



DR. P. E. ROUSSEAU

ECONOMIC PROSPECTS FOR SOUTH AFRICA OVER THE NEXT FIVE YEARS.

A paper read by Dr. P. E. Rousseau, Chairman of the Federale Group, Foskor and Sasol, at the recent conference of the Association of Pension and Provident Funds in Johannesburg.

Dr. P. E. Rousseau gee 'n breë oorsig oor die huidige ekonomiese toestand en oor die faktore wat die beleggingspatroon in die nabye toekoms sal beïnvloed.

Up to two or three years ago discussions on the economic situation in South Africa were to a large extent confined to talks amongst experts. The general public and even the informed section of the community assumed that the economy was sound, that normal growth was taking place and that the gradual deterioration in the value of money was nothing to be worried about. Articles in the popular press and polite conversation dealt with sport and politics rather than with economics.

During the last year and particularly over the last six months, a very welcome change has taken place. Discussions on economic matters enjoy wide publicity and great numbers of the general public are drawn into the circle of interest by talks on the radio and articles in the newspapers.

To my mind South Africa's economic future depends on the extent to which the man in the street realises that money does not grow on trees, that it has to be worked for and that in the long run the standard of living depends entirely on the degree of productivity achieved by the average man. It is therefore very necessary to keep him informed on economic matters.

You as representatives of the Pension Fund Movement in South Africa are to a very large extent preoccupied with the invest-

ment climate. You want to achieve the maximum benefit for the members of your various pension funds through judicious and well-balanced investment policies. I therefore welcome the opportunity which you have given me to address you today and I trust that even though I cannot give you an investment blueprint for the next five years, I will be able to make some contribution to constructive thinking on the probable course of events.

The subject that I was asked to talk about, "Economic Prospects for South Africa in the next Five Years", is a formidable one and I doubt whether there is anybody in South Africa who can really deal with this adequately in view of the uncertainties which have appeared in certain areas.

Quite a number of the countries of the Western World are finding it difficult to project past economic experience into the future mainly because of the change in attitude of the general public and particularly amongst the workers. So also, as I will repeat later, the future of the South African economy over the next five years will be determined very largely by the attitudes of the South African public and South Africa's workers.

Several writers in South African publications dealing with the Stock Exchange have come to the conclusion that the general

public has retired from share dealings to such an extent that the market is now at the mercy of chartists and plotters. We all know that the economy of a country often plays havoc with short-time predictions but that trends over the medium term can usefully be determined by intelligent tabulations and curves.

The E.D.P. which has just been published, naturally depends upon the interpretation of past performance and the probable trend of certain activities over the period of the programme which in this case is 1970—75.

Dr J. Hupkes and Mr. P. van Huyssteen of the Federale Group have prepared a number of curves of the trends in certain sectors of the South African economy for the six years between 1963 and 1969 and for the six years from 1969 to 1975. These curves are not attached to this paper but have been used in its preparation.

Ever since its inception in 1964, South Africa's Economic Development Programme has specified a growth rate of 5½ % p.a. at constant prices to be the most suited to the South African situation.

The latest E.D.P. reconfirms this optimum rate of growth which has been determined to give virtual full employment of the White population of South Africa and the absorption of an ever growing proportion of Non-White persons from a subsistence economy into the productive operations of the country. As Dr. Riekert says in his foreword to the recent E.D.P., one of the most important objectives of the E.D.P. is to reduce and ultimately eliminate unemployment amongst South Africa's Non-White population.

The word "unemployment" is here used in a relative sense. The majority of the inhabitants of the Continent of Africa and probably one-quarter to one-third of the people in South Africa live under subsistence conditions and are not necessarily unemployed in the absolute sense.

We have had quite a lot of argument in the press lately about growth and curbs to growth. Unfortunately, very few of the experts

have given us figures to quantify what they mean when they ask for a high or a low growth rate.

Many people think that 5½ % p.a. is a conservatively low rate of growth. If one is to believe what some of them say, we are half dead on our feet at this pace. In fact, in world terms it is a high rate of growth. The United States of America averages about 4% and the United Kingdom has had some difficulty in maintaining 2% p.a. The late Dr. D. H. Steyn who was one of the most well-balanced and well-informed Government servants South Africa has ever had, told me personally when he was Chairman of the Economic Advisory Council, that in his opinion a growth rate of 5½ % p.a. was on the high side for South Africa and that the correct figure was probably between 5% and 5¼ % p.a.

In fact, the South African economy has grown at an average rate of 6% p.a. over the last 5 years and it must be clear to everybody now that this has been too fast and that stresses, strains and imbalances have developed. These distortions will get worse if a 6% rate of growth is maintained. I personally feel that for the next year or two we should restore the average at least to a certain extent and should be well satisfied with a rate of growth of 5% p.a.

The E.D.P. 1970—'75 comes to the conclusion that a growth rate of 5.5% can be maintained without causing further imbalances **provided that certain conditions and targets are met.**

The higher than planned growth rate of the past years was accompanied by a change in personal economic outlook amongst many people in South Africa. In this South Africa really followed a trend which had started in other Western countries several years earlier and which to my mind, is the fundamental economic problem of the West. The idea of saving for the future has faded and an "I want it all now" attitude has developed. People want bigger houses, better cars, larger domestic appliances and more sophisticated

electronic equipment. To buy and to enjoy these things, they must have more time off and in order to be able to afford all this they must have more money. The concepts of austerity, frugal living and wise saving have become just about as unacceptable through the Western World as the concept of duty.

This outlook is not confined to the younger generation nor is it limited to the masses. Businessmen of many years experience want bigger and better offices, private dining rooms, more luxurious motor cars, trout and game farms and skiing holidays in Europe.

Educational institutions want more spectacular buildings and complex research equipment and they must have it now.

Even in Government at its various levels we find this urgency to expand and to spend and the inability to wait.

This change in personal economic outlook has hit South Africa at a particularly bad time. It coincided with a period when rate of growth in activity was outstripping available manpower. Management at all levels was unable to stand firm on salaries and wages. As a matter of fact there has been and there is now very little opportunity to stand firm because there is practically no confrontation with people who demand higher incomes. Employers simply outbid one another and have increased salaries and wages not only from year to year but in many cases from quarter to quarter in a never ending spiral.

This has inevitably led to a dangerous dilution of management in many sectors, premature promotions and amongst a broad band of the working population more money for less effort. South Africa as a whole is living above its means.

The most obvious distortion which flows out of this and which is today discussed more frequently than any other single economic factor in South Africa, is the shortage of skilled and semi-skilled manpower. This could have been predicted if people had taken more note of the previous E.D.P.'s.

The shortage of manpower has been further accentuated by the disproportional development in the service industries. There has been

a proliferation of banking institutions of various types; brokers, advisers, consultants, have started by the score. New travel agencies have sprung up and selling agents and salesmen swarm over the country. Commercial, technical and professional societies and institutions have increased in number and in size. New entertainment facilities and high class restaurants are found in many centres.

If there are plenty of people about and plenty of resources to pay for the services of these people, all this makes for a pleasant life and lots of fun but I am afraid that a lot of this has been paid for by paper money. The real resources were not there to back up this particular lot of paper. In other words, South African production has suffered by comparison.

Because we do not produce enough, people cannot spend their paper money on goods manufactured in their own country and they must inevitably have imported materials. This has led to a serious deficit in our balance of payments which is another distortion with which our economy is burdened at present.

If anybody has any doubt about the disproportionate growth in the service sector of our economy, he need only look at the intense building activity in our cities. Those buildings will house very little that produces basic wealth. They are occupied by specialists in the manipulation of that wealth and in pushing paper around. I sit in one of those offices myself and I am very well aware of the fact that sophisticated services are necessary to keep the wheels of mining and industry turning. I very often feel, however, that we could get along quite nicely with about two-thirds of this central city activity.

A section of service activities which deserves special mention is that of Government. The extent and ramifications of Government services have grown particularly rapidly and have absorbed a large percentage of our available White manpower.

A phenomenon which affects all of us is the shortage of capital. This has arisen because of the great demands for a dispro-

portionate number of schemes which, because of the overload are now practically all taking longer to complete and are costing more than was originally visualised. Coupled to this is the decreasing savings on the part of the general public.

A distressing feature of the situation over the last years has been the slowing down in investment in productive facilities. This has not been through lack of confidence as is so often said. We all know that the market is growing and will continue to grow. There is uncertainty about the future but not lack of confidence.

There have been three main deterrents to productive growth. The first is manpower. A concern which is fighting a nightmarish battle to retain its staff and to keep existing machinery going, scarcely has the stomach to tackle new things.

The second is lack of capital or rather capital at reasonable terms. A company which is doing very nicely with what it has, is not inclined to take up money at an interest rate of 11% and invest it in a risky expansion with a calculated return on capital before tax of less than 20% — and 20% propositions are relatively scarce in South Africa.

The third factor of uncertainty has been caused by the confrontation which South Africa has had with GATT and the IMF on import control. Competitive goods sometimes at dumped prices have flooded the South African market and have inhibited the normal expansive tendencies of South African entrepreneurs.

What does the future hold for us?

Let us first look at the manpower position and let us do this in a realistic manner. We are not here to discuss imaginary possibilities, ideology or politics. We are here to consider facts. The trade unions, the general public and the Government are not going to stage a somersault during the next five years. Penetration of non-White workers into traditionally White areas, has taken place so rapidly during the last two years that I do not expect the pace to be

quickened. On the contrary, I feel that it may even be slowed down, not by Government action but by resistance at the working level.

The manpower problem can be alleviated by geographical decentralisation of activity, by training and work methods study and above all, by motivation of existing manpower. We can do a lot more with what we have without killing ourselves through overwork.

I know of many offices who work barely 35 hours a week — and that is the official figure — there are of course exceptions but I wonder whether the average office worker in South Africa does work which if properly organised, would take 25 hours of a motivated person's time — and I am not exaggerating.

The manpower situation is here to stay for the time-being. In a realistic sense it can be alleviated by a selective and I repeat, selective, slowing in the rate of growth of the economy. This is sketched for us in the latest E.D.P.

As I have already indicated, the public of South Africa went on an escalating spending spree over the last two or three years. The E.D.P. demands some sedation in this regard. This does not mean a recession in buying. A substantial growth of 32.5% in the volume of consumer spending over the six years 1969 — 1975 is visualised but the increase of 45.4% over the six years 1963 — 1969 cannot be maintained.

Private individuals in South Africa saved approximately 10% of their personal income each year for a number of years up to about 1967. Then for the year 1968 to 1969 it dropped to 8% and 1969 to 1970, 6% of the personal income. We shall have to revert either voluntarily or by compulsion to something approaching 10% and as you know, pension schemes might well play a significant role in this action.

I am afraid that the sector where the most discipline will have to be applied if the conditions of the E.D.P. are to be complied with, is in the public spending by Government and related bodies. The growth in public

spending between 1963 and 1969 was 54.3% at constant prices as against the growth in G.D.P. of 42.7%. The former must now come down to 38.4% for the next six years.

We all know how much has to be done about South Africa's infrastructure particularly Railways, Harbours, power supply, telephones and many other public services. This sector is therefore one of my greatest worries. If the rate of growth in the public sector is to continue on the scale of the last five years, the rate of growth in the private sector will have to be greatly curtailed and that will spell disaster in our balance of payment situation.

As far as investment in productive facilities are concerned, there must be a big increase not only in absolute terms but in rate of increase. Incentives will no doubt be provided by the authorities to achieve this. My conclusion is based on the trade figures demanded by the 1970 — '75 E.D.P. The allowance for increased imports of goods from 1969 to 1975 in only 24.9% (at constant prices) while the demand for increased merchandise exports in 57.1%.

These figures can be achieved only by a ruthless fixation of priorities. We have neither the capital nor the labour to do everything that everybody in South Africa wishes to do. Unnecessary construction will have to be vigorously curtailed and our efforts deviated into mining, industry and the transportation and handling facilities required to reach the targets.

Now, what about the capital market? I believe that capital will remain scarce in all capitalistic and semi-capitalistic societies. A civilisation characterised by rapid change must continue to build facilities to accommodate that change. Shortage of skilled manpower will lead to more automation and expensive equipment. Men are being replaced by machines and gadgets. There may be fluctuation from time to time but on the average capital will remain short. We are probably moving into a fluctuation in South Africa at present.

I believe that because of the lessons of the immediated past, the shortage of manpower, the rising costs and the inability to complete jobs on time, there will be a degree of loosening up in the South African capital market towards the end of the year. This does not mean that interest rates will drop substantially.

Because of policies of full employment and consequent gradual inflation, an inflation allowance will be a permanent feature of interest rates. It may be wishful thinking on the part of an industrialist but I expect a slight easing up of interest rates later this year. Perhaps I should leave these prognostications to the financial wizards.

In conclusion I would like to emphasise that I am not by any means despondent about South Africa's economic future. The immediate and short term problems, the stresses and strains, the imbalances and distortions, have been clearly identified. A widening band of our population are becoming more and more acquainted with the economic facts of life.

With skilled determination and intelligent cooperation at all levels we can overcome our temporary disabilities.

In the long run we have our mineral wealth which is in great demand in the more developed countries in the concentrated, the semi-processed and the processed form.

We have not yet scraped the bottom of our manpower barrel. All of our 20 million people are not yet economically active members of their respective communities. Ways and means are increasingly being found to draw them into productive life. As this takes place our internal markets will grow beyond all recognition.

Our people have not yet become as self-centred and cynical as is the case in some older countries. They can be motivated by things other than self-interest. I would therefore like to associated myself with my friend and colleague, David de Villiers, of Sasol, who recently suggested at Bethlehem that we should organise a productivity year for South Africa.