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The South African economy into the Eighties

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A F R I C A N S T U D I E S I N S T I T U T E

African Studies Seminar Paper
to be presented at Seminar in RW 319 at
4.00pm on Monday 22nd October 1979

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Title: **The South African Economy into the Eighties.**

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No.: 087

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OUTLINE OF PAPER TO AFRICAN STUDIES SEMINAR

Merton Dagut
22 October 1979

An interplay of the themes is likely to shape our economic environment over the medium term. By looking at the present, or more accurately, at the past, one can look at the future.

Two premises:

(i) Human behaviour in aggregate changes at fastest usually only slowly.

(ii) (Other than during revolutions) institutions (= arrangements for doing things) change even more slowly.

It should be possible to guage how economic developments 'carry themselves'; thus when which of them will come into collision/conflict/crisis with others; and further, (if one has a feel for their relative strengths), which is likely to accommodate to which. This entails seeking to distinguish between 'cyclical' (= reversible in direction or momemtum) and 'secular' (= long acting) forces.

The sub environment in which one operates must influence both one's response to and ones perception of the whole environment.

Business bureaucrats are caught continually in a crush of events. It follows that most of the economic decisions in South Africa, and so, by the law of large numbers, most of the important economic decisions in South Africa, are taken quickly. One needs a knowledge of what separates these into efficient (= good) decisions and inefficient (= bad decisions).

A conclusion:

> As long as people remain reasonably competent at their work, and as long as their implicit models continue to approximate reality, the overall system is likely to continue functioning.

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Further,

> If the models and reality come more closely to approximate each other (and if people remain reasonably competent at their work) other things being equal the economic system will become more efficient. There is every indication that this is likely in South Africa.

The business bureaucrat's implicit, sometimes subconscious model: South Africa's economic system is demand pulled and capacity and institutional arrangement constrained. The market leads, the business units respond.

But the economy is a "blend" of market systems and of interacting enclaves. It is characterised by "imperfections" which can be seen as "challenges which offer opportunities".

Diagramme 1

Diagramme 2

The price mechanism is the institution which holds the model together. The nub of the model restated: the markets lead, the business units respond. All economic systems depend upon the tug of ultimate demand: the more efficient (which does not equate with the more moral) nurture that tug and respond to it; the less efficient do not. The problem lies in interpreting what is "discovered" in price movement signals.

Business bureaucrats can handle all but 'political uncertainty'. They profit by "economic uncertainty".

To test the first two conclusions it is necessary to examine whether South Africa is at present and in the 1980's is likely to remain, a market economy (to help one determine the likelihood of the model and reality continuing to approximate each other).

In this context what should be regarded as 'the South African economy'. While being aware of the major differences between the 'formal' and the 'informal' economies of the area to be helpful the answer has to be geo-economic and must allow for the fact that other institutions impinge on and are impinged upon by, the economy. In part

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DIAGRAMME 1

BASIC ELEMENTS AFFECTING INDUSTRY PROFITABILITY

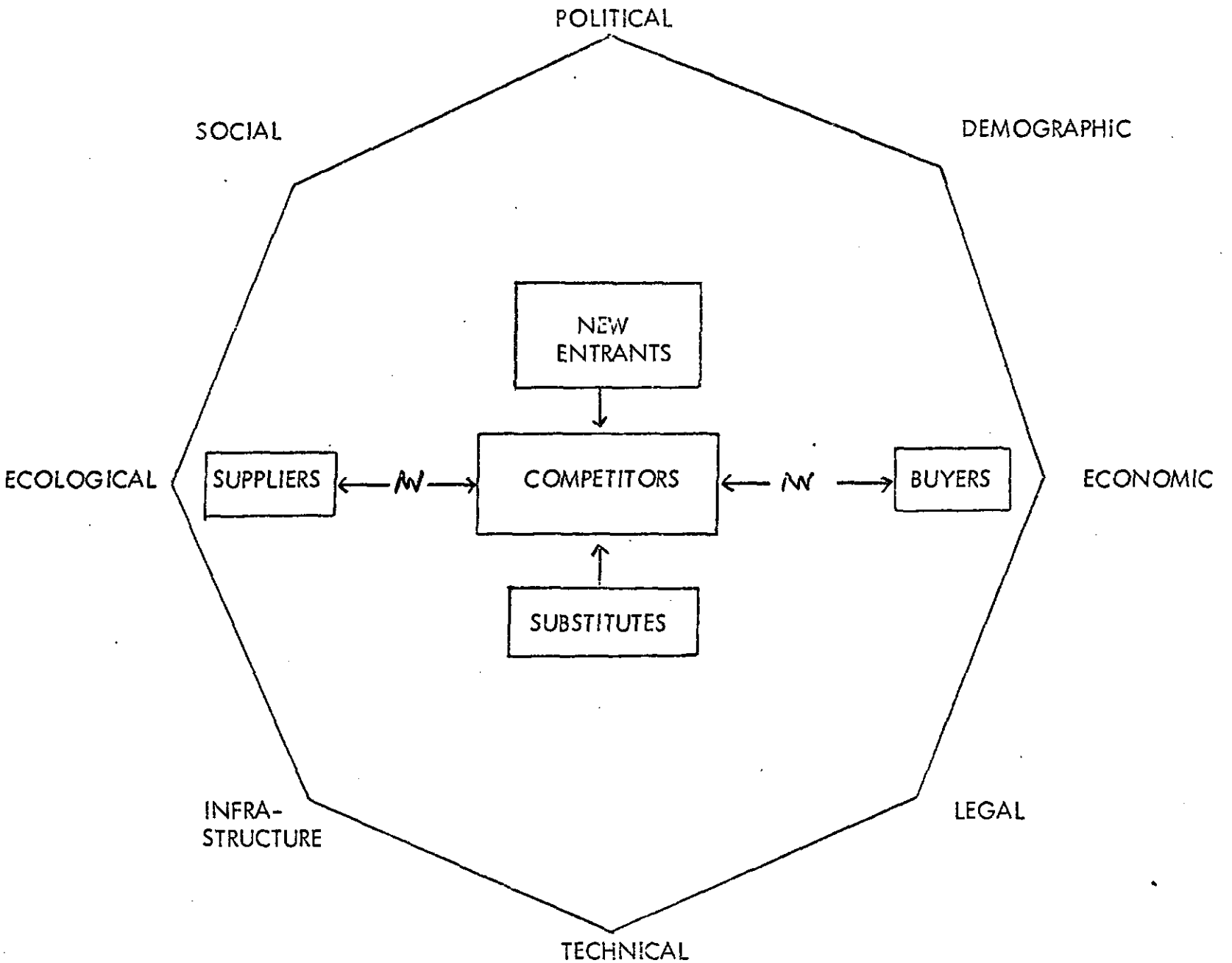
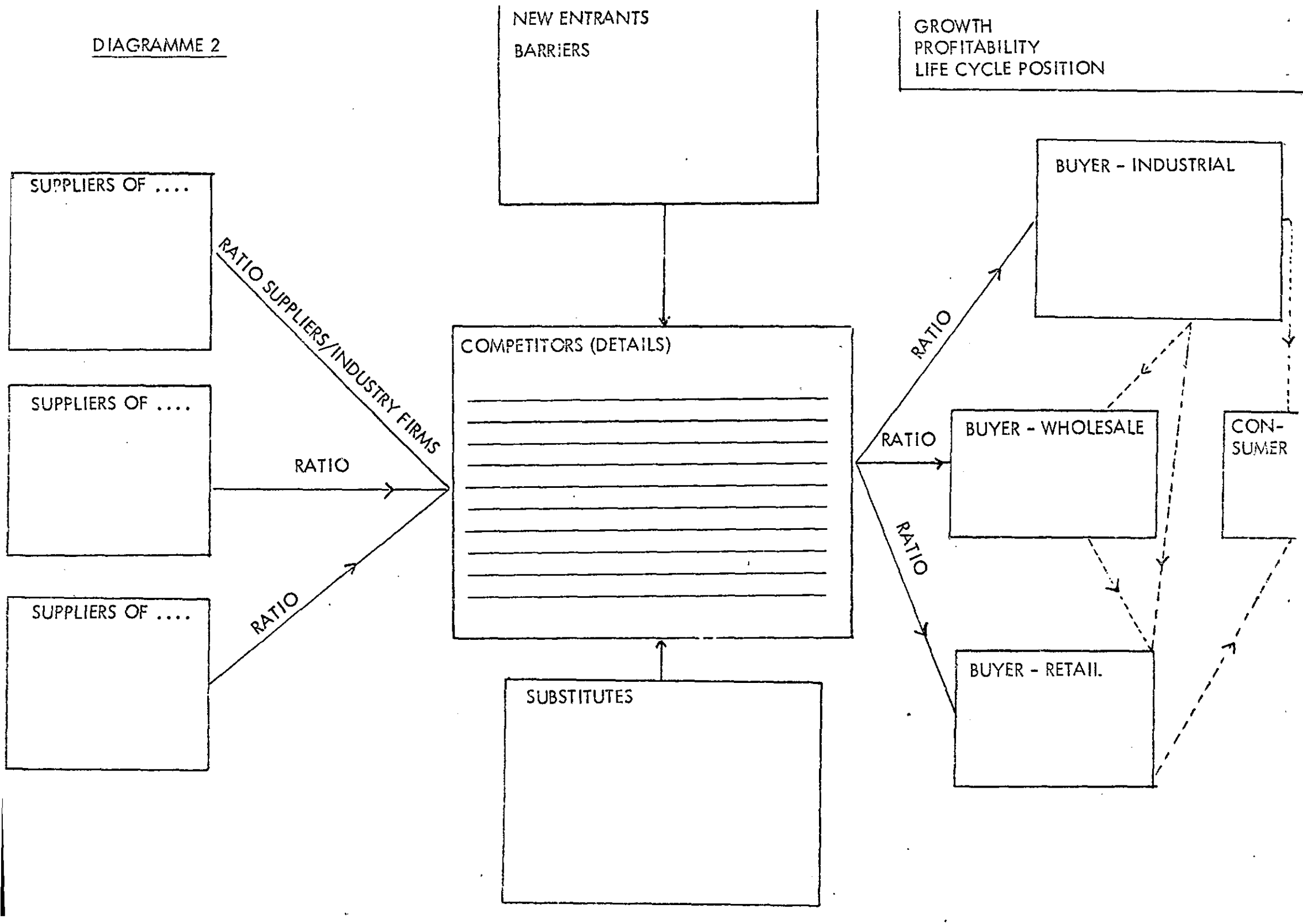


DIAGRAMME 2


NEW ENTRANTS
BARRIERS
GROWTH
PROFITABILITY
LIFE CYCLE POSITION
SUPPLIERS OF ....
SUPPLIERS OF ....
SUPPLIERS OF ....
RATIO SUPPLIERS/INDUSTRY FIRMS
RATIO
RATIO
COMPETITORS (DETAILS)
SUBSTITUTES
RATIO
RATIO
RATIO
BUYER - INDUSTRIAL
BUYER - WHOLESALE
BUYER - RETAIL
CON-
SUMER

the answer has to be based, therefore, on political structure facts.

Slide 1	Ciskei to Zaire
Slide 2	Constitutional and diplomatic frame. Economic and technical frame.
Slide 3	Underlying economic facts and patterns
Slide 4	The political geography
Slide 5	The transport network
Slide 6	Ten facts re economic interdependence.

(Except in the war scenario) there can be no doubt that the subregions will be co-operating with each other through the 1980's.

Slide 7	Co-operation modes being offered to those who are exercising their minds because they are de facto, or believe they are, in control of events.

The large themes will make us share our fate, whether jointly or severally.

The energy question: The average price of OPEC crude, if next year left unchanged from present levels, in Calendar 1980 will be about 60 per cent higher than last year. OPEC's daily gross revenue of about $550 million is some $200 million (a day!) more than in 1978.

Table 1

See over

Table 1

OPEC BALANCE OF PAYMENTS 1979 TO 1985

	Petroleum exports (incl. products)		Balance on current account			
	Quantity	Value	Revenue	Expenditure	Balance	Cumulative balance (since 1970)
	bn. t.	US$ bn.	US$ bn.			
1979	1.35	177	205	165	+ 40	210
1980	1.35	217	248	206	+ 42	252
1981	1.35	235	270	237	+ 33	285
1982	1.35	254	293	267	+ 26	311
1983	1.35	274	318	297	+ 21	332
1984	1.35	296	345	328	+ 17	349
1985	1.35	319	374	361	+ 13	362

Assumptions

Oil sales	constant
Oil price	+ 8 % p.a. (commencing with prices in July 1979)
Other current revenue	+ 12 % p.a.
Current expenditure	+ 25 % / + 10 % (declining growth rates)

There is, and is likely to remain, a major "recycling problem". Further, the ability of the world's private commercial banks to do the job is smaller than in the 1974/5 period.

Table 11

DEVELOPING COUNTRIES' EXTERNAL INDEBTEDNESS

	External indebtedness	Monetary reserves	Current foreign exchange revenue (of following yr.)
	End of period		
	Estimates in US$ bn.		
1970	82	19	66
1971	92	23	81
1972	103	35	117
1973	121	51	153
1974	152	60	155
1975	193	52	185
1976	233	63	217
1977	270	78	261
1978	320	110	310

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Further, there is likely to be a "deterioration in the terms of trade" facing the primary commodity exporters.

The implications for South Africa are complex.

Table 111

SOUTH AFRICA'S EXPORT MIX

SECTIONS OF THE CCC NOMENCLATURE

Section	Chapters	Description	Contribution of each section to total Customs and Excise reported exports in 1978
I	1 to 5	Live animals; animal products	2,3%
II	6 to 14	Vegetable products	7,8%
III	15	Animal and vegetable fats and oils and their cleavage products; prepared edible fats; animal and vegetable waxes.	0,9%
IV	16 to 24	Prepared foodstuffs; beverages, spirits and vinegar; tobacco	5,8%
V	25 to 27	Mineral products	13,7%
VI	28 to 38	Products of the chemical and allied industries	4,1%
VII	39 to 40	Artificial resins and plastic materials, cellulose esters and ethers, and articles thereof; rubber, synthetic rubber, factice, and articles thereof	0,5%
VIII	41 to 43	Raw hides and skins, leather, fur skins and articles thereof; saddlery and harness; travel goods, handbags and the like; articles of gut (other than silkworm-gut)	1,9%
IX	44 to 46	Wood and articles of wood; wood charcoal; cork and articles of cork; manufactures of straw, of esparto and of other plaiting materials; basketware and wickerwork	0,5%
X	47 to 49	Paper-making material; paper and paperboard and articles thereof	1,8%
XI	50 to 63	Textiles and textile articles	4,0%
XII	64 to 67	Footwear, headgear, umbrellas, sunshades, whips, riding-crops and parts thereof; prepared feathers and articles made therewith; artificial flowers; articles of human hair; fans.	0,1%
XIII	68 to 70	Articles of stone, of plaster, of cement, of asbestos, of mica and of similar materials; ceramic products; glass and glassware	0,5%
XIV	71 to 72	Pearls, precious and semi-precious stones, precious metals, rolled precious metals and articles thereof; imitation jewellery; coin	27,9% (K.Rands alone 13,8%)
XV	73 to 83	Base metals and articles of base metal	17,1%
XVI	84 to 85	Machinery and mechanical appliances; electrical equipment; parts thereof	2,4%
XVII	86 to 89	Vehicles, aircraft, and parts thereof; vessels and certain associated transport equipment	1,5%
XVIII	90 to 92	Optical, photographic, cinematographic, measuring, checking, precision, medical and surgical instruments and apparatus; clocks and watches; musical instruments, sound recorders and reproducers; television image and sound recorders and reproducers, magnetic; parts thereof	0,2%
XX	94 to 98	Miscellaneous manufactured articles	0,1%
XXI	99	Works of art, collector's pieces and antiques	0,1%
XXII	-	Other unclassified goods (Includes unpublished exports such as uranium and platinum. Last year this section contributed 5,7 per cent to total Customs and Excise exports	7,0%

As the price of energy has changed relative to other prices, the next step of the analysis depends upon a re-examination of the issue of the signals conveyed by relative prices in a period of generalised inflation. If one wishes to understand the

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world in which we actually live rather than the world as it may well have been had a different set of decisions been taken in the past, one has to accept that we have grown accustomed to inflation. But inflation expectations vary between individuals and individuals behave inconsistently in response to their own constant inflation expectations.

Markets of the 'real world' are not all spot markets in which current prices are responsive to fluctuations in demand, and in which production decisions are responsive to changes in spot prices. Thus the price system transmits misinformation as well as useful information. Adjustments can amplify rather than dampen disturbances. The present inflation, therefore, can be cured only by a massive dose of monetary deflation.

The fact that South Africa is an energy rich region becomes the basis for discerning an important secular trend. It is a beneficiary of both the primary and secondary "substitution effects" of the OPEC oil price hikes. South Africa could be a net exporter of crude energy by the mid 1980's.

Table IV

SOUTH AFRICA'S EXTERNAL CRUDE ENERGY BALANCE

The following are estimates of the value of South Africa's imports and exports of energy related products. The figures differ somewhat from those of the Finance Week in early June 1979 article, but basically reflect the same broad picture.

	1979	1982	1985
Imported oil consumption	R2 800 m	R2 700 m	R2 700 m
less Steam coal exports	R 450 m	R 900 m	R1 600 m
less Uranium exports	R 500 m	R 750 m	R 860 m
less Petrol exports	R 75 m	R 800 m	R 800 m
Net energy exports (imports)	R(1 775)m	R(250)m	R 560 m

NOTES

1. Oil : 1979 oil imports figure made up of R800 million for first semester (at average price of $ 20 per barrel) and R 2 000 million for second semester (at $ 40 per barrel).

1982 oil consumption is assumed to amount to about R 4 000 million. SASOL II will possibly save about R1,3 million.

1985 figures were taken to be the same as 1982. These figures could be much more favourable, depending on erection of further SASOL plants.

2. Coal : Export in 1979 will amount to 20 million tons which will increase to about 30 million tons in 1982,, and 44 million tons in 1985.

The price of coal is expected to increase from $ 27 per ton in 1979 to about $ 35 per ton in 1982 and $ 50 in 1985.

3. Uranium : The uranium figures are internal estimates which correspond closely with unofficial estimates of the industry.

4. Petrol : Because the SASOL process does not generate sufficient diesel fuel, South Africa will remain a bigger importer of crude oil for the foreseeable fugure than would otherwise have been necessary. Fortunately it will, as a result, also be able to export more petrol.

5. Chemicals : Although this has little to do with the energy position, the new SASOL plants will, in addition, produce a significant quantity of chemicals which would otherwise have been imported and will thus result in additional foreign exchange savings.

Two thirds of South Africa's "merchandise exports" have a large energy content; and the gold price is sensitive to currency uncertainty and inflation expectations.

Table V

See over

CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS PREVIEW

R million

Table V

	Actual	Estimate	Forecast	
	1978	1979	1980[A]	1980[B]
Merchandise exports	7 412 (17,8%)	9 100 (22,8%)	9 850 (8,2%)	9 690 (6,5%)
Net gold output	3 863 (38,2%)	5 910 (53,0%)	5 050 (-14,6%)	6 060 (2,5%)
Service receipts	1 969 (22,6%)	2 400 (21,9%)	2 760 (15,0%)	2 725 (13,5%)
Merchandise imports	-8 008 (16,4%)	-9 800 (22%)	-12 050 (23%)	-12 250 (25,0%)
Payments for services	-3 880 (14,6%)	-4 480 (15,5%)	-5 285 (18,0%)	-5 350 (19,4%)
Total goods and services	1 356	3 130	325	875
Transfers (net receipts)	98	95	95	105
Balance on current accounts	1 454	3 225	420	980

Assumptions

The most important assumptions made for the purpose of this forecast are that:

1. The United States has already entered a recession, which will affect the economies of Europe and Japan. This, in turn, will lead to a decline in commodity prices, although this is unlikely to be very severe.

2. An average price for gold of $370 for the fourth quarter of this year, $250 for 1980[A] and $300 for 1980[B].

3. Restrictions on trade with and investment in South Africa will not become more vigorous over the forecasting period.

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South Africa could be facing a period of chronic balance of payments surpluses.

One of the reasons lies in changes which have occurred in the perception of government's 'role' in the economy. The public sector's claims on resources are planned to become relatively smaller. The benefits, on a technical level, will be seen in less price instability and in less pressure on the current account of the balance of payments.

In one major respect, therefore, reality and the model are coming closer together.

The last proviso, "as long as people remain reasonably good at their jobs" examined.

Table V1

SOUTH AFRICA'S POPULATION - CUSTOMARY CATEGORIES

	1978 estimate	Proportion of total	Most recent rate of natural increase
	(units)	(per cent)	(per cent)
Blacks	19 462 000*	71,5	2,9
Whites	4 420 000	16,2	1,0
Coloureds	2 557 000	9,4	2,3
Asians	787 000	2,9	2,3
Total	27 226 000	100,0	2,5

* excluding foreign born

Table V11

See over

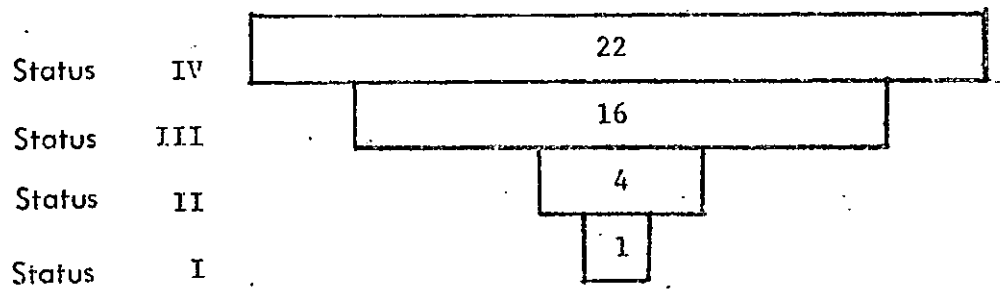
Table V11

(a) -AN ANALYTICAL PYRAMID

Status	Per cent of population		Natural increase per cent p a
I.	3,4%	920 000	0,9%
II.	8,2	2 200 000	1,4
III.	32,9	9 000 000	2,3
IV.	55,5	15 100 000	3.1
	100,0		2,6

(b) IF UNCHANGED, ANALYTICAL PYRAMID IN TWENTY YEARS TIME

NUMERICAL RATIOS OF POPULATION (EXCLUDING FARMERS)



This may lead some to think that despite huge and obvious changes which have occurred in relative prices, shifts in patterns of demand and production, the formal structure of labour relationships within the South African economy c1979 is not markedly different from that of, say, 1965. If so, there are momentums tending towards conflict.

But 'cyclical' must be separated from 'secular' forces. This helps place in context the fact that the share of total income being distributed as wages and salaries has diminished as more has been appropriated as corporate income.

Table V111

CHANGING SHARES OF TOTAL INCOME

See over

Table VIII

CHANGING SHARES OF TOTAL INCOME

The contribution of remuneration of employees to (1)

(1) gross operating surplus
(2) and indirect taxes net of subsidies
(3) to GDP at market prices

and (1) and (2) to (GDP at market prices less (3).

	Contribution to GDP at m.p.			Contribution to GDP at m.p. less (3)	
	(1)	(2)	(3)	(1)	(2)
1975	55,0	38,9	6,1	58,5	41,5
1976	56,1	37,6	6,3	59,8	40,2
1977	53,5	39,5	7,0	57,5	42,5
1978	51,5	41,2	7,3	55,6	44,4
1978 1Q	54,3	37,9	7,8	58,9	41,1
2Q	49,3	44,4	6,2	52,6	47,4
3Q	50,5	42,7	6,9	54,2	45,8
4Q	52,3	39,5	8,2	57,0	43,0
1979 1Q	50,4	40,9	8,7	55,2	44,8
2Q	48,0	45,0	7,0	51,6	48,4

This, now can be understood as a recession related phenomenon rather than the unchanging operation of a long-term force.

Using the diagrammes 1 and 2 type of analytical frame one can form a fairly firm idea of what the business bureaucrat's response will be: There are "bottlenecks", everywhere in the region there are shortages of skilled work power. The region is characterised by an economi c/demographic base (infrastructure) not adequate to cope with - or not appropriate to - the 'requirements' of present reality. This, inter alia, is a technology choice problem (recalling always that technology is a culture related concept - a concept of human organisation as much as of what

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'machine' or 'science' one uses). The abundant and relatively inexpensive resources of Southern Africa are time, space and climate.

Decisions, recall, are quickly taken. Expectations have risen: the goods must now be delivered. They are likely to be delivered in terms of the model. In the shorter run there is likely to be "spending for peace and prosperity". The longer run, in terms of standard post Keynsian thought, is made up of a series of shorter runs.

The accommodation, therefore, is likely to be one of "immigration" from within the region as well as from without. That, I believe, is what the present hectic pace of short term political cum economic change in South Africa is about.

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