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Unrealistic demands could land SA in trouble

BYLINE: david canning**SECTION:** Pg. 6**LENGTH:** 726 words

EARLIER this year I was fascinated to view a display of modern art in the Guggenheim Museum in Bilbao, northern Spain. Most intriguing were the sculptural works, one depicting a snake. It was constructed from stacks of hundreds of thousands of useless former Brazilian banknotes, coiling around serpent-like.

No written commentary on the effects of inflation could have had greater impact. Those worthless notes, once worth many billions of US dollars, represented the fears and failed hopes of millions of ordinary men and women who were betrayed by government policy.

This came to mind while I was reading some of the mindless statements of groups of left-wingers who demand levels of social delivery far beyond the delivery capacity of the South African economy. They are inviting the same kind of tragedy that occurred in Brazil in the 80s and in a score of other countries in periods dating back at least to Roman times.

Ironically, business can do well in times of fascist-type repression, because businessmen like certainty. Between the mid-60s and late 70s the Brazilian economy grew by an average of around 7 percent a year, despite the existence of a series of brutal military generals. The wheels came off in the late 1970s and 1980s.

Brian Smith (<http://www.essortment.com>) relates how soaring oil and falling coffee prices drew Brazil back into economic despair. In 1989 Fernando Collor de Mello was elected president "on the platform of reversing the trend of runaway inflation".

Despite this, the most populous South American nation recorded an inflation rate of over 2 000 percent in 1994.

The so-called "Real Plan" was instituted in the mid 1990s and inflation rates were reduced to 5 percent a year. Problems remained and the currency plummeted in the late 90s when the country was on the verge of economic collapse. However, desperation breeds innovation and today (despite huge problems), Brazil is the world's ninth largest economy and one of the leading BRIC (Brazil, Russia, India, China) grouping, believed to hold far higher growth prospects than the world average. It has pulled out of the mire and managed to stabilise its currency and control inflation.

The point in all this is to illustrate how easy it is for a nation to go completely off the rails, and how difficult it is to repair. We only have to look north to Zimbabwe which is trying to restore normality after suffering an inflation rate of 13.2 billion percent a month, according to Steve Hanke, of the Cato Institute in Washington, who developed his own hyperinflation index.

We live in a country of unreal expectations where, for some, money is expected to "drop off trees," from heavily monopolistic business practices, to free share hand-outs, to government support and subsidies. This has led to a sense of entitlement, to the obscene top salaries and bonuses paid in public and private enterprises, to free health plans, social pensions and so on - the trappings of a modern welfare state without the advantages of a substantially large taxpayer base.

One activist recently even went so far as to demand free electricity for all, as a basic human right which (like water) he described as an essential to life itself. Now, I ask, how can electricity possibly be described as critical to human life (unless you live in an incubator)? I managed to survive the first nine years of life living in a rural area with no electricity at all. We

used paraffin lamps and an old fashioned coal stove, with no ill-effects on my psyche that I know about.

This is a country in substantial confusion that has yet to properly define its strategic advantages and growth strategies, where extravagant R1 million-plus vehicles travel past rust-buckets and donkey-drawn carts. We have one of the highest (and growing) income disparities in the world. So far things are (largely) in control.

However, failure by policymakers to understand how carefully an economy must be managed, and that this is still really a developing country, could tip the balance here as well. We are in desperate need of coherent, long-term vision, and of strong corruption-free leadership.

Otherwise South Africa could easily fall prey to the whims and demands of those wanting impractical subsidies and artificially low interest rates. These are things that would bankrupt us and feed the serpent of runaway inflation.

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