

KOPPELVLAK / INTERFACES

THE 1978 BUDGET : ITS EFFECT ON THE ECONOMY*

The effects of the 1978 budget on the South African economy, and likely economic developments in the near future were keenly discussed at a meeting of the South African Association of Business Management held in Pretoria on October 24. The meeting was attended by some 65 businessmen and -women mainly from Johannesburg and Pretoria, representing various sectors including manufacturing, banking, insurance, property and business academia.

Drawcards at the meeting were the two speakers, Dr Fred du Plessis, managing director of Sanlam, chairman of Senbank and executive director of Trust Bank; and Dr Chris Stals, vice-president of the Reserve Bank.

Dr Stals said that the South African economy had been brought into control effectively. In 1977 there was only a 7% increase in the money supply, compared with a 23% increase in 1975. A deficit of some \$2 milliard on the current account in 1975/6 had been turned around to a \$1 milliard surplus in 1977/8 — an improvement which was internationally regarded as the world's best performance in this area in 1977.

But the price for this positive financial picture had been paid in terms of the internal economy, Dr Stals said. With the exception to some extent of agriculture and mining, the rest of the economy had performed poorly and registered unemployment had increased from 7 000 for whites, coloureds and Asians, to 35 000. Unemployment among blacks was even worse, and the average real income of whites had dropped.

Against this background the government had to pay attention to the internal growth rate, and had moderately stimulated the economy as from the end of 1977. The 1978 budget fitted into this policy of increased emphasis on growth, *but with financial stability*. As from mid-1978 growth had been the top priority, and the government was using both government spending and monetary policy to stimulate the economy. Although the monetary stimulation had not been as effective as originally planned (the government was in fact taking more money out of the economy by means of gold mine taxation and loans, than it was putting into the economy), the economy had reacted well to the stimulation, and there could be no doubt that the upswing was well on its way. The introduction of General Sales Tax in July 1978 had of course confused both buying patterns and statistics

regarding the economy, but even after this had been discounted, signs were still positive.

Dr Stals summarized his view of the economy by saying that he saw 1977 as a year of consolidation, 1978 as a period of moderate stimulation and growth, 1979 as a year of increased growth and 1980 as a year in which balance of payments problems might again be expected.

Dr Du Plessis said that confusing statistics about the economy gave rise to a confusing image. This confusion was aggravated by the different viewpoints of people in different sectors looking at the economy: The banker was likely to see the picture as being very positive; the retailer would say things were reasonable; while the industrialist would still be unenthusiastic because the upswing had not yet reached him, capacity was still underutilized and employment had to be kept low to maintain profitability. Uncertainty in the international economy further complicated efforts to forecast and plan for economic developments in South Africa.

The upward trend in international interest rates, with our rates being lower than most overseas rates, implied that South African business would tend to borrow here rather than overseas. Although there was not yet strong evidence of this occurring, this could lead to balance of payments problems if people repay their overseas loans.

Dr Du Plessis said the political situation would be a determining factor in the economy. He said that politicians always had a need to prove themselves as leaders, to attract the spotlight. In view of the swing to the left in the Free World since the Second World War, conservative South Africa served as a perfect platform for such Western politicians. "By criticizing us, they can prove that they are doing something, they use us as an instrument to draw the spotlight onto themselves. But these same leaders cannot afford that a total mess develops here, they must keep the act on the South African stage going to stay 'successful'".

Dr Du Plessis concluded that this situation would continue, without any major crises disrupting the political situation and thereby also the economy.

Investment possibilities for the future therefore appeared to be "not too bad". He saw risk investments as holding the greatest possibilities — in fact the stock market had improved noticeably. But it was

* Every year the SAABM arranges a meeting for its members and interested guests to discuss the Budget. In the past it was usually held immediately after the budget presentation, but in the past few years it has been held some months after Budget Day, so that the actual effects of the budget can be taken into consideration, and the view of likely future developments can be more realistic.

essential that the returns on risk capital be improved. Even besides the political risk in South Africa, a premium was needed to attract investments. Governments the world over tended to kill the golden-egg-laying goose by high taxation on returns which were already too low. "Unless the Western world changes its attitude to returns on risk capital, capitalism will die in our hands."

Dr Du Plessis said it was essential that the 1979 budget bring about fundamental changes in this regard; in order to give a reasonable return on risk investment. In the interests of the South African economy as a whole a change had to come regarding company taxation.

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