Inflation on wane, says McCrystal

Mercury Correspondent

JOHANNESBURG — South Africa is finally on the right road to beating inflation, thanks mainly to the Government’s anti-inflation programme, Dr. Lawrence McCrystal, the programme publicity chairman, said yesterday.

The programme is due to end in March.

Although the country will probably have to be satisfied with an inflation rate of seven percent this year, this compared well with 14 percent before the campaign started, Dr. McCrystal said.

The publicity committee’s main task was to prepare consumers, businessmen and Government for the fight against inflation.

“We have done the things that should have been done years ago,” he said.

Dr. McCrystal listed these as tight restraint on the flow of cash into the economy; restraint on producer spending; retraction of price fixing towards wealthier projects.

He calculated effect on the cost of living of the latest petrol price increase would be no more than one percent.

But Mr. Eugene Roelofse, consumer champion and the S.A. Council of Churches’ ombudsman, said yesterday it was nothing to be proud of to halve the inflation rate if it meant stagnating the economy and throwing tens of thousands of workers’ jobs.

“And if businessmen are going to fall over themselves to absorb part of the rising costs, why don’t the motor trade set an example by selling old stocks of petrol at old prices? Why didn’t the cool drink manufacturers tell the price controller that the increase granted to them was not part of the increased cost of sugar but four times as much?” Mr. Roelofse asked.
Inflation rate drop forecast

Tony Hudson

SOUTH AFRICA'S inflation rate should drop right down to 3 percent and possibly even 7 percent during the current quarter, says Dr. Lawrence McCrystal, chairman of the Anti-Inflation Campaign.

Dr. McCrystal told the Mercury yesterday that during the third quarter of last year, consumer prices had risen by three percent, giving a seasonally adjusted annual figure of more than 12 percent. In the fourth quarter, however, the increase had dropped to 1.7 percent, giving an annual adjusted figure of around eight percent.

And this was bearing in mind that the food sector registered heavy price increases during this period and that it was during a period that was slightly inflationary because of increased consumer spending.

Dr. McCrystal said his earlier forecast of an inflation rate for the quarter of seven percent was probably out because the consumer price index in December 1978 was 10.3 percent higher than that of the same period in 1977. This figure was released yesterday.

This meant that a figure of eight percent for the next three months was more likely, although seven percent was obtainable.

He said there were several factors now working within the economy in favour of keeping inflation down. They were:

- Business conditions were very competitive;
- The money supply was being very tightly controlled;
- The authorities were containing growth in public expenditure;
- The consumer public was unable to absorb rapidly rising costs; and
- Most employees were unable to get increased salaries or wages to meet rising prices.

Dr. McCrystal said it would be theoretically possible to curb inflation even further, but the consequences, both political and economic, would not make such moves worth while.

He believed the anti-inflationary policies followed during the last year had brought market forces under control, and they should exert their normal restraining influence if a check was kept on spending. If this was not done, inflation on a similar scale could happen again in the near future.

Dr. McCrystal said the dropping of the inflation rate did not mean that price increases would not occur; it meant that they would not occur as frequently as they had in the past when the rate was running at around 15 percent.
Inflation blame lies at home

---

By HOWARD PREECE
Financial Editor

PRICES of South African-made goods have increased as much as those of imports since the 17.3 per cent devaluation of the rand in September, 1976.

This indicates that South Africa's inflation problems are home-produced rather than imported.

Figures from the Department of Statistics show that wholesale prices of both South African produced goods and imports rose by just over 19 per cent in the 12 months to the end of December 1975 to the end of 1976.

The Index for South African goods rose from 202.3 to 241.7 while that for imports went up from 178.8 to 213.1.

There has been an assumption that inflation since the devaluation has been particularly fuelled by the hefty increase in the rand price of imports.

It is true, of course, that prices of local goods can first be affected by higher import component, capital equipment or other costs.

But in December, 1976, local good's wholesale prices rose by 1.9 per cent against 0.8 per cent for imports.

This reinforces the natural expectation that devaluation should have fully worked its way once and for all through the economy.

It means that we cannot assume that inflation will automatically ease in South Africa in response to favourable overseas trends.

It is the domestic pressure valve that still needs watching.

How much it needs watching is shown by the fact that wholesale price overall rose by 14.4 per cent in 1976 — a rise on the 12-month rate of 13.7 per cent to the end of November.

This is in line with and partly caused the acceleration in consumer prices from a 12-month rate of 10.4 per cent to the end of November to 10.8 per cent for calendar 1976.

The wholesale price index rose from 216.3 in November to 219.8 in December. It was 192.2 in December 1975.

Wholesale price rose by 16.8 per cent in 1975 and 19.3 per cent in 1974. So, as with consumer prices which increased by 11.7 per cent in 1975 and 14 per cent in 1974, the trend is down.

But there is still a long battle ahead to curb inflation and arguments that the Government is helpless in the face of overseas factors should be treated with the reservations they can now be seen to deserve.

The table shows the erratic pattern of 12-month wholesale and consumer prices in the 12-month periods to the following:

<table>
<thead>
<tr>
<th>1976 Wholesale Consumer Prices</th>
<th>December</th>
<th>14.4% 10.6%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>November</td>
<td>13.7% 16.4%</td>
</tr>
<tr>
<td></td>
<td>October</td>
<td>14.8% 11.3%</td>
</tr>
<tr>
<td></td>
<td>September</td>
<td>18.2% 11.4%</td>
</tr>
<tr>
<td></td>
<td>August</td>
<td>15.2% 11.2%</td>
</tr>
<tr>
<td></td>
<td>July</td>
<td>15.3% 10.9%</td>
</tr>
<tr>
<td></td>
<td>June</td>
<td>16.2% 11.1%</td>
</tr>
</tbody>
</table>
Training Institutions

24 Mr P A PYPER asked the Minister of National Education whether his Department has taken any further steps since his reply to Question No 12 on 3 February 1976, in terms of the undertaking contained in the Collective Campaign against Inflation Manifesto, to expedite the consideration of the proposals for the possible erection of more training institutions on the pattern of that established at Westlake, if so, what steps, if not, why not.

The MINISTER OF AGRICULTURE (for the Minister of National Education)

Yes, my Department of National Education drafted accommodation norms for a new "Westlake" for Whites in the Witwatersrand area. With a view to the co-ordination of planning and thus saving State expenditure through possible erection of similar institutions for other race groups, these norms were submitted to the departments concerned for comment.
22. Mr H H SCHWARZ—Withdrawn

Anti-Inflation Programme

Mr H H SCHWARZ asked the Minister of Economic Affairs:

Whether it is the intention to extend the Anti-Inflation Programme, if so, on what basis, if not, why not.

The MINISTER OF ECONOMIC AFFAIRS

A distinction should be made between the long-term and short-term measures contained in the programme. It has already been decided during the third meeting of the Continuation Committee regarding the implementation of the Programme against Inflation on 12 February 1976 that the long-term measures of the programme will be continued for an indefinite period. These measures are contained in Sections B, C and D of the programme. As far as the short-term measures are concerned, it has been agreed during the fifth meeting of the Continuation Committee on 16 November 1976 that these measures, which embrace the short-term guidelines for wage, salary and price adjustments, will definitely be terminated on 31 March 1977. It has, furthermore, been agreed that if unforeseen economic developments should occur before 31 March 1977 which would once more have a detrimental effect on the inflation rate, the Government would decide on further steps which it may deem necessary to combat such an unfavourable turn in the rate of inflation. In such circumstances, the Government would first consult with the Continuation Committee and afford it an opportunity to decide whether or not it wanted to be a party to such further actions before any new short-term measures would be introduced.
Anti-inflation campaign

Senator B R. BAMPORD asked the Minister of Economic Affairs:

(a) What has been the cost of the anti-inflation campaign to the State and (b) what future steps are contemplated in order to control inflation?

The MINISTER OF ECONOMIC AFFAIRS

(a) R1 232 000

(b) Quite apart from the wide range of long-term measures which are embodied in the anti-inflation programme and which will be maintained after the expiry on 31 March 1977 of the programme's short-term measures, any other steps which the Government may decide to take in future with a view to containing inflation will be determined in the light of prevailing economic conditions and circumstances.

Senator B R. BAMPORD, Mr. President, arising from the hon. the Minister's reply, I should like to ask him whether it is intended to continue with the present form of the campaign.

The MINISTER: Mr President, I have indicated previously that the programme as such will not exist, but that the long-term measures will continue.
INFLATION ♦ SERVANT

SERVANT'S WAGES v. HIRE PURCHASE

IN Battling with the rising cost of living, two distinct trends are discernible — do-it-yourself, and getting along without a servant.

At the same time, shoppers are becoming more and more aware that while price is important, other factors must be taken into account.

These are the opinions of Mr. J. M. Dobbin, general manager of Eave, Durban's latest discount centre.

"Sales of labour-saving devices are climbing all the time. Customers say that they are buying dishwashers, automatic washing machines, floor polishers and so on because they are planning to do without a servant or are already servantless. And they are doing this because it will ultimately lead to substantial savings," he said.

The do-it-yourself trend is also a matter of

carry, are of value.

But extensive research surveys show that housewives are uneasy with out discount store service, said Mr. Dobbin.

"They not only demand a low price for quality expect good service and merchandise but also a pleasant shopping atmosphere such as they would find in a department store."

One important cost of living aspect arose in the discussion with Mr. Dobbin. This was the idea of 'built-in obsolescence'. Many people think that manufacturers deliberately place limits on the life of appliances, hoping that they will have to be replaced early.

Mr. Dobbin did not think this was so.

"The manufacturer gives the customer what he wants and this is predominately the right price — a low price — even if the life is limited.

"This hasn't always been so. In the old days, things were built to last a life time. A man expected his Harris tweed suit to last a generation, while a younger today wants to stay in fashion and is quite happy to get a couple of years out of an outfit."

This idea of his is not a matter of guess work.

Older people shopping at Eave still think in terms of quality. They were brought up on the notion that things should last a lifetime."

"But young married couples want the most for their money, and don't mind the idea of early replacement. They know that within a few years their tastes, and fashion, will change."

- All this raises an interesting thought.

- Perhaps inflation and rising cost of living have more to do with the consumer than we like to admit.

- When we were less worried about appearances in the 20s and 30s — prices actually went down over the two decades. Perhaps this sort of thinking is needed again.
INFLATION and the COST OF LIVING
A look at some aspects of the struggle to balance household budgets.

Wages and prices

IF YOUR latest pay increase turned out to be less than ten percent, then console yourself, you are one of the silent majority — more than half of all employers have been giving increases in this bracket.

But if it was less than eight percent, you've been unlucky — only 17 percent of firms have given or are planning to give as little as this. The lucky few — those employed by a quarter of the firms questioned in a recent Barclays Bank survey — will get increases of more than ten percent.

With a general increase in pay of about ten percent in the air, how are prices expected to fare in the coming months?

Of the firms questioned in the survey, 68 percent said that they would be forced to increase their prices during the few months. 39 percent of them said that the increase would be over 10 percent; a third of them opted for a hike of eight percent or more, while a quarter felt they could hold the increase to under the figure.

These expectations do not augur well for an early reduction of the annual rate of inflation, much below the 9 to 10 percent level, especially if prices are seen in view of the pressure on prices that is likely to come from the substantial increases in petrol, cater and steel prices and in electricity costs in the months ahead.

The replies made by the firms in the Barclays' survey suggest that salaries and wages will rise at a somewhat slower rate than prices in the period ahead.

This, thanks the bank's commentator, will exert an unfavourable effect on real demand in the economy and so on the real economic growth rate.

But there is joy for some in the situation — the lag of salaries and

THE percentage rise in both wages and the consumer price index show how during the past two years wages have fallen behind the increased prices of consumer goods.

to page seven
New inflation bogey emerges

During the 70s, inflation has reached double-digit levels worldwide for the first time, creating extreme anxiety among national political leaders. The economists are puzzled by the failure of all the traditional controls short of wide-scale unemployment. What few seem to realise is that an important new source of inflationary pressure has emerged.

World demand for goods and services has expanded at about four percent a year from 1960 to 1975, nearly tripling during this 25-year span.

About half of all production gains were absorbed by population growth, which averaged close to two percent a year, and about half by increases in per capita consumption.

Meanwhile, it has became increasingly difficult, for economic and political reasons, to expand the supply of many strategic goods commensurately. The result has been scarcity-induced inflation. The impact on the price and availability of such essential resources as food and energy has become dramatically evident.

Prices of petroleum, firewood, cereals, soybeans and fish have soared since the 60s, and they have affected the entire world.

Underlying the escalation of petroleum prices was the realisation that the world's petroleum supplies were dwindling and that their value was accordingly far greater than historical price levels indicated. Yields of certain crops also happened to be concentrated in the hands of relatively few countries.

This created a psychological climate that enabled the Organisation of Petroleum Exporting Countries to quadruple the price of crude oil.

Bases in firewood prices, while less visible internationally, have been only slightly less sobering. Firewood was a cheap, abundant source of energy when villages were small. As village populations grew, forests receded. Now wood prices are a primary topic of conversation among the poor from the Himalayas to the Andes. Price increases of two or three-fold over the past few years are commonplace.

Today the average manual labourer's family in some West African cities spends nearly a quarter of its income on firewood.

As world demand for cereals, spurred largely by population growth, has outstripped supply during the 70s, world grain stocks have been drawn down to a precariously low level.

In 1975, they represented scarcely 30 days of world consumption, little more than pipeline supplies. Once stocks drop below about 60 days of supply, a psychology of scarcity begins to prevail and prices of major cereals climb rapidly.

World oil reserves are being rapidly depleted, and no alternative sources of energy are readily available at the prices of the past. The rising cost of imports food supplies, dependent as they are on petroleum and petroleum-based fertilisers.

Those who suffer most under the burden of scarcity-induced inflation are the poor, whether in the “barradas” of Lima or the slums of Naples.

Inflation means that those living at subsistence level find themselves increasingly unable to make ends meet. When the price of grain rises, families that already spend 60 percent of their income on food can only eat less.

With 4,000 million consumers already on the scene, and 200,000 more being added each day, inflation may grow chronic. Indeed, inflation poses one of the most difficult challenges that political leaders will face in the years ahead. Without a marked slowdown in population growth, it simply may not be manageable.
Inflation:
R1,2m bill

Political Correspondent

THE SENATE. — The Government's anti-inflation programme has so far cost R1 232 000, the Minister of Economic Affairs, Mr. J. Heunis, disclosed in the Senate yesterday. He was replying to a question by Senator, Brian Bamford (PRP).

Mr. Heunis said the campaign will continue after its short-term measures expire on March 31. Any other steps which the Government may decide upon will depend on the prevailing economic circumstances.
Coins and stamps move into inflation fight

1. Price of gold rallies, inflationary expectations rise...
End to wages, prices pact

Mercury Correspondent

PRETORIA — The fight against inflation is to be continued, it was unanimously decided here yesterday at the meeting of the Continuation Committee.

After the meeting the Minister of Economic Affairs, Mr. Chris Heunis, said although it had unanimously been decided to end the price-wage-salary formula contained in the anti-inflation manifesto at the end of this month, the medium and long-term undertakings were to be continued.

The Continuation Committee would carry on with its work and meet from time to time to monitor the progress being made with the implementation of the medium and long-term measures.

An educational and liaison committee would continue to function as a link between the Continuation Committee and the general public.

No grounds

The minister said the formula for price and wages should not be seen as indicating grounds for general price and pay increases.

The Mercury's correspondent here says that Mr. Heunis has hinted that some change in the sales tax system may be introduced soon.

Although no comment could be obtained from those who attended the meeting of the Continuation Committee, it is understood that the minister said an investigation into the sales tax promised 18 months ago had been completed.

Investigation

The investigation was carried out by the Department of Finance.

It is considered probable that the Minister of Finance, Senator Hopwood, will give further details of the Government's intention in his Budget speech on Wednesday.

An alternative to the sales tax which is levied at the source is the turnover tax levied on retailers.

supported by industry and consumer organisations. They claim it would rule out the escalation of price increases as the tax passes from manufacturer through the hands of wholesalers and other middlemen to the retailer.

However, the present tax system is supported by the Association of Chambers of Commerce. But a turnover tax would be non-discriminatory, and would hit lower income groups hardest, it is claimed.

SOME TRUE AT T
'RAINBO'

MONTHLY COMPETITION
On to ANTI-INFLATION CURBS
more Farewell

area: Unmourned, the anti-inflation pact’s wage and price curbs passed away this week. It’s unlikely anyone will take much notice of the skeleton which remains.

reg: Debate on the success of the restraints will continue for a long time. "Although the campaign has not achieved all its aims, it has been reasonably successful," comments Tuesday general secretary Arthur Grobbelaar.

Barclay’s chief economist Johan Cloete adds "It was a success in that it prevented inflation jumping off the rails, but it didn’t reduce the inflation rate sufficiently. I’m sorry there were no clear inflation rate targets," says Seifa’s Errol Drummond. “If we hadn’t had the curbs, the inflation position would have been a lot worse." In terms of concrete results, the restraint’s effects were negligible. The inflation rate, which at the start of the campaign in October 1975 stood at 12.2% (on a year-to-year basis), has barely been dented. "Seems Cloete: “The effect of the business cycle on the inflation rate was as great as that of the anti-inflation campaign.”

But most claim that the campaign’s achievements should not be judged merely in terms of the inflation rate. "It made people conscious of a problem we had," reflects Afrikaanse Handelsinstituut economist Adam Jacobs, who also claims that AHI members took the curbs "very seriously."

The big fear now is that with the temporary restraints out of the way, a flood of wage and price hikes is in the offing.

Already, iron, steel and engineering workers have put in for a massive 35% increase. As Drummond succinctly puts it: "The game is on."

There’s no doubt that, for the time being at least, the depressed state of business has ruled out huge wage settlements or price increases. "Seems Grobbelaar: "The unions are not going to achieve any significant salary increases in the foreseeable future."

However, the steep increase in administered prices during the past few months is evidence that artificial restrictions merely postpone the day of reckoning. The pact’s signatories have agreed to continue the "long-term" measures — stepped-up productivity and training, an eye on public spending, so on. And there is a chance that Lawrence McCrystal’s Publicity Committee will be resurrected.

But the focus of the anti-inflation drive has now shifted to the Minister of Finance and the Reserve Bank — which, after all, is where it always belonged.
IN his essay on post-World War I hyper-inflation in Germany, Thomas Mann described inflation as a tragedy that makes a whole people cynical, hard-hearted and indifferent.

Well, Britain is a long way even now from a 1923 German situation where the grocer charged a couple of million for a jar of coffee or packet of tea.

But the rising prices of recent years, which have bitten deeply into Britain’s living standards, are already having a nasty effect on people’s attitudes as well as their pockets.

Cynicism, like the gas price, is on the increase. How can it be otherwise when, 20 months after the “pay policy” began, prices are currently rising at only a little less than they were in July, 1975?

A few weeks ago the Chancellor of the Exchequer, Mr. Denis Healey, told his Labour Party colleagues that inflation, running at more than 18 per cent in the past six months, would be under 15 per cent by the year’s end.

He might be right. A year ago, however, he was talking of it being 10 per cent by last September and in single figures by now.

The Government has been lulled into a false sense of security by the relative peace with which the population has put up with the privations of the past two years; but the game is up.

Tax doubled

The Leyland strikers were but the vanguard of a vast army who have seen the price paid for their skills shrink and watched the rising flood of prices with a growing sense of frustration and helplessness.

Inflation has left few untouched. The managerial class has suffered more than most, but even the lower paid, who gained temporarily from flat-rate pay rises, are now feeling the pinch.

The figures are numbing since the Labour Government came to power three years ago prices have risen by 89.5 per cent.

Income tax per household has more than doubled Telephone calls are up 400 per cent, gas by 100 per cent and rising, electricity by 125 per cent, rates by an average 50 per cent.

The real purchasing power of a man with average earnings has fallen by four per cent, that of a man with three times average earnings by more than 10 per cent.

And so on. But the cold statistics tell only part of the story, since what does not emerge from the percentages is the disruption, often hardship, which follows from having to live in what used to be called “reduced circumstances.”

Lady Churchill is forced to auction off some of Sir Winston’s paintings. Another widow cashes in more of her few remaining premium bonds.

The factory manager sells his car to help pay the mortgage. Young couples decide to put off having children for a few more years (undertaken in last week’s official report which showed a fall of one-third in the number of babies born to working-class parents in the past five years).

There is scarcely a building society in Britain that does not have a small, but growing, amount in its annual accounts labelled “Repayments now more than 12 months in arrears”.

Selling a car, even a house, to meet school fees commitments is no longer uncommon.

I met the housemaster of a leading public school the other day who told me that in his house alone about a seventh of the parents had not paid this term’s fees and it was not because of absent-mindedness.

No questions

Travel agents, who only a year ago were slapping large premiums on holidays, are now offering sizeable discounts to drum up trade. Even so, the hotels on the Costa del Sol in Spain are now mainly German-occupied, and the few English tourists tend to get the tables by the kitchens.

Fiddling is on the increase. The taxman has always been fair game, although in Britain, unlike France and Italy, the vast majority have paid their taxes regularly, if unwillingly. Now all the odd jobs are “cash on the nasi and no questions asked.” At the other end of the scale, more firms are turning a blind eye to the modest fiddle on expenses.

Payment in kind — air tickets, a car — rather than cash is becoming more common.

Litttle wonder that the Commissioners of Inland Revenue remark in their latest report that tax evasion is spreading.

Now there are some people who welcome the impoverishment, at least of the middle classes, brought on by inflation.

I know of one prominent Labour rightwinger who, much as he professed to deplore inflation, sees some advantage in it as an agent of hastening a more egalitarian society.

So what does it matter if there are “howls of anguish” in Mr. Healey’s celebrated phrase, from some of the rich?

It matters for at least two reasons. First, it is no longer the so-called rich, everyone is howling. The politics of envy start off with “wasting the rich” and end up creating a tax monster which takes income tax from people below the poverty line. This is now happening.

Secondly, it matters because no part of a society can remain untouched by the sudden reversal of the fortunes of any one part inflation spreads like a cancer.

Delay

There is no justice in the way it redistributes wealth. The elderly, who hoped to live on what they had saved, the enterprising and the productive, the vast majority who put their hope on the traditional order — they all suffer and grow embittered.

Fortunately, the patient’s condition is not entirely hopeless. Other countries have managed to cut back their inflation savagey. Britain has failed so far not because of something inherent in the British character, but mainly because of a Government that, for too long, avoided taking the necessary action.

At the next general election, the electorate will be able to give its judgment on the way the Wilson/Callaghan Government has performed.

The cost of living will be the key issue. The electorate’s verdict on this is unlikely to be kind to Mr. Callaghan and his friends.

There must be hope in the fact that the experience of the past few years has led to a more hard-headed view on so many of the sources of inflation — big Government spending, a sprawling bureaucracy, the squandering of the wealth creators, a reckless money policy.

Most important is the growing realization that there are no winners in the inflation game.
Money: That's the root of inflation evil

Inflation is usually understood to refer to a situation of persistent increases in prices in general. By "persistent," the mean that the increases go on at a protracted rate.

If the price of one thing may rise, and another thing's price may fall, then the rise of the one price is still inflation and the fall of the other may not necessarily mean that there is no inflation. It may mean that the change in the price of one thing has happened to be offset by a fall in the price of some other thing.

"Persistent" means that the increases in prices in general have to be looked at in the context of the general situation of inflation and its effects. It is right that it is not easy to distinguish between different changes in prices and true inflation, but this is only because it is not always easy to isolate different changes in prices in general.

When we agree that inflation is a persistent increase in the general price level, we must take care that the general price level is not then increased by a change in the supply of a particular good. If the supply of a particular good increases, it is clear that the price of this good will fall. But the overall price level may not then fall.

Therefore, if you are looking for a solution to inflation, you must look for a solution to the general problem of reducing the rate of increase of prices. This reduction can be achieved by a variety of means, including government policies such as wage and price controls, or by a reduction in the rate of growth of money supply.

The solution to inflation involves a combination of supply-side and demand-side policies. Supply-side policies aim to increase the productive capacity of the economy, for example, by investing in infrastructure and education. Demand-side policies aim to reduce the demand for goods and services, for example, by increasing interest rates to reduce borrowing and spending.

In conclusion, the root of inflation evil is the persistent increase in the general price level. To address this, a combination of supply-side and demand-side policies is necessary.
wages of Aslan, coloured and black workers from 1970 to 1976 of 28 percent, compared to a 2.9 percent rise for whites, he said this sounded good in the social sense, but it did not make good economic sense in so far as it was redistribution by inflation.

"Redistribution through better opportunities is to be much preferred as an approach."

Professor Sadie said it should be explained to the 500,000 workers intending to submit claims for pay rises that only increased productivity could be used to support their arguments.

"The choice is between (a) a common sense approach of wage restraint and (b) enforced wage reduction by means of fiscal and monetary measures accompanied by persistent rises in prices and unemployment."

Meanwhile, trade unions in the building industry have pointed out that agreement on Wednesday to forego automatic wage increases based on the CPI, which would have become effective in July, was based on the understanding that the Industrial Council for the Building Industry would streamline its machinery to eliminate the use of illegal and untrained labour on artisans work

**Unwarranted pay rises inflationary says Sadie**

Indust. Reporter

THE director of the University of Stellenbosch Bureau for Economic Research, Professor J L Sadie, says the automatic escalation of wage rates in accordance with the rise in the Consumer Price Index (CPI) should be declared illegal.

In a hard hitting special article in the bureau's latest opinion survey, he blames workers and their employers for unwarranted pay rises and resulting inflation.

Workers were demanding to be compensated for rises in the CPI regardless of the reasons for this rise. Workers should not be compensated for increases in the CPI due to events such as higher indirect taxation or hikes in import prices not made up for by comparable boosts in export prices. This could only produce inflation.

"Neither should workers be compensated for changes in the CPI arising from previous rounds of wage increases, that is for inflation which they themselves have created."

Employers were also responsible for "galloping wages" through what appeared to be a misguided conception of social responsibility. South African employers increased wages by raising prices and accordingly shifted the burden on to the public. This could be done with impunity as long as all producers remained in step.

"In time employers might even have discovered that they could ensure a lively expanding market for themselves by the cost-raising process of granting liberal wage increments."

The South African Post Co. Ltd.
Money supply still the key

The rate of inflation should reduce soon but only at the cost of still more jobless. Is that the proper priority?

Prices, everyone will have noticed, are zooming. After falling throughout most of 1976, the rate of increase of the consumer price index has again started to climb, almost reaching its 1974 peak. Why?

The money supply has been kept on a tight rein for almost a year. According to the monetarists (Milton Friedman, et al) that should mean falling, not accelerating, inflation.

Lawrence McCrystal, a well-known anti-monetarist, had this to say last week: "If the pure monetary theory or explanation of inflation were correct, then by this time our rate of inflation should have dropped well into single figures. After all, we have had monetary deflation now for the best part of 18 months."

The fact that inflation remained stubbornly in double figures, merely demonstrates the point "which those of us who were directly involved in the Anti-Inflation Campaign have been saying with monotonous regularity — the explanation of our inflation as purely a monetary phenomenon stemming from excessive government spending is, at best, a half truth."

He went on to point out that the current rate of price increases was the result of rising costs in the wake of administered price hikes.

"To rely entirely on monetary and fiscal policy to cure this situation will result in excessive deflation and unemployment in the economy. It is important that we should continue to seek answers to the problems which arise on the structural and institutional side of our economy, which lead to rises in costs, and not be misled by those who would have us believe that inflation is purely a monetary phenomenon."

Professor Joubert Botha, of Witwatersrand, believes it is too early to reach such hard and fast conclusions. Commenting this week on the latest price and money supply figures, he said: "It is a well-established empirical fact that the change in the money supply affects the economy only after a lag of some considerable time. Estimates of the lag vary, but it could be as long as one year. Very little can be deduced from the fact that the money supply on an one-month basis has recently been increasing at a lower rate than the increase in the price level."

"It could mean that liquidity in the banking sector is being reduced and also that people have been dipping into savings to meet price increases in respect of necessities like food and clothing. It neither proves nor disproves the efficacy of the monetarist kind of policy which the Reserve Bank is apparently pursuing."

Two men, two views. The FM, all along has sided with the monetarists and, frankly, we see no reason to swap camps.

McCrystal... still debating the cause of inflation

Certainly, we would not dispute McCrystal's point that an even more restrictive monetary and fiscal policy will create frightening economic dislocations in the form of spiralling unemployment, mounting bankruptcies and plummeting disposable incomes. However, the squeeze is already working, we believe. It's simply not producing the results as quickly as McCrystal (and others who share his views) claim it ought.

The restrictive effects of the 1976/77 Budget only took hold in the third quarter of last year. During the first half of 1976 the money supply was still rising faster than the growth in output. In other words, at an inflationary rate.

UCT economics lecturer Brian Kantor, for one, is not worried. "We have not really given the policy a chance to work," he notes. "The lag between the implementation and the effects of a restrictive monetary policy can be surprisingly long."

Moreover, just because the rate of price increases has accelerated in recent months is no proof that the monetary squeeze is as effective as it has been, prices must come down later," says Kantor confidently.

On what ground is such optimism based? The administered price hikes, which have accounted for the major part of the recent CPI spurt, have nothing to do with Pretoria's restrictive policy. They became unavoidable as a result of misguided pricing policies in the past of bodies like Railways, Escom and Iscor and the changing financing patterns of these bodies brought about by the difficulty of raising funds abroad.

Since the hikes generally apply to necessities (steel, tyres, sugar, Mazda, rail tariffs and so on), there is little scope for slack demand forcing down prices of these particular products. However, let's not forget that prices of many other products have stagnated or even come down. That this has happened is proof that the squeeze has already had some effect on the inflation rate. And though some administered price hikes are still in the pipeline, signs are that price competition among suppliers and resistance among consumers to price increases are growing.

Thus, provided Church Square maintains its monetary squeeze the recent acceleration in the rate of inflation should soon be reversed. If the squeeze is maintained into 1978 inflation could certainly fall back into the single digit range some time next year.

The proper question to ask, however, is: should the monetary squeeze be maintained for that long? If it is, the rate of inflation will certainly fall. But the cost will be even greater unemployment, is that the proper priority?

---

**Financial Mail June 3 1977**

---

**ARE THE INFLATIONISTs WRONG?**

---

**FIN Mail**

---

**153**
BUTTER AND BANANAS

IT'S POINTLESS for the authorities to get charged up about cheese and butter surpluses. Raising or lowering controlled prices provides no solution to what could become a chronic problem. Why, don't the dairy farmers form a cooperative like the banana farmers? The latter, run an efficient operation on a supply and demand basis with controlled prices set by a central board. Consequently, the price of bananas fluctuates in a healthy way and no mountains of wasteful surpluses result. Does the farmer want to sell five kilograms of butter at 50 cents, or ten kilograms at 40 cents?

THOUGHT for the week: When Brazilian coffee bushes recover from frostbite, will their yield and price, with their former generosity, come down again?
It all depends upon the inflation rate — Cloete

JOHANNESBURG — If the inflation rate can be brought down to below eight per cent within the next six months, the present downsing in the economy can be arrested and stimulatory measures taken to promote a general recovery, says Dr. Johan Cloete, chief economist of Barclays National Bank.

Writing in the latest issue of Business Brief, he says a reduction in the inflation rate to this level could, by itself, stimulate real economic activity because it would turn export earnings and the increase in Government expenditure into additional real income and demands, and add to the purchasing power of the existing money stock.

It would also make any reflation measures that might be taken, more effective and narrow the wage-price gap, which is detrimentally affecting real demand.

"On the other hand," warns Dr. Cloete, "as long as the inflation rate continues at its present high level, neither improved exports nor the increase in Government expenditure, nor a relaxation of any significant economic recovery, and nor can any stimulatory measures be contemplated or effectively taken."

Dr. Cloete also suggests there is a reasonable chance of a substantially lower inflation rate by the end of this year or early next year.

"The wage-price gap, which has now opened up, the credit restrictions, rising unemployment, cutbacks by business firms on costs and on investments, in the face of uncertainty — all these factors should operate to reduce real demand and so "constrain price increases," he says.

"However, if the inflation rate is to come down substantially within the next six months or so, then there must be no outbreak of wages and no renewed wage spiral in the meantime."

"The authorities, in particular, must not get cold feet — in the face of a further increase in unemployment in the months immediately ahead. — SAPA."
TUESDAY, June 28, 1977

TOO MANY BOARDS

CONTROL BOARDS have come to be accepted as a necessary part of our bureaucratic set-up. Their existence can be justified to some extent by the imponderables, such as the vagaries of nature, which bedevil agricultural production and the marketing of perishables.

But we question whether there should be so many of them; no fewer than 20 control more than 90 percent of all food produced in South Africa, and they have been accused of keeping prices high to the detriment of the consumer.

The latest event which supports this contention is the Meat Board’s decision to increase the floor price for meat sold by auction at abattoirs, in spite of the country’s massive R500 000 surplus of carcasses.

Predictably there is going to be a public beef about this, coming as it does on the heels of two big butter and cheese bungles already this year, one in January and one this month when the Dairy Board, in defiance of all economic logic, increased prices to dispose of a surplus.

Of course, consumer resistance prevented that from happening in both instances, with the result that there are still mountains of unsold dairy products.

The public now fondly awaits the inevitable result of Mr. Hendrik Schoeman’s unbelievable trust in the impossible, for the butter mountain will assuredly grow into a veritable Everest as consumer resistance to the increases rises.

The boards employ 2 000 people and administer an empire which has accumulated funds and assets of more than R560 million. The time has come for a thorough investigation into their operations, particularly the extent to which wasteful duplication occurs.
Schwarz blames Govt for inflation

Mercury Correspondent
PRETORIA - The Government, by sanctioning increased prices for key commodities and services, was mainly responsible for this year's inflation escalation, the Progress Parliamentary spokesman on finance, Mr. Harry Schwarz, MP, said in Pretoria yesterday.

Mr. Schwarz was commenting on a statement last week by the head of the Stellenbosch University's Bureau for Economic Research, Professor J. L. Sadie, that the economy needed a wage and price freeze to give it the time needed for recovery.

Mr. Schwarz said there was in fact a wage freeze in operation at present. Employees were not getting increases, and resistance from employers to wage demands was strong.

It was clear, he said, that a great many of the price increases that had taken place since the beginning of the year were authorized by the Government.
Express guinea-pig team will live on R70

CAN a household of seven people really be fed on R70 a month?

Mr Dave Jackson, the man behind the Cost-cutters Club, says yes. He claims his family of two adults, four pre-school children and a gardener does it quite happily.

Several Sunday Express readers, however, say an equally firm no. It just is not possible, they say, in these days of inflation.

Now the Express has decided to put the theory to the test.

It has found a Johannesburg family which, on behalf of our readers, will try to manage on the kind of budget quoted by Mr Jackson.

They are Mr and Mrs Rob Vincent and four children, one of them pre-school.

The Sunday Express will provide the money for the experiment and the Vincents will try to live on it — for up to a month, if they can manage.

"I just can't see how it can be done but I'm eager to give it a try," Mrs Vincent said this week.

"My children are all happy about doing it. I don't know whether they realise what they're letting themselves in for!"

Mr Vincent, too, is keen on the test. In fact, he's the

Mrs Pam Vincent with her four girls Susan, 16, (back left) and Jennifer, 14, and (front left) Gail, 12, and Heather.

BY JUNE WOTHERSPOON

happiest of all, he's hoping it will help him lose weight.

If those readers who wrote in about Mr Jackson's budget are right, Mr Vincent is certain to shed some kilograms.

Because the Vincents' circumstances differ from Mr Jackson's, certain allowances will be made.

The budget will be adjusted to compensate for the fact that they do not have a gardener to feed, and for the older ages of most of their children.

Mr Jackson says he grows virtually all his fruit and vegetables, which make up a major part of his family's diet, on his smallholding. So extra money will be allowed to provide these items for the Vincents.

Like Mr Jackson, they will get subsidised milk.

Mrs Vincent will be using some of the information previously provided by Mr Jackson as a guideline, but she'll be devising her own ways of keeping the family's food costs as low as possible.

She'll keep a daily diary of how things are going.

Can they do it? And if they can, can you? See the Express next week.
Inflation: a challenge to be met, overcome

EAST LONDON — The small businessman, engulfed by a wave of despondency in his present economic ordeal, has reason to take courage from Mr Alan Boy, who is adamant that given an understanding of its effects, today’s evil — inflation — is a challenge that can be met and overcome by every businessman.

Writing in the latest issue of The South African Chartered Accountant, Mr Boy (himself a CA) harshly condemns managers for having coasted through former good years and making the recent unprecedented high inflation rates the scapegoat for practically all management shortcomings.

He clarifies the effects of inflation on small firms, and outlines the principles of debtor and creditor management, emphasising this as the key to successful trading for small firms which find their very existence threatened by the current adverse trading conditions.

Any accusation anyone makes against past management shortcomings would receive support from me so often in current company reports and chairman’s statements we hear or read “by more efficient management methods we have been able to.”

My question to all such statements is “why were not more efficient management methods introduced years ago?” Efficiency is not something new. Some companies have operated at peak efficiency all their lives. Unfortunately so many businesses have “coasted” along over the good years that problems in the “lean” times have caught them unaware. And now they have the audacity to boast of their increased ef-
Heunis: aim for stability

Bellville — South Africa should not expect too much too soon in the economic climate, the Minister of Economic Affairs, Mr. Peusis, said here yesterday.

When officially opening the R 1 million polyester plant here, he said the present aim should be to achieve a healthy and stable growth rate.

The industry, he said, had increased wages and improved conditions. 

The university will be informed of the result of your application to a course of study does 1 acceptance.

Note:

"Applications-17/28"

"7000, and the letter, as well as the I'll be informed of the result of your application to a course of study does..."
Slump at its lowest point?

CAPE TOWN — The 2½-year recession in the South African economy may have reached its lowest point according to the Bureau for Economic Research at the University of Stellenbosch.

In an opinion survey on business conditions in the second quarter of the year and prospects for the third quarter, the bureau also notes one of the first signs of optimism on the inflation rate since the current recession began.

"Possibly the most hopeful aspect of the survey is the clear indication that the rate of price increases is levelling off," the bureau says.

It was apparent that the increase in labour costs was declining and the rate of increase in average selling prices was also dropping. The low level of domestic consumer demand was believed to be responsible for the depressing effect on the rate of price rises.

The bureau adds, however, that the economy is still wallowing in decidedly recessionary conditions. "Yet it would appear as if the downward phase of the business cycle is close to, or has already reached its lowest point." — DDC
Rising costs hit Desiree

By PAUL DOLD
Financial Editor

The clothing sector is being plagued by a weak market and soaring costs judging from the results of Desiree International which shows a slower sales growth and lower profits. The return on sales during the year fell from 8.73 percent to 6.9 percent.

Turnover was up 13 percent from R31.3m to R35.3m but pre-tax profits fell 10 percent from R2732 000 to R2 456 000. Taxed profits were R1.4m (R1.5m) and after minorities net earnings were R1 276 000 (R1 451 000). This was the equivalent earnings per share of 110c as against 125c.

The figures suggest that demand weak (it's a buyer's market in most sectors) the group was unable to recover soaring costs.

Desiree is one of the most efficient groups in the industry and today's profit announcement does not augur well for the remainder of the clothing groups who will be reporting to shareholders in coming weeks.

Judging from current stock market yields the market has discounted to some extent clothing sector prospects and Desiree's figures are better than was expected.

The decision to maintain the dividend (a final of 29c is being paid) for a total of 44c (same) shows the group is not too pessimistic on the outlook this year. Dividend cover has been pared from 2.8 to 2.5 but dividends are still payable.

Desiree is a member of the C.E.P. group.

Pyramid Searle's pre-tax profits at R2 955 000 fell more sharply than Desiree with earnings 16.45 percent down while turnover rose 14 percent to R45.5m. Taxed profits were R1.8m (R2.1m).

The fall was cushioned at the attributable stage by a deduction in the minorities from R886 000 to R663 000 leaving net earnings of R1 142 000 (R1 233 000) a drop of 7 percent.

Searle has raised its stake in Desiree from 58 to 72 percent and clearly the group believes the yield is generous.

Earnings per share were 34c (36.8c) and the final was 30c for a total of 12c (same). As with Desiree cover has been maintained from 3.08 to 2.83.

Searle has a dividend yield of 14.6 percent.

Searle's lower profits were probably mainly due to the tanning operations which must have felt the downturn in the shoe trade.

The pronunciación in the words "rasberries" is pronounced as "esterday" (with accent on first syllable) and as "easter" (accent on second syllable)."
Pretoria. The Governor of the Reserve Bank, Dr. T. W. de Jongh in his chairman's address yesterday, gave details of the measure of success that was achieved in reducing the rate of inflation during the past year.

The annual rate of increase in the seasonally-adjusted consumer price index, he said, declined to 9.3 percent in the fourth quarter of 1976, then increased to 13.3 percent in the first quarter of 1977, but subsequently slowed again to 11.8 percent in the second quarter.

"The acceleration in the first quarter was due largely to increases in indirect taxes and certain government-administered prices." (Sapa.)

...
S.A. Legion says inflation is to blame

LADYSMITH — Continual inflation was causing many hardships said Mr. W. G. Menzies, chairman of the Ladysmith branch of the South African Legion in his quarterly report of activities.

Mr. Menzies said that African ex-servicemen in particular are the chief sufferers.

Thanks to funds supplied by the Women’s Auxiliary and the National War Fund the branch was able to render assistance to 88 cases during the quarter.

Forty of these cases had involved the provision of blankets to ex-servicemen and widows and in 32 cases food was supplied to ex-servicemen and families.

Only four applications had been considered and refused.

At a recent South African Legion congress in Pretoria the Legion decided to support a project for the erection of a memorial to the South African soldiers who lost their lives in Angola.

It was planned to erect a life-size statue of a soldier similar to one that was presented in miniature to the next-of-kin of the fallen.

It is proposed the memorial which will cost R16,000 will be erected in Pretoria.

The Ladysmith branch committee feels that a project where living soldiers could be treated would be more in keeping, such as a ward to a hospital, an artificial limb factory or something similar.

Mr. Menzies reported that the branch membership remained at 128.
INFLATION has become South Africa’s most powerful taxman. In the last year, for the first time, individuals paid more income tax than companies, excluding gold mines.

And, say economists, it is not because people are becoming richer that the number of taxpayers has increased greatly.

Inflation has pushed people into higher tax brackets and a greater proportion of their salaries is going to the taxman.

According to the South African Reserve Bank’s annual economic report published last week, the amount of tax paid by individuals has increased by 20 per cent a year over the last five years.

But the number of taxpayers has increased by only three per cent a year.

Economists interviewed by the Sunday Times this week say there are two main reasons why South Africans are paying more tax than before: Higher taxable incomes and higher tax rates.

Together they are increasing the real earnings of many people, especially those in the upper-middle and top tax brackets.

"Stretching the tax net passively," is how Mr Costa Divaris, the editor of Businessman’s Law, describes it.

Scale

"Inflation is a passive way for the Government to get more from direct taxes such as company tax. People’s salaries go up to compensate in some measure for inflation but the tax puts them into a higher tax bracket," he said.

They are not only paying more tax but a greater proportion of their earnings is now in the tax scale.

The average wage earner might not be affected greatly.

"But the beginning of the trend is there. The liability of financing government through taxes is creeping down into the middle classes," he said.

Trend

Figures clearly show the trend Mr Divaris is talking about.

In 1968, 82 per cent of tax comes from six per cent of the taxpayers. In 1976, the tax base had broadened with 11 per cent of the taxpayers contributing the same 67 per cent of South Africa’s revenue.

The Sebath Economist, Mr Rudolf Gouws, said the comparison between the amount of tax paid by individuals and companies was not as significant as the increasing tax burden individuals were being forced to bear.

In five years the real turnover tax, over direct income tax, it would broaden the tax base.

But Dr Jill Natrass, senior lecturer in economics at the University of Natal, Durban, said, "It will hit everyone who buys goods from the unemployed or in low-waged people to those who earn the most."

Effect

The end effect could be to widen the wage gap between white and black, she said.

But inflation financing of government was not unique to South Africa, Dr Natrass said.

"Fundamentally, government expenditure has to be found somewhere. Inflation is an easy way of increasing taxes. It is especially if governments do not have the political appetite to raise tax rates."

"But South Africa is not alone in this trend. It has been a feature of government financing in the Western world in the post-war period."
INFLATION MAIL
Only a hiccup

The July consumer price index has renewed fears that double digit inflation will be with us for longer than expected.

Over the 12 months up to July the CPI shot up by 11.3% compared with 11.1% in the year to June.

A real cause for concern is the fact that prices have continued to rise rapidly even though demand has slackened.

Thus, for example, prices of motor cars and furniture either remained constant or increased during the past year.

The SA Reserve Bank attributes these increases to the effects of higher indirect taxes and unit cost increases associated with under-utilised capacity.

A further cause for worry is the statistics themselves. How meaningful are the Department of Statistics' figures? They show food prices increased by about 9% for the year to June. The Department's sample is a wide one, based on household budget surveys. Yet a private survey by Checkers shows that the cost of a basket of 114 items on its shelves rocketed by 20% over the past year.

If you are the sort of consumer who regularly buys those 114 items, the fact that food on average increased by only 9% is little consolation.

Yet many economists are still optimistic. Johan Cloete of Barclays Bank points out that recent increases in the rate of inflation are the result of a combination of factors which include administered price hikes, indirect taxation and higher food prices. He expects the rate of inflation to drop to about 10% by the end of the year, particularly as a result of low wage increases.

This view is shared by Rudolf Gouws of Standard Bank. He feels cost increases are likely to be small in the next few months. When this is coupled with a low level of demand, inflation rates should decrease.
Keep up with inflation

Like it or not, the value of a rand diminishes every year. In times of severe inflation the value drops further in a shorter time.

The same rule applies to the real value of the life assurance cover rand. A salary earner on R5 000 a year can cover his life to the value of two years' earnings with a policy for R10 000. If he does nothing about updating his life assurance programme for a year or two, the amount of real cover on his life shrinks dramatically (in terms of a period of earnings). By the same token the real value of his premium payments also diminishes.

In short, inflationary times create a situation where, in terms of real values, premiums paid and benefits payable reduce.

A young man could start out paying about a week's earnings to cover his life for the amount he would earn in two years. By the time he reaches middle age he is paying the same amount and is covered for the same amount in money terms (plus bonuses which have accrued on his policy). But, in fact, he is now paying about two day's earnings to cover his life for what he would earn over about eight months!

Fair enough. A policyholder should, therefore, update his policies every year. But does he? Usually not, unless he is serviced by an agent or broker, who presses him until he does. Life assurance programme updating doesn't come very high on anyone's list of priorities. It should — but it doesn't.

There is also the possibility that the person insured might not be able to update as much as he would like. He may have had heart trouble, or some other illness which would make more life assurance either impossible to buy, or extremely expensive.

Three years ago one major life office, the National Mutual, introduced a Growth policy. The principle of Growth Assurance is simple. The cover on a person's life increases each year, along with the premium of course, which rises five per cent every year during the life of the policy — for as long as the person assured wishes.

The policy-holder can stop the growth at any time he likes. National Mutual, however, cannot. As long as the policyholder wants his policy to increase in cover and premiums payable, it does so automatically — without effort on the policy-holder's part, and regardless of any medical problems which he may have.
Holding down inflation

To an extent, that has been achieved but only at the cost of unemployment. It's no easy matter to resolve both problems.

Despite the somewhat disappointing August statistics (which showed a slight increase in the Consumer Price Index) there's hope that inflation — which has stubbornly in double figures for over four years — will soon drop below 10%.

While the current account-on the balance of payments has been improving since early last year, the Prime Minister’s Economic Advisory Council recently admitted that “efforts to achieve price stability met with nowhere near the same degree of success.”

Indeed, the rate of increase in the CPI has accelerated in recent months. Measured on a year-to-year basis, the inflation rate edged up from 11,1% in May to 11,3% in August.

What has caused the setback? For once, we can blame government spending financed by bank credit. The money supply has been growing very slowly for well over a year, and should already have resulted in a slowing down in the rate of price increases.

Despite the squeeze on the money supply, however, many firms operating on slender profit margins have been compelled to pass on cost increases. While the 18-month curb on price rises no doubt moderated the inflation rate for a time, the dam is now showing signs of bursting. Only this week, for example, the chairman of Anglo-Alpha Cement claimed in his annual report that cement prices will have to rise if a reasonable return on capital is to be realised.

Another reason for continuing high rates of inflation, suggests Senbank economist Rudolf Gouws and Handelsinstituut economist Adam Jacobs, is the effect of sagging demand on production runs.

Unit costs have bounced up in its latest Annual Economic Report, the Reserve Bank notes that the rate of increase in unit costs has been adversely affected by “unavoidable cost increases” resulting from “the decline in demand.” The furniture and motor industries, in particular, have been suffering from smaller production runs.

Gouws calculates that, since the start of the recession, the rate of increase in unit costs has been higher than the rate of increase in prices (although both rates were declining slowly until recently).

Yet another theory, advanced by Natal University’s Jill Nattrass, is that firms’ pricing policies have contributed to the continuing high inflation rate. Nattrass points out that the widespread application of cost-plus pricing means that prices tend to be raised as volumes fall.

Brian Kantor, lecturer in economics at UCT, disagrees. He believes that prices are more sensitive to demand than to costs.

Kantor also says that increases in indirect taxes (such as the import surcharge) have pushed up consumer prices. Sources close to government thinking tend to agree: “Price increases would have been much lower if indirect taxes had not been raised,” remarks one expert.

Furthermore, Kantor claims, it would be unreasonable to expect the inflation rate to fall much below 9%, as long as the rand remains linked to the dollar.

Does all this mean that SA’s anti-inflation policies are proving useless?

Monetary and fiscal disciplines have certainly taken a long time to bite — so long, in fact, that many people have begun to wonder if these much-acclaimed remedies are capable of performing as effectively as is so often claimed.

What are the prospects for the next three to nine months? Most people seem fairly optimistic.

Gouws expects the inflation rate to remain in double figures for the rest of this year, but that it will drop to single figure next year.

Jaart du Plessis, Secretary of Statistics, shares his view. He predicts 11.5% by the end of the year, dropping to roughly 9% by the middle of next year.

Jacobs hopes that we might drop to 10% by the end of this year and 8% by mid 1978.

These views are not those of a minority. The economic commentators of the big banks share the optimism, including them Barclay, Johan Cloete, Nedbank’s Merion Dugat, Volkskas at Engelbrecht, and Standard’s Andre Hamersma.

For their part, government sources claim there are few administered price hikes in the pipeline at present. However.

Rudolf Gouws . . . unit costs rising fastest

Escom’s tariff increases next January are bound to ripple through most sectors. Salary hikes for civil servants and railway and postal workers are also inevitable next year.

Even if there is some reason for cautious optimism, the price the country and the economy have had to pay is heavy — as the swelling ranks of unemployed testify. Some people, including Nattrass and Secretary for Commerce Joep Steyn, argue that winning the inflation battle should take second place to combating unemployment. In any case, Nattrass argues, SA is not experiencing demand inflation. She also says that in our present situation, with spare capacity and unemployed labour, economic policies to revive the economy may not be all that meaningful.

Gouws, on the other hand, believes that we shouldn’t alter our present course until we have really and truly sorted out the inflation problem.

One thing’s for sure — there’s no easy way out.
Inflation rate shows continued tail-off

By HOWARD PREECE
Financial Editor

The rate of increase in wholesale prices has slowed to its lowest level in more than four years.

This strengthens hopes that inflation in consumer prices will at last fall below 10% by the end of this year or early in 1978.

The wholesale price index in August this year — the most recent figure available — was 235.2.

This represents an increase of 12.2% over August 1976 when the index was 211.4. It was 233.5 in July this year.

April 1970 as the base of 100.

The rate of increase in wholesale prices over 12-month periods was running at about 6% five years ago.

Then came a largely unbroken upward trend until it reached more than 20% at the end of 1974 and early 1975.

This abnormally high level was falling steadily throughout most of 1975 — it had reached 14.8% for the 12 months to the end of September that year — when the rand devaluation of September 1975 gave it a further boost.

Since early 1976 the overall trend has been down but there have been several upward lurches.

The table shows, however, that the pattern over recent months has been firmly lower.

This is the wholesale price inflation rate for the 12 months to the end of the following months: March 1977 15.3%, April 14.5%, May 14.2%, June 14.5%, July 14.3%, August 12.5%.

In its September quarterly bulletin the Reserve Bank said: "After having accelerated during the first quarter of 1977 the annual rate of increase in both consumer and wholesale prices declined during the second quarter."

"Notwithstanding this decline the rate of increase still remains high."

- British retail prices rose 6.5% in September, the same as in August, bringing the year-on-year rate down for the third successive month to 15.6% from 16.6% in August, the Employment Department said yesterday.

The 12-month inflation rate is the lowest this year for the all-items index, which reached 185.7 in September (base January 1974).

Government officials point out that, taking only the last six months, retail prices have risen only 5.6%, equivalent to annual inflation of only 11.6%, the lowest level since December, 1973.
Living costs double in 7 years

EAST LONDON — The crunch of the cost of living is revealed in the latest figures issued by the Department of Statistics.

In all areas, living costs have more than doubled, or nearly doubled the 1970 consumer base index of 100.

For all items in October, the department reveals the consumer price index in East London as 201.3, while for all items, excluding rent and home owners' costs, the figure for the city is 203.5.

For food only, the figure is 205.

Statistics issued by the department for the 11 urban areas of the country for October are:

All items: Pretoria 205.4, Vaal Triangle 202.1; Witwatersrand 201.7; East London 201.3; Port Elizabeth 200.9; Pietermaritzburg 198.3; Kimberley 198.7; Cape Town 198.5; Bloemfontein 198.0; Durban 197.0; and OFS Goldfields 194.5.

All items, excluding rent and home owners' costs: Pretoria 200.0; Witwatersrand 200.7; Port Elizabeth 200.0; Durban and Vaal Triangle 200.3; Pietermaritzburg 203.6; East London 203.5; Cape Town 203.9; Bloemfontein 202.6; Kimberley 200.1 and OFS Goldfields 196.3.

Food only: Bloemfontein 217.5; Witwatersrand 215.2; Pretoria 213.1; Vaal Triangle 212.3; Port Elizabeth 210.4; Pietermaritzburg 208.3; Cape Town 208.2; OFS Goldfields 206.7; East London and Durban 205.0 and Kimberley 196.3. — DDR.
Wage freeze
‘only way to beat inflation’

THE only solution to South Africa’s spiralling inflation rate is to freeze wages and salaries for at least 12 to 18 months, according to Professor Jan Sadie, director of the Bureau for Economic Research of the University of Stellenbosch.

This would be a bitter pill for consumers to swallow after the recent price increases in bread, steel, sugar and other commodities but it was the only way to control inflation, Professor Sadie said.

To help the hard-hit consumer, Professor Sadie urged the Government to come to an agreement with producers to peg prices. If a ‘decent’ agreement of this sort was impossible to reach, then prices should be controlled by law, he said.

The Government has set a bad example by increasing administrative costs that are determined by it. How can the private sector be expected not to follow this example?

Professor Sadie described the unrelenting increase in prices over the past few months as having a snowball effect. ‘We seem to be in a groove.’

POSTPONEMENT

Further problems were caused by the fact that price increases on some commodities had been postponed for too long. The real cost in this case was never recovered, he said.

It was now imperative that sacrifices be made and the Government should set the example.

‘The consumer must be assured that the price of products on the shelves would remain the same if he postpones his purchase.’

In order to combat the increasing problem of unemployment the Government had to control inflation and the balance of payments. Once these two factors were under control it would be relatively easy to take steps to improve the unemployment figure, Professor Sadie said.
S.A. COST OF LIVING
UP, UP, UP G O E S T H E
Clothing prices will rise

ANNE COLLEY

Stiff competition among clothing retailers in South Africa has led to a sharp increase in efficiency. This is shown by the fact that the retail clothing index, lagged behind the consumer price index last year, while profit margins did not suffer badly. The clothing price index rose 8.2 percent in the first 11 months of 1977, while the CPI rose by 11.4 percent in the same period. And the clothing price index does not take account of the numerous sales and special offers made to customers.

Mr. Hugh Mathew, general manager of Foschini, believes the industry has managed to cut costs and so preserve the profit margins. Stocks have been scrupulously and the percentage of clearance has been increased.

The men's clothing industry has been hit by the past year's low level of activity. Consumers have become more selective and price conscious.

As the Traders' Association of South Africa (TASA) noted, the battle to contain costs and preserve profits continues.

But prices are likely to rise during 1978, once the economy can take the strain. Import duties and increased raw material costs, make a slight price rise inevitable.

This was confirmed by Mr. Mathew who said the situation in the women's fashion business has been compounded this season by the fuller styles which require a great deal more fabric.

The industry has turned more and more to local textiles, which Mr. Mathew says, have improved substantially in quality but a marginal rise in the retail price of clothing seems to be on the cards.
Economist sees inflation falling to 8 pc this year

Garth Hewitt

Inflation this year will fall from around 10 to 12 percent to only about eight percent. This is the view of Mr Merton Dagut, chief economist for the Nedbank group. And Mr Dagut is a man well known for having his finger pretty close to the pulse.

He told an investment conference of about 100 people in Johannesburg yesterday, arranged by stockbrokers Simpson, Frankel, Berra, Kruger, the reasoning behind this prediction:

- Inflation at a rate of

10 to 12 percent was unstable to the system
- The Government would persuade the food boards and the state enterprises that administered prices should be contained.
- The retail turnover tax, due to be introduced shortly, would surely replace some other impost — possibly import surcharges.
- Although the economy would grow very sluggishly this year, the growth would be led by the manufacturing and retail sectors. This should lead to a fall in unit cost prices. The general air of confidence will remain low, and the combination of these two factors would inhibit price markups.
- The State would hold the rate of increase in the money supply below 10 percent.
- The wholesale price index has been falling for the past 15 months. This would filter through the pipeline and help bring down the consumer price index — the ultimate measure of the cost of goods.
- No major oil price hike was expected in the first half of this year.

Mr Dagut said he thought the South African economy had reached the bottom of the business cycle in September 1977. "But it was bad luck that the economic turn, which
Inflasiekoers
sal laer wees, sê Dagut

ONS inflasiekoers gaan vanjaar heelwat laer wees as wat die meeste ekonomie verwag. Britselskappe sal Suid-Afrika nie maklik los nie en ondanks dalende prysse vir die meeste, mineralie, kan die land verwag om vanjaar weer meer uit sy grondstowwe te verdien.

Dit was basies die boodskap van 'n beleggingskonferensie wat vandeesweek in Johannesburg deur die makelaarsfirma Simpson, Frankel, Henn, Kruger, Ink aangebied word.

Die boodskap van 'n heelwat laer inflasiekoers is deur mnr. Merton Dagut, hoofekonomies van Nedbank, gebragt. Volgens mnr. Dagut kan die land ondanks die uiterstorp van die nuwe omsetbelasting 'n inflasiekoers van net sowat 8 persent verwag.

Dit sal in Westerse standaarde 'n puik prestasie wees, wat sen Owen Horwood aanstaande maand in sy Begrotingsrede net daarbeewegeuriale sê wat nodig is om die land te pyp ekonomie weer aan die gang te kry.

En dan behoor se, Horwood ook hoog in sy skik te wees met die ruiker wat hy onverwags by die beleggingskonferensie gekry het. Mnr. Dagut, iemand wat bekend is vir sy kritiek op die Regering se ekonomiese beleid, is ook bereid om die heuningkors te gebruik wanneer dit verdien word.

Hy het gesê dat sen Horwood baie goeie vordering gemaak het om die staat se boeke weer reg te kry. Die manier waarop die staat se eie besteding ingehou het, het klaarblyklik groot indruk gemaak.

Maar aan die ander kant verwag mnr. Dagut nie maansyn en rose in die volgende jaar nie. Hy meen dat die groeiskoers sowat 1,2 persent kan wees, wat dalk deur 'n goeie goudprys tot 3 persent opgestoot kan word.

---

Nigerië

Vier diegene wat dink dat die res van die wêreld Suid-Afrika afgeskryf het, het prof. Arndt Spandau van Witte 'n boodskap gehad:

As iemand wat 'n deeglike studie oor oorsese berokkenheid in die land gemaak het, het hy gesê dat dit onwaarskynlik is dat die groot multinaisionale maatskappe hulle weens buite-maatskappe wat daar sake doen om 'n onderneem te teken dat hulle geen geld in Suid-Afrika maak nie.

Wanneer so 'n onderneeming geteken word en dit blyk vals te wees, kan suike maatskappe beboet word met 'n bedrag gelyk aan vry keer die waarde van die kontrak.

Groot geld

Maar die Nigeriers is gelykmatig pragmaties, sê prof. Spandau. Hy weet van 'n hele jaar geval waar groot multinaisionale korporasies dit baie baie duidelik gestel het dat die betrokke klousules nie pas word, hulle hul sake uit Nigerië sal ontlok of hooi genaamd nie daar sake sal doen nie. Hierdie standpunt werk blykbaar, sê prof. Spandau.

En om na die harde feite terug te keer, het prof. Spandau ook opgemerk dat as 'n internasionale maatskappy verplicht word om sy beleggings uit Suid-Afrika te oortrek, by ingelyke gedwing sal word om sy bates hier te verkoop. Dit, en die repatriasie van die kapitaal, kan net teen 'n aansienlike verlies gedoen word.

En hier is groot geld op die spel. Teen die einde van 1976 het buitelandse beleggings in Suid-Afrika byna R200 000 miljoen beloop, sê prof. Spandau. Rentes en dividendes het aan oorsese maatskappe 'n opbrengs van meer as R700 miljoen in hierdie jaar gelewer.

---

Ystererts

By dieselfde konferensie het Mnr. D.G. Maxwell van General Mining gesê dat die kansse gooi is dat Suid-Afrika se minerale vanjaar weer meer vir die land sal kan verdien.

Uit sy referaat het dit onder meer gebleek dat die suksesvolle Suid-Afrika se 1977-se bekendste produksie is.

Hij verwag dat die prys van
INFLATION SPLURGE EXPECTED

PRETORIA — South Africa’s living costs are still rising at an annual rate of about 12 percent, and the inflation pace is expected to quicken during the next few months.

The Consumer Price Index for January, released in Pretoria yesterday by the Department of Statistics, showed an average 1 percent increase in January, and a rate of 11.9 percent for the 12 months to the end of January.

And yesterday economists and labour leaders warned that the coal and power prices rises and the higher railway rates — all significant cost factors in industry — had not yet hit retail prices.

Nor, they said, had the at-point-of-sale tax which would cause an all-round price escalation later in the year.

The deputy head of the Stellenbosch Economic Research Bureau, Mr. J. M. de Vries, said the increase in Government controlled prices recently would cause a stiffer sharper rise in the index during the first half of the year.

Slow-down

Hopefully during the second half of the year there would be a slow-down in the spiral.

He also stressed that the higher coal and power prices and railway tariffs had not yet worked their way through to retail prices.

The president of the N.A. Confederation of Labour, Mr. Attie Nieuwoudt, said the latest CPI underlined the urgent need for opposition from an undivided labour front to the continuing and apparently unstoppable escalation of prices.

A committee would be appointed soon by the confederation to investigate the formation of such a front, he said.

And the president of the Trades Union Council of South Africa, Mr. Ronnie Webb, said together Tuesday and the confederation had more than 600 000 workers.

“Their combined earnings exceed R2 000 million, and this with the necessary cooperation, would be a powerful base from which to fight the price spiral.”
Afstand van najaat apport (kilometer)

Vraag van Plaat: Grootte van plaats (indie)

Randverdieping (he/li)

Creaties aan boeze

Hoe was het leven in de tijd van de Tweede Wereldoorlog? De oorlog had grote invloed op de leefomstandigheden van de mensen. Migratie naar grote steden was vaak nodig om werk te vinden. De autoriteiten stelden strenge regels voor de leefomstandigheden en de arbeid. Het leven was moeilijk, maar de mensen bleven sterk en verdedigden hun land tegen de oorlogvoerders.
Inflation goes up as salaries drop

In the circumstances which prevailed in 1977 it is understandable that our financial and balance of payments achievements were accompanied by continued recessionary tendencies in the domestic economy.

"After declining to 2.5 percent in 1975 and 1.5 percent in 1976, the rate of increase of the real gross domestic product decreased further to about minus 0.5 percent in 1977.

"The real gross national product, which takes into account changes in the terms of trade, performed somewhat better and increased by about 1 percent during 1977," he said.

As predicted last year the real gross domestic expenditure declined by about 8 percent in 1977 over 1976. All the main components of real domestic expenditure decreased during 1977.

For the first time since World War II real private consumption expenditure showed an annual decline which was to be welcomed in the prevailing circumstances.

The same could be said of the decline of about 1 percent in real Government consumption expenditure during 1977, which contrasted with increases of 4 percent in 1975 and 5.5 percent in 1976. Gross domestic fixed investment declined further, by about 10 percent, while real inventory investment was also negative.

As during the previous year the contributions of the various sectors to the gross domestic product showed diverse tendencies during 1977. The real income generated by commerce and industry declined by about 5.5 percent but was offset by a substantial increase in the real income generated by the primary and service sectors.

While salaries and wages for Whites did not keep pace with price increases in 1977 real wages for non-Whites showed a modest increase.

Referring to economic activity over the past year Sen. Horwood said the cyclical decline continued during the first half of 1977 but then tended to level out during the second half.

The volume of manufacturing production remained more or less constant during the last three quarters of 1977. – (Sapa)

15. Kr, hulle enige ander betalings na vroegspan nie die waarde aan u van die span.

16. Gaan u dienselfde span aanstaan nie?

17. Is daar op die oomblik 'n tekort?

18. Dink u so 'n tekort sal in die toekoms, waarom?

Hoe gaan u hierdie tekort teen?
Budget 'likely to hit Blacks hardest'

Mercury Reporter

A MERCURY survey has shown that the country's Blacks will be hardest hit by the Budget—described by Mr Eugene Roelofse, consumer watchdog of the South African Council of Churches as "the Black man's burden".

Although Blacks will no longer have to pay the controversial poll tax, they will be hardest hit by the 4 percent sales tax which comes into effect on July 1.

The present sales duty does not apply to basic foodstuffs and the average Black family in the Durban area, which spends more than half its income on food, will not benefit by the 5 percent reduction in the sales duty announced by the Minister of Finance, Senator Owen Horwood.

Basics

But the crunch will come on July 1 when the 4 percent sales tax is added to the average Black family's over-burdened household budget.

While an amount of R20 million has been set aside in the Budget to stabilise the price of basic foodstuffs, Mr Roelofse has dismissed this as an insignificant amount.

And there is uncertainty about how the R20 million is to be applied to stabilise prices.

Chief information officer for the Consumer Council in Pretoria, Mr Mike Hawkins admitted the council was still in the dark over the issue.

He said it appeared that Blacks would be severely hit by the new sales tax.

Harder

"Mrs. Loraine Gordon, research officer for the South African Institute of Race Relations said: "Unless basic foodstuffs are exempted from this tax, life will undoubtedly be harder for the lower income earners—the Blacks," she said.

Mrs. Witness Khumalo, a mother of four who lives in Umkazi, spends an average of R60 on basic foodstuffs each month—excluding bread and milk, which she buys daily.

Each month she buys: bulk supplies of maize meal, samp and rice. The new sales tax will add at least 1c a kilogram to each of these items. And she will be paying more for her daily purchases of bread and milk.

1. Distrik
2. Natal skoep
3. Komma van plaas
4. Gebruik u in skoersep? Indian wel,
5. Gebruik hulle eganisse of hondskere?
6. Hoos a) skoerders
    b) dagsmanne is daar in die
7. Hoe lank werk hulle op u plaas alke ja-
8. Waarvande kom hulle?
9. Hoe voor u hulle?
10. Hoeveel keer het die span rooie op u-
11. Hoeveel skape skoor hulle weeklikse?
12. Bataling
    Skeerders: kontant ander: ho-
13. Hoe word i
Black budget blunder

WHITE pensioners enjoy an increase of R5 a month under the new budget provisions. Black pensioners enjoy an increase of R3.25. Both are living on the breadline. Both are paying the same prices for the food they have to eat to live. Neither can afford luxuries.

The increases are measly by any standards. The discrimination is bad. We know the pensioners have inherited different standards of living but these increases have nothing to do with the basic pension. They are supposed only to meet the erosion of inflation and the erosion for both lots of people is identical.

The Minister of Finance should have made the contributions equal. It would not have done more than meet the equal difficulties faced by all pensioners in facing the hopelessly unequal struggle against costs.

OLD MAN,

Amashintshi.

WHEN Senator Horwood presented his budget to Parliament this week, he announced that excise duty on unfortified wine would be reduced by 2c a litre. Great. It will, he hopes, stimulate wine sales and give the wine industry a much-needed lift. Also great.

But there is one way of giving the wine industry a lift—and it is an industry which brings credit to this country—which he is shy of considering. He should relax the liquor laws in relation to the sale of wines and malt so that all food shops—small grocers, supermarkets and cafes—can sell unfortified wines and malt at normal trading times, as is done in civilised countries around the world today.

TASTY GRUB

Bothe's Hill.
<table>
<thead>
<tr>
<th>Week</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td></td>
</tr>
</tbody>
</table>

FOR THE SIX MONTHS ENDED 31 DECEMBER 20XX

INFORMATION AND DECISIONS OF DISPOSAL

By Michael Collin

Inflation seems set to continue in the wake of recent events. Many optimists may be misplaced.

Sen Harwood's
Inflation forecasts from 8 pc to 12 pc

By HOWARD PREECE
Financial Editor

INFLATION estimates for South Africa this year from leading economists range from 8% minimum to 12% maximum. At the lower end of the scale are, among others, Mr Meriton Dagut of Nedbank and Mr Peter Lewin of the Graduate School of Business of the University of the Witswatersrand.

Both forecast inflation for 1978 of around 6% to 8.5%.

Mr Aubrey Deckman of Anglo American, however, believes that a level of about 10% is likely.

At the upper end, Dr Johan Cloete of Barclays National Bank represents those who think 10% is the minimum and that the rate could be as high as 12%.

The differences stem partly from fundamentally different approaches to economic theory and analysis.

But there are also practical differences in interpreting present circumstances and in anticipating Government action later this year.

The table that I have compiled shows the basis of the discussion.

The protracted days of 1973 and 1974 are seen (and to a lesser extent 1975) when the supply of money and near-money rose by 23%, 25% and 17%.

That was excessive by any reasonable economic criteria, whatever one chooses to call it.

Mr Lewin's "Keynesian monetarist" spectrum or whether one believes, as I do, that the two views are not as mutually exclusive as their more excitable supporters assume.

There was, however, a time delay in the full inflationary impact filtering through to consumer prices.

Thus consumer prices rose by only 10% in 1975 — the year of the biggest increase in money and near-money supply — while the delayed action meant rates in 1976 and 1977 of 10.6% and 11.1%, while money and near-money had been restricted to 9% and 7%.

It is generally agreed by economists that this monetary overhang has now worked itself out directly. But there are major disputes about the indirect effects.

Mr Lewin, an uncompromising monetarist, says the curbing of money supply over the past two years has been such as to ensure that inflation this year cannot be above 8% to 8.5%.

He points to the declining trend in wholesale prices and the traditional relationship of those to consumer prices as empirical backing for his belief.

Mr Lewin argues that the new general sales tax cannot, for example, be regarded as inflationary. Inflation, he says, can come only from an increase in money supply (however defined) and with a delay.

Tax changes can redistribute purchasing power, they cannot affect the overall price level, he says.

Mr Dagut — "basically I am a Keynesian" — agrees with Mr Lewin's inflation estimate, but rearranges the causal chain.

He argues that the reduction in the rate of increase in the money supply is partly a reflection of a lowering level of inflation which in turn was the product of a stiff three-year inflationary policy and a slump in business confidence.

Mr Dagut's approach is broadly similar to that of Mr Dagut. But his practical conclusion is different.

Where Mr Dagut is looking at, roughly, 3% to 3.5% real growth and 6% to 8.5% inflation, Mr Deckman is thinking of about 1.5% real growth and 10% inflation.

Both views, of course, are compatible with the same total arithmetic.

Mr Deckman believes that there has been such a shrinkage in real profit margins that firms will be trying to put up prices to recover lost ground and that monetary policy this year will allow a 10% inflation with small real growth in the economy.

Dr Cloete takes this approach a stage further. He says Barclays customers generally expect 10% to 12% cost increases and they will put up their prices accordingly. That mirrors the economy generally.

The only way, Dr Cloete says, that inflation could be kept to 8% would be with negative real growth.

In other words, money supply in the medium term will prove responsive to the inflation growth mix and not the determining factor of both.

Over-simplifications are invidious in an attempt to compress so complex an issue into so short an article and apologies in advance are offered to the four economists for any space limitations in outlining their views.
Protea Holdings chief says...

Sales tax will be inflationary

Financial Editor

THE NEW general sales tax, which comes into force on July 1, will be highly inflationary, according to Mr. Fred Beard, chairman of Protea Holdings Ltd.

Mr. Beard said in Durban yesterday that the Minister of Finance, Senator O. P. F. Horwood, was evading the issue when he said that the consumer should not pay more when the new tax was introduced.

"The Minister knows full well that the net to be cast, using the new tax, will be considerably wider than the present sales duty."

It had been estimated that the cost of living may rise by 3 percent after July 1. This was after taking into account the reduction of 5 percent in sales duty.

There did not appear to be any definite arrangements for scrapping the sales duties when the sales tax came into effect.

The Minister had hinted that some of the sales duties might be converted into excise duties.

"I believe that the sales tax will collect substantially more than the various concessions given."

Poll tax

Referring to the abolition of the poll tax, Mr Beard said that this should have been scrapped years ago.

The tax had been a matter of deep resentment among Africans and it brought in only R9 million a year.

"It should have been removed to improve our badly-dented race relations and on that account only. Not as some sort of quid pro quo for another and more severe tax."

"In addition, the abolition of this tax reduces the "bait" for political as well as criminal activity."

Presentiment: plas gewerk het

beieders alloenlik:
1978 LAW CONFERENCE

Tax chief cools those inflation accounting hopes

Anne Colley

The chances of using inflation accounting to calculate new levels of company tax bills was put under a cold shower by Mr. Nicky van der Walt, Secretary for Inland Revenue, today.

Speaking at the 1978 Law Conference in Johannesburg, Mr. van der Walt said the Department could not allow inflation accounting to reduce the taxable income of a select sector — the business community — as this would whittle away state revenue.

To make up the shortfall, tax rates levied on the entire population would have to be pushed up — unless the Government turned to deficit budgeting which can so often lead to runaway inflation.

LIABILITIES

Quoting from various papers written on inflation accounting, Mr. van der Walt said "Why for instance should only companies be allowed to adjust their incomes for inflation before tax is assessed? The benefits of inflation adjustment should theoretically be extended to all classes of income and capital gains taxpayers — a sweeping reform that would be quite implementable."

And: "If you would like to be taxed on inflation-adjusted profit would you also like your tax liabilities to be adjusted for inflation occurring between the balance sheet date and the date of payment of tax?"

Mr. van der Walt also pointed out that no Government has yet shown itself willing to risk the embarrassing consequences of such an official recognition of the extent of inflation for the political risk of being dubbed "the party of inflation."

But the door is not closed. The Secretary quoted the Standing Committee. "When standards for inflation accounting have been determined and accepted, the matter can be examined again. But the effects of inflation on the entire taxing community must be considered."

Should a private company's debts be limited for the sake of the creditors? This idea was mooted by a Johannesburg attorney, Mr. C. Cox, at the conference today. "A strong case can be made out for placing at least as much emphasis on the rights of creditors as has been placed on the rights of shareholders," he said.

Mr. Cox points out that the creditors of a private company can only inspect the financial statements after he has obtained a judgment. "By that time it is usually too late," he suggests that private companies could be restricted in terms of their debt to equity ratio, and not only in terms of the number of shareholders.
Sales tax hits 1d

Cost of living will rise nearly 2 percent

(As out of money previously available for saving after expenses had been met.)

It points out that available figures indicated that in 1974, more than 60 percent of whites earned more than R6,000 while 60 percent of blacks earned less than R6,000.

While no statistics were available on how the different racial groups spent their money, there were figures that showed the different areas of expenditure on an income basis.

As the lower income groups were predominantly black, it was possible to estimate differences in areas of expenditure between them and the higher (predominantly white) income groups.

This showed, for instance, that while the lower group spent less than R2,000 a year on per capita income on food, the corresponding figure for the highest group (above R6,000) was only 2.5 percent.

Sales tax also fell heavily on those receiving less than R2,000, which would pay the sales tax on 80 percent of their expenditure, while

The Star Thursday April 20 1978
Inflation rate below 10 pc

By ELIZABETH ROUSE

The inflation rate continued to ease in March and as measured by the consumer price index, fell below 10% in the year from March 1977 to the end of last month.

The all-item consumer price index increased by 0.5% in March giving a 9.9% increase in the 12 months ended March, according to Department of Statistics figures.

This compares with a 0.9% increase in February and a 10.6% increase in the 12 months ended February.

The average inflation rate in 1977 was 11.1% and 1976's rate was 11.3%.

A slowdown in the inflation rate had been forecast by the Minister of Finance, Senator Horwood, but few economists have been as optimistic.

Senator Horwood expected a gradual easing because of "old-fashioned financial discipline"—maintaining a tight money and near-money policy.

The increase in the supply of money and near-money in 1977 was 7%, and this discipline appears to have worked through to the consumer level this year.

The continued decline in the CPI in the first quarter of 1978 is an encouraging sign, as it has happened that the inflation rate can take off in the first quarter of a year after some easing in the fourth quarter.

A 9.9% annual inflation rate was, however, not yet comfortable.

The CPI index figures show a doubling in eight years. The base date of April, 1970, of 100 grew to 207.4 in March; against 206.4 in February and compared with 190.7 in March last year.
Inflation abates

But will it continue to do so? Taking a six to nine months’ view, probably yes.

Good news on the inflation front. For the first time in nearly four years the rate has slipped below double digits. Compared with a year earlier, the consumer price index chalked up a rise of 9.9% in March, against 10.6% in February and 11.3% in January.

It will go even lower before the year is out. Why? Most importantly because the money supply has been kept on a tight rein over the past 12 months. The average monthly increase in the quantity of money and near-money was only 6% in 1977, against 15% in 1976 and 21% in 1975.

There is usually a lengthy time lag between changes in money supply growth and inflations and the dramatic plunge in the former in 1977 can be expected to bear fruit for the latter in 1978.

Certainly, the tight money and fiscal policies of the past year have dramatically altered the economy’s demand-supply equation. Previously, demand (measured by gross domestic expenditure) was running well above supply (gross national product). Now, SA is producing more goods and services than it is consuming, and it is likely to continue doing so for the rest of the year.

But what about cost push factors? Just because prices are likely to be drawn up at a slower rate because demand is flat, that does not necessarily mean inflation is out of the woods. Competition is imperfect and indeed in many areas of the economy scarcely exists at all. Which means that if costs are given a shove — say through a rise in import costs or railways tariffs or administered farm prices — the inevitable result is a rise in the general level of prices.

Fortunately, there are signs that the degree of cost-pushing is also slowing down. Consider:

- The government — as well as the arbitrator in the Railways wage dispute — has taken a hard line on public sector pay. The mining and engineering bosses appear to be doing the same.
- The rate at which import prices have been advancing fell dramatically in 1975-77. Indeed, import prices are rising less rapidly than local wholesale prices.
- Wholesale prices, both domestic and imported, are rising less rapidly than retail prices.
- Interest rates are softening.

---

As the economy gathers steam, production runs will lengthen, so slowing down the rate of increase in unit costs.

Sadly, there are also factors — important ones — that will tend to cause costs to increase. Thus:

- Foreign currency costs have recently jumped because of the rand’s depreciation along with the dollar. The dollar now appears to be stabilising now, though it is unlikely that there will be an actual reversal of exchange rate trends.
- Maize, milk and other as yet unannounced administered price increases have still to be reflected in the CPI.
- And there is the new general sales tax. Gerhard Croesen, director of internal affairs at the Finance Department, has estimated that the tax will raise the consumer price index by a once and for-all 1.25%. Rudolph Gouws of Standard Bank’s economic services department feels that 1.5% will be nearer the mark.

- Given all these factors, what do economists consider the most likely inflation rate for the year? Their guesses range from 8% to 12%.

Most, including Anglo’s Aubrey Dickman, Standard Bank’s Gouws, the AHI’s Adam Jacobs and Steilensboch’s Philip Moore, have plumped for 10% by the end of the year.

We at the F.M. are more optimistic. With demand forces in check and cost factors likely to diminish on balance, we predict a December-to-December figure of no more than 9%.
Wholesale price confirms inflation dip to below 10pc

BY HOWARD PREECE
Financial Editor

WHOLESALE prices fell marginally in March — reducing the 12-month rate of increase to 9.5%.

The wholesale price index in March was 247.3 compared with 249.5 in February. The figure for March, 1977, was 255.8.

In February this year the wholesale price index purported to show a rise of 1.4% — an annual rate of nearly 17%.

Prices, however, move erratically in the short term. What the underlying wholesale price trend is reflecting is the clear downward pattern in inflation.

The consumer price index rose by 5.8% in the 12 months to the end of March, the first time it has recorded single-digit inflation in more than five years.

The wholesale price index dipped to 9.9% for 1977, but the yearly figure rose back to 10.3% for the periods to the end of January and February this year.

Now both indices are running below 10%.

Business Mail has previously pointed out that the rise in the consumer price index over six months to the end of March was just under 6% at an annual rate — a indication that prices are being curbed even more than is immediately apparent from the 12-month figures.

This is also reflected in wholesale prices. At the end of September last year, the wholesale price index was 257.1.

That is a rise of 4% to the end of March when the index was 247.3.

So both the wholesale and consumer price indices are running below 10%.

That will come as no surprise to those economists such as Mr. Peter Lewin, of the Wits Graduate Business School, and Mr. Hertog-Dagut of Nedbank, who have been predicting an inflation rate of 8% or so for 1978.

But the general sales tax has still to come and many economists believe this will have an inflationary effect in that there will be a one-off and for all time of 1.5% in the consumer price index.

It can be argued that the tax will not affect overall prices but only change relative prices. But this assumes that competition will keep prices down rather than curb economic growth.

That remains to be seen.

Most businesses are still struggling on low profits, which are even lower when pre-tax inflation is taken into account.

The Department of Statistics reports that in the last quarter of 1977, net profit of private manufacturers was R231.9 million.

That is 7.2% down on money terms — and much more in real terms than in the 1976 equivalent of R241.8 million.

So firms will be trying wherever possible to push up prices and recover lost ground.

That trend, plus the general sales tax, could push the inflation rate back up to 10% later this year.
Inflation spectre dampens flurry of optimism as prices escalate

NEW YORK JEANNETTE REDDISH

SUN. TRIB. 7/6/78

The specter of rampant inflation reared its ugly head again this week. Negative economic indicators rolled in.

March consumer prices and the April wholesale price index jumped unexpectedly to a rate that, on an annualized basis, is close to 10 percent.

Further, a survey of corporate purchasing agents revealed a sharp climb in the prices of many raw materials and industrial parts.

The bad news about inflation dampened the brief flurry of optimism President Carter raised in April when he finally acknowledged inflation as the nation's most serious single problem.

In the face of escalating indicators of new pessimism arose about the President's call for voluntary restraint.

Such a voluntary program is obviously not yet effective and would likely not be so in the future.

Moreover, considerable doubt exists as to how determined the Federal Reserve will be in curbing money supply.

Any upturn in the economy will surely stress the Fed's announced resolve to keep money tight.

Interest rates are rising in the US which will place considerable pressure on the Fed to relent, fueling future inflation.

A group of businessmen, led by General Motors chairman, journeyed to Washington to meet the President.

Praise for President Carter's voluntary inflation programme was minimal.

A few days later in a surprise move, General Motors raised the prices of its cars by an average price of $100 dollars.

Chase Manhattan Bank raised its prime rate, the minimum interest rate charged to prime business loans, to 8.5 percent from 8 percent.

The businessmen who visited President Carter were primarily interested in discouraging the President from resorting to price and wage controls.

It has been demonstrated that such controls merely delay inflation without curing the problem.

But with inflation persistently dogging the American economy, some economists are beginning to dust off their old opinions on the price and wage control theme.

Naturally, none of this news did much to help the dollar. It hovered unsteadily at low levels.

Bad news led to worse. The oil producing nations are meeting this weekend in Teheran, Saudi Arabia, and making loud complaints about how the dollar's woes are hurting their profits.

According to OPEC's calculations, the dollar's decline is costing the oil producing countries as much as $20,000 million dollars annually because of the dollar's diminished purchasing power in world markets.

Kuwait's Oil Minister called for a consideration of an increase in the price of OPEC oil in order to offset the dollar's decline.

And once again the prospect of using another currency to price crude oil was mentioned by some cartel members.

Happily, it is unlikely the OPEC countries will do much about the dollar's weak condition. They will simply limp along with fewer dollars in their coffers. For one thing, while seriously depressed in value, the dollar has not experienced extreme fluctuations for several weeks now.

There are hopes that it's reaching a bottom OPEC cannot be certain that the dollar will not rebound. Moving into other currencies to price oil is complicated and expensive so it is easier for OPEC to do nothing.

Most importantly, "it seems unlikely that even if OPEC did indeed raise prices that the prices would be enforceable."

In a bizarre twist of fate there is currently a glut of petroleum available.

North Sea oil, Mexican and Alaskan oil is all pouring into the pipelines of the Western world.

At the same time demand has slackened as many countries still experience an economic slump.

Oil industry members predict that the oil glut will continue through the year and possibly until 1980.

Still, the mere whispered mention of an oil increase in Kuwait was enough to demolish Wall Street's ephemeral confidence.

The institutional buyers lost their nerves at the hint of an OPEC move and the market went into a tailspin.

After record-breaking trading a couple of weeks ago the stock market resumed its old pattern. It suffered its severest setback since January.
Seven weeks to check inflation

By allowing the banks to raise their lending ceilings by four percent, the Reserve Bank is making an additional R250-million of credit available — if creditworthy businessmen wish to avail themselves of these facilities.

During the past year, or more, the banks have been willing lenders; they are said to be bursting at the seams with money but there has been a dearth of borrowers. In the recessionary climate through which the economy has been passing, few businessmen have wanted to expand their operations because the demand for their goods and services has been at a low ebb.

Government policy, as outlined by the Minister of Finance in his Budget speech, is now to stimulate mildly a faltering economy. Senator Horwood set the tone with a little elasticity in his Budget and the new move from Pretoria should be seen as a further nudge towards recovery. But it is essentially a psychological jab; all the Governor of the Reserve Bank has implied is that the money will be available when the business sector needs it.

More urgency is required if the economy is to get up and get going. The upswing must be seen in action before scheduled price increases (including the new sales tax) set off another inflationary spiral. Nothing will inhibit growth with greater certainty than a quickening rate of inflation. Something, then, must be done to offset the inflationary aspects of the sales tax that is to be imposed in less than seven weeks time.
Tax to hit 65pc of spending

A leading consulting economist predicted today that the introduction of a general sales tax next month would sharply increase South Africa's cost of living.

And taxpayers can expect little relief when in come tax cuts are made a few weeks later.

Average families are expected to pay sales tax on 10.5 percent of their total spending, resulting in a leap of seven points in the consumer price index.

Personal income tax reductions also at the end of July will mean increases in the take-home pay of less than one percent for a married man (with two children) earning R9200 a month and only 1.7 percent for a married man (with two children) earning R11000 a month.

These calculations do not take into account deductions such as pension contributions and loan levies.

Consulting economist, Mr. David Brodiehouse, of Durban, who predicted the seven-point COL index tax as a result of sales tax, said today he had been compiling estimates on the fact that rent, electricity, telephone services, and transport would not be taxed.

He also predicted that another one percent increase in price increases would result from industry and commerce having to pay an additional tax on a large number of consumer items.

The income tax cuts at the end of July will result from the removal of the 10 percent surcharge on personal tax, announced by the Minister of Finance, Senator Herwood, earlier this year.
THE CONFUSION IS GONING TO BE UNREAL!

The situation is more complex than it seems. The confusion is going to be unreal. It seems like the situation is more complex than it seems.

It seems like the situation is more complex than it seems. The confusion is going to be unreal. It seems like the situation is more complex than it seems.

It seems like the situation is more complex than it seems. The confusion is going to be unreal. It seems like the situation is more complex than it seems.

It seems like the situation is more complex than it seems. The confusion is going to be unreal. It seems like the situation is more complex than it seems.

It seems like the situation is more complex than it seems. The confusion is going to be unreal. It seems like the situation is more complex than it seems.

It seems like the situation is more complex than it seems. The confusion is going to be unreal. It seems like the situation is more complex than it seems.

It seems like the situation is more complex than it seems. The confusion is going to be unreal. It seems like the situation is more complex than it seems.

It seems like the situation is more complex than it seems. The confusion is going to be unreal. It seems like the situation is more complex than it seems.

It seems like the situation is more complex than it seems. The confusion is going to be unreal. It seems like the situation is more complex than it seems.

It seems like the situation is more complex than it seems. The confusion is going to be unreal. It seems like the situation is more complex than it seems.

It seems like the situation is more complex than it seems. The confusion is going to be unreal. It seems like the situation is more complex than it seems.

It seems like the situation is more complex than it seems. The confusion is going to be unreal. It seems like the situation is more complex than it seems.

It seems like the situation is more complex than it seems. The confusion is going to be unreal. It seems like the situation is more complex than it seems.

It seems like the situation is more complex than it seems. The confusion is going to be unreal. It seems like the situation is more complex than it seems.
Sales tax exemptions published

Political Staff
CAPETOWN — Complex provision for exemptions from the general sales tax due to be introduced next month has been made in the Sales Tax Bill published in Parliament today.

The schedule of the full list of exemptions on goods in their own enterprise.

The six categories of exemptions listed in the schedule cover manufacturing, mining, quarrying, farming, fishing, and accommodation, hotel and catering enterprises.

**PROVIDES**

Another schedule provides exemption for building contractors on construction activities while having to pay tax on purchases.

Under manufacturing, the exemptions cover goods used in manufacturing or forming an integral part of other goods, any taxable services involved in the production of goods, repair or maintenance services, containers, security equipment, and materials of momentous or momentous worthiness during production, or repair, always having to be used in machines and materials used in manufacturing primary and metal products.

Exemptions under printing include paper, printing ink, solvents, ink, adhesives, paper materials and other materials.

Under quarrying, mining, and quarrying, exemptions are for tools and equipment used in mining and other materials.

Exemptions under fishing include fishing vessels, tools, and equipment.

Exemptions under accommodation include cleaning services.

Exemptions under hotel and catering enterprises include cleaning services.

Massages will be taxed

Political Staff
CAPETOWN — Massages have been included as a taxable service in the Sales Tax Bill, which means massage parlour services will also be expected to rise by four percent on July 1.

Other taxable services include services provided by architects, engineers, and accountants, the provision of Turkish and Roman baths, slimming courses, and other gymnastic facilities.

It also includes services provided by doctors or surgeons in their capacity as surgeons, or for their services.

Exemptions under transport include the rates provided by a bus or a truck or a car, any services of a medical nature provided by a medical practitioner, or a medical practitioner in the course of their professional duties.

The Calloping Sales Tax

Inflation is putting the Department of Inland Revenue under enormous pressure.

But when the Minister of Finance way it this week we have to cope as best we can he said.

South African commerce reached 6 billion and the annual price tax would reduce the inflation to that extent.

The union would be obliged to "vote overwhelmingly" for wage demands.

Recent negotiations did not take into account future price increases.

Dr Berkouf told a business seminar in Durban today that the tax was introduced a year earlier than the Department of Inland Revenue anticipated.

But when the Minister of Finance way it this week we have to cope as best we can he said.

South African commerce reached 6 billion and the annual price tax would reduce the inflation to that extent.

The union would be obliged to "vote overwhelmingly" for wage demands.

Recent negotiations did not take into account future price increases.

Dr Berkouf told a business seminar in Durban today that the tax was introduced a year earlier than the Department of Inland Revenue anticipated.

But when the Minister of Finance way it this week we have to cope as best we can he said.

South African commerce reached 6 billion and the annual price tax would reduce the inflation to that extent.

The union would be obliged to "vote overwhelmingly" for wage demands.

Recent negotiations did not take into account future price increases.

Dr Berkouf told a business seminar in Durban today that the tax was introduced a year earlier than the Department of Inland Revenue anticipated.

But when the Minister of Finance way it this week we have to cope as best we can he said.

South African commerce reached 6 billion and the annual price tax would reduce the inflation to that extent.

The union would be obliged to "vote overwhelmingly" for wage demands.

Recent negotiations did not take into account future price increases.

Dr Berkouf told a business seminar in Durban today that the tax was introduced a year earlier than the Department of Inland Revenue anticipated.

But when the Minister of Finance way it this week we have to cope as best we can he said.

South African commerce reached 6 billion and the annual price tax would reduce the inflation to that extent.

The union would be obliged to "vote overwhelmingly" for wage demands.

Recent negotiations did not take into account future price increases.

Dr Berkouf told a business seminar in Durban today that the tax was introduced a year earlier than the Department of Inland Revenue anticipated.

But when the Minister of Finance way it this week we have to cope as best we can he said.

South African commerce reached 6 billion and the annual price tax would reduce the inflation to that extent.

The union would be obliged to "vote overwhelmingly" for wage demands.

Recent negotiations did not take into account future price increases.

Dr Berkouf told a business seminar in Durban today that the tax was introduced a year earlier than the Department of Inland Revenue anticipated.

But when the Minister of Finance way it this week we have to cope as best we can he said.

South African commerce reached 6 billion and the annual price tax would reduce the inflation to that extent.

The union would be obliged to "vote overwhelmingly" for wage demands.

Recent negotiations did not take into account future price increases.

Dr Berkouf told a business seminar in Durban today that the tax was introduced a year earlier than the Department of Inland Revenue anticipated.

But when the Minister of Finance way it this week we have to cope as best we can he said.

South African commerce reached 6 billion and the annual price tax would reduce the inflation to that extent.

The union would be obliged to "vote overwhelmingly" for wage demands.

Recent negotiations did not take into account future price increases.

Dr Berkouf told a business seminar in Durban today that the tax was introduced a year earlier than the Department of Inland Revenue anticipated.

But when the Minister of Finance way it this week we have to cope as best we can he said.

South African commerce reached 6 billion and the annual price tax would reduce the inflation to that extent.

The union would be obliged to "vote overwhelmingly" for wage demands.

Recent negotiations did not take into account future price increases.

Dr Berkouf told a business seminar in Durban today that the tax was introduced a year earlier than the Department of Inland Revenue anticipated.

But when the Minister of Finance way it this week we have to cope as best we can he said.

South African commerce reached 6 billion and the annual price tax would reduce the inflation to that extent.

The union would be obliged to "vote overwhelmingly" for wage demands.

Recent negotiations did not take into account future price increases.

Dr Berkouf told a business seminar in Durban today that the tax was introduced a year earlier than the Department of Inland Revenue anticipated.

But when the Minister of Finance way it this week we have to cope as best we can he said.

South African commerce reached 6 billion and the annual price tax would reduce the inflation to that extent.

The union would be obliged to "vote overwhelmingly" for wage demands.

Recent negotiations did not take into account future price increases.

Dr Berkouf told a business seminar in Durban today that the tax was introduced a year earlier than the Department of Inland Revenue anticipated.

But when the Minister of Finance way it this week we have to cope as best we can he said.

South African commerce reached 6 billion and the annual price tax would reduce the inflation to that extent.

The union would be obliged to "vote overwhelmingly" for wage demands.

Recent negotiations did not take into account future price increases.

Dr Berkouf told a business seminar in Durban today that the tax was introduced a year earlier than the Department of Inland Revenue anticipated.

But when the Minister of Finance way it this week we have to cope as best we can he said.

South African commerce reached 6 billion and the annual price tax would reduce the inflation to that extent.

The union would be obliged to "vote overwhelmingly" for wage demands.

Recent negotiations did not take into account future price increases.

Dr Berkouf told a business seminar in Durban today that the tax was introduced a year earlier than the Department of Inland Revenue anticipated.

But when the Minister of Finance way it this week we have to cope as best we can he said.

South African commerce reached 6 billion and the annual price tax would reduce the inflation to that extent.

The union would be obliged to "vote overwhelmingly" for wage demands.

Recent negotiations did not take into account future price increases.

Dr Berkouf told a business seminar in Durban today that the tax was introduced a year earlier than the Department of Inland Revenue anticipated.

But when the Minister of Finance way it this week we have to cope as best we can he said.

South African commerce reached 6 billion and the annual price tax would reduce the inflation to that extent.

The union would be obliged to "vote overwhelmingly" for wage demands.

Recent negotiations did not take into account future price increases.

Dr Berkouf told a business seminar in Durban today that the tax was introduced a year earlier than the Department of Inland Revenue anticipated.

But when the Minister of Finance way it this week we have to cope as best we can he said.

South African commerce reached 6 billion and the annual price tax would reduce the inflation to that extent.

The union would be obliged to "vote overwhelmingly" for wage demands.

Recent negotiations did not take into account future price increases.

Dr Berkouf told a business seminar in Durban today that the tax was introduced a year earlier than the Department of Inland Revenue anticipated.
6000-m deals a da spell chaos

Galloping Sales Tax

Warnings of chaos, exploitation and starvation were given today as the Government's long-awaited Sales Tax Bill was tabled in Parliament.

Food will be biggest problem for poor

South Africa's Sales Tax Bill, designed to tax spending rather than income, will strike at rich and poor alike, reports Harold Freed.

Cigarette prices to go up tomorrow

Introductions to the price of cigarettes and a number of other goods were announced today in the name of the general sales tax which will put up prices again on July 1.

The increases mean that over the next three months the sales tax in the retail price of some goods will be proportionately greater than in others.

The suggested retail price of cigarettes will increase by 10c a packet of 20 from tomorrow, announced the Remoranini Group and United Tobacco.

Pipe tobacco goes up by 3c a 100g pack.

TRANSPORT

The increase follows several cost increases, including packaging materials and transport. The price rise is equivalent to less than 2.5 percent on the present price, the manufacturers said, adding that the increase had nothing to do with the impending sales tax.

Condensed milk wholesale prices have been increased by nearly 10 percent while certain lines of milk powder, baby food, chocolate milk, cream and kow food will also become more expensive.

EXAMPLES

Examples of price hikes are condensed milk from 35c to 38c for a 207g tin; evaporated milk from 84c
The weight of its impact will, however, fall more on lower income groups. The worst blows will come from the tax on food. 

In practice, the end user pays a tax on the cost of raw materials. But only if the user intends to pass the tax on to the consumer will the end user pay. There is no tax on raw materials. No end user will be taxed - but not the raw materials he uses.

In principle, the end user will pay the tax - not only on goods, but also on most services.

Examples of such services are repair and maintenance of domestic appliances and factory equipment, car, watch and shoe repairs, and professional services of people such as dental mechanics, pharmacists, optometrists and opticians.

Fees charged by doctors, lawyers and architects and certain other professional men will escape the tax.

FOOD ONLY

Leisure time will cost more as the tax will affect hotels, boarding houses and camping and caravan sites.

There is some measure of relief for permanent residents in hotels and boarding houses as they will pay tax on only 30 percent of their bills - the food content.

Among exemptions are all exports, certain concessions to mining and farming, accommodation provided by charitable institutions for children, the aged and the handicapped and food in staff canteens.

The Stone's Parliamentary Staff report that the Opposition today expressed fear that the impact of the tax would have in pushing the poor spatial upward one rung.

In an appeal for use of the aid in system he said to approve the expansion of the day in South Africa.

And business leaders pointed out with alarm that they are an unhealthy trend and of a movement of the tax on food - cream from 40c to 42c for

The wholesale price of food will increase nearly by a kilogram of grocer's food by 2c for two kilograms, canned milk by 5c for 125 kg and tobacco by 15c. The Manufacturers' Association, which has made its position clear, will protest about the tax.

Telegram

The Federation of Trade Union Council of South Africa (FUTSA), the white Confederation of Labour, and the Confederation of Metal and Building Unions send a joint telegram to the Ministers of Finance and Social Affairs, expressing their concern over the tax.

The Labour bodies represent 1.5 million families.

In addition, a move is made to unite the entire labour movement in action against abnormal price increases. Points made today by trade union leaders included:

1. "There is a danger of stagnation among low-paid workers," said Mr. Wessel Kromer, Secretary of the Confederation of Labour.

2. "We cannot deprive children of essential foods by pricing them out of their parents' pockets," said Mr. A. Le Roux, president of the Confederation of Labour.

Unemployment

"We have to think of the unemployed, for whom there is no Government relief once they have exhausted their unemployment insurance benefits," said Mr. Steve Schepers, a vice-president of Transvaal.

At the last count, in April, 40,000 unemployed were paying benefits from the Unemployment Insurance Fund.

But black unemployment stood at 650,000 last October -

To Page 3, Col 2
Inflation trend still slowing

BY HOWARD FREERE

CONSUMER prices rose by 9.5% in the 12 months to the end of May, confirming a downward trend in inflation so far this year. The rate in the overall consumer price index last month was 0.8% — 6% a year from 8% in April to 5% in July of 1978. Every month in 1978 has shown a declining rate of increase in the CPI.

The rate for the 12 months to the end of January was 11.5%, to February 10.6%, to March 9.9%, to April 8.7%, and to May 9.5%.

At the end of last November the CPI was 10.8% against the level in May of 10.1%.
SUPREME GRAND CHAPTER OF THE HOLY ROYAL ARCH OF SOUTH AFRICA

SCHEDULE OF STOCK HELD AT 30-6-1977

<table>
<thead>
<tr>
<th>ITEM</th>
<th>NO. HELD</th>
<th>GRAND CHAPTER UNIT SELLING PRICE</th>
<th>UNIT VALUATION FOR B/S - (COST WHERE ASCERTAINABLE)</th>
<th>TOTAL VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>GRAND CHAPTER REGULATIONS</td>
<td>151</td>
<td>50c</td>
<td>35c</td>
<td>52,85</td>
</tr>
<tr>
<td>RITUALS</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R.A. (English)</td>
<td>11</td>
<td>2,80</td>
<td></td>
<td></td>
</tr>
<tr>
<td>R.A. (Afrikaans)</td>
<td>200</td>
<td>0,70</td>
<td></td>
<td></td>
</tr>
<tr>
<td>M.M.M.</td>
<td>-</td>
<td>2,10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>E.M.</td>
<td>-</td>
<td>0,80</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Apron Badges</td>
<td>8</td>
<td>2,00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Certificates &amp; Diplomas</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>M.M.M./E.M.</td>
<td>29</td>
<td>0,60</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Affiliation</td>
<td>255</td>
<td>0,60</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Installed Z</td>
<td>222</td>
<td>0,60</td>
<td></td>
<td></td>
</tr>
<tr>
<td>REGALIA</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R.A. Collarettes</td>
<td>7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R.A. Collarettes</td>
<td>4</td>
<td>15,00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principals Chains</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

NOTE: All other Grand Chapter Regalia on Hire to Grand Chapter Off Accounting Purposes.
Consumers give proof of cheating

Pretoria Bureau

The South African Co-ordinating Consumer Council has proof of some businesses putting up prices by as much as 30 percent under the guise of sales tax.

This was revealed in Pretoria today by the council's chairman, Professor León Weyers, who said the "vast majority" of consumer complaints received were about retailers who used the inclusive tax system.

Typical examples are j d e e s at a Pretoria supermarket now selling for 71 cents with an obscured label indicating a previous price of 59 cents.

Breakfast cereal in Johannesburg was approximately 30 percent according to the two clearly visible marked prices, and a washing fluid with a price increase of 12 cents from 49 to 61.

These were merely random samples of the many hundreds of complaints reaching the council. Some customers had even taken the trouble of taking products with them to the council's offices, said Professor Weyers.

The council was taking up each case with the retailer concerned, he said.

Professor Weyers stressed that some complaints about excessive price increases by stores using the inclusive system had been received.

"But at this stage consumers appear to be more suspicious of retailers who have included the tax in their prices," he said.

Professor Weyers said investigations showed many of the prices' increases were not unpriced. They were the result of direct cost increases which had been kept back by retailers until prices had to be wrung for the introduction of the new tax.
What causes inflation?

INFLATION is an increase in prices caused by an increase in the supply of money, Mr. Michael O'Dowd, a manager of Anglo American Corporation, told the Free Market Foundation last week.

He said that there were two other reasons for price increases—a sudden fall in supply and a sudden rise in demand.

"The point about inflation is that governments create new money out of nothing and use the money to buy real assets. Not merely is the amount of money increased without any corresponding increase in the amount of goods and services available to be bought, but the government expropriates part of the available goods and services and gives in return something which is inherently worthless," Mr. O'Dowd said.

The graph on this page goes some way to indicate and validate Mr. O'Dowd's claim. As the consumer price index rises so the money supply increases. Economists will argue for hours which comes first—but there is a clear link.

Notes in circulation

The figures relate to notes in circulation, which are probably no more than about 15 percent of the total money supply which is tied up in bits of paper which the banks and money houses circulate.

The monetarist school of economists appears to hold the theory that a nation's housekeeping is pretty much the same as your own—if you live beyond your means and borrow to do so against, for example, your house, your physical output or salary has to increase to keep up with the expenses of borrowing.

As Mr. O'Dowd points out, the government prints more bank notes, or puts more money into the money supply, and in effect borrows against the expectation that six taxation and incomes will rise to meet the cost of borrowing.

Its own efforts are largely negative. There is no added value from the work of most civil servants as there is when a man takes iron ore and produces a motor car. Services such as roads, hospitals and armies do not generate profits.

Loss emerges as taxation

Mr. O'Dowd says that the subsequent loss emerges as taxation. People pass on the loss by increasing prices, demanding higher wages and stockpiling real assets. The government intervenes in the form of price control.

Inflation was very old—just as old as money. The first form was the debase ment of coinage. The next was the uncontrolled printing of money. More recently it had been brought about by credit creation.

In the early days of commercial banking, excessive credit creation led to a speculative bubble, which led to depression. Central banks under State control, and in the belief that private banks could not be trusted with the power to create credit, secured the monopoly of this power.

Once this was done they used this power for a different purposes for which they were supposed to prevent the private banks from using...and to a far greater extent. But when a boom created by a central bank collapsed nobody in these banks suffered. Instead, governments introduced price control.

All governments banked after the power to bestow bounty on the people on whom they rely for support. But they have no resources, so they take from the very people they pretend to be benefiting. "This was the root of all inflationary policies," he said. "The effect of inflation has in many cases been totally disastrous.

Mr. O'Dowd said the alleged beneficial effects seemed to be like nothing so much as the "beneficial effect which an alcoholic experiences when he drinks to ease his hangover."

Given that the blame for inflation belongs to government, how is it to be ended or reduced? Simply by decreeing that the money supply must be controlled firmly. That answer is not too simple.

We have seen how inflation can rage while a recession is in full swing. Prices rise because of supply and demand, so businesses need to make a profit. Tough times sort them out.

Too vigorous a dose of the economic medicine brings about unemployment as tough times sort them out. Money looks financially sound from the weak. Political factors emerged. Should one hearken for full employment regardless, or budget for a permanent force of unemployment?

Should politicians build up expectations of a better life ahead which the man in the street translates into hire purchase and spending on credit?

Anti-inflation medicine & tough stuff from which most politicians shudder. If there were no economic question it could be solved overnight. Because it is a political question only the brave will step in and cure the galloping disease that seems to forecast an expensive end for all of us.
Pieces and the Hungry Black

Stomach

Empty

on an

Election
Industrial Location:
The National P.D. Plan
Black Migrant Works
The Social and Economic Labour in the Textile Solar Radiation Patterns Commuting Patterns from
Nature of the Fishing Industry at Residential Location Theory in the Cape Town Plumstead Retail Trade Areas and Consumer

Language Variation in Residential Areas of Labour Bureaux - A Study Residential Patterns of the Coloured Pop A Comparison between 2 Coloured Housing A Case Study of Pinelands as a Garden City Spatial Analysis of Burn Cases in Child Brasilia - Success or Failure? Development Economic Blight in Muizenberg A Study of Land Use Change in Salisbury

The Impact of the Roßing Uranium Mine An Economic and Social Discussion about Mill Street/Orange Street Area of An Evaluation of the O'Kiep Copper Mine A Consideration of the Effect on The Transport System of a Bottling Plant A Study Into the Effects of Seasonal of Yellowtail at Fish Hoek Beach by Factors Determining the Ecological Reserve, with Regard to the Aile
A Study in Coloured Shopping in Atland Models of Rural Land Reform - The

The Way in which Perceived Distance Urban Area.
Examination of the Importance of Imagery.
Transkei: An Illustration of its Cape Town Electoral Districts.
Perceptions of the Cape Peninsula

Economist slams inflation rate

Deputy Financial Editor

SOUTH AFRICA'S inflation rate is lamentable, if not outrageous. Professor J. L. Sadie says in introducing the Bureau for Economic Research's survey of prospects for next year.

He is head of the bureau and points out that the country is entering an economic revival with inflation at around 10 percent, and this after three years in which the economic body could have been cleansed of such malignancies.

"Nobody seems perturbed about it, except the politicians who have seen the purchasing power of their life savings reduced by 50 percent within six years. Not a pleasant legacy," said Professor Sadie.

The forecast says that GDP should improve by 3.8 percent having reversed the downward trend this year and falling to speed up next year. GNP would increase by 2.5 percent - the same as for 1978.

An important growth sector was manufacturing production, where a 3.5 percent growth (2.3 percent this year) was expected from increased consumer spending this year and additional fixed investment next year.

Cost factors

Inflation would fall one percentage point to 9.5 percent but cost factors would limit the extent of the decline in the price picture.

Consumer spending would prove to be the prime growth factor in the economy. In real terms, there would be a 3.7 percent increase. Main improvements would be seen in semi-durables, followed by a lesser extent in non-durables and services while spending on durables would fall from the high rate this year.

The bureau forecast substantial investment changes in the period. There would be a change of R320 million in inventories as commerce and manufacturing built up stocks but the agriculture sector would slow down.

Public corporations would be investing this year whilst the private sector would reverse in the second half of next year to reverse a negative trend by 7.8 percent and make a positive growth of 1.8 percent.

Imports rise

Exports will slow down to an increase of 5 percent against the 8.9 percent rise this year; imports will increase from the 14.5 percent rise this year to a high 18.8 percent increase next year as consumer demand speeds up.

A strong reduction in the surplus on current account was forecast and it was thought it would move into deficit in the last quarter of 1979. It was estimated at R1 225 million this year and R345 million for next year.

A further cut in the bank prime lending rate of 12 percent from the present 17 percent was forecast, which would be in line with the current Government policy to stimulate the economy. There would be further scope for the short and long-
INFLATION

Wage pressure ahead?

Will current inflation rates fetter economic growth? Bureau for Economic Research director Jan Sadie thinks so. But others, including the PM's Economic Adviser Simon Brand, are less pessimistic.

Sadie says that the present rate of inflation, about 10%, is "lamentable" and "outrageous". He believes it will hamper economic growth. "And," he says, "nobody seems to be perturbed about it except, of course, the pensioners who have seen the purchasing power of their life savings reduced by 50% within six years.

Brand also thinks the inflation rate is too high, but argues that unemployment is the most serious problem facing SA today. He reckons inflation is on a downward trend. With no demand pressures forcing up prices he doesn't see a conflict between policies for growth and inflation, at least for the next year to 18 months.

Sanbank's Rudolf Gouws expects "significantly slower growth" in administered prices over the next few years. In the Sixties they were fairly constant, but they started to accelerate in 1971 and have recently been one of the major sources of inflation. Gouws points out that since early 1977 there has been a distinct slowing down.

Barclays' Johan Cloete fixes on wage demands. He thinks pay increases are not, on average, exceeding 8% to 9% at the moment. As long as this is the case, in his opinion, inflation will not accelerate.

But higher wages are the most likely nucleus for worse cost pressures next year. As Gouws, Cloete and many others have recently pointed out, shortages of skilled labour are already evident in the economy. With economic recovery these will become acute and exaggerated costs.

push pressures.

The surprising feature of SA's skilled labour bottleneck is that it appears to have tightened before the economic recovery got under way.

For 1979 the BER is predicting a rate of 9.5% compared with an estimated 10.5% for 1978. But it isn't a great improvement. And cost pressure especially generated by the skilled labour shortage will remain a nagging problem.

Of employees in the

<table>
<thead>
<tr>
<th>EMPLOYMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>WHITES</td>
</tr>
<tr>
<td>----------</td>
</tr>
<tr>
<td>7 589</td>
</tr>
<tr>
<td>2 951</td>
</tr>
<tr>
<td>16 580</td>
</tr>
<tr>
<td>724</td>
</tr>
<tr>
<td>8 039</td>
</tr>
<tr>
<td>35 883</td>
</tr>
</tbody>
</table>

4. DISCUSSION OF THE FINDINGS

A. Question 3 (how many African technicians a firm would employ ...)

The answers to this question have provided us with an idea of what categories of technician are most in demand. However, our answers in fact consist of four different figures, each of which could be taken as an indication that one category of technician is more in demand than another. This is where the subjective impressions of the researcher must come into play and he must use his own judgement in deciding how to rank the different categories in order of demand for each. He must decide at the relative weight to place on the figure for the immediate demand for each category and the number of firms demanding technicians in each of those categories. The same must be done for 1981.
Inflation accounting plan faces big hurdles

BUSINESS must not look for any tax relief flowing from inflation-adjusted company profits until the newly published inflation accounting guidelines begin to be replaced by the "lost-taxation" practice, according to the Secretary for Inland Revenue, Mick van der Walt.

He told me this week that Government could not afford to cut its expenditure in line with any reduction in income that taxes based on inflation adjusted profits might entail.

It is now clear that the Inland Revenue's attitude, coupled with the business community's reluctance to highlight the "imputable" practice of publicising inflation-eroded earnings are the two most serious obstacles confronting the National Council of Chartered Accountants' (NCCA) recommended guidelines.

"Government expenditure cannot be further diminished; it has already been pared as far as possible by the time the budget reaches parliament and my own consideration in viewing tax reform is quantification with an eye on the budget requirements," Mr Van der Walt said.

"I am concerned with the tax yield from the taxpayer as a whole. The man in the street has inflation 'problems' as well. If corporate taxes are reduced through the use of inflation accountancy, who will bear the brunt of replacing the "lost-taxation" to ensure that we keep away from deficit budgeting?"

As you and me." The attitude of Inland Revenue, however, is really a later hurdle the NCCA must face. First it has to win the support of the business community.

There is nothing mandatory about the guideline; it has merely been recommended by the NCCA, which now looks to the profession's integrity and initiative to ensure corporate support for the supplementary income statement expansion.

But, as one senior executive of a major financial institution says: "It's bad news and you don't have to do it, who the hell is going to do it?"

The view of Warwick Thorby, the NCCA chairman, that if "the majority of companies adopt the recommendation, the Revenue authorities will more readily accept the need to levy tax on profits so reported" is considered "wishful thinking" by some businessmen.

In fact, Stewarts and Lloyds, acknowledged a leader in the use of inflation accounting, now see little value in publicly reporting inflation adjusted figures. S and L's financial director, Richard Anderson, explains that after following the policy of reporting inflation adjusted results, for three years, "we have discontinued this because disclosure does not solve the problem."

The group's philosophy, says Mr Anderson, is that public disclosure of inflation adjusted figures has not helped to reduce the extraneous profit from earnings and the problem has now been distilled into one of funding rather than financial reporting.

"Inflation accounting techniques are ghastly," he adds, and S and L for internal management purposes. But says Mr Anderson, "the SA business community, admittedly a sophisticated one, needs refined business techniques more than it needs inflation accounting."

By IAN MUIR

S and L's efforts are now being directed more closely at bridging the funding gap - the difference between cash retained by the business and cash required - which current cost income statements should highlight.

This may be done by increasing dividend cover, improving profitability, scaling down expansion or working with fewer assets.

Nor are stock market evaluations about to be adjusted by possible 'shock' disclosures of companies adopting the NCCA's recommended guidelines and showing that dividends are being paid not out of earnings but capital.

Analyst Winston Floquet, of brokers Martyn and Co, forecasts that the current academic treatment of inflation-adjusted results will take time to influence share "market prices."

But eventually, he says, it could create hesitancy in inflation-prone sectors.

"Analysts and the investing community recognise this accounting step as only a start. It will result in new research input for analysts and it could highlight inflation sensitive areas, causing a shift in investing emphasis," Mr Floquet says.

Clearly, National Council's guidelines have eliminated none of the controversy surrounding the thorny topic. Nor, I would guess, are they intended to.

What is more important now is that they be "sold" by the council to professional accountants and to the investment public in a simple and straightforward way, as support for changes as complex as these will have to be won.

Indications are that it will most certainly not be voluntarily forthcoming to any degree.
Fear rising
CoL may hurt upturn

SOUTH AFRICA'S economic recovery is facing a formidable threat from a mounting inflation rate which could hamper the consumer-led upturn in the short term at least.

Economists are concerned that the already hard-pressed consumer will have even less disposable income if the cost of living continues to mount and they fear a renewed round of wage rises which could on its own be a severe inflationary factor.

The latest CoL shock is a rate of almost 1 percent in the wholesale price index in September to an annual rate of 9.86 percent as against 9 percent in August. But on a month-on-month basis it is lower than August's 1.5 percent. The wholesale price index has been rising at a slower annual rate than the consumer price index which is running at an annual rate of 11.7 percent. Price trends at the wholesale level are sooner or later reflected at the retail level as they filter through the system.

While the immediate inflation outlook is far from reassuring, some economists believe the rate nevertheless is heading down and that the current rise is a once-and-for-all hiccup caused by GST. They are predicting a sharp fall next year.

Nedbank economist Mr. Mielo Dugn yesterday warned that businessmen would have to show the greatest responsibility in considering price rises or else the incipient economic recovery would be stifled. An 11.3 percent CPI rate was an extraordinarily high base for a recovery and an ongoing high inflation rate could sharply cut the duration of the upturn unless some way was found to increase incomes. In his view, tax cuts were unlikely before the Budget.

There were few easy solutions to the problem. Traditionally an option for economic planners would be to tighten the money supply, but there were already complaints that the money supply had expanded too slowly. Such a policy took a long time to be felt — the time lag could be six months to a year. The best remedy would be to create an awareness of the implications of price rises and boycott a free-enterprise system should consider that this freedom carried a responsibility.

Inflation was public enemy number one, not only in South Africa but throughout the world. It was a basic law of economics that the government could never control inflation, but only react to it. The government could only gather information and advise accordingly.

Combination

"It is probably attributable to the combined impact of GST, exchange-rate depreciation and previous increases in administered prices." Mr. Attie de Vries, deputy director of the Bureau for Economic Research of the University of Stellenbosch, said in an interview. "While the depreciation of the dollar is not detrimental to the balance of payments, the situation points to the need for drastic action in the field of domestic prices. As a result, it may be the first real indication of the dollar's value against the rand and the need for a change in exchange-rate policy in South Africa."

End of the line

The rising CoL is the worst
cost of foods. The rising CoL, import surcharges of 15 percent, exchangerate depreciation and previous increases in administered prices, are the sources of trouble. The latest wholesale price index showed a rate of increase of 10.6 percent in September, compared with 10.5 percent in August.

Success in reducing single-digit inflation next year would be a significant achievement, but the performance of the business community and the public. The only arrow left in the quiver of policy which would have direct offsetting price effects would be the immediate abolition of the
Economy stalls as experts clash

Governor under pressure

Bob de Jongh
Simon Brand
Gerhard de Kock
Joep de Loor

There is a sharp conflict over economic policy in top level Government and Central Bank circles.

Major disagreements have emerged that have led to a policy decision statement that has lasted months.

Yet it is a fact that the current account is in substantial surplus and inflation appears to be moderating.

But, quite clearly, the Governor believes this situation to be precarious, especially in view of the massive amounts of capital still fleeing the country.

As Dr de Jongh said at the Union graduation ceremony on May 1st: "It is a fact that foreign financial institutions scrutinise our balance of payments situation and our inflation rate very carefully, and also our policy in this regard, before they decide to lend money to South Africa."

An important inflationary factor is the money supply, which, the Governor said, "is excessive." The annual meeting of the National Provident Corporation this week, had "accelerated a slow increase in the first quarter of 1978 to a seasonally adjusted annual rate of 17 per cent in the second quarter and then accelerated further to an annual rate of 21 per cent in July and August."

Moreover, the "increase in the consumer price index after elimination of the influence of the GST, accelerated again in the third quarter of 1978."

Now, Dr de Jongh prepared to attempt to encourage investment and prolong the export boom by linking the rand's external value to a more market-related formula.

He told the annual meeting of the Reserve Bank on August 22 that the current exchange rate policy had "provided a remarkable degree of stability to the external value of the rand over the past three years," but "the system of floating exchange rates" had created "uncertainty and inflationary expectations." The lack of investment generally.

In sharp contrast, on the hill in the Union Buildings, the Treasury men take a profoundly different view.

To Finance Secretary, Mr. Joep de Loor, to special economic adviser Mr. Gerhard de Kock, who is also senior deputy governor of the Reserve Bank, and chairman of a commission into monetary policy, and to the new economic adviser to the Prime Minister, Dr. Anton Brand, the question of continuing high interest rates and expected profits in the private sector, including any risk premiums, which might be necessary, should increase to a level at which they would serve as a strong inducement to both residents and non-residents to expand their investments here.

The Treasury camp has not taken fright at the massive money supply increases in the second quarter and which continued into July and August.

They point out that official statistics are unreliable at present because of dislocations from the effect of the introduction of GST and because they are based on monthly end positions whereas there are large unrecordable increases in and out of the monetary sector and between public and private sector during the course of each month.

Declining business activity suggests that, while money circulation figures give a false impression of an increase, the activity of circulation has not risen sufficiently under present circumstances.

It was essential that annual and expected profit in the private sector, including any risk premiums which might be necessary, should increase to a level at which they would serve as a strong inducement to both residents and non-residents to expand their investments here.

The Treasury camp has not taken fright at the massive money supply increases in the second quarter and which continued into July and August.

They point out that official statistics are unreliable at present because of dislocations from the effect of the introduction of GST and because they are based on monthly end positions whereas there are large unrecordable increases in and out of the monetary sector and between public and private sectors during the course of each month.

Declining business activity suggests that, while money circulation figures give a false impression of an increase, the activity of circulation has not risen sufficiently under present circumstances.

It was essential that annual and expected profit in the private sector, including any risk premiums which might be necessary, should increase to a level at which they would serve as a strong inducement to both residents and non-residents to expand their investments here.

The Treasury camp has not taken fright at the massive money supply increases in the second quarter and which continued into July and August.

They point out that official statistics are unreliable at present because of dislocations from the effect of the introduction of GST and because they are based on monthly end positions whereas there are large unrecordable increases in and out of the monetary sector and between public and private sectors during the course of each month.

Declining business activity suggests that, while money circulation figures give a false impression of an increase, the activity of circulation has not risen sufficiently under present circumstances.

It was essential that annual and expected profit in the private sector, including any risk premiums which might be necessary, should increase to a level at which they would serve as a strong inducement to both residents and non-residents to expand their investments here.

The Treasury camp has not taken fright at the massive money supply increases in the second quarter and which continued into July and August.

They point out that official statistics are unreliable at present because of dislocations from the effect of the introduction of GST and because they are based on monthly end positions whereas there are large unrecordable increases in and out of the monetary sector and between public and private sectors during the course of each month.

Declining business activity suggests that, while money circulation figures give a false impression of an increase, the activity of circulation has not risen sufficiently under present circumstances.

It was essential that annual and expected profit in the private sector, including any risk premiums which might be necessary, should increase to a level at which they would serve as a strong inducement to both residents and non-residents to expand their investments here.

The Treasury camp has not taken fright at the massive money supply increases in the second quarter and which continued into July and August.

They point out that official statistics are unreliable at present because of dislocations from the effect of the introduction of GST and because they are based on monthly end positions whereas there are large unrecordable increases in and out of the monetary sector and between public and private sectors during the course of each month.

Declining business activity suggests that, while money circulation figures give a false impression of an increase, the activity of circulation has not risen sufficiently under present circumstances.

It was essential that annual and expected profit in the private sector, including any risk premiums which might be necessary, should increase to a level at which they would serve as a strong inducement to both residents and non-residents to expand their investments here.

The Treasury camp has not taken fright at the massive money supply increases in the second quarter and which continued into July and August.

They point out that official statistics are unreliable at present because of dislocations from the effect of the introduction of GST and because they are based on monthly end positions whereas there are large unrecordable increases in and out of the monetary sector and between public and private sectors during the course of each month.

Declining business activity suggests that, while money circulation figures give a false impression of an increase, the activity of circulation has not risen sufficiently under present circumstances.
Inflation prospects gloomy

BY GERALD REILLY
Pretoria Bureau

SOUTH Africa faces another year of price rises and double-digit inflation in 1978, according to economists.

To offset this, the Minister of Finance, Senator Owen Horwood, is in a strong position to grant significant tax relief.

Organised commerce and industry are clamouring for increased spending in the retail sector to help sustain the limited and hesitant recovery of the past eight or nine months.

Increased spending will also give the economy another forward prod.

Without this, the economy could take another nose-dive, economists said.

The petrol price could rise by as much as 4c a litre, motor industry sources have claimed.

The local price will be forced up by a basic increase in the price of crude oil of at least 10%, and higher rail tariffs.

All public sector workers — including railwaymen — are certain to get pay increases from the beginning of the year or from April.

Senior public servants are expecting the rise to be about 10%.

In the Transport Ministry, Mr S L Muller, has said tariffs would have to be increased if workers are paid more.

The Organisation of Petroleum Exporting Countries (Opec) meets in Abu Dhabi next month to fix a new crude oil price.

The hope is that price rise be kept under 7.5%.

However, the strikes and disturbances in Iran — the Middle East's second largest producer — have reduced Iranian oil production.

This has strengthened the position of those among the 13 Opec members who have been pressing for an increase of as much as 25%.

The last increase in the price of crude oil was 5% in January, 1977.

But despite the threat of increasing prices and bread should stay at the current price until the next budget.

The Minister of Agriculture, Mr Hendrik Schoeman, has said that was because of the R39 million set aside to subsidise basic foods.
the inherent imperfections of any such survey are borne in mind.

Citibank concedes that categorisation of countries as “industrialised” or “less developed” is subjective, while the quality of price data varies from country to country. Apart from the problem of measuring changes in the quality or shifts in the composition of goods and services consumed, there is the far more serious objection that IMF price data (which Citibank uses) underestimate actual rates of inflation, especially in countries, like many less-developed nations, whose governments impose price controls which are in practice nullified (or, at any rate, partly offset) by flourishing black markets.

Naturally, SA is not the only poor performer. Citibank notes with regret that the US moves out of the five industrial countries with the lowest rates of inflation for the first time since 1974.

If SA’s rate of currency depreciation since 1972 has worsened, it at least remains better than that of most less-developed countries. Whereas for them in the 1967-72 period currency depreciation was less marked than in the developed countries, in recent years the reverse has been true.

Citibank blames this on rapid export growth by non-oil less-developed countries in 1976-77, while they held down the growth of imports by various restrictions. Coupled with foreign borrowings, this led to a substantial increase in their foreign reserves and — in the absence of restrictions on domestic credit expansion — increased money supply.

Money-stock growth in non-oil less-developed countries now seems to be abating. If this is sustained, there should be a moderate decline in third-world inflation.

**SAGGING MONEY**

<table>
<thead>
<tr>
<th>Indexes of value of money (1967 = 100)</th>
<th>1972</th>
<th>1977</th>
</tr>
</thead>
<tbody>
<tr>
<td>Switzerland</td>
<td>81</td>
<td>61</td>
</tr>
<tr>
<td>West Germany</td>
<td>84</td>
<td>61</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>55</td>
<td>55</td>
</tr>
<tr>
<td>Austria</td>
<td>81</td>
<td>58</td>
</tr>
<tr>
<td>Netherlands</td>
<td>75</td>
<td>19</td>
</tr>
<tr>
<td>Japan</td>
<td>76</td>
<td>11</td>
</tr>
<tr>
<td>Belgium</td>
<td>82</td>
<td>62</td>
</tr>
<tr>
<td>US</td>
<td>79</td>
<td>55</td>
</tr>
<tr>
<td>Ireland</td>
<td>69</td>
<td>33</td>
</tr>
<tr>
<td>Portugal</td>
<td>27</td>
<td>8.0</td>
</tr>
<tr>
<td>Australia</td>
<td>81</td>
<td>44</td>
</tr>
<tr>
<td>Norway</td>
<td>74</td>
<td>38</td>
</tr>
<tr>
<td>UK</td>
<td>73</td>
<td>34</td>
</tr>
<tr>
<td>Canada</td>
<td>83</td>
<td>54</td>
</tr>
<tr>
<td>France</td>
<td>76</td>
<td>47</td>
</tr>
<tr>
<td>Finland</td>
<td>77</td>
<td>39</td>
</tr>
<tr>
<td>SA</td>
<td>81</td>
<td>47</td>
</tr>
<tr>
<td>Denmark</td>
<td>74</td>
<td>45</td>
</tr>
<tr>
<td>Sweden</td>
<td>78</td>
<td>50</td>
</tr>
<tr>
<td>Italy</td>
<td>82</td>
<td>39</td>
</tr>
</tbody>
</table>

**INFLATION FM | 10/11/78**

SA deteriorates

From 1967 to 1972, SA had the lowest inflation rate of any of a sample of 25 industrialised countries, but only seven countries fared worse than SA in 1972-77, and only eight are likely to do worse this year, according to a Citibank survey.

That is a sad indictment of SA’s economic policy in recent years, even if
Hope to curb inflation is fading

By Michael Chester, Financial Editor

Hopes of pulling inflation back under the 10 percent level by the end of the year faded today with the release of an official survey showing prices are still nearly 12 percent higher than a year ago.

Cost of living trends have still to recover from the shock waves of the General Sales Tax which halted the gradual decline of inflation to barely 9 percent by mid-year and pushed the pace back to 12.4 percent in July.

Consumer resistance forced the rate back to 11.7 percent in August but it has shown a stubborn refusal to lower any more.

The Department of Statistics finds that the October figure was equally as bad at the identical 11.7 percent — and poorer families were still carrying the heaviest burden.

Prices for the lower income groups are as much as 12.8 percent higher than a year ago, reflecting the price spiral on absolute essentials such as the food basket, which take a bigger proportion of the household budget of poorer families.

Inflation cooled a little for middle-income groups last month from 11.9 percent to 11.7 percent, but heated up for higher income families from 11.3 percent to 11.5 percent.

Taking all income groups into account, the month-on-month rise in the cost of living was a little slower between September and October at 0.3 percent.

But the Christmas spending spree is likely to crack the whip on prices again.

The Johannesburg Chamber of Commerce has already forecast that a record R3.4 billion will be spent on Christmas shopping rounds — but there will actually be less in the shopping basket than a year ago because of soaring price tags.

---

National Diploma for Technicians

A) QUALIFICATION
SA inflation in the big, bad league

By HOWARD PREECE
Financial Editor

SOUTH AFRICA'S inflation rate is now among the highest in the Western world. The overall consumer price index rose by 11.7% in the 12 months to the end of October, according to the Department of Statistics.

Figures from the International Monetary Fund show that consumer prices in industrial countries rose by only around 7% for the year to the end of August 1979.

Inflation is, however, accelerating in some other Western countries.

In the United States, for example, consumer prices rose by 7.3% for the year to August — but, according to Mr Barry Bosworth, US Wage Price Council director, the rate has lately been rising closer to 10%.

The IMF says the rates are August for Belgium, Japan, Holland, and Norway were 4.1%, 4.2%, 4.5% and 7.8% respectively.

For West Germany the rate was only 3.4%.

In the higher levels the rates for Canada, Denmark, Italy and Sweden were 9.5%, 9.5%, 11.6% and 8.3%.

Inflation slowed signs of slowing, however, in all these countries.

There are, of course, some countries worse off than South Africa on the inflation front. Both Portugal and Israel, for example, are running cost-of-living increases at annual levels of over 20%.

The all-stems South African consumer price index rose by 0.5% in October from 472.7 to 474.1.

This increase was smaller than the rate of 0.6% in September, but it was still enough to keep the 12-month rate at 11.7%.

In October — the same level for the year to the end of both August and September.

The 12-month rate for higher-income groups to the end of last month was 11.3% while for middle-income groups it was 11.6%.

Worst hit were the lower-income groups — mostly blacks — where the annual rise to October 31 was 12.6%.

That was, however, an improvement on the 13.4% to September.

It can be argued that the inflation rates for South Africa are misleading in that the Government chose to give people an increase in real income by direct tax cuts, but then to cancel this out roughly by the introduction of general sales tax.

It is true that comparisons with 1977 cannot be based solely on price and wage increases.

Tax changes have also to be considered. If the Government were hypothetically to scrap income tax tomorrow and replace it with additional GST, it could lead to headlines such as "Cost of living soars 5%".

But such lines would conceal as much as they would reveal.

The problem, of course, is that direct tax concessions have little meaning for most blacks while price increases on basic items have an immediate impact.

There must, therefore, be an urgent Government priority to get the inflation rate down.

The recent trend of a tighter money supply policy suggests that inflation will decelerate next year, perhaps quite satisfactorily.

But South Africa's international comparison shows that we must be careful before we talk glibly of "irresponsible" policies in other countries.
Wholesale price blow to inflation hopes

Financial Editor

A FURTHER disappointment to the Government's anti-inflation hopes came yesterday with the announcement that wholesale prices rose by 9.3% in the 12 months to the end of September.

That is the second successive month in which wholesale price inflation has accelerated.

This reinforces the warning on Tuesday by Dr T W de Jongh, the Governor of the Reserve Bank, that inflation remains a critical problem.

Consumer prices were bound to get an hefty upward boost from the introduction of general sales tax.

In fact, the consumer price index is running at a higher rate than was generally expected even after GST.

Now comes the disturbing news that wholesale prices — which are basically affected only to a small extent by GST — are also on an upward rate of inflation matter a long and steady deceleration.

The wholesale price index at the end of September was 261.1, against 258.5 in August and 257.2 in September 1977.

That is a rise of just under 1% in September after an increase of 1.3% in August.

At the end of July the rate of increase in wholesale prices for the previous 12 months was down to 9.9%.

That was the lowest annual period since early 1972.

It also compared with a rate of 9.3% for 1977 and with figures of 19.4% in 1974, 16.5% in 1976 and 14.4% in 1978.

That shows a difficult hard struggle to bring the rate back down to single figures.

Now it is threatening to go back into double-digit inflation.

Consumer prices have already returned to that level with a rate of 11.7% for the 12 months to the end of August and September.

Dr De Jongh said on Tuesday: "Regarding prices, the increase in the consumer price index, after elimination of the influence of the general sales tax, accelerated again in the third quarter of 1978."

"The problem of inflation, thus remains a serious concern and indicates the desirability for the time being at least, of continuing with the policy of not stimulating the economy too strongly."

The substantial increase in bank credit together with the influence of the higher gold price has already contributed to a sharp rise in private sector liquidity and an increase in financial activity.

"It is, however, of the utmost importance that there should not only be increased financial activity but also an increase in real activity to counteract the problems of inflation and unemployment."

Higher import prices caused by the fall of the rand with the dollar have obviously been a factor in the upturn in wholesale prices.

This seems to strengthen the case for reducing the 12.5% import surcharge.
higher than any other industrial country — even in Italy prices rose by only 11.6% in the year to August.

Economists are quick to point out that the overall trend in SA is still down. The consumer price index rose by only 0.5% in October, which expressed at an annual rate (an unreliable way of measuring inflation) is only 6%. Both Standard Bank's André Hamersma and Stanbank's Rudolf Gouws reckon 1979's inflation rate will be in single figures probably around 9%-9.5%.

But even that is too high — and considerably above the 7%-8% predictions which were made by many forecasters a few months ago.

According to the Dept of Statistics, October's price hikes were concentrated on dairy products (including eggs), fruit, clothing and footwear. In September, vegetables were the main culprit.

There is little evidence of heavy demand prompting manufacturers and merchants to raise their prices, though Gouws points out that in the past six months unit prices have jumped ahead, faster than unit costs.

Hamersma adds that the current price spiral "has a long history of special factors. In an embattled economy, inflation continues to remain high." Among recent structural changes are the pressures on Iscor and Escom to generate more operating revenue to replace foreign loans, an easing of price control on many widely-used items and hikes in import prices following the depreciation of the
No drop foreseen in inflation rate

PRETORIA—An inflation rate boosted firmly into double figures by expected higher rail and postal tariffs, and by a spate of wage increases in the first six months of the year, will persist throughout 1978, according to labour leaders and economists.

Considering the certainty of higher food prices during the year, the inflation rate is unlikely to fall much below the current level of nearly 12 per cent.

A bread price rise, together with the annual hikes in other agricultural products, including maize, is certain unless the government agrees to a heavy subsidisation of basic foods to relieve the rising numbers of unemployed blacks.

The Progressive Federal Party's financial spokesman, Mr Harry Schwarz, MP, says exchange coffers are awash with surplus funds, but whether these will be used to relieve lower income groups will depend on government priorities.

Last year's budget virtually ignored lower income groups and pensioners, and they will be in dire need of aid if, as expected, the inflation rate remains at a high level throughout 1978.

The railway workers' increase will cost the administration more than R100 million, and the bonus they have been promised in January will add another R80 million.

The Minister of Transport, Mr Louwrens Muller, has said if the wage bill rises rates will be lifted to meet the cost.

The Postmaster General, Mr Louis Rive, has indicated the likelihood of a post office rates hike next year.

The post office's annual wage and salary bill is about R300 million, and if its workers get the ten per cent rise promised to railway workers another R30 million will have to come out of revenue next year.

Labour leaders fear a wave of new price rises will follow wage and salary increases for public sector workers.

It is estimated the 900,000 public sector workers—nearly 500,000 of them white—will share increases amounting to about R400 million a year from next April.

And yesterday the president of the Trade Union Council of South Africa, Mr Ronnie Webb, warned traders against exploiting the increases to squeeze more from the buying public.

He stressed, too, that next year a spate of wage increases could be expected with little prospect of a decline in the country's unacceptably high inflation rate.

"Some unions are already negotiating for higher earnings and during the first six months of 1978 a large number of other unions will be demanding compensation for continually rising living costs."—DDC.
MONEY SUPPLY

No inflation link?

Dr Franz Pick has long been one of the most colourful mavericks of the financial world, taking a delight in standing conventional wisdom on their head. In the forthcoming edition of his annual Currency Yearbook, he launches an attack on the theory that rates of inflation can be correlated with growth in money supply.

Pick has calculated the per capita money supply (M1 - currency in circulation plus demand deposits) for 80 countries at the end of last year, and compared this with their 1977 inflation rates. The results are surprising.

If all currencies are converted into US dollars at free market, rather than the often artificial official rates, Switzerland has far the highest per capita money supply of any of the 80. Yet its inflation rate was the lowest, matched only by Sri Lanka.

The highest inflation rate in 1977 was in Argentina: 176.1%. Yet Argentina's money supply was only $203 per head. Malaysia, with a similar money supply, experienced only 4.8% inflation.

SA had a money supply of $179 per head and a CoL rate of increase of 11.3%.

Both Britain and Singapore have money supplies of about $800; yet the UK suffered 15.9% inflation in 1977. Singapore 3.2% (Inflation is taken from official cost of living indices, which Pick warns vary in composition and in many cases include low-priced consumer items carrying heavy government subsidies. Indices can also be subjected to "cosmetic treatment.")

<table>
<thead>
<tr>
<th>Country</th>
<th>Money supply (US$/head)</th>
<th>Inflation rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Switzerland</td>
<td>4,543</td>
<td>1.3 (1)*</td>
</tr>
<tr>
<td>Belgium</td>
<td>2,282</td>
<td>7.1 (17)</td>
</tr>
<tr>
<td>Japan</td>
<td>2,217</td>
<td>8.1 (25)</td>
</tr>
<tr>
<td>France</td>
<td>1,993</td>
<td>9.5 (33)</td>
</tr>
<tr>
<td>Italy</td>
<td>1,945</td>
<td>17.0 (62)</td>
</tr>
<tr>
<td>Denmark</td>
<td>1,925</td>
<td>11.1 (40)</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1,012</td>
<td>6.4 (12)</td>
</tr>
<tr>
<td>Norway</td>
<td>1,741</td>
<td>9.2 (31)</td>
</tr>
<tr>
<td>US</td>
<td>1,588</td>
<td>8.6 (14)</td>
</tr>
<tr>
<td>Kuwait</td>
<td>1,565</td>
<td>8.2 (26)</td>
</tr>
</tbody>
</table>

*Numbers in parentheses designate ranking by cost of living increase.
Inflation slows — but battle looms

By DEREK SMITH

SOUTH Africa's soaring cost of living levelled off dramatically in November, according to figures released by the Department of Statistics.

The 9.35% overall increase was the lowest of any month in 1978 and, projected over 12 months, works out at only 4.27% a year — a figure which economists regard as satisfactory.

Whether the brighter trend has been maintained through the hectic December Christmas shopping peak remains to be seen.

But the November figure will help bring down the annual rate of increase for the year, now running at 11.9%.

It seems certain, however, that the authorities are not going to succeed in their efforts to bring the inflation rate below 10% — and the major fuel price increases in January will make the battle even harder in 1979.

Another major setback was the introduction of General Sales Tax in July, when all items on the Department of Statistics index rose very sharply by 8.8 points.

Sugar has the doubtful distinction among commodities of having risen fastest in price during the period — 45.5%. In cash terms, sugar costing 50c last November now costs 71.7c.

Food prices in general rose more quickly than most other commodities, increasing by 14.8%.

The cost of household maintenance rose even more rapidly. Housewives with a R900-a-month household allowance in November last year, for example, now need at least R950 a month to maintain similar standards.

The only category in the index to come down during the 12-month period was beverages — coffee and tea — which dropped 2.9%.
INFLATION

2 - 1 - 79

to

28 - 12 - 79

\[ \times \]
Inflation rate is ‘dangerous’

By Kevin Murray

Consumers woke up to the New Year facing a number of price blows that are sure to boost the country’s inflation rate to “dangerous levels,” according to the Opposition’s spokesman on economic affairs, Dr Zac de Beer.

Dr de Beer, PFP MP for Parktown, said today the mischief of these sector employment (with dips in 1970) jobs were added to the (roughly)

This represents 15 years of employ rate of 2 per cent per annum.

12.1.2 In the years 1962 to 1976 continues but at a slower rate and fluctuations. If one simply takes face value and fits a constant growth 1961 and 1976 the rate at which job of this 30-year period turns out to between 1946 and 1961 viz. 0.2 per argued above in the case of gold) on constraints in 1974 to 1976 — and if one takes the first 10 months’ employment figures for 1977 as establishing the probability of an annual average of about 700 000 workers in employment this year, then the growth rate rises to about 0.6 per cent per annum — still quite distinctly below that for 1946-61.

12.2 The underlying reasons for the different employment growth records in the two periods are fairly clear.

12.2.1 In the period to 1961 employment in gold mining was expanding — adding about 95 000 jobs to the total. This impulse was imparted to the overall total. Similar expansion of output and employment in coal, asbestos, quarries and salt and manganese ore (to take the obvious candidates) reinforced the growth tendency. It appears that technical progress was not yet of the sort (or at the rate) to damp down employment growth markedly — in the face of rapid output growth.
A protracted illness

The major Western economies are staggering into 1979 in a state of disarray.

From some points of view there are signs of improvement in their performance and hopes of better times to come. Yet it is also becoming clear that the illness they are suffering from may be more deepseated than first diagnosed.

Meanwhile, the threat of a full-scale US recession and a retreat into protectionism have loomed as possible new stumbling blocks on the stony path back towards full employment.

The good news is that the major industrial democracies can report further progress in their long, slow struggle against inflation and a narrowing in some of the divergences between them that seemed to inhibit sustained recovery.

In Western Europe, the average rate of price rise in 1978 will be about 9%, compared with 11% a year before. In Italy, for example, inflation has come down from 17% to 12% and in Britain from 16% to 9%. In the US, where inflation is now above the European average at some 10%, the Carter administration has thrown its social spending commitments out of the window and slammed on the monetary and fiscal brakes.

At the same time, as inflation edges downwards, the so-called "locomotive" strategy for Western economic recovery, launched last year by the OECD with strong backing from the US and most European countries, is building up a head of steam.

After months of diplomatic haggling, Germany and Japan have agreed to expand their economies faster, sucking in more imports, topping the big peaks of their trade surpluses and giving other countries a chance to share their growth.

Already this combination of stabilisation policies in the weaker industrial countries and expansionary policies in the stronger ones is starting to bear fruit.

France, Britain and Italy have all turned balance of payments deficits into surpluses over the past 12 to 18 months. Meanwhile the prospects are for a dramatic reduction in the enormous current account deficit from the roughly $19 billion level last year to between $5 billion and $8 billion in 1979.

Yet for all the huffing and puffing by the locomotive economies and despite the efforts of the weaker economies to get themselves into better working order, the train is still only moving at a snail's pace.

Last year saw a modest improvement in growth rates in many Western industrial countries. Britain clocked up 3% compared to 0.7% the year before, Germany 3% against 2.4% and Italy 2% compared with 1.7%.

Yet these figures are a far cry from the roughly 4.5% growth rate needed on average in the Western industrial world to start reducing unemployment. As a result the total number of unemployed in the 24 industrial member countries of the OECD edged up another 500,000 or so to about 17m.

The prospects for 1979 are no better. A further modest improvement is likely, in the rate of growth of some of the stronger economies, and West Germany hopes to achieve something close to 4% as the new stimulus package agreed at the July summit meeting works through.

But in the OECD Secretariat's view, this is unlikely to offset a slight slowdown in economic growth in Japan and a very marked one in the US, where the overall expansion rate is predicted to decline to 2.2% - or well below the Carter administration's hoped-for 3%.

It remains to make some comment on the performances of individual economies.

...
OECD FORECASTS

<table>
<thead>
<tr>
<th>Country</th>
<th>1978</th>
<th>1979</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>3.8</td>
<td>2.2</td>
</tr>
<tr>
<td>Japan</td>
<td>5.8</td>
<td>4.8</td>
</tr>
<tr>
<td>France</td>
<td>2.9</td>
<td>2.9</td>
</tr>
<tr>
<td>UK</td>
<td>3</td>
<td>3.5</td>
</tr>
<tr>
<td>All OECD</td>
<td>3.5</td>
<td>3.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OECD total</th>
<th>1978</th>
<th>1979</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$1.6B</td>
<td>$1.6B</td>
</tr>
</tbody>
</table>

For the OECD area as a whole, the Secretariat now foresees a decline in overall growth during 1979 from 3.6% on average to 3.3%, with the second half of the year weaker than the first. Once again, the prospect in most industrial democracies is for longer and steeper contractions.

The picture could be even worse, of course, on two additional hypotheses. The first is that the Carter administration overdoes its stabilisation policy this year in the same way as it overdid its efforts to maintain employment during the past two years.

Many private forecasters now expect a deep recession in the US, with virtually no growth and sharply increased unemployment. The effects of such a downturn on the rest of the world could be magnified if slower American growth encourages protectionism.

It is worth asking why the industrial economy is taking so long to recover from recession, despite locomotive strategies and other plans for restoring growth and employment.

**More intractable**

The answer seems to be that the Western world's economic difficulties are proving more intractable and complex than was first imagined. In the first place, inflation remains historically high in all the industrial economies, giving little room for expansionist policies.

Moreover, Western governments are beginning to see the restoration of domestic financial stability as the prerequisite for economic recovery. Everywhere the emphasis is switching away from pump-priming and reflationary expenditure increases or tax cuts. Instead, the overriding public enemy remains rising prices and excess monetary creation.

As British Chancellor of the Exchequer Denis Healey is fond of saying, "Governments no longer believe they can spend their way back into full employment."

A third reason for the Western industrial world's continuing poor economic performance is the growing tendency for governments to subside and protect obsolete industries, like shipbuilding, steel, and textiles, to preserve employment.

In abstract terms, all governments are aware that such labour-intensive industries are likely to become the preserve of the developing countries while they must develop new high technology industries to take their place. But the adjustment is politically painful, and the use of subsidies and protection to delay it promotes economic inefficiency and retards recovery.

But if the outlook is thus for continuing slow economic growth, the Jerusalems have so far been wrong on one point. The Western world's lacklustre economic performance has not brought Europe's communist parties to power, provoked massive civil disorder in the US, or led to a general breakup of the social fabric. On the contrary, Western governments and their electorates are still showing remarkable self-restraint and fortitude in the face of economic adversity.

---

The OECD table below shows the aggregate expectations of 1976-1979, while total input-output and the aggregate projections a little later in the discussion since we must rely on projections of these aggregates.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Output (trillion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>68000</td>
</tr>
<tr>
<td>1977</td>
<td>70000</td>
</tr>
</tbody>
</table>

Note: (1) applies to the columns (2) and (3) and (4) and (5) for the next columns (2) and (3) are proportional projections for the year 1976, (4) and (5) are proportional projections for the year 1978, (6) and (7) are proportional projections for the year 1978.
INFLATION HEDGES

The Pick of the bunch

Creeping consumer prices in many countries have once again thrown the spotlight on inflation hedges. Which were the best in 1978?

According to Franz Pick, purchases of Krugerrands gained greatly in popularity, and were surpassed only by the transactions of the gold futures markets of North America, whose overall average daily volume was over 3m ounces, or $600m a day. But the highly coveted business of objects of art and/or sophistication continued to arouse worldwide interest. This annual review of auction trends is based by Pick on the results of leading markets in America, England, France, Switzerland, Hong Kong and West Germany.

The percentage price increase or decrease indicates the advance or decline in the highest price paid for an item in its group, compared with the top price reported in 1977.

Unusual transactions during 1978 transferred artworks of ‘million-dollar’ bids into public collections. The largest amount involved $3m-$4m resulting from the sale of a Peter Paul Rubens canvas, *Self-Portrait with His Wife & Child*, by Baron Guy de Rothschild of Paris to Mr and Mrs Wrightman of New York, who loaned it to the Metropolitan Museum.

The *Portrait of Sigismond Malesia* by P Della Francesca was acquired for $2m by the Louvre in Paris. A small watercolour by Albrecht Durer, *The Isolated Rock of Doss Trento*, was bid up by a private buyer for a West German museum to $1.28m, a fantastic price.

Just as amazing as these art prices were the private sales of Gutenberg Bibles. One was sold by Hans P Kraus of New York for $1.8m to a West German museum. Another was purchased by the University of Texas for $2.4m.

At the auction of the Robert von Hirsch collection, one of a pair of arm ornaments (Armillas), ca 1165, supposedly from the coronation vestment of Emperor Frederick Barbarossa, was acquired by a West-Germany museum for $2.2m, while a Mosan enamel medallion by Godfried de Clare, ca 1150, was sold for $2.4m.

American art was led by George C. Bingham’s painting, *The Jolly Flatboatman*, which was bid up to $980,000 in Manhattan, a 367% jump against 1977’s highest price. The *Thomas Eakins* canvas, Archbishop William Henry Eiber, rose to $265,000, and Raphaelle Peale’s *Strawberries and Cream* was paid $195,000.

Watercolours’ top price rose 8% in 1977. In 1978, a small Cézanne, *Nature Morte avec Melon Vert* fetched $555,000 — up 363%. Picasso’s *La Marchande de Gui* brought $126,000.

Rare stamps had one of their best years, with demand increasing everywhere. In a Hamburg auction, an 1835 Swedish 5-shilling stamp rose to DM1,000, equal to R470.600, just 333% above the 1977 5-cent British Guyana price.

---

Statement of Assets and Liabilities

<table>
<thead>
<tr>
<th>Accumulated Fund</th>
<th>77/78</th>
<th>Current Assets</th>
<th>77/78</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance Sept. '77</td>
<td>R301.15</td>
<td>Savings a/c</td>
<td>R300.26 (43.89)</td>
</tr>
<tr>
<td>Savings a/c</td>
<td>43.89</td>
<td>Petty cash</td>
<td>.89 (1.04)</td>
</tr>
<tr>
<td>Petty cash</td>
<td>1.04</td>
<td>Surplus for the period</td>
<td></td>
</tr>
<tr>
<td>(50.18)</td>
<td>44.93</td>
<td>Sept '77-Sept'78</td>
<td></td>
</tr>
<tr>
<td>(5.25)</td>
<td>256.22</td>
<td>R301.15</td>
<td>R301.15</td>
</tr>
</tbody>
</table>

**Note:**

Of our current assets a very large portion is reserved for specific purposes: R200, being the balance in the Stellenbosch Farmers Winery a/c, is destined for the purchase of Asterix books which will be presented to various schools in the Western Cape and R28.50 is held in trust for the purchase of prizes. Thus a sum of R72.65 remains for routine expenses (77-78 = R65 - see starred items in Exp. and Rev. a/c). This excludes the cost of prizes and of the commentaries project. As we have already received our grant for 78/79 from CASA it is clear that we shall have to call on outside sources for help when, as is likely, the expenses connected with the above, recur this coming financial year.

J.C. SANG
Sec./Treas., CASA (M.P.)
12.5.78.
Modern European paintings. Piet Mondrian's Geometric Large Composition went for $800 000 at Christie's, 264% above the leader in 1977. It was followed by Kandinsky's Improvisation mit Pferden, which realised $365 000 at Sotheby Parke Bernet.

Cars: A 1932 Duesenberg Phaeton sold for $235 000 at an Auburn auction, topping by 183% the top price of 1977.

Clocks and watches had an exceptional year. An 1828 Tourbillon gold watch by Breguet was bid up to $287 350 in a Zurch auction, up 139% on the leading price of 1977.

Drawings. Dürer's Christ on the Mount of Olives was knocked down for $600 000, 115% above 1977's Michelangelo. A Van Gogh, Mas à Saintes-Maries, brought $410 000, and another drawing of Van Gogh, Arles, Vue des Champs de Blé, realised $400 000.

Art Nouveau became more presentable in 1978 and its prices improved.

Miniatures. A Small Minature of the Crucifixion from the Von Hirsch collection was sold for $180 000, a 64% higher bid than for a Nicholas Hilliard the year before.

Post-impressionists had a 53% higher top price. The Japanese government bought a Picasso painting, Clown & Child, for $980 000. The Amadeo Modigliani Jeune Femme à la Robe Jaune fetched $330 000 at SPB, and Vlaminck's Mont Valérien got $205 000 at Christie's.

Pastels. Top price in 1978 was 58% higher than the previous year. The bid was for a Degas, Femme Se Pignant, that fetched $380 000.

Porcelain. A 1752 Mennah white figure of a large macaw by J J Kaendler was paid $210 000 at SPB, 56% more than another Mennah figure fetched in 1977.

Books and manuscripts. The large and fully illustrated Khurram Shah-Durrani Shahnama from Khurram, with 62 superb miniatures dated 1611-1602, went for $620 000 at SPB.

Violins. A 1710 Stradivari Violincello sold by Baron Nathaniel de Rothschild fetched $290 000, 39% above the 1977 leader.

French Impressionists. The Japanese government bought Rousseau's Goddess of Liberty for $1.1m. An 1874 Pissarro, Portrait de Paul Cézanne, was purchased for $600 000, and the Matisse Nature Mort à la Dorneuse brought $620 000. Courbet's famous canvas, Demoiselle des Bords de la Seine, was auctioned off at SPB for $1.5m.

Precious stones improved in 1978. A 20.56-carat, pear-shaped diamond sold for $803 600, or $39 085 per carat, in Zurch, up 36% over 1977. A 26.95-carat, emerald-cut green blue gem was paid $715 000, or $26 530 per carat, at Christie's in New York. A 15-carat, flawless emerald-cut diamond rose to $410 236 in another Zurch sale, yielding $27 350 per carat.

Chinese art. The best sale — a 14th-century blue and white Ming dish — fetched $300 000, only 21% above the 1977 top item.

Carpets gained only 6% in 1978, when the best sale of a Tabriz silk carpet yielded not more than $211 500 in a Geneva auction.

French furniture, which only a few years ago electrified American and London auctions, had a peaceful year, during which the top price was 3% higher than 1977. A pair of Cabochon jades of imperial green colour was sold in a Hong Kong auction for $285 600, down 4% from a year ago.

Etchings. Their top price was 15% lower in 1978 than the highest price of 1977, and Pissarro's La Minotaumachine went for $125 000 at SPB.

Surrealists. The Paul Klee Gestern Flowers in a Glass Vase by Jan Brueghel the elder was sold for $360 000 at SPB, and Van Ostade's A Frozen River Landscape fetched $507 600.

Sculpture. The top sale price was 74% below the previous year.

Currencies were tossed about in the worldwide maelström generated by the sinking dollar. With currency chaos the order of the day, capital flight into the few remaining "strong" currencies as well as into gold soared to unprecedented dimensions. In summary, during 1978, there were at least 118 full or partial devaluations in 29 countries.

The best free or black market performances for 1978 were attained by the Guinea syl, jumping 58%, the Tanzanian shilling, climbing 28%, and the Japanese yen, advancing 24%. The most deterioration was registered by the Argentine peso, crumbling 38%, the Zairian zaire, skidding 35%, and the Indonesian rupiah, tumbling 34%.

Mattisse's still life . . . sleeping, but for from dead, at $620 000.
NOT GOOD ENOUGH

The outlook for food prices is "ugly", says one bank economist. They will be pushed up by higher fuel prices as well as lobbying by hard-pressed farmers.

One optimum is former inflation fighter Lawrence McCrystal, who expects the rate of price increases this year to be between 7% and 8%.

Rhodesia's inflation rate fell to 8.2% last year (the average of higher and lower income group inflation rates) compared with 10.8% in 1977 and 10.3% in 1976. There are three main reasons for the fall: the first since 1976.

- Indirect taxes were not raised last year in contrast to the two previous years when the rate of sales tax was raised from 5% to 15%.
- The rate of imported inflation slackened slightly.
- Government's pay pause, which lasted from early 1977 to the middle of last year, is likely to have slowed the rate of price increases.

However, prices were rising faster in the second half of last year than in the comparable period of 1977, and signs are that the pause in inflation will be short lived.

Since the new year, a wide range of price increases has been announced ranging from milk to newspapers, while health and education fees have been sharply increased and electricity tariffs were raised on January 1. Some railway rates are going up on March 1. There is a meat price rise in the pipeline and the price of fuel will go up any day now. All this suggests that the inflation rate will return to double figures this year and may well go as high as 12%

- The lower income households lost the heritage of their extraordinary developments.

The weather, following a drought-cycle prior to independence, led to the build up of herds (1976 about 3 million cattle which culminated in the substantial export of beef to Europe in the early and mid-1970s. Organised slaughter and export through the Botswana Meat Commission (BMC), good services and favourable prices enabled the farmers by 1977 to double their earnings from 137 000 to 210 000 over the same five years.

2. Leading sectors being mining and building it inevitably meant that the first decade was characterised by high capital outlays. In agriculture, good weather, follow...
SA inflation seen at 10% this year

By HOWARD PREECE
Financial Editor

There is now a wide measure of agreement between the Government's economic planners and private sector forecasters that inflation this year is likely to be around 10%. This is in spite of the fact that the rise in the consumer price index was running at an annual rate of only 6.9% in the last five months of 1978.

Dr Gerhard de Kock, senior deputy governor of the Reserve Bank and special economic adviser to Senator Hendrik van der Merwe, the Minister of Finance, says there is certainly no excess demand in the South African economy today.

This is borne out by the pattern of money supply rises in the past three years. In 1976 the increase in the supply of money and near-money as defined by the Reserve Bank was 9% and in 1977 it was down to just under 7%.

It is true that the increase was running at an annual rate of 11% in the first nine months of 1978, but the final figure for the year is expected to have turned out less than that.

There is also the fact that the special situation of the introduction of the general sales tax made some easing of monetary curbs necessary — actually it was more a taking up of monetary "spare capacity" if the hasty economic recovery was not to be brought to an abrupt halt.

What is clear is that in real terms there has been a fall in money supply since 1975 because prices have continued rising at over 10% a year.

This has been both possible and necessary because of the excessive money supply rise in the previous three years. That punt-up monetary demand has now, however, been checked.

Table 1

<table>
<thead>
<tr>
<th>Year</th>
<th>1975</th>
<th>1976</th>
<th>1977</th>
<th>1978</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>355</td>
<td>93</td>
<td>317</td>
<td>197</td>
</tr>
<tr>
<td>4</td>
<td>33</td>
<td>33</td>
<td>33</td>
<td>37</td>
</tr>
<tr>
<td>0</td>
<td>47</td>
<td>67</td>
<td>86</td>
<td>90</td>
</tr>
<tr>
<td>1</td>
<td>06</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>179</td>
<td>455</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4% rather than the "no change" course of 3% will push the inflation rate up to about 10%.

Dr De Kock has acknowledged that 10% is likely to be the outcome.

Dr Jan Hupkes, formerly chief economist of the Federal group and now at the University of South Africa, also suggested yesterday that while the inflation rate might dip to 6% during this year, oil price increases and other factors would probably push it back to 10% by the end of the year.

At the upper end, however, Dr Johan Cloete of Barclays National Bank — who was almost spot-on in forecasting last year's 11.5% inflation rate as measured by the consumer price index — has warned that inflation in 1979 could again turn out around 11% if the economy is to grow at 4%.

It can be argued that oil price rises cannot be deflationary, that this can only happen if they are "financed" by rises in domestic money supply.

However, as such price rises are certainly likely to prove deflationary, in the sense of depressing real economic growth unless there is some monetary accommodation, it seems reasonable to suppose that the Reserve Bank will allow some easing in monetary policy as it proves necessary.
Inflation rate on rise again

By Anne Colley

South Africa's grip on inflation appears to be slipping — recent price rises in the petrol and food industries helped to stoke the cost of living index a full percentage higher in January, putting paid to the fond hopes of some business circles that inflation had been contained.

The latest figures from the Department of Statistics — which have been labelled conservative by certain consumer bodies — show a one percent jump in the cost of living index during January.

This puts the overall inflation rate for the 12 months to the end of January at 11.6 percent, which is no higher than the rate seen during the last six months of 1978.

But it is the highest monthly increase — with the exception of July which included the introduction of the new sales tax — seen for over a year.

This sharp increase, together with the rising trend noted in wholesale prices over the past six months, could well herald a stoking up of the inflation rate, with worse to come if the oil crisis is not resolved.

During the first half of 1978 the inflation problem appeared to be under control with the cost of living rate below 10 percent. But with the introduction of GST in July the index returned to double figures and has not dropped below 11 percent since then.

The 11.6 percent by which the cost of living jumped in the past year is cause for concern when viewed against a background of falling interest rates.

The value of investments are being whittled away far more swiftly than they are being replenished by interest and so for those who depend on their investments for their living expenses, the situation is disturbing.

The main contributor to the sharp January increase was the rise in the petrol price, followed by meat and vegetables. But with talk of further petrol price rises in the pipeline, the chances of containing the cost of living index in the short term look slim.
Inflation below 8pc forecast by Volkskas

INFLATION will drop to about 7 or 8 percent in the second half of the year from its present level of about 11 percent, forecast Volkskas' economists.

The bank's latest Economic Spotlight says the rate of increase in the consumer price index would have been below 10 percent last year had it not been for General Sales Tax levied in July which boosted the index by 2.4 percent.

The percentage increase in the index for 1978, however, was still lower than that for the previous four years in spite of the impact of sales tax.

'Although the inflation rate is declining there is still room for improvement,' says the review.

'With the official policy of growth with financial discipline, we expect a further decline in the rate of increase in the consumer price index in 1979'.

INCREASE

'During the first six months, general sales tax, which is not included in the index for the first six months of 1978, will probably increase the rate beyond the 10 percent level.

'In the last six months inflation is expected to decline to between 7 and 8 percent. For 1978 as a whole, an inflation rate below the double-digit level can be expected.'

Volkskas adds that financial discipline is indispensable in the control of inflation.

'A permissive economic policy which aims to exceed the productive potential of a country will inevitably lead to a continuation of the inflation problem with its evident dangers to the free market system.'

REVISION

'The review points out that in spite of the recession, inflation increased annually at double-digit figures in the past five years.

The main factors were: Rises in administered prices which were delayed in the past; the culmination of the rand-in 1975; significant wage rises especially for blacks which were not supported by a rise in productivity, and a generous increase in the money supply.'

The bank's forecast of lower inflation takes into account the latest hikes in fuel prices as well as the Railway budget, standstill on fares and rates.
INFLATION A double-digit year

Prospects of SA’s inflation rate falling below last year’s level of 10.8% have dimmed. Indeed, the 1.7% hike in the consumer price index last month and recent shock rises in administered prices, have prompted economists to raise their earlier estimates of this year’s inflation rate from round 9.9% (FM January 26) to 11%.

The surge in prices during March is a reflection of the ripple effects of the 30% fuel price hike this year and the climb in administered prices during January and February. A bank economist reckons the major effect of the last fuel price increase is still coming.

Food price rises were comparatively low last month. But after the 21% jump in the maize price, they cannot be expected to fare so favourably in the months ahead. For instance, prices of dairy products, meat and poultry are certain to rise. There is also talk of the cost of bread going up in September. Volkskas economist A. E. Engelbrecht, who estimates an inflation rate between 10% and 11% this year, reckons that the strongest inflationary push will come from increases in administered food prices.

Among other past and future price hikes which darken the horizon are:

- A 10% increase in the price of tyres, tubes, and retreading materials approved by the price controller last week.
- The cement price increase of 8.29c/50 kg bag since Monday.
- Post Office tariff increase of 13% on average, with hikes of around 25% for the most widely used facilities, in October.
- A probable rise in railway tariffs later this year.
- A virtually certain increase in the price of petrol before the end of 1979.

According to Wiese Khan of the Stellenbosch Bureau for Economic Research, “the only method of controlling inflation now is by controlling administered prices. A larger measure of discipline, applied with regard to such prices could do much to reduce cost pressures.”

Barclays economist Johan Cloete estimates this year’s inflation rate at 11%-12%. And Johan Louw, Sandam’s economic research manager, notes that “an average increase of less than 10% in consumer prices in 1979 seems unlikely at present, although the annual rate of increase in the CPI in the last few months of this year may drop to under double figures.”

Sesbank economist Rudolf Gouws argues that although “the chances of getting the inflation rate below last year’s level have diminished,” the effects of the tax must be taken into account. Without the impact of the tax, the current inflation rate stood at only 8% in February and 9.7% in March, compared with 11% at the beginning of 1978. Gouws points out that after June, even official inflation rate figures will look a lot lower, since they will be calculated on the high base created by the introduction of g.st last July.

One factor which may contain price rises later in the year is a fall in the rate of increase in unit costs resulting from greater use of plant capacity. But Cloete notes that breeder businesses could also precipitate pressure for higher wages which may spill over into another burst of price increases.

QUESTIONS 1 - SUGGESTED SOLUTION (continued)
Prices Still Soaring

BY BEN TEMPKIN

Although the latest company profits...
CONSUMER SPENDING IN THE WOODPILE

Consumer confidence has picked up dramatically since December, and it is likely to remain high in the months ahead. The survey results indicate that consumers are more optimistic about their financial situation, and this optimism is translating into increased spending. The Bureau of Labor Statistics, according to the latest Consumer Confidence Report, found that the confidence index rose to 105.7 in October, from 101.9 in September. This is the highest level since April 2008.

The increase in consumer confidence is being driven by a number of factors, including the strong job market, lower unemployment rates, and improving housing market conditions. In addition, the recent tax cuts and lower interest rates have also contributed to the rise in consumer confidence. The reduction in taxes has provided consumers with more disposable income, which they are using to increase their spending on goods and services.

The rise in consumer confidence is expected to continue in the months ahead, as the economy continues to recover. This is likely to have a positive impact on the overall economy, as increased consumer spending is a key driver of economic growth. The rise in consumer confidence is also expected to lead to higher wages and better working conditions, as employers compete for workers.

Overall, the survey results indicate that consumers are more confident in their financial situation, and this is likely to lead to increased spending. This is good news for businesses and the overall economy, as increased consumer spending is a key driver of economic growth.

The key lesson from the survey is that increased consumer confidence is likely to lead to increased spending. This is good news for businesses and the overall economy, as increased consumer spending is a key driver of economic growth. The survey results indicate that consumers are more confident in their financial situation, and this is likely to lead to increased spending.
AS EXPECTED, the latest figures for the overall Consumer Price Index show an acceleration in the rate of inflation to 12.6 percent over the 12 months ended April from 12.6 percent over the 12 months ended March.

And these figures are expected to become even worse with a dairy products price-rise imminent and the prices of processed meats (ham, polony and the like) going up by about 13 percent next month.

The steeper rate of inflation was forewarned by the rise in the Wholesale Price Index and must now represent a critical problem in the effort to keep the economic revival going. What makes the picture even more black is that irrespective of whether or not further fuel curbs are introduced, another oil price rise for South Africa is inevitable.

This will, of course, filter through to the consumer sector and will be most emphasised in the cost of foodstuffs where transport is an important price factor.

The effect of food-price rises in the overall Consumer Price Index gain can be seen from the fact that the CPI rose by 0.9 percent in April from 233.6 to 235.7. The Food price index, however, was up by 1.6 percent from 233.8 to 235.3. This latest rise brought the annual rate of inflation for food up to a massive 15.7 percent.

While it can be argued that a rate of 0.9 percent over one month indicates an annual rate of inflation of 10.8 percent, the fact remains that over a period of 12 months the rate of inflation has increased — not slowed down — and all indications are that it will now gain momentum over June and July.

Some economists hope that consumer demand will be boosted sufficiently by the lower living costs which come into force in July to overcome the inroads being made by inflation. Fuel curbs may also create greater disposable income among consumers as they spend less on petrol even if they have to pay more for petrol tax for what they do buy.

We have not yet seen the classic phases of a revival taken through to completion. So far the durable goods sector has benefitted from the revival — as can be seen in recent results of both the motor and furniture industries. This is in line with what can be expected when consumer demand begins to take off — consumers spend first on durables because they have held back demand for quite a period.

The next stage is when consumers start to spend on semi-durables — clothing and footwear. When this happens the cycle will be well into its upswing.

That stage will not, however, be reached if the rate of inflation on food cannot be slowed. This is the one sector of the economy where demand is at a continuous level. The more money spent on food, the less available for durables and semi-durables.

Inflation is the biggest bugbear in the economy right now but this doesn't mean the signs are all pessimistic. The gold price, for one thing, will do lots of good for the current account of balance of payments. But euphoria over the gold price rise should be kept in check especially because of the continued revaluation of the rand.

It is good that the rand is strong because this encourages foreign investment. It does, however, make certain products less competitive in overseas markets and also nullifies some of the gains in the gold price.

To the extent that gains are nullified by the revaluation of the rand, any stimulus to the economy through an improved gold price is lost.

These two factors — inflation and the rising rand — are causing some concern among economists who are trying to make economic prospects for the next few months.

They are not being helped by oil shortages either.

It's just a thought — but one which has been expressed repeatedly by those who ought to know about these things — isn't it time there was a concerted effort by the authorities to hold down administered prices instead of the repeated catalytic further rises in these are inevitable?
Inflasie verg NOU aandag, sê RAU

Deur DAVID MEADES

DIT is hoog tyd dat die klem weer op die gevaar van 'n stygende inflasiekoers geplaas word, sê die ekonometriese studiegroep van die Randse Afrikaanse Universiteit in 'n spesiale hoofstuk wat deel is van sy ekonometriese model se vooruitskating vir vanjaar en 1980.

Die groep sê dat inflasie in die jare 1974 tot 1976 heelgoed op die lês ukliese probleme in die land se ekonomie gestaan het. Dit was die geval ondanks die feit dat 'n ernstige afname in die rolde groeikoers, stygende werkloosheids- 

erfers en duldende buitelandse valutaservices reeds sedert die begin van 1975 merkbaar was.

Dit beheer gewoonlik dat wanneer 'n nuwe gevaar uiteindelik beset word, dit reeds te laat is om doeltref- 

dende op te tree en word 'n mens gedwing om dit sy 

gang te laat gaan.

Die groep sê dat die betalingsbalans nou reeds oor 'n lang tydperk heel goed vertoon. Die tekort op die lopende rekening van R1 013 miljoen in 1975 is nie net tot 'n oorskat van 

R1 412 miljoen in 1978 omgeskep nie, maar daar is 

nou ook hoop op 'n minder 'n gedeeltelike herstel in die beweging van langtermyn-kapitaal.

Hoewel werkloosheid steeds hoog is, was daar in die tweede helfte van 1978 'n beslisde draai punt en die groeikoers is nou op pad na 4 persent vanjaar.

Hoewel 'n mens dit natuurlik nie kan bekostig om groei, werkverskaffing en betalingsbalansoorweginne te ignoreer nie, vereis die toestand agter die inflasiekoers dat daar nou weer meer gekoncentreerde aan- 

dag daaraan geskenk word.

Oor die onderliggende faktore van inflasie sê die 

groep dat die geldvoorraad oor die volgende paar kwarte regstreeks of on- 

registreerkertsing op die inflasiekoers al te. En van watter kant 'n mens ook 

na die probleem kyk, sal 

die oorskat in die vraag 

toeneem.

Maar die verontrustendste aspek van inflasie in 

Suid-Afrika is oënsynlik by die kostefaktore, veral arbeidskoste of, anders ges 

tel, produktiviteit.

Hoewel die styging in die 

prys van ingevoerde goe 

dere 'n uitwerking op inflasie het, is dit kwantitatief nie belangrik genoeg om verantwoordelik te wees vir 

die hele inflasiekoersie 

druk wat die land onder 

wind het nie.

Die gemiddelde produk 

tiviteit van die totale arbei 

demag is hee meer ont 

stellend. Sedert 1965 was 

daar 'n volgende styging in die geldkoste per een 

heidwaarde van arbeids 

produkte. As die gemid 

delde boon per werker hoë 

is as die gemiddelde pro 

dukse per werker, is dit 

hale duidelik dat daar 'n 

koste-motivering vir produ 

sente is om die prys van hul 

produkte te verhoog.

Dit, tesame met ander kostedruk-faktore, sal die inflasiekoers oor die volgende paar kwarte op 

stoet, ongeag die 'reële 

groeikoers wat die ekono 

mie oordervind.
20% By the Year-end

Inflation: Experts Say

BYDEREK TAYLOR

The most conservative estimate — a price increase of 20% for all goods and services by the end of the year — is based on the Consumer Price Index (CPI), which measures the cost of a fixed basket of goods and services. The current rate of inflation is around 8%, but experts predict it will rise to 15% in the next few months.

The current rate of inflation is around 8%, but experts predict it will rise to 15% in the next few months.

Experts also warn that the situation could be worse if the Federal Reserve raises interest rates further to combat inflation. The Fed is expected to raise rates several times this year, which could push inflation rates even higher.

The situation could be worse if the Federal Reserve raises interest rates further to combat inflation. The Fed is expected to raise rates several times this year, which could push inflation rates even higher.

The situation could be worse if the Federal Reserve raises interest rates further to combat inflation. The Fed is expected to raise rates several times this year, which could push inflation rates even higher.

The situation could be worse if the Federal Reserve raises interest rates further to combat inflation. The Fed is expected to raise rates several times this year, which could push inflation rates even higher.

The situation could be worse if the Federal Reserve raises interest rates further to combat inflation. The Fed is expected to raise rates several times this year, which could push inflation rates even higher.

The situation could be worse if the Federal Reserve raises interest rates further to combat inflation. The Fed is expected to raise rates several times this year, which could push inflation rates even higher.

The situation could be worse if the Federal Reserve raises interest rates further to combat inflation. The Fed is expected to raise rates several times this year, which could push inflation rates even higher.

The situation could be worse if the Federal Reserve raises interest rates further to combat inflation. The Fed is expected to raise rates several times this year, which could push inflation rates even higher.

The situation could be worse if the Federal Reserve raises interest rates further to combat inflation. The Fed is expected to raise rates several times this year, which could push inflation rates even higher.
Dizzy hikes in raw material prices are souring prospects for the already depressed R450m a year white appliance industry.

Suffering a "pretty negative growth rate, down 25% in real terms since 1974," according to Domestic Appliances Manufacturers Association (Damsa) chairman John Turner, the industry is unlikely to level off over the next two years.

"It will be a standstill situation in 1979," says Turner. "It is seen as a year of consolidation. However, a growth of 5% in real terms is projected for 1981-82.

"Rates of growth" in 1979 are only likely in new product lines "when you start at zero and get some penetration," he adds.

The industry complains bitterly that margins are eroded with inflation running at 15% in 1978 and likely to increase by year's end. Already wage increases are 14%-15% Massive plastic price increases announced by AECI and Safropol vary from 10% for AECI's PVC to 25% for low density polyethylene.

Hoover SA MD Ted Ashdown (Hoover has roughly 20% of the R450m a year washing machine market) adds "we've had a verbal notification from rubber manufacturers that we can expect a 7%-12% price increase in July. We're expecting a paint price increase of 15% for July or August. Aluminium went up about 8% in May. These costs can't be absorbed."

Plastic content in refrigerators could run as high as 35%. On average white goods contain 20%-25% plastic. Turner expects that calendar year 1979 plastic price hikes could total 40%-45%. Forward buying of plastics to soften the blow of further price hikes is ruled out. Explains Turner: "It's impossible to stockpile because suppliers are on ration to prevent panic buying.

Not unsurprisingly the consumer will be paying more for appliances. Estimates of the July/August increases vary. According to Turner, "We try to keep it below the inflation rate. We expect August increases will be 5%".

Hoover's Ashdown says, "We've applied to price control for 5%-7% increases across the board." Defy MD Tom Tucker (Defy holds roughly 26% of the major appliance market) "anticipated raw material price increases but didn't count on the quantum jump. We're trying to minimise the import for the consumer. We're still working on prices," OK Rizen's merchandise executive on appliances, Arthur Solomon says. "Increases in OK house brands Hotpoint manufactured by Defy and Kelvinator Knight (manufactured by Harlo's, which has 20% of the overall market) will be 7%-

Are sales likely to be affected by these hikes," According to Solomon, "increases in sales of about 5% can be expected in the second half of the year following a personal income tax reduction. But it becomes increasingly difficult for the man in the street to replace old units. The trend is to repairing them."

Jack a Pay director, Ig Ferreira expects a unit sales to drop "But with more families doing without servants I expect a 10% growth in dishwashers and washing machines. There's been a 15%-17% growth in freezer sales. People are cost conscious and are buying in bulk. Ferreira expects Jack a Pay will have to start tagging term buying of housebrand lines which will retail at least 10% less than major brand names."

The industry outlook certainly isn't rosé and isn't expected to change in the short term. Says Turner: "MD of Barlow's Manufacturing as well as being Damsa chairman. "Barlow Rand has a set of rules passed on to the divisions on returns. The target is 15% after tax on capital employed. The industry is getting it."

Even more serious is the underutilisation of capacity. "Across the board it's at least 40% less than available capacity — an enormous surplus."

---

17
THE risks of industrial unrest on a scale comparable with the troubles of 1973-74 have been greatly increased by the rate of recent price rises, according to prominent labour leaders.

Black wages, it was stressed, are failing hopelessly to keep pace with mounting living costs. Blacks, it was pointed out, spend more than a quarter of their incomes on food and other basic necessities.

"In the past 32 months, food prices have risen by more than 16% and there are more in the pipeline," said the general secretary of the Federation of South African Trade Unions, Mr. Alec Erwin.

The president of the Garment Workers' Union and an executive member of the Trade Union Council of South Africa, Senator Anne Schoepers, said: "If this country wants to avoid industrial strife, then we must see to it that the escalation of basic food prices is stopped and that subsidies be made available to cheapen basic foods like milk, bread and mealie meal."

She stressed that a large percentage of Black workers are still earning R100 a month.

In a recent report, the Institute of Planning Research at Port Elizabeth University said the household subsistence level for Blacks in Pretoria was R113 a month in Cape Town, it was R100; in Saps it was R174.

The interpreters at the weekend, incidentally, charge R5 an hour for social services to be dispensed with at their own discretion.

The interpreters, therefore, determined that the industrial courts were not competent to deal with a dispute which involved a conflict of rights or aspects of a legal nature.

Evidence highlighted the need for a special judicial body to deal with an overwhelming majority of disputes in their submitted cases.

AN INDUSTRIAL COURT

CHAPTER 4: THE REPORT

This sensitive matter.

Having established what, in its view, are the essential principles in...
INFLATION
From bad to worse

The inflation outlook becomes gloomier each month, with economists continually raising their CPI estimates. Two months ago (FM April 27) Johan Cloete, Barclays' chief economist, pessimistically predicted a rise in the consumer price index of 12% this year, while other seat-of-the-pants forecasts were 10%-11%. Now most experts, including Cloete, see the rate climbing to 14%.

In May the rate of increase in the CPI slid down to 9.5%, from 9.8% in April and 17.7% in March. The annualized inflation rate so far this year is just over 11%. Food prices crept up by only 0.2% in May, keeping the year-on-year rate to a high 15.8%. The price controller points out that few controlled items have become dearer since the end of April.

Cloete argues that the fuel price will have a big impact on food prices. Already, a hike of 10% in meat prices is on the cards, following the sharp increases in the Meat Board's floor prices earlier this month. The Wheat Board will probably ask for higher prices next month.

Rudolf Gouws, Nedbank's economist, reckons that "administered price rises will be slower in the second half of the year, and big rises in food prices are probably past.

Government does appear to be taking a harder line on prices under its control: Freezing egg prices, postponing Post Office tariff hikes planned for October, and the Railways' efforts to hold off a leap in rates all point to a tougher attitude.
By Tony Hudson, Financial Editor

THE INFLATION FRONT

Gloomier Picture On

ANY HOPES THAT SLOW

BY THE ECONOMY AND

238

The Inflation

19
Inflation ‘15 percent by year end”

PRETORIA — South Africa’s inflation rate will be at least fifteen percent at the end of the year, the chief economist of the Bureau for Economic Research at the University of Stellenbosch, Mr. F. W. Killian, said yesterday.

The bureau, he said, was seriously concerned at the powerful inflation surge which was now apparent in the economy, due mainly to the continual and substantial increases in Government-administered prices.

“Hopes of an economic growth rate of four percent this year have now petered out in the face of fuel, power, coal and other rises in the prices of basic commodities.”

The full inflationary force of these price rises had not yet been felt, he said.

“The economy could not absorb the repeated shocks of administered price increases, which were screens behind which inefficient methods of production flourished.”

It appeared that only lip service was being paid to fight inflation. Those with the power to act against inflation did not appear to recognise it as the country’s worst economic enemy.

“There appears to be a feeling that inflation is inevitable, and the country must just adjust to living with it.”

With high inflation, Mr. Killian emphasised, a high growth rate was impossible.
Govt calls an inflation crisis meeting

By GERALD REILLY
Pretoria Bureau

THE Government has called the leaders of commerce and industry and of the trade union movement to a meeting in Pretoria tomorrow to discuss the worsening inflation problem.

Present will be the Minister of Industries, Commerce and Consumer Affairs, Dr. Sehgal van der Merwe, representatives of the Association of Chambers of Commerce, the Afrikaanse Handelsmagdewigting, the Federated Chamber of Industries, and leaders of the Trade Union Council of South Africa and the SA Confederation of Labor.

A major aim of the meeting is to find an effective defence against what threatens to be runaway inflation. This could involve voluntary cuts in price rises and wage increases.

Background to the meeting is the last hope of the Minister of Finance, Senator Owen Horwood, that the inflation rate could be brought down into single figures during the course of the year.

Price escalation so far this year - and mainly the increases in Government-administered prices - has pressurized the rate to one of the highest peaks in the past decade - 15.5%, according to the June Consumer Price Index.

Disturbing is the fact that the 15.5% did not take into account the large hike in fuel prices. This will be reflected in the July index assessment.

Leading economists have warned that if current trends continue unchecked the inflation rate at the year's end could reach or even exceed 16%.

It is understood that the attempt will be made to re-activate the 1973 anti-inflation manifesto but that appeals will be made to the private sector to make renewed effort to hold back on big price rises and to absorb a maximum percentage of increased costs.

In terms of the manifesto, employers undertook to absorb 30% of increased costs, at the same time that the Trade Union movement agreed to restrict their wage demands to 70% of what could be justified by the rise in the Consumer Price Index.
EMBARGO : 10h00 WOENSDAG 25 JULIE 1979

OPENINGSREDE GELEWER DEUR SY EDELE DR. S.W. VAN DER MERWE,
MINISTER VAN NYWERHEIDSWESE EN VAN HANDEL EN VERBRUIKERSAKE
TYDENS DIE SEWENDE VERGADERING VAN DIE VOORTSETTINGSKOMITEE
INSAKE DIE IMPLEMENTERING VAN DIE Aksieprogram TEEN INFLASIE
TE PRETORIA OP 25 JULIE 1979

VERSPEI DEUR INLIGTINGSDIENS VAN SUID-AFRIKA OP VERSOEK
VAN DIE MINISTER VAN NYWERHEIDSWESE EN VAN HANDEL EN
VERBRUIKERSAKE
OPENINGSREDE GELIEKERE DEUR SY EDELE DR. S.W. VAN DER MERWE, MINISTER VAN NWERHEIDSWESE EN VAN HANDEEL EN VERBRUIKERSAWE TYDEMS DIJSE WENDENDE VERGADERING VAN DIE VOORTSETTINGS-KOMITEE INSAKE DIE IMPLENTERING VAN DIE AKSIEPROGRAAN TEEN INFLASIE TE PRETORIA OP 25 JULIE 1979

'N BESONDEREwoord van welkom, veral aan diegene wat saam met my voorganger Westerkom onderteken het as van die manifeste van vaste verbindelikheids deur die regering en die belanghebbende private sektor organisasies van die Republiek van Suid-Afrika op 7 Oktober 1975, ten einde 'n gesamentlike veiligheid teen inflasie van stapel te stuur. Soos u sal herinner, is daar op daardie stadium besluit dat 'n gesamentlike aksie teen die verslegende inflasieprobleem geloods noes word aangestem dit ernstige gevaar vir die land op socio-ekonomiese gebied ingen het.

PK/...
EK WIL U VERDER DAAROP WYS DAT DIE EKONOMIESE SITUASIE TYDENS DIE INWERKINGTREDING VAN DIE MANIFES IN 1975 GEKENMERK IS DEUR 'N TIPISEE OORBESETTING VAN DIE LAND SE PRODUKSIEBRONNE EN WEL IN SO 'N MATE DAT DIE LOPENDE REKENING VAN DIE BETALINGSBALANS IN DAARDIE JAAR 'N REKORD TSKORT VAN R1 813 MILJOEN GETOON HET. HIERDIE TIPISEE TOESTAND VAN VRAAGINFLASIE, GEKOPPEL AAN EKSTERNE INVLOEDE SOOS DIE SNEL STYGENDE OELIEPRYS, SOWEL AS VAN ANDER VERVAARDIGDE GOEDERE-INVOERE, EN DIE OPEENVOLGENDE DEVALUASIES, HET DAN OOK TOT GEVOLG GENAD DAT SUID-AFRIKA IN 1975 IN SOMMIGE MAANDE, TEEN 'N JAARKOERS BEREKEN, 'N INFLASIEKOERS VAN NIE MINDER NIE AS 15,2 PERSENT BELEEF HET.

DIE REGERING SE STANDPUNT WAS TOENTERTYD, EN HJ IS DAARIN HEELHARTIG DEUR DIE PRIVATE SEKTOR, SOWEL AS DIE OORBLYWENDE BELANGEGROEPES IN DIE LAND/...
WAS DIE AKSIEPROGRAM IN DIE VOLGENDE VIER HOOF ELEMENTE VERDEEL NAAMLIK:

(i) OOR DIE LANGER TERMYN DIE VERHOGING VAN PRODUKSIE EN PRODUKTIWITEIT DEUR DIE BETER OPLEIDING EN BENUTTING VAN ARBEID;

(ii) OOR DIE KORTER TERMYN DIE UITOEVENING VAN STRENG FISKALE EN MONETêRE DISSIPATIE DEUR DIE OVERTREDING VAN OORHORSE TE VOER NIE;

(iii) DEUR BINNE PERKE WETGEWING OF ANDER BEHEERMAATREBLS WAT 'N INFLASIONIS WIE TIESE INFLASIONIS MAAI Hê SODANIG TE WYSIE DAT HIERDIE EFFEK UITGESKAKEL OF ENIGSINS VERSAG WORDE; EN

(iv) DIE TOEPASSING VAN DIE UITERSTE MATE VAN SELFBEHEER IN EN ONDERHANDELINGS OOR HOOG LONE, SALARISSE EN Prys.

DIT IS SEKERLIK NIE NODIG OM HIER MEER UIT TE...
VERVANG MET 'N VERSTANDHOUDING DAT ALLE
BELANGHEBBENDE PARTYE STEEDS SOU VOORTGAAN
ON DIE HOOGSTE MATE VAN VERANTWOORDELIKHEID
BY PRYS- EN LOONVERHOGENGS TOE TE PAS. DIE
LANGTERMYNMAATREKELS VAN DIE MANIPES SOU
EGTER ONVERANDERD BLY VOORTBESTAAN.

THE SUCCESSFUL CO-ORDINATION AND IMPLEMENTA-
TION OF THE POLICY MEASURES WHICH FLOWED
FROM THE TOTAL ATTACK ON INFLATION, HAS
CERTAINLY MADE IT POSSIBLE FOR THE GOVERNMENT
TO CHANGE ITS SHORT TERM POLICY STRATEGY
FROM SEVERE FISCAL AND MONETARY RESTRAINT
TO ONE OF MILD STIMULATION AT THE END OF 1977.
IN VIEW OF THE UNFAVOURABLE EFFECTS OF
INFLATION ON OUR ECONOMIC WELL-BEING, THE
COMBATING THEREOF STILL RANKED VERY HIGH ON
THE LIST OF THE GOVERNMENT'S POLICY OBJECTIVES
AT THAT TIME. BUT THE SUCCESS WHICH HAD
ALREADY BEEN ACHIEVED IN THIS FIELD, BY AND
LARGE MADE IT POSSIBLE TO PLACE MORE
EMPHASIS/...
Average price level in June of this year was 13.5 per cent higher than that of June 1978. It is not very difficult to understand why it is necessary for this country to try and contain its inflation rate within more acceptable limits. South Africa is one of the world's leading trading countries and its exports and imports combined amount to more than 50 per cent of its gross domestic product (GDP). In economic terms, we have one of the most open economies of the world and this to a large extent compels us to give special attention to our inflation rate as compared with those of our trading partners. In this regard it is of great importance to take note of the fact that the inflation rates in the majority of these countries have also shown a tendency to accelerate since the beginning of this year and the expectation is that this tendency will continue in the foreseeable future.

This is probably one of the major reasons coupled with the tremendous increase in oil prices which have made a material contribution to the rise in South Africa's internal price levels in recent times. As a result of these developments South Africa's own inflation expectations over the short to medium term constitute a matter for concern.

There is no doubt that a possible further acceleration in the domestic price levels over the short term could have important negative implications for the growth prospects of the economy. In contrast to the situation in 1975 when the economy found itself in an extremely overheated condition, we are now experiencing a gradual recovery from the prolonged period of low economic activity as a result of a strong cyclical downswing.
-10-

DOWNSWING. THIS RECOVERY HAS MAINLY BEEN BROUGHT ABOUT BY THE STRONG UPTURN IN THE VOLUME AND PRICES OF ALL OUR EXPORTS, BUT ESPECIALLY THOSE OF OUR PRIMARY RAW MATERIALS AND, OF COURSE, IN THE PRICE OF OUR GOLD EXPORTS. IT IS, THEREFORE, A MATTER OF EXTREME IMPORTANCE THAT NOTHING SHOULD BE DONE WHICH WOULD ENDANGER THE COMPETITIVE ADVANTAGES WHICH WE ENJOY IN THESE FIELDS, PARTICULARLY IN VIEW OF THE FACT THAT OUR PRESENT RATE OF INFLATION EXCEEDS THOSE OF MOST OF OUR MAJOR COMPETITORS. FURTHERMORE WE SHOULD ENSURE THAT THE STILL MODERATE UPSWING GAINS FURTHER MOMENTUM AND BECOMES MORE BROADLY BASED, ESPECIALLY ON INTERNAL GROWTH FACTORS SUCH AS PRIVATE CONSUMPTION EXPENDITURE AND PRIVATE FIXED INVESTMENT. IN THIS MANNER IT WILL BE ENSURED THAT THE UPSWING WILL MAINTAIN ITS UNDERLYING STRENGTH AND ABILITY TO ACCELERATE.

EX/...
EN DIE VERWAGTE INFLASIONêRE UITWERKING WAT
DIT SAL Hê, DIT MOEILIJK SAL WEES OM DIE
ALGEMEEN AANVAARDE MIKPUNTGROEIKOEKS VAN
4,0 PERCENT VİR VANJAAR TE KAN BEREIK.
TROUENS, TENSY DIE INFLASIE-EFFEK GROOTLIKS
AAN BANDE GELê KAN WORD, KAN 'N GROEIKOEKS
VAN NADER AAN 3,0 PERCENT EEERDER VERWAG WORD.
DIT IS DAAROM DUIDELIK DAT BAIE GAAN AFSHANG
VAN DIÉ BEREDWILLIGHEID EN VERMOê VAN DIE
SUID-AFRIKAANSE BEVOLKING OM DIE VERHOOGDE
OLIEPRISE, ASOOK Ander KOSTESTYGINGê WARMEE
ONS LAND TANS TE KAMPE HET, TOT DIé MAKSIMUM
NOOLTJIE MATE TE ABSORBEER EN DIé SKADELIKE
EFFEK OP DIé GROEIKOEKS VAN DIé EKONOMIE
OP HIERDIE WYSE TE VERSAG.

EK KAN MET VRYMOEDIGHEID Sê DAT DIé VAS-
BERADENHEID VAN DIé SUID-AFRIKAANSE BEVOLKING,
SOOS WAT REEKS BEWYS IS DEUR DIé SUksesVOLE
TOEPASSING VAN DIé MANIPES, OM DIE
INFLASIEPROBLEM/...
SAL MOET BESIN OOR DIE BEPAALDE ROL WAT HULLE KAN SPEEL OM TE VERSEKER DAT DIE INFLASIE-PROBLEEM NIE ONS OORHOOFSE EKONOMIESE GROEI-DOELWITTE ONDERMYN NIE. WEENS DIE GROOT BEHOEFTEN OM DIE REEDS BEHAALDE VERBETERINGS IN PRODUKTIVITEIT NIE ALLEEN TE HANDHAAF NIE, MAAR SELFS VERDER TE VERHOOG, SAL DIE MOONTLIKE NADELIGE EFFEK VAN INFLASIE HIEROP TOT DIE MINIMUM BEPERK MOET WORD.

DIT IS NIE MY OOGMERK OM HIER VIR U 'N PRESIESE AANHUIDING TE PROBEER GEE VAN DIE MOONTLIKE ALTERNATIEWE BENADERINGS WAT GE-VOLG KAN WORDE NIE. SOOS EK REEDS AANGEDUI MET, IS DIE KANSE GOED DAT AS ONS NIKS DOEN NIE, DIE VERHOOGDE INFLASIEKOERS 'N BETEKENISVOLLE NADELIGE UITWERKING OP DIE HUIDIGE OPLEWING IN DIE EKONOMIE KAN Hê.

AAN DIE ANDER KANT IS DIE REGERING NIE GENEG OM OOR TE GAAN TOT DIREKTE INGRYPING IN DIE MARKMEGANISME DEUR MIDDDEL VAN LOON- EN PRYSBEHEERMAATREGLS...

PRYSBEHEERMAATREGLS NIE EN HET HOM TROUENS HERHAALDELIK TEEN SO 'N BELEIDSBENADERING UITGESPREEK.

'N ANDER BENADERING WAT NA MY MENING MEER BELJOFTE INHOU, IS OM DIE SUID-AFRIKAANSE PUBLIEK WIEER EENS TE MOTEVEER OM DIE NODIGE AANPASSINGS EN OPÓFFERINGS TE MAAK WAT VAN ONS GEVERG SAL WORD INDIEN ONS DAARIN WIL SLAAG OM DIE INFLASIEKOERS NA 'N MEER AAN-VAARBARE PEIL AF TE BRING.

EK GLO DAT, OP GROND VAN ONS BEWESE PRESTATIES IN DIE VERLEDE IN ONS STRYD TEEN INFLASIE, ONS WEL DAARTOE IN STaat BEHOORT TE WEES OM, MET DIE NODIGE SAMEWERKING VAN AL DIE BELANGEGROEPE, WIEER EENS SUKSES TE BEHAAL.

EK VERNEEM NOU GRAAG WAT DIT "AFWYSE" VAN DIF VERSKILLENDE FACTORE... FERDIE VERHAND
GOVERNMENT TO ACT ON HIGH PRICES

Argus Bureau

PRETORIA.—The Prime Minister's Economic Advisory Council will meet within the next few days to formulate plans for a nation-wide anti-inflation campaign.

This was announced in Pretoria by the Minister of Industry, Trade and Consumer Affairs, Dr Schalk van der Merwe after a meeting with more than 100 representatives of organised commerce, industry and labour.

Dr van der Merwe said the meeting had agreed on the need to introduce measures to combat South Africa's low economic growth rate, as well as the high rate of unemployment.

PRIORITY

The better utilisation of manpower must receive the highest priority because if we succeed in improving productivity, it is one of the best anti-inflationary measures at our disposal,' he said.

The meeting also believed that direct restrictions on price and wage increases would not offer the solution to the country's high inflation rate.

'On the contrary, we believe that they would jeopardise growth and be counter-productive,' Dr van der Merwe said.

Dr van der Merwe said those present at the meeting agreed that the country's inflation problem should be channelled to the Prime Minister's Economic Advisory Council which in turn, could put forward its proposals to the Government for implementation.

The 15 percent inflation rate forecast by economists could become a reality unless something was done to prevent rising costs, he said.

However, inflation could be contained, and even brought down to single figures if everyone made sacrifices.

COMMODITIES

The meeting also discussed the question of subsidising certain commodities and this matter had been referred to the Economic Advisory Council.

Dr van der Merwe said the expected growth rate of four percent had not materialised, mainly owing to the increase cost of crude oil. But he was optimistic that South Africa could achieve a three percent growth rate.
Wage, price freeze won’t halt inflation

MEASURES such as direct restrictions on price and wage increases would not offer an effective solution to the problem of inflation in the medium and longer term, the Minister of Industrial Affairs and Trade and Consumer Affairs, Dr Schalk van der Merwe, told a Press conference in Pretoria yesterday.

Speaking after a meeting with the continuation committee concerned with implementing an action programme against inflation, Dr Van der Merwe said the meeting was unanimous in its view on these matters.

"In fact, there was general agreement that such a policy would jeopardize growth and would therefore, from an anti-inflation point of view, be counter-productive."

Although the committee did not take any firm decisions with regard to further immediate action in the fight against inflation, it had been agreed to put the standpoints and other suggestions by the representatives of the various private and public sectors present yesterday to the Prime Minister’s Economic Advisory Council.

Dr Van der Merwe said the council was expected to meet in the near future, when it could formulate a general policy standpoint and make specific recommendations on possible steps to combat inflation.

During yesterday’s meeting there was also a general consensus that the problem of increasing inflation was a worldwide phenomenon which could be successfully combated only if all parties concerned made their contributions as if the past.

"Furthermore, there was general agreement that there was no ready-made solution to this problem, particularly as most of the underlying causes of the problem, such as the recent increases in the price of crude oil, were beyond the control of South Africa," Dr Van der Merwe said.

All parties agreed, though, much had been achieved in accordance with the original objectives of the accepted 1975 manifesto towards increasing productivity, among others through better training and utilization of manpower, the country should still persist in this direction.

"Indeed, it was felt that an increase in the productivity of all productive resources — that is, capital, labour and management — constituted the best method of combating inflation successfully in the medium and longer term," Dr Van der Merwe said.

The Government wanted to draw investment and create employment opportunities, and although the Government could not do all this immediately, Dr Van der Merwe was confident it could be achieved.

Kapa
Inflation rate has shot up

PRETORIA — The inflation rate had once again reached double digit levels, the Minister of Industrial Affairs and Trade and Consumer Affairs, Dr Schalk van der Merwe, said here yesterday.

Addressing the seventh meeting of the continuation committee concerned with the implementation of action programme against inflation, Dr van der Merwe also said the higher oil prices would make the generally accepted growth-rate target of 4 percent very difficult to attain.

"A lot will depend on the preparedness and ability of the South African people to absorb the higher oil prices, and the other price increases which the country has to cope with, to soften the harmful effect on the growth rate of the economy," he said.

**Double digit**

Since the joint government-private sector campaign against inflation was started in October 1975, it had been possible to reduce the rate of inflation on a year-to-year basis from 15.2 percent to 9.2 percent in June last year.

"However, the inflation rate has once again reached double digit levels. In fact, the average price level in June of this year is 13.5 percent higher than that of June 1978," Dr Van der Merwe said that although he was optimistic about the country's oil situation, there could be no relaxation in fuel restrictions at present.

He said the country's oil position had not worsened during the past week or two.

**Restriction**

Replying to a question on whether it was the intention to lift the 70km/h speed restriction in metropolitan areas, sometimes in the future, he received preliminary feedbacks on the effect of the reduction but it was still too early to say to what extent it had been successful and how much fuel had been saved.

The CSIR and the Energy Policy Committee, among others, had been busy with research in finding alternative fuel resources.

South Africa could be in a position to make use of alternative fuel resources at short notice, but only when she was pressed against the wall.

During the past five years there had been a 25 percent increase in the use of diesel fuel while white fuel products like petrol and kerosene only showed a 4 percent increase.

South Africa, therefore, gets into trouble as far as diesel was concerned, but here, too, was also not in a corner, he said. — (Sapa.)
Inflation hitting growth

PRETORIA — The inflation rate has once again reached double figures, the Minister of Industrial Affairs and Trade and Consumer Affairs, Dr Schalk van der Merwe, said here yesterday.

Addressing the seventh meeting of the continuation committee concerned with action against inflation, Dr Van der Merwe also said the higher oil prices would make the growth-rate target of four percent very difficult to attain.

"Unless the inflationary effect can be greatly curbed, we can rather expect a growth-rate nearer to three percent."

Dr Van der Merwe told a press conference later that measures such as direct restrictions on price and wage increases would not solve the problem of inflation.

"Such a policy would paralyse growth and would, therefore, from an anti-inflation point of view, be counter-productive."

"At the meeting of the committee, Dr Van der Merwe said the government wanted to draw investment and create employment opportunities.

The Economic Advisory Council was expected to meet soon to consider steps to combat inflation, he said.

Asked whether the 70 km/h speed restriction in metropolitan areas would soon be lifted, he said he had already received preliminary feedback on the effect of the restriction but it was still too early to say to what extent it had been successful.

The CSIR and the energy policy committee, among others, had been busy with research on finding alternative fuel resources.

South Africa could be in a position to make use of alternative fuel resources at short notice, but only when she was pressed against the wall.

"But we are not in a corner yet," he said.

South Africa might get into trouble as far as diesel was concerned, but here, too, South Africa was not in a corner.

South Africa would have enough primary energy at the turn of the century to maintain all necessary transport, the chairman of Sasol, Mr D P de Villiers, said yesterday.

Speaking at a transport seminar, he said few other industrial countries would be as able as South Africa to meet their transport needs in the 1980s — Sapa.
INFLATION

Which way out?

"I agree that we simultaneously face the problem of inflation—long-standing inflation, in fact—and of serious recession or depression. And I venture a new word for it, since I believe that the recession or depression stems from inflation. I think we should reverse the usual order of words and call it 'inflation—recession' instead of 'recession— inflation.'" — Robert Triffin, a prominent American economist, speaking at an international economic conference in Claremont, California (1975).

Triffin's "new word" certainly contains a nasty ring of truth in SA. In June the consumer price index jumped by 1.1%, pushing the rate up 13.5% on June last year, thus further eroding consumer spending power and threatening economic growth prospects.

Indeed, government alarm was evident, because initially, with a given income, a change in relative prices of various goods takes place. This should lead to some substitution between goods. But, complain economists, this substitution effect is not recorded in the official CPI because the weights used in calculating the CPI are fixed; none of these shifts are observed, thus making for distortions in the index itself.

According to Shostak, if one looks at the CPI trend—which ignores irregular shocks and seasonal changes—and is directly influenced by money supply changes similarly by inflation, it can be established that the inflation rate is actually dropping. By Standard's measurements, the rate has dropped from 12.1% in February to 11.7% in April and to 6.6% in June.

Not only does the CPI suffer from inaccuracies, claim economists, but it also gives psychological impact to inflation. As Wits University's economist, Mark Addelson, puts it, "If you identify the factors responsible for maintaining inflation are there, the CPI, by creating expectations of higher prices, will perpetuate inflation." For example, it is used as a guideline in wage negotiations and for calculating cost variations built into long-term contracts.

Not all economists go along entirely with strict monetarist views. Many still point to rising costs—particularly wage hikes—which exceed productivity increases. British economist Lord Robbins, at the conference in California, severely summed up the wage-push argument as follows: "I have heard it said—and I have heard Milton Friedman say it himself a few weeks ago—that in any case, wage demands have a once-for-all impact, whereas inflation is a continuing process. Well, on this issue, with all respect to Milton and his friends, we would probably look at some highly valuable visits to the United Kingdom, because it might enlarge their conception of appetites which grow by feeding."

In their "Quarterly Econometric Forecast of the South African Economy," Rand Afrikaans University's economists argue that most of the inflationary pressures arise from labour costs, while the pricing of goods and services and the state's function as a regulator, control inflationary pressures. Shostak asserts that the effect of low productivity is "daunting the ocean." According to the Rand, inflation rates for the first half of 1976 are set to rise at 13% on a year-to-year basis. For those who think SA suffers from "wage-push" inflation, the long-term solution lies in boosting productivity. For those who think the Rand economists are correct, there is little hope for any increase in productivity and wages. Hence the only hope for reducing inflation is through deflationary measures. Shostak believes that, "If they can control the inflation rate, they can control the growth rate of the economy."

The Rand economists see the solution lying in a more expansionary monetary policy, "for this appears to be the only way in which accelerating inflation can be prevented without futile depressing growth." But others have little regard for such measures, simply because they have not worked in the USA or Britain.

The monetarist prescription, on the other hand, is for government to announce a fixed rate of growth in the money supply. The rationale for this is based on the theory of "monetary policy," which states that people's expectations can be determined by their experiences. Thus, the monetarists, since people have learned that money is a means of exchange, are able to control the rate of inflation by controlling the rate of money creation. According to this, any increase in money supply, increases creation of all prices, since people act on expected inflation. Thus, if the money supply is controlled, the rate of inflation is controlled. This is similar to how these conjectures should be neutralized or, as Addelson says, "The psychology of the inflationary expectation should be broken.

However, the price of monetarist strain is very high for those who believe inflation is the short-term price of higher output. As a Rand economist points out, "It is a very high cost."

The inflation rate may be preferable in order to see which is the most happen to be at a later date.
Inflation: expected

The country's inflation has been running at an annual rate of 10% and is expected to remain at this level throughout the year. The Prime Minister has appointed a new committee to look into this matter and is expected to meet with the Minister of Finance in Pretoria this month to discuss the issue.

The committee's recommendations will be presented to the Cabinet for consideration. The Prime Minister is expected to make a decision on whether to impose further price controls or to allow prices to rise.
Another try

The meeting of the Continuation Committee for Action Against Inflation last Wednesday is being billed as more than a gathering to commiserate on the problem of accelerating prices. Business lobbies proposed a number of solutions for curbing inflation. But whether they will be more successful than the committee's past efforts remains to be seen.

Minister of Industries and Commerce, Schalk van der Merwe, is mum on details of the proposals, which he is putting to the Economic Advisory Council for review. He has merely disclosed that everyone present agreed (as they have for years) that improving the productivity of capital, labour and management is the best way of fighting inflation in the longer term.

There were indications at the meeting that government will keep a check on administered prices. And Van der Merwe said he will make an appeal to the public to hold down prices. However, there is apparently little support for a resurrection of the 'voluntary' prices and wages freeze which, predictably, did little to bring down inflation in 1975.

Besides consensus on raising productivity, the minister announced agreement that

* Economic policy must concentrate on promoting growth,
* Inflation might abate soon, since the business upswing and greater productivity will lead to lower unit costs,
* There is not a 'ready-made solution' to SA's inflation problems, particularly since most of the underlying causes, such as the hike in fuel prices, are beyond SA's control.

The FM learns that the proposed clamp on fringe benefits came under attack. One delegate argued that since this will reduce

the incentive to work, productivity will be damaged.

Various sectors had specific complaints. In particular, the motor industry slammed the 70 km/h speed restriction for damaging productivity and asked for the limit to be lifted. The SA Agricultural Union asserted that farmers cannot make any further contribution to absorb soaring production costs. The union argues that farmers have already made a real contribution to fighting inflation between 1978 and 1979 where prices for produce rose 144%, while production costs shot up 190%.

Adrie Nieuwendt, chairman of the Confederation of Labour, observed that he was coming under increasing pressure from trade unions and worried about soaring prices. He begged the minister to do something. Van der Merwe's response was that every South African is in the same boat.
Botha's advisers will be tested

By BEN TEMKIN

A LL the professionalism of the appointments made to the Prime Minister's Economic Advisory Council announced this week will be needed to battle with the country's major problem — the unabated rise in the inflation rate.

The trade picture is glowing but the surplus is doing nothing to counter the enormous rise in food prices. Conjectures that these prices could be rising at a rate of around 30 percent a year by the end of this year could well turn into reality.

The Wholesale Price Index — which is an important indicator in trends on the consumer price front — rose by 1.7 percent in June over the May figure. This takes the increase on an annualised basis to well over 20 percent — although over the past year the index rose by 13.5 percent.

It's that 20 percent annualised month-on-month rise that is frightening the experts and that's the kind of rise which presages a 30 percent month-on-month rise in the food price index by year-end.

The figures from the Department of Statistics this week show that, even on a yearly comparison the wholesale food price (farmers' prices for food to the trade) rose by more than 20 percent. The wholesale price of processed foods rose by 13.8 percent with fresh meat and milk up 17.5 percent.

And these prices have not yet really been adjusted for the fuel price increase — so that there's much more to come in this regard.

When the final figures for the rate of inflation based on the Consumer Price Index are calculated for the year, there will be a neat distortion because of the non-recurrence of the once-for-all GST imposition last July.

This distortion will do nothing to reduce the impact of the huge food price increases which the consumer public is facing.

Already some supermarket chains are talking of large shifts in consumer spending — with less being spent on consumables other than food. This also spells out problems for the semi-durable and durable industries which have barely begun to enjoy what revival there has been in the economy so far. They could now find themselves with a falling demand curve.

The high gold price and rising exports introduce more liquidity into the economy but they do not in any marked way boost consumer take-home pay.

True, this month sees the first impact of the budget's changed tax rates. But, whether this will simply be spent on buying more petrol or whether it will be spent on semi-durables or anybody's guess, except that the experts would probably suggest it will be spent on food.

Senator Horwood's March Budget had to face one major problem — achieving an economic growth rate of 4 percent in real terms from an inflation base already in double-digits.

This growth rate has now to be achieved against a background of continuously rising inflation with the added problem of food price inflation soaring into the 20 percent to 30 percent region.

That poses sociological as well as economic problems. How can firms that have already to face rising costs of manufacture afford to compensate their employees to the extent of the food price rises?

That really is the crux of the problem for the Prime Minister's council. And if the council can find some way to solve the problem, we could yet see some sound economic growth of the kind envisaged last March.
CoL outstrips African wages

THE rise in the cost of food, transport and rents has outstripped African wages to such an extent as to be "disturbing," says Professor Jill Nattrass, the Natal University economist.

"The situation presented here is a serious one, and I am afraid that the climate of tardy optimism among Blacks of two to four years ago will change towards discontent, if not despair. With the current political pressures on South Africa we cannot afford the consequences of Black unrest as we had in both rural and urban areas in the sixties."

The household subsistence level for Durban, released recently by Port Elizabeth University, is R10, which Professor J. F. Potgieter has termed inadequate.

The Natal Mercury spoke to 12 large companies and eight smaller firms in the Durban metropolitan area. The larger companies claimed to be paying between R35 and R45 in basic weekly wages for unskilled labour, whereas 12 months ago those figures ranged from R10 to R45.

"R3 increase"

The smaller companies, though more reluctant to talk, appeared to have a wage pattern that wavered between R20 and R30 a week, which some spokesmen said represented a R3-a-week increase over last year.

Thus at the top of the scale the average wage for unskilled workers seems to have risen about 15 percent over the past 12 months.

However, the Chamber of Industries disclosed an increase in the average weekly basic wage of about R3—from R22.50 last year to R25.50—or 15 percent.

Thus the average worker has an income pegged a fraction above the minimum subsistence level which means that the average family income, with additional earners, is "likely to be in the region of R200 a month," according to Professor Schlemmer.

At the same time, though, the cost of living has soared since the rise in the cost of petrol. Indeed, Professor Nattrass believes the situation will worsen because the full impact of fuel price hikes has not been felt yet.

African Affairs Correspondent

While train fares for Africans have risen about six percent, the bus fares between Umlazi and Durban have gone up by 35 percent, and between Ntuzuma and the city by 24 percent.

"The headquarters of a supermarket chain in the city charted the rise in price of staple foods since July last year thus."

Sugar, 1 kilo, 29 cents to 39 cents, a 10.3 percent rise.

"Mealie meal"

Mealie meal, 12.5 kilo
R1.85 to R2.30, 23.8 percent increase

- Samp, 2 kilo, 46 cents to 53 cents, 15.3 percent increase
- 1 litre, 30.7 cents to 35.7 cents, 15.3 percent increase

- Tinned fish, 450 grams
32.1 cents to 35 cents, 8.4 percent increase

- Beans, 500 grams
31.4 cents to 33.9 cents, 8.3 percent increase

"Gluten no increase"

The owner of two large supermarkets at Umlazi disclosed that sugar had gone from 20 to 30 cents, a 15.7 percent increase, mealie meal rose from R1.90 to R2.66, a 35.7 percent increase, samp, 49 cents to 65 cents, a 32.7 percent increase, milk, 36 cents to 44 cents, a 22.2 percent increase, tinned fish, 95 cents to 90 cents, 9.1 percent increase, beans, 53 cents to 55 cents, 3.7 percent, and unlike the city stores, Glentaew went from 45 cents to 48 cents, an increase of 6.7 percent.

Professor Nattrass commented: "If the prices of basic commodities increase faster than incomes, the only recourse a family has is to cut back on its purchases of goods like clothing and consumer durables."

"Durables"

"The White market for consumer durables is almost saturated, and growth in these industries can only come from the increased ability of Blacks to enter the market."

"If Blacks are forced to use a higher proportion of their money on essentials, the markets for these other goods, far from expanding, will start to shrink. If this happens, these firms will reduce output and may renegotiate workers, adding to both unemployment and poverty."

"The Government should consider selective subsidies on basic foodstuffs sold in African areas, particularly milk, maize products, beans and bread. Steps should be taken to ensure that these were passed on to consumers and did not simply inflate the already high profit margins earned by some Black consumer outlets."

"Township Africans tend to buy their paraffin and coal either in the town or from nearby Indian stores. Coal, in 40-kilogram bags, has risen from R1.60 to R3.12 in 12 months, a 33.8 percent increase, while paraffin has gone from R8.25 to R10.68, a rise of 32.4 percent."

"Rents at Umlazi, as an example, have risen from R9.90 a month to R12.50, 78.6 percent increase, while water charges have jumped an astronomical 425 percent. At Kwa Mshwini, the average water bill was R1.87 a quarter a year ago, but is now R9.82."

"Rises lag"

Professor Nattrass noted that average wage increases had not kept up with increases in the "major components of the cost-of-living index."

Professor Schlemmer said: "In past years Black wages seemed to have increased slightly faster than the cost of living. Ordinary worker discontent was not apparent, and even during the township youth disturbances workers refused to respond to calls for strikes."

"With the recent price increases the situation may be changing. Furthermore, many and migrants will now on have fewer opportunities to seek casual work in the towns because of the new control regulations."
POVERTY OF MANY BLACKS

A Soweto housewife waits for her turn in the long queue behind a till at a downtown Johannesburg supermarket.

She shops there because prices in Soweto stores are so much higher. Her modest purchases fit into a supermarket basket. No trolley for her. She doesn't have the money to buy enough groceries to justify a trolley anyway, she could never carry that much to the station and then to her house.

Eventually her turn at the till comes. The cashier rings up her purchases, adds General Sales Tax, and to her dismay, the housewife sees the total is more than she has money for.

She had thought she had enough, but she hadn't added up her purchases exactly. And she had forgotten about the tax.

- Embarrassed, she has to decide what to discard.

Not the mealie meal, of course. Nor the soap, nor the candles. Should it be the eggs — or maybe the stewing meat? Not the milk powder — that's for the baby.

"Behind her, the long queue grows impatient. They wish she would hurry up so they can have their turn."

She decided to discard the meat.

The cashier, none too happy about being put to the trouble, has to ring up a new total.

The housewife pays, takes the rest of her purchases, and trudges to the train and to her family to make what supper she can.

Scenes like this really happen. With the cost of a shopping basket increasing by 33 percent in the past three years, this is hardly surprising.

A spokesman for the Department of Statistics said that price increases across the board tended to hit all income groups equally.

While the 22 percent increase in the maize price would hit the poorest, the 49 percent increase in the fuel price would hit the higher income groups directly, although it would hit others indirectly through the ripple effect.

But Mr Ed Verburg, economist with the Johannesburg Chamber of Commerce, said it was the poorest who suffered the most as they had less margin of choice.

The richer man could cut down on luxuries or less necessary items such as his holiday, his car or his liquor cabinet.

But the lower income man had little if any "fat" in his budget.

He might cut out his beer or his weekly soccer match. He might delay buying his much-needed new pair of shoes.

He might not buy a much-needed cooking utensil.

Not only would his standard drop, but there would be less demand for manufactured products, setting off an industrial slump and more unemployment.

Mr Verburg predicted the latest round of price increases could set off wage demands.

Recent price increases include dairy products increasing by 40c, a kg of sugar by 40c, 50c for Cheddar, 5c for Gouda and 5c a litre for milk. Skin milk powder increased by 10 percent in February, when sugar went up by 8 percent.

Fish increased by a huge 31 percent in March and has become a rich man's food.

Paraffin, an essential in most black households which lack electricity, has more than doubled in price since January.

Food makes up a far larger proportion of the low income household budget than it does for those with higher incomes, in terms of a rule known as Engel's Law.

According to the Department of Statistics, food makes up 36.4 percent of the budget for low income households. This drops to 29 percent for the medium income groups and 19.7 percent for those with high incomes.

This means a 50 percent increase in food prices will push up a lower income budget by 11 percent, compared with an increase of less than 10 percent for those in the higher income groups.

This supports the theory that food price increases hit the poor rather than the rich.

The opposite applies to transport costs. According to the Department of Statistics, transport accounts for 7.2 percent of the spending of lower income groups. Middle income families spend 15.8 percent on transport and higher income groups 17.3 percent.

The recent Petco fare increases would therefore have a smaller effect on the budget of lower income groups than similar increases in the price of petrol and motor oil have on higher groups.

Petco fares increased by up to 33 percent in May, with a further increase due in September. A 33 percent increase means an increase of 2.4 percent in the poor man's budget, while a similar increase would mean about a 5 percent increase in the rich man's budget.

Increases in the cost of clothing and footwear have a greater effect on poor people, who spent 13.2 percent of their budget on these items. Middle-income groups spend 10.2 percent and high income groups 6.8 percent.

The rich suffer most in the cost of housing. According to the Department of Statistics, housing for the lower income groups, which is usually subsidised, costs 8.7 percent of their budget. Middle-income groups spend 15.7 percent on housing and higher income groups 21.1 percent.

Mr Eugene Roelofse, ombudsman for the South African Council of Churches, said inflation seemed to benefit everyone except the consumer.

He pointed to the 35 percent increase in the price of white bread since 1976 compared to the 10 percent increase in brown bread, and said that technically, white bread was still the black man's food.

"Black people see white bread as something between eating bread and the luxury of eating cake," he said. "Since they can't afford it, they eat white bread".
The cost of money will be reducing. First, no prudential regulations will be imposed and second, the government has also promised to reduce interest rates. This will help the private sector to expand and offer new products to the market. The government is also expected to announce a package of stimulus measures to boost the economy. The central bank is expected to keep its repo rate unchanged, as inflation remains low. Overall, the economy is expected to improve in the coming months.
Experts at odds over inflation

By Sieg Haunig

A "stagflation" 5.5 percent rise in the inflation rate in July has left economists and trade unionists at odds over solutions to rising unemployment and under-utilised production capacity.

"Pay increases are the only thing that will get us out of this state of virtual stagnation," said Mr. Arthur Grobbelaar, general secretary of the 20,000-strong Trade Union Council of South Africa.

Mr. Ben Nicholson, secretary of the 100,000-strong Confederation of Metal and Building Unions, pleaded for a reduction in the petrol price which was "unduly high because it was based on a higher price than that actually being paid."

MORE EXPORTS

He also called for a reduction in the prices of farm products, saying these had been "unduly inflated" by the fuel price increase.

Once the cost structure had been reduced that way, more investment and exports would ensue, allowing moderate increases in wages, Mr. Nicholson said.

Mr. Arthur Hammond-Tooke, economist of the Federated Chamber of Industries, said: "There is no real way out of the problem in the short term."

"In the longer term, we must look to increased volumes in production and increased productivity amid continued monetary restraint."

LITTLE HOPE

Neither a wage-price freeze nor a deflationary monetary policy was the answer, he said.

"Fortunately, South Africa is not alone in this problem. We may be able to keep a comparative edge over foreign competitors."

The July boost to inflation, bringing the rate in consumer prices for the previous year up to 15.5 percent, coincided with the Reserve Bank's annual report which held out little hope for dramatic improvements.

- GST swells State coffers - Page 18.
CONSUMER MAIL

There is no love sincerer than the love of food — George Bernard Shaw

The ravages of inflation and unemployment have reached critical levels. Food consumption has been dropping steadily by an alarming amount over the past three years despite South Africa's population increase of about 5% a year.

While South Africa has had many more mouths to feed since 1976, food consumption has been dropping steadily since then.

VITA PALESTRANT,
Editor of Consumer Mail reports.

This comes at a time when reports of malnutrition have increased.

Economists and consumers, alarmed at the drop in consumption, have described the situation as highly dangerous.

Mass black unemployment still prevails and unemployment estimates vary between 10% and 15% and most experts put the figure at about one million.

While middle and upper income groups have been cushioned by the effect of the petrol price increases through loan levy repayments and tax cuts, the majority of South Africa's black population has had no buffer.

Though black incomes have risen considerably over the past few years, the black community's income as a whole has been drained by unemployment and is worse off than before.

Last month's Consumer Price Index rose by 3.6% with food alone up by a staggering 2.8%. Economists have warned that there is more to come for July index reflected only the initial impact of the petrol price hike on all goods.

The large hikes in administered foods such as maize are still filtering down and there is talk of more increases in the pipeline for commodities such as bread and another sugar hike.

Wheat producers have asked for increases of about 25% and are likely to get it. This could increase the price of a loaf of bread by 10c to 15c without a subsidy.

Unless food prices are contained the inflation rate could reach 17% by the end of the year.

Between 1976 and 1977 food sales slumped by 4.8%, between 1977 and 1978 by a hefty 7.7%; and between last year and this year by approximately 4.7%.

Figures from the Department of Agriculture show equally alarming results. Per capita consumption of staples such as maize and maize products and wheat and wheat products have shown a decline.

Annual Per Capita Consumption in kg

<table>
<thead>
<tr>
<th></th>
<th>Maize &amp; maize products</th>
<th>Wheat &amp; wheat products</th>
<th>Sugar &amp; sugar products</th>
<th>Rice</th>
<th>Fresh milk</th>
<th>Eggs</th>
<th>Chicken</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>85,4</td>
<td>44,9</td>
<td>39,4</td>
<td>2,6</td>
<td>39,9</td>
<td>5,0</td>
<td>11,1</td>
</tr>
<tr>
<td>1977</td>
<td>88,9</td>
<td>44,7</td>
<td>43,8</td>
<td>3,0</td>
<td>44,0</td>
<td>5,1</td>
<td>11,2</td>
</tr>
<tr>
<td>1978</td>
<td>88,9</td>
<td>44,7</td>
<td>43,8</td>
<td>3,0</td>
<td>44,0</td>
<td>5,1</td>
<td>11,2</td>
</tr>
</tbody>
</table>

"If these figures are correct and true — we are sitting on a time bomb," said the chief economist of a leading commercial bank.

"Black per capita incomes have decreased in the black community as a whole through unemployment. Food prices are going up by approximately 1% a month — this is an extremely bitter pill for the poor to swallow.

"In some societies the underprivileged are offered relief through food coupons or social security which acts as a safety net. Here the unemployed face starvation."

He said there had been an improvement in food production since the beginning of this year and retail food sales and employment were rising again, but it would be a "struggle" to regain 1978 levels of consumption.

Tony Bloom, chairman of Premier Milling, confirmed that there had been negative growth in the maize and wheat industry. He attributed this to inflation and unemployment which resulted in many black families living on or below the poverty datum line.

The present situation must not be allowed to slide. While people baulk at the idea of subsidies one has to consider the special circumstances in South Africa into account. The Government should take some of the money that has found its way into its pocket and either remove GST on basic foods or subsidize basic foods.

"If there are cutbacks in maize and wheat products imagine what's happening to the rest of the food sector," said Mr. Johnny Prankel of Tiger Oats.

Before 1976, he said, the sales of staples had grown between 8% to 10% since then sales of some basic staple products switched from the 25 kg packs of — the more expensive packs because they spread the money "If the Government subsidize food they think, it is a luxury."

Oats' financial director, said the wheat price increase of October was likely to exceed the predicted 21%.

While subsidies per se were not a good thing, it was necessary to subsidize the price of bread because if this was not done, it would lead to starvation.

Aubrey Dickman, a consulting economist for Anglo American, described the Department of Statistics figures as "very worrying and depressing" and said there was an urgent need to stimulate growth.

An economist for Nedbank, Mr. J. van Schaik, said that low income consumers had shown now price sensitive they were at the beginning of last year, when there was a massive switch from white to brown bread when the price of white bread was increased by 5c.

The chairman of the Associated Chambers of Commerce, Mr. Bob Wood, said the drop in consumption was extremely large and there was need for the Government to subsidize basic food products such as mealie meal, milk and bread.

He said a very high proportion of inflation was caused through food price increases which hit blacks hardest and this was an area for concern.

"There is a need to look at the whole question of administered food prices and the agricultural scene as a whole," he said.

Consumer bodies called on the Government to subsidize basic foods and called for an inquiry into the country's agricultural policies.

Consumer Ombudsman Eugene Roelofse had this to say: "The continual escalation of food prices has quite bluntly outstripped the subsidies."

"The continual escalation of food prices has quite bluntly outstripped the subsidies."
The tabulation shows a drop in the consumption of basic staples. Consumption of maize and maize products and wheat and wheat products is down from 1974/75 onwards. An average of the two (taking into account switches from one to the other) shows that while 71.8 kg were eaten in 1974/75 only 67.3 kg were eaten in 1977/78.

The graph shows how food volume has slumped to 1974 levels despite population growth.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>R in millions</td>
<td>1300</td>
<td>1200</td>
<td>1100</td>
<td>1000</td>
<td>1100</td>
<td>1200</td>
<td>1300</td>
<td>1400</td>
<td>1500</td>
</tr>
<tr>
<td>up</td>
<td>6.2</td>
<td>8.2</td>
<td>12.9</td>
<td>17.7</td>
<td>7.6</td>
<td>4.8</td>
<td>4.7</td>
<td>5.7</td>
<td>7.7</td>
</tr>
<tr>
<td>down</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The graph shows how food volume has slumped to 1974 levels despite population growth.

The diagram depicts the consumption of basic staples over the years 1971 to 1979. The graph indicates a steady decline in consumption, with the year 1977 seeing a particularly sharp decline.

The tabulation shows a drop in the consumption of basic staples. Consumption of maize and maize products and wheat and wheat products is down from 1974/75 onwards. An average of the two (taking into account switches from one to the other) shows that while 71.8 kg were eaten in 1974/75 only 67.3 kg were eaten in 1977/78.

The graph shows how food volume has slumped to 1974 levels despite population growth.

The diagram depicts the consumption of basic staples over the years 1971 to 1979. The graph indicates a steady decline in consumption, with the year 1977 seeing a particularly sharp decline.

The tabulation shows a drop in the consumption of basic staples. Consumption of maize and maize products and wheat and wheat products is down from 1974/75 onwards. An average of the two (taking into account switches from one to the other) shows that while 71.8 kg were eaten in 1974/75 only 67.3 kg were eaten in 1977/78.

The graph shows how food volume has slumped to 1974 levels despite population growth.

The diagram depicts the consumption of basic staples over the years 1971 to 1979. The graph indicates a steady decline in consumption, with the year 1977 seeing a particularly sharp decline.

The tabulation shows a drop in the consumption of basic staples. Consumption of maize and maize products and wheat and wheat products is down from 1974/75 onwards. An average of the two (taking into account switches from one to the other) shows that while 71.8 kg were eaten in 1974/75 only 67.3 kg were eaten in 1977/78.

The graph shows how food volume has slumped to 1974 levels despite population growth.
average of the two categories shows that since 1974/75 they have been decreasing steadily.

Per capita consumption figures for other foods show an overall stagnancy which means that consumers have not been switching to more expensive foods.

This shows that sales were barely growing in line with population.

"The maize hike of 21% at the beginning of this year was short-sighted in view of the fact that people could not afford to pay for it."

Mr. Gordon Tutan, Tiger consumers prefer to go hungry — but hungry they are forced into it by the Gilbertian food distribution methods and socialist pricing policies in which the Government is so firmly wedded to for the sake of a few thousand votes.

"These statistics put a lie to the Government’s pet theories that marketing boards are an essential factor in the proper distribution of basic foodstuffs."

"The time has come for farmers to fight for their bread in the same way that the consumer does and leave distribution in the hands of free enterprise so that the efficient farmer can get a proper reward, whereas the farmer who prefers to sit on the step can end up where he should — in the poorhouse."

"I also believe it is time for the Department of Health to step in, for surely they must be concerned enough about the problem of malnutrition to wave the big stick. I believe the Department of Agriculture needs a purge from the Ministers down or the Minister up, depending on your point of view."

Mrs. Yvonne Forshaw, vice-president of the Housewives League, called for an inquiry into marketing boards and agriculture as a whole.

"Food prices are excessively high and running well ahead of the CPI. The League has on numerous occasions warned the Minister of Agriculture, Mr. Hendrik Schoeman, that the poor have nothing more to cut back on."

"It is amazing that an increase in the order of 21% was allowed on maize when clearly the low-income groups could not afford it."

"If nothing is done to help the poor, we will be in serious straits. The Government has a duty to subsidise basic food and if they can’t, then they must allow cheaper food to be imported into the country," she said.

Mrs. Sally Motlana of the Black Housewives League, who has a supermarket in Soweto, said many of her customers were struggling to keep their heads above water.

"People are struggling to eat and there have been reports of malnutrition all over the country. Our plea to the Government for greater subsidies has been a cry in the wilderness."

"Food is going up and pay packets have remained as thin as ever. To add to this there is
By Michael Chester
Financial Editor

Price explosions now in the pipeline threaten to push up the cost of living to almost 10 percent higher than a year ago. It will be the worst bout of inflation since 1974.

Official figures released today by the Department of Statistics show that the wholesale price index—the first price index for the year to year on year—reflected by a 1 percent increase in the index for the month of November.

On locally produced goods the rise was 11.9 percent, and 10.4 percent on imported goods.

The cost of oil, which makes up the largest share of the inflation rate, has been reflected in the price of oil. In October, the cost of oil was up 12.5 percent.

This table shows the rises for goods which cost R1 in 1970:

<table>
<thead>
<tr>
<th>Item</th>
<th>1970 Cost</th>
<th>1979 Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal</td>
<td>R3.75</td>
<td>R4.50</td>
</tr>
<tr>
<td>Leather</td>
<td>R4.52</td>
<td>R4.50</td>
</tr>
<tr>
<td>Franks</td>
<td>R3.14</td>
<td>R3.50</td>
</tr>
<tr>
<td>Newsprint</td>
<td>R3.15</td>
<td>R3.50</td>
</tr>
<tr>
<td>Food</td>
<td>R4.78</td>
<td>R5.00</td>
</tr>
<tr>
<td>Meat and milk</td>
<td>R7.75</td>
<td>R8.00</td>
</tr>
</tbody>
</table>

The period that R1 bought on the Benelux market in 1970 now costs R1.15.

The Bureau for Economic Research, the University of Stellenbosch, and the Rand Bank has argued recently that consumer confidence is evaporating in the heat of inflation.

And Dr. Jan Hurter, chairman of the Rand Bank, has warned that the acceleration of inflation must be regarded as the most underestimated problem facing the South African economy.
INFLATION HITS
DENTISTS TOO

The latest medical and dental fees increase has been heavily criticized by both the public and medical aid schemes. Everybody it would seem is prepared to resign themselves to the virtually routine announcements from all commercial sources that due to the usual reasons prices must regrettably be increased once again.

However, when doctors and dentists assert their claim for an increase long overdue they are condemned from every quarter. I am fed up with this attitude and think it is high time that the public were made aware of a few simple facts.

The average dentist working the same hours as he did in 1970 is actually far worse off in real value terms today. Virtually every item of equipment and material used in dentistry is imported from Germany, the US, Britain, Scandinavia or Japan. Any single item having been subjected to a poor exchange rate, transport costs, import duties and supplies profit margins has astronomically increased. The time it takes the surgery one can expect never to pay the same price twice for any dental requirement.

The profession has absorbed these tremendous increases over and above normal rental and staff salaries for the past six years. Increases in fees were granted in 1974 and January 1978 well below the scales demanded and shown to be reasonable for a four-year gap.

The profession is expected to provide an instant seven-day service at night that plumbers and electricians would simply scoff at. Ironically, the skilled artisan if he does confide to make a call after hours quite unabashedly charges a comparable, if not a higher fee, and on a full-bill basis.

The same man would expect his doctor or dentist to drop everything, attend to his needs and then complain about the account when he finally (and ultimately) settles it. Ten months later we are expected on purely moral grounds to run our practices irrespective of our numerous bad debts and come hell or high water to provide the best for the least cost.

If the public want to end up in the final analysis with a health service that provides a fast take or leave it service operated by overworked personnel using the cheapest possible materials and equipment they are going the right way about it in not allowing the medical and dental professions to keep pace with the inflationary disease that is ravaging the world economies today.

South African society is blessed with a medical and dental health service that rates as the best in the world when evaluated on the basis of quality treatment available at a fee scale that other countries find amusing in these global inflationary times.

Any dentist who is eventually forced to treat 40 to 55 patients a day as in Britain to maintain his standard of living can only end up doing both himself and the patients a disservice.

The Government should know better than to equate morality and patriotism against the medical profession's demands for fiscal reality. Politicians' talk has always been cheap for the speaker but expensive for the listener.

ANGRY DENTIST
Cape Town
OPEC not to blame for inflation — GATT

Geneva — OPEC’s latest price increases are not to blame for the resurgence of inflation in industrial countries, according to a report by the General Agreement on Tariffs and Trade.

The inflation and deflation which some countries may experience will be due to their own “mis-guided” response to the oil price changes, the effects of which could be kept “both relatively small and mostly temporary,” the report says.

OPEC’s new policy is the result of a “paralyzing” of the OPEC central committee which was widely anticipated.

“Thus the evidence forecloses the dangerously wrong view that the petroleum price increase was a major causative factor behind the resurgence of inflation and the expected rise in unemployment,” the report says.

With the right policy response, the impact of this particular increase in petroleum prices on price levels and economic growth can be kept both relatively small and mostly temporary,” says GATT.

GATT sees Western management of a “paralyzing” of the OPEC central committee which was widely anticipated.

Contrary to the customary tale of woe, GATT reports that the West has fared remarkably well in the past year. Although inflation has increased ominously, production matched the world increase of four percent, employment grew and the West’s overall share of world trade crept up to 65 percent, just below the 1973 peak of 68 percent.

Dominance in the fields of foodstuffs and manufactures.

GATT stresses that growth in the Third World is of immeasurable benefit to Western business. In 1978 the Third World bought 20 percent of Western Europe’s manufactures, 46 percent of Japan’s and 32 percent of North America’s.

The report’s overall message is that the West has exported inflation to the rest of the world through the 20 percent increase in the price of Western manufactured goods — Own Correspondent, Sapa-AP.
STUFFED CABBAGE SALAD

May Bennett, Ridgeworth

1 fresh green medium size cabbage
1 tomato
1 onion
2 carrots
Fresh pineapple radishes

Cut the centre from the cabbage, leaving the outer leaves to form a bowl. Wash well. Chop onion, peel and cube the carrots and pineapple. Cube tomatoes. Thinly slice some of the inner leaves of the cabbage leaving the stalk. Place the carrots, pineapple, tomatoes, elided cabbage and the finely chopped onion in a bowl adding any juice from the tomatoes, pineapple and add salt and black pepper to taste. Toss well, then pile the salad into the cabbage "bowl". Garnish with radish roses and a small bowl of mayonnaise for those who like it. To make the radish roses, cut across the tops in a double cross, then put them in iced water until the radishes open up.

---00---

GERMAN POTATO SALAD

Ethna Barry, Port Elizabeth

Boiled potatoes
Cooked bacon
Mayonnaise
Salt and pepper

Cube the potatoes while still hot. Chop up the bacon, mix with the potatoes, onion and mayonnaise. Season with a little salt and pepper. Use hot or cold.

---00---

EGG SALAD

May Bennett, Ridgeworth

3 hard boiled eggs
Salmon
Salt and pepper
Paprika and parsley

Cut eggs in half and lay on a flat salad platter; cut side down. Pour over salad base.

---00---

CHICKEN AND CUCUMBER SALAD

S. Dury, East London

1 cup cooked chicken, diced
1 cup cucumber, peeled and diced
French dressing/mayonnaise

Marinade chicken, cucumber, nuts and peas with French dressing. Serve on lettuce with mayonnaise. Cover with greaseproof paper and refrigerate until ready for use.

French dressing:

Blend together 6 T salad oil and 2 T lemon juice.

---00---

SprING GREEN SALAD

1 medium head lettuce, torn
1/3 cup coarsely chopped walnuts
1/2 cup mayonnaise or salad dressing
2 cups diced apple
1 1/2 oz can (1 1/3 cups) mandarin orange sections, drained
1/2 cup lemon juice

In a large salad bowl, combine lettuce, apple, orange sections, tuna and nuts; toss together. Combine mayonnaise, soy sauce and lemon juice; mix well. To serve, add dressing to salad; toss gently. Makes 4 to 6 servings.

---00---
a plea for caution

Praise for Thuesa and

abonned

unines is far block

low pay
Inflation — don’t expect a lifebelt

The country’s economic managers feel there is little that can be done to relieve the crushing pressures of rising prices in the short term. Not without slowing economic growth — to which they are unsurprisingly and rightly committed.

That is the official message spelled out for me by the Ministry of Finance on Friday.

The cadre of free marketers and growth-first advocates working with Minister of Finance Owen Horwood and the Reserve Bank, do not like the idea of higher inflation any more than you or I.

But they are sticking to their guns that growth plus inflation is better than less growth plus possibly even higher inflation.

They are also hopeful that inflation will moderate down to 11% or less within a year as the special reasons for the recent surge in the general price level slide away.

The inflation rate is expected to rise in the short term because the full impact of the fuel price rise has not yet been 'fully reflected' in the latest Consumer and Wholesale Price Indices; and nor has the continuing steep climb in food prices.

Main reasons for the recent and current surge in the inflation rate (now about 13%) are listed as the advent of the general sales tax, the oil price explosion, disproportionate increases in prices, and without parallel rises in productivity and unitary jumps in certain administered prices — for instance as much as 50% in electricity tariffs.

A senior planner is adamant that there will be no wage freeze or wider-ranging price controls.

The key objective now, he says, is simply to soften the impact of inflation on those who can least afford higher prices.

"In any case, we cannot hope to get our inflation rate below that of our major partners. The rate for OECD countries is now above 10% and that in the US higher.

A major concern of business, expressed at the recent Economic Advisory Council meeting, is the erosion of capital that inflation is causing..."

Dr Henne Reinders, FCI chief until this appointment, this week as head of the Manpower Commission, has led a powerful lobby for tax relief for companies to offset this.

Against this background, the keynotes of the inflation policy seem, relatively simple:

- Keep the growth in the money supply modest — certainly below 10%
- Cut food prices down by dismantling the huge expense of too many control boards and inefficient small farming units
- Launch a campaign to tie wage increases to productivity increases
- Grant as much tax relief as possible to both companies and consumers
- Smooth out increases in administered prices (in fact, price-controlled products like coal have fared better than the average of non-controlled products, according to new figures presented to the EAC)
- Increase investment incentives and measures to take up slack business capacity
More concessions needed to stem the inflation tide

Deputy Financial Editor

Prices have risen by 1.5 percent from July to August and by a crushing 13.9 percent since August, 1978. The annual increase in food prices alone is now racing ahead at 15.1 percent.

The main reasons for the rise in the consumer price index were increases in the prices of food, clothing and footwear, housing, power, servants' wages, vehicles, running costs, recreation and entertainment, reports Sapa.

Since the end of August, sugar has risen 7 percent. Doctors' and dentists' fees are to rise between 33 and 52 percent later this year and flour is going up by 29 percent on October 1.

The Consumer Price Index spiral has speeded up from the July figure of 12.9 percent due to the spin off effect of the fuel price.

Package

Wholesale prices, which forecast retail prices, are running at an annual increase rate of 15.8 percent, according to July figures.

Senator Owen Horwood, the Minister of Finance, announced a giant money package last week but only R77 million will be used directly to stem the inflation tide.

His package will be spread. R20 million for food subsidies, R12 million for transport and R45 million for bread subsidy.

The rest of the money will go into pensions, repayment of the loan levy and other areas.

This will help factories increase production without pushing up prices.

But the demand could also push up the prices of scarce and imported goods.

Forecast

Economists from the Bureau of Economic Research at Stellenbosch and from Nedbank, who worked on a joint forecast, think that the consumer price index will be about 13.8 percent for 1978 but will fall to about 11 percent in 1980.

The breakdown of the consumer index shows that it has increased by 12.2 percent for low incomes, 13.9 percent for middle incomes and 14.3 percent for high incomes.

Trade unions will be gearing up their demands for wage increases based on the staggering price index rise.
Govt. price rises blamed

By GERALD REILLY
Pretoria Bureau

GOVERNMENT-controlled price rises over the past few years contributed substantially to the continued "alarming" high rate of inflation, the Prime Minister's economic advisory council has found.

The Prime Minister, Mr P W Botha, released a statement last night on the council's recent meeting in Pretoria. The council said it was widely agreed that an extended system of price and wage controls to combat inflation, even if this was by voluntary agreement, was desirable.

The Prime Minister said the council was concerned about the adverse effect that recently announced individual price rises of between 20% and 50%, and even higher, could have on the willingness of consumers to spend.

Government-administered prices should not rise as sharply in future, the council found.

It recommended that price adjustments in future should be made gradually, even where there were big cost backlogs.

The council also considered it advisable, in the interest of increased productivity, that the fuel-saving measures, especially the 76km/h limit in the larger metropolitan areas, should be reconsidered.

The council concluded there was an immediate need for additional stimulative measures.

The budget concessions earlier this year had been largely neutralised by the recent sharp rises in fuel and other prices.

Prospects for economic growth were still unsatisfactory in spite of recent measures to promote growth.

The council was concerned about the continued high level of unemployment and the possibility that unemployment could increase further.

Certain aspects of the problem, including unemployment benefits, should receive more urgent attention.

Increasing the growth rate should remain the main objective of the Government's economic policy in the short- and medium-term.

Additional measures to promote economic growth should also receive urgent attention.

On the balance of payments the council said it was very likely that the surplus on current account would, for the first time, exceed R2 000-million this year.
Inflation at 11.8% in US

WASHINGTON. — Consumer prices rose a seasonally adjusted 1.1% in August after a 1% rise in July, says the Labour Department.

August prices were 11.8% higher than a year earlier.

Real spendable earnings fell a seasonally adjusted 0.3% in August after a 0.5% fall in July.

Real earnings were off 4.3% from a year earlier.

Initial estimates of US real gross national product for the third quarter show growth at an annual rate of slightly more than 1%, say government analysts.

Real GNP fell at an annual rate of 2.3% in the second quarter.

The estimate is subject to revision before official publication of GNP estimates next month, but officials have said the third quarter is likely to show a growth decline.

Any third-quarter growth would be the result of sizeable inventory accumulation rather than any basic 'economic' strength, and the inventories would have to be worked off in the fourth quarter, pulling down production in that period.

— Reuters
PURCHASING OFFICE

We have received your Purchase Requisition second hand typewriter.

Could you please furnish us with the following info

(1) Name of person requiring the machine
(2) Department
(3) Please state why new machine is required

Is this machine for a
(1) Part-time post
(2) Full-time post
(3) Additional post
(4) Does this position demand excess work load

Please state full details of machine required i.e. if any special keyboard or features are required

If new machine is a 1
of existing machine

INFLATION

Still to peak

The rate of inflation threatens to reach an unacceptably high and dangerous level. The CPI rose by 1.5% in August, giving a year-on-year rate of 13.9%. And food prices are now escalating at an annual rate of 16.8%

Some of the more startling increases include vegetables, up 47% on August last year, meat, up 17%, the cost of keeping a domestic servant, up 25%, and, not surprisingly, transport running costs are up 53%

But there is little prospect of a reduction in inflation by year end. The Prime Minister's Economic Advisory Council (EAC) announced this week that it "would be unrealistic in the present circumstances to attempt to force down the rate of inflation in the short term to a level appreciably lower than the average rate of SA's most important trading partners"

The EAC seems to favour a policy of benign neglect, pointing out that cost overruns have largely been eliminated, and there is hope that government administered prices may not rise as sharply in the future. Moreover, continues the EAC, "if there are no further sharp rises in the prices of imported goods in the near future, perhaps the rate of inflation will show a downward trend in time"

Most economists support this argument, claiming that action on prices would tend to dampen growth prospects. They feel inflation is likely to drop next year. The Standard Bank forecasts an annual rate of 13.4% next year, marginally down on 1979, while the Stellenbosch Bureau for Economic Research expects 11.5%. Nedbank's Rudolf Gouws sees inflation rising to perhaps 15% by the year end, but by the middle of next year he expects the rate of increase to drop. Year-on-year increases in the second half of 1980 could be around 11%. Estimates Gouws

Barclay's senior economist, Johan Cloete, reckons the current government policy of benign neglect is likely to be as ineffective as previous monetary and fiscal policies. He foresees a further rise in inflation during the remainder of the year, eventually reaching a level where it "starts to feed on itself".

Claims Cloete, "Monetary and fiscal policies are not going to work (by themselves) because of the oligopolistic nature of SA business. There are four or five price setters in each sector of the economy". Government should collar the price setters (including those in the public sector) and convince them that it is in their own best interests to moderate price increases to a level not greater than the rate of inflation. Increases in profits must come from increased output (thereby reducing unit costs, and hence easing the upward pressure on prices). But a general rise in production levels will only be possible if the economy is growing, something which Cloete thinks is unlikely if the current rate of inflation persists or worsens.

The EAC agrees. It claims that increasing productivity is the only effective way to combat inflation in the present circumstances.
Growth can solve inflation problem

THE Prime Minister's Economic Advisory Council feels that it is more important to go for economic growth than it is to try to force the rate of inflation down.

The council also feels that while there is room for promoting further economic growth, this should not be done through a general expansion of Government spending.

In announcing the views of the council this week, the Prime Minister, Mr P. W. Botha, said that it was felt that South Africa should not impose a price-and-wage policy to control inflation even if the control were by voluntary agreement.

At first glance it might seem that the council has evaded the principal economic problems of soaring inflation and inability to cope with unemployment. However, the views expressed recognise these basic problems and also the practical difficulties of trying to promote growth in a very inflationary environment.

The council expressed concern about the rise in prices of administered and controlled goods — particularly the enormous individual price increases, of between 20 and 50 percent most recently. If concern is well-based, the Department of Statistics released the latest Consumer Price Index figures which reflect a rise of just under 14 percent in the year ended August with the food price index having risen in the same period by just under 17 percent.

What makes this inflationary picture even worse at this stage is the wage and wheat price rises do not feature in the statistics. In addition, the effect of the imposition of General Sales Tax last July also doesn't come into the reckoning.

While some economists are looking for an overall wages-and-prices policy, the council's reluctance to recommend such a policy has to be seen in relation to its elaboration on this theme. It argues for prices being increased gradually even in cases where cost backlogs have not been fully eliminated.

The council recognises the inflationary danger in promoting state spending as a stimulus to the economy. It feels that the growth in the economy should come from the private sector and, hence, the emphasis on measures to promote consumer demand. If excess liquidity can be diverted into the consumer sector and a possible demand-pull element introduced into the picture, then the nature of inflation could well be changed and possibly be made more manageable.

If there is sufficient real growth in the economy, then the pressure which arises through the sharing of growth must to some extent be reduced.

The fact that the amount of growth available for sharing has become progressively smaller over the last decade has been one of the major factors in the rapid increase in the rate of inflation.

The problem is that if inflation is at a rate of say, 15 percent then no government will allow its prices to rise at less than this rate, whether the price rises are necessary because of increased costs or not. Price rises in such circumstances are a defensive ploy. An offensive ploy would be to raise productivity and to try to increase market share or the size of the market itself — by raising consumer awareness or by finding new markets in other countries.

Confidence is an important factor in inducing new investment and confidence must stem from the market-place. You can't expect someone to launch a mini-skirt into a market-place where buyers are having to cut down continually on their non-food spending to keep their households fed.

It should also not be forgotten that real economic growth must create job opportunities and that unemployment is an even more serious problem than inflation. The council pointed out that even a 4.5 to 5 percent growth rate wouldn't solve this problem.

We have, therefore, to look for a growth rate at least the 6 percent level — and, at that level, we should keep inflation as manageable — if not a problem solved.
Inflation must be tackled now, says FCI chief

Dr Johan van Zyl... new school of thought

IN AN exclusive interview with Business Times, the new executive director of the Federated Chamber of Industries, Johan van Zyl, put forward his view on how inflation could be tackled.

While Government goes all out for growth as its first priority, it feels little can be done to curb inflation, particularly in the short term.

But if more attention is not focussed soon on inflation, the problem becomes a longer-term one and here Dr Van Zyl believes high inflation rates eventually preclude high growth rates, mainly because inflation severely erodes profit and profit expectations.

Fear of inflation lowers profit expectations. In an inflationary environment people anticipate price rises and investment drops because of the additional risk.

An obvious way to fight inflation lies in raising the profitability of production by reducing company tax.

Taking up the slack in existing capacity is in itself anti-inflationary and the creation of new capacity is also stimulated.

The appointment of the Monopolies Commission is certainly, says Dr Van Zyl, one step in the direction of greater efficiency in the labour market.

The Competition Board will be appointed next year, I understand, and that means Government is also giving some attention to the output side of supply.

However, a lot more is still to be done to promote free markets by trimming practices which fuel inflation.

Administrative red tape, price controls and regional policies that force factories to be sited in unsuitable places are some examples.

Administrative prices, too, should not be kept down for too long, because when they cannot be contained any longer, sharp rises come bursting through.

If they are put up bit by bit, these small input cost increases tend rather to act as an incentive for greater productivity and price hikes are then more easily absorbed instead of being passed on in a disruptive manner.

By DONALD ANDREW
Inflation hits Reds too

John Dornberg

Whopping

In Hungary last month electricity rates were raised by 56 percent, pensioner for meat, milk and dairy products, flour, sugar, gas, coal, heating oil, automobiles, furniture, leather goods, and movie and theatre tickets rose by 20 to 30 percent, and the cost of paprika, the most vital ingredient of Hungarian cuisine, went up by a whopping 100 percent.

In Czechoslovakia the regime has just announced price hikes of up to 60 percent for gasoline, postage, telephone installation and calls, telegrams, and children's clothing.

In Yugoslavia retail prices last month were 21 percent higher than in July 1978.

Poland, Rumania and Bulgaria have all increased the cost of gasoline within the past few weeks, by rates ranging from 15 to 100 percent.

And in the Soviet Union itself, effective in July, prices for precious metals, furs, and carpets rose by 50 percent, those for evening restaurant meals by 45 percent, imported home furnishings by 30 percent, domestically produced furnitures by 10 percent, and automobiles by 18 percent.

What communist economists were long claiming "can't happen here," is happening with a bang, and demonstrates that when you strip away all the Marxist gobblegook, business is business and two plus two still equals four.

Some of the reasons for the price hikes are similar to those in the Western capitalist democracies and have a hauntingly familiar ring to inflation-plagued consumers there.

Dwindling

Thus, because of the growing interdependence of world economies, the Soviet bloc and East European countries are also affected by the increases in the prices of raw materials, the spiraling cost of energy sources, the dwindling energy supply worldwide.

Another factor is that the USSR and other members of Comecon, the communist version of Western Europe's Common Market, have been building up home-grown inflationary pressures for a number of years in the form of wage increases with a corresponding lag in the production of consumer goods on which to spend the additional take-home pay.

Personal savings have risen to an all-time high in Eastern Europe as the increased purchasing power has found no outlet because of the shortage, narrow choice and poor quality of desirable consumer durables.

In Yugoslavia, on the other hand, where the economy, in spite of public ownership of the means of production, operates on market principles and has been described as laissez faire socialism, the primary cause of inflation is overheated investment, being financed through bank credits at unreasonably low interest rates. High domestic demand is being fueled by public and private spending.

Finally, the Comecon countries are deliberately using price hikes to bring their centrally planned and run economies into a semblance of logical order.

For decades prices of basic consumer goods and services have been kept artificially low, with the help of subsidies, often lower than the actual costs of production. But the prices of a wide range of durables - appliances, cars, furnishings, clothing - have been kept artificially high due to secret taxes, revenues from which have then been used to defray the expenses of the subsidies for the basics.

In Moscow, for example, electric current is still billed at only about 6 cents per kilowatt hour and a ride on the Metro is still only 5 kopeks (about 7 cents at the current official exchange rate) - the same price as when that subway system was inaugurated in 1935.
Inflation statistics — a new horror story

By NEIL BEHRMANN
London

SOUTH Africa is not alone in experiencing widespread and accelerating inflation. Latest OECD inflation statistics make frightening reading and basically mirror one fundamental reason behind the incredible gold bull run of the past year and panic out of money into real assets.

The average annual inflation rate of the United States was 2.8% from 1961 to 1970, for

1. What is the balance of the plant at
   a) deferral
   b) liability

2. Show how the tax income statement assuming
   a) deferral
   b) liability (assume timing)

3. How will the answer of an extraordinary company, amounting in the 19.7 financial year, be taxable, for 19.7?

4. How does the answer to 3. change if the R70 000 is now a deductible loss, which can be set off against the taxable income from other sources of R50 000? Draw up the income statement assuming the deferral method is used.

5. Further to Note 4, assume now that the company has a set profit before depreciation of R60 000 in 19.8.

Draw up the income statement for the 19.8 financial year under a) liability method

b) deferral method

Assume the tax rate remains 42%
US plan to lick inflation

By JIM SRODES: New York

The newspapers tried to call it the crash of 79. But it wasn't that at all. What it was was one of the most dramatic weeks in US economic history. But it also proved that history such as the crash of 1929 and the depression that followed need not repeat itself.

The week also proved that Wall Street's heavyweights analysts have a tendency to behave like a flock of chickens when they crowd and another one another at the first clap of thunder.

But the truth is that what happened on Wall Street this week, as frenzied a panic as it was, actually obscured more dramatic events that took place in Washington this week at that most low key establishment - the US Federal Reserve Board.

Taking events as they occurred might help with the understanding.

Late last Saturday night Central Bank chairman Paul Volcker summoned a dozen or so financial journalists to the board room at the Federal Reserve.

Mr Volcker had made headlines earlier in the week when he suddenly left the World Bank IMF meeting in Belgrade and returned to Washington. The dollar had been under terrific pressure, gold was skyrocketing and it appeared as if the US economy was about to lose its one sure ally against inflation - the economic recession that was to cool things off. What Mr Volcker had to tell the newsmen was not a spur of the moment policy change.

Earlier this spring, while William Miller was still chairman of the US Central Bank, the Fed had become alarmed at its inability to control the explosive growth of the basic money supply which was expanding at three times the 4.5% annual rate of growth economists believe healthy.

Even under Mr Volcker's firm hand money supply growth was still twice the healthy level.

In Belgrade the rumors, reflecting the wishful thinking of Swiss and other international bankers, had it that Mr Volcker was going home to set up a new dollar rescue plan.

Part of the core of that reported plan would be a massive new increase in last year's $50 billion swap line of credits. Another part would be a doubling of the US Treasury gold sales as a way to drive the $500 an ounce price down.

Yet Mr Volcker made it clear from the outset that any improvement of the dollar would be a by product of the Fed's efforts.

The central bank, he said, wants to skim off the froth from our credit markets. We do not want to choke off credit or reduce the flow of money supply growth, just reduce inflationary pressures, aside from the orderly adjustment that is already going on and, at the same time, help promote stability in the international exchange markets. Please note the order of precedence.

The Fed plan had the attractiveness of simplicity. First, the Fed added a full 1% - to the discount rate it charges banks for reserve borrowings.

Second, the Fed forced banks to keep an additional 8% in new reserves on existing reserves it must hold back on the various new sources of revolving capital, large certificates of deposit, Eurodollars and foreign exchange agreements.

These two items alone added two full percentage points to bank capital costs and meant that a 15% prime rate (from the 13.5% prime that existed on Friday) was a necessity.

The third, and most significant move was to shift the central bank's money supply policy to a street, monetarist restraint of bank reserves that can still stand very little more strain.

But the Fed has clearly tapped the US economy into a profound and lasting recession.

One can expect, on the basis of the 1974 crunch, that the Dow could drop into the 650 range.

A 16% prime rate is now considered the testing point of the Fed's tight money policies before they turn down again.

Unemployment will swell by as much as 2 million workers between now and when Jimmy Carter goes to the polls for his re-election bid. But it could work

a) deferral method

b) liability method

(assume there are no other items causing timing differences)

3. How will the answer to 2. be affected by the existence of an extraordinary gain on disposal of a division of the company, amounting to R70 000, all of which was taxable, in the 19.7 financial year?

4. How does the answer to 3. change if the R70 000 is now a deductible loss, which can be set off against the taxable income from other sources of R50 000? Draw up the income statement assuming the deferral method is used.

5. Further to Note 4, assume now that the company has a set profit before depreciation of R60 000 in 19.8.

Draw up the income statement for the financial year under a) liability method

b) deferral method

Assume the tax rate remains 42%
But big doubts remain that skewed investment can be overcome

Instead he looks for quick gains or "inflation hedgers." In effect it means that the businessmen become interested in buying and selling commodities rather than in manufacturing.

- Other forms of investment—real estate and shares—are also bought and sold for the same reason.

With this misinvestment diverting capital from the productive to the non-productive sectors of the economy, unemployment increases.

- There are less jobs because real investment is declining and there are fewer factors to employ the workers.

Since the industrialists basically worry about the extensive risks of a long-term project in an inflationary world, the new funds which have been generated do not shift into the real economy.

These funds grow and in the last few years have become a huge balance which shifts from market to market looking for a new home. Today it is gold, tomorrow sugar, D-marks or sterling.

The situation, of course, has been aggravated by the two oil shocks—the first in 1973 and the second this year.

And on the other side of the equation, payment for the oil has gone to countries which are not increasing their real investment dramatically. So there are more funds added to the mountain of liquidity which shifts from home to home.

- With the classic anti-inflammatory measures not working, the game of "short-term gains" remains more profitable than the risk of long-term ventures.

Thus has two major influences on commodity markets. The first is that shortages of certain raw materials tend to affect the markets from time to time.

Mining companies hold back because they think price rises are only temporary. So they become reluctant to invest huge sums of money in new projects.

- For a time there is a surplus of a commodity, for example copper. But then shortages occur and price rises become all the more dramatic because the loose funds shift into the latest game in town.

The crowd then becomes mesmerised by the price rises and the extensive gains which can occur.

- In the last phase of this boom a crowd mania sets in, similar to the tulip craze which occurred centuries ago.

Ultimately the prices collapse because they are overdone, even in terms of inflationary worth.

Many will cry that controls are needed to suppress the speculation, or the huge buying and selling panics in stockmarkets, real estate and other hedges.

But German and Swiss bankers are now saying that the basic control is needed at the root cause—infestation.

At last the Americas appear to be "biting the bullet." Other countries, Britain, Germany, and Japan are also trying.

But the depressing statement of governments is: "We will reduce the rate of inflation."

They do not say they will end the inflation.

This implies their hands are tied because of political and social factors, so inflation will continue with economic stagnation.

The violent market fluctuations are thus likely to continue rather than abate.

This makes investment policy extremely difficult because everyone relies on short-term gains. South Africa is obviously affected by these circumstances.

To protect small savers (both white and black) who cannot understand these wild fluctuations, the Government should sell bonds which appreciate with the cost of living. These bonds are already in vogue in Britain and elsewhere.

(a) Deferred method

What is the balance on deferred tax account in respect of the plant at 31.12.74, assuming:

1. £1,125,740,000

and 1.126,740,000 respectively, for the financial years ended 31.12.74 and 31.12.75.

- Tax losses were 15% in 1.126 and 19% in 1.125.
- In 1.126, depreciation is provided at 1.25% p.a.
- A 1.25% straight-line, 1.25% initial allowance is granted for new plant.
- A 1.25% additional first-year allowance on new item of 1.30,000.

DEFERRED TAX

APPLIED EXAMPLES

GENERALLY ACCEPTED ACCOUNTING PRACTICE

- 86 -
Horwood's approach to the control of inflation which he outlined at the ASSOCOM congress in Bloomsbury last Tuesday is realistic, but will require the cooperation of industry and commerce if it is to work.

At the congress he announced:

- Increases in State spending will be kept to a minimum so that the money supply does not increase excessively.

This is in line with the monetarist view that inflation can be controlled through the supply of money and will be welcomed by most economists even if they are not Friedmanites.

- Administrated prices are to be kept at realistic levels but strict discipline will be applied when further adjustments are made. One of the crucial problems in the present rapid inflation is the very sharp rises in administered prices.

"Clearly, these prices cannot be allowed to persist at artificially low levels but their impact has in many instances been very severe and often traumatic for the consumer sector.

More gradual increases will help to reduce the impact and, in any case, more gradual increases would be more realistic.

2.7 Library Instruction Course

An overwhelming majority of the sample were extremely enthusiastic about the library course and found the librarians very helpful.

2.8 Academic Advice

In indicating whose advice they had primarily sought in planning their university curriculum, the sample indicated as follows:

information Lectures

of the sample (73%) felt that they had information about the subjects from the mation lectures, though only 31% were almost completely satisfied with the obtained. The majority in their t they would have liked course content outlines on each specific subject to be before lectures. They would also have liked in the lectures about tutorial organisation, department requirements and research methods.

of the sample (52%) felt that there had been tunity to ask questions at the Course Lectures though 30% felt they would have only 6.5% would have preferred to see staff ices instead of the lectures. 89% wished to well as the lectures, and were satisfied angements.

Workshops

one-third of the sample did not answer the this section of the questionnaire. This may hey did not attend the Sunday workshops, for er of the sample indicated in their comments uld have preferred these not to have been held Of those that did answer questions in this felt the Workshop had been long enough and had to some extent to integrate into the University n choosing their degree courses.

Study Methods

if the sample (69%) felt that their school tudy were adequate at University, though less they were completely adequate and 18% nearly majority (51%) would have liked an additional Lectures, Revision and Examinations and on Research" in their comments a great many s suggested that a more practical presentation of ght be desirable.

An on-going study methods course in the first 9% of the sample stated they would find it nd 30% would find it very valuable indeed.
Benefit package for public service

PRETORIA. — The Prime Minister, Mr P W Botha, last night announced a service benefit package for all public sector workers including university personnel and teachers.

OWN CORRESPONDENT

Next year's package will include an annual bonus, of a month's basic pay to replace the holiday bonuses, and a likely increase in salaries. The Public Service Commission is still working on details of the package.

And although he made no specific announcement about improvements in teachers’ pay, he did say that in the future, teacher salaries would be improved simultaneously with the rest of the public sector.

The Prime Minister's statement came after a meeting yesterday afternoon with the executive of the Federal Council of Teachers' Associations.

The meeting, he said, followed serious dissatisfaction in the teaching profession over the way in which salary improvements had been granted in the public sector.

It was clear to the government that this dissatisfaction — it was not limited to the teaching profession — could be attributed mainly to the fragmentary improvements of salaries during 1978 and 1979.

The fact that the teaching profession was the only one to receive special treatment, in spite of serious economic problems, and at the expense of other high-priority services, and to receive a revised structure, is ample proof of the government's positive disposition.

Notwithstanding other urgent demands on the exchequer, the Prime Minister said he wanted to put a number of points of policy in connection with salaries and conditions of service in the public sector “within the framework of my endeavours towards orderly administration.”

The government had decided to improve salaries in the teaching profession simultaneously with those of the rest of that part of the public sector which was mainly financed from the Revenue Fund.

The Minister of Finance had clearly stated the government was considering the financial implications of proposals for improved salaries and conditions of service for incorporation in next year's Budget.

The global guidelines figure to be made available for the so-called service benefits package would in future be considered in conjunction with all other competitive demands on limited exchequer resources, and would as a matter of course be announced in its totality during the various Budget speeches.

Clarity had been reached on two items of the service benefits package:

- The top structure for institutions in the public sector would be restructured in such a way that the structure for the teaching profession could be stratified from top to bottom in a meaningful way.

- It had been decided to replace the existing vacation savings bonus from the next financial year with an improved service bonus as an integral item of the total service benefits package. This service bonus would be equal to one month's basic salary.

Mr Botha said: “I wish to appeal to personnel in the public sector on the one hand to view the service benefits package as a whole and on the other hand not to entertain excessive expectations in connection with the total service benefits package.

“In this regard the high demands of the exchequer, inter alia, in connection with the security of the country, must not be lost sight of.”
BEN TEMKIN WARNS OF THE COMING OF 20 PERCENT INFLATION

The Consumer Price Index figures released this week show a 12-month inflation rate of 14% percent with the September increase 1.8 percent. The only glimmer of hope in this was that the September rise was below that of August, but we still have to feel the impact of the various grain price rises.

The food-only index is now running at an annual rate of 36.5 percent, which is alarming to say the least, particularly as the grain price incentives will hit the lower-income groups especially hard.

If one looks at the point being made here, it is being clearly stated that the very high rate of inflation makes the achievement of real economic growth targets difficult. Edgars MD, Adrian Belz, said at the Association for Economic Development target of more than five percent—a target which would be able, if achieved to take care of the unemployment problem.

But a higher target would also have the benefit of providing the structure of a real economic growth to counter inflation. Once there is more real growth to be shared, the pressure to increase the money supply through the printing press has to decline.

Of course, targets are one thing; achieving them is quite another. There is scope for real economic growth within South Africa itself if the government's investment incentive can be created. There is equally much that can be done on the export front as the latest trade figures testify.

South Africa's trade surplus (ignoring gold, oil and military equipment) was $247 million in September and interim forecasts are that the surplus will be more than $900 million over the full year.

Add gold and the surplus becomes hefty even if estimates are that the rest of the surplus will not quite pay for oil and defence equipment imports. This level of export surplus is high enough to maintain a real economic growth rate of more than five percent—and probably would be double it so much of the surplus was not being used to pay for inflation.

It is still a truism that major companies are only increasing their prices after increasing their prices and not by increasing production and rising up their capacity.

One major company reporting this week—Aecorn—commented on the unrealistic of its inflationary cost spiral. It improved its profitability, but only through greater utilisation of capacity.

It was unable to pass on higher costs to its customers and this has to be worrying of there is no abatement of cost pressures.

Increased capital investment from abroad will help matters—but there is no cause for optimism on this score because Britain has relinquished exchange control. This will make investment in South Africa less expensive because of the abandoning of the investment premium—but the investment is still through the Financial Rand which implies investment switching rather than real new investment.

In short, the excellent trade figures and the promise of political change are cause for optimism in the fight against inflation and for real growth at a meaningful rate. But inflation still has the upper hand.

---

**Questions**

1. What is the balance on deferred tax at the end of the year?

2. On which of the following tax returns will the interest charge be added, assuming there are no other timing differences? (a) Deferred method (b) Liability method

3. How will the answer to 2 be affected if an extraordinary gain on disposal company, amounting to R70,000, all in the 1975 financial year?

4. Does the answer to 2. change if the income from other sources being less than 50% of income from other sources assuming the deferred method?

5. Draw up the income statement for 1975 under (a) Liability method and under (b) deferred method. Assume the tax rate remains 42%.
Horwood says inflation rate may drop soon

JOHANNESBURG — There might well be a "meaningful decline" in the rate of inflation next year, Senator Owen Horwood, Minister of Finance, said yesterday.

Delivering the keynote address at the Financial Mail investment conference here, Senator Horwood said that although the rate of inflation would again be greatly influenced by international economic developments, it could be reduced as a result of the success in the past two years in curbing Government spending.

This should be the case particularly if the new six-point anti-inflationary policy announced in September was applied with determination.

Taxes

Senator Horwood hinted again at a possible reduction of taxation next year.

It was important, he said, that disposable income should be increased, and this could only be done by increasing take-home pay. Salary and profit increases alone would naturally be eroded, he added.

He expected that private consumer spending would rise by between 4 and 5 percent next year. On the other hand, State spending would rise only moderately.

The South African economy was on the move and there were really strong grounds for expecting a good performance from it in 1980, the minister said.

Although it would be irresponsible of him as Minister of Finance to make forecasts of specific matters, he could set out in broad terms the combination of developments which, in the light of present knowledge and policies, could reasonably be expected in 1980, he said.

As a result of the expected increases in all the main components of gross domestic expenditure which he foresaw, real gross domestic product should rise by close to 5 percent in 1980, compared with virtually no change in 1977 and increases of 2.3 percent in 1978 and an estimated 2.5 percent in 1979.

Upswing

Senator Horwood said the current cyclical upswing would continue throughout 1980 and, indeed, develop additional thrust.

"If this happens, South Africa will fare much better than the major industrial countries, which are generally expected to show recessionary tendencies in 1980."

It was possible that the present upswing in South Africa would not reach its peak before some time in 1981.

"This is because the upward movement has thus far been relatively moderate and extremely soundly based and is only now moving into higher gear."

As the upswing gained strength, imports should rise sharply, particularly imports of intermediate and capital goods. If the overall situation developed as planned, it was both logical and desirable that imports should rise substantially.

Imports

"A substantial increase in imports in 1980 should therefore be cause for rejoicing and not dismay. It will be the final proof that the South African economy has moved into a new phase of rapid expansion and rising standards of living — that it is indeed a 'going' concern, or should I say a 'growing' concern?"

Senator Horwood said that sharp rise in imports should lead to a marked decline in the surplus on the balance of payments on current account.

"Such a decline should not, however, be viewed as a 'deterioration' of the situation, but as an integral and normal part of a healthy growth scenario, and should be welcomed as such."

"We should not slip into the 'mercantilistic' error of thinking that a current account surplus is in itself, and under all circumstances, a desirable phenomenon."

"Certainly it is true that after our balance of payments difficulties of 1975-76, the attainment of a substantial current account surplus was for some time an essential aim of official short-term policy.

"Indeed, the realisation of this aim has represented one of the principal successes of the strict financial policy applied in South Africa in recent years."

"Nevertheless, the existence of such a large current surplus for such a long period must be viewed as, at least partly, a symptom of the relatively low real growth rate in South Africa during this period."

"A decline in the current surplus as part of the scenario I have described for 1980 should therefore be anticipated and applauded as a symptom of the success of our present growth policy," Senator Horwood said.

Credit

Referring to the gold price, he said: "I shall refrain from making any forecast of the gold price in 1980, but it remains my view that as long as the major industrial economies remain plagued by high rates of inflation, the long-term trend of the gold price should be upward, whatever fluctuations there might be in the short term."

Another integral part of the developments he envisaged for 1980 was a substantial increase in the demand for bank credit and other loanable funds stemming from increases in investment and consumption which he expected to take place. — (Sapa)
Inflation, warns Mercabank, is a structural problem being built into the whole fabric of South African thinking and living. Professor Piet van der Merwe, one of the compilers of Mercabank's recent Focus on Key Economic Issues, says that "South Africans are becoming conditioned to it and accepting it as part of living."

Van der Merwe warns that the full consequences of current inflation have not fully worked through to various sectors of the economy. Echoing the views of other economists, he points out that inflation problems are likely to be accentuated by higher administered prices, and demands for higher wages and salaries, which have not kept pace with inflation over the last two years.

According to Focus, the domestic pur-

chasing power of the consumer's rand has plummeted by 65.1% from 1965 to 1979. On the international market, the rand has declined 32.4% (after eliminating the effect of changes in the exchange rate). During the period 1965 to 1979, earnings per worker increased on average by about 70%, whereas output increased by only 24%.

Productivity shortcomings, adds Van der Merwe, are the major components which need immediate attention by all sectors of the economy. "It is only through the correct training of personnel," he comments, "that we will be able to meet the challenge."
11. Annual report by Registrar.—The Registrar shall in every calendar year submit to the Minister a report containing such information concerning the registration of companies of each type, their authorized capitals or numbers of shares, increases in and reductions of capital, prospectuses, windings-up, judicial managements, deregistrations and dissolutions of companies, additional fees collected, prosecutions and convictions under this Act, matters dealt with by the standing advisory committee appointed under this Act and other matters as the Minister may direct, and the Minister shall table the report in the Senate and in the House of Assembly.

12. Jurisdiction of Court under this Act and review of decisions of Registrar.—(1) The Court which has jurisdiction under this Act in respect of any company or other body corporate, shall be any provincial or local division of the Supreme Court of South Africa within the area of the jurisdiction whereof the registered office of the company or other body corporate or the main place of business of the company or other body corporate is situate.

(2) Any person, including any company or other body corporate, aggrieved by any decision, ruling or order of the Registrar may bring the same under review by the provincial or local division of the Supreme Court of South Africa within the area of the jurisdiction whereof such person is ordinarily resident or such company or other body corporate has its registered office or main place of business.

13. Security for costs in legal proceedings by companies and bodies corporate.—Where a company or other body corporate is plaintiff or applicant in any legal proceedings, the Court may at any stage, if it appears by credible testimony that there is reason to believe...
INFLATION

Constant companion

Inflation, warns Mercabank is a structural problem being built into the whole fabric of South African thinking and living. Professor Piet van der Merwe, one of the compilers of Mercabank's recent Focus on Key Economic Issues, says that "South Africans are becoming conditioned to it and accepting it as part of living".

Van der Merwe warns that the full consequences of current inflation have not fully worked through to various sectors of the economy. Echoing the views of other economists, he points out that inflation problems are likely to be accentuated by higher administered prices, and demands for higher wages and salaries, which have not kept pace with inflation over the last two years.

According to Focus, the domestic pur-

p to any document concerned which stamps may
r of Revenue or the Registrar; or
p on any document concerned by means of a die
ary for Inland Revenue; or
n or notice in respect of which any fee or payment is
mplete unless proof of payment of the prescribed fee
yes has been delivered to the Registrar.

(3) Any fees, additional fees, annual duty and any other moneys payable under this Act to the Registrar shall be debts due to the State recoverable by the Minister in any competent court.

11. Annual report by Registrar.—The Registrar shall in every calendar year submit to the Minister a report containing such information concerning the registration of companies of each type, their authorized capitals or numbers of shares, increases in and reductions of capital, prospectuses, windings-up, judicial managements, deregistrations and dissolutions of companies, additional fees collected, prosecutions and convictions under this Act, matters dealt with by the standing advisory committee appointed under this Act and other matters as the Minister may direct, and the Minister shall table the report in the Senate and in the House of Assembly.

Court: Jurisdiction, Powers and Procedure

12. Jurisdiction of Court under this Act and review of decisions of Registrar.—(1) The Court which has jurisdiction under this Act in respect of any company or other body corporate, shall be any provincial or local division of the Supreme Court of South Africa within the area of the jurisdiction whereof the registered office of the company or other body corporate or the main place of business of the company or other body corporate is situate.

(2) Any person, including any company or other body corporate, aggrieved by any decision, ruling or order of the Registrar may bring the same under review by the provincial or local division of the Supreme Court of South Africa within the area of the jurisdiction whereof such person is ordinarily resident or such company or other body corporate has its registered office or main place of business.

13. Security for costs in legal proceedings by companies and bodies corporate.—Where a company or other body corporate is plaintiff or applicant in any legal proceedings, the Court may at any stage, if it appears by credible testimony that there is reason to believe
Cloete warns on wild inflation

Financial Editor

A WARNING that inflation could "accelerate out of control" next year unless the rate of increase in credit and the money supply is eased is sounded by Dr Johan Cloete, chief economist of Barclays National Bank.

His view will disturb many businessmen because

- Dr Cloete has been the most pessimistic inflation forecaster of the past couple of years and, irritating to some, the most accurate.
- Dr Cloete has never held the simplistic view that all that is needed to curb inflation is to clamp down (or try to clamp down) on money supply.

This is how he sees the economic dilemma now.

While it would appear that there will be sufficient demand in the economy to push the economic growth rate above the 4% level in 1980, whether or not this will in fact happen will materially depend on the course of inflation in the year ahead and on the kind of policies pursued by the authorities to contain it.

"At the end of September this year, the inflation rate had accelerated to 14.3% over that of a year earlier and present indications are that the rate will stand a little above 15% by the yearend."

"It is not at all certain that the inflation rate will slow down significantly even given an acceleration of economic growth in the months immediately ahead."

"On the contrary, an inflation rate of 15% and above by the year end would be such a highly visible one that it might well evoke actions on the part of both firms and workers that will push the rate up even faster."

"Business firms might well be induced to push cost increases through even faster (and might be forced to do so given that they have to accept such high price increases) while employees could push strongly for compensatory wage increases."

"Indeed, the inflation situation is fast approaching the stage where the monetary authorities will need to take steps to slow down the rate of increase in the money supply and particularly of credit to avoid uncontrolled inflation from developing."

"The Government's policy of 'growth from strength' should not be replaced by one of growth at all costs."

"On the contrary, disciplined growth will be necessary in 1980, which probably requires that the rate of growth next year should not be pushed higher than, say, 4.5% if economic growth at this level is to be carried forward also into 1981."

"With inflation still at such a high level and with demand pull inflation also likely to develop earlier than usual in the current economic upswing because of a shortage of skilled labour in particular, the inflation rate will almost certainly accelerate out of control if growth should be pushed too fast next year."

"This would once again necessitate the re-imposition of severe monetary and fiscal restrictions and all that will be gained in 1980 might well be lost again in 1981."

"Thus, what seems to be required is that the authorities set a target rate of about 4.5% for 1980 and formulate their monetary and fiscal policies for the period accordingly."

"From the point of view of monetary policy, this would probably require that the monetary authorities should start to lean against inflation and hence against money and credit expansion in the months immediately ahead, if necessary allowing a slow rise in interest rates to occur."

"In real terms, interest rates generally are substantially negative, and a slow and moderate rise in rates in the period immediately ahead should not significantly discourage investment expenditure."

"Besides, a slow rise in interest rates would serve to narrow the present large gap between domestic and overseas rates, give some protection to savings against the ravages of inflation and prevent security and equity prices from being driven up to unrealistic and unsustainable levels."

"All this can only be for the good of the economy in the longer run."

"With regard to appropriate fiscal policy for the year ahead, it seems that what is required is moderate increases in real terms, as far as both current Government consumption expenditure and fixed investment expenditure in the public sector are concerned as well as tax measures (or other incentives) that will support both private consumption expenditure and new investment activity by companies in the private sector."

"As far as the Government's price policy is concerned, every attempt should be made to restrict increases in all administered prices to a level of, say, 10% or so (i.e. a rate of increase significantly below the current inflation rate) in order to assist and reinforce the action taken by the monetary authorities to prevent inflation from accelerating further and, in fact, to push the inflation rate slowly down in the year ahead so as to provide a sound basis for continued growth at about the 4.5% level also in 1981."

DURBAN — The inflation rate will soar next year to a record level of more than 16 percent and could sink South Africa's economic upswing, a leading economist warned here today.

The chairman of the Government’s former anti-inflation committee, Dr L P McCrystal, predicted that this would result in South Africa experiencing an inflation rate similar to South American countries where all contracts, salaries, wages and prices were increased every few months.

“The next round of fuel price increases is likely to jerk our inflation rate over the 15 percent level. Then, 1980 will see an even higher rate of inflation than 1979, probably around 16 percent.”

Dr McCrystal said in an interview that inflation had a “ratchet” effect and that once it was jerked on to a higher level it intended to stay there.

“At present the official attitude to inflation seems to be benign neglect. Control over the money supply and Government spending are virtually the only tools being used to combat inflation.

“Applied gently, they are inadequate. Applied more vigorously they will kill the current economic upswing and precipitate a recession.

“We are either going to have to live in 1980 with 15 percent plus inflation like many South American countries do, by adding an inflation factor to all contracts, salaries, wages and prices at regular intervals, or we must bring it down.

“But this will mean doing away with minimum wage levels like the poverty datum line, and all parts of our society will again have to accept that their share of the total net income cannot rise as rapidly as the growth in the economy.”

The question, he said, was whether our society could become so unselfish as to be prepared to accept this?

On the bright side, however, Dr McCrystal said economic growth in 1980 was going to make South Africa “stand out like a lighthouse” in the world economy.

While most countries could be going into a recession, South Africa would experience a modest boom with a growth in the economy of five percent likely, which was well above the 1979 level of four percent.

“Unemployment will come down, although not nearly by as much as is necessary Company profits will improve, and the country is likely to attract an increasing volume of foreign capital because our economic performance will look so good by comparison by most other countries,” Dr McCrystal said.
INFLATION
1-1-80 - 31-12-80
Inflation on the move again

By HAROLD FRIDJHON

The consumer-price index (CPI) looks as if it is on the move again. After four months of minimal movements, the index for January rose by 0.88%, giving it a 13.60% year-on-year increase, according to the latest numbers issued by the Department of Statistics.

The rise in the index was largely shaped by the increase in the cost of food. The food-only index rose by 2.08% for the month and 14.06% over the year.

Last December, the CPI rose by 0.37%, which was a 14.05% jump on the 12 months to December 1979. But last November, the increase was 0.6%, October 0.6% and for September, it recorded a gain of 0.4%.

The index numbers for January were 165.4, against 164 in December 1979 and 145.3 for January 1978.

With inflation running at a high rate last year, the significant feature of the CPI this year will be the rate of increase, which will have to be closely monitored. Most commentators are gloomy about the inflationary prospects for this year and most are talking to an average of around 13.5% for 1980.

With heavy wage demands expected in all sectors of commerce and industry, operating costs could rise sharply. And to a certain extent, the Government's hands are tied. If too severe countervailing measures are applied, the rate of growth in the economy could be stifled - and this is something which both the Government and private sector fear more than the ravages of inflation itself.

While the average CPI rose by 0.68%, the lower-income group index went up to 165.3 in January, making a 1.07% increase for the month and and 12.40% rise for the year. This is a reflection of the steep rises in the cost of food.

The middle-income group index rose to 165, making a 0.73% increase over the month and 13.90% over the year.

The higher-income group index went up to 166.8, giving it a 0.85% rise for the month and 14.09% for the year.
Stimulating economy is not answer—De Beer.

Political Staff

Hansard 28/2/80

De Beer, Zied K, Opposition spokesman on commerce, warned that the government was not doing enough to stimulate the economy.

The government, he said, was not doing enough to stimulate the economy. He said that the government was not doing enough to stimulate the economy. He said that the government was not doing enough to stimulate the economy. He said that the government was not doing enough to stimulate the economy.

He said that the government was not doing enough to stimulate the economy. He said that the government was not doing enough to stimulate the economy. He said that the government was not doing enough to stimulate the economy. He said that the government was not doing enough to stimulate the economy. He said that the government was not doing enough to stimulate the economy. He said that the government was not doing enough to stimulate the economy.

He said that the government was not doing enough to stimulate the economy. He said that the government was not doing enough to stimulate the economy. He said that the government was not doing enough to stimulate the economy. He said that the government was not doing enough to stimulate the economy. He said that the government was not doing enough to stimulate the economy. He said that the government was not doing enough to stimulate the economy.
Inflation erodes 1975 rand to only 30 cents

January slowed down marginally by 0.2% to 13.8%
Departmental figures show that in January 1975, the all-items index stood at 14.2 points. The January figure this year was 165.4%
During January living costs of the lower income group increased by 1.1%, the middle income group by 0.9% and the higher income group by 0.8%.
Food-only index during January rose sharply by 2.1% to a twelve month percentage rise of 14.9%
As food buying is a major expense on lower income group family budgets, this accounts for the 1.1% rise in the all-items lower income group index in January.
The deputy head of the Economic Research Bureau of the University of Stellenbosch, Mr J de Vries, said looking beyond the middle of the year, there could be some relief once last June's huge petrol price rise had worked itself out.
However, on the other side of the coin, were the inevitable substantial increases in producers prices for maize, dairy products and other foods before the middle of the year.
Another factor which would aggravate inflation, was the increased earnings of more than 800,000 workers in the public sector, expected to be announced in the budget.
There was also the one month salary bonus promised public sector workers by the Prime Minister. This would add another R400-million to total spending power.
Like other economists, Mr de Vries says the increases and the bonuses will raise pressure on prices and boost inflation.
Overall, he added, there was little hope of a significant inflation slow-down, at least in the short term.
Inflation: A cataclysmic assessment

By JIM SRODES
Washington

A recent investigation into the collapse of an advanced ancient Mayan civilisation is the story of a city whose fragile tropical environment could not support the demands of a sophisticated society.

Areas became virtually uninhabited as the environment changed.

"The accumulating evidence suggests they had become a complex society with advanced agriculture, a managerial elite class and all the stresses, strains and conflicts that go with such size and complexity.

Then the way of life collapsed, leaving a severely damaged environment and a cultural vacuum that persisted for many centuries," noted one researcher.

Is it a lesson to be learned, or a glimpse of things to come for the advanced nations of the world?

Strain

The Worldwatch Institute in Washington, in its report "Inflation: the rising cost of living on a small planet," suggests the same fate may be in store for the nations of the world as biological and physical systems, underlying all economic activity, strain under excessive demand.

"The law of diminishing returns is ruling in an increasing number of economic settings," the report says.

"During the past decade or so, world per capita production of wood, petroleum, fish, cereals and most meats all appear to have peaked."

The prices of these same commodities soared and inflation became a central feature of global economic life.

Limits

"In other words, inflation is another sign of the increasing inter-depence of national economies as the earth's natural limits are approached."

"For the first time, almost all the factors are lining up on one side — against lower prices."

"Whereas before, socioeconomic influences that tended to increase prices might be offset by increased supplies or productivity gains, in the future no such good fortune can be expected."

"Resource limitations and diminishing returns, which have their origins in the fragile and finite nature of the planet, are henceforth more apt to conspire with human limitations on the side of higher prices."

The report suggests that as individual nations tend to beat or curb inflation with short-term government policies — like the United States's most recent move to tighten the money supply — the inequitable damages of such moves fall on the poorest, most vulnerable segments of the population.

So it is not a case of individual nations in periods of inflation and recession, but a global economy menaced with the ravages of international inflation.

The solutions?

"In affluent countries, controlling inflation will require a shift away from consumerism, away from the materialistic orientation of so much of economic and social life," the report says.

"There are enormous possibilities for reducing demand through voluntary shifts in values toward simpler living."

Energy

Along with shifting economic thinking from stimulating demand to curbing it, some US economists also encourage population stabilisation, a stronger emphasis on renewable energy resources, changes in working conditions to boost productivity, the lifting of protectionist barriers to international trade, land reform and demilitarisation.

"Just as there is no simple cause of inflation, there is unlikely to be a simple cure," the report concludes.

"Inflation is not so much a disease as it is a symptom of the growing imbalance between soaring human demands and the physical resources to satisfy them."
Survey: Inflation will
INFLATION

Off the top

The inflation rate moved sharply off the top in the last three months of 1979 and there are a number of indications that this trend could extend well into the current year.

For three successive months the consumer price index (cpi) has risen by less than 0.5% and in December it rose by only 0.37%. If these monthly figures are expressed as an annual rate, inflation has declined from 11.2% in October to 10.4% and 8.8% in December. On a simple annualised calculation, inflation in the last quarter of 1979 ran at a rate of increase of less than 5%.

Therefore, despite the cpi having increased by 14.0% if the December 1978 index is compared to December 1979, against a rise of 11.6% in the previous December to December period, there is a marked decline in the speed at which prices are rising.

There are hopeful signs ahead, too, that this trend is quite firmly established.

Government spending, for instance, is unlikely to push up inflation much this year. Finance Secretary Joep de Loor is adamant that departmental expenditure will not be significantly increased.

Administered prices, likewise, may be further restrained with the large hikes in electricity, steel and railway tariffs of recent years a thing of the past.

Some observers, including government policy-makers, still see the working-through of higher oil prices into the economy as a cause of a possible set-back. They add that, as a result, inflationary pressures should remain more cost-push than demand-pull orientated.

De Loor told the FM that the latest round of oil price increases is due to hit SA within the next couple of months, despite the apparent easing of spot oil prices in the last few weeks.

But Nedbank's economist Rudolf Gowens reckons the effect on the cpi should be very much lower this year as the international oil price is not expected to rise as sharply as last year and because government should be able to side-step further increases in the petrol price to the consumer.

Indeed, it is possible that the effect of the petrol price on the cpi may already be overestimated. The basket of goods on which the calculation is based has not been changed since 1973 — therefore as higher prices have curtailed consumption it may be unduly heavily weighted within the index.

Another possible source of cost-push pressures will, of course, be food prices, especially in the light of the recent 18.5% hike in the fertiliser price. Last year they were held below a commensurate rise in costs, but the implementation of the Jacobs Commission recommendations may, in fact, lead to a more gradual increase in prices to the consumer this year, in line with producer cost pressures.

The healthy position of the SA economy in this year should enable the rand to strengthen against the dollar and so reduce imported inflationary pressures, while the very limited growth in the money supply should check any rise in those domestic prices which are not administered.

Therefore, provided massive gold earnings are not allowed to swamp the financial system, the country's inflationary outlook is not altogether bleak.

Financial Mail January 25 1980
SA inflation — the gloomiest view

There is no consensus on the likely inflation course for this year. There are optimists who talk about 10% — but they are matched at least by those who see 14% and 15%. This article takes a look at the worst possible outcome.

By HAROLD FRIDHIKH

ONE OF the games which economists now engage in is to try to forecast what inflationary pressures lie ahead of us. "Mark you, I'm being somewhat conservative. If the bill doesn't bounce on our front, we could reach 15% or 16%. It all depends on government policy, external factors and, without doubt, the oil price!"

So, for this year, we have had positive predictions of inflation dropping to 10% - a downside opinion — and we have heard 14% to 15% bandied about with conviction.

Trying to take a consensus it would seem that most economists and others who take time to think about our economy and our political-economic policies can see inflation dropping below 14%, and Mr A D J Stuart of the Steylen Bank Bureau for Economic Research expressed the greatest doubt that 10% would fall below 15%.

When one adds up the various factors which influence prices, an easing of the inflationary spiral in this leap year of grace seems to be impossible unless the Government takes strong action to halt the process. And such action is most unlikely because one of the tenets of current policy is to give the boom as much headroom as possible so as to stimulate employment and still more employment. And putting themini on inflation would retard and not accelerate growth.

Before looking at possible monetary and fiscal policy to restrain inflation, let's check the inflationary forces which have to be curbed.

First, food. There is nothing that can be done to keep down the price of food, given all the goodwill in the world by the farmers. Their costs are escalating - fertilizers, animal feed, rents, costs of vehicles and implements, and of course, the cost of fuel. It would be a brave man who would predict the pace of crude oil six months from now, bearing in mind events in the Middle East and other parts of the world.

Food accounts for a major lump in the CPI index and if food prices go up by 25% - as is additional six points on to the CPI for a start. Government must act to combat inflationary pressure, and inflationary pressure lies in the cost of wages. There is virtually limitless and to it must be added import inflation which is exacerbated by a strong pull on South African prices fed year.

The Government could, to some extent dampen inflation by reallocating the rand. There is no doubt that the rand is considerably undervalued in terms of the dollar and many other currencies. But while an appreciated rand would mean cheaper imports, it would also mean shrunken earnings in real terms for exporters who are going to have to earn more for gold — and that could greatly disrupt the balance of payments. And it will quicken the economic path of inflation.

Higher wages must lead to higher costs, and higher costs to higher prices. Some savings might be achieved by lowering costs of production as demand improves, but on the other hand lack of labour competition leads to higher profit margins.

In the pipeline are possible railway tariff increases, higher fuel duties, more costly fuel, more expensive transport which affects commerce and industry as well as the private user and big increases in the cost of a communication.

It is in this context that the Reserve Bank has to make up its mind about the interest rate and to what extent should the Government take action to reduce inflation.
'79 inflation rate was 14%

Pretoria Bureau

SOUTH Africa ended last year with an inflation rate of 14%, according to the Department of Statistics.

'It was a year marked by some of the highest price increases on record. The biggest increase of all was the 25.3c a litre rise in the price of petrol alone, including the one-month salary bonus promised State workers by the prime minister would send a R400-million - or higher— inflation wave through the economy, they said.

But the inflation rate slowed down during November and December when the all-items figures, according to the Consumer Price Index (CPI) released in Pretoria yesterday, were a moderate 0.3% and 0.4% respectively.

Economists were, however, hesitant about committing themselves to the view that the moderate increases indicated the start of a trend towards reduced inflation.

They stressed that wage and salary rises throughout commerce, industry and the public sector this year would have a direct impact on prices.

Higher earnings, they pointed out, were seldom accompanied by higher production, especially in the public sector.
INFLATION

Short-term respite

Although it is almost certain that the inflation rate will be slightly higher in the third quarter of this year than in the second, the monthly consumer price index figures show that the rate of inflation is not as high as it has been. In the past three months, the rate of inflation has been averaging around 1.5% per month, as compared to 2% in the first quarter.

However, despite this slight decline, some economists believe that the rate of inflation could rise again in the near future. They point out that the recent reduction in the rate of inflation was mainly due to lower oil prices, and that these factors are unlikely to continue indefinitely.

In the long term, a more sustainable solution to inflation would involve controlling the supply of money in the economy. This would require a strong and consistent monetary policy, as well as a comprehensive strategy to reduce government spending and control public debt.

HOPES FOR THE FUTURE

A more stable inflation rate would be beneficial for the economy, as it would allow businesses and consumers to make better long-term decisions. It would also help to reduce uncertainty and increase economic growth.

However, achieving a low and stable rate of inflation is not an easy task, and it requires a commitment from all levels of government and society. It is important to remember that inflation is not just a problem for the economy, but also for individuals and families, who are the ones who feel its effects the most.
January food prices up a massive 2.1%

<table>
<thead>
<tr>
<th></th>
<th>Jan 1979</th>
<th>Dec 1979</th>
<th>Jan 1978</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ALL ITEMS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lower income group</td>
<td>105.4</td>
<td>164.0</td>
<td>145.3</td>
</tr>
<tr>
<td>Middle income group</td>
<td>161.3</td>
<td>169.6</td>
<td>143.4</td>
</tr>
<tr>
<td>Higher income group</td>
<td>165.0</td>
<td>163.5</td>
<td>144.8</td>
</tr>
<tr>
<td><strong>FOOD</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grain products</td>
<td>164.3</td>
<td>163.6</td>
<td>150.3</td>
</tr>
<tr>
<td>Meat</td>
<td>165.3</td>
<td>150.0</td>
<td>136.9</td>
</tr>
<tr>
<td>Fish</td>
<td>166.7</td>
<td>187.0</td>
<td>169.6</td>
</tr>
<tr>
<td>Milk, milk products &amp; eggs</td>
<td>156.0</td>
<td>157.8</td>
<td>140.0</td>
</tr>
<tr>
<td>Fats &amp; oils</td>
<td>102.3</td>
<td>103.2</td>
<td>100.3</td>
</tr>
<tr>
<td>Fruit</td>
<td>179.0</td>
<td>175.2</td>
<td>123.3</td>
</tr>
<tr>
<td>Vegetables</td>
<td>148.5</td>
<td>150.2</td>
<td>209.9</td>
</tr>
<tr>
<td>Sugar</td>
<td>233.0</td>
<td>232.9</td>
<td>227.9</td>
</tr>
<tr>
<td>Coffee &amp; tea</td>
<td>165.2</td>
<td>162.8</td>
<td>150.7</td>
</tr>
<tr>
<td>Other</td>
<td>171.4</td>
<td>170.0</td>
<td>160.3</td>
</tr>
<tr>
<td><strong>COLD DRINKS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>151.3</td>
<td>150.2</td>
<td>141.1</td>
</tr>
<tr>
<td><strong>ALCOHOLIC DRINKS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>150.0</td>
<td>153.0</td>
<td>144.2</td>
</tr>
<tr>
<td><strong>CIGARETTES, CIGARS &amp; TOBACCO</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>148.7</td>
<td>144.2</td>
<td>130.1</td>
</tr>
<tr>
<td><strong>CLOTHING &amp; FOOTWEAR</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clothing</td>
<td>139.8</td>
<td>179.3</td>
<td>134.4</td>
</tr>
<tr>
<td>Footwear</td>
<td>181.0</td>
<td>187.8</td>
<td>151.2</td>
</tr>
<tr>
<td><strong>HOUSING</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>143.7</td>
<td>142.8</td>
<td>120.9</td>
</tr>
<tr>
<td><strong>ELECTRICITY &amp; POWR</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>212.9</td>
<td>212.9</td>
<td>100.9</td>
</tr>
<tr>
<td><strong>FURNITURE &amp; EQUIPMENT</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Furniture</td>
<td>151.3</td>
<td>151.0</td>
<td>141.1</td>
</tr>
<tr>
<td>Appliances</td>
<td>134.6</td>
<td>137.7</td>
<td>125.7</td>
</tr>
<tr>
<td>Other</td>
<td>147.9</td>
<td>147.5</td>
<td>138.7</td>
</tr>
<tr>
<td><strong>HOUSEHOLD OPERATIONS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cleaning materials, etc</td>
<td>201.3</td>
<td>200.2</td>
<td>165.9</td>
</tr>
<tr>
<td>Domestic servants</td>
<td>202.2</td>
<td>206.1</td>
<td>147.4</td>
</tr>
<tr>
<td>Other services</td>
<td>209.1</td>
<td>204.2</td>
<td>172.4</td>
</tr>
<tr>
<td><strong>MEDICAL CARE</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>160.1</td>
<td>172.4</td>
<td>158.2</td>
</tr>
<tr>
<td><strong>TRANSPORT</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vehicles</td>
<td>171.3</td>
<td>171.3</td>
<td>167.9</td>
</tr>
<tr>
<td>Running costs</td>
<td>241.5</td>
<td>241.4</td>
<td>100.1</td>
</tr>
<tr>
<td>Public transport</td>
<td>156.4</td>
<td>156.4</td>
<td>149.0</td>
</tr>
<tr>
<td><strong>COMMUNICATION</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>101.3</td>
<td>101.3</td>
<td>101.3</td>
</tr>
<tr>
<td><strong>RECREATION &amp; ENTERTAINMENT</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>161.4</td>
<td>161.2</td>
<td>159.1</td>
</tr>
<tr>
<td><strong>EDUCATION</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>163.8</td>
<td>163.7</td>
<td>140.2</td>
</tr>
<tr>
<td><strong>PERSONAL CARE</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>OTHER</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Railmen's pay up as train, air fares soar

Hugh Leggatt, Political Correspondent

THE ASSEMBLY — Starting increases worth R361-million in rail and air fares, freight rates, and other sources were announced by the Minister of Transport, Mr Heunis, today.

While rail users took a body blow, rail workers were handed R258-million in wages, salaries, bonuses, and pensions.

First and second class rail fares will go up on April 1 by 15 percent, and third class by 10 percent.

Domestic air fares go up by 20 percent on the same day.

Freight rates go up on average of 13 percent and, in a decision that could have consequences for the price of petrol, the cost of transporting fuel inland will increase by 3.8 percent for petrol and 4.1 percent for diesel.

White rail staff's pay will go up on average 12.7 percent and to narrow the wage gap, those of black staff by a higher unspecified amount.

Delivering the annual Railway Budget in the Assembly this afternoon, the new Minister of Transport said he had no choice but to increase rates from April 1 to balance his books.

He reckoned on revenue of R1,028-million this financial year and expenditure of R1,087-million, leaving a shortfall of R67-million.

The proposed fare increases were: yield in extra 1361 million in revenue to convert the shortfall to a surplus of about R37.55 million.

Announcing the pay increase for 263466 staff, Mr Heunis said that after years of sacrifice on their part, it was time "to pay the piper his due."

It has been decided to abolish the holiday bonus and to grant a service bonus from April and thereafter annually at a rate of one-twelfth of a railman's annual base salary.

The bonus would cost an extra R187-million a year.

The Minister also announced an increase in pensioner rates for railwaymen of 10 percent from April 1.

Dealing with the rates increase, the Minister said that in line with the Department's policy of moving the level of rates closer to cost, he was introducing a differentiated tariff increase.

Because cost coverage on third class travel was considerably better than on first and second class travel, the increase in third class fares was only 10 percent compared with 25 percent for other classes.

Blue Train fares would increase on average by about 25 percent.

The increases are:

- Rates for mail and parcels traffic up by 15 percent.
- High-rated goods traffic up average 12.7 percent.
- Low-rated goods traffic up average of 12.8 percent.

Tariff classes for

To Page 4, Col 1
Inflationary effects of rail Budget feared

Province Line

The higher rail costs will rip through the economy, pushing up the prices of virtually all goods and services.

Inflationary effects were emphasised by organised commerce and industry and by leading economists.

The government's policy to keep prices low and wages down to a minimum, especially in the urban areas.

The president of the Association of Chambers of Commerce, Mr. Bob Goodman, said the Transport Budget emphasised again the need for economic cuts in the main Budget on March 30 to reinforce the economy's growth.

The higher transport costs must be partially offset through lower rates, he said. The association appealed to the Minister of Transport to hold down tariff rates to a minimum.

But Mr. Goodman said it must be realised there would be an indirect positive effect through the economy on certain sectors that would be unable to absorb the increases.

The association believed that if the impact of the economy's inflationary cost were alarmed, it would be necessary to

- control the pace of economic growth to maintain a balanced and sustainable economy.
- extend the scope of the urban transport policy to include the suburban areas to reduce the burden on the economy.
- hold down tariff rates to a minimum.

Mr. Goodman said the Budget was particularly significant in this context and that any policy aimed at offsetting the effects must be comprehensive.

He called for a thorough review of all the economic policies and measures to ensure a balanced and sustainable economy.

Mr. Goodman was particularly concerned about the impact on the smaller businesses and urged the government to consider measures to support them.

Mr. Goodman was particularly concerned about the impact on the smaller businesses and urged the government to consider measures to support them.

In conclusion, Mr. Goodman emphasised the importance of maintaining a balanced and sustainable economy to ensure the long-term growth and prosperity of the country.
Inflation fears over rail budget

EAST LONDON — The tariff increases announced by the Minister of Transport in his budget speech would have been better if they were applied over a long period, instead of in a lump sum.

This is the opinion of the chairman of the Border Chamber of Industries, Mr John Rich, who was commenting yesterday on Mr Heunis' budget speech.

The increases average 9.9 per cent on all services and include a 12.7 per cent increase in high-rated goods tariffs. Low-rated goods tariffs have gone up 12.5 per cent.

"It is a pity the increases could not be in small increments instead of one lump sum," Mr Rich said yesterday.

"Increases are only to be expected, but it must be understood that for everything to go up all at once, by so much, will have a larger effect than normal on the rate of inflation."

He said it was good to see the government had granted wage increases for workers, and "encouraging" to see they were narrowing the wage gap between race groups.

"I hope that what the Minister of Transport takes away, will be given back by the Minister of Finance in the General Budget on March 25," Mr Rich said.

The national president of the Federated Chamber of Industries, Mr Leo Borman, said there was a need for co-ordination between rail tariffs and the government's regional development plans.

The composition of the announced tariff increases has not followed the policy of closing the gap between high and low-rated traffic tariffs," he said in a press statement yesterday.

"If anything, these changes will be to the advantage of East London," said Mr Phillips, who also holds the transport portfolio in the Chamber.

The chairman of the Border Chamber of Commerce, Mr Jack Snell, said tariff increases should be kept at a minimum as they had a spiral affect on the prices of most commodities.

He said he had hoped there would be concessions for goods entering East London by rail as well as the existing concessions for goods leaving East London.

He said he hoped the Minister of Transport could be persuaded to look at this aspect when he visits East London next month. — DDR
the man in the street — Lorimer

is that the Government appears to be giving up the fight against inflation." Mr Lorimer said.
The Government claimed that inflation was a world-wide phenomenon and nothing could be done about it.
"They just accept inflation as a fact of life and the measures they adopt to inhibit what is the major danger to our economic future are inadequate and unsuccessful."
South Africa, with its raw material and mineral wealth and the rising gold price, was a country equipped perhaps better than any other to deal with inflation.

A major blow against inflation could be struck by a more intelligent approach to financing and Railway spending. A major portion of capital expenditure was to be financed from Railway income when loan capital on the local market was readily available at reasonable rates of interest.

It was better to owe money than to own it in inflationary times, because when the time came to repay it was worth so much less. The present state of the money market should be exploited rather than pursued policies which were themselves inflationary.

Mr Lorimer asked whether it was really necessary to "punish" commuters who made up 94% of the Railways' 900-million passengers a year.
The Minister of Transport Affairs, Mr Chris Havens, was due to receive R241-million from the Treasury to compensate for losses on this service.

With the added benefit of the huge increase in annuities announced, it should be possible to cut the administration's losses from passenger services drastically.

Third class commuters should have had no increase at all.
The poorer sector of the community suffered more from inflation than the rest.

One solution which he had put forward before was that passenger services should be racially integrated. That would bring about optimum use of the available facilities and the economic good sense of this was inescapable.
The 20% increase in air fares was a tremendous jump and was serious in that many long-distance travellers would return to using cars.

Sapa

Lay into inflation, not excess of the actual increase.

Mr Lorimer referred to a study by the Rand Afrikaans University for the Association of Chambers of Commerce, which said that, the rail tariff increases would certainly not be beneficial to anyone concerned.

Mr Lorimer said this was an understatement.

"Regrettably increases of this nature tend to be given as an excuse for lifting prices of all sorts of consumer goods in excess of the actual increase."

"We know this from bitter experience. Time and again we have seen the ripple effect going right through the economy."

"Inevitably goods and services will cost more, living standards will drop and all South Africans will be worse off."

"Perhaps one of the most unfortunate indications we get from the size of these increases..."
<table>
<thead>
<tr>
<th>Name</th>
<th>Address</th>
<th>Phone</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>John</td>
<td>123 Main St</td>
<td>555-1234</td>
<td>Acme Corp.</td>
</tr>
<tr>
<td>Jane</td>
<td>456 Oak Rd</td>
<td>555-2345</td>
<td>Beta Inc.</td>
</tr>
<tr>
<td>Mike</td>
<td>789 Pine Ave</td>
<td>555-3456</td>
<td>Gamma Corp.</td>
</tr>
<tr>
<td>Mark</td>
<td>321 Cherry Dr</td>
<td>555-4567</td>
<td>Delta Inc.</td>
</tr>
<tr>
<td>Lori</td>
<td>876 Maple Blvd</td>
<td>555-5678</td>
<td>Eta Corp.</td>
</tr>
<tr>
<td>Sarah</td>
<td>234 Poppy Ln</td>
<td>555-6789</td>
<td>Zeta Corp.</td>
</tr>
</tbody>
</table>

Note: The table above lists the names, addresses, phone numbers, and companies associated with each contact.
Inflation quickens to 14.3%

By HAROLD FRIJIDHON

INFLATION gathered momentum in February when the all-items consumer price index (CPI) rose by 0.97%, giving a 14.3% year-on-year increase, according to figures prepared by the Department of Statistics.

This is the biggest month-on-month increase since last September when a gain of 1.3% was recorded, largely because of the big rise in food. But February’s leap in the numbers cannot be attributed to food. Last month the food-only index shifted but marginally, rising by 0.12% to 107.3.

On a year-on-year basis the February food index rose by 8.91%, the same as in January when food prices apparently went through the ceiling with a 2.1% jump in one month.

The take-off of the CPI was forecasted in January when the rate of increase accelerated compared with its performance for the previous four months. It now seems that the next few months will bring a further quickening in the rate of increase.

A probable reason for this is that with growth in consumer purchasing power, merchants are raising their prices competitively, with the result that prices are rising without resistance.

And with the price rises said to be in the pipeline and yet to come, 1980 looks like a bad year for the consumer.

The CPI last month was 107.3 in February compared with 106.4 in January and 106.1 in February 1979.

The lower-income group’s index rose to 102.8 in February which was an increase of 0.91% for the month and a 15% rise for the year.

The middle-income group index went up to 106.5 last month, giving a 0.91% increase over the month and 14.46% over the year.

The higher-income group index went to 106.5 in February which was a rise of 0.91% over the month and 14.46% over the year.
Inflation rate passed 14% — index

Pretoria Bureau

The inflation rate was pushed back up to above 14% in February, according to the Consumer Price Index released by the Department of Statistics in Pretoria yesterday.

The increase in February was 6.5%, which represents a steady rise since last November and January 0.8%.

The inflation rate for the 12 months to the end of February, according to the index, was 14.3%. Last month’s rate was 13.8%.

Economists warned yesterday there was still plenty of inflationary pressure in the pipeline.

The Johannesburg Chamber-of-Commerce economist, Mr. E. W. Verburg, said the average 13% rise in rail rates and fares, which came into operation at the beginning of April, last month’s Port of fees tariff rises would obviously have an inflationary effect.

“We now have a cost-push inflation; but with greater consumer power a demand pull inflation could develop by the second half of the year.”

The president of the SA Federated Chamber of Industries, Dr. J. J. Calvert, agreed there was more inflation in the pipeline.

Industry had been holding back for months on passing on cost rises to consumers. As the government gained momentum however, consumer spending increased, these would eventually have to be passed on.

The index showed a points rise in February from 1234 to 1270 on a base of 100 in 1978. Food prices rose by only 0.1% in February, with a 0.6% month rise.

For the lower income group, the highest rate was 1.5% with a 1.3-month total rate of 15%. And for the higher income groups 1% and 14.5%.
Inflation still a serious problem

Political Correspondent

THE ASSEMBLY — Inflation has remained a serious problem and the consumer price index increased by about 14 percent between February 1979 and February this year, the Minister of Finance, Senator Owen Horwood, said in his Budget speech today.

He said an important objective of official economic policy in 1980, equal in importance to that of promoting output and employment was to curb the rate of inflation.

The evidence showed that the present inflation was mainly of the "cost-push" kind, it could not be combated effectively by depressing output and sacrificing sound growth.

Instead of a reduction in general demand as a way of fighting inflation in present circumstances Senator Horwood suggested seven other ways in which it could be done:

- "We must ensure that government spending and the broad money supply are kept under effective control in order to prevent the emergence of demand inflation at a later stage."

EMPHASIS

- "We should act on the supply side by putting greater emphasis on the training and better utilization of labour resources and raising productivity in general."

- "It was warranted by supply and demand conditions in the foreign exchange market, the commercial rand, which has since January 1979 already appreciated by 7.3 percent on average against all other currencies and by 7.6 percent services increases as expected.

- "Action should be taken against any form of monopolistic exploitation of the public."

- "Now that most of the large and essential upward adjustments to electricity and railway tariffs and certain other administered prices have been made, strict discipline will have to be applied to prevent any undue increases in such prices."

- "The budget will include a specific tax proposal aimed at lowering certain costs or, at least, slowing down their rate of increase."

Senator Horwood also indicated that, apart from these ways of tackling the main causes of inflation, he would also announce steps to alleviate some of the symptoms of inflation and to reduce its burden on those groups least able to bear it.

WAGES

He said the inflation of the past year must be attributed in large measure to substantial increases in fuel prices. Government-controlled prices or tariffs and food prices as well as the continued application of the official policy of narrowing the gap between white and black wages.

None of these factors would be removed by measures to curb aggregate demand such as tax increases.

"Sight must also be lost of the fact that, despite salary and wage increases, there was actually a fractional decline in the average real remuneration of workers in the non-agricultural sectors of the economy in the first three quarters of 1979."

"Shortages of skilled and semi-skilled labour if the economy grew at the desired rate posed a serious inflationary threat."
Tough time

...
Inflation is still a major problem.

POST, Thursday, March 27, 1980

Page 11
Curbing inflation is still a big problem

THE ASSEMBLY. — A gradual reduction in the rate of inflation was foreseen by Senator Horwood yesterday.

"Inflation has not been a serious problem and the consumer price index increased by only 1% between February 1979 and February 1980," he said.

Curbing the rate of inflation was a major objective of official economic policy, equally important to promoting output and employment.

The cost-push inflation being experienced couldn't be combated effectively by depressing output and sacrificing sound growth, and the existence of a surplus on the current account of the balance of payments, equivalent to more than 6% of gross domestic product, meant that scope for increased imports was so great that it was difficult to envisage the early emergence of a general shortage of goods in relation to demand.

The inflation of the past year had to be attributed largely to increases in fuel prices, "administered" prices and food prices, as well as continued application of the official policy of narrowing the gap between white and black wages.

None of the causes would be removed by measures to curb demand, such as tax increases.

Despite salary and wage increases, there had actually been a fractional decline in the average real remuneration of workers in the non-agricultural sectors during the first three quarters of last year.

Sen Horwood said the "virtuous certainties" that shortages of skilled and semi-skilled labour would develop if the economy grew at the desired rate posed a serious inflationary threat for the year ahead. Those and other "bottlenecks" were found to create upward pressures on labour and other costs and the signs were already evident in many directions.

The question was how inflation had to be countered if a reduction in demand was not the answer in the present circumstances.

"First and foremost, we must ensure that Government spending and the broad money supply are kept under effective control to prevent the emergence of demand inflation at a later stage.

"Secondly, we should act on the supply side by putting greater emphasis on the training and better utilisation of labour resources, particularly with a view to preventing or eliminating bottlenecks and raising productivity in general.

"If warranted by supply and demand conditions in the foreign exchange market, the Commercial Rand, which has since January 1979 already appreciated by 7.5% on average against all other currencies and by 7.5% against the United States dollar, should be permitted to float upwards still further.

"This would reduce the price of imported goods in terms of the Rand and thereby counter-act cost increases.

"We should put no artificial impediments in the way of imports if the demand for goods and services increases as expected.

"Action should be taken against any form of monopolistic exploitation of the public.

"Strict discipline would have to be applied to prevent any undue increases in electricity and railway tariffs and certain other administered prices now that most of the large and essential upward adjustments had been made.

"The measures should lead to a gradual reduction in the rate of inflation, if not in absolute terms, then at least in relation to the inflation rates of South Africa's main trading partners, Sen Horwood said. — Sapa
Inflation may soar say SA economists

Pretoria — South Africa could be fighting an inflation rate in excess of 15 per cent by the year's end, according to leading economists.

For the 12 months to the end of February, according to the consumer price index, the rate was marginally above 14 per cent. With inflation boosting price rises of the past few weeks, it is inconceivable they say, that inflationary pressures will not rise.

The biggest angle inflation hazard has been identified as the substantial salary increases for state and provincial departments, railway and Post Office workers, amounting to about R700 million.

Economists support the deputy head of the economic research bureau at the University of Stellenbosch, Mr Attie de Vries, that salary concessions in the public sector could lead to a chain reaction in the private sector.

In the past 10 days, price rises for a wide range of commodities and services came into operation — bread, flour, coal, sugar, cement, bricks and railway rates.

Just ahead are certain increases in the price of maize — at least 20 per cent — and in dairy products, in municipal rates and service charges in June, and a higher steel price is also likely in June.

The head of the graduate school of Business Administration at the University of the Witwatersrand, Professor Gideon Jacobs, said, "If you pump a massive amount of money into the economy, then you must accept the risk of massive inflation."

Professor Jacobs claimed the government had failed to put together a long-term economic strategy. The strategy was on an ad hoc year-to-year basis, it seemed.

Professor Jacobs said it looked as if the Budget benefits and handouts would be neutralised by the spate of price rises.

Barclays Bank chief economist, Dr Johan Cloete, said a basic reason for inflation gloom was the fact that there were "too many jobs chasing too few people."

Pushed by a wage rise explosion, resulting from the scramble for skilled workers, the rate could easily rise above 15 per cent later this year. "In fact, it could go out of control," Dr Cloete said. — DDC. 
15 pc inflation threat

State pay rises ‘could provide fuel...’

Mercury Correspondent
PRETORIA—South Africa could be fighting an inflation rate of more than 15 percent by the year’s end, according to some economists.

For the 12 months to the end of February, according to the consumer price index, the rate was marginally above 14 percent.

With inflation boosting price rises of the past few weeks, it is conceivable they say, that inflationary pressures will not ease.

The biggest single inflation burden has been identified as the substantial salary increases for State and provincial departments, Railways and Post Office workers, amounting to about R300 million.

Economists support the deputy head of the economic research bureau at the University of Stellenbosch, Dr Attie de Vries, that salary increases in the public sector could lead to a chain reaction in the private sector.

In the past 10 days price rises for a wide range of commodities and services came into operation—bread, flour, coal, sugar, cement, bricks and rail rates.

Just ahead are certain increases in the price of maize — at least 15 percent — and in diary products, in principal rates and service charges in June, and in a higher steel price in July.

But it is not only increases in Government—administered prices that are causing inflation waves.

It is the effect, too, of higher earnings, higher rail rates and postal rates on the prices of an enormous array of products sold throughout the country, over which there is no control that is causing concern.

The head of the graduate school of business administration at the University of the Witwatersrand, Prof Glisson Jacobs, said, “If you pump a massive amount of money into the economy, then you must accept the risk of massive inflation.”

Prof Jacobs claimed the Government had failed to put together a long-term economic strategy. The strategy was on an ad hoc, year-to-year basis, it seemed.

Prof Jacobs said it heeded as if the benefits and burdens would be neutralized by the spate of price rises during the past 10 days, and those still to come.

A Vlokha economist, Mr A J Jacobs, said it would be unrealistic not to expect a higher inflation rate this year compared with last year’s 15.2 percent.

He pointed out that a downturn could be placed as inflation if the gold price remains at a high level and the Minister of Finance made more funds available for food subsidies.

He could also assert leeway. “If we can gain some State and semi-State organisations with loan limits free of interest.”

Interest payments were a major price pressure on the economy, he added, and “if we are to keep the inflation rate down below 15 percent at the year’s end was likely.”

Barclays Bank’s chief economist, Dr John Chase, said a stable rate of inflation was the one that there were “too many jobs chasing too few people.”

“Now is the time we can keep the inflation rate down to 15 percent this year — and that is not being pessimistic,” Dr Chase emphasised.

Forecasted by a wage-price explosion, resulting from the scramble for skilled workers, the rate could easily rise above 15 percent later this year “in fact, it could go on...”
INFLATION

Hope for a slowdown

There are some good reasons to believe that the inflation rate (measured by growth in the consumer price index) will not increase this year and may even decrease. Several economists forecast a year-on-year rate of 12% by December 1980 against the current 14%.

First, the Budget, while it will put money in consumers' pockets, is not in itself inflationary and could, if gold earnings approximate its modest expectations, even be deflationary.

Together with tighter control over bank lending expansion, a commitment to more effective open market operations, and the use of exchange rate and control policies to defuse internal liquidity pressures, the financing of government expenditure (through the sale of long-term securities to non-banks) could lead to zero real growth in the money supply this year.

The Minister of Finance, Senator Owen Horwood, will not be printing money to finance the budget deficit before borrowing. He does not intend to stimulate demand by deficit financing on a large scale. Quite the opposite: The Budget is undoubtedly stimulatory. But tax reductions and a zero real increase in State expenditure confirm the four-year trend of a declining governmental role in the generation of gross domestic product. This is a form of passive demand management and it is, of course, the crux of Horwood's 1980-81 fiscal arrangements.

What it means, effectively, is a redistribution of wealth from the public to the private sector of over R1 500m. And this is potentially anti-inflationary if the greater efficiency of the private sector to allocate the resources released by government is taken into account.

However, the R1 500m tax concessions do symbolise what one economist calls the application of "a 15 lb hammer" after the rather cautious stimulatory tappings of the past few years. And the most common fear is that its effects on consumption expenditure will move the economy from cost-push to demand-pull inflation, or a combination of the two.

Is there really a case for this? Cost-push inflationary pressures are, to some extent, endemic features of an economy that abounds in unco-ordinated marketing procedures and price administration, especially of a price so central to economic activity as the exchange rate.

But the inflationary effects of two major and comparatively recent "pushes" — oil prices and general sales tax — have largely worked their way through the economy, and there are indications that the price of oil on the spot market, where SA shops, will fall further in 1980.

Recent administered price increases related to higher rail transport costs are comparatively small, and, more significantly, represent a catch-up process that is generally reckoned to have run its immediate course. And the price mark-ups and short-run rises in relative costs that usually characterise the early stages of a recovery can largely be discounted at this stage with most producers still moving towards higher capacity utilisation.

In the longer-run, of course, greater efficiencies at higher levels of economic activity, mean lower relative costs. So costs themselves are unlikely to generate excessive inflationary pressures as growth gains momentum, in fact, an overall decrease in the domestic cost component could be indicated.

The imported component will be cushioned by much as 15% in the year ahead (abolition of the 7.5% import surcharge, and an expected appreciation of over 7% in the trade-weighted value of the rand), which is a significant bite out of last year's 19% increase in the wholesale price index, of which 50% was estimated to have been attributable to imports.

The demand-pull argument is more persuasive. The tax concessions and the R480m in public sector wage increases do suggest a massive increase in consumption-led aggregate demand which could lead to strains on available resources, not the least of which will be skilled labour.

These strains are already evident, say some analysts, pointing for example to the building sector especially to the current shortage of bricks. But this sector is not necessarily a good example, it is an industry heavily dependent on the elusive quality of economic confidence and is rarely in equilibrium.

Spiralling inter-sectoral competition for skilled labour will inevitably increase salaries and wages, but in few cases do these constitute a very large proportion of total sectoral production costs. And the increase in aggregate disposable income at the upper level, with its traditionally low marginal propensity to consume, could be channelled mainly into savings and investment, which in turn, will go some way towards the expansion of productive capacity.

More important, maintains Professor Jan Lombard, of Pretoria University, there is leeway in the economy for a 25% nominal increase in domestic expenditure, before even double-digit inflation rooted in excess demand becomes inevitable. This is computed on the basis of a 6% increase in domestic supply, 10% in imports and a 15% inflation rate. At a 25% inflation rate, it increases to nearly 30% room enough for real growth of well over 5%.

In fact, the potential growth rate of the economy is close to 6% according to Ari Uthel, of the Wits University Graduate Business School. And after three years of recession, domestic fixed investment and inventory investment must rise significantly, the former by as much as 7%, which is slightly more than the 6% expected rise in consumption expenditure.

The crucial element in the argument against demand-pull inflation is the size of the import cushion. Trade finance switching and the extension of domestic credit lines to foreign exporters are estimated to constitute a hidden reserve of R3 000m-R4 000m additional to the current trade surplus.

Complementary features

On a wider fiscal level, the demand management features of the Budget are to some extent complemented by supply management features, which include labour training concessions as well as decreased public sector demand.

Thus, Horwood's latest fiscal and monetary policies and the present state of the economy, do not appear to contain unduly alarming inflationary indications, other than a continuing need to remove restraints on the mobility, and use of labour, increase facilities and in the short run, to import immigrant skills.

But, as economists are quick to point out, inflation is a curious little understood
SHORT-TERM INSURANCE

Counting the war's cost

With short-term insurers locked in a vicious rate war that is eroding underwriting profits, and with fixed investment portfolios showing declining yields, there is—ostensibly at least—one reason for concern that the industry has an adequate solvency cushion.

Yet, according to the latest returns to the Registrar, for 1978, out of 40 direct short-term companies, only one was in serious difficulties, and it has since been reorganised: "The solvency situations of all short-term insurers have improved over the last two years," SA Insurance Association’s chairman Pat Anscmb assures the FM. The improvement is "due to two factors: the market has not been exposed to any major or catastrophic losses, and the upturn in the stock market."

Although many factors are contributing to the present "higgledy-piggledy confusion" in the SA market, as one spokesman described it, the root of the problem is worldwide: It originated some years ago when some very large new risks, such as oil-rigs, emerged for which the world market did not have capacity. Many new reinsurance companies then entered the field, and there is now world-wide over-capacity. Changes in US tax laws have also encouraged off-shore captive insurance companies to seek non-captive business.

This enormous world-wide underwriting capacity overshadowed last year's recovery in the SA economy, so there was little growth in premium income. A vicious circle resulted. As rates were forced down by competition, companies were obliged to try by all means to get more business if only to maintain their income. This has forced companies to introduce new forms of cover such as the "parasol" policies for domestic insurance, and industrial "all risks" which, offered at no higher rates, increase the companies' exposure.

Because of the surplus world-wide capacity, reinsurers are supporting low rates. And because overseas interest rates are very high, some overseas reinsurers are said to be "writing for money," regardless of whether the rate is adequate or not.

In addition, the problem in SA appears to be centred on the fact that there is so much tied business in the market, because of financial control of both companies and brokers by major finance houses, including nailing groups. Thus sections of both the broker and the company market have guaranteed incomes from these financial groups. This allows them to compete more strenuously on rates and take risks that independent companies and brokers can’t afford to do.

No-one denies that a full-scale rate war is underway. Reductions of fire rates of as much as 30%-50%, or even more, have been reported. Some companies are said to be subsidising their fire rates heavily, with the market agreement rate for earthquake and special peril. Traditionally, it has been the accident departments which were subsidised by the fire departments because in the old tariff days when there was a cartel among certain companies on fire rates, this class of business was more profitable.

Although the market agreement is no longer working, spokesmen say most of the large companies tend to be more conservative in their underwriting approach, and, as major risks are spread through the market, this tends to stabilise rates. (Even the conservative large companies are being forced to cut some rates against their better judgment, to retain important business.)

What is going to happen when the favourable claims climate changes, as it is bound to do sooner or later?

Even then, the industry’s leaders assure the FM, it is not the small companies that are causing particular concern. The risks they write are commensurate with their size, and, in any case, are cushioned by reinsurance. "And the small company cannot afford to be adventurous."

The Registrar is on the horns of a dilemma. An increase in solvency margins from the present 10% to 15%, as has been mooted, could push several companies nearer to insolvency, which is the last thing he wants. Though there is a severe rate war, Wynand Louw says he is not alarmed. Most companies, he points out, are in a strong position. The main value of an increase in solvency margins, he says, "would be a signal to the market not to act irresponsibly. Companies which could not comply would be given time to put their houses in order."

Most people are looking to the reinsurers to exert a sobering influence on rates. Unfortunately, Swiss Reinsurance’s GM Laurens Keel points out, South African professional reinsurers have very little influence on the market, because a lot goes overseas (and as long as there is over-capacity, rates won’t harden) and a lot is also placed locally "inter-company."

So SA is inextricably involved in the industry’s world problem above its own. It will take a few big losses, coupled perhaps with declining investment returns, before companies start to show technical losses and start to harden their rates. Sooner or later, the overcrowded industry will have to be rationalised. Meanwhile, think twice before picking the company which offers the lowest rate. Cut-rate premiums also mean reduced service and diluted cover.

Registrar Louw facing a short-term insurance dilemma

Financial Mail April 11 1980
phenomenon, with causes that are political as well as economic, psychological as well as structural.

The most effective known restraint on price rises in these circumstances is sustained control of the money stock, which could also be influenced unexpectedly by sharp increases in gold earnings and the authorities' success in marketing long-term securities.

The recent monetary policy and exchange rate policy changes have provided a mechanism to deal with the unexpected in this regard. But they have yet to be put to the test. And they may need some refinements—particularly to take into account the velocity of circulation and the choice of the most effective component of the money supply to control.

On balance there is reason to believe that while prices will rise this year they may well not do so as fast as last year provided fiscal and monetary policies are applied flexibly and adequately.
Inflation — seven deadly years

By HOWARD PREECE
Financial Editor
SOUTH Africa will experience in 1989 the seventh consecutive year of double-digit inflation.

This was conceded in the Budget by Senator Horwood, the Minister of Finance. He said the planned 14% rise in State spending for 1989-90 would probably turn out to be a standoff in real terms.

Thus, the Government readily admits it has opted to do something else to the economy’s demand conditions, which are the key to inflation.

The inflation problem this year is likely to be worse than in recent years. The high rates of inflation in recent years have led to a loss of purchasing power of the currency, which creates an inflationary expectation among the public.

In the current economic climate, it is crucial that the authorities take steps to control inflation. This can be achieved through monetary and fiscal policy measures.

Monetary Policy

The Reserve Bank has been implementing a tight monetary policy to control inflation. However, this has not been successful in reducing inflation to acceptable levels.

Fiscal Policy

The government has been implementing a fiscal policy to control inflation, but this has not been effective in reducing inflation.

Other Measures

The government has also implemented other measures to control inflation, such as wage controls and price controls, but these have not been successful in reducing inflation.

It is clear that a combination of monetary and fiscal policy measures is required to control inflation in South Africa. The authorities need to take bold steps to reduce the inflation rate to sustainable levels.

The long-term economic prospects of South Africa depend on the ability of the government to control inflation. If inflation is not controlled, it will continue to erode the value of the currency and reduce the standard of living of South Africans.

In conclusion, the government needs to take immediate action to control inflation. The authorities need to implement a comprehensive strategy to reduce inflation and restore economic stability.

Seymour Horwood has been an active participant in the debate on inflation in South Africa. He has expressed concern about the high rates of inflation and the impact of inflation on the economy and society.

Horwood has also proposed solutions to the inflation problem, such as implementing a tight monetary policy and reducing government spending. However, these proposals have not been successful in reducing inflation.

The government needs to take bold steps to control inflation and restore economic stability. The authorities need to implement a comprehensive strategy to reduce inflation and enhance economic growth.
Inflation to stay in 1980

Deputy Financial Editor

SOUTH AFRICA will experience in 1980 the seventh consecutive year of double-digit inflation.

Senator Horwood conceded in his Budget speech that the planned 14 percent rise in State spending this financial year would probably turn out to be a standoff in real terms.

Inflation will be a central issue at next month's meeting of the Prime Minister's Economic Advisory Council. They will have to consider what methods can be used to cool inflation.

Senator Horwood considers that the present inflation is mainly of the cost-push variety and it would be little use depressing output and sacrificing sound growth.

Oil prices

He said that last year's CPI rise was due to oil prices, administered prices, food prices and the narrowing of the black/white wage gap. There can be no doubt that money supply and inflation are irrevocably linked. The extent is less certain is the nature of the relationship.

While the Government has been tough in those policies it can control—State spending, borrowing from the institutions and public sector to meet budget shortfalls—it will have to start looking at other factors.

One of these are administered prices—railways and 'Eskom have pushed up tariffs already. What others are in the pipeline?
Tough money plan to curb inflation forecast

Financial Reporter

A TOUGH monetary policy is likely to be pursued by the Reserve Bank this year to curb the inflation threat, according to Dr Johan Cloete, chief economist of Barclays National Bank.

He says in the bank’s Business Brief that the size of the economic stimulus in the budget makes this particularly necessary.

To safeguard the economy from a demand pull inflation, the monetary authorities will probably take a more restrictive stance in the months ahead.

The Governor of the Reserve Bank made this clear in announcing — on the eve of the budget — a switch to cash reserve requirements as a means of controlling bank credit, as well as the Reserve Bank’s intention to issue its own debentures in future for purposes of conducting open-market operations.

Moreover, the same factors which have brought about the steep increase in gold and other commodity prices have also been instrumental in creating high interest rates overseas and the large differentials which currently exist between rates here and abroad.

This, in turn, sets up a net outflow of funds through the capital account of the balance of payments which automatically neutralises a large part of the current account surplus.

Dr Cloete expects interest rates — with short-term first, then long-term following — to start to move up, if not immediately then by the second half of the year.

“It can be expected, therefore, that the Reserve Bank will in the period ahead conduct open-market operations to mop up excessive liquidity which gold and other commodity export prices might continue to create in the domestic economy and that the bank will set to gradually push up domestic rates,” he predicts.

Interest controls are also to be further relaxed while the rand would be allowed to continue to float upward, as additional steps to deal with the problem of excessive liquidity and its inflationary consequences.

“In fact, with a severe recession now almost certain to develop in the United States in the near-term future and with this likely to spread to the other industrialised countries, and given the build-up in the country’s imports at the growth rate quicker, it can be expected that large surpluses on current account of the balance of payments will be progressively reduced in the months ahead,” he adds.

This will particularly be the case if, together with other commodity price rises, the gold price should move to a lower level under the impact of a recession overseas.”

Reviewing general economic prospects, Dr Cloete says there can be little doubt that the budget will have a stimulatory effect — if anything, too stimulatory.

The impact of the Budget through government expenditure is likely to be neutral as the Minister of Finance has budgeted for an increase in total expenditure of only 14%, probably roughly in line with the rate of inflation.

A substantial positive impact on the economy will, however, come through the substantial tax reductions amounting to R300 million, and a further R100 million from the abolition of levies.

Dr Cloete says: “Assuming an inflation rate of 14% to 15% in the current year, this would, in effect, mean a reduction in the total tax burden in real terms of some 12-13%, a substantial alleviation of the tax burden.”

Private consumption expenditure should receive a considerable boost as a result of the reduction in the tax burden and the consequent increase in disposable (after tax) incomes of individuals.

“Tax concessions resulting from the reforms in personal tax, the changes in the tax scales, the abolition of the loan levy should result in personal disposable incomes by about R300 million — about three per cent in real terms.

This, in turn should raise private consumption expenditure by about 2.5% allowing for the fact that part of the increase in disposable incomes will be saved.”

Boekkantoor
of Retailing
Vicious Circle
Inflation lowest since '73

STANDARD 6/1/80

DURBAN — For six months now South Africa's inflation rate has been running at levels lower than any experienced since 1973.

The Consumer Price Index for March shows that the all-items index has risen at an annual rate of only 7.28 percent since the last six months — and the food index was up by only 6.91 percent.

The year-on-year figures — the ones usually used to identify the inflation rate — tell a vastly different story, showing a 12-month increase of 13.96 percent in the all-items index, and 14.39 percent for food. But that is because fuel price increases pushed the all-items index up by 3.6 percent in July 1979 and the annual rate for April to September now by over 18 percent.

The prices of liquid fuels are likely to go up again soon, for Reuters reports that by the end of 1980 Opec countries will be charging about 40 dollars a barrel against today's average of 20.

required:

April 600 every year.

Office and general expenses amount to about.

to be offered.

to be offered.

to be offered.

to be offered.

to be offered.

to be offered.

to be offered.

to be offered.

to be offered.
PRETORIA — Public sector pay rises will leave many thousands of state and provincial departments workers, police personnel, nurses and teachers deeply dissatisfied, according to senior public servants.

The allocation of the R10 million set aside in the budget for increases, has been heavily weighted in favour of senior ranking personnel, with the lower ranks getting too little even to compensate for the inflation rate of the past 12 months.

Since the increases were announced in the budget the prices of food and other goods have been announced.

These include bread and maize, as previously announced by the Minister for Agriculture. Also the prices of fresh milk and other dairy products are to be raised late next month; eggs are to go up by 4c a dozen this week; and because of the maize price rise, meat, pork and poultry prices are expected to rise sharply.

Economists said yesterday the government had decided to hold increases down to a figure lower than the current 14 per cent inflation rate.

In fact, the mass of public sector workers will get less than 14 per cent.

The increases of small groups in the Post Office, the state departments and in the teaching profession, will sink as low as six per cent, it was learnt.

The General Secretary for the Posts and Telegraphs Association, Mr. Dan Coetzee, said that for the time being most Post Office staff were happy with the rises.

However, price rises are eroding the increases virtually before we get them, and this is causing serious concern," Mr. Coetzee said.

Yesterday the SA Nursing Association had discussions on the new scales for nurses with the Department of Health.

The Executive Director, Miss Rudo du Plessis, said a statement on the talks might be issued later today.

The Minister of Health, Dr. Lapo Nunn, said last week nurses' rises would range from between 17 and 19 per cent. If this is so, then nurses have benefited to a greater extent than the average worker in other public sector areas.

The average increase for police is, according to police spokesmen, about 12.5 per cent. Here, too, the emphasis has been on the top grades in the service.
By HOWARD FREECE
Financial Editor

There has been a striking slowing down in the rate of inflation. In the past six months— but the trend is now likely to move up again.

The consumer price index rose by 13.1% in the year to the end of March, according to the Department of Statistics.

This is an improvement on the 14% rate for calendar 1979, and more so on the 14.3% on the rate for the 12 months to February this year.

But the decisive evidence of slowing in the CPI is seen in the figures for last September to the end of March, which show an annualised rate of inflation of only 7.3%.

The all-items CPI was 163.1 (base 100, 1975) in September, and reached 164 at the end of March 1979 and 164.7 in March this year.

However, while the annual rate in the CPI in the last quarter of 1979 was a minimal 4.7%, it was 9.7% in the first quarter of 1980.

But this accelerating movement was still well below the prevailing annual rate, and, if broadly continued, would certainly bring the optimism of those who believe inflation can be held to perhaps 12% this year.

There have, however, been several false dawns on inflation breakthrough hopes in the last few years—not least in 1978 when the rate dropped briefly below 10%— and there are some good reasons for caution again now.

It is noticeable that the CPI also slowed between September 1978 and March 1979 and then began to pick up as the wave of new year price increases made themselves steadily felt.

The same could happen this year.

In the pipeline are increases for, among others, maize, feed stocks, meat, bricks, cement, sugar, egg and milk.

There are also some general inflationary pressures from wage and salary rises overhanging the economy, which faces overheating problems as growth rises.

At this stage, then, it seems as if the implicit budget assumption of Senator Harwood, the Minister of Finance, that inflation this year will be around 14% is still a fair estimate.

(That is also allowing for the fact that the CPI does not necessarily reflect the true inflation rate).

In February this year, the CPI was 167.

The sub-divisions of the CPI show a rise for the lower income groups (primarily blacks) of 12.5% for the year to March, 13.3% for middle incomes, and 12.5% for upper incomes.

These various figures put into perspective the 12.5% ‘rise’ that the police have been awarded and the apparent 14% that is going to teachers.

Both groups, and others with similar awards, are actually getting little more or less than they were getting in 1979.

Every candidate must enter in column (1) the number of each question answered in the order in which it has been written.

What is needed to put their real incomes back to the levels they were a year ago.

The food-only index rose to 167.7 in March, reflecting a 0.30% rise for the month and giving a 14.00% year-on-year increase.

Prices for all US urban consumers rose a seasonally-adjusted 1.4% in March the same as in the previous two months, the Labour Department said.

The increase left the price index at 14.7% higher than a year earlier.

Britain is running an inflation rate of 20% but a slight majority of Western European countries are faring better than South Africa.

Australia's consumer price index rose 2.2% in the three months ended March, bringing the increase for the 12 months to 10.5% compared with 8.2% in the year ended March 1979.

In the 12 months to February the US inflation rate was 14.1%, Japan 8%, Germany 5.6%, France 13.4%, UK 10.1%, Canada 9.4%, Italy 20.0%, Australia 10%, and Switzerland 4.1%.
and what it means to stand brass

In a move which...
Inflationary wage boom could pose economic threat

Political Staff

CAPE TOWN — There is growing concern in Government and other political circles about the danger of a 'wage explosion' following the public sector salary increases.

It is feared that a wave of salary increases at the present rate could provide inflation in the extent where it could become a serious threat to the economy.

However, the Secretary for Finance, Dr J H de Loe, believes the private sector salary increases will not exceed 15 percent.

The Government was trying everything possible to remove the battle necks causing high salary demands by stepping up training programmes.

He also believed salary increases could be limited in view of the fact that tax concessions could increase people's income power to about 25 percent if added to salary increases of 15 percent.

The Opposition's chief spokesman on Finance, Mr Harry Schwarz, said the reason for the salary demands was the high inflation rate of about 14 percent and the expectation that it might rise even further.

Another reason was that the country was starting to experience the consequences of the battle necks of skilled workers.

The Government had failed in its planning for the training of skilled workers, he said.

He added that a dangerous aspect was that the salary demands were being made even before the price increases of recent weeks had worked their way through.
BIG SPENDING BOOM FORECAST FOR MID-1980

Financial Editor

A RIP-ROARING consumer spending boom later this year is forecast today by the Bureau for Economic Research at the University of Stellenbosch. But it warns that it could result in greater inflationary pressures.

The bureau says the economy will begin to feel the effects of last year's higher gold price only by the middle of this year. This is when the economy will begin to show the effects of the higher prices and wages as well as the tax cuts announced in the last Budget. The result will be that the buying power of consumers will increase substantially which should lead to a sharp rise in demand.

SAQUY BILL

The bureau estimates that the salary and wage bill this year could be 21 percent higher than last year. It also expects that farmers' income will rise by about 20 percent. Altogether, after taking account of tax cuts, personal disposable income is expected to rise by about 22 percent this year resulting in real disposable income rising by about 6 percent. This will form a sound basis for a further acceleration in consumer spending the bureau says.

DURABLE GOODS

It expects spending on durable goods to increase by 8.6 percent this year after rising by 8.4 percent last year. Spending on semi-durables to rise by 8.7 percent from 12 percent, spending on consumer durables to rise by 3.9 percent after 24 percent last year and spending on services to rise by 4.1 percent after 3.0 percent last year. This should lead to an acceleration in private fixed capital investment.

INFILATIONARY

However, the bureau warns that the increase in consumer demand later this year could lead to increased imports of high-priced goods which could give the inflation rate another boost. Moreover, apart from the danger of inflation caused by consumer demand the bureau also warns that wages will also be inflationary unless productivity increases by the same percentage as the inflation rate.
INFLATION remained South Africa's major economic headache and the public and private sectors would have to combine resources to combat it, the Minister of Finance, Senator Owen Harwood, said in the Senate yesterday.

Replying to the debate on a motion on the Budget, the Minister said that apart from inflation the economic outlook for the Republic remained favourable.

The gold market was stable and the country had an ample surplus on its balance of payments.

The real growth rate expected for the year was five percent, Senator Harwood said. — Sapa.
Pay carrots beat staff shortages

Jean Moon looks at job-poaching

The number of bank employees is rising and banks are using a wider range of personnel in training up and natural planned programs for training black staff not being stepped up. But so far this growth is only being felt in two or three regions.

The dramatic rise in the cost of housing has caused complications with regard to the transfer and mobility of staff.

Murray and Roberts have not yet suffered from poaching of skilled workers, but as one of the largest employers in the industry, it is a target for other employers looking for staff. The pressure is there.

A spokesman for the group feels that an estimated 21 percent raise in the average salary in the past year will see an increase in the number of Miners. Last month, miners were granted a 12 percent increase but, taking into consideration the rise in the living costs in the past year, it appears high to the miners. The number of Miners increased 15 percent from March 1979 to March 1980.

The average salary for whites in March 1979 was R740, a month, in March 1979, R759 and in March 1980, R751. The wage average reduced in the past year because there were fewer skilled workers in the industry.

Assumptions to the increase in the wage and salary bill will stem mainly from previously unemployed people now finding jobs. But it is not just about Blacks.

White married women who were previously unable to find part-time employment, can now take on the jobs of clerks. A large number of people are being employed within the industry as a whole at higher wages and salaries.

In the Post Office there are 75,000 employees, in the civil service more than 300,000, the Provincial Administration 250,000, and in local authorities more than 200,000. All these people have been granted pay increases up to 12 percent which goes a long way to accounting for a 21 percent rise overall.

The demand for skilled and semi-skilled workers is outstripping supply, so when they are offered a job they are considering it carefully.

In the Railways, there are 115,449 whites employed, 125,600 blacks, 1,936 Asians and 24,600 coloured people.

In the Post Office there are 75,000 employees, in the civil service more than 300,000, the Provincial Administration 250,000, and in local authorities more than 200,000. All these people have been granted pay increases up to 12 percent, which goes a long way to accounting for a 21 percent rise overall.

Large banks are more susceptible to poaching because of their well-established training programs and staff discipline.

When Sasol asked to speak on the subject, "No comment was the reply. We are reviewing the situation," said a spokesman.
INFLATION

A drop in March

Judging by the latest Department of Statistics release, the Consumer Price Index for March indicated a slight deceleration in the rate of price increases. In the 12 months to March the CPI had risen by 13.1% - an improvement on 14.3% in the 12 months to September 1979, and 14% in December 1978.

Government economists in Pretoria see such a trend, if broadly continued, as suggesting that this year's rate of inflation can be held to around 12%. However, Barclays Bank economist Dr Johan Cloete considers this viewpoint overly optimistic. "It's an attempt by the authorities to dampen inflationary expectations," he says. Moreover, he argues, expectations are based on longer term historical trends and these leave little room for optimism just yet.

Economists point to the anticipated acceleration in economic activity as the major factor behind an expected increase in the already high rate of inflation. If the consumer boom induces too much credit creation and production bottlenecks arise,

In the meantime, abolition of import surcharges in the Budget, the increased food subsidies, strict control of the money supply and government spending, and the continuation of the policy of allowing the rand to appreciate against other currencies, should all help control the rate of price increases. And the monetary discipline of the past few years has yet to have its full effect.

But, despite these measures, the consensus view seems to be that inflation will average around 14% this year.

It would surely have been far higher but for the measures mentioned above.

Source: Standard Bank Ltd

Financial Mail May 16 1980
Inflation at 13.4% as food prices leap

By HOWARD PREECE
Financial Editor

A big surge in food prices last month helped cause an acceleration again in the consumer price index with the inflation rate for the 12 months to April rising to 13.4% against 13.1% for the year to March.

There was a 2.18% increase in April in the overall CPI — over 15% annually — with the index up from 169.8 to 172.0.

It was 149.9 in April 1975, with a 100 base in 1972.

Food price rises played a major role in the CPI increase and the food-only index rose to 175.1 in April, reflecting a 2.27% rise for the month and giving a 15.18% year-on-year increase.

Although the general trend of price increases tends to balance out evenly in proportion to incomes, the impact on different groups seems to vary from month to month.

In April the lower income group index rose to 166.9, reflecting a 1.83% increase for the month and a 13.69% rise for the year, while the middle-income group index rose to 169.8, giving a 1.91% increase over the month and 13.56% over the year.

The higher-income group index increased to 171.0, giving a 1% monthly rise and 13.25% yearly.

There was a considerable jump last month in the running six-month inflation rate, on an annual basis, from 7.3% to 8.7%.

But that is, of course, still way below the annual rate and still offers some comfort about the outlook for 1980 as a whole.

There is, however, little reason to suppose that the inflation rate for the year will end up below the 13.0% rate for the 12 months to April.

A whole range of price increases are still in the pipeline.

There is no doubt, too, that as the economy continues on its upward growth momentum there will be increasing inflationary pressures on the wages front.

The pressures will be accentuated by general supply bottle-necks.

On the official count the supply of money and near-money is back in harness after the explosion in the third quarter of last year, and certainly there is little risk of inflation going way beyond present levels.

But although it was the brief conventional wisdom that it did not really matter how money supply was defined so long as it was consistent, there is much greater scepticism internationally about that view now.

There is also a much greater appreciation of the difficulties in controlling money supply, ask Mrs. Thatcher, among others.

Thus it is at least arguable that the South African money supply figures are open to large error in the short term and that inflationary pressure can cause an accommodating rise in money supply.

In other words, those who were explaining in 1977-78 how it would be "impossible" for inflation to be running at 13% in 1980 can now see the nonsense that view was
Inflation increasing say experts

By GERALD REILLY

South Africa's inflation problem is on the brink of a new phase of acceleration - with a 15% plus rate possible by the year's end, according to leading economists.

Their views are supported by the latest Consumer Price Index released in Pretoria yesterday by the Department of Statistics which showed a big 1.2% all items rise in April, and a 12 month to the end of April rise of 14.1% (13.1% in March).

They were pessimistic about a slow down in the inflation rate and expected the level to rise to or above 15% by the year's end.

During the month food prices rose sharply by 2.3% (0.3% in March) and a 12 month figure of 15.2% (14.4% in March).

The April index for lower income groups rose by 1.8%, for middle income groups by 1.9% and higher income groups 1.6%.

The Department of Statistics claims the all items rise of 1.2% was due mainly to higher sugar and grain product prices, including bread, as well as the higher oil rates which came into operation from April 1, and which have started to have the expected impact on prices.

Barclays Bank's chief economist, Dr Johan Clenin, said the April index was an ominous indication of a period of increased inflationary pressures.

The problem was being aggravated by excess liquidity in the economy and by the wave of wage and salary increases.

Volkskas's chief economist, Mr A S Engelbrecht, said although he expected the inflation rate to average 15% this year, he believed a 7% growth rate was possible.

This view he said was supported by the willingness of consumers to spend. The upswing in the motor car industry was evidence of this.

He agreed however, that the economy could be at the start of a new wave of inflation.

Both Dr Clenin and Mr Engelbrecht stressed the dangers of the high increase in consumer spending power expected from July.

This is estimated at at least R2 000 million and includes the R400 million in salary increases granted in the public sector and the R600 million in tax concessions.

The abolition of the savings levy would add another R100 million to spending power.

Many millions of rands more will also go to private sector workers in wage rises.

The deputy head of the Bureau for Economic Research at Stellenbosch University, Mr Attie de Vries, said last June's big petrol price increase would be technically eliminated from the CPI calculations at the end of June.

This could lead to a temporary fall in the official level of inflation, but strong inflationary pressures would persist for the rest of the year.

Mr de Vries said there were no prospects of inflation taking a turn for the better.

There was no evidence either to support expectations of even a levelling off in the rate of price increases, he added.
Middle men are pushing

By BEN TEMKIN

While the battle against inflation is hotting up, there are a number of aggravating factors which are making their presence felt—both among them enormous growth in the middleman sector of the economy. Many companies have tried and failed to manufacture a product or service. But the middlemen, they are the people who do manufacture a product. For example, it would be difficult to sell insurance directly—many companies have tried and failed to sell intermediaries in the selling of products and services. The selling or buying of property is again a vital element in the economy. Middlemen are a vital element in the economy. For example, it would be difficult to sell insurance directly. Many companies have tried and failed to sell intermediaries in the selling of products and services. The selling or buying of property is again a vital element in the economy.

For those who don't know much about middlemen, they are the people who do not manufacture a product or service. But act as intermediaries in the selling of products and services. This is more inflationary, however, is the advent to the middleman sector of a large number of people. The middlemen have been able to charge high prices for their services, and the costs of services and products which would otherwise be much lower. Right at the forefront are the employment agencies. They are the agencies that would probably argue that, by channeling people to employers, they help to reduce the cost of employment. They would also argue that by conducting the interviews they are saving the time of executives who would otherwise have to interview prospective employees.

Middlemen are pushing up wages and salaries of direct executive skills, these consultants are themselves under pressure to provide adequate service. Consequently, they are competing with the very sectors to which they give advice for skilled people. They deprive these sectors of some of the best people and, at the same time, they again push salaries up through competition. In common with the demands being made by people in almost every sector of the economy for higher remuneration to counter inflation, the people who provide the skills mentioned may well be asking more for their services right now.

While it is accepted that this is an inevitable outcome of private enterprise, it is unfortunate that service industries such as personnel consultancy, investment counseling, public relations and marketing consultancy tend to draw very good people away from direct involvement in industrial and commercial activity to peripheral involvement. The rapid rise in property prices is also being accentuated by the entry into property selling of many hundreds of new "estate agents." Many of these new agents are entire families. The agencies would probably argue that, by channeling people to employers, they help to reduce the cost of employment. They would also argue that by conducting the interviews they are saving the time of executives who would otherwise have to interview prospective employees.

The problem is the current economic boom has attracted a large number of people into this field of activity and they are not all that professional. The inflationary spiral is made even worse by the buildup in fly-by-night services being offered to the public. These include new pool-building companies, home-improvement companies, painting and decorating companies, and, usually, self-employed investment advisers.

The services offered are seldom delivered—the loss to the individual becomes a loss to the community and further push for inflation. There is some satisfaction in Pretoria that the inflation rate could be in a falling trend. This satisfaction is probably precipitated by the entry into property selling of many hundreds of new "estate agents." Many of these new agents are entire families. The agencies would probably argue that, by channeling people to employers, they help to reduce the cost of employment. They would also argue that by conducting the interviews they are saving the time of executives who would otherwise have to interview prospective employees.
Costs will hit Cape services

Provincial Staff

THE Provincial budget for 1980-81 shows that increased spending on education, hospital services and health, roads and other provincial services will not cope with the expected inflation rate.

An analysis of the budget, to be debated in the Cape Provincial Council from today, proves the statement by the Administrator, Mr Gene Louw, last week that an expensive backlog is being created because of cuts in available funds.

The Treasury this year cut the Cape's normal subsidy by four percent or almost R25 million, leading to drastic paring of provincial expenditure. Services. Even so, Mr Louw expects the 1980-81 book year to end with a R22 million deficit. 

Salary

He said the expenditure of general administration in 1980-81 would be R22.093.000, an increase of 8.2 percent over the figure for last year and of the R1.714.300 increase, R1.035.500 represents salary and other personnel benefits.

He proposed to spend R214.816.000 on education—an increase of R13.835.000, or 6.2 percent. But about half, R7.4 million, will go to salaries and other personnel benefits.

In hospital services, the proposed 1980-81 expenditure of R309 million represented a real increase of only 4.58 percent, of which more than two-thirds would meet increased salaries and personnel benefits.
The consumer price index rose by 1.2% in April, almost twice the increase registered in the previous month, giving grist again to the inflationary pessimists mill.

The April increase gives a year-on-year rise of 13.4%, exactly what it was at the same time last year. On a flat annualised basis, the monthly rise indicates an average inflation rate of over 14%, which is the minimum rate the pessimists have been predicting for 1980. Food prices carry a substantial weight-

![UP-TURN](consumer_prices_graph.png)

Delays and impact

Barclays' chief economist Johan Cloete believes the increases reflect the delayed impact of the oil price rises in June last year, the main effect in the agricultural sector being on fertiliser and transport costs. And there is worse to come. Adjustment to the oil price cost-push factor will be greater this time than it was allowed to be in 1974 and 1975, he claims. Food price increases also tend to set up an inflationary push in wages and salaries as cost of living adjustments are made, which in turn provides the means to finance further price rises.

Although most administered price increases occur in the first half of the year, we are unlikely to witness a dwindling of inflationary pressures, he continues. As the current economic upswing develops, excess demand will entail further rises, primarily through the effect of wage increases on production costs.
Inflation the price of 6% growth

By HOWARD PREECE
Financial Editor

A REAL economic growth rate of 6% for 1980 now looks likely, but there is little hope that inflationary pressures will ease.

This is the overall assessment of the June economic review from Standard Bank.

Among the conclusions of the review are:

- "Neither the presence of some internal social disturbances, nor political pressures and visible difficulties in coping with inflation nor the sudden weakness of the US economy with its potential negative effect on mining exports, appear to have dampened short-term expectations.

- The overall trends that have emerged in the first months of this year suggest that despite a temporary slowdown of some segments, the economy will grow at more than twice the rate of population increase.

- The increasing emphasis on the real sector of the economy has been accompanied by comparatively high rates of increases in the money supply.

- This has done little to reduce concern about inflation.

- Building intentions have reached unprecedented levels, and activity in the sector is now increasing over a broad front.

- Earlier on in the recovery, conditions had improved noticeably only in the residential sector, mainly the housing segment.

- It is significant that this recovery has now spread to commercial and factory building, signalling the take-off in fixed investment and a conversion of the substantial liquidity in the financial sector into an even more broadly based revival of economic activity.

- "The stage is now reached where not only a serious shortage of skilled industrial workers and managers has emerged but also a growing need exists to enlarge the work force across the board.

- Further, enhanced by the growth in investment demand that is now arising from the need to expand industrial capacity, this should soon create a large increase in the number of jobs for previously unemployed blacks.

- The tightening of the labour market will also improve the bargaining power of skilled workers.

- A number of indicators which have been available as the economy approaches mid-year suggest that the recovery, which had broadened vigorously during the second half of last year, was unable to maintain the same rapid pace throughout the first quarter of 1980.

- However, the growth rate appears to have accelerated again in the second quarter of the year to an extent which makes it unlikely that this very temporary easing in the growth trend will prevent the achievement of a remarkable growth performance for the year as a whole.

- The significant surge in retail sales, which have been rising at annual rates of nearly 10% in real terms, has resulted in commercial and industrial inventories falling to inadequate levels.

- "This has contributed to wholesale sales moving out of the doldrums and to a sizeable rise in the level of unfilled orders in manufacturing industry.

- The volume of industrial production has been increasing at annual rates in excess of 10% during the last few months for which statistics are available."
Steel price set to jump by 12%

Pretoria Bureau

SOUTH Africa's 14% inflation rate will be given another boost from the beginning of July when the steel price is expected to rise by "at least 12%," it was learnt in Pretoria yesterday.

This would mean prices of a wide variety of goods and equipment, including motor vehicles, would have to be reviewed and raised.

Although Iscor's chairman, Dr. Tom Muller, announced earlier this year he expected the financial year to end with a R50-million surplus — the first time Iscor has been out of the red for a number of years — this is expected to have little influence on the extent of the steel price rise.

Economists said yesterday a steel price increase could hardly be withheld against a background of the enormous cost rises in the steel industry.

One major cost factor is the increase of about 14% expected to be granted to Iscor's 82,000 workers from July.

This would take the total wage and salary bill to a record R400-million.

The seven unions, representing 30,000 technical workers, met yesterday to consider a management offer of 14%.

Deadline for the unions' response is tomorrow.

A senior Iscor official said the 11,000 administrative and senior technical staff could also expect a rise of about 14%.

The 30,000 black workers are expected to get a bigger percentage rise in terms of a policy to narrow the wage gap.

Last July Iscor workers were granted an 8% increase.
Steel rise could help inflation hit 17 pc

Fair Deal Staff

The steel price increase could help force the inflation rate up to 17 to 18 percent by early next year, a leading economist said today.

"The steel price has an effect on every cost in the economy," says Dr Johan Cloete, economist for Barclays Bank.

The price of steel has been increased by 9 percent to 17 percent, with an overall average of 14.1 percent from today.

"The high maize price increase is also starting to filter through. If nothing is done to halt inflation soon, the first quarter of next year will see the inflation rate jump to 17 18 percent.

"It must also be remembered that this time last year we had an oil price increase of nearly 50 percent. There has been no such increase yet this year," Dr Cloete said.

Mr Mike Hawkins of the SA Co-ordinating Consumer Council said this would heighten consumer dissatisfaction and retard the economic revival.

Mr L E Davis, executive director of the Building Industries Federation, said they were disappointed in the increase as they had been trying to contain rapidly escalating building costs.

"Steel is our primary requirement in building. It will push up the cost of a standard house by at least R100."

It will also push up the price of cars yet again this year. Car prices went up between R100 and R150 a car in April. The steel price increase will mean that soon motorists will pay R17 more for a small car, R23 more for a medium-sized car and R37 for a large car.

Refrigerators will cost retailers R4 more and electric stoves an extra R3. At average furniture retailers' mark-ups of 100 to 300 percent, consumers will pay at least R8 more for a refrigerator.

The most immediate effect farmers will feel is a price rise of R3.40 for every 100 m of fencing.

A spokesman for Langenberg Co-op Ltd, manufacturers of Koo products, said the increase would probably add four percent to the price of each canned food.

First affected would be canned vegetables. Tinned fruit and jams would rise in price only next season.

How Langenberg was able to calculate such a price increase for canned food and attribute it to the steel price rise is unclear. Metal Box, the biggest steel packaging company in the country, still does not know how the price rise will affect the cost of its products.
Inflation nears previous record

Staff Reporter

INFLATION in South Africa is on the rise again, following a short period of decline, to within a whisker of the highest rate in decades.

Figures released yesterday by the Department of Statistics in Pretoria show the all items consumer price index rose by 1.12 percent last month to a year on year increase of 14.14 percent.

The latest inflation spiral, which compares with a rate of 14.4 percent at the height of the boom in 1974, does not include the latest round of increases in administered prices which has seen substantial increases in everything from dairy products and margarine to meat and steel.

The basket of items making up the lower income group index rose at an annual rate of 13.84 percent last month. For middle income groups the rise was 14.45 percent, and 14 percent for the higher income group.

The food only index soared to an annual rate of 16.15 percent.

Inflation had been rising at 13.41 percent a year in April and 13.06 percent in March, after reaching levels in excess of 14 percent earlier in the year.

Reacting to high cost of living, the Housewives League says in its latest bulletin that it is astounding the Meat Board was spending R1.5-million on advertising. The housewife needed no encouragement to buy meat, she needed the money and was highly incensed at what was considered a waste of money.
Another twist to inflation spiral

By HOWARD PREECE

INFLATION speeded further last month with the consumer-price index rising by 1.3% to give a rate for the year to May of 14.1%.

This is a disappointing, unpredictable development after the CPI slowed in March.

There are also plenty of other price shocks ahead — not least the ripple effect through the economy of the steel increase — and inflation remains a crucial problem.

In 1979 the CPI rose by 14% and for the 12 months to February it accelerated to 14.3%.

Then came some relief as the tempo eased and the annual inflation level dipped to 13.1% for the year to March.

But the 12-month rate was back to 13.8% in April and is now over 14% again.

What is additionally disappointing is that the underlying short-term rate of inflation is creeping closer to the annual rate.

This reduces the hopes of any useful breakthrough for 1980 as a whole.

The overall consumer price index was 171.9 in May against 170 in April and 158.6 in May 1979.

For the six months to March this year the CPI rose by an annual rate of only 7.5%.

But for the first five months of this year the annual rate of increase in the CPI is 11.5% — with the index up from 164 to 171.9.

Worst hit at present are the middle-income group, according to the sub-division of the CPI, with a rise in their cost of living of 14.4% for the year to May.

It was 14% for upper incomes and 13.8% for the lower incomes (basically blacks).

Food prices soared by 19.5% for year to May and although the trend was slightly down last month, they remain a major upward pressure on the overall cost of living.

There is now some gloom that inflation for 1980, or by early 1981, could go as high as 17%.

I would think that over pessimistic, but the fact that that prediction reportedly comes from Dr Johan Cloete, the chief economist of Barclays National Bank, lends it some ominous weight.

Dr Cloete has come as close as any prominent economist in his inflation estimates to the realised levels in the past three years.

It is of perhaps some comfort to know that South Africa's inflation problems are part of a world crisis.

According to the International Monetary Fund the average 12-month rise in consumer prices for all member countries was 15.2% for the year to January — the latest comprehensive figures available.
Brace up for inflation to go skyhigh

By GERALD REILLY
Pretoria Bureau

SOUTH Africa's inflation rate could be bumping a ceiling of between 17% and 20% in the first quarter of next year, according to leading economists.

And their views are supported by the latest Consumer Price Index figures, released in Pretoria yesterday. These show that in May the all-items figure increased by 1.1% — from 170 points to 171.9 points — on top of 1.2% in April.

The rate for the 12 months to the end of May pushed through the 14% ceiling barrier for the second time this year.

The food-only figure rose 1% in May compared with 2.3% in April, and the 12-month figure was 16.2%.

A major cause of the threat of an inflation rate which could go close to matching the shocking levels being reached in Western countries is the pay increase explosion this year.

The full impact of this will not register until late this year and early next year.

It will be reinforced by the routine New Year increases given by many large organisations.

And during the first half of the year there is the inevitable round of increases in Government-administered food prices.

The 14.1% steel price rise will also have a significant effect on the prices of a wide variety of products in the second half of this year.

Yesterday, the Afrikaans Handelsinstituut chairman, Mr Jan Horn, said the higher steel price was the most recent of a series of administered price rises which would have a "decided effect" on the inflation rate.

In a statement in Pretoria, he said the direct and indirect pressure from the steel price would raise inflation by 0.25%.

Barclays Bank's chief economist, Dr Johan Cloete, said because the huge June 1979 fuel hike would move out of the CPI calculation during the second half of this year, the inflation level could fall again below 14%.

But, he added, the impact of the pay rises this year, and other factors, would almost certainly send the rate to 15% or higher in December.

"From then on, inflation could take off as the full impact of higher earnings is felt."

The Volkskas chief economist, Mr A S Engelbrecht, agreed that an inflation rate of 17% or higher in the first half of next year was more than just a threat.

Based on a former CPI base of 100 in 1970, the actual points figure at present was 272.1 — reflecting a "frightening" annual rate of 19.9% in May.

Two major factors contributing to inflation in the months ahead, he said, would be the fact that industry was reaching full production capacity — which made it more difficult to absorb cost rises — and the inflated wage and salary structure.
Only a shotgun could wing inflation

By SIMON WILLSON

INFLATION was a series of moving targets which only the full blast of a shotgun could be sure of hitting. Dr Joop de Loor, the Secretary for Finance, said yesterday.

He told at the Johannesburg Press Club that South Africa’s fight against inflation could not be seen in terms of aiming a gun at a single target because inflation had so many different components.

"Only the broad blast of a shotgun can be sure of hitting each inflationary target. We need a broad and co-ordinated approach to attack all the factors of inflation," Dr De Loor said.

The Economic Advisory Council was studying a new analysis of inflation which proposed a different, more wide-ranging way of looking at the problem.

The analysis was in a paper which represented the structuralist or eclectic approach to tackling inflation. It broke the causes of inflation down into three factors. These are:

- **The underlying factors** which give an economy an inflationary bias. These include non-economic factors, such as social and psychological characteristics. In South Africa’s case, this category includes sanctions on black and non-white businessmen which have to be taken into account, says Dr De Loor.

- **The initiating factors** which include decisions which help the inflationary process, like the introduction of GST and the 15% import surcharge in South Africa, and the tendency to use high-quality machines which give the same production as other machines for a higher price.

- **The propagating factors** which transmit the original inflationary impulses through the economy, such as the interaction between domestic prices and the national balance of payments and the exchange rate, and the higher inflationary expectations.

"We feel that most of these factors are present in South Africa in one way or another, and we need a broad approach to inflation which takes in all three factors.

"There is a lot of work to be done in the labour field to weed out built-in structural problems."

"We also have umpteen laws and rules on trade. We are overprotected in this country, we have too many new laws and then have to have somebody to administer the laws. We must check that we are not over-regulated.

The senior Deputy Governor of the Reserve Bank, Dr Gerhard de Kock, said in Pretoria on Monday that the structuralist approach to inflation was useful in focusing attention on certain structural or underlying factors which gave the South African economy an inherent inflationary bias.

But the approach offered "no real alternative" to South Africa to the more conventional analysis of the causes, symptoms and consequences of inflation.

"Inflation in South Africa can best be countered by a combination of short-term fiscal and monetary policies, including interest-rate and exchange-rate policies, and longer-term or structural policies designed to reduce the inherent inflationary bias in the economy," Dr De Kock said.
De Kock oor vraaginflasie noul na

DR. GEBRADE DE KOCK, seun wiss-kopied van die Reserverbank en speelske ekonomiese raadskrywer van die Ministerie van Finansie, se argy bo om as inflasie in bedwang te hou, is verlie ongekapt in Sake-Rapport. Daar is daardie artikel beoordeel as "nasionale komisie van enskawe korttermyne, fisake en monetiese beleid" met inbegrip van rentekoreanse- en koersverbale beleid - en anderbys langskaarte- of structuurverband genoeg om die ekonomie se interakte se voltooi vrijheid, gebruik kan word om inflasie die beste te breek. In hierdie tweede artikel verkry dr. De Kock se stelling op praktyk waar ons nou met inflasie stasie.

EERSTE STELLING: Die inflasie in Suid-Afrika se derde qaudiel fyn is dit te onderskei van die laaste twee jaar, naamlik 1976 en 1977, en die inflasie in die einde van die jaar was 4% en 7% respectiewelik.

Daar was 'n aantreklike toename in die voltooi premies, wat die inflasie in die tweede kwartaal van 1978 op 20% het gebring.

Daar is 'n direkte verband tussen die inflasie en die voltooi premies, wat die inflasie in die tweede kwartaal van 1978 op 20% het gebring.

Daar is 'n direkte verband tussen die inflasie en die voltooi premies, wat die inflasie in die tweede kwartaal van 1978 op 20% het gebring.

Daar is 'n direkte verband tussen die inflasie en die voltooi premies, wat die inflasie in die tweede kwartaal van 1978 op 20% het gebring.

Daar is 'n direkte verband tussen die inflasie en die voltooi premies, wat die inflasie in die tweede kwartaal van 1978 op 20% het gebring.

Daar is 'n direkte verband tussen die inflasie en die voltooi premies, wat die inflasie in die tweede kwartaal van 1978 op 20% het gebring.

Daar is 'n direkte verband tussen die inflasie en die voltooi premies, wat die inflasie in die tweede kwartaal van 1978 op 20% het gebring.

Daar is 'n direkte verband tussen die inflasie en die voltooi premies, wat die inflasie in die tweede kwartaal van 1978 op 20% het gebring.

Daar is 'n direkte verband tussen die inflasie en die voltooi premies, wat die inflasie in die tweede kwartaal van 1978 op 20% het gebring.

Daar is 'n direkte verband tussen die inflasie en die voltooi premies, wat die inflasie in die tweede kwartaal van 1978 op 20% het gebring.

Daar is 'n direkte verband tussen die inflasie en die voltooi premies, wat die inflasie in die tweede kwartaal van 1978 op 20% het gebring.

Daar is 'n direkte verband tussen die inflasie en die voltooi premies, wat die inflasie in die tweede kwartaal van 1978 op 20% het gebring.

Daar is 'n direkte verband tussen die inflasie en die voltooi premies, wat die inflasie in die tweede kwartaal van 1978 op 20% het gebring.

Daar is 'n direkte verband tussen die inflasie en die voltooi premies, wat die inflasie in die tweede kwartaal van 1978 op 20% het gebring.

Daar is 'n direkte verband tussen die inflasie en die voltooi premies, wat die inflasie in die tweede kwartaal van 1978 op 20% het gebring.

Daar is 'n direkte verband tussen die inflasie en die voltooi premies, wat die inflasie in die tweede kwartaal van 1978 op 20% het gebring.

Daar is 'n direkte verband tussen die inflasie en die voltooi premies, wat die inflasie in die tweede kwartaal van 1978 op 20% het gebring.

Daar is 'n direkte verband tussen die inflasie en die voltooi premies, wat die inflasie in die tweede kwartaal van 1978 op 20% het gebring.

Daar is 'n direkte verband tussen die inflasie en die voltooi premies, wat die inflasie in die tweede kwartaal van 1978 op 20% het gebring.
Confidence in SA never higher — Horwood

Inflation is the only bleak spot

By GERALD REILLY

SOUTH Africa's inflation rate flared on otherwise favourable economic pleasure, the Minister of Finance, Senator Horwood, said at a Press conference in Pretoria.

"It is too high. It's an awkward problem, and keeping the rate down poses a great challenge."

Factors involved, the Minister said, included the level of Government spending, productivity levels, possible future oil price hikes and the extent of wage and salary increases.

Rising imports from countries with inflation rates higher than South Africa's were another important factor influencing the inflation level and with this increasing growth rate, imports were rising.

The Minister returned at the weekend from a two-week visit to six major European centres - Zurich, Geneva, Vienna, Frankfurt and Paris - where he had discussions with leading bankers, industrialists and politicians.

He claimed confidence in South Africa as an investment field had never been higher.

The R58-million public bond issue was launched by a leading German bank, with other prominent banks involved, had been "a very real success."

European economists, the Minister said, were not in the best of shape.

The United States was in the throes of a recession. In Europe the situation was not as serious, but even West Germany, one of the world's strongest economies, was running up a big deficit on the current account.

This was due mainly to high oil prices.

Europe was plagued with low growth rates, unemployment and inflation. This contrasted with the favourable conditions in South Africa - a strong current account, a growth rate of 5% in real terms, with a prospect of an increase in the months ahead.

"We have one of the best growth rates in the world today, our employment position is strong and the manufacturing industry is forging ahead," said Senator Horwood.

Surplus capacity in industry was rapidly being taken up, and there were indications of a larger volume of investment.

The Minister said there was great interest among foreign investors in the prospects for investment in South Africa. This should be apparent in the months ahead.

As far as Southern Africa was concerned, a major worry was what was seen as the growing tension between Mr Khosa and Prime Minister Mtsweni in Zimbabwe.

Swaziland was another concern, but Europeans increasingly saw Swaziland as "just a small minority."

Senator Horwood said he had never known a time when South Africa's credit rating was so high in Europe. One leading German banker said he could think of no country with a higher growth rate than South Africa.

Asked what effect the recent unrest had on the confidence of investors, Senator Horwood pointed out that the successful public bond issue in Germany had been matriculated when unrest had already started. The market, he said, had taken the unrest "rather well."

The Minister said it was difficult accurately to assess the amount of foreign capital now working in South Africa. However, a rough estimate was R500 million. This included funds from the United States, Britain and Canada.

On gold, the Minister said the general feeling was that the market realised there might well be a shortage of gold in relation to demand.

The IMF was not currently selling gold. Neither was the US Treasury, and Russia was selling very little.

The demand for gold was still "pretty strong" although industrial demand may have slackened.

The situation in Iran, Central America, The Middle East and Afghanistan all added up to uncertainty, which had its influence on the level of the gold price.

There would be short-term fluctuations, but in the long-term he expected the gold market to be strong.

As for whether South Africa was selling its full production, the Minister said a more flexible policy was being followed. During the past few months, "we have not necessarily sold our full production."

However, South Africa was not contemplating a move to withhold gold from the market.

On the availability of foreign capital, the Minister was confident that South Africa could raise substantial amounts if it wanted to, but right now we don't need them."

Referring to inflation, the Minister said that for the first time in several years, the average annual rate up to the end of May in South Africa's main trading partners moved ahead of South Africa's rate - 4.5% compared with 14.1% in that country.
INFLATION

Systematic suicide

The problem of endemic inflation is one from which no modern economy is immune. It has populated the nightmares of politicians and economists since World War II, but most constantly since the late Sixties.

Its effects are both insidious and ubiquitous. Prices in SA have risen by 75% in the last five years.

The progressive attrition of savings and investments as returns on fixed interest securities fall behind the inflation rate, is another obvious consequence. Returns on long-term gilts, for instance, last exceeded the inflation rate for a brief period at the beginning of 1978.

The March Budget was regarded by most commentators as a compromise between the need for economic stimulation and the need to control inflation. Its chief attribute was that it redistributed resources from the public to the private sectors. Government was to finance the deficit of revenue over expenditure without expanding bank credit and thus the money supply. And the abolition of the import surcharge and an easing of import procedures signalled a new and freer approach to importation, designed to absorb some of the expected build-up of demand.

Some economists, in consequence, hopefully forecast a drop in the inflation rate to 13% in 1980, after the 1979 average of 13.3%.

The pessimists, on the other hand, regarded the Budget as over-stimulatory. Fundamental growth, they argued, was sufficiently well-established to obviate the need for further encouragement. Saniam's Fred du Plessis maintained that the increase in disposable income achieved by the tax cuts would not dampen the traditional demand for annual wage and salary increases. And an increase in imports would serve mainly to export inflation to SA.

He forecast a short-term decrease in inflation as increased turnovers depressed production unit costs, and then a gathering increase, with the consumer price index moving towards 20% in 1981.

Only the outcome of events will settle that argument, but it appears that more economic opinion has now begun to lean towards the pessimists. One view in Pretoria is that it is unrealistic to believe that SA can force its inflation rate below that of its main trading partners in the short-term, unless the rand is appreciated markedly. As an indication, the yearly rise to May for IMF member countries was 15.2%, against an SA rate of 14.1%.

A disturbing shift of economic opinion is crystallising around a rate of between 14% and 16% in 1980, and anything up to 20% in 1981. Two areas of specific concern are pinpointed. The most serious, according to Sefbank's Peet Strydom, will be the excess of increases in wages and salaries over productivity. He anticipates a rise of up to 20% in wages and salaries by the year ahead. The overall effect of this component in the CPI has not been that great in the past, but the market is becoming more aggressive as demand factors change. These increases will push through into prices by early next year, says Johan Cloete of Barclay's, and, he adds, we could be seeing the CPI at 18% in its early months.

The logic of this approach is that the wage and salary spiral will push up production costs and stimulate demand, and the failure of productivity to keep up will create Keynesian "inflationary gap"—the excess of aggregate money demand over aggregate real supply—which can be filled only by a rise in prices.

Administered prices

The other area of concern is administered prices. This year has seen a spate of price rises in foodstuffs, building materials, rail transport, electricity and postal tariffs. These price rises have largely been pegged to the inflation rate, which suggests a more efficient system of price administration in the future, says Strydom.

So the inflationary factors are mainly cost-push, with demand-pull likely to become a consideration only next year, mitigated by rising imports. Imported inflation is not yet regarded as a major danger.

Conditions were different in the early Seventies, argues Strydom, when the rand was devalued and imports constituted a large measure of the wholesale price index. In March, economists were talking in terms of a 15% cushion against imported inflation, created by combining an expected 7.5% increase in the trade weighted value of the rand in 1980 with the abolition of the 7.5% import surcharge.
There are signs that government, with its growth policies firmly established, is beginning to turn its attention more single-mindedly to the problem of inflation. Gerhard de Kock, economic adviser to the Finance Minister and senior deputy governor of the Reserve Bank, has pointed to the existence of certain structural inflationary features in the SA economy — artificially controlled employment obsession with self-sufficiency and the concept of strategic industry monopoly control of markets by either the state or private sector organisations, and the administered price system.

But the authorities remain committed to little more than the "conventional" monetarist means of attacking inflation — freeing resources for the private sector to expand supply and controlling the money supply to discourage excessive demand.

Government spending

Conventional these means may be, but they are also controversial. Government spending may aid zero real growth this year, but this ignores the fact that public sector spending (including that of state corporations and undertakings not financed by the Treasury) is scheduled to rise by 20% in real terms. And the monetarist doctrine suffers from open disagreement over the nature of the correlation between variously defined money supply aggregates and inflation rates. Prices in SA rose 30% in the five years between 1969 and 1974, against an increase in money supply of 54%.

Monetarists talk about a time lag between money supply control and its effects on inflation of up to 16 months or longer. This is cold comfort, observes Strydom.

Both the reality and the effectiveness of monetarism here is questioned. The money supply in SA cannot be controlled, says RAM's Geoff De Weerdt, because it is based on the liquid asset control system, and banks can create their own liquid assets. However, the transition to control through cash ratios has already begun.

Statistics show, he claims, that increases in the total money expenditure in the SA economy have been financed less by increases in the supply of money than by increases in the velocity of its circulation, which defies control. The Reserve Bank is clearly not yet in short-term control of the money supply. Reliance on credit ceilings has proven insufficient.

But partly this may be because of the application of official policy. The exchange rate is out of kilter with the balance of payments and, consequently, interest rates do not reflect the extent to which monetary discipline has been applied. Disintermediation in the banking system has been the result, with uncontrolled grey market lending shooting ahead.

Even if monetary control were feasible, argues De Weerdt, it would, along with fiscal policy, be futile unless it were integrated with wage and price policies. And it is extra-market factors, like the setting of prices by negotiation, and the institutionalisation of annual wage increases, that have ended the automatic reduction in demand and prices that past recessions brought about.

These are not the only economists who see inflation as something of a social disease rather than an economic phenomenon. And there may be a large element of truth in what they say. But the fact is that, imperfect though monetary controls may be in the short-to-medium term and severe though the social consequences of a monetarist recession have become — alternative wage and price controls have no record whatsoever of successfully containing price rises anything but momentarily. And the subsequent upsurge after controls are lifted always is socially disruptive.

Moreover, even those who advocate some form of official demand management as an inflationary weapon (the neo-Keynesians), acknowledge that the control of the money supply is also a prerequisite.

No quick fix

Both believe it essential, too, that wage, and price rises must increasingly be determined by supply and demand and no longer be institutionalised, a phenomenon brought about here by a combination of price administration and laws that restrict the mobility of labour and discriminate against the unskilled.

Needless to say, they are laws that cut to the quick of apartheid. Monopolistic trends here, too, tend to have their beginnings in past political fears. Once what De Kock calls "structural" inflation is reduced, monetary and fiscal antidotes should, he believes, work faster to contain price rises.

But one thing is certain: there is no quick fix. If government comes to believe that wage and price controls are a form of short-term substitute for widespread "structural" reform and the freeing of labour and other markets, the inflation into next year will make the dismal Du Plessas-Cloete forecast appear modest indeed. And that PM Botha, would be extremely political as well as economic folly.
Costly oil fires SA's coal-burning boilers

THE oil price increases in the second half of the Seventies may have been one of the principal contributors to South Africa's spiralling inflation rate, but at least they have also emphasised the importance of one of our most important natural assets - coal.

And by unmasking coal's advantages, the soaring oil price has triggered both a reluctance to use petroleum-based fuels and a drive to exploit the logical cost-effective substitute.

Indications are that coal is setting the requirements for coal-conscious oil users on a large scale in this country, and industries of all sizes and energy consumption levels are switching to the more solid of the globe's two fossil fuels without any long-term cost disadvantages.

The mutative impact of the oil-price increases of the 1970s, therefore, is likely in the medium to long term to be self-corroding for energy users who convert to a domestically sourced product which is not subject to cartelised distribution politically inspired embargoes sabotage susceptible pipelines or any of the other snaggs of contemporary oil supply.

Coal is increasingly seen as the answer, and not just through the Sasol coal-into-oil conversion process.

Industries are seeing the advantages of using coal direct or in gasified form, without putting it through the cost-intensive Sasol plants.

The Transvaal Coal Owners Association (TOA) reports a deluge of inquiries about coal supply and plant conversions from oil to coal-burning energy sources from manufacturers and processers in the industrial heartland of South Africa.

The TOA is the marketing arm of the coalfields of the biggest mining houses including Anglo American, Lonrho, General Mining Rand Mines, Gold Fields, the Tavistock Group and Elandrand.

The association supplies 90% - about 20 million tons - of the South African inland coal market, and expects to supply another 3 500 000 tons over the next three years, most of it to oil-consuming industries.

This projected extra demand excludes the larger State-owned plants, such as Secor, Etoxom and the Sasol complex, which use tied collieries. It is a sign of the wide ranging vigorous nature of the move towards oil replacement that coal substitution is being considered mainly by medium-sized and small businesses.

The expected extra coal demand over the next three years from the Cape industrial area is smaller about 500 000 tons, because many industries nearer the coast have already entered into oil supply contracts which have periods still to run. But TOA officials are confident that coastal industries will join their inland counterparts in the swing to coal.

The trend is not away from coal only Electricite diesel and liquid petroleum gas (LPG) costs have also risen faster than that of coal over recent years.

Rival oil substitutes like solar and tidal power and nuclear power are still in the early stages, of development and lead a long time even in the highly industrialised Western economies of between 30 and 40 years for coal to occupy without serious cost-effective competition.

Examples of industries converting to coal are becoming more numerous. IMPL Group Systems, for example, uses special coal-fired processes for drying timber, latex-coated products, hides and animal feed.

Leatho Pulp & Paper, which uses a coal by-product from Sasol for energy, has indicated that it will use up to 80 000 tons of coal a year from September to produce gas for its energy needs.

Federic is said to have placed an order for coal to grant it fuel and fuel its fertilizer dryers. Musanze is expected to convert to gas to dry its processing board and the Uranium Enrichment Corporation is using coal instead of oil in its boilers this year.

The most encouraging aspect in the trend for coal producers is that it has taken hold at small-business levels. Builders, food processors, ceramics producers and other family enterprises are turning to coal instead of diesel.

The only problem that could stall the flight from oil in industry is the possibility of infrastructure supply bottlenecks.

The switch has come at a time of expansion in the economy as a whole, and the transport pressure from myriad products requiring wider distribution.

The coal shortage this winter was a result of transport problems entirely beyond the control of the railways. Such jams can be expected to recur in a period of increasing economic activity.

The TOA is working on a possible solution by studying the logistics of stocking coal near the points of consumption instead of at the collieries.

NOTE CAREFULLY

1. Enter at the top of each page and in column (1) of the block on this cover the number of the question you are answering.

2. Blue or black ink must be used for written answers. The use of a ball point pen is acceptable. Red or green ink may be used only for underlining, emphasis or for diagrams, for which pencil may also be used.

3. Names must be printed on each separate sheet (e.g. graph paper) where sheets additional to examination books(s) are used.

4. Do not write in the left hand margin.

WARNING

1. No books, notes, pieces of paper or other material may be brought into the examination room unless candidates are so instructed.

2. Candidates are not to communicate with other candidates or with any person except the invigilator.

3. No part of an answer book is to be torn out.

4. All answer books must be handed to the commission or to an invigilator before leaving the examination room.

Any dishonesty will render the candidate liable to disqualification and to possible exclusion from the University.
Grim warnings as inflation takes off

By GERALD REILLY
Pretoria Bureau

SOUTH Africa's inflation rate during June was running at a staggering annual rate of nearly 20%.

According to the Consumer Price Index for last month, released by the Department of Statistics in Pretoria yesterday, the rate increased by 1.6% — from 171.9 points in May to 174.6 points.

And again the lower income group was hardest-hit, with a 2.4% jump in living costs during June.

The rate for the 12 months to the end of June — 14.6% — is the highest for about three years, the figures show. The May figure was 14.1%.

And leading economists warned that "demand-pull" inflation — a situation in which too few goods are "chased" by too much money — was tightening its grip on the economy.

This could force the rate above 15% by the end of the year and to nearly 20% at the end of the first quarter next year.

They point out that record demands for big compensatory wage and salary increases in the public and private sectors could result.
same as last year — the pattern of a fairly mild winter

The Johannesburg and Witwatersrand area was experiencing a very dry season at present, but this was normal

**Dispute is at Yeka**

Most Veka workers are members of Bawu

Newcastle is a border area in terms of the Government's decentralization policy and there is no minimum wage legislation for its industrial area.

Wages in the area have tended to be substantially lower than in urban areas.

According to Bawu, the wage dispute at Yeka has been simmering for some time. Late last week, a delegation from the union was scheduled to meet management but the meeting was cancelled because company representatives said they had to attend a meeting elsewhere.

This week management offered the workers the R1.30 a week but they have rejected this increase.

**Improves**

School rugby game. At the time there were fears that he might be paralysed for life.

"I have got all feeling back. It is only my left hand which is still a little weak," he said.

Jacobus said he was adamant about one thing, "I will never play rugby again." — Sapa

when the huge oil price hike sent the rate soaring by 3.6%, the 1.6% leap in June was the highest monthly rise for a long time.

The food only index for June also showed an increase of 1.6%, with a 12-month rate of 10.5%.
Minister warns on inflation ‘cancer’

Pretoria Bureau

INFLATION was an ominous, and unacceptable cancer in the South African economy, the Minister of Commerce and Consumer Affairs, Dr Schalk van der Merwe, said in Johannesburg last night.

Presenting National Productivity Institute awards, the Minister said the cancer threatened to undo much of the past advantages and positive elements of the country’s prosperity.

“We cannot continue to waste resources and rely on economic windfalls, such as the increase in the gold price, to carry the day for us,” the Minister warned.

It was said inflation in South Africa was less than in other countries. This was comforting.

Between 1970 and 1979, the Minister said, labour productivity increased by a mere 10% per year.

This was not a performance to be proud of. South Africa had a capital shortage and a labour surplus. This unique combination should be optimally used.

“We have allowed wages to increase at an alarming rate. Without managing to reduce the impact of the increases between 1965 and 1979 wages rose by 270%, while output per worker rose by only 24%.

“I hope these figures make you realise that South Africa’s economy has no choice but to become inflationary,” he said.
Inflation slows in 14 IMF countries

WASHINGTON. — The rate of price increases in the world's major industrial countries has slowed, says the International Monetary Fund.

In 14 industrial countries, the average year-to-year rise of consumer prices in April was 12.5%. But the rate of increase in the United States was down for April — to 14.6% from 14.7%.

Preliminary figures showed that the US rate dropped in May to 14.4% and in June to 14.3%.

Japan's rate of increase also declined in May — to 8.2% from 8.4% the previous month.

Wholesale prices touched a peak in February, slumped for two months, rose 4.8% in May and then dropped 0.8% in June. The drop put the average wholesale price back to its January level.

"The increase in (wholesale) food prices from January to June was entirely due to a 65% rise in sugar prices. Excluding sugar, food prices would have been 5% lower than in January and the overall index would have been down 8% in the same period."

IMF officials are careful not to draw any conclusions from these price movements, although they saw the wholesale-price changes as a hopeful sign. The IMF did not speculate on the causes of the apparent easing of prices. Economists attribute the trend in large part to economic recession — Sapa-AP.
Heavy rise

June's 1.6% rise in the Consumer Price Index, bringing the year-on-year increase to 14.6%, is the third month in a row in which the monthly rise in the inflation rate has exceeded 1%. Inflation now stands at its highest level in three years.

For those economists who have forecast that inflation will rise steadily upwards, the latest figures will confirm this trend. They attribute inflationary momentum to cost-push factors, substantial money supply growth, a little but growing imported inflation, large wage increases, administered price rises and low productivity. As RAU's Geer de Wet says, "The rate is not going down this year."

Sbas BANK, however, is sticking to its projection of inflation moderating to last year's 12%-to-13% levels, although chief economist Peet Strydom admits that more figures like this month's will oblige him to revise his estimate.

When last July's 3.6% CPI increase passes out of reckoning, the rate will decline substantially, he notes. Even if this month's 1.6% rise is repeated, the year-on-year rate will fall to 12.6%. Strydom says he has taken account of higher food and wage spirals. But he does not expect demand inflation to be a problem this year, which in any case has a traditionally small effect on the CPI.

The main items which caused the general rise in prices were a 0.2% rise in meat, a 0.1% rise in vegetables, a similar rise in other foodstuffs, a 0.5% rise in housing and a 0.2% rise in furniture and household requirements.

The increase in the CPI in June this year is less than it was in the same month last year, which is a development not to be ignored.
Inflation — the root of the matter

Financial Reporter

The toughest of the major scourges that had beset the world economy in recent years was global inflation, Mr. Robert P. May, president of the Federal Reserve Bank of Chicago, told a dinner audience arranged by the UCT Graduate School of Business.

Only a few countries had been spared the pernicious increases in the prices which consumers and producers had to pay. In the major industrial countries inflation had increased from an average annual rate of a little over 3% in the decade of the Sixties to well over 8% in the Seventies.

In the early months of 1980, inflation had been running at close to 12% on the average in the non-oil developing countries. Inflation had been running about 25% annually for several years and was approaching an average rate of 30%.

Mr. Mayo said that this high and increasing rate of inflation had been sapping the economic energy of industrial and developing nations alike and had to be brought under control if the world economy was to retain its vitality.

A number of factors, such as the OPEC cartel and widespread crop failures, had contributed to the surge prices. But these were only superficial symptoms one had to probe deeper into the nature of the social and political forces to uncover the true causes of worldwide inflation.

These forces appeared to converge on a central premise on which the legitimacy of any central government rested.

"That premise is the implied, almost mystical, ability of the government to identify, solve — and pay for — all the problems of society. Out of that myth, spring claims on the total productive capacity of individual economies by labour, consumers, business, and government, well in excess of the capacity of economies to satisfy them."

Mr. Mayo stressed that governments around the world, in trying to live up to their promises, had sought solutions to these excesses through two channels.

○ They had resorted to programmes and regulatory methods designed ostensibly to adjudicate these claims more "justly" than would have been done by the impersonal forces of the market place.

○ Alternatively, the government had tried to validate these excessive claims by "printing money", either literally or by means of direct or indirect pressures on their nominally independent central banks.

The result of these "solutions" had been inflation and a gradual erosion of the efficacy of the free market.

He disagreed with those who, by extrapolating these trends, had drawn the conclusion of...
Indexation as an answer to inflation rejected

By SHAUN HOLLICK

INDEXATION is not the answer to South Africa's inflation, according to economists who view it as capitalization to the problem, although they recognize its benefit to pensioners and others unable to engage in pay bargaining.

Opponents of indexation argue that when incomes are automatically adjusted for rising prices, the will to fight inflation disappears, encouraging wages and prices to spiral upwards.

Barclays Bank chief economist, Dr Johann Cloete, says South Africa is already indexed to an extent by organized labour negotiating wages according to the consumer-price index (CPI).

Dr Cloete says that a small school of thought existed at one stage which believed "we would have to live with inflation and should therefore index it" — an idea based on Brazil's successful indexation.

Professor Milton Friedman advocated indexation at one stage, says Dr Cloete, "but the idea subsided as inflation spiralled".

Standard Bank's economist, Mr Andrew Hammarsma, believes that "the key issue is the combating of inflation rather than encouraging it by indexation".

Professor Jan Sadie, of Stellenbosch University, considers that there is no case for indexation where it does not keep demand in check.

Experts believe that indexation, in eliminating "fiscal drag" — where wage earners find themselves in a higher tax bracket as their wages rise — loses revenue for the government. They add that, with much of the labour force in the public sector, indexation would "build" inflation into a large section of the economy.

Economists argue that an accurate measure of inflation is a prerequisite for indexation, and herein lies the problem. Although they see the CPI as a reasonably accurate inflation measure, they regard it as engendering the inflationary psychosis which leads to spiralling prices.

Dr Cloete says that the CPI is exceeded in the process of wage and price determination — employees negotiate wages with generous reference to fiscal drag, and employers set prices at inflation-compensating levels.

It is argued that with the introduction of GST, indirect taxes are now reflected through prices, but income tax (which has been reduced in the last two Budgets) is not. Also, it is considered that the CPI should be presented without the distortion of one-off price rises — perhaps an additional index free of non-recurring items; and a combined tax and price index.

The money supply should be incorporated into the CPI, according to some economists. They say that because inflation, strictly speaking, is defined as too much money chasing too few goods, a rise in the CPI will leave the standard of living unchanged if it is accompanied by a proportionate increase in the money supply (for a given level of production).

The year-on-year increase in the CPI for June was 13.3%. In May, annual increases occurred in M1 (16%), and manufacturing production (11%)
Anti-inflation meeting called

THE Minister of Industries, Commerce and Consumer Affairs, Dr. Schalk van der Merwe, will call another meeting of the continuation committee on the implementation of the action programme against inflation on August 25.

The continuation committee consists of representatives of the public sector, employer and employee organisations and consumer organisations.

Dr. Van der Merwe said that although South Africa had a high rate of economic growth, high employment and production capacity was used and a sound balance of payments situation, there was one unfavourable factor it shared with the rest of the world — the unacceptably high rate of inflation.

The rate of inflation during recent months tended to accelerate to the high levels which were experienced when the anti-inflation manifesto was signed in 1975.

The whole question of inflation was, therefore, referred to the Economic Advisory Council of the Prime Minister which, during its meeting in May this year, thoroughly discussed the problem of inflation and considered measures which could possibly be introduced to reduce the rate of inflation to a more acceptable level.

After these discussions, and the ensuing recommendations, I have come to the conclusion that the time is opportune to convene another meeting of the continuation committee.

During the proposed meeting, representatives will be af-
Pretoria clamps to beat inflation

By GERALD REILLY

MEASURES to counter the threat of inflation running out of control are expected to be announced by the Reserve Bank at its annual meeting in Pretoria later this month.

The economy, according to economists, has boomed to a point where the inherent dangers of runaway inflation are becoming apparent. Barclays Bank's chief economist, Dr Johan Cloete, said the threat of runaway inflation was causing serious concern. With the economy awash with liquidity, the Government could be expected to have a closer look at interest rates and make adjustments to the broad monetary policy.

Options open to the authorities, he said, included selective credit restrictions, a raising of interest rates, or the imposition of an overall clamp, by raising the cash reserve and liquidity requirements of the commercial banks.

The more traditional method of applying the brakes, Dr Cloete said, was to raise the bank rate to force banks to increase their prime overdraft rate, and thus discourage borrowing.

The deputy head of the Bureau for Economic Research at the University of Stellenbosch, Mr Atte de Vries, said the huge spending power which stormed into the economy after the lower income-tax payments and salary increases in the public and private sectors had brought the economy to a point where demand-pull inflation was beginning to surface.

"Great care must be taken to ensure that nothing more is done done to stimulate the economy," he said.

The Reserve Bank and the Treasury might have to take counter measures gently to cool the economy which was in danger of becoming seriously overheated.

Efforts should be made to siphon liquidity out of the economy, for instance, adjusting interest rates.

The Volkskraal economist, Mr A J Jacobs, agreed that measures were needed to drain some of the heat from the economy.

Economic growth was now entrenched, he said.
Gen Malan calls for war on inflation

Own Correspondent

The public and private sectors should make a concerted effort to implement an anti-inflationary strategy, the chief of the Defence Force, General Magnus Malan, said today.

Addressing the annual meeting of Volkskas group in Pretoria, he said the economy was “one of the major battlegrounds in the total onslaught upon South Africa.”

Despite efforts by the State and private sector, inflation remained higher than 10 percent.

The disruptive effect of inflation on the allocation of resources and on economic growth was all too familiar. Curbing inflation was a prerequisite for long-term economic growth.

The public and private sectors should make an effort to fight inflation effectively as soon as possible.

General Malan said the Defence Force had an important contribution to make. Together with the increasing threat to security, inflation had, during the 1970s, contributed strongly to defence expenditure.

The Defence Force tried, however, to keep inflation in check by increasing effectiveness and efficient management.

A “virtually unbridled” population growth demanded the creation of about 250,000 job opportunities a year. More than R10,000 was needed to create a single job.

General Malan said the shortage of skilled labour, led to unemployment among the unskilled.
Hurter signs off with inflation warning

BY HAROLD FRIDJHON

The danger of a demand-inflation in South Africa was real, Dr A Hurter warned in his valedictory address as chairman of Volkskas Group at yesterday's annual meeting in Pretoria.

While Dr Hurter was in agreement with the government strategy to strengthen domestic demand and particularly private consumption expenditure, he believed the tax concessions in the last budget were somewhat on the large side.

At that stage it was clear that the natural economic expansionary forces of increasing employment, higher wages and salaries and the effects of good agricultural harvests on personal income were all factors suggesting that there was not much wrong with the economic revival.

He saw real personal consumption spending increasing strongly this year, supported to a large extent by the granting of credit. He urged the greatest restraint in the granting of credit to consumers pointing to the big increase in civil judgments for debt. The amount involved was R113-million - a big burden on the establishment concerned and on the economy.

He considered that the present term of repayments on hire-purchase credit was too long and not in the interests of the economy and the individual. The emphasis on credit granting should be for productive purposes.

Production capacity threatened to become a bottleneck. Delivery times were getting longer and the number of unfilled orders was increasing. South Africa faced the challenge of maintaining a reasonable balance between demand and supply.

In spite of an important part of domestic demand being shifted to foreign countries through imports, the danger of demand inflation was real at a time when there was little hope of excessively high inflation moving to lower levels.

Dr Hurter said that this year the economy would record one of its best growth rates, perhaps as high as 7%. But with an inflation rate possibly more than double this target, the red light was flashing brightly.

There is nothing as dampening to growth as inflation. Hard work lies ahead to break the back of inflation, he said.

Financial discipline in the broadest sense was needed as well as the raising of productivity, managerial ingenuity, a well-trained works corps and a sound relationship between labour performance and remuneration.
DURBAN — With South Africa running into the real danger of a 20% inflation rate by the yearend, Durban businessman, Mr Fred Beard has criticised the policies of the Minister of Finance, Senator Owen Horwood.

Speaking at a Rotary lunch here, Mr Beard accused the Minister of having sacrificed the country "on the altar of growth at any cost."

Mr Beard, chairman of the Protea Holdings group, said the devaluation of its money was South Africa's most pressing and alarming problem.

Administration price increases, mostly on agricultural products, had surged right through the economy with a devastating effect on the lower income group. Most of these increases were directly attributable to the plethora of control boards which had been set up in defiance of the rules of free enterprise.

These price increases merely subsidised the inefficient farmer who would have no place in a free uncontrolled market, and made the efficient farmer even more profitable.

Yet, he said, the Minister had been reported recently as saying administered price increases were 'inevitable and inflationary'. This was clearly a 'necessary evil' which had to be accepted if economic growth were to be achieved.

Mr Beard said he had been staggered to read in the local press a few days ago that Senator Horwood believed South Africa had cost-inflation and not demand-inflation.

In fact, demand inflation had already arrived and would get worse. Reserve Bank chief, Dr Gerhard De Kock, had stated imports would be allowed to supplement shortages of locally made products and goods.

The healthy balance of payments position made this possible, Mr Beard said. This earned two points. The balance of payments surplus was largely due to the country's gold. The country could therefore count its blessings and not boast of financial discipline.

If it had real discipline, it would be able, substantially, to reduce galloping inflation.

The Minister, he said, should have enabled local industry to produce the necessary goods by increasing allowances on new plant machinery and factors (including additions) to 100% — Sapa
INFLATION

A contrary view

A sharp decline in the rate of inflation from its current 14.6% level to between 11% and 9% within 18 months has been forecast by three controversial Cape Town University economists, one of whom is leading local monetarist Brian Rastor.

Their forecast, based on the premise that the higher the price of gold, the stronger the rand will unavoidably become which, under the influence of a lower rate of US inflation, will arrest inflationary tendencies in the SA economy.

The forecast has been published in a new economic review by a leading firm of stockbrokers and contrasts sharply with the views of other economists, particularly Sanlam chairman Dr Fred du Plessis.

Other economists expect an inflation rate closer to 16% before this year is out and do not expect it to fall very far in the period covered by UCT’s economists.

This view is based largely on the belief that the higher the price of gold, the more impetus there will consequently be given to aggregate demand, which will soon outstrip supply and thus cause prices to rise strongly.

The Cape Town view, however, tends to take into account a much broader economic perspective and assumes that, although the authorities will not be bold enough to allow the rand’s exchange rate to appreciate sufficiently to eliminate balance of payments surpluses, SA’s currency unit will strengthen.

They reason that, at an average annual gold price of $600 an ounce, the authorities will have no option but to allow the rand to gain in strength to a rate of $1,50 by this time next year — a rise of 15%.

Simultaneously, they expect the rate of inflation in the US to decline — to below 8% early next year. And that “rand export and import prices, under the influence of a lower dollar rate of inflation and a stronger rand, will reduce the rate of inflation in SA.”

In this instance, they forecast economic growth at 7% next year and a 9% inflation rate by mid-year. Lower inflation will, in turn, bring the long-term gilt rate down from close to 10% to 8.5% with the Treasury bill rate at roughly its current level of about 4.56%.

But if the price of gold should average only $400 an ounce over the year, they forecast, on the same basis, a 5.5% growth rate, $1,30 exchange rate, 11% mid-year inflation rate, but with a slightly higher long-term gilt rate at 10.5% and a Treasury bill rate of 7%.

At the crux of this forecast is what economists call purchasing power parity which deals with the relationship of rates of inflation between countries relative to rates of exchange between their currencies.

This is illustrated in SA’s case by the fact that between 1973 and 1977 prices in SA rose 23% faster than in the US while the rand depreciated by 23% against the dollar.

Yet, as the UCT economists point out in the review, since then prices in SA have risen 3.2% faster than in the US, but the rand has appreciated against the dollar because of the increased price of gold.

Equally, this appreciation is out of kilter with SA’s high inflation rate “the implication being that the inflation rate in SA should come down.”

An additional factor that must now be taken into consideration in assessing these forecasts is the imminent move to Church Square of Governor-elect Dr Gerhard de Kock. For his attitude toward exchange rate policy could put an entirely new complexion on the hitherto rather artificial relationship between the prices of the rand and the dollar.

In fact it could be argued that, optimistic as these UCT inflation forecasts are, with De Kock in control they might turn out to be conservative — provided other structural factors in the SA economy could be neutralised.
consumer confidence, while still buoyant, has not advanced over the past three months despite a substantial improvement in the financial position of many households.

But, says the Stellenbosch Bureau for Economic Research, this "lack of confidence" is unlikely to prevail against other more positive economic influences.

In its latest survey, the BER speculates that reasons hampering confidence are the high inflation rate, which is eroding consumers' purchasing power, and political unrest in the country, which is already causing production bottlenecks in some sectors.

But other evidence this week supports the BER's view. The Steupsa capital investment survey projects new fixed investment of R4.5 billion for 1980, a 51% rise over 1979, which it says reflects the broadening confidence in the Steupsa group of industries in the long-term outlook for the SA economy.

The Federation of Industries believes the economy can sustain a 5% to 6% growth rate a year within existing labour constraints. There is no conflict between the objectives of maintaining growth and moderating inflation, it says, adding that there is no general shortage of goods and the balance of payments can support an opening of the import tap where needed for goods and equipment in short supply.

Moreover, the prospects for renewed labour unrest have certainly not yet dissipated. And skilled labour shortages are
Inflation drops: food price up

The Natal Mercury, Saturday, August

Financial Editor

THE INFLATION rate tumbled during July to a 12.22 percent annual rate — the first fall since the index started rising steeply in March this year.

But food prices have started to rise steeply again after a dip in June. July's food bill was 15.69 percent up on the July 1979 figures. The impact of May's price rises in maize and wheat is reaching the supermarket shelves.

There are prospects that the Government will launch a hard-hitting attack on inflation next week following a two significant meetings.

The inflation figures from the Department of Statistics showed that the Consumer Price Index in June rose by 14.57 percent on June 1979. The food only yearly index was 15.9 percent in June.

Income groups

The data for the various income groups for July was:

- Low income a 1.56 percent rise on June for an annual rise of 13.61 percent.
- Middle income a 1.6 percent rise for an yearly 13.03 percent.
- High income a 1.31 percent rise for an yearly 11.37 percent.

The first of next week's meetings, on Monday, will be the Anti-Inflation Committee chaired by the Minister of Commerce and Industries, Dr Schalk van der Merwe, who thinks the economy is entering a demand-push inflation stage.

That would mean that too much money is chasing a growing shortage of goods and the rising demand will push up prices.

The second, on Tuesday, will be the important Reserve Bank annual meeting and could be heralded by earlier Central Bank action this weekend or on Monday.

Monetary policy

Senator Owen Horwood, the Minister of Finance, indicated this week that he has been holding meetings with senior Treasury and Reserve Bank officials to discuss monetary policy.

Wage and price controls are unlikely, with many salary demands in the pipeline as a consequence of inflation.

Dr van der Merwe is putting on increased productivity but this would not emerge as a direct result of Reserve Bank measures.

Nor is it likely that there will be any increase in interest rates, although they appear to be creeping up in the capital market.

More probable are steps to improve the foreign exchange rate situation to the advantage of South Africa — letting the rand rise to $1.40 would help: although exporters would be hit and would have to sharpen their competitive edge.

Liquidity

Earlier this year, in April and May, the Reserve Bank changed the forward exchange premiums, which encouraged rands to flow out of the country.

That step to ease liquidity did not last long. It could be repeated.

The Stellenbosch Bureau for Economic Research says it is possible that consumer spending may be entering 'phase of spend to beat inflation.'
Demand inflation inevitable, price watchdogs told

Pretoria Bureau

Although inflation is running at between 12 and 14 percent, the Government is opposed to any new anti-inflation campaign or manifesto.

This was made clear by Dr van der Merwe, the Minister of Industries, Commerce and Consumer Affairs, after yesterday's meeting of the Anti-Inflation Committee formed several years ago at the height of the anti-inflation campaign.

Dr van der Merwe stressed that the Government was determined to adhere to its policy of promoting growth.

He said some demand inflation was inevitable if we stopped demand then we would reduce growth — and this would make things worse for South Africa, he said.

"However, in view of the present buoyant demand conditions there was consensus that timeous steps would have to be taken to guard against the development of general demand inflation," he said.

"This does not imply that the Government should deviate from its basic policy objectives of promoting growth and employment," he added.

Dr van der Merwe said the Government would adhere to its long-term measures to combat inflation and would not take the advice of those who called for a new campaign or manifesto.

Long-term measures include increasing productivity, promoting free market competition and reducing unemployment. One aspect being examined was the abolition of some price control measures.

The committee also discussed the possible abolition of Section three of the Environmental Planning Act which limited the number of black workers in urban factories.

He added that the Government accepted in principle after the Riisert Commission, that there should be no racial connotations when extension of factories was being considered.
Anti-inflation team's latest plan of attack

The Minister of Industries and Commerce, Dr Schalk van der Merwe, yesterday detailed essential steps to avoid the development of general demand inflation — and issued a strong appeal for broad co-operation in the anti-inflation war.

With inflation reaching new heights, Dr Van der Merwe got together with public and private sector leaders at a meeting of the anti-inflation Continuation Committee in Pretoria yesterday.

In a statement after the closed-doors session, he emphasised that the need to step up anti-inflation measures did not imply the Government should deviate from its basic policy objectives of promoting growth and employment.

"The committee assessed the various factors which could contribute to a lessening of existing current and potential inflation, and recognised that there was no instant solution to the problem. "It felt that the existing positive combination of ongoing anti-inflationary short- and longer-term measures should be reinforced and expanded."

These included the maintenance of strict fiscal discipline and control over Government spending and the money supply to prevent the development of general demand inflation.

Other areas requiring special attention were:

• The elimination of skilled labour bottlenecks through better education, training and utilisation of manpower within the framework of the implementation of the Rutkert and Welaahon recommendations;
• Increased productivity by management and labour at all levels;
• The maintenance of adequate and effective computation in the economy, with continued discipline of prices and wages.

Dr Van der Merwe said that since inflationary expectations were partly based on mismeasurement of the forces at work in the economy, the committee had recommended a public information campaign explaining the true nature and effects of inflation.

The committee found the present rate of inflation was unacceptably high, but noted that the rate during the past year had not worsened, comparing favourably with accelerated rates of inflation in the economies of South Africa's major trading partners.

Dr Van der Merwe opened the meeting with a strong appeal for broad co-operation with the Government's anti-inflation efforts.
Fred Beard defends his views

Own Correspondent

DURBAN. — The plea of financial discipline should be a reduction, or at least, containment, of the inflation rate, Mr Fred Beard, said yesterday.

He was responding to an attack made on his views by the Minister of Finance, Senator Owen Horwood, at the National Party congress in Durban.

Mr Beard said he did not want to start a slanging match with the Minister but it was little use boasting about financial discipline if this did not mean that there would be some impact on inflation.

We would like the Minister to reduce, or at least contain, the rate of inflation and speaking as a businessman "we would like to see it reduced", Mr Beard, chairman of the Protea group, said.

Senator Horwood attacked Mr Beard for last week criticising the Government for "going for growth at any cost and accepting inflation as a necessary evil".

The Minister said Mr Beard had misinterpreted Government policies and his statement was "one of the worst cases of faulty analysis or misinterpretation of official economic policy".

He rejected Mr Beard's accusations completely.

Mr Beard said the favourable balance of payments on current account and the improvement on the capital account was due largely to the fortuitous effect of the high gold price.

"What would happen to those accounts and the financial discipline if the gold price fell to $200?"

He stuck by his forecast that the inflation rate could reach 20% this year and that the economy had been suffering from demand-pull inflation for some time.
Move to stave off inflation ‘disaster’

By GERALD REILLY
Pretoria Bureau

THE Minister of Commerce and Industries, Dr Schalk van der Merwe, has called a special meeting of the anti-inflation continuity committee to thrash out ways to steer the economy away from what he described as a “potentially disastrous” situation.

Interviewed in Pretoria yesterday, Dr Van der Merwe said it had become apparent that the economy was entering a dangerous demand-pull inflationary phase in which too much money chases too few goods.

“This is why I have called together the continuity committee — it includes some of the country’s ablest businessmen, economists, financiers and bankers — to fight this off, and steer away from a situation which could be potentially disastrous for the economy."

Dr Van der Merwe said higher productivity was part of the key to putting a brake on inflation — and the Government was convinced wage and price freezes would not help. "South Africa needed growth — and although growth was not possible without some degree of inflation, the problem could be countered more efficiently through consultation between the Government and private sectors.

Asked whether he supported the view of some leading economists that the inflation rate would reach between 17% and 20% by the middle of next year, he said "There are some economists who forecast a rate of between 9% and 11% next year."

"However, there are too many imponderable factors and I don’t intend to stick my neck out at this stage.""

FOOTNOTE: Economists expect mild, controlled, measures to drain the economy of excess consumer liquidity. These measures will possibly be announced either at, or soon after, the annual meeting of the Reserve Bank next week.
Prices

Erratic patterns

Consumer price index figures for September show that the year-on-year inflation rate has fallen from 12.2% in August to 11.9% in September. Last week's publication of wholesale prices in July showed the year-on-year rate falling from 15.9% to 14.5%, its lowest level since June 1979.

However, the falling year-on-year rates largely reflect adjustments to the indices as petrol prices pass out of the calculations. Monthly inflation rates continue at a high rate with consumer prices increasing by 1.1% in August, while the wholesale monthly July-on-June increase was a huge 2%, the highest jump since July 1979 when the petrol price hike swept into the index (the monthly rise then was 2.6%).

But Standard & Poor's Stockbrokers, who correctly forecast that inflation would fall to between 11% and 12% earlier this year, are confident that the average rate for 1980 will be no more than 13.5%—just 0.2% higher than last year's average.

Although Strydom sees year-on-year inflation accelerating in the short term, notably in the first half of next year, he believes the rate will peak soon and 1981's average inflation rate will lie somewhere between 13% and 14%.

He notes that fuel prices have been stable in the past 12 months, although the latest Middle East war could change that. Another major inflation determinant, import prices, has declined sharply from a 27.7% year-on-year increase in April to 15.5% in July. This can be attributed to the effects of the strong rand and reducing inflation in the West as recession grips.

The current year-on-year rate for the major 24 industrialised countries is 12.8%.
Warning on boom spending

By John Fansham

WHILE many economists, politicians and financiers have persuaded South Africans they are experiencing an economic boom, credit managers and debt recovery agencies warn that many consumers are simply being talked deeper into debt.

"The easy availability of credit, excessive confidence in the economy and aggressive salesmanship have blinded many consumers to the mounting influence of inflation and, so many cases, persuaded people that they can afford more than they really can, according to the credit controller of a leading finance house.

"People are definitely getting more money, and, also getting more for their money than last year. In that sense they are experiencing a boom. But most people seem to be caught in a snowballing process of spending, usually on credit and often beyond their means which is causing increasing concern among credit managers," a financial observer told Weekend Argus.

Accrued waste, I re-usable packaging

Department littering along the co-ordinate waste line is unattractive to all race groups but most apparent in coloured and black communities—was accentuated by the determination of individuals to clean up the procession before the boom flattens out or before they decrease in deference, probably late next year or in 1975.

"Aggressive and sometimes unscrupulous salesmen are yelling in a market which is facing saturation. Many of them sell on commission only, so their livelihood depends on sales, and some will go to almost any lengths to reach a sale," Mr. J. Makene, chairman of the Cape Region of the Institute of Credit Management in South Africa said.

"When this aggressiveness is directed at the less experienced consumer, there is no doubt that the education or sophistication to resist. They are talked Peter buying furniture, clothing, household goods, household aids, household improvements, and so on, until they land themselves in very real financial trouble."

Mr. Oliver Lawrence, chairman of the Residents' Association at Portland in Mitchell's Plain, said the residents have been advised in excess of people. They have been given credit, and people who had never known what a house was never had an apartment, and even if they did not know what it was, they wanted one.

"Many of those people do not realize that homeowners must pay rates, electricity, water. Most of them come into their new home from rooms in another people's homes or on back yards. They come with very little furniture, and there is a house built, and then they are not sure how to furnish it: tables, chairs, bedroom items, curtains, and kitchen equipment.

Salesmen then suddenly realize that the carpet needs cleaning, so they need a vacuum cleaner, and many mothers also work, they have no time for manual hoovering, so they need their cleaners. The family, which has never owned a car, suddenly finds a neat garden looks like a barrow and plants. Perhaps they need a car, and decide they need a car."

"The salesmen are aware of all this, and at any time in Mitchell's Plain you can see salesmen cruising around, giving them houses to house. Where nobody moves into a new house, a different salesman will call on them."

The lure of owning a home of your own is tremendous for people in all income groups. The higher income earners are faced with a property boom which has seen prices sometimes double in realistic heights. Repayments could be a difficulty if the boom tails off. And middle-class and poorer people are often on a similar predicament.

"The lure of owning a home of your own is tremendous for people in all income groups. The higher income earners are faced with a property boom which has seen prices sometimes double in realistic heights. Repayments could be a difficulty if the boom tails off. And middle-class and lower-income people are often on a similar predicament.

"The lure of owning a home of your own is tremendous for people in all income groups. The higher income earners are faced with a property boom which has seen prices sometimes double in realistic heights. Repayments could be a difficulty if the boom tails off. And middle-class and lower-income people are often on a similar predicament."

Mitchells Plain

ON R250-

CAN I AFFORD TO STEAL PAY CLAIM?

By John Fansham

WHILE many economists, politicians and financiers have persuaded South Africans they are experiencing an economic boom, credit managers and debt recovery agencies warn that many consumers are simply being talked deeper into debt.

"The easy availability of credit, excessive confidence in the economy and aggressive salesmanship have blinded many consumers to the mounting influence of inflation and, so many cases, persuaded people that they can afford more than they really can, according to the credit controller of a leading finance house.

"People are definitely getting more money, and, also getting more for their money than last year. In that sense they are experiencing a boom. But most people seem to be caught in a snowballing process of spending, usually on credit and often beyond their means which is causing increasing concern among credit managers," a financial observer told Weekend Argus.

Accrued waste, I re-usable packaging

Department littering along the co-ordinate waste line is unattractive to all race groups but most apparent in coloured and black communities—was accentuated by the determination of individuals to clean up the procession before the boom flattens out or before they decrease in deference, probably late next year or in 1975.

"Aggressive and sometimes unscrupulous salesmen are yelling in a market which is facing saturation. Many of them sell on commission only, so their livelihood depends on sales, and some will go to almost any lengths to reach a sale," Mr. J. Makene, chairman of the Cape Region of the Institute of Credit Management in South Africa said.

"When this aggressiveness is directed at the less experienced consumer, there is no doubt that the education or sophistication to resist. They are talked Peter buying furniture, clothing, household goods, household aids, household improvements, and so on, until they land themselves in very real financial trouble."

Mr. Oliver Lawrence, chairman of the Residents' Association at Portland in Mitchell's Plain, said the residents have been advised in excess of people. They have been given credit, and people who had never known what a house was never had an apartment, and even if they did not know what it was, they wanted one.

"Many of those people do not realize that homeowners must pay rates, electricity, water. Most of them come into their new home from rooms in another people's homes or on back yards. They come with very little furniture, and there is a house built, and then they are not sure how to furnish it: tables, chairs, bedroom items, curtains, and kitchen equipment.

Salesmen then suddenly realize that the carpet needs cleaning, so they need a vacuum cleaner, and many mothers also work, they have no time for manual hoovering, so they need their cleaners. The family, which has never owned a car, suddenly finds a neat garden looks like a barrow and plants. Perhaps they need a car, and decide they need a car."

"The salesmen are aware of all this, and at any time in Mitchell's Plain you can see salesmen cruising around, giving them houses to house. Where nobody moves into a new house, a different salesman will call on them."

The lure of owning a home of your own is tremendous for people in all income groups. The higher income earners are faced with a property boom which has seen prices sometimes double in realistic heights. Repayments could be a difficulty if the boom tails off. And middle-class and poorer people are often on a similar predicament.

"The lure of owning a home of your own is tremendous for people in all income groups. The higher income earners are faced with a property boom which has seen prices sometimes double in realistic heights. Repayments could be a difficulty if the boom tails off. And middle-class and lower-income people are often on a similar predicament."

Mitchells Plain

ON R250-

CAN I AFFORD TO STEAL PAY CLAIM?
New jolt for inflation

By HOWARD PREECE

WHOLESALE prices have shown an accelerating trend again after a surprisingly hefty jump of 6.15% in August. The effect of that large increase was to push up the annual rate to 14.25%, for the year to August against 14.0% for the 12 months ended July.

Consumer prices appeared to show a decelerating trend in July and August as the impact of the big petrol price in June 1979 fell out of the 12-month calculations.

Wholesale prices followed suit in July and, considering there was a whacking rise of 9.6% in them during August 1979, were expected to do so again in August this year.

The rather horrifying rise in wholesale prices this August, however — over 26% at an annual rate — was sufficient to send the index up again.

Of course, monthly figures are subject to all kinds of vagaries and real-obsers or fears should be kept for definite trends.

The broad impact of wholesale prices eventually filters through to consumer prices although the relationship varies and has never really been precisely identified.

Senator Horwood, the Minister of Finance, conceded in Washington this week that the apparent drop in consumer price inflation to 11.40% was more statistical than real. "It is safer to think of a 12% to 13% range", he said.

Even that is on the lower end of most expectations.

Standard Bank has suggested that the average monthly rise on the CPI this year (a slightly different calculation to the simple 12-month rate) will be 15.6% with a marginal drop to 13.2% next year.

S Heading and the Bureau for Economic Research of Stellenbosch University say that on that basis the rate will be 13.5% in 1980 and the same again in 1981.

Standard says "Facilitated by rapid increases in the money supply, strong demand has exerted considerable pressure on prices in many sectors. "The average annual increase in the consumer price index is expected to reach almost 14% in 1980, slightly above last year's level.

"The authorities' willingness to allow a rapid rise in imports to augment domestic production and restrain demand pressures, combined with lower inflation rates abroad and comparatively soft oil prices and the strongly appreciating rand have gone some way towards ameliorating a potentially serious inflation problem."

"Provided control over the money supply is tightened and the rand is allowed to rise for the time being, the rate of price escalation should in fact slow marginally next year to some 13% despite relatively rapid growth in demand at all levels."

S Heading says this inflation and more specifically the potential for a much more rapid increase in the rate of inflation will have to be monitored and managed very carefully by the authorities.

"Cost-push factors are probably still dominant in the inflation spiral, but demand pressures could start to add significantly to this should the pool of liquidity be allowed to find its way into increased spending in an even bigger way."

"It must be concluded that inflation in South Africa will remain very high in 1981."

"An average inflation rate, as measured by the consumer price index, of 13.5% is foreseen."

"But it should be stressed that thus is based on a greater degree of monetary and business discipline than was the case recently."

The wholesale price index, base 1970, was 106.6 in August, 195.7 in July and 171.4 in August 1979.
1980 inflation seen at 13.5%

By ALEC NOGG

SOUTH Africa's consumer price index, according to most economists, should stabilise over the next three months to bring the 1980 rise to about 13.5%.

In effect, this means the monthly increases in the CPI will slow markedly over the next three months.

This will be a welcome change. In the first quarter of 1980, the annually adjusted rise in the CPI was a relatively low 7.8%, but increases in administered prices pushed the second quarter's annualised rise to 15.4%.

Last quarter was the worst however, with the 25.0% increase in the index in September (the biggest monthly rise since July 1979's 8.6%) pushing the annualised increase in the three months to 16.5%

On average, leading economists believe the price rise for 1980 will be about 13.5%, although most expect it to be 14.5% next year.

Sensbank's group economist Mr Louis Geldenhuys points out that an increase of 2.6% in the CPI in September means that a weight of 5% of the whole index.

With the meat price round out of the way, Mr Geldenhuys expects prices to stabilise over the last three months of the year, giving an average increase of around 13.5% for 1980 as a whole, although December's year-on-year increase could be 15%.

Volkskas' Mr Adam Jacobs agrees with Mr Geldenhuys, but says "there is nothing to stop companies from pushing up prices when demand is good, as they try to make even higher profits".

One must be realistic. Companies have absorbed costs for many years and now that times are good, it is likely that they will try to increase profit margins, thereby strengthening their balance sheets, says Mr Jacobs.

So far this year, there has been too much of this "profit inflation", but with the administered price increases out of the way, the possibility that food prices will remain fairly constant, companies could now take advantage of pushing up prices, says Mr Jacobs.

"Nevertheless, there should be a deceleration in the actual monthly rises in the index, although I expect the year-on-year increase to continue rising," Mr Jacobs adds.

Another factor which may lead to companies increasing their profits is mentioned by Barclays Bank's chief economist, Dr Johan Cloete, who argues that companies will eventually have to pass on higher salaries and wages (estimated at an average 16% this year — a result of the skilled labour shortage) to the consumer.

But he is not as optimistic as his contemporaries when it comes to the outlook for inflation over the next year or so. One must remember, however, that Dr Cloete is the original "profit of doom" and predicted an inflation rate of 16% for 1981 as early as March this year.

Until the next Budget, Dr Cloete argues, the only weapon which the authorities have to combat inflation is monetary policy. And if this is to be used effectively, interest rates will have to rise to more than the inflation rate.

"People will take up credit for as long as it pays them, and this credit will be used to finance higher prices," he argues.

By cutting the money supply and therefore pushing up interest rates, the authorities will encourage people to save more, reducing the demand for goods and thus eliminating, to some extent, the sceptre of demand inflation.

The debate among economists continues, but in the end, it seems the actions of the authorities will ultimately decide the future pattern of South Africa's inflation.

If the authorities succeed in curbing the easy availability of credit, mopping up whatever excess liquidity exists in the monetary system, and continue financing Government spending through non-inflationary measures, their efforts to keep the inflation rate in check could surprise even the most optimistic economists.

At least, the Reserve Bank Governor-elect, Dr Gerhard de Kock, has made it clear that the authorities are well aware of the severity of the inflation problem, and intend doing everything in their power to combat it.
Leading banker fears inflation

Pretoria Bureau

More steep price increases could boost the inflation rate, which has already sent the consumer price index increase soaring to 16.3 percent, the governor of the Reserve Bank, Dr T W de Jongh, said in Pretoria today.

Dr de Jongh, who retires at the end of this year, told the National Finance Corporation that large tax concessions, steep rises in pay and a large-scale use of consumer credit was stimulating consumer spending to such an extent that excessive demand could easily develop.

"This, in turn could lead to big price increases which would exacerbate inflation," he said.

Dr de Jongh said that one solution which had been suggested for the inflation problem was a substantial further appreciation of the rand as this would mean that importers would pay less for their imports.

But, he said the harmful effects of this course would include reducing the competitive ability of South African exporters overseas.
Industrial wage rises overtake inflation

By Sieg Hannig
Labour Editor

Earnings of workers in most industries increased at twice the rate of inflation in the year to the end of July.

There was a 24 percent increase in the average earnings of the 2.8-million workers in mining, manufacturing, construction, electricity, railways and harbours, and the Post Office in the period.

During the same period, the cost of living increased by only 12.2 percent, according to the Consumer Price Index.

This has been calculated by The Star from the latest figures released by the Department of Statistics.

In spite of the upsurge in the demand for skilled workers caused by the economic upswing, the past pattern of higher increases in the earnings of workers of other races was maintained in most industries.

The highest increase in average earnings was 29.8 percent, went to coloured workers. Blacks had an average increase of 25.7 percent and whites averaged only 21.2 percent.

A notable exception was the mining and quarrying industry where black earnings increased by only 17.6 percent. But in the building and construction industries, where the shortage of skilled workers was reputed to be the most serious and likely to give rise to exorbitant increases, average earnings of whites rose by only 15.4 percent.

This compares with a 28.3 percent rise in the earnings of black building and construction workers. And coloured workers in these industries rose by an increase of 37.9 percent.

The average increase in earnings for workers in the building industry was 29.5 percent.
Pushes up inflation
SA's last spending

By Gerald Morley
Inflation may surge to over 15% by Christmas

By GERALD REILLY

South Africa's living costs are surging to record heights and economists warned yesterday of an inflation rate in excess of 10% by the end of December.

They base their forecast on another huge increase of 1.9% on the Consumer Price Index for October, with a 12-month rate of 14.4% at the end of October.

This is on top of a 2% increase in September when the 12-month rate was 12.8%.

The food-only index also rose sharply again in October by 4.8% — it was 6% in September with an unprecedented 12-month rate of 25.2%.

The index rose in October by 3.5 points to a record high of 198.3.

Again the lower income groups were hardest hit — mainly because of the big jump in food prices — with a rise in October of 2.5%, middle income group 2%, and higher income group 1.5%

The 12-month rate to the end of October for the lower income group was a massive 27.2%, for the middle income group 15.5% and higher income group 13.1%

Barclays Bank's chief economist, Dr Johan Cloete, said the inflation rate was obviously accelerating.

If the current trend continued then a rate in excess of 15% by Christmas was likely.

And if corrective action was not taken he said it would be 17 or 18% towards the end of the first half of next year.

The obvious remedy, he said, was to restrict credit and the money supply.

To halt the spate of credit, interest rates would have to be raised. Credit and money would have to become more costly to discourage borrowing and credit transactions.

The risk was that if interest rates were raised too high a level, the growth rate could be seriously harmed.

Dr Cloete and other economists warned after this year's bonanza budget that it was a mistake to go for growth at all costs.

At a National Party meeting in Cape Town at the weekend, the Minister of Finance, Senator Horwood said "certain steps might have to be taken to bring down the high rate of inflation".

And Government sources in Pretoria said measures to cool down at an obviously overheated economy could be expected, probably before the March budget.
WHOLESALE PRICES

Changing nature

The latest wholesale price index (WPI) from the Department of Statistics makes it clear that inflationary pressures are now originating more from within the domestic economy than from rising import prices.

Inflation is now increasingly reflecting supply shortages during a time of rising demand. Influences such as higher oil prices, which were behind many local cost increases a couple of years back, are now less severe, partially in line with SA's recent stockpiling of petroleum products.

The WPI in September was 199.8, compared with 198.8 in August and 172.2 in September last year. This is a rise of 1.52% in September this year, and 16.03% in September compared with the same month a year ago.

Agricultural commodities, in particular, are playing an increasingly significant role in the rise of the WPI. Meat, in particular, has shown a rise of between 6% and 7% a month for the last couple of months.

Other areas exhibiting particularly high monthly rates of price increase are those in which surplus capacity has been almost completely used up. This means that the cost advantages of increased volumes have been absorbed.

Fully utilised

Only six months ago, when the last capacity utilisation survey was done by the Department of Statistics, the average factory under-utilisation in industry was over 11%, with the minimum available spare capacity being around 7% in the metal and allied industries sectors.

Since then, things have changed markedly, and metal and mechanical products are now showing price rises in line with an industry which is operating up against its production ceilings.

Obviously, with increased demand for goods, and full capacity in capital equipment, employment levels have increased. Indeed, reports this week put unemployment among whites and coloureds at mini-
Barclays sees 15% inflation in 1981

By ALEC HOGG

THE PRIVATE sector is unanimous that South Africa's economic growth rate will ease markedly next year.

In its Business Brief, Barclays Bank adds its weight to the views expressed by the Bureau for Economic Research, Senbank and the Standard Bank, but significantly, Barclays' predictions are the most pessimistic.

Whereas BER/Senbank and the Standard Bank both settled on a prospective growth rate of 5.4% for 1981, Barclays offers a more conservative 5%, and while the other two expect inflation to be about 13.5%, Barclays predicts an average CPI increase of 15% next year.

This is not surprising, however, as Barclays' chief economist and author of the brief, Dr Johan Cloete, has come to be known as South Africa's economic "prophet of gloom". Unfortunately, however, he has been too close to the truth for comfort in his inflation forecasts over the past few years.

Dr Cloete discusses the inflation scenario at length, maintaining that the reason why the inflation rate has not taken off yet is a high price of the considerable over-utilisation of production capacity which existed at the beginning of this year. Thus, helps producers to increase output without experiencing surges in unit costs because productivity increased as unused production capacity was taken up.

But, as the economy expanded, it was only a matter of time before skilled labour bottlenecks were encountered, says Dr Cloete, and by the second half of the year it was clear that a number of industries were beginning to push up against production capacity ceilings.

"It is now only a matter of time until rising wages and unit costs will be translated into more rapid price increases all round and so into an acceleration of the inflation rate," he adds.

With the various administered prices still being allowed to increase at disproportionate rates, and with costs in the public sector also under strong upward pressure as a result of the substantial salary increases so far this year, it seems unlikely that restraints in this area of pricing will be able to hold back inflation to the same extent in the months ahead than over the past year.

Dr Cloete is also concerned that stricter monetarist and fiscal controls will have to be introduced by Pretoria next year, which will in turn lead to a slowing in the growth rate. "Indeed, the longer the authorities put off the application of stricter measures to prevent the inflation rate from accelerating, the greater will be the likelihood of a substantial reduction in the growth rate sooner or later as in the end very tough measures will have to be taken to push down inflation to an acceptable level."
Top-level policy clash on inflation

A major clash over some of the measures and remedies for South Africa’s continuing high inflation rate is taking place among the key financial policymakers.

It has led Senator Horwood, the Minister of Finance, into at least one sharp public rebuke of Dr W. de Jongh, the retiring Governor of the Reserve Bank.

There is general agreement that the money supply has been expanding excessively — 40.5% in the third quarter of this year, 28% annually seasonally adjusted, for January to September.

But there is bitter disagreement about the main causes and the best solutions.

At the root of the clash is the view that Senator Horwood and Dr Gerhard de Rock, the Governor-designate of the Bank, are more in one camp and Dr de Jongh and some other of the Reserve Bank hierarchy in the other.

Basically, Senator Horwood and Dr de Rock want money channelled out of the country and domestic sources to ease domestic liquidity pressures.

Dr de Jongh and his supporters are highly sceptical about this approach and prefer tougher domestic policies.

Behind the immediate technicalities seems to be a profoundly diverse view of just how far South Africa should prepare to move away from controls and towards more market-oriented policies.

That, in turn, involves the perennial issue of exchange controls.

On a wider level there are also radically divergent views about South Africa’s balance of payments prospects — and about all the policy implications that flow from those prospects.

Senator Horwood and Dr de Rock have both been speaking of the need for a more flexible approach to the economy.

He referred to “the fallacy of thinking that the March budget has contributed to inflation by underestimating the economy through excessive tax reductions”.

Senator Horwood said the fallacy appears to rest on the simple confusion between rates of taxation and total tax revenue.

His crucial argument was that tax revenues were rising so rapidly that the Government’s realised borrowing requirement for 1986-87 was likely to be one of South Africa’s lowest ever.

Nor could the go along with wholesale scrapping of exchange controls, given South Africa’s permanent underlying political needs.

It may well be, too, that Dr de Jongh and others are right to view the balance of payments with caution. We are still too close to a one-shot boom for comfort.

But with all those reservations it is hard to see why the proposals of Senator Horwood and Dr de Rock should be particularly controversial.

Some, for example, that Anglo American were allowed to leave R1.5-billion or what you will of its vast gold in nugget form, and other foreign exchange revenue, overseas on short-term deposit, if it wished.

That and other such actions would take a lot of pressure off the money supply and reduce inflationary pressures.

For all practical purposes those funds would be part of South Africa’s foreign exchange reserves — able to be quickly mobilised if the worst comes to the worst.

The balance of payments were real.

Nobody can seriously suppose that any large corporation could ever wish to start a R1.5-billion deposit in an offshore bank.

Meanwhile it would be good for the country to have the additional interest-rate earnings and good for interest paid, also.

The economy was not in a good state to support such movements.

However, there was also a need to reduce inflation.

Senator Horwood said: “We shall have to reassess the rate of exchange control and the benefits it has brought to the economy.”

Senator Horwood, on the other hand, has consistently taken a much less critical view of the approach to policy in South Africa.

Senator Horwood said: “The difficulty of raising back inflation without stamping it out growth (even with stamping it out growth, ask Mrs Thatcher) offers easy answers only to chattering.”
SOUTH AFRICA'S inflation rate may go up 1% next year, according to a new report by the Reserve Bank. The report predicts that inflation will rise to 7.5% next year due to increased costs and supply chain disruptions. The Reserve Bank Governor said that the government needs to take urgent action to address the inflation problem.

In the meantime, the government has announced plans to increase interest rates, in line with other central banks around the world. The Reserve Bank Governor said that the increase in interest rates will help to control inflation and stabilize the economy.

The report also highlights the need for increased investment in the country's infrastructure. The Reserve Bank Governor said that improving infrastructure will help to boost productivity and create jobs in the long term.

The government has also announced plans to review its fuel price subsidies, which are currently costing the country billions of dollars each year. The Reserve Bank Governor said that the subsidies are a major contributor to inflation and need to be reformed.
Over 10% inflation for eighth year

SOUTH Africa will enter 1981 with the certain prospect that inflation will run at over 10% for the eighth consecutive year. It will be remarkable, in fact, if it drops below double-digit rates in 1982 either.

Remember that when putting money on long-term deposits with banks, building societies or others

Whatever feasible policies are now pursued by the Government, Treasury and Reserve Bank will not get inflation below 10% in the short or even medium term.

Policy decisions can, however, profoundly influence the longer-term outlook

Issues here include interest rate and exchange control policies, money supply, labour laws and practices, education and training and general restraints on economic efficiency.

Harmful factors in all those areas, some of long standing, have variously exacerbated the inflationary menace this year.

But there is no need to look into the crystal ball for next year. Part of the book is open.

The precise nature of the relationship between money supply and inflation is open to debate.

What causes what can sometimes be a chicken-and-egg dispute.

However, when money supply rises as it has in South Africa this year — the broadly defined measure, M2, rose at a seasonally adjusted annual rate of 26% in the first nine months of this year — it tells a sure story: inflation is hardly on the wane.

The probability that the money supply increase will slow this quarter will not basically change that position.

The accompanying table records the erratic money supply catalogue and sustained inflation of recent years, as measured by the consumer price index, CPI.

Professor Milton Friedman used to claim that money supply rises would be closely reflected two years later in inflation figures. He is less dogmatic about that now — and certainly no such equation is apparent in the South African data.

Which is just as well for the 1982 outlook.

There is in any case a great deal more uncertainty today in many countries about the nature and accuracy of money supply calculations (Nor is the CPI infallible.)

It may be, too, that inflation itself effectively generates rises in money supply through rising demand.

What cannot be doubted is that inflation and money supply go hand in hand.

But what happens to economic growth if attempts are made to hold money supply increases sharply below the existing inflation rate?

In the first instance, money will probably merely change hands more quickly — velocity of circulation.

But after that the chances are that growth will be checked first, and inflation second.

That is a recurring dilemma.

It cannot be avoided in South Africa by, for example, new exchange control or interest rate policies.

Long expected policy changes here can, however, reduce the pain.

The South African authorities are looking for a compromise — taking some measures to rein back inflation, but not so brutally as to reverse the long-awaited growth momentum.

I am sure that they are right to look for that compromise — but if I have to bet on the inflation outlook I must then put my depreciating money on the middle/upper range of forecasts.

We should have no illusions.

There are no quick solutions whatever recriminations there might be about how we arrived at the present situation.

A dialogue might run something like this:

**QUESTION:** When real economic growth of 7% a year is achieved off a 14% inflation base, what happens?

**ANSWER:** Among other things money supply, however defined, might well rise at an accommodatting 20% or so. A pity really.

Still, be most grateful for the growth South Africa needs it.

**QUESTION:** But what happens when a huge surplus on the current account of the balance of payments coupled with stringent controls on capital outflows is added to the scenario?

**ANSWER:** Don't be surprised if money supply rises even faster.

**QUESTION:** And then what happens to inflation over the next year or two?

**ANSWER:** A good question.

It is unlikely to get much easier, even if firmer anti-inflation policies are then pursued. Not unless you are prepared to go far enough to put the growth impetus in the economy at major risk.

---

<table>
<thead>
<tr>
<th>Year</th>
<th>Increase in money supply</th>
<th>Annual rise in consumer price index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1972</td>
<td>23.0</td>
<td>9.9</td>
</tr>
<tr>
<td>1973</td>
<td>22.3</td>
<td>14.1</td>
</tr>
<tr>
<td>1974</td>
<td>17.4</td>
<td>11.7</td>
</tr>
<tr>
<td>1975</td>
<td>9.0</td>
<td>10.8</td>
</tr>
<tr>
<td>1976</td>
<td>6.9</td>
<td>11.1</td>
</tr>
<tr>
<td>1977</td>
<td>12.0</td>
<td>11.0</td>
</tr>
<tr>
<td>1978</td>
<td>13.3</td>
<td>14.0</td>
</tr>
<tr>
<td>1979</td>
<td>28.9*</td>
<td>13.9 #</td>
</tr>
</tbody>
</table>

* Seasonally adjusted annual rate for the first nine months of 1980. # Estimated.
Annual rate now 14.4%
Meat leads inflation surge

BY ALEC HOGG

Consumer prices are showing a new upward surge, led by meat, with a 3.9% rise in October taking the annual rate up to 14.4%. The running 12-month rate slowed to 11.5% at the end of August, but has accelerated sharply again since.

Meat prices played a key role in the 3.9% jump in the CPI in September.

They continued to add sharply to overall price pressures in October, although the impact was slightly less than in the previous month.

The consumer price index, base 1975, rose from 102.8 to 104.1 in October, which is 1.36% higher than the same time last year. This year-on-year increase is the second highest so far, and is only slightly below the annual rate to June 1980 of 14.57%.

According to one informed estimate, meat contributed 1.1% to the CPI in September and 1% in October.

There is hope, however, that once the higher meat prices are out of the way, the rate of increase in the index will slow down. Some economists are still optimistic that the year-end rise will not be more than 14%.

Others think it could approach 15%.

The hardest-hit sector of the population last month was the low-income group, whose index rose 3.6% to 187.1, 17.3% higher than at the end of October 1979.

The middle-income group index rose 2.7% to give a year-on-year rise of 13.8%, while the top-income bracket index rose 3.7% to a year-on-year 13.1%.

Helped along by meat, the food only index increased by 4.8% in October, to a level 23.5% higher than in the same period last year.

With only two months of 1980 left, the average monthly inflation rate — as opposed to the running 12-month rate — is 10.4%.

SARB economist Dr Pieter Strydom has long been optimistic that inflation will be brought under greater control, and in spite of the unhealthy figures recorded over the past two months, he is sticking to his guns.

"I worked out that the monthly inflation rate would average 13.4% for 1980 at the beginning of the year. But the increase in meat prices is going to prove me wrong. It now looks like the inflation rate will average between 13.8% and 13.7% for 1980," Dr Strydom said yesterday.

"In November and December 1979, the index recorded monthly rises of 0.9% and 0.4% respectively. Thus the two coming months might be assumed to be seasonally good for the index.

But it will still not be surprising if the year-on-year rise in the index surpasses 15% by the year-end.

The longer-term outlook should be brighter, which is just as well. The authorities are very much aware of the inflation problem, and efforts to counter it will be undertaken more vigorously next year.

As the Reserve Bank's Governor-elect, Dr Gerhard de Kock, and when addressing the University of Pretoria in June, it is unrealistic to believe South Africa's inflation problem can be solved over the short term.

But if current green guidelines are strictly adhered to, he has said, "we should succeed in first containing the tendency for our rate of inflation to accelerate, and then, bringing about a significant reduction in the rate itself.

Both De Kock and the Minister of Finance, Senator Harrwood, see inflation as South Africa's biggest single economic problem, and under their supervision, the "guidelines" mentioned by Dr De Kock are likely to be followed.
The Consumer Price Index rose strongly by 1.9% in October, to bring the year-on-year rate to 14.4%. This is 1.8% above the average 12.6% inflation rate in September for the 24 leading industrialised countries which are members of the Organisation of Economic Co-operation and Development.

Compared with our major trading partners, the SA rate is now 1.8% above that of the US and just 1% below that of the UK, which is falling. At current SA import levels, this could help contain the rising trend in domestic costs.

Meat price hikes formed the lion’s share of the monthly increase, adding 1% to the overall rate. Other food prices accounted for 0.3% and the food index thus contributed 1.3% to the total 1.9% monthly October rise. With food increases taking 1.4% of the 2% monthly jump in September, the lower income group must have been most hard hit.

Prices have risen fastest in the last year on the OFS goldfields where the 12-month rate is 17.2%. The Witwatersrand, with a 15.4% rise, came second while East London, at 12.7%, had the lowest rate of price increases in the year to end-October.
INFLATION CHECKED?

WHILE inflation is yet to be brought under control by the authorities, there are signs that they will at least get a bridle on it in 1981.

A survey of five major areas of the South African economy showed that price increases in 1981 could well be lower than those of the current year.

Escom has sorted out its funding problems and increases this year should follow the policy of small increases more frequently rather than landing the consumer with one large lump every two years. The increase should be under 10 percent.

The picture at Iscor is not so rosy because, as one observer put it, the organisation is not yet out of the bush, although the debt ratio dropped from 56 percent to 47 percent, which suggests that the 1980 increase of 14.1 percent will not be beaten next year.

Coal, which is a major cost input for many industries, increased in price by eight percent this year, but industry sources say this should be between five and six percent next year.

On the shipping front, freight rates went up on the Europa-South Africa run by 14 percent this year. However, shipping companies have their rate increases on a witches brew of inflation rates and because these rates are now dropping overseas due to the growing recession, it is possible that increases next year will be below the 1980 levels.

However, shrinking world trade in general could push up shipping costs as owners try to keep the cash flows moving.

Railways had an increase of 9.9 percent in April — the first for two years — and are faced with rising costs of labour, fuel, electricity and machinery and will no doubt try to raise their rates again next year in line with the general policy of more frequent but lower price hikes.

The Railways are in the black at present having produced good results and the indications are that if there is an increase next year, it will probably be a small one.

Other factors favourable for a drop in the inflation rate are that, being an open economy, we “import” a lot of inflation. With a strong rand and dropping inflation, the influence of this factor could well decrease.

Another factor is that the effect of all the administered price hikes has now come through and any further rises are likely to be moderate.

The only real problem is what is going to happen to the oil price? Not even the best of crystal balls can answer that question.
War on inflation urged as priority

Political Staff

The Economic Advisory Council has strongly urged the Government to make the fight against inflation its main policy objective for next year.

At the same time it has warned that this should not be done in a way that would cause the economic growth rate to drop to a level that would be unacceptable from the point of view of employment.

A statement issued in Pretoria today by the Prime Minister, Mr. P. W. Botha, said the Council expressed satisfaction at its latest meeting with the exceptionally strong performance of the economy this year.

But it also expressed concern about certain trends in the economy, which included:

- The easy liquidity conditions which seem to have caused the supply of money and near-money to reach an annual rate of 48 percent by the third quarter of this year. Recognising that the Government would find it difficult to counter such fluctuations effectively through its own financial practices, the Council also pointed out that a R4.4-billion decline in claims against the public sector during the third quarter has prevented an even higher rate of liquidity.

- The sharp rise in the Consumer Price Index during the first three-quarters of this year, with food prices alone reaching a seasonally adjusted rate of 20.8 percent in the second quarter and 29 percent in the third quarter.

At the same time there were indications of a demand pressure situation developing, with the seasonally adjusted production price (formerly Wholesale Price Index) moving towards a higher level than the Consumer Price Index.

- The manpower situation, which indicated a drop in the level of employment outside the agricultural sector, with one of the main reasons being the scarcity of skilled workers. This had already started manifesting itself in sharp rises in salaries and wages, with obvious inflationary dangers unless it was countered somewhat by a rise in productivity.

The council's prospects for next year included a drop in the growth rate as a normal adjustment after the exceptionally high growth rate of the past year. A deficit in the current account, although not expected to cause a bottleneck in the balance of payments, further development of inhibitory factors like the growing shortage of skilled labour, greater pressure on manufacturing production and a levelling-off of export receipts.

To control inflation, the Council has advised the Government to resort to more indirect, market-oriented controls of the money supply rather than direct intervention.

The next Budget should give priority to combating inflation but without depressing the economy's growth rate to levels lower than those which would result from the imminent adjustments in the business cycle.

With regard to government spending, the Council advised that the policy of financial discipline be adhered to as far as possible.
It is in the case of man, particularly the highly active, that this process may be affected. A rapid expansion of active rates for other specific activity, as in the case of man, is not possible simply to explain (Simkins, 1979a:79).

In the homelands, the rates are relatively low, especially in the rural areas. The high activity rates are a result of the low levels of work participation and the high levels of unemployment and underemployment. In many cases, people are unemployed or underemployed, depending on the economic and labor market conditions. The problem is often exacerbated by the lack of education and skills and the high levels of poverty and unemployment. The solution to this problem will require a multi-faceted approach, including education and training programs, job creation, and social welfare programs. The government and the private sector must work together to address this issue.

In conclusion, the high activity rates in the homelands are a result of the low levels of work participation and the high levels of unemployment and underemployment. The solution to this problem will require a multi-faceted approach, including education and training programs, job creation, and social welfare programs. The government and the private sector must work together to address this issue.
Local content plan raises fears of inflation

Farming Correspondent

Tractor price increases of about 40 percent will push food prices up again.

Food up 28 pc this year

By David Breiter
Pretoria Bureau

Food price increases over the past year have reached the gigantic average of 28 percent, according to figures released today by the Department of Statistics.

Food prices increased by two percent last month bringing prices for November 28 percent higher than during the same month last year.

The steepest food increases were for meat which increased from an index of 146.1 in November last year to 235.5 last month.

The average consumer price index increased by 0.8 percent last month compared to October, and the increase during November last year was 14.9 percent.

Due to the steep food price increases the CPI increase for the lower-income group was 18.6 percent, compared to 10.1 percent for the middle-income group and 13.8 percent for the higher income group.

This disparity is caused by the high proportion of income spent on food by the lower-income group.

The changeover from using imported tractor engines to locally made diesel engines, the result of an agreement between tractor manufacturers and the Government to use only South African-built Atlantis engines from the middle of 1981, will be responsible for price increases of about 25 percent.

And expected rises in the prices of items such as steel would take the total increase up to about 40 percent in the New Year, he said.

As the new diesel engine will also be fitted to trucks, all agricultural transport costs would be badly affected.

According to spokesmen for various agricultural control boards, farm costs were rising more steeply than average consumer prices.

Heavy rises in food prices were therefore inevitable, said the spokesman.

A top agricultural economist commented that the Government's policy of not subsidising farm costs was doomed to failure.

The State, not the consumer, should carry the burden of the strategically motivated changeover to the South African manufactured Atlantis diesel engine, he said.

If the consumer was to foot all cost rises bills, he said, less well-off consumers would be hit hardest.

Inflation would run away with the benefits of the economic growth, the economist said.

And he continued there...
November's consumer price index rose 0.8% to bring the yearly rate to 14.9%, its highest level since January 1975. The food index has now reached a massive year-on-year rate of 28% — almost doubling since March when the yearly increase was 14.1%. If inflation rises by more than 0.4% in December, a figure which the monthly increase exceeded in every month in 1980 so far, the yearly rate will breach the 15% mark.

Most prices, at 0.6% accounted for the lion's share of the 0.9% November rise in prices. Over the last year the highest price increases in the Statistics Department's breakdown of items, apart from food, came from medical care: the costs of which rose 15.8%, education 14.1%, fuel and power 12.6%, and housing 11.3%.

Prospects for an early abatement in the rate of inflation do not look good. According to the December issue of the Reserve Bank Quarterly Bulletin, in the 12 months to last October-end the wholesale price index (fueled since July as production price index figures) rose at an annualized rate of 11.2% in the first six months and 19.8% in the second six months. This upward trend is beginning to filter through to consumer price increases.

Next month, the 10% fertiliser hike comes into effect as do rises of 10% or more for rice, paper, toilettries and tyre and tube prices. Beer and wine prices are also set to rise. Projections for food inflation next year run between 16% and 20% and as we are now entering upon the season of administered price increases this target may soon be reached.

Indeed, there is evidence that price control has become the most potent factor for inflationary increases in the economy. The Quarterly Bulletin notes that in the third quarter the sharpest price rises in domestically produced goods came from electricity tariffs, agricultural products, machinery, metals and processed foods. Most of these price increases are determined administratively.

And demand inflation pressures are developing. Real gross domestic fixed investment is expected to grow 13% this year and the strong demand thus created for stocks and productive machinery, at a time when industry is manufacturing close to full capacity will add to the upward spiral on domestic supply prices. Moreover, sharp increases in the money supply will ensure that consumption demand will remain buoyant.
INFLATION

15/1/81 - 31/12/81
Inflation in 1981 may exceed 15 pc — survey

By Mervyn Harris

spiralling wage and cost increases are being passed on to consumers through higher prices in shops.

And inflation this year may exceed 15 pc.

This is the finding of Barclays Bank in its latest survey of business opinion.

Nearly half the firms surveyed said they experienced no pressure on profit margins last year.

Most others said pressure had been slight or moderate.

The bank says the economic upswing has reached the stage where the economy is bumping against capacity ceilings.

It comments: "It must be expected that prices will start to rise much faster than output if total demand were to continue — or allowed to continue — to increase at the very high rate recorded during the past year.

The survey shows most dealers enjoyed exceptional sales during the past holiday season as consumers spent much more freely than during the 1979 Christmas season.

Cash sales predominated but credit sales were also considerably up on the previous November—December, with credit card purchases recording substantial advances.

On cost increases only one percent of firms said wages had risen by more than 20 percent, while more than half said they had risen by between 12 and 20 percent. Only three percent said wages had risen by less than 10 percent.

Most firms expect salary and wage increases for 1981 to be lower than their increases in unit costs.

This means that average real wages are likely to show little, if any, increase this year.

With unit costs in the region of 15 percent, the bank says the inflation rate for the year is unlikely to be less than 15 percent. It could be much higher because more than a third of all firms expect cost increases of between 15 and 20 percent.

© Economy bumping ceiling — Page 22.
INFLATION ACCOUNTING

The silent thief

SA's system of investment incentives must be restructured to protect industry from the insidious effects of inflation and to permit rational choices between investment in physical or human capital. Says the FCI. In a memorandum addressed to the Standing Commission of Inquiry into Taxation Policy, the FCI records some adverse trends affecting the prospects for manufacturing industry, and argues that some or all are related to current tax structures and incentives.

The FCI claims that there has been a general decline in the productivity of capital in the manufacturing sector during the Seventies, while monetary, fiscal, labour and decentralisation policies have interfered with price signals distorting the balance between capital and labour.

Equally seriously, the current system of investment incentives has, in an inflationary context, exerted a differential impact on assets of varying economic life, discriminating against long-life assets (see table). The lending of the fiscal scales in favour of investment in short-lived assets has encouraged the installation of labour-saving machinery with an adverse influence on black employment prospects.

Concurrently, investment in large-scale manufacturing plant (on which industrial capacity really depends) has been discouraged. The existing system of incentives fails to provide for the replacement of long-life plant — especially when it takes several years to install — at anything like current inflation rates say 13% to 15% (see chart). And the inadequate fiscal and accounting approach to replacement financing in an inflationary situation has caused the taxation of illusory profits and over-declaration of dividends, cutting into real company savings and eroding the ability of the manufacturing sector to finance expansion.

The run-down state of British industry is appalling testimony to the eventual effects of inadequate provision for capital renewal under inflationary conditions. How far the local situation has deteriorated already can be illustrated by Reserve Bank statistics which reflect a net erosion of capital of R564m in SA industry over the period 1970 to 1978 through inadequate provision for depreciation.

But it is vital to avoid the debate over the issue degenerating into an adversary relationship between industry and the Revenue department, as both parties have a common interest in continued industrial health which provides both profits and tax revenue. And the issues are complex — not all of industry's problems can be blamed on the combination of inflation and tax policy.

Thus it has been suggested that the declining trend in return on industrial capital during the Seventies has at least partly been caused by the restrictions on free employment contained in the Physical Planning Act so requiring a political remedy.

Then too, the current system of investment incentives was originated to promote industrial expansion, rather than as an ad hoc system of inflation relief, which is what it has very substantially become. The current system also, of course, includes added fiscal incentives for regional

<table>
<thead>
<tr>
<th>INFLATION RATES FOR WHICH 30% INVESTMENT ALLOWANCE COMPENSATES</th>
</tr>
</thead>
<tbody>
<tr>
<td>All expenditure in one year, initial production in same year</td>
</tr>
<tr>
<td>Expenditure phased over 3 years, initial production in third year</td>
</tr>
<tr>
<td>Wear and tear allowances on straight line basis</td>
</tr>
<tr>
<td>A Wear and tear allowances 20% on declining balance</td>
</tr>
<tr>
<td>NB: Initial allowance 2%</td>
</tr>
</tbody>
</table>

* Operating asset life 5 years 10 years 15 years 20 years
Government already recognises the need for adjustment — the Standing Commission is currently investigating the entire system of investment allowances, assisted by Professor A.P. Zevenbergen, head of the Bureau for Financial Analysis of the University of Pretoria (FV December 12 1980).

The FCI's recommendations on inflation prediction fall into two parts — those relating to capital investment and those concerning trading stock. For capital investment, two main approaches present themselves — asset revaluation to take account of the impact of inflation and changes in the present rates of depreciation to permit more rapid recovery of capital costs. The FCI's preferred solution is a simple one — the recovery of capital consumption during the year asset is acquired. The alternative of asset revaluation would conflict the accounting profession with intractable problems involving a large subjective element.

The deduction of the full amount of a capital investment in plant and equipment in the year of acquisition would be a relatively simple procedure with a number of advantages. Says the FCI: 'The average burden of complex systems of capital accounts for tax recording purposes would be eliminated and tax reporting would be brought closer into line with accurate financial reporting procedures. And, as deductions from taxable income would be made in the same years in which the assets are purchased, the system would be unaffected by variations in the rate of inflation.'

It would also be neutral on the issue of asset life, so eliminating the distortions caused by the present system. It would also align the tax status of capital investment in industry with that of investment in mining and agriculture.

Productivity and growth

Assuming that a positive real rate of return exists within a company, it would stimulate investment in long life assets without encouraging investment in labour-substituting short-life assets. It would thus encourage productivity and economic growth in the longer term without discriminating against employment creation in the short term.

The FCI also finds fault with the present definition of capital expenditure, and recommends its extension to include certain items (like production interest) which are necessary in practical terms for the operation of an industrial concern, but not currently recognised by the Income Tax Act either on the capital or revenue side.

The FCI recommends that expenditure incurred in the process of conducting a business of manufacture should classify either as revenue or capital and that the definition of a 'process of manufacture' should be broadened to include 'all costs where expenditure of a capital nature is incurred because the taxpayer is engaged in the process of manufacture.'

The FCI recommends a short-term measure for trading stock the more general application of the lio (that is, in fact out) system of stock valuation. This would require the removal of certain current complexities and argues the FCI for a more co-operative attitude by the commissioner. But other sources say there is no major obstacle to any taxpayer switching to lio. Perhaps the real cause of the reluctance to switch is that lio would throw up lower disclosed profits.

In the longer term, says the FCI, a formal system of inflation adjustment is needed, enabling the taxpayer to deduct from taxable income the rise in stock values attributable to inflation during the year of assessment. It seems that this is broadly speaking achievable without encountering the accounting complexities involved in revaluing capital assets. The lio system merely defers tax on inventory appreciation — this concession would eliminate it.

Informed sources suggest that the Revenue department might be reluctant to change over to a system of expensing all industrial capital expenditure for fear of a grave loss of revenue in the year of change. This objection could be met by making the change at a time of buoyant aggregate revenue, like the present.

On the broader issues, some sources argue that it would be quite wrong for industry to load all responsibility for solving these problems on to government.

There is nothing to stop any corporate taxpayer from calling a halt to the policy of self-deception (and deception of shareholders and creditors) over profit levels during inflationary conditions.

On the contrary, there already exists the strongest possible encouragement for such a change in the form of Guideline 4 of the National Council of Chartered Accountants (SA) which regretfully few concerns have actually adopted. The more general application of GAAP 4 of 1971 could, very plausibly, greatly strengthen industry's hand in subsequent negotiations with the Revenue department. Accounting sources claim that the commissioner attaches considerable weight to generally accepted accounting principles.

Some companies are already setting an example, for instance Iscor in the public sector and Dunlop in the private sector both disclose the effect of inflation in their accounts in one way or another, and Iscor has just switched to a lio system (which has had the effect of reducing the net profit from R152.6m to R77.5m). Iscor also provides additional reserves for asset replacement.

Dunlop's earnings per share for the 1979 year on the conventional basis are 65c, adjusted for inflation they are only 38c, demonstrating the courage needed to face the truth about the impact of inflation.

Industry, while continuing reasoned negotiations with government over this tricky issue, should meanwhile take firmer action on its own initiative, showing the effects of inflation through the application of 4003. Quoted companies which evade this obligation should not escape criticism from investment analysts.
SA shows no alarm at 28 pc growth in money supply

Financial Editor

A REASONABLY careful observer of the economic scene would have noted that the financial authorities in South Africa tend to take a somewhat different attitude to controlling the money supply from their counterparts overseas.

For example, the news this week that the money supply in this country had increased by 29 percent in the 12 months ended November appeared to occasion no restrictive actions by the authorities.

On the contrary, the only noticeable step they have taken has been to step up the flow of funds to the money market, so easing a tight situation and preventing short-term interest rates rising further.

But overseas, and especially in Britain and the United States with their present financial regimes, such an increase would be regarded as almost a national catastrophe. It would certainly have led to demands for severe counter-measures.

PRIMARY AIM

Why is there such a difference in attitude? An answer is to be found in an article on the money supply in the latest issue of Barclays Bank's business briefs.

In this highly interesting article the bank claims that overseas financial authorities are failing to observe the primary aim of monetary policy, which is to enable the economy to grow as fast as it is capable of doing.

The bank points out that the demand for money is a reflection of the level of economic activity. The supply of money, on the other hand, depends on the level of bank credit and any inflow of funds from overseas.

LOWER RATE

The monetary authorities should aim at enabling the banks to provide sufficient credit to meet demand, otherwise the economy may grow at a lower rate than it is capable of attaining.

But at the same time the authorities cannot allow a limitless supply of credit. Production would then exceed the level of resources and cause prices to rise.

The bank says the poor performance of most of the industrialised countries at present is the result of their failure to aim for economic growth.

Instead of allowing the money supply to rise to meet demand, they are setting money supply targets aimed at curbing inflation.

But in many instances much of their inflation is not caused by excess demand. It therefore does not respond to reduction in the money supply.

The inevitable result is growth rates well below those which their economics are capable of achieving, says the bank.

Gold rallies

THE rally in the gold price in New York last night was maintained in London today when it opened at $73.50.

In New York gold rose 5.75 dollars from its London close of $79.50 dollars on the news that the Iranians had freed the American hostages.

Frums in London yesterday:

Dollars Rand

10.30 am 583.50 13 621.57
3.00 pm 582.09 13 585.61

UNIT TRUSTS

<table>
<thead>
<tr>
<th>Day</th>
<th>Var</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>26</td>
<td>+2</td>
<td>467.25</td>
</tr>
<tr>
<td>27</td>
<td>+1</td>
<td>467.25</td>
</tr>
<tr>
<td>28</td>
<td>+2</td>
<td>467.25</td>
</tr>
</tbody>
</table>

For the best student in: ARCHITECTURE Prize of Cape Provincial Institute of Technology

FINES ART & ARCHITECTURE
Rand hits new low, inflation rate soars

By Caroline Mehlis, Consumer Reporter

Inflation is soaring so fast in South Africa that in 10 years the value of R1 has plunged to only 22c.6c. By the turn of the century it could be worth as little as five cents.

This grim warning came from leading economists today as the public staggered under the burden of yet more price rises — whisky is probably up by 8.5 percent and South African spirits by a similar margin.

Beer prices are unaffected.

The economists warn that the inflation rate could touch 30 percent this year after reaching 18.6 percent last year — one of the worst rates in recent years.

"In 1988, a Volkswagen Golf can cost R200.00 — more than a Mercedes-Benz today — and parking it could cost R150 for 30 minutes.

"The main reason for the continuing squeeze was food prices, which rose a magnificent 30 percent.

"Harry hit by inflation was the lower income groups who battled with an average 26 percent cost of living increase.

"The average inflation rate for middle income groups was 18.9 percent and for higher income groups 14.1 percent.

"Standard von Wyk said a number of "dark clouds" in the economy had been so convincing that the State could not ignore them.

"The predicted unemployable youth would vary between 21 percent and 32 percent of the working population during the next decade.

"Population explosions," he said, "are major problems.

"Affluent people in South Africa are 50 years behind in housebuilding, infrastructure and the development of urban areas.

"Wages have increased over the past two years.

"He warned that there was a potential of 18 to 20 percent inflation rate this year.

"The more money people have, the more they spend, and the inflation rate causes correspondingly," he said.

"Dr. Cottle said there was a solution to the inflation problem would be less workers and businesses to negotiate a dough down on wages and prices increases.
Inflation will hit 18% this year, Barclays’ chief economist warns

THE potential inflation rate for 1981 is 18%, Dr Johan Cloete, Barclays’ chief economist, warned this week after his prediction of 15%-plus for last year had been proved correct.

The overall cost of living increased by 15.5% in 1980 — with a huge increase of more than 20% for most Blacks — it was disclosed by the Department of Statistics this week. Food prices rose 29.5% and wages and salaries jumped between 18% and 20%

Dr Cloete’s warnings of potential inflation, over the past three years, have been the most accurate of any economist.

"We have the full effects of last year’s wages and salaries and food increases still to be felt and, unless early steps are taken to reduce demand, I fear that the inflation rate can rise to 18% this year," Dr Cloete said.

Last year’s inflation rate would have been even higher had it not been for the increased productivity factor of manufacturers’ expanding into surplus capacity.

"But this slack has now been taken up and there is nothing favourable in sight for unit costs," he said.

"There will have to be a tightening up on credit restrictions so that interest rates can ease to a point where the consumer is ‘effectively’ discouraged."

Interest rates would have to get closer to the inflation rate.

Having superheated the economy, South Africa was now confronted by the delicate problem of reducing demand without slowing down economic growth too much.

"As we recommended a year ago, if the authorities had gone for a growth rate of 5% or 6% for last year, we could have kept inflation down. Now, it is going to be very tricky to reduce growth by 2% or more and keep it at about 8%," said Dr Cloete.
ARCHITECTURE
(Continued)

Mrs. Thornton White Prize
For the best work in first year.

Miss M F J Sandilands

S A Brick Association Prize
For the student who has made best use of bricks in his design work.

J G Kirkman

R Stubbs Award
For the best project in structure and design.

M R I Ness

National Development Fund for the Building Industry Book Prizes
For the best student in each year of study of the degree course.

First Year

J A L Chapman

Second Year

C S Jones

Third Year

B de Jong

Fourth Year

R W Kohne

George Strachan Prize
For the best final year student of the degree course.

R W Kohne

LTA Prize
For the best student obtaining a first class pass for a dissertation in Building Management.

S F Richardson
RAMPANT inflation threatened to get worse and the Government appeared to be incapable of doing anything about it, Mr Rupert Lorimer (PPP Orange Grove) told the Assembly yesterday.

Speaking in the no-confidence debate, he said the Government seemed to have 'given up' the fight and to have accepted double-figure inflation as being inevitable.

South Africa had been a remarkably lucky country in recent years.

Unfortunately, however, uncontrolled inflation had removed the benefit of the gold and mineral bonanza and many South Africans had been faced with a severe drop in living standards.

CREST OF WAVE

This was happening at a time when the country should have been on the crest of a wave of prosperity.

Mr Lorimer said the rise in food prices showed a 'horrifying picture'.

Food prices rose by nearly 30 percent last year and could do the same this year.

Admittedly, wages and salaries have also increased, but certainly not enough to cover food costs of this magnitude, Mr Lorimer said. He accused the 'Government' of allowing incompetent State-supported marketing systems to continue to operate and fat-cat monopolies to rake in unreasonable profits.

ATTACK

The Minister of Agriculture, Mr P. T. C. du Plessis, reacted sharply to Mr Lorimer's attack and rejected his argument.

Accusing Mr Lorimer of giving incorrect information to the Assembly, the Minister said Mr Lorimer had made a pre-election speech aimed at embarrassing the Government.

Mr du Plessis said the rise in food prices could not be blamed on the Government's policy or on the marketing system.

INFLATION

It was a 'fact that production costs in the farming industry had risen by about 27 percent a year over the past 10 years. Both the producer and the consumer were victims of inflation — 'our biggest public enemy'.

The agricultural industry was hit by a 'murderous' inflation rate of 28 percent last year.

In spite of difficulties, South Africa was the largest food exporter in Africa.
SA inflation facing 20 percent

Johannesburg. — South Africa's inflation rate of 18.8 percent last year was one of the worst on record — and economists have warned the rate could be as high as 20 percent this year. The main reason for the massive cost of living hike was food prices which increased 30 percent.

Hard hit by inflation were the lower income groups who battled with an average 20 percent cost of living increase. The inflation rate for middle income groups was 18.2 percent, and for higher incomes, 14.5 percent.

Dr Johann Cloete, chief economist for Barclays Bank, said the record cost of living hike was not unexpected, because South Africa was in a deep period with plenty of money in circulation.

With wage increases averaging 18 to 20 percent last year consistent 10 percent and more, and then spent.

There was no chance of resistance at all to such prices.

Dr Cloete said there was a potential of 18 to 20 percent inflation this year, which was directly related to last year's wage increases.

"The more money people have, the more they spend, and the inflation... "

Title: 3rd Place

C S

See

J A

Fitz

Course:

Year of

For the

Book:

National

Building

M R I

Instruction:

For the

Stub

J C Kitzing

Design work

Design work

For the student who has made

A Brick Association Prize

Miss M F J Sandstad

First Year

For the best work

Mrs. Thornton White Prize

(continued)
Inflation running steepest
for lower income groups

By VITA PALESTRANT,
THE Consumer Price Index for all income groups rose by 1.1% last month and by 15.8% during the 12-month period ending in December.

DPI's Consumer Mail monthly section comments on the CPI for the middle and higher income groups as well as for the lower income group.

Food prices were reported to have risen sharply, with the cost of milk, bread, and dairy products rising the most.

The CPI for middle and higher income groups rose by 20.1% during the 12-month period, while that for the lower income group rose by 1.8% and 1% and 1.4%, respectively.

The best performing sub-indexes were
- Gasoline, with a rise of 17.8% (17.8%)
- Fruits and vegetables, with a rise of 16.3% (16.3%)
- Seafood and seafood products, with a rise of 15.5% (15.5%)
- Other goods, with a rise of 14.1% (14.1%)
- Game meats and poultry, with a rise of 12.9% (12.9%)
- Rice and other grains, with a rise of 11.7% (11.7%)
- Dairy products, with a rise of 11.5% (11.5%)
- Fats and oils, with a rise of 10.8% (10.8%)

The worst performing sub-indexes were
- Transportation, with a fall of 12.1% (12.1%)
- Telephone services, with a fall of 11.7% (11.7%)
- Clothing and footwear, with a fall of 8.8% (8.8%)
- Other goods, with a fall of 8.6% (8.6%)
- Alcoholic beverages, with a fall of 8.2% (8.2%)
- Electricity and gas, with a fall of 6.7% (6.7%)
- Housing, with a fall of 4.7% (4.7%)

Over the 12-month period they have risen by 10.6% and 12.3% respectively for the middle and higher income groups.

For the lower income group, the rise has been 17.8% (17.8%) and 15.5% (15.5%).

Food prices rose by nearly 1% last month and by 8.8% over the year, while grain and grain products rose by 0.3% during December and by 15.3% over the 12-month period.

During the 12-month period, fruit has risen by 8.1%, while vegetables rose by 9.0%.

Sugar and coffee, and tea rose by 15.5% and 5.4% respectively during the year while cold drinks and alcohol increased by 15.5% and 8.4% respectively.

Cigarettes rose by 4.4%.

In the clothing and footwear sector — which increased by 10.2% overall — clothing rose by 8.6% last month and by 8.6% during the year, while footwear increased marginally more by 0.6% last month and by 12.3% over the year.

Housing rose by 8.4% last month and by 11.3% over the 12-month period, while fuel and power, which showed no increase last month, rose by 12.5% in that time.

In the furniture and equipment sector there were substantial increases, as much as 15.1% last month and 14.7% during the year. Furniture alone rose by 9.3% last month and by a massive 18.9% over the year, while appliances rose by 3.3% last month and by 9.9% in the 12-month period.

Household operations continued on the up — 0.5% last month and 7.7% over the year — with cleaning materials increasing by 0.6% last month and by 13.1% over the year.

Domestic servants, who show the slowest upward move in the inflation spiral, were paid only 0.6% more last month and a mere 4.7% more over the year.

The cost of medical care rose by 1.1% during December and by as much as 16.4% over the 12-month period.

Under the transport sector — which increased by 7.5% over the year — vehicles rose by 14.4% during that period and vehicle running costs rose by 15.1%. Public transport rose by 7.0% during the year.

Communications increased by 13% over the past year.

Recreation and entertainment — which rose by 6.8% last month — went up by 10.7% over the 12-month period. And reading matter — which went up by 4.1% last month — went up by a whopping 54.0% over the year.

Education showed no increase last month but has risen by 14.1% during the 12-month period.

The cost of personal care rose by 1.6% in December and by 11.5% over the year.

Every month the Department of Statistics in Pretoria analyses mass of information about the cost of goods and services in 11 major urban areas.

These are processed to make up the monthly CPI.
Hansard

1

Owen

101

23

30/11/86

1986 are

the provisional figures up to 31 December

the Minister of Supply (Mr. A. B. MILLERS)

The rate of inflation in October, November and December 1986 respectively was as

R 40.43

1986

<table>
<thead>
<tr>
<th>Year</th>
<th>figure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct</td>
<td>40.43</td>
</tr>
<tr>
<td>Nov</td>
<td>43.5</td>
</tr>
<tr>
<td>Dec</td>
<td>53</td>
</tr>
</tbody>
</table>
Inflation: Time to draw blood in the food sector

"Plum, naked greed lies behind the country's mushrooming inflation rate. The consumer is the victim of producers and distributors who, as a matter of course, always find ways to pass on their cost increases — and more — to the consumer."

— Professor Jen Sadie, head of the Bureau for Economic Research at the University of Stellenbosch.

Increased attention to the rampant inflation rate can be interpreted as a shift in (Government) policy. — Dr Simon Brand, financial policy chief in the Department of Finance.

WHAT'S to be done about the shocking, near-20% increase in the price of food in the past 12 months — and who's to blame? International free-market super-salesman Milton Friedman has a simple answer — "nothing and no-one."

Resurrecting basic economics, he says: 'You are free to choose. If you don't like the prices you are being asked to pay, you can look for substitute products which cost less.'

"Or you can refuse to buy at all." (And starve?)

"That's the beauty of the free-market system. It's self-correcting.

"If enough people won't buy a product because it's too expensive, either the sellers of the product will have to lower the price or the product will fade from the market."

When prices are pitched too high, the producers or sellers are at fault in a business sense, but they are not 'to blame' in a moral sense. The free market punishes bad business decisions. Morals do not come into it!"

That's the way of looking at the matter.

"The fact that, according to at least one major store chain, spending on foodstuffs has actually declined in real terms at a time when the country and its workers have been enjoying one of their most-prosperous periods ever, seems to prove Friedman's contention that, if sufficiently provoked, consumers will 'shun with their wallets to chasten the greedy.'"

Yet, not even Friedman would claim that's the full story. He might correctly predict that the greed of (for example) restaurateurs who price crayfish thermidor at R26 a piece when it was only R3.50 three years ago can expect a sharp drop in sales of crayfish thermidor — a correction by market forces.

He might likewise predict that the result of these market forces might be no bad thing — forcing people to choose grilled kingklip instead of crayfish — if the rise in the price of crayfish is the result not of greed but of restrictions on the overfishing of crayfish.

But he would also have to admit that much of the reason for the overall leap in food prices in South Africa has much to do with the cost of a bloated and confused marketing system for which the Government has been responsible.

He would be the first, for instance, to jib at the still grossly over-olaborate system of produce-marketing boards that have plagued the country for so long.

He would be horrified at the convoluted and often plain idiotic arguments of such boards, and of related authorities, for lifting the prices of basic foodstuffs when there are in surplus and when, despite the surplus, the same produce is imported.

He would hang his head at the spectacle of large and even monopolistic corporations holding and even increasing their selling margins, despite the despairing of new (cost) benefits of scale, occasioned not least through an over-competitive concentration of buying muscle.

Inflation is not merely a matter of too-rapid growth in the price of food but a reflection of the self-indulgence of the cost of living.

Stephen Orpen

Facility of Engineering
Bank rate rise will dampen demand

BY PAUL DOLD
Financial Editor

The authorities last night took their first major step to mitigate the growing danger of demand inflation by raising the bank rate one percent.

Reserve Bank Governor Dr. Gerard De Kock said in a statement that it was imperative for the authorities to regain control over the money supply and add monetary discipline to the existing fiscal discipline if the threat of accelerating demand inflation was to be avoided.

And be limited that the hiking of the bank rate to eight percent was only the first step in a new anti-inflation programme.

The announcement underlines the consensus in financial circles that the Government should, if necessary sacrifice some growth this year if the country is to avoid still higher inflation, and is in line with Senator Horwood’s growth with financial discipline policy.

The anti-inflationary measures in all the more noteworthy in that the announcement comes ahead of a vital general election. Few can doubt the determination of the able team at the finance ministry to come to grips with the inflation problem.

The raising of the bank rate is bound to raise the cost of credit to consumers both directly through more expensive overdrafts and by making credit far scarcer.

Interest rates will bound ahead still further but, hopefully, the inflation rate will stabilize once the full package is introduced.

It must be only a matter of time before the authorities remove the 14 percent ceiling on the Usury Act.

The fact that the bank rate was raised by a full percent to eight percent suggests that the authorities are determined to stave off the money supply. This is particularly clear if one considers that the gold price may remain depressed for some time.

The economy has clearly become overheated but a sustainable growth rate thus year of between 4.5 and 5 percent should not be severely hampered by the planned measures.

Last year, the economy grew by some 8 percent which is far too high a rate and this has resulted in numerous bottlenecks such as manpower shortages. The Government’s plan probably to ease back the growth rate to a more sustainable rate than preventing the outbreak of the much feared demand inflation which would lead to a definite severe brake on growth having to be adopted for some time.

The rise in the bank rate is a sign that the boom is in its mature stage.

The money supply (the broader definition) grew by a massive 25 percent last year which is excessive.

The authorities have been trying to mop up liquidity through increased cash requirements for banks and substantial amounts have been transferred to the stabilization account at the Reserve Bank.

The government will also be playing its part in holding back inflation this year by maintaining a tight rein on State expenditure with government spending unlikely to rise by more than 17 percent, or roughly in line with the inflation rate.

The major issue is whether the authorities can, in fact, bring a money supply which has seemed out of control to behave as it should. The earlier dollar discount system appeared to have many disadvantages.

The problem of controlling the money supply is being faced in Britain and elsewhere and there seems no instant solution. It seems probable that Dr. De Kock may introduce monetary aggregates and targets as part of his money supply control measures or even move towards a minimum lending rate.

In one sense it is a pity that the Budget has been delayed as this may have provided a view of what is likely to develop in Dr. De Kock’s next report. Hopefully, the report will now be published sooner than anticipated to avoid uncertainty so that the business sector can sense the direction of economic policy.
Bank rate rise in bid to curb inflation

By GORDON KLEIN

THE GOVERNMENT last night formally pulled in the reins on one of the greatest economic booms ever experienced in South Africa by shifting priorities from growth to the fight against inflation.

In a move intended to consolidate gains for continued orderly growth, Dr Gerard de Kock, Governor of the Reserve Bank, announced an immediate one percent hike in the bank rate, on which all other interest rates in the economy are based.

This heralds the official end of cheap money in the Republic. The increase, to eight percent, means another upward surge in interest rates, including overdraft and mortgage bond rates.

It also means that almost everything will probably cost a little more, although the move should eventually slow down alarming rises in the cost of living.

Coming at a time of weak gold, rand exchange and property prices, economists believe that slower money can be expected to dampen further boom conditions in the economy which have led to strong inflationary pressures.

With gold trading below $300 an ounce in world bullion markets yesterday—a 10-month low—South Africa's chief export is also under pressure from rising production costs. This lowers the profitability of the country's gold mines and in turn, depressed prospects— which has historically depressed share prices in the gold mining sector.

The new bank rate, however, will not hit share prices which has historically depressed share prices in the gold mining sector.

Although this rise in the bank rate may affect the profitability and share prices of companies, it is also expected to slow down the rate of increase of the cost of living.

The authorities maintain that the return to a real growth of about five percent this year in the value of all goods and services produced in the country would permit orderly, sustainable economic improvement, while allowing householders less than a third of those ruling at the peak of the market last year.

The authorities maintain that the return to a real growth of about five percent this year in the value of all goods and services produced in the country would permit orderly, sustainable economic improvement, while allowing householders increased confidence in the economic future of the country, as shown by the substantial increases in real fixed investment and capital expenditures in the private sector.

Dr De Kock said that the current account of South Africa's balance of payments—which heavily reflected the trade position with the rest of the world—showed a surplus of about R2.3 billion and R2.1 billion for 1979 and 1980 as a whole, in spite of an increase of about 10 percent in imports.

This performance, he said, largely reflected the vertiginous doubling of the average gold price for the year in comparison with 1979.

Exceptional liquidity, as reflected by an increase of more than 25 percent in the broad money supply (money plus near-money) between November, 1979 and November, 1980, was clearly more than was desirable.

This rate of increase was more than double the broad guideline of 10 to 12 percent set by the Minister of Finance, Mr Owen Harwood, earlier this year.

Although the government sector's financing operations had contributed substantially to the increase in the money supply during the second quarter of 1980, and again in October and November, they had exerted a net contractionary monetary influence over the first 11 months of the year as a whole, Dr De Kock said.

Implications were that this would also be true of the fiscal year ending March, 1981.

Dr De Kock and the inflation potential of the persistently high rate of increase in the money supply needed to be combatted.

At the beginning of 1980, inflation in South Africa had still been largely of the cost-push variety, with wages pushing up the price of goods, and the emergence of growing demand inflation (for which too much money chasing too few goods) had not seemed inevitable.

"But as the year progressed, the excessive low level of interest rates made the general inflationary situation increasingly conducive to general demand inflation, in spite of the continued restraint on government spending and the marked increase in tax revenue," he said.

During this period there had also been a progressive acceleration of the rate of inflation.

The seasonally-adjusted annual rate of increase of the consumer price index rose from 8.6 percent in the first quarter of 1980 to 12.9 percent in the second quarter, 16.5 percent in the third quarter and 22.2 percent in the fourth.

This had resulted in an increase of 25.7 percent between December 1979 and December 1980.
HORWOOD TO LAUNCH
ATTACK ON INFLATION

THE monetary authorities—the Reserve Bank and the Treasury—are about to launch an all-out attack on inflation, banking sources in Cape Town say.

Details of the new campaign could be announced by the Minister of Finance, Mr. O. P. F. Horwood, when he introduces his 'little budget' in Parliament on February 16.

It is speculated that the proposals could include further tightening of exchange controls, which have been in force almost unchanged since Sharpeville almost 21 years ago.

Bankers say the authorities have been horrified by the steep increase in the inflation rate recently, and are determined to reverse this trend.

22.3 percent

The consumer price index, after rising at an annual rate of 8.6 per cent in the first quarter of 1989, spurted to 13.3 per cent in the second quarter, to 16.3 per cent in the third and 22.3 per cent in the fourth quarter.

Bankers say the authorities believe that prompt action to curb inflation is essential. Any delay would lead only to more severe action being taken.

Their plans are expected to aim at drastically reducing the money supply.

On hand

This will lead to a further rise in interest rates, including mortgage rates and building society deposit rates.

The money supply is made up of money which people and businesses have in their pockets and in banks on 'demand' and short-term deposits.

Because of the steep increase in the gold price and export earnings, South Africa last year earned a record amount of money from overseas.

By November this had boosted the money supply by a huge 28 percent.

The Government could continue with its present policy, though on a larger scale, of trying to mop up liquidity by sterilizing surplus tax payments and issuing more government stock.

However, there is doubt that this will have much effect in the present situation.

Alternatively, the Government could also exchange control and allow much of the money that has flowed into the country to flow out again.
Corporation Medals
For the best student in each of the 2nd, 3rd and final years.

Second Year (Bronze Medal)
Miss G C Littlewort

Third Year (Silver Medal)
Miss N C Davidson

Fourth Year (Gold Medal)
P M Salmon
T J Cumming
D P Weeks
J H Rens
B F McCleland

Professor George Menzies Prize
Awarded on results of final examinations to the best male student in Land Surveying or Civil Engineering.

J H Rens

Sammy Sacks Memorial Prize
Awarded to the student with the best classwork in Engineering Drawing.

L Menegaldo

A E & C I Prize
For the first year student obtaining the highest average
Inflation — the damning choice

Howard Precece
Economics Spotlight

IT IS going to be a difficult, painful and lengthy battle in South Africa merely to get inflation down to more acceptable levels, to somewhere near 10% since 1973.

It will be a quite remarkable achievement if it can be done without sharply reducing the growth impetus in the economy.

Inflation, as measured by the year-on-year consumer-price index, has not been below 10% since 1973.

I will wager a degrading rand that it will not fall below 10% by 1981 either.

Two unhappy but semi-paradoxical truths have to be faced:

1. Inflation is the long-term enemy of growth.

2. Deflation, however, almost invariably hits growth in the short and even medium term.

On the surface, that seems to offer a damned-either-way choice.

But the Government, the Reserve Bank and the Treasury will aim to pursue some sort of middle way — trying to reduce inflation gradually without knocking growth sideways.

Their best hope lies in combining standard financial prudence with bold and imaginative policies that hit structural inflation-fuelling pressures in South Africa.

Much of this, however, falls outside the scope of the Reserve Bank or Treasury.

Changes in, for instance, exchange controls and interest-rate policies are obviously important, but they can easily be overruled.

Political, industrial and social changes are needed to remove or reduce some of the factors that exacerbate inflation.

I doubt, in fact, whether any juggling of monetary, fiscal and general financial policy can of itself produce sustained high growth and single-digit inflation in the next few years.

Inflation is statistically a monetary phenomenon, and one overblown theory, solvable by monetary policies alone.

In practice, however, monetary restraint is a necessary but far from sufficient condition for tackling inflation generally.

Inflation in this country certainly seems to be exceptionally well entrenched.

A brutal economic squeeze followed was necessitated by the rand devaluation of September 1973.

This was reflected in the average annual increase of about only 0.5% in the broad money supply for 1974 and 1975 — and by the near standstill in real economic growth.

But inflation still remained obstinately high.

It is no doubt true that if the squeeze had continued long enough, or had been even more severe, inflation must eventually have come below 10%.

When the Swiss found they had an inflation problem after the 1973 oil-price shock, they took drastic deflationary action.

Inflation was soon brought in traditional check — but here was a negative growth of some 6% in the economy in 1974.

The Swiss thought that a price-wage freezing of thousands of migrant workers, however, lost their jobs — and some Swiss bankiers conceded that deflation on that scale was not a practical option for most countries.

It certainly was not deemed so for South Africa by 1973 when the economy at last began to perk up again.

This country had dropped from 1974 to 1977 from the first to the fourth division in the growth rates among industrial countries.

Mounting black unemployment put a heavy premium on a restoration of higher growth.

The official belief, or hope anyway, was that growth would not cause additional inflationary pressures because there was no excess demand in the economy and because, for example, unit costs would be helped by higher output.

Had there been growth of 5% last year that might have been proved correct, though even that is doubtful.

With growth at 8% however, and labour and other bottlenecks all around, inflation is accelerating.

Real growth this year may drop to around 5%, but that will still mean acute problems in many areas of the economy.

Rising interest rates and the likely coming of exchange controls, a continuing clamp on Government spending and a disastrous budget should together reduce some of the pressures of demand inflation.

In the end, however, these changes will depend for their bite on the impact they have on the real economy.

And the greater impact they have the more they will threaten growth prospects for 1982 and beyond.

The Government is anxious to keep growth at least above 4%.

On second thoughts, I will take two more that inflation will still be above 10% in 1983.

Deflation outside the financial area might, however, make the longer view more hopeful, as might major anti-inflationary success by President Reagan.

Meanwhile, we have the consolation that at least we now have growth and inflation whereas for 1973-77 we had only the inflation.
18% inflation is Cloete's forecast

By HAROLD FRIDJON

The inflation rate could easily accelerate to 18% — and even higher — if restrictive measures are not taken by the authorities, warns Dr Johan Cloete in Barclays National Bank's Business Brief.

The past year showed a record year-on-year increase of 15.8% and there is a close correlation between unit wage costs and inflation rate because wage increases are the main cost increase for most firms, he says.

As wage increases and the inflation rate tend to lag behind the general business cycle, and with the current economic upswing likely to peak some time in the first or second quarters this year, it must be expected that the inflation rate will tend to continue to accelerate for the greater part of 1981.

As the economy is operating close to capacity, the scope for increases in labour productivity is limited. Consequently, the 18% to 20% wage increases of the past year are likely to be more fully reflected in unit wage costs in the coming months. This means that inflation could easily accelerate to 26%.

Monetarist economists say Dr Cloete, would probably attribute the acceleration in the inflation rate to failure by the authorities to practice sufficient financial discipline. And the sharp rise in the money supply supports this contention.

But it can be argued that the substantial increases in wages and salaries made it possible for the public to buy goods and services at presently inflated prices. While money incomes and money supply are not identical because of finance demand for important customers, they will increase money supply for wage and salary increases and for working capital unless the authorities prevent them.

Dr Cloete argues that a lack of financial discipline last year was shown by employers and employees — in failing to keep wage increases in line with productivity increases. The banks had little option other than to support this undesirable behaviour by providing the credit to finance the excessive wage and price increases.

What happened last year was that first profits and then wages were increased. This led to a substantial increase in total monetary demand which drove up output, employment and prices. The banks responded with an increase in bank credit, which is the main component of total money supply.

The authorities could have prevented this, but it would have meant that interest rates would have started to rise sooner. This would have made the high 1980 growth rate impossible.

It is doubtful whether 'strungout' financial discipline would have significantly reduced the double-digit inflation which was in the system at the beginning of last year.

All that would have been accomplished would have been to keep the growth and employment rates substantially lower. The authorities had to relax financial discipline by allowing the banks to finance the double-digit inflation in the system as well as a significant increase in output and employment.

Dr Cloete maintains that the authorities relaxed discipline too much last year and that they made the mistake of not keeping a sufficiently close watch on the behaviour of total monetary demand in the economy.

With inflation at 13% to 14% at the beginning of last year they should have set their policy target at an increase of no more than 10% or 9% in total monetary demand in the economy for 1980 as a whole. This, Dr Cloete claims, would have avoided the undue inflationary pressures on resources and labour which developed last year.

Instead, the authorities allowed it to increase by 35.5% in the first nine months of last year, as measured by the increase in the money value of gross domestic product.

It is now necessary to reduce the excessive increase in total monetary demand to a more acceptable rate of about 10% to 15% for 1981. Failure to do so would be to court runaway inflation.

This will not be easy because lower export earnings could depress total domestic demand irrespective of any action by the authorities. But by making total monetary demand relative to total physical supply their basic policy, and by their keeping a close watch on the main categories of total demand, there is a reasonable chance of maintaining growth at 5% while containing inflation at its present levels.

Although the authorities did not curb the increase in bank credit to the private sector, they did limit the expansion of credit-creating capacity of the banking system and the Treasury withdrew money from circulation to offset the net inflow of funds through the balance of payments. This started to make an impact on the monetary situation by the final quarter of last year.

It must be expected that the liquidity in the banking system, curtailed in November and December, will be reduced still further in the months ahead and short-term rates will show a further strong rise.

With the increase in the bank rate from 7% to 8% which will give a further impetus to money rates, it would seem that the authorities have belatedly switched their policy emphasis from the stimulation of growth to the curbing of total monetary demand and inflation.

While stricter anti-inflationary monetary policies would hurt the growth rate without doing much in the short term to bring down the inflation rate, it is essential these policies should be supported by employers and price-makers curbing excessive wage and price increases of the past year. This could result in monetary policy being less restrictive and the harm which high interest rates and a restrictive monetary policy would do to the growth rate could be limited.
Less talk and more free market action needed

The South African economy is facing a formidable inflation threat which seems set to escalate in coming months and prospects of the rate being halted at 14—15 percent are fading fast.

With consumer demand currently continuing to boom at the record level achieved at the end of last year it can only be a matter of time before demand inflation is added to the already high cost-push variety.

The booming money supply of the past year has not helped matters. The money supply was out of control for much of 1989 and the authorities clearly have to bring the money growth rate down.

Their lack of ability to do so has been the most devastating criticism of financial policy and it is a failure which cannot be blamed on the private sector.

This week, no less an economist than Barlow, Dr. John Cloete warned that the country could be facing runaway inflation and he urged business men and the government to show moderation in wage and salary increases. He says the inflation rate could easily accelerate to 18 percent and higher if the authorities do not take action.

A poll of the country’s leading economists would not doubt concur that fighting inflation and providing jobs are the country’s main priorities.

With the economy running at full production capacity there is a real possibility of demand inflation rising. Equally, the past few years of fairly high inflation rates and ultra low growth, where the economy failed to respond for months to persistent policy goodies, have been forgotten.

It requires no great foresight to suggest that on paper an easy way of solving the current inflation problem would be to introduce a wage and price freeze whether official or through moral persuasion. It is a neat, easy but disastrous measure.

To move towards such a drastic step however would undermine all the confidence and progress made by Finance Minister, Mr. Owen Horwood and his team at the Finance Ministry.

It would kill the free market philosophy stone dead and with-
Govt to act on inflation

Political Correspondent

THE ASSEMBLY — Wide-ranging measures are to be taken to combat the soaring inflation rate, which the Minister of Finance, Mr Horwood, today labelled as the main economic problem facing South Africa this year.

But he warned that it would be naive to "pretend that there is an easy or quick solution to this problem."

Inflation was "virtually the only dark spot" on a generally bright economic picture.

The major steps to be taken were

- A planned top-level meeting of people from the business sector, organised labour, consumers, academics and Government to discuss the inflation problem in depth.
- Further increases in interest rates could be expected soon. Mr Horwood said the Government would not hesitate to allow the rates, which he described as negative in real terms, to rise to their natural market-determined levels.
- Higher interest rates would help mop up excessive money in the system by controlling credit levels.

Professor George Mente's Prize

B F Caldwell
J H Rena
D P Weeks
J L Cunningham
P M Salmon

Fourth Year (Gold Medal)

Miss N Davidson

Third Year (Silver Medal)

Miss G Littleworth

Second Year (Bronze Medal)

For the best 2nd and 3rd years.

Corporation Medals

Faculty of Engineering
Govt to set up top-level inflation meeting

THE ASSEMBLY — The time had come for a top-level meeting of representatives of all the sectors to discuss the inflation problem in depth, the Minister of Finance, Mr Owen Horwood, said yesterday.

Inflation had been the one dark spot in the bright economic picture in South Africa.

"Between December 1979 and December 1982 the consumer price index rose by 15.7%." This had tended to accelerate during the course of the year, and was cause for concern, Mr Horwood said.

"Thus, taking a seasonally adjusted annual rate, the rate of increase of the consumer price index moved up from 6.6% in the first quarter of 1980 to 22.3% in the fourth quarter.

"Another worrying aspect of the inflation is that its effect on the lower income groups has been more severe than on the higher income groups, mainly because of the increase in food prices." Mr Horwood said.

Like the rest of the world, South Africa ran into a serious problem of inflation during the seventies, and this had not yet been solved or mitigated.

In part, the high inflation rates which South Africans had to endure in the past few years were initiated by international developments over which the Government had no control.

Among these were the worldwide cost-rising effects of the successive increases in the price of crude oil and worldwide inflationary tendencies brought about by international monetary mismanagement, which resulted in the creation of excessive liquidity.

He said the problem of world-wide inflation was unlikely to be resolved until the US dollar was restored to its pre-August, 1971, state of convertibility, and official recognition was given to the essential monetary role of gold.

Mr Horwood said factors in South Africa's economy which contributed to inflation were:

- Absence of effective competition in certain sectors of the economy,
- Pursuit of self-sufficiency in strategic sectors where this was achieved at higher costs than would otherwise have been the case, and
- The tendency among various groups in society to attempt to extract more from the economy than is productive.
Inflation still chief problem

The prospects for the economy in 1981 were decidedly favourable with a possible 5% to 6% growth and the main economic problem remaining inflation, Mr. Owen Harwood, said yesterday.

Concluding his mid-Budget speech he said economic problems facing the country were basically problems of prosperity.

If the Government failed to maintain fiscal discipline and reduce the rate of increase of the money supply in the required extent the rate of inflation in 1981 and thereafter may well be higher than that of 1981. The overall balance of payments position should remain sound throughout 1981.

"Even if it, which I do not expect, the current account in itself might at some later stage move into temporary deficit, and much would depend on the behaviour of the gold price, this should be comfortably offset by the improvement in the capital account as a result of the increased foreign financing of South African imports and exports and partly by a general inflow of investment capital." He said.

"A 5% to 6% growth would imply an increase of around 10% in the real gross domestic product over two years.

"At some stage, of course, there will be a temporary downturn phase of the normal business cycle to be followed in turn by the next upswing which will carry the economy to new record heights." Mr. Harwood said. - Sapa.

---

Deepest congratulations the highest average mark for the first year students.

A E C I prize

---

L Menegado

Drawing

Best classwork in Engineering awarded to the student with the same qualification awarded to students in the Faculty of Engineering.

Professor George More (- prize

---

B F Meek Cannon

J H Rams

D P Weeks

T J Cunningham

P M Selman

Fourth Year (Gold Medal)

Miss N C Davidson

Third Year (Silver Medal)

Miss G Littlewood

Second Year (Bronze Medal)

---

FACULTY OF ENGINEERING
To fight inflation emphasis switches government policy.
Up goes interest on HP and overdrafts

By HOWARD PRENTICE

INTEREST rates on hire purchase deals of less than £350 will now be no more than 21% to 23% a year.

Personal overdrafts will cost up to 18%.

People using bank credit cards may be charged 30% if they fail to settle debts promptly.

Bank customers who run up small, unofficial overdrafts may even find themselves paying a punitive 25%.

These are the main consequences of the Government's decision to raise the 14% "ceiling" on money lending and to tie interest rates more closely with money supply.

The decision was announced by Economic Secretary to the Treasury Mr Michael Foot.

Rates on hire purchase deals of more than £350 will remain pegged at a maximum of 21% a year.

The decision follows moves by most of the big banks to raise interest rates on hire purchase agreements.

The Government's move to stop providing tax relief on personal debts is also likely to mean that customers will have to pay 50% more for a £350 hire purchase agreement over a one-year period.

Firstly, the Government has to be seen against a background of inflation running at nearly 10% in 1979 as measured by the consumer price index.

This means, of course, that an overdraft of 10% is "zero" in real terms.

However, the cost of paying an overdraft at that level can only be justified if the money is being put to a use that makes the charge worthwhile.

The Government is extremely concerned about inflation and the 27% increase last year in the money supply.

Raising interest rates will inevitably choke off some borrowing and thus restrain the demand for money.

In the short and medium term, however, raising interest rates can have the paradoxical effect of spurring to inflationary activity by pushing up costs.

But over a longer period they will help to reduce inflation. The Government, therefore, is taking the necessary steps to moderate growth by acting against inflation now.

---

J H Rees
Civil Engineering

The student in land surveying or examination to the best work awarded on results of final

Professor George Mawdesley Prize

B W M Redland

J H Rees
D J Weeks
T J Cunningham

P M Salmon

Fourth Year (Gold Medal)

Miss N Hugdon

Third Year (Silver Medal)

Miss C Littlewort

Second Year (Bronze Medal)

Professor of Engineering

---
Having committed R720m this week, to improving the competitiveness of public sector pay, government’s call for price and wage restraint could well be designed to head off a chain reaction of wage increases in the private sector, which is the normal response to government pay awards.

Moreover, the timing of Horwood’s call for a conference seems to suggest that, for the time being at any rate, there will be no further increase in administered prices, while buoyant economic conditions will keep railways and post office finances healthy at least until the March 1982 Budget.

Against this background it may seem possible, therefore, to conduct positive negotiations. The question is whether social contracts of the kind envisaged do succeed in bringing down the inflation rate. Are voluntary restraints, based on moral suasion, any more effective than wage and price clamp carrying the force of law? Experience in Britain and Europe has shown that the latter type of controls tend to exacerbate the problem.

In 1975, 25 diverse private and public sector organisations agreed to a wide-ranging (28 pages) wage-price package. Its cornerstone was a commitment by some upper and middle income workers to limit wage demands for six months. In addition, there was a promise by firms earning more than 15% on total capital before-tax and interest, to pass on only 70% of unavoidable cost increases in the form of higher prices. Workers were asked to build into their demands, only 70% of the extent to which the consumer price index rose in the six-month period. Demands for increased wages based on productivity, supply and demand etc were not affected.

As it turned out, the constraints did not have much direct effect on the rate at which wages and prices continued to rise, but they probably did have a psychological effect, dampening inflationary expectations.

The problem with voluntary constraints is that they are only effective if they have a long currency, but if they are imposed for years rather than months they distort the working of the market.

Cost-raising factors in the economy merely go into suspension during the currency of a “social contract” — they don’t go away, so when a contract expires they come rushing into the system. Moreover, voluntary restraint is not in itself a change in expectations. It is merely acquisisence in the postponement of expectations.

It’s a fair bet that the Reserve Bank and the Ministry of Finance are fully aware of these shortcomings. If so, it is clear that Horwood’s inflation summit will have to come up with a more imaginative manifesto than the one devised by Chris Heunis in 1975.

It may be true, as Horwood said on Monday, that “not all the wisdom — and not all the responsibility — rests with the authorities” to fight inflation. There has to be some private sector backing up. But the conventional wisdom among most economists at present is that inflation can best be fought by making uninhibited use of the exchange rate — and by increasing the number of workers currently being competing for...
Inflation only just off the boil

By HOWARD PREECE
Financial Editor

The consumer-price index rose, by 15.5% in the 12 months to the end of January — a slight easing of the 15.8% rate for calendar 1980. In January the rise was down to just under 0.6%, or about 7% a year.

The caution has to be given, however, that no great significance can be attached to one month’s figures in isolation. But because any apparent easing of the inflation rate inevitably attracts much anxious comment, it is perfectly understandable that any signs of improvement will be eagerly seized on.

This is particularly true of the fifth division of the CPI as far as the lower-income groups, essentially blacks, are concerned.

For the year to January the rate of increase dipped to 19.6% compared with 20.1% for 1980.

The level is, of course, still alarmingly high and begs the question of how well blacks generally have fared in the economic boom of the past year.

Obviously those who have found jobs where they did not have them before have benefited greatly.

Some workers will also have managed to get wage raises in line with, or even exceeding, the inflation rate.

But it is difficult to believe that most workers will have obtained raises in the 10% region. This makes it all the more imperative that the inflation surge should be checked.

It seems to me, however, that there is little chance of the rate this year being much lower than it was in 1980, although it could fall to about 13.5% on the most optimistic assumptions.

According to the ultra-pessimistic view, inflation will roar on towards 20% in 1981. But 14%/15% is the most popular bet.

Food prices have played a critical role in the CPI over the past year or so.

In December they again increased sharply — by 1.2% — to take the 12-month rate to 23.4%.

That was a slight moderation of the 29.5% level for 1980, although the change was too small to draw any trend conclusions from.

The CPI for upper-income levels rose by 13.6% for the year to January and for middle-income groups it was 16.4%.

When the explosion in house prices, and thus the capital values of existing owner-occupiers, is considered and the big rises in executive and skilled-worker pay are taken into account, it does seem that the impact of the economic boom has been very differently felt.

Upper incomes have done exceptionally well, middle incomes have done well and the lower incomes have varied between those who have made big strides and those who have nothing to show for it all.
'Racial policy' behind inflation

The Government, by printing more money to finance its own expenditure on separate development, has become the major cause of inflation in South Africa, the Leader of the Opposition, Dr F van Zyl Slabbert, said today.

Speaking in the Assembly in the third reading debate of the Part Appropriation Bill — the last major debate of the present short session of Parliament — Dr Slabbert said the Government was "making everyone poorer" by trying to implement an unattainable policy.

Inflation increased the cost of living and crushed the poor, the elderly and the underprivileged. It forced people to ask for higher wages and it forced up prices.

"The very philosophy of separate development was inflationary in its intention."

Major causes:

Factors such as the creation of independent sovereign states with their own economies, efforts to have separate facilities and the creation of an efficient, secure and cheap transport system are behind inflation.

Non-productive

Another inflationary factor was the non-productive consolidation of land areas for ideological purposes.

The Separate Amenities Act and the Group Areas Act epitomised and endorsed the dification and underutilisation of public facilities.

They clearly demonstrated that if such facilities had to be provided in a segregated manner and if the Government expenditure had to finance it by printing more money, the result had to be increased inflation.

By printing money to finance its own expenditure on separate development, the Government had become the major cause of inflation in South Africa.

'It is making us poorer' by trying to implement an unattainable policy," he said.

'Instead of introducing clear-cut reforms away from inflationary spending, the Government sticks to its ideology whilst ignoring the essential services necessary for sound administration.

'This is why we have a crisis in education, mining and the civil service.'

The Government was the major source of inflation in South Africa because it alone could print money. And when it printed too much money it destroyed the value of money.

'Therefore, if inflation is public enemy No 1, then this Government is the willing friend of the enemy, against the interests of all the people in this country.'

The only cure for inflation was to cut back on the supply of money.

That means you have to cut back on unnecessary and unproductive Government expenditure.

'The Minister of Finance knows this, but he is in a dilemma. The official policy of this Government demands unnecessary Government expenditure, therefore it stimulates inflation.

'Instead of abandoning this wasteful policy the Government looks for other ways to cut back expenditure. It starts neglecting its essential services — teachers, hospitals, nurses, police — and it starts getting stingy with the poor and the underprivileged.

'And when conditions in those areas reach crisis proportions what does the Government do? It quickly calls a general election and tries to buy off political discontent by announcing hopefully inadequate concessions.'
METHOD OF CALCULATION:

In understanding Dr Kean's findings, it is necessary to look at the methods he used for calculations.

He has modified the widely used Mr. Ford's calculation, as developed by Professor J.R. Ford, and based on his study on the I.R. Mr. Kean argues that the living costs and calculations do not include a number of factors.

Present methods, he says, calculate the cost of living on the assumption that only one person in the household is working; they assume a degree of a household consisting of a core nuclear family with a male head-cum-branchwinner, and calculations about subsidizes fact as rational "corporate" economic units — in other words, that the incomes are more or less equal.

The overall basis of present methods, Mr. Kean adds, is conservative, and current calculations about income go to dependants outside.

The value of the HEL is that it mares a comparison, he says, and as an absolute measurement, it is conservative and consequently underestimate the level of poverty.

The HEL has been modified to include a transport cost component for each member of the household in formal employment at any particular time.

The number of people who are able to exist in terms of wage or domestic labour has been reduced on average. Except in the 15-16 age group, there has been a decline in the number of children of both sexes in the 11-14 age group, and older people.

In 1980, the HEL for lower income groups increased by 20.6%, and the total number of lower income groups for 1977-78, he calculated the mean household income for a study of 1279.99 in 1980.

The average household income — supplemented by other "informal" income — in the study was R320, about 50% higher than for Soet and Soet as a whole.

In fact, the study finds 70.5% of all individuals — married and single — men's wages by an average of 10.6% and women's by 10.6%.

STRATEGIES:

What strategies are adopted by people to adjust to prolonged poverty pressure and to counter the attack on their living conditions?

Dr Kean says there has been a collective attempt to decrease the number of dependants in a household.

This is done through a combination of reducing the number of people living in a household and increasing the number of people working. Both strategies have severe limitations, having a relatively low degree of flexibility.

However, the implementation of these strategies led to the number of people in the sample being decreased from 265 in 1978 to 180 at the end of 1980, while the number of people employed went up from 110 to 170.

The overall dependency ratio thus dropped by 41.7%.

Mr. Kean says the number of people employed was made up almost exclusively of men, while the figure for unemployed men dropped from 56 to 57.

Obviously, with more women at work, significant changes have taken place in household patterns.

The number of people who are able to exist in terms of wage or domestic labour has been reduced on average. Except in the 15-16 age group, there has been a decline in the number of children of both sexes in the 11-14 age group, and older people.

FINDINGS AND CONCLUSIONS:

How successful have the various strategies been? In spite of the considerable changes that have taken place in households to meet the challenge, Mr. Kean found that the number of households below the HEL increased from 28.8% in July 1978 to 37.1% in 1980.

In this calculation, formal and "informal" incomes and all deductions to relatives have been taken into account.

In the same period, the income/HEL ratio declined in 55% of the households.

Mr. Kean concludes that during the period, one must commit suicide and another attempt to do so because they felt they could no longer maintain their dependants.
The table below summarizes the proportion of total expenditures accounted for by the three main sectors.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>General Services</th>
<th>General Administration</th>
<th>Defence</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980/81</td>
<td>25%</td>
<td>30%</td>
<td>45%</td>
</tr>
<tr>
<td>1981/82</td>
<td>20%</td>
<td>35%</td>
<td>45%</td>
</tr>
<tr>
<td>1982/83</td>
<td>22%</td>
<td>33%</td>
<td>45%</td>
</tr>
</tbody>
</table>

This table highlights the significant portion of government expenditure dedicated to defence, indicating potential areas for fiscal reallocation or strategic planning.

---

**House of Assembly**

**Political Affairs**

Dr. Slabbert, the opposition leader, highlighted the inadequacy of the government's financial policies. He criticized the allocation of funds in the previous year, noting that the budget was skewed towards defence, leaving critical sectors underfunded. Dr. Slabbert emphasized the need for a balanced approach in future planning to ensure adequate support for education, health, and social services.

---

**Economic Policies**

The government's emphasis on defence spending was questioned by economists who argued for a more balanced economic approach. They suggested reallocation of funds to support economic development and social welfare programs. The proposed changes were aimed at stimulating economic growth and improving the quality of life for citizens.
TODAY TWO ECONOMISTS GIVE THEIR VIEWS ON FINANCE MINISTER HORWOOD'S MINI-BUDGET

By JILL NATTRASS
Associate Professor
In Economics, Natal University

THE Minister of Finance, Owen Horwood, waxed enthusiastic over the performance of the economy in 1980 in his Mini-Budget speech to the House of Assembly on Tuesday. He highlighted a real growth rate of above eight percent, a strong balance of payments, rising levels of investment, particularly in the private sector, and increased employment as being the signs of substantial economic progress.

Inflation was singled out as the "one dark spot" in the bright economic picture.

The Minister was less optimistic regarding the outlook for 1981, estimating the growth rate would be down to between four and five percent, mainly as a result of the world economic outlook and steps to be taken by the South African authorities to try to control inflation, which at an annual average rate of 15.7 percent for the year 1980 (escalating from 8.6 percent in the first quarter to 23.3 percent in the last quarter) clearly poses a significant threat.

Mr Horwood proposes to re-enter the list of defences to check against inflation in 1981, armed with the same weapons with which he entered the fray in 1980 (to emerge successfully); namely higher interest rates, lower Government spending, a noninflationary approach to Government financing, and an erosion of the private sector to hold down wages levels and to increase productivity.

Pronouncements still stalks the halls of financial policy makers in Pretoria.

This approach failed last year — will it succeed this year?

"Too much money chasing too few goods" is the phrase the Minister used to describe inflation. A phrase which indicates clearly there are three agencies for action — money, goods, and the rate at which money changes hands.

 Pretoria in company with both the doves of monetarism) proposes to concentrate its attentions on the money element and to achieve a reduction in the rate of growth of the money supply by keeping Government expenditure in check.

But monetarist advocates will rally be vocal on the anti-inflationary package. The Minister should not expect that it will not be easily achieved and that even if it is it may well prove insufficient.

Indeed, the bulk of the growth came from the outstanding performance of the mining sector, and the output of goods and services for the domestic market grew more slowly than anticipated. In 1981, the situation could well be worse. The authorities have taken some, albeit rather limited, steps in the Mini-Budget to reduce growth in the money supply.

- The limited relaxation of exchange control.
- An increase in the interest rates.
- An increase in the allocation of gold for the domestic production of Krugerrands.
- The one positive aspect is the recent revival in private sector investment levels, which should result in an increase in the output of goods in the near future.

On balance, however, it seems inflation will remain the order of the day in 1981, and the question may be whether it will not with growth, or inflation with stagnation.

The Minister announced increases in social and military pensions and in public sector salaries — an average 12 percent rising to 20 percent in the education, military, justice, police, and prison services.

These increases must be viewed against an annual inflation rate of 15.7 percent in 1980 and the prospect of continuing high inflation in 1981.

One or more of the disturbing elements in the Minister's speech were the comments he made relating to the subsidies on food and transport and the implication that the price of bread would be increased yet again.

Finally, from the tone and context of the Mini-Budget, it does not seem the authorities have yet accepted their responsibility to create a social and economic environment that is conducive to private sector progress.

Some of the main features...

- More gold for domestic production of Krugerrands
- Public servants will get an across-the-board 12 percent increase and higher in some cases
- The excise duty on wines has been reduced but it won't benefit the man-in-the-street
- Social and military pensions will be increased but it's not enough to keep up with the inflation rate
HORWOOD'S
CHICKEN BUDGET

Owen Horwood's pre-election Mini-Budget is an interesting attempt to catch a few votes from disgruntled public servants - especially teachers and nurses - and also to win a few merit awards from the business community, who are so vigorously putting free enterprise right now.

First, that sop to teachers and nurses is belated and possibly even ungenerous. There was more than sufficient surplus in the State kitty in the last quarter of 1980 for the gesture to have been made then. Of course, it has more impact if made just before an election.

But that's beside the point. Any reasonable analysis of last year's March Budget would have shown that there were two major flaws:

- The Budget did little or nothing to bolster the massive deficiencies in black education and training - notwithstanding the concessions available for in-service training.

- The various concessions made in that Budget had, by their nature, to be inflationary yet the problem of inflation was largely ignored.

To be fair, Mr Horwood was only too aware of the dangers of inflation and had to decide between promoting real growth or reducing consumer demand to counter inflation, thereby inhibiting growth.

He undoubtedly chose correctly.

Having achieved the economic miracle of 1980 and helped South Africa to produce its highest real growth rate in history, Mr Horwood calculated out at the end of last year on pumping any more money into the economy through higher educational spending.

With an election looming, he could hardly stall any longer.

Nor could he do much more than push up salaries in critical areas: How would his electorate feel had he decided to put an extra R150 million or thereabouts into black primary education - the most critical area of all?

If you are in favour of a free enterprise, then the most cheering thing in the Mini-Budget is the raising of the ceiling of interest rates.

It has long been a truism that in an inflationary environment you can only win if you are a borrower because you will repay your loan in depreciated money.

This has become particularly serious with the highest interest rates allowable being lower than the rate of inflation. Lenders have effectively been earning negative rates of interest for some time. Now they will be able to make a profit on their lending in real terms.

Mr Horwood probably hopes through this move that he will dampen consumer demand since interest rates will now make credit purchases much more expensive.

If you pay interest of 14 percent but you know that the price of the article you are buying is likely to rise by 20 percent in a year, then you don't mind. But if your interest rate is much the same as that of the price rise then you may well think it better to save and wait until you have enough money.

The big question then is whether or not the rates paid on loans and deposits will automatically rise to the same extent.

If they do, then pensioners and others living on incomes tied to fixed-interest investments could have a much better chance of survival. It has to be accepted that a reduction in consumer demand will probably reduce the rate at which credit is being granted and this could well be anti-inflationary. But the immediate effect is going to be even more inflation than before. This is because people will be paying more for items that they buy on credit.

You don't however, win by losing votes on a platform of inflation unless price rises are hurting to the extent that people are being forced to reduce their living standards radically.

Nor is it really entirely logical to suggest that this is a pay later Budget. Revenue receipts by the State are well in excess of budget and there will be little or no problem financing the public salary increases.

What really irks about the Mini-Budget is not that it imposes penalties on us in future but that it shows a lack of courage by the Government to put its money where its mouth so often has been - in removing the basic discrimination that exists in this country especially from the time our children began school.
Y OF ENGINEERING

Corporation Medals
For the best student in each.
Second Year (Bronze Medal)
Miss G C Littlewort
Third Year (Silver Medal)
Miss N C Davidson
Fourth Year (Gold Medal)
P M Salmon
T J Cumming
D P Weir
J H Renes
B F McClelland

Professor George Menzies Prize
Awarded on results of final examinations to the best male student in Land Surveying or Civil Engineering.
J H Renes

J H Willson Memorial Prize
To the first year student obtaining the highest average.
Menegaldo

L Craigie

Meet Prime Facials! In being up Col.
State to meet bosses in new inflation fight

By GERALD BELLY
Peterson Bureau

THE Government is to mobilise the private sector in a new effort to combat inflation - which some authorities say is beginning to run out of control.

In his mini-Budget last week, the Minister of Finance, Mr. Owen Horwood indicated that the time was ripe for a meeting of Government and private sector leaders for an urgent discussion on spiralling prices.

The Progressive Federal Party's finance spokesman, Mr. Harry Schwarzer supports a new co-ordinated effort to fight inflation.

The meeting is likely to be next month, with the Government represented by Mr. Horwood's top adviser, Governor of the Reserve Bank, Dr. Gerhard de Keel, the Director-General of Finance, Dr. Luke de Looi, and Dr. Simon Brand.

A strong Government appeal to private employers to hold salary rises below the inflation rate is likely.

In return, the Government would be expected to keep a tighter grip on its spending, and on the price of key commodities and services it controls.

Prices rises for a whole range of government-administered foods is expected to be announced within the next three months. These include maize and its by-products, milk (fresh, powdered and condensed), butter, cheese and the floor price of beef.

Wheat and beef prices rises are also expected before the end of the year.

Professor, have warned that the pipeline is bursting with other inflationary pressures.

In his mini-budget in Parliament today, the Minister of Transport, Mr. Hendrik Schoeman, is expected to announce higher railway tariffs - including trains and, possibly, air fares.

Another strong inflationary influence will be the higher salaries in the public sector.

From April, R10-billion a month will be pumped into the economy and there is little hope that the increases will be matched by higher productivity.

It is expected that the CPI (Consumer Price Index) for February will rise above 10% - it was 15.5% in January.

It is food prices which are causing the greatest strain on incomes - especially for lower income groups. The food price index rose by 29.3% in the year to the end of January. This has been mainly responsible for raising the cost of living of lower-income groups by 5.7%.

Another result is that by the end of January, the union membership had increased by 14% in 1980, as compared to 1979. The number of strikes had increased by 29.3% the same year and the number of working days lost had increased by 5.7%.

Professor George Moshese Prize

Professor George Moshese Prize

The results of the competition to find the best student in the field of mechanical engineering are as follows:

Fourth Year (Gold Medal)
Miss C. Davison

Third Year (Silver Medal)
Miss G. Littlewort

Second Year (Bronze Medal)
J. H. Rams

The prizes for the best student in each faculty of engineering were awarded to:

FACULTY OF ENGINEERING

23/2/81 1534
Rail charges set to stoke up inflation

By GERALD REILLY, Provinia Bureau

THE sharp increase in Railways tariffs will send an inflation wave surging through the economy, pushing up the price of virtually every commodity and service, economists and labour leaders forecast last night.

Tariff increases had been expected — but not as large as those announced by the Minister of Transport, Mr Hendrik Schoeman, in his mini-Budget yesterday.

The price of petrol may rise by more than 0.5c/ to 0.6c because of the 0.4c/k increase in pipeline charges.

However, appeals have been made to the Government to absorb the increased costs from its operating profits — at present more than R184 million.

Farmers are claimed to be the extent of the increase in freight rates for agricultural products — 35c.

There was relief in some quarters that milk rates, particularly for farmers, particularly for farmers, and for bulk milk to be handhauled — by a probable one cent rise fol-

owing 1.7% increases in road, and because of freight rates, and because of increased pressure on coal prices.

The majority wanted that the tariff rise would make the 2.3% increases — or more,

consumer faced with increases, however, that the rate increase had generally been kept below the present level of inflation and would not, therefore, make the position any worse.

Organised commerce and industry also forecast an inflationary effect from the tariff rises.

An economy put up by 6c,$0.6c and closed up by 0.06c a litre.

Road freight rates up 3.5%.

Agricultural products rates up 3.5%.

Glow-stick rates up 5%.

Detergent rates up 10%.

Transport rates up by between 12% and 15%.

Tariffs were virtually certain to be up 7c in coal prices at least to the extent of the higher tariffs.

The Volksblad chief accused the higher rates would have serious inflationary repercussions.

However, a positive factor was that most of the increases were taken at present inflation rates.

The deputy director of the SA Agricultural Union, Mr J Sturt, said farmers already struggling to maintain reasonable prices would be handicapped by the rise in freight rates.

In the marketing system, farmers producing high-value products would be unable to pass on the increases immediately," he said.

But the higher rates would result in a rise in the price of goods.
Rail charges set to push prices up

Mr J J Sneyd, and the A.T.R. reaffirmed the view that the A.T.R. had set the average tariff rate at 12½%, below the present inflation rate.

It would help combat inflation if the Government could follow the example of the Railways of steadily improving the level of administered prices.

Mr Sneyd estimated that the rail tariffs would probably lead to an increase of 0.4% to 0.5% in the overall retail price level. He suggested that the inflation index, which had been estimated at 8.5% last year, should be revised upward to 9.5%.

Mr Sneyd also suggested that the rail tariffs would lead to an increase of 0.4% to 0.5% in the overall retail price level. He suggested that the inflation index, which had been estimated at 8.5% last year, should be revised upward to 9.5%.

The increase in travel costs announced yesterday by the Minister of Transport Affairs...
Salary boost will push up inflation

Financial Editor

WHAT sort of a boost can the injection of R929m in civil servant salary increases and pensions, plus another R225m in railway salaries and pensions, give to the inflationary spiral?

Last year the Minister of Finance, Mr. Owen Horwood, pumped R2.5bn into the economy by way of tax concessions. Inflation reached 15.9 percent by December and the money supply showed signs of overheating.

Consumer spending, measured by the collection of general sales tax, was R22.63bn between the 1979 budget and December 1979. It increased by 33 percent to R20.70bn from the 1980 budget last March up to last December. That is, the R2.5bn boosted spending by a multiple of three to an increase of R7.67bn.

Economists are agreed that the surge of consumer spending which caught the industry by surprise was largely responsible for the 8 percent growth in the economy last year.

The prospects are that with the two budget handouts, consumer spending from now to December could rise by about 11 percent.

Real growth

Real growth in 1981 is expected to be about 4 to 5 percent and it will be strengthened by heavy investment by industry in new capacity — an indication that spending will be different this year.

Imports of machinery and similar capital equipment will be affected by the way the rand moves against the dollar — it is expected to be downwards with a $1.40 rapid being out of the question. Somewhere about $1.25 is more likely for the next few months.

This will, also, have its effects on the value of exports and the balance of trade.

Given that increased spending will probably not be matched by increased output, the possibility of demand inflation (shortage of goods leading to increased prices) is real.

But the real inflation push must come from the increased taxes which are about 15 percent across the board. More rises are expected.

Maize and oil seed traditionally have a May rise — estimated 15 percent up.

Flour is expected to rise in October by 10 to 12 percent. The main budget, in August, could lead to adjustments to the bread price.

The Sofisa wage award affecting 500,000 workers and the prices of steel and fabricated articles is expected to give a 20 percent wage rise two months earlier than the usual July 1.

Car prices

Car prices should rise by about 3 to 4 percent a quarter, 16 percent on the year. Tractors are affected by the Atlantic diesel project from October and current prices could rise 10 percent.

Paint prices may rise by 12.5 percent but are dependent on the oil price which is not expected to rise significantly this year.

Petrol, diesel and paraffin prices hinge on the oil price and on the Government's decision on how much it will pass on to the consumer. Industrial sources suggest a 7.5 percent rise this year.

Building materials, besides being in short supply, should rise by about 10 percent which, with labour costs and other bottlenecks, would confirm the Bureau for Economic Research's prediction of a 30 percent rise this year.

Payments are drying up from budgeted amounts and price rises are expected to go on, a 10 percent rise.
How apartheid feeds inflation

INFLATION is Public Enemy No 1 in South Africa. As President Apartheid, the American economist Milton Friedman has pointed out: "Inflation is a disease, a dangerous, and sometimes fatal disease, that, if unchecked in time, can destroy society."

What is inflation?
A rapid increase in the quantity of money and the costs of goods and services available for purchase. In other words, too much money pursuing too few goods and services.

It means the value of the rand decreases. You can buy less than before with the same amount of money — one rand in 1970 was worth 36 cents today.

Inflation makes us all poorer. It increases the cost of living and increases the cost of living. It decreases the value of the money supply. It increases the cost of goods and services.

At present the inflation rate is 15%. By the end of the year it will be at least 15%. It is threatening to get out of hand.

Why do we have inflation?
The Government always tries to blame somebody else by saying, for example, that there is inflation because of wage demands. But wage demands arise as a result of inflation. The Government may also argue that inflation is caused by low productivity.

But the major cause of inflation is the increase in the money supply. You have inflation because too much money is printed in relation to the goods and services available to be purchased with that money.


The Government is the major cause of inflation. For example, when it spends money to finance the economy, it also spends money on political ideology.

When the Government prints money, it reduces the value of money. When it prints too much money, it destroys the value of money.

Therefore, the price of apartheid is higher inflation.

The practice of separate development has been one of the major causes of inflation. It has been a way to make the money supply available for printing more money.

It could do so for the best of intentions — to create full employment and social security.

But basically, the Government prints money to finance Government expenditure. It spends money on a number of necessities: schools, hospitals, fuel and so on. But it also spends money on political ideology.

The Separates Areas and Group Areas Acts epitomise and classify this provision of public facilities on a basis of duplication. They quite clearly demonstrate that if such facilities have to be provided in a racially segregated manner, the Government expenditure has to finance it by printing more money, the result is increased inflation.

Therefore, by printing money to finance its expenditure, the Government has become the major cause of inflation in South Africa. It is making all poorer by trying to implement an unsustainable policy.

Instead of introducing clear-cut reforms away from inflationary spending, the Government resolutely sticks to its ideology while ignoring the essential services necessary for sound administration. That is why we have a crisis in education, health, and the civil services.

The care for inflation
The only care is to cut back on the supply of money. That means you have to cut back on unnecessary and unproductive expenditure.

The Minister of Finance, Mr. Owen Horwood, knows this but he is in a dilemma. The official policy of this Government demands mass governmental expenditure, and therefore stimulates inflation.

Instead of abandoning this wasteful policy the Government looks for other ways and means to cut back on expenditure. It starts neglecting its essential services — teachers, hospitals, nurses, police. It starts getting stingy with the poor and the underprivileged.

And when conditions in these services reach crisis proportions, what does the Government do? It quickly calls a general election and tries to buy off political discontent by announcing hopefully inadequate concessions.

This Government knows that because it does not have the guts to tackle inflation where it hurts politically, namely through the policy of apartheid or separate development, we are heading for greater economic hardship towards the end of the year.

That is why it wants people to vote now because it knows they will have to pay more later.

Nothing illustrates this more than the Budget
Mr Horwood as a conservative economist knows that this budget is not going to stop inflation. On the contrary — it only creates the illusion of temporary relief against it. All the benefits of the increases will be wiped out within a year because the causes of inflation have not been tackled.

What does the Budget really say of this Government?
It does not really care about the effects of inflation and the increasing cost of living. It takes people granted as simply voting fodder. It is cynical in its manipulation of budgets for the sake of political expediency. And it thinks that it can bluff people through the ravages of inflation by giving them short-term benefits.

No-Confidence Debate
I accused this Government of half-hearted leadership in its process of reform without telling us how it hoped to achieve it. I said to us what you are going to do about land conditions in the Prime Minister said he could not take the public into his confidence.

I told us that you have to remove discrimination and he said the Government continues to consider these things from time to time. I said tell us more about these deals for blacks in urban areas — the Bullaffs have been withdrawn and a commission of inquiry has been created.

All these issues have direct bearing on inflationary Government expenditure and this Government calls an election and deliberately avoids telling us what it is going to do. It simply gives the workers a lollipop and tells them not to ask too many questions or get too angry.

Does this Government not agree with what it means when, since 1973, the price of bread went up by 136%, potatoes by 147%, sugar by 131.5% and maize meal by 185.3%?

Do the Cabinet Ministers still remember what maize meal tastes like? Do they realise that this is the staple diet of more than 75% of the people of this land? A Rand in 1963 is worth 36 cents today! I repeat — inflation is a disease, a dangerous and sometimes fatal disease.

Inflation is Public Enemy No 1. The Government not only does nothing to stop it, but actually pursues a political ideology that feeds inflation.
Inflation snakes up

The most recent Consumer Price Index (CPI) released by the Department of Statistics showed a 15.8 per cent rise between December 1979 and December 1980.

This figure is the average of disparate increments in the prices of a large variety of goods and services purchased by families engaging a diversity of incomes spent on diversely constituted “family baskets” of goods and services.

The average 15.8 per cent encompasses a range of price increases varying from 4.4 per cent for tobacco and tobacco to 7.3 per cent for meat or, if more comparable, categories of consumer goods are distinguished, from 9.6 per cent for clothing to 20.3 per cent for food.

If we juxtapose food and non-food items in the CPI, we find the latter to have increased during the 12 months by 13.8 per cent, only, which is 3.9 per cent of the preceding 12 months for similar items.

Since the beginning of 1978, food prices had already been rising faster than prices of non-food consumer goods.

So lower income groups, who spend a larger portion of their income on food, than low in the calculation of the above 13.8 per cent average movement, experienced a higher rise in their CEI.

Prices are doubling in six years

In the specified four years the excess arose from oil prices and developments of the rand.

After describing a downward and an upward phase between 1972 and 1974, the weighted average value of the rand in terms of the currencies of our main trading partners, according to the SA Reserve Bank, declined to its lowest level (index 1974 = 127.7 and 1978 = 101.9).

Since then the rand has appreciated very substantially without apparent registration of any substantial impact on our economy.

The raising of administered prices has been another cost-impetus. Thus has been particularly severe in electricity, coal and transport which are primary inputs in the productive process, the adjustment to which prices have been postponed until recently and thus without their greatest havoc.

They bear little or no relation to demand but maintain, rather, the rate of income or profit of the producers who is protected from the weeding-out process of effective competition, where such could exist.

In the case of agricultural products, lower income groups are inevitably hardest hit by the price fixing. The 25 per cent increase in prices for the 1979 maize crop, which was expected to be 25 per cent lower than 1978, and therefore meant an effective 50 per cent producer price rise (at the 1979 crop level) seemed rather generous.

It would, however, be a mistake to regard the prices not administered by the Government as merely negotiated in an efficient market which effectively transmits the demand of consumers as expressed in the prices they are prepared to pay, to the producers.

In practice, it is rather the producers who are transmitting their wishes to the consumers who are given the choice of buying less or more of the goods and services offered (which does not exclude the possibility that consumers are partly to blame).

Productivity

While the precipitous rise in miners' wages during the first half of the 1970s might equally be described as a new normal for other industries to compete with, the mining sector was replacing foreign workers with domestic supplies, the increases reflected no more than an improved marginal product of labour arising from the higher prices fetched by their product overseas.

In other industries, however, productivity has been conspicuously absent. Of course, the shortages of skilled labour are forever a powerful inflationary force.

Initiating Impulses from consumer demand which have become significant in 1970, 1974 and the second half of 1980.

As reflected by the figures reported in the introductory paragraphs, this asserted itself very vigorously in recent months for meat and vegetables. Whereas demand has been allowed to assume a role in price formation it has been anything but upward, never to sink downward.

For the rest, demand changes were consequent upon cost-related actions as explained below.

The continual relative increase in the demand of
the public sector up to 1976/77 — from 19.1 percent of GDP in 1969/70 to 23.3 percent in 1976/77 — interrupted only in 1974/75, cannot but have contributed to the pressure on prices.

Since then the remarkable achievement of a reduction in the public sector's share in the GDP down to its 1969/70 level has to be reported.

The claim of some writers that the money supply is not only the cause of all inflation, but that inflation must be defined as an increase in the money supply, need not be taken seriously. Its influence is by and large confined to an accommodating function consequent upon actions of other economic sectors.

**Liquidity**

The autonomous large increase in money supply or liquidity induced by the favourable balance of payments in 1980 has first to be advocated by encouraging bank managers to be more liberal in satisfying requests for advances and overdrafts, for it to become effective.

No less important, if not more important, than the initial impulses is their propagation in the economy if prices, for whatever reason, have increased there will be some participants in the productive process who have suffered a loss in real income and will seek retribution.

When the workers find their wages to be worth less they demand compensatory increases. If their demands are satisfied employers, who might have experienced a rise in the prices of their inputs as well, will find their profits reduced unless they raise the prices of their output — which they promptly do.

The consequential further decline in the purchasing power of the wage unit leads to a second round of pay adjustments, pushing up the monetary costs of labour once more, and inducing a further raising of the prices of outputs bought by wage and salary earners. This calls for a third round of wage hikes, and so on, in a never-ending sequence.

**Unjustified**

The price system is operating in a vicious spiral in which cause becomes effect and effect cause, and increases in prices feed upon themselves. This year's (month's) rise in the CPI as a function of last year's (month's) rise.

The 15.8 percent Consumer Price Index rise between December 1979 and last December may have surprised some people. But inflation is nothing new to South Africa. In the past decade the annual increase varied between 6.9 percent and the latest figure. Although the "frightful impact" hits pensioners hardest, its effects permeate the entire economy.

And there are no easy solutions, as explained by Professor J.L. Sadie, Director of the Bureau for Economic Research at Stellenbosch University.

Liquidity

The autonomous large increase in money supply or liquidity induced by the favourable balance of payments in 1980 has first to be advocated by encouraging bank managers to be more liberal in satisfying requests for advances and overdrafts, for it to become effective.

No less important, if not more important, than the initial impulses is their propagation in the economy if prices, for whatever reason, have increased there will be some participants in the productive process who have suffered a loss in real income and will seek retribution.

When the workers find their wages to be worth less they demand compensatory increases. If their demands are satisfied employers, who might have experienced a rise in the prices of their inputs as well, will find their profits reduced unless they raise the prices of their output — which they promptly do.

The consequential further decline in the purchasing power of the wage unit leads to a second round of pay adjustments, pushing up the monetary costs of labour once more, and inducing a further raising of the prices of outputs bought by wage and salary earners. This calls for a third round of wage hikes, and so on, in a never-ending sequence.

**Unjustified**

The price system is operating in a vicious spiral in which cause becomes effect and effect cause, and increases in prices feed upon themselves. This year's (month's) rise in the CPI as a function of last year's (month's) rise.

The 15.8 percent Consumer Price Index rise between December 1979 and last December may have surprised some people. But inflation is nothing new to South Africa. In the past decade the annual increase varied between 6.9 percent and the latest figure. Although the "frightful impact" hits pensioners hardest, its effects permeate the entire economy.

And there are no easy solutions, as explained by Professor J.L. Sadie, Director of the Bureau for Economic Research at Stellenbosch University.

The 15.8 percent Consumer Price Index rise between December 1979 and last December may have surprised some people. But inflation is nothing new to South Africa. In the past decade the annual increase varied between 6.9 percent and the latest figure. Although the "frightful impact" hits pensioners hardest, its effects permeate the entire economy.

And there are no easy solutions, as explained by Professor J.L. Sadie, Director of the Bureau for Economic Research at Stellenbosch University.

The 15.8 percent Consumer Price Index rise between December 1979 and last December may have surprised some people. But inflation is nothing new to South Africa. In the past decade the annual increase varied between 6.9 percent and the latest figure. Although the "frightful impact" hits pensioners hardest, its effects permeate the entire economy.

And there are no easy solutions, as explained by Professor J.L. Sadie, Director of the Bureau for Economic Research at Stellenbosch University.

These are all examples of increases in the real cost of living, restoration for which should be sought only by a real increase in own marginal product. Gold mining workers were fortunate to have an export product whose price compensated them for the higher price they had to pay for fuel. But not all workers are mine-workers.

As it is, real Gross National Product per worker grew by some 2.7 percent per annum, since 1970, while the remuneration per average worker (in money terms) increased at 13.4 percent a year.

There is no way in which we can, from available data, quantify the relative role of enterprise in the in-
How inflation nibbles away at the value of your rand

"Rather, they maintain the rate of income or profit of the producers, who are protected from the "weening" out process of effective competition," he said.

"In the case of agricultural products the lower income groups are invariably hardest hit by the price rises. As far as non-administered prices are concerned, producers tend to raise prices when demand increases and to rationalise also when demand slackens, to compensate for reduced turnovers.

Professor Sade also attributes inflation to South Africa's high import bill, which reflected the high rate of inflation abroad. Another factor was wage increases, which were often granted without a corresponding increase in productivity.

The official National Priced Goods Index is showing an annual rate of 2.7 percent a year since 1970 while the wage index for a worker has increased 13.4 percent a year.

"Professor Sade says management should try to curb inflation by disciplining itself and its staff.

"It should not put up prices in anticipation of other price increases and should not grant general wage increases because of trade union pressure. If all employers disciplined themselves and their staff in this way, inflation could be kept below two or three percent a year, Professor Sade argues in his article..."
Inflation halving your rand every 6 years

Argus Correspondent

JOHANNESBURG — Every six years, inflation halves the value of your rand.

Professor J L Sadie, director of the Bureau for Economic Research at Stellenbosch University, says the frightful impact of inflation is probably best appreciated by the pensioner.

'A pensioner, who retired in 1970 finds today that the value of his savings has shrunk to just one-third of its 1970 level,' he said.

Professor Sadie has outlined the causes of inflation in a special report.

PRICE RISE

One of the main causes is the raising of administered prices, especially electricity, coal and transport.

'These increases bear little or no relation to demand. Rather, they maintain the rate of income or profit of the producer who is protected from the weeding-out process of effective competition,' he said.

'In the case of agricultural products, the lower income group is inevitably hardest hit by the price-fixing.'

SAME RESULT

'As far as non-administered prices are concerned, producers tend to raise prices when demand increases, and to raise prices also when demand slackens to compensate for reduced turnover.'

Professor Sadie also attributed inflation to South Africa's high import bill which reflected the high rate of inflation abroad.

Another factor is wage increases, often granted without a corresponding increase in productivity.

The gross national product, a worker had grown 2.7 percent a year since 1970, while the average remuneration a worker had increased 10.4 percent a year.
In 1980 many PC manufacturers

The current situation

Consumer confidence in the personal computer market is high, with many consumers expecting a growth in sales over the next year. However, the recent surge in interest in PC's has also led to increased competition among manufacturers, resulting in a lower profit margin for each manufacturer.
it was agreed that in the majority of cases silicosis could not be present without the appearance of tuberculosis. It was believed that tuberculosis was present either in the original development of the silicotic nodule, or that it would appear in a silicotic patient who had the disease in an advance state and would be the ultimate cause of death. It was for these reasons that the terms silico-tuberculosis and tuberculosilicosis were respectively coined. In addition, South African doctors, who constituted a commission appointed in 1911 to investigate the prevalence of silicosis and pulmonary tuberculosis, concluded that the nature of silicosis had changed since the time of Milner's commission. In contrast earlier views of their colleagues they considered it rarely did cases of silicosis run a 'dry' - that is, to a fatal termination. Instead they contended, silicosis was contracted in advanced cases of silicosis; this infection was the ultimate cause of death. For reasons they suggested that the 'wider' term 'silicosis should be retained to describe this complex of path conditions and clinical symptoms.

In 1926 two South African doctors, F.W. Simson and A. began their investigations of silicosis. By 1935 the proved conclusively that silica dust alone could cause disease and that the silicotic nodules did not have any element of tuberculosis. Despite these findings controversy continued to exist about tuberculosis and association with silicosis. An American doctor, L. Gardner, believed that when the two diseases co-existed could be classified as silicosis or tuberculosis. He that each was a disease entity of its own. In 1947 A. Aston, one of the foremost British activities in pneumoconiosis, especially coal-workers pneumoconiosis, still regarded all cases of complicated silicosis (progressive massive fibrosis) as tuberculous in origin. It is for these reasons that a basic understanding of silicosis and tuberculosis is necessary.

Silicosis is a man-made disease. From the earliest times man's ingenuity in manipulating the products of his environment has brought him into contact with silica dust. As his technology and technical skills have evolved so has his ability to use silica products (described below) has increased. In addition, the development of technical aids and the use of high-powered machinery has enabled him to increase the speed of

his productive output. The result has been a concomitant increase of silica dust and an increased incidence of silicosis on a world-wide scale.

The element silicon (Si) is widely distributed in nature. It comprises approximately 28 per cent of the earth's crust and is second in abundance to oxygen (O). Although silicon is found in practically all rocks and many sands, clays and soils, it does not occur in its uncombined form. It either combines with oxygen to form chemically free silica (SiO₂, that is, silicon dioxide) and this is the cause of silicosis - or

South Africa's mineral wealth has been recognized since the beginning of the century. The country has been blessed with a great variety of minerals, including coal, gold, diamond, copper, nickel, platinum, uranium, and many others. The mining industry has been a major contributor to the country's economy, providing employment and generating foreign exchange. However, the mining industry has also had a negative impact on the health of workers, with a high incidence of silicosis and other respiratory diseases.

In the early years of the century, the mining industry was dominated by foreign companies. However, in the 1920s and 1930s, the South African mining industry began to develop its own mines and production facilities. This led to an increase in the number of South African workers in the mining industry, and a corresponding increase in the incidence of silicosis. The problem was not limited to foreign companies, as South African companies also had high rates of silicosis.

The problem of silicosis in South Africa was exacerbated by the changing social and economic conditions during the period. The Industrial Development Act of 1919, which was implemented in 1920, improved the living conditions of workers in the mining industry. However, the Act did not address the issue of silicosis, and the problem continued to grow.

The government of the time recognized the problem and took steps to address it. In 1926, the Department of Health and Industry was established, with the specific mandate of dealing with occupational diseases, including silicosis. The Department conducted research on the causes and treatment of silicosis, and implemented prevention programs. However, the efforts were not enough to bring the problem under control.

The problem of silicosis in South Africa was also exacerbated by the changing social and economic conditions during the period. The Industrial Development Act of 1919, which was implemented in 1920, improved the living conditions of workers in the mining industry. However, the Act did not address the issue of silicosis, and the problem continued to grow.
Maize price a major factor in inflation

THE maize price was one of the major contributing factors to food inflation in South Africa, Mr Russel Stevens, chairman of Tongaat Foods and Seeds, told the Consumer Mail conference on the food price crisis.

Speaking during debate on control boards, administered prices and Government interference, Mr Stevens said on Monday that maize was a significant input factor in most foods produced.

It accounted for 80% of milk production costs and 90% of chicken production costs, he said. The maize price had increased 71% over the past three years. The subsidy on maize had been reduced and the international price had dropped from R140 a ton, while the price on the domestic market was likely to be R160 a ton.

"Anybody could grow maize inefficiently," Mr Stevens said, pointing out that the maize industry was one, as was commonly believed, in the hands of large, efficient units, but instead in the hands of small inefficient farmers.
Inflation hits hardest at low-income groups

Public transport rose by 7.5% in the 12-month period. Communication services, education, and entertainment, which showed little or no increase in January, rose by 11% and 18% respectively during the year.

Reading matter went up by 0.1% in January and a massive 37% over the year.

Education, which also showed no increase in January, rose by 14.7% in the 12-month period. Personal care went up by 15% in January and 12.8% during the year.

Every month, the Department of Statistics analyses masses of information about the costs of goods and services in 13 major urban areas to make up the monthly CPI.

In the 12-month period, inflation was the highest for clothing, followed by housing, and then by fuel and electricity.

The highest increase reflected in the food sector was for meat, which rose by 14% in January and 16.2% over the past 12 months.

Other increases in the food sector were grain - 0.8% in January and 12.4% over the 12-month period, fish - 0.2% in January and 17.0% over the 12-month period, vegetables - 0.1% and as much as 38.7% in January; and eggs - 15.5% and 12.2% respectively, in January and 15.4% over the 12-month period. Fats and oils - 0.9% and 15.6% from January to April 1987, and 14% and 14.6% respectively, in January and 14.6% over the 12-month period.

Alcoholic drinks rose by 0.1% and 0.6% while cigarettes, tea, and tobacco rose by 0.1% and 4.6%.

Clothing and footwear - which rose by 9.7% over the year - showed that footwear increased faster than clothing, clothing rose by 8%, in January and by 9.4% in the 12-month period while footwear increased by 9% and 14.5%.

In the clothing sector, which rose by 9% and 10.7% fuel and power rose by 0.4% and 11.7%.

Over the past year, furniture and equipment also improved by 1.7% with furniture rising in price by 16.4% and appliances, rising by 18%. There were no increases in these items over January.

Household operations also continued their upward climb throughout January and 11.7% over the year. In that sector, cleaning materials rose by 16% in January and 14.6% during the year.

However, domestic servants were paid only 0.3% more in January and 4.7% over the year. Medical care showed no increase in January but reflected an increase of 11% in the 12-month period.

Travel went up by 0.1% in January and 5.8% over the year.

In that sector, vehicles which showed no increase in January reflected a 14.7% increase over the year and their running costs went up by 0.5% and 4.4%.
Emi-gilts could be attractive

The battle on inflation is won

Investment

By DEREK TOMMEE

The preference shares, which are convertible into ordinary shares, have been a popular investment for many years. However, they are now seeing a resurgence in interest due to the high inflation rates. These shares offer a higher rate of return than ordinary shares, making them attractive to investors looking for a hedge against inflation.

The preference shares are similar to ordinary shares in that they pay dividends at a fixed rate. However, in the event of liquidation, preference shareholders are paid before ordinary shareholders. This gives preference shareholders a higher level of security in times of economic downturn.

Emi-gilts, on the other hand, are a type of preference share that offers a higher level of security. These shares are convertible into ordinary shares and are often seen as a hedge against inflation. They are also attractive to investors looking for a stable income stream.

In conclusion, both preference shares and Emi-gilts offer attractive investment opportunities. They provide a higher rate of return than ordinary shares and offer a level of security that is not available in other investments. Whether you choose to invest in preference shares or Emi-gilts, it is important to do your research and understand the risks involved.
WITH so many varied opinions being expressed these days on how to curb the country's high rate of inflation, which the Minister of Finance sees as the 'one dark spot' on an otherwise rosy economic landscape, it would be unsurprising if a large sector of the public were both bemused and confused about who and what is responsible for the phenomenon that keeps the prices of consumer goods on a steady spiral.

A meeting of minds in Johannesburg, representing the food sector, economists and consumer groups, recently elected a committee to make urgent recommendations to the Government on ways of curbing high food prices, which between December 1979 and December 1980 rose by a staggering 29 percent.

Many proposals made at the conference, including one that supermarkets should refuse to accept credit cards — although what guarantee there could be of the benefits being passed on to consumers rather than to the pockets of the food stores seemed obscure — were certainly worthy of consideration.

Elsewhere there have been rumblings of discontent over huge company profits, and some companies have been accused of blatant inflationary practices. At the political level, spending on apartheid is seen as the major cause of inflation, while banks and building societies fear that a money market free-for-all could develop after the general election, pushing up mortgage bond and other interest charges still further.

All these factors have a significant bearing on the overall malaise. But in the end result, surely, it is discipline in the private sector over wage and price increases, and strict Government control over the domestic money supply that collectively provide the winning card in any battle against inflation.

And in this context it must be noted that while price increases are more the consequence of inflation, an excessive money supply is undoubtedly the major root cause of it.

It is when governments, mainly through allowing easy credit, bring into circulation large amounts of unearned money for the goods which the latter has produced that inflation gets its real stimulus. Thereafter it feeds largely on itself, helped by scores of other inflationary factors that are on hand to speed it on its way.

By increasing the bank rate the Government has taken an important step towards putting a brake on credit. But obviously more measures will be needed if there is to be really effective control over the increase in the domestic money supply, which in the view of one leading banking institution should be kept at least below the inflation rate. The tricky part of the exercise, of course, will be in applying greater financial discipline while at the same time maintaining a reasonable growth rate.

Nevertheless, financial discipline should be the Government's byword for 1981. For that is where any successful attack on inflation must have its genesis.
Cloete's inflation counter

Wage-price policy plea renewed

Financial Reporter

A RENEWED appeal for a form of wage-price policy to help combat inflation is made by Dr Johan Cloete, chief economist of Barclays National Bank, in the bank's Business Brief for March.

He argues that without this, the wage-price spiral will worsen to the detriment of both growth and inflation.

Dr Cloete also warns that the expected slowing in the rate of economic growth over the next two years may be aggravated by some failings in Government policies.

He claims, in effect, that the Government gave the economy too much stimulus when there were boom factors already at work and will be giving it too little when it is really needed.

Dr Cloete says: "As is to be expected, the main factor initiating a cyclical upturn in the South African economy is the change in exports which continue in exactly the same way as investment expenditure.

"An increase in export earnings raises domestic incomes which, after a time lag, raise private consumption expenditure and so simultaneously the economic growth rate.

"In the ensuing cyclical downturn it is also exports that are normally the initiating force."

Dr Cloete alleges, however, that the financial authorities have shown "inability or lack of resolution or foresight to pursue a contra-cyclical fiscal policy as required.

"In other words, instead of stepping up Government expenditure when export earnings and private consumption expenditure are slowing down, and vice versa, the authorities have almost invariably raised and lowered their expenditures pro-cyclically, thereby exaggerating the amplitudes of the cyclical upswings and downswings.

"The implications for the present economic outlook are clear.

"Given the strong likelihood of a further weakening of export earnings in the months immediately ahead, a slowdown which on this occasion might well not be cancelled out by a strongly rising gold price as during 1980, total incomes and so private consumption expenditure and the economic growth rate will almost certainly slow down as well during the course of 1981.

"It is only the extent of the downturn that is not certain."

Dr Cloete says: "As usual, fixed investment expenditure is likely to lag behind and is likely to support the growth rate, at least during the course of 1981, until the current phase of investment in additional capacity has been completed.

"This element of expenditure will (then) also slow down, thereby giving further impetus to the downturn in the business cycle which is now under way or is about to start."

"Furthermore, as in the past, fiscal policy in the period ahead is likely to be pro-cyclical, supported also by a tight monetary policy to prevent an acceleration of the inflation rate.

"This would, do nothing to smooth out the cyclical downturn that now appears to be imminent."

On the wage-price issue Dr Cloete says can be little doubt that if the inflation rate is to be contained at its present level and especially if it is to be pulled down without simultaneously pulling down the economic growth rate, upward salary and wage adjustments in both the public and private sectors of the economy will on average have to be kept at or below the current inflation rate — otherwise, the inflation rate will almost certainly accelerate."

"..."
SA misses the boat in rand manipulation

By ALEC HOGG

SOUTH Africa is paying too heavy a price for a rising rate of inflation for restricting the appreciation of the rand during last year's gold bonanza.

This is the view of several economists interviewed in a Business Mail survey.

Chief critics of the authorities are mining-house economists Mr Aubrey Deckman of Anglo American and Mr Ronnie Bethlehem of Johnnie's.

Anglo's economic section works on the real effective rate of the rand. SA's inflation rate has been much higher than those of most of its trading partners over the past five years and in real terms therefore, Mr Deckman says, the rand is worth the same today as it was immediately after its devaluation (from R1.4 to R1.15) in September 1975.

This is a pity, he says, as the balance of payments is much stronger today than it was in 1975.

Mr Bethlehem says that on a weighted, average basis, the rand has appreciated by only 5.5% since the 1975 devaluation.

Last year, when the gold price averaged more than $300, was a perfect opportunity to allow the rand to appreciate. By doing so imports could have been paid for with fewer rand, says Mr Bethlehem.

This would have helped to check inflation, which took off mainly because of demand pressures and the consumer spending boom in 1980.

The authorities are now in a position where they must allow the rand to drift lower to maintain the upward bias in the economy, but they are operating from a much lower base than they should have.

Although there has been much more progress since Dr Gerhard de Kock took over at the Reserve Bank, Mr Bethlehem says a perfect opportunity to blunt the inflationary onslaught by allowing the rand to rise and making imports cheaper has been lost.

The rand peaked at R1.55 last year, and most observers believe it should have been nearer R1.4 at the time.

But now, on days when all the signs point to a hardening of the exchange rate, the Reserve Bank's policy brings the rand down.

French Bank's foreign exchange dealer, Mr Paul Roux, says that on Friday the gold price rose more than $10, sterling (which has a 25% weight in the basket of currencies, which the rand is valued against) rose by more than 1.5 US cents and the dollar was also much weaker against other currencies.

This would usually mean an automatic upward adjustment in the rand's rate, but the Reserve Bank lowered the rate from Thursday's close of R1.2675/76 to R1.2637/38.

Mr Roux said he would bet his bottom dollar on a rand rate of R1.25 within the next four weeks.

Nedbank group economist Mr Rudolf Gouvits is another who believes the rand is headed lower in the medium term.

He says imports will remain high next year and exports will rise at a much lower rate than last year, and assuming the gold price remains around current levels, the deficit on current account of the balance of payments will grow.

Mr Gouvits, however, is a lot more optimistic over the longer term. He says South Africa's mineral exports in particular will take pressure off imports through its export contribution.

COMMENT: The rand's fall against the dollar over the past six months has been sharp and, importers must be feeling the pinch of having to pay more for their goods.

But exporters come up with the argument that according to the Economic Development Programme, expert-based industry will provide the impetus for sustained economic growth to provide employment.

Exporters suffered heavily from the hardening rand last year, which made South African goods more expensive in a severely depressed international market.
April price rises is new forecast

By GERALD REILLY
Pretoria Bureau

The already high inflation rate in South Africa will be given a significant push forward next month, according to economists.

Two of the main reasons are the 15% increase in railway tariffs and the R20-million public sector pay increase.

The chief economists at the Bureau for Economic Research at the University of Stellenbosch, Dr O Stuart, said that either one would have an influence on the price spiral, but together they would have a significant pressure on prices.

The R20-million a month more which would be paid to all public sector workers was unlikely to be compensated for by higher production in what was considered to be an "unproductive sector."

Further massive amounts will be added to total spending power when the Transvaal municipal workers get their promised rises in July.

The chief economist at Barclays Bank, Dr Johan Cloete, warns that the inflation problem has been caused more by a lack of discipline over wage and price increases than by an increase in the money supply.

He warns, too, of the danger of an 18% inflation rate unless strong restrictive measures are applied.

From a Government source it was learnt that the Price Controller would probably have to agree to a new increase in the producer's controlled bulk products, like cement and coal, raising their prices to recover the higher transport costs.

Motor industry sources said a half-cent per litre rise in the price of fuel was virtually certain from April 1.

Another increase, following the mid-year meeting of the Opec countries, was also possible.

A bread price rise is also likely within the next few months.

The Minister of Finance, Mr Oswen Horwood, and during the mid-budget debate in the Assembly last month, that if the bread price was not increased, the total food subsidy bill would rise above R1200-million.

And a maize price rise is also on the way. The Maine Board will meet next week to discuss future prices for the record 15 500 000 ton crop.

And if the maize price is raised the prices of a whole range of products will be affected.

- meat, poultry, eggs and animal feeds among them.

Dissatisfaction with pay in many areas of the public sector, including police, nurses and State workers.

New railway rates, plus the R20-million-a-month pay rise in the public sector, and other employment price increases, will significantly raise inflationary pressures from the beginning of next month.
An invitation to refuse

David Rees is a senior lecturer at the University of Cape Town's School of Economics.

Owen Horwood is an economist by training and a politician by profession. In both these fields of activity he has achieved considerable renown. In the House of Assembly, he is virtually the only participant who can lay claim to a knowledge of economics (which accounts in large measure for the level of debate on this subject) and to assist him in his onerous task of directing the economy he has recourse to a large and competent staff.

His leading advisers are men of undoubted intelligence and diligence. In addition, should he so wish, he could call upon the services of any number of prominent economists in the private sector, most of whom would be sufficiently flattered by an invitation from the Minister of Finance to offer their services to his department at minimal cost.

It is strange, therefore, that he should find it necessary to call upon the private sector en masse for advice on the problem of inflation. This is not the first time that has happened. Several years ago the leaders of private enterprise, together with leading trade unions, gathered with government to sign a solemn manifesto to fight inflation. If good intentions were an effective weapon against inflation, the demon should have been killed stone dead in 1976. More recently, we have enjoyed the doubtful spectacle of the Carlton Hotel conference. When the private sector was seduced into a compromising position by the Prime Minister, private enterprise should ponder the

significance of these meetings: businessmen are always flattered to have their opinions sought by politicians and apparently fall over themselves to attend such conferences. Clearly, however, Horwood is not in need of advice on the subject of inflation. We must, therefore, assume that he has called this meeting in his role as politician, not as economist. He does not expect the private sector to provide him with a blinding new insight into how to solve the inflation problem. He hopes, rather, to spread the burden of responsibility for inflation on to the private sector, where it does not in fact belong.

In his mini-budget speech he said as much. "Not all the wisdom — and not all the responsibility — rests with the authorities, and by no means all the remedies are in their hands."

Reducing inflation

Sitting down to discuss ways of reducing inflation with government is like sitting down with the mafia to discuss the problems of organised crime. It would be less generous to Horwood to assume that he does not know that both the cause of inflation and the solution rests with government. The private sector participates in, but does not precipitate, inflation.

Inflation is not caused by supermarkets as a recent member of the government suggested, nor is it caused by the government's racial policy. It is not even caused by low productivity. In the Thirties productivity was much lower than it is today and so was the inflation rate. Nor is it caused by market boards or influx control, both of which existed in the Fifties and Sixties, when the inflation rate was negligible.

In a small open economy, such as SA, the key variable determining the rate of inflation is the exchange rate. If a lax monetary policy depresses the value of the rand, the inflation rate will rise.

High gold price

In contrast, a high price of gold, which causes the exchange rate to rise, tends to reduce the rate of domestic inflation. If, however, a high gold price is associated with a policy of keeping the exchange rate below its market determined level, the rapid monetary build-up in the economy tends its way into imports or overseas investments. If this process is prevented by import controls and exchange controls, domestic prices will rise. The rapid rise in the price of red meat and of the general price level in SA is explained in this way.

A wise policy for the private sector would be to refuse Horwood's enticing invitation. Those who agree should use the opportunity to emphasise that government monopolies, import controls, racially discriminatory legislation and influx control cause inefficiency and thus affect the level of prices but not the rate of change of prices. They make us all poorer than we would otherwise be.

Businessmen who have experience in achieving efficiency in their own businesses may be able to offer government valuable advice on how to run an efficient economy. But, it should be explained, efficiency and inflation are two quite different subjects. As far as reducing the inflation rate is concerned, the ball is now as always, firmly in the government's court.
Emaciation of pensions

By Tony Hudson

THE emaciating impact of inflation on pensions has been highlighted by Sanlam in its latest Pension Review.

"It points out that the purchasing power of a pension at R100 which commenced 10 years ago and which was not adjusted for price increases is today worth R30."

The group says inflation averaged 10% over that period and it cannot see it coming below that figure in the foreseeable future.

And, according to economists, the signs are that the figure will be more like 14% during the next few years at least, although one big institution told Business Times that it expected inflation to fall to 16% within the next two years.

Sanlam says it is essential that provision should somehow be made for increased pensions to make up for the decreasing purchasing power of the rands.

The group says: "It is very expensive to index pensions fully to the inflation rate, but many pension funds periodically increase pensions by about 60% of the increase in the consumer price index."

Sanlam says another method is to replace a constant pension at retirement with an equivalent one starting at a lower level and increasing during the course of payment. It says, for example, that a constant pension of R1 000 a year for a man aged 65 is the same as a pension starting at R760 a year and increasing annually at 9%. After seven years the R1 000 mark will have been reached and will become R1 020 a year after 20 years.

"Johannesburg insurance broker Percy Wolfaardt points out that even at executive level inflation can cause problems, and that 10 years after retirement the executive could be getting only 10% of his salary before retirement."

He says what is needed by the client is a policy that increases the sum assured upwards with inflation and the man's in-

expressing salary. Mr. Wolfaardt told Business Times he knew of only two policies that had any form of index linking and only one that provided an automatic increase in income benefits to the family after death.

"If nothing is done," he says, "more people are going to have to take financial advice for survival as the inflation rate continues to send prices rocketing."
Paper wealth: the cause of inflation...

There is less disquiet among teachers following the detailed disclosure of the salary increases they are to receive — but it is still clear that it is too little, too late and that the increases are likely to have a snowball effect in the economy. Teachers are entitled to their increases — they are even now underpaid in relation to people who carry out jobs with similar responsibilities in other spheres of activity. A chief executive of a medium-sized company probably has lesser responsibilities than the principal of a large secondary school — but the salary differential could be as much as R20 000 to R30 000.

The chief executive of a company would probably argue that he deserves his salary in that he has been responsible for increasing productivity in his company over the past few years. The principal of the secondary school is going to find it very difficult to prove any increase in productivity on his part.

Fortunately it has become clear to the education authorities that certain jobs are being duplicated and that it will be possible to reorganise in such a way that productivity in the educational sphere will improve. Thus, at least part of the salary increases which have been made will relate to improved productivity and will, therefore, be regarded as fair even by the sternest critics of the public service.

While teachers should not be misled into believing they are now being fairly rewarded, the scale of the increases points to the crucial problem in the inflationary spiral — that is a general expectation among people that their standard of living will always continue to rise.

Some of you who watched Melvin Friedman on television recently will remember the glowing tribute he paid to Hong Kong, Japan and Taiwan for the way in which these countries had been able to control inflation, increased productivity and improve the general standard of living of their peoples. But he also pointed out that none of this had been achieved without considerable sacrifice.

If you were in Britain now and were asked to look at the British economy from an analyst's point of view, you would, if you were a Conservative, probably say that your party had done a considerable amount to reduce the rate of inflation and that this was highly commendable. Of course, you would add, this had not been done without some sacrifice.

If, on the other hand, you were a member of the Labour Party, you would probably argue that the sacrifice made in order to reduce the rate of inflation has been far too great in human terms. The level of unemployment is such that, in the words of at least one Labour member of Parliament, a whole generation has lost its opportunity.

Neither of those points of view is entirely accurate. Both are based on a political point of view and also probably from the point of view of closeness to the problems raised by unemployment. The more insulated you are in your executive office, the less you care about whether a factory worker actually has a job or not.

But, while the one viewpoint accepts unemployment on a large scale and the other does not, both would agree that it is not fair to call upon people to reduce their standard of living. Even if there is no real increase in wealth, almost everyone wants more as time goes on.

This is why, in the end, inflation is not the result of people buying too many TV sets and refrigerators, or because interest rates are too low or because there is too much money in the economy. The central problem is that there is only so much wealth to be shared and there is really no means of sharing that wealth that will create satisfaction.

The answer, therefore, lies in illusion and the illusion is fed through the creation of paper wealth. — BEN TEMKIN
Money still too cheap

By ALEC HOODE

Interest rates are still too low and rising rates must be seen as a result of sound policy to restrict the banking sector's liability to credit extension, says Volkskas in its March Economic Spotlight.

In spite of the sharp rise in interest rates over the past four months, the return offered is still well below the inflation rate. This means investors are still receiving a negative return on investments.

"Negative real interest rates are not conducive to financial discipline in the economy. They discourage saving and give rise to a spirit of financial recklessness amongst the general public." Interest rates which are out-paced by inflation harm the pensioner who has to live on a fixed income as well as those with a responsible sense of thrift.

Volkskas says the potential inflationary danger of excessive liquidity in the system cannot be underestimated. It praises the authorities' decision to undertake open-market operations to tighten the domestic money system.

But it believes more should be done, and advocates even stricter monetary measures and a shift in emphasis in the broad economic policy package "to attain greater equilibrium between the domestic demand and supply."

"It is not impossible that interest rates will rise higher and even very much higher than their present levels in the time that lies ahead. In these conditions money will have to be borrowed with greater circumspection."

People with heavy burdens of debt will find it difficult to meet their financial obligations.

The banks say one must sympathise with homeowners, particularly those who bought last year when house prices rocketed to unprecedented levels.

Although the Minister of Finance is looking at the possibility of allowing tax concessions on the interest paid on housing bonds, the bank has little hope that this will come about.

South African housing is luxurious by international standards, it says.
Inflation at record 16%

By HOWARD PREECE
Financial Editor

CONSUMER prices rose by 16% in the 12 months to the end of February. This is the highest year-on-year figure recorded in South Africa in so-called normal conditions.

A 30.1% increase in food prices played a key role in the general surge in the consumer-price index (CPI) compiled by the Department of Statistics.

This was critically important to the 20.5% rise in the lower-income sub-section of the CPI which effectively measures the effect of inflation on blacks.

There are indications, however, that rising flat rentals and house prices are making an increasing impact on white living costs.

For the year to February the CPI rose for middle-income groups was 17.1% and for the upper incomes it was 14.4%.

The overall CPI rose by 1.5% last month to lift the running 12-month rate from 15.5% at the end of January to slightly over 15% at the end of February.

It was 15.5% for calendar 1980, the highest annual level recorded since 1946.

Against this, of course, it has to be remembered that money incomes have also been soaring.

The March quarterly bulletin from the Reserve Bank comments: "The average real (that is, discounting inflation) remuneration per white employee, which had declined in each of the preceding five years, increased by 2.5% in the first three quarters of 1980.

"Following a low rate of growth of 0.5% in 1980 the average real remuneration per non-white worker rose by 4.4% in the first three quarters of 1980.

"Employees in all sectors of the economy benefited from the higher rate of increase in salaries and wages in 1980.

"In the nine-month period concerned the average remuneration per employee in the public sector rose by 17.1%, while the corresponding increase in the private sector amounted to 16.7%".

These wage and salary increases must, however, be essentially reflected in the price structure.

In the six months from the end of August last year to the end of February this year the CPI rose at an annual rate of 15.5%.

This points to a strong inflationary undertone.

The only possible consolation is that for the three months December to February the annual increase was marginally below 13% in spite of the big jump last month.

Food prices on their own rose by 1.4% in February.

A breakdown of the 1.5% overall CPI increase in February shows that fruit was responsible for 0.1%, vegetables for 0.2%, clothing for 0.2%, housing for 0.4%, private transport vehicles for 0.2% and running costs for 0.1%.

Other items contributed the remaining 0.5% to the increase.
Inflation: govt main culprit says Slabbert

JOHANNESBURG — The leader of the opposition, Dr Frederik van Zyl Slabbert, said yesterday the government should take the major share of the blame for the surging increase in the consumer price index.

"The index has reached a record 16 per cent according to official data released on Monday for the "low income group," the figure is 20.5 per cent," he said.

Mr Slabbert called on the Minister of Finance, Mr Owen Horwood, to devote tomorrow's para meeting with leading economists and businessmen to one main topic: the removal of the political barriers hampering the "free enterprise system."

"It is pointless for the minister to call together the captains of commerce and industry unless he is prepared to lead the way in removing the political barriers that prevent all South Africans participating in the free enterprise system."

Unless the government was prepared to remove the legal obstacles preventing blacks from becoming equal partners in this system, blacks would regard free enterprise as the preserve of the white man, while the blacks remained locked in separate development, with all its restrictions intact.

"That would be the worst recipe for the destruction of the free enterprise system."

He said Mr Horwood and the leading economists should discuss the relaxation of influx control, the Group Areas Act and other measures that placed restrictions on blacks and prevented them from equal access to the free enterprise economy.

"The attempt to separate economic measures from political realities is the biggest fallacy this country has ever encountered."

Dr Slabbert said economists all over the world had agreed that excessive government spending was a major cause of inflation. In South Africa, government spending was aggravated because of the millions spent unproductively on apartheid.

"Money spent on a political ideology that has no chance of working is money wasted."

In his last major speech in the House before Parliament adjourned, Dr Slabbert said apartheid spending included:

- R122 million a year on influx control
- Millions of rands on prisons that were severely overcrowded — with 80 per cent of prisoners in jail for technical offences
- Under the pass laws: non-productive consolidation of land areas for ideological purposes

(News by H. Zille 171 Main Street, Johannesburg)

A further consequence of the chronic overcrowding was the spread of tuberculosis and other diseases among the hospital patients, where such conditions prevailed.

In 1976, one black in 90 whites had been in hospital for tuberculosis, compared with one black in every 500 whites. In 1966, one black in every 2000 whites had been in hospital for mental disorder.

The number of emotionally disordered persons in South Africa had increased fivefold. In 1923 one in every 400 whites was emotionally disordered, while today one in every 800 whites and one in every 1500 blacks were emotionally disordered.

The number of mentally disordered persons in South Africa was known to be mentally disordered, and in 1976, only 30 per cent of them were white. In 1978, the number of known psychiatric outpatients had increased from 12 to 18 per cent.
GENERAL NEWS

Now 12-point plan issued to tackle inflation

By Geoff Shuttleworth
The conference on inflation held at the Carlton Hotel yesterday was not a prelude for a second anti-inflation manifesto, Minister of Finance Mr Horwood said.

He said at a Press conference last night that the first manifesto should not be seen as a failure in any way as it was primarily a way of drawing the public and private sector together.

Yesterday’s conference was attended by about 110 top businessmen and public figures.

In what was seen as an unprecedented move yesterday, the country’s three most important bodies in the commercial field, the Afrikaner Handelsinstituut, the Federated Chamber of Industries and Assocom issued a joint 12-point programme outlining new approaches to the problem.

These included:
- A suggestion that the Government should not introduce minimum wage laws;
- Lengthening the working week;
- Abrogating certain measures in the field of social security that induce unemployment;
- A guaranteed minimum income scheme as a substitute for a multitude of assistance schemes,
- Intelligent immigration policies to relieve labour bottlenecks in critical areas;
- Large scale programmes of training and retraining of workers to raise skills and productivity.
- An investigation into the widespread quasautomatic adjustment of wages and social benefits to rising prices;

CONTROLS
- A degree of deregulation by public controls to enhance the freedom in decision-making in the part of the business community;
- A suggestion that in areas of the economy where competition may be thought to be ineffective, the Competition Board should be at hand to investigate and take action;
- Investigating the appropriate criteria to be used in these cases where price control is still regarded as in the public interest, set against the high rate of inflation;
- A critical review of the factors involved in formulating food prices which should be undertaken to ascertain whether and to what extent the outcome is truly in the national interest.
Owen Horwood stood up before the nation's most powerful and articulate business leaders yesterday and admitted to bearing the major blame for persistent double digit inflation. It must have taken extraordinary courage — even for the Minister of Finance.

He spared neither the inadequacies of the policies of his predecessors nor the shortcomings of his own, more disciplined approach.

But by the time he had finished speaking the nation's business leaders must have been wondering what on earth his purpose was in calling them together. For Horwood emphasised that the major onslaught on inflation must continue to be through disciplined fiscal and monetary policies he hoped to refine in due course. This, however, would have to await the second report of the De Kock Commission into monetary matters later this year.

Longer term efforts would continue to be made to improve imperfect markets and reduce tendencies towards competition-stifling monopolies.

He was quite specific that, in his opinion, price and wage controls would do more harm than good. They would, he said, distort relative prices and misallocate resources leading to scarcities black markets and queues. They had been seen as a total failure elsewhere and would conflict with government's free enterprise policy.

By the time he ended his speech it was clear that all that was really open for discussion was no more than 'supplementary measures' which he said had their 'rightful place.' But he didn't bother to spell out exactly what he had in mind.

That was hardly surprising, for indeed there aren't any 'supplementary' remedies.

The main purpose of the imbaba must first have been to try and break the inflationary psychosis into which societies can so easily fall prey. When that happens, expectations of inflation make it all the more difficult for sound anti-inflationary policies to gain control of price rises.

Horwood had created an opportunity to explain in detail to influential men exactly what government was doing to combat inflation and the enormity and complexity of the problem.

Another equally important purpose, it would seem, was to elicit support from his audience for his own monetarist approach in the face of those who want to see increased direct controls in SA. These detractors had, he explained, attempted to revive and modernise the so-called structural approach to inflation which was often propagated in Latin American countries in the Fifties and Sixties.

They tend to play down the importance of monetary and fiscal policies and to favour a broad anti-inflationary strategy planned and monitored by some centralised government body. This approach favours generalised direct controls over prices, wages, dividends, interest rates and capital movements, partly as a means of softening the 'hardships' of economic reality.

Horwood did not expressly say so, but it is well known that there are some important financial institutions and individuals Barclays Bank's economist, Dr Johan Cloete, is one of them. He has constantly put forward his own support for a smaller role for the government in the economy.

These views are issued apparently under his own name but, inevitably, Barclays itself is identified with them.

There are those at traditional universities such as Stellenbosch — which have a significant influence on Afrikaner thinking — who are not averse to supporting this mistaken and dangerous view.

Horwood is not one to underestimate the enemies of free enterprise. And he himself drew attention to the unhappy anti-inflationary manifesto applied in this country in the middle Seventies. It took the form of a voluntary prices and incomes freeze — one that penalised the participants and did not "produce entirely satisfactory results.

It formed part of a wider mandatory anti-inflationary policy that was shot through with direct controls. This "did not prevent the rate of inflation from moving into the double-digit range and remaining there, even in times of recession."

Horwood's message to business leaders could not have been clearer to those who cared to look deeper: reject calls for price controls and the structural approach to inflation, and support his own free market policies that have in other respects been so successful over the past four years. It is a view with which the FM is in entire agreement.

At the time of going to press it was too early for the FM to gauge the response from the floor to the minister's appeal. But we would guess that it would be difficult for those present not to be impressed by Horwood's praiseworthy honesty and his sensible appeal to sound economic sense.
versely if supply is greater than demand premiums will be adjusted downwards. Ideally agrees Mackay-Cogholl the solution is to make coins readily available to meet local demand. But this would lessen SA’s foreign exchange earnings from gold sales abroad so the Treasury is reluctant to let market forces play their full role.

He believes the changes come at a propitious time for the market as at present it is neither bullish nor bearish. He concludes. The only danger of the thing is that we find demand substantially higher than we think it will be.

OVERDRAFT RATES

More to come

Tuesday’s announcement of a 15% increase in the prime overdraft rate to 11.5% arises from the banks need to restore profit margins and lessen differentials between sharply rising wholesale borrowing and lending costs.

With the current wholesale rate at 13.5% and reports that some banks are paying up to 14.75% for 12-month large wholesale deposits a higher lending charge was needed to recover some of this cost Says Standard credit GM Arthur Davymond. It was almost inevitable that the prime rate had to go up. But as the banks are still paying negative returns (ie below the inflation rate) on wholesale deposits another upward adjustment will be needed. This the banks cannot do at present as rates have reached their maximum permitted deviation from Bank rate.

Neither is Bank rate likely to be raised before May as April is traditionally a month of high liquidity because of government spending. While the authorities presumably do not want to incur the political odium of climbing borrowing rates in the run-up to April’s election. Arguably Bank rate should already have been boosted to reflect higher money market and overdraft rates. This would be in line with government’s policy of using Bank rate as an instrument of rediscount policy.

Neither is it likely that the Reserve Bank’s Senior Deputy Governor Chris Stals expects a seasonal easing in the money market in April as he indicates that liquidity may not be as great as expected. Stals himself has reported a current account deficit last month (the provisional trade figures from Customs and Excise show a minimal R41.5m trade surplus in January and February this year) gold is hovering around $500 and the banking system is temporarily strapped for cash.

Discount House chairman Colm Dunne projects an April shortage in the discount market of some R600m and in the banking system as a whole of R800m to R900m. The Reserve Bank, he says wants the heavy assistance it gave the system to be repaid as soon as possible and repurchase agreements will not be extended. And government. worried by high inflation and excessive money supply growth can be expected to pitch its May 15 stock issue at attractive terms in order to drain off further private sector liquidity.

Whatever April’s liquidity outcome the banks expect a scarcity of funds later this year. Standard’s decision to raise deposit rates 0.5% for most deposits ranging to 1.5% for 31-day notice reflects this. It also wants to attract more retail sector deposits which are cheaper than wholesale money and are less volatile. Says Standard GM Henry Liebenberg. There are no immediate money market pressures, but we are taking certain dispositions now to attract money in the next six to 12 months.

If the other banks find their retail deposits are affected, undoubtedly they will respond likewise, which suggests short-term interest rate rises have still a long way to go.

PENSIONS PRESERVATION

Talks about talks

While the preservation of pension rights is still regarded as the cornerstone of the new pension dispensation it now seems clear that the Bill making this compulsory will be further delayed. It may not in fact, reach the Statute Book this year.

This was the unambiguous message that surfaced from this week’s somewhat confused 31st annual general meeting of the Association of Pension and Provident Funds of SA. Designed around discussion of the long-proposed Draft Bill on the preservation of pension rights — and indeed, timed to coincide with its expected

Registrar Louw promises pension flexibility

Financial Mail March 27 1981
Jobs, growth plan put forward

Financial Reporter

AN 11-point plan to try and reduce inflationary pressures but to keep up growth and employment was put forward yesterday by representatives of the Association of Chambers of Commerce, the Federated Chamber of Industries and the Handelsinstitut.

It was presented to the anti-inflation conference in Johannesburg called by Mr Owen Horwood, the Minister of Finance.

The proposals were:
- Lengthen the working week
- Change welfare rules that discourage employment. Old-age pensioners, for instance, should be allowed to earn as much as they like without losing pension rights
- A guaranteed minimum income scheme, or a "negative income tax" (payments to the poorest), should be considered as a way of encouraging everybody to work.
- Any suggestion of minimum wage legislation is, however, specifically rejected.
- "Minimum wage legislation increases unemployment among the poorest."
- Boost immigration to ease labour shortages. "Trade unions may, however, prove difficult in particular areas."
- Large-scale training and retraining of workers to raise skills and productivity and to mitigate shortages of skilled workers should be introduced.
- A new look should be taken at the type of subsidies used for a quasi-automatic adjustment of wages and social benefits to rising prices.
- Further deregulation of public controls should be carried out to lessen the obstacles to profits and productivity growth.
- The Competition Board should take firm action where normal free enterprise is thought to be ineffective or inoperable.
- Public sector pricing policies should be used to maximum public advantage - for example, the natural advantage of abundant coal resources should not be destroyed.
- A critical review of food prices is needed.

The proposals were put forward by Mr Raymond Parsons, Dr Johan van Zyl and Mr Fritz Stockenstrom of Assocom, the FCI and the Handelsinstitut respectively.

They say "Although difficult these structural problems which impair supply conditions in the economy must be dealt with if economic efficiency is to improve."

"We firmly believe that policies along the complementary lines we have indicated, but nevertheless with the main emphasis on effectively applied monetary and fiscal discipline, could serve to turn the situation around and get things moving in the right direction."

"We do not underestimate the economic and social difficulties of pursuing such a course, nor the political courage it will take, but we see no alternative."
11-point strategy to combat inflation

BY HOWARD PREECE and GERALD REILLY

An 11-point plan to combat inflation but keep economic growth high was put forward yesterday by representatives of the Association of Chambers of Commerce, the Federated Chamber of Industries and the Handelsinstitut.

It was presented at the conference on inflation convened in Johannesburg by the Minister of Finance, Mr. Owen Horwood — and attended by more than 100 leaders of the Government and the public and private sectors of the economy.

The 11-point plan included proposals for:
- Boosting training and immigration to reduce the shortage of skilled labour.
- Replacing government controls, which are said to hold back profits and productivity.
- Holding a full-scale inquiry into food prices.
- Mr. Horwood said the meeting was an exercise in consultation with the private sector at the highest level.

No immediate policy changes were planned, but the Government would consider the views put forward at the meeting, and in other submissions.

In his opening speech, he rejected wage and price controls as any kind of a solution.

He said the Government must bear the major responsibility for curbing inflation. But, Mr. Horwood stressed, "we are all in this together, and it is essential to enlist the aid of the private sector in diagnosing the current inflation, and in prescribing remedial treatment."

The Government had no control over certain essential items, such as oil — which exerted secondary upward effects on other costs and prices.

Measures the Government were taking included steps to counter monopolistic practices, improve labour market conditions, provide improved training and education, raise productivity to attain better utilisation of manpower, and review agricultural marketing policies.

Mr. Raymond Ackerman, head of a major retail chain, accused food suppliers of "major collusion" to keep prices rising rapidly.

He urged "any perpetrator of collusion, in any of these fields, should know that he can be jilted without a chance of paying a fine."

See Page 16.
11-point plan to combat inflation

Own Correspondent

JOHANNESBURG — An 11-point plan to combat inflation but keep economic growth high has been put forward by representatives of the Association of Chambers of Commerce, the Federated Chamber of Industries and the Handelshuis.

It was presented at the conference on inflation convened in Johannesburg by the Minister of Finance, Mr Owen Horwood, and attended by more than 100 leaders of the government and the public and private sectors of the economy.

The 11-point plan included proposals for:

- Lengthening the working week
- Giving financial incentives to the poorest groups to seek work — but not to introduce any kind of minimum wage legislation which, it is claimed, would worsen unemployment
- Boosting training and immigration to reduce the shortage of skilled labour
- Removing government controls which were said to hold back profits and productivity
- Holding a full-scale inquiry into food prices
Horwood takes blame for inflation

By GEOFF SHUTTLEWORTH

FINANCE Minister Owen Horwood commendably took the brunt of the blame for the current high inflation rate at the Carlton Hotel inflation conference this week.

Figures released this week show inflation had risen to 16 percent, underlining the enormity of the conference.

While the conference had been called to discuss inflation, Horwood also used it as a platform to win approval for his well-timed policy of "growth with financial discipline".

Conference members were told — and certainly most agreed — that the 27 percent rise in the money supply last year was one of the root causes of the record inflation rate. He told the conference that the problem was being tackled — a task made easier by a lower gold price and a declining surplus on the current account — but with essentially short-term measures.

As for long-term measures, he hinted at a need to probe marketing practices of control boards and voice disapproval at the prospect of wage and price control.

What was left to the conference speakers was to introduce suggestions aimed at reducing inflation in the longer term. Many of these ideas have been voiced before, but some were novel:

Raymond Ackerman suggested what must be windfall tax for those companies reporting excessive profits while Assocom, the FCI and the AHJ, in an unprecedented joint document, even suggested a longer working week.

Ackerman also suggested that the Government should not increase the price of maize or oilseeds this year in view of the expected bumper crop.

In addition to the seven million tons of maize which will probably be exported at a loss should be carried by a Government loan.

---

### Table 11

before showing the distribution of workers according to milk

<table>
<thead>
<tr>
<th>Ration</th>
<th>Skim Milk Plus Full Milk</th>
<th>Full Milk Only</th>
<th>Milk Only</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workers</td>
<td>50</td>
<td>30</td>
<td>20</td>
<td>50</td>
</tr>
</tbody>
</table>

Most of the workers (89%) were given full milk, free, daily.
ECONOMISTS AGREE THAT MAN-IN-STREET’S PART IS ESSENTIAL

Inflation — the public’s role

By Tony Hudson

Two main areas in the battle: one is fiscal and monetary discipline and the other improved productivity. And both of these are just as important in the home as they are on the factory floor.

With negative interest rates prevailing, says Mr Jacobs, there is no incentive for the man-in-the-street to save, as there is no way of stopping his savings from being eroded.

The result is that he spends all the cash he has — and then some — via credit. But with interest rates on an upward trend, he feels that the incentive to save will become greater, and the budgets should be adjusted to include savings.

"The householder must start to exercise financial discipline in the home by shopping carefully and watching prices. In addition, such factors as taking proper care of cars, furniture, equipment and the home can also in the long run contribute significantly to cost savings."

Also, these purchases made on credit should be kept as low as possible, says Mr Jacobs.

"Without the assistance of the man-in-the-street the whole effort will fall apart."

However, Mr Jacobs is reasonably optimistic on the outcome of the fight. He feels that the rate will peak in the region of 18% by mid-year on a monthly basis and could drop to around 14.5% December on December.

He believes that psychology plays an important part in inflation and that the man-in-the-street has a sixth sense on the economic cycles and is acutely aware of the business mood. And if he feels that inflation is going to drop he will stop spending and start saving again.

A Nedbank economist told Business Times that the bank also believed that the rate will drop during the course of the year. He feels that if 16% is not the peak, it is very close to it.

He also emphasizes that the attitude of the man-in-the-street towards inflation is a vital factor. He says it had been proved in the US that if it is thought the inflation rate will rise, people start spending, and if they feel it is going to fall the savings rate starts to rise.

He also told Business Times that the savings rate in South Africa last year dropped from over 10% to a historic low of 6.7%, and if enough people believe that the inflation rate is going to fall again the savings rate will start to rise.
Inflation — the instant answer is no instant solution

ONE fact emerged with crystal clarity from Thursday's cluttered Government-employer meeting on inflation: there is no instant solution to the problem.

There is no single, simple action which can halt the cost-of-living index in its tracks. Not even the thought is siren suggestions — and there were many advanced by a reasonably high-powered assembly of businessmen and economists — were possible partial-solutions to the problem that need time for their effects to seep through.

This was made clear by Mr Horwood, the Minister of Finance, in his keynote address when he dismissed short-term expedients and stressed that long-term measures were the only effective means of getting inflation under control.

He spelled it out carefully:

"My central theme is clear: fiscal and monetary policies have to play the major role in curbing inflation and promoting economic stability in South Africa.

"Supplementary measures have their rightful place, but these are surely not cases of "soft options". However difficult to achieve, financial discipline remains the key to the success of our anti-inflationary strategy.

I am led to believe that the discussion through the day was on a fairly high level and with an earnest sincerity, but every one spoke to his book businessmen, depending on their individual positions in the manufacturing-distribution chain, wanted controls or more freedom. Economists ranged in their philosophy from Keynesian to neo-Keynesian to out-and-out monetarists.

Judging from the consensus, nobody wanted price-and-wage controls, just as the meeting rejected hard-nosed monetarism. But this was not in a spirit of cautiousness or in the realisation that in South Africa's peculiar position, certain modifications, adaptations and adjustments have to be made if all distortions in our society are to be accommodated.

What appeared to occupy the minds of private-sector representatives was the rigidity of certain input costs which inevitably work their way to become cost-push elements in the inflationary process. For example, electricity costs, post office tariffs, even railway tariffs.

What disturbed the business community was the obsession of the managers of public utilities with self-financing, that is, trying to generate as much profit as they can so that they can finance an increasing portion of their capital expenditure from their own resources.

Obviously this means higher input costs which jerk up the cost structure at every level of business. This is not only particularly hurtful and disturbing, but it means that today's consumers are paying for tomorrow's users. Capital expenditure incurred by utilities must come from borrowing.

Self-financing is a hangover from the Franzen report which recommended only 50% of retained profits. But some utilities are gaily pumping away from the half-and-half concept. If there was one message which rang clear it was a call to return to the market place — not with the single-minded purpose of the fantasists, but with a rational approach that takes into account the distortions inherent in the South African society which must be structured to take into account a growing unemployment at a time of boom and plenty.

And it is useless to sweep the unemployed under the carpet so as to pretend that once they are in the so-called homeland states they are no longer South Africa's problem or responsibility. Jobs have to be provided for the citizens of, say, Venda just as job have to be created for the inhabitants of Soweto. If the aren't then whole constella
cion concept is a chimera.

What has this to do with inflation?

A great deal because planning for these people, providing for those means that the rigid doctrinaire discipline of the convinced Friedmannites is unacceptable. We must be prepared to carry that philosophy with a touch of Keynes. We have to include a little humanity and sentiment into our thinking. And a little more De Kock.

Not that there will be any tumbling, and in the next report from the commission which bears the name of the Reserve Bank Governor He will adhere closely to his market concept and will concentrate on the realities of rates, interest and currency, and the effectiveness of the market place.

But at the same time, I have no doubt that he will take into consideration the thinking of the Economic Development Programme which demands that inflation-fighting strategies must not allow the growth rate to drop below the 5% target. This is something which everyone must take into account. There must be a trade-off between double-digit inflation and the facts of South African life.

All this demands a degree of fine-tuning which so far has been lacking. And fine-tuning means more and not less communication among different elements of the public sector, as well as between the public and the private sector.

We can't have controls that depend on the blinkered vision of a director-general throwing spanners into market machinery. There will have to be some indoctrination in high places to get a little suppleness into dried-leather thinking.

But dismantling the superstructures of empires within empires, of controllers in their sanctuaries, of gorged boards is not a wave-of-the-wand happen

This will take time, which means that we will live with inflation for longer than we would like.

It will take time for the training schemes to produce skilled workers that are needed. It will take time to teach businessmen that they must not run for Government intervention the moment that market forces hurt them.

When short-term measures, such as increased imports, cause problems, or a market-determined hard rand hits exporters, or immigrant artisans are given jobs, there should be no running to Pretoria Monetary discipline will not be effective if there is a lack of self-discipline in the private sector.

If there is one message which rings out clear it is that in the fight against inflation, the action cannot be left to Government alone. The private sector must also play its part..."
Inflation—the high price we have to pay

WHY on earth is inflation now so deeply entrenched in South Africa's economy?

Why don't the Government and the Reserve Bank stop dithering, take a firm grip on money supply and write inflation out of the system?

The first is a kind of inductive reaction that many people hold, that whenever the annual money-supply index is now throwing a 26% increase on the link-12-month count.

The questions are certainly legitimate—they go to the heart of the central economic issues of our time.

I think, however, that they implicitly contain all kinds of over-simplified assumptions and dodge some unpleasant realities.

The South African authorities continue to try a desperate action to cut money supply rises.

But how successful they will be, and what consequences would flow from such action as far as the country's economic stability is concerned, is another question.

The authorities have obviously decided that the game was not worth the candle.

What has attracted most attention, understandably, is the extraordinary 27% rise in the money-supply index (link-12) last year in this country.

I was, however, back in 1979 that South Africa's financial position was critically marked by the hard-line monetarist approach to monetary policy that is now too late, associated with President Verwoerd.

Before considering how and what that happened, it means, as it is, in effect worth trying to get South Africa's inflation problem in a wider perspective.

Look at the table showing comparison inflation rates in the major Western economies and in South Africa over the last 13 years.

The figure for 1983-86 seems unremarkable, as it is the lowest of the period by far. The US and Japan, on the other hand, have been at the top of the list for most of the period.

This table should also be a caution against believing that the so-called "Keynesian economics"—promised that much that passes under that heading is a travesty of the writings of John Maynard Keynes.

During their 14 years of 1965-86 a low level of inflation was compatible with a world economic order that was superseded by Keynesian principles.

Thus, a period of 1965-71 relevant, South Africa had an average annual inflation rate of 2.5%, an apathy that ten years later, and at least because of the remarkable stability that gave, is no longer true.

This table should also be a caution against believing that the sign of "Keynesian economics"—promised that much that passes under that heading is a travesty of the writings of John Maynard Keynes.

During their 14 years of 1965-86 a low level of inflation was compatible with a world economic order that was superseded by Keynesian principles.

Thus, a period of 1965-71 relevant, South Africa had an average annual inflation rate of 2.5%, an apathy that ten years later, and at least because of the remarkable stability that gave, is no longer true.

This table should also be a caution against believing that the sign of "Keynesian economics"—promised that much that passes under that heading is a travesty of the writings of John Maynard Keynes.

During their 14 years of 1965-86 a low level of inflation was compatible with a world economic order that was superseded by Keynesian principles.

Thus, a period of 1965-71 relevant, South Africa had an average annual inflation rate of 2.5%, an apathy that ten years later, and at least because of the remarkable stability that gave, is no longer true.

This table should also be a caution against believing that the sign of "Keynesian economics"—promised that much that passes under that heading is a travesty of the writings of John Maynard Keynes.

During their 14 years of 1965-86 a low level of inflation was compatible with a world economic order that was superseded by Keynesian principles.

Thus, a period of 1965-71 relevant, South Africa had an average annual inflation rate of 2.5%, an apathy that ten years later, and at least because of the remarkable stability that gave, is no longer true.

This table should also be a caution against believing that the sign of "Keynesian economics"—promised that much that passes under that heading is a travesty of the writings of John Maynard Keynes.

During their 14 years of 1965-86 a low level of inflation was compatible with a world economic order that was superseded by Keynesian principles.

Thus, a period of 1965-71 relevant, South Africa had an average annual inflation rate of 2.5%, an apathy that ten years later, and at least because of the remarkable stability that gave, is no longer true.

This table should also be a caution against believing that the sign of "Keynesian economics"—promised that much that passes under that heading is a travesty of the writings of John Maynard Keynes.

During their 14 years of 1965-86 a low level of inflation was compatible with a world economic order that was superseded by Keynesian principles.

Thus, a period of 1965-71 relevant, South Africa had an average annual inflation rate of 2.5%, an apathy that ten years later, and at least because of the remarkable stability that gave, is no longer true.

This table should also be a caution against believing that the sign of "Keynesian economics"—promised that much that passes under that heading is a travesty of the writings of John Maynard Keynes.

During their 14 years of 1965-86 a low level of inflation was compatible with a world economic order that was superseded by Keynesian principles.

Thus, a period of 1965-71 relevant, South Africa had an average annual inflation rate of 2.5%, an apathy that ten years later, and at least because of the remarkable stability that gave, is no longer true.

This table should also be a caution against believing that the sign of "Keynesian economics"—promised that much that passes under that heading is a travesty of the writings of John Maynard Keynes.

During their 14 years of 1965-86 a low level of inflation was compatible with a world economic order that was superseded by Keynesian principles.

Thus, a period of 1965-71 relevant, South Africa had an average annual inflation rate of 2.5%, an apathy that ten years later, and at least because of the remarkable stability that gave, is no longer true.

This table should also be a caution against believing that the sign of "Keynesian economics"—promised that much that passes under that heading is a travesty of the writings of John Maynard Keynes.

During their 14 years of 1965-86 a low level of inflation was compatible with a world economic order that was superseded by Keynesian principles.

Thus, a period of 1965-71 relevant, South Africa had an average annual inflation rate of 2.5%, an apathy that ten years later, and at least because of the remarkable stability that gave, is no longer true.
ignorance, and lack of judgment and experience were the deciding criteria.\(^{(94)}\)

As has been indicated, miners for good reasons rejected the use of the atomiser. Substitutes such as molasses were tried in the hope that they would have a 'fly-paper' effect in catching the dust. However by 1911 it was universally accepted that water, but in plentiful supplies, was needed more especially as it was realised that not only drilling and shovelling produced dust, but in fact all underground work were exposed to its dangers. In addition, after the introduction in 1914 by the Chamber of Mines of routine dust sampling, which was not only drilling and shovelling produced dust, but in fact all underground work were exposed to its dangers. In addition, after the introduction in 1914 of the Kotze Konimeter by the Government Engineer, Robert Nelson Kotze, and the practice of 'surprise' visits to mines by inspectors to carry out dust sampling procedures, it was realised that water had to be absolute pure. Earlier the water contained dust in suspension (and even urine) which made it more dangerous than dry dust which settled more quickly; and for the same reason dust had to be blown at the production point only. In 1912 the hollow water-fed Leyner drill was introduced and thereafter the reciprocating drills were abandoned. The 1912 hollow drill was a great improvement on its 1902 predecessor, because better quality steel was used thereby preventing water in the atmosphere before the production point had been reached. The dangers of the use of the dry jack-hammer induced at the end of 1917, in which exhaust air passed over the hollow, were only realised after they had been in use for some time. Despite the simultaneous use of separate jets it was discovered that the drills were depositing dust quantities. All these circumstances led to the introduction in 1921 of a regulation which stipulated that the rock drill could be used in the mines without prior approval from the Department of Mines.\(^{(95)}\)

The evidence strongly suggests that from 1903 to 1910 few men who had any connection with the mining industry, i.e. government, management and miners (and other miners) could claim ignorance of the dust hazard and its causal ship with silicosis. Preventive and prophylactic steps whether statutorily or voluntarily introduced were primitive when compared with standards of today and even those of 1930. But in this early period the existing and limited measures for allaying dust were neglected or ignored by certain members of all the above groups. Mining inspectors had so many extraneous duties that it was difficult for them to perform their primary functions of supervising the mines and ensuring implementation of the mining regulations which were hazardless rather than 'excellent', as a present-day writer contends.\(^{(96)}\) Mine managers too were lax in supervising conformity with the mining regulations. Often they were reluctant to punish offenders...
How Pretoria is regaining control of money supply

By HAROLD FRIDHIJON

A NEW approach to monetary control can be seen in recent steps taken by the authorities. These point clearly to control being regained of the money supply with a view to maintaining the domestic and external value of the rand and a more effective day-to-day control of the money market.

This view is expressed by Dr A P Faure, a Senior Researcher at the Development Institute of South Africa, in the house's periodic review

Tracing these policy actions by the authorities in recent months, Dr Faure refers to the sterilisation of large amounts of stabilisation account, which the government channels to importers and exporters to finance their transactions domestically and through interventions in the forward exchange market, open-market operations and by monitoring the cash reserves of the banking system rather than the supply of liquid assets.

Through these mechanisms, the price of money will not be a determinant of financial activity; it will be a derivative of financial activity.

The manner in which the authorities' assisted the private banking system over the difficulties which arose at the end of February when there was a tax flow of more than R2.6 billion in indicative of the official approach.

The techniques included the use of tax, Treasury bills, the marketing of Reserve Bank certificates and short-term Government securities.

Dr Faure warns that some of these actions might be construed as being an easing of monetary policy. But this is temporary and the money market was not an aberration of a policy of tight control over bank liquidity.

The measures which were taken by the Reserve Bank last year and in the first quarter of this year resulted in a reduced cost of money and a more effective achievement of the objectives of tighter control of the money supply.

What was important was the Reserve Bank's sympathetic attitude towards the working of market forces and their effect on short-term rates. Of greater importance was that the Reserve Bank achieved what it set out to do by communicating its intentions and methods to the banks, the discount houses and to the market in general.

The result was more perfect information and the making of rational market decisions.

Dr Faure assumes that future actions will be aimed at reducing the rate of increase in money supply and in prices over a period of time so as not to prejudice the attainment of a healthy rate of economic growth.

At this stage of the business cycle, the 'automatic corrections' of the money-supply position take effect. The most important of those are the current account of the balance of payments. When high imports and weak exports, the current account can be expected to be in deficit during 1981.

It is believed that the authorities will manage the position by encouraging inflow on capital account of the balance of payments through interventions in the forward exchange market, through the negotiation of private and public foreign loans, through gold swap facilities and through borrowing from the International Monetary Fund. South Africa enjoys an under-borrowed status.

In the framework of control of the money supply, it is inevitable that interest rates will be allowed to find their natural market-determined levels in accordance with broad economic growth objectives.

More effective control of the money supply will necessitate substantive changes to the framework of monetary management, particularly through the variable liquid assets requirements.

In the short-term market, further improvements would be directed at maintaining a tight rein over the money market to come. This implies a reassessment of rediscout policy and the role of the open market.

In order to clarify these issues, it was decided to undertake a comprehensive study of a small sample of newly referred patients. In October 1978, 21 patients were selected and randomised into a small patient sample. The group of patients were selected on the basis of their clinical characteristics and their age which was set at 18 years and under. The group of patients was chosen so as to be representative of the overall population who might have such problems. The patients were then allocated to the intervention groups and the control group.
**Investment**

**Unit trusts can help small saver counter inflation**

It is a matter of considerable surprise in these days of high inflation—and also fortunately of strong economic growth—to see how few people invest in unit trusts.

The movement to report that sales of units by holders of small accounts already exceeds new purchases by 10 percent. As the stock market cycle develops, new purchases by retail investors are expected to make up over 20 percent of the total by mid-1967. Unit Trusts are a ready-made inflation保護. As inflation continues, so will the high-yielding nature of these investments. In 1965 the average return on retail investments was 20 percent. In 1966, the average return was 25 percent. This year, the average return is expected to be in the range of 30 to 40 percent.

The ARGUS unit trust index fell 2.77 points this week to 302.79. Several trusts were quoted ex-dividend during the week.

The increased sales of unit trusts can be attributed to a variety of factors. Firstly, the high level of inflation has created a demand for investments that can provide a higher return than traditional savings accounts. Secondly, unit trusts offer diversification, reducing the risk of investing in a single asset. Finally, they provide liquidity, allowing investors to sell their units at any time.

You protect yourself against inflation by holding unit trusts, much as the housewife protects her savings against inflation. As long as you hold your units, you will receive dividends and capital gains, which will offset the effects of inflation.

**Supervision**

The unit trusts are closely supervised by the Government. As a result, they are run by organizations of impeccable standing. On a worldwide campus, unit trusts are dealing with a 24-hour operation.

With the Old Mutual, Sanlam, the Guardian Insurance, the Standard Bank and South Africa Life, the unit trusts offer a wide range of investment options. All of them are reputable and have a long track record of success.

The unit trusts are not only a hedge against inflation, they are also a long-term investment strategy. Most unit trusts have a minimum investment of R10,000, and the minimum investment period is usually 5 years. This allows investors to benefit from the compound interest effect, which is particularly advantageous in a high inflation environment.

**Building plans**

Building plans are up 90 percent. The value of building plans in the first quarter of this year was R251.6 million, an increase of 90 percent from the previous year. This is a sign of growing confidence in the future of the construction industry.

The increase in building plans is due to a number of factors. Firstly, the high level of inflation has created a demand for new housing. Secondly, the Government has implemented a number of policies to stimulate the construction industry, including a reduction in interest rates and an increase in the availability of government subsidies.

The increase in building plans is also a sign of growing confidence in the future of the construction industry. The increase in building plans is expected to continue as the economy grows and the housing market remains strong.

The increase in building plans is a positive sign for the economy. It indicates that consumers are confident in the future and are willing to invest in new housing. This is a sign of growing confidence in the economy and is a positive indicator for the future.
THE warning bells are ringing for the economy.

Dr Johan Cloete, chief economist at Barclays Bank, says the Government is repeating the mistakes of 1974 and will turn last year's 10 percent growth rate into a recession.

The Suedafrikan economic survey says consumer spending is expected to slow appreciably from the sharp growth rate last year and the economic indicators point to the start of a recession in the first quarter next year, according to the Stellenbosch Bureau for Economic Research.

Cloete says the Government is restricting the money supply without producing a well-thought-out wages and prices policy.

They seem to have an alarming inability to learn in Pretoria. This is what they did in 1974 and it did not work. "It did reduce inflation but the money that was available financed only inflation with none left for finance.""They seem to have an alarming inability to learn in Pretoria. This is what they did in 1974 and it did not work. "It did reduce inflation but the money that was available financed only inflation with none left for finance.""

Both Cloete and Willem Roets, trends compiler at Stellenbosch University, put the root cause of inflation at the door of administered prices for items such as maize, rail tariffs, steel, electricity and, now, sugar.

The trick is to keep wages in line with inflation and limit price rises to a few percent below the inflation rate.

The one factor that can throw all the post-election negotiations out of the window is the gold price. The gold price normally precedes the inflation rate and, with the last bear market running for 18 months, a change is in the offing.

He expects the gold price to drop once more after its present rally and then a final drop, probably after July, will signal the start of a bull run. Gold should rise to around $700-$750 per ounce by next July.

This would have a direct effect on the South African economy. The gold price affects the rand and influences interest rates, which in turn affect the cost of living and the economy in general.

The gold price also affects the export sector, which is a major contributor to the national economy. A higher gold price means more revenue for the government and increased confidence in the economy.

The gold price also has implications for the rand, which is linked to the dollar. A higher gold price means a stronger rand, which can affect inflation and interest rates.

In conclusion, the gold price is a key indicator of the economic health of the country. It is important to monitor the gold price and its effects on the economy to make informed decisions about future economic policies.
and the Farmers

Interest Rates

185
Inflation — simple reasons for it

By Terry Markman

The only difference between counterfeit money and ordinary money is who prints it.

No subject is as much discussed today — or as little understood — as inflation. Politicians and even economists talk of it as if it were something over which they had no control — like a flood or a foreign invasion. This is no exaggeration. Let me quote from a newspaper article discussing inflation:

"The world’s top economists have grappled with the problem of inflation but cannot isolate its root cause and they do not know how to bring it under control."

This is clearly the case when one sees the solutions offered by editors, university professors, chief economists of banks and government officials. Solutions such as a subsidy of foodstuffs, a cut in sales tax, a wage price freeze and an increase in productivity have all been proposed. None of these solutions have ever been successful. If we are to cure inflation it is essential that we first understand its cause.

A definition

The root cause of all inflation is simple enough for the ordinary citizen to grasp. It is the action of governments by which they bring into circulation vast amounts of unearned money to compete with earned money for the goods the latter has produced. It is like adding water to milk. The water dilutes the milk and makes it necessary to consume more milk to get the same sustenance.

A somewhat dubious partnership

Example

I would like you to join me for the purpose of illustrating what inflation is. In an imaginary partnership that we will form to print counterfeit money. We must assume that our counterfeit money is perfect.

Let us take R20 000 of counterfeit money to a small town called Pofadder and purchase R20 000 worth of goods. The local merchants of Pofadder are delighted with the mania boom that we have caused.

It is fairly obvious that we have benefitted from our partnership and our trip to Pofadder. After all we have traded paper money with no real value for products that have real value.

But has our gain hurt anyone else?

Well certainly the merchants who received the counterfeit money didn’t lose. They could pass the money on to others for things they wanted.

Who gains?

So we gained and the merchants didn’t lose. But we must consider everyone else in Pofadder. For everyone else will lose in order to make our gain possible. This is easy to imagine as we drive away from Pofadder with our car loaded with goods removed from the marketplace of Pofadder with less property than they had before we came. There will be fewer goods to divide among the people there.

But our counterfeit money has increased the money supply in Pofadder whilst the goods have decreased. The result is a general increase in prices in Pofadder. The price increase will be irregular.

Those who get their hands on the counterfeit money first will gain from it — for they will have extra spending money and prices won’t have gone up yet. But as the counterfeit money filters through the community it will, but prices upwards. The other people in the marketplace will be paying for our gain — and they will do this through the higher prices they pay for each product.

Thus we have created inflation in Pofadder. There has been a general increase in the level of prices which has been caused by an increase in the supply of money viz. our R20 000 of counterfeit money.

This is essentially how inflation works. The government creates counterfeit money in much the same way as our imaginary partnership.

Cure?

The cure for inflation, like most cures, consists chiefly in the removal of the cause. The cause of inflation is the increase of money and credit. The cure is to stop increasing money and credit.

ACKNOWLEDGEMENT: The Consumer.
The problem to resolve is to establish how, if and should improve production...
THE ECONOMIC CHALLENGE OF THE 1930S

Inflation as a short-term solution to economic problems

When the Great Depression hit, governments around the world sought to counteract the economic downturn by increasing money supply and reducing interest rates. This led to a surge in inflation. The key problem was that the economy was in a state of deflation, with many businesses and industries facing declining demand and prices.

However, monetary policymakers believed that increasing money supply was necessary to stimulate demand and prevent a deeper recession. They argued that inflation would eventually lead to full employment and economic growth.

This policy was adopted by various countries, including the United States, the United Kingdom, and Germany. In the United States, for example, the Federal Reserve system increased its money supply, leading to a sharp increase in inflation rates.

The effects of this policy were mixed. While it did stimulate economic growth in the short term, it also led to higher interest rates and a rise in government debt. Additionally, the policy was not without its critics, who argued that it was too risky and could lead to hyperinflation.

In the end, the policy of increasing money supply was abandoned in the 1930s. However, it would be revisited in the 1940s and 1950s, with varying degrees of success. The lesson learned from the Great Depression was that monetary policy must be carefully designed to avoid overheating the economy and leading to inflationary pressures.

Source: "The Great Depression and the Role of Monetary Policy"
1. Political System is the basis of the country.

The economic system and the concept of the individual. Political strategies, economic systems, and party structures.

2. How does the extraction, production, and distribution of money work?

We need to look at the extraction, production, and distribution processes.

3. Why are the political, economic, and social consequences of the use of money important?

Some of the social consequences of the use of money are:

- Political consequences of the use of money.
- Economic consequences of the use of money.

4. What are the implications of the introduction of money?

The introduction of money has several implications:

- Changes in the practice of traditional medicine.
- How far does the introduction of traditional medicine go?

5. To what extent has the introduction of traditional medicine affected the practice of modern medicine?

The introduction of traditional medicine has affected the practice of modern medicine.

6. Can an efficient market system be achieved?

The concept of an efficient market system cannot be achieved without a radical change in the economic system.

7. The personal needs of the country.

How does the extraction, production, and distribution of money work?

We need to look at the extraction, production, and distribution processes.
Big rise in money supply may worsen inflation

By PAUL DOLD
Financial Editor

The Government will soon have to take decisive action to curb the explosion of money supply growth. If the country is to avoid rampant inflation and but above current levels.

The January money supply was up at an annual rate of 59 percent. Now it is expected to focus near 80 percent soon. While the soaring inflation is focused on the cold weather, monetary policy is not to blame. The Reserve Bank, it is said, controls the country's inflation as well as any central bank in the world.

The money supply figure is at a level not seen since the late 1970s, and the annual rate is expected to peak at 80 percent in the next month or the first quarter of this year. The money supply rose in February March and April, and the Reserve Bank's interest rate was raised to 52 percent. The Reserve Bank had already increased the rate to 48 percent in March. The rate increase however, was only temporary and was expected to be followed by another rate increase in the next month. The Reserve Bank is expected to raise the interest rate by a further 5 percent in the next two months.

The Reserve Bank is expected to raise the interest rate to 62 percent in the next month. The Reserve Bank, it is said, controls the country's inflation as well as any central bank in the world.

The Reserve Bank is expected to raise the interest rate to 62 percent in the next month. The Reserve Bank, it is said, controls the country's inflation as well as any central bank in the world.

The Reserve Bank is expected to raise the interest rate to 62 percent in the next month. The Reserve Bank, it is said, controls the country's inflation as well as any central bank in the world.

The Reserve Bank is expected to raise the interest rate to 62 percent in the next month. The Reserve Bank, it is said, controls the country's inflation as well as any central bank in the world.

The Reserve Bank is expected to raise the interest rate to 62 percent in the next month. The Reserve Bank, it is said, controls the country's inflation as well as any central bank in the world.

The Reserve Bank is expected to raise the interest rate to 62 percent in the next month. The Reserve Bank, it is said, controls the country's inflation as well as any central bank in the world.
Rise in money supply

Continued from page 13

stance, too, that the Government action should be of sufficient strength to convince market expectations that money supply will be brought under control with a resultant lessening of inflation.

Open market

While the authorities had been playing a commendable role in open market transactions this year, smoothing out undue movements in the short term liquidity in the money market — and they have done an excellent job — more extensive operations are called for.

The inflation figures for the next few months at least are expected to show at least a high rate of inflation with the effect of higher rail tariffs and food prices contributing to the cost of living. The likely rising inflation rate will focus even attention on the money supply.

Volkskas view

One of the country's leading economists, Volkskas' Mr A.P. Engelbrecht believes it is vital that South Africa lowers its inflation rate through farm control of the money supply even if this results in still higher interest rates.

He says the mounting inflation rate is dangerous if allowed to continue, it could ultimate hamper production and the creation of new jobs. He urged the authorities to use all the instruments available to control money supply, growth particularly through open market transactions.

"The May RSA issue provided an opportunity for the Treasury to remove substantial surplus liquidity from the private sector.

"This policy should have been followed far more extensively last year when the money supply grew rapidly.

"Mr Engelbrecht says the average inflation rate this year could be 15—16 percent, or even higher, depending on wages and salaries and unlike many of his colleagues sees substantial rises in wages and salaries as fairly likely again this year.

Unit costs

Another factor mitigating against a fall in the rate is that unit costs in manufacturing industry are probably rising. Last year there was an anti-inflation cushion due to industry's spare capacity.

Emphasizing that the authorities should not interfere with the market mechanism in a

Engelbrecht said that the problem with monetary targets was that one first had to properly define the money supply.

The Budget for this year would have to be synchronized with monetary policy and would probably be neutral with no stimulus planned.

"Monetary growth in the past year had been excessive, particularly in certain quarters.

"There is little doubt that the money supply growth has flowed from the increase in net reserves due to the high price of gold.

Mr Engelbrecht is forecasting a 4.5 percent growth rate this year, which is historically a high rate for the economy and will be taking place on top of last year's far larger economic base.

Graph 18: Shows basic determinants 12 months later.

Underprivileged children usually come from integrated homes and enjoy the personal care of their mothers, unlike their urban counterparts. These children usually lack a supply of protein and directly related to their poverty. These children also need a supply of protein to be brought within their means and with education to become suitable for the growing economy.

In addition, some children are malnourished and malnourished children do not perform as well as their more fortunate counterparts.

This was dramatically illustrated during World War II, when the US government described above and because of the construction of normal hospital problems were managed with skill and instruction. The following table shows that this week was seven cases.
Standard sees threat of unprecedented inflation

JOHANNESBURG — Standard Bank of South Africa said the recent escalation in South Africa's money supply growth threatens to push inflation rates to unprecedented levels if not checked soon.

It said in an economic review, the money supply had moved out of control with M3 some 46 percent higher in January than a year earlier.

Between December 1980 and January this year M3 increased at a seasonally adjusted annual rate of considerably more than 100 percent, it added.

South African inflation, as measured by the consumer price index, is currently running at a record 16.05 percent year-on-year, Department of Statistics figures show.

Standard Bank said the creation of money was augmented last year by an unprecedented increase in bank lending to the private sector, mainly in the form of bank credit.

The challenge posed by South Africa's money supply expansion was formidable, but it appeared that the monetary authorities were determined to bring it in check, the bank added.

Success in checking money supply growth would require measures including effective control over the economy's monetary base to regulate bank credit to the private sector and monetary and fiscal policy coordination, Standard Bank said.

Also required would be preparedness to allow interest rates to respond fully to market forces and allowing capital to flow in and out through the balance of payments more freely.

In the short term, official action was likely to be confined to open market operations to prevent seasonal flows of funds from the government to the private sector from pushing interest rates downward.

A direct consequence of measures designed to reduce monetary expansion to reasonable percentage might be a general increase in interest rates not previously experienced in South Africa.

In the short term this would add to forces already working towards slowing economic growth and, in the medium term, it would ensure that in 1988 South Africa would be in a sounder position to benefit from a revival in world economic growth.

The bank forecast real gross domestic product growth of about four percent this year, against eight percent in 1980, supported mainly by an exceptional harvest — which alone would contribute one percent to overall growth. — Reuters
Standard Bank warning

Money supply threatens dire inflation

By HOWARD PREECE

A WARNING that “money supply has now moved out of control” and that it “threatens to push inflation rates to levels unheard of in South Africa” is sounded by the Standard Bank Economist Review.

It says: “One of the major threats to continued sound economic growth is the escalating rate of inflation, a rate which is threatening to get out of hand unless credible measures are taken to remove the factors creating the pressures.

“The rate of increase in consumer prices escalated rapidly during 1980, rising from a relatively modest annual rate of 8.6% in the first quarter of the year to a rate in excess of 22% in the last quarter.

“This final quarter was characterised by a vertiable explosion of food prices, which escalated at annual rates of some 50% towards the year-end.”

“Latest statistics show that the rate of increase in inflation has now moved out of control and unless checked soon the escalation of the amount of money in the economy seems serious threat to push inflation rates to levels unheard of in South Africa.”

Standard says, “Recently there has been an unprecedented increase in narrowly defined money supply.

“The build-up started slowly in 1979 as a consequence of liquidity pouring into the economy because of a favourable balance of payments.

“Last year the creation of money was augmented by an unprecedented increase in bank lending to the private sector, mainly in the form of consumer credit.

“As a result the supply of money (M1) was some 18% higher in January than a year earlier and between December and January the amount increased at a seasonally adjusted annual rate of considerably more than 100%.”

“The narrow M1 rate should not be confused with the more widely used and broadly defined M2 measure of money supply which rose by 27% in 1980.

“Standard says, however, the authorities seem determined to get money supply back under control.

“Effective control over the monetary base of the economy to regulate bank credit to the private sector.

“Coordination between monetary and fiscal policy.

“Proposition to allow interest rates to respond fully to market forces. This includes sensitive rates such as mortgages and crop financing.

“Allowing capital to flow in and out through the balance of payments more freely.

“Standard says “A direct consequence of measures designed to bring monetary expansion down to reasonable levels the economy will fare very differently this year.”

“Standard says: “The economy is now faced with a dual challenge arising from the negative impact of the continued poor performance of all major trading partners on exports and the gold price on the one hand and from the problems of excessive domestic prosperity in 1980 on the other.

“These include severe imports, serious shortages of skilled labour, strained industrial capacity and shortfalls in housing space, explosive credit demand and money supply growth and the threat of runaway inflation.”

“Standard says: “Under the circumstances last year’s 8% real-growth in the country’s gross domestic product was clearly unsustainable, leading to many distortions and a downward adjustment to normal levels must now be expected to occur in many sectors.”
Liquidity blamed for inflation

By GERALD REILLY
Pretoria Bureau

EXCESS liquidity is one of the most important reasons for continued inflation in South Africa, according to a Focus survey.

Prepared by the Bureau for Economic Policy and Analysis of the University of Pretoria, Focus says a related reason is the reluctance of the authorities to allow financial rates to react quickly and flexibly to market conditions.

The result is that SA interest rates reflect inflation less effectively than in the US and Europe.

The role of financial rates in maintaining economic stability has not received increased attention.

In South Africa, as in the US and the United Kingdom, the fact that double-digit inflation cannot be fought under conditions of excess monetary liquidity and resulting low interest rates has finally been recognised.

The extensive economic and financial ties between South Africa and the Western economic world make it imperative for SA to constantly take foreign financial tendencies into account.

The price of gold has regained a dominant role in South Africa's domestic financial condition.

The South African financial sector, with its large commercial banks, mining houses, insurance houses and pension funds has been highly developed for several decades.

In recent years the financial structure has been enhanced by the addition of several merchant banks. The fact that the economic rationality of this sector's market conduct has remained underdeveloped is reflected by many peculiarities displayed by South African interest-rate patterns.

While interest rates react more or less in accordance with the business cycle, the period up to 1978 showed a weak relationship between Government-controlled and market-related rates. Furthermore, unrealistically low yields on long-term bonds channelled so much money into the short-term market that the monetary authorities occasionally lost control over the money market in the 1970s.

The effects of Budget deficits in the middle Seventies and the gold bonanza of the late Seventies contributed to lack of control over financial conditions.

Unfortunately, the exchange rate does not always adjust swiftly to changes in financial conditions, says Focus.
highest it has ever been. But a monthly
increase of 1.5%, of course, yields a sea-
sonally adjusted annual rate of 18% which
is where some economists believe the rate
will be by the end of this year if appro-
priate measures are not taken.

Food prices were undoubtedly the chief
culprits in the increase. They rose 20% in
aggregate over the year. Meat prices
were almost 54% higher and vegetables
nearly 40%, so the average "meat and
three veg. meal today costs half as much
again as it did this time last year.

Retail food prices display large regional
variations. At R5/kg, Kimberley has re-
placed Klerksdorp as the cheapest purvey-
or of dry onions. In Maritzburg, you can
purchase a cabbage for 13c, while in Cape
Town it costs more than twice as much.
And lettuces are going for a prohibitive
R1.04 in Bloemfontein.

Most other commodity groups included
in the CPI, like housing and medical care,
are showing rates of price increase of
about 13%, a rate respectable only by

...
Higher interest rates will lead to lower inflation

By Dr Bramie van Staden

MONEY market conditions in South Africa are subject to marked seasonal fluctuations caused mainly by the seasonal influence of government finance. Both income tax collections and government expenditure have concentrations in certain months of the year.

Income tax payments of gold mines and other companies are concentrated mainly in February and August and government expenditure is particularly high in April.

The Reserve Bank operates actively in the money market to smooth out the influence of these seasonal movements on short-term interest rates, but the amounts involved are very large. At times, the seasonal smoothing operation of the Reserve Bank is confused with the more basic monetary policy approach of influencing the liquidity of the banking system and the private non-banking sector.

The accommodation extended to the banking system in February and March 1981, e.g., was not intended to indicate a change in the basic approach to curb liquidity generally. In April a large flow of funds from the government sector to the private sector is expected and the Reserve Bank will endeavour to mop up the surplus liquidity.

Serious consideration is given to the establishment of tax accounts with the banks in which tax collections by the Treasury can be placed and thereby reducing the marked seasonal flow of tax funds away from the banks to the government's account with the Reserve Bank.

Interest rate differentials

Both short-term and long-term interest rates normally show turning points in approximately the middle of the business cycle, reaching a low point immediately before the upswing and a higher turning point in about the middle of the upswing.

This behaviour can be explained by changes in the domestic liquidity situation caused, inter alia, by changes in the net gold and foreign exchange reserves and changes in the supply and demand for loanable funds during the business cycle.

Differentials between capital market rates change over time and also show a cyclical behaviour. The differentials, usually reached a low level towards the middle of the economic upswing, increase the money supply further.

To assist in achieving monetary discipline at times when the money supply and other monetary aggregates are increasing too rapidly, as at present, the short-term accommodation extended to the Land Bank to finance the crop should preferably be given by the banks and as little as possible by the Reserve Bank, because the latter not only increases the liquid assets of the banks but also their cash.

The interest rate applicable should also be market-related.

Rigidity of interest rates

One of the features of the structure of South African interest rates is that a number of interest rates are not established by market forces.

Generally speaking, most lending rates are inelastic downwards — i.e., if financial institutions adjust their lending rates much lower than downwards, but apart from this, certain interest rates are not easily adjusted upwards to market-related levels.

Outstanding examples of these rates are lending rates to house-owners and to the agricultural sector.

Whenever monetary policy is directed at preventing an excessive increase in the money supply and related monetary aggregates in order to curb inflationary pressures, higher interest rates are a natural consequence.

But the authorities, often...
The narrowing yield gap between the long-term and short-term rates was significant, indicating a potential increase in long-term interest rates. However, the Central Bank's policy stance was to maintain short-term rates low, with a focus on disinflation. This policy was driven by the need to reduce inflationary pressures and improve the economic outlook. The Central Bank's interventions in the foreign exchange market and the use of quantitative easing contributed to this stability in the interest rate environment.

Similarly, the narrowing yield gap between the long-term and short-term rates was significant, indicating a potential increase in long-term interest rates. However, the Central Bank's policy stance was to maintain short-term rates low, with a focus on disinflation. This policy was driven by the need to reduce inflationary pressures and improve the economic outlook. The Central Bank's interventions in the foreign exchange market and the use of quantitative easing contributed to this stability in the interest rate environment.

In summary, the narrowing yield gap between the long-term and short-term rates was significant, indicating a potential increase in long-term interest rates. However, the Central Bank's policy stance was to maintain short-term rates low, with a focus on disinflation. This policy was driven by the need to reduce inflationary pressures and improve the economic outlook. The Central Bank's interventions in the foreign exchange market and the use of quantitative easing contributed to this stability in the interest rate environment.

**Figure 1: Age Structure of the Population**
The exploitation of Africans in South Africa is based on the systematic exploitation of labor. This labor is controlled and directed by a small group of employers, who profit from the labor of the workers. The employers' control over the workers is reinforced by the power and position of the whites in society. This power is maintained through the use of violence and intimidation.

Prices of basic commodities in the surveyed areas:

<table>
<thead>
<tr>
<th>Commodity</th>
<th>District 1</th>
<th>District 2</th>
<th>District 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bread</td>
<td>R 3.50</td>
<td>R 4.00</td>
<td>R 3.80</td>
</tr>
<tr>
<td>Milk</td>
<td>R 1.50</td>
<td>R 2.00</td>
<td>R 1.80</td>
</tr>
<tr>
<td>Sugar</td>
<td>R 1.00</td>
<td>R 1.20</td>
<td>R 1.10</td>
</tr>
<tr>
<td>Rice</td>
<td>R 2.00</td>
<td>R 2.50</td>
<td>R 2.20</td>
</tr>
</tbody>
</table>

Note: Prices are subject to change and fluctuations.

A survey of villages in the vicinity of Port Elizabeth revealed that prices for basic commodities are significantly higher in the area compared to the national average. The disparity in prices is due to the lack of market access and the limited availability of resources.

Chapter 7

Face and Sex Discrimination


Food costs double in rural areas (53)
13% inflation hope for 1981

By JOHN MULCAHY

MORE conservative salary and wage adjustments, stricter control of the money supply and a slowdown in consumer demand could result in a decline in South Africa's inflation rate to 13% by the end of the year — on a year-on-year basis.

Mr Louis Kruger, an economist and a director of Rand Merchant Bank, says in a circular on economic trends that the rate of increase in real manufacturing output has slowed to 12% probably because of the high level of production capacity use.

However, inherent in this situation is a potential inflationary factor which could inhibit real economic growth this year.

Mr Kruger says Rand Merchant Bank expects an average gold price of $490 an ounce for 1981, which means that with an average of 6.50 for the first three months, a decline at some stage in the rest of the year to $4.50 and below is considered possible.

Mainly because of the sharp increase in the gold price last year, the gross national product increased at a notably higher rate than the gross domestic product, with an increase of 18% in the first 10 months of 1980.

This situation is expected to be reversed this year, and while a relatively good improvement in 5% in real GDP is expected, real GNP will probably rise by a more moderate 3.5%.

Mr Kruger says the continued sharp increase in imports and the decline in the gold price is a weaker demand for primary goods because of recessionary conditions in world markets, could lead to a deficit of 3.6 billion on the current account of payments this year.

"An improvement in the capital account of the balance of payments is however expected to counteract this trend," he says.

Rises in domestic interest rates to levels commensurate with those in the US and the UK should result in the financing of foreign trade by traditional foreign sources and the repayment of credit previously obtained from domestic sources.

Gold and foreign exchange reserves should be maintained at reasonably high levels, and gold result in South Africa's good creditworthiness abroad should allow it to finance the trade deficit easily.

Mr Kruger says that more than anything else the course of US interest rates will dictate the movement of domestic money-market rates this year.

Movements in the capital account of the balance of payments will become increasingly important as the need arises to finance the expected current account deficit.

There may be an easing in foreign exchange in the Budget in August.

"These considerations make it imperative that domestic money-market rates should be brought approximately into line with interest rates ruling overseas and particularly in the US," he says.

With US rates easing, the magnitude of further rises in domestic rates may not be as severe as is expected in some circles.

Mr Kruger says dividend yields of industrial shares compare well with those ruling during the period 1971 to 1972, the recent years when the Johannesburg Stock Exchange index, the current earnings yield of about 14% compares with 15% in 1971.

However, prospects for the economy are considerably better than in 1971, and investors can expect material growth in earnings and dividends from the average industrial company.

Because of rapid cost increases, an average gold price of $490 an ounce for the current year would affect the gold-mining industry's revenue, and consequently the earnings and dividends of gold producers could be significantly lower than last year.

Relatively high yields obtainable on gold shares should be viewed with caution.

While industrial shares appear to be relatively firm around current price levels, Mr Kruger says it would appear that a long-term bear trend started in October last year.

"Owing primarily to the wider liquidity implications of a declining gold price we cannot foresee rising industrial share prices in the face of a declining gold market," he adds.

Further increases in long-term interest rates will also make current yield levels on industrial shares increasingly unattractive in spite of improvements in company profits and dividends.

"We therefore anticipate further declines in equity prices during the remainder of 1981, with gold perhaps declining more than industrials," he says.


demands, such as cash and credit balances, from the bank's customers. The process can be structured in a number of ways. The process can be structured in a number of ways. The process can be structured in a number of ways.
Price spiral cuts food consumption

JOHANNESBURG — Rocketing prices have forced South Africans to cut down on their most basic expenditure — that on food.

Although the population has grown by millions over the past few years, official statistics show that food consumption has slumped since 1976.

This means food consumption — instead of expanding in line with population growth — is, in real terms, declining.

What makes this fact even more startling is that the situation has arisen amid one of South Africa’s greatest booms.

And while most sectors of the economy show growth, that of food shows a negative picture.

The latest food price index is 30 per cent higher than the same time last year. Department of Agriculture figures on per capita consumption show there has been a decline in consumption of many basic foods.

For example, consumption of maize and make products — between 1970 and 1979 — declined by 13 per cent, red meat by 11 per cent and milk by as much as 33 per cent.

Consumption of cheaper protein foods increased, with eggs going up by 27 per cent and chickens by 22 per cent.

The price of maize, staple food of the majority of South Africans, has increased by almost 150 per cent since 1975 (and could go up a further 15 to 20 per cent later this week).

This has sent rocketing the prices of other basic foods such as milk, poultry, dairy products and eggs.

Maize makes up as much as 70 per cent of poultry and egg production costs and a large part of meat production costs.

Since 1975, the prices of many basic foods have doubled or almost doubled. Brown bread — 61 per cent; white bread — nearly 100 per cent; margarine — nearly 60 per cent; eggs — nearly 74 per cent; milk — more than 60 per cent; sugar — 214 per cent; chickens — 100 per cent; tea — 83 per cent; coffee — 211 per cent.

During the past year alone, meat has gone up by 57 per cent — and met with consumer resistance. During the last three months of last year, beef consumption alone dropped 18 per cent on the previous year.
Living costs soar to new record level

The increase in living costs is continuing. Costs could be expected to accelerate during the months ahead, mainly because too little is being done to control the problem.

A part in the index could be expected after the elections, when a number of Government administration price increases would start to influence general price levels.

These included maize and maize products, and dairy products.

Dr Cloete said a Government enforced monetary control measure appeared to be the only effective answer to the problem.

This would entail making money more expensive by raising interest rates further, and restricting the availability of credit in a bid to slow down the public demand for goods and services.

However, there was a thin red line in the strategy which, if crossed, could dampen the economy in another recession.

An aggravating factor which would have an inflationary influence during the months ahead was the more than R90,000,000 a month in pay rises for public sector workers, and the snowballing of wage increases in the private sector.

Other economists point out that the 12-month figure for the end of March 1979 was 19.1%.

Since then, the index has risen by more than 5%.

The deputy chief of the Bureau for Economic Research at Stellenbosch University, Mr. Attie de Vries, says he expects the upward trend in the index to continue for the next few months.

He was hopeful, however, that there would be a slowdown in the rate of increase in the second half of the year.
Inflation soars to record 16.19%

By HAROLD FRIDJHON

The inflation rate, as measured by the all-items consumer-price index, soared to a record high in March. Calculated on a year-on-year basis, it rose by 16.19%.

The food-only index went up by 29.72%, the lower-income group index rose by 20.59%, the middle-income group index was 17.18% higher and the upper-income group index went up by 14.56%. All these figures are on a year-on-year basis.

At first sight it would seem that the rate of increase in the index, measured on a month-by-month yardstick, slowed down. The all-in index rose to 193.8 in March, up 0.72% on February's 193.0. In February the month's increase was 1.87%. In recent months, however, there has been no discernible pattern in the rate of increase.

The rate of increase was 0.6% in January. In December it was 1.1%. In November it was 0.8% and the month before it was 1.9%. The fluctuating rates of increase can be attributed to no particular item.

One would have attributed the fluctuations to movements in food prices, but although these have been on the high side they do not account for the lack of pattern in the main index.

For example, last month, the food-only index actually declined. With an increase of 0.14% for the month, the index showed at 217.8 a year-on-year rise of 20.67% compared with a jump of 20.68% in February. The food-only index went up 1.4% in February and in the preceding months the increases were 1.5%, 1.7%, 2% and 4.8% in October. These increases do not correlate with the movements in the main index.

What is most disturbing is the steady climb in the lower-income group index. This bears out the contention in Tuesday's Rand Daily Mail that increasing costs are resulting in millions having to subsist on less food.

Last month the lower-income group index rose to 197.4, an 0.77% increase for the month and a 20.59% increase for the year. In February the gain was 1.6%, to make 20.5% for the year.

The middle-income group rose to 199.4, giving a 0.77% increase on the month and 17.18% for the year. In February the monthly increase was 1.5%, giving 17.1% for the year.

The higher-income group index went up to 194.0 in March, reflecting a 0.72% rise for the month and 14.59% for the year. The comparable February figures were a 1.4% increase for the month and 14.4% for the year.
13% inflation hope for 1981

Own Correspondent

Johannesburg — More conservative salary and wage adjustments, stricter control of the money supply and the slowdown in consumer demand, could result in a decline in South Africa's inflation rate to 13% by the end of the year — on a year-on-year basis.

Mr. Louis Kruger, an economist and a director of Rand Merchant Bank, says in a circular on economic trends, released by the bank, that the rate of increase in real manufacturing output has tended to slow down, probably due to the high level of production capacity utilization.

However, inherent in this situation is a potential inflationary factor which could inhibit real economic growth this year.

Mr. Kruger says Rand Merchant Bank is anticipating, an average gold price of $430 an ounce for 1981, which means that with an average of around $110 for the first three months of the year, a decline at some stage in the rest of the year to $400 and below is considered possible.

Gold price

Mainly because of the sharp increase in the gold price last year, the gross national product (GNP), increased at a notably higher rate than the gross domestic product (GDP), with an increase of 10% recorded in the last 10 months of 1980.

This situation is expected to be reversed this year, and, while a relatively good improvement in 3% in real GDP is expected, real GNP will probably rise by a more moderate 3.5%.

"Turning to the balance of payments, Mr. Kruger says the continued sharp increase in imports and the effect on exports of a decline in the gold price, coupled with a weaker demand for primary goods due to recessionary conditions in world markets, could lead to a deficit of R31 billion on the current account for this year.

"An improvement in the capital account of the balance of payments is however expected to counteract this trend", he says.

Rises in domestic interest rates to levels commensurate with those in the US and the UK should result in the financing of foreign trade by traditional foreign sources and the repayment of credit previously obtained from domestic sources.

Gold and foreign exchange reserves should therefore be maintained at reasonably high levels, and South Africa's good creditworthiness abroad should allow the country to finance the trade deficit quite easily.

Mr. Kruger says that more than anything else, the future course of US interest rates will dictate the movement of domestic money market rates during the rest of the year.

Movements in the capital account of the balance of payments will become increasingly important as the need arises to finance the expected current account deficit, and reference has already been made by the Finance Minister to a possible easing in foreign exchange controls in his August budget.

"These considerations make it imperative that domestic money market rates should be brought approximately into line with interest rates ruling overseas and particularly in the US.

US rates

With US rates already easing, the magnitude of further rises in domestic rates may not be as severe as expected. In some circles, says Mr. Kruger.

On the equity market, Mr. Kruger notes that current dividend yields of industrial shares compare well with those ruling during the October 1971. low of the actuarial index, and in fact, the current earnings yield of around 14% is higher than the 12% recorded in October 1971.

However, prospects for the economy are currently considerably better than during 1971, and investors can expect material growth in both earnings and dividends from the average industrial company.

Due to rapid cost escalations, an average gold price of $430 an ounce for the current year would materially affect the gold mining industry's revenue, and consequently earnings and dividends of gold producers could be significantly lower than last year, says Mr. Kruger, and the current relatively high yields obtained on gold shares should be viewed with caution.

Industrials

While industrial shares appear to be relatively firm around current price levels, Mr. Kruger says it would appear that a long-term bear trend was started in October last year.

"Owing primarily to the wider liquidity implications of a declining gold price, we cannot foresee rising industrial share prices in the face of a declining gold market.

Further increases in long-term interest rates will also make current yield levels on industrial shares increasingly unattractive, in spite of improvements in company profits and dividends.

"We therefore anticipate further declines in equity prices during the remainder of 1981 with gold perhaps declining more than industrials."
1. **Private System**: In the private system, the economic system and the concept of the individual, postnatal care, including nutrition and family, are paramount. Postnatal care, including nutrition and family, are paramount. Postnatal care, including nutrition and family, are paramount.

2. **Contraception with a view to family planning**: This involves contraception for family planning. Whether contraception is for family planning or not, it is essential to consider the needs of the individual and the family. Family planning is essential to consider the needs of the individual and the family. Family planning is essential to consider the needs of the individual and the family.

3. **Compliance rates**: Compliance with family planning is crucial. Compliance with family planning is crucial. Compliance with family planning is crucial.

4. **Trade-offs of medicine and money**: What type of trade-off does money represent in the practice of medicine and money? What type of trade-off does medicine represent in the practice of medicine and money?

5. **The need for social change**: What type of social change do you think is necessary?

6. **The present needs of the society**: How does the expectation of the present needs of the society compare with the expectations of the future?

7. **Education and training**: The need to ask ourselves the following questions:

8. **Provision of health services**: We need to ask ourselves the following questions:

9. **The cost of education**: The cost of education is a huge blunder. The cost of education is a huge blunder.

10. **The cost of retraining**: The cost of retraining is a huge blunder. The cost of retraining is a huge blunder.

11. **The cost of education and training**: The cost of education and training is a huge blunder. The cost of education and training is a huge blunder.

12. **The cost of retraining**: The cost of retraining is a huge blunder. The cost of retraining is a huge blunder.

13. **The cost of education**: The cost of education is a huge blunder. The cost of education is a huge blunder.

14. **The cost of education and training**: The cost of education and training is a huge blunder. The cost of education and training is a huge blunder.

15. **The cost of retraining**: The cost of retraining is a huge blunder. The cost of retraining is a huge blunder.
CPI rises by 16% over year

By VITA PALESTRAN
Consumer Mail Editor

The Consumer Price Index rose by 0.7% last month for all income groups, and by 10.6% during the 12-month period ending in March.

Latest Department of Statistics figures show that the spiral upwards is increasing with inflation running highest for low income groups — 20.6% for the 12-month period and 0.8% during last month.

For middle income groups, the index showed an increase of 17.5% and 0.7% respectively, while for upper income groups it was 14.6% and 0.7% respectively.

Major increases last month were education up by a substantial 21.2%; furniture 3.8%; vegetables 2.6%; medical care 1.8%; and clothing 1.5%.

Food continued to go up, increasing by 0.2% last month, and by 20.9% over the 12-month period.

This index will continue to accelerate in the next few months when the new maize price increase of 9.5% starts filtering through other foods such as poultry, eggs and meat.

The food index for last month showed increases for fish 1.1%, meat 1%, milk, milk products and eggs 0.6%, vegetables 2.8%, coffee and tea 0.1%.

Meat dropped slightly by 0.4%, fats and oils by 0.3%, fruit by 5.5%, and sugar showed no movement.

During the 12-month period, these foods have increased by meat 52%, grain 17.7%, vegetables 34.9%, fruit 15.6%, fats and oils 15.6%, milk, milk products and eggs 11.8%, fish 11.6%, sugar 10.6%, and coffee and tea 4.8%.

Soft drinks rose by 15.0% during the past year and by 0.8% last month, while alcohol rose by 7.3% during the past year and showed no increase last month. Cigarettes showed an increase of 4.6% over the year and a drop of 0.4% last month.

Clothing and footwear increased by 1.3% last month and 16.3% last year, with clothing alone up by a substantial 1.8% last month.

Housing went up by 0.5% last month and 13.3% over the year.

Fuel and power increased by 1.1% last month and 12.2% over the year.

Furniture and equipment showed an increase of 2.8% last month - 16% over the year.

Household operations, up by 7% last year, showed no increase last month.

Cleaning materials dropped by 0.5% last month and rose by 11.3% over the year. Domestics were paid 0.3% more last month and 4.4% over the past year.

Medical care rose by 12.2% during the year.

Transport, vehicles, running costs and public transport showed no increase last month, but rose by 8.2%, 14.6%, 4.3% and 7.6% respectively over the 12-month period.

Communication showed no increase last month and dropped by 3.5% during the 12-month period.

Reading matter rose by 54.7% last year while personal care rose by 11.5% during this period. Both showed no increase last month.

Every month the Department of Statistics in Pretoria supplies masses of information about the cost of goods and services in 11 major urban areas.

These are processed to make up the monthly CPI.
Stop eating and save R20

The best way to beat the cost of living, my late father always maintained, was not to eat.

In fact, after paying the month's bills, he would sometimes call us all together and declare "If it wasn't for food, we could really live well."

Those were the days when you had to be careful to spread butter thinly on your bread, because it cost 1/9 a pound. Now nobody spreads butter on their bread. Food has become a luxury item. Only the wealthy can really afford to eat.

But is eating necessary? I ask this question as one who once fasted regularly. Now more than ever, fasting could become the fashionable thing.

In the first place, it saves you spending R20 a month on food. Such lavish expenditure can be avoided entirely by breathing lots of fresh air which, as any yogi can tell you, contains prana.

Prana is one of the few forms of food left on which there is no GST. Fasting also makes you more spiritually aware.

You become less concerned with material things and you even lose your appetite after the fifth day, which is just as well.

There is nothing to beat a fast if you have been gorging on your R20 and wish to lose weight. It is patristic to have a thin time.

But there is no future in fasting. Definitely, unless you are Irish. Sooner or later you will have to wash out with a morsel or two. You can still do so without biting into a R20 note.

Water is free. You may drink as much as you like from a tap at any public cloakroom. I personally like the water in Cape Town's suburban station. It has a certain full-bodied flavour without being too fruity. After 20 gups of it you can't eat another thing. You can't even jog to get trimmer, because if too much slops go one inside of your insides you won't notice.

Grass is good for you, as all pets who can't make out on R20 a month will tell you. A tip: Kituyu is more digestable than buffalo, but not as nourishing.

Mushrooms, in season, are free in most pine grows. If you are daring enough, try a small portion of the so-called fly agaric. It will make you so bigh you will imagine you have swallowed R20 of food in one sitting. The next symptom is nausea, the finest thing for a person trying to cut down on food intake.

Garden snails are delicious if peppered and served in garlic sauce, provided you can afford the pepper and garlic.

The secret of eating for even less than R20 a month is not to waste energy in unnecessary movement. Expenditure of energy uses up calories, or kilojoules if your metabolism is metric. Therefore don't move, until you absolutely have to. Slow down your body processes. In time you may even stop breathing and your money worries will be over.

Young people still have time to stockpile food, while they can afford it. Then in retirement they can eat as much as they want without looking for their supper in the under-R20 column.

Finally, a few aphorisms.

Eat your words, if there is nothing else in the cupboard. If a minister can, you can.

If you are hungry, never accept food for thought. Your brain is the wrong place for it.

If you are famished, read a few ministerial utterances. You will then become fed up.

Never envy a minister who eats humble pie. He may have been roasted by the Prime Minister.

When is a minister like an old-fashioned yacht? When he is gaffe-rigged.

Ministers never die, they only fade away practising what they preach.

On R20 a month you can have a beer with every meal. If you miss out breakfast and lunch and don't want to eat with your dinner.

On 67c you can travel return fare from Cape Town to Claremont station and still have two cents left for the bus, if you don't feel like eating that day.

Computer Science I

Year 3

Year

Computer Science II

Introduction to Computing

Introduction to Measurement Accounting

Introduction to Management Accounting

Introduction to Management Accounting

Human Resources Management I

Human Resources Management II

Mathematics I

Mathematics II

Management Structure of Business

Management Structure of Business

Management Structure of Business

Management Structure of Business

Management Structure of Business

Management Structure of Business

Management Structure of Business

Management Structure of Business

Management Structure of Business

Management Structure of Business

Management Structure of Business
INFLATION

Load the dice, Jones

The real rate of inflation in SA is substantially understated by official figures, claims JCI economist Ronne Bethlehem.
He has compiled an index that measures it as closer to 20% than to the 16% measured by the Statistics Department's consumer price index.
The difference in the conclusions of the two indices reflects straightforwardly the differing assumptions underlying them.
The Department's all-items index is a weighted compilation of three income group indices — lower, middle and higher.
The parameters of each group, and their individual weightings in the overall index, are based on a 1975 sample survey carried out by the Department. The weightings reflect the share of each group in total expenditure, a system that gives greater weight to the higher income groups.
Bethlehem's alternative index is almost diametrically opposed in its relative weightings. This is because the three income groups enter the overall index, not in terms of their relative assessed contributions to total expenditure, but in terms of the estimated proportions of the total population they account for. In this case, the lower income groups have the heaviest weightings.
In short, the one system weights its constituent groupings in terms of their shares in total expenditure, the other in terms of their shares in total population.
Bethlehem's claim for his "social index" is that it measures more accurately the real impact of rising prices on the whole population. The rate of increase in prices, according to this index, was on average 19.8% in the year from January 1981. This result puts it over three percentage points above the official CPI.

Statistical conflicts

Conflicts in statistical conclusions like these reveal the dependency of measurement on underlying assumptions. It could be argued against Bethlehem that the "more a group spends relative to total expenditure, the more reflective of average inflation must be the price performance of the basket of goods taken as representative of it. On the other hand, the CPI (which contains this assumption) consistently yields lower inflation rates for the higher income groups, suggesting that goods diversity defuses inflation, rather than exacerbates it. In fact, the lower income group is probably peculiarly exposed to inflation through the price structure governing the staple foods to which proportionately more of their disposable income is devoted. Its numerical superiority is recognised by Bethlehem's index, but not by the Department.
Bethlehem's index, could safely be called the more democratic one. But to
close the window," he adds. "But we urged the banks to consider the possibilities that our reserve for the next few months might be right. And so I had it in order to prevent them coming to us and persuading us of taking away the remnants when the rain started."

The Reserve Bank is clever people doing extraordinarily well, and through some sort of mechanism of the commercial banks of the arrangements made by the Reserve Bank, I don't know precisely how it will all work out, but I think we shall see some firmness on the part of the Reserve Bank. It will be interesting to see how they will firm up their reserves when the panic starts.
Assoccom calls on Govt to renew fight on inflation

The Government will have to renew its efforts to reduce inflation to a more acceptable level now that the election is over, says the Association of Chambers of Commerce.

The president of Assocom, Mr I J Pinshaw, said he hoped the Government would use its mandate to maintain stability and proceed with socio-economic change.

Several important laws and policy decisions — especially on the labour front — urgently awaited finalisation and implementation, he said.

Assocom welcomed recent public statements by the Prime Minister on his intention to continue market-related economic policies. This was essential if the private enterprise role of pacemaker in the South African economy was to be strengthened.

The four policy priorities in the wake of the election were stability, socio-economic reform, inflation and the continued stimulation of private enterprise, Mr Pinshaw said.

Assocom also announced yesterday that its chief executive, Mr Raymond Parsons, would travel to New York next week to address business groups on the economic and business implications of the election.

The president of the Association of Building Societies of South Africa, Mr A F "Boet" Vlok, supported the Assocom statement.

He said: "On the political side, I am quite convinced the Prime Minister has the backing in Parliament to continue his policy as he has made it known.

"On the economic side, I feel Government will step up plans to bring down inflation through monetary measures — with the support of private enterprise — as was manifested to the Minister of Finance at the Carlton Conference when inflation was discussed.

"This means money will become more expensive and rates will rise. When people wish to make use of credit, in whatever form, they will have to pay for it."

The president of the Clearing Bankers Association, Mr D P S van Huyssteen, refused to comment because he said the matter was "political."
Inflation soars — but shock tactics may not be needed

Financial Editor

BUSINESSMEN are preparing for shocks. The record inflation rate has led them to expect the Government will take drastic steps to curb price increases now that the election is over.

This feeling is reflected in a report this week in the Economist, the British business journal, from its correspondent in Johannesburg.

Under the headline 'A symbol for inflation after the election', the correspondent says 'South Africa is in for an old style credit crunch.'

He says the boom has left behind it an uncomfortable legacy of rapid inflation which will have to be curbed by policies of austerity.

However, while there is general agreement that the present high rate of inflation cannot be allowed to continue, the view that the Government will have to take strong action is not universally held.

Some businessmen have pointed out that the economy is already showing signs of correction itself.

They argue that further measures could lead to overshoot and a stop-go situation which could do considerable long-term harm to the economy.

In the 12 months to March the consumer price index rose by 15.2 per cent if inflation were to continue at this rate the value of money would be halved every four years or so.

But, shocking though this figure is, it is not the full story by any means.

In the same 12 months food prices rose almost 30 per cent, working costs on some gold mines increased by more than 40 per cent and the cost of new houses by 35 per cent.

According to the Bureau of Statistics, the average cost of the 3,111 houses for which plans were approved last month was £35,090, which is £10,000 more than the year ago figure.

If gold mining working costs continue rising at their present rate the industry's future could be endangered, with serious repercussions for the economy.

New house prices are obviously way above the means of all but the wealthy.

On these figures there is an obvious need for remedial measures and expectations are high that the Government could introduce a tough monetary policy.

But against this it is pointed out that many factors are already working against inflation.

The virtual withdrawal of the building societies from the mortgage market has resulted in a sharp drop in funds going to the market. In the December quarter building society advances exceeded £1 000 million.

The building societies' desperate scramble for funds has also had the effect of forcing up short and medium term interest rates — even though the

Continued on Page 2
Believe it or not— inflation rate is slowing.

FOOD PRICE HAS BEEN FACTOR IN DISTORTION

He points out that the index, which excludes food, is just on 10% for the past five months.

Volkas' economist Adam Jacobs, while cautious of figures that do not include a full 12 months, agrees that the rate of increase is on the wane and that the December on December figure for 1981 could be in the region of 12%. In June, it could be between 13% and 14%.

He says, however, that while the food index will drop, the service and manufacturing indexes could accelerate slightly for the year.

Mr Jacobs points out, however, that the index for the lower income group will probably reverse its trend of growth faster than that of the middle and upper income groups.

He says that if Government policy of strict financial discipline is effective the rate could drop to 10% in 1982.

By Tony Hudson

Despite dire predictions that inflation will hit 20% later this year, the indications are that the rate of increase is already on the decline.

Economists polled by Business Times this week said that they expect the inflation rate, year on year, to be between 12% and 14% by December this year. Figures from the Department of Statistics seem to confirm this view.

One of the main factors distorting the rate and putting it at its high of more than 16% was the rapid increase in food prices late last year.

However, the figures now show a definite decline in the rate of increase over the past few months.

In October the increase in the food price index hit 4%. In November it dropped back to 2%. December 1.7%, January 1.5%, February 1.4% and in March it was only 0.14%.

Nedbank economist Rudolf Gouws tells Business Times that on an annualised basis the inflation rate for food was 17% compared with 41% for the last seven months of 1980.

And for the last three months, says Mr Gouws, the annualised rate for the food index drops right back to 11.9%.

Also, the all-in index, which was almost 10% for the last seven months of last year, stands at 11.9% when the last five months are annualised.
Inflation — the culprits

INFLATION in South Africa could not be halted, only alleviated, said Mr S J Matus, president of the Johannesburg Chamber of Commerce, yesterday.

He told a luncheon of the South African-German Chamber of Trade and Industry in Johannesburg that inflation this year would probably be between 16% and 17%, with food at 23%.

He gave several examples of the causes of inflation, such as the Railways.

"In this country the distance over which business may deliver its goods is governed by legislation in order to protect the monopoly of the Government-owned railways. The justification for this is that the Railways serve the whole country, whether the deliveries are viable or not," Mr Matus said.

In the "final analysis, we have to look at the money supply" as a cause of inflation.

He said that in 1980 the money supply had increased by 27% against the consumer-price index of 15.8%.

"Firstly, we must reduce the money supply and the most effective way of doing this is to increase interest rates." This would make it more difficult to borrow and would encourage people to save.

This would not help to dampen the demand for food, the biggest contributor to inflation.

He thought food should not be bought with credit cards — another cause of inflation.

Mr Matus asked the Government to look at the whole system of education and place it to an equal footing, irrespective of race — Sapa.
Assocom fears demand inflation

By HAROLD FRIDJEN

ASSOCOM urges that more emphasis must be placed on combating inflation, but the policy of growth with financial discipline should be continued.

A memorandum on the economic situation considered at the mid-year meeting of the executive committee, which ended in Johannesburg last year, stated that inflation was predominantly the cost-push type in 1979, but demand inflation started to have an impact in the latter part of 1980.

This is explained by the significant rise in the money supply during 1980 at a time when interest rates remained relatively low compared with the rate of inflation.

ASSOCOM repeatedly asked the authorities to take steps to curb the money supply, but action was not taken as swiftly as it might have been. The recent moves by the authorities should slow down significantly the rate of increase in the money supply during the rest of the year.

Looking at the manpower situation, the memorandum says the latest figures indicate that there was a general improvement in employment levels last year. The increase in non-agricultural employment was sufficient to absorb the normal reduction of the labour force and to reduce unemployment.

In spite of this, unemployment among the unskilled black labour force remains unacceptably high.

"This re-emphasises the importance of continued economic growth."

The shortages of skilled labour highlight the need for the intensive education and training of all race groups to provide the necessary skills in the future. As a palliative, skills will have to be imported.

ASSOCOM is pinning its hopes on an average growth rate of 5% for the South African economy this year. It will be higher in the first half of the year with the carryover of the momentum from last year, but it will taper off in the second half.

But, as Mr Raymond Parsons, chief executive said, "The business cycle is not dead."

The business mood is still cautiously optimistic although expectations for the balance of 1981 are down on those prevailing at the same time of last year. The reasons for this are the anticipated lower growth rate, the tighter money conditions, and the slowdown in the rate of increase in consumer expenditure.

Businessmen are urged to make every effort to increase and improve the training of
Inflation rate slowed

SOUTH AFRICA'S inflation rate slowed down last month, the Department of Statistics reports.

The consumer price index (base 1975 = 100) which is used to measure the inflation rate, rose only 0.6 percent in April from 195.2 to 196.4.

This is the smallest percentage monthly increase in the index for a year. It follows an also encouragingly low 0.7 percent rise in the index in March.

However, in spite of this slower growth in prices, the cost of living in April was still 15.5 percent higher than a year ago.

The main reason for the smaller increase in prices last month was that food prices overall showed no increase. The food index remained unchanged at 217.3 the department reports.

This is the first month food prices have shown no increase since November 1979.

Nonetheless, food prices last month were still 26.9 percent higher than a year ago, the index shows.
Inflation slows to 15.5%

By HOWARD PREECE
Financial Editor

The rate of increase in the consumer-price index eased to 15.5% for the 12 months to the end of April. That compares with 16.2% at the end of March.

More important, however, is the fact that the underlying trend in consumer prices has been much lower in recent months than in the past year as a whole.

In the six months October to April the CPI rose by 5.4% — an annual rate of only 10.8%.

This is certainly encouraging and will be eagerly and quite understandably seized on by Mr. Oween Horwood, the Minister of Finance, and his key advisers at the Treasury and the Reserve Bank.

Curbng inflation is now their most urgent priority.

Some strong reservations must, however, be made:

- Price rises can be cyclical — and few things are more cyclical in their effect than a general election.
- There are a wide number of price increases, many with big ripple effects, in the pipeline.
- The 12% rise in broadly defined money supply in the year to the end of March points to severe inflationary pressures ahead.
- The sub-divisions of the CPI show that the lower-income groups are still the worst hit by soaring prices — not only absolutely but in percentage terms.

A standstill in food prices was the key factor in restraining the rise in the overall CPI to 0.0% in April. However, food showed a 27% price jump on a 12-month count.

The CPI rose to 156.4 in April against 156.2 in March and 159 in April last year.

For upper-income groups, the sub-division showed an index rise over the year of 14.1%.

But the level was 19.1% for lower incomes (most blacks) and 16.4% for middle incomes.

In the six months October to April the annualised rises were 10.3% for upper incomes, 10.8% for middle incomes and 12.4% for upper incomes.

A large rise in the steel price, perhaps 15%, will be announced next month. It will have a major impact across most of the economy.

Food prices will soon be boosted by increases in, among others, such staple items as bread, milk, butter and cheese.

Rising interest rates will eventually have an anti-inflationary effect through putting an effective damper on general demand, at least consumer spending.

In the short term, however, they will add to the inflationary forces by pushing up costs.

At some stage, too, another rise will have to come in domestic oil prices — the last big increase was in 1979 — and this will have a huge impact on the whole cost of living.

In spite of all these factors, however, the rate of inflation can certainly be reduced next year if the Government and the financial authorities are determined to give overriding priority to it.

How much it will fall will depend partly on how prepared Mr. Horwood and his colleagues are to sacrifice, at any rate in the short term, economic growth and employment.
Inflation slows — but wait for liftoff

By GERALD REILLY
Pretoria Bureau

The inflation rate slowed again in April — for the second month in succession. According to the Consumer Price Index released in Pretoria yesterday, the all-items figure rose by 0.8% last month, giving a 12-month rise of 15.5%.

In March the index rose 0.7% and the year-on-year rate was 16.2%.

Food prices did not rise in April. However, some economists warned last night against accepting the two-month performance as a trend. They said there were still substantial inflationary pressures which would be mirrored in the CPI during the next few months.

Among these were the imminent increase in the prices of all dairy products and the coming steel price increase.

The chief economist for Barclays Bank, Dr Johan Cloete, said the impact of higher Railways rates, recent food price rises and those still to come, had not worked completely through to consumer prices.

He expected the 12-month rate to go higher than the current 15.5%.

For a number of reasons, however, including a severe monetary and credit squeeze, inflation would be easing by the final quarter of this year.

The PFPA’s financial spokesman, Mr Harry Schwartz, said the slower rate of increase in the inflation rate during March and April was predictable. Price rises were deferred because of the General Election.

"The 0.7% and 0.6% rises in the CPI during March and April are deceptive there is still, unfortunately, plenty of inflation in the pipeline."
Fight against inflation priority, says De Loor

THE GOVERNMENT is giving the fight against inflation the highest priority, the Director General of Finance, Dr J H de Loor, said in Bellville last night.

He told the Graduate School of Business of the University of Stellenbosch that the authorities' fiscal and monetary policies based on growth through financial discipline had achieved considerable success.

As a result of their firm hand, government spending had fallen from 16 percent of gross domestic product in 1978-79 to 11.3 percent in 1980-81.

However, it was apparent that in the decade ahead, the fight against inflation must continue to have priority.

RIGIDITIES

'With the many built-in rigidities in our economy which facilitate price increases but hinder price reductions, we will always have upward tendencies to oppose,' he said.

These one-way tendencies were likely to be strengthened by many other factors.

These included the drive for economic independence following boycott threats, the rapidly rising expectations and living standard of blacks, inflationary influences from abroad and the imperfections of the basic free-market economy.

Effective competition was so often stifled by abundant rules, regulations and historic — or even antique — customs. These were added to conscious actions against the market mechanism such as price fixing and rent control.

Although the shortage of qualified workers was troublesome, it was cyclical and much, though not enough, had been done to solve it.

However, the inflation problem was much more resistant and difficult to manage.

It would be much more difficult in the future for the authorities to keep government spending in check. South Africa was being forced by the shortening of expectation horizons and by international pressure to do much more in a much shorter time than it was in a position to afford.

The De Kock commission's final report on monetary and fiscal policy was expected to be issued in a few months.

Its views on the application of policy instruments should do much to strengthen the basis and methods by which the economy could be controlled and provide instrument of greater range and flexibility.

The authorities' task then would be to employ the optimum combination of the existing and new fiscal and monetary measures.
Economic outlook remains optimistic despite slowdown

AUTHORITIES CRITICISED FOR LATE ACTION AGAINST INFLATION

OPTIMISM about economic conditions still remains high among leading businessmen.

This was a major conclusion of a survey of views on economic outlook and policy carried out by Business Times this week.

While many businessmen are clearly expecting a substantial slowdown in activity in 1982, there are few criticisms of the Government's handling of economic policy.

The sharp increase in interest rates and other monetary policy measures is being seen as the country's foremost economic problem.

But there are some severe criticisms of the authorities for allowing the situation to develop.

The present action on the monetary front has been too late, and measures taken now would therefore need to be drastic to be effective.

"I hope that scared political concerns such as housing and agriculture are not going to interfere," he says. "If it means that the interest rate will be raised, then so be it."

Mr. de Villiers forecasts an average inflation rate of 15% in 1981 and 17% in 1982.

He expects the average growth rate of 4% for 1981 (GDP) and a rate of between 2.5% and 3.5% in 1982.

Conditions, he says, will worsen over the next quarter of the year and consumer confidence is waning, although no drastic decline is expected.

"We are running that conditions remain pretty good. There is a slight change in the growth rate but it is still positive. The issues are not dramatic. There is still real growth although it is not at the rate we would like," he says.

A "must" factor in Mr. de Villiers' confidence, he says, is that the country's credit future is not under threat. If it were, then interest rates would soar.

"We are treading the line that has no doubt that interest rates are necessary. We understand the problems of getting the money supply under control," he says. "But there is no doubt that action had been taken earlier and this would not have had to be so dramatic."
CONSUMER PRICES

Political hiccup

The rate of increase of the consumer price index (CPI) slowed to 15.5% for the 12-month period ended April, compared with a March peak figure of 16.2%.

While the month-on-month increases in consumer prices have now been slowing for two months — increments of 0.6% in April and 0.7% in March compared with a figure of 1.5% in February — the latest figures cannot be taken as indicating a downward trend.

Although the rate of acceleration appears to be declining, the April rate of 15.5% merely brings the economy back to the level it reached in January of this year. The inflation rate in April last year, as measured by the CPI, stood at 13.4%.

In addition, seasonal factors must anticipate a series of administered price rises in the near future — in such commodities as steel and food — which will have a ripple effect throughout the economy.

The latest inflation slowdown is due primarily to a halt in the steep upward trend of food prices, which did not increase at all during April. Rocketing food prices have been the largest contributor to the 15.5% rate of inflation over the last year, rising by no less than 27% in the year ended April. Without the food price component, the CPI for all items would have increased by only 12.4%.

Fruit and vegetables, which will increase by 16% in mid-June, and flour which was marked up just after the election. An increase in the price of bread is expected to be announced in the August budget.

Increases in the prices of all these items have their greatest impact on the lowest income groups, of whose budgets staple foods make up the greatest proportion. While the inflation rate for higher-income groups was running at 14.2% for the year ended April, that for lower-income groups stood at 19.1%. The rate of increase for middle-income groups was 16.4%.

Food prices were not, of course, the only ones which increased between April 1980 and April 1981. The cost of education increased by 21.2%, that of housing by 13.2% and that of clothing and footwear by 9.4%. At the other end of the scale the price of communication actually dropped by 3.8%.

The latest CPI figures certainly look a lot better than previous ones and government's measures to raise the cost and curtail the availability of credit and to curb money supply could well bring down the rate of inflation within the next few months. But the light at the end of the inflation tunnel is still distant and not very bright.
Textile company shows huge loss

Argus Bureau

LONDON — One of the largest ever losses sustained in the private sector of the British manufacturing industry has been announced by Courtaulds. The group, the country's biggest textiles company with worldwide interests, reports a net loss of £184.1 million (R529 million).

Profits before tax slumped from £88 million (R1.19 billion) to £3 million (R5.75 million) in the year to March.

But after paying tax the group was in the red. A further £260 million (R1.78 billion) has been set aside to cover an extensive programme of redundancies and closures.

No improvement in inflation rate foreseen — survey

After seven years of double-digit inflation, there is no sign of an improvement, says Sanlam's latest economic survey.

On the contrary, since 1976 the rate of increase in the cost of living has shown a rising trend.

The rate of increase in the consumer price index rose from 10.9 percent on average in 1978 to 13.2 percent in 1979 and 15.8 percent in 1980.

Sharp rises in food prices are mainly responsible for the current high cost of living, the survey says.

Food prices in the past year rose by 18.8 percent on average while meat prices increased by no less than 32.3 percent.

In the major part of the past decade food prices rose at a more rapid rate than prices of other goods and services.

In 1970 the average inflation rate for the higher income group was higher than for other groups, due mainly to a sharp rise in prices of petroleum products, which constitute a considerably larger portion of the total spending of the higher income groups than of other groups.

TOTAL SPENDING

"On the other hand, in 1980 the inflation rate for the lower and middle income groups was appreciably more than that for the higher income group owing to the sharp rise in food prices and the heavier weighting of food in the total spending of the former groups."

Wages and salaries rose considerably faster last year than in the preceding four years, the survey says.

"Taking into account the rise in the cost of living, the increase in 1980 was about three percent, as against a real decline of just under one percent in 1979."

While the real pay of white workers declined for five successive years, it increased by about 2.5 percent last year.

From 1971 to 1980 the incomes of blacks, coloureds and Asians rose by 60 percent, 98 percent and 15 percent, respectively in proportion to that of whites, appreciably narrowing the wage gap.

The survey notes large disparities in income but says much of it can be accounted for by differences in the degree of the workers' skill rather than by discriminatory income for the same work.

Average earnings per worker in the public sector rose at a higher rate than in the private sector and the gap between the two sectors for certain vocational categories could narrow further this year.

The detrimental effect of sharp rises in labour remuneration on labour costs per unit of production in 1980 was partly counteracted by increased productivity of labour.

The average real production per worker in the non-agricultural sectors of the economy in 1980 increased by about 4.5 percent, compared with an increase of two percent in the stand of the Government. — Sapa
Price Discrimination

Riding the Hydra

As the many-headed Hydra of inflation has become the most visible economic enemy, the consumer price index has come to naturally as its most visible barometer.

It claims to keep tabs on price rises where they hurt most — that vulnerable place on the body just beneath the consumer's cash pocket. But what in fact does it measure?

Like all such indexes, the SA CPI is ultimately an abstraction of several abstractions. It is based on a statistical method created by a Frenchman called Lapeyre. His main competitor is the Pascale system, which differs primarily in stressing the measurement of the substitution effect. As prices rise, consumers substitute cheaper goods for more expensive but comparable goods like butter and yogurt for margarine. Spending patterns can change considerably over time in this way. But monitoring them — and Pascale recommends updating at least monthly — is itself expensive and guaranteed to inflate statistical costs. So French national institute in the great inflation indexes of the world tends to overweight German idealism.

But the substitution effect is the problem where accuracy is concerned.

A step headed "drinks and prepared food bought away from home"

The Lapeyre system calls for an expenditure pattern update every 10 years. But spending patterns must change considerably over that period of time and ironically most when inflation rates are high. For instance in the last six years meat has risen 148%, sugar 171%, fuel and power 250%, etc. Goods substitution must have taken place during that time to mollify the effects of price rises, but the index does not reflect it.

There is also a problem in making a distinction between consumption and investment goods. Houses are considered to be investments so house prices do not enter the index at all. Instead rents and mortgage interest payments go up along with other housing costs like rates and municipal service fees. These are registered monthly in postal returns from the

It's clear that the CPI exaggerates the cost of living and thus underestimates the consumer's cost of living. The answer is that the index is an abstraction of several abstractions and does not accurately measure the substitution effect. The Lapeyre and Pascale systems are better but are still expensive and guaranteed to inflate statistical costs. The French national institute tends to overweight German idealism in the great inflation indexes of the world.
adequate means of wages was being offered to any of the members. Finally - to the activity. It was because of the anticipated slowdown in the general level of economic activity that Mr Heber-Percy was cautious of forecasting the performance of some of the subsidiaries within his group as they were linked to the general level of economic activity.

**TREND**

However, he hoped that the group would return to a growth trend in earnings in the current year after a year of disappointing results during which the group was severely affected by the performance of its Jaguar Motor Spares and Accessories subsidiary.

During the latter part of the review year this company suffered a setback as a result of over-trading and recorded an overall loss.

During the current financial year this subsidiary was expected to return to profitable trading, Mr Heber-Percy said.

Anne Croty.

So consider when they result of the number of directly via schoolchildren, proportion the building.

g. it appears says coincide sides the building.
b. builders holiday. No clear conclusion can be drawn as to how the women are active for the rest of the year. Ten of the fourteen farmers who responded, asserted that at least some of the women not employed for the balance of the year (six of these felt that the majority were in fact unemployed.) Other alternatives suggested were variously that the women were employed as domestic workers (suggested by seven farmers), found jobs in factories - especially fruit processing factories in the area (eight farmers), or were engaged in other seasonal fruit farming activities in Ceres and Tulbagh (three farmers). One farmer asserted that some of the workers - from Touws River - found seasonal employment in the West Coast fishing industry.

(ii) Elgin

In sharp contrast to the Hex River Valley as we see from Table 3, non-resident seasonal workers are the least important source of supply of seasonal labour for farmers in Elgin, comprising only 22% of the thinning labour force (five farms use them for this purpose) and 28% of those packing (used by eight farms.)

The women are recruited from Pineview, the 'Coloured' township
Bureau, or the Administration of Coloured Affairs, the figures here quoted are from our own survey (Table 3).

The highest earning was R242 per month.

The lowest earning was R43 per month.

The highest disability award was R202 p.m.

The lowest disability award was R61,85 p.m.

The average disability award was R114 per month, thus one patient costs the tax-payer:

R342 for 3 months.

R684 " 6 "

R1368 " 12 "

This means that 500 patients drawing disability awards for 6 months, each, would cost R342 000 p.a.

500 patients on disability awards plus loss of production for 6 months gives a yearly total of R 714 000.

\[ \text{These match the figures given by U.E.T.'s wages commission of, R49 to R290 per month.} \]

Interestingly, there is no incentive, medically speaking, to try and attain a lowering of this figure, as no saving would revert to State Health.

As the relatively high price of Rifampicin (Table 5) seems to be the main bone of contention, it can be pointed out that 500 patients receiving Rifampicin at R1,11 (the new price given to me by the suppliers) gives a yearly total of a mere, R33 300.

Rifampicin expenditure as a ratio of the figures alone is but 1/10th or, 1/20th, respectively. Further, the

Inflation continues. The Department of Statistics reports that in the past five months the inflation rate has been 22%, the forecasts made by the Department of Statistics at the beginning of the year. This has been against the backdrop of the drought made by a 15pc cut in domestic economists at the beginning of the year. The drought has resulted in a 9.3% increase in prices in the second half of last year, which was a high percentage increase, and continuous increases in the second half of this year will be at an annual rate of 8.9 percent, according to the Consumer Price Index.

In the U.S.A., each year, approximately 325 million dollars are still being spent on hospitalisation, compared to an estimated 40 million dollars on outpatient treatment, a mere 12% (5).

Possibly, one of the most interesting and one of the extremely few commentaries published, on hospital expenditure is that of the "Arizona Experiment" (6) where they showed that in a change-over from a State Tub. sanatorium to Tub. beds in a General Hospital, although the patient/day rate was far
Medical Aid Schemes

Table 3 shows that a racial bias exists, in terms of which radical aid schemes tend to cover predominantly whites. This stems from the skilled-worker bias of the medical aid schemes (as will be shown from membership criteria), and the fact that whites hold predominantly skilled positions. The contributions for radical aid schemes are also too high for lower-paid workers. It is no wonder the parties to the industrial council agreements who decide on contributions rates and so forth. The parties are the registered trade unions and the employer organization. For the most part, radical aid schemes exist in industries in which the trade union is still organised on a craft union basis. These industries include: Building, Printing, Electrical undertakings, Engineering Trades, Iron, Steel, Metallurgical industry, motor industry, hairdressing and Furniture. (See Appendix C - list of Trade Unions who are parties to medical aid and radical benefit agreements.) 80% of white workers are covered, whereas Africans have virtually no medical aid coverage. (See Table 3.) The high exclusion rate of Hindus and relatively high exclusion rate of Coloureds and Indian workers could be related to the workers not employed in skilled positions.

Ten of the sixteen radical aid schemes at present existing were established after 1963 and only one existed before 1957. All the schemes cover dependants to differing degrees, and make provisions for pensioners and widows to continue being members. The schemes pay for doctors' accounts and medicines, medical, surgical, specialist and hospital and nursing home treatment and services are also paid for. There is free choice of doctors, no doctors being appointed for consultation by the management committee. A preferential tariff is, however, laid down by the management committee of the fund.

TABLE 4

<table>
<thead>
<tr>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consultation in rooms</td>
</tr>
<tr>
<td>Visit between 8.30 a.m &amp; 5.30 p.m.</td>
</tr>
<tr>
<td>Home visit (weekends)</td>
</tr>
<tr>
<td>Night visit</td>
</tr>
</tbody>
</table>

From: Matheson J.: The Source: 'Paying the d
Gold price drop may reduce inflation

By David Brewer, Chief Reporter

Johannesburg: Economists today predicted the plummeting gold price would help reduce inflation in South Africa.

Several reduced gold prices for South Africa will have two conflicting effects on inflation, economists say.

One effect will be deflationary. It can cause a panic to kick in from the economy. This causes the exchange rate to drop from the economy. This reduces the exchange rate, which has caused demand and the excess inflation.

The other effect will be inflationary as lower gold prices will cause a balance of payments deficit. This will reduce the government’s policy of reducing the money supply which has already begun with higher interest rates.

Professor Hansen, head of the Department of Economics at the University of the Witwatersrand, said the short-term effect would be a drop in the money supply which would fight inflation.

The long-term effect was difficult to predict because there were so many factors, he said.

Bo Johansen, chief economist of the Standard Bank, said without the effect of the declining gold price would be anti-inflationary.

He said the outline of the money would help the government’s policy of reducing the money supply which has already begun with higher interest rates.

Andre Hamersma, chief economist at the Standard Bank, said the long-term effect of the gold price decline will be more powerful than the inflationary effect.

The overall effect will be anti-inflationary, he said.

Joe Cocks, student at the University of the Witwatersrand, said the short-term effect would be a drop in the money supply which would fight inflation.

The long-term effect was difficult to predict because there were so many factors, he said.

Bo Johansen, chief economist of the Standard Bank, said without the effect of the declining gold price would be anti-inflationary.

He said the outline of the money would help the government’s policy of reducing the money supply which has already begun with higher interest rates.

André Hamersma, chief economist of the Standard Bank, said the long-term effect of the gold price decline will be more powerful than the inflationary effect.

The overall effect will be anti-inflationary, he said.
Govt has 'failed dismally' on inflation control

Staff Reporter

Opposition spokesmen and consumer organisations are dismayed by the continuing rate of price increases since the general election.

Recent price rises include 16 per cent for milk, 21 per cent for cheese, 18 per cent for canned foods, 14.5 per cent for dog food and 16 per cent increase for cooking oil.

Other increases in the pipeline include petrol, medical fees and bread.

The PFP spokesman for consumer affairs, Mr Horace van Rensburg, said the National Party's slogan for the election should have been 'vote now, pay later'.

"The Government has failed dismally in its efforts to check inflation and the man-in-the-street is battling to survive," he said.

Mr Ken Andrew, PFP MP for Gardens, said it was terrifying to imagine what rocketing prices were doing to the health of those living below the breadline.

ACTION

He said the Government should take immediate and drastic action to improve the situation, and he suggested the following measures:

- General sales tax on essential foodstuffs should be removed and inefficient control board marketing methods eliminated.
- The Government should refrain from increasing the price of petrol at a time when there was a world-wide glut.
- Urgent financial aid should be given to pensioners.

Mrs Joy Hurwitz, national president of the Housewives' League, said the recent increases were an annual event and the consumer's battle to make ends meet was becoming increasingly harder.

TELEGRAM

"The league sent a telegram to the Prime Minister on Tuesday pleading with him to do everything in his power to avert a petrol price increase if the increase is approved, it will have an inflationary effect on the whole economy," she said.

"With price increases the consumer can never win. She has to bear the full burden as there is no one she can pass the higher costs on to," Mrs Hurwitz said.
The combined force of yesterday's 12% steel price hike and the petrol and diesel increase expected to be announced later today, will help push the inflation rate back up above 16% within the next three months, according to economists spoken to yesterday.

The petrol price rise — it is likely to be 6c — will come into effect on Monday.

The Minister of Mineral and Energy Affairs, Mr F W de Klerk, is also expected to announce that from next week pumps will be kept open until 6pm on Saturdays.

Announcing the steel price increase Mr P Kotze, chairman of the SA Rolled Steel Producers' Co-ordinating Council, said the price rise was not adequate to offset the rises in input costs experienced by the steel industry in the past year.

Mr Kotze said the current rate of inflation of about 15% gave some indication of the manner in which prices were increasing. As far as the steel industry was concerned, there were a number of factors which caused production costs to rise more steeply than the general rate of inflation — despite considerable improvement in productivity.

Barclays Bank's chief economist, Dr Johan Cloete, said the increase would "permeate" through the economy, inflating the prices of a large range of products.

He strongly recommended the Government should make it firm policy to announce all administered price rises on the same day each year.

Until this was done, he said, the price policy would remain out of line with the Government's fiscal and monetary policies.

The director of the Motor Industries Federation, Mr Jan van Huyssteen, said the higher steel price could add as much as R120 to motor vehicle prices.

Building industry sources said the higher steel price, with the increases in cement and bricks announced six weeks ago, would add significantly to building costs.

© See Page 7
SA inflation rate 'to stay in double figures' 

Own Correspondent
FORT ELIZABETH — South Africa's inflation rate is unlikely to return to single figures, Mr W F de la Harpe Beck, immediate past president of the South African Federation, said in Port Elizabeth yesterday.

Mr Beck, chairman of the Fidelity Bank group, told the mid-year general meeting of the Midland Chamber of Industries that because productivity had not matched wage increases, he expected inflation to remain high.

He also predicted that interest rates for short term funds would go as high as 16% to 17% this year, leading to a further tightening of the money market and said he expected an acceleration in the South African growth by late next year or early 1963.

Referring to the inflation rate, he said in recent years wage increases, particularly of black employees, had not been matched by increased production.

"I am not criticising this action and in the foreseeable future I expect this trend to continue. For this reason alone inflation will be relatively high."

He said only accelerated training and the development of the relatively unskilled labour force to enable it to increase production significantly, would reverse the trend. This was not something however, which could be accomplished overnight.

He urged businessmen to ensure that sources were available to meet increased replacement costs and working capital or face the danger of a cash crisis and possible bankruptcy.

Rising interest rates would make it "exceedingly difficult" for organisations without facilities from financial institutions to obtain short term funds at even 16% to 17% or to increase existing facilities.

He was not in favour of Government intervention and expected that the rest of 1961 would be extremely tight.

Mr Beck said the expected economic growth rate of 2.5% next year did not herald a disaster.

Because it appeared that South Africa's major trading partners were likely to move out of their relatively depressed state next year the country could expect an acceleration by late 1962 or early 1963 through substantial increases in exports, particularly mineral.

While he expected the price of gold to hover around $400 an ounce he was confident that in the long term it would move above the $500 level.

Coupled with increased exports and foreign exchange savings stemming from Sasol's rating production an improvement in the Balance of Payments can be expected, he said.

C W von Duing

subject of building construction
for the best student in the
SA brick association prizes

III: NO AWARD
II: A R LOW KEN
I: N D G SESSOMS

fifth years respectfully
II and III in the third, fourth &
the course of building economics I
for the best student in each of
LTA prizes

p r swift

professional practice
for the student obtaining
the highest marks in
the student obtaining
surveyors prize
cape chapter of quantity
the committee of the western

p c key

in any year of study
for the best all-round student
bell-john prize

(continued)

surveyors quantity

(continued)
Putting the squeeze on inflation—what impact?

By MIKE PEIRSON
Finance Editor
1 JUL 1981

Reagan is experimenting to try and diffuse his own inflationary spiral.

The object of the American experiment is to squeeze inflation down to more realistic proportions by clamping a vise on the amount of money in the economy.

Economists seem to be split over what impact the new money experiment will have on the economy. Most of that disagreement is over what will happen to interest rates in the next few months.

Although supporters, including monetarists in and out of the Administration, have been unable to explain why interest rates remain so high, even though inflation has been decelerating, they maintain that rates will soon be coming down sharply and that they will stay down.

Critics argue that a decline in interest rates will bring bond interest rates will stay high and volatile for months—or even years.

The matter goes beyond interest rates. However, the US economy could face some pretty rough times with many corporate bankruptcies, a financial crisis, weak capital investment and a period of slow growth.

But if the Federal Reserve is right, inflation will undoubtedly subside and even though the economy may have to endure a few quarters of recession, the foundation will have been laid for a sustained period of solid non-inflationary growth.

The latest Standard Bank Review points out quite strongly that South Africa has now clearly entered a period of balance of payments pressure.

As in the past this has occurred partly because of an acute reliance on relatively few major commodities and markets.

Standard Bank says these pressures could continue well into 1982 and maybe further.

They are likely to have a direct effect on the domestic economy which will set in nation monetary and fiscal policies aimed at stabilising the balance of payments and curbing the excesses of the past economic boom.

Standard adds that there is little doubt that until the world economy recovers and export growth accelerates, South Africa will be hard
The recent emphasis on anti-inflationary action by the Government in the context of a longer term renewed growth strategy has been supported by Anglo American's economic consultant, Aubrey Dickman.

Speaking at South Africa's economic outlook seminar, Dickman said the Government's action appeared to him to be absolutely essential. "However, the arguments against using market forces rather than controls of various kinds have become more sophisticated. There are those who think that fiscal policy is a better way of controlling inflation." Dickman also explained that while the present policy was good, it was not good enough. "If we want to achieve the kind of growth that we need, we must have a more comprehensive strategy."
EVALUATION OF A COMMUNITY APPROACH TO PREVENTABLE
DISEASE IN GAZANKULU*

1. INTRODUCTION

In an effort to measure scientifically the impact and effect of the care-groups, we conducted a survey in the two villages CHAVANI and MBOGOTA in which care-groups were established.

In this paper we attempt to answer the question: Does such a form of preventive medicine, the care-groups, have an impact or are we exchanging one form of care for another?

2. METHOD

The survey was undertaken in two villages which are comparable distances from each other, and each which possesses a care-group and clinic. Aerial photographs of the villages from which a random choice of one hundred households per village (i.e., 16% of the households in Chavani, and 15% in Mboogota) were taken. Questioning was carried out in teams of two students and an interpreter. The interviewers were either hospital staff from the hospital in the village, or trainee teachers who had been selected from the local community.

Two general boundary lines of each area were laid out, and the grid were not questioned.

3. PROBLEMS WITH THE SURVEY

There were problems both in the initial planning of the survey and in the accuracy of answers obtained, some being general to surveys of this type and others specific to ours.

During this survey we found that questions seeking conceptual answers were difficult to communicate and so we have attached little significance to them. Instead we have concentrated on those indices which can be quantitatively measured e.g. the presence of pit latrines and vegetable gardens.

Greatest involvement of the villagers in the planning stages of the project would have varied against the probable cultural bias inherent in our question.

We used Hospital staff and trainee teachers as interpreters, while white students wrote down answers and checked for inconsistencies. Certainly problems arose from this situation. Firstly, the interviewers sometimes felt they were attempting to give answers which were not what the villagers wanted them to give, and secondly the villagers often had difficulty in understanding the questions and so on.

In all cases of misunderstanding the interviewers were informed of their error, and the villagers were informed of the answers.

Interviewers could be said to have been embarrassed by the fact that they did not have enough knowledge about the answers; in many cases they had to rely on the interpretation of the answers.

4. DISCUSSION

The general health and hygiene standards of the populace and to concentrate on only one disease - trachoma. Trachoma is endemic in this area and usually occurs as a result of poor hygiene and lack of clean running water.

In an effort to combat this, the following preventive concepts were introduced:

1. The use of clean water
2. Use of individual face cloths
3. Use of soap when washing e.g., before eating.
4. Removal of faecal and other waste matter from the area surrounding the house, i.e. the establishment of pit-latrines.

The only curative effort made was the dispensing of tetracycline eye ointment by the care-group members when any signs of trachoma were apparent.

*Refer to 1) A Primary Health Care Program in Gazankulu B. M. Butter (paper no. 26).
2) Further Health Care Development in Gazankulu P. W. Kok (paper no. 27).
SA inflation rates among West’s worst

Financial Reporter

South Africa’s inflation rate is now among the highest in the world, according to recent figures from the Reserve Bank of South Africa. The rate has been rising steadily since the early 1980s, reaching double-digit levels in the late 1980s and early 1990s. Inflation rates have remained high, with the annual rate of inflation in March 1991 reaching 13.8%, the highest in the country in recent years.

The high inflation rate is a reflection of the high cost of living in the West. As the price of oil continues to rise, the cost of living in the West is also rising. The cost of living in the West is now about 30% higher than it was 10 years ago.

Inflation is a problem for both the government and the economy. The government is trying to control inflation by raising interest rates, while businesses are trying to reduce costs by increasing prices.

The Reserve Bank of South Africa is trying to control inflation by raising interest rates. The government is also trying to control inflation by raising taxes and reducing government spending. The government is also trying to control inflation by controlling the supply of money. These measures are working, as inflation rates are now falling.

Inflation is a problem for both the government and the economy. The government is trying to control inflation by raising interest rates, while businesses are trying to reduce costs by increasing prices.

The Reserve Bank of South Africa is trying to control inflation by raising interest rates. The government is also trying to control inflation by raising taxes and reducing government spending. The government is also trying to control inflation by controlling the supply of money. These measures are working, as inflation rates are now falling.

Give up the luxury of studying

For the best all-round student

Bell-John Price
Govt warned on inflation measures

THE Trade Union Council of South Africa and economists warned the Government yesterday to keep a tight grip on its anti-inflation measures or risk dumping the country back into recession.

Reacting to the 2% increase in the bank rate to 12 1/2%, the general secretary of Tusca, Mr Arthur Grobbelaar, and leading economists said the move would inevitably slow down the growth rate and aggravate the country's acute unemployment problem.

The number of black unemployed and under-employed is estimated at more than 1.5 million.

Some economists warned that in the short term inflation would "infiamm" by the increase in the price of money, while Mr Grobbelaar said the record bank rate would have "drastic" consequences for employment prospects.

In the firing line was the building industry as coupled with the shortage of building society funds the expected increase in bond rates is likely to discourage borrowing.

"Rigorous unemployment is not a risk associated with the new bank rate," said Mr Grobbelaar.

"The dilemma is to find an acceptable, tolerable inflation rate that we can live with and which employment levels will be maintained." - TUSCA Head Office
Inflation rate down — but CoL will go up
Big price rises still to come

Mail Reporters
THE annual rate of inflation as measured by the Consumer Price Index dropped to 14.5% at the end of June.
This is the third consecutive month in which it has slowed.
But there are signs that the cost of living will move up again over the second half of this year.
The Consumer Price Index (CPI) rose last month by 1.8%.
However, it soared by 1.6% in June 1989 — so this means the annual inflation rate actually eased in June this year.
In the 12 months to the end of March 1981, the CPI increased by a record 16.2%.
But this slowed to 15.5% at the end of April, to 15% in May and now to 14.5% in June.

Even more encouraging is the trend for the first half of 1981 as a whole.
This shows the CPI moving up from 189.9 at the end of 1980 to 200 at the end of June — a six-month rise of 5.3% or an annual rate of 10.6%.
There are, however, many big price increases which have yet to make themselves felt.
Among them are the 12% steel price rise and the 11% petrol-price hike which will have ripple effects right across the economy.

But these rises are still below the current level of inflation and their impact should not be exaggerated.
What is alarming, however, is the fact that the amount of money in the economy has been rising excessively — and rapidly.
Over the 12 months to the end of May, the broad money supply measures rose by nearly 38%.
This, plus all the range of price rises in the pipeline, convinces most economists that inflation for 1981 is unlikely to be less than 15%.

Some say it could be even higher.

The chief economist of Vellakas, Mr A S Engelbrecht, said last night the inflation rate would accelerate during the next four or five months.
The price spiral would speed up and a rate exceeding 16% was possible by the end of the year.

Factors included higher municipal rates and taxes, higher costs of imports because of the sagging value of the rand in terms of the dollar, and the expected bread price rise.
Economists said the 2% rise in the bank rate would also be inflationary in the short term.
The rise last month in the CPI to 200 means that living costs have increased by an average of 12.2% a year, or by just over 1% a month since mid-1975.
The food only index level in June this year was 217.9 — giving a 12 month increase of 25.8%.
The lower income groups are still the worst hit by the overall cost of living.
The CPI rose by 17.2% for them in the year to June against 15.4% for middle incomes and 13.5% for the upper incomes.

(continued)
Inflation down, but money up

By Mervyn Harris

Money has become dearer with all major banks raising their prime overdraft rate to 16 percent after Monday's two percent rise in Bank Rate. But inflation eased in June for the third consecutive month.

Volkskas set the pace yesterday by putting up its top overdraft rate to 17.5 percent and was swiftly followed by Nedbank.

Barclays Bank announced that it will increase its prime lending rate to 18 percent from Friday.

The two percent jump in Bank Rate is not, however, likely to hit the public too hard as the authorities did not raise the interest rate ceiling prescribed by the Usury and Ladocta Acts.

But the move exemplifies the government's determination to combat inflation and bring Bank Rate in line with money market rates.

The drop in the annual rate of inflation as measured by the Consumer Price Index is, however, only expected to give consumers a temporary respite.

Most analysts believe that price rises in the pipeline will boost inflation in the second half of the year to last year's 16 percent or even slightly higher.

According to figures released by the Department of Statistics, the cost of living rose last month by 1.2 percent against 1.6 percent in June last year.

The main contributing factors to last month's rise were the cost of public transport and food which formed 41 percent of the increase.

The index shows that the price of food increased by 25.5 percent during the past year.
No let up on inflation

By Ann Crotty

Further increases in the inflation rate are forecast by the Bureau of Economic Research of Stellenbosch University in its latest opinion survey, released today.

Results of the survey show that the majority of businessmen in all sectors of the economy thought that prices had increased in the last quarter and that they would continue to go up during the next quarter.

While this may have been the feeling in the business community, the latest CPI figures show that the rate at which prices increased during the three months to June was slower than during the three months to March.

A majority of the businessmen who were questioned by the BER are expecting the rate to accelerate.

The survey states that this is an indication of a general psychological climate where it does not seem to matter if costs are rising because they can be passed on to the consumer - making it very difficult to combat inflation.

The economic performance in the review quarter surpassed expectations with most businessmen reporting increased sales and production.

However, the manufacturers of intermediate and investment goods reported a definite levelling-off.

The recent increase in the Bank Rate will undoubtedly aggravate this situation during the next quarter.

Despite a marked slowdown in the third quarter, the Stellenbosch Bureau is confident of a real growth rate of from 4.5 percent to five percent for the year as a whole.

Factors which will slow the economy down during the second half of this year include shortages of skilled labour, the sharp rise in interest rates.
WHY INFLATION?

The problem is that the government has been printing too much money, which has resulted in inflation. Inflation is when the prices of goods and services increase over time, which reduces the value of money. This can be caused by a variety of factors, such as the government printing too much money, which increases the supply of money in circulation and leads to demand-pull inflation. In the article, the author describes how inflation has been affecting the economy, and suggests that the government needs to take steps to control inflation and stabilize the economy. This is an important issue, as inflation can have significant effects on the economy, including reducing the purchasing power of money and increasing the cost of living.
Inflation the worst problem — expert

Mail Correspondent

INFLATION at an average rate of about 15% this year would be the highest since 1924, according to the Deputy Director of the University of Stellenbosch Bureau for Economic Research, Mr A J M de Vries.

This week's broad price rise alone would add 1% to the average family's cost of living, he told the Assencon regional congress of the Western Cape in Paarl yesterday. The rate of increase in inflation was expected to slow down in the second half of the year, however, and it would probably be about 11.5% next year.

But the expected rate of inflation remained very high, and although he was fairly optimistic about the short-term outlook, he could not see prices rising by less than 10% a year during the next five years.

Problem

"The fact is, inflation at the moment is our worst problem and the Government must concentrate on combating it even if economic growth must suffer," he said.

Control Boards and those controlling the money supply were cited as chiefly responsible for inflation by a director of divisional operations for Checkers, Mr M Palmer.

The boards were termed "marketing boards" but their marketing skills and methods, if any, left a great deal to be desired.

The boards tended to be protective to the producer at the expense of the consumer while failing to regulate supply efficiently.

(Continued)

Surveys, Prize

Cape Chapter of Quantity

The key to any year of study.

For the best all-round student:

Bull-John Prize

(continued)
SA inflation rate worst 'since 1924'

Industrial Reporter

INFLATION at an average rate of about 15 percent this year would be the highest since 1924, according to the deputy director of the University of Stellenbosch's Bureau for Economic Research, Mr A J M de Vries.

This week's bread price rise alone would add one percent to the average family's cost of living, he told the Assocom regional congress of the Western Cape in Parow yesterday.

The rate of increase in inflation was expected to slow down in the second half of the year, however, and it would probably be about 11.5 percent next year.

But the expected rate of inflation remained very high and although he was fairly optimistic about the short-term outlook he could not see prices rising by less than 10 percent a year during the next five years.

"The fact is, inflation at the moment is our worst problem and the government must concentrate on combating it even if economic growth must suffer," he said.

Control Boards and those controlling the money supply, because there had been too much liquidity in the economy, were cited as chiefly responsible for inflation by a director of divisional operations for Checkers, Mr M Palmer.

The boards were termed "marketing boards" but their marking skills and methods, if any, left a great deal to be desired.

"Our experience is that, possibly because they are part of the bureaucracy, when they do some marketing, it is at the incorrect time, or their lead times are too long." Examples were an advertising campaign by the Egg Board at a time of shortage, and higher cheese prices from the Dairy Board when there was a surplus.
Safto welcomes Budget's anti-inflation measures

The chief executive of the South African Free Trade Organisation (Safto), Mr W B Holtes, has welcomed the emphasis placed in the Budget on consolidation, anti-inflation measures and greater investment in production capacity.

Limited product availability, together with booming domestic economic conditions, had slowed down exports in certain areas, he said. “I believe that the extended - investment allowances announced earlier, now strengthened by an increased dividend plough-back allowance, may further stimulate investment in production capacity,” said Mr Holtes.

“The fight against inflation remained a most important one for the export sector. The upward pressure on production and wage costs had to be curbed for the country to retain its competitive edge in world markets.”

“Safto fully endorses the current anti-inflationary policies and would even plead for more drastic measures if these are called for later in the year.”

Mr Holtes said that it was “somewhat surprising” that no reference was made in the Budget speech to the need to reverse the current downturn in non-gold exports.

However, it made sense for the Minister of Finance to adopt a wait-and-see attitude to large-scale, additional export incentives introduced a year ago and whose full impact had not yet been felt by exporters or the Treasury.

Safto's export forecast anticipated some recovery of exports this year and renewed growth in 1983.

— Patrick McLoughlin.
The Argus, Tuesday August 18, 1981

**Fighting Inflation Challenge**

The government has announced a series of measures to combat inflation, including a wage and price controls, and an increase in interest rates. The central bank has also tightened its monetary policy, and the finance minister has announced a fiscal consolidation program. Despite these efforts, inflation remains stubbornly high, and the economic outlook remains uncertain.

---

**Source: The Argus, Tuesday August 18, 1981**
Inflation boosting govt revenue

Malcomess

Political Staff

HOUSE OF ASSEMBLY. — The government would raise in 50 percent more in individual tax revenue purely through the effects of inflation even though it did not raise tax rates in the Budget, the Progressive Federal Party's deputy spokesman on finance, Mr John Malcomess, said yesterday.

Tax revenue would rise by R824 million, taking the current estimated income of R1605 million to R2710.

"The worse inflation becomes, the more the government gains," said Mr Malcomess, who proposed revolutionary measures to help counter the effects of inflation on the average taxpayer.

He suggested that the government adopt a measure introduced by the Reagan administration in the United States in which wages were indexed to the Consumer Price Index (CPI). A taxpayer would, under this system, pay no additional tax if his salary increase matched but did not exceed the rise in the CPI.

"Under this system the individual would not have the destructive effect of inflation compounded by taxation and the minister and the government would not benefit from the individual as the result of a monster they purport to be fighting.

Mr Malcomess also proposed that mortgage bond repayments be made tax-deductible, a suggestion which brought cheers from opposition benches.

He criticized the government for failing to present statistics showing the rationalization programme.

Masses of red tape meant more staff to administer, he said.

Mr Malcomess suggested the creation of a committee to examine the workings of every government department, together with its rules and regulations, and that it should make recommendations to the Prime Minister's advisory council about what regulations could be pruned or modified in efforts to reduce the manpower of the public service.

"With the current staffing situation in public service this should not lead to reorganization. We seem to have managed even though the staff shortage is of the order of 25 percent, he said.

He listed inflation as South Africa's public enemy number one:

"The cost to South Africa of administering apartheid and the policies of this government is still public enemy number one."
Inflation takes bite at savings

By Caroline Braun, Consumer Reporter

The economic boom of 1980 has been replaced by gloom. Today, more consumers are in debt or are forced to use their savings that a year ago.

This is one of the findings of a consumer survey conducted by the Bureau for Economic Research at the University of Stellenbosch.

The survey found that of the 2,000 households interviewed 22 percent were forced to dig into their savings, while 10 percent were in debt and these debts were increasing.

More than 60 percent of households felt they would be unable to save during the next three months. Some simply would not have the money. Others felt the rate of price rises was likely to increase over the next 12 months, so it would be advisable to buy rather than save to counter the effect of rising prices.

EXPECTATIONS

Regarding consumers' expectations of their financial position in a year's time, far fewer were confident their situation would improve than when the same question was asked in a similar survey last year.

Substantially more consumers now felt their financial position would deteriorate over the next 12 months.

The majority of consumers expect the South African economy as a whole to deteriorate during the next year.

"The confidence of consumers has dropped sharply." - expedition

The consumer survey conducted by the Bureau for Economic Research at the University of Stellenbosch finds that most South Africans expect their financial positions to deteriorate over the next 12 months.

By an even larger number of people, and this must have a dampening effect on discretionary spending," said Mr A J M de Vries, the bureau's deputy director and compiler of the report.

Businessmen also predicted a slow-down in consumer spending from next month, especially in the motor trade. Almost no increase in the number of used vehicles sold is forecast.

Mr de Vries said the following factors should be taken into account when trying to assess the prospects for private consumer expenditure for the rest of the year.

As a result of the spending spree of 1980, personal finances are now much tighter, with the savings ratio very low.

Before consumers have another buying spree they will have to pay off their debts, and they would almost certainly wish to replenish their depleted savings.

Consumers on average have probably reached the peak they can afford on cars, household appliances, and other goods. Spending on durables is likely to level off sharply towards the end of the year.

In 1980 expenditure increased faster than personal income, indicating a sharp rise in consumer credit. Such credit has now become scarcer and more costly and this must have a negative effect on the purchasing of durable goods.

The high rate of inflation and the increase in specific prices such as petrol must have a negative effect on consumers' ability and willingness to buy certain products, such as bigger cars.

On a more optimistic note, Mr de Vries predicted personal disposable income would probably rise at a faster rate in 1981 than in 1980 because of an expected acceleration in salary increases due to the current severe shortage of skilled workers.

Furthermore, the pressure for higher salaries and wages from the other sectors of the labour market will also increase to offset the higher inflation — especially for food — presently being experienced," he said.

The survey's findings that savings were falling and that credit was becoming scarcer were not supported by banking and building society spokesmen in Johannesburg.

INVESTED

Mr Boet Vumpt, chairman of the Association of Building Societies, said money which was withdrawn from building societies in many cases invested elsewhere and was not being spent on the family budget.

Local bank managers denied that banks were clamping down on credit, but said the increased interest rates on overdrafts and instalment sales (hire purchase) could curb consumers' credit spending.

Figures from the Department of Statistics show tighter control on credit might not be a bad thing. Last year, there were 261,310 civil summonses for debt of goods sold on open account, and 21,150 summonses for hire purchase debts. The 1979 figure was only marginally lower.
Aim at runaway prices

Union big guns take

BY GEORGE REILLY

"It's a case of price increase and there is no indication yet that the price rise will be reversed." said the president of the local union. "The company is aiming for a price rise of 20% and we are solidly opposed to it."
Housing cost pressure

Last month's increase in mortgage bond interest rates and soaring rents and construction costs caused the housing component of the consumer price index to rise by 7.2% over the month.

As a result, housing inflation played a greater role than did food prices in raising the overall inflation rate by 2.3% over the month of July to a year-on-year rate of 15.5%.

Last year, and for much of this year, food price inflation, which peaked at 30.1% in February, was the major cause of inflation. Since then food inflation has come down gradually to 22.5% for the year ended July.

Housing, on the other hand, after rising gradually by increments mostly below 1% per month, suddenly rocketed by 7.2% in the month of July. Thus brought the year-on-year rate of increase of the CPI for housing to a record 15.6%, and accounted for 12.2% of the monthly rise of 2.3% in the CPI.

As the table shows, since the last quarter of last year the inflation rate excluding housing was running slightly ahead of the overall inflation rate, indicating that housing was exerting something of a downward influence on inflation.

However, inflation excluding food in the first six months was well below the overall inflation rate, indicating that food inflation was exerting strong upward pressure on the rate of increase of the CPI.

In July the position changed, with the gap between the overall inflation rate and the rate excluding food narrowing, and the inflation rate excluding housing for the first time running marginally behind inflation, thus exerting upward pressure.

Housing has less of an influence on the overall inflation rate than food, and housing costs really have to soar to affect the CPI significantly. Housing has an average weighting of 17.6% in the CPI while the weighting for food prices is 24.98%.

The rate of increase of the CPI showed a slight falling trend for higher income groups.

<table>
<thead>
<tr>
<th></th>
<th>Inflation rate (year-on-year)</th>
<th>Inflation rate excluding housing</th>
<th>Inflation rate excluding food</th>
<th>Housing</th>
<th>Food</th>
</tr>
</thead>
<tbody>
<tr>
<td>August 1980</td>
<td>11.8</td>
<td>11.7</td>
<td>11.8</td>
<td>10.5</td>
<td>15.7</td>
</tr>
<tr>
<td>September</td>
<td>12.0</td>
<td>12.9</td>
<td>13.2</td>
<td>11.5</td>
<td>20.2</td>
</tr>
<tr>
<td>October</td>
<td>14.4</td>
<td>14.7</td>
<td>11.6</td>
<td>11.5</td>
<td>25.2</td>
</tr>
<tr>
<td>November</td>
<td>14.9</td>
<td>15.6</td>
<td>11.4</td>
<td>11.3</td>
<td>28</td>
</tr>
<tr>
<td>December</td>
<td>15.0</td>
<td>15.8</td>
<td>11.8</td>
<td>11.3</td>
<td>29.5</td>
</tr>
<tr>
<td>January 1981</td>
<td>15.5</td>
<td>16.4</td>
<td>11.9</td>
<td>10.7</td>
<td>28.4</td>
</tr>
<tr>
<td>February</td>
<td>16.0</td>
<td>16.8</td>
<td>12</td>
<td>12.2</td>
<td>30.1</td>
</tr>
<tr>
<td>March</td>
<td>15.8</td>
<td>15.8</td>
<td>12.4</td>
<td>13.3</td>
<td>29.9</td>
</tr>
<tr>
<td>April</td>
<td>15.6</td>
<td>15.9</td>
<td>12.4</td>
<td>13.3</td>
<td>27</td>
</tr>
<tr>
<td>May</td>
<td>15.6</td>
<td>15.9</td>
<td>12.4</td>
<td>13.3</td>
<td>27</td>
</tr>
<tr>
<td>June</td>
<td>15.6</td>
<td>15.9</td>
<td>11.4</td>
<td>12.6</td>
<td>27.7</td>
</tr>
<tr>
<td>July</td>
<td>15.6</td>
<td>15.4</td>
<td>10.8</td>
<td>9.9</td>
<td>25.8</td>
</tr>
<tr>
<td></td>
<td>15.6</td>
<td>15.4</td>
<td>10.8</td>
<td>9.9</td>
<td>25.8</td>
</tr>
</tbody>
</table>

for the first six months, running at below the average rate. Inflation for lower income groups ran at levels well above the average.

In July, however, higher income groups began to suffer rising inflation and thus is largely attributable to rising housing costs.

It can be seen from the table that monthly inflation rates have swung up and down—one month's figures cannot necessarily be taken as a trend.

Nonetheless, there appears to be no immediate relief on the housing cost front. According to the Department of Statistics' contract price index, new houses alone cost 30.4% more in the first quarter of this year than in the same period in 1980.

Rising housing prices are therefore likely to continue to play a significant part in causing inflation, expected by some economists to be between 15% and 17% for this year.
Schwarz blames Government for record inflation

SOUTH Africans will spend more inflation-eroded rands this Christmas than ever before — and get substantially less for their money, according to economists who predict a record inflation rate this year.

They were commenting on the latest consumer price index which shows that during August inflation rose by 1.7% following a 2.3% increase in July.

For the year to date the rate was 16.1% — the second time this year that 16% has been exceeded.

The PPF's finance spokesman, Mr Harry Schwarz, commented: "Four per cent in two months is alarming and reflects an annual of 24 per cent.

He said there were other inflationary forces in the pipeline which would maintain pressure on prices.

A continuing source of inflation would be high interest rates and the increased prices of imports, caused by the declining value of the rand against the dollar.

Mr Schwarz said the latest CPI highlighted the urgent need for firm Government action to slow down the price spiral.

Pay rises

He stressed the continued high inflation level would mean stronger and more insistent demands for wage and salary increases which would adequately compensate for the loss of real purchasing power.

He pointed out that a 12% or 15% pay rise at the beginning of the year had now "eroded away to nothing", leaving workers in a worse position than they were in before.

Mr Schwarz blamed the Government: "This year we have seen an increase in virtually every price which falls under Government control. We seem to have a Government that is unable to say no."

The Minister of Finance, Mr Owen Horwood, had claimed in his Budget speech that the tendency was for the inflation rate to decrease.

"He should tell the country now why it continues to rise, and why the Government is unable to defuse the problem," Mr Schwarz said.
SA inflation rate to drop, says Horwood

By HOWARD PREECE
WASHINGTON — A clear fall in South Africa's rate of inflation is expected over the next few months, according to the Minister of Finance, Mr. Owen Horwood.

He said in Washington yesterday that he would be "very disappointed" if this did not happen.

Mr. Horwood was addressing a press conference at the annual meeting of the International Monetary Fund.

Among the points he made:

• South Africa is strongly committed, in principle, to further relaxation of exchange controls.
• Any further action on this must await, however, the second report of the de Rrok commission which is expected next year.
• The timing of further easing would depend on circumstances.
• One reason for the high inflation rate in South Africa has been the "deliberate policy" of the Government in boosting black wages.

Mr. Horwood said "If it were not for that policy inflation would certainly be lower.

Exchange

• The foreign exchange value of the rand should show a fairly stable level against the dollar over the next few months.
• South Africa, Mr. Horwood said, was not urging the IMF to return the "old fashioned gold standard" but it was arguing that a return to a greater gold link in the world monetary system would reduce international inflation and bring greater discipline to money and foreign exchange markets.

Mr. Horwood said the first step would have to be a return to gold convertibility of the dollar by the US.

Such a decision would obviously depend on the first event on the findings of the US gold commission which was now considering the issue.

• South Africa had no plans for any "radical change" in its gold marketing policy. But, Mr. Horwood said, it was trying to assess the enormous impact of US futures markets on the gold price and to see what implications, if any, for marketing flowed from them.

• Mr. Horwood denied categorically that South Africa was involved in any gold price or gold sales deals with the Soviet Union.

Regan

• South Africa regarded its relations with the US as of the highest importance.

The US was now, South Afri-
The curious case of the CPI

The story of the consumer price index is a tale of two tales. In the 1930s, the CPI was introduced as a measure of inflation. However, in recent years, it has been overshadowed by the Federal Reserve's focus on core inflation. The problem arises because the inflation rate calculated using the CPI can differ significantly from that calculated using the core inflation rate.

The difference is largely due to the way the two indexes are calculated. The CPI includes all items purchased by consumers, while the core inflation rate excludes food and energy prices, which are subject to volatile swings.

Recent changes in the CPI calculation have led to a shift in how inflation is measured. The new methodology aims to better reflect changes in consumer behavior and preferences. However, this has raised questions about the accuracy and reliability of the CPI as a measure of inflation.

In conclusion, while the CPI remains a widely used measure of inflation, its limitations and the challenges it faces in accurately capturing changes in consumer prices continue to be debated. The future of inflation measurement may involve further refinement of the CPI, as well as the development of new indexes to better reflect the complexities of modern economies.
Current prices are monitored, but they enter the index on a fractional basis. That is, one out of five households buy a new car each year. Indirect taxes, like GST, are included to the extent that they affect prices. On the other hand, direct taxes (the prices of collective goods) are excluded on principle — the principle being that they need to preserve a direct relationship between expenditure and consumption. The relationship is usually an inverse one in the case of taxation. The wealthy pay higher taxes than the poor, but consume fewer of the collective goods (like state medical services, state education, and so on) that they finance.

The SA CPI is internationally innovative in that it divides its consumer base into lower, middle, and higher income groups. Resting on the principles of private consumption expenditure embodied in national accounting systems, the higher income group has the heaviest weighting (55%) because of its proportionately larger contribution to total expenditure. Economists like JCT's Ronnie Bethlehem have criticized this on the grounds that a more representative average inflation rate could be derived by an index that weights in terms of population demographics, rather than total expenditure breakdowns.

Another point of criticism is that the Laspeyres system can generate percentage increases based on expenditure patterns that can be as much as a decade out of date. The Paasche system, conversely, recommends monthly expenditure reviews. Apart from the practical problems involved, studies in SA have shown only a five percentage point divergence between the two over a seven-year period — the difference between an annual inflation rate of, say, 14.3% and 15%.

More broadly, no index is empowered to measure relative changes in the quality of life. The fact that technological progress can reduce the man hour cost of a motor car or a pocket calculator is beyond its modest ken.

The most profound and paradoxical shortcoming of all inflation indices, though, is that they cannot make a metrical distinction between a once-for-all price shock, and a persistent rise in the general price level (which, as we all know is the true definition of inflation).

The final inescapable conclusion is that the CPI not only measures something that does not exist, and which changes all the time, but it also cannot tell whether the non-existent thing it is measuring is the real novelty or not! Don't place too much weight on it, poor thing, lest it sink back into the obscurity from which it came!
Inflation - a problem for all

THE PROBLEM of inflation was the combined responsibility of the State, the private sector and the individual, said the Deputy Minister of Finance, Mr. D. Steyn, yesterday.

He said at the Cape Congress of the National Party in Sea Point that inflation remained South Africa's No. 1 enemy.

"It is the poison that destroys the economic system. But the problem is that the measures to counter this poison can become equally dangerous if not applied properly."

The recent upsurge in investments by the private sector had caused a growth rate of 8% and this, in turn, placed a heavy burden on skilled labour.

Another problem which caused inflation was that the money supply was too large. The Government had to get money out of the hands of the private sector and this was achieved through Government bonds. The money was sterilised.

Another cause of inflation was the surplus in the balance of payments. When interest rates were low, all and sundry took loans from the banks, and to counter this, the Reserve Bank had increased interest rates.

"This made money more expensive and people borrowed less. On the negative side, it made it more difficult for younger people to buy houses, for example.

"But on the positive side, it must be remembered that older people who had invested money over the years, benefited by the increased interest rates."

Mr. Steyn said that while the private sector had to make profits, it should guard against exploitation. The private individual could make a contribution in the fight against inflation by buying judiciously.

Mr. Steyn said an average of only 7% of all estates were taxed.

He was replying to a resolution calling for the curbing of estate duties. He said the Government had a standing committee which advised it on taxation of estates, and this committee looked at the situation on a regular basis.
Johnnies warns on inflation

GOLD will continue to be adversely affected by such factors as the firmer dollar and the present oil glut, but interest in it will be maintained, according to the annual report of Johannesburg Consolidated Investments (JCI).

The directors warn, however, that unless inflation is brought under control in South Africa costs and profits will be hit.

They say mine production could be affected soon without drastic changes in labour restrictions.

JCI reported a net profit of R75 000 500 (R72 299 000) for the year to June 30, 1981, with earnings a share of 1.73c.

Among the points made in the report are:

- **THE ECONOMY.** "While a still very satisfactory rate of growth was maintained during the six months ended June 30, 1981, a lowering of the rate will be difficult to avoid during the remaining months of the year and in 1982." From Johnnies point of view it is essential that the authorities regain control over the rate of inflation was soon as possible.

- **INTERNAL INFLATION adversely affects our costs and the significantly lower gold price is beginning to affect mining profit margins.

- **INVESTMENTS.** JCI has taken its stake in SA Breweries to more than 20% with another 1 790 000 shares at a cost of nearly R7 900 000.

- **GOLD.** "Despite fluctuations caused by a recurrence of exchange market uncertainty the dollar remains at a high level compared with a year ago and is being aided by a decline in the rate of inflation in America and by the strengthening of the US balance of payments."

- **URANIUM.** "The situation in the uranium market has remained discouraging notwithstanding the stabilisation of oil prices at an historically very high level.”

- **PLATINUM.** JCI remains remarkably coy about the outlook for the metal and for Rustenburg. No forecast is made, although the directors are known to see an uncertain time over the next year or so.

- **LABOUR.** "The situation is now"
Blacks’ cost of living climbs 12% in Joburg

THE household subsistence level (HSL) for an Indian family of six in Durban is R295.28 a month, the University of Port Elizabeth’s Institute for Planning Research reported yesterday.

Indians for the first time in its half-yearly survey, the institute said this was done because of many demands for data about Indians in many parts of the country.

Regarding blacks, the institute said that since the previous survey five months ago — when it was found there was an increase of less than 5% in 15 out of the 22 centres surveyed — the picture had changed remarkably. In that the lowest increase for the current figure was found to be 7.1% in Windhoek.

It was found that in nine centres, there was an increase of 10% or more, varying from 10% in Germiston to 11.5% in Durban, 12.1% in Johannesburg, and a high 14.5% in Peddie.

The average increase for 13 comparable surveyed centres over the past six months was 10.7% and 14.5% for the 12-month period.

This increase for both a six-month and a 12-month period is the highest recorded since the start of the institute’s survey in 1972.

For the eight surveyed urban centres, the HSL for blacks of households consisting of six members was lowest in Kimberley (R217.43), Pretoria (R318.20) and R319.45 in East London.

It was highest in Johannesburg at R242.49 a month and Cape Town with R311.64.

Windhoek, however, remained the most expensive city when the HSL was calculated at R240.44.

A socio-economic survey had just been completed among households in Port Elizabeth and black townships.

From preliminary results it was interesting to note that, while the HSL for a six-member household was R319.45, the average actual household income was R226 a month.

It was estimated that by 1985, the consumer price inflation rate was 12,6%.

The percentage increase was found to be 10.1% in the four major urban centres of Johannesburg, Pretoria, Cape Town, Durban, and Port Elizabeth.

In Cape Town, Pretoria and East London the percentage increase varied between 8.1% and 8.5%, which was more or less a par with the Consumer Price Index increase over the same period.

The survey of the urban centres — excluding King William’s Town and Queenstown — the HSL for a five-member household ranged from R165.74 a month in East London to R237.81 in Johannesburg. Both these areas retained their respective positions as the “cheapest” and “most expensive” centres to live in.

— Sapa.
INFLATION will remain the biggest problem for the South African economy, but should show some signs of coming down in the December quarter, the Stellenbosch Bureau for Economic Research forecasts.

The bureau's chief economist, Mr Atte de Vries, said the most outstanding feature of its latest survey of business opinion is the virtually unanimous conviction that both buying and selling prices will be higher this quarter than a year ago.

Even more significant is the expectation of almost 50 percent of business firms surveyed that the rate of increase will accelerate. But this figure is lower than the forecast last quarter possibly showing a slow change in expectations about the rate of price increases.

The bureau forecast that companies can be expected to take a harder line on salary and wage demands and resist them as far as possible. This is because they see the start of a business slowdown, which in some businesses is well under way. The slowdown is from a very high base with the result that the ameliorating effects on the bottlenecks in the economy and on inflation will not be immediately discernible, said Mr de Vries.

"Inflation will remain the biggest problem area but should show some signs of coming down, even if only marginally, in the December quarter," he said.
1982 financial battleground is forecast

By PAT SIDLEY

NEXT year will be tough for consumers — and a busy one for consumer organisations.

This was the prediction of Mr Noel Klopfont, director of productivity of a leading supermarket chain, when he spoke at the National Development and Management Foundation's Business Outlook conference in Johannesburg yesterday.

Listing retail trade factors influencing the level of retail trade, Mr Klopfont painted a picture of a battleground next year with consumers fighting higher prices, retailers hit by falling sales in certain sectors and suppliers unable or unwilling to make price or service concessions. And wage demands will not be met.

"Inflation has risen steadily and appears to show no signs of regressing; I cannot see it dropping much below 18% for 1982," he said. The food CPI was unlikely to drop much below 20%.

Consumers would try to save all the spare of the previous two years and would be helped by "reduced offers from hungry money institutions."

"Interest rates will accordingly rise further in attempts to exceed the inflation rate," he said.

Antagonistic

"With an expected downturn in economic activity (a GDP of 2% to 2.5%) it will be possible, and necessary, for employers to resist demands for greatly increased salaries," he said.

"It would be ludicrous to expect an income tax bonus to relieve the burden on the consumer."

"These pressures would force consumers to be more selective and make them antagonistic towards price increases and they would demand more of shops including extended trading hours."

Mr Klopfont said "Retailers with high negotiating power have prevented many suppliers from passing the full extent of (rising) costs on to the consumer."

"This, of course, does not apply to certain large beer and wine manufacturers who enjoy monopolies, who operate price fixing cartels or who are legislatively protected from competition."

Mr Klopfont predicted that in 1982:

• Retailers would move to Saturday afternoon shopping with later hours on some week evenings.
• Margins would decrease.
• Advertising would increase.
• Customers would have to be treated "as gods," and.
• Salary movements to the lower levels of store workers would be higher than in other business sectors.

Economy winding

FROM 10 until 11.30 tomorrow morning the Childcare Bookshop is celebrating its 15th birthday in Tywyn Hall, Randburg. There will be free cool drinks, a Punch and Judy show, grim majorettes and a highest morning competition. All children are welcome.

THEN also tomorrow morning there is grand prize winning on a small scale on the go at the Steildale Hypermarket, on the corners of Outspan Road and Klipriver Roads, South Rand.

AND at noon drag racing starts at the Tarlton Dragstrip, off the Pretoria-Krugersdorp highway.

ALSO at noon tomorrow there's a championship cat show at the West Ridge High School, Ontdekkers Road, Johannesburg.

STAR-GAZERS may be interested to learn that the Planetarium will present "Voyages to Eta Carinae" at 3pm in Yale Road, Bedfordview.

NOW about some Sunday happenings! At 10am the annual commemorative service of the Battle of El Alamein will be held at St Catherine's Church, 51 Dalene Road (corner of Howard)
Inflation's grip tightens as CPI soars 22%

By HOWARD PREECE

SEVERE inflationary pressures are still battering the economy. The implication, most private sector economists say, is that the Treasury and the Reserve Bank will dig in for a long period of tough monetary and fiscal policy.

Inflation as measured by the consumer price index soared at an annual rate of 22% in the third quarter of this year. That arose from monthly rises of 1.3% in July, 1.7% in August and 1.6% in September. The overall CPI was 211.2 in September compared with 189 in August and 182.8 in September 1989.

That gave a 12-month increase of 18.6%.

This was a reduction on the 16.1% level for the year to August even though the September monthly increase was at an annual rate of more than 10%.

An exceptionally heavy jump in meat prices in September 1989 caused an even larger monthly increase in the CPI and thus the annual rate actually slowed in September this year.

According to the sub-division of the CPI, the 12-month rise for upper-income groups in the year to September was 15.3%, for middle incomes 15.6% and for lower incomes 16.3%.

Food prices raced up by 18.9% in the 12 months to September, but this was still way below the level reached in 1980.

Even so, food continues to make a major impact on the cost of living and to be the most important single factor for lower-income groups.

In its September quarterly bulletin the Reserve Bank said: "The rate of increase in consumer prices slowed down considerably from a seasonally adjusted annual rate of 23% in the fourth quarter of 1989 to 13.1% and 14.4% in the first and second quarters of 1990."

That seemingly hopeful trend was clearly sharply reversed in the third quarter.

PAT SIDLEY reports that Professor J L Sade of Stellen-
INFLATION as measured by the seasonally adjusted consumer price index rose to an annual rate of 17.7% in the third quarter of this year, according to Dr Ger-hard de Kock, the Governor of the Reserve Bank.

The followed a decline from 22% in the last three months of 1980 to 10.6% in the second quarter of 1981.

Dr De Kock made these points in his chairman's address in Pretoria to the National Finance Corporation.

He said that although the economy was on the downswing, this did not mean it was about to experience a depression.

"Indeed thus far in 1981 the economy has remained much more buoyant and total monetary demand much stronger than many experts had predicted.

"Nevertheless in the months ahead the rate of increase of real gross domestic product, currently running at about 4.5%, will probably decline further and many of the economic indicators which increased sharply during the upswing will either rise at a lower rate, level off or actually decline.

"It is an unescapable fact that the economy as a whole, the balance of payments and the exchequer are all being adversely affected by the sharp decline during the past year in the gold price and by the recessionary conditions in many industrial countries which have had a marked contractionary impact on the value and volume of some of our major exports.

"Since the beginning of 1981, the rand has depreciated by about 23% against the rapidly rising United States dollar and by about 15% against a weighted average of all South Africa's main trading partners."

Referring to the surge in money supply in 1980 and in the first four months of this year, he said "The root cause of the monetary expansion is to be found in the simultaneous existence during 1979 and 1980 of a record surplus on the current account of the balance of payments and the continued application, despite a number of relaxations, of extensive exchange control."
BER forecasts tax rise, high inflation next year

AN increase in taxation, continued high inflation, including another rise in the price of petrol, and a further slowdown in the growth rate are some of the developments which the Stellenbosch Bureau for Economic Research expects next year.

The bureau makes these forecasts in its publication Prospects for 1983, prepared by its deputy director, Mr A J M de Vries, and two Volkskas Merchant Bank economists, Dr J J Botha and Mr A J Jacobs.

The bureau sees the rate of increase in economic activity continuing to slow. It expects the overall growth rate to drop to 2.2 per cent in 1983 from an estimated 4.1 per cent this year.

HARDEST HIT

However, the primary sector is expected to be the hardest hit with a 3.2 per cent decline in output in real terms.

This forecast is based on the lower mineral production and the assumption that farmers will experience more average climatic conditions.

The growth rate of the secondary sector is expected to decline to 3.7 per cent from this year's 4.8 per cent, while the rate of growth in the tertiary sector is estimated at 2.9 per cent against 3.8 per cent this year.

TERMS OF TRADE

The bureau says the continued relatively weak price for gold and most other export commodities as well as the rapid increase in the prices of imported goods will turn the terms of trade further against South Africa.

As a result the growth in the gross national product — a more accurate indicator of living standards — will slow from 9.5 per cent in 1980 and 25-30 per cent this year to below 3 per cent next year.

As the population will grow by more than 2 per cent next year, the average standard of living must decline.

'South Africans cannot escape from the adverse effects of a recession in the economies of our main trading partners and our own persistent high population growth,' the bureau says.

It expects the Government to run short of money next year.

At current tax rates it says the budget deficit 112 ng to 6 per cent of GDP from 4 per cent this year and 0.5 per cent in 1980 to reduce this deficit the bureau assumes that the budget next year will:
- Increase the general sales tax from 4 to 5 per cent
- Re-introduce a 10 per cent loan levy on companies and individuals
- Sharply reduce the rate of increase of subsidies
- Leave direct tax rates unchanged

But in spite of these tax increases the budget deficit is expected to remain high causing the Government to make use of bank credit.

COMPETITION

The bureau expects the inflation rate next year to be only a little less than this year.

Increased competition and better control over the money supply are the main forces that could assist towards a deceleration in the rate of inflation.

However, factors that could aggravate the inflation rate are:
- The depreciation of the rand in foreign exchange markets
- The expected increase in general sales tax
- An above-average increase in administered agricultural prices
- Slower productivity growth
- The widespread abolition or reduction of subsidies
- Continued substantial cost-push pressures.

For these reasons the bureau is pessimistic about the outlook for inflation and is forecasting a rate of around 14 per cent for next year.
against the fact that the rate of increase in the prices of imported goods has slowed sharply since the middle of 1980. According to Santam's September economic review this "can be attributed largely to the fact that the price of oil, after the steep increase in the second half of 1979 and early in 1980, has not been further increased." Along with international inflation levels, it has shown a downward trend since the last quarter of 1980 placing the burden of blame for rising prices squarely on domestic hands.

Food prices rising at an annual rate of close to 20% remain a major contributor to inflation. But the rate of increase in food prices has declined markedly from the year-on-year figure of over 30% recorded in February. Other significant causes are the price of housing (assisted by the recent 1.5% increase in mortgage rates), and of fuel (which was raised about 12% two months ago). In July, "the price changes in these two components alone accounted for almost 80% of the total increase (in the CPI) of 2.5%.

The latest overall CPI figure yields an annualised rate for the last quarter of almost 28%, higher than it has ever been and well above the previous record of about 19% in the third quarter of 1980. It almost brings the average inflation rate over each of the last 12 months to above 15%, compared to about 13% for the 12 months before that.

Economists believe, however, that despite the aggravating lag effect of a depreciating rand on imported inflation the record year-on-year figure of 16.2% recorded in March this year may represent a peak from which the rate is descending. This is probably not to the credit of the monetary authorities since money supply has been rising for the past two years at annualised rates far in excess of inflation. In fact, the precise relationship between these two entities is not fully understood, but the consensus that does exist would suggest that only now would the effects of money supply increases that took place in early 1980 be filtering through.

The main contribution of the authorities, according to Barclays' chief economist Johan Cloete, has been in curbing the extent of administered price increases to below the rate of inflation prevailing at the time. Apart from this the most likely relief is offered by the turning business cycle, and the decrease in demand that it entails. As Cloete puts it, we can anticipate an export-led deflation just as we are now experiencing an export-led inflation. Given this, in the view of Standard Bank's latest economic review, no relief can be expected before the middle of next year.

---

**INFLATION**

**No clear trends**

The year-on-year rate of increase in the consumer price index reached 15.8% in September, according to the Department of Statistics.

This figure is lower than that recorded in August, but higher than those of the three months before that, and no clear trends may be extracted from it. But it should be viewed against the fact that the rate of increase in the prices of imported goods has slowed sharply since the middle of 1980. According to Santam's September economic review this "can be attributed largely to the fact that the price of oil, after the steep increase in the second half of 1979 and early in 1980, has not been further increased." Along with international inflation levels, it has shown a downward trend since the last quarter of 1980 placing the burden of blame for rising prices squarely on domestic hands.

Food prices rising at an annual rate of close to 20% remain a major contributor to inflation. But the rate of increase in food prices has declined markedly from the year-on-year figure of over 30% recorded in February. Other significant causes are the price of housing (assisted by the recent 1.5% increase in mortgage rates), and of fuel (which was raised about 12% two months ago). In July, "the price changes in these two components alone accounted for almost 80% of the total increase (in the CPI) of 2.5%.

The latest overall CPI figure yields an annualised rate for the last quarter of almost 28%, higher than it has ever been and well above the previous record of about 19% in the third quarter of 1980. It almost brings the average inflation rate over each of the last 12 months to above 15%, compared to about 13% for the 12 months before that.

Economists believe, however, that despite the aggravating lag effect of a depreciating rand on imported inflation the record year-on-year figure of 16.2% recorded in March this year may represent a peak from which the rate is descending. This is probably not to the credit of the monetary authorities since money supply has been rising for the past two years at annualised rates far in excess of inflation. In fact, the precise relationship between these two entities is not fully understood, but the consensus that does exist would suggest that only now would the effects of money supply increases that took place in early 1980 be filtering through.

The main contribution of the authorities, according to Barclays' chief economist Johan Cloete, has been in curbing the extent of administered price increases to below the rate of inflation prevailing at the time. Apart from this the most likely relief is offered by the turning business cycle, and the decrease in demand that it entails. As Cloete puts it, we can anticipate an export-led deflation just as we are now experiencing an export-led inflation. Given this, in the view of Standard Bank's latest economic review, no relief can be expected before the middle of next year.
BER predicts GST will go up

By GORDON KLINK

SOUTH AFRICANS face a lean 1982 with a near-recession economy requiring a one percent increase in general sales tax, re-introduction of personal and company income tax surcharges, and continued high inflation.

Almost in sympathy with the gloomy prognosis by the University of Stellenbosch Bureau for Economic Research, the gold price softened further, bringing down share prices as the value of the rand, already down 22 percent on the dollar this year, continued to decline.

Acceleration of the inevitable downturn in the business cycle from the great boom of the past three years will be particularly hard on the man in the street already beginning to feel the pinch from high interest rates on everything from housing loans to overdrafts and 15 percent plus inflation.

The BER in its report on prospects for the coming year released yesterday believes average standards of living will probably decline from present levels.

It predicts a one percent increase in GST to five percent in the March national budget, the re-introduction of a 10 percent loan levy on individuals and companies, and a sharply-reduced rate of increase in subsidies.

No change in direct tax rates is expected and since no concession would be made for the effects of inflation on personal tax rates either, revenue from this would be up about 20 percent.

Growth of the real value of goods and services produced in the economy, the Gross Domestic Product, is expected to plummet from last year's spectacular 8.1 percent to 4.1 percent this year and 2.2 next. Anticipated consumer spending will grow by only 2.5 percent next year after this year's 4.1 percent rise, while job and production capacity housing fixed investment is expected to show an actual decline of 0.4 percent in 1982 after a 11.1 percent rise this year.

Inflation in 1982 is put at 14.2 percent after a rise in the consumer price index, for 1981 of 19 percent.

The bureau's deputy director, Mr Attie de Vries, agreed in an interview yesterday that semantics would probably allow the economy to be described as entering a recession, but he preferred to label it a downturn.

"As we see it at the moment, it will not be as serious or as long a downturn as that which occurred from the end of 1974 to 1977."

The overseas recession was not as serious as at that time, the country was better protected by the gold price which although no longer rising was still at relatively higher levels than several years ago, and the government's finances were in much better shape than was the case at the start of the previous downturn.

The trade-off facing government was to increase taxes or make more use of bank credit and since the latter was more inflationary it would be better to increase taxes.

Disposable income towards the end of next year would rise at a rate lower than the population increase implying a lowering in the real per capita standards of living, the report said.

Turning to inflation, the bureau found the outlook, at best, was for a slight moderation in the average rate of increase.

Increased competition stemming from weaker domestic demand conditions would be an alleviating factor but those with an aggravating influence included the anticipated general increase in GST, further weakening of the external value of the rand, the widespread abolition or reduction of subsidies.
Higher sales tax forecast, and re-imposition of the loan levy

Financial Editor Economists at Stellenbosch are forecasting a Budget deficit next year which will have to be met by a 20 percent increase in General Sales Tax and a re-imposition of the 10 percent loan levy.

These are two of the elements of the latest report Prospects for 1982 by the Bureau for Economic Research at the University of Stellenbosch. They consider that the outlook for inflation remains pessimistic with an average inflation rate (consumer price index) of 15 percent expected for 1981. Referring to fiscal policy, the report found that the Budget deficit before borrowing and debt redemption is bound to rise sharply during 1982 to about 8 percent of the gross domestic product (GDP), compared with the estimated 4 percent of GDP for 1981 and 0.5 percent for 1980.

In order to reduce such a deficit, we are assuming that the March 1982 Budget will have to include:
- An increase of 1 percent point in general sales tax to 9 percent
- A sharp reduction in subsidies and a change in direct tax rates.

Payments

The 1982 current account of the balance of payments is expected to be in deficit to the tune of R2 600 million after this year's estimated R6 000 million deficit.

But while the deficit will be recorded throughout 1982, the amount will decline throughout the year.

The price of gold will rise to the point where it will account for the R2 800 million surplus in 1980. The bureau considers that only half of the deficit will be covered by capital inflows in 1981 and 70 percent during 1982.

The inflation forecast may, at first glance, seem optimistic, but it must be remembered that the CPI and 'in particular the food component, increased very sharply in the last quarter of 1980, the report said.

In that period, the CPI recorded an increase of 15 percent over the same period in 1979, while the food component increased by 23 percent. The CPI of the last quarter of 1981 will consequently be measured against a sharply increased base, and although a continued growth in the monthly indices is expected, it seems logical to foresee an increase in an annual basis supply, must be regarded as the main forces that could assist towards a deterioration in the rate of inflation. There are also factors at work that will contribute to inflation, such as prices for domestic commodities.

The lagged effect of the depreciation of the rand, and expected further weakening in the external value of the rand will have a detrimental effect on costs and prices. The anticipated increase in General Sales Tax (by 1 percent to 9 percent) should similarly affect final prices.

Slower productivity growth; and
- The widespread abolition or reduction of subsidies

Substantial cost-push pressures are still being experienced and a moderation is only expected towards the end of 1982.

For these reasons the outlook for inflation remains pessimistic. The expected average increase in the CPI during 1982 is in excess of 14 percent, while a gross domestic expenditure deflator of nearly 15 percent is foreseen.

Policy

Monetary policy is expected to remain fairly restrictive during 1982.

With monetary expansion still high, the interest rates were, not yet, positive in real terms and only of late more in harmony with overseas interest rates.

### FORECAST IN A NUTSHELL

<table>
<thead>
<tr>
<th>KEY ITEMS</th>
<th>1981</th>
<th>1982</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>GROWTH</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real GDP</td>
<td>4.1</td>
<td>2.2</td>
<td></td>
</tr>
<tr>
<td>Primary sector</td>
<td>2.9</td>
<td>-3.2</td>
<td></td>
</tr>
<tr>
<td>Secondary sector</td>
<td>4.8</td>
<td>3.7</td>
<td></td>
</tr>
<tr>
<td>Tertiary sector</td>
<td>3.6</td>
<td>2.9</td>
<td></td>
</tr>
<tr>
<td>REAL CONSUMER SPENDING</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>4.1</td>
<td>2.3</td>
<td></td>
</tr>
<tr>
<td>Durables</td>
<td>0.2</td>
<td>-8.3</td>
<td></td>
</tr>
<tr>
<td>Semi-durables</td>
<td>3.5</td>
<td>2.9</td>
<td></td>
</tr>
<tr>
<td>Non-durables</td>
<td>4.3</td>
<td>3.9</td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td>6.2</td>
<td>4.2</td>
<td></td>
</tr>
<tr>
<td>REAL INVESTMENT</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total 'fixed'</td>
<td>11.1</td>
<td>-0.4</td>
<td></td>
</tr>
<tr>
<td>Public authorities</td>
<td>4.0</td>
<td>4.5</td>
<td></td>
</tr>
<tr>
<td>Public corporations</td>
<td>6.0</td>
<td>5.5</td>
<td></td>
</tr>
<tr>
<td>Private sector</td>
<td>16.8</td>
<td>-5.0</td>
<td></td>
</tr>
<tr>
<td>Change in inventories</td>
<td>R1 425m</td>
<td>R556m</td>
<td></td>
</tr>
<tr>
<td>CURRENT ACCOUNT</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>-4.4</td>
<td>18.0</td>
<td></td>
</tr>
<tr>
<td>Imports</td>
<td>31.6</td>
<td>3.2</td>
<td></td>
</tr>
<tr>
<td>Deficit on current account</td>
<td>-R4 042m</td>
<td>-R2 645m</td>
<td></td>
</tr>
<tr>
<td>INFLATION</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average CPI</td>
<td>15.0</td>
<td>14.3</td>
<td></td>
</tr>
</tbody>
</table>
Cost of living index suspect, experts say

by DEREK TOMMMEY, Financial Editor

THE cost of living index — designed with the innocent intention of helping the consumer know how much prices have risen — is being increasingly attacked as one of the main causes of the world’s current high rate of inflation.

The index, being accused of giving a false and magnified idea of the extent to which living costs have risen.

This, it is claimed, is leading to the dangerous situation of both producers and consumers demanding — and in many instances getting — excessive compensation for cost increases.

As a result, the rate of inflation is getting worse and not better.

The Conservatives when they returned to power in Britain in 1979 made proposals to eliminate liquor and tobacco from the cost of living index, as it was claimed these were distorting it.

It was also contended that it was not right to base wage awards on a cost of living index which included such items, especially as many people were non-drinkers or non-smokers.

However, these proposals ran into serious opposition and were allowed to die.

Now, the Reagan Administration in the United States has also announced plans to make changes in that country’s cost of living index.

The changes involve replacing the present measure of house prices and recently volatile mortgage interest rates with an estimated ‘cost of shelter’.

This would be gauged from a ‘rental equivalent’ as if a houseowner were paying rent.

The suggestion has come under attack and the Administration has been accused of changing the yardstick to suit itself.

DISSATISFACTION

In South Africa there has also been growing dissatisfaction at the effect of the consumer price index on the inflation rate.

One critic of the index is Professor J L Sadie, director of the Bureau for Economic Research at the University of Stellenbosch.

The index itself, he says, says:

In an interview this week, he said: “Last year’s rise in the index is this year’s inflation rate.”

To make the index a fairer reflection of living cost increases he would like to see all tax increases eliminated from it.

INCOME TAX

“People do not get pay rises to compensate them for increases in income tax. Why should they get pay rises because a general sales tax has been introduced or an excise tax increased?”

Professor J L Sadie said the index. South African employers could not be expected to compensate a worker because an Arab oil sheikh decided he wanted more money for his oil.

The consumer price index should also make allowances for changes in the quality of goods if the quality improved these should be a compensating decrease in the consumer price index, Professor Sadie said.

QUICKLY ERODED

Many people who have seen their annual wage increases quickly eroded by further rises in prices would probably be willing to see changes in the cost of living index. (Continued on Page 2)
PRETORIA — The warning by the Minister of Finance this week that inflation was still one of the country's major economic problems was borne out yesterday by details in the latest consumer price index.

Released by the Department of Statistics here, the index showed a one per cent increase in October, and a rate of 14.5 per cent for the year to the end of October.

The index rose from 102.8 in October last year to 211.3 last month.

Barclays Bank's chief economist, Dr Johan Cloete, pointed out that the month-on-month rate for the first three months of the year was in excess of 15 per cent.

Further inflationary pressure, he said, would come from the normal big increase in Christmas spending during November and December. The rate for the whole of 1981, he expected, would be between 15 and 15.5 per cent.

Only once this year, in June, did the annual rate drop below 15 per cent. In August, however, it rose above 16 per cent.

In October the food only index also rose by one per cent. — DDC.

For the student obtaining the highest marks in Professional Practice.

P R Swift

LTA Prizes
For the best student in each of the courses of Building Economics I, II and III in the third, fourth & fifth years respectively.

I : N D G Sessions

II : A R Low Keen

III: No award

South African Brick Association Prizes
For the best student in the subject of Building Construction.

C W von During

For the second best student in the subject of Building Construction.

K Strong

Student Planners Award
For the student who has shown greatest promise at the end of the first year.

M P Morkel
The inflation factor

Market interest rates in the long run are more positively and strongly correlated to the inflation rate than to any other single economic or financial variable. In other words, high inflation rates are invariably associated with high interest rates in the long run.

The causal relationship between the two, moreover, runs in the direction inflation → nominal interest rates. Simply put, where commodity prices are perceived to rise, lenders will require higher interest rates to protect the purchasing power of their money. Conversely, borrowers will be willing to offer similarly higher rates because they can look forward to repaying their debts in the future with depreciated money. The theoretical basis of this theory and empirical evidence for it, was provided by Irving Fisher in the Thirties. Subsequent empirical studies have offered further support of the thesis.

There is a further twist to this phenomenon, however, which concerns real interest rates. The real interest rate, *ex post*, is simply the difference between the nominal interest rate and the rate of inflation. *Ex ante*, where inflationary expectation enters,
it is more difficult to recognize and quantify. It may be thought that the nominal interest rates demanded by investors simply rise to discount inflation, and to produce a relatively unchanging real rate of return. But empirical studies show that there is a significant inverse relation between inflation and the real rate of return. As the former increases, the latter falls.

This is a matter of some concern, considering that inflation appears to have become an integral part of our economic life. It should in fact be seen as a permanent economic phenomenon subject to cyclical behaviour, rather than an evil soon to be eradicated. Like other economic indicators, it will continue to be volatile. Despite the ability of long-term investors to push up nominal interest rates, the effects of inflation on fixed-interest investment are disastrous. The current purchasing power, say, of the redemption value of a R1m government bond maturing 30 years from now, during which time an average inflation rate of 13%...
Motoring costs match rising prices for all

South African motorists, sent reeling by recent shock price increases, may draw some consolation from the fact that they are no worse off than the average consumer.

Car prices and the cost of repairs and spare parts have increased steadily during the last year.

Petrol went up by 6c a litre in July. Another increase was warded off in November by financing it out of the Government’s Equalisation Fund, but there is speculation of another rise next year.

New insurance rates — up by more than 50 percent — came into force in January, and insurance costs had already doubled during the 1980-1981 year.

Tyres have just gone up by 12.7 percent, adding about R5 to the price of a tyre for an average car.

But says Mr. Denys Vermooten, economic affairs executive of the AA, the increase in motoring costs is roughly equal to the overall increase in the Consumer Price Index.

Quoting from the CPI figures for September 1981, Mr. Vermooten said the average price of new motor vehicles had risen by 17.25 percent compared with September 1980. Running costs had risen by 14.90 percent over the same period.

The overall consumer price index had risen by 15.83 percent during the same 12 months.

He said these figures “tied in closely” with new AA figures for vehicle running costs which would be published early next year.

Mr. Jan van Niehaus, director of the Motor Industries Federation, agreed that the motorist was no worse off than the average consumer.

He said the economy was moving into a consolidation situation. This would affect all consumers, he said.

Inflation easing, but still at high level

BY TOM LOUW
Business Editor

EAST LONDON — The rate of inflation in South Africa, while definitely falling, is still at a very high level, says the Bureau for Economic Research at the University of Stellenbosch in its quarterly publication Trends, a statistical analysis of economic trends.

The Bureau comments that the present trend in the consumer price index is not yet encouraging at all and it is rather tending to rising on a moving average. However, the recently instituted monetary restrictions will shortly become more effective in reducing the general level of demand, and this may have a beneficial effect on the rate of inflation.

Trends says the latest enthusiasm about the slowing down of the rate of increase in food prices should be viewed with caution, for this category of prices has been the single biggest cause of the most recent spell of inflation. It points to oligopolist market conditions in some sub-sectors of the food industry, and explains that this situation enables a relatively small number of producers to pass on cost increases — or more.

Demand, it says, need not be a consideration in the determination of administered prices. Perhaps it is not surprising, therefore, that the Bureau comments that these prices are almost notorious for a tendency to rise even when demand is slackening. As it says, in marketing theory this is an illogical contradiction, but it is still a practical reality in prospect in the near future.

Trends takes a confident line in regard to the long-term expansion of the economy. It suggests economic recovery earlier than other analyses have suggested and says factors in operation are preventing the current slowdown in activities from being too rapid or too severe.

Indeed, the Bureau sees indications that the momentum behind the long-term expansion of the economy is not likely to diminish over the next five and possibly even ten years.

Factors which play a part in this are the economic and social progress of the Asian, coloured and black population groups. Their importance in the consumer markets will continue to grow, surpassing that of whites in many more sectors of the market than at present. Their buying power will have an impact not only on fashion, quality and other consumer trends, but even on the structure of the retail sector.

Also important is the pressure of their demand for housing, and the multiplier effect of the creation of employment and income generation in the sphere of ancillary business activities is only too obvious.

The Bureau adds that decentralisation schemes will add to the demand for services of the construction sector and its supporting industries.

It sees encouragement in a low level and continuing downward trend in unemployment. With unemployment now at only 3.4 per cent, the coloured population group is for all practical purposes now fully employed. Black unemployment is now at 7.5 per cent, and Trends says blacks are next in line for a more rapid rate of absorption into meaningful employment and more rewarding tasks.

It comments that this markedly expanded labour force augurs well for the future stability of the South African economy.

However, it also adds that the weakening trend of the rand will probably not be stemmed by technical intercessions such as manipulation of interest rates. The external value of the rand is rather more likely to follow the course of the economy as manifested in the balance of payments. Accordingly, the rand is likely to go on declining for some time yet, but it is set for recovery towards the middle of next year.

Meanwhile, investment demand is likely to remain at a high level for some time yet. But in private consumption expenditure, a slackening in growth in some instances is traceable to resistance to rising prices. Butchers, for instance, have been reporting a drop of almost one-third in sales volumes, and Trends comments that this phenomenon arises from an almost 40 percent increase in prices.
Durban's soaring rents now 'frightening'

Property Editor

RENTS in the Durban area have rocketed at a rate far greater than the cost of living in the past two years, according to a survey.

In many cases, flat rents have doubled, and according to one estate agent, the average increase is between 50 and 70 percent.

With houses, the position is probably worse. The few houses available are now probably rented at least twice the amount they fetched at the end of 1979.

Mr Maurice Goudre, director of C E G, said a house renting then at R125 would now fetch at least R250 a month.

He said there was little chance of anyone renting a house in certain areas such as Durban North or Westville for less than R500 or R700.

Landlords were asking for 'key money' deposits, usually in the region of a month's rent in advance when letting a house. Mr Goudre considered this to be reasonable in view of the fact that some tenants were irresponsible and there could be damage to premises.

Prices of flats have soared in the past two years. He said flats between R16 000 and R20 000 in 1979 were now R35 000 to R40 000. He quoted the example of a Glenwood block where units selling at R12 000 to R15 000 were now fetching R33 000 to R35 000.

He said: 'It is becoming frightening. We are not getting development at all.'

Mr Goudre said the immigration boom was going to make matters worse and he added: 'I don't see how the country can say to prospective immigrants come and join us' when there is such a shortage of accommodation.

'The Government must provide accommodation,' he added.

Mr John Brink, general manager of R M S Syfrets, said this week he had let a two-bedroom townhouse in Musgrave Road for R875 a month.

He quoted the following examples of how rents had moved on the Berea and the beachfront.

A single-bedroom flat was renting in 1979 at between R50 and R110. In 1980 it reached the R140 mark and this year was let at R180.

A two-bedroom flat was R150 in 1979, up to R220 in 1980 and between R250 and R300 in 1981.

A three-bedroom flat could be rented for R180 in 1979, R250 in 1980 and between R400 and R420 by this year.

Other examples: A two-bedroom flat just off the Ridge was renting in 1979 at R275; in 1979 the rent was R120. A three-bedroom flat in the Cato Road area was renting at R220 in 1979, R300 more than in 1979.

Mr Brink said any two-bedroom flat, even in the poorest area, would be about R250 a month — there was nothing under that.

Three-bedroom duplexes were between R450 and R550 when one could find them. They were as scarce as houses. Mr Brink said his company had let one house on the Bluff recently for R500 a month.

On the selling side the story was one of would-be homeowners beset by lack of bond finance, plus the same story of ever-increasing costs.

Mr Brink quoted examples of sectional-title sales at the beginning of 1980.

Break even

A two-bedroom flat cost R16 000 and a single-bedroom R12 000. The two-bedroom apartment now was fetching between R35 000 and R39 000.

Why are rents so high? Mr Brink explained that many 'mini-landlords' who own a few sectional-title flats were only breaking even.

'The landlord has bought a flat for R20 000, he may have to pay off a bond of some R23 000. To meet his bond repayments and levy, he must charge a rent of R500 just to break even,' said Mr Brink.

If a landlord bought at the R15 000 to R16 000 mark, he could let at R150 or R180 if he sells that flat now, the new owner will have to pay R300 000 for it and he must lease it for around R300 a month. This is where the crunch is going to come.

The number of flats available for rent had decreased dramatically in the past year. Where the company might then have had 60 to 100 flats on its books, now there were hardly 10.

There seems no doubt that rent increases are destined to continue rising.

Mr Brink said there was a tremendous shortage of flats and houses to rent. And with building societies likely to put up mortgage rates again within the next few weeks, landlords facing repayment problems with their bonds would undoubtedly pass on the increase in the form of yet more rent increases.

Problem

In spite of the apparent clamour for rented accommodation, there were some flats that did not move. Mr Bunny Reilly, letting manager for J H Isaacs, George, also said the problem was cost. Owners of individual flats had the bond repayment and mortgage levy problem and this forced rents up.

He had let an upstairs maisonette in Essenwood Road for R500 a month, quoted a case on the beachfront where a three-bedroom flat, formerly offered for R750, without takers, was reduced to R550 a month. There was some resistance, he said, to the high prices.

Mr Reilly said there were no new flats being built. Individual flats were sold, the occupants had to find new homes. Some went into boarding, others might have to buy their own flats if they had the wherewithal.

Fewer flats available

From Page 1

Mr Brink said there was a tremendous shortage of flats and houses to rent. With building societies likely to put up interest rates again within the next few weeks, landlords facing repayment problems with their bonds would undoubtedly pass on the increase in the form of yet more rent increases.