

The 1992 budget: more social spending

The Minister was proud to announce an increase in education spending of 24%. Most of this will go to the Department of Education and Training, which covers African schools.

Health spending also goes up significantly, by 22%.

And housing will have R2,153 billion in 1992/3. But only R1,285 billion will come directly from the budget. An encouraging feature is that it will be designed to "maximise the development and job creation impact".

Still wide pension difference

State pensions are to be increased by a mere 9,9% to R345 per month for whites. But the gap between blacks and whites will be closed by 40%.

African social pensions go up 24,7% to R293 per month, and 'coloured' and Asian pensions by 16,5% to R318 per month. The Minister has committed the government to parity by next year's budget, if not before.

R15,94 per person per month

Nutrition will get R440 million. This must feed at



ECONOMIC NOTES

Economic Notes is supplied by the Labour Research Service (LRS), Cape Town

least 2,3 million people on the government's own estimates. That's a "generous" R15,94 per person per month. But the Minister admits that only half of the money allocated for food aid last year was actually spent. Let's hope they can do better this year.

And more will be taken from taxpayers. The individual taxpayer again will carry the burden of increased expenditure. Here is how the increased tax burden - about 15,7% overall - will be distributed:

Mining	-10,4%
Companies	+7,3%
VAT	+12,1%
Other taxes	+12,3%
Individuals	+22,5%
Customs & excise	+28,4%

Most of the increase in the customs and excise item comes from the fuel levy and increase in duty on beer, cigarettes etc.

But customs and excise represent only 13,2% of total revenue. Individuals will be contributing 41,8% of total

revenue in 1992/3.

Defence goes up by only 5,6%. This is a substantial decline in real terms - approximately 10% down. Prisons hold steady in real terms, while police spending will go up by about 6% in real terms. Altogether, Protection Services - covering law courts, police, prisons, and defence - go up by 12,4%, which is below inflation. But "secret services" will get R4,7 billion in all in 1992/93. How will these billions be spent during the transition to democracy, and who will monitor them?

Miserable R22 million on job creation

Job creation is given great attention in the budget review. If this is to be believed, no less than R2,9 billion will be spent on job creation in the coming year. On closer examination, this turns out to be a mirage. Almost all of it comes from the Strategic Oil Reserve, or is carried over from last year. A miserable R22 million will be spent on the Department of Manpower's job creation programmes. But, again, this is carried over, unspent, from last year.

Salaries of public servants will be hit hard. R3,4 billion was allocated last year to improve their conditions of service; this year, they will get only R2,3 billion extra.

Ominously, R250 million has been set aside for retrenchments from the Public Service. This will not

Key departmental spending

DET	R4,6 billion	+32,8%
Agriculture	R453 million	+70,3%
Nat. Health & Population Dev.	R11,7 billion	+54,7%
National Education	R283 million	-18,1%
Defence	R9,7 billion	+5,6%
Manpower	R295 million	-4,1%
Trade and industry	R3,1 billion	+44,6%

help to create an atmosphere of calm amongst workers employed by the government.

Drought relief, but who will benefit?

A total of R1 billion has been set aside for drought relief. But how will it be spent? The Minister gives not a clue. It could be spent to alleviate the starvation of thousands of farmworkers whose jobs have been destroyed by the drought. It could be used to help the subsistence farmers who unfortunately do not have large loans outstanding from the Land Bank. But it will probably be used to bail out the big farmers who have run up enormous debts - and save the banks and their shareholders from massive write-offs.

Budget balancing

In total, the government will spend an extra 2% in real terms in 1992/3. But the Minister predicts an increase in Gross Domestic Product of only 1%. The difference will come partly from a large increase in the tax burden on individuals. The rest will come from a windfall: the

government will be repaying fewer loans in the coming year. This amounts to a "saving" of R2,8 billion. Thus are budgets balanced.

Two inflationary measures have been imposed. The fuel levy will add about 5,7% to petrol prices. And the increased excise duties will add 1% or 2% to the prices of cigarettes, beer, cooldrinks etc. Tax savings of R53 million have been handed out to mining companies. The government expects to earn 25% less from mining leases, too, in 1992/93.

Transport subsidies for bus commuters will decrease from R645 million to R641,5 million. This means a real decline of about 15%. This may make a number of bus services unprofitable and lead to further closures.

The tax on dividends has not been re-imposed, nor has a capital gains tax been introduced. And there will be no new wealth tax! ❖



Company profile:

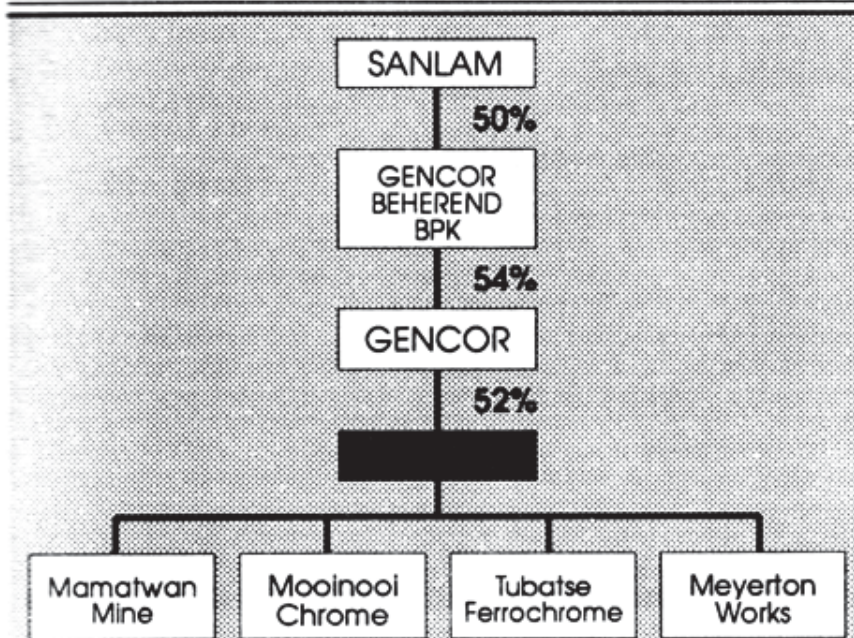
Samancor

Samancor is the world's largest producer of ferrochrome. It can produce about one million tons every year. That is 40% of the world's 2,5 million tons. South Africa produces 1,7 million tons altogether (*Business Times*, 1 March 1992). Ferrochrome is used to make stainless steel.

Samancor's main business is the production of manganese and chrome. But it also produces a variety of mineral, metal and chemical products. The group owns manganese and chrome mines with vast reserves.

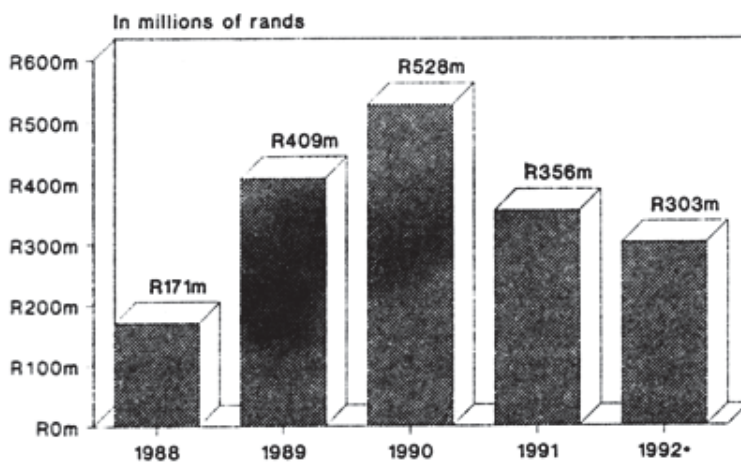
Samancor used its power in the world's ferrochrome market to set its own prices in 1991. But cornering the world markets has its costs:

- clients looked for other cheaper sources of ferrochrome which they found in the form of scrap;
- world demand fell and a three month shutdown in ferrochrome production was needed - affecting 3 500 workers;
- the group's profits fell , and
- dissatisfied European stainless steel producers plan to build their own ferrochrome smelter in South Africa, ditching Samancor! (*Business Times*, 1 March 1992).



PROFIT AFTER TAX DOWN

The cost of cornering world markets



Labour Research Service 03/92

* Annualised

But Hans Smith, MD, is not concerned by the European venture. He is confident that the customers will return. Samancor is so big in world markets that it can set its own prices. But when it sets wages, it is another story. Samancor's mining wages range from R107,31 per week at Delmas Sinca to R127,74 at Cromore surface, to R140,63 per week at Cromore underground. The AWARD average for the

mining sector is R129,53 per week.

Samancor has bought the ferrochrome assets of Middleburg Steel and Alloys and the chromite assets of Rand Mines, both for a total of R600 million. Samancor also bought 46% of the Manganese Metal Company for R52 million. ♦

Industry profile:

Engineering

The engineering industry has experienced the effects of the recession. The companies listed on the Johannesburg Stock Exchange (JSE) in the engineering, electrical and electronic as well as the steel sectors clearly show this. But as usual, workers are worst hit by cost cutting measures.

The effects of the recession were:

- Lower sales and therefore lower volumes of production. With an inflation rate of 15,3% in 1991, the JSE sectors only managed, on average, an increase in sales of 8,7% in electronics, 5,3% in engineering and 5,2% in steel.
- Because sales were down, production decreased. Output was negative or at best stagnant on average to August 1991. Therefore factories in the engineering industry have been operating in 1991 below the capacity levels of 1990.
- Employment too has followed the trend in physical output with decreases or at best stagnation. Total retrenchments in the engineering industry increased by 11% in 1991 with 29 881 jobs lost by December 1991.
- Profits after interest and

tax, however, were still positive in the engineering and electronic JSE sectors with average increases of 8,9% and 5,1% respectively. In the steel industry, profits after interest and tax decreased by 37% on average.

How did the bosses respond to the recession?

- Costs were cut with workers paying the price by being retrenched.
- Shareholders also lost out in terms of low dividends. Dividends increased on average by 15,9% in the engineering sector and 9,3% in the electronic sector of the JSE. In the steel sector, dividends decreased by 31%. These returns are below the returns that could be obtained from the bank.
- Instead of paying out profits in the form of dividends, the bosses used these profits to reduce borrowings by internally financing their

Inflation

Area	Consumer Price Index (1990=100)	Annual rate of inflation (% increase over 1 year)
	Feb 1992	Feb 91 - 92
Cape Town	127.1	17.1%
Port Elizabeth	125.1	14.3%
East London	125.9	16.1%
Durban	124.7	15.1%
Pietermaritzburg	126.1	15.9%
Witwatersrand	127.3	16.6%
Vaal Triangle	122.2	13.0%
Pretoria	125.3	14.1%
Klerksdorp	125.5	14.4%
Bloemfontein	120.7	12.8%
OFS Goldfields	124.8	14.1%
Kimberley	124.9	15.9%
South Africa	126.2	15.7%

Source: Central Statistical Service

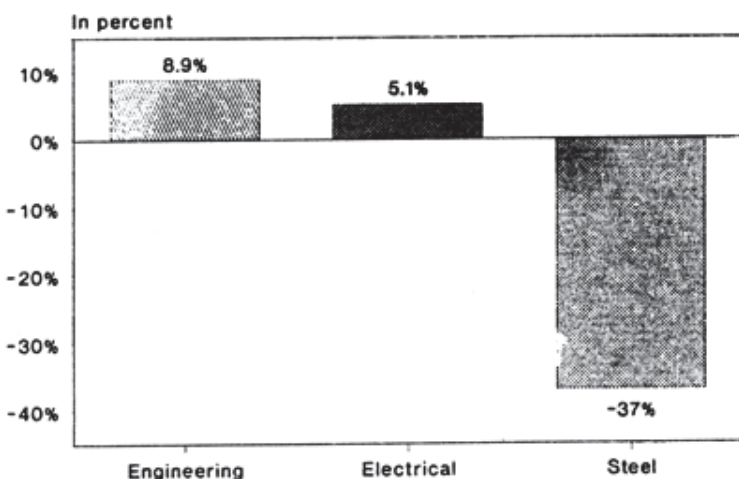
operations in 1991. Current liabilities (loans) decreased by 3.9% on average in the engineering and increased by only 5,2%, on average, in the electronic sectors of the JSE. But the steel sector borrowed 29% more on average in 1991. The effect of the above was stronger balance sheets. Share-

holders in the engineering and electronic sectors gained when average share prices increased by 19% and 22% respectively.

- On the whole, the recession has negatively affected the engineering industry. The bosses, in anticipation, rationalised production and financial activities at the cost of workers. So companies are still profitable despite the recession. The engineering industry is, therefore, poised to take full advantage of the next economic upswing. Production can be expanded relatively quickly because the factories have the capacity to do so at little extra cost.

There appears to be little reason on the basis of 1991 economic and company information for workers to make further sacrifices to save the industry. ☆

**PROFITS AFTER INTEREST AND TAX
JSE sectors compared**



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