



# The Free Market Foundation of Southern Africa

an organisation to promote economic freedom  
'progress through freedom'

## REPORT OF THE EXECUTIVE DIRECTOR OF THE FREE MARKET FOUNDATION

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### THREE REVOLUTIONS

There is not just one but there are three revolutions under way of unprecedented significance for the Free Market Foundation. The first is a world-wide revolution; the second, a revolution within Southern Africa; and the third, a revolution in the Free Market Foundation itself. The combined effect of these three "revolutions" makes these times, for us, the most taxing, challenging, promising and exciting in our ten year history.

#### World Revolution

It appears that we are witnessing the beginnings of a world-wide revolution that may be seen by future historians as a fundamental turning point in the course of events for the globe. This, like the other two revolutions, is mercifully a peaceful revolution. It is a revolution of ideas and economic policy. Throughout the world there is a process of free marketisation manifesting itself primarily in privatization and deregulation. It is taking place in communist and capitalist countries, first and third world countries, on every continent, and under every type of political regime. According to a recent Adam Smith Institute publication, **Privatization World-Wide:**

"Virtually no country remains unaffected by it. The range of industries and services which it has already touched is astonishing, although it is clearly still in its very early stages."

The report goes on to refer specifically to privatization:

"No less remarkable, is the ease with which the third world finds itself able to privatize."

According to the Financial Times: "Everywhere the State is in retreat."

The privatization and deregulation initiatives of the Thatcher and Reagan regimes in the UK and USA have been much publicised. Less publicised is that fact that in the nominally socialist states of Europe, such as France and Holland, the same process is under way. The most notable "socialist" country in this area is Italy where according to some reports there has been more privatization than in any other European country. Privatisation in Italy not only includes the telephone service but even roads, most of Italy's freeway system now having been

wholly or partially privatized.

Even more paradoxical, is that privatization is occurring in nominally communist countries such as China, Cuba and Yugoslavia. One of the fascinating things about privatization in a communist country is that, since there has been no lawful private sector before, they are not subjected to the forest of laws, regulations and taxes that hamstring the private sector in a typical western country. Accordingly, when privatization takes place, there is virtually pure laissez faire, such as in mining, agricultural marketing and building. In Red China, there are now even privately owned and operated (for profit) freeways under construction.

The Adam Smith Institute has documented privatization programmes in over 100 countries.

It is often asked what lends itself to privatization. The remarkable fact is that virtually every conceivable government activity has been successfully privatized somewhere in the world. The truth is that privatization is proving itself to be by far the most effective way of improving efficiency and other socio-economic goals. In virtually every case study, it has been found that there have been vast improvements in every area. It appears that this world-wide privatization/deregulation revolution is occurring for no profound ideological reason but simply because it works. It is occurring in countries where, to the knowledge of people involved in the international intellectual free market movement, there are no free market ideology advocates of note.

#### Revolution in Southern Africa

Whilst there is much talk of whether the current wave of unrest could lead to full scale revolution, there is a silent revolution occurring in sympathy with that already mentioned.

Since the late 1970's, official rhetoric has been in favour of restoring free markets to South Africa, including the national states. Until now, words have not been matched by deeds to the great frustration of many observers. Indeed, after a period when government declined in its relative role (+/- 1978 to 1983) there has been an alarming explosion of government intervention, spending and bureaucracy so that now all three are at an all time high.

However, some successful privatization did occur during the period of rhetoric such as Sasol and Metkor. There now appears to be a renewed commitment. A Cabinet Committee, under the Chairmanship of Minister Eli Louw, is now responsible for privatization and deregulation in South Africa, and various equally impressive programmes for implementation are under way elsewhere, such as in SWA/Namibia, Ciskei, KwaNdebele,

Bophuthatswana, Transkei and Natal.

The most telling evidence of the fact that the revolution has reached Southern Africa, was the extraordinary turn out at the recent Privatization Conferences in Johannesburg (jointly hosted by the newly formed Privatization Centre, the Sandton and Randburg municipalities, and the Greater Soweto Chamber of Commerce).

There was a stampede of delegates for both conferences and registrations had to be cut off at about 700. Many would-be delegates had to be turned away and we do not know how many could not get through since the switchboards were blocked for the last three days. I received various calls at my home in the evenings from people all over the country saying that they had not been able to get through but wanted to come.

It is significant that overwhelmingly the delegates were government officials from all tiers of government. The conferences were widely hailed as being amongst the most relevant and successful the delegates had every attended.

The Privatization Centre is a specialist consultancy and research organisation established last year by the Free Market Foundation.

More about the revolution in Southern Africa will appear in a subsequent part of this report.

#### Revolution in the Free Market Foundation

The Foundation is currently experiencing a complete upheaval. The developments in Southern Africa as a whole and the Foundation itself have combined so that the nature and scale of operation of the Foundation is changing dramatically.

Hitherto the Foundation has been largely a typical "public policy institute" doing research, disseminating literature and putting the case at various forums for the free market. The success of the Foundation's work and that of others advocating the same philosophy - and of international trends - has led to the Foundation being rapidly converted into primarily a service and consultancy group. We are now beyond the propaganda phase and into the implementation phase. This is an extraordinary challenge and requires a vast expansion of the Foundation's activities.

The arguments for deregulation, privatization and a general reduction in the powers and functions of the government, are relatively simple and incontestable. The only opponents of such developments tend to be small, vested interest groups who benefit from government interventions. There is really an open and shut case to the effect that freer markets are in

the public interest. Much more complicated than this, is how to free marketise once there is a purposeful decision by government to do so. Deregulation and privatization is a great deal more complicated and requires a much higher art of government than the other way around.

In previous years, virtually all of the Foundation's funding came from membership fees and corporate grants. Within a year, the position has changed so that about 40% of our funding now comes from consultancy fees and services. It seems likely that by the end of next year, 60% of our income will be directly earned.

These changes mean that the Foundation is now a "coal face" organisation dealing directly with the implementation of free market strategies rather than making the case therefor. More about this later.

#### DISINVESTMENT

The Free Market Foundation has also been dramatically affected by political developments in South Africa. For instance, we have become involved in the international disinvestment campaign. Most notably, I delivered various lectures and attended meetings in the USA as a guest of the Manhattan Institute for whom I prepared a paper on disinvestment which has been widely circulated here and abroad. The subject of disinvestment formed the theme of a recent "Manhattan Report" that included material from Chief Buthelezi, Oscar Dhlomo (his right-hand man), Walter Williams (a prominent US economist) and myself. Copies of the report and of my disinvestment paper are available from the Foundation.

I will shortly be travelling to the USA again to give further talks and have further meetings.

The rising interest in the USA in South African affairs means that the USA has become a significant potential source of funding for the Foundation and we are busy registering a tax exempt company in the USA. We hope to raise significant amounts for our programmes through this company.

#### INTERNATIONAL CONTACTS

Another recent development has been that the Foundation has become a regular contact point for international visitors to South Africa, usually politicians on fact finding missions. The Foundation has, quite correctly, become regarded as a recognised source of reliable information on South African affairs, especially economics of the present situation.



#### FREE MARKET ECONOMIC EDUCATION

One of the most significant developments during the past year has been the finalisation of the newest and possibly most sophisticated economic education programmes for employees yet devised, **With Justice for All**. We have no doubt that if South Africa is to survive as a democratic pro-western free enterprise country, employees of all races, especially blacks, will need to be convinced of the merits of the system. Hitherto there has been a conspicuous default on the part of the business community in putting the case for free enterprise (as opposed to the case for itself) to its employees. Now, for the first time, there is a sophisticated and effective programme to sell the free enterprise system to employees.

The benefits of selling the free enterprise system to employees are phenomenal. They include not only the fact that South Africa's population will be deradicalised and converted to the only ideological persuasion that works, but also that it is in the direct interests of employers. We already have evidence that this programme produces major attitudinal changes in employees so as to bring about a reduction of anti-employer and anti-free enterprise sentiment, which in turn, appears to improve productivity and worker moderation. The long term effect of this must be a more secure future for the country as a whole. We hope that this programme will, before long, be offered to hundreds of thousands, if not billions, of South Africans. The most significant contracts we have so far are with Rand Mines which is presently making arrangements to put all its employees (100,000) through the programme, and with Sasol which, although having bought it, has not yet finalised its plans for implementation. Various other groups are also running the programme successfully. We have plans to eventually get it introduced into all major corporations, into schools, and perhaps the defence force. **With Justice for All** has also been bought by and successfully applied in Ciskei.

#### CONSULTANCY WORK

We have mentioned that the new era for the Foundation entails a great deal of consultancy and service work. Because of the hands-on phase that has emerged, the Foundation was instrumental in the establishment of two new organisations, The Law Review Project (jointly with the Urban Foundation, Nafcoc, the SBDC) which does direct legal research and drafting work so as to speed up law reforms and to ensure that they are properly implemented. The idea of this important programme is to prevent the sort of debacle that follows where there is bureaucratic sabotage of inefficiency. The Law Review Project's work, is largely of a confidential, behind the scenes, nature. In its short existence of just one year, I am pleased to say that it has gained the full confidence of government and has done extraordinarily important work. I am also

pleased to say that the LRP grew from being a fledgeling organisation under our wing to being entirely autonomous and self-funding within a year, so that it now takes up none of our resources in cash or kind.

I have already mentioned the establishment of the Privatization Centre which not only does research and disseminates literature regarding the methods and virtues of privatization, but also provides a direct and specialised information and consultancy service to both the government and private sectors on privatization opportunities and strategies. The Privatization Centre seems destined to become one of the most important organisations in influencing the course of events for the better in South Africa.

In addition to these two projects, the Foundation directly has various important consultancy jobs. The best known of these has been the Ciskei free marketisation programme. With the Free Market Foundation playing the key role, Ciskei embarked on one of the most imaginative and successful deregulation programmes I know of. The fact is that Ciskei has experienced the highest growth rate of any area in Southern Africa despite being entirely devoid of natural resources and having started with one of the greatest disadvantages socially and economically imaginable. At the time of the reform, Ciskei was riddled with unrest, most notably the Mdantsane bus boycott. At present, Ciskei is surrounded by the Eastern Cape which is the most unrest ridden region whilst Ciskei itself has had declining unrest and is comparatively calm. In Ciskei there has been an astonishing growth of new investments and small businesses. This has coincided with declining unemployment despite the large influx of work seekers to Ciskei. The thought that people would migrate into Ciskei voluntarily seemed unlikely and remote just three years ago.

Regrettably, despite the Ciskeian "economic miracle", there are constant rumours and fears that the Ciskei government is being persuaded by some of its senior officials and other advisors to desist from its free market policies, the most important elements of which have been the tax haven status and deregulation.

At the time of producing this report, the official government position of Ciskei still is to sustain the reforms that have served it so well and brought it international fame and recognition. One might ask why, despite the enormous and obvious success of these reforms, there is doubt as to their perpetuation. The answer is simply that there are always very powerful vested interests in the private sector, in the bureaucracy and amongst the politicians that benefit from government intervention.

The success of Ciskei's reforms has pioneered the way for the South African government to adopt its own deregulation bill presently before

Parliament and for various others to embark on a similar path.

Over the last two years, Ciskei has been visited by many journalists and investors from all over the world, and, if it continues with these bold policies, will undoubtedly become a model of third world development that could become a classic in development literature.

One of the most disturbing facts is the resistance by certain South African officials and ministers to Ciskei's reforms. One would have thought that the South African government would relish a true homeland success story and would be delighted that one of the national states is behaving in a truly independent and viable manner. On the contrary, there are elements which seem to want to maintain uniformity of policies throughout the RSA/TBVC countries which leads to the obvious question: "Why, then, have independence?"

There is an attempt to maintain a degree of uniformity such as in tax policy that does not exist even in single countries elsewhere, such as the USA, Canada, West Germany, Switzerland, Australia or the UK. In virtually every country of the world, even communist countries, there is a high degree of diversity and decentralisation. I believe that it will be one of South Africa's great tragedies if the forces for centralisation and uniformity prevail over those for devolution and diversity. As Dr Anton Rupert has said, our national motto should be "Diversity is strength" rather than "Unity is strength".

The Free Market Foundation is doing consultancy work for other central, provincial and local governments, most of which can unfortunately not be made public. All I can say now is that we are involved directly in the implementation of major privatization and deregulation programmes that hold the potential, not only to change the face of Southern Africa, but actually to be this region's long-term salvation from Marxism and revolution.

#### DEPOLITICISING SOUTH AFRICA

It is now becoming increasingly apparent to South Africans of goodwill that the free market message over the years was perhaps the most relevant, although not adequately appreciated, message, namely, that an excess of government centralisation, ownership, and control in the economy results, unavoidably, in the politicisation of society and the escalation of conflict. The solution to the South African political problem requires, as a precondition, the purposeful and urgent implementation of true free market philosophy. Without it, it is doubtful if any political solution can be found. There is no political grouping which will be able to preside over a prosperous and peaceful South Africa if power is centralised and the powers and functions of government are as extensive as they presently are.

### SOUTH AFRICA: THE SOLUTION

Speaking of the relevance of free market policies to solving South Africa's problems, one of the most significant developments in the year under review for the free market movement, was the publication of the book, **South Africa: The Solution**, of which I am co-author with my wife under her author's name, Frances Kendall.

I am pleased to report that the book, having been out for just two months, has already sold over 5,000 copies which makes it, by South African standards, a likely runaway best-seller. More importantly, we have had a positive or warm response to the book from a wide range of sources such as prominent people in the UDF on the one hand, and representatives of the HNP and Oranje Werkers on the other. We have had complimentary letters from various cabinet ministers and homeland leaders and some extremely enthusiastic responses from prominent business people. A number of people we know of are buying the book in bulk and disseminating copies and have offered to do what they can to promote the ideas in the book.

In view of the enthusiastic response we have had, I have plans, in which the Free Market Foundation will play the central role, to raise a few million Rand (my optimum initial budget is R20-million) to implement effective initiatives to ensure that South Africa has a peaceful, truly democratic and pro-west/pro-free enterprise future.

I must emphasise that the ideas in the book are entirely those of the authors and not of the Free Market Foundation. Indeed, there is little doubt that many of the ideas in it will depart from views of Foundation members.

### LINKS WITH BLACK BUSINESS COMMUNITY

A significant development has been that the Foundation has forged new and close links with the black business community, most notably Nafcoc and the Greater Soweto Chamber of Commerce and Industries. A reflection of these links and mutual trust has been various joint activities and the fact that I have been invited to be the key note speaker at this year's Nafcoc congress in Cape Town. I have also been invited to be the key note speaker at various congresses of Nafcoc regions.

### CONCLUSION

It will be noted from this report, that the Foundation is presently embarking on a major expansion programme, not only of its size and scale of operation, but of its impact on the course of events and its relevance and participation in the formation and implementation of policy. The Foundation is now more than ever at the centre of the stage



in the most important developments taking place in Southern Africa. For us, the staff of the Foundation, we are being buffeted, challenged and stimulated by being so directly involved in the three revolutions to which I have referred.

LEON LOUW  
EXECUTIVE DIRECTOR.

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