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Preparations finalised for crucial planning talks

BILLY PADDOCK

JOINT government and ANC sub-committees met yesterday in an attempt to resolve outstanding problems on constitutional matters and a "phased approach to bringing all armed formations under joint control".

The committees are under pressure to reach agreement before this afternoon when delegates gather for a plenary session at the World Trade Centre to finalise the agreements which are to be referred to principals for adoption.

Today's meeting is a continuation of last week's two-day bilateral meeting which failed to make significant progress "as there was insufficient time set aside for discussion and the subcommittees had not completed their work". ANC secretary-general Cyril Ramaphosa said.

One issue that was likely to be resolved was the acceptance of a new policy for an independent SABC board. Other issues were the powers and duties of the transitional executive council and its sub-councils and working out a draft proposal for an elections commission and how elections should be conducted.

In Cape Town, government met an Afrikaner Volksunie (AVU) delegation to discuss the possibility of a regional state for Afrikaner self-determination.

Constitutional Development Minister Roelf Meyer and Manpower Minister Leon Wessels represented government, while the AVU delegation was made up of party leader Andries Beyers, his four Parliamen-

tary colleagues and six other AVU members, including former SADF head Gen Constand Viljoen.

A government source said yesterday the heads of most parties' negotiations teams due to participate at the planning conference had made progress yesterday in finalising the arrangements for Friday and Saturday. No further meetings were planned.

It has also been learned that the PAC's national working committee decided 10 days ago to participate in the planning conference. But, a government source said, this was dependent on agreement being reached on Apla and the armed struggle during yesterday's meeting between government and the PAC in Gaborone.

□ In Johannesburg yesterday, ANC president Nelson Mandela held two hours of cordial talks with Afrikaner separatist leader Carel Boshoff, Sapa-AFP reports.

Mandela said the ANC was "sympathetic" to the Afrikaner's dream of self-determination. "We hope whatever happens in multiparty talks, those who are demanding self-determination for their group will show the same patience which we in our own struggle have shown throughout."

A member of Boshoff's Afrikaner Freedom Institute (Avstig) delegation said the talks were about the possibility that an area of a future federal SA could become the Afrikaner homeland.

Monday 3/3/93

GOVT TALKS WITH PAC FAIL

APLA continues 'armed struggle'

GABORONE. — The schism between the South African Government and the Pan Africanist Congress widened dramatically last night when the PAC refused unilaterally to end its armed struggle.

At the same time, the government said it would not support any move by the PAC to attend a multi-party conference once a date had been set by the

multi-party planning conference on Friday and Saturday.

The PAC said, however, that while it would assess the question of attending a future multi-party forum, it would attend the planning conference regardless of the government and National Party's feelings.

At the end of a day of formal discussions, the head of the government delegation, Law and Or-

der Minister Hernus Kriel, said all parties, with the exception of the PAC, had laid down their weapons and agreed to a multi-party conference.

"We firmly believe the PAC has an important role to play in the political restructuring of South Africa. We have gone out of our way to bring them to the negotiation table," he said.

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Govt talks with PAC fail

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Mr Kriel said the government delegation had proposed a three-phased approach to end the PAC's armed struggle.

This was an immediate moratorium declared by the Azanian People's Liberation Army, the moratorium to be reviewed by the PAC's national congress, and then priority discussions on the future of all armed forces within the country at a multi-party forum.

"The PAC/APLA delegation was not prepared to accept this," said Mr Kriel.

But he felt there was a ray of hope as the PAC had promised to submit the proposal to its National Executive Council for consideration.

In response to a question, Mr Kriel said his government did not fear APLA.

The PAC could not join the negotiating process, which was on its way despite attacks on civilians by APLA.

At a later Press conference, the PAC's Mr Willie Seriti, said the organisation would attend the planning conference on Friday and Saturday.

He added: "The majority of the people of this country have the right to be represented at something that could lead to a Constituent Assembly".

Another PAC member, Mr Gora Ebrahim, said the organisation had full control over APLA — hence the presence of three APLA commanders, chief political commissar Romero Daniels, and two commanders who used aliases, Willie Brown and Raymond Martin.

"The PAC pledges to enter into a mutual cessation of hostilities. But we told the regime that we have no mandate to declare a moratorium here at this meeting. We will consult on the issue with our NEC, but the regime did not want us to consult our respective organs."

"We state categorically

that the PAC has never said it would suspend the armed struggle and then allow its members to start killing people like other organisations."

Asked about APLA's military plans, Mr Ebrahim said: "The question of accelerating or decelerating the armed struggle by APLA depends on the situation, but we want to emphasise that we want an end to all violence, including State-sponsored violence through units such as Koevoet, 31 Battalion and 32 Battalion, the Selous Scouts from the former Rhodesia and the Askaris (turned MK cadres)."

He envisaged the PAC National Executive Council meeting before the end of March to discuss the government's proposals.

At the Press conference, the PAC refused to have the three APLA commanders on the podium, saying questions should be fielded through the political leadership.

No formal channel of communications was set

up between the two parties, but both sides said they were free to call each other as the political need arose.

It is understood the PAC position will be conveyed to the Cabinet today for a formal response from State President De Klerk.

Mr Kriel was accompanied by Deputy Constitutional Affairs Minister Fanus Schoeman, Deputy Justice Minister Danie Schutte, the Police Commissioner, Gen Johan van der Merwe, and Gen Jan Erasmus, from South African Defence Force headquarters in Pretoria.

Apart from Mr Seriti and Mr Ebrahim, the PAC delegation included political affairs secretary Jaki Seroke, national organiser, Maxwell Nematshivanani, secretary for Transport Economics Mark Shinnars, secretary for local government, Molefe Liteko, and publicity secretary and former London barrister, Barney Desai. — Sapa.

Chen 373193

Govt, Volksunie look at 'Afrikaner states'

CAPE TOWN — The Afrikaner Volksunie (AVU) and the Government had established a mechanism to examine the possibility of Afrikaner states in a federal South Africa, Constitutional Development Minister Roelf Meyer said yesterday.

In a statement issued after talks with the AVU, which broke away from the Conservative Party last year, Meyer said a committee would inquire into the common ground between the AVU and the Government on the autonomy and borders of the regions.

The committee would further study the AVU's proposal on how such a state or states could accommodate Afrikaner homogeneity.

He said while there had been agreement on the principle of strong autonomous regions, the two parties had differed

on the practical application of this principle.

Meyer said the AVU had proposed regional governments of which two would have Afrikaner majorities — an Afrikaner state in Transvaal with Pretoria as its core and another in part of the Cape. — Sapa.

Fit-looking Mandela speaks to rightwinger

A fit-looking Nelson Mandela interrupted the rest prescribed by his doctors for two hours of cordial talks yesterday with Afrikaner separatist leader Professor Carel Boshoff.

Careful not to alienate the Right days before this weekend's multiparty planning conference, he said the ANC was "sympathetic" to Boshoff's dream of self-determination.

Boshoff has proposed an Afrikaner state in the north-western Cape.

"We hope that, whatever happens in multiparty talks, those who are demanding self-determination for their group will

show the same patience that we in our own struggle have shown throughout," Mandela said.

He questioned the compatibility of a race-based state with the religious ideals Boshoff's followers hold dear, and noted that Afrikaners had never clamoured for their own homeland under white-ruled South Africa.

Boshoff called yesterday's talks fruitful and said both sides had agreed to set up a bilateral committee to further the talks.

The ultra rightwing Afrikaner Vryheidstigting is considering whether it should attend Friday's multiparty planning conference. — Sapa-AFP.

Star 378793

ANC and allies gear up to lift all sanctions

NAIROBI — The ANC and sympathetic international pressure groups have prepared co-ordinated plans to lift remaining sanctions on SA once a date for nonracial elections has been announced, ANC economic planning chief Trevor Manuel said yesterday.

Manuel told an investment conference the ANC was confident that the point of irreversibility in SA's transformation to democracy was in sight.

"So confident are we that the prospects for transformation are real that the ANC has already communicated to its vast network of international solidarity organisations that the remaining financial sanctions should be lifted as soon as an election date is announced.

"It is also anticipated that the ANC, supported by the international anti-apartheid movement, will be pro-actively engaged in securing the lifting of these sanctions," Manuel said.

He placed strong emphasis on the tightening of competition policy in SA, saying one of the SA economy's structural deficiencies was "the phenomenal stranglehold" conglomerates had on the economy.

The conglomerates' position excluded the indigenous population from the economic mainstream and created an investment climate that was hostile towards foreign investors, he said. "It is necessary thus to enhance overall economic performance through the introduction of a competition policy that is likely to unbun-

SIMON WILLSON

dle the conglomerate..."

Black entrepreneurs had been relegated to the fringes of the economy by apartheid, and SA business had to be deracialised if it was to be sustained. "The development of a black managerial class is one of the fundamental elements of an affirmative action programme to be undertaken in the context of justice and the utilisation of human resources on a wider scale than before."

Trends in the world economy made it essential for countries outside the major trading blocs of the advanced industrial economies to forgo greater co-operation. A democratic SA would therefore be compelled to promote economic co-operation in southern Africa. It was likely that a democratic SA would seek membership of the African Development Bank in pursuit of such a pan-African commitment and to forgo greater economic linkages across the continent.

Expectations that SA would become either a regional benefactor or a locomotive of growth for southern Africa were unrealistic, Manuel said. A strategy to address regional imbalances should instead grant other countries greater access to the domestic SA market and thus bring about a more equitable pattern of visible trade.

Regional solutions would also have to be found to problems arising from the historic distortions to transport flows and from labour migration.

Uganda ready to import SA beer on go-ahead by ANC

NAIROBI — Beer is set to follow matches as a trail-blazing SA export to Uganda, but only after the ANC approves the lifting of sanctions.

A major Ugandan trading house has cut a deal with SA Breweries to import SAB's Castle, Lion and Ohlssons brands, but is waiting for the ANC's official go-ahead for lifting of commercial and financial sanctions on SA.

The ANC has said it will officially approve the abolition of sanctions only once a date for the nonracial general election is set.

Kampala-based Mountains of the Moon Holdings (MoM) already imports SA-made matches into Uganda from Lion Match in Durban. The matches are, however, repackaged and sold as Zebra Matches and are gaining market share from inferior quality Chinese-made matches.

But MoM executive director Ezra Bunyenyezi, returning to Uganda after a business trip through SA, said there was a big Ugandan market for SA beer, which had substantial quality, price and delivery time advantages over other beer imported into Uganda.

Uganda, a firm upholder under president Yoweri Museveni of commercial sanctions against SA, has long shunned SA-made consumer goods. MoM's beer shipment, when it takes place, will mark the debut of SA beer on the Ugandan market.

"Beers from elsewhere in southern

SIMON WILLSON

Africa are not always available for export, and anyway cannot match the quality of SA beer," said Bunyenyezi. "European beers have the quality, but cannot match SA beer's price and delivery times."

Bunyenyezi said SA beer's greatest attraction was its per-can cost landed at Kampala, which was identical to the cost of Dutch-made Carlsberg or Amstel in Holland before shipment to Uganda.

"It is not a difficult choice," said Bunyenyezi, "when SA beer costs me the same after freighting and delivery at Kampala as Dutch beer does sitting on the docks at Rotterdam."

Imported beer in Uganda would therefore undercut the prices of existing imported brands and would challenge local brands Nile Beer — brewed from water drawn at the source of the Nile — and Bell Beer on quality.

Bunyenyezi said his initial consignment would consist of two containers, each carrying 2 160 12-can cartons, shipped to the Kenyan port of Mombasa for trans-shipment to Kampala.

"I believe SA beer will go down very well in Uganda. All I am waiting for is the go-ahead from the ANC. Our letters of credit are ready and standing by," he said.

He said future trading plans included importing SA-made batteries and Windhoek Lager from Namibia.

WJL

3/8/93

Mandela sympathy for self-determination

MR NELSON Mandela, ANC president, held lengthy talks yesterday with Professor Carel Boshoff, leader of the Afrikaner Freedom Foundation and said afterwards he had sympathy for White self-determination.

"We concentrated on

the demand for self-determination for Afrikaners," Mr Mandela told reporters after two hours of talks with Professor Boshoff.

"We pointed out that we are sympathetic to this demand," Mr Mandela said, adding that his African National Congress wanted to reassure Whites that one-man-one-vote did not mean Black domination.

Prof Boshoff's group has established a Whites-only settlement at Orania, an abandoned construction town on the Orange River in the northern Cape.

He sees the town as the nucleus of an independent Afrikaner state stretching west to the Atlantic coast, its economy based on agriculture, minerals and diamonds.

Prof Boshoff said his talks with Mr Mandela had not gone into details like the possible boundaries of a White state, but he expected further discussions with the ANC.

"We want to take part in negotiations on the future of South Africa and we want to put

our proposal for self-determination forward as a peaceful way of solving the country's problems," Prof Boshoff said.

"The whole history of the Afrikaner is a history of striving for freedom. Therefore, we appreciate the freedom struggles of other peoples."

Mr Mandela said he had told Prof Boshoff that the ANC had backed non-violent change for the first 40 years of its existence until the government had forced it to take up the armed struggle.

"We hope that whatever happens at multi-lateral negotiations, those who demand self-determination will show the same patience that we did," Mr Mandela said.

He questioned the compatibility of a race-based state with the religious ideals Prof Boshoff's followers hold dear, and noted that the Afrikaners had never clamoured for their own homeland under White-ruled South Africa.

A member of Prof Boshoff's delegation

said the talks were about the possibility that an area of a future federal South Africa could become the Afrikaner homeland as an interim solution to eventual secession.

Prof Boshoff said the Afrikaner people's fight against the British empire had always been a quest for a homeland.

He called yesterday's talks "fruitful", and said both sides had agreed to set up a bilateral committee to further the discussions. — Sapa-Reuter-AFP.

C. J. J. 318793

Right, Left and centre will all have their say

By Peter Fabricius
and Esther Waugh

The full political mainstream will be represented in negotiations for the first time when more than 20 parties and administrations sit down together at the World Trade Centre near Kempton Park on Friday to plan for the future.

All the main parties — including, for the first time, the Conservative Party on the Right and the Pan Africanist Congress on the Left — are due to attend the multiparty planning conference.

Its aim is to review agreements made to date and to plan the resumption of full-scale, multiparty, Codesa-style negotiations.

One top negotiator said the purpose of the conference was to form a bridge between past bilateral and future multilateral negotiations.

Bringing such a wide range of views together is bound to be a delicate operation and fireworks have not been ruled out.

Other participants were still not sure last night whether the Inkatha Freedom Party might not spring a surprise by demanding the conference make a binding decision

that the future South Africa become a federation.

However, IFP and other sources close to them said they did not think this would become a make-or-break issue at this stage.

They said this conference was mainly the brainchild of the IFP, which wanted it to review ANC-Government "deals". Thus the IFP would like it to succeed.

It appeared that other parties had accommodated the IFP's concerns to an extent by agreeing to include an agenda item on whether negotiations could take place regionally.

Panel

Arguments were still continuing yesterday about who should serve on the multiparty panel to chair the conference.

There was provisional agreement that the Government, ANC, IFP, Democratic Party, Afrikaner Volksunie, Qwa-Qwa government and Transkei government should be represented.

A panel drawn from these groups met in Cape Town yesterday to make final arrangements for the conference.

However the conservative Concerned South African Group (Cosag) was still arguing that Boputhutswana Government

minister Rowan Cronje should be appointed to the chairing panel to represent their interests.

This problem was not expected to cause a major upset nor was the expected arrival of KwaZulu government and PAC delegations at the conference — even though this had not been agreed to by all parties.

The ANC has not approved the KwaZulu government as such being there and the Government is still officially observing a ban on contact with the PAC until it distances itself from violent acts by its armed wing the Azanian Peoples Party.

"Both will probably just pitch up and no one will chase them away," a negotiation source said.

The source added that first prize at the conference would be agreement on a date for full multiparty talks.

But it would be enough if the process of arranging the conference was just kept on track.

Parties will be represented by five-person delegation headed by their chief negotiators rather than their leaders.

Apart from the PAC, CP and KwaZulu government, the other principal newcomer to negotiations will be the Afrikaner Volksunie (AVU) which split from the CP last year.

8/10-6 373193

Teachers prepare for a nationwide strike

KATHRYN STRACHAN

TEACHERS in black schools were gearing up for a nationwide strike in protest against their 5% salary increase and the poor conditions in schools, the SA Democratic Teachers' Union (Sadt) announced yesterday.

Sadt secretary-general Randall van den Heever told a media briefing his union had requested a meeting with President F W de Klerk before March 12 to present its demands. In the meantime, a strike ballot was being held in all the regions to prepare for mass action should the demands be rejected.

The union claims 75% of black teachers earn less than a "living wage" and is demanding salaries be raised to an acceptable level and a 25% across-the-board increase.

Other items on the agenda are government's unilateral restructuring of education and rationalisation, he said.

Van den Heever could not say how long the proposed strike would last, but stressed that the union would "do its utmost" to ensure it was a unified protest and that it had the support of all teachers countrywide. The actions being considered included "go slows", pickets, marches and an all-out strike.

The protest was aimed at improving conditions in black schools, he said, and therefore did not contradict the union's avowed commitment to restoring order to schools.

He said the problems and disruptions in Soweto — triggered by the alleged retrenchment of 30 temporary teachers — were merely a microcosm of the education crisis facing the country. "Teachers in the Houses of Representatives and Delegates are being retrenched in their thousands around the country," he said.

Van den Heever said the union and teachers' protests were being used as a scapegoat by the Department of Education and Training (DET) for the problems in education. He denied that teacher "chalkdowns" last year had contributed to the disastrous black matric results. On the contrary, there had been an improvement on the previous year's figures which was due to teacher's dedication, he said.

The union had also called for an urgent meeting with Education and Training Minister Sam de Beer, and discussions with the DET over the fate of the "retrenched" teachers, who were in the third day of their hunger strike, continued yesterday.

Soweto schools were disrupted again yesterday as teachers demonstrated outside the DET Johannesburg regional offices to demand their colleagues be reinstated.

Meanwhile, Sapa reports that police arrested 20 Soweto teachers staging a week-long sit-in at the DET offices. They were scheduled to appear in court last night.

Lt-Col Dave Bruce said the Sadt members were detained on charges of trespassing.

A delegation from six regions of the Norwegian Teachers' Union is in SA as guests of Sadt.

Delegation leader Anneli Askola said in Johannesburg yesterday the delegation would visit Sadt's structures throughout the country.

"We wish to gain first-hand information on the problems facing Sadt generally. Visits to a number of schools are also included in the itinerary," Askola said.

The delegation will also visit Lebowa, Venda, Gazankulu, KaNgwane, Ciskei and KwaZulu.

Bpday

3/3/93

Teachers arrested after sit-in

By Phil Molefe
Education Reporter

Police yesterday arrested 25 Soweto teachers who had staged a week-long sit-in and hunger strike at the Johannesburg offices of the Department of Education and Training.

A police officer at the scene said the arrests were made after the DET had laid charges of trespassing.

The arrested teachers toyi-toyed to shouts of "Amandla" from colleagues as they were led to a waiting police van. Police had earlier given the teachers five minutes to leave the building or be forcibly removed.

Said a group member: "The sit-in is now moving to John Vorster and we will continue with the hunger

strike until our demands have been met."

Soweto schools have been hit by work stoppages by teachers protesting against the retrenchment of about 30 teachers in the Jabulani, Zola and Emdeni areas.

Thousands of educators stayed away from work this week and schools in the township were deserted again yesterday. Many pupils were sent home early.

Last night a delegation of teachers met top DET officials in Pretoria to address the impasse.

South African Democratic Teachers' Union general-secretary Randall van den Heever said the union would demand the unconditional re-employment of the dismissed teachers and the resignation of the regional DET deputy director, Norman

Malebane.

Malebane rejected claims that teachers had been retrenched.

"Teachers had only been served with letters which stated that their terms of temporary or contractual employment had expired," he said.

The Inkatha Freedom Party (IFP) yesterday condemned the continued disruption of classes.

It said in a statement: "Continued disruptions of classes as a weapon to effect demands was a form of educational genocide, leading black education down a cul-de-sac of deprivation and condemning a generation of black pupils to a lifetime of economic emasculation and misery."

● Vista students vow to extend boycott — Page 6

Stew

Hints of tax increases

Budget will be unpopular, warns Jacobs

CAPE TOWN — This Budget could well go down as the most unpopular in living memory, Finance special adviser Japie Jacobs said yesterday.

Hinting strongly of the inevitability of tax increases, he said the effect of the Budget would be deflationary. Unemployment levels were expected to rise.

He told Sanlam financial advisers it was a pity the first Budget presented by Finance Minister Derek Keys would be in such difficult circumstances. "We are very, very reluctant in a period of recession, ... even stagnation, to increase taxes but we cannot finance services at prevailing standards. We will have to adjust and reduce government consumption expenditure gradually in order to make more resources available for productive investment. Our long-term goal is to bring individual and corporate tax rates down but conditions are not right to do this now."

Jacobs stressed the Budget would tackle structural economic problems. The most important of these were the Budget deficit of about 9% of GDP and government dissaving (currently 7% of GDP).

"The impact of the Budget cannot be stimulatory. It will reduce dissaving but its overall impact on the economy will be somewhat deflationary."

The effect of economic restructuring would inevitably be that the economy would go down for two years and unemployment would probably increase. To

LINDA ENSOR

compensate, government would consider public works and job-creating programmes in circumstances where an early economic turnaround was not likely.

Jacobs said he had held discussions with World Bank economists this week, and they felt confident about the economy as long as fundamental problems were addressed correctly. Referring to the new US economic package, he said increasing taxes was unpopular but necessary to put the Budget on the proper basis.

Jacobs said pension fund taxation would not be touched on in the Budget, but he would not comment on speculation regarding a tax on dividends, on state pension funds or on a further decrease in marketable securities tax.

He said the long-term economic model, due for release next week, assumed an average annual economic growth rate of 3.6% over the next five years, reaching 4.5% by 1997. It was hoped by 1997 to absorb the annual increase in the labour force of about 400 000.

General savings would have to increase from the 17% of GDP to 26% — implying a growth of nine percentage points in GDP, equal to about R25bn. A further aim was to increase fixed investment to 22% of GDP (7% investment by the state and 16% by the private sector).

© See Pages 3 and 10

Brady 313743

VAT Budget blues may turn to blows

By Mzimkulu Malunga

TENSION IS MOUNTING AS Finance Minister Derek Keys prepares for his Budget on March 17.

During a budget summit held in Johannesburg this week, political organisations ranging from the ANC, PAC, small business groups, the trade union movement as well as a number of non-Governmental organisations, unanimously decided to reject the forthcoming Budget.

The centre of the dispute is the Government's attempt to mobilise public opinion to raise taxes, particularly the unpopular Value-Added Tax.

Widening the gap between the viewpoint of the Government and organisations like the VAT Co-ordinating Committee (VCC), is the massive mismanagement of public funds by the Pretoria administration.

Rumour denied

There is a rumour that a number of organisations, including the VCC, which opposed the implementation of VAT in 1991, had accepted the Government's proposal to increase VAT to about 13 percent during the current Budget.

But in the light of revelations of widespread Government corruption, where ministers are paid millions from taxpayers' money to stay in their homes, these groups felt there was no justification for tax hikes.

Cosatu's representative, Neil Coleman, told *Sowetan* that at no point had the VCC agreed to an increase in the rate at which VAT is levied.

Even during previous contact with Keys,

■ UNPOPULAR TAX Finance Minister is in a tight corner over tax:

the VCC reiterated its opposition to any form of tax hikes. "We made it clear to Keys that any tax increases would be unacceptable," says Coleman.

The Government's corruption scandals have not only sparked anger among those who attended the Budget summit yesterday but the business community as well.

Last week the influential South African Chamber of Business (Sacob) expressed its concern about the revelations and called for vigorous action to restore public confidence in the Government and how their money is spent.

Of its business confidence index for January, Sacob voiced its anguish over the skyrocketing Government debt, which is expected to increase to around R30 billion during the 1993 Budget.

There are internal consultations of the VCC on the types of action to be taken "around Budget day".

The organisation says basic foodstuffs as well as water, electricity, medicine and medical services have to be exempted from VAT altogether.

Small business people should be assisted to cope with the effects VAT has on their enterprises, argues the VCC.

Intensification of a properly structured poverty relief programme in the form of feeding schemes is needed as a matter of urgency. The VCC will meet Health Minister Rina Venter on March 29 to discuss the issue.

The VCC says there is a need to establish a fund for a major reconstruction pro-

gramme, which would not only focus on relief projects but on job creation as well.

"We do not believe the current Government has the political will to implement this programme but we say it has the public's money, therefore they have to establish such a fund," he says.

The administration of such a fund should be jointly handled by broadbased organisations such as the National Economic Forum, the Drought Relief Forum and the National Housing Forum.

Equalisation of State pensions must also be placed high on the agenda.

Sowetan 31/3/93

Sacob cautions on tax increases

CAPE TOWN — Tax increases in the Budget should be avoided or kept to a minimum in the light of the precarious state of the economy, Sacob director-general Raymond Parsons said at a news briefing yesterday.

He noted in order to place the economy on a more productive basis, the tax burden should not increase and urged government to accept that the best way to address the Budget deficit was through economic growth.

Parsons argued that an increase in the VAT rate and in other direct and indirect taxes at a time when the economy was contracting was likely to heighten the severity of the recession. Sacob believed a VAT increase would place more pressure on disposable incomes and have inflationary consequences.

While Sacob estimated an increase in VAT rate to 13% would raise an additional R3,5bn and increases in fuel and other indirect taxes could add about R1bn, increased taxes would reduce collections in other areas.

Parsons said one of the major tasks of the upcoming Budget was to guard against "overkill" as wrong decisions could easily push the precarious economy further into recession.

Finance Minister Derek Keys was faced with a difficult balancing act.

"On the one hand he needs to give attention to the structural issues, and on the other he is faced with demands for additional government consumption expenditure set against a narrow tax base that has little, if anything, to

LINDA ENSOR

give."

Parsons believed government had little option but to try to reduce its spending in real terms further, and might have to accept a deficit higher than 6% if it was unable to do so.

To achieve a deficit before borrowing of 6% of GDP — assuming there were no tax increases, GDP grew 1%, an average inflation rate of 2,5% and about R8bn in additional tax revenue — government expenditure would have to be cut by 9,4% in real terms. This appeared unlikely.

The two other options proposed were for no tax increases and a 3% real cut in government spending which would bring the deficit down to 7,8% of GDP or for R5bn in additional tax and a 3% cut in real spending in which case the deficit would fall to 6,5% of GDP.

The worst combination would be higher direct and indirect taxes and a cut in government spending.

Parsons said the business community would judge the Budget on the basis of two criteria, namely the extent to which it helped rebuild business and consumer confidence and the extent to which it recognised present realities but also provided a clear indication of the direction to be pursued in future.

Parsons stressed of equal importance to the Budget were political developments and he urged that when multiparty political negotiations resumed, they should include an economic dimension.

Business wants more political clout

CAPE TOWN — Organised business, increasingly uneasy about whether government adequately represents its interests in negotiations, has made a bid for a more direct role in the political process.

Sacob director-general Raymond Parsons said yesterday although his organisation accepted that political groups should be the principal parties at negotiations, a method for other bodies to make contributions ought to be structured into the process.

He said a possible way to achieve this would be to have hearings on topics discussed by the new negotiating forum and for the forum to call for contributions by interest groups.

TIM COHEN

Sacob was particularly interested in what fiscal constraints should be written into a constitution and the role regional government could play in imposing fiscal discipline.

Sacob would also favour the strengthening of the powers of the auditor-general.

Organised business is understood to be concerned about the influence Cosatu has on the negotiations process through ANC "surrogates".

There was concern business interests were not adequately represented by government's delegation, whose understanding of economic issues business believed to be inadequate.

B. Molay
3/3/93

NOTHING focuses the mind so much as the knowledge that you'll be hanged in the morning. With that comment, Finance Minister Derek Keys has made it clear the Budget will draw criticism from all quarters. But Keys might escape a lynching if he manages to structure tax increases imaginatively.

It takes a brave man to announce tax increases to a hostile public. A seemingly interminable tale of corruption and an already high level of taxes have caused business and labour to unite in strong opposition to plans to raise more revenue.

The main focus of criticism from business quarters has been the fear that higher taxes will knock economic growth. But growth is not the only objective Keys has to bear in mind; the labour movement keeps reminding him of the importance of an equitable distribution of the tax burden. There is often a trade-off between equity and efficiency, between economic justice and long-term growth. A tax structure which promotes an efficient allocation of resources is not necessarily just. And in the SA context the often conflicting aims of equity and efficiency need to be weighed carefully.

Orthodox economic wisdom holds that indirect taxes are more efficient. However, an indirect tax such as VAT hits lower income groups hardest and favours efficiency at the expense of equity. In SA, with its skewed income distribution, such an imbalance is potentially explosive.

There is little doubt that the VAT rate will increase in the Budget, but what is not yet clear is the rate and structure of the tax. An IMF mission to SA put pressure on Keys to keep the tax "pure" because it fits in with the fund's concept of economic efficiency. The fund's argument is that the poverty safety net should be improved to respond to poverty with direct assistance, rather than tamper with the VAT system. However, even government acknowledges that the poverty safety net has been an utter failure.

A taxing question — how can Keys avoid a lynching?

W. Key 3/3/93

GRETA STEYN

If government is to soften the blow of an increase in a regressive tax such as VAT it will at least have to zero-rate basic foodstuffs. There is still a strong possibility that the rate will be raised to 13% with zero-rating of foodstuffs, in spite of signs that 12% without zero-rating was more likely. Hopefully, Keys will be strong enough to withstand pressure from the IMF, whose insistence on ignoring political conflict and treating economics as a "pure science" has led to trouble in many parts of the developing world.

Higher customs and excise duties are also expected in the Budget; these will also hit poorer sections of the community harder. Keys will be able to sell an increase in the VAT rate and in "sin" taxes far more easily if he can demonstrate that the rich will carry a substantial part of the burden of increased taxes.

There is intense speculation that top income earners face a higher marginal tax rate — an increase from 43% to 44%. While this would fly in the face of promises made by Keys's predecessor Barend du Plessis, Keys has emphasised that he has no obligation to deliver on Du Plessis' promises. Relief from fiscal drag for low income earners is a strong possibility too. This is also the group that will complain the most about a

higher VAT rate.

Government is expected to raise estate duties and close loopholes as a precursor to introducing a capital transfer tax. Although little revenue would be raised, the move is a symbolic step towards an equitable distribution of the tax burden.

There has also been speculation that top income earners might be taxed on a portion of their current pension contributions. Talk is that it would be a symbolic move rather than a revenue-raising exercise. Following the furore caused by the Jacobs committee's proposal on that score, government has already indicated no major changes are in the offing for pensions taxation.

Talk in the pensions industry is that any pensions tax changes have been put on hold because of the unequal tax treatment of public and private sector pensions. Equal treatment is widely seen as a prerequisite to any changes and the present battle between the Public Servants' Association and the state has seen government promise to stick to the status quo for the time being.

But pensions industry sources say an overhaul of lump sum taxation, including equalising public and pri-

vate sector pensions, could yield up to R300m in revenue.

The figure would be more than enough to allow government to abolish the Marketable Securities Tax (MST), regularly cited as a reason for the low volumes on the JSE. Would abolishing a tax on trade in equities be politically acceptable? Only if Keys managed to convince his audience that scrapping MST is intended to facilitate unbundling of big conglomerates, reducing the concentration of economic power. He might also balance the move with a tax on dividends. While that would be a strange move for a former businessman, it might be motivated by the need to show that those who have the ability to pay are being taxed.

Many orthodox economists would argue that raising the tax rates of top income earners would be a disincentive to the people most needed in the economy. Former British Chancellor of the Exchequer Nigel Lawson in 1988 explained his decision to drop the top marginal tax rate as follows: "Excessive rates of income tax destroy enterprise, encourage avoidance and drive talent to more hospitable shores. Far from raising additional revenue, over time they actually raise less."

The argument brings to mind the famous diagram first drawn on a

serviette in a Los Angeles restaurant. The Laffer curve showed that, at already high rates of taxation, a further increase in tax rates would lead to a fall in revenue.

But the bulging US deficit has all but consigned the Laffer curve to the rubbish bin, along with leftovers of other 1980s excesses. The failure of the "supply-side" economics Laffer underpinned has forced US President Bill Clinton to announce tax increases that would hit the rich.

No doubt the Clinton tax increases have come at a convenient time for Keys, who will need every bit of ammunition he can get. But the debate in Britain seems to be going the other way and there are many who would see similarities between Britain and SA.

One of seven "wise men" who reported to the UK Treasury on the issue, Cambridge professor Wynne Godley, said it would be perverse to the extreme to respond to exceptionally low private spending by fiscal restriction. Financial Times writer Samuel Brittan commented: "Simple horror at the size of prospective UK budget deficits is not a sufficient reason for adopting restrictive fiscal policies this year."

He argued that the view that the deficit was potentially explosive and had to be curbed soon would be reasonable — if the economy were operating at the normal rate of capacity utilisation, and growing at its trend rate.

The SA economy is operating below capacity and has not grown for some years, while inflation is on a downward trend. There are definite similarities with the British situation. However, there are also major differences between SA and Britain that make simple comparisons impossible. SA inflation could turn around again quite easily, a scarcity of capital means the public sector "crowds out" the private sector and spending demands are enormous.

Nevertheless, there is strong resistance to tax increases at a time when there is little sign yet that the economy has moved out of recession. Keys will have to do some fancy footwork to avoid a lynching.