

8 MONEY

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Look to Canada election
for an investment hint

By LEON D RICHARDSON

THE future of the world's largest
two-nation market, involving
more than US\$150 billion of
trade, will be decided by the Ca-
nadian election on November
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The US buys about 80 per
cent of Canada exports; Canada
buys at least 20 per cent of US
exports. Canada's Conservative
Prime Minister, Mr Brian
Mulroney, is adamantly for the
Free Trade Pact; the Liberal
leader, Mr John Turner, has put
his entire future against it.

This election is of great im-
portance because both nations
can gain numerous benefits from
the passage of the 10-year Tariff
Barrier Pact. The result would be
a vibrantly competitive North
American bloc, better prepared
to compete with Japan, the new-
ly-industrialised countries of
Asia and the proposed 12-nation
EC bloc. .

For some months, most peo-
ple took it as a foregone conclu-
sion that the Conservatives
would prevail and the trade pact
was a certainty. But at the end of
last month, Mr Turner adopted
an aggressive debating style that
all but devastated Mr Mulroney.
Canadians have long been fearful
that their culture would be de-
stroyed and their industries gob-
ble! up by any move towards
close affiliation with the US.
They fear they will become the
51st state.

My view, however, is that the
integration of these two econo-
mies, along with the current de-
cline of the US and Canadian
dollars, would help both to con-
tinue increasing their mutual
trade, and maximise trade bal-
ance with other countries.

It looks, however, as if the Canadians will not buy it, probably more for emotional than tangible reasons. Watch this election closely. Don't buy Canadian stocks, bonds or currency now. But if it appears likely a few days before the election that the Liberals will win, sell Canadian dollars, sell the Toronto index short and buy put options on Canadian bonds.

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THIS column recently suggested that you sell the Taiwan Fund short because it was selling at 70 per cent above net asset value. Everyone who acted on the suggestion made a fortune of money.

Now we have another almost identical situation. The Korean Fund is selling at 62 per cent above its net asset value. I'm selling it short with both hands. It is listed on the New York Composite stock exchange. Sell it short through any US or international broker.

We also suggested, in July, that Walt Disney stock was a good investment because of Roger Rabbit. It went up as predicted, and we have now sold at a good profit. You may want to take your profit now because no one ever made a mistake taking a profit.

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A SALES tax has been proposed for Hongkong. What is the purpose of such taxation? Funds are required by governments for two purposes:

Â® To provide the service of governing. The bureaucrats or elected/appointed administrators then do the detailed work required by the public.

Â® To perform for the public those tasks that, in the public view, cannot possibly be performed by the private sector.

The studies I have made indicate that these two functions can be performed for much less than 10 per cent of the Gross Domestic Product of any nation, colony or social body. Whenever more than 10 per cent of GDP is re-

quired, one of two events is occurring.

The servants, bureaucrats or

government officials are performing services that could be accomplished by the private sector. This invariably leads to overspending, under-performing, duplication and feather-beding. Or it is the result of waste. Examples of these two miscarriages of sanctity can be found in Hongkong.

A sales tax, in theory, is an excellent idea. It is the fairest, most practical tax system. The philosophy of taxing consumers must be infinitely sounder than an income tax which penalises those who work harder and produce more (at a better earning) to enrich society and the community. Income tax penalises the innovators, the improvers, the industrious and the society improvers for the benefit of those who do not work, innovate or contribute. The entire philosophy of income tax, and of corporate tax, is flawed.

A sales tax is the fairest, provided the rules under which it is established are sound. The tax must be paid by the final purchaser or consumer. When a supplier delivers it free or we give free installation, what he is really saying is that the extra is already built into the price structure.

Consumers must be made

aware that they are paying a tax and how much they are paying. A hidden tax, which is included in the product's price, is most evil. It gives the government and bureaucrats a huge unaccounted for slush pool of money that can be wasted or spent frivolously because it is mainly unaccountable to the tax payee.

An example is a hotel in Hongkong. When you pay your room bill, the amount of tax that has been paid is spelled out. There is no secret sales tax, and consumers know they have paid a tax and that the government must use the money wisely. But when the same hotel guest orders a glass of wine, he is presented

with a bill that contains a
hidden tax. The customer is
disappointed with the hotel's
dining room for, as it seems,
charging too much for the wine.

The hotel gets an unjustified

bad reputation for overcharging,

and the government has no need
to account to the taxpayers for
proper spending of these tax pay-
ments, because the payee doesn't
know he paid a tax. The simple
answer is for the bill to state the
price of the wine and the tax as
two separate charges, just as is
now done on the hotel room bill.
The same would apply if every-
thing, such as the meal or any-
thing else a retail customer buys,
is taxed.

Naturally, government bu-
reaucrats would prefer a secret
percentage as tax because this
gives them a secret fund to mis-
use.

Another reason for the tax to
be paid only at point of final sale
is that it is fair to all business
types. A tax at the wholesale level
is grossly unfair. Let us use just
three examples:

@ A furniture retailer puts in
stock some furniture from, say,
Denmark. This may not be sold
for seven months. Yet if he had
to pay the tax when he received
the furniture, he would unfairly
lose the interest on the money
paid for the tax for that period.

® A services retailer such as a
pest control company, a carpet
cleaning firm, an accountant's
practice or a painting contractor
would not stock his service prod-
uct eight months in advance, and
thus would collect the tax at vir-
tually the time he performed the
service. Is there any fairness in
the product retailer having to
pay often months of interest
on the tax while the services
retailer does not lose any interest
on the tax money?

® A restaurant buys provi-
sions, such as fish, meat and veg-
etables. If this business pays sales
tax at the point of receiving, and
the fish or vegetables spoil, he
will have paid the tax but cannot
pass it on to the end-user because
there isn't any.

If a sales tax is adopted, it must replace all other taxes, such as business profit tax, salaries and wages tax. What Hongkong does not need is an additional tax. Hongkong needs a fair tax system. A sales tax on consumption is fair.

If a sales tax is added and the other taxes remain, this will be a black day for Hongkong. Many of us have been down that road before. We will be told the income and profits tax will be reduced and the sales tax will be small. Then a few years later, the sales tax may steadily be increased and the income and profits tax could similarly be steadily increased by future administrations.

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FOLLOWING last week's discussion of bonds, Money Talks has had a plethora of requests to define the different types of bonds. Here is a brief attempt:
Zero Coupon Bond: This is a bond that pays no interest during its life but allows the yield to accumulate with compound interest.

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est, with the bond and interest paid in a lump sum at maturity. It is a forced saving plan. A typical US\$10,000 10-year maturity value bond may cost \$2,000 or less at purchase. These are excellent for future requirements such as child education or retirement.

Indexed Bond: This bond may be paid in something besides cash. Sunshine Mining, for example, issues bonds for which the holder has the choice of accepting cash or silver at redemption. This allows the holder to accept silver if the price is better than cash, and it gives the mine the right to pay in silver if it is long on silver or if production costs have been low. New gold mines often borrow cash and index repayment of the bond to the gold they will later produce.

Convertible Bond: Corporations often issue bonds which can be converted to stock. The appeal is that bonds generally perform better during a bear market, but conversion to stock may be more profitable in a bull market.

Stripped Coupon Bond: Sometimes a broker will clip off some of the interest coupons and sell you the bond at a discount, collecting the interest himself.

Municipal Bond: Issued by a city or municipality. Popular in the US because the interest is tax-free.

Euro Bond: A bond sold outside the country of the currency in which it is denominated. A Eurodollar bond is a US dollar bond sold outside the US. Interest is paid annually, with the face value returned at maturity. The annualised interest reduces the income, compared to semi-annual payment.

Junk Bonds: These are low-grade, high-risk bonds that pay extravagantly high yields. These are issued mainly by corporate raiders who are promoting a hostile takeover.

Bearer Bond: This is a bond which does not carry an owner's name, allowing the owner to remain anonymous. It is a redeemable financial instrument but, if it is lost or stolen, the owner cannot trace its whereabouts or claim legal ownership.

Bail Bond: This is what His Worship demands to keep you from going to the clink until your case is heard.

Alan Bond: Billionaire â€˜loose cannon'; still at large.

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Release for
Mandela â\200\230is
imminentâ\200\231

by Peter Godwin
Cape Town

THE South African Cabinet is searching for a way to free Nelson Mandela, the jailed African National Congress leader, without causing the black townships to go up in flames. Its quest comes amid strong and persistent reports of his imminent release.

As the rumours swept the country last week, Johannesburg stockbrokers reported that the intense speculation about a free Mandela caused the gold price to drop almost \$3 an ounce on the New York Stock Exchange,

The prisons department in Pretoria received 50 many calls about the release of Mandela and his five co-prisoners that at one stage it (cle-

honed Pollsmoor prison and

Robben Island to check that the men had not been let out in error,

Despite government denials, reports of Mandela's release remain widespread. The most likely date, according to the ANC, is this Tuesday. Other sources, including some

government officials, have predicted a release before Christmas.

There is little doubt that the government has decided in

principle to release Mandela, which would help South Africa's attempts to woo black African states and would ease international pressure to impose further sanctions on South Africa.

It would also end the tiresome questions about Mandela's release that greet P. W. Botha, the foreign minister, on every overseas trip. It might even assist Pretoria in negotiations with Swiss bankers.

At home, too, his release

would help the government regain the initiative and control the political agenda again. Mandela's freedom would also end & log-jam in constitutional reform = currently at a standstill because moderate black leaders refuse to negotiate while he is behind bars,

But Pretoria knows that letting out Mandela after 26 years could backfire. Among the disaster scenarios facing the government are an assassination of Mandela by right-wingers, spontaneous township unrest on an unprecedented scale, or a continuous flouting of the law by Mandela, culminating in his re-arrest.

As a result, the government is believed to be considering

Â® MORE than 600 local councillors from South Africa's extreme right-wing Conservative party secretly met their national leaders yesterday in Pretoria to prepare to reintroduce petty apartheid in the municipalities they control after last month's elections, writes Peter Godwin,

Andries Beyers, the party's secretary-general, said all desegregated public facilities would be affected, But he conceded that, for the time being,

the party had the power to re-segregate only public property such as parks and swimming pools. He said it would fight to ensure whites only signs outside post offices and stations, and to expel non-whites from business districts in so-called white towns.

several options. One way of minimising the risk is a so-called 'phased release',

whereby Mandela would be 'released

moved first to a convalescent home. More visitors, followed

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Mandela: waiting for freedom:

by a few press interviews and perhaps the odd walkabout, would lead to total freedom.

The second choice is a secret release, with the news announced several days after the event to help play down the excitement.

'The third approach is to release Mandela with a state-organised press conference, decide that he is making outrageously illegal statements and immediately ban him, restricting him to his house, forbidding him to talk to the press or meet more than a few people at a time. [This, in effect, is a house arrest. But Mandela might flout the ban.

If Pretoria can weather the initial trauma of Mandela's release, the government can sit back and await events. Some government strategists believe that Mandela's larger-than-life status is dependent on his absence from the public arena, and that the fractious nature of anti-apartheid politics in South Africa is such that it would be only a matter of time before he made a statement that alienated some of his followers.

Meanwhile Mandela, who is

reporied to have recovered
from wuberculosis, remains in
the private Constantisberg
clinic in Capc Town. Last
week, the plainclothes guards
outside his door said the
world's most famous political
prisoner was in good health
and was riding his exercise
bike and skipping. In between,
he waiches television, studies
and waits,