan, has not been adequately probed. There are a number of simple questions that should be asked:

- □ What is the National Party vision of SA's future?;
- □ Is it a realisable vision, or a pipe dream?;
- □ Is it acceptable to us?; and
- □ What risks and sacrifices will be required of us and can we afford them?

There is no way in which budget analysis can skirt the political issues which establish the character of the social and economic environment in which we live.

How can you intelligently comment on inflation without analysing the impact of ideological policies which make a high degree of inflation inevitable?

How can you constructively discuss growth rates without considering government's massive decentralisation policy? Decentralisation can make sense when its motivation is economic, but nonsense if its motivation is ideological.

How can you consider productivity without reference to legislation preventing labour mobility, or to living conditions and to the right to own property?

These are all primarily economic issues, but inextricably intertwined with political ideology; and there are countless more such issues.

What is government's vision of the SA of the future? All evidence points to a political society like this:

- □ There will be independent black states with approximately the same area and similar boundaries to those of the present self-governing national states;
- □ The rest of SA will be ruled over by whites, coloureds and Indians in a dispensation which entrenches the whites as controlling shareholders; and
- □ The present black urban townships will be given the status of municipalities while their inhabitants will exercise their political rights in these independent black states, or possibly in some federal body on which those states are also represented.

A blueprint like this will not come about naturally. Moral rejection of such a system, with its implication of civic and economic racial discrimination, is universal. The recent report on demographic trends produced by the President's Council makes nonsense of it, but this is the vision of grand apartheid that has changed little in its essentials over decades. Our government has no other plan.

Such a dispensation will have to be brought about in defiance of every economic principle. Consequently its introduction will increasingly involve government in contradictory action as it tries to reconcile its ideological ambitions with economic reality. An examination of its recent track record shows that this is already happening.

It has seized upon economic growth as a way past our problems, but its ideologically motivated policies will inhibit growth, promote inflation and make SA industry uncompetitive. The massive decentralisation plan for industry is, for example, nothing but the failed border industries policy re-vamped and with the full resources of the economy committed to it. No cost/benefit analysis has ever been done on this policy because the government's own economists acknowledge that its motivation is ideological.

Nature of leadership

The Prime Minister states that his strategy is to achieve growth through free enterprise and the market mechanism, but:

- □ SA Transport Services is involved in a determined effort to compete with private road transport;
- □ We expect blacks to support a free enterprise system, but 83% of the population is not free to establish enterprises where they choose because of their skin colour;
- □ The property market is distorted by the Group Areas Act;
- □ The labour market by restrictive legislation;
- □ The food market by administered prices; and
- □ The industrial markets by ill-considered strategic industries.

A government caught between its own ill-defined and unrealistic objectives on the one hand, and harsh reality on the other, will be incapable of following a clearly defined policy which can impart a degree of certainty and direction to our national life. Leadership does not flow only from what is said, and the heroic poses adopted, but also from the consistent and rational course which the leader is perceived to follow. In the circumstances I have described no such consistency will be discernible and our government will be seen as increasingly vacillating and vulnerable to attack.

In this situation critics fail in their duty to society if they avoid sensitive and difficult issues.

Economy needs less not more stimulation

ARGUS 31/5/83

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Barclays Bank economist Dr Johan Cloete has called for a moderate stimulation of the economy. In this "Response to Dr Cloete and others too numerous to mention" Professor Kantor (below) of the University of Cape Town contends that with the rapid growth in the money supply the government's monetary policy is already too stimulatory and cannot be regarded as tight, as the authorities have claimed.

By BRIAN KANTOR

IN NO meaningful sense can current monetary policy be regarded as tight. If anything it must be regarded as much too stimulatory for the longer term health of the economy.

Money supply statistics issued recently for the March month-end show rapid money supply growth in the first quarter of 1983.

The actual growth in the first quarter was more than 18 percent on an annualised basis. However on a seasonally adjusted basis the money supply grew considerably faster than this.

Fast money supply growth in the first quarter followed fast money supply growth in the final quarter of 1982.

It would be surprising indeed and quite contrary to the usual effect of monetary growth in South Africa if the level of domestic

> **'To get the inflation rate down, we must maintain the strong currency value of the rand. This demands consistently tight control of the money supply of the kind we have not had to date.'**

expenditure was not already responding to such stimuli.

The contrast between monetary developments between 1976 and 1979 and now is striking.

Real money supply growth (money deflated by prices) fell substantially and almost continuously between mid-1976 and mid-1979. It slowed down again between mid-1981 and mid-1982, but has grown sharply since then.

The main force driving money supply in South Africa is the balance of payments and exchange rate expectations associated with it.

Between 1976 and 1979, the rand was under pressure to depreciate. Since mid-1982 the rand has been under pressure to appreciate.

Until such time as we have a well developed market to determine the value of the rand, money supply developments will remain vulnerable to speculation against the rand.

This time may be close at hand if the authorities proceed with their intended reforms of the exchange market.

The increase in money supply growth over the past six months was not planned by the monetary authorities. Nor was it anticipated by most of the economic forecasters besides those at the University of Cape Town.

It was the unintended effect of attempts at exchange rate management. This unexpected money supply growth will encourage the real economy.

If money supply growth continues at current rates for much longer the chances of permanently reducing the South African inflation rate will be severely damaged.

Expenditure will grow sharply towards the end of the year, including spending on imports.

As in 1980 and 1981, imports will soon catch up with exports and unless the gold price rises and continues to rise, the exchange rate will once again depreciate rather than appreciate.

Exchange rates

To get the inflation rate down, we must maintain the strong currency value of the rand. This demands consistently tight control of the money supply of the kind we have not had to date.

Exchange market reforms which give market determined exchange rates are necessary for the purpose.

Also vitally necessary is to continue to allow the market place to determine the relationship between different interest rates paid and received in the money and capital markets.

It is naive to continue to believe that governments can turn the monetary and fiscal taps on and off as suits the expected state of the economy.

The fundamentally false assumption that supports such views is that economic factors remain inert while the government economic surgeons stimulate or sedate them.

Higher prices

The truth is that all important economic decisions are taken with government policies very much in mind.

The rational reaction to an intended government stimulus is immediately higher prices, wages, interest rates, imports and lower exchange rates and so the attempts decision-makers make to anticipate the impact of government actions negates their intended effects.

It also means a much less predictable environment in which to take economic decisions.

The real state of the economy is determined by unpredictable real forces such as the gold and other prices expressed in dollars and the confidence of South African firms and households in their economic prospects.

The government can help confidence by reducing uncertainty about its own spending and regulatory programmes. It can also reduce uncertainty by bringing down the rate of inflation.

Within control

The less inflation the better and inflation is completely within the control of government.

Such control means limiting the growth of the money supply both when the balance of payments is improving and when the balance of payments is deteriorating.

I read and hear so often that South Africa cannot afford to bring down the rate of inflation because of the social unrest associated with unemployment.

Such views reveal a fundamental misunderstanding about inflationary causes and effects in South Africa.

The best time to bring the inflation rate down in South Africa is precisely when the fundamental prospects for the South African economy are improving.

That is as now, when the balance of trade has moved into substantial surplus because the gold price and other export prices have improved and import demands have fallen.

Down the road

Such developments mean an economic recovery just down the road. If such real improvements can be realised without an unnecessary additional

> **'It is naive to continue to believe that governments can turn the monetary and fiscal taps on and off as suits the expected state of the economy.'**

stimulus from a simultaneous increase in the money supply, the exchange rate will continue to move up and stay up and inflation will come down and stay down.

South Africa can thus have more growth with less inflation.

The current calls for stimulation or acquiescence in inflation, if taken up by the authorities, would do great damage to the long-term health of the economy.

It would mean a repeat performance of the 1980-1982 boom and bust. The South African economy is capable of a permanently higher, more stable and less inflationary growth path.

Such capacity will be realised only if we can avoid the money supply growth of the kind under way since the final quarter of 1982.

The call should be for less rather than more stimulation and for less inflation.

The call should also be for permanently lower levels of government spending and therefore permanently lower levels of taxation. It is such policy that would encourage firms and households to make long term plans for spending and to stick to them.

Survey reflects optimism

CAPE TOWN. — Both blacks and whites are anticipating an improvement in economic conditions and both groups are optimistic in their outlook on the longer term, the BER reports.

"At the time of the survey, the financial situation of whites was reported to be surprisingly easy although a majority of whites did report that it deteriorated during the last 12 months.

"The financial situation of blacks is, however, extremely tight, although fewer of the respondents than last year reported a deterioration, suggesting that their financial situation might have improved."

Although the net majority of white respondents still regarded the current time as being unsuitable for the buying of high-priced goods the net number reporting in this manner has decreased substantially.

Blacks on the other hand have remained stationary in their attitude towards the propitiousness of the time for spending. The fact that consumers are also rather negative towards saving points to rather tight cash flows. — Sapa.

GDP decline is first since war

(49) RDM 9/6/83

CAPE TOWN. — The South African economy has been experiencing a cyclical downswing in economic activity since the third quarter of 1981 and the gross domestic product declined by approximately 1% during 1982 — the first decline of the post-war period, the Bureau for Economic Research at the University of Stellenbosch has reported.

In its latest consumer survey, the Bureau said the adjustment process in the South African economy was clearly reflected in the quarterly declines in real gross domestic expenditure following years of inordinately high rates of increase.

During the last quarter of 1982 the slump in economic activity was such that all the components of gross domestic expenditure declined.

Private consumption expenditure — which constitutes close to 60% of gross domestic expenditure — fell continuously and sharply over the year 1982. Hardest hit were sales of durable goods which in 1982 were 2,7% down from the 1981 level.

Sales of semi-durable goods peaked during the last quarter of 1980 after which time the growth rate started declining and turned negative during the third quarter of 1982.

The growth is expected to remain negative throughout 1983. The sales of the latter year are projected to be 4,5% lower than those of 1982 which were already 1,4% lower than those of 1981.

Sales of non-durable goods are much less volatile, but their rate of increase has nevertheless declined continuously on a quarterly basis since the second half of 1981.

"If the slump in private consumption expenditure is viewed in conjunction with the further slowdown in Government consumption, declines in the rate at which fixed investment is undertaken and a running down of stocks, it becomes clear that gross domestic expenditure is due for a further decline following on 1982's drop of 3,8%.

"It is anticipated that personal disposable income will increase by approximately 10% during 1982. If this figure is adjusted for inflation and population growth it results in a large decline in disposable income, hence the expectation of a further decline in consumer spending during calendar 1983." — Sapa.

(49) RDM 10/6/83

Thatcherism will solve SA's ills, says Edwardes

By SIMON WILLSON
Industrial Editor

ECONOMIC policies of the type implemented by Mrs Margaret Thatcher in Britain were the answer to South Africa's economic problems, former British Leyland chairman Sir Michael Edwardes said yesterday.

Addressing a Johannesburg Chamber of Commerce luncheon, Sir Michael said that some of South Africa's present economic policies were of such a socialist nature that prominent overseas Leftwingers would applaud them.

There was a panoply of controls combined with a high level of public ownership, which created a socialist economic environment.

He said he had often heard people express the view that South Africa was somehow "different", and that its social and political problems required a different approach.

"This is a very seductive argument, and I confess that at first blush I was sold on it. However, I believe it is rubbish.

"My observations over the last 16 years of socialism at work in Britain, and of socialist-type policies in South Africa, convince me that these differences are more imaginary than real."

Inflation in South Africa had "come down" to about 13%, but there was no future for a country with inflation at that rate. South African inflation could be lower were it not for the administered price system, which encouraged inflationary expectations.

"This is another socialist-type policy that failed miserably in Britain for the same reason: it became the right of the supplier to increase prices within the permitted or expected range, and market forces were to this extent suspended."

South Africa's local content programmes were also inflationary because they excluded lower-cost imports.

"I doubt whether one can get down to the 4% or 5% inflation rate needed to secure the future unless one has tough monetary and fiscal disciplines."

He said socialist policies were a soft option, because they attempted to reflate to save jobs but actually created structural unemployment for the future as costs got out of line and products became uncompetitive.

"Perhaps, at the end of the day, Thatcher-type policies are the answer here, with controls being steadily removed while following responsible, disciplined policies in the fiscal and monetary areas."

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Edwardes talks straight from the shoulder to South Africa

John von Ahlefeldt
Executive Financial Editor

Soft options are unacceptable for the private sector as much as for governments, and a refusal to accept this fact of life inevitably generates more problems than solutions.

This was the message spelled out in typically forthright terms by Sir Michael Edwardes when he addressed a packed Johannesburg Chamber of Commerce luncheon yesterday.

Sir Michael made it clear that he had important reservations about several aspects of the South African economy and the manner in which it is being handled.

NOT INTERFERING

While acknowledging that support for a market economy was apparent in such high places as the Reserve Bank and insisting that he was not interfering in the affairs of the country, he made it quite clear that South Africa's preoccupation with controls — coupled with high level of public ownership — created an economic environment "very similar to that which Tony Benn would like to have in Britain".

He pointed a finger at the administered price system as being another socialist-type policy that had failed in Britain because the supplier was able to increase his prices as a right.

MONOPOLIES

"I believe you have State as well as private sector monopolies where they take the soft option of upping prices when they cannot make a living any other way.

"And I believe that a local content programme which excluded lower cost imports can also be inflationary although it might be acceptable in the short term in order to get local industry off the ground."

Sir Michael Edwardes told a Johannesburg Chamber of Commerce luncheon that he had important reservations about several aspects of the South African economy and the way it was being handled.

Such policies were totally unsuccessful in Britain where reliance on soft options had created structural unemployment and the need for much short-term pain before British industry was restored to competitiveness.

He did not believe that South Africa's social and political problems made soft options any more acceptable here than elsewhere.

Further, companies which raised wages of black employees for socio-political reasons without ensuring an improvement in productivity were actually doing a disservice to the people they were trying to help.

Sir Michael left his audience in no doubt that the weaknesses he chronicled did nothing to assist in the Government's hitherto unsuccessful attempts to get to grips with inflation.

Bearing in mind that South Africa's present inflation rate stands out like a sore thumb at 13 percent when all about her appear to be getting their act together, small wonder that he was fairly scathing.

Dismissing the argument that the rate, even at its present level, represents a drop, he was of the view that nothing short of 4 to 5 percent was a figure the country could live with.

What is more, there was no way this could be achieved until a market economy was re-established.

Later, Sir Michael told me that from observations it appeared that a lot of local companies had adopted soft options. This did not help the employees in the long run. By merely giving way all the time bigger structural problems were created.

His experience in Britain was that "if you do the easy thing you pay for it like mad".

SA's unpaid debts run to a record R18-m a month

W/E ARGUS 11/6/83 (49)

JOHANNESBURG. — South African consumers and business firms are being hit by court orders to settle debts at the record rate of more than R18-million a month as the recession bites into family and corporate finances

From MICHAEL CHESTER
Weekend Argus Correspondent

With the chain reaction of the cash squeeze hitting production and sales levels, the number of companies sinking in insolvencies and liquidations has increased by at least 25 percent compared with 12 months ago.

A survey released this week by Central Statistical Services in Pretoria shows overall debts covered by court judgments were 47,8 percent higher than a year ago.

Individuals' debts on which default and consent judgments are made have increased by an even more staggering 56,8 percent, from less than R10,4-million to nearly R16,3-million a month.

The amount involved in judgments to settle private cash debts rose by more than 70 percent to R3,8-million a month in February, the most recent period analysed, compared with February 1982. The increase in bounced cheques was 85 percent, now running at R2,2-million a month.

Retail debts

Consumers hit by court judgments in February alone were found to be in debt with retailers to the tune of R3,3-million, an increase of almost 40 percent.

Consumers were ordered to pay out R1,7-million to settle arrears in hire purchase deals. And the slide into debt problems is worsening as legal actions mount.

The monthly average number of civil debt summonses, around 50 000 two years ago as the economic slowdown began, had risen to more than 88 000 at the last official count, nearly 20 percent higher than a year ago.

Credit Guarantee Insurance Corporation reports that the average number of company bankruptcies is now running above 250 a month compared with under 200 in early 1982

Mr Cliff Simons, marketing manager, reported that claims paid out on insurance policies seeking protection from bad debts had climbed to record levels.

Slowdown

The corporation said early casualties included smaller companies in the clothing and t[illegible] trade, builders and [illegible]port firms.

But a number of engineering firms have now also joined the list. The cash squeeze — worsened by the burden still being carried by family budgets after the euphoric rush into hire purchase deals in the economic boom — now coincides with a slowdown in pay increases and double-digit inflation.

Dun and Bradstreet, which monitors the credit rating of about 70 000 firms in South Africa, has seen a dramatic increase in requests for information on the financial standing of buyers asking for credit in inter-company deals.

ARGUS 23/6/85 (41) (49)

RECESSION

Port Elizabeth is fighting back

Staff Reporter CASSIE du PLESSIS concludes his review of E Cape economy.

OPINIONS vary vastly about how deeply in trouble the Port Elizabeth-Uitenhage complex is, but there is concensus that something must be done to stimulate economic growth.

In fact, interviews with key figures reveal that there is a new fighting spirit in the Eastern Cape — not for survival, but for a fair share of the country's economic growth.

An obvious plan of attack is to put pressure on the Decentralisation Board to provide better incentives for economic growth, because there is also concensus that the decentralisation policy has so far not done much to heal the ailing economy.

Here the powerful motor industry — the area's main industrial artery — has thrown in its weight.

The Managing Director of General Motors South Africa, Mr Lou Wilking, has warned about a "slow but sure strangulation" because of a lack of incentives. His company has supported a paper directed to the Decentralisation Board by the Midland Chamber of Industries.

Support

Ford and Volkswagen are supporting these calls, the latter having sent a memorandum to the Decentralisation Board, calling for more concessions.

On another front, Members of Parliament and of the Provincial Council have in recent years continuously tried to get a better deal for the area.

One of the latest moves is an attempt by Mr Edward Trent, MPC for Port Elizabeth Central, to propose a motion in the Provincial Council calling for "a vastly improved approach" to the Eastern Cape's Economic Development.

He says the Port Elizabeth-Uitenhage area's share of the gross domestic product has been dropping steadily, and that the population and unemployment rates are increasing rapidly.

In his opinion, the main areas for improvement are agricultural production and the tourist trade.

Steel depot

Once the Orange River Scheme is completed, between 3 000 and 4 000 ha of land would be brought into production in the Sundays River Valley, bringing a 50 percent increase in economic activity there.

Mr Trent is proposing a more equitable distribution of provincial funds to bring funding in the Eastern Cape into line with that of the Western Cape and Boland.

Meanwhile, as industries such as the motor industry here suffer a "location penalty" because of their distance from the main markets and raw material sources, there are strong calls for Iscor to establish a steel depot in the area.

Industrialists argue that by setting up a depot for stockpiling, Iscor could press the Government for a rail subsidy on steel in terms of decentralisation policy and pass the savings on to users.

Attraction

If steel became available at a cheaper rate, this would also attract other industries.

The Executive Director of the Midland Chamber of Industries, Mr Brian Matthew, said that while the Port Elizabeth-Uitenhage complex had in recent years not seen significant industrial development, a number of companies had expanded elsewhere. That included the siting of a warehouse near Johannesburg by Volkswagen.

Mr Matthew says he believes the call by local concerns for a better deal would have more impact if Port Elizabeth could become a separate regional development area. It is presently grouped in region D with East London, while the two cities are relatively far apart and have different needs.

Kimberley and Bloemfontein are much closer to each other but are in different regional development areas.

'Nonsense'

"The Government's Incentives are just making the Pretoria-Witwatersrand-Vereeniging area more attractive, eroding our competitiveness," he said.

The chairman of the Regional Development Advisory Committee for area D, Mr Louis Koch, regards a call for Port Elizabeth to be separated from East London in the regional development plan as "nonsense". He is, however, reluctant to elaborate, because the committee is discussing proposals to be put to the Government with representatives of private enterprise.

He said the proposals would not only cover transport and labour subsidies to the motor industry, but would incorporate the possibility of bringing in new industries based on the Port Elizabeth-Uitenhage agricultural hinterland.

He warns local industralists against being "over parochial" and seeing a clash of interests between themselves and other parts of the Eastern Cape, such as East London, which have enjoyed privileges as 'border areas'.

The R300-million to be spent here on black township infrastructure in terms of Mr Louis Rive's upgrading

'Here to stay'

[illegible] optimist is Mr James Kle[illegible] MP for Algoa who says he is [illegible] to get a group interested in marketing the area — a move which had for a long time been proposed in the City Council.

"I am afraid all the negative publicity is sinking Port Elizabeth," he [illegible]. "I don't believe Port Elizabeth [illegible]. We must market this city's [illegible] professionally — the established industry, its labour resources, its infrastructure."

His opinion is echoed by Mr Ronnie Kruger, former chairman of the Afrikaanse Sakekamer in Port Elizabeth and public relations Manager for Volkswagen, who says: "We must identify our strength and develop that."

Although the Motor Industry, like all other industries must always look at new possibilities to be profitable, Volkswagen was here to stay — and this had been borne out by its recent introduction of a R200-million expansion programme at its Uitenhage plant.

Upgrading

[illegible]happiness among labour forces — a major cause of past political unstability.

There had been hundreds of reports outlining the area's problems but they had not concentrated on outlining solutions, said Mr Koch.

A strong believer in the worth of labour stability to help the area is Mr Fred Polacsek, managing director of Hella (Automotive Components Company). He says the area has suffered severely because of labour problems, and, compared with national development "we have gone backwards."

He adds: "For every hour lost be it through inefficiency or even strikes, we lose to our competitor whether he be local, national or international. We could either find investment diminishing or even disinvestment in our area."

Picking up

The secretary of the powerful National Automobile and Allied Workers Union, Mr Les Kettledas disagrees about the role of labour unrest in the area's problems.

"That is complete nonsense," he said. "Labour here is not different from the Vaal Triangle. You have labour trouble everywhere."

There were signs of the industry picking up such as the motor companies going back to full work shifts. Retrenchment had not only stopped but Ford had taken back most of the people it retrenched last year.

Recession still bites deeply

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RDM 24/6/83

By HOWARD PREECE

THE economy continues in deep recession, according to the June quarterly bulletin from the Reserve Bank.

It says, however, that the balance of payments has come right with an R809-million current account surplus in the first quarter of this year.

This was in spite of substantial capital outflows in February and March, particularly from sales of shares owned overseas, after the scrapping of the financial rand.

The bank says the rate of inflation is still far too high — and productivity has actually been declining.

It also warns that the full effects of the drought have not been felt.

The bank comments: "National accounts estimates for the first quarter of 1983 indicate a continuation of recessionary conditions in the South African economy.

"Real gross domestic product showed a fairly large decline, reflecting not only a fall in real agricultural output but also a decline in the real product of the non-agricultural sectors.

"The decrease in real agricultural output did not reflect the effects of the severe drought conditions on summer crops but merely a downward adjustment from the high level of output in the fourth quarter of 1982 when record winter crops were harvested.

"The decline in real gross domestic product in the first quarter may be explained by the absence of both the main generating forces of economic growth, namely an increase in real gross domestic expenditure and a rise in the volume of exports.

"Real gross domestic expenditure, in fact, showed its fourth consecutive quarterly decline.

"Up to the first quarter of 1983 the volume of exports had not begun to reflect the economic recovery in the United States and the other industrial countries."

This is how the Reserve Bank sees the key areas of the economy.

INFLATION. This is still much too high (12,8% for the year to May) because of "the continued effect on monetary demand of the exceptionally large monetary expansion during recent years, the associated continuing effects of the earlier large depreciation of the rand in terms of other currencies, the related high rates of increase in labour and other costs, further increses in administered prices, and the effect of the drought on food prices".

GROWTH. Recessionary conditions were reflected in a decrease in non-agricultural employment in both the third and fourth quarters of 1982 and, judging by a further increase in unemployment, also in the first quarter of 1983.

BALANCE OF PAYMENTS. "Assisted by an increase in the gold price and in the value of the net gold output, the moderation in domestic demand caused a sustained rapid improvement in the current account of the balance of payments."

At a seasonally adjusted annual rate, the current account recorded a surplus of about R2 000-million in the first quarter of 1983. As recently as the first quarter of 1982 it was in deficit by as much as R6 600-million.

CAPITAL FLOWS. "The net inflow of capital from abroad during the second half of 1982 was reversed in the course of the first quarter of 1983.

"This was partly due to a net outflow of long-term capital from the private sector, mostly in the form of the repatriation of funds by foreigners after the form of the repatriation of funds by foreigners after the abolition of exchange control over non-residents."

Recovery delayed to middle of next year

S Times 26/10/83 (49)

By Alec Hogg

SOUTH Africa is well into a full-blown recession, the severity of which has been badly under-estimated by most leading economists.

And worse news is that the next upswing, expected by some later this year, will begin at the earliest in the middle of 1984.

The economy has shrunk so badly that by the end of this year South Africa will be in the same position as at the end of 1980.

Official statistics released in the SA Reserve Bank Bulletin this week show that, after the distortion of inflation has been removed, the level of economic activity in the first three months of this year was running at 4,2% below the same period in 1982.

■ ■ ■

With feedback from the real economy showing that the trend in sales, in volume terms, is still on the decline, it appears that, even if there is an unexpected improvement in the final quarter of this year, gross domestic product for 1983 as a whole is likely to fall by at least 3%.

This will follow last year's decline of just under 1%, which was the first time since the Second World War that the South African economy had experienced so-called negative growth.

The Reserve Bank's figures for the first quarter show that the major reason for the drop

RECESSION UNDER-ESTIMATED BY MOST OF THE PUNDITS

nomy and comprises the state of private and Government consumption expenditure, fixed investment and the change in stocks held, was some 10,5% lower at the end of the first quarter of this year compared with the same period in 1982.

A measure of respectability was brought to the bottom-line figure by increased exports and a drop in imports, but, although this turnround was large, it was not nearly enough to offset the deterioration in domestic expenditure.

ly a downward adjustment from the high level of output in the fourth quarter of 1982, when record winter crops were harvested".

As agriculture accounts directly for 8% of the total economic activity in South Africa, and indirectly for a lot more, the negative effect which the drought will have cannot be over-emphasised.

Pretoria has publicly stated that it is relying on an export-led recovery to pull the country out of the current recession.

While many economists be-

but Western Europe remains depressed.

Because of its strong trade links with European countries, South Africa needs a meaningful revival from this quarter before its exports can benefit.

In past business cycles, a revival in the international economy has started to show an effect on the local level of business activity only between nine and 15 months later.

Although it is true that the level of stocks in the US and Europe are at low levels it

overdue European economic recovery started now, the soonest it would have any impact on domestic affairs would be well into the second quarter of next year.

Another problem is that South Africa's inflation rate is so much higher than that of its major trading partners, and, according to many industry sources, non-mineral exports from this country are becoming increasingly more expensive in international terms.

A look at economic conditions suggests that the policymakers are resigned to the fact that the upswing is some way off.

Interest rates are churning upwards (as evidenced by Friday's further increase in the prime rate), and, as this is directly linked to the decisions of Pretoria, it suggests that the policymakers want the economy to slow even further.

Personal savings have slumped to a record low, inflation remains at a high level, residential property prices and the stock market are booming, and productivity is still on the decline — again all indicators that usually precede a decline rather than an increase in economic activity.

It is now clear that it is taking the policymakers a lot longer than they thought to correct the mistakes made during the excessive growth experienced in 1980 and 1981.

demand.

Gross domestic expenditure, which effectively measures the demand in the eco-

The official statistics, although already pessimistic, still do not take account of the drought, as the fall in the first quarter's figures was "mere-

this would have been evident by now, they were wrong.

Internationally, the US is only now starting to show sparks of economic recovery,

lieve that South Africa will be able to react to any overseas upswing more quickly than in the past.

This means that, if the long

More retrenchments in cash-flow crisis

By Julian Kraft

MANY qualified personnel are walking the streets of the major centres in search of work as companies retrench senior staff in their efforts to overcome serious cash-flow problems.

"Our research shows that many firms are battling to stay afloat," says Jane Ashburner, a senior consultant with the P-E Consulting Group's remuneration practice.

"It has become obvious that the economy is not going to recover as rapidly as first projected, and many companies are experiencing serious cash-flow problems."

Until recently most companies were reluctant to retrench senior personnel, particularly engineers, in the knowledge that these scarce resources would be difficult to recruit when the economy recovered.

"But the picture has changed quite dramatically in the past two months. Whereas most firms were engaged in fairly mild cost-cutting exercises early this year, they are now pruning ruthlessly in their efforts to slash overheads.

"The result has been extensive staff retrenchments in some cases, with little respect shown for position or qualifications," says Miss Ashburner.

Engineering companies have been particularly hard hit. Organisations which are largely dependent on the motor industry for their survival are also feeling the effects of the economic slump. Finance houses are suffering.

Miss Ashburner adds that some managers — mostly in large and powerful organisations — welcome the return to competition for jobs.

■ ■ ■

"Salary increases were becoming unrealistically high for some categories of jobs. Two years ago it was not unusual for engineers, for example, to receive annual salary increases of more than 20%. This year increases will probably be in the region of 10% to 12%."

The cyclical nature of the economy would inevitably result in a drop in staff turnover as employees realised the dangers of job-hopping.

"The principle of last in first out has been very much in evidence in retrenchment programmes this year," she says.

Another consequence of the continuing recession was the pressures being placed on large companies to cut costs drastically.

"During the first quarter medium-size companies were worst affected because they are typically organisations with relatively high overheads and small cash reserves.

"Now we are beginning to see some of the larger firms battling to meet commitments and the cancellation of expensive projects."

Hillard Rostowsky, deputy managing director of Nedfin Bank, one of the larger suspensive sale and leasing companies, confirmed that the market had shrunk sharply in recent months, resulting in reduced turnover and intensified competition.

"The economy is going through a rough time and conditions are tough in our business. Companies are not replacing passenger vehicles as frequently as before, and, due to reductions in staff, the demand has been further reduced," he said.

Similarly, there has been a steadily increased incidence in summonses issued to house buyers — a further indication of the effect of retrenchments or reduced earning capacities — although most building societies have kept a rigid control over arrears payments during the recession.

THE REX COLUMN

(49) S. Times 3/7/83

AN INDEPENDENT LOOK AT THE BIG PICTURE AND THE LONGER-TERM VIEW

Definitions of a mature top

IN recent weeks a string of senior Reserve Bank and Treasury officials have, in varying degrees of exasperation, expressed their dismay about the widening gap between the real and financial sectors of the economy.

Whereas the real sector has experienced a decline in output for more than a year, accompanied by a strong erosion in real incomes, company profits and savings, the financial sector remains on a strong upward beat.

The causes for this increasing discrepancy between economic reality and our financial perception thereof are twofold.

● The white community in this country has experienced four years of unbridled optimism. Such euphoria, when not checked in time by natural causes or Government policy changes, tends to build up a momentum of its own.

● The past decade has favoured individuals who geared their financial affairs to the expectation of a continuing high inflation rate.

A DICHOTOMISED ECONOMY

Month/year	Financial sector looking up: Value of real estate transactions (1975 = 100)	Bank debits (1975 = 100)	RDM industrial index (1960? = 100)	Sales of new cars	Real sector going down: Manufacturing production volume (1975 = 100)	Non-gold mining production
6/1980	223	262		119	126	139
12/1980	244	294		123	131	146
6/1981	283	317		133	134	143
12/1981	232	359		133	140	146
6/1982	299	379		145	133	137
12/1982	347	442		110	128	130
6/1983*	350	460		105	116	125

* Estimate

Source: SA Reserve Bank, RDM

RECORD-HIGH PRICES

In the eyes of the private investor, the Government is incapable of sustaining the economic and social costs of a prolonged recession which is needed to break the inflationary spiral and the belief that downside risks to speculation are minimal.

Excesses have now clearly materialised in the economic sphere. The more obvious ones are record-high prices for assets such as shares, land and residential property, which are currently discounting a long future period after great prosperity and/or high inflation.

Excessive goodwill premiums over and above the break-up value of any public company should raise grave doubts as to the realism of the proud buyer in expecting a fair return on his investment.

Excessive greed, and the unwillingness to part with anything that even remotely could harbour some value, is now so widely prevalent that literally everybody seems to be riding the bandwagon.

"Shortage of script, any script" is such a phenomenon, as is the tendency of home owners to hang on for dear life to quality property, and to improve rather than to trade up.

Only owners of the least-quality/worst-located "gems" are still willing to part with what has been difficult to get rid of for years, and not at any price either.

Indeed, the massive additions of late to this stock of "immovables" (particularly alongside highways and in isolated locations) have laid the foundation for many a future headache.

Speculative overreactions happen only sporadically, and are usually marked by great intensity and short duration. Reality generally intrudes reasonably quickly to restore a measure of sanity.

Our own headlong rush has now gone on for exactly four years, a mature age as illusions go.

Most of us seem to be acting on the presumption (although perhaps not even daring to believe it in our heart of hearts) that this successful party is likely to last for another decade.

This chimera alone should be indicative that the financial boom has reached its top, as reverse psychology would proclaim.

Parties do not last for ever; what goes up must eventually come down. Probability is increasingly on the side of correction. Overreaching carries its own decay.

But after all these elementary physics lessons, the question remains: exactly what is supposed to initiate the correction?

South Africa is experiencing its worst economic recession in memory, but it does not seem to have any effect whatever on those with reasonably safe employment and incomes.

This elite, starved of optimism for most of the Seventies, has built up a head of steam of such proportions that it seems unlikely to deflate willingly of its own accord.

POLICY FRAMEWORK

What's more, hope (like fear) is contagious, affecting more and more normally cautious individuals until reaching epidemic proportions.

But, whatever other cliches we may think of, a self-feeding firestorm of expectations is in the end made possible by an accommodative Government policy framework.

Just as such expectations live by the fiat of the authorities, just so can these unhealthy expectations be squashed by a determined policy change. Volcker has proved that convincingly by now on a world scale.

The speculator's ready response, and a major reason for his actions, is that the South African Government will not dare make policy changes that will lead to major unemployment and social unrest.

But such assumptions surely must now border on make-believe: the current deterioration of 3% in real output since 1981 is no figment of the imagination, and it has been fearlessly allowed to happen.

The question facing the Government is actually quite simple: will the inflationary spiral continue to accelerate during the next upswing if no corrective action is taken in time?

If the answer to this is an unqualified yes, there is every reason for doing something now rather than having to live with the consequences later.

The lowest annual inflation in the consumer price index during the previous downswing occurred in 1978, when consumer prices increased by 10%.

While we are now well into the present downswing, the annualised inflation rate remains an uncomfortably high 12,8%.

Without any further action by the authorities, this rate may come down another percentage point or so by late next year, but it is hardly likely to go single-digit before the next recovery sets in.

The scene has thus been set for one of the more dramatic economic policy decisions in recent times: to squeeze till it hurts, or to leave the economy to sort out its own excesses.

In the elegant phraseology of the Reserve Bank Governor: "We could break those inflationary expectations, but we are dealing with an economy in a steep downswing and it is debatable whether to overkill."

The private sector would be most unhappy about economic "overkill" at a time when cash flows are still deteriorating, and it is saying so.

And, as most of us have now turned into big-time speculators, there must be few individuals around who would willingly support "corrective" action.

Furthermore, the Government is likely to have to bail out an over-extended agricultural sector in the year ahead, while it undoubtedly remains uneasy about the social implications of spreading unemployment. The main vested interests remain, therefore, on the side of inflation.

BANKING CRISIS WELCOME

In the back of everybody's mind lingers hope for an early bail-out by the rest of the world. An international banking crisis or resurgence in overseas inflation would in this respect be most welcome.

But our foreign trading partners are seeking hard for lasting solutions to their problems, and they by common consent stand a fair chance of success.

If they succeed, there will be precious little hope for an early bail-out by way of a higher gold price, rand strengthening and outflow of speculative funds into overseas investment.

Short-term interest rates have been tightening for some months, and the prime rate has moved up 2% in 10 days in direct response to monetary policy actions.

Has the die been cast on the side of the angels against inflationary expectations?

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Improve unemployed benefits — V d Horst

ARGUS 5/7/83

Staff Reporter

THE unemployed had to be provided with means of survival until the economic upturn came, the chairman of Old Mutual, Dr J G van der Horst, said today.

Opening the 19th annual conference of the National African Federated Chamber of Commerce (Nafcoc), he said unemployment care facilities in South Africa had to be improved before the rate of inflation came down.

There was a complex relationship between inflation and unemployment.

CONCERTED

In the short term it was possible to achieve a lower level of unemployment if a country was prepared to tolerate a higher rate of inflation, he said.

In the long run, however, excessive inflation led to permanently higher levels of unemployment.

Industrialised countries had made a concerted effort recently and had brought down inflation to between three and four percent.

They were able to tolerate record high unemployment rates because they had "mature unemployment benefit systems", Dr van der Horst said.

NO WAY

According to South Africa's unemployment care provisions, the maximum benefit a registered unemployed person could receive was 45 percent of salary for a maximum period of 26 weeks.

"There is no way in which any monetary authority can take the heat out of an overheated economy in six months," said Dr van der Horst.

"The required downward phase in the business cycle is simply much longer than that.

"If we believe that inflation is a bad thing and when it appears it should be corrected, then we must be prepared in a modern society to provide the necessary minimum care for the unemployed."

RESIST

Dr van der Horst said "historical legislative" provisions in South Africa caused some people to resist registering as unemployed because it could be found that they were "not legal in their place of abode".

"I think we will have to come to terms with this and will have to take a thorough look at our unemployment care situation if we want the laws of economics to work so as to bring our inflation down to manageable proportions," Dr van der Horst said.

'Majority may reject free enterprise'

ARGUS 5/7/83

(49)

Staff Reporter

AN acceptable form of political dispensation would have to be found for blacks if they were to support and share in the free enterprise system, the executive chairman of Barlow Rand, Mr A M Rosholt, said today.

He was addressing about 800 delegates at the annual congress of the National African Federated Chamber of Commerce in Cape Town.

Mr Rosholt said that it would be a "great mistake" for businessmen in South Africa to assume that the free enterprise system would be in force for all time and that it would be accepted unquestionably by all population groups as the best economic system.

Warning businessmen not to be complacent, he said there was a grave danger that the free enterprise system would be rejected by the majority of people in this country.

Fruits

He said that unless blacks were able to enjoy "the fruits of the system" the probability existed that they would turn to the apparent and superficial joys of a more socialistic system.

Mr Rosholt said businessmen faced what appeared to be an almost insoluble problem: "That of implementing the system businessmen know to be the best for the ultimate economic growth of the country and, at the same time, convincing the majority of the population which is not presently sharing in its benefits that a system based on the harsh realities of free market forces is the best one for them."

He said: "What I am really saying is that there will have to be some form of compromise; that our economic system will have to be based on a mixture of unrestrained free enterprise and enlightened social responsibility."

Timetable

He urged the Government to give some short term proof of its commitment to change, suggesting that:

- It adopts a plan with a timetable which would, over as short a period as possible, eliminate all discriminatory laws and regulations;
- It presses ahead, assisted by commerce, with efforts to provide education and training;
- Acceptance of the principle of absolute equality of opportunity and treatment in labour practice and pay, based on merit, be instilled in every employer in the public and private sectors and
- Influx control legislation and its method of administration be reformed.

Mr A M Rosholt

(49) RDM
9/7/83.

Economists give choice: Inflation or recession

By GERALD REILLY
Pretoria Bureau

SOUTH AFRICA'S recession will be prolonged if the Government applies the harsh, medicine needed to control inflation.

That is the view of the Progressive Federal Party's finance spokesman, Mr Harry Schwarz, and leading bank economists spoken to yesterday.

They agreed with a Standard Bank warning earlier this week that inflation could soar to 17% or 18% during the next economic upturn unless drastic measures were applied

Mr Schwarz said the Government would have to act swiftly to slow down the price spiral before the next upturn started.

An alarming feature of the developing threat, he said, was that the Government had probably delayed too long in applying the stringent remedies called for.

If applied now they would have more drastic consequences.

"The result is that the recession will go deeper and last longer than is actually necessary."

Some of the medicine that needed to be administered would be unpleasant. The Government had allowed the money supply to expand at too great a rate, he said

The harsh remedies now needed included a further shrinking of the money supply, higher interest rates and other measures to discourage consumer demand

Inevitably, however, the medicine would further aggravate South Africa's already serious unemployment problem, and quicken the pace at which the living standards of wage and salary earners were falling, he said.

Barclays Bank's chief economist, Dr Johan Cloete, said the country's economy was at a very dangerous stage.

Already the Government was fighting the inflation threat with policies calculated to lengthen the recession, he said.

However, the costs of such a policy were high — increased unemployment and escalating numbers of business insolvencies among them.

Volkskas chief economist Mr A Engelbrecht said inflation rates of up to 18% were a very real danger.

"If we can't get inflation down soon to a much lower level we are in for trouble."

South Africa had gone into every upturn in the past with an ever higher level of inflation — "and this is very dangerous".

He added the authorities must be careful not to be caught up in a vicious circle of a depreciating rand, and high and rising inflation

Then, as had happened in some South American countries, inflation gained an unstoppable momentum, Mr Englebrecht said.

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Laissez-faire policy out of the question for SA — De Loor

Own Correspondent

CAPE TOWN — Any idea of a return to a "robust laissez-faire" economic policy in South Africa or any other industrialised country is a "non-starter", says the Director-General of Finance, Dr Joop de Loor.

Addressing the Western Cape region of the Institute of Directors yesterday, he said a prudent concern for South Africa's future militated against any wholesale abandoning of measures the private sector regarded as interference with the market mechanism.

LET THE BUYER BEWARE

The world's most advanced countries were foremost in protecting the uninformed and uninfluential against what an eminent Briton had called "the unacceptable face of capitalism".

"And to my mind, the increasing complexity of economic life calls for more, rather than less, governmental activity in this particular sphere," he said.

Many consumers were in no position to heed the injunction, let the buyer beware.

Should such people find themselves smarting under a sense of wrong, it was likely to be the "system" rather than a particular entity that would draw flak.

"So a prudent concern of our country's future, no less than a healthy paternalism, militates against any wholesale abandonment of those measures that the private sector, no doubt perfectly legitimately from its viewpoint, regards as interference with the market mechanism."

"In our particular circumstances we are ill-advised to err on the cautious side in our ap proach to the matter. It would be idle of me to maintain that everything that may appear to impede the working of the market mechanism owes its contribution to benevolent impulses."

A "good deal" of this derived from inertia or "sheer red tape".

Market-stifling regulations were a rightful cause of concern to the private sector and were a fit subject for representations.

"In line with our broad policy of moving away from unneeded controls, we shall always give such representations the closest consideration."

South Africa had a so-called dual economy — "namely the existence side by side of a modern exchange economy and a traditional subsistence economy".

But there could be no doubt about the government's commitment to a freer working of market forces.

Phasing-out of price controls, privatisation of semi-state bodies and relaxation of financial controls exemplified this.

"But any idea, either here or elsewhere in the industrialised countries, of a return to robust laissez-faire is obviously a non-starter."

SA economy shrinks by 2 percent

ARGUS 25/7/83 (49)

Financial Editor

SOUTH AFRICA'S gross domestic product at constant prices shrank by 2,1 percent in the first quarter of this year, figures issued by the Central Straticial Office show.

This was the fifth quarter in succession that the output of goods and services had declined.

The 2,1 percent drop in the GDP came after an 0,1 percent drop in the December, 1982 quarter, an 0,3 percent drop in the September 1982 quarter, a 3,0 percent drop in the June 1982 quarter and 0,7 percent drop in the March 1982 quarter.

As a result of these declines the GDP in the March quarter at constant prices was down 6,1 percent on the December quarter, 1981 — the last quarter in which the economy overall showed growth.

AGRICULTURE

The main reason for the contraction in the GDP in the March quarter was a decline in the value of agricultural output.

After rising 29,9 percent in the December quarter this dropped 12,1 percent in the March quarter to about 90 percent of what it has been in the first quarter of last year.

Output of the mining sector in the March quarter dropped 0,9 percent after an 0,1 percent decline in the December quarter.

Production by secondary industries dropped 1,8 percent in the March quarter. This followed a 5,3 percent decline in the December quarter, and suggests that the recession in the manufacturing sector was beginning to level out.

In the tertiary sector output dropped 0,7 percent. In the December quarter it fell 0,8 percent.

South Africans spent a little less in real terms in the March quarter, the CSS reports.

Seasonally adjusted real private consumption expenditure dropped by 0,2 percent equal to a decline of 0,8 percent at an annual rate.

This was the result of decreases of 0,2 percent in spending on durable goods and 2,0 percent on semi-durable goods. However, expenditure on non-durable goods rose 0,3 percent and on services by 0,4 percent.

contraction
C+I contraction

CAPE TIMES 8/8/83 (~~...~~ 49

sts

,8%

Lonrho also sold a number of "under-utilized property assets" in the six months.

The directors say the improvement in profitability comes significantly from the group's UK holdings and from commodity-based activities in gold, platinum and sugar.

In the year to end-September 1982, Lonrho received 34,8 percent of its profit before interest payable from UK sources.

East and Central Africa provided 25,2 percent of Lonrho's profits while Southern Africa, where the company has gold, coal and platinum interests, was in third place contributing 20 percent of profits.

Lonrho has declared an unchanged interim dividend of 3p a share. Total dividends for the 1982 financial year were 9p a share.

Demerger proposal

The directors say the value of the group's investment in House of Fraser Plc has increased substantially after the Harrods demerger proposal, instigated by Lonrho

"Lonrho is delighted that the House of Fraser shareholders supported, by a majority vote, the Lonrho ordinary resolution proposed on June 30, 1983 thus clearly indicating to their board that they wish the demerger to proceed.

"Lonrho is confident that this view will prevail," the directors say.

14% drop in output

By HAROLD FRIDJHON

JOHANNESBURG. — Industrial output in South Africa continues to decline as the recession deepens.

Total manufacturing production in the three months January to March 1983 was 14,4 percent lower than in the first quarter of 1982.

The index of the physical volume of manufacturing production compiled by the Central Statistical Services dropped from 136,5 in the first quarter of 1982 to 116,9 in the same period of this year. In March the index was 125,2 against 146 in March last year.

Food production is the biggest component in the index and stood at 137,4 in March 1983, slightly lower than 139,8 a year previous.

The production of beverages was 7,4 percent higher. The only other industry to record any increased output was printing and publishing.

Hard hit are the basic iron and steel industries, the second most important industrial group. Their output in March was 21,4 percent lower than in March 1982.

The non-ferrous basic industries showed a net decline of 18,8 percent. The production of machinery was 15,2 percent lower.

All the heavy industries were deeply affected.

Reflecting the marked slowdown in consumption spending — other than on food — are the 23,1 percent drop in textile production, the 17,1 slump in the output of clothing factories and a 14,8 percent decline in the manufacture of shoes.

Furniture production has held up relatively well. Output dropped by only 6,6 percent which is surprising because usually this is an industry which is among the first to suffer in an economic downturn.

The pottery industry, one of the smallest industrial groups, has taken a very hard knock. Production plummeted 39,5 percent in March this year compared with the same month of 1982.

Sanland lifts profits

Own Correspondent

JOHANNESBURG. — Sanland Property Trust lifted its net income to R6 937 545 for the year ended June 30 from R2 895 000 for the nine months to June last year.

The final distribution has been set at 3,66c a unit for a total of 7,22c. In the nine months to June last year Sanland distributed a total of 5,29c a unit.

According to the fund managers, Sanland Property Trust Managers, the trust performed satisfactorily during the year and benefited particularly from high interest rates ruling during the period.

The acquisition of properties as planned after the rights issue has been finalized, and the re-organization of the property portfolio is continuing with a number of properties having been sold for a total of R3 230 000.

According to the trust managers the funds will be used to acquire properties with a satisfactory yield and a sustained growth in income and unit value.

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...mmercial timber growers ...ere concerned at reports issued permits for the im... export fruit industry, the ...tion of Timber Growers' ...nderson, said yesterday. ...ern "inasmuch as this will ...ing the market for a sub...ling timber".

...he Deciduous Fruit Board ...per for its packaging re...siderably below the local

protection is provided by ...ices on which this is based ...n to current world market ...he said.

Joint announcement by

Gencor Group

Sentrust Limited
(Sentrust)

and

U.C. Investments Limited
(UCI)

Proposed merger of Sentrust and UCI

Further to the announcement on 15 July 1983 Central Merchant Bank Limited on behalf of Sentrust and Barclays National Merchant Bank Limited on behalf of UCI are authorised by the Boards of Directors of Sentrust and UCI to announce that agreement has been reached on merger proposals which, if implemented, will result in Sentrust becoming a wholly-owned subsidiary of UCI. The proposals will be effective from 1 July 1983, and the listing on The Johannesburg Stock Exchange ("JSE") and the quotation on The Stock Exchange, London ("LSE") of Sentrust ordinary shares will subsequently be terminated

11/8/83

Output: contrast between two (49) RDM recessions

By HAROLD FRIDJHON

IN common with other economic indicators, manufacturing production has declined sharply during this downturn in contrast with the sideways movements of the past.

In the first year of the previous downturn (1975) manufacturing production rose by 4%, followed by an increase of 2,4% in 1976 before dropping by 3,7% in 1977, the last year of the recession.

This time, says the Volkskas Economic Spotlight, output of manufacturing industry dropped by 2,6% last year — the first full year after the economy turned down.

Statistics for the first quarter of this year show a decline of 14,45% compared with the first quarter of last year.

Plant use has also dropped much faster in this down swing than in the previous recession. The average use of plant capacity was down 1,7% after the first six quarters of the previous recession compared with a drop of 5,5% after the same period of the present downturn.

As a result of the drop in manufacturing output, coupled with the heavier interest burden, the net profit of industrial enterprises (before depreciation) dropped by about 28,5% in the final quarter of 1982 compared with the same period of the previous year. In the 1974-77 downswing, net profits rose in 1975 and 1976 and fell by 7% in 1977.

Profits are not the only affected area. Employment has dropped and manufacturing industry's wage bill rose by 8,1% in the 12 months to March 1983 compared with increases of 18,2% in 1982 and 23,9% in 1981.

Volkskas says the economy is fast approaching the lowest point of the current downturn. Results for the second and third quarters of this year are likely to be worse than in the first quarter, but thereafter the movement will probably be sideways.

Provided that the drought is broken, a marked acceleration in the economic growth rate — and therefore in manufacturing production — should be evident by the middle of 1984.

VW chief calls for radical new tax structure

49

S. Post 13/8/83

A VIBRANT economy, growing at the rate required to ensure full employment, can be secured for South Africa by the simple but bold expedient of cutting income tax by half

Such a courageous and innovative step was therefore vital to a successful national industrial stategy, argued Mr Peter Searle, managing director of Volkswagen (SA) Pty Ltd, this week.

And Mr Searle's thought-provoking suggestion, made during a wide-ranging interview on the obstacles to economic growth — particularly in the Eastern Cape — has attracted immediate and widespread support among colleagues in commerce and industry.

Mr Searle argued that the common wisdom on the South African economy was that there were two main obstacles to growth, namely:

- Inadequate capital formation.
- A poor supply of technically-skilled and productive labour.

"All the remaining requirements for growth — an abundance of raw materials, labour, entrepreneurial skills and flair, and a well-developed infrastructure — are present in the economy," said Mr Searle.

The compelling need to bring these positive elements together successfully has frequently been underlined by economic planners, and Mr Searle said South Africans should not be intimidated by figures which demonstrated that a minimum 8%-10% annual growth in the economy was necessary to ensure full employment for the growing workforce.

"Numbers of so-called 'Nics', or newly-industrialised countries, have achieved growth rates in excess of these figures,

By Louis Beckerling

Business Editor

and there is no reason, given the correct national industrial strategy, why South Africa could not do so as well."

Mr Searle's remarks come against a background of massive unemployment among South Africa's black workers. And if economic growth is not re-ignited and sustained the problem will become more acute over time.

The estimate of the Economic Development Programme is that at a moderate growth of, say 3,6%, unemployment will rise to 22% of the economically active population within five years.

Clearly a bold industrial strategy will be crucial to the country's future, and Mr Searle believes such a strategy must address the two major obstacles already isolated by businessmen and economists: capital and skills.

"By reducing direct taxation on income and increasing taxation on expenditure (via an increased General Sales Tax), people will be encouraged to save more — hence create capital rather than consume — and acquire higher skills and thus greater rewards in the form of an income which is not so heavily penalised by a high rate of tax," said Mr Searle.

Mr Searle added that such a scheme should be implemented with the proviso that essential foodstuffs were protected from excessive tax increases.

A glance at the relevant statistics in the SA Reserve Bank's latest Quarterly Bulletin suggests that GST would have to be substantially raised in order to compensate for lost income tax — though not beyond levels already charged in several industrialised countries.

Thus in 1983 total revenue which the State collected from company and personal tax amounted to R9 443 million (R1 284 million of which came from gold mines). From GST and sales duty came an amount of R3 181 million.

Halve income tax rates and this would reduce State revenue from this source by some R4 722 million — which represents some 150% of current income from GST, hence an increase from 6% to around 15% in GST.

A tax expert in an international partnership of accountants represented in Port Elizabeth said Mr Searle's suggestion appeared perfectly sound

The principle that penalising rates of tax on higher income-earners acted as a disincentive on producing more and therefore earning more could not be denied. An alternative manner of achieving the same effect, he added, would be to introduce a flat rate of tax.

"There is support for the view that such a flat rate would remove the disincentives on earning more — and therefore encourage people to produce more," he said

The penalty imposed on upper-income earners was graphically illustrated earlier this year in an analysis of the country's tax structure by Volkskas bank.

The bank showed that only 1,1% of the country's tax-payers in 1979/80 earned in excess of R30 000 and yet their contribution to the total tax bill was 17,8%.

On the other side of the coin 70,2% of the country's wage-earners earned less than R10 000 and contributed only 20% to total tax receipts.

Mr Tony Gilson, director of the PE Chamber of Commerce, said he, too, endorsed Mr Searle's suggestion as it seemed self-evident that under existing circumstances enterprise and innovation were being penalised — "and that is something this country can least afford".

Shock rise in bank rates hits SA business activity

ARGUS 15/8/83 49

By DEREK TOMMEY
Finance Editor

BUSINESS conditions in South Africa have suddenly become much more difficult following the shock two percent increase in bank overdraft rates.

And the jump in the cost of other forms of short-term credit in the past seven days has also tightened the monetary screws.

The commercial banks have announced they will be increasing their prime lending rates by one percentage point today to 18 percent. This follows a one percentage point increase last Monday.

The banks' prime rate has now been increased by four percentage points since May. This has increased the average cost of bank credit by around 30 percent.

Interest rates on other forms of short-term credit have also soared in the past few days and three months' bank acceptances are now yielding almost 17 percent, which is equal to a borrowing cost of almost 19 percent.

Pave the way

The rise in the cost of credit is a direct result of steps taken by the monetary authorities to curb inflation.

In recent weeks both the Treasury and Reserve Bank have emphasised the necessity to reduce inflation so as to pave the way for a sound economic recovery.

Dr J H de Loor, the Director General Finance, is on record as saying that unless the inflation rate was brought down to single figures in the next six to 12 months, South Africa would not be able to afford a boom.

The main weapon being employed by the authorities in the fight against inflation is control of the money supply.

Curb the growth

Many economists maintain that prices fluctuate mainly in response to changes in the money supply. Therefore, it is argued, if the money supply is prevented from expanding, prices will remain stable.

To curb the growth in the South African money supply the authorities have resorted to far ranging measures this year.

These included the lifting of exchange control on non-residents, allowing banks to increase their lendings overseas, and the mopping up of other money in the economy by making special issues of Treasury bills and other Government stocks.

The authorities appear to have achieved considerable success in their bid to control of the money supply as is indicated by the jump in short-term interest rates in the past few days.

New highs

But it is possible that the recent rise in American interest rates has resulted in the squeeze in this country being tighter than the authorities originally intended.

Tight money conditions in the United States have pushed the dollar to new highs against most currencies. But its gains against the rand have been much smaller.

This indicates that the authorities have been keeping interest rates high in this country in order to support the rand against the dollar and reduce the risk of South Africa importing inflation.

Dr Chris Stals, senior deputy governor of the Reserve Bank, said last week the authorities had been supporting the rand earlier this year against the dollar.

Major impact

Professor Brian Kantor of the School of Economics at the University of Cape Town contends that the exchange rate of the rand has a major impact on the level of inflation in this country.

The present high level of interest rates in South Africa are likely to have a considerable impact on the level of business activity.

The new rates will immediately increase the cost to businessmen of carrying stocks. Businesses are thus likely to reduce orders for new stocks resulting in reduced production and lower employment in the manufacturing sector.

As this means fewer people will have money to spend, retailers and manufacturers will have greater difficulty in raising prices and thus inturn will help to reduce inflation.

The higher interest rates are not expected to lead to further increases in building society mortgage rates at the moment, said Mr Keith Gibbs, senior general manager of the SA Perm.

Bankers: Pinch to ease by 1984

Cape Times 20/8/83 (49)

By GORDON KLING

SPIRALLING interest rates on everything from overdrafts to hire-purchase agreements and building society mortgage bonds are likely to rise still further in coming months, but bankers believe the squeeze will ease from the year-end.

Estate agents yesterday said the property market had now fallen victim to the rising cost of money. Activity was dull and prices were beginning to stabilize after nine months of boom.

"The market is stone dead," pronounced a leading agent in Hout Bay who cited difficulties in raising bonds and finding new stock as additional factors.

A spokesman for Barclays National Bank said yesterday that the man-in-the-street could now expect to pay anything up to a staggering 24 percent on overdrafts and HP purchases.

The 20-percent rise to 18 percent in the banks' prime rate charged blue-chip clients in the past two months has taken the maximum charge to smaller customers to 20 percent for amounts over R5 000, 22 percent on amounts between R2 000 and R5 000 and 24 percent on loans below R2 000.

Speculation remains high that prime will rise to 19 percent in the near future.

HP rates are 24 percent for amounts under R10 000 and about 22 percent for higher figures.

"Wesbank is charging about 21 perent for HP," said a spokesman, "but rates vary with the deal and ancillary business flowing from it."

The mortgage manager at the Board of Executors, Mr J B Plimsoll, said he did not think it would be necessary to follow steep rate increases in participation bond schemes announced yesterday with further rises in the near future, but a rise by the building societies appeared innevitable.

Money market sources believed that building society rates to depositers were low and a necessary rise would mean a corresponding boost in bond rates in spite of rises between 1,5 and 0,5 percent in recent weeks.

The rocketing cost of borrowing has been set off by renewed tight money policies adopted by the authorities in a redoubled effort to combat inflation, expected to average about 13 percent this year, against less than four percent in Britain.

The apparent paradox of higher interest rates to reduce prices is explained by economists who point out that tighter money and the higher interest rates this causes could be expected to reduce expenditure by consumers, which in turn should dampen demand in general and reduce the frequency and magnitude of price rises.

Barclays' spokesman expected the decline to set in from the end of the year, but agreed that further rises before then were probable.

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Indications that South African downturn may soon start to level out

PRETORIA. — South Africa found itself still firmly in a downward phase of the business cycle, characterized by regressing output and rising unemployment, the SA Reserve Bank said in its annual economic report released yesterday.

"In spite of the present relatively low gold price and the severe drought conditions, however, there are indications that the downturn may soon start to level out, if it has not already begun to do so," it said.

"The economic recovery in the United States is now clearly under way and should increasingly exert expansionary effects on Europe and Japan.

"The prospects are that South Africa will in due course benefit from this through an export-led recovery. Inevitably, the timing and momentum of this expected new upswing will depend, in no small measure, on the beaviour of the gold price," it said.

In 1982 and the first half of 1983, the South African economy made considerable progress in adjusting to the changed circumstances brought about by the international recession, the decline in the gold price after January 1980 and, more recently, the severe drought.

"Evidence to support this view was provided by the dramatic improvement on the current account of the balance of payments, the substantial rise in net foreign reserves from the middle of 1982, the emergence of surplus production capacity, the disappearance of most skilled labour constraints, and some abatement of demand pressure on prices.

"In this respect, the less accommodative monetary policy which the authorities applied in 1981 and 1982, in co-ordination with a policy of fiscal discipline, achieved important objectives.

"Up to the middle of 1983, however, the rate of inflation had not as yet declined to the desired extent. Admittedly, there was some slow-down of the increase in consumer and production prices. And more recently other indicators of inflation, such as the rates of increase in salaries and wages, unit labour costs and import prices, have also begun to point to stronger moderating influences on prices."

But in spite of these favourable indications, the South African rate of inflation remained high and inflationary expectations firmly entrenched. Measured over a 12-month period, consumer prices increased at a rate of 12,4 percent in June 1983, about 2½ times as high as the average for South Africa's seven main trading partners.

"Acknowledging these facts, including the surplus achieved on the balance of payments, the emphasis in economic policy in 1983 shifted more explicitly towards curbing inflation.

"To this end, it was deemed desirable to follow a less accommodative monetary policy so as to create an environment, in terms of the availability of money and credit and appropriate interest and exchange rates, that would be conducive to the further reduction of inflationary pressures and the unwinding of inflationary expectations," the report said.

"Also with a view to curbing inflation, the 1983/84 government budget, presented in March 1983, adhered to the now established principle of expenditure restraint and sought to achieve a rate of increase in expenditure that would imply little increase in real terms. Equally important and more pertinent to the strengthening of monetary control, the budget aimed at a relatively small deficit before borrowing in order to avoid any monetary financing."

Recognizing that changes in monetary aggregates might have been distorted by the bank's "innovative practices and that care has to be taken in interpreting short-term fluctuations in South Africa's monetary aggregates, as currently defined and measured at month-ends, a fairly clear pattern of change was nevertheless observed in the rate of monetary expansion from about the middle of 1982," it said.

"Under the impact of a considerable improvement in the overall balance of payments and an accompanying increase in net foreign reserves, monetary expansion gathered some pace in the six months to January 1983.

"In the first half of 1983, the money supply growth rate accelerated further, mainly because of the extent to which the government sector availed itself of net bank credit — a process which served to provide the banks with adequate cash reserves and therefore enabled them to expand their credit to the private sector as well.

"The end result was that, viewed over a period of 12 months, the increase in the broad money supply (M2) accelerated from 17 percent at the end of 1982 to 22 percent in June 1983, a rate of increase which exceeded the rate of inflation by a substantial margin and was not consistent with the policy objective of moderating the continuing high rate of inflation."

Under the influence of the more rapid monetary expansion, interest rates started to decline in the third quarter of 1982. But the steep downward movement to the middle of February 1983 suggested that important other forces were also at work.

"Not only was there a cyclical weakening of the demand for credit, but expectations of a prospective decline in interest rates, created by an increase in the gold price and a decline in interest rates abroad, also played their part.

"This change was also reflected in an easing of money market conditions, apart from intermittent periods of seasonal tightening. The cyclical impact on the demand for funds was also felt in the capital market. A slow-down of the demand for funds for the financing of real economic activity, in combination with the further expansion of liquidity in the economy, found expression in lower long-term interest rates, either in the primary market or through the bidding-up of security prices in the secondary market," it said.

As a result of these sharp declines, short as well as long-term interest rates became significantly negative in real terms in the first half of February 1983.

Although some rates began to firm in March, April and May, it was not until June that both short and long-term interest rates increased sharply again — a tendency which then continued into August.

"The main reason for the change from June onwards was the more consistent application by the authorities of the financing policies announced in the March Budget and the consequent reduction in the net claims of the banking sector on the government sector, which had increased considerably in the preceding three months, even after allowing for seasonal variations."

The report said although the "causality between exchange rates and current balance of payments transactions runs in both directions, the exchange rate of the rand was influenced in a fundamental way by the improvement in the current account balance."

At a seasonally adjusted annual rate, this balance had still been negative to the extent of R7,1 billion, or nine percent of gross domestic product, in the first quarter of 1982, but the deficit shrunk rapidly and gave way to a surplus of R1,1 billion in the fourth quarter.

"This fast turnaround was accompanied by expectations of an appreciation of the rand. In conjunction with interest rate differentials, these expectations gave rise to a net inflow of capital from the third quarter.

"In the period of seven months to January 1983, in which net foreign reserves increased by R2,4 billion, the rand in fact appreciated in effective terms by 10 percent."

In spite of a subsequent net outflow of capital, the rand gained further ground in the six months to July. — Sapa

De Kock vows crackdown on SA inflation

ARGUS 23/8/83

49

Finance Editor

DR Gerhard de Kock, Governor of the Reserve Bank, has again emphasised the authorities' determination to crack down on inflation.

He has also indicated that the bank is not prepared to create money to reduce current high interest rates owing to the long-term dangers this would pose to the economy.

He told the annual meeting of the bank in Pretoria today that following the improvement in the balance of payments top priority was being given to curbing inflation.

This and the maintenance of a strong currency were viewed as prerequisites for optimal longer term growth.

Dr de Kock challenged the view that South Africa, under present conditions, had the choice between rapid growth and high inflation and low growth and relatively low inflation.

DEPRESSION

He said the South African economy was being constrained by the world depression, the relatively low gold price, stagnant markets for its other exports and the drought.

"In addition, South Africa's rate of inflation is about two-and-a-half times that of its main trading partners."

De de Kock said that in these circumstances making monetary policy more expansionary than it already was in order to expedite the expected increase in the real growth rate would be "extremely inflationary and counter-productive in the medium and long-term."

STRAITJACKET

Creating new money at a faster rate would be self-defeating since the resultant acceleration in inflation would produce higher nominal interest rates.

He warned that such a policy would weaken the balance of payments, invite speculation against the rand and produce a vicious circle of currency depreciation and inflation, and cited Mexico, Brazil, Poland and other Third World countries examples of where such policies could lead.

"Where the acceptance of realistic market-determined rates entails special hardships for certain groups such as drought stricken farmers or low-income homeowners, it is Government policy to provide overt relief through appropriate subsidies, rather than place the entire interest rate structure in a straitjacket."

"Therefore the best if not the only way to achieve the objectives of optimal growth and employment in the longer term, is to give priority to curbing inflation."

However, Dr de Kock had some encouraging remarks for hard-pressed businessmen, and hinted at some easing in interest rates next year.

"It is not difficult to envisage a scenario in 1984 in which, following an economic recovery abroad and a consequent increase in the value of South Africa's gold output and other exports, the achievement of a satisfactory money supply growth rate would be compatibile with both an appreciation in the rand and a decline in interest rates."

Although it would take some time before the next cyclical upswing gained momentum, the foundations for it had now been well and truly laid, he said.

Private sector is still tied to Pretoria's skirts, says economist

(49) Mercury 25/8/83.

Mercury Correspondent

CAPE TOWN—Is the private sector still hankering after the shelter of Ma Pretoria's skirts? Mr Attie de Vries sees signs of infantile dependency.

Speaking to the South African-German Chamber of Trade and Industry yesterday, the Stellenbosch-trained economist said the authorities were approaching housing, skilled labour shortage and unemployment of unskilled labour from a new angle.

The angle was based on letting market forces dominate.

'Although the private sector urged these changes for many years, the movement of late in that direction has and is creating uncertainties.'

He said that de-regulation had been a process of peeling off layers of protection which the private sector had formerly relied on.

'The removal of layers' means that the private sector must itself plan, react faster to changed circumstances.

'It must be realised that a more market-orientated approach towards the economy must bring about and go hand-in-hand with changes in the social and political environment.'

In an interview, Mr De Vries said it would take time for the private sector to stop expecting the Government to step in with remedies when things went wrong.

Survival is the business of business for the next 12 months, warns Mr De Vries.

Speaking about the prospects for the South African economy, he foresaw the recession subsiding for the next nine months, and reflation beginning late in the first quarter of 1984.

Optimism

Mr De Vries warned against easy optimism about an export-led recovery sooner.

Though surveys suggested that the business cycle was now nearing a 'lower turning point,' Mr De Vries said that 'caution must be exercised before coming to a conclusion that the business cycle has turned.'

This was because:

- Effects of the drought had still to be felt. The drought could contract exports;
- The U S economy's upturn was still 'based on consumer spending.' Because of high real interest rates, the upturn could lose some steam because it was not 'fully underpinned' by re-stocking and new fixed business investment.
- Though U S consumer demand was beginning to reach products from abroad, the benefits to South African exports could be delayed, 'especially in view of low overseas inflation and thus the possibility that commodity prices stay lower for a long time.

'Serious doubts must then be expressed about whether the South African economy has at this moment the necessary export base to sustain a recovery.

'This is apart from the still uncomfortably high, albeit slowly declining, inflation rate.

'A recovery now might jeopardise the possibilities of any relatively long and stable upturn in the economy.'

For this reason, Mr De Vries believed that the Government would have to maintain its 'restrictive policy stance for at least the next six months.'.

This would delay or attentuate recovery.

As a result, interest rates 'could start to decline again from the beginning of October this year,' though remaining at a higher nominal levels than before because of inflation and because 'the authorities would like to see a real rate of return on investment.'

Inflation would subside, 'though the effects of drought could prevent its declining much, if at all, below the 10 percent level,' with the exception of non-food prices, rising at a rate of some eight percent in the first quarter of 1984.

Unrest

'A continuation of the present restrictive policy' would aggravate already high unemployment among unskilled workers and because of the potential for 'socio-political unrest,' Mr De Vries thought the authorities would 'slowly become more accommodating in their policy approaches, especially on the fiscal side from early in 1984.

'Given the expectation that exports will start to recover from late 1983 or early 1984, as well as that the authorities will start to reflate, albeit very slowly, at about the same time, I can forsee the effects thereof becoming visible in the domestic economy late in 1984.

'Thus for the next 12 months, survival will still be uppermost in the minds of the greater part of the private sector in South Africa.'

Mr De Vries urged business to prepare for 'the upturn, especially by training staff.

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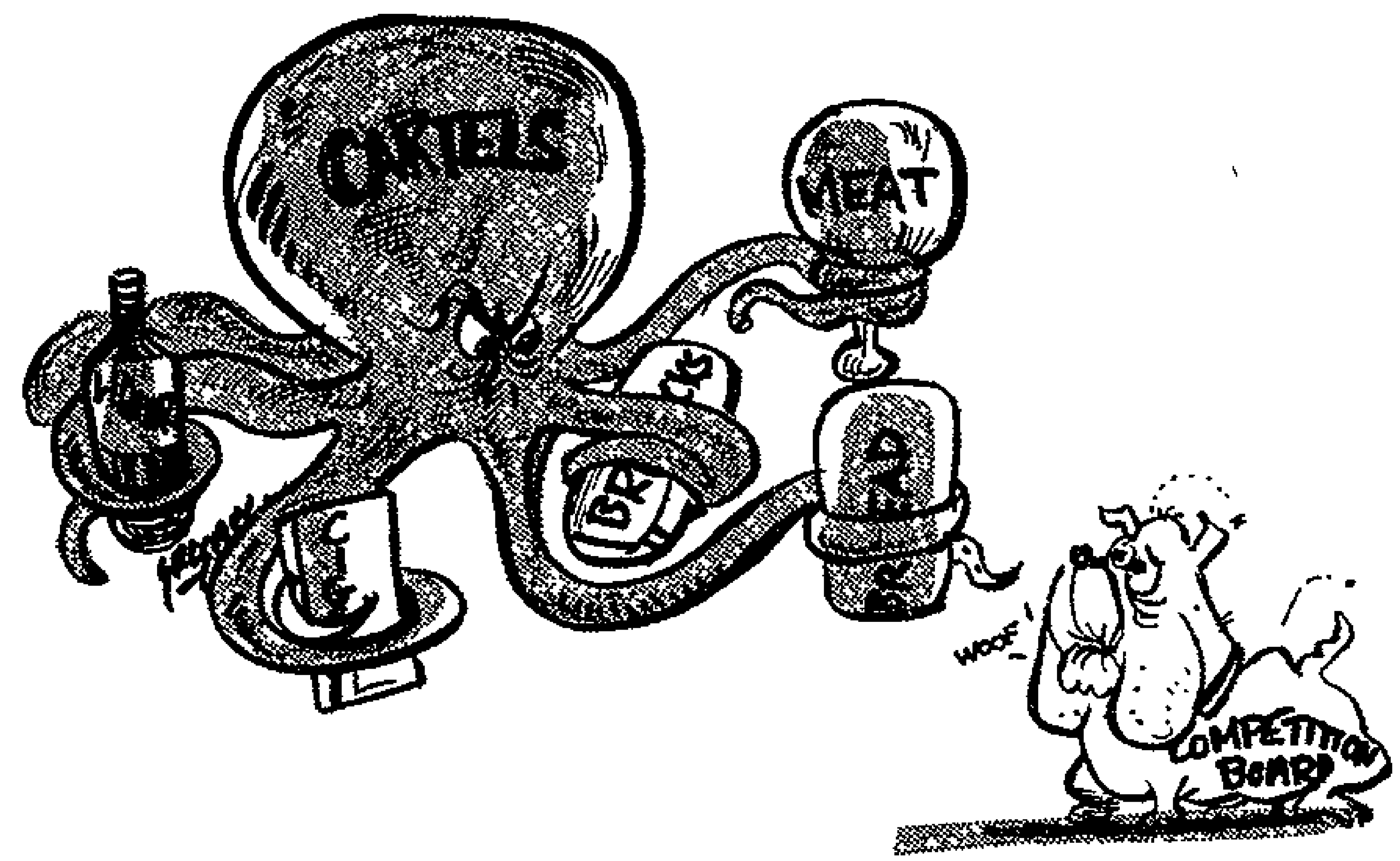
The big 'SA is a free market' lie

By PHILLIP VAN NIEKERK

A JOHANNESBURG morning newspaper commented recently that "it is a sad fact of life that most of the things you eat, you drink and you wear can in some way or another be the end result of price-fixing, cartels or outright monopoly".



Widespread concern has been voiced in the past few weeks at the fact that just seven large corporations with tentacles which reach into nearly every corner of the economy dominate a large slice of the local markets.

There are monopolies or "oligopolies" — a few large firms controlling the market — in bricks, packaging, meat, liquor,

Farmers' co-operatives, the fixing of prices . . . the elimination of international competition . . . give lie to the belief that South Africa has a "free market" economy.

canned foods, cigarettes and a host of other commodities. Recently, through a take-over by Bakers, biscuits joined the pile.

In addition, there are state or semi-state monopolies covering a wide range of industries and services such as air and rail travel, electricity and telephones. Farmers' co-operatives, the fixing of prices by control boards and the elimination of international competition through import tariffs further give the lie to the belief that South Africa has a "free market" economy.

Mr Robin McGregor, compiler of Who Owns Whom, believes that the effect of all this on inflation is quite simple: "Prices go up all the time because there is no competition. Monopolies and cartels — informal arrangements between businessmen to control the market — are a major contributing cause of inflation."

In this light, the role of the Competition Board, the watchdog body set up in the public interest to advise the government on monopolies and restrictive practices, has come under scrutiny. It has been accused of being a "toothless bulldog".

An often-cited example of the Competition Board's ineffectiveness was the government's rejection of the recommendation that the Cape Wine and South African Breweries monopolies of the liquor industry be broken up.

However, Dr David Mouton, chairman of the Board, denies that things are as bad as is being made out and says they have recently prevented several take-overs and mergers which were against the public interest.

Either way, the consumer seems to suffer constantly rising prices, perhaps nowhere more than in the most basic commodity of all — food. In February 1973, white bread cost 11 cents: Last year it went up to 50 cents. Over that period, brown bread has risen from 9 cents to 33 cents. A litre of milk has shot up from 13 cents in 1970 to 63 cents today.

In the eight-year period from 1975, most basic foodstuffs have increased in price at higher than the rate of inflation: Butter has risen 211 percent, flour

"Prices go up all the time because there is no competition."

183 percent, eggs 173 percent, sugar 231 percent and mealie meal 162 percent.

All this is in a country where thousands of children die of malnutrition every month and where many black families, particularly in the rural areas and homelands, live below the breadline.

Two gigantic companies, Premier (which is now effectively controlled by Anglo American) and Tiger Sugar (controlled by Barlow Rand), by and large dominate the local food market. Apart from the fact that Anglo owns 13,4 percent of Barlows, the possibility of these two giants ganging up as a cartel is very real.

As Mr McGregor points out, a cartel is hard to prove. It is always tempting — and makes good business sense — for competing firms to get together to avoid competition which would cut prices and profits, particularly if there are only a few competitors on the market. He believes that the existence of such cartels is widespread.

University of Cape Town economist Dr David Kaplan says that in an economy where the primary motive for business is to make as large a profit as possible, competition is the only safeguard for the consumer.

In South Africa there are no anti-trust laws such as exist in the United States to restrict monopolies and cartels and a big question mark hangs over the effectiveness of the Competition Board.

The consumer seems to suffer constantly rising prices, perhaps nowhere more than in the most basic commodity of all — food.

Thus there has been growing pressure on the government to bring in tougher anti-monopolies legislation to rectify a situation many believe should not have been allowed to happen in the first place.

● Tomorrow: The social implications of the monopolies.

Hope of early upturn fades as sales falter

W/C ARGUS 27/8/83 49

By DEREK TOMMEY Financial Editor

BUSINESSMEN are waking up to the fact that there will be no speedy economic recovery in South Africa.

The euphoria generated earlier this year by the upturn in the American economy and lower interest rates at home is rapidly evaporating under the impact of sharply dropping turnovers in most sectors of business.

The latest general sales tax figures, which reflect the level of business in all sectors of the economy, show that sales in real terms are well down on last year.

Tax rate

In June, GST produced R295,3-million which was only 2,7 percent up on a year ago.

This was in spite of the 20 percent increase in the tax rate and a 12 percent increase in prices.

The drop in business activity is attributed to several factors.

Among these are:

- The failure so far for South Africa to share in the United States economic recovery.
- The drought which has drastically reduced farmers' incomes.
- The Government's monetary policies which are resulting in high interest rates.
- The squeeze on personal spending.

Fiscal drag

South Africans have found the going increasingly difficult this year.

The unchanged tax rates and the resultant fiscal drag together with continue high inflation have taken large chunks out of most people's incomes.

At the same time the lower level of economic activity has curbed many people's earnings, either through their receiving reduced bonuses and commission or in more drastic cases, through losing their jobs.

Reports from industry indicate that a substantial number of people have become unemployed in recent months.

House buyers

Moreover, many house buyers are having to dig more deeply in their pockets to meet the increased cost of their mortgage bonds.

Meanwhile, hopes that the Government might come to the rescue of hard-pressed industry and commerce with an easier monetary policy were dashed this week.

The governor of the Reserve Bank, Dr Gerhard de Kock, reiterated at the bank's annual meeting that the Government believed the best way to get the economy working was to reduce the inflation rate.

As a result there would be no easing in the monetary policy as this would be inflationary.

The plight of the South African businessman was summed up this week by Mr A J M de Vries, deputy-director of the Bureau for Economic Research at the University of Stellenbosch.

He said for the next 12 months survival would still be uppermost in the minds of the greater part of the private sector.

The effects of the tighter monetary policy applied in recent months must still have its effects on the domestic economy, leading to a disappearance of signs of a recovery.

Export earnings

But he does not expect this situation to last for long.

Export earnings should start to improve later this year and the authorities should start reflating at about the same time, leading to some improvement in the economy by late next year.

Free economy the answer, Tucsa told

(49)

E. Post 28/9/83

Post Reporter

"THE greater the power of a Government, the greater is the struggle for power," the executive director of the Free Market Foundation, Mr Leon Louw, said in Port Elizabeth today.

Addressing delegates at the annual conference of the Trade Union Council of South Africa (Tucsa), Mr Louw said only freer economies could depoliticise life and prevent escalation of conflict.

Strikes and riots had occurred where there was Government intervention in issues such as education, resettlement, labour, influx, housing and deliberate racial segregation or integration.

He said it was not inconsistent for someone advocating a free market system to address trade unionists.

"Trade unions are voluntary associations of people and it is anti-free marketeers who have restricted their existence," he said.

The real enemies of a free market were usually the capitalists, because most laws had been passed at the request of the private sector.

He claimed free market systems brought "magnificent benefits" for workers, because the freest economies of the world, such as Lichtenstein, Switzerland, Taiwan, Hong Kong and Japan, had had full employment for decades.

Every law passed reduced freedom and in South Africa there were more than 4 500 statutes already.

"Interventionism is a disease of the West which has descended on us over the past 50 years," he said.

It now cost nearly R50 000 for governments to create one job in the formal sector, whereas a job could be created in an informal sector with R50 or R100. Decentralisation pushed up the cost of job creation and Government intervention also made racial discrimination cheap and easy.

(Report by C Pickard-Cambridge, 19 Baakens Street, Port Elizabeth)

Argus 30/8/83

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Reduced demand hits SA industries

By Finance Edi

DEREK TOMM

REDUCED demand resulted in the manufacturing sector operating at only 84 percent of capacity in May, Central Statistical Services reports.

This compares with a capacity utilisation of 84,5 percent in February and 88,1 percent a year ago.

Manufacturers said most of the reduced production was the result of insufficient demand.

Altogether 13,5 percentage points of the 16,0 percent point underutilisation was attributed to this factor.

Raw materials shortages accounted for 1,1 percent points, a shortage of white labour for 0,5 percentage points, and a shortage of black labour for 0,4 percentage points.

GREATEST DROP

Greatest drop in output was in the engineering and transport manufacturing sectors.

Production of machinery, except electrical machinery, was running at 78,9 percent of capacity, while output of transport equipment, except motor vehicles, parts and accessories was running at 78,9 percent of capacity.

The figure for plant utilisation in the motor vehicle, parts and accessories sector in May was 80 percent which was an increase on the 78 percent reported in February.

Against this, manufacturers of wood products, except furniture were operating at 90,2 percent capacity in May and paper manufacturers at 91,3 percent capacity.

LABOUR SHORTAGE

The figures indicate that under the impact of the recession the shortage of white labour in the manufacturing sector has eased significantly.

In only four of the 27 sectors surveyed did a shortage of white labour have any significant effect upon production.

The shortage was blamed for a loss in production of 1,7 percent in the tobacco products sector, 1,5 percent in the textiles sector, 1,1 percent in the metal products, and 0,9 percent in the printing and pbulishing sector.

A number of sectors were affected by a shortage of non-white labour.

MINERAL PRODUCTS

The sectors and the production loss attributed to the shortage were: "other" non-metallic mineral products 1,2 percent, furniture (wood) 1,2 percent, leather and leather products 1,0 percent, clothing 1,0 percent and textiles 0,9 percent.

May plant utilisation figures in percentages for the various sectors, with the year ago figure in brackets, are:

Food 84,4 (86,6); beverages 84,6 (87,7); tobacco products 88,5 (89,2); textiles 83,4 (89,4); clothing 86,9 (90,8); leather products 88,1 (89,4); footwear 89,2 (95,6); wood and wood products excluding furniture 90,2 (92,0); furniture 86,7 (88,2); paper products 91,3 (93,9); printing and publishing 88,3 (91,2); industrial chemicals 82,7 (88,8); other chemicals 84,1 (85,9); rubber products 83,0 (89,7); plastic products 83,4 (85,0); pottery 85,8 (91,1); glass 83,0 (96,1); other non-metallic mineral products 84,2 (86,0); iron and steel 83,6 (88,4); non-ferrous industries 84,5 (86,7); metal products 82,5 (87,4); machinery 78,9 (85,0); electrical machinery 82,1 (87,7); motor vehicles, parts and accessories 80,0 (88,2); trasnport equipment 78,9 (83,9); professional and scientific equipment 89,4 (85,3); and "other" industries 89,3 (89,5).

Cape Times 30/8/83 (49)

Blacks see economy worsening — BER

By ROBERT GREIG

PESSIMISM about the economy among blacks could impede its recovery, warns Stellenbosch University's Bureau for Economic Research (BER).

The bureau's quarterly consumer attitude survey, released yesterday, reports that though whites are getting happier about the economy, blacks believe things are getting worse and see little hope in the future.

The survey was of whites in cities, towns and villages and blacks in metropolitan areas — excluding Cape Town.

Gloom

The bureau reports a mood of extreme gloom among blacks about the economy now and in the future, increasing debt and erosion of savings.

Since the last survey, the bureau finds, "consumer confidence among blacks has deteriorated substantially" — they are "very depressed" — and their "confidence is apparently on a downtrend" while among whites "confidence is remaining in an uptrend".

The survey ascribes the divergence "to the fact that any economic recession affects those in the lower-income groups more adversely than those in the upper-income groups.

"It could also be mentioned that whites are expecting that higher salaries for civil servants" will be announced soon.

Also, the bureau says, an improved economy pushes up demand for skilled labour. Whites realize that they are its reservoir.

The survey finds that mixed signals suggest the economy is approaching a cyclical trough or peak.

The bureau warns that "chances are good, however, that South Africa's exports could be dampened down somewhat by the nature of the American upswing, but it should revive early in next year.

"Consumer spending is likely to remain sluggish because of low per capita earnings and a still low level of confidence — in the black household sector in particular.

"In fact, the confidence and income of blacks are of a nature which could damp demand substantially and the recent tightening of monetary policy is likely to have a further negative influence on economic growth in the near future.

"It would not come as a major surprise if economic conditions deteriorated slightly before the next cyclical upswing commenced."

Those surveyed were ask to compare the country's economic situation now with a year ago; to describe its prospects in the next year and next five years; and to compare their household's financial situation with that a year ago; and describe its prospects in the next year.

- Thirty-three percent of white respondents detected improvements in the national economy in the last year (19,1 percent previously). Of blacks, 9,8 percent saw improvements, 34,7 percent a considerable deterioration (as against 19,3 percent in the previous survey).
- White consumer confidence about the future is at its second highest since surveys started in 1975.

Of blacks, 47 percent expect a considerable deterioration. In the previous survey 23,4 percent did.

- More blacks report rising debts than before and more have to use savings to honour their commitments.

Deterioration

Nearly 10 percent more blacks say their income is no longer sufficient to make ends meet and expect further deterioration.

Whites' responses suggest an easing of their financial circumstances. More expect to have money to save, though most still believe conditions do not favour this yet.

- Whites and blacks agree that prices have risen faster than in the previous 12 months and that they will continue rising.

More blacks — 71,4 percent — believe this than whites (57,7 percent) but in both cases the percentages have risen since the last quarterly survey.

Economy will lack vigour for the rest of this year

Survival the key word for many companies — BER

CAPE TIMES 13/10/83 (49)

By ALEX PETERSEN
Deputy Financial Editor

ALTHOUGH manufacturers and retailers feel that the lower turning point in the current downswing has been reached, they still remain pessimistic, according to the Bureau of Economic Research at the University of Stellenbosch (BER).

In its latest opinion survey of businessmen, the bureau reports that businessmen see the current low level of activity continuing, with no sharp improvements in the fourth quarter.

Looking at industries by sector, further deteriorations are seen for the beverages and tobacco, although relative improvements are seen for footwear, wood products, furniture, printing and publishing, chemicals, and transport equipment.

Although there were expectations of improved production and sales volumes, the survey notes, "it appears from the fact that the net majority of respondents still found the value of unfilled orders in relation to sales lower than those of a year ago, that the demand for products is continuing at a low level."

Weak demand, it comments, is also reflected in a shortening of delivery periods.

Other indicators reported by manufacturers were:

- A low level of investments in buildings and machinery.
- Stocks of raw materials were too high in relation to planned production.
- Stocks of finished goods were in balance with the low demand.

In spite of the slowdown, which began two years ago, various bottlenecks, which are especially troublesome during periods of high activity are still hampering activities.

These include shortages of skilled labour, with a weighting of 15, down from 30 in the third quarter of 1982.

Shortages of raw materials were seen as less serious than previously, but more businessmen were troubled by the availability and cost of finance.

Other findings of the survey do not augur well for inflation.

"Contrary to a decrease in the year-on-year consumer price index, there has been no levelling off in the rate of manufacturing price increases compared with the corresponding period of a year ago."

"The reason for this behaviour might be found in price increase of labour and raw materials which were reported as higher by the majority of respondents."

Commenting on the economy in general, the survey finds that no sustained upturn in the demand for merchandise exports can be expected before well into 1984, "leaving the South African authorities with an insufficient export earnings base on which to aid the reflating of the economy".

Although the inflation rate has shown some slow-down, "it is still very high in relation to that of our main trading partners thus militating against exports."

A continuation of the low levels of economic activity, the survey predicts, "will lead to further downward pressure on company profits, more bankruptcies and higher unemployment."

BER predict that the rate of price increases will come down to between 10 percent and 11 percent on a year-on-year basis at the end of 1983, and with demand for funds from the private sector remaining at a low level, interests rates might start to decline — albeit slowly — in the fourth quarter of this year.

"The remainder of this year will see the South African economy still very much without vigour with survival the keyword for many companies in the private sector."

A key factor in preparing for the upswing will be the availability of skilled workers, for which more training by companies will be necessary.

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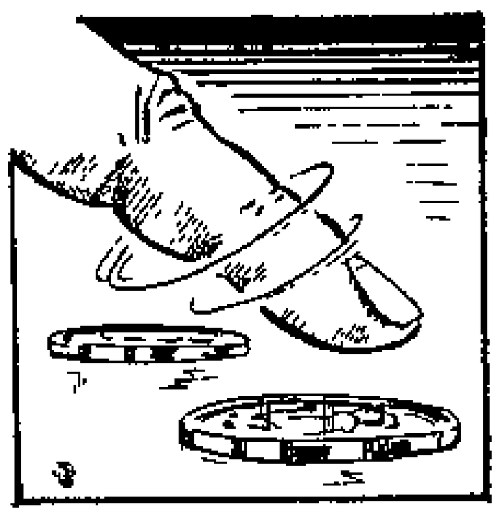
INFLATION AND THE JOBLESS

Counting the costs



The *FM* recently invited five leading Cape economists to a wide-ranging panel discussion on topical economic issues. The result was a lively diversity of views, many of them controversial. This week, the five discuss the costs of anti-inflation policy and attitudes towards the free market. Next week, they will consider competition and economic concentration.

***FM*: Wolfgang, could you perhaps give us an idea of whether the inflation rate will continue to come down to single figures by the end of the year, as forecast in some quarters?**

Thomas: My expectations are that inflation will probably come down below the 10% mark with medicine as harsh as we are using. Those who feel it is the appropriate medicine can pride themselves. My personal view is slightly different. I think we are pursuing one policy goal at a time, shifting the others pretty far into the background. So if we feel we've won the battle against inflation at the beginning of next year, I'm inclined to say: "What have we won?" And: "What is the cost of a single-minded anti-inflationary policy?"

Why, in your opinion, has the inflation rate come down? What is the medicine you were talking about?

Thomas: Well, I think there were some external factors which obviously helped us in terms of import prices, oil prices and others. But it seems to me that we have been pursuing a restrictive macro-economic policy. We have certainly pushed the recession to the necessary extent to reduce the rate of inflation.

Johann, would you say that our policy up to now has been severely restrictive?

Louw: No, I don't think so. Especially as far as monetary policy is concerned, I think it was rather too lenient. I think the factors that contribute to lower inflation at present are stronger competition in the SA economy as a result of the recession and also lower import prices. But I can see the inflation rate coming down to 10% and lower only if government will keep down increases in administered prices. That's going to play a very important role in the coming months.

Rob, what's your view of monetary policy?

Lee: Well, I would agree with Johann that over the past year it has, if anything, been too lenient. We're not going to reduce our inflation rate anywhere near that of our competitors without much lower money supply growth.

Wolfgang questions the costs of reducing inflation, but I would question the costs of not reducing inflation. The disinflationary trend in the world is very strong and as a trading nation we're very quickly going to lose our ability to trade in world markets at all. I don't see the world inflation trend picking up to any significant extent in the foreseeable future, and SA can lose its competitive edge very quickly unless we get our inflation rate much closer to the world average. I would question whether policy at this stage is going to achieve that objective.

Louw: Well, the trouble of course is that in SA we can't have the same amount of unemployment as overseas countries. You have to choose a different policy here.

Lee: The short-term costs are very high. But look at the example of the US. It's had a very severe recession but now, because inflation is falling so much, their recovery is looking very healthy. It has at least the chance of being much more sustained throughout the decade as a result, first of all, of producing lower inflation. I think that has a lesson for us.

David, what's your view of the policy priority at present?

Rees: Well, I certainly think that in the last 12 months inflation has seriously become the item of major priority. But I would like to question this apparent trade-off between unemployment and inflation. There is the view that we can't afford a restrictive monetary policy because the political costs of labour unrest and so on are too high. I would question that. It seems to me that the labour market in SA is an extremely inefficient one. And if you're prepared, at the same time as you reduce the inflation rate, to implement a more efficient labour market, then in fact you can achieve both things — reduce inflation and at the same time reduce unemployment.

Is it practical politics to talk about a more efficient labour market? Aren't we talking about fundamental political change like the removal of the Group Areas Act? And is it possible in SA to do that?

Rees: You don't have to do fundamental things. You can, for example, ease up on influx control, you can make marginal adjustments, and even these would be effective in reducing unemployment — in fact creating more jobs.

Brian, in your view, could this be done quickly enough?

Kantor: Well, firstly I must say that I find this talk about unemployment being politically more difficult in SA than elsewhere actually wrong. Because elsewhere the unemployed actually vote, and in SA they don't vote. What they vote for, of course, in Europe and America, are high unemployment benefits, which tends, of course, to increase the unemployment rate. Why do we have such low unemployment among, let's say, whites in SA? Presumably because if you're unemployed and white in SA your benefits are very small relative to the alternative income. So you make sure you go out there and find yourself a job.

So unemployment would not really create

David Rees is a senior lecturer in economics at the School of Economics, University of Cape Town.

Wolfgang Thomas is professor of economics at the University of the Western Cape.

Rob Lee is the chief economist of Old Mutual.

Johann Louw is the senior manager of economic research at Sanlam.

Brian Kantor is a professor of economics at the School of Economics, University of Cape Town.

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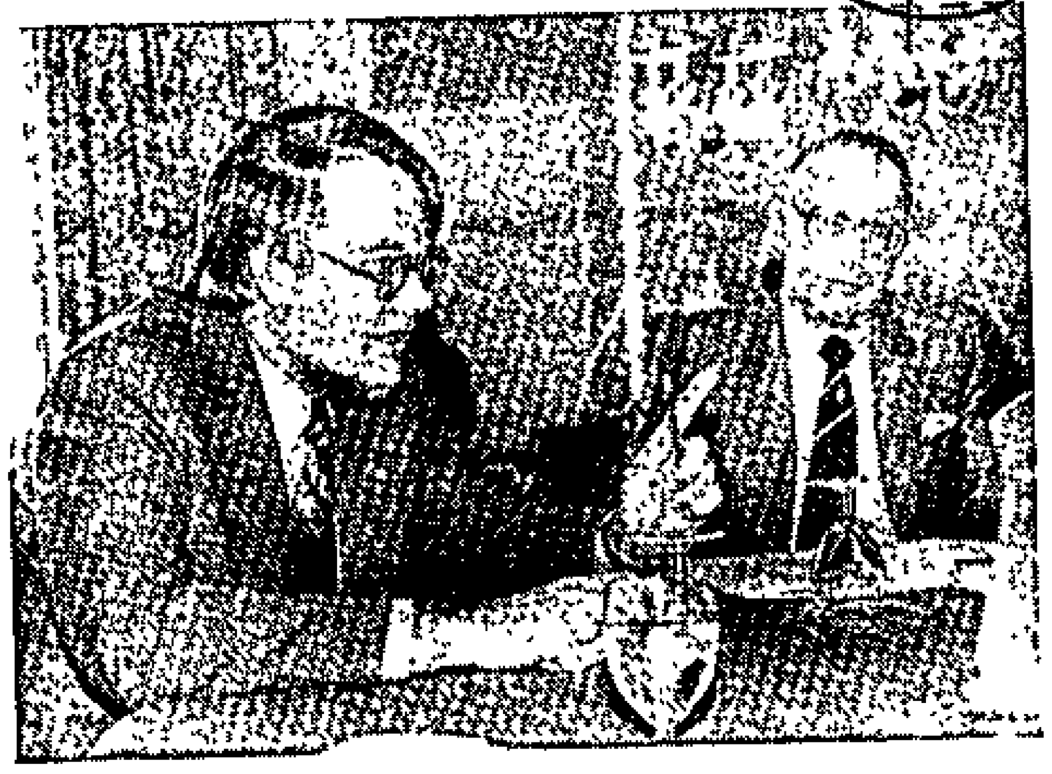


political problems?

Kantor: Well, not directly, except, of course, if you start getting riots in the townships and so forth. Then, though I hate to sound harsh, presumably SA knows how to deal with that problem. We've had a certain amount of experience.

But let's think about this unemployment/inflation trade-off. Certainly we've had more unemployment. But on a moving trend basis, which is really the only way one should look at it, inflation is right down. And so you want to ask yourself: what is the proximate cause of this fall in inflation and the increase in unemployment? I don't think they're particularly well related. I think we've had increased unemployment here since the middle of last year for fundamental real reasons against which no economic policy could have protected us.

In fact, policy over the period has really been, as we've indicated, not restrictive at all. On the contrary. There was in fact a period last year, three or four months after June, when the gold price recovered and the rand went from US89c to US87c. Nothing could be more inflationary and more stimulatory that that kind of action.

Then the gold price increased, SA imports started falling away and the rand started appreciating rather than depreciating. This is really fundamental to the inflation picture — the impact of the strengthening of the rand from very low levels, a low world rate of inflation giving SA really very little by way of cost increases, and giving SA exporters, at the same time, not very much by way of price increase.

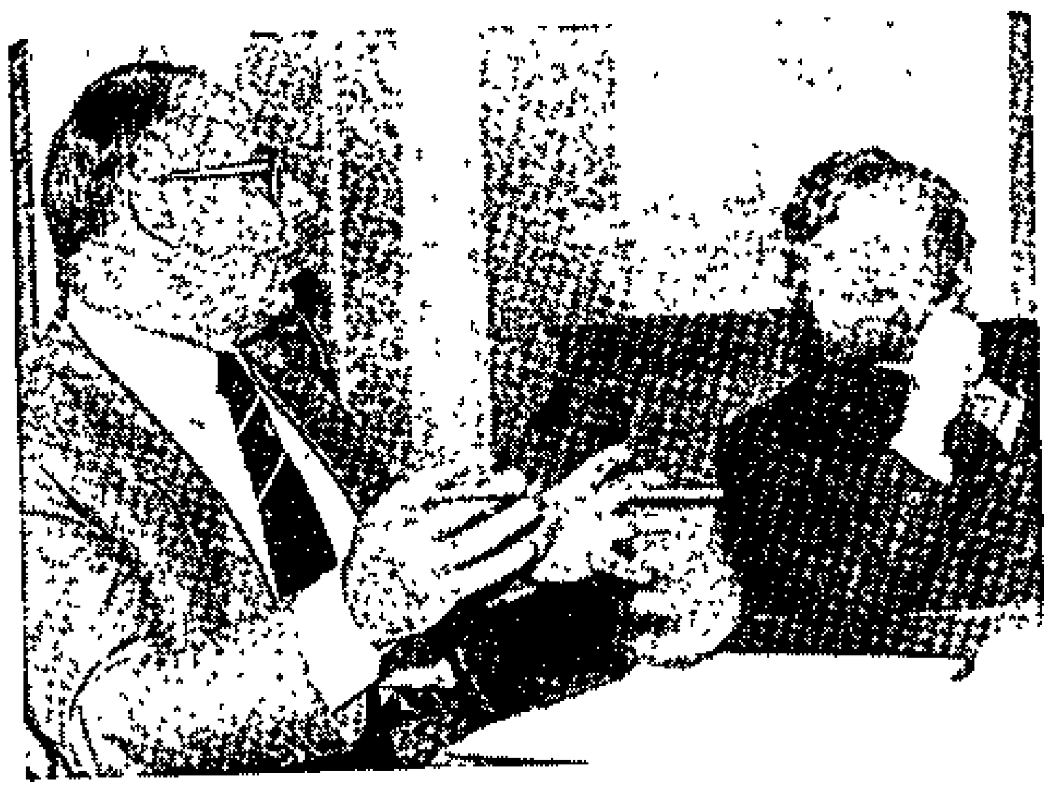
What you're saying is that the strengthening of the rand in recent times was a major factor in bringing down prices.

Kantor: It is *the* factor. If you want to think about inflation in SA, you've go to know what is going to happen to the rand. If the rand retains its strong currency value, then it's a logical corollary that the inflation rate in SA must approximate the inflation rate in other countries. Otherwise our exporters go out of business and our firms competing with imports go out of business. They have to bring their prices down to match that of imported costs. And they will.

Lee: In the US and the UK most people didn't expect their recessions to be as severe as they were, or inflation to fall as much. And virtually the sole reason for those bad forecasts was to misread the importance of the exchange rate. The high dollar is causing a major restructuring of American industry. It's probably the single most important thing that you can look at. And in our economy the exchange rate is even more important than it is in the case of the US.

If the rand does start rising and if, now that we have abolished exchange control for non-residents, there is an inflow of money into the country, what happens then?

Kantor: Well, this is the point. The authorities have come a long way with monetary policy. They've gained the acceptance of the politicians and the public to the fact that interest rates, and possibly the exchange rate, should be flexible. It's (Reserve Bank Governor Gerhard) De Kock's achievement. He sold the policy of depoliticising interest and exchange rates. Now the question is: how's he going to use that freedom that he's won for himself? At the moment Pretoria seems to believe that it can target on interest rates, use interest rates and its control over forward ex-



change rates as their instruments of policy. These, I'm afraid, will not be sufficient to fulfil the purpose. It failed them in the past, and it's going to fail them in the future.

Do they have a choice?

Kantor: Yes. I don't think that they actually have accepted the argument for money-based targeting as opposed to interest rate targeting. I think one still has to win that argument with them.

Louw: One must say that SA has a very open economy. It's more difficult to control money supply here than in any other country.

Kantor: Switzerland has a very open eco-

nomy, Japan has a very open economy, Germany has an open economy. The way to do it is to get out of the business of determining exchange rates: that is, the authorities cannot control exchange rates and money supply. They've got to decide that the marketplace determines exchange rates and they concentrate on money supply. That's the way you do it.

Let's get back to unemployment. Wolfgang, would you put the priorities of inflation and unemployment in the same way as has been expressed, or would you say that unemployment is a more important problem? And what is your view on improving the efficiencies of the labour market.

Thomas: My own feeling is — and I'm not part of any idealogical school — that SA has to be understood both as a modern country, where you can apply the normal models, and a developing and, structurally, rather complex country. So inflation here is both cyclical and structural, which makes me conclude that we will, in the medium and the long run, not be able to keep an inflation rate as low as in some of the other industrialised countries.

It's easy to put it in a rather brutal way and say that we know how to handle unrest. As long as unemployment and the will of the majority of the people is no issue, we can keep the exchange rate flexible, and have a tight monetary policy. But we shouldn't think we have achieved much. My key question is whether in both appealing to the public and general policy we are wise in following a single-minded anti-inflationary policy?

What else could we do? What other policies could we follow?

Kantor: Let's get this on the record. The trade-off between inflation and unemployment in SA is as spurious as it is all over the world. There's a trade-off between *unexpected* inflation and unemployment, but not inflation and unemployment.

Thomas: Now wait a bit, Brian. I've never gone on record as claiming a simple trade-off. What I'm saying is that in the minds of the blacks, the government is at this stage pursuing a single-minded and bloody-minded anti-inflationary policy. It prides itself on every percentage point that it comes down, but doesn't give any attention to what seem to be side effects. I mean, in the short run we can do pretty little, and I'm certainly not defending a sort of old fashioned, pump-priming policy.

(49) FM 14/10/83

Rees: But the short run's the only run you've got. If you look at the long runs, the decades of the highest growth have been the decades of the lowest inflation. The decades of the highest inflation have been the decades of the lowest growth.

Unemployment opportunities

Kantor: And to talk about being brutal, the best hope of poor people in SA for growth in their own income and growth in employment opportunities is to improve the stability with which the economy functions. That will mean, fundamentally, generally lower rates of inflation. That's going to help poor people in SA, not harm them at all.

Lee: But Brian, you must agree that in practical terms the short-run effect of a very tight monetary policy in an economy which has very high inflation rate expectations must be high unemployment?

Kantor: That's right. That's why ever since we let the money supply get out of control in 1980 and 1981, I was appealing for a return to lower rates of monetary growth.

Rees: I think that Wolfgang's argument would actually be stronger if he argued in terms of fiscal policy rather than in terms of monetary policy. If government wished to express concern about unemployment, the budget was the thing to worry about. Monetary policy is really a tool against inflation. You haven't seen very much redistribution towards the unemployed simply because the unemployed don't have any votes. But, of course, in the new constitution the unemployed are going to have some votes and they might have some quite important votes.

Thomas: On the technocratic level of monetary and fiscal management I can personally see very little problem with what is being done at the moment. But in terms of three quarters of the population in SA not being white and not having studied economics, the public relations or educational or explanatory side of present government policy is absolutely rotten.

In fact, isn't it time that the cliché of the free market economy in SA is replaced? In Germany after World War 2 there was a term among people who basically have the same thing in mind and that is a "social market economy." The term "social" at least admits, from the government side, a basic openness towards social responsibility which obviously has to be argued out in detail.

Rees: There's probably something in that. The concept of the free market becomes discredited if you talk about it and then do nothing about it.

Social responsibility

Kantor: It's quite clear that we don't have a free market system. We have a system that's highly interfered with at all levels, and one that also does accept a high degree of social responsibility — in the form of housing, medical and educational policies.

But I would have thought that the case for market solutions is precisely because the heterogeneous society makes it so difficult to win consent for government intervention. That is, everybody wants something from government, and government of course can't deliver. So the frustrations are profound and, of course, the incentive to take over the power of government to redistribute income your way, or the way of your supporters, is a powerful one. And that is a recipe for a violent society.

Thomas: Bear in mind that for the last 30-40 years we had a social welfare state for the whites. Now it starts to widen and we see an inevitable dropping of the social welfare functions in terms of terminology and ideology. I'm not disagreeing about the necessity to do this, but we must not forget that for the black man in the street this is utter cynicism.

Monopoly of government

Kantor: We've got two things to persuade. We've got to persuade the whites that in fact they must give up some of the benefits they've had from the monopoly of government. If they want decent schools and hospitals, they've got to pay fees. If you want a provision for retirement, you've got to pay into a pension. These are hard enough things to sell to the voters as they are. And it's absolutely vital that the blacks in SA come to understand that if we have a State that attempts to do for the blacks what the State did to a degree for the whites, we will have no prospect of economic growth and no prospect of economic advancement. We would have a State with very high taxation, with strong disincentives to effort and initiative. That would lead to a migration of skilled people and capital out of SA.

BIG BUSINESS AND COMPETITION

Unscrambling the omelette

This week five Cape economists consider the question of monopolies, economic concentration and competition. Last week they gave their views on inflation and unemployment.

***FM*: Wolfgang, you mentioned earlier the structural rigidities within the economy and their inflationary impact. What do you believe these structural rigidities to be?**

Thomas: Well, let's take the question of competition. The issue is complex. But I think at the moment the public, probably blacks more so than whites, see themselves confronted with, on the one side, increasing concentration among the big groups, and on the other, a sort of price policy which obviously they don't understand. At the same time in terms of monetary and fiscal policy there is a tightening. So they feel that they're being confronted by monopolistic or oligarchistic prices against which they have no protection.

How valid is the fear that large insurance companies are in a position to influence management?

Louw: That's not the intention of the insurance companies. They haven't the expertise.

Let's just dwell on this question for a minute, of concentration of ownership and lack of competition. David, what is your view?

Rees: I worry about monopoly for the conventional reasons that economists advance against monopoly. Monopoly tends to generate an economy which is inefficient and tends to redistribute from consumers to producers. These are standard arguments against monopoly. I'm concerned about the anti-monopoly policy which we have because it seems to go with the symptoms rather than the causes. The free market doesn't generate monopolies. Monopolies arise through government intervention. It's very difficult to think of a monopoly in SA which wasn't put in place, and sustained in place by some form of government intervention, some sort of constraint on competition.

Now, we have a competition policy — anti-monopoly policy — which works through the government and so the government's in a contradictory position. On the one hand you have monopolies which were created by the government to serve the interests of specific groups and at the same time the government is vocalising an anti-monopoly policy.

Can we be specific for a moment? We have seen a trend in recent months towards a marked concentration of ownership. Is this a good thing or a bad thing?

Rees: I don't think one can pass judgement on it. Given the rules of the game, businessmen behave in a way which will maximise profits and that implies using resources as efficiently as possible. I'm not prepared to say whether a particular merger is a good thing or a bad thing. What I worry about are the rules of the game. And there's no doubt that to a large extent what we've seen is the result of various constraints on market activities, such as exchange control. This is one of the reasons why financial institutions have grown so rapidly and why there's been so much concentration in the financial sector. Now, you can keep exchange control in place and invoke competition boards to deal with the problem, or you can go to the fundamental cause of the problem.

Kantor: There's something even more fundamental than exchange control and that's differential taxation. Different kinds of economic activity in SA are taxed at very different rates and the highest tax rates are actually paid in the gold mining industry. Just to make the point, if you took two important investments by Anglo American — say Western Deep and AECI — you'd find that Western Deep pays 70% in tax and AECI pays zero. Now what is management going to do with the cash generated by Western Deep? Pay it away in taxes or look for acquisitions that effectively reduce their tax rate and increase their retention of cash?

Rees: I think protection by import control is one of the most fundamental causes of monopolies. We often look for example at concentration ratios as being very high in SA. Now these are interesting because SA is defined as the geographical region within which the concentration ratios operate. That's only important if imports aren't allowed in. As soon as you have competition from imports, those concentration ratios become insignificant because, in world terms, SA's concentrations are trivial. Why does one worry about the fact that SA Breweries (SAB) controls 100% of the brewing capacity in SA? Only because there may be constraints on imports. I'm not sure if there are constraints on imports, but if there are, then it becomes relevant that SAB can to some extent push up the price of beer against consumers.

Lee: I think that there's a danger of becoming too simplistic about this concentration of power argument. People think that an industry dominated by, say, three companies must be less competitive than an industry with a lot of small companies. But in fact the evidence from overseas is that it's not necessarily the case. You can have an industry dominated by two companies which is extremely competitive.

Rees: I agree that concentration ratios tell you very little if anything about the competitiveness of a particular sector. But they do tell you something about the degree of difficulty, or ease, of organising a political body to represent a particular sector. For example, in the insurance sector, the high concentration ratio may tell you something about the influence that sector is likely to have with government. It's easier

David Rees is a senior lecturer in economics at the School of Economics, University of Cape Town.

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Brian Kantor is a professor of economics at the School of Economics, University of Cape Town.

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to organise a lobby with only three of you around the table than when there are about 300.

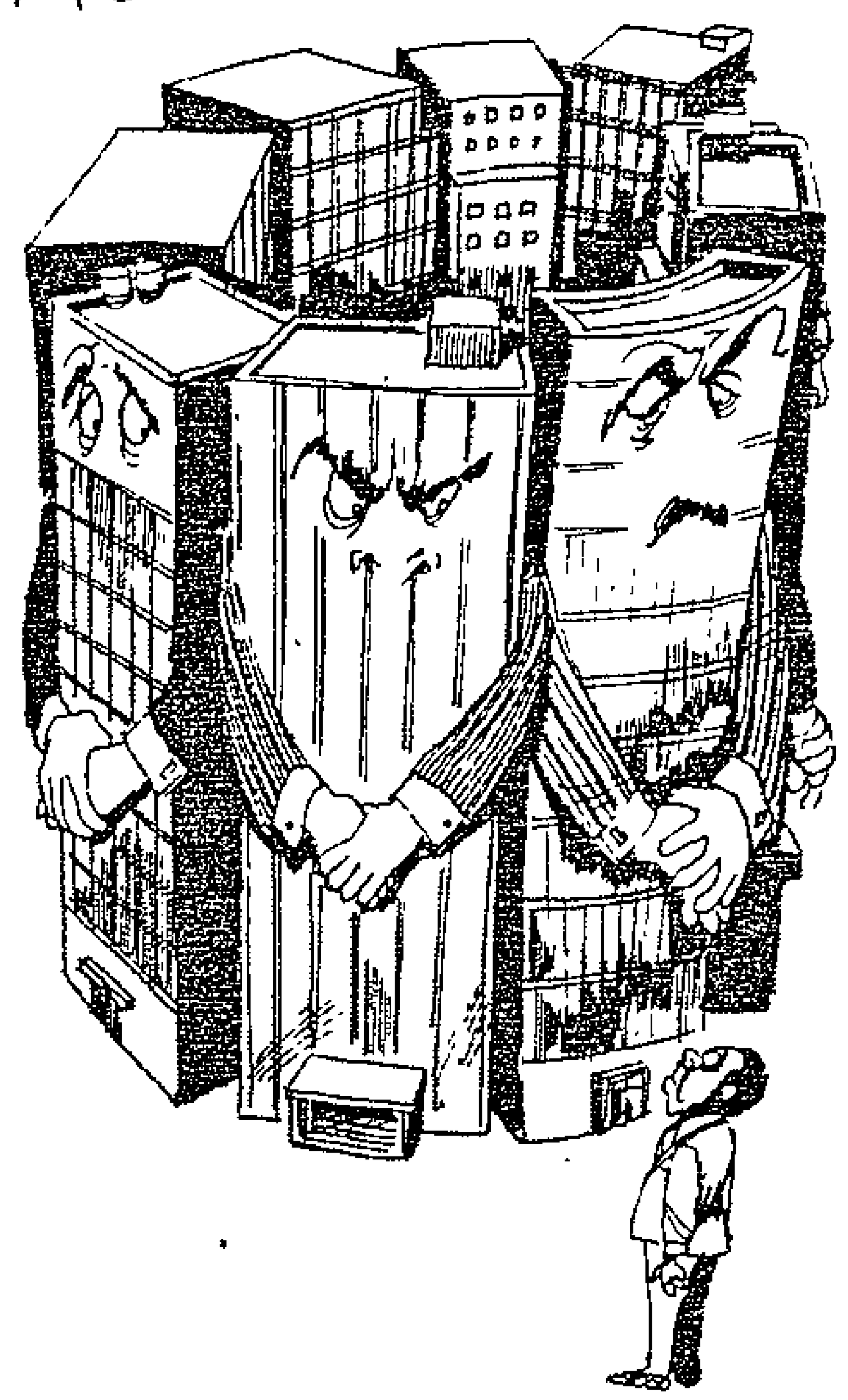
We've talked about concentration of industry in this country and come to the conclusion that there's not necessarily a reduction in competition as a result of it. We've also said that it's come about as a result of what government has done: primarily exchange control regulations and tax. Where do we go from here? Is there any argument for unscrambling an omelette?

Lee: The best way of making sure that concentration doesn't increase, or that what concentration we have is optimal, is to abolish exchange control on everybody, and to make sure that existing tariff protection is reduced, or at least not increased. That way international competition will ensure that there are lower barriers of entry into the SA market, including insurance.

Kantor: Nobody would recommend the removal of protection overnight and we're not talking about that. I think I would settle simply for a policy of no further increase in protective duties. All the time the tendency is to raise protection. However, I think at the moment industry is finding that government has become more critical of its applications and I think the Steenkamp committee report, an excellent document, has provided very good arguments as to exactly why they should be more critical

Rees: I think that's what we're seeing. All the old arguments for protection — the infant industry argument, the military independence argument, the sanctions argument, are up for review. I think that the case is having to be made much more carefully, and I think this is one of the effects of the Competition Board

Thomas: The principle tells us, in a case of doubt, to abolish import protection. I would agree as an academic. But in real life, the person who is affected will scream out. There may be a couple of companies or sub-sectors where, in fact, it's not justified There may even be other areas where we would have to increase protection. For me, it's not the principle which is at stake. It's the practice and the implications. We must be aware of both.



ISRAELI ECONOMY

Profligacy breeds disaster

There are lessons to be learned from the shocks received by the Israeli economy over the past fortnight. The bill for an unprecedented spending spree, encouraged for political reasons, finally fell due.

Israelis are bracing themselves for further austerity measures. The crunch of the last few weeks was not unexpected. The only real surprise was that the crisis was so long in coming. In two weeks of dramatic developments, the stock exchange was shut down temporarily, Finance Minister Yoram Aridor resigned, the Israeli shekel was devalued by close to 25% and the prices of most basic goods and services shot up by 50%.

Aridor had ridden roughshod over economic realities, creating a false "miracle" of prosperity based not on productivity or natural resources but shekel-printing machines. In doing so during his two-and-a-half years at the Treasury helm, according to most Israeli economists, he assured his Likud bloc a second term in office — and made the economic realities even grimmer. For a public accustomed to living off the (illusory) fat of the land to face up to them, even now, will be difficult and have inevitable political consequences.

Israeli economic reality is very simple. It is a poor country with no natural resources to speak of — no oil or coal or iron, no gold or precious stones, no rivers to produce electricity, and only 4m people. And it is a land artificially impoverished by war — a war now in its fourth decade and with no end in sight. For the Lebanon invasion and its repercussions must be seen in the far wider context of the Israel-Arab enmity that arose out of the creation of the Jewish state itself. The always partially mobilised Israel Defence Forces (IDF) are armed to the teeth with the latest and most expensive in Western weaponry, and it seems that matters have to stay that way.

Over the years, 25%-35% of Israel's annual budget has gone on defence (exact figures have never been released). Of course, some of this is covered by the annual US and diaspora Jewish aid package. This year, for example, Washington gave Jerusalem $2,7 billion and the Jewish fund-raising organisations a further $500m.

But the aid from the US — which has increased steadily over the years from the post-Yom Kippur War allocation of $2,2 billion — has produced its own set of problems. About half the current aid package is in long-term loans rather than outright grants. Similarly, much of the Jewish diaspora contribution to Israel has been in redeemable interest-bearing Israel bonds. Again, money which must be paid back.

Over the years, to meet the debt payments, Israel has had to borrow increasingly large sums from international funds and banks. And that has meant yet more money to repay. This year, of the $24 billion annual state budget, almost $8 billion will go on debt repayments. The growing inability to raise cheap short-term loans abroad to make these repayments, and the lack of confidence at home in the Israeli economy and banking system, helped to precipitate the current economic crisis.

Under the Likud coalition government, and especially under Aridor, the underlying realities of the Israeli economy were worsened by policies which, while politically highly effective in the short term, proved economically disastrous.

As incoming Prime Minister Yitzhak Shamir told the country in his maiden Prime Ministerial speech last week: "We cannot carry a burden of consumption which is not based on our productive efforts. We should consume only what we are able to produce and reduce our dependence on outside loans." The criticism, clearly, was of the architect of Israel's overheated economy — Aridor himself, who was forced out of Shamir's new Cabinet only three days after it took office.

Consumers and subsidies

It was Aridor who, soon after assuming office in 1981, lowered taxes and import duties, increased government subsidies on most goods and services, and promoted annual wage hikes, in real terms, of 5%-7%. And this was matched by a similar growth in private consumption. Some 100 000 new cars will have been imported and sold in Israel during 1983, and tens of thousands of video sets. Practically no house in Israel now lacks a colour TV.

De Kock expects R1-bn surplus

ARGUS 25/10/83

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PRETORIA. — The economy had performed surprisingly well during the calamitous developments in the world economy over the past three years, the governor of the Reserve Bank, Dr Gerhard de Kock, said here today.

As chairman of the National Finance Corporation, he was speaking at the annual general meeting of stockholders.

He said the surplus on current account for 1983 as a whole was expected to exceed R1-billion, compared with a deficit of R2,9-billion in 1982 in spite of the adverse effects of the lower gold price and the drought.

At seasonaly adjusted annual rates, the current account of the balance of payments had shown a surplus of R1,8-billion in the second quarter of 1983, compared with a deficit of R7,1-billion in the first quarter of 1982.

The rand appreciated in terms of a basket of other currencies by 11 percent during the 15 months to September.

Further encouraging news was that the South African business cycle was approaching a lower turning point, if this had not already been reached.

"Although national accounts statistics for the third quarter are not yet available, it is significant that the volume of wholesale, retail and motor vehicle sales increased during this period.

"Moreover, after a consistent decline during the preceding five quarters, the volume of merchandise imports also showed a moderate increase in the third quarter," Dr de Kock said.

After showing losses of R2,75-million and R4,6-million in the previous two years, the National Finance Corporation reported a net profit of R8,5-million for the year to June 30. — Sapa.

SA recovery underway from mid-1984 — BER

CAPE TIMES 28/10/83 (49)

By PAUL DOLD, Financial Editor

WHILE the South African economy is bottoming, 1984 is likely to be a difficult year for the business sector with consumer demand weak and unemployment among unskilled workers increasing, the Bureau for Economic Research at Stellenbosch (BER) forecasts.

The encouraging feature will be a continued fall in the inflation rate dipping below 10 percent in the first quarter with the overall 1984 rate at 10,1 percent — well below the forecast 12,4 percent 1983 figure.

The rate of non-food price increases will probably be an even more impressive eight to 8,5 percent with food at 12 to 13 percent.

The authors of the BER's 1984 forecast, Discount House managing director, Dr A P Faure and BER deputy director, Mr Attie De Vries, told a seminar in Cape Town that the recovery is likely to begin from mid-1984 but it will be hesitant and for companies the watchword in 1984 remains survival.

While the growth rate (GDP) is estimated at an encouraging 4,9 percent after the minus 3,7 percent this year, MR Attie De Vries stressed that "real" GDP growth would be below one percent — the difference accounted for by the rebuilding of buffer stocks in the agricultural sector following the drought.

The BER forecast — apart from what now appears to be a high gold price of $485 — is based on a return to normal weather conditions. It will take at least two years for South Africa to return to a normal agricultural crop situation which has important implications for export earnings.

A continuation of the drought would lead to the impact thus far mainly confined to the agricultural sector permeating through the economy.

The economy could move sideways for the next six to nine months and unskilled unemployment will increase. Excluding new entrants to the labour market BER sees a one percent drop in employment this year with no growth next year.

The authorities could face mounting social pressure next year to reflate the economy prematurely to take up unemployment. Total employment by the end of 1984 will still be below the 1981 level.

While the confidence of white consumers has been improving, the finances of black consumers according to recent BER surveys is deteriorating. The likelihood that food prices will remain relatively high even though the overall Consumer Price Index (CPI) should decline is a cause for concern, Mr De Vries said.

South African wages are forecast to increase by 13 percent this year after 18,3 percent in 1982 and 14 percent in 1984.

Consumer demand will remain weak. After rising at 2,4 percent in 1982 as consumers dipped into savings and used credit to maintain living standards, private spending is expected to decline until the second quarter of next year.

BER predicts a sharp reaction in consumer spending. Spending on durables is expected to fall by 5,7 percent (−1,2 percent) this year and −2,9 percent next year.

Furniture and appliances which had actually increased this year will show the largest percentage fall among durables in 1984 of −6,1 percent.

The rate of decline in clothing is slowing and likely to bottom in the first half of next year with a run up at the end of 1984.

Consumer spending growth in both 1983 and 1984 will be slightly negative and with demand weak little new private sector investment is anticipated.

Real private sector fixed investment should fall by 9,5 percent this year and just over five percent in 1984. The bottom may be reached in the second half of 1984 when export demand could rise rapidly.

A dollar-rand rate of 0,92 is forecast for the end of 1983 with an average for 1984 of 0,957 implying a 1,02 rate at the end of 1984.

BER says the authorities will be faced with choice of intervening in the forex market to keep the rand somewhat lower to shield non-gold exports and build up net reserves. This could continune until the middle of 1984 when the demand for exports will rise sharply and net reserves should improve. Thus a sharp hardening of the rand is expected in the second half of 1984.

The dollar is expected to decline by eight percent on a trade weighted basis between the end of September this year and the end of 1984. The dollar could decline far more against key currencies such as the German mark and yen.

Overall the Bureau predicts a current account surplus of nearly R1 600m this year — a sharp turnaround from the R2 920m deficit in 1982 — and R2,1 billion surplus in 1984.

Cape Times 9/11/83

Steep drop in sales knocks Edgars earnings

By PATRICK McLOUGHLIN [redacted] 49 [redacted]

JOHANNESBURG. — A steep fall in sales to blacks helped cause a sharp earnings crash by the Edgars stores group in the half-year to October 1 and resulted in a cut in the interim dividend from 187c to 150c.

The company suffered a 36 percent drop in fifo earnings, from 739c to 470c.

Announcing the shock earnings fall the Edgars managing director and chief executive, Mr Vic Hammond, warned yesterday that the clothing retail giant was heading for the first ever cut in its annual dividend.

That is even with an expected business improvement in the second half of this financial year.

Confident

Edgars, which is controlled by South African Breweries, is strongly confident about medium to long-term prospects.

"I have been with the company for 24 years and the black consumer market has never been as bad as this," Mr Hammond said yesterday.

Group sales for the 26-week interim period managed an 11 percent increase, from R276m to R307m.

But operating profit was down 26 percent, to R25,498m compared with R34,570m previously.

Edgars, which last year had to report its first profit fall since 1977., says the main reason was the poor performance from its three smaller chains — Jet, Sales House and Ackermans — which depend heavily on the black consumer market.

These performed well below budget after suffering from a "significantly weaker" black consumer market.

The group clearly approached the year with stock levels that were far too high, stockturn was eroded and a great deal of potential earnings was lost in the attempt to clear stocks at rock-bottom prices.

Group sales

Black consumer business currently contributes around 40 percent to total group sales.

"Edgars is a very fair weather company. The black consumer market is very volatile and in 18 months we will be looking like gods."

Mr Hammond said black discretionary consumer expenditure had "evaporated" with the drought, cut-backs in overtime in industry and the general effects of the economic downturn.

"The combination of the three has pushed this market over the cliff.

"We found, particularly with Jet, that in spite of promotional action, we were saddled with a lot of stock that we just had to move."

Edgars had not lost any market share in the black operations, the crash had occurred throughout the industry.

What compounded matters for Edgars is the extreme sensitiveness of fashion stocks to the seasons and design changes.

Helping to limit the fall in group earnings was a strong performance by the Edgars chain — which pushed up its sales for the half by 11 percent — ahead of budget. The white market remains strong and the chain continues to dominate group profits.

Interest bill

The interest bill came down from R9,110m to R7,107m following the conversion of the R8,5m convertible debentures into participating preference shares in January. However, at the same time it diluted the ordinary earnings a share.

Profit before tax weighed in at R18,391m compared with R25,460m previously. After a tax bill of R7,784m (R11,500m) — helping matters was a fall in the tax rate from 45 percent to 42 percent — taxed earnings were R10,502m (R13,960m).

Attributable earnings, after a lifo adjustment of R6,129m (R7,371m), was down 29 percent to R6,877m (R9,693m).

Comment: According to the group finance director, Mr Kevin Brewer, Edgars is "coming out of a 12-month retailing tunnel" which began in the second half of last year.

In response to the tougher environment, the group has tightened control on stocks, revised its advertising campaign to concentrate on cheaper prices and rigorously controlled costs.

Mr Hammond believes that a turnaround in consumer discretionary expenditure will only occur in the third quarter of next year at the earliest.

Cape Times 9/11/83 (49)

Checkers profit trend continuing — Natie Kirsh

Own Correspondent

JOHANNESBURG. — The outlook for Checkers Stores this year looks immeasurably brighter than at any time since he became chairman of the group, Mr Natie Kirsh says in his annual review.

He says market share is being regained and management accounts reflect good profits.

Referring to the restructuring proposals, in terms of which Checkers (to be renamed Kirsh Trading) will be the vehicle for all of the Kirsh group wholesaling and retailing interests, Mr Kirsh advises shareholders to accept the proposals.

Offer to convert

"In spite of the appalling results of Checkers over the last two years, and in spite of the fact that the loss in the second half of last year was twice as great as in the first half, I am firmly convinced that shareholders in all the companies who are receiving an offer to convert their existing Russells, Metcash or Union Wine shares into new Kirsh Trading Corporation shares, should accept the offer."

Mr Kirsh says it is too early to project Checkers profit for the year to June, "but given the existing trend of trading, I would not be surprised to find at the end of the year that profits are significantly ahead of our budget projections".

The effects of the drought and the recession are creating problems for Metcash, Russells and Dions, says Mr Kirsh, and if the trend continues, and especially if the drought is not broken, the results from all of these companies will be poor.

"However, the reorganization that is proposed is not based on one year's trading.

Trading group

"What we will achieve is a powerful trading group with the muscle to maximise, in each of our chains, the opportunity to expand profits and the ability to withstand the vigorous competition that will inevitably intensify.

"We will have the ability to expand the number of branches and to replace those which are no longer profitable, either because of size or location, and to remove once and for all any notion that Checkers is not here to stay."

Under the proposed reconstruction, Checkers will continue to operate under that name as a wholly-owned subsidiary of Kirsh Trading.

While accepting that there will be some opposition to the proposals, Mr Kirsh describes as daunting the task faced by Barclays Merchant Bank in evaluating the various companies in the group in relation to each other and in formulating a new corporate structure.

Proposals

"No matter what the proposals were, it is unrealistic to expect universal acclaim from all the shareholders of all the companies involved, and it will be a few years before an accurate assessment of Barclays judgement will be possible."

The Kirsh group did do its homework, however, and Mr Kirsh says that during the suspension period the views of major institutional investors were canvassed.

"As at the date of writing (October 21) this review, no adverse comments have been received. This is to the credit of the Barclays team who had to judge relevant values against a wide divergence of views among various executives in the group on relative values, and also prospects for the future."

Business Day

(49) RDM

De Loor prescription for sustained SA growth

10/11/83

By HAROLD FRIDJHON

SOUTH Africa's great challenges to achieve a desirable growth rate are the full development of human, natural and capital resources, the crushing of inflation and the expansion of foreign trade.

Dr J H de Loor, Director-General of Finance, told at the Manpower and Management Foundation seminar in Johannesburg yesterday that development would make heavy demands on SA's skills and commitment, but the opportunities existed. Positive factors outweighed the negative.

"The catalytic factor joining all the positive factors into a strongly thrusting forward drive in growth for the remainder of this decade is our rediscovery of the power of the market mechanism and dedication to the free-enterprise ideal in the capitalistic system."

There was no reason South Africa and its satellite states should not double their recent growth performance.

South Africa was not yet a developed economy and this gave it the potential to grow at a higher rate than other more mature economies.

Dr De Loor said SA's natural resources were well known — although he would not forecast the short- or medium-term prospects for gold.

The labour picture, however, was less reassuring. Composition of the labour force was bound to change in the next decade or two. White contribution to high-level manpower had not only reached its proportion but was overstretched. The contribution by other race groups was imperative if SA were to reach its full growth potential.

The Government had offered incentives for the development and use of trained manpower and had tried to expand and upgrade education.

It had also tried to remove outmoded obstacles to the mobility of labour and had urged private initiative in the so-called informal sector where much more needed to be done. He hoped that as the constitutional evolution progressed limitations affecting productivity and the effective use of manpower would be eased or removed.

South Africa had a great need for capital and savings were inadequate to maintain investment at the level required for satisfactory growth of the gross domestic product.

Care would have to be taken to ensure that the public sector's investment claims did not crowd out those of the private sector as there was not room for both to expand signficantly at the same time. The State's infrastructural expenditure was indispensible for private-sector growth, however.

Improved use of capital resources would have to be achieved. The Kleu study group recommended that extremely capital-intensive industries should not be encouraged unless they

- contributed to the development of natural resources;
- had a large employment spin-off;
- showed relatively high productivity in terms of total resources.

Dr De Loor stressed the need to reduce the inflation rate.

In the longer run SA must look for a rise in the exports of processed minerals, manufactured goods and services.

The Kleu report said protection would have to be kept as low as possible or compensated for by assistance for exporters. Existing export incentives should be reviewed with an eye to their improvement.

There was room for improvement in the earnings from abroad of services. Support should be given by exporters and importers to the national shipping line, Safmarine, and other members of the Conference Lines.

Encouraging signs of downswing levelling out

Horwood sees 3% real growth rate for 1984

CAPE TIMES 11/11/83 (49)

By HOWARD PREECE

JOHANNESBURG. — South Africa is likely to show a negative growth rate of as much as three percent to four percent in 1983, according to the Minister of Finance, Mr Owen Horwood.

That is after a one percent minus rate in 1982.

But there should be real growth of three percent or more in 1984.

Mr Horwood told the Financial Mail investment conference in Johannesburg yesterday: "In recent months there have been encouraging signs that the economic downswing is levelling out.

Output

"Non-agricultural real output and employment have, in fact, shown slight recoveries from about the second quarter (of this year). However, it is still uncertain whether a lower turning point has in fact been reached.

"Real gross domestic expenditure will probably show a decrease of about seven percent in 1983 as a whole, following a decline of about five percent in 1982.

"This further decline is explained by a fall of about 7,5 percent in real gross domestic fixed investment and substantial real disinvestment in inventories.

"In the case of industrial and commercial inventories the rate of depletion has decelerated notably from the second quarter. Such a development is typical of the later stages of an economic downswing and provides further evidence that the downswing is levelling off."

Mr Horwood said the South African economy was moving towards a new growth phase.

He added, however: "What is less certain is the exact timing and the actual strength of the anticipated new upswing".

South Africa could not adopt a policy of deliberate reflation of the economy. "We must, therefore, await an export-led recovery."

Fixed investmens

This was was unlikely to occur until fixed investments in the main industrial countries showed a significant increase.

He warned: "The indications are that the major industrial countries will continue with their policies of monetary restraint in the period ahead in order to avoid renewed increases in their inflation rates. This means that interest rates will probably not decline much further in the near future.

"In the United States, for example, the relatively large Budget deficit is unlikely to be monetized, at least for the time being, and this in itself should prevent a significant fall in interest rates.

"The dollar is, therefore, likely to remain strong in the next few month.

"For South Africa the principal implication of these international economic developments is that the value of our non-gold exports is unlikely to rise substantially in the next few months."

Mr Horwood said South Africa was making major headway in reducing inflation. In the third quarter of this year the seasonally adjusted annual rise in consumer prices had been only 5,4 percent.

"Depending on the inflation indicator used or the way in which price changes are measured, this aim has already been achieved. In any event, whatever method of measuring consumer price changes is used, it is clear that considerable success has been achieved in 1983 in curbing inflation."

There had also been a dramatic improvement in the current account of the balance of payments. For the first three quarters of this year there had been a seasonally adjusted annual surplus of R1,6 billion.

He forecast that the balance of payments current account surplus would be in a R500m to R1 billion range next year after a R1 billion to R1,5 billio surplus in 1983.

Mr Horwood said that barring a sharp rise in the gold price resulting from exacerbation of the world debt crisis it would be unwise for the authorities to assume that gold would much better the $420 average likely this year.

Adequate (11)

Horwood confident about growth in 1984, but. . .

(49) RDM 11/11/83

SA economy is set to shrink 3% this year

By **HOWARD PREECE**

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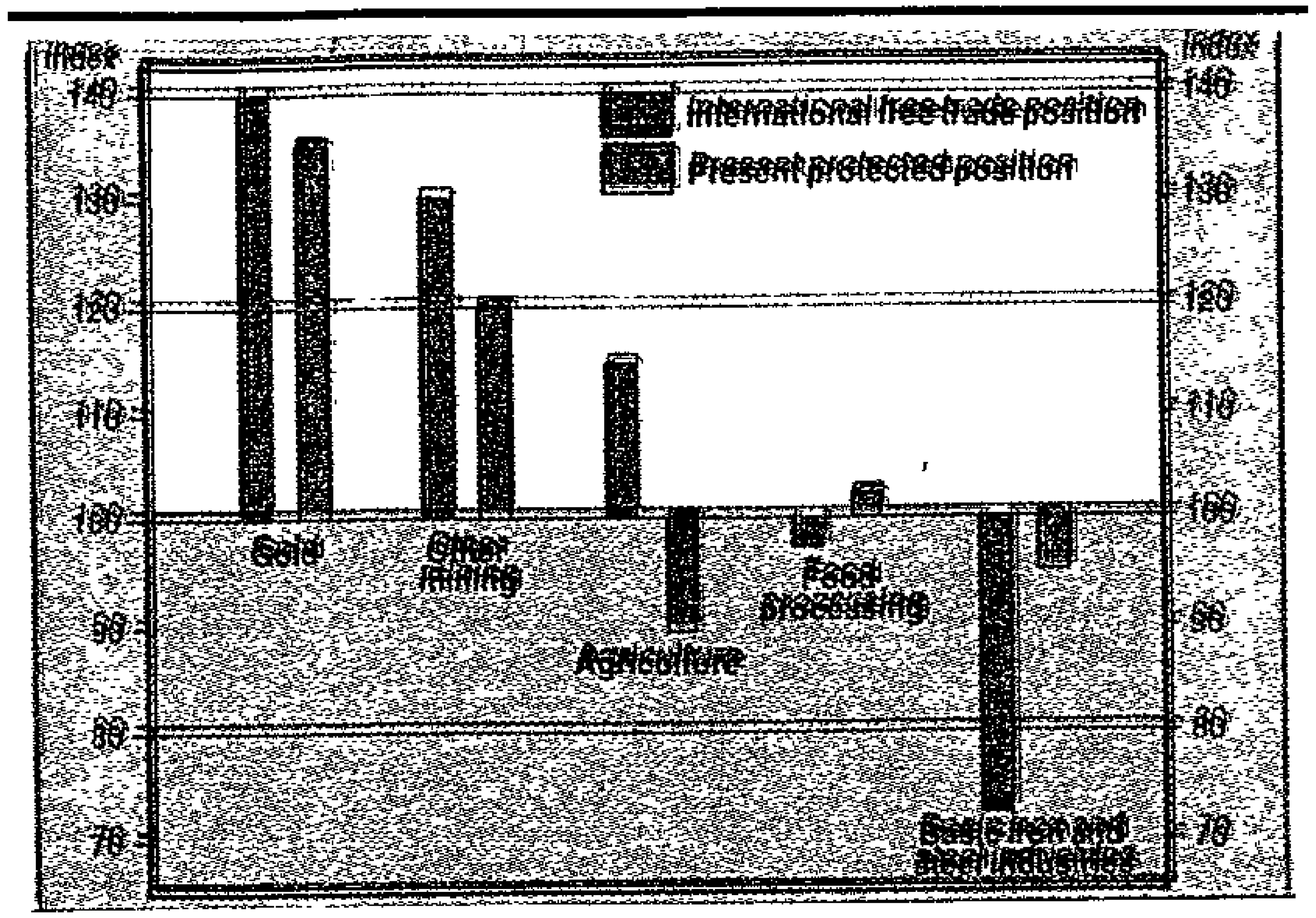

South Africa's major exporters have seen huge differences in the international prices of their goods since 1970. This graph, from Mercabank, shows how the gold mining industry has had the biggest bonanza while the iron and steel industries have been worst hit. It shows in general the change in relative profitability of South African industries over 1970-82 and the international free trade position compared with the present protected position.

Mr Horwood said the South African economy was moving towards a new growth phase.

He added, however: "What is less certain is the exact timing and the actual strength of the anticipated new upswing".

South Africa could not adopt a policy of deliberate reflation of the economy. "We must, therefore, await an export-led recovery."

This was was unlikely to occur until fixed investments in the main industrial countries showed a significant increase.

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On the back of optimism

SA's economy is readying itself to emerge from recession in 1984. However emergence will be founded on the basis of continuing financial discipline to further reduce inflation and on continuation of a positive balance of payments performance.

1984

It is, perhaps, not surprising that most of the speakers at the *FM*'s investment conference last week took a positive view on the outlook for SA in 1984. We do appear to have reached, or to be close to, the bottom of the economic cycle. The gold price, after several bad starts, seems to have reached its lowest level, and, more to the point, there is a greater enthusiasm among businessmen for change on the political and economic fronts.

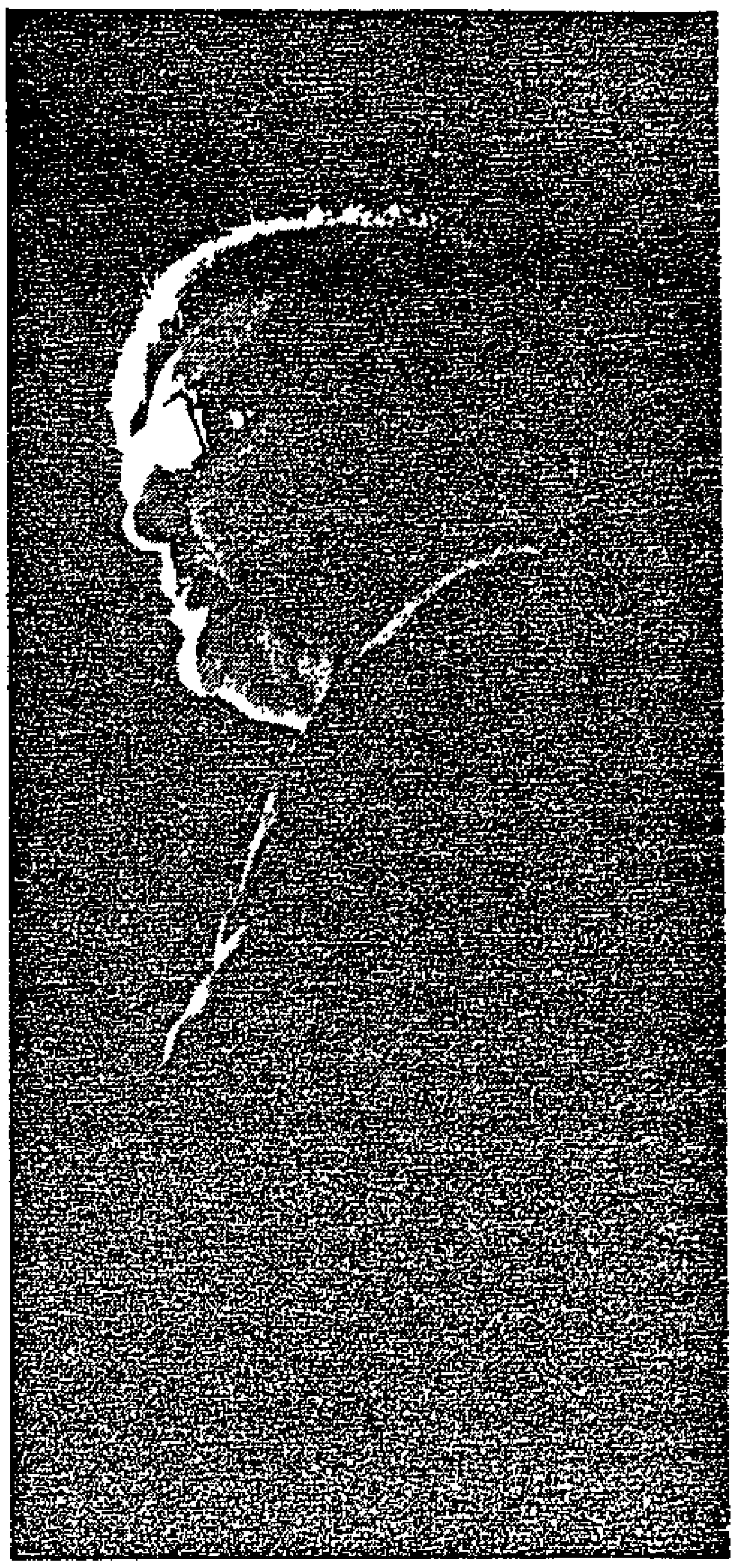
The fact, however, is we are not into the recovery yet. We are laying the ground for it, and that particular exercise in soil preparation will almost certainly be accompanied by difficulties. Finance Minister **Owen Horwood**, in his keynote address to the conference, made clear his economic recipe for the next year. Inflation remains the nation's greatest problem. It is falling, but bringing the rate down to an acceptable — or at least manageable — level will call for the same prescription as before.

The authorities are determined not to allow money supply to romp ahead. Almost, it seems, no sooner had Horwood finished speaking, than the Reserve Bank released its end-September money supply figures. Over the year to September 30 the narrowly defined M1 money supply figure had risen by 29% to R16,4 billion. And this compared with only R15 billion at the end of August. More than ever, then, the authorities will be determined to rein in money supply growth. They are not prepared to reflate at this stage of the cycle as that would risk turning up the heat under inflation, and they are not prepared to borrow their way out of recession. Nor are they prepared to see the balance of payments slide back into the red.

It is this very firmness which Horwood sees as laying the proper foundations for the economic recovery he expects in 1984. It will be an export-led recovery as the economies of our major trading partners follow the growth example of the US. And its planning will be based on an averge gold price little better than the average of 1983.

Where this leaves SA, according to Horwood's estimates, is with the potential to generate a real economic growth rate of about 4% next year against this year's 3% decline. This, though, means little in the way of a general increase in fixed investment. Production capacity is only about 84% utilised at present and utilisation will need to be well over 90% before major additions to capacity are undertaken.

Whether the economic scenario includes a strengthening of the rand is another matter. Other speakers expect a recovery next year as the dollar deteriorates, but Horwood contented himself with pointing out that a strengthening of the SA currency would be welcome insofar as it helped achieve the main policy of reducing the inflation rate.



Minister Horwood ... inflation still the main enemy

Reserve Bank Governor **Gerhard de Kock** firmly underlined Horwood's propositions — except that implementing policies aimed at cutting inflation rates, controlling money supply and bolstering the balance of payments and employment is a different matter entirely.

Spare a thought for the Governor who has to work on money supply figures which are rarely less than five weeks out of date and which, in any case, are certainly distorted by the timing and method of their calculation. Not that he is particularly fazed by the problem; in fact he treats it with commendable equanimity. But the monetary authorities are now forced to chart their short-term course in waters that are murky and unreliable.

Despite these difficulties, SA's monetary policy has provided us with a passage through the recession which has been far less uncomfortable than that of many other countries. It has meant resisting the blandishments of populist policies which might have provided immediate shots in our economic arm, but would have eventually left us as debilitated as a junky. That this has been the right course seems clear from the fact that SA's inflation rate is declining, our balance of payments has returned firmly into the black and confidence in prospects for the next 12 months is stronger than for several years.

Perhaps no other sector better shows the increasing trend towards a free market in SA than banking. Nedbank's MD **Rob Abrahamsen**, of course fears that 1984 will not give rise to any lessening of the pressures on the domestic banking industry — economic factors alone will see to that. And this will result in pressure on both banking margins and volumes.

Nevertheless, the structural changes are in place which will steadily lead to far-reaching changes in the services bankers render. Already the opening up of the economy to international financial flows allows domestic borrowers the luxury of borrowing overseas where interest rates might be more attractive than those available domestically. More to the point, however, the freeing up of the economy and the raising of artificial constraints on competition are honing the range of services bankers offer to clients. Old habits are fast changing as competition increases by quantum steps and service becomes the name of the banking game.

Gold's recession, if not over, is nearing an end. Before we start cheering, though, the metal's price advance in 1984 will not be spectacular and, measured in dollar terms, a rise of little more than 10% seems most likely to be on the cards. In this **André Sharon** of the New York broking firm of Drexel Burnham joins the ranks of those who are increasingly turning their attention back to gold.

Sharon's thesis is straightforward. In the immediate future — or at least for the next year — investors will continue to be attracted to dollar investments by the positive real interest rates which will be available in the US. Interest rates are coming down in America, but not at such a rate

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Reserve Bank's De Kock ... holding firmly on course

that real interest rates have or will become negative. But the attractions of the dollar will lessen if, as Sharon expects, inflation rates accelerate moderately in the Organisation for Economic Co-operation and Development (OECD) countries. In America specifically he expects the inflation rate to average 5,25% next year against 4% in 1983.

Which is all very well, but it holds little encouragement for the super-bulls of gold who count on the price rocketing well above its all-time high of $850. That will need a combination of a falling dollar — something which Sharon expects to get under way in the fairly near future — a realisation that the world's debt problems will not disappear, that borrowings cannot be repaid except in inflation-devalued dollars and a deteriorating range of geopolitical factors.

They are longer-term considerations, but they are the factors which will one day push gold to $5 000/oz or whatever price one chooses to think of.

Despite encouraging statements that the economy is at its lower turning point and that gold should start advancing — albeit slowly — from its present levels, the JSE is unlikely to get fired up. Sanlam's senior GM (investments) Marinus Daling says only buying by institutions which are prepared to look three or four years ahead will provide the market with buoyancy next year. On an historical basis the market, Daling estimates, is over-priced when measured by the JSE Actuaries industrial index. It is expensive in terms of yields available on, for example, long-term Escom stock and bankers' acceptances; it is expensive when measured by means of the reverse yield gap; and it is expensive when valued on fundamentals.

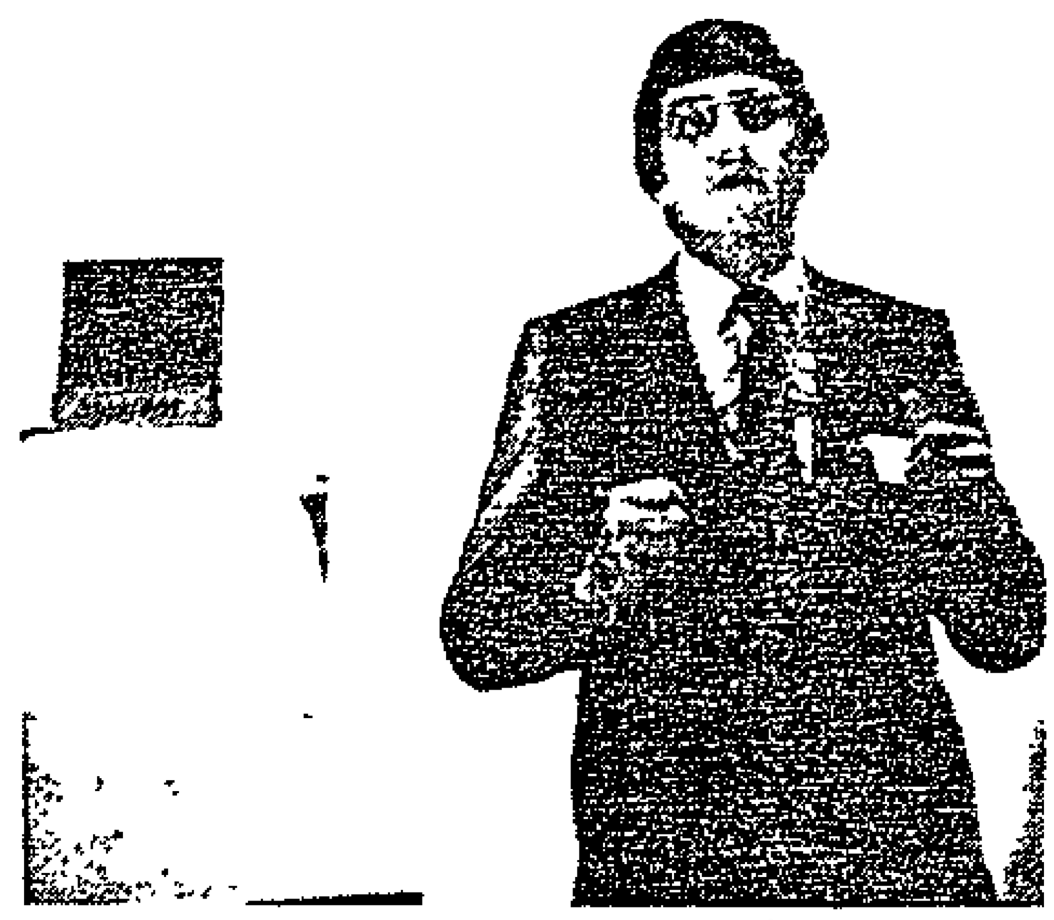
As with everything there are *caveats.* Daling cautions that he is simply measuring the likely performance of the industrial index — sound value will almost certainly be found in individual industrial shares. And this, as far as possible, is what will motivate institutional buying. This year was characterised by some major distortions to the flow of institutional investment funds. The Premier and Rennies transactions, by way of example, drew R550m away from the JSE itself and the process has not yet ended for this year. Sasol's rights issue, which opens on November 25, is set to draw as much as the Rennies and Premier deals combined.

The gradual easing of restrictions on investors will almost certainly eventually lead to permission being granted for the major institutions to invest abroad. But while that would have an immediate psychological impact, Daling says, there are basic reasons why it will not materially alter the JSE's supply-demand situation. Simply, institutions such as insurance companies which have liabilities denominated in rands would prefer, all other things being equal, to have their assets in rands. The next few months will see the index vulnerable and moving lower. But, taking the next 12 months as a whole, Daling feels the industrial index will be at today's level — give or take 5% — a year from now.

Drexel Burnham's Sharon ... gold is for the long term

There is simply no way of escaping from the problems of a low gold price and an inflation rate substantially higher than those of our main trading partners. But we are emerging from the worst and, as Senbank's Louis Geldenhuys sees it, 1984 should see interest rates easing from their recent highs.

Ever present, of course, is the gold price. Geldenhuys bases his estimate of next year's balance between gross domestic savings and gross domestic investment on a relatively optimistic average gold price of $450. This, he reckons, could well be accompanied by a rise in the value of the rand to US90c or more despite the longer-term structural weakness built into the SA currency by the country's relatively high inflation rate.



Senbank's Geldenhuys ... interest rates should ease

More difficult to evaluate will be the policy stance of the authorities. Geldenhuys sees no inclination on their part to allow significant downward pressure on interest rates if this weakens efforts to bring inflation rates down to manageable levels. Lower inflation rates, in line with experience overseas, should in themselves lead to lower interest rates, but there is a long haul ahead.

For the next few months little relief is in sight for interest rates, but short-term rates are expected to be in steady decline throughout most of next year, falling to an eventual 12% or so. Long-term rates, Geldenhuys believes, have less scope for easing — at best they will shed a mere two percentage points.

In SA we do, perhaps, spend too much time concocting reasons for the gold price to rise. In general they are founded on political or economic disaster elsewhere in the world, and this could well involve too great an element of wishful thinking. Rimmer de Vries, senior vice-president of Morgan Guaranty Trust, takes a more phlegmatic view. It is not a view which sees financial problems leading to a major decline in the dollar and, in response, a major advance in the price of gold. But it is a view which promises more for an export-orientated SA in the longer term.

The dollar, De Vries feels, may well be over-valued by 10%. But it is unlikely to collapse because of investors' fears that dollar investments are insecure. West Europeans may cast a jaundiced eye over the growing American balance of payments

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Morgan Guaranty's De Vries . . . international debt under control

and budget deficits, but capital continues to flow into the US because investors in many of the non-OECD countries want a haven for their capital. These flows, De Vries says, are likely to continue, though not necessarily at the same scale as at present.

Under these circumstances the dollar is likely to remain relatively strong. It is already clear that political or security fears around the world are not pushing people into gold as they would have done three or four years ago. Nowadays the shooting down of an airliner leads to a rush of money into dollar investments.

More important, however, is De Vries's view that the international debt crisis will not degenerate uncontrollably. Chile, Argentina, Brazil and other developing nations might well be in difficulties at present over debt servicing, but it is not something De Vries feels will continue.

Rather, he believes, the nations which are in trouble will resort to increasing exports in relation to gnp and thereby trade their way out of financial difficulties. This will not take place overnight. Brazil, for example, will need at least until the end of this decade before it can safely be said to be out of trouble — but the economic recovery now under way in the US and which will eventually follow in the other OECD nations will attract imports of basic products from the troubled less developed countries (LDCs).The upshot is that De Vries believes that a major default by a debtor nation is most unlikely. The world's bankers have that basis on which to build the rehabilitation of the hard-pressed LDCs.

Erich Heinemann, the newly-appointed chief economist of Shearson American Express in New York takes a somewhat different view to De Vries on American economic prospects. He is confident that the US economic growth pattern will continue and that this will provide the locomotive effect which draws Third World nations out of their trading and foreign debt mire. But the US, he warns, is indulging itself in balance of payments and budget deficits and these, eventually, will take their toll on the dollar.

By the end of next year, Heinemann reckons, US interest rates will be on the way up again and that by that stage economic growth will be decelerating.

While this may not be the best news one has heard for gold, it does hold promise for most other sectors of SA's export-orientated economy. Our exports of minerals, semi-processed metals and agricultural products will certainly benefit from the world's economic recovery. And we, who are not struggling with overwhelming foreign debt, should benefit internally much more rapidly than other exporters of basic materials.

Not that 1984 will necessarily be easy for us. Base metal prices have still to emerge convincingly from their recessionary depths. And according to **Rod Holness**, of Holcom Commodity Brokers, most metal prices will not rack up any spectacular gains next year. Copper, in particular, seems unlikely to get into gear for some time, although lead and zinc could well show some upward price performances as consumption improves and inventories fall sharply.

Old Mutual's Buss . . . office rents are under pressure

Far too much is said about property investment by those who try to hide paucity of knowledge under a mass of mumbo jumbo. Old Mutual's property manager **Martin Buss** did stout service in de-mystifying the subject. His incisiveness, though, carried little to encourage property investors who are sitting on commercial office developments and waiting for rentals to rise.

In central Johannesburg, Buss reckons an over-supply of prime office space will leave rentals unchanged until 1985. And as far as the newer decentralised office developments are concerned, the situation is worse. Rentals look like falling this year and simply levelling out in 1985. Worse still, as far as some of the building's owners are concerned, is the possibility that tenants will migrate back into town when their leases expire if only because not all their staff lives in the northern suburbs.

Holcom's Holness . . . hard times still for base metals

The picture in the office field is equally as gloomy elsewhere. In Cape Town excessive rent increases have pushed tenants into revolt and many professional firms have chosen to buy and renovate older central buildings rather than fork out substantially higher rents.

Industrial parks should respond positively to a resurgence in industrial activity late next year whereas investment in shopping precincts, Buss believes, is almost too risky to be worthwhile. Like everything else about the SA economy, the investment property market is taking a long-needed breather.

Perhaps more important than the economic problems SA has coped with this year — and than those it will have to face in 1984 — are the inter-racial relationships we have to face. **Allan Hendrickse** had few illusions about the business community's future problem areas. The referendum, "yes" vote, he believes, represents a commitment to evolutionary development rather than a blind blundering towards violent confrontation.

Quite clearly the pressures which led to the referendum and which have brought the trend towards reform into being are here to stay. And if the promise of the "yes" vote is met, those pressures, Hendrickse believes, will be directed towards peaceful and evolutionary change. Of course, that means more than the mouthing of a few platitudes — business's contribution to peaceful evolu-

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tion needs to be carefully thought out. The methods Hendrickse suggests may, at times, appear painful, but they make sense.

Hendrickse's topic was "Investing In Change." His interpretation of the subject lacked polemic and was couched in the language which we can all understand. Let business, Hendrickse advises, look towards the long rather than the short term. Quite simply use the solid profit increases of the good years to build an accommodative basis for the lean years as well as the future.

The disappointing thing about this recession, Hendrickse says, is that unskilled workers were laid off. It would have been better had business rather used the recession as a period for training unskilled men. Everyone, he believes, is a shareholder in change and that implies that investment in change is to everyone's benefit. We are moving towards economic recovery and business's best interest at that time might be served by increasing retentions as profits advance and setting them aside to invest in training when the next economic downturn arrives.

This, Hendrickse says, may not be the best short-term policy — shareholders probably expect higher dividends as the economy advances — but it will provide the soundest basis for long-term profits and social stability.

While Hendrickse puts the emerging consensus between black employees and white managements in terms of readily understandable rands and cents, Gencor's labour adviser Naas Steenkamp points to the fact that developments on the labour front have gone a lot further than most of us realise. Change here has a momentum all its own, and a momentum which is radically altering the conventional perceptions of management-labour relationships.

Fully integrating labour, and specifically black labour, into the industrial decision-making process will not be easy, Steenkamp makes plain. Employers tend to be reactive in their approach to emergent unions and, unlike their counterparts in America or Europe, are not fully aware of the positive aspects of worker participation in the management process.

This, Steenkamp fears, will perhaps lead to more labour disruptions over the next several years than straightforward disputes over more mundane issues such as wages or conditions of employment. More difficult to reconcile could well be the definition of where the management prerogative should reach and how far workers should be permitted to participate in industrial decision-making. It is something which cannot be ignored, wished away or fought. Consensus will have to be reached, consistent with the principles of free enterprise.

Along with Hendrickse, Steenkamp makes no bones about the need for a sensible managerial approach to black workers Quite simply, only through consensus and joint decision-will business continue to grow in a free enterprise environment.

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NATIONAL ROADS

Don't just sit and worry, Hendrik

Some national highways are in danger of falling into disrepair. This amounts to the erosion of a national asset that is vital to the smooth functioning of commerce and industry.

In September Johannesburg's major artery, the M2 West, was closed for emergency repairs. It created disruptive traffic jams quite far afield. As matters now stand, this type of problem could become the rule on our national roads rather than the exception. The condition of our highways is deteriorating fast because of inadequate maintenance and expansion to cope with a growing volume of traffic. Money is at the root of the problem.

The national road network relies heavily on the National Road Fund (NRF) for financing. But the fund, which is replenished from a 3c/l levy on petrol, and diesel is being depleted by rising repair costs and a general increase in traffic which presumably leads to more wear and tear. Denzyl Vermooten, who heads the economics desk of the Automobile Association (AA), maintains that road users pay R2,6 billion into the general coffers, while expenditure on all SA roads amounts to less than R1,2 billion a year.

"In real terms, the Department of Transport (DT) is only spending 60% of what it spent in 1976 on building and maintaining national roads," says Ed Petzer, senior programming engineer with the DT's Directorate of Land Transport.

Provincial roads are faring no better. The provinces get their money from taxes and licensing fees, but must still rely on grants from Pretoria to make ends meet. But, since the government embarked on its austerity programme, these funds have been reducing.

If anything, the municipal road system is even worse off. An Urban Road Fund (URF) was set up by government in 1978 to help municipalities build and maintain their roads. But, here again, inflation and government's attempts to reduce its expenditure have taken their toll.

Says Gordon Swanepoel, chairman of the Transvaal region of the SA Road Federation, which represents a wide spectrum of groups involved in road building: "Theoretically, the DT should furnish 60% of the cost of a local road. In Johannesburg, the 10 local authorities have budgeted funds amounting to R25m for roads this year, but the URF has allocated absolutely nothing. "We never have enough money to build and maintain a road properly, but when that road falls apart the authorities always seem to find the funds to rebuild it."

He adds that the municipalities do not have enough money for vital maintenance let alone to finish capital projects.

Steps are being taken to avert further deterioration, but they may not be enough. The petrol levy was increased by 0,7c in April, which should add an extra R50m to the NRF this year and the DT has asked for an additional 1,1c increase. But some engineers and planners feel that double that amount is needed to continue expanding the network and ensuring that it is well maintained.

The government also hopes to raise R257m over the next five years from toll gates on major capital projects such as the Cape Garden Route, the Du Toit's Kloof tunnel, the Warmbaths/Middleburg route and the Frere/Besters section of the N2 to Durban.

The idea is unpopular with the private sector and some civic groups, who argue that these particular toll schemes are not going to be economic and, as traffic is relatively sparse, will place too great a burden on local business.

A civic group that opposes the Garden Route toll project, for example, has calculated that annual revenue from the scheme will hover at around R875 000, while operating costs will amount to R1,1m.

This seems to be borne out by an Automobile Association (AA) policy paper on toll roads which estimates that more than 40% of the money collected from tolls will be filtered away by administrative costs. It calls toll roads discriminatory, dangerous, inflationary and harmful to commerce. The paper sites a French study which claims that at least 30 000 vehicles a day are needed to make a toll road viable, while some of the planned SA toll roads will have a daily traffic flow of less than 1 000 vehicles.

"We are not against a user pays approach, but we are totally against the use of tolls to help pay for new roads," says Vermooten.

"Tolls are expensive and inefficient and road users as a group already contribute more than their fair share towards road costs."

FINANCE

GST receipts show economy faltering

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By DEREK TOMMEY
Financial Editor

FIGURES for general sales tax receipts published by the Treasury show that the economy has been losing momemtum.

Sales of goods and services have shown a successively smaller rate of growth on a year ago for the past two quarters.

Calculations based on GST receipts show that sales in the first quarter of this year amounted to about R14,4-billion, up 10,8 percent on the year ago figure of R13-billion.

Sales in the second quarter were R14,8-billion, up 9,2 percent on last year's second quarter figure of R13,5-billion.

However, third quarter sales at R16-billion were up only 5,9 percent on the year-ago figure of R15,1-billion, with the increase in September only 1,8 percent.

GST receipts are a useful indicator to the state of the economy as the tax is levied on everything sold to a final consumer.

Therefore it is not an index of retail sales but of everything sold to the agricultural, mining, manufacturing, and commercial sectors as well as to the household sector.

However, while sales may be levelling off, the general sales tax collections have so far been up to the Treasury's expectations, mainly as a result of the 20 percent increase in the tax rate last September from 5 to 6 percent.

The Treasury has budgeted for a 24,2 percent increase in GST receipts in the current tax year.

At the end of September with half the tax year gone, GST receipts at R1 849,5-million were up 24,5 percent on last year's comparative figure of R1 485,8.

But the increase in receipts in September of only 1,8 percent compared with last year, suggests that the Treasury might not hit its final target.

The income tax figures are probably more pleasing to the Treasury. At the end of the first half of the fiscal year they amounted to R5,2-billion, which was up 21,5 percent on a year ago.

This compares with a Treasury forecast of a 17 percent increase in income tax receipts this year.

Although the economy may be running down, income tax receipts have so far held up well, with collections in September up 18,5 percent on a year ago.

It seems that the maintenance of a fairly high gold price to the mines, together with fiscal drag which is pushing taxpayers into higher income brackets, are the factors mainly responsible for the buoyant income tax collections.

Overall, tax receipts in the six months ended September have been buoyant and at R10-billion show a 26,1 percent increase over the R7,95-billion collected in the same period of last year.

However, this year's tax collections includes a transfer of R900-million from the Stabilisation Fund. If this figure is excluded, tax receipts are up only 14,7 percent on last year.

This is still greater than the 11,2 percent increase in total revenue for which the Treasury has budgeted this year.

GOVERNMENT FINANCE

Deeper in the red

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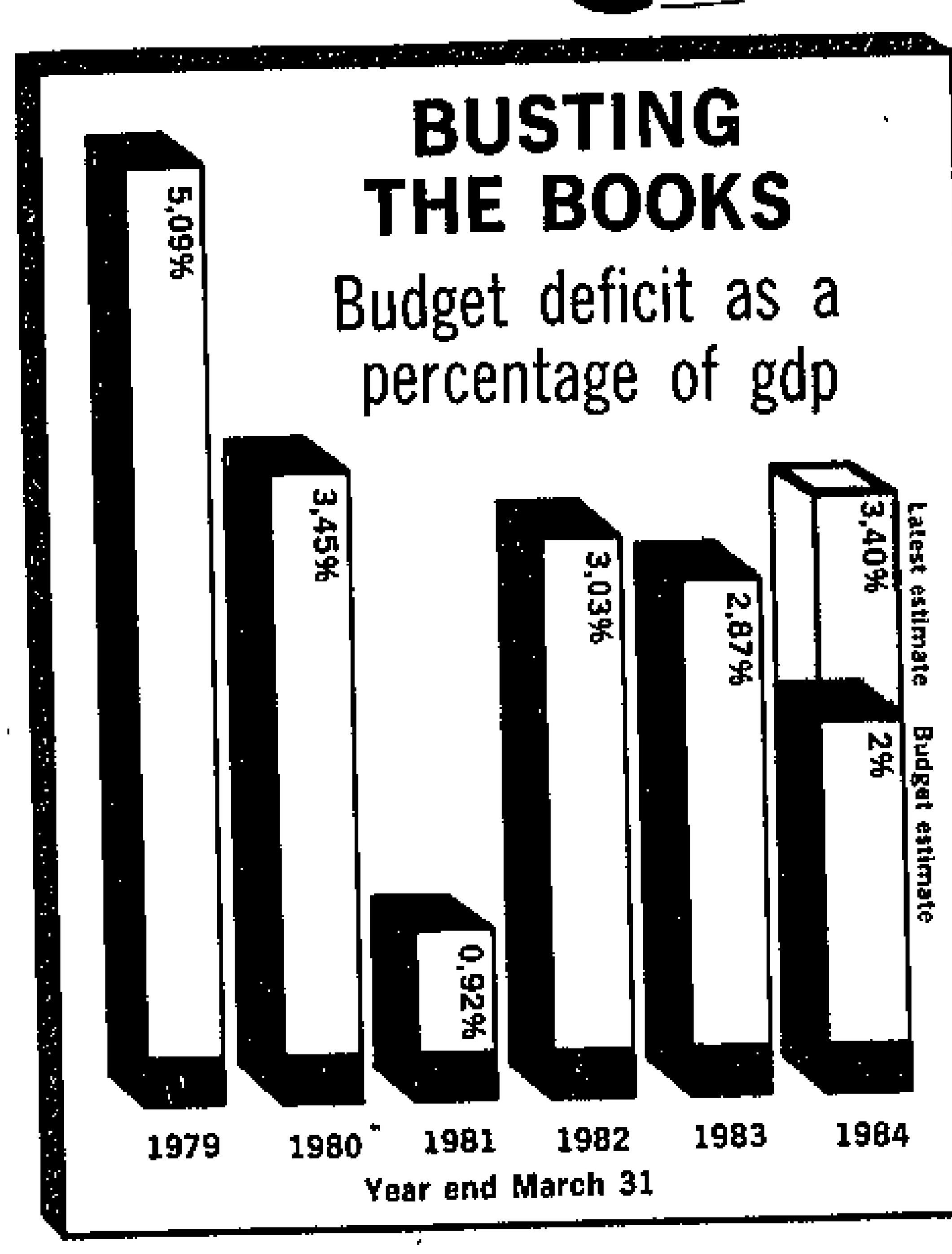
If government continues spending as it has done for the first seven months of the current fiscal year, its deficit before borrowing could exceed R3 billion, 50% more than provided for in the budget.

This has widespread implications. It will place pressure on the capital market and put a floor under long-term interest rates. It could be somewhat embarrassing for Finance Minister, Owen Horwood, blotting a near-impeccable record in what may turn out to be his final year of office. And it would be a clear transgression of the criterion set by the International Monetary Fund (IMF) last year.

In December 1982 SA was granted a R1,24 billion IMF loan on the understanding that Pretoria would tighten its monetary and fiscal policies. Among a number of things, it was agreed that money supply growth would be brought well below the expected rate of inflation, while the government's deficit before borrowing should not exceed 2% of gross domestic product (gdp).

Last March, Horwood budgeted for a 10,3% expenditure increase in the 1983/84 fiscal year, R21,2 billion, compared to the revised expenditure of R19,2 billion for the previous fiscal year. The outcome, however, judging by the figures to October, could be very different.

With government spending currently running at almost 5,5% above budget estimates, the total expenditure for the fiscal year to March 31 1984 looks set to reach R22,3 billion, almost R1,1 billion overspent. This would be equal to an increase of 16% over the previous fiscal year — ahead of the inflation rate. It could mean that the deficit before borrowing ends up at around R3,1 billion, — 3,4% of the estimated gdp for the 1983/84 fiscal year.



Missing targets

With this level of overspending it is not surprising that the authorities are also probably falling foul of the IMF's money supply targets. At the time of the budget, André Hamersma, group economist of Standard Bank, pointed out that "it would be a major achievement to limit public spending to 10,3%, particularly in view of the large increases in expenditure on education and defence, and the expected high costs of drought relief."

Indeed, the agricultural sector is a major factor in the budgetary excesses. Compared to the budget estimate of R467m — an increase of 21,5% over the previous year — expenditure has already reached R411m for the seven months to October. With the effects of the drought still to be fully felt, it could mean that spending by the Department of Agriculture will reach R700m — an increase of 83% over the previous fiscal year.

Ironically, the department that ostensibly controls government spending, the Department of Financé, is itself also overdrawing its account. It has already spent 69% of its annual budget in the first seven months, indicating a possible overspend of some R700m. This is probably because of high interest rates and the fact that the Department, through the Reserve Bank, has sold large quantities of State debt over the last two years. According to the latest figures, government net borrowing is already standing at just over R2,5 billion.

National education is also running over budget. By the fiscal year end it could have overspent by some R155m — 25% over budget — though like some other departments the overspend position may turn out to be more a seasonal phenomenon.

Government will be hard-pressed to finance the increased shortfall through non-inflationary means. Options include an increase in the weekly tenders of Treasury bills, staggered issues of fresh government stock, an increase in general sales tax (gst) and further foreign borrowing.

One market commentator believes it would not be too onerous to finance the increased deficit by, say, an extra R150m a month of new stock for the rest of the fiscal year. Nevertheless, new issues would continue to crowd out semi-government and private borrowers from the capital market by forcing up long-term interest rates and mopping up spare cash, with obvious consequences for private sector capital investment projects.

It is anyone's guess whether the government will decide to claw back R1,1 billion in this way. Some sources believe that everything now points to a severely restrictive budget next March with an all-round increase in taxes. The IMF could well see it this way too. In deciding on such a course, Pretoria will also be mindful of an expected decline in the tax receipts from the gold mines through a drop in the price of gold. At the same time stiff tax measures would be an important means of contributing to a reduction in the money supply growth.

Reduced tax receipts from gold mines are, of course, going to impinge on government revenue for the rest of the current fiscal year. In addition to the estimated R1,3 billion so far received, according to Standard Bank figures, government cannot expect more than about R950m from the mines during the rest of the fiscal year in view of the present weak trend in gold. The customs and excise account is likely to fall short by between R300m-R500m by the fiscal year end. This follows a sharp decline in imports, a reflection of recession. In volume terms, imports are expected to decline some 15% for 1983.

Other taxes will, to some degree, offset these losses of revenue. These include higher income tax through salary increases compounded by fiscal drag, strong gst re-

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ceipts over the Christmas period; and the inflationary impact on gst of rising costs of goods and services.

So, as it stands, the budget estimate for revenue at R19,1 billion is looking on target. A number of leading economists agree. A Standard Bank economist points out that in reaching its estimate of R19,1 billion the transfer of R900m from the stabilisation account to inland revenue last July was ignored because the amount was then transferred to the foreign exchange contingency reserve account of the Reserve Bank to cover forward exchange losses.

Provided receipts from the mining houses do not fall to lower levels, the government's total deficit before borrowing may be contained within R3 billion. But with four full months of the current fiscal year still to run, the authorities will have to begin battening down the hatches if they are to contain the excess. Austerity measures could be needed now, before the 1984 budget. Although gst receipts from advertising are due to start on January 1 1984, there is a 12% pay rise for civil servants due on the same date — in addition to the ongoing professional differential programme which provides up to 25% increases for some civil servants.

At the time of his budget speech, Horwood believed the next upswing in the economy would start toward the end of this year. Alas, high interest rates, a weak gold price and low rates of foreign growth appear to have proved his optimism somewhat unfounded.

PRIME RATE

Back to square one

Two large commercial banks — Trust and Nedbank — raised their prime overdraft rates to 19% within minutes of each other on Wednesday morning. By evening, Volkskas and Barclays had done the same, with Standard expected to follow soon.

For the banks, it is a matter of bowing to cost pressures that have been mounting for some time. The Reserve Bank seems, at the same time, extremely unwilling to provide any sort of cushion. And market sources say there is no good reason to reject the possibility of a 20% prime rate by Christmas.

A weak gold price and a subsequent liquidity squeeze in the money markets were the factors that in time-honoured style set the scene for higher short-term rates. In the last week, the 90-day bankers' acceptance rate rose over one percentage point to 17,25%. Non-liquid rates, reflected in three-month negotiable certificates of deposit, were even higher — 18,25% by the middle of the week. The money market shortage rose to almost R700m on Wednesday.

This shortage excluded a R500m accommodation agreement due to expire in the first week of December. Many bankers believed that the Reserve Bank's decision whether or not to roll this over would be the leading signal for prime rate. As it happens, the trigger came sooner.

Economists point out that the banks' liquid asset bases are relatively sound and that the cash shortage in the market affects their total costs only marginally. More telling are increases in funding costs across the whole book. Earlier this week some building societies increased their savings deposit rates to bolster their funding bases. Large inflows in the earlier, more liquid, months of the year had landed them with large forward mortgage commitments. The tendency snowballed as other societies, and then the banks, made similar protective adjustments.

This, bankers say, was the signal they were waiting for. Costs, rather than the need to fund slacker credit demand, provided the catalyst, and it was not surprising that Trust Bank, which has a relatively large exposure to savings, was the first to move, effectively making the decision for the others. In fact, on Wednesday morning, minutes before the increase, one of the other large commercial banks argued strongly that current market pressures simply "did not feel like the kind of groundswell normally associated with a rise in prime."

Higher rates

Six months ago, the Reserve Bank would probably have taken steps to prevent it. The repurchase agreements still outstanding are residual evidence of attempts to relieve cost pressures. But the broad situation has changed since then. Predominantly, the weakening of the rand knocks an important prop from Pretoria's overall anti-inflation strategy. The logical corollary of this development, in Pretoria's view, must be higher domestic interest rates.

Not everyone agrees, of course. Professor Brian Kantor of the University of Cape Town argues for the inverse of this approach. In terms of the past gold price/exchange rate relationship, he believes the rand is not currently overvalued. This means that it has more upward than downward potential, engendering the belief in the market that offshore trade credit does not have to be covered forward. With the gap between low foreign interest rates and high domestic ones not filled by forward cover costs, the temptation to borrow offshore becomes overpowering. The result is an inflow of short-term capital and a boost to the money supply.

This all assumes, of course, no further decline in the gold price and thus the rand. At the moment, however, it seems unlikely that anyone can confidently ignore that possibility. So even if Pretoria heeds Kantor's warning, which it hasn't done in the past, it appears that high interest rates are here to stay for a while.

At 19%, prime rate is at exactly the same level as it was a year ago, and five percentage points above its level in March this year. It is a turnabout that has confounded most expectations and, what is more, a turnabout that may not yet have been fully played out. At 17,25%, the banker's acceptance rate is suggesting, on established differentials, a prime rate of over 19%. It could go higher. Even if established differentials are ignored, liquidity is likely to tighten in December, when domestic cash demand is high and foreign dividend payments are made. It seems clear that pressure will mount for a return to the record — and psychologically significant — level of a 20% prime rate. When it does, Pretoria's reaction will be the deciding factor.

TAKING POSITIONS

The rise in the banks' prime overdraft rates was well anticipated by the gilts market. There was a little trade following the announcement, but not enough to move yields.

The yields on the two bellwether stocks, RSA 12,5% 2003 and RSA 11% 1998, stayed around the levels they had been trading on Wednesday morning, 13,69% and 13,78% respectively, ahead of the rise in prime.

There was a lot of trading in gilts late last week and early this week. The level of dealings, however, fell away on Tuesday and Wednesday. Much of the trading was of a speculative nature, with position-taking by jobbers.

MONEY SUPPLY

Statistical noise

If the latest money supply figures demonstrate anything at all, it is their own unreliability. The September statistics show a 12-month increase in M1, the narrow aggregate, of 29%. The change between August and September, if extrapolated without seasonal adjustment, suggests an annual rate of growth of over 110%.

Reserve Bank Governor Gerhard de Kock no doubt knew this when he described to the *FM* investment conference two weeks ago the shortcomings of using month-end figures. These "are often greatly distorted by a number of short-lived random factors," especially during the sort of periods of structural change that the SA financial system is undergoing.

On the other hand, De Kock has been primarily responsible for drawing public attention to monetary aggregates in SA. If he now appears to be wriggling off the self-made petard on which he is hoist, it is understandable.

The September month-end coincides with

Grandbaz profits dive 53% — dividend cut

CAPE TIMES
27/11/83 (49)

By PAUL DOLD
Financial Editor

GRAND BAZAARS was caught in the crossfire of the price war betweeen supermarket giants Checkers and Pick 'n Pay in the first six months with attributable profits slumping 53 percent to R421 000 and the dividend has been cut from 13c to 5c.

Although sales including the new stores — one opened in July and the other in August rose by over 30 percent — margins were slashed to maintain market share and trading profits slumped 47 percent from R1,4m to R734 000.

The recession and the drought led to sales of existing stores rising only 10,3 percent — an increase which was well below budget and at the same time the group faced higher expenses.

Earnings per share fell to 19,7c (42,2c) and the board felt it prudent to cut the dividend.

The latest figures appear to include six months profits from the new mail order acquisition — Charles Velkes — which was bought with effect from March this year thus underscoring the pressure of margins in the traditional supermarket business.

While the earnings slump will come as a shock to the market — the share is standing on a 4,9 percent dividend yield — the profit statement does contain some hope of a recovery in the second half. The board forecasts that results for the next half will reflect a moderate increase in trading profit over the past six months.

The group should also feel some benefit from the two new acquisitions — the mail order business as well as the purchase of the remaining outside share in the in-house butcheries.

The redevelopment of the Main Street, Port Elizabeth branch and the Sea Point store is underway and scheduled for completion in April next year.

Grand appears to have had a management reorganization with the appointment of Mr Ivan Epstein a retailing professional who has rejoined the group as general manager.

Last year Grand had operating profits of R2,4m and earnings per share of 131,5c. The dividend was 34c.

Comment: Grand has an excellent consumer image but expansion would appear vital if the group is to boost turnover significantly to command heavier discounts from manufacturers.

The group has a mere 20 stores against the several hundred of Checkers and Pick 'n' Pay. Margins have to be increased without market share being cut. This suggests two alternatives either merger with other small food chains who are being similarly affected or a rapid organic expansion programme.

 49 RDM 1/12/83

Housing costs empty pockets

Financial Reporter

SHARP increases in property prices and mortgage rates in the past few years have curbed the growth of discretionary spending power of many whites.

This, according to the November Economic Opinion from Senbank, is likely to mean lower growth potential for spending on durable and semi-durable goods. There is also evidence that consumers are coming to rely more on credit.

Senbank says: "The sharp rise in property prices over the past few years and higher rates of interest led to increasingly onerous contractual debt commitments. Not only has the burden of servicing and repaying mortgage debt become heavier but the minimum deposit required to purchase property has also increased.

"By way of illustration during the period 1979-82, if the average value of mortgage bonds granted by building societies in respect of selling is assumed to be an 80% bond repayable over 20 years and the average mortgage bond rate for the appropriate year is applied, the average monthly repayment on new bonds would have increased by 122%, from R200 in 1979 to R445 in 1982.

"At the same time the minimum deposit required would have increased by nearly 70% while average gross wages and salaries for whites (including employer-contributed financial benefits and before deductions) rose by barely 60%. The adverse effect of the increased burden was, however, reduced by specific housing assistance in many guises.

"The increasing inroads into discretionary spending were probably responsible for a slower average rate of growth in spending on durables and semi-durables than otherwise might have been the case. They were also behind an increased use of credit, in particularly the expansion phases of economic activity, and probably led to increased cyclical volatility in consumer spending.

"The flattening out in the upward trend in spending on durables as a proportion of the total and the reversal of the rising trend in spending on semi-durables seems to have been mainly the result of the impact of high inflation on lower-income households.

"This seems consistent with the declining trend in the proportion of total spending on more basic durables and semi-durables, such as furniture and household goods, household textiles and furnishings and clothing and footwear since 1975.

"The rise in the proportion of total spending on recreational and entertainment goods and services and on personal transport equipment over the same period seems to agree with the effect of inflationary expectations on the buying patterns of higher-income consumers who have greater access to resources — either accumulated savings or greater access to short and medium-term consumer credit.

"The increased use of consumer credit by this group appears to have been a supportive factor particularly in the latter stages of the current business cycle. This is consistent with the way the demand for consumer credit has remained firm."

Argus 8/12/83

Blacks worst hit by tight money - BER

Financial Reporter

PEOPLE of all races have found money tighter in the past few months and are finding it impossible to save, according to the latest consumer survey by the Stellenbosch Bureau for Economic Research.

The bureau says spending of a discretionary nature is likely to remain low for the next six months.

But indications are that the situation is already improving, with manufacturing production increasing and a fall in white and coloured unemployment figures.

Although there may have been a setback in the past two months this will probably be short-lived as a result of the fact that the United States economy is becoming stronger and South Africa's export earnings should benefit in due course.

Under strain

Black people have been more badly affected than whites by the recession in the past year and are less optimistic about the coming months.

"Both groups reported a tight financial situation and both said that their finances were under more strain compared with the situation a year ago.

"Blacks regard the present as the wrong time for the spending of money on durable goods and few of them have money for saving.

"The white group have a more neutral attitude but appear to favour spending over saving in spite of their relatively tight financial situation."

Neither group noticed any particular slowing down in the rate at which prices had risen in the past year.

Most whites, however, thought the rate of price rises would slow down in the coming year while blacks expected it to remain the same.

"These attitudes led to a sharp decrease in the confidence of blacks and a very marginal deterioration in the confidence of whites.

"The demand for goods of a discretionary type could fall away in the black household sector while there is likely to be little change in the demand from whites.

Improving

Many indicators show that the national economy is improving but some suggest that a setback has occurred in the past two months."

The number of coloured, white and Asian people registered as unemployed fell steadily between March and July.

"But the July figure, which was the latest available at the time of writing, was still slightly more than double the July 1982 figure.

"Unemployment among blacks is still increasing, and at an increasing annual rate.

"The decrease in registered unemployment suggests that manufacturing production might have accelerated in recent months and this is underscored by the index of physical volume of manufacturing production."

The motor trade did very well and appears to be on an uptrend in sales.

"Reports were, however, received of a sharp decline in sales of white goods and furniture towards the end of October.

"This is possibly a result of a downswing in the building cycle and substitution of furniture and the like by cars and computer-video equipment.

"Interest rates are still high in real terms and inflation remains rampant in spite of a concerted effort to bring it down."

Cape Times 9/12/83 (49)

Higher taxes inevitable — Standard Bank

By HOWARD PREECE

JOHANNESBURG. — Business conditions are likely to get worse in the first part of next year before improving. This is the conclusion of Standard Bank's Economic Review for December.

It says: "The continuation of the recession is likely to have serious implications for the consumer.

"Unemployment is high and rising.

"Most year-end salary increases are below the inflation rate and many companies will not be paying a Christmas bonus.

Stimulation

"Since the possibility of fiscal stimulation next year is remote and increased taxes look inevitable, consumers will have to tighten their belts.

"Quite apart from the need to adjust to lower real incomes, consumers are also bound to realize now that it no longer makes sense to buy on credit since in real terms interest rates have never been higher.

"The real prime rate is over eight percent a year and the cost of consumer credit higher still."

Standard says: "Recent developments abroad, particularly in the gold and commodity markets, have been far from favourable for South Africa.

"Domestically there has been a distinct further tightening of financial markets and a deterioration in the business climate.

Progress

"This suggests that a significant recovery of the South African economy is certainly not a prospect for the first part of next year and conditions are likely to get worse before improving again."

Standard says: "Progress has been made in reducing the inflation rate but the improvement would be only a temporary one if the money supply growth is not substantially reduced from current levels.

"To achieve this, the demand for bank credit must diminish.

"For that reason, among others, the present high interest rate structure is likely to be maintained for some months.

"The Reserve Bank's high interest rate policy is likely to slow down consumer spending which has continued to grow strongly on the back of credit virtually throughout the recession.

"In the coming months personal spending will tend to reflect to a greater degree the reduction in real disposable incomes evident for some time.

"This could have significant implications for the economy's growth performance, particularly for those sectors which have shown relative buoyancy in 1983."

Standard says "the economy is still not ready for a recovery".

"Even though the balance of payment had improved dramatically in the second half of 1982 that momentum has now been lost.

Improvement

"Before a healthy recovery can take place, a strong improvement in exports is necessary.

"The weaker rand has certainly helped exporters but what is really needed is an improvement in both the prices (in foreign currencies) and the volumes of South Africa's export commodities.

"A substantial improvement on the balance of payments is clearly necessary to form a sound basis for renewed growth.

"But the domestic financial sector, too, still needs to make substantial adjustments to enable a recovery to take place in a healthy manner."

The bank adds: "A financial precondition for recovery is that the cost of credit be low in real terms.

Monetary policy

"However, at this stage any decline in interest rates would have to be engineered through an expansionary policy and that would have disastrous implications for future inflation.

"The Reserve Bank has thus stated its intention to maintain a tight monetary policy until satisfactory progress has been achieved in curbing both money supply growth and inflation.

"This requires that the demand for bank credit be substantially reduced."

Turnabout seen in manufacture

ARGUS 13/12/83 49

A turnaround has occurred in the manufacturing sector and further improvements are expected in the first quarter of 1984, the Bureau for Economic Research at the University of Stellenbosch reports.

The Bureau has published preliminary results of an opinion survey for the period November 11 to December 2 this year, based on 2 287 respondents among manufacturers, wholesalers, retailers and motor traders.

It found higher volumes of sales and production as well as increases in orders in the manufacturing sector compared to the same period last year.

The value of unfilled orders in relation to sales was showing continued improvement.

WHOLESALERS

The majority of the correspondent wholesalers believed the downswing in the activity of this sector was something of the past. Higher volumes of sales were reported and more orders were placed.

Businessmen in the retail trade remained pessimistic about conditions in general although the volume of sales was above that of a year ago. Stocks were almost in balance with expected demand.

In the motor trade sales of new vehicles were slightly up while the number of orders placed remained unchanged. Dealers in new vehicles expected general business conditions to improve.

Used vehicles remained in oversupply and a slight majority of dealers in this sector assessed conditions in general to be worse than a year ago.

BUSINESS CYCLE

The Bureau said the results implied that the business cycle of the manufacturing and commercial sectors had reached a lower turning point.

Manufacturers in particular had apparently entered an expansionary phase, while retailers were slowly but surely making up lost ground.

Prices in these sectors were rising more slowly and a better utilisation of productive capacity could sustain this trend for a while.

No substantial overstocking was reported which could be indicative of the commencement of a new inventory cycle.

Even at the present relatively low level of activity shortages of skilled labour had become more serious. — Sapa.

Cape Times 20/12/83 (49)

Black and Coloured jobless rate is severe problem, Sanlam warns

By BRENDAN RYAN

UNEMPLOYMENT among Blacks and Coloureds holds serious socio-economic implications for South Africa, according to insurance giant Sanlam.

Sanlam's Economic Survey for December says almost 60% of all Black unemployed are under the age of 30.

Nearly 70% of all Coloured unemployed are also under the age of 30.

Difficulty

"Particularly striking is the fact that almost 20% of Black and 35% of Coloured unemployed are below the age of 20.

"It is obvious that entrants to the labour force, especially the unskilled, are experiencing formidable difficulties in finding work," the survey says.

The rate of employment outside the agricultural sector has dropped drastically over the past two years because of South Africa's recession.

The economy had a negative real economic growth rate of 1,2% in 1982 and the expected negative growth rate for 1983 is 3,5%.

"The rate of increase in employment in non-agricultural sectors of the economy declined from 2,9% in 1981 to 0,4% in 1982 and to approximately -1% in 1983.

"Marked declines in unemployment were experienced in the manufacturing, mining and construction sectors in particular," the survey says.

It says the number of unemployed Coloureds rose from a low of 4% in December 1981 to 7,5% this June although the most recent figures indicate some improvement in the situation.

Imbalances

Over the same period Black unemployment rose only from 7,3% to 8,4% but these figures are not accurate because they do not include the independent Black states where unemployment is much higher.

There also serious imbalances in the unemployment situation when looked at by sex and by region.

Almost twice as many Coloured women as men are unemployed and among Blacks three times as many women as men are unemployed.

Regionally the Black unemployment rate is particularly high in the Eastern Cape, the Western Cape, Natal and in part of the Orange Free State.

Inflation

The survey supports the widely-held belief that a significant improvement in general business conditions cannot be expected before the third quarter of 1984.

While Sanlam expects the year-on-year inflation rate to drop to single figures early in 1984 the outlook for the remainder of 1983 is not good following the 1% rise in the total consumer price index in October.

"We think that this somewhat disappointingly high rate of increase has ensured that the year-on-year rise in the consumer price index will not descend to below the 10% level this year.

"On the contrary it may even be above 11% again by the end of the year. We expect an average increase of a shade over 12% for 1983 as a whole," the survey says.

Export demand

Sanlam believes merchandise exports will improve in the course of 1984 as the ripples of the recovery in the USA economy are felt more widely and create a greater demand for South African exports.

"Thanks to prospects of more favourable weather, we may expect a marked improvement in the Republic's net agricultural trade with the rest of the world next year.

"Taking an average gold price of $450 an ounce for 1984 into account, we estimate at this stage that the balance of payments on current account may show a surplus in the region of R1 500m next year.

"Together with an anticipated net inflow of capital this should contribute to a substantial improvement in the overall balance of payments position in the course of 1984."

Smaller role

The review says inventory adjustments contributed materially to the rapid revival in the United States economy but with inventories now approaching more normal levels, this component of expenditure will play a smaller role in the expansion of general economic activity in the coming months.

Sanlam says signs of a marked recovery in capital expenditure by business enterprises are appearing earlier than expected.

However the capex is being spent on equipment rather than new factories as businessmen increasingly prefer investment in modern equipment — to cut costs and increase productivity — to investment in new production plants.

Sanlam believes the dollar will be subjected to strong downward pressure in an effort to make American goods competitive in foreign markets once again.

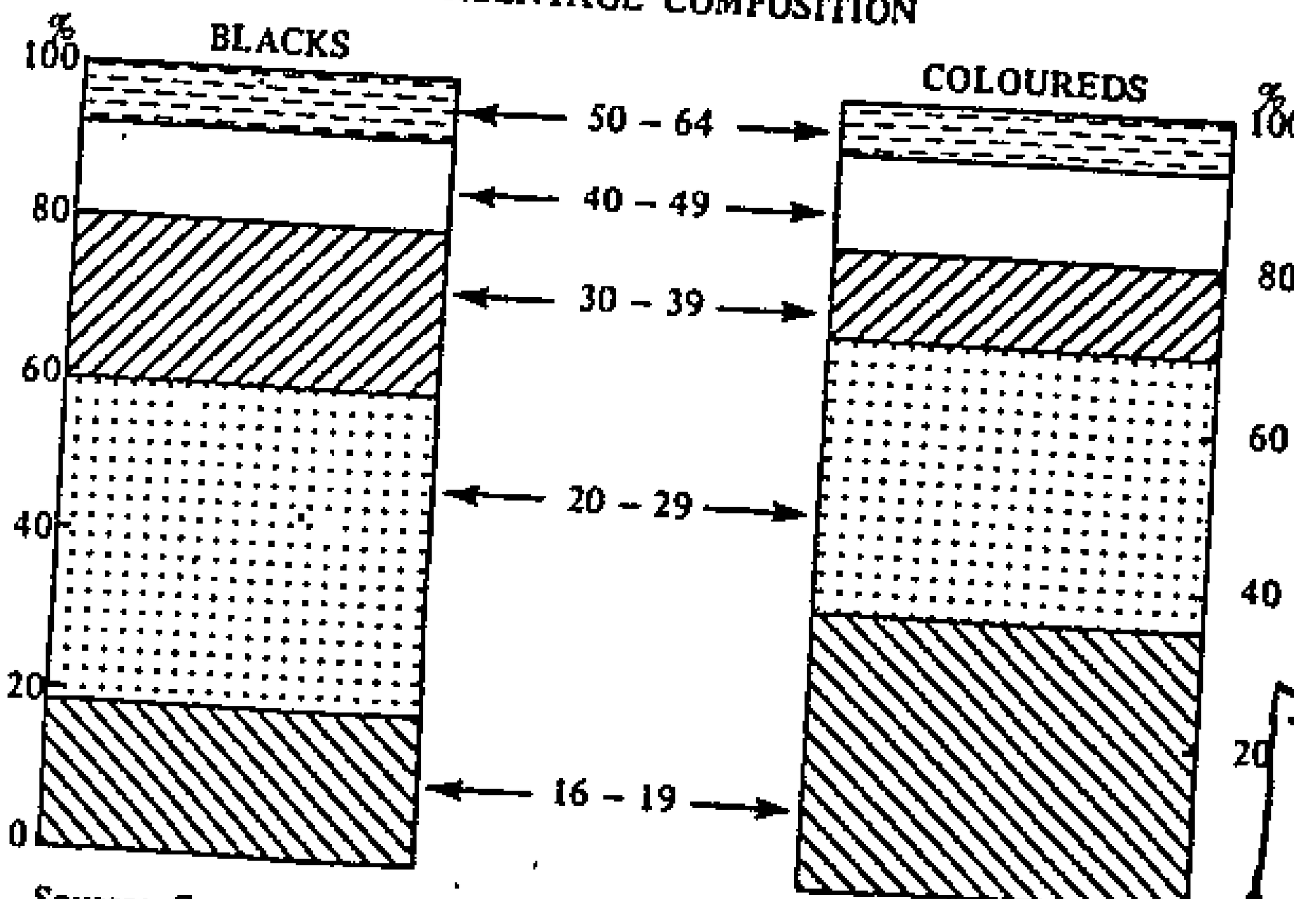
The continued strong peformance of the dollar is creating serious problems for American foreign trade.

Regional distribution of Black unemployment : June 1983
(expressed as a percentage of the occupational population in the regions)

	Total	Cities	Towns	Non-urban
Western Cape	11,1	8,1	22,7	6,5
Western Transvaal, Northern Cape and parts of the O.F.S.	3,3	7,0	2,3	2,7
Parts of the O.F.S. and Qwa Qwa	4,5	5,5	5,4	4,0
Eastern Cape and parts of the O.F.S.	16,8	17,1	26,7	10,2
Natal and Kwazulu	13,2	12,2	15,0	12,6
Eastern Transvaal, parts of Lebowa and Gazankulu	5,1	9,2	11,8	3,1
Northern Transvaal and parts of Lebowa and Gazankulu	11,9	–	6,5	12,8
P.W.V. area	6,7	7,0	6,7	4,3
Total : Republic	8,5	7,9	13,0	7,7

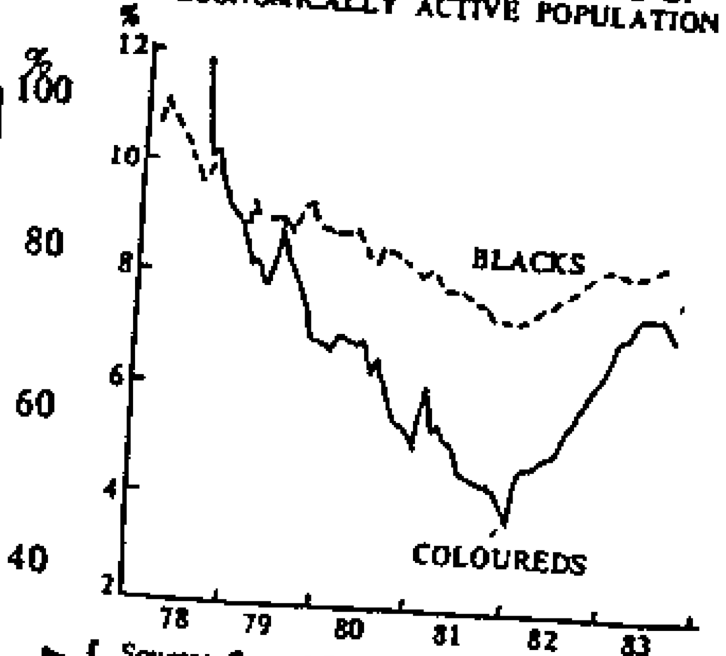
Source: Central Statistical Services

UNEMPLOYMENT BY AGE GROUP: PERCENTAGE COMPOSITION



Source: Central Statistical Services

UNEMPLOYED AS PERCENTAGE OF ECONOMICALLY ACTIVE POPULATION



Source: Central Statistical Services

from the Commerce Department place the deficit on the current account of the balance of payments for 1983 at $35bn compared with a shortfall of $11bn in 1982.

The role of foreign trade in the US economy has grown considerably in the past decade. Imports and exports have jumped from about 8% of gross national product at the end of 1960's to about 16% in the last few years. Present estimates

Reductions in pay rises are forecast

21/12/83 E. Post

JOHANNESBURG — The likelihood of further substantial cutbacks in nominal salary and wage increases in response to the depressed demand for goods and services experienced over the past year, is predicted by Barclays National Bank in its latest Business Brief.

Commenting on total real disposable incomes, it says these will drop further next year, especially in view of the likely increase in personal income tax.

"Salary and wage increases generally are unlikely to show an increase of much more than 10%, compared with an estimated increase of around 13% for 1983.

"Assuming an average monthly inflation rate of around 9% for 1984 and no increase in employment levels in the face of a likely continuation of negative new fixed investment in real terms, it must accordingly be expected that total real disposable incomes will show a further reduction next year, especially if there should be an increase in personal income tax, which seems very likely.

"A decrease of perhaps as much as 3% in total real disposable incomes next year would, in turn, have adverse implications for private consumption expenditure, which is the main constituent of total domestic demand."

Over the past year, private consumption expenditure had been kept up to a considerable extent as a result of the consuming public having had resort to hire purchase and other forms of personal credit on a substantial scale.

"It is unlikely, however, that consumers will be able to and will be prepared to continue to take up credit on the scale of the past year.

"Any positive increase in private consumption expenditure next year is, in fact, probably only possible if the inflation rate for 1984 should fall even below 9%," Barclays states.

Discussing taxation, it says the Minister of Finance is likely to be faced with a deficit before borrowing that could well be in excess of R3 billion in next year's Budget.

In view of the need to push down the inflation rate, he would not be able to finance this shortfall to any material extent by borrowing from the banking system or by borrowing overseas.

"He would accordingly have little option but to finance the deficit by increasing taxation or by borrowing more funds in the domestic capital market or, of course, a combination of both.

Anything more than a moderate increase in taxation at the time of the Budget would be adverse for growth and employment and would probably put paid to any hope of recovery of the South African economy during the course of 1984.

The South African Reserve Bank, in its quarterly bulletin, meanwhile says the rate of increase in nominal salaries and wages in the first three-quarters of 1983, compared with the corresponding period of 1982, amounted to only 12% — well below the rate of increase in each of the preceding four years.

However, in terms of successive quarterly changes, the rate of increase in nominal salaries and wages accelerated from 11% in the first quarter to 12½% and 14% in the second and third quarters, respectively.

Net personal saving remained subdued and showed little change in the first three quarters of 1983. As a ratio of personal disposable income, it remained at a historically low level of 3½%.

Reviewing employment trends up to mid-year, the Reserve Bank says the levelling out of the decline in real economic activity was evident in this field.

Total non-agricultural employment, which had declined during the second half of 1982 and the first quarter of 1983, actually showed a slight increase in the second quarter.

In the private sector, employment receded further in manufacturing, construction and non-gold mining, but increases were recorded in the number of workers employed by financial institutions, gold mining and the private transport sector.

In manufacturing, the existing labour force was used more fully, as was reflected in an increase in the number of overtime hours worked in relation to ordinary hours.

In the first six months of 1983 total non-agricultural employment was 1,9% lower than in the corresponding period of 1982 This was mirrored in an increase in unemployment.

Seasonally adjusted, the number of registered unemployed whites, coloureds and Asians rose from 32 790 in December, 1982, to 40 012 in June, 1983.