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CONSTITUTIONAL ASSEMBLY

THEME COMMITTEE 6.2

FINANCIAL INSTITUTIONS AND PUBLIC ENTERPRISES

SUBMISSIONS

(AS AT 9 MAY 1995)

VOLUME 11

INDIVIDUALS

SUBMISSIONS - INDIVIDUALS

VOLUME 11

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14 Submissions

THE FINANCIAL AND MONETARY POLICY

SPECIFICALLY: THE RELATIONSHIP BETWEEN THE SA RESERVE AND THE GOVERNMENT.

CONSTITUTIONAL
ASSEMBLY

1. THE BACKGROUND

22 FEB 1996

The available evidence has it that:

- 1.1 there is no causal relationship between the Central Bank independence and the rate of inflation. The apparent negative association is ascribable to extraneous variables; particularly, the *politics* and *population demographics* to name but two.
- 1.2 Central Banks all over the world have had to earn their independence (or autonomy) after proving their capabilities to properly manage themselves and set proper objectives and achieve them. For instance, the German Bundesbank has maintained an average inflation rate of 3.8% over the last 30 years; secondly, the central bank of Chile has earned its independence through representative Board of Directors (and representative staff composition) as well as achieving its stated goals.

2. THE CURRENT SITUATION AT THE SA RESERVE BANK

Unfortunately none of the above can be said of the SA Reserve Bank.

- It has delegated all ills to either the government's 'irresponsible fiscal management' or natural disasters such as droughts; or, maybe, that the monetary policy is but one of many tools of economic policy. But has attempted to rake in all credits when inflation appears contained. This is a true example of what Milton Friedman called the "dispersal of responsibility".
- In line with the Affirmative Action buzz-word, it is moving reluctantly slow whilst ensuring rapid promotions of its White staff members and reducing benefits to newly appointed Blacks (see the new Bank Regulations adopted at the end of 1992; in particular, note the adoption of the confusing and dubious Haypoint remuneration system, and the termination of Housing Scheme to newly appointed staff, i.e. Blacks).

HC

3. RECOMMENDATIONS

In line with global trends, the Constitution should give the 'independence' to SA Reserve Bank subject to intensive and extensive scrutiny by competent commissions, committees (who, or the Parliament, should be able to override its decisions) and the general public to ensure that it pursues the public good. BUT this independence (or autonomy) should be suspended subject to compliance with:

- 3.1 clear and indisputable pursued of public good;
- 3.2 undertake to implement acceptable policies towards a particular goal, i.e. pursuit of price stability (not at any cost, though), of, say, 5% inflation rate, and must achieve it. Failure to achieve its publicly announced goal should result in the dismissal of its Board of Directors and the Governors.
- 3.3 A specific time frame in which the Bank has to ensure that the staff compliment, at all levels from the top right down, represents the country's racial mix. Because of vested interests in the current personnel and management, outsiders should be appointed to ensure that this task is achieved in the quickest possible time.

The Constitution should not in any way be ambiguous on these issues.

Thank you, Mr Chairman.

Sincerely yours,

X

Mr X (because of my current position I wish to remain anonymous, but can be contacted at (012) 341 4839 after hours.

Mr PS Clark
PO 1197
Pinetown 3600

11. **Government Finance**

- note*
1. **Taxation - "Paye" and "VAT" must be levied separately by the Federal and Provincial governments on a limiting 60/40% split of the national total. "Rates" must be levied by district (local) governments only.**

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2. **Total expenditure in any fiscal year may not increase by any % greater than the % increase in G N P over the previous fiscal year. If inflation in the last fiscal year is more than 4%, the current expenditure limit shall be reduced by $\frac{1}{4}$ of the excess of inflation over 4%.**
3. **National emergency - After declaration by the President, the federal parliament may authorise by $\frac{2}{3}$ majorities in both chambers a specified amount of emergency fund for the current fiscal year. (renewable annually).**

32 Shores Road
Scottsville
Pmb

Date: 8/3/95

The Executive Director
The Constitutional Assembly
P O Box 15
Cape Town
8000

I request that the following views be made known to the Executive Director of the Constitutional Assembly.

Responsibilities of Government

To protect life, liberty and property by the punishment of evildoers and by the rewarding of those who do good.

Government Funding

Moses, arguably the greatest law-giver of all history, declared that God required a tenth of every man's increase for the fulfillment of proper government in the nation. This tax would support the civil service, the welfare and the educators under the oversight of the spiritual leadership, who were in turn answerable to the constitution (God's word) and the congregation/people. Samuel, one of the greatest prophets of history, warned the nation that, if they departed from God's requirement and chose a form of government outside of God's order, it would become an oppressive burden, both financially and in many other ways (Samuel 8:5-22).

AC
Current estimates are that some 78% of all generated income eventually lands up in the government coffers through its many forms of taxation. This is indeed oppressive, and a sure indication that the government is involved in far more activities than it should be. It undermines the moral of the earner, discourages investment and by degree, cuts the hand that feeds it. It also causes the "have-nots" to encourage the government to play "Robin Hood" and to be their provider from the cradle to the grave - a role that the government was never intended to play, and an attitude that will plunge South Africa into typical African despair.

The taxing power of the government should be restricted for uses specifically enumerated in the constitution. Deficit spending should only be allowed in emergencies as it is inflationary; the subtle way the government "steals" money from the citizens. The only one to benefit from inflation is the first one to spend the money ie: the government. It is a hidden form of tyrannical taxation because as the government spends more and more money it doesn't have, created out of thin air, the purchasing of the citizens' bank account declines.

2 pages

Income Tax (Personal or Corporate) to 10%

Abolish property tax as no government, unless it considers itself to be God, owns any land except that for which it has acquired by fair compensation for its purposes. To have a property tax implies that all land belongs to the government and that it rents it out to its citizens. To not pay rent (tax) is to be evicted - a form of tyrannical theft.

Abolish inheritance tax because since when must the fruit of a man's labour be removed from him at death before going to his children, his legitimate heirs? On what basis can a government, who taxed the individual all his life, now rob his children of their inheritance upon his death?

The implication of this is that the government gets less revenue, but according to the biblical description of the role of government, the government is much smaller and devotes itself to its legitimate functions under God, namely defence, justice and keeping the peace. The market place, religion, welfare (health and other) and education should all be outside of the government's direct responsibility.

Yours faithfully in the service of South Africa

Goodall

Mrs. A. Goodall

2518

34 Corfu
1st Avenue
Lyndhurst
JOHANNESBURG
2192

18 February 1995

The Executive Director
C.A.
P O Box 15
CAPE TOWN
8000

Dear Sir/Madam

THEME COMMITTEE 6B

The Financial Institution and Public Enterprise must be controlled by the central government but the state must make sure that it maintain the international standards of this institutions and makes it more competitive in the international market.

Yours faithfully

(SGD) KULANI HLEKANE

Group of Individuals
McGregor et al

THEME COMMITTEE 6

PUBLIC ADMINISTRATION

- 4)- The election commission should be headed by a respected, private sector manager with proven track record who will second the necessary skills required.

FINANCIAL INSTITUTIONS AND PUBLIC ENTERPRISE

- 3)- Reserve Bank must be independent and apolitical.
- Auditor General should have only a supervisory capacity. Private sector, independent auditors should conduct financial audits on all government organs and these reports should be published and made available to the public.
- National revenue should be gathered through means of a federal taxation system.

TRANSFORMING AND MONITORING

- 2)- A Public Protector is essential at both national and provincial level.
- 4)- Restitution should be made from state owned land. Where land has been acquired immorally and the beneficiary is still alive and still the owner, a one-off tax should be levied on that land.

SECURITY APPOINTMENTS

- 3)- The police service must be community based. The community forum should select and appoint the local Station Commander from the ranks of police service.
- 4)- Correctional Service conditions should be humane and non-violent criminals should have access to rehabilitation.

P.O. Box 842
WENDYWOOD
2144

25 January 1995

000903

The Executive Director
The Constitutional Assembly
P.O. Box 15
CAPE TOWN
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CONSTITUTIONAL
ASSEMBLY

03 FEB 1995

Moloko, KE

Dear Sir/Madam

I would like to thank you so much for the opportunity you have afforded us to comment on the constitution. As an Internal Auditor, I will confine my input on Finance and Corporate governance. I do so because I am very concerned and worried by the high level of fraud and corruption that is being perpetrated by senior managers both in the corporate and government organisations. Unless radical steps are taken to control incidents of fraud and corruption, the South African economy is doomed to failure.


Here are my proposals:

- * The constitution should make provision for the appointment of Internal Auditors at all nine provincial governments, local governments and National government. The chief Internal Auditor at National level should have direct access to parliament. These appointments should be over and above the auditor general department. According to my judgment, the auditor general has been more re-actionary than taking preventative steps, hence so many fraud incidents.
- * Corporate South Africa and Parastatals should be legally forced to appoint Internal Auditors over and above the appointment of External Auditors.
- * The government should be represented in all professional bodies / associations, for example Public Accountants and Auditors Board, Institute of Internal Auditors et cetera so that ethical standards can be monitored.
- * Both external and internal auditors should change clients after say every three (3) years so as to break any possible fraudulent collusion with clients.

- * Audit Committees should be legally enforced and Trade Unions, should be represented in the Audit Committees of organisations so that they are also involved in ensuring their organisations are well managed.
- * Nobody should be allowed to sit on more that say five (5) directorships of different companies as such directors only become active but ineffective. The chances of perpetrating fraud also increases.

The above stringent measures are necessary if the circle of fraud and corruption is to be "broken". We must remember that it took many years to "sow" the culture of fraud and corruption in our society during the Apartheid era. Therefore it needs extra ordinary efforts to rid our society of the culture of fraud.

Regards


K.E. Moloko

NOTE: I enclose extracts from my research report submitted to UNISA in part completion towards B. Comm Honours Auditing degree. The points raised in my research paper should be made available to heads of departments in our government as these points could help them "fight" fraud.

Mr L Riggall, London

FREEDOM AND THE CONSTITUTION.

LESLIE RIGGALL.

Continuation No. 1.

In 1987 New Zealand deregulated its Post Office, ending postal monopoly. Within three years, on-time delivery of first-class mail increased to 99%, the work-force was reduced by 20% and postage rates did not rise. It progressed from an annual loss of \$37 million to an annual profit of \$76 million. When one considers the appalling service provided by our Post Office, this is obviously the way to go. If prosperity is desired, the constitution must exclude the government from all activities except police work and defence.

Since there is no external threat to South Africa, the constitution would in practice restrict the government to controlling crime. Ironically it now controls everything and everybody EXCEPT crime and criminals, which are completely out of control.

There must be free banking instead of government control of money. At present the people are forced to accept government money by legal tender laws. Protected by these iniquitous laws the government continually increases the supply of paper money, causing ever rising prices. In the past, when bank-notes (as the name implies) were issued by banks, they could not print money uncontrolled. Competition between banks ensured that, to be accepted, their notes had to be convertible into gold or silver, and for at least two hundred years there was no inflation.

No government has ever resisted the temptation to print money. After centuries without inflation the British Government seized control of the money. Having eliminated all competition they were able to go off the gold standard, and since the first World War, the pound, which was for centuries the world's most popular and strongest currency, was so terribly debased that it has lost 99% of its value.

Inflation is simply theft, as is generally recognised by the severe punishment ^{posed} upon anyone (other than the government) who prints money. To prevent continuous government theft by inflation the constitution must prohibit legal tender laws and guarantee the restoration of free banking.

There must be a free market, which means the abolition of all tariffs, import duties, quotas, and restrictions on foreign goods or services. This would stimulate efficiency in our ~~own~~ industries, grown fat and lazy because they enjoy so much protection. This new efficiency coupled with the abolition of all the taxes would reduce the cost of living by around 50%.

The protection afforded by labour legislation creates a lazy, greedy and militant working class which will never be able to compete with efficient foreign competitors. For example, Asians are more skilled and more industrious than Africans, and they are powerfully motivated by their work ethic. To ensure South African survival all labour legislation must be completely abolished. This will leave employers and workers with equal rights, instead of constant favouritism towards the group with the most votes.

Labour laws are a denial of an employer's natural right to choose freely whom he will employ, and to set the terms which he will offer in a free market. If the terms he offers are not competitive, he will not obtain the labour he wants. Workers are entitled to refuse his offer, but they have absolutely no right to intimidate or prevent other workers from accepting that offer. They have no right to set up pickets to prevent supplies from reaching the employer, which obviously would be a crime without the labour legislation which operates so harshly against the employer.

A strike is a conspiracy, which would be a crime if committed by anyone other than a union leader. The damage done to the economy by union leaders is enormous. Here are three examples from Britain alone.

The London Docks were the largest and most important in the world. They were totally ruined by the dockers' union, and eventually the whole area became completely derelict and remained so indefinitely.

continued

PLC

Mr H L Ryan
Pendennis
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Muirzenberg 7951

MY COMMENTS ON THEME COMMITTEE 6

Sub-theme Committee 6.2

The provisions of Section 199 of the present Constitution should also provide that all recommendations of the Financial and Fiscal Commission

should be made public simultaneously with its report to the relevant legislative authorities.

Parastatals, or state enterprises, should be subject to the twice-yearly reports to Parliament and to regular inspection by the Auditor General. As far as possible, state enterprises should try to become self-supporting.

D H Swaine,
P O Box 164,
Paulshof
2056

22nd March 1997.

The Executive Director,
Constitutional Assembly,
P O Box 15,
Capetown 8000.

Dear Sir,

I would like to make the following representations for consideration by the Constitutional Assembly in their task of drawing up a new constitution for the country.

Firstly I would like to be certain that no loopholes exist in the new constitution which would allow the government of the day to repeat the massive frauds perpetrated by the Nationalist Party such as the "High Court of Parliament", the false manipulation of constituency boundaries and the loading and unloading of constituencies which resulted in the rural white vote being equivalent to twice the value of a vote cast in an urban constituency.

I also believe that the constitution should entrench the responsibility and accountability of all members of parliament, particularly Cabinet and Deputy Cabinet Ministers, Heads of Department and senior staff within each department.

In the latest budget presentation Mr. Liebenberg revealed the following:- 1) **The civil service pension funds are under-funded by some 31,5 billion rand.** This under-funding arises from two causes. a) **The investment performance of the funds was stunted** due to the poor returns on investment realised by the funds which were bound, up until a short while ago, to invest only in government bonds, stocks and other government securities. b) **The benefits payable to members are structured on a far higher and more generous level than the benefits payable to members of funds in the private sector.**

The minister informed us that this deficit would have to be made up by the fiscus over a period. This deficit should not be borne by the taxpayer - it should be made up by reconstructing downwards the benefit packages contained in the rules of the fund and the investment of funds contributed by members should be privatised in order for larger returns to be made, which in turn

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would tend to diminish the deficit and to lessen the hardship to be imposed on the grossly over-taxed ordinary citizen.

There is nothing sinister in this proposal. In the case of an under-funded private fund, the Registrar of Pension Funds, is empowered by the law to compel the trustees to put matters in order. This involves the trustees in studying ways and means to put matters right - often resulting in reduced benefits and a change in investment strategies. The new constitution should deal specifically with this matter in order that the fund becomes and stays solvent.

A further point made by the Minister in his speech was that the public debt has reached over 235 billion rands and is now equivalent to 55% of the GNP. He also made the point that this figure would increase on a year to year basis whilst budget deficiting was allowed to continue each year. One only has to study the U S scenario and the enormous problem that country has with the size the public debt has reached through deficit budgetting. The new constitution should specifically ban deficit budgetting and the constitution should insist on a balanced budget being presented each year. A large part of the public debt could be paid off by privatising many state assets which are poorly managed and provide very little revenue to the fiscus. In private hands these business's would in all probability prosper and by privatisation a double benefit would accrue. The business's, if professionally managed, would in most cases become profitable and they would therefore contribute their share of tax to the fiscus. Those enterprises which are currently unprofitable and have to rely on government subsidies should be sold off without delay.

On the other side of the coin the new constitution should protect the tax-payer against being over exploited by the tax man. The Katz commission was glib in its proposals to "cap" certain tax saving measures, and whilst it is every citizens duty to contribute to the state coffers, every citizen is entitled to protection from being over exploited by government. A further reason for this protection is that governments are generally inefficient and the ordinary citizen foots the bill for this inefficiency. The total amount of money which the fiscus should be allowed to take from the tax-payers should be "capped" in some way by devising a formula, in some way related to the GNP, which would set the maximum amount of money allowed to the government by way of taxes in any one year, be they direct or indirect taxes,

Another vital aspect of the constitution should be rigid regulation of the size of the public service, The past government used the public service in an appalling manner in the interests of the National Party rather than the country as a whole. The service

must be reconstructed to become once again the servant of the people. No more must we be subjected to the insolence and over-bearing attitude of people who are in fact "public servants" - not public "bullies".

By reducing the public service, and by a speedy and efficient privatisation of state assets, a threefold result can be achieved in a relatively short space of time. The RDP can be carried out without being hampered by a lack of funds, the Government can succeed in producing a balanced budget because of savings in salaries and benefits and instead of R1 out of every five rands of tax collected to pay the interest bill on the public debt the budgets of the essential service departments could be greatly enhanced.

I appreciate the opportunity given to the general public to comment on the constitutional process. I am sure the sentiments expressed in this letter have been voiced repeatedly by more important people than I. My earnest hope is that something will be done about the problems and proposed solutions.

Yours faithfully,

D.H.SWAIN.

- (f) The nationalization system exercises compulsion over the entire area of economic life, limits individual opportunity and thereby creates a climate for adverse psychological consequences.

2. Investment Policy

- (a) Small business or light industry, agriculture were neglected in deference to state directed objectives.
- (b) Ultimate profitability is leading principle generally governing new investment in privatization.
- (c) Every entrepreneur tries to improve his position by employment of new techniques and improvement of production methods.
- (d) The market must serve as a mechanism of checks and balances.
- (e) The market must reflect the profitableness of investments and reacts if investments prove

(End of page 2)

unproductive

- (f) Under nationalization investment decisions are made by the state. There is no natural market mechanism operating through the price system. And basically there is always present in nationalization country the priority of politics and military consideration which ultimately govern economic decisions.
- (g) In a privatization system there are two parties holding opposite interests in every transaction, the seller who wishes to obtain a reasonable profit and the buyer who is interested in expending the lowest amount of money possible for his purchase.
- (h) Light industries must be encouraged.
- (i) If a man acts freely, he normally feels he is acting in the possible way. Yet if is forced to do or not to do something, he feels himself denied though in reality might be only a subjective feeling. Compulsion and limitation of alternatives, however lead ultimately to a decrease in the individual's subjective welfare.

3. Unions and Wages

- (a) In privatization enterprise system contracts are really contracts not bargaining.