

## 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 Canadian election on November 21.

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 importance 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 newly-industrialised countries of Asia and the proposed 12-nation EC bloc.

For some months, most people took it as a foregone conclusion 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 destroyed and their industries gobbled 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 economies, along with the current decline of the US and Canadian dollars, would help both to continue increasing their mutual trade, and maximise trade balance 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 firkin 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:

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

● 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 required, 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-bedding. 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 claims "we deliver 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 payments, 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 everything, such as the meal or anything else a retail customer buys, is taxed.

Naturally, government bureaucrats would prefer a secret percentage as tax because this gives them a secret fund to misuse.

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 product eight months in advance, and thus would collect the tax at virtually 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 provisions, such as fish, meat and vegetables. 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.

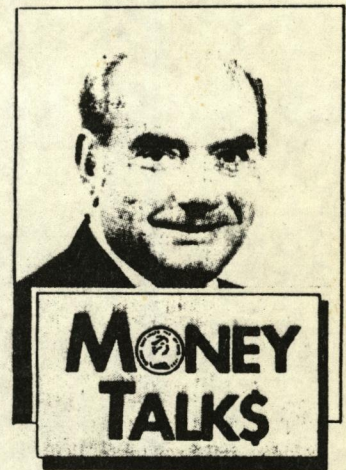
If a sales tax is adopted, it must replace all other taxes, such as business profit tax, salaries and wages tax. What Hongkong does not need is an additional tax. Hongkong needs a fair tax system. A sales tax on consumption is fair.

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,



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.

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

**Alan Bond:** Billionaire "loose cannon"; still at large.



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# Release for Mandela 'is imminent'

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 so many calls about the release of Mandela and his five co-prisoners that at one stage it telephoned 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. It 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 Pik 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 a 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

● **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 de-segregated 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 erect "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 moved first to a convalescent home. More visitors, followed



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. It is, in effect, 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 reported to have recovered from tuberculosis, remains in the private Constantiaberg clinic in Cape 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 watches television, studies and waits.