

THE SOUTH AFRICAN BALANCE SHEET*



by Dr. Anton Rupert

In die vorm van 'n denkbeeldige balansstaat kyk dr. Rupert, eerstens, na die laste in Suid-Afrikaanse toestande deur die stelling " ... that we are overbanked, overtraded, overgoverned, overdrawn, underindustrialised and undermined", te ondersoek, waarna hy, tweedens, na die positiewe dinge kyk en Suid-Afrika se bates: voedsel, energiebronne, geweldige reserwes aan grondstowwe, beskikbare mannekrag en die vrye ondernemingstelsel, agtereenvolgens bespreek.

A dinner given by the Institute of Bankers is an appropriate occasion on which to take stock of the present state of affairs obtaining in our country.

As I propose to do this in the form of an imaginary balance sheet describing problems or difficulties as debits and opportunities and plus factors as credits, it would be better to start with the debits so that we may close the evening in credit.

In touching on the debits we should not only reflect on our positive feelings but as realists also take note of negative criticism.

In a nutshell thus: "It is being said that we are overbanked, overtraded, overgoverned, overdrawn, underindustrialised and undermined". And there is of course some truth in these statements.

Overbanked: One need only drive through our cities and towns to know that many of the prime sites are today occupied by financial institutions and that these have proliferated over the last decade.

Statistics for gross domestic fixed investment over the last decade confirm that whereas investment by private business enterprise exceeded that of finance, insurance, real estate and business services ten years ago, it has swung the other way over this period.

Private money has moved into finance rather than industry and this has been accompanied by a brain drain in this direction as well.

Overtraded: I doubt that anyone would argue against the statement that we are "overtraded". The spread of chain stores, supermarkets and multimarkets proves that in free enterprise money knows where opportunity lies. Those supermarkets that sell only for cash can turn round their stocks once a month and consequently hardly need any money for stocks, working in fact on credit supplied by the manufacturer. Thus inflation could even furnish them with a better cash flow and rather like insurance salesmen, give them a vested interest in inflation.

Industry on the other hand, must keep on replacing raw material and plant at ever-increasing prices.

Here again we need only look to the extent of press advertising by chain stores to know that we are indeed "trading" if not "overtrading".

Overgoverned: Whilst it must be clear to anyone who believes in private enterprise that we are becoming more and more "overgoverned" we still find that at every congress of "free enterprise" and "free farmers", the agenda is full of proposals for more "governmental" interference.

I can only confirm that the amount of paperwork required by the authorities has greatly increased over the three decades, that I have been in business.

And of course we have many of our key services and industries already outside the area of private enterprise e.g. the railways, airways, electricity supplies, steel and petrol from coal.

Furthermore, we have a plethora of control boards, which reminds one of what a well known economist said, namely that "control boards are like mistresses, easy to get hold of but difficult to get rid of".

I submit that we are trying to do too much by government and too little by free enterprise and that it is partly our fault and the lack of courage on our side.

We should remember that the economic miracle in Germany after the war, came only after Professor Erhard had set the people free from stifling controls. He tore up rationing cards, created sound money and welcomed profits and thus capital formation and jobs.

- * We shall have to study how to eliminate, not to add.
- * We shall have to study how to further production — not how to stifle it.
- * We shall have to study how to make it easier to build a new factory, not how to make it more difficult.

- * We need fewer laws and regulations — only those vitally necessary.
- * Perhaps it would be wise if Parliament would be obliged to remove one law from the statute book for every two new ones passed.

Overdrawn: In the general sense of a nation living above its means, this is indeed true. Our negative balance of payment for 1975 of R1 600 million confirms this beyond doubt.

It is crystal clear that in the present international climate we shall find it difficult to raise loans for grandiose schemes. We shall obviously have to cut our coats according to our cloth.

We shall have to learn to live frugally as a nation.

We shall have to realise that prestige buildings are not necessary for efficiency, nor for creativity. The universities should be reminded that the most important biochemical discovery of the century, the structure of the D.N.A. molecule — the chemical substance of genes — was made in a bicycle shed in Cambridge rather than a colossal laboratory in America.

Our architects will have to rethink their designs of glass palaces in an era of energy shortages and increasing prices. Smaller windows and more insulation may well cut energy requirements.

We shall have to study how to eliminate waste including unnecessary paper work.

I shall never forget the day when Sir Isaac Wolfson of Great Universal Stores took me and my wife to his study and proudly putting his waste paper basket on his desk said: "And this my friends, is my filing cabinet".

Even in developing the Bantustans we shall have to remember that small industries could provide more jobs than large costly automated plants.

Under-industrialised: There is even some threat in the statement that we are still under-industrialised, if one considers the population growth and the additional labour becoming available every year.

The problem has been made more difficult by inflation and would be greatly enhanced in instances where price control, which really means profit control, is used.

Profit control stifles investment in industry and thus prevents job formation.

As I have already mentioned before, there has been a tendency for private investment to move from investment in industry to finance, insurance, real estate and business services. This has been obviously due to investment in industry being less attractive than in the financial world. To make the deduction that industry overall has been sadly lacking, would be wrong, however, because the slack has largely been taken up by fixed investment in industry by the state

and semi-state corporations. Over the past three years gross domestic fixed investment by non-private investors i.e. the state and semi-state institutions has exceeded R1 000 million.

These institutions are often willing or able to exist on less profits than those required by private industry because they get their money at cheaper rates than those available to private industry. But in the end we must remember that such cheaper money is really a subsidy by the tax payer.

Undermined: Here I am not referring to psychological undermining but undermining in the sense that not enough new mines are being opened.

In the case of coal mining it is obvious that new mines can only be established for export as the local price under price control makes any thought of starting a mine merely for the local market, economically unwise.

New gold mines are obviously extremely costly and capital requirements range in the area of R100 million.

But for purposes of our balance of payment requirements, everything possible should obviously be done to establish new mines.

Now after the dismal debits of being "overbanked, overtraded, overgoverned, overdrawn, under-industrialised and undermined" we come to the positive side. What are our assets?

Those are formidable indeed.

Our plusses are food, energy resources, vast raw material reserves, the available manpower and the free enterprise system.

Let us discuss each of these in sequence.

1. FOOD

South Africa is not only self-sufficient as regards its own food requirements but exports large quantities of maize, sugar, fruit and other agricultural commodities.

There are very few countries in the world in this fortunate position.

2. ENERGY RESOURCES

Although South Africa uses more than half of the electricity generated in Africa, it is in the fortunate position that more than 90% of this electrical energy comes from coal-fired thermal stations and that it is dependent for less than a quarter of its energy requirements from oil imports.

And in the era of atomic power South Africa is particularly well placed with its uranium resources and uranium enrichment technology.

3. VAST RAW MATERIAL RESERVES

It is of course well known that South Africa is particularly well endowed with raw materials but it is not generally realised that our mineral resources are such that the ideal "OPEC" of minerals would really be

a combination of South African and Russian resources.

Let us firstly consider the South African mineral resources as a percentage of the world total.

Gold	65%
Chromium	72%
Platinum	60%
Manganese	50%
Vanadium	50%
Uranium	25%

If we add the estimated resources of the Soviet Union to the above, we notice that between South Africa and Russia they possess:

- 80% of all the gold
- 76% of all the chromium
- 90% of all the platinum
- 75% of all the manganese
- 80% of all the vanadium

The Soviet Union's uranium resources are not known but combined with that of South Africa should be well above 50% of world reserves.

In addition South Africa has the largest fluorspar reserves in the world and vast quantities of high grade iron ore. Fluorspar, chromium, manganese and vanadium are, of course, essential for the production of high quality steel.

Both South Africa and the Soviet Union produce diamonds although as regards gem diamonds, Southern Africa reigns supreme, producing some 40% of all the gem diamonds.

Add to all the above asbestos, antimony, vermiculite, titanium and nickel and the value of our raw materials becomes even more important to our future.

4. THE AVAILABLE MANPOWER

Whereas the population growth in Europe north of the Alps and the Pyrenees has "flattened out", the era of low or no-growth, our population growth is one of the highest in the world.

Compare the situation of Western Germany where the number of births declined during the last decade from over 1 000 000 per annum to a mere 600 000 today of which 100 000 are the children of guest workers, with that of South Africa.

Our population is growing at the rate of almost 3% per year. The present population of 25 million will be more than doubled by the end of the century. Should the present trends continue, South Africa will within 25 years, have a population approximately that of West Germany or the United Kingdom.

The effects on general activity must be astounding. Whereas some half the primary schools in Germany could well stand empty five years from now and nearly half the primary school teachers have to find other jobs, we in South Africa have to build an African school per day and as many houses over the next

quarter century as have been built since the landing of Van Riebeeck.

The quality of this manpower should not be underestimated. If reasonably trained, our manpower compares favourably with that of Europe and America.

Experts in the clothing industry assure me that the Coloured worker of the Cape could produce the same quality and quantity as in the United Kingdom or Europe.

Experts in the footwear industry confirm that Africans compare favourably with workers everywhere, except perhaps with those in Taiwan and Southern Korea.

In the tobacco industry we know that our indigenous labour compares favourably with that in many other countries where we operate.

5. THE FREE ENTERPRISE SYSTEM

Apart from food, energy resources, vast raw material resources and the available manpower we have the benefit of the "System of Free Enterprise" and "private ownership".

Without free enterprise development gets bogged down in over-centralisation and bureaucracy.

One of the enduring strengths of the free enterprise system is its reliance on the profit motive which is a powerful human drive.

The question is: which system can make the most efficient use of manpower, materials and money to create the greatest opportunities for free choice, personal development and material and spiritual well-being for the largest number of people?

I would ask you to consider why Soviet Russia had to have a wall built on the borders of Western Germany to keep their peoples from leaving for the West out of their own free choice.

I would ask all but to ponder why farmers in capitalist United States, Canada and Australia grow enough, not only to feed their own peoples but to export to the Soviet Union where 30% of its workers labour on its vast farmlands. To ponder why 25% of Russian food by value is produced on only 4% of the land under cultivation where Russians are allowed to produce for their own account.

Krushchev once replied to a charge that the Soviet Union was going capitalist: "Call it what you will, incentives are the only way to make people work harder".

Perhaps it is time to realise that when everything belongs to everyone — nothing belongs to anyone.

The lack of confidence in private enterprise is a world-wide phenomenon. And the ignorance is staggering. It has been established through research that:

- * the average United States citizen believes that company profits are 28% of sales,

- * the average high school student believes that these profits amount to 50% of sales — whereas in fact it is between 2% and 4%,
- * more than two-thirds of all American high school students believe that hard work no longer pays off,
- * more than half believe that government should control all major industries.

It could be that our colleges and universities are turning out thousands of young men and women who have been taught to distrust the free enterprise system. The very system which has made university study so freely available to them.

It is interesting to note that the liberal or radical students condemning free enterprise and private ownership mainly stem from the fields of sociology, political science, economics and education whereas students in the physical sciences, agriculture and engineering are more conservative.

It should be of concern to us all that we mainly teach the former subjects at our various ethnic universities.

Yet I sincerely believe that communism is an old-fashioned out-moded system and rather agree with Moynihan when he said that "if the communists were to gain control of the Sahara, they would soon run out of sand and they would blame it on the Western capitalists having used the sand for building their swimming pools".

But free enterprise requires that one must stop knocking profits, discouraging investment and putting jobs at risk.

At a time when we may be facing our most critical period during three hundred years, critical analysis shows that South Africa is fast becoming one of the most important medium sized powers and that its well-being is of major importance to all those who believe in free enterprise.

But we in business will have to understand the necessity of sound economic policy for sound economics is as important as physical defence.

South Africa is one of the last bastions of free enterprise.

You have built this great city of Johannesburg and all its surroundings in less than one hundred years.

We should tell our friends that we are the pale-skinned Africans who have been the catalysts in creating an industrial society, a productive society out of relative poor land. That we have built the largest man made object in industry in the form of a mine dump — a hill of gold, that we have mined the deepest mines, dammed fast flowing rivers and built thousands of miles of autobahns.

We should tell them that we are indispensable in Africa and indestructible in our resolve to serve our country and all its peoples.

* Address delivered to The Institute of Bankers in South Africa, Johannesburg, 28 April 1976.

Gross Domestic Fixed Investment by Kind of Economic Activity
(R Millions)

Year	Manufacturing			Finance, Insurance, Real Estate and Business Services
	Private Business Enterprises	Other	Total	
1966	403	52	455	367
1967	354	59	413	445
1968	346	48	394	472
1969	356	80	436	592
1970	448	146	594	727
1971	547	130	677	793
1972	606	181	787	811
1973	612	371	983	1 065
1974	791	360	1 151	1 218
1975	1 002	351	1 353	1 309

Source: SARB Quarterly Bulletin, March 1976.