THE ESSENTIAL ROLE OF PRIVATE ENTERPRISE AND THE MARKET MECHANISM IN THE ATTAINMENT OF SOUTH AFRICA'S ECONOMIC OBJECTIVES*

by
Dr Gerhard de Kock
Special Economic Adviser to the Minister of Finance.

Die sentrale tema van hierdie artikel behels die volgende: 1) Ten spyte van 'n suksesvolle fiskale en monetêre beleid, het Suid-Afrika steeds met ernstige sikliese en nie sikliese ekonomiese probleme te kampe. Dit kan hoofsaaklik toegeskryf word aan wêreldwye ongunstige ekonomiese ontwikkelings en gespanne politieke verhoudinge met die buiteland; 2) Ons ekonomie pas hom besonder goed aan by hierdie ongunstige toestande; 3) Hierdie aanpassing behels onvermydelike finansiële dissipline en ekonomiese opofferings. Met gesonde ekonomiese bestuur behoort ons egter 'n redelike, stabiele ekonomiese groeikoers te handhaaf en 'n steeds stygende lewenspeil vir almal te voorsien; 4) Voortgesette ekonomiese groei gekoppel met stabiliteit behoort 'n sleutelbydrae te maak tot die oplossing van politieke probleme; 5) Om hierdie uitdaging die hoof te bied, moet verdere aanpassings gemaak word in ons ekonomiese strategie, sonder dat die owerheid oormatig hoef in te gryp in die ekonomiese sisteem. Sosialisme is nie die antwoord vir Suid-Afrika nie. In die strewe na ekonomiese en politieke doelwitte onder veranderde omstandighede, speel die private onderneming en die vrye markmeganisme 'n belangriker rol as ooit tevore.

My theme is straightforward and simple:

(1) Despite successful fiscal and monetary policies, South Africa continues to face serious cyclical and non-cyclical economic difficulties. These can be attributed in large measure to recent adverse world economic developments and stresses and strains in our external political relations.
(2) Our economy is adjusting extremely well to these adverse circumstances and shows every sign of continuing to do so.
(3) This adjustment inevitably entails financial discipline and economic sacrifices. But the underlying strength of our economy is such that, with sound economic management, we should be able to maintain a reasonable rate of economic growth on a stable basis, and to provide a rising standard of living for all sections of our population.
(4) Such continued economic growth with stability should make a key contribution to the solution of our political problems.
(5) To meet the present challenge we need to make further adjustments to our economic strategy. But in doing so the authorities are determined not to *over-react* by resorting to excessive direct government intervention in the economic system. Socialism is not the answer for South Africa. In the attainment of our economic and political objectives in the changed circumstances of today, private enterprise and the free market mechanism have more important roles to play than ever before.

(1) CONTINUED CYCLICAL AND NON-CYCLICAL ECONOMIC PROBLEMS

Like most other countries, South Africa continues to face serious economic difficulties. Our fiscal and monetary policies of the past two years have been extremely successful in solving many of our economic problems, particularly in transforming a large deficit on the current account of our balance of payments into a substantial surplus. But it would almost seem that as soon as we solve one problem, another one appears. In this sense we have been chasing a moving target. Every time we start winning, the referee changes the rules of the game to suit the other side. Thus, for example, the new loss of momentum in the world economic upswing and recent political developments, including the arms boycott and the threat of economic sanctions against South Africa, are understandably detracting from our fine balance of payments performance, preventing our gold and other foreign reserves from rising, and retarding our new domestic upswing.

What is striking about our present economic situation, is its abnormality. This is best illustrated by the fact that we are actually running a sizeable *surplus* on the current account of the balance of payments — probably of the order of over R600 million for 1977 as a

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whole — and at the same time experiencing a net outflow of foreign capital. It should have been the other way around. A country with our potential for rapid economic development should normally be combining a moderate current account deficit with a net inflow of foreign capital.

Not that we are complaining about our current account surplus! In present circumstances that is precisely what we need, and it reflects the success of our monetary and fiscal policies. But the fact remains that as long as we continue to experience a net outflow of capital to the rest of the world, the balance of payments situation remains somewhat unnatural.

The other side of this abnormal coin is to be found in the domestic economic situation. If political circumstances and the net inflow of foreign capital had been more normal, the current surplus would months ago have resulted in a strong upward movement in our net gold and other foreign reserves. This would have created an expansionary monetary and financial climate, which in conjunction with the other expansionary forces at work in the economy, would in all probability by now have placed us in the middle of a strong new economic upswing. However, in the present abnormal circumstances, this has not yet happened, and for the time being the annual rate of economic growth remains at the relatively low level of between 1 and 2 per cent.

(2) CONTINUING PROCESS OF ADJUSTMENT — FAVOURABLE SIGNS

Make no mistake — the South African economy has put up a remarkable performance in adjusting so rapidly to the adverse circumstances. Our balance of payments has shown once again that it is capable of withstanding serious setbacks and considerable buffeting. Just consider the long list of unexpected shocks to which it has had to adjust during recent years. The first was the severe world recession of 1973/75. The second was the fall in the gold price from a peak of \$198 per ounce towards the end of 1974 to a low point of \$103 in August 1976. The third shock came in the form of the events in Angola towards the end of 1975 and the early months of 1976. The fourth was the disturbances in Soweto and other black townships during the middle months of 1976. Fifthly, considerable attention came to be focused on the problems of Rhodesia nd South West Africa. And finally there have been the recent domestic and international political events, including the arms embargo, which have adversely affected our economic relations with the outside world. The fact that, in reaction to all these unfavourable developments, we have been able to attain a large current account surplus and to repay substantial amounts of foreign loans and trade credits, while at the same time still showing a positive, although smaller, rate of economic growth, has been no mean achievement.

In addition to this efficient working of the balance of payments adjustment process, there is now evidence that the downward cyclical movement in the South African economy has been arrested. If a lower turning point in the cycle has not yet been reached, it must be close at hand. Certainly, important influences are at work which, if they have not already begun to do so, should bring about a moderate new economic upswing in South Africa in the near future. The most important of these is the exceptional increase during the past year in the value of merchandise exports and the gold output, which together with the decline in imports, has brought about the surplus on current account. This surplus in itself means that additional income is being created in the domestic economy.

The second important expansionary influence is the continuing process of import replacement. This process has been encouraged by official policy measures such as the devaluation of September 1975 and the revenue duty on imports included in the latest Budget, as well as by recent efforts of the private sector itself to "buy South African", with special reference to capital goods and intermediate goods. Tariff protection also continues to be provided on the advice of the Board of Trade and Industries to deserving manufacturing enterprises. Obviously, the arms embargo and the threat of economic sanctions will themselves stimulate import replacement.

A third expansionary factor is the increase of certain forms of current government expenditure and investment by public authorities and corporations, including capital outlays on special projects such as Sasol II and the Koeberg Nuclear Power Installation.

In addition, following his earlier announcement that the emphasis in official short-term economic policy would be shifted towards the encouragement of sound economic growth, the Minister of Finance has recently announced a list of specific expansionary steps. One of these is a scheme for the expenditure of an *additional* R250 million on low-cost housing in non-White residential areas during the remainder of the present fiscal year and the ensuing two fiscal years. At the same time he announced plans to afford urban Blacks suitable title to residential properties in urban areas outside the homelands, which should enable them to buy their own homes with the assistance of loans from building societies or from their own employers. He also expressed continued support for export promotion and announced that, in accordance with the new approach, broad monetary and fiscal policies would be adjusted as far as necessary.

Considerable success has therefore already been attained in making the necessary adjustments to our changed economic situation, and within the constraints imposed by the present abnormal circumstances, there are encouraging signs of a moderate cyclical upswing in the period ahead.

(3) FINANCIAL DISCIPLINE AND ECONOMIC SACRIFICES, BUT CONTINUED GROWTH

It would be only realistic, however, to expect that the unfavourable international economic situation and the stresses and strains in our political relations with the outside world will continue to have adverse effects on the South African economy and to demand financial discipline and economic sacrifices. I have already referred to the problem of the outflow of capital. To this must be added possible negative influences on our foreign trade. Perhaps even more important could be the unfavourable psychological influence on the inducement to invest of South African intrepreneurs.

It is true that, in the existing circumstances of surplus capacity and unemployment, enforced import substitution as a result of sanctions would tend to stimulate domestic economic activity and to produce a higher rate of economic growth in the short term. But in the medium and long term the net effect would probably be unfavourable. It stands to reason that South Africa should be able to grow faster *with* foreign capital and *without* sanctions than it would be able to do *with* sanctions and *without* foreign capital.

However, even without a net inflow of foreign capital and even if effective general economic sanctions were to be applied to us, the economic facts of life are such that, with sound economic management, the South African economy should continue to expand and to provide a rising standard of living for all sections of the population. Certainly, we would need to increase our rate of domestic saving and to change our methods of production to make them more labour intensive and less capital intensive. And, of course, the inducement for the private sector to invest in plant, equipment and construction must be adequate, a point to which I shall return. But if we apply appropriate economic policies, our rich natural resources and adequate labour supply, coupled with our proven entrepreneurial and managerial ability and our developed economic infrastructure, should enable us to attain an adequate rate of economic growth.

For this to occur, however, it is essential for us to maintain a certain rate of increase in fixed investment outlays. This is a major reason why the Minister of Finance recently announced the shift of emphasis in policy, which he described as a movement from Phase I to Phase II in our short-term economic policy.

To avoid any misunderstanding, let me emphasise that the new policy is *not* a policy of reflation by means of large increases in government spending and money creation, reductions in taxes, low interest rates and large wage and salary increases. On the contrary, fiscal and monetary discipline remains the key to our overall economic strategy. However, the new policy does aim at removing restraints on economic expansion which no longer serve the purpose of either improving the overall balance of payments or reducing the rate of inflation. As the Minister of Finance has emphasised, further deflation of the economy in present circumstances would amount to "overkill' and probably be counter-productive. It would probably undermine growth and increase unemployment *without* either improving the overall balance of payments or reducing the rate of inflation. Indeed, it might well weaken the balance of payments position by encouraging the outflow of recession liquidity and reducing both the inward movement of new capital and the re-investment of profits by overseas companies operating in South Africa.

Another important reason why it would be undesirable to attempt to deflate the economy further at this stage, is that such a policy would further erode the tax base of the economy.

During Phase I of our policy we sought to exercise effective control over the money supply and government spending, and therefore over the current account of the balance of payments. As I have indicated earlier, this part of our policy has been successful. We have now moved into Phase II, during which we must demonstrate the ability of the South African economy to embark upon the next cyclical upswing and to utilise both the existing surplus capacity and the enlarged infra-structure.

It will be evident from what I said earlier that the shift in the emphasis of our short-term economic policy is not based in any way on a belief that our balance of payments and inflation problems have been completely and permanently solved. We labour under no such delusion. We are not moving from Phase I to Phase II of our policy because we are complacent about the balance of payments or the gold and other foreign reserves, but for the very reason that we believe that this change in policy will assist us in coping with the serious problems still confronting us.

To put the matter in another way, if we are to get along with less foreign capital and to prepare for possible economic sanctions, it is essential to increase our domestic saving and to prevent any further erosion of the tax base. To achieve these aims, however, it is essential to have a reasonable rate of economic growth. The one thing we must avoid at all costs is that in our zeal to maintain a current account surplus, we damage confidence and bring about a state of virtual economic stagnation.

(4) ECONOMIC GROWTH AND STABILITY — A KEY CONTRIBUTION TO THE SOLUTION OF SOUTH AFRICA'S POLITICAL PROBLEMS

One of the main reasons why it is so important for us in South Africa to succeed in attaining a reasonable rate of economic growth, together with economic stability, is the contribution that this could make to the solution of our unique political problems. Whatever our domestic political differences might be, I am sure that there will be fairly general agreement on this proposition. Rapid economic growth with stability should also be of the greatest assistance in attaining and preserving harmonious relations between the various countries in Southern Africa. Any economist who has acquainted himself with the economic facts of life in Southern Africa, and who has studied the distribution of natural resources, the location of harbours and the nature of the transport network, must appreciate the tremendous scope which exists for trade and economic co-operation in Southern Africa. And if countries can co-operate in the economic field in a manner which is mutually advantageous, the chances are that they will. History is not only a matter of flags and anthems and nationalistic aspirations. Economic forces have also been important in shaping the course of events, and there is every reason to believe that this will be the case in Southern Africa.

(5) THE IMPORTANCE OF PRIVATE ENTERPRISE AND THE MARKET MECHANISM

Against this general background, there are solid grounds for being optimistic about the future of South Africa. For our hopes to be realised, however, we must keep a cool head and avoid the danger of *over-reaction* in the economic policy field, in the sense of resorting to excessive direct official intervention in the economic system. I am pleased to be able to state tonight that the Government is fully aware of this danger and determined to avoid it.

Of course, there will have to be further adjustments in our economic policy — we simply cannot continue as if nothing has changed over the past year or two. We may have to spend more on defence, security and strategic stockpiling. We shall also have to manufacture locally some of the strategic items we formerly imported, whether this kind of import replacement is economic or not. In general, there will have to be more co-ordination between the various public sector entities and also between the public and private sectors.

Moreover, in these circumstances it is both logical and understandable that many well-meaning South Africans should be asking themselves whether the situation does not call for more direct government control of economic activities, including extended price, profit, dividend, wage and rent controls, and the direct allocation by a central planning authority of labour, capital and other scarce factors of production.

Such a socialistic course — for that is what it is — can, however, not be recommended. On the contrary, it would almost certainly have extremely harmful effects on the economy.

For this there are two main reasons. The first is that in our circumstances such a socialistic approach would dampen initiative and result in the misallocation of scarce resources, which would, in turn, reduce our growth rate and weaken our economy.

The second reason is that it would damage our image to the outside world as a reasonably free capitalistic economy in which foreign participation is welcomed. It is known overseas that none of our political parties have socialistic tendencies. We do not expropriate or nationalise foreign controlled enterprises. We respect the sanctity of contracts. "Profit" is not a dirty word in our vocabulary. We encourage private initiative and rely to a large extent on the working of the free market system. It is important for us to retain this image. Our potential friends and allies abroad are mainly to be found among the ranks of conservative bankers, industrialists and other businessmen. Our best hope of retaining their friendship and interest is to keep on demonstrating our belief in a free enterprise economy and in free market forces.

This is all the more important because it is increasingly being recognised today that one of the serious problems facing the Western world is the relative lack of profitable investment opportunities. This helps to explain the present abnormally low level of fixed investment in the Western world after two years of cyclical upswing. If we can convince our own as well as foreign entrepreneurs that there are profitable investment opportunities in South Africa — that there is money to be made here — this is bound to have a favourable effect not only on the inflow of foreign capital but also on fixed investment by South African entrepreneurs.

To conclude, while the new situation in which South Africa finds itself today requires further adjustments to our overall economic strategy, socialism is not the answer. Indeed, it is recognised by the Government that excessive reliance on direct controls and regimentation would weaken our economy and reduce our ability to meet the present challenge. Against this background, the role of private enterprise and the free market mechanism has become more important than ever before.