INFLATION

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NM 18/1/77

Inflation on wane, says McCrystal

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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 in the economy; restraint on public sector spending; reorientation of priorities towards wealth-generating projects.

He calculated the 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 out of their 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 sugar retailers sell their old stocks 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.

NM 27/1/77

Inflation rate drop forecast

Tony Hudson

SOUTH AFRICA'S inflation rate should drop right down to 8 percent and possibly even 7 percent during the current quarter, says Dr. Lawrence McCrystal, chairman of the Anti-Inflation Campaign.

Dr. McCyrstal 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 1976 was 10,8 percent higher than that of the same period in 1975. 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.

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1/2/77

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 17,9 per cent devaluation of the rand in September, 1975.

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 15 months from the end of September 1975 to the end of 1976

The index for South African made goods rose during that period from 202,8 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 imported 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 prices 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 19,4 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

1976	Wholesale	Consumer
December	14,4%	10,8%
November	13,7%	10,4%
October	14,8%	11,1%
September	16,2%	11,4%
August	15,2%	11,2%
July	15,3%	10,9%
June	16,2%	11,1%

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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

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*22. Mr H H SCHWARZ—Withdrawn

Anti-Inflation Programme

*23. 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 guide-lines 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

(153)

Senate Hansard 1 Q col 2
16/2/77

Anti-inflation campaign

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*3 Senator B R. BAMFORD 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 contain 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 BAMFORD. 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

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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 Rave, 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, floors 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 simple observation. One of the busiest departments in the store deals with this

"On Saturday mornings, when the man of the house can do his shopping, the do-it-yourself area is as crowded as a supermarket," said Mr. Dobbin.

On shopping in general, he said that customers are beginning to realise that they got what they paid for. While remaining price-conscious through shopping around, they are appreciating that service like delivery installation, as opposed to cash and carry, are of value.

But extensive research surveys show that housewives are uneasy without 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 obsolesence'. Many people think that manufacturers delibertately 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 youngster 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 Rave still think in terms of quality. They were brought up on the now quaint 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 have changed."

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

8/3/77

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.

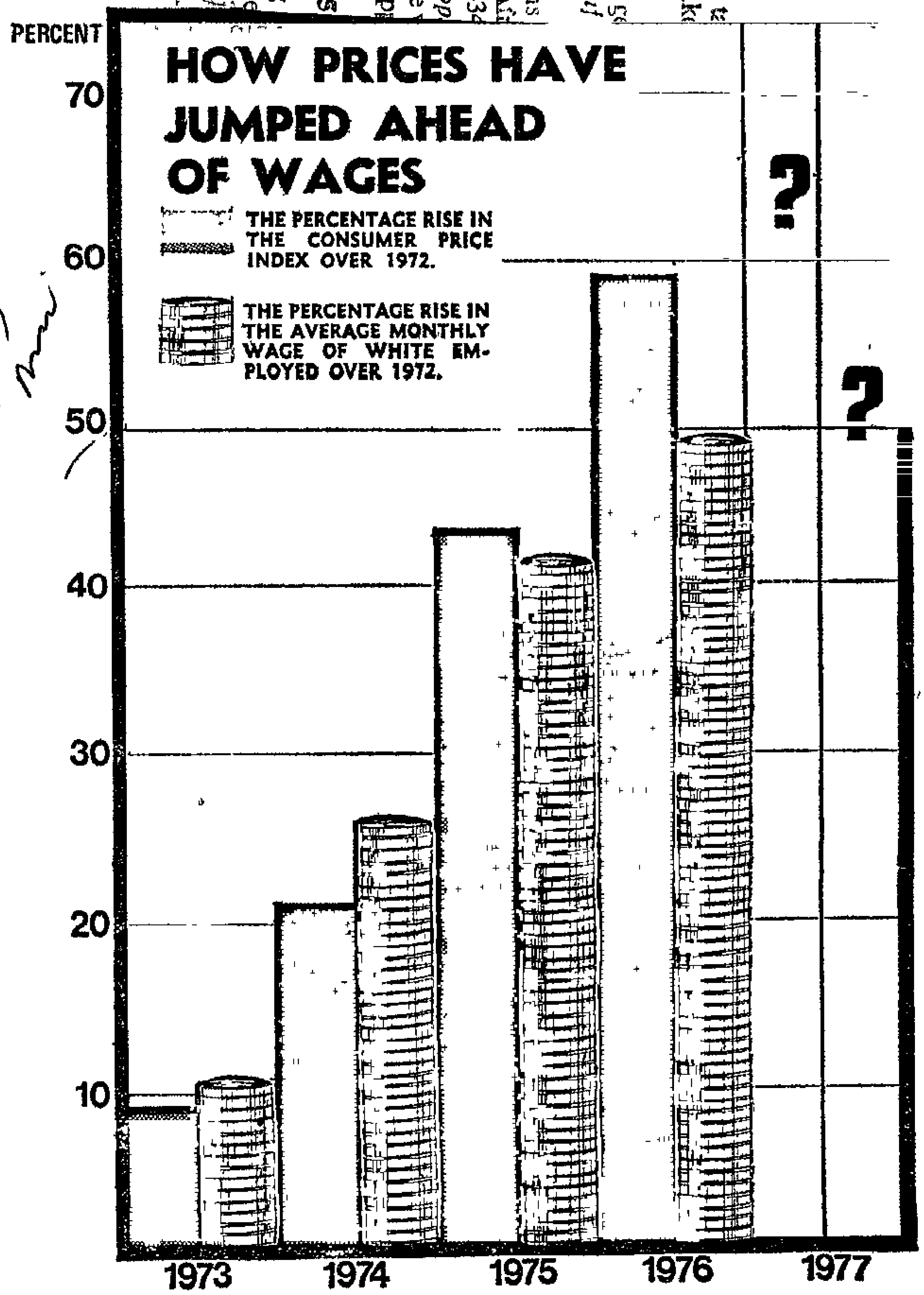
These expectations do not augur well for an early reduction of the annual rate of inflation much below the 9 to 10 percent level, especially in view of the pressure on prices that is likely to come from the substantial increases in petrol, eater and steel prices and in electricity costs in the months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

● to page seven



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.

New inflation bogy emerges

15/2/77

Prices are going up as population growth and per capita consumption outstrip production and resources, writes US economist and author LESTER R BROWN, former official of the US Department of Agriculture.

During the 70s, inflation has reached double-digit levels world-wide 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 1950 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 consemption

Meanwhile, it has become 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 Exportable supplies 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.

Rises 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 1976, 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 imperils 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 "barriadas" 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 triples, 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

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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 [illegible]s Heunis, disclosed in the Senate yesterday. He was replying to a question by Senator Brian Bamford (PRP).

[illegible]r 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.

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hier, soos die Nederlandse taalkundige J. L. Pauwels aantoon, met 'n oorgeerfde verskynsel te make

J A VERHAGE, „Deftige en gemeensame vorme in die sinsverband van ou Kaapse taal", *Tydskrif vir geesteswetenskappe*, jg. 5, nr. 3, 1965, pp. 307–323

8/1 20/4/77

Coins and stamps move into inflation fight

Business Times Reporter

COINS, MEDALS and stamps are rapidly overtaking more traditional forms of investment as hedges against inflation and as a means of transporting wealth.

That Defence of Mafeking medal which your grandfather won in the Boer War, for instance, is rising in value faster than most other investments around, say coin and medal dealers Alec Kaplan and Son, of Johannesburg.

Investment Newsletter publisher Fred Macaskill reports in the latest edition of Gold that the SA Government is likely to prohibit the export of stamp collections, commenting that probably no greater wealth can be stored in a smaller space than through the medium of rare postage stamps

Proof Krugerrands have recently found favour among investment newsletter pundits, and both Mr Macaskill and Cecil Hoffman, publisher of the Financial Summariser, have endorsed them as a suitable investment medium.

…erbinding *as wat* na 'n kompara…
…*Tydskrif vir geesteswetenskappe*,
…62–168.
…en verbale vormen in het Neder…

…kings

…rding van die Afrikaanse taal …ke van die woordeskat, klank…ys word. Talle van die fyner …ruktuur kon uit die aard van … uit die verskynsels wat wel …ns nie eensklaps ontstaan het …was nodig om die Afrikaanse …ontwikkelingsproses het baie …bied van die woordeskat, die …die sinsbou bygedra. Wanneer … ons dat nie die een of ander …tor vir die wording van Afri…die Afrikaanse taal die produk … Besonder belangrik was die …lerlands; soos uit die oorsig …kaans voortsettings van die …dialek wat in Nederland self …dwyn het. Daarnaas het die …Kaap 'n rol gespeel. Ook hier …sprekers isoleer en vir die …voordelik hou. Ons kan bv. … immigrante die Afrikaanse …er hulle die vereenvoudiging

1. Teorieë oor die ontstaan van Afrikaans

Vroeer is daar wel aan die een of ander beslissende taalinvloed gedink. Dit was die geval voordat 'n taamlik groot hoeveelheid direkte gege-

wens van die Kaapse taal in die Argief in Kaapstad gevind is. Kort na die stigting van die GRA het die belangstelling in die herkoms en ontstaan van Afrikaans by taalgeleerdes begin posvat en aanleiding gegee tot die ponering van verskillende teoriee oor die ontstaan van Afrikaans Th Hahn se *Hottentots-teorie* van 1882 was die eerste poging tot 'n verklaring van die karakter van Afrikaans. Hoewel hy vasstel dat Afrikaans „phonetically teutonic" is, d.w s sy Germaanse struktuur behou het, is dit volgens hom „psychologically an essential Hottentot idiom" Maar hierdie vae stelling kan hy nie bewys nie Kort ná hom kry ons die belangstelling van Nederlandse geleerdes soos M de Vries en J te Winkel, wat die *Frans-teorie* voorstaan Volgens dié teorie sou Afrikaans onder die invloed van die Franse Hugenote ontstaan het, maar D C Hesseling het die teorie in 1897 al weerlê. In 1885 wys Hugo Schuchardt, die beroemde Duitse geleerde en kenner van Kreoolse tale, op twee belangrike faktore wat by die wording van Afrikaans 'n rol kon gespeel het, hy dink aan die een kant aan Duitse invloed, aan die ander kant was hy die eerste wat in 1891, op grond van sy kennis van Indo-Portugees en Maleis-Portugees, op moontlike kreoliseringsfaktore in Afrikaans die aandag gevestig het. D C Hesseling het dié gedagtes in 1897 en 1899 verder gevoer, veral in sy beroemde werk *Het Afrikaansch* (1899) waarin hy sy *Maleis-Portugees-teorie* uiteengesit het In teenstelling met die vorige teoriee was Hesseling s'n die eerste wat werklik wetenskaplik verantwoord was Volgens Hesseling moes daar binne die eerste dertig jaar van die volksplanting 'n skielike botsing van tale aan die Kaap plaasgevind het, nl 'n botsing tussen die 17de-eeuse Nederlands van die vryburgers, soldate en amptenare en die taal van die Oosterse slawe wat Maleis en 'n vorm van gebroke Portugees gepraat het, of 'n vermenging van albei („Maleis-Portugees"). In 1658 en daarna het 'n groot aantal slawe wat gebroke Portugees gepraat het, Kaap toe gekom; dit sou volgens Hesseling 'n skielike kommunikasieprobleem veroorsaak het wat tot 'n vinnige verandering van Nederlands gelei het Die resultaat was 'n sterk vereenvoudigde taal met 'n reduksie in sy grammatika Wanneer 'n kultuurtaal in 'n bepaalde kontaksituasie deur 'n botsing met 'n sosiaal laerstaande taal binne 'n kort tydperk 'n drastiese reduksie, struktuurverandering en vereenvoudiging ondergaan, praat 'n mens van kreolisering Hesseling moet egter self erken dat die tipiese kenmerke van kreolisering in Afrikaans ontbreek, daarom kom hy tot die konklusie dat Afrikaans beskou moet word as Nederlands wat halfpad bly staan het om 'n Kreoolse taal te word

Ongelukkig het Hesseling destyds nie oor die nodige direkte taalgegewens beskik nie; hy kon sy teorie feitlik net op sosio-historiese gegewens baseer wat bowendien nie volledig en korrek was nie Daarom was ook sy teorie ontoereikend en eensydig; dit het 'n hipotese gebly wat hy nie kon bewys nie

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End to wages, prices pact

26/3/77

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 prices 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 Horwood, 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.

[illegible] been 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 turn-over tax would be non-discriminatory, and would hit lower income groups hardest, it is claimed.

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Fin. Mail 1/4/77

ANTI-INFLATION CURBS

Farewell

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.

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 Tucsa 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 Seifsa'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 Notes 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 "

Seifsa's Drummond . . . now for the merry-go-round

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 rules out huge wage settlements or price-increases Notes Grobbelaar: "The unions are not going to achieve any significant salary increases "

However, the steep increase in administered prices during the past few months is evidence that artifical 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, on 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.

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How inflation is eroding the British character

By Leith McGrandle

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 69.5 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 (underlined 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 fee 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 nail 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 — wine, air tickets, a car — rather than cash is becoming more common

Little 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 professes to deplore inflation, sees some advantage in it as an agent of hastening a more egalitarian socialist 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 "soaking 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 pin their hope on the traditional order — they all suffer and grow embittered

Fortunately, the patient's condition is chronic but not hopeless

Other countries have managed to cut back their inflation savagely 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 decisions

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, a squeezing of the wealth creators, a reckless money policy

Most important is the growing realisation that there are no winners in the inflation game

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SUNDAY TIMES, Business Times, April 10, 1977.

Money: That's the root of inflation evil

10/4/77 B Times

Everyone knows about inflation, or so it seems since anyone is willing to discuss it and comment on its causes and consequences The truth of the matter though, is that few people really understand what inflation is, how it is caused and what it does Here, Peter Lewin, lecturer in economics at the Graduate School of Business at Witwatersrand University, and a product of the University of Chicago, outlines, what he argues, are the real causes of inflation.

INFLATION is usually understood to refer to a situation of persistent increases of prices in general. By "persistent" we mean that the increase goes on for a protracted period.

If the price of one thing, say petrol, goes up while all other prices remain the same, even though it may lead to a rise in costs, this is not inflation.

By confusing changes in relative prices with changes in the price level people are led unavoidably to misunderstand the nature of inflation and its effects. It remains true that it is not always easy in practice to distinguish between individual price changes and true inflation, but this is only because of our limited ability to isolate different changes which occur together

Now, if we agree that inflation is a persistent increase in most prices (all moving up together), it becomes a rather simple matter to determine its general causes Anything that affects the prices of all things together is a potential cause of inflation

Remote possibility

We know for simple common sense that prices are determined by supply and demand If prices are not fixed by law (or some other mechanism) an increase in demand will cause a rise in price and so will a decrease in supply.

But since inflation is a continuing rise of all prices its cause must be a continuing increase in the demand for all goods in general or a continual decrease in the supply of all goods in general

But the latter possibility is very remote from our experience We have seldom, in the industrial West, experienced ongoing decreases of production — what the experts refer to as negative growth rates.

Besides, there is a definite limit to an inflation caused by decreases in total supply and that is zero supply. If this were the cause of the inflations of the past 30 years we should be very much poorer

No, it appears very clear that the only real cause of sustained price rises is an ongoing expansion of total demand ahead of total supply

Once this is clear, we need to ask what causes the expansion of total demand, that is, the increases in demand in all markets? Only one phenomenon can do this and that is an increase in the amount of money people are willing to spend

Now, the evidence shows that under normal circumstances people keep a fairly definite proportion of their income in the form of money as cash in their pockets, or current deposits in the bank. This proportion declines when inflation is generally expected, but unless there is widespread panic the change is small It is unlikely that a decline in the demand for money in this sense can itself be a cause of inflation

Inflation is essentially a monetary phenomenon and has, in all known cases, been associated with an accelerated growth of the money supply, the total amount of rands, dollars etc available in the economy

In a modern economy only one institution controls the supply of money and that is the central bank, — the Reserve Bank in the case of South Africa And the central bank is almost always at the whim of the government treasury department So it is the government in the fundamental sense — though it may be responding to political pressure, that is responsible for inflation Failure to realise this has served to divert attention away from the political and social factors that are associated with inflation Instead, a wide variety of factors have been incorrectly identified as causes of inflation Let us look at a few

• It is often argued that wage increases in excess of productivity are inflationary. Now, if wage increases by causing an increase in costs lead to a decline in total supply, prices in general may rise. But since this cannot go on any further, it is not, in a real sense, inflation. This an increase in prices that would, unless fuelled by an expansion of the money supply, stop there The wage increase is simply a redistribution of income from employers to workers

If the price of one product rises, and consumers continue to buy comparable quantities of it, they must be spending less on something else, unless they have somehow become more wealthy. This cannot constitute a situation of general excess demand

Undoubtedly poorer

If consumers respond to the price increases by buying less of the products affected the same conclusion applies The amounts purchased of high price items will tend to fall in such a way as to maintain prices in general at their initial level.

Wage increases though they may precede price increases, ultimately do not constitute a real increase in purchasing power More important, it is the rise in the money supply and not the rise in wages that is the immediate cause of the inflation

• A similar argument is that inflation is a result of a rise in the price of imported goods, like oil

This argument suffers from exactly similar fallacies A rise in the price of imported goods will have only relative and not a general price effect As a result of the recent large rise in the price of oil, those consumers and producers who purchase oil-related products are undoubtedly poorer

But to say that it is inflationary is completely to misunderstand the nature of the inflationary process

• A third argument says that if people work harder and more efficiently, productivity increases will provide a cure for inflation This is potentially one of the most harmful arguments advanced as a cure for inflation

That it is a false cure should be immediately apparent Given any rate of inflation, any attempt to reduce it by raising total supply is unlikely to be effective unless the idle capacity in the economy is enormous. It assumes a large increase in efficiency is possible in a short period

False solution

But even if it could be done, solving the inflation problem by harder work is a false solution because the costs of doing so outweigh the benefits. In a market economy individuals have a relatively wide range of choice as to whether they will work or not, where they will work, how many hours they will work and so on. Presumably people value their non-working (leisure) time or else they would work all the time.

The increase (if any) in production in the economy is an illusion. It is an increase only in market production, but household production (leisure), which the individual values more highly, has been lost The resulting decrease in inflation is by consequence also illusory. The rate of price increase of market production may have fallen, but the price of leisure has gone up

Finally, there remains the subjective cost in terms of loss of personal freedom implied by any arbitrary interference in a market economy The appeal to work harder (reminiscent of Orwell's Animal Farm) must be seen by many as an illegitimate intrusion into the part of an individual's affairs he is entitled to consider his own business

• Another argument often heard is that we need to save more to solve inflation An increase in saving per se would not do the trick It would have to be a continuous increase in saving IN THE FORM OF MONEY — what can be called "hoarding" But put in this way it is really an indirect appeal for a reduction in the rate of growth of the money supply via the holding of higher cash reserves by banks and others.

It really has nothing to do with saving Saving in any other form is simply a redistribution of income and expenditure from those in credit with financial institutions to those in debit

• Some people argue that a policy of price control, if properly implemented, will solve the inflation problem.

This is not so much a fallacy as an exercise in naive, wishful thinking A policy designed to curb price and wage increases that would otherwise be made, will not remove inflationary pressures if demand is expanding

Furthermore, if this situation of excess demand prevails over time, the controls will become less and less effective Black markets will develop and legal methods of achieving price increases will be found

For example, service charges, unit quantity reduc-

• To Back Page

Unwarranted pay rises inflationary says Sadie

CAPE TIMES 6/5/77

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Industrial 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."

Referring to the wages of Asian, 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) 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

Money supply still the key

FIN MAIL 3/6/77 153

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 demonstrated 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 spate 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 Wits, 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 a 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 effect of a restrictive monetary policy can be surprisingly long"

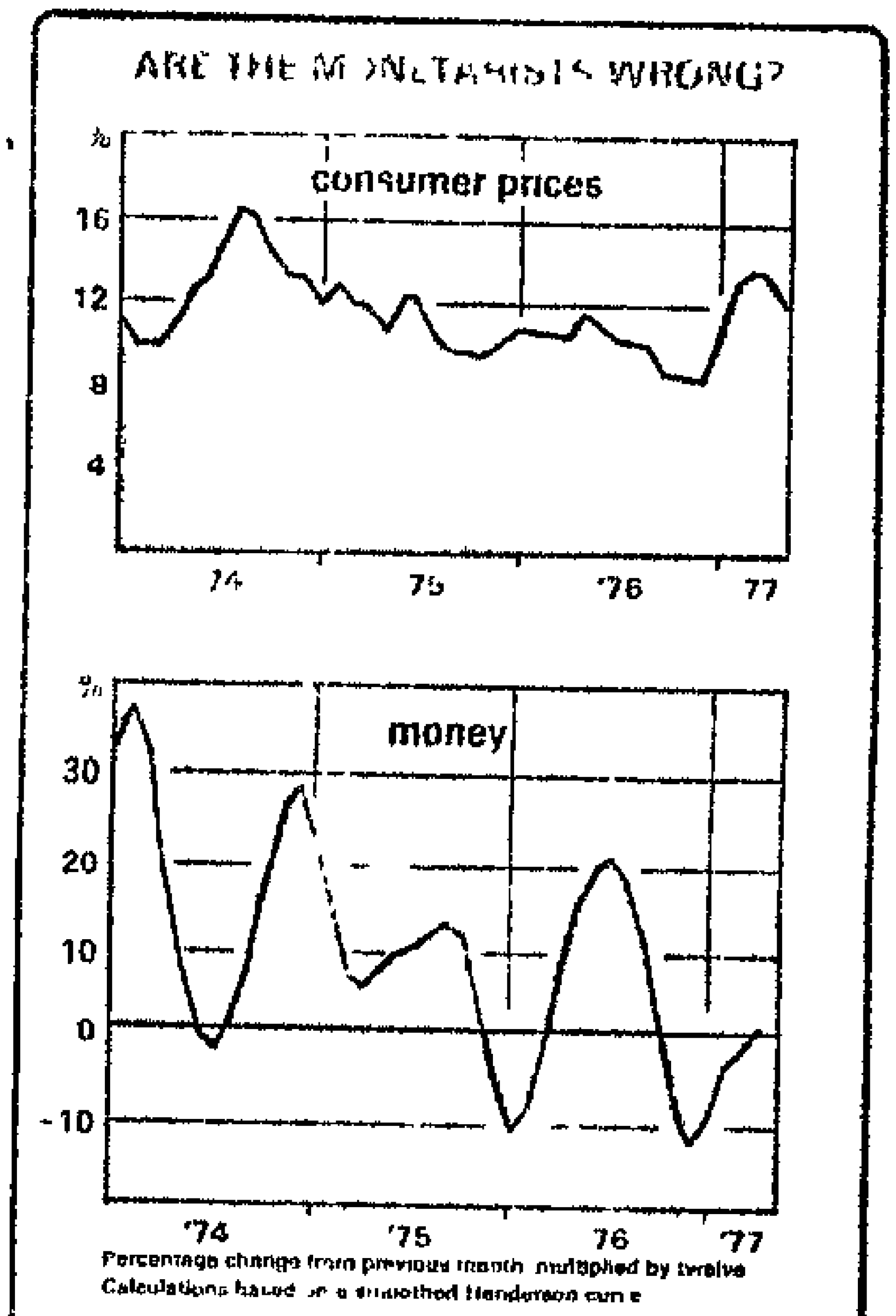
Moreover, just because the rate of price increases has accelerated in recent months is no proof that the monetary squeeze is ineffectual "If the money supply growth continues to be as slow as it has been, prices *must* come down later," says Kantor confidently

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, maize, 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 deceleration in the rate of inflation should soon be resumed 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?

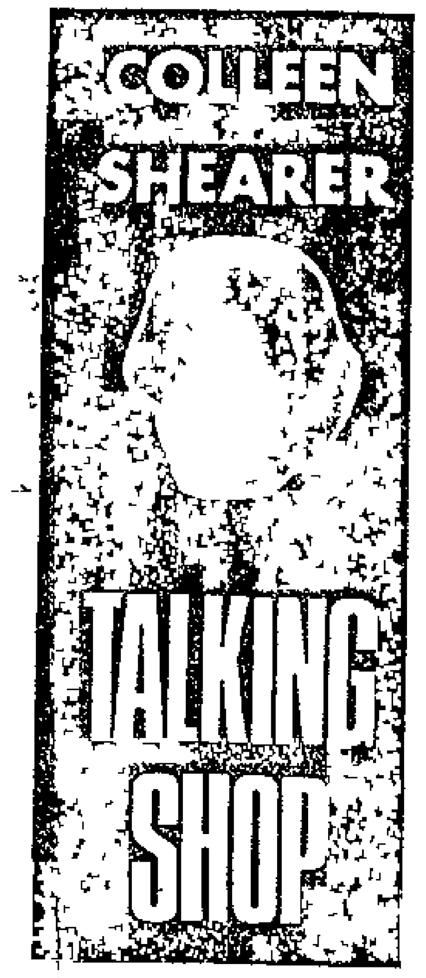


Percentage change from previous month multiplied by twelve
Calculations based on a smoothed Henderson curve
Source: Standard Bank

Dept.

19/6/77 Sunday Tribune (153)

EINA! That 16% inflation rate really hurts



WITH FOUR 24-item food probes completed, it's the moment of truth — inflation has pushed up their prices by 15,8 percent in just 12 months.

From 1974 to 1975 our inflation survey showed a 21,5 percent increase. The following year — 1975 to 1976 — brought an encouraging reverse trend ending in a 6,8 percent rise.

At that time the pundits predicted the figure would be halved this year!

So don't just tighten your seatbelts — tighten your stays. For it looks as though food is fast becoming a luxury and it is imperative that there be no waste.

Consistent

Which supermarket won? The question is evidently all-important to consumers, but yet again it has been proved that while at one store you may pay more for coconut and less for jam, most stores appear to operate on similar profit margins, resulting in a remarkably consistent final figure.

So shop at the supermarket which caters best for your needs and forget about chasing bargains. The less often you visit the supermarkets, the more money and petrol you will save. So plan your shopping and practise discipline.

Totals

To demonstrate my point — and of academic interest only — here are the final "total basket" figures for the stores. Bear in mind that when a store was out of an item the average price was substituted

FIRST: Checkers R52,20
SECOND: Pick 'n Pay R52,78
THIRD: Spar R53,02
FOURTH: O.K. Bazaars R53,18

I have omitted Woolworths as this store did not stock 42 of the items.

A few interesting points surfaced in this survey. First was that Gold Dish has decreased its net mass on breyani from 400 grams to 380 grams

One can make allowances when a manufacturer alters volumes the better to comply with metric measures but to drop from a round figure like 500 to the illogical one of 380 is simply not cricket. However, in calculating percentage increase I took this into account.

Bull Brand corned beef was a rare creature except in the 190-gram size, so Fray Bentos was probed instead. Apart from this, Bull Brand's 190-gram worked out much dearer proportionately than Fray Bentos 300 gram, the former averaging 55 cents against 71 cents.

Another drop-out was Renown boerewors, its place being taken by Eskort.

Reversed

Maltabella makes a name for itself again. Last year its price went up 63 percent because of a change in packaging, from paper bag to cannister. This trend has been reversed today — all stores had packeted stock except for Spar — with the result that Maltabella can claim the medal this time with a 5 percent drop in price.

Prepacked tomatoes showed a seasonally cheering drop by 15 percent, and it was pleasing that only two stores had prepacked stock. The others instead were selling loose tomatoes — O.K. Bazaars' price was 39 cents a kilogram, and Spar Avonmore's 48 cents.

The only other contender for honours is butter beans, which kept even. They dropped 6,5 percent from 1974 to 1975, and a further 3,5 percent from 1975 to 1976. Shows what simple packaging can do.

According to one manufacturer, printing and packaging cost increases represent "the most severe difficulty, with a 150 percent increase in one-colour printing alone in one year".

Another firm to have got the message about packaging is Hychem, makers of Ideal products, and they are even capitalising on it.

Problem? To cut down on wasteful, useless containers which must be thrown away. Solution? To make containers so useful that no one will want to throw them away.

Novel

With this in mind Hychem has designed a novel 2-litre plastic container for its Ideal Orange Squash. It is an imported plastic bottle with a wide neck to which is attached a pouring lip, not unlike a sophisticated vacuum flask — useful in the home and especially for picnics.

Price will probably be about 70 cents for two litres, and refills will be obtainable for roughly 10 cents less.

The refill bottles are made of cheaper plastic but they are designed to fit into your fridge door.

As expected, chocolate rose the most in price — a 41 percent increase. But it was no use looking for relief to coffee, tea or cocoa . . .

Also up were Gold Dish breyanis, both rising over 20 percent.

Maizena — a flour child — was also an inflation casualty on 24 percent, and worse was mealie meal on 31 percent.

The price of eggs rose a shocking 30 percent, after which we descend thankfully to 21 percent for samp, 19 percent for Epol dog food, and 12 percent for aluminium foil.

Shorter

Last year Princess foil was still seven metres long but this brand has now joined the shorter ranks and stretches to only six metres. Even at this length it is still the best buy — 67 cents against an average 77 cents.

Three other good buys were Spar cooking oats 39,5 cents, Princess hamburger patties 54 cents, and samp at Woolworths — still 43 cents when I called.

		Checkers 'Toti	OK 'Toti	Pick 'n Pay M'clair	Spar Avonmore	Woolworths Dbn. N.
Nestle slab chocolate	125g	42	42	38	42	—
Fray Bentos corned beef	300g	74	74	69	69	69 P
Bull Brand hamburgers patties	425g	62	62	62	65 S	54 P
Gold Dish mutton breyani	380g	61	59	61	65	—
Gold Dish beef breyani	380g	55	59	58	63	—
Eskort boerewors	500g	85	86	85	—	—
Tastic rice	500g	36	37	36½	39½	37
Butter beans	500g	25	26	29	27½	—
Pronutro/plain	1kg	1,12	1,09	—	1,09	—
Maizena	450g	30	—	29½	26	—
Maltabella	1kg	59	62	59	76-Tin	—
Mealie meal	2,5kg	43	43	44	45	47
Jungle Oats	1kg	49	58	49	55	—
Tiger pearl barley	500g	26	26	24	24	—
Royal baking powder	200g	45	46	47	47	—
Samp	2,5kg	48	47	49	49½	43
		Dogmor				
Epol dog food (chunks)	5kg	1,79	1,79	1,87	1,87	—
Large eggs — 1st grade:	1 doz	53	54	54	53	58
Prepacked tomatoes — 1st grade	1kg	60	—	—	—	25
Aluminium foil		79	75	76	78 S	67 P
Lux toilet Soap	150g	24	23	23	24	21 P

P — Princess
S — SPAR

Information Desk

STRIP SHOW

SHELL CHEMICALS have undertaken to put the expiry date of Vapona strips on the outside of the packets in future. Credit, too, to reader Bob Tillett, who pointed out the failing in the first place.

PHANTOM FOOD

A JOHANNESBURG restaurant last week charged some diners — quite legally — extra for food not ordered or eaten. Trouble was that the small print on the menu stipulated a minimum order of R5,50 per person, and the three guests were R3,20 short.

Maddening to think they could have enjoyed juicier steaks . . .

What interested me more was that there was a 10 percent service charge on the drinks as well as the food.

Querying this at Price Control, Pretoria, I learned that restaurants may do this on food and drink but that hotels may not make a service charge at all.

HAPPY BIRTHDAY

HAPPY FIRST birthday to Tutti Frutti, a friendly café in Central Arcade, Amanzimtoti, where one can still buy real home-made cakes and where wholewheat rolls with juicy fillings are not priced to fleece the tourists.

Lesson to some Durban establishments.

THEY CARED

AND ON THIS third anniversary of Talking Shop, it's worth mentioning the following firms for responding courteously to complaints: Creative Productions, Federal Marine, Johnson & Johnson, Royal Baking Powder and Gillette. The Department of Weights and Measures was helpful too.

BUTTER AND BANANAS

IT'S POINTLESS for the authorities to get churned 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 co-operative like the banana farmers? The latter run an efficient operation on a supply and demand basis with no controlled prices set by a control 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 and yield with their former generosity, will the price of coffee come down again?

D.D. 21/6/77 DD

It all depends upon the inflation rate — Cloete

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JOHANNESBURG — If the inflation rate can be brought down to below eight per cent within the next six months, the present downswing 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 the credit restrictions, can effectively bring about 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.

The Natal Mercury

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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 R8 500 000 surplus of carcases.

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 forlornly 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.

REGULAR EMPLOYEES AS A PERCENTAGE OF REGULAR PLUS CASUAL EMPLOYEES

RACE - COLOURED

EC REGION	PERCENTAGE	EC REGION	PERCENTAGE
1	62.11	12	53.23
13	54.38	24	100.00
25	83.33	36	91.67
37	[illegible]	48	94.20
47	[illegible]	60	50.00

REGULAR EMPLOYEES AS

RACE - WHITE

EC REGION	PERCENTAGE
1	49.36
12	81.13
13	71.57
24	100.00
25	94.30
36	98.11
37	97.14
38	97.1[illegible]
39	91.23
40	96.67
41	94.18
42	97.13
43	94.26
44	[illegible].23
45	95.35
46	98.77
47	85.86
48	96.88
49	97.73
50	74.92
51	100.00
52	96.62
53	92.44
54	37.18
55	92.86
56	35.71
57	81.25
58	87.64
59	92.63
60	100.00

N/MERCURY

5/7/77

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Schwarz blames Govt for inflation

Mercury Correspondent

PRETORIA — The Government, by sanctioning increased prices for key commodities and services, was mainly responsible for this years' inflation escalation, the Progrefs' 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 authorised by the Government.

Express guinea-pig team will live on R70

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

By JUNE WOTHERSPOON

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 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

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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 chairmen'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 unawares And now they have the audacity to boast of their increased efficiency

Were I a shareholder of such a company I would have some rather embarrassing questions to put at the annual meeting, as should all shareholders Far too many boards are still complacent about their company's performance

— BUSINESS EDITOR

Ref. 3/Student No. /Course

Dear

Thank you for your application for admission to the University of Cape Town in 1978 to study for the above course (see Ref.). The Faculty of Arts is pleased to accept you for this course of study and if you wish to accept this offer you must return the attached slip immediately accompanied by a R50 deposit, which will be deducted from your first fee account. The deposit which is not refundable except in very special circumstances, should be submitted in the form of a crossed cheque made payable to the University of Cape Town.

The University's academic year commences on 27 February and registration of new students will take place during t ... ncipal and Vice Chancellor, Sir Richard Luyt, wi ... tudents in the Jameson Hall at 8.45 a.m. on Mond ... ils of Registration will be announced on thi

The University offers a mandatory "Pr ... to all first year Arts Faculty students. Th ... two weeks prior to the commencement of the firs ... rged for this course and will be charged to yo ... of this course will be forwarded to you at a

Acceptance to a course of study does ... to a University residence. If you have applied for ac ... lence, you will be informed of the result of your

Your student number, as quoted in the ... ly stated in all communications in connection wi ... ould be addressed to the Registrar, University ... ondebosch, 7700, and the letter, as well as the e ... ked "Admissions-1978"

Notes:

1. Non-white and alien students are ... vernment legislation, they must be in pos ... before coming to register at the Univer

2. Although you have been accepted ... f study at this University, you will be ... nal official matriculation certifica ... rtment in August 1978.

Yours sincerely,

O. METCALF
Arts Faculty Officer
for REGISTRAR

HOM/ser

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Heunis: aim for stability

BELLVILLE — South Africa should not expect too much too soon in respect of an improvement in the economic climate, the Minister of Economic Affairs, Mr Heunis, said here yesterday.

When officially opening the R3 million polyester ... plant here, he ... the present aim would be to achieve a ... but stable ... growth rate.

He said the consumer ... index had increased ... per cent ... May this ... with ... measures ... fore the ... not yet had ... meant the ... could be ... degree of ... improve- ... of ... the ... in regard ... more ... onomic ... ted ... SAPA

Slump at its lowest point?

DN 28/6/?? (153)

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

FIPF

Fédérat... ... *ançais*

Rising costs hit Desiree

CAPE TIMES 11/8/77

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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 R2 732 000 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 with demand weak (it is 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 divided (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 this is a sign of strong liquidity. The counter is standing on a 10,7 dividend yield.

Pyramid Seardel'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.

Seardel has raised its stake in Desiree from 58 to 72,2 percent and clearly the group believes the yield is generous.

Earnings per share were 34c (36,8c) and the final has been maintained at 9c for a total of 12c (same). As with Desiree cover has been trimmed — from 3,08 to 2,83. Seardel has a dividend yield of 14,6 percent.

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

It is ess... you ... tutorial ... er of ... r

Make sure ... gaises

You have ... 'tudies
the first ...

1. ... the

2. Answer ... fait

(a) ... lish pronunciation of the word 'raspberry'.

... Association des Etudes Françaises ... la F.I.P.F., s'établir sur la base ... professeurs étrangers membres de l' ... sur une base individuelle.

(b) Write down and divide into its morphemes ... sculptresses.

C'est pourquoi le Bureau ... j'avais exprimée dans ma lettre du ... malgré la diffusion que vous avez ... jusqu'ici, à notre connaissance re... ... on que ... m'a pas

(c) Provide a constituent diagram for the s... slowly down steep streets.

Les membres de l'A.F.S.S.A ... individuel membres de la F.I.P.F. ... publications et documents pédagogiques produits par nous ainsi que toute information sur nos activités futures.

(d) In terms of first immediate constituent division, explain the two meanings of pretty new dresses.

Je vous prie d'agréer, Monsieur le Secrétaire, l'expression de mes sentiments distingués.

(6 marks)

La Présidente

(Total: 50 marks)

Lucette CHAMBARD

Published works continued

GERSON, J. - An Estimation of the Extent of the Cape Town Squatter Problem and a Projected Estimate of the Shortage of Housing for Coloured People in Cape Town: In C. Simkins, Saldru Working Paper No. 14.

SIMKINS, C. - Socio-Economic Characteristics of 16 Squatter Settlements in the Cape Town Area 1975, Saldru Working Paper No. 14, 1977.

WILSON, F., KOOY, A. and HENDRIE, D. (eds.) - Farm Labour in South Africa, David Philip, Cape Town, forthcoming.

The following papers were delivered at the Saldru Farm Labour Conference by researchers associated with the School of Economics, September 1976

AFRICA, R. - Mechanisation in South African Agriculture 1936-1974.

BROMBERGER, N. and AFRICA, R. - Changing Techniques in Western Cape Agriculture.

GODET, R. - Farming in the Eastern Transvaal.

x HENDRIE, D. - Agricultural Statistics - A Need for Reform

x HENDRIE, D. and KOOY, A. - Some Employment Patterns in South African Agriculture

x KOOY, A. - Farm Labour in the Karroo

KOOY, A. - Notes on Sheep Shearers

x LEVY, B. - The Seasonal Labour Market in Agriculture - An Empirical Study

LEVY, B. - Farm Schools in South Africa

x MAREE, J. - Farm Labour in the Dealsv ... s.

x MORRIS, M. - Apartheid, Agriculture a ...

PLAUT, T. - Farm Schools for African ... ren in South Africa

x VAN DER VLIET, E. and BROMBERGER, N. ... our in the Albany District

x WESTCOTT, G. - Obstacles to the Deve ... Agriculture

Articles marked with an asterisk (x) ... n WILSON, F., KOOY, A., and HENDRIE, D. (eds.) op.cit.

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N.M.

INFLATION REDUCED

24/8/77

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

Mercury Reporter 8/9/77 (153)

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

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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 or 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

Inflation a taxing business for YOU

Sunday Times 4/9/77

By JILL McILRAITH

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 decreasing 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, co editor of Businessman's Law describes it

Scale

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

"They are not only paying more tax but a greater proportion of their earnings the higher they go in the tax scale"

The average wage earner might not be affected greatly

'But the beginning of a trend is there The liability of financing the Government through taxes is creeping down into the middle classes"

Trend

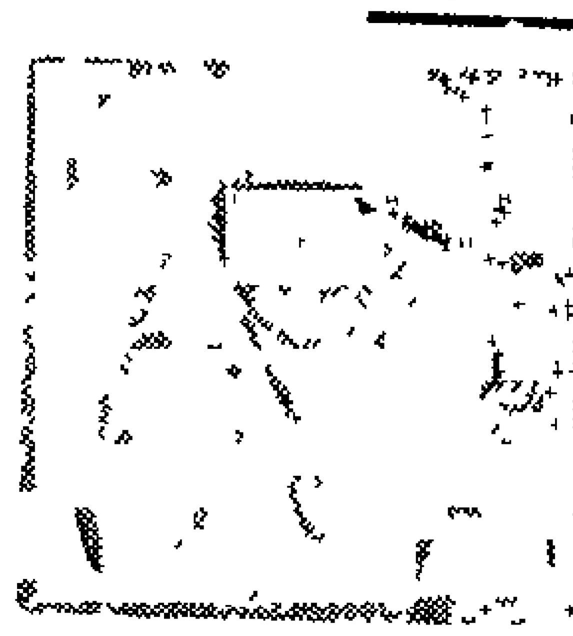
Figures clearly showed this trend Mr Divaris said

In 1968, 67 per cent of taxes came from six per cent of the taxpayers In 1975, the tax base had broadened with 17 per cent of the taxpayers contributing the same 67 per cent of South Africa's revenue

The Senbank 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 buying power of an average white person had decreased by five per cent — even though his salary might have increased

'But it is the person who earns more than R10 000, the above average earner, who is the most severely hit He will now have 85 per cent of what he had five years ago in 'real' income after tax" he said



DR DE JONGH
Reserve Bank report

MR GOUWS
Increasing burden

Less

'In real terms both are earning a lot less today And the two sides of the coin are inflation and higher tax rates"

Excluding the gold mines, companies in South Africa paid roughly R1 664-million in taxes last year and individuals R1 690-million Total taxes were R5 482 million

With South Africa's present recession, the Government had come increasingly to rely on individuals for revenue another economist said

This trend was a reflection of the decline in companies' profitability, and the situation could reverse when the economy recovered, he said

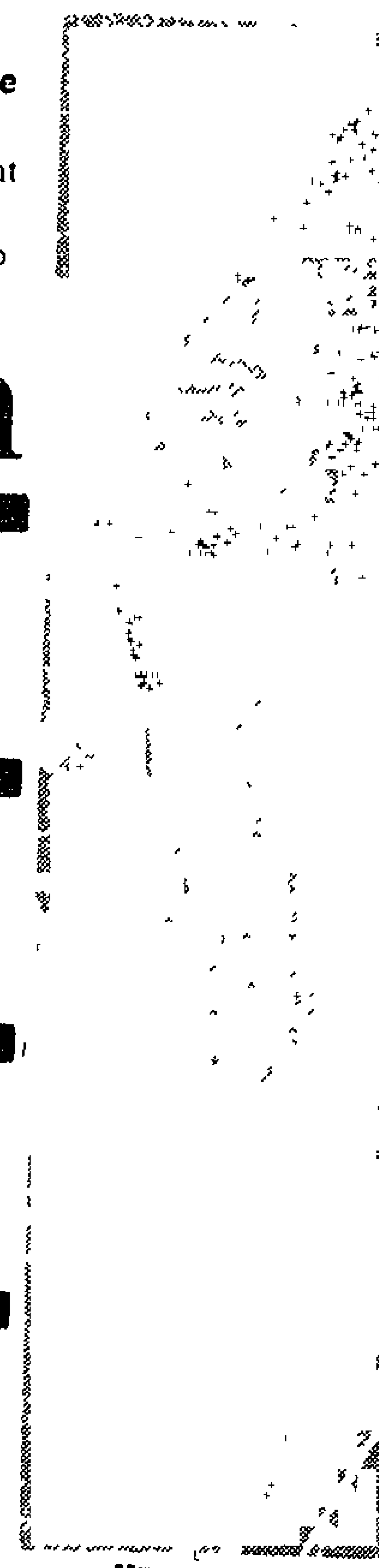
Next year the Government's "turnover tax" which will affect most goods, including basics like food and clothing will hit everybody

South Africa relies on direct taxes for about 65 per cent of its revenue, the rest coming from indirect taxes and levies

It is this relation between direct and indirect taxes that is important, said Nedbank economist Mr Merton Dagut

"At present South Africa relies on a few taxpayers, which is another way of saying that income distribution in South Africa is askew'

Mr Dagut said he favoured indirect taxes, such as the proposed turnover tax, over direct income taxes It would broaden the tax base



MR DAGUT
Indirect taxes

But Dr Jill Nattrass, senior lecturer in economics at University of Natal, Durban said, "It will hit everyone who buys goods from the unemployed with no income through low-salaried 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, a University of Stellenbosch economist, Dr Sampie Terblanche said

"Funds for Government expenditure have to be found somewhere Inflation is an easy way of increasing taxes, especially if governments do not have the political ability 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 FIN MAIL 16/9/77

(153)

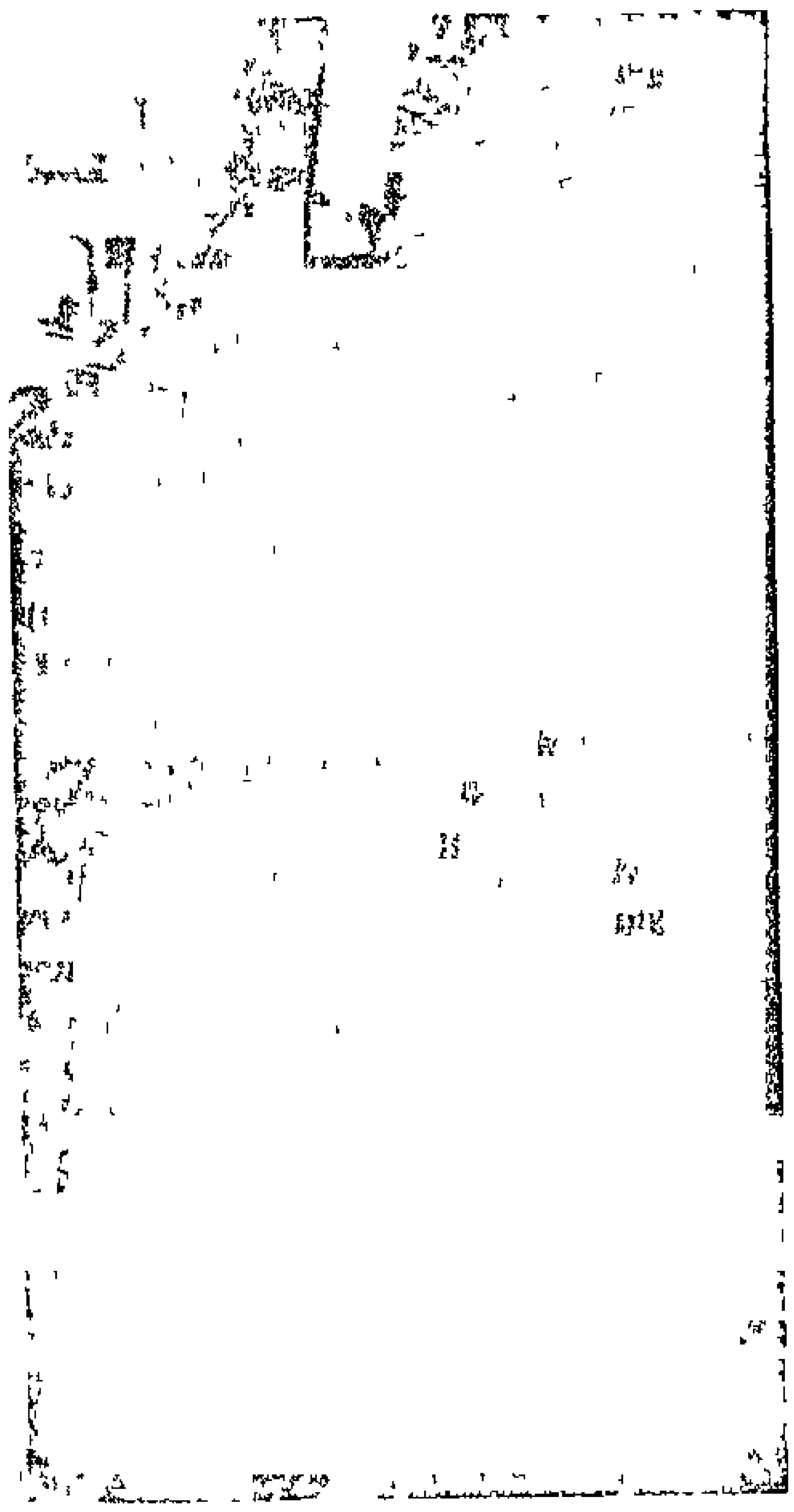
Only a hiccup

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



Double-digit inflation . . . how do the poor cope?

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 Senbank 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

Daily Disp 20/9/77

(153)

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

FM 7/10/77

(153)

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 stuck obstinately 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't 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 prices 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

Rudolf Gouws . . . unit costs rising fastest

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 still seem fairly optimistic

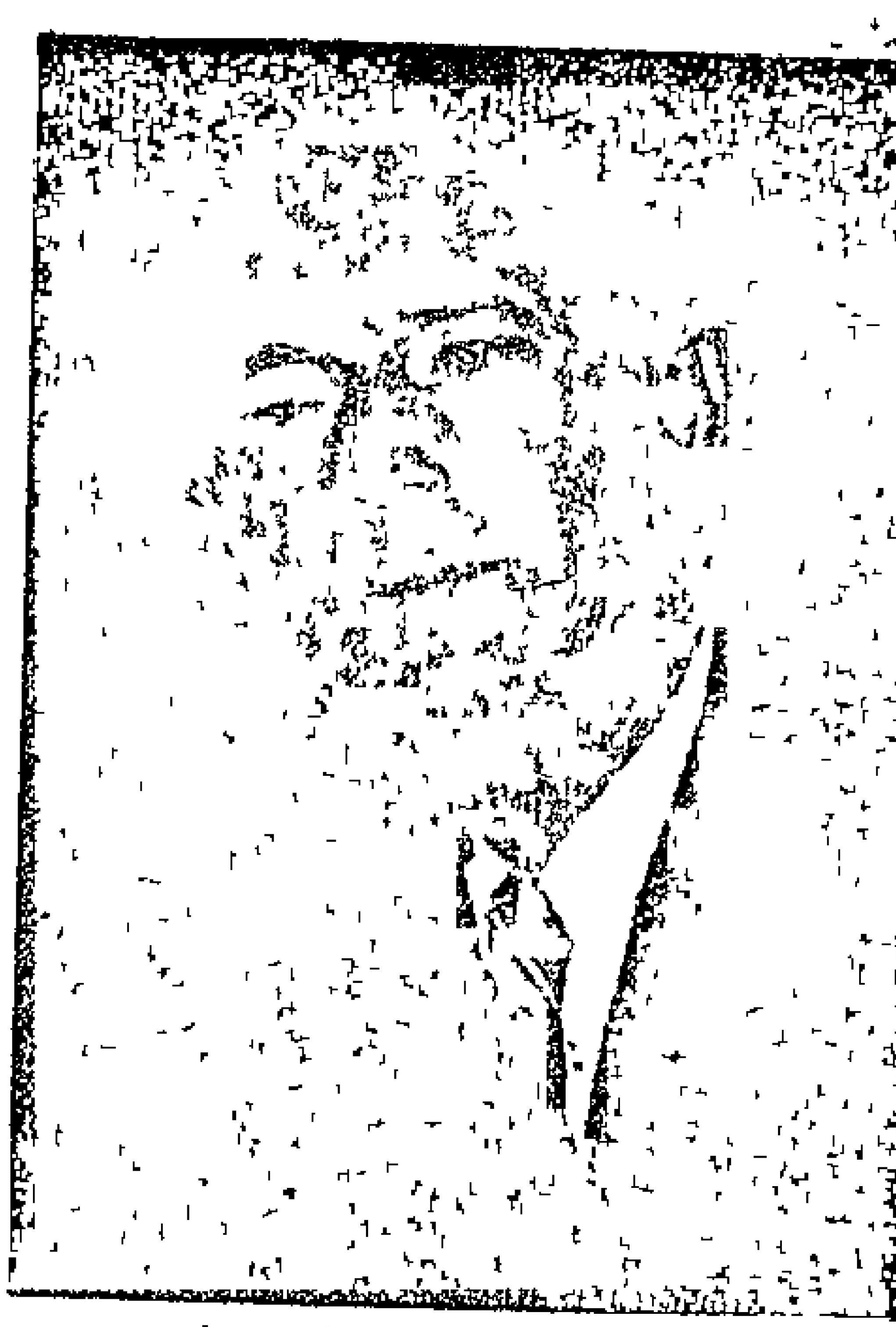
Gouws expects the inflation rate to remain in double figures for the rest of this year, but that it will drop to single figure next year

Tjaart du Plessis, Secretary of Statistics, shares his view He predicts 11% 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 among them Barclays' Johan Cloete, Nedbank's Merton Dagut, 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,



Joep Steyn . . . fighting unemployment should come first

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 inflationary

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

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RDM. 15/10/77

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 237,2

This represents an increase of 12,2% over August 1976 when the index was 211,4 It was 235,3 in July this year

April 1970 is the base of 100

The rate of increase in wholesale prices over 12-month periods was running at about 8% 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 hiccups

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 March 1977 15,3%, April 14,5%, May 14,2%; June 14,3%, July 13,5%, August 12,2%.

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 0,5% in September, the same as in August, bringing the year-on-year rate down for the third successive month to 15,6% from 16,5% 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

8/12/77. (153)

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 199,3, 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 209,0, Witwatersrand 206,7; Port Elizabeth 206,0, Durban and Vaal Triangle 203,8, Pietermaritzburg 203,6, East London 203,5, Cape Town 203,0, Bloemfontein 202,6, Kimberley 200,1 and OFS Goldfields 196,3

Food only Bloemfontein 217,5, Witwatersrand 215,2, Pretoria 213,1, Vaal Triangle 212,9, 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.

ARGUS 9/1/78

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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 [illegible]

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

UP, UP, UP GOES THE S.A. COST OF LIVING

Natal Mercury 11/1/78

Mercury Correspondent

PRETORIA — South Africa faces a grim prospect this year of higher taxation as well as likely hikes in post office tariffs — and later in the year, railway tariffs.

These, on top of the recent big rises in the prices of basic products like sugar, bread, power and steel and the virtual certainty of higher maize and dairy product prices before July, will, according to economists, provide the steam to push the inflation rate up to 13 percent and even higher.

The PFP's financial and defence spokesman, Mr Harry Schwarz MP gave a number of reasons why the country should brace itself for bigger tax payments this year

He said it would be necessary to squeeze taxpayers to compensate for the severely-restricted inflow of foreign capital.

He said recessionary conditions would continue to dominate the business world and State revenue from tax would be adversely affected And inflation was certain to continue in double figures.

Mr. Schwarz [illegible] that foreign capital could only be found at [illegible] normal interest rates and then only for short periods.

The Government, he said, had done nothing to defuse the smouldering discontent among urban Blacks and because of this South Africa was regarded by foreign investors as a prime risk area.

Another [illegible] bedevilling South Africa's economic climate [illegible] the arms embargo which could force the Government [illegible] black market deals for essential equipment at [illegible] prices

This was [illegible] reason why higher taxes would probably be imposed and [illegible] the defence vote could escalate beyond the current financial year's R1 600 million.

Funds would have to be provided for the housing development promised by the Government to ease unemployment and for other economic stimulants.

The economy, Mr. Schwarz said, could not stand further pressures and money would have to be [illegible] for subsidies to [illegible]

Clothing prices will rise

15 Star 17/1/78

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 — yet 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 scrutinised 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

Rex Trueform's Mr S Kantor said 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.

STAR 23/2/78 (153)

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, Hern, 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 needed confidence to sustain the upturn, coincided with the economic consequences of Mr Kruger — or some may say, Mr Biko"

The political events towards the end of 1977 hardened overseas attitudes towards South Africa Furthermore, they damaged confidence at home.

Charting the course for the coming year he said "I think if there is no further deterioration in confidence — that is, if we continue only on the present level of ordinary, grinding unhappiness — the economy will pick up"

Politics, however, would always play a part. A big danger was that the West would apply sanctions to South Africa's exports

Inflasiekoers sal laer wees, sê Dagut

RAPPORT, 26/2/78

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ONS inflasiekoers gaan vanjaar heelwat laer wees as wat die meeste ekonome verwag. Buitelandse maatskappye sal Suid-Afrika nie maklik los nie en ondanks dalende pryse vir die meeste minerale, kan die land verwag om vanjar weer meer uit sy grondstowwe te verdien.

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

Die boodskap van 'n heelwat laer inflasiekoers is deur mnr Merton Dagut, hoofekonoom van Nedbank gebring. Volgens mnr. Dagut kan die land ondanks die uitwerking 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 daardie beweegruimte sal gee wat nodig is om die land se pap ekonomie weer aan die gang te kry.

En dan behoort sen. Horwood ook hoogs 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 heuningkwas 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 ingekort het, het klaarblyklik groot indruk gemaak.

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

Nigerië

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

As iemand wat 'n deeglike studie oor oorsese betrokkenheid in die land gemaak het, het hy gesê dat dit onwaarskynlik is dat die groot multinasionale maatskappye hulle weens buitelandse druk aan Suid-Afrika sal onttrek

Dit is so dat Nigerië die wêreld vir baie maatskappye moeilik maak. Met sy olierykdom verwag hy van maatskappye wat daar sake doen om 'n onderneming te teken dat hulle geen geld in Suid-Afrika maak nie

Wanneer so 'n onderneming geteken word en dit blyk vals te wees, kan sulke maatskappye beboet word met 'n bedrag gelyk aan vyf keer die waarde van die kontrak.

Groot geld

Maar die Nigeriers is gelukkig pragmatiste, sê prof Spandau. Hy weet van 'n hele paar gevalle waar groot multinasionale korporasies dit baie baie duidelik gestel het dat as die betrokke klousules toegepas word, hulle hul sake uit Nigerië sal onttrek of hoegenaamd 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 verplig word om sy beleggings uit Suid-Afrika te onttrek, hy insgelyks 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 R20 000 miljoen beloop, sê prof Spandau Rente en dividende het aan oorsese maatskappye '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 kanse goed is dat Suid-Afrika se minerale vanjaar weer meer vir die land sal kan verdien

Uit sy referaat het dit onder meer geblyk dat hoewel Suid-Afrika net 7 persent van die wêreld se antimoon-reserwes het, hy die grootste enkele produsent is

Hy verwag dat die prys van asbes ten minste op die huidige vlakke gehandhaaf sal word. Die uitvoer van steenkool het as 'n presentasie van ons produksie van 7,7 persent in 1976 tot 15 persent verlede jaar gestyg.

INFLATION SPLURGE EXPECTED

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Mercury Correspondent 15/3/78

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 11,3 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. A J. M de Vries, said the increase in Government controlled prices recently would cause a still 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 power prices and railway tariffs had not yet worked their way through to retail prices

The president of the SA 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 Tucsa and the confederation had more than 500 000 workers.

"Their combined earnings exceed R2 000 million, and this with the necessary co-operation, would be a powerful base from which to fight the price spiral"

The Budget

Inflation, big farm worry, 'not solved'

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30/3/78 Natal Mercury

Agricultural Correspondent

THE director of the South African Agricultural Union, Mr. Chris Cilliers, said yesterday that the farmer's worst enemy, inflation, had not been solved by the Minister of Finance.

Commenting on the effects of the Budget on agriculture, Mr Cilliers said although Senator Horwood had spelt out his objectives clearly, "he has not solved the problem of inflation which is the farmer's worst enemy."

Mr Cilliers felt that because of continued inflation in South Africa, local farmers would not be able to be competitive on world markets.

Mr Cilliers described as "totally inadequate" the amount of R35 million which the minister had set aside for the purchase of White farms in terms of the consolidation of the homelands.

"You can't buy much land for that sum" he said.

Mr Cilliers said he welcomed, "like everybody else" the tax concessions announced by the minister, and he said a measure of relief would result for those farmers who operated as companies. He also welcomed the concessions made in respect of estate duty paid by farmers.

When the general sales tax came into operation in July farmers, as producers, would have to become registered. "I see no problems here" said Mr. Cilliers.

Praise for change

Financial Editor

THE Minister of Finance has presented a good budget which should achieve its objectives of getting the economy moving without increasing inflation.

This is the view of Mr A. R Wilson, chairman of the Tax Committee of the Natal Society of Chartered Accounts.

Mr Wilson said yesterday that he welcomed the minister's decision to obtain more tax at a lower rate than less tax at a higher rate which had been the position up to now.

"However, I am concerned about the position of the poorly-paid worker and particularly African workers.

"They will feel the effect of the general sales tax more than others. The impact will be heavy on those who are unemployed."

Mr Wilson added that the reduction in sales duty on manufactured goods may not filter through to consumers for two months.

"Prices are going to be a great problem in the next few months."

Nor was it clear how the increased food subsidies would be used to off-set the general sales tax.

"With different turnovers and methods of marketing price changes will not come through at a steady rate.

"But I believe the general sales tax should work well. It is preferable to sales duty although small businessmen may have difficulties in collecting the new tax.

"One of the main problems will be with exemptions."

Mr. Wilson said that new tax tables would be distributed and these would take effect from July 1. As taxpayers would pay too much tax during the first four months of the tax year this would be compensated for in the new tables.

"I do not expect that there will be a tax holiday."

(1)

Vraelys aan boere

Nommer van plaas:

Landdrosdistrik :

Grootte van plaas (he

Soort boerdery (indie

Aantal Kontrakarbeiders :

Afstand van naaste dorp (kilometer

The Natal Mercury

(153) 30/3/78 'Natal Mercury

Inflation goes up as salaries drop

SENATOR Owen Horwood said the average real salaries of Whites declined by 3,4 percent last year while inflation rose by 11,3 percent on a monthly average.

He said unemployment among Whites, Coloureds and Indians increased from 21 084 in December, 1976, to 34 641 in December, 1977, which represented about 1,5 percent of the corresponding labour forces.

Data for unemployment among Blacks was unavailable but the Department of Statistics recently estimated that in October, 1977, there were 634 000 unemployed representing 12,4 percent of the economically active Black population.

Sen. Horwood paid tribute to South Africans saying their response to adverse and unexpected developments was worthy of the highest praise.

"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.

Domestic

As predicted last year the real gross domestic expenditure declined by about 5 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 15 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.)

Vraelys aan boere

(1)

aasinkomste word):

Skeerders

Vraelys aan boere (

14. Waar slaap die span terwyl hulle

15. Kry hulle enige ander betalings t ... plaas
werk? Indien wel, gee besond

Wat is die waarde aan u van die

16. Gaan u dieselfde span aanstaan ... Waarom/Waarom
nie?

17. Is daar op die oomblik 'n tekort

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

Hoe gaan u hierdie tekort teenw

Budget with a Bite

31/3/78 (153)

NM

Deputy Financial Editor

IT'S THE Budget with a Bite A four percent rise in the price of everything you buy comes into effect on July 1, and so far the Minister of Finance has indicated that the exemptions will be few and far between.

An easy way to calculate how much it will cost is to take your total income — subtract your housing costs (bond, water, rates and electricity) your insurance premiums and your savings. The rest is going up.

In previous years the minister pinpointed cigarettes, beer, spirits, pipe tobacco and wine for rises in price. He was silent this year but these and every other commodity in sight are going up

Wine is a slight exception The excise tax has been reduced will mean the price, with the new sales tax will remain the same as it is now up to about 50 cents a bottle. After that the price will rise.

Cheap articles

Depending on how the minister words the final legislation, it may be possible for the shopkeeper or manufacturer to absorb the sales tax and pay it himself — or to load high-price goods and lessen the burden on cheap articles.

There are some exceptions. Medical and dental bills, educational lectures, and sales of houses — other than by auction — appear to be free of sales tax

General manager of the Durban Chamber of Commerce, Mr Ken Hobson, said they would first draw up comments on the draft legislation before taking any other action "We do not know the final form of the legislation."

The Natal Mercury, Friday, March 31, 1978 17

Vra...

1. Distrik
2. Aantal skape
3. Nommer van plaas
4. Gebruik u 'n skeerspan?
   Indien wel,

5. Gebruik hulle meganiese of handskere?
6. Hoeveel a) skeerders
   b) dagsmanne is daar in die s
7. Hoe lank werk hulle op u plaas elke ja
8. Waarvandaan kom hulle?
9. Hoe werf u hulle?
10. Hoeveel keer het die span reeds op u
11. Hoeveel skape skeer hulle weekliks?
12. Betaling
   Skeerders: kontant ander: ho
   wa
   wa
   Dagsmanne: kontant ander: ho
   wa
   wa
13. Hoe word d

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 overburdened 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 Umlazi, 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 mealie 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.

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Sun. Tribune 2/4/78 153

Black budget blunder

WHITE pensioners enjoy an increase of R9 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 pensions. 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

Amanzimtoti.

WHEN Senator Horwood presented his budget to Parliament this week, he announced that excise duty on unfortified wine would be reduced by 3c 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 cafés — can sell unfortified wines and malt at normal trading times, as is done in civilised countries around the world today.

TASTY GRUB

Botha's Hill.

Inflation seems set

Sen Horwood's optimism may be misplaced

By MICHAEL COULSON

THE plethora of analysis of Senator Horwood's Budget arithmetic so far has glossed over the fact that the Budget is not simply a statement of the Government's finances, but also an epitome of the state of the national economy.

Admittedly, a change in the basis of drawing up the calculations has made this a more difficult task than normal this year, but that is no excuse for not making the effort

This change relates to the treatment of loan levies Senator Horwood protested strongly on Wednesday that these should not be regarded as taxes, as they are income-bearing investments and are eventually repaid This is an arguable point, certainly, to most individuals, they are part of the normal tax bill Moreover, in previous years loan levies have been lumped together with other direct taxes in the printed estimates

The major differences between the first two columns of the table headed The Figures in a Nutshell in fact arise from the new, separate treatment If, in the revised 1977 estimates, we add the net revenue from loan levies of R369-million (R464-million newly raised, less redemptions of R95-million) to the amount accrued from inland revenue of R5 374-million, we arrive at R5 743-million, which is what should be compared with the original Budget estimate of R5 898-million

On this basis, we then see that income from inland revenue (direct personal and company taxes, for the sake of this part of the exercise including loan levies) was about R150-million less than hoped for, while from the section immediately above this, expenditure was about R200-million more than originally budgeted

If we consider on the one hand the impact of double-digit inflation on spending levels, and on the other a recession that took longer to bottom out than had seemed probable 12 months ago, thereby eroding incomes and hence income taxes, this is not a bad performance in itself

But the real saving grace was the massive amounts raised in new domestic borrowings At R2 729-million, this was virtually R1 000-million more than the original estimate

This does not, of course, represent any overwhelming desire by local investors to show their faith in the future of South Africa by loaning vast sums to the Government, rather, it belatedly proves the point that some commentators (including, I'm happy to say, myself) were arguing a year ago that last year's increase in the statutory requirements of pension funds and life insurers to invest in gilt-edged and semi-gilt securities would, in practice, divert much larger sums of savings from the private to the public sector than the Minister claimed at the time

The merits of this are a matter for debate, the consequence is that not only was the Minister able, without difficulty, to fund a larger-than-expected deficit, but he was able to do so in spite of raising less than the target from new foreign borrowing He was also able to convert a planned overall deficit of R30-million into a surplus of R130-million

Not a major triumph, but enough to give him elbow-room to defray the deficits on the SWA account, transfer a nominal amount to the economic co-operation loan fund, and still have a small amount left over to transfer to the current year (to be precise, R42-million, which for the sake of simplicity in the table is included in the item, "transfer from stabilisation fund)

Before looking at the more detailed figures, what will be the likely impact of the Budget on the overall economy this year?

First, the expenditure side. Budgeted expenditure of R9 811-million is only about 9 per cent more than the revised figure for last year Senator Horwood is confidently talking about a drop in the inflation rate this year — with the important caveat, once recent increases in administered prices (transport, power, coal and so on) have worked their way through. Not all outside observers will share his optimism

I certainly don't, with my beady eye on those administered prices and signs that the rate of inflation in some of our important trading partners may be picking up again, I will not be surprised if the rate of inflation (as measured by the consumer price index, which is admittedly not necessarily the best guide, but is the most accessible one) stays obstinately on or about that irritating 10 per cent mark.

If that is so, then it looks as if Government expenditure will again be effectively pegged, in real terms Considering that the past decade has seen a major shift in the share of national income spent by the public sector, measures that will shift the emphasis in any way back to the public sector can only be beneficial

But this is no more than an extension of what has theoretically been part of the Horwood game plan for some time. The really noteworthy changes are to be found on the revenue side.

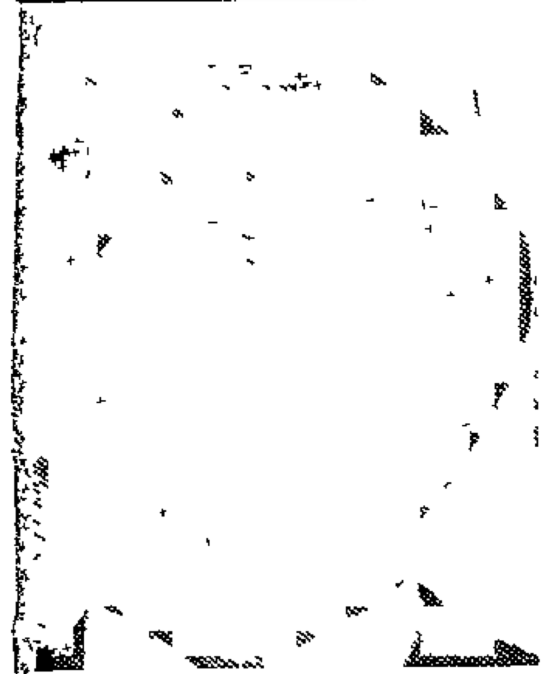
The R5 621-million that Senator Horwood plans to raise from direct taxes is only, in round figures, R250-million more than last year: a negligible 5 per cent. Expected revenue

Figures in a nutshell

	177 Est	1977 Revised	1978 Est
EXPENDITURE			
Printed estimates	8 960		9 621
Net new proposals	-175		190
	8 785	8 990	9 811
REVENUE			
Inland rev at existing rates	5 898	5 374	5 813
Budget proposals	10		-192
	5 888		5 621
Customs, excise at existing rates	1 389		1 657
Budget proposals	400		400
	1 789	1 675	2 057
TOTAL	7 697	7 049	7 668
Deficit	1 088	1 941	2 143
Loan redemptions	991	1 249	1 754
(inc loan levies	—	95	142)
Financing requirement	2 079	3 190	3 897
Internal loans	1 752	2 729	2 945
Foreign loans	149	56	75
Loan levies	—	464	480
Transfer from stabilisation a/c, etc	148	71	397
Balance	-30	130	—

Figures in millions of rands 1977 estimates not entirely comparable with other figures as they include loan levies under inland revenue, not as a separate item, as in the later figures

to dig in its heels



Owen Horwood

from indirect taxes, however, at R2 057-million, is no less than 23 per cent higher than last year's revised R1 675-million

This stems directly from the pending introduction of a general sales tax in place of the much more narrowly based existing sales duty

Expressed another way, Senator Horwood's reductions in direct taxes on companies and individuals of R180-million (the other R12-million of his total R192-million concessions are from minor items like stamp duties, investment and other allowances, etc) have been more than offset by the R400-million extra that the new tax is expected to raise, in comparison to the old sales duty On balance, this is a shift of R220-million straight from direct to indirect taxes

Now there is no question that indirect taxes are more regressive than direct taxes that is, they hit more heavily on the lower income groups And the more broadly they are based, the more regressive they are

The new sales tax, being more broadly spread than the old sales duty (even though at much lower rates), will compound this regressive effect It will not be noticeably diminished by the relatively minor cushioning provisions Senator Horwood is proposing.

No sensible person, whatever his political views, can regard with equanimity a change in the tax structure which hits hardest at the poorer sections — by definition, largely blacks — of our society In extenuation, it can be argued that last year, while the real income of whites fell, that of blacks continued to increase It is ironic that those who are now complaining most loudly about the social evils of the new tax include some of the elements who in the past had most to say about the disincentive effect of high marginal income tax rates on the productivity of whites

In the absence of a cut in public sector spending to a degree that one simply couldn't conceive, the only way to overcome excessive marginal rates of direct tax is precisely to shift the emphasis towards indirect taxes Moreover, as real incomes of blacks continue to rise, the regressive pressure of indirect taxes should become less acute

This is not, I hasten to say, a blanket approval of the way the new tax will affect income and spending patterns It is also relevant to point out that, were South Africa still sufficiently politically acceptable overseas to raise foreign loans on the scale of the 1960s, it would be possible to make the necessary easing of direct taxes without the compulsion to clobber indirect taxes But given these political constraints, there was no option.

Moreover, when we consider the effects of a budget, we have to look not only at where the money is coming from, but also where it is going to

This brings us to the second table, in which I have summarised the votes for the individual State departments, and indications of the percentage changes

Here, too, it is necessary to make some qualifications before taking the figures at face value. The sharp decline in the Prime Minister's vote, for instance, reflects the transfer of certain items out of this category, the same is true of some of the other changes, notably the illusory drop for plural relations And percentage changes can be misleading for some of the smaller votes, where relatively small variations, of little overall significance, can appear massive proportionately

Then, there is another special case in defence, where an apparent decline in the nominal vote could be more than offset by unused cash balances brought forward

But after making all these qualifications, it is heartening that some of the major departments to show meaningful increases in their votes this year are those whose spending benefits the lower income groups The biggest percentage increase of all is in education & training (previously known as Bantu Education) Coloured relations, Indian affairs (an anomalous distinction of terminology!), and community development are also relatively favoured Conversely, the increased allocations for Water Affairs and Forestry are almost exactly equal to the decline for agriculture

Transport, mines, information, sport & recreation and tourism, all of which could be regarded as relative luxuries, have been given little more to spend, and adjusted for inflation, will, in real terms, have less at their disposal than last year

So in spending, too, it can be argued that Senator Horwood's heart is in the right place, whether or not it is beating fast enough.

Before attempting an overall assessment, certain other changes should be noted, for the record·

● In recognition of the ravages of inflation, allowances for tax-free donations and bequests to children and surviving spouses have been raised.

● Spending on export promotion has been boosted 40 per cent. to R92-million

● The 25 per cent capital allowance on the purchase of new machinery has been extended to used machinery.

● The petty, but degrading, R2,50 Bantu Poll Tax has been abolished

● To minimise the so-called abuse whereby non-resident investors (other than emigrants) could obtain remarkably high yields and capital profits on investing Securities Rand in gilts and semi-gilts and holding them to redemption for not less than 5 years, this "concession" has been withdrawn

Instead, if it is desired to transfer such funds abroad, it will in future have to be through a new non-transferable bond with a maturity of 7 years This will be much less attractive for non-residents, and may reduce overseas selling of equities which in the past had been specifically designed to create Securities Rand to take advantage of this technique

There will, of course, still be other ways for non-residents to withdraw funds, but these, too, have their disadvantages

Well, there it is. Without at this stage attempting any value judgment of the Budget, what in practical terms is its impact likely to be?

It must be said at the outset that it is not — and would not pretend to be — an imaginative programme.

While Senator Horwood has called it a policy of growth with financial discipline, giving priority to ensuring a cyclical upswing in the economy, he implicitly admits that he's relying largely on outside factors to generate the desired growth specifically, increases in exports

In spite of the increased spending on export promotion, it remains uncomfortably true that our export potential depends largely on factors outside our control Most notably, prices on world markets for the commodities (mainly primary, and especially gold) which form the bulk of our exports

While the concessions I've enumerated are welcome, the tone of the Budget speech as such seems far more concerned with the other leg of this policy· continued financial discipline There is in fact little positive, other than general exhortations, to achieve the revival of private sector confidence which is now the basic prerequisite for an advance on a broad front.

It clears the decks, surely It is finally overcoming the costs of the gold-based euphoria that led to such excesses in the era immediately preceding Senator Horwood's assumption of his post But is it enough to achieve the desired result?

It may seem a trite conclusion, but only time will tell

Despartmental expenditure

(In millions of rands)

	1977	1978	% change
Prime Minister	12,8	0,9	n/a
Defence	1 654	1 554	-7
Transport	150	152	1
Labour	22	23	—
Mines	188	192	2
Plural relations	619	555	-11
Information	15	16	—
Social welfare, pensions	380	419	10
National education	304	326	7
Sport, recreation	3	3	—
Agriculture	242	228	-6
Health	137	149	8
Planning, environment	55	53	-4
Statistics	6	7	16
Finance	3 153	3 619	14
Economic affairs	306	331	8
Justice	45	50	11
Police	204	220	7
Prisons	81	92	13
Indian affairs	85	97	14
Community development	269	319	18
Tourism	7	7	—
Interior	33	34	3
Public works	265	301	13
Immigration	12	7	-42
Water affairs	160	170	6
Forestry	39	42	7
Coloured relations	240	275	14
Foriegn affairs	147	181	23
Education, training	117	144	23

RDM (153) 13/4/78

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 Merton 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 8% to 8,5%

Mr Aubrey Dickman 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 on interpreting present circumstances and in anticipating Government action later this year.

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

ANNUAL INCREASES 1973-77

	Supply of money and near money	Consumer prices	Gross domestic product at current prices	GDP in real terms
1973	23%	10,0%	22%	4,2%
1974	22%	14,1%	21,6%	8,0%
1975	17%	11,7%	12,45%	2,55%
1976	9%	10,8%	12,6%	1,35%
1977	7%	11,1%	14,2%	0,5%

Money supply figures quoted by Senator Horwood in the Budget GDP figures are taken from Reserve Bank Quarterly Bulletin

Consumer prices based on end of December to end of December figures from Department of Statistics

The profligate days of 1973 and 1974 are seen (and to a lesser extent 1975) when the supply of money and near-money rose by 23%, 22% and 17%.

That was excessive by any reasoned economic criteria, whatever point one alights on the "Keynesian-monetarist" spectrum or whether one thinks, 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 1973 — the year of the biggest increase in money and near-money supply — while the delayed action meant rises in 1976 and 1977 of 10,8% 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 casual 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 a stiff three-year deflationary policy and a slump in business confidence

Mr Dickman'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 8% to 8,5% inflation, Mr Dickman is thinking of about 1,5% real growth and 10% inflation

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

Mr Dickman 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 inevitable 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 my space limitations in outlining their views

Protea Holdings chief says...

Sales tax will be inflationary

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Financial Editor RM 4/4/78

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."

[illegible] addition, the abolition [illegible] in-

relief to the lower income groups.

"A married man with two children having a taxable income of R6 000 will only save R3 a month. This will not offset the impact of the sales tax."

Aan per... alleenlik:

8. Hoe... plaas gewerk het

Aan toe... beiders alleenlik:

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(b) J... op die plaas

(c) J... uis

(d) B... e res van die jaar

(e) H... op die plaas gewerk

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Sa... | | " | "
So... | | " | "

(b) Ja... r boer betaal

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... ber

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1978 LAW CONFERENCE

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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 Micky 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 impracticable"

And 'If you would like tax to be based 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 taxpaying community . . must be considered"

* * *

Should a private company's debts be limited for the sake of the creditors? This idea was mooted by a Durban attorney, Mr G 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

1.153

Sales tax hits lower earners

The Star Thursday April 20 1978 21

Cost of living will rise nearly 2 percent

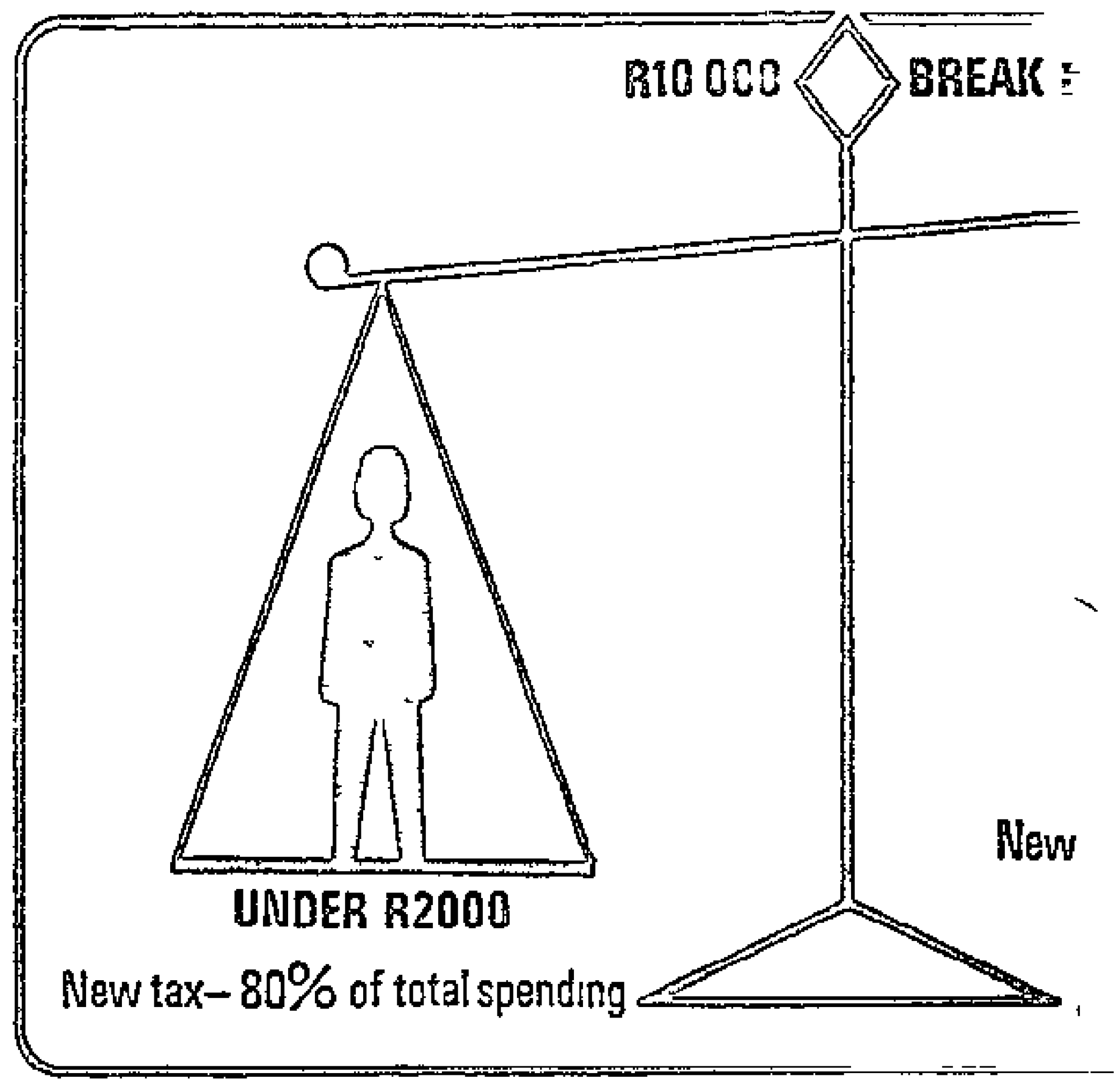
Kevin Stocks

The new point-of-sale tax will apply to about 66 percent of all private consumption expenditure and, logically, could increase the cost of living by 2,6 percent

So says Senbank Economic Opinion, a report prepared by the Economic Services Department of the Central Merchant Bank Limited on the implications of the new tax

It adds, however, that to anticipate a 2,6 percent tax-related rise in the cost of living would be to ignore other measures taken by the Minister of Finance that ensure the rise will be less

Senbank estimates that the true rise in the cost of living as a result of the tax will be between one and two percent



Savings

However, it points out that if one ignores the possible offsetting effect of any wage and salary increases that could occur "even this small increase may prove difficult for the lower income groups to finance out of savings" (ie out of money previously available for saving after expenses had been met)

It points out that available figures indicated that in 1975, more than 66 percent of whites earned more than R6 000 while 98 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 broke down 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

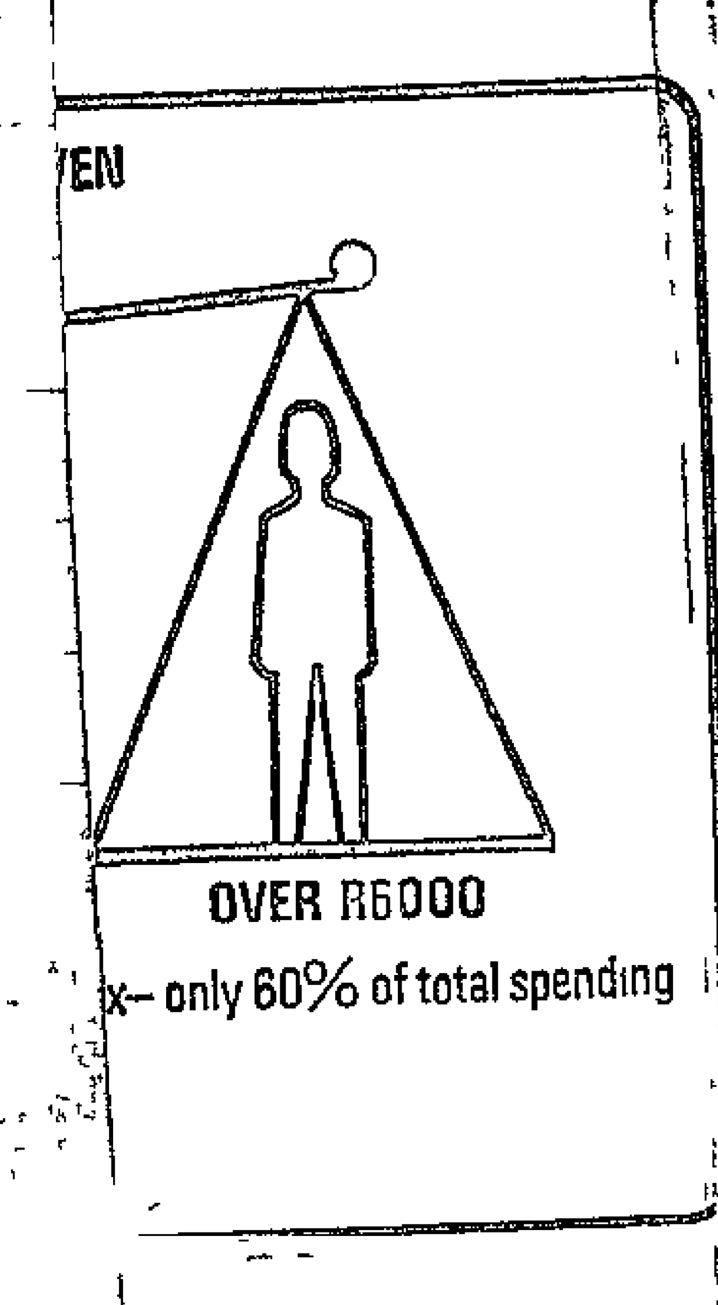
This showed for instance, that while the lowest group (those earning less than R2 000 a year) spent 36 percent of their income on food, the corresponding figure for the highest group (above R6 000) was only 2[illegible] percent

Sales tax also fell heavily on those commodities on which the lower paid people spent their money

Senbank estimated that people earning less than R2 000 would pay the sales tax on 80 percent of their expenditure, while those earning between R2 000 and R6 000 would pay on 70 percent of their expenditure

Those who received more than R6 000 would pay the tax on 60 percent of their consumption expenditure

This came about because the lower income groups had of necessity to spend greater proportions of their money on taxable (but essential) items like food, clothing and fuel



The higher paid groups could put a greater proportion into non-taxable items like servants, entertainment, education and financial services

Senbank found that if factors such as salary increases and the abolition of poll tax were ignored, it would be certain that blacks would in future have to put more of their incomes into buying essentials and less into non essential items The main "basics" were named as food, housing and fuel.

Growth

It found, however, that some growth in income was bound to occur and this would be aided by the stimulatory effects of the budget on the economy.

Where whites were concerned, the picture was different Senbank estimated that at least in the higher income groups, whites would gain more from the abolition of the surcharge on personal income tax than they would lose through the new sales tax.

While the level at which they would start to gain more than they lost was variable (depending on matters like marital status and number of children), Senbank felt the break even point to be placed roughly at R10 000 of taxable income

At this figure, roughly half the number of white households could be expected to benefit

Another factor that could help alleviate the effect of the tax was the high level of savings among whites during 1977

More spending

During that year, there was a cut-back in spending on durable and semi-durable goods and total personal savings rose by 35 percent (to 13,7 percent of personal disposable income).

This, combined with the reduction in personal tax and the repayment of the loan levy, could trigger an increase in spending by whites

Senbank felt black incomes could continue to rise more rapidly than those of whites, but "1978 is not likely to see a substantial change in total real expenditure by blacks or in the composition of black expenditure"

Senbank noted however that although the higher income groups would benefit most from the budget, it implied that this was desirable as 'it is typically in these sectors that the large swings occur in consumer spending that herald the start of a general economic upswing"

It also points out that although the various alleviations will "not be sufficient to compensate for the new tax burden imposed on the lower income groups" the matter should be kept in perspective as only a small portion of the revenue from the tax would come from the lowest group.

The disproportionate burden reflected the uneven distribution of income and this could not be remedied by taxation policies alone

RDM 25/4/78

Inflation rate below 10 pc

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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 is, 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 compares with 188,7 in March last year

Inflation abates

(153) FM 28/4/78

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

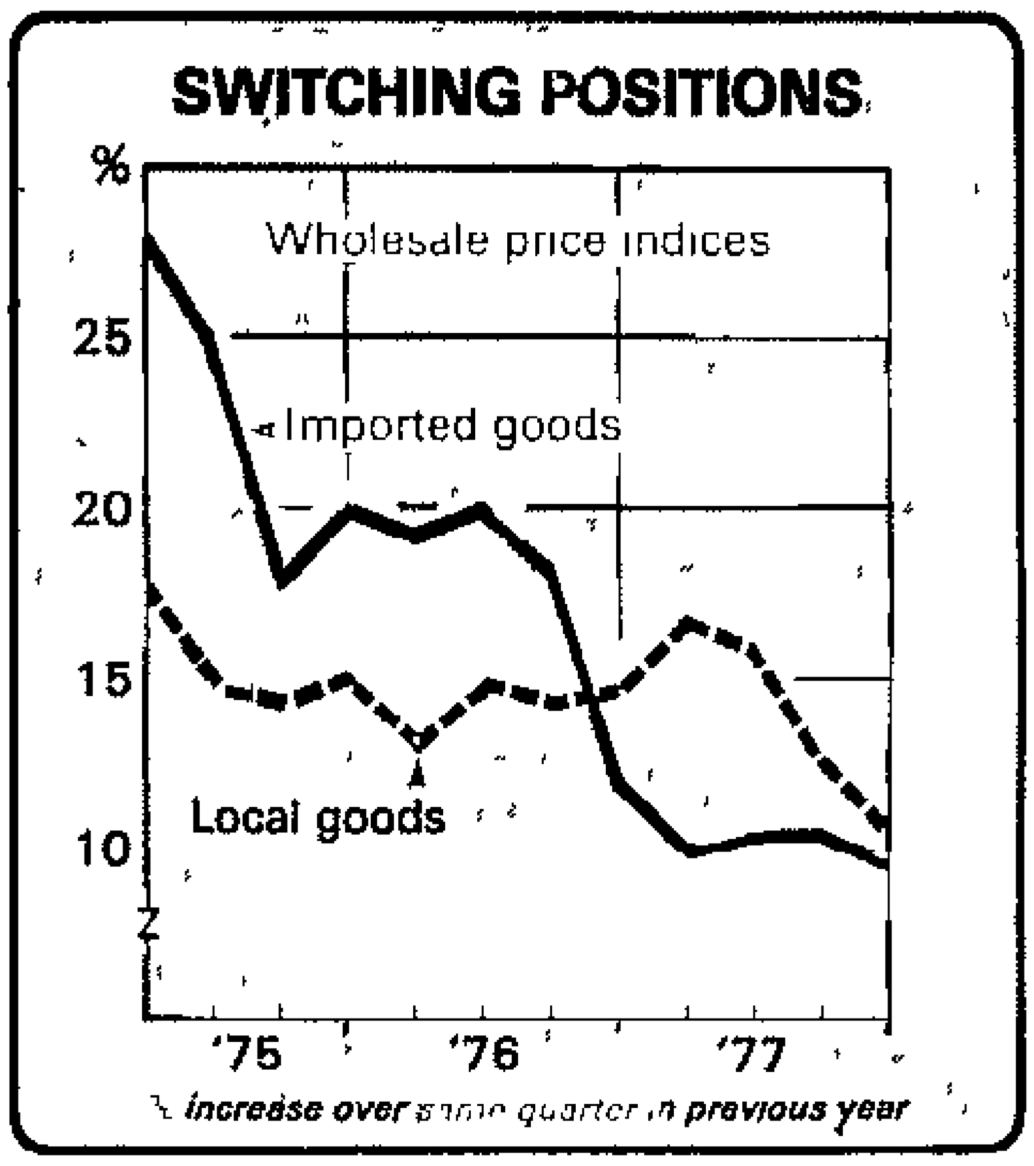
There is usually a lengthy time lag between changes in money supply growth and inflation and the dramatic plunge in the former in 1977 can be expected to bear fruit for the latter in 1978.

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 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-shoving is also slowing down. Consider

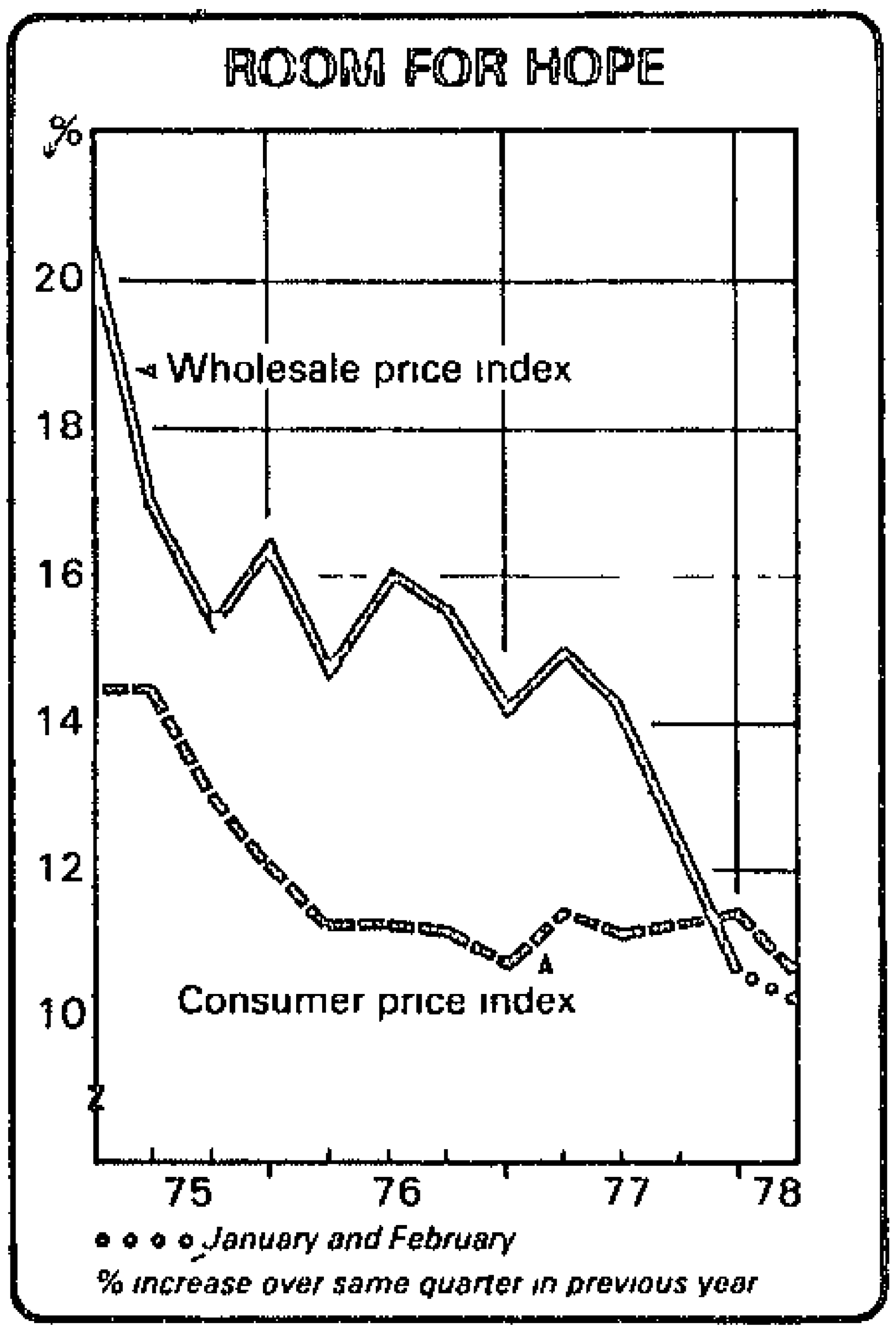
- The government — as well as the arbitrator in the Railways wage dispute — has taken a hard line on public sector pay The mining and engineering bosses appear to be doing the same
- The rate at which import prices have been advancing fell dramatically in



% increase over same quarter in previous year

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.



○ ○ ○ ○ January and February
% increase over same quarter in previous year

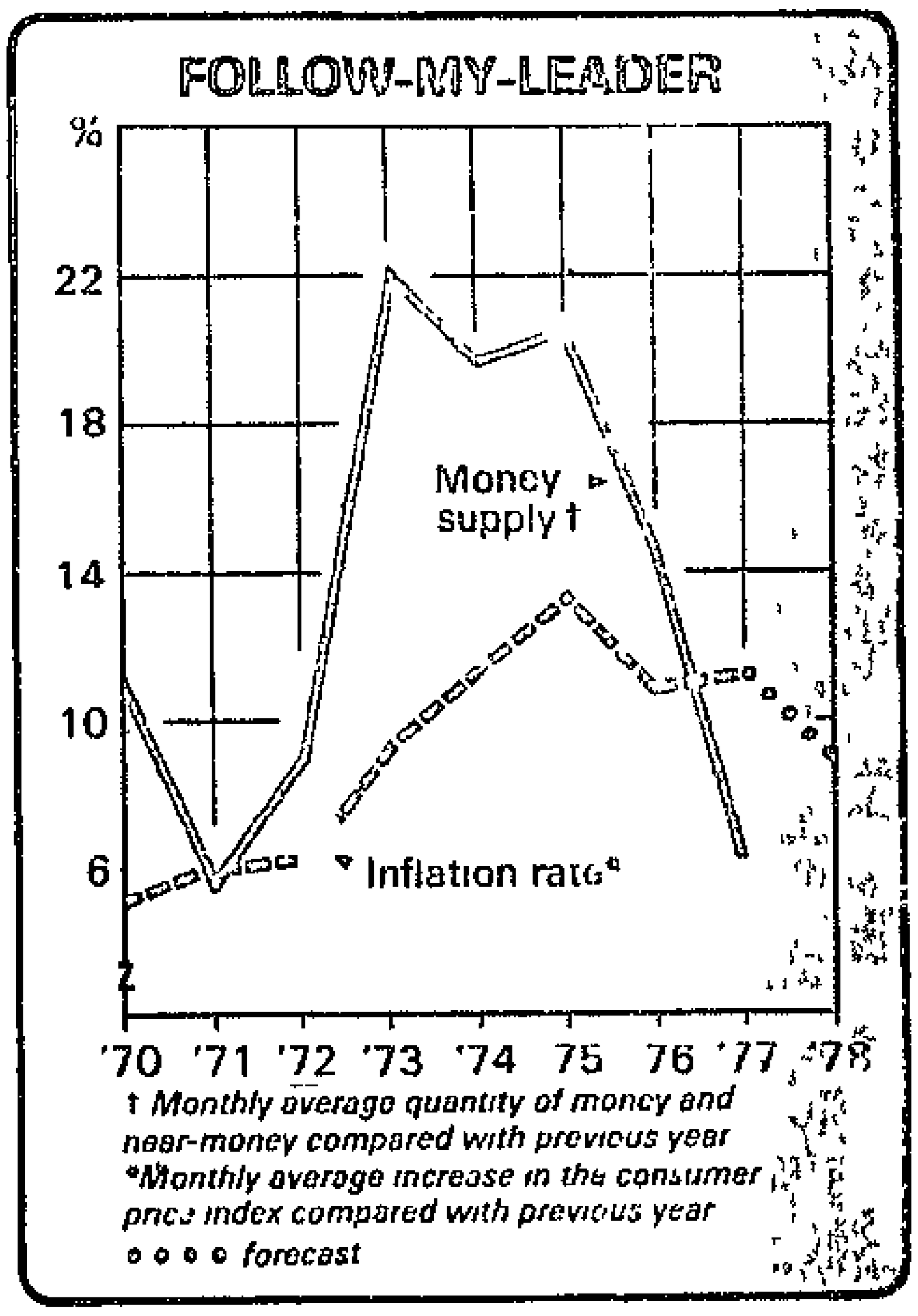
- As the economy gathers steam, production runs will lengthen, so slowing down the rate of increase in unit costs

Sadly, there are also factors — important ones — that will tend to cause cost increases to accelerate Thus

- Foreign currency costs have recently jumped because of the rand's depreciation along with the dollar The dollar 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 Croeser, 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 Senbank'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% Nedbank's Merton Dagut and Wits' graduate school's Peter Lewin are among the optimists at the lower end of the scale, while Barclays' Johan Cloete expects anything between 10% and 12% at the upper end

Most, including Anglo's Aubrey Dickman, Senbank's Gouws, the AHI's Adam Jacobs and Stellenbosch's Philip Moore, have plumped for 10% by the



† Monthly average quantity of money and near-money compared with previous year
*Monthly average increase in the consumer price index compared with previous year
○ ○ ○ ○ forecast

end of the year

We at the *FM* 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%

RDM

Inflation hits a five-year low

3/5/78

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inflation

Financial Editor

INFLATION in South Africa is running below 10% for the first time in five years.

This was confirmed yesterday by the wholesale price figures which show a marginal drop in March compared with February.

Wholesale prices rose by 9,5% in the 12 months to the end of March. This is also reflected in consumer prices which increased by 9,9% over the same period.

Consumer prices rose by over 10% a year in 1974, 1975, 1976 and 1977.

But prices will get an upward boost later this year, when the new general sales tax comes into effect from July 1.

See Page 12

Wholesale price confirms inflation dip to below 10pc

RDM Bus. 3/5/78

(153)

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 247,5 in February. The figure for March, 1977, was 225,8.

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 9,9% 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 the six months to the end of March was just under 8% at an annual rate — an 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 237,7.

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 at about 8%.

That will come as no surprise to those economists such as Mr Peter Lewin, of the Wits Graduate Business School, and Mr Merton 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 once and for all rise of about 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 previous inflation is taken into account.

The Department of Statistics reports that in the last quarter of 1977 net profit of private manufacturers was R251 964 000.

That is 7,2% down in money terms — and much more in real terms — on the 1976 equivalent of R251 964 000.

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.

NEW YORK JEANNETTE REDDISH

SUN. TRIB. 7/5/78

Inflation spectre dampens flurry of optimism as prices escalate

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THE SPECTOR of rampant inflation reared its 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 an abrupt 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 face of the escalating indicators new pessimism arose about the President's call for voluntary restraint.

Such a voluntary programme 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 test 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 Motor's 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 a 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 so persistently dogging the American economy, some economists are beginning to dust off their variations 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 Taif, 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 billions 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 Alaska oil are 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.

The Star
Friday May 19 1978

Seven weeks to check inflation

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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

Star 6/6/78

A leading consulting economist predicted today that the introduction of the 4 percent general sales tax next month would sharply increase South Africans' cost of living.

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

Average families are expected to pay sales tax on 65 percent of their total spending — resulting in a leap of seven points in the consumer price index.

Personal income tax reduction due 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 R500 a month and only 1,7 percent for a married man (with two children) earning R1 000 a month.

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

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

He also predicted that another one percent in price increases would result from industry and commerce having to pay sales 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 Horwood, earlier this year.

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Sales tax

July 3 could be Big Consumer Headache day

IN 22 days South Africans will pay tax on every item and service they buy, and shopkeepers throughout the country will become an army of tax collectors

July 3 is GST (General Sales Tax) day — and it is poised to hit South Africa with a vengeance

Every 13c spent will attract a tax of a half-cent; every 25c a tax of 1c and ever rand 4c

In announcing the GST, the Minister of Finance, Senator Owen Horwood, quoted Colbert as saying "the art of taxation consists in so plucking the goose as to get the most feathers with the least hissing"

But the extent of the hissing from the South African goose could well surprise him yet

Crucial

Already, the great add-in, add-on debate has begun, unfortunately overshadowing the crucial point at issue — the upward push the tax is going to give to the consumer price index, especially in the hands of the unscrupulous

But there is much more to come, beginning with the piloting through Parliament next week of the GST Bill

The opposition finance spokesman, Mr Harry Schwarz, said "I foresee utter confusion, great scope for exploitation and plenty of hardship"

The chairman of the Tearoom Association, Mr Demosthenes Michos, guru of 1 200 cafe and fish-and-chip shop owners, commented "How do we charge GST on a 2c box of matches? We are not legally entitled to charge it Yet we are expected to pay GST on it We will be subsidising the taxman."

Consumer watchdog Mrs Margaret Lessing said "Confusion could have been averted if shopkeepers were forced to add-on (keep existing product prices and charge tax at the till) instead of having the option to add-in (charge a new price for the product inclusive of tax)"

Two big supermarkets,

MR D. MICHOS
Cafes will lose

Pick 'n Pay and OK, have chosen to add-on, along with Spar and Makro Checkers is sticking to an add-in system, along with most of the country's 12 000 corner cafe owners

An executive of the Consumer Council favours add-on, but the Housewives' League is backing add-in

Senator Horwood says business men can opt for either

To add to the confusion, BophuthaTswana — pieces of which are only a stone's throw from Pretoria — says consumers don't have to add anything if they nip across the border, as the new republic is not enforcing GST

Scrambled together, all this could make July 3 the day of the Big Consumer Headache

Checkers may advertise a product at R2,08, Pick n Pay the same product at R2 To save the 8 c, the consumer may go along to Pick 'n Pay, only to find that the 8 c is added on at the till

A question being posed, too, is whether the cash-and-carry wholesaler like Makro couldn't become a tax haven for the unscrupulous On the face of it Makro sells exclusively to shopkeepers and therefore won't levy tax, as GST can be recouped only from consumers, end-users

But it is common cause that "business card"-carrying consumers buy their wares for their own use from Makro Will they, too, escape tax?

Makro branch manager Mr Pat Levings confirmed. "We will become a tax haven if people cheat The Government has accepted that the onus is not on us to police the situation

By MARTIN CREAMER

"We will have an add-on system and buyers must declare that they are the end-users In such cases we will add on the tax"

But what if the shopkeeper buys 50 items for resale and 50 tax-free for himself and his friends?

"People who do this will lay themselves open to heavy fines," Mr Levings said

Flaws

Major flaws in the GST system, according to Mr Schwarz, include

- The fact that essential foods are unlikely to be exempt — despite the fact that some exemptions will be granted
- Allowing people to add-in or add-on and not enforcing one system
- The full 4 per-cent tax being charged in advance on hire purchase and lease deals

"The confusion among consumers is going to be unreal and the potential for exploitation of the consumer will be substantial," Mr Schwarz said

Because of the looming recess of Parliament, debating time on the Bill was not likely to exceed three-and-a-half hours

"This major piece of legislation is going to go through in a very short time," he said

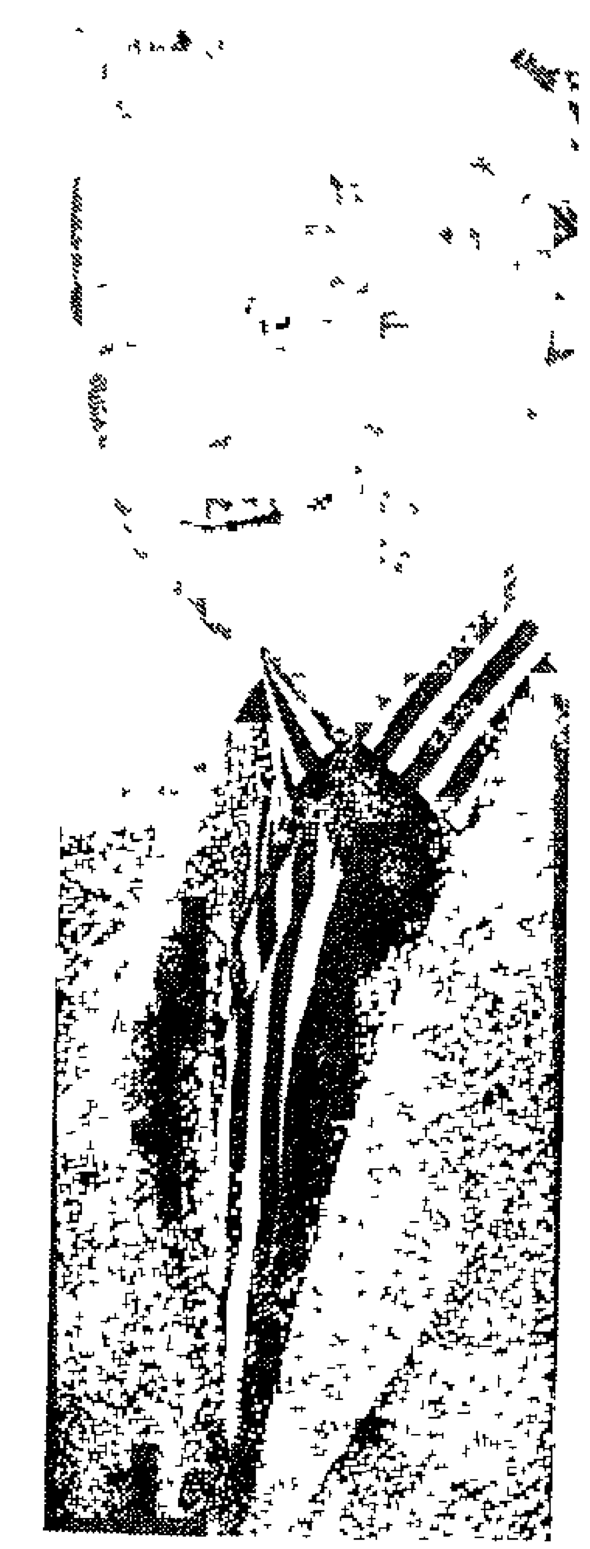
It appears that pleas from the Opposition, trade unionists, consumer organisations and supermarketeers for basic foods to be exempted to help the poor have fallen on deaf ears Yet it is expected that the travel and insurance industries are likely to be favoured with exemption

Checkers this week defended their odd-man-out stance in opting for add-in taxing, and urged other supermarkets to follow suit

Checkers Mr Harold Greenstein said that Pick n Pay and OK originally favoured the add-in system Now, suddenly, they say it is not in the interests of the consumer

"The price you see is the price you pay That is the basis on which we want to work — and 71 per cent of our customers favour this system, according to a survey we undertook," Mr Greenstein said

It would prevent mis-



MR HARRY SCHWARZ
Foresees confusion

takes at the till when the GST was being added and it would also speed up the checking-out process, which can be bogged down during weekends, when most South Africans shop

"We realise that we may be at a short-term disadvantage in that people comparing prices may be attracted by the adders-on But we are not looking for marketing advantages We are doing what is in the best interests of the consumer, particularly those in the lower-income group"

Mr Greenstein conceded that on big-ticket items like furniture and fridges, it is preferable to ... on because people would want to see exactly how much was going on tax, but with food items the housewife liked to add up in her mind what she would have to pay at the till before she got there

"Take the woman who has R10 to spend She stops buying once she has spent R9,90, thinking she is going to get 10c change With the add-on method she would be called on to pay, say, R10,30 She would then have to put back an item, causing delays or even chaos at the check-out point," he said

Like the PAYE tax scheme, the job of gathering tax is being transferred to the business man

With GST, shopkeepers will have to post off cheques representing four per cent of their monthly turnover by the 20th of the next month

Inspectors

And watching to see that they do it properly will be 400 Inland Revenue inspectors

A nationwide survey undertaken by Assocom shows that most business men favour the add-on system

Of the total respondents, 66 per cent favoured add-on — charging existing prices and levying GST at the till

Of the retailers who responded, 54 per cent favoured the add-on method and 46 per cent the add-in system The add-in system involves charging one price for a product including 4 per cent GST

Of the retailers who have chosen to add-on, 93 per cent sell mainly to whites

Most retailers who sell mainly to blacks have opted for add-in

Eighty per cent of wholesalers are choosing the add-on and 86 per cent of motor traders have also opted to add-on

Assocom says there is an urgent need for a comprehensive educational programme for both consumers and business men in the weeks before the July 3 introduction

The survey was undertaken for Assocom by the Bureau for Economic Research at the University of Stellenbosch

'THE CONFUSION IS GOING TO BE UNREAL'

Sales tax exemptions published

Political Staff

CAPE TOWN — 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 Bill covers exemptions granted to vendors intending to use goods in their own enterprise

The six categories of exemptions listed in the schedule cover manufacturing, printing, mining or 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 manufacture or forming an integral part of other goods, any taxable services involved in the production of goods, repair or maintenance services, containers, goods consumed or rendered worthless during production, or refractory materials used in furnaces and materials used in manufacturing primary iron and steel products

Exemptions under printing include paper, paper board ink, solvents ink additive [illegible] material and other material

Under mining and quarrying, exemptions are being granted for coal cutter pick boxes and picks, explosives substances used in treating ore and safety materials

Exemptions under farm to include fertilisers, pesticides, livestock medicines and vaccines, seeds, shrubs and other plant material for producing crops, packing or wrapping materials for marketing, livestock, animal feeds and licks, diesel oil power paraffin, coal or gas bought in bulk for farm or forestry production, any taxable service used for spraying crops and repair or maintenance of machinery

Fishing enterprises will be eligible for exemptions on packaging fuel, oil, bait, and repairs

In the case of accommodation, hotels and catering exemptions are provided for foodstuffs for meals, alcoholic and non alcoholic drinks and other goods intended for resale and goods intended to be hired to patrons

The exemptions section in the Bill also covers such matters as electricity gas or water, banknotes, cheque forms, approved strategic materials, etc

Massages will be taxed

Political Staff

CAPE TOWN — Massages have been included as a "taxable service" in the Sales Tax Bill, which means massage parlour prices could also be expected to rise by four percent on July 3

Other "taxable services" include services facilities or advice provided in connection with health, strength and beauty and the provision of Turkish and sauna baths, slimming courses and devices and gymnasium facilities

It also includes services by dental mechanics opticians or pharmacists in their trade, businesses or occupations

But it excludes professional services provided by a registered medical practitioner dentist optometrist, homeopath, naturopath, herbalist, nurse, physiotherapist, chiropractor in the ordinary course of their practices or when such services are rendered or facilities provided in registered nursing homes or hospitals or clinics conducted by local authorities

Taxable services will also include those provided by a dressmaker, tailor, milliner, barber, hairdresser, dry cleaner, dyer, launderer, blacksmith, locksmith, printer, engraver photographer, processor of photographic material, picture framer, provider of duplicating services and of blueprint services, tanner, leather processor, taxidermist, tower of motor vehicles, provider of fumigation or pest-control services and a provider of animal care services other than veterinary services

Star 153

14/6/78

The Galloping Sales Tax

[illegible]

cording to the Department of Statistics and that figure has grown since

Mr Ben Nicholson, secretary of the Confederation of Metal and Building Union, said the sales tax would reduce the mild stimulation of the economy

The unions would be obliged to "pursue vigorously" fresh wage demands

Recent negotiations did not take into account future price increases

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

But "when the Minister (of Finance) wants it this year we have to cope as best we can" he said

South African commerce recorded 6 000 million transactions a day and every one would have to be checked by auditors to ensure the tax was paid This meant an extra 24 billion "ticks in the books"

Urging businessmen to adopt the add on system of collection, he said the add on system would make the auditing burden virtually unbearable

Dr Berkhout said people could be exploited by unscrupulous traders in a possible 'Middle East market' situation

The result could be arguments at the till, fights and stabbings

6 000-m deals a da spell chaos

Galloping Sales Tax

Star 14/6/71

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 Fridjhon

The Bill dubbed by some as the Galloping Sales Tax (GST) provides for a four-cents in-the-rand tax on a vast range of services and commodities from July 3. It is being piloted through all its stages in the Assembly today by the Minister of Finance, Senator Horwood.

A senior Revenue Department official from Pretoria, Dr F Berkhout, predicted "chaos in the market place" and an additional R50 million a year audit bill for collection of the sales tax by the add-

Cigarette prices to go up tomorrow

Increases in the price of cigarettes and a number of [illegible] were announced today in advance of the general sales tax which will put up prices again on July 3.

The increases mean that when the sales tax of 4c in the rand is applied the percentage of tax will be proportionately greater.

The suggested retail price of cigarettes will increase by 1c a packet of 20 from tomorrow, announces the Rembrandt Group and United Tobacco.

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

TRANSPORT

The increase follows several cost increases, including packaging materials and transport. The 1c 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, tinned milk, cream and fowl food will also become more expensive.

EXAMPLES

Examples of price hikes are condensed milk from 35c to 38c for a 397g tin, evaporated milk from 34c

Star 14/6/78 '53

The weight of its impact will, however, fall more on lower income groups

The worst blows will come from the tax on food and other domestic items

Machinery which manufacturers buys ... the tends to ... he pays 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 Star's Parliamentary Staff report that the Opposition today expressed fear about the effect the tax would have in pushing the price spiral upward once more.

Dr Zac de Beer, the Progressive Federal Party's chief spokesman on economic affairs, said this would endanger the living standards of all the people and perhaps also put pressure on the rate of exchange.

In an appeal for use of the add-in system he said there were 6 000-million transactions a day in South Africa

And business leaders joined forces with labour ... in an ... [illegible] ... of ... [illegible]

Telegram

The multiracial Trade Union Council of South Africa (Tucsa), the white Confederation of Labour, and the Confederation of Metal and Building Unions sent a joint telegram to the Minister of Finance Senator Horwood, expressing "grave concern" over the tax

The labour bodies represent "over half a million families"

In addition, a move is afoot to unite the entire labour movement in action against abnormal price increases

Points made today by trade union leaders included

- "There is a danger of starvation among lower paid workers," said Mr Wessel Bornman, secretary of the Confederation of Labour

- "We cannot deprive children of essential foods by pricing them out of their parents' pockets," said Mr Attie Niewoudt, 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 Scheepers, a vice-president of Tucsa

At the last count, in April, 46 965 unemployed were getting benefits from the Unemployment Insurance Fund

But black unemployment alone stood at 634 000 last October ac-

To Page 3, Col 3

cream from 40c to 42c for 310g

The wholesale price of fowl food will increase nearly 5c a kilogram, pigeon food by 3c for two kilograms, crushed mealies by 15c for 12.5 kg and yellow mealies by 15c, for 10kg

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27/6/78 RDM

Inflation trend still slowing

By HOWARD PREECE

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 rise in the overall consumer price index last month was 0,5% — 6% a year — from 209 in April to 210

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 11,3%, to February 10,6%, to March 9,9%, to April 9,7%, and to May 9,5%

At the end of last November the CPI was 201,7 against the level in May of 210

That is a rise of 4,1% over the six months, a yearly rate of 8,2% So the underlying trend this year has actually been even below the declining pattern for 12 months

The CPI is now, however, sub-divided into three groups This is for high income, middle income and lower income, the last basically reflecting black households

Compared with the overall increase in the CPI of 9,5% for the 12 months to May, the rates for the three groups were 9,4%, 9,5% and 10,1%

Thus even without the impact of the general sales tax — which is expected to give a boost of about 1,5% in the overall CPI — inflation is already falling marginally heavier on the poorer groups

The GST will exacerbate this with its regressive nature

There are, however, various ways that could be used to alleviate this if desired

What matters most from the stance of broad economic policy is that the overall CPI is back below 10% after four years of double-digit inflation

Although I expect the GST to push the rate back above 10% in the second half of this year, it should certainly return to single figures next year

The inflationary momentum in the economy has been checked and GST should be seen as having a one-off effect rather than signalling any new spiral

Money and near-money supply was harshly restricted to growth of 9% in 1976 and 7% last year

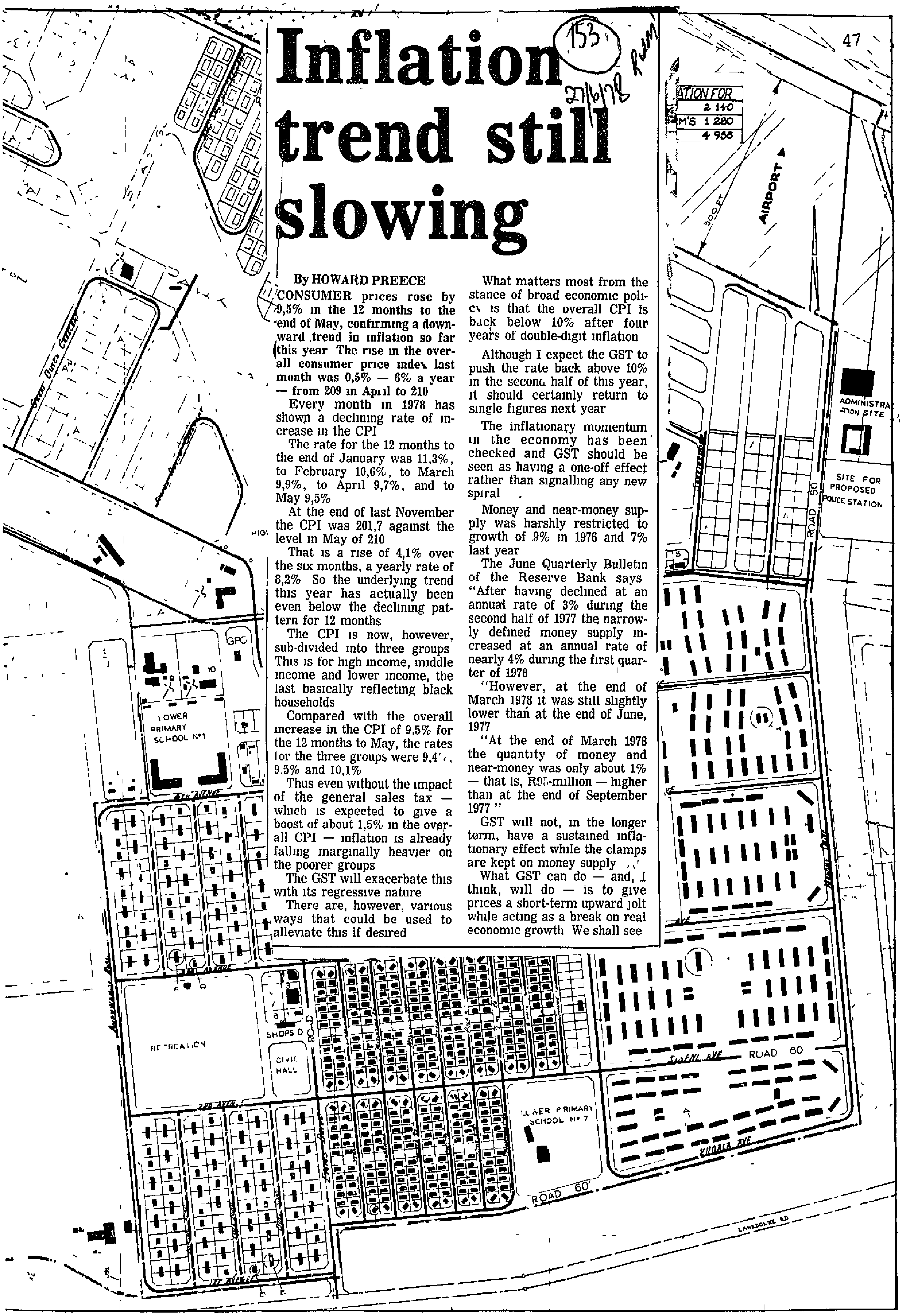
The June Quarterly Bulletin of the Reserve Bank says "After having declined at an annual rate of 3% during the second half of 1977 the narrowly defined money supply increased at an annual rate of nearly 4% during the first quarter of 1978

"However, at the end of March 1978 it was still slightly lower than at the end of June, 1977

"At the end of March 1978 the quantity of money and near-money was only about 1% — that is, R95-million — higher than at the end of September 1977"

GST will not, in the longer term, have a sustained inflationary effect while the clamps are kept on money supply

What GST can do — and, I think, will do — is to give prices a short-term upward jolt while acting as a break on real economic growth We shall see



1 GEORGE L. MOSSE: CALVINISM (1957)

Introduction

History must not be read backward. One would not expect to find the modern definition of democracy expressed in the thought of these men of the sixteenth century. If we define democracy as the election of their rulers by all the people, and the constant scrutiny by the governed of those so elected, a government so defined would have meant anarchy to the men of the sixteenth century. We must ask instead what role, if any, Calvinism played in directing political thought toward this modern definition.

What is important in assessing the contribution of these Calvinist writers toward democracy is their attitude toward political authority itself. The question is not whether, in their view, modern democracy should replace absolute political authority but rather wh... ...at circumstances,

...these ...the name ...If it ...them- ...alvin ...Is ...d, or ...ive ...sm ...ntinuous ...gistrates? ...o an

...onal ...y a ...ission ...ind of ...oice of ...s in our ...o the

Inflation down...

By GERALD REILLY
Pretoria Bureau

SOUTH AFRICA appe... to be beating the in... tionary condition of the p... four year...

The Department of Statistics yesterday released figures shown that the Consumer Price Index rose by only 9, per cent in 12 months to the end of June.

This, according to a ... spokesman ... the lowest inflation ... in the past five years.

At the end of May the annual rate was 9,5% and at the end of April 9,...

The actual increase ... June was 0,5% ... one of the lowest monthly ri... for the past three year...

In June 197.., the ... index stood at 191,3 ... By the end of June ...

much further; even to submit to the government, ...God, it will carry us who discharge their duty to us with becoming integrity and fidelity, but of all who possess the sovereignty, even though they perform none of the duties of their function. For though the Lord testifies that the magistrate is an eminent gift of his liberality to preserve the safety of men, and prescribes to magistrates themselves the extent of their duty, yet he at the same time declares that whatever be their characters, they have their

government/..

government only from him; that those who govern for the public good are true specimens and mirrors of his beneficence; and that those who rule in an unjust and tyrannical manner are raised up by him to punish the iniquity of the people; that all equally possess that sacred majesty with which he had invested legitimate authority........

Chapter 20 XXIX

XXIX ....Wherefore, if we are inhumanly harassed by a cruel prince; if we are rapaciously plundered by an avaricious or luxurious one; if we are neglected by an indolent one; or if we are persecuted, on account of piety, by an impious and sacrilegious one, - let us first call to mind our transgressions against God, which he undoubtedly chastises by these scourges. Thus our impatience will be restrained by humility. Let us, in the next place, consider that it is not our province to remedy these evils, and that nothing remains for us, but to implore the aid of the Lord in whose hand are the hearts of kings and the revolutions of kingdoms. It is "God" who "standeth in the congregation of the mighty," and "judgeth among the gods"; whose presence shall confound and crush all kings and judges of the earth who shall not have kissed his Son.....

3 JOHN CALVIN: BIBLICAL COMMENTARIES (1561)

Comment on Daniel

For earthly princes lay aside all their power when they rise up against God, and are unworthy of being reckoned in the number of mankind. We ought rather utterly to defy than to obey them whenever they are so restive and wish to spoil God of his rights, and, as it were, to seize upon his throne and draw him down from heaven. Now, therefore, we understand the sense of this passage.....

4 JOHN CALVIN: ORDINANCES FOR THE SUPERVISION OF CHURCHES IN THE COUNTRY (1547)

Sermons

Everyone in each house is to come on Sundays, unless it be necessary to leave someone behind to take care of children or animals, under penalty of 3 sous.

Everyone is to pay attention during sermon, and there is to be no disorder or scandal.

No one is to leave or go out from the church until the prayer be made at the end of Sermon, under penalty as above, unless he have legitimate cause...

Songs and dances

If anyone sing songs that are unworthy, dissolute or outrageous, or spin wildly round in the dance, or the like, he is to be imprisoned for three days, and then sent on to the Consistory.

Usury

No one is to lend at interest or for profit greater than five per cent, on pain of confiscation of the capital sum and of being required to make appropriate amends according to the needs of the case.

Christopher Goodman/..

SUPREME GRAND CHAPTER OF THE HOLY ROYAL ARCH
OF SOUTH AFRICA

SCHEDULE OF STOCK HELD AT 30-6-1977

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

NOTE: All other Grand Chapter Regalia on Hire to Grand Chapter Off
Accounting Purposes.

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SA inflation rate falls below 10 pc

PRETORIA — South Africa has slashed its inflation rate to the lowest level in four years.

According to figures released by the Department of Statistics here yesterday, the consumer price index rose by only 9,2 per cent in the 12 months to the end of June

At the end of May, the annual rate was 9,5 per cent and at the end of April 9,7 per cent

The actual increase in June was 0,5 per cent — one of the smallest monthly rises in three years.

However, economists, including Barclays Bank's chief economist, Dr Johan Cloete, warned that the July figures would include the four per cent sales tax, which would push up the index by about two per cent.

So from next month, "we'll be back in double digit inflation," he said

Although the sales tax was a "one shot" increase, there would have to be price decreases to push the index back below the 10 per cent barrier, economists said.

Economists also said inflation had gone up because of past money supply excesses, but now the money supply restraint was making itself firmly felt

Given the continuance of a severe squeeze on money supply — far too severe in relation to the demands of economic growth according to some economists — with a rise of about one per cent in the first quarter of this year, the downward inflation trend will certainly reassert itself next year.

But those who endorse the theory that the long-run rate of inflation is directly related to the money supply do not all share the more fervent approach that money supply is also the only consequential short or medium term factor. — DDC

Consumers give proof of cheating

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Star 14/7/78.

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 Leon Weyers, who said the "vast majority" of consumer complaints received were about retailers who used the inclusive tax system.

"Typical examples are cheese at a Pretoria supermarket now selling for 71 cents with an obscured label indicating a previous price of 59 cents breakfast cereal in Johannesburg up 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 exclusive 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 unjustified. They were the result of direct cost increases which had been kept back by retailers until prices had to be re-marked for the introduction of the new tax

NM 17/8/78

What causes inflation?

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Deputy Financial Editor

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 this 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 expectations that its taxation and income 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 consequent 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 debasement of coinage. The next was the unrestrained printing of money. Most 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 the same 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 hankered 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 invariably 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 cure his hangover."

Given that the blame for inflation belongs to government, how is to be ended or reduced? Simply by decreeing that the money supply must be controlled firmly?

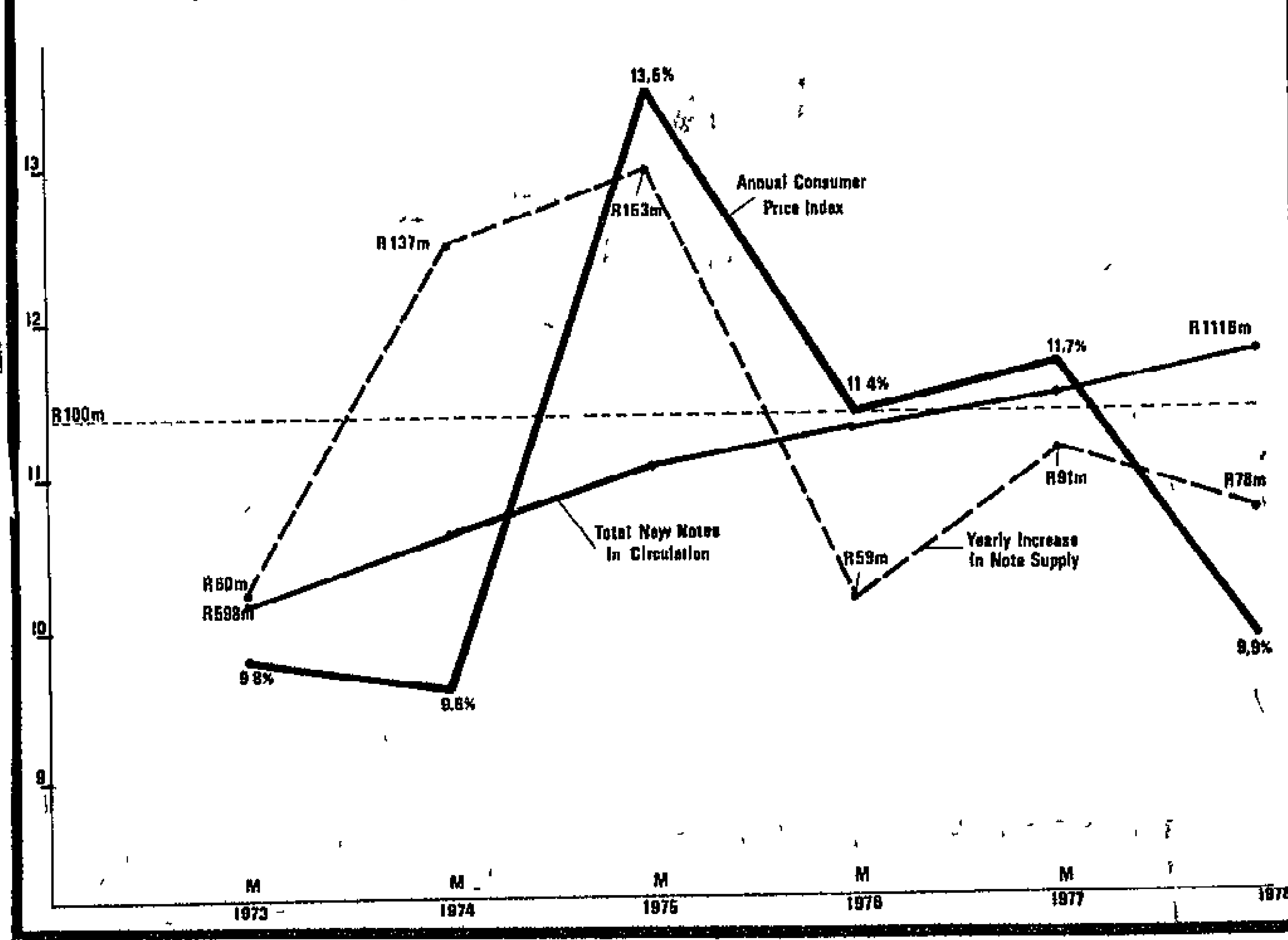
That answer is too simple. We have seen how inflation can rage while a recession is in full swing. Prices rise because of supply and demand and the businessman's need to make a profit.

Tough times sort them out

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

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 is tough stuff from which most politicians quail. If it were an economic question it could be solved overnight. Because it is a political question only the brave will step in and curb the galloping disease that seems to forecast an expensive end for all of us.



Star 22/8/78 (153)

Prices and the hungry black

By Mignonanne Crozier

The phenomenal increase in the cost of living over the past year has hit every South African. But no one has felt it more than the black housewife.

This is the opinion of Soweto leader Mrs Sally Motlana who, as president of the welfare-type organisation, the Black Housewives' League, is in daily contact with the needs and frustrations of black South African women.

She speaks of two fundamental differences between the lot of the black housewife and that of her white counterpart.

While white women now talk of "budgeting more carefully," says Mrs Motlana, black women struggle to avoid starvation.

While white housewives complain about the price of butter and cheese — luxuries to black families — black housewives struggle to find the cents to pay for a bowl of thin porridge, a cup of sour milk.

"With the introduction of General Sales Tax and the many price increases this year, more and more of my people are starving.

"Added to the high cost of living is unemployment. They can't afford to buy food. They can't afford to pay rent. They get evicted from their homes. Imagine eviction on a hungry stomach!

"How can these people talk of butter and cheese?" she asks.

While white women continue to regard bread-and-butter issues as non-political, black women are more firmly convinced than ever that the reasons for their ever-harder struggle to live are political.

Mrs Motlana says this is the major point of difference between the Black Housewives' League and its white counterpart the Housewives' League of South Africa, which emphasises that it is a non-political organisation.

"Although we don't profess to be a political party — I would rather regard my league as a kind of social welfare organisation — all our actions are political, because we are unable to draw a line of demarcation," says Mrs Motlana.

She says members of her league when carrying out their duties are constantly being made aware of this — and are constantly being frustrated.

Eviction on an empty stomach

The league's main objective, she says, is to help the "underdog" in black communities.

"Ever since I became president, five years ago, my league has had the theme: Love thy neighbour. Each of our 56 branches in the Transvaal, Natal and the OFS has a project associated with this theme.

"Some branches pay school fees for children whose parents are unable to. Others collect clothes for those who need them. Others look after pensioners.

"Some serve on the committee running the Orlando home for orphaned children which is in dire need of funds. Our executive committee's project is looking after the people in Soweto's transit camps.

"We raise money for our work from cake sales, jumble sales, concerts and braais. We are even holding a beauty contest to raise money.

"But in carrying out our duties we are constantly being confronted by political issues. And we never know whom to fall back on.

"The white woman in the suburbs whose sanitation is out of order can complain to her parliamentarian if need be. But we have no representatives in Parliament. If our drainage is blocked we have to live with the stink for weeks on end.

"It is this that makes one frustrated and so bitter."

Mrs Sally Motlana . . . cost of living is political.

Economist slams inflation rate

153

N.M. 8/9/78

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 pensioners 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 tending to speed up next year. GNP would increase by 3,5 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.

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, to 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-round 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 while the private sector would revive 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 8 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 leding rate to 11,5 percent from the present 12 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-term rates to decline but an upward reaction would set in in the second half of 1979

Short-term Government stock would attract between 8,25 and 8,75 percent interest, long-term

GEOGR/

Industrial Location :

The National P.D. Plan
Black Migrant Workc

The Social and Econom

Labour in the Textile

Solar Radiation Patte

Commuting Patterns fr

Nature of the Fishing Industry at

Residential Location Theory in the Cape Tc

Plumstead Retail Trade Areas and Consumer

Language Variation in Residential Areas c

Labour Bureaux - A Study

Residential Patterns of the Coloured Pop

A Comparison between 2 Coloured Housing ... lats.

A Case Study of Pinelands as a Garden C ... .

Spatial Analysis of Burn Cases in Child ... sula.

Brasilia - Success or Failure ? Devel

Economic Blight in Muizenberg.

A Study of Land Use Change in Salisbur ... District.

The Impact of the Rössing Uranium Mine

An Economic and Social Discussion abo ... ponen
Mill Street/Orange Street Area of

An Evaluation of the O'Okiep Copper C ... land C
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The Transport System of a Bottling I ... alawi

A Study into the Effects of Seasonal ... ature
of Yellowtail at Fish Hoek Beach by

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Models of Rural Land Reform - The

The Way in which Perceived Distanc ... Dist
Urban Area.

Examination of the Importance of ... of Residence" on Local
Imagery.

Transkei : An Illustration of its

Cape Town Electoral Districts.

Perceptions of the Cape Peninsula ... 7.

INFLATION (153)

Wage pressure ahead?

FM 15/9/78

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

Senbank'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 pressure 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 exaggerate cost-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 that generated by the skilled labour shortage — will remain a nagging problem

ber of employees in the

provides us with some basis

n the previous table.

rall sample by region and race.

O N	EMPLOYMENT			
	Whites	Asians & Coloureds	Africans	Totals
	7 589	7 580	27 633	42 802
's' Association	2 951	3 403	14 643	20 997
	16 580	4 976	33 819	55 375
	724	7	3 315	4 046
	8 039	4 391	33 168	46 098
S	35 883	20 857	112 578	169 318

ition from the sample findings

ely it is not possible to do more than guess what proportion is of all the firms in the regions and industrial sectors

rly sure, however, that we did not discover more than half ng demand for African technicians in these regions and sectors. This holds only for the total number and not for each separate category of technician.

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 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.

153 17/9/78 Sund Times

Inflation accounting plan faces big hurdles

By IAN MUIL

BUSINESS must not look for any tax relief flowing from inflation adjusted company profits until the newly published inflation accounting guidelines become standard 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 "unpalatable" practice of publicising inflation-eroded earnings are the two most serious obstacles confronting the National Council of Chartered Accountants' (NCCA) well-meant 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 main 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 accounting, who will bear the brunt of replacing the lost taxation to ensure that we keep away from deficit budgeting? The answer, of course, is you and me."

The attitude of Inland Revenue, however, is really a later hurdle the NCCA must face. First it has to gain 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 exposure.

But, as one senior executive of a major financial institution says: "If 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 sees 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 retain extra funds from earnings and the problem has now been distilled into one of funding rather than financial reporting.

Inflation accounting techniques are valued by 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."

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 Martin and Co, forecasts that the current academic treatment of inflation-reduced 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 this 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.

Mick van der Walt

15. Aantal afhanklikes (ges wie werker nooe sorg)

(a) Naam (eerste naam alleenlik)

(b) Verwantskap aan werker

(c) Ouderdom

(d) Geslag

(e) Woonplek

(f) Skoolgare voltooi

(g) Nou op skool?

(h) Skool (naam, soort, distrik en afstand

Werkerbesonder

Fear rising CoL may hurt upturn

153 Cape Times 2/11/78

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 rise of almost 1 percent in the wholesale price index in September to an annual rate of 9,84 percent as against 9 percent in August But on a month-on-month basis it is lower than August's 1,3 percent The wholesale index has been rising at a slower annual rate than the CoL consumer 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 Merton Dagut yesterday warned that businessman 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 Those backing a free-enterprise system should consider that this freedom carried a responsibility

Inflation was public enemy [illegible] particularly cost of foods The rising CoL would reduce personal real incomes

Mr Attie de Vries, deputy director of South Africa's premier economic forecasting unit (the Bureau for Economic Research at Stellenbosch), was surprised by the latest rise in the wholesale index

"It may be the first real impact of the effective devaluation of the rand against the dollar If this is the start of a new upward trend it could develop into a serious situation Food prices have been increasing at a fast rate which is a very unfortunate tendency"

Rising CoL may lead to demands for higher wages reinforced by a scarcity of skilled workers

But in the longer term Mr De Vries was optimistic that price rises would level off The tempo of administered price rises was likely to slacken considerably The GST figures had distorted the CoL figures and he predicted a 10,5-11 percent rate for the year and 9-9,5 percent next year.

Although there was little doubt that some levelling-off in economic activity occurred in the third quarter as a result of pre-emptive GST buying, the economy would continue on its upward course The upswing was likely to be fairly slow, however

Referring to the steep decline in the dollar, he said that up to now the drop had suited South Africa "But I think one is getting into a grey area now where it is more difficult to pronounce judgment But if the dollar does not show a further dramatic decline we should continue the link at this level"

Last night Mr Raymond Parsons, executive director of Assocom, said the persistently high rate of inflation was worrisome as it would hamper the economic recovery

Combination

"It is probably attributable to the combined impact of GST, exchange-rate depreciation and previous increases in administered prices"

"It should be noted that the latest wholesale price trends show a higher rate of increase (10,2 percent) in South African goods compared with imported goods 8,8 percent. Present trends suggest an inflation rate of 10-11 percent for 1978 as a whole

"Success in reaching single-digit inflation next year would be a significant achievement in the eyes 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 import surcharge of 12½ percent This would have the double advantage of encouraging demand as well as cutting costs

"While the depreciating dollar does hold some advantages for South Africa, the present situation points to the need for early and urgent finalization of the interim report of the De Kock Commission into exchange-rate and exchange-control policy"

Economy stalls as experts clash

5/11/78 Sunday Times

1/47

2/153

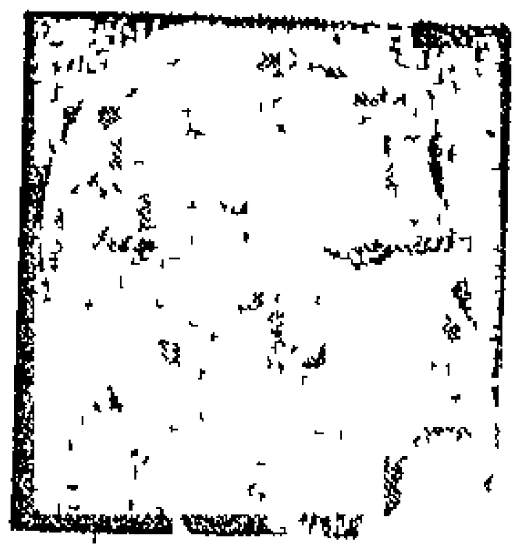
3/320

THERE is a sharp conflict over economic policy in top level Government and Reserve Bank circles.

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

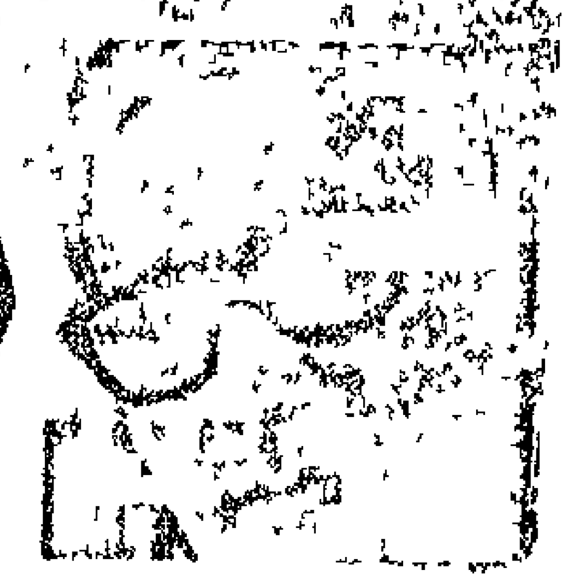
Yet, while the experts squabble over what to do next — if anything — businessmen are seriously concerned that the current business upturn is losing momentum

Firmly ranged on the conservative side is Reserve Bank Governor, Dr Bob de Jongh As the guardian of the country's gold and foreign exchange reserves, he is a man with an unenviable task

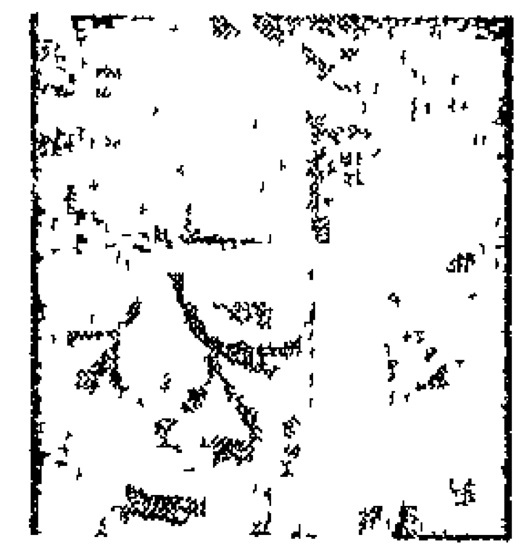


Bob de Jongh

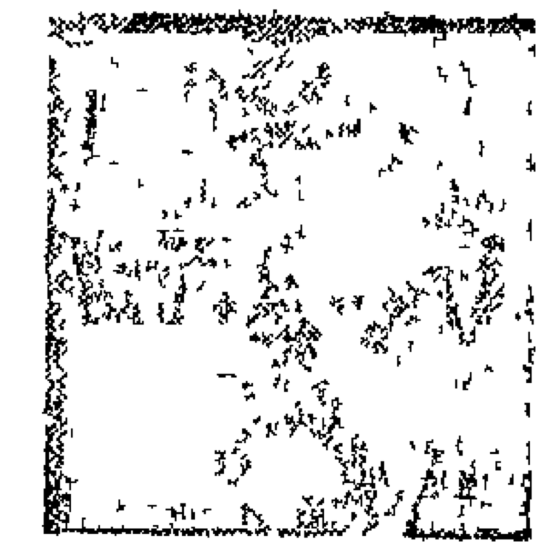
De Jongh versus Young Turks



Simon Brand



Gerhard de Kock



Joep de Loor

Governor under pressure

He must make certain the country has sufficient cash in the kitty to meet its foreign obligations

Until very recently this has been a formidable task It's easier now 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 Unisa graduation ceremony on May 17 " 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 extend loans to South Africa "

An important inflationary factor is the money supply, which, the Governor told the annual meeting of the National Finance Corporation this week, had "accelerated from 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 38 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 "

Nor is 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" whereas the "system of floating exchange rates" had created elsewhere uncertainty and "definitely contributed to the lack of investment generally

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

To Finance Secretary Dr Joep de Loor, to special economic adviser Dr 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 Simon Brand, the question of extensive black unemployment is the most urgent problem facing government.

Asked two months ago what was the country's biggest economic problem, Dr Brand replied "Insufficient growth The unemployment figures are uncomfortably high and the rate of job creation is insufficient to cope with the growing population

"The downward trend in inflation will probably resume after the July hump I don't see an immediate conflict in going for higher growth and reducing the inflation rate

Obviously, he and his colleagues believe that inflation is being caused by rising costs rather than excess demand

More vigorous growth — and a more flexible exchange rate policy — is also seen by the Treasury men as the most likely way of attracting investment to this country and stemming the capital haemorrhage Business men are hardly likely to move funds out if there is a use for them here

In October Dr De Kock told an engineering symposium that it was essential that actual and expected profits in the private sector, including any risk premium 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 money statistics are unreliable at present because of distortions from the effect of the introduction of GST and because they are based on month-end positions whereas there are huge liquidity swings in and out of the monetary banking sector and between public and private sectors during the course of each month

Declining business activity suggests, they say, that while money quantity statistics are showing an increase, the velocity of circulation has most certainly fallen which under present circumstances is the more important measure.

The reserves, while still weak, are rising after all, they point out Nor have the budget stimulants, the manner of financing the government deficit, buoyant export earnings and rising liquidity led to the growth in domestic demand that was expected earlier

The question remains, however that even although Governor De Jongh refuses to reduce interest rates further — and the appropriate stimulatory effect as well as the latest oil scare and rise in US rates make this question problematic — why cannot the Treasury men administer further fiscal stimulus?

After all, Exchequer receipts are running at least up to expectations and the Treasury most likely needs to borrow no more new money until next fiscal year

In fact Minister Horwood might be in danger of ending the year with a surplus rather than a small deficit, which in view of our attempts to pull out of a recession would be singular indeed

Now is obviously the time to scrap the loan levy and the import surcharge and reduce substantially the amount that financial institutions have to invest in official securities

The answer must be that Governor De Jongh's influence, which has always been covert, is sufficiently telling to have forced the present hiatus with regard to both monetary AND FISCAL policy

Caution in these uncertain times is a laudable attribute. But indecision in the face of failing business momentum is the hallmark of disaster

Minister Horwood must obviously do something — and do it quickly — if the revival is not to peter out Not even Dr De Jongh for all that he must look after our pennies, can really want that

Analysis of the category of engineering technician effectively illustrates the point. The 1970 Census gave a total of 6 300 (excluding the handful of African technicians). The 1969 Survey total was 5 128 and the 1971 Survey total, was 5 433. Thus the 1969 and 1971 figures are respectively 81,4% and 86,2% of the Census figures. The difference is surely significant. Further similar discrepancies can easily be found.

Inflation prospects gloomy

RDM 9/11/78

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By GERALD REILLY
Pretoria Bureau

SOUTH Africa faces another year of price rises and double-digit inflation in 1979, according to economists.

To off-set 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 nosedive, 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%.

The Minister of Transport, Mr S L Muller, has said tarriffs 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 bread should stay at the current price until the next Budget.

The Minister of Agriculture, Mr Hendrick Schoeman, has said this was because of the R20-million set aside to subsidise basic foods.

INFLATION FM 10|11|78

SA deteriorates

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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 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) understate 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

	Indexes of value of money (1967=100) 1972	1977
Switzerland	81	[illegible]
West Germany	84	61
Luxembourg	93	55
Austria	81	56
Netherlands	75	19
Japan	76	11
Belgium	82	52
US	79	55
Ireland	69	33
Portugal	27	8,0
Australia	81	44
Norway	74	48
UK	73	34
Canada	83	54
France	76	47
Finland	77	39
SA	81	47
Denmark	74	45
Sweden	78	50
Italy	83	39

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The Star Tuesday November 21 1978

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 heavist 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 11,2 percent to 11,3 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 0,5 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 R2 300m will be spent on the Christmas shopping rounds — but there will actually be less in the shopping basket than a year ago because of soaring price tags.

(A) QUALIFICATION | Number of Africans required

National Diploma for Technicians | 1976 | 1978 | 1980

14. Structural Draughtsmanship
15. Mechanical Draughtsmanship
16. Civil Engineering Draughtsmanship
17. Building Surveying
18. Engineering Surveying
19. Topographical Surveying
20. Analytical Physics.
21. Physics: Radioactive Isotopes
22. Physical Metallurgy
23. Meteorology
24. Geology
25. Oceanography
26. Munitions (Explosives)
27. Chemical Technicians
28. Analytical Chemistry
29. Chemical Plant Operation
30. Clinical Biochemistry
31. Chemical Technology (Plastics)
32. Paint Science
33. Brewing Technology
34. Microbiology
35. Food Technology
36. Sugar Technology
37. Meat Technology
38.
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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 1978

Inflation is, however, accelerating in some other Western countries

In the United States, for example, consumer prices rose by 7,9% for the year to August — but, according to Mr Barry Bosworth, US Wage Price Council director, the rate has latterly been rising closer to 10%

The IMF says the rates to August for Belgium, Japan, Holland, and Norway were 4,1%, 4,2%, 4,2% and 7,5% respectively

For West Germany the rate was only 2,4%

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-items South African consumer price index rose by 0,5% in October from 222,9 to 224,1

This increase was smaller than the rise of 0,8% 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 rise for higher-income groups to the end of last month was 11,3% while for the middle-income groups it was 11,7%

Worst hit remained the lower-income groups — mostly blacks — where the annual rise to October 31 was 12,8%

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 all with additional GST, it could lead to headlines such as "Cost of living soars 50%"

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 9,8% 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 after a long and steady deceleration

The wholesale price index at the end of September was 261,1 against 258,6 in August and 237,7 in September 1977

That is a rise of just under 1% in September after an increase of 1,8% in August

At the end of July the rate of increase in wholesale prices for the previous 12 months was down to 8,5%.

That was the lowest annual period since early 1972.

It also compared with a rate of 9,9% for 1977 and with figures of 19,4% in 1974, 16,8% in 1975 and 14,4% in 1976

That shows a long, 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 ends 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 of 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

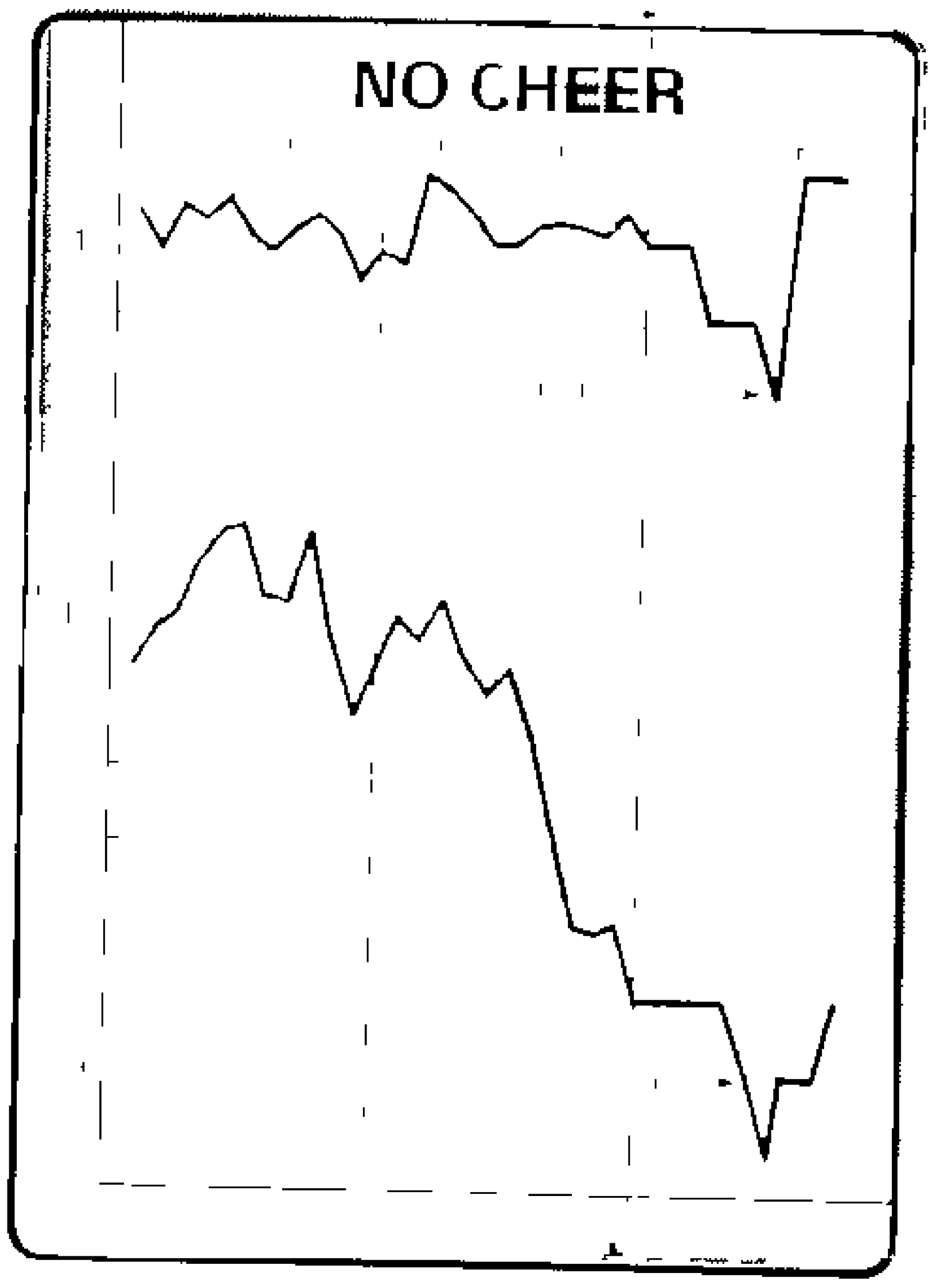
24/11/78 (153)

INFLATION

FM 24/11/78 (153)

Of eggs and Escom

Why is the inflation rate still so high? According to the Department of Statistics, consumer prices rose by 11,7% in the year to October, the same as the increase for the 12 months to September. This means that our inflation rate is 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 Senbank'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 prices 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

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24/11/78

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 1979, 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 exchequer 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 1979.

The railway workers' increase will cost the administration more than R100 million, and the bonus they have been promised in January will add another R60 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 1979 a large number of other unions will be demanding compensation for continually rising living costs."— DDC.

MONEY SUPPLY

No inflation link?

FM 31/12/78

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Dr Franz Pick has long been one of the most colourful mavericks of the financial world, taking a delight in standing conventional wisdoms 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.")

TOP TEN

	Money supply (US$/head)	Inflation rate (%)
Switzerland	4 843	1,3 (1)*
Belgium	2 282	7,1 (17)
Japan	2 217	8,1 (25)
France	1 993	9,5 (33)
Italy	1 945	17,0 (62)
Denmark	1 925	11,1 (40)
Netherlands	1 812	6,4 (12)
Norway	1 741	9,2 (31)
US	1 588	6,5 (14)
Kuwait	1 565	8,2 (26)

**Numbers in parentheses designate rank by cost of living increase*

1. A METHODOLOGICAL INTRODUCTION

A tax change cannot be analysed in isolation. It is thus necessary to study the complementary fiscal measures taken, before evaluation and analysing GST.

1.1 Key taxation changes introduced in conjunction with GST

(a) The 10% surcharge on income tax was abolished (estimated revenue loss for 1978-79 is R132 million).

(b) The surcharge on company tax was reduced by 2,5% (estimated revenue loss for 1978-79 is R48 million).

(c) The Bantu General Tax has been phased out (estimated revenue loss for 1978-79 is R9 million).

(d) The import surcharge was reduced from 15% to 12,5%.

(e) Sales duty has been abolished, although some items previously liable to sales duty are now taxable subject to an ad valorem excise tax (estimated revenue loss for 1978-79 is R150 million).

1.2 Expenditure changes made in conjunction with GST

(a) A subsidy of R20 million to basic foodstuffs was budgeted for 1978-79.

(b) Social and civil pensions, and other social payments were enhanced by an additional R10 million "over and above an amount of R46 million, which would normally have been sought to be made available on a basis of equity to pensioners and others who receive social benefits".

Only expenditures made in conjunction with GST are relevant to the analysis. One cannot point to housing expenditures, for instance, which have been increasing at a fairly constant rate over the past few years, and assert that this lossens the impact of GST. This expenditure would have taken place anyway - no extra amount has been budgeted as a direct result of GST.

1.3 A proposed method of analysis

The trends indicated above allow qualitative conclusions to be formed. As far as taxation is concerned there is clearly a swing from direct to indirect taxation, even taking account of the abolishment of sales duty. The expenditures proposed to partly offset GST are minute in comparison to the revenue anticipated. Thus, having considered thetotal "fiscal package" a method of analysis may be proposed. The GST will be analysed and evaluated as an alternative to direct taxation, and without reference to accompanying expenditure. This is a convenient method of analysis rendered appropriate by the fiscal measures taken in conjunction with GST.

Inflation slows — but battle looms

RDM 28/12/78 (153)

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 0,356% 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 Christmaaus shopping peak remains to be seen. But the November figure will help bring down the final rate of increase for the year, now running at 11,5%.

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 — 43,5% 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 14,6%.

The cost of household maintenance rose even more rapidly Housewives with a R300-a-month allowance in November last year, for example, now need at least R350 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%.

taxes. Consequently, it has been considered self-evident that an increase in indirect taxation and a decrease in direct taxation will involve increased inequality in the distribution of incomes. Hence, the desire for a system of taxation which reduces the inequality in the distribution of incomes and one which will also increase incentives to work are normally incompatible.

The call for social justice is a call that legal rights should coincide with moral rights, and that moral rights should be recognised by the law. But there is more than one conception of what constitutes moral rights Particularly there is a difference of opinion between people who base moral rights mainly on merit, and thos who emphasise the concept of need and equality. The determination of the burden of taxation that should be carried by people in different income groups is thus essentially a political and not an economic question. The role of the economist is to point out the effects that are likely to follow the introduction of tax schemes of various degrees of progressiveness. The politician, with this in mind, has to choose the tax structure which seems to him to be the best. The point that must be emphasised is that the economist cannot unambiguously assert, as a matter of scientific truth, that a specific tax structure is either the optimum one or even that it is preferable to some other tax structure with a different degree of progression

The optimum amounts or proportions of direct and indirect taxation are thus not determinate and a trade off is necessary The effect of ahigher degree of progression on income distribution is certain, but the impact on production is unpredictable. The former is merely arithmetic, but the latter is largely a matter of social psychology. The adverse effects of increasing progression may be estimated only in terms of the prediction of human behaviour. Clearly both progress and justice are costly, and above all in terms of each other.

INFLATION

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21/1/79 (153)

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 increases lies largely in the ripple effect on wages, on the prices of other commodities and on the cost structure

They include a 10-percent rise in the price of petrol, a 15-percent increase in the price of structural timber, a 14,17 percent increase in the cost of fertiliser and an increase in the cost of certain makes of motor cars

Dr de Beer said it was tragic South Africa was moving into 1979 without any real evidence that the inflation rate was going to be brought down

"Usually in the past our inflation rate was less than those of our major trading partners Now it is generally higher," he said

Price increases scheduled for this year include

- A 5,3 percent increase in the price of Escom electricity in most of the Transvaal and Free State, and similar increases in the rest of the country
- An increase in the prices of all agricultural products, dairy products, poultry, fruit and vegetables because of the fertiliser price increase
- An increase in the price of Datsun, Toyota and Renault motor cars and light vehicles.
- The timber price rise will affect the building prices, as structural timber is used in houses and other buildings

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sector employment (with dips in 1... out 140 000 jobs were added to the (roughly) ... in mining. This represents 15 years of employ... average compound rate of 2 per cent per annum.

12.1.2 In the years 1962 to 1976 ... nt creation continues but at a slower rate and ... y increasing fluctuations. If one simply takes ... stics at their face value and fits a constant grow... e between 1961 and 1976 the rate at which job... second half of this 30-year period turns out to ... t it was between 1946 and 1961 viz. 0,2 per ... (as we have argued above in the case of gold) o... supply-side 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,[29] 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.

F.M. - 5/1/79 - (153)

WORLD ECONOMY

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% the 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, lopping the big peaks off their trade surpluses and giving other countries a chance to share their growth.

PAUL LEWIS is European economic correspondent of the *New York Times*. Educated at Oxford, he joined the London *Financial Times* in 1962 and was the *FT's* correspondent in Brussels, Paris and Washington until 1977

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 US 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%.

rate of growth of employment: evidence for the first 5 months sug-

accelerating output growth rate in 1977 is also transmitted to the

than the upper end. It will be important to see whether the

large, is within its projected range - though closer to the lower

but these three are of course not large employers. Coal, which is

than projected and output per worker has not risen as projected),

growth (chrome dramatically so - since output has grown faster

Iron ore, chrome and manganese are above their projected rates of

tables will summarise the facts we wish to discuss. * (Table 36, p.80).

overprojection to 1976 by mineral*, which together with the earlier

minerals. We have given a breakdown of the aggregate employment

It remains to make some comment on the performances of individual

below and the section on gold-mining in Chapter One.)

investigation will enable us to do so.[49] (See also Section 3.3.2

Notes to table: In general this table is based on the two previous tables and so, unless otherwise stated, the notes carry over mutatis mutandis. In particular 'platinum' and 'others' are handled as before. Note that in columns (4) and (5) overprojections are represented by postive numbers and underprojections are prefixed by a minus (-) sign. Interpolations are exponential. 1970 base figures are our in service employment figures, not Plewman's at work data.

1/ Subtotals for the base minerals in columns (2) and (3) are obtained by summing the individual projections for the six base minerals - and not by making an independent projection for the sub-total.

2/ The actual employment total for 1976 (for purposes of this table) is the sum of employment in the listed branches of mining, and since tin mining is not listed the total given here (654 657) is less than the total given previously (657 592).

3/ Note (1) applies to the totals in columns (2) and (3) mutatis mutandis.

In aggregate the overprojections lie in the range between (roughly) 68 000 and 76 000. We shall return to the breakdown of these aggregate overprojections a little later in the discussion; at present we must try to assess the aggregate experience. While total mining employment in 1976 was below the corres[illegible]

OECD FORECASTS

REAL GNP INCREASE

	1978	1979
	%	
US	3,8	2,2
Japan	5,8	4,6
Germany	2,9	3,9
France	3	3,5
UK	3	2,5
Canada	3,5	4,1
Italy	2	3,5
All OECD	3,6	3,3

CURRENT ACCOUNT PAYMENTS

	1978	1979
	$ billion	
US	[illegible]	—8
Japan	[illegible]	12
Germany	6,7	3,2
France	[illegible]	3,2
UK	[illegible]	3
Canada	—4	—4
Italy	5	6
OECD total	—1,25	—0,5

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 dole queues.

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 real 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 coming 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 subsidise 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 Jeremiahs 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.

FM 12/1/79 (153)

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 civilised business of objects of art and/or sophistication also 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 Wrightsman of New York, who loaned it to the Metropolitan Museum.

The *Portrait of Sigismond Malesfa* 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 Germany 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 Frederiek Barbarossa, was acquired by a West Germany museum for $2,2m, while a Mosam enamel medallion by Godefroid de Claire, 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 Elber*, 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 1855 Swedish 3-shilling stamp rose to DM1m, equal to R470 000, just 333% above the 1977 5-cent British Guyana price.

5/77 ... 1.00) ... 2.55) ... 2.10)

	R181.20		R437.42
Surplus	R256.22		
Total	R437.42		R437.42

Statement of Assets and Liabilities

	Accumulated Fund	R301.15	77/78 Current Assets		
	Balance Sept. '77		Savings a/c	R300.26	(43.89)
	Savings a/c	43.89	Petty cash	.89	(1.04)
	Petty cash	1.04			
(50.18)		44.93			
	Surplus for the period				
(-5.25)	Sept '77-Sept'78	256.22			
		R301.15		R301.15	

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 (W.P.)
12.9.78.

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 Tourbillion gold watch by Breguet was bid up to $287 350 in a Zurich auction, up 139% on the leading price of 1977.

Drawings. Durer'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 Miniature 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 63% higher top price. The Japanese government bought a Picasso painting, *Clown & Child,* for $980 000 The Amadeo Modigliani *Jeune Femme á 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 Peignant,* that fetched $380 000.

Porcelain. A 1732 Meissen white figure of a large macaw by J J Kaendler was paid $210 000 at SPB, 56% more than another Meissen figure fetched in 1977.

Books and manuscripts. The large and fully illustrated *Khurusani Firdausi Shahnama* from Khurusan, with 62 superb miniatures dated 1011-1602, 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 á la Dormeuse* brought $620 000. Courbet's famous canvas, *Demoiselle des Bordes 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 Zurich, 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 $410 256 in another Zurich 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 R211 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's No important change in prices was reported from the sale of **antique silver** or **numismatics** On the negative side of the auctions were·

Jade, a leading item in 1977, eased modestly in 1978 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 Picasso's *La Minotauromachine* went for $125 000 at SPB

Surrealists The Paul Klee *Gestirn Uber Boesen Hausern* did not advance beyond $140 000 at SPB, a 22% drop.

Vintage photography Eadweard Muybridge's *Animal Locomotion* photo studies found a buyer at $60 000, just $25 000 less than for the 1977 photographs of the American Indian.

Old masters. At regular auctions the top bid was 45% lower than the highest 1977 price An 1848 Jean Millet, *Le Vanneur,* realised $600 000 at SPB. *Flowers in a Glass Vase* by Jan Brueghel the elder was sold for $560 000 at SPB, and Van Ostade's *A Frozen River Landscape* fetched $507 600

Matisse's still life . . . sleeping, but far from dead, at $620 000

Sculpture The top sale price was 74% below the previous year

Currencies were tossed about in the worldwide maelstrom 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 syli, 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%

leading sectors being Mining and Building it inevitably meant that the first decade was characterised by high capital outlays. In agriculture, good 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
vete[...] services, and favourable prices enabled the payment to farmers by
the [...]2 million in 1970 to P28 million in 1974. The
thr[...]ly doubled from 127 000 to 210 000 over the same five
yea[...]ecline in the percentage off-take of the national
he[...]bout 7,7%.

T[...]ortant half of Botswana's first decade saw a concen-
t[...]struction and fixed capital formation that was largely
u[...]witnessed increased off-take of cattle with high
[...]osition to sell. Both factors favoured those
[...]dvantage of these extraordinary developments.
[...]presumably lost ground as income disparities grew.
[...]that the lower income households lost
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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%.

probably contributed to new inflationary pressures. 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.

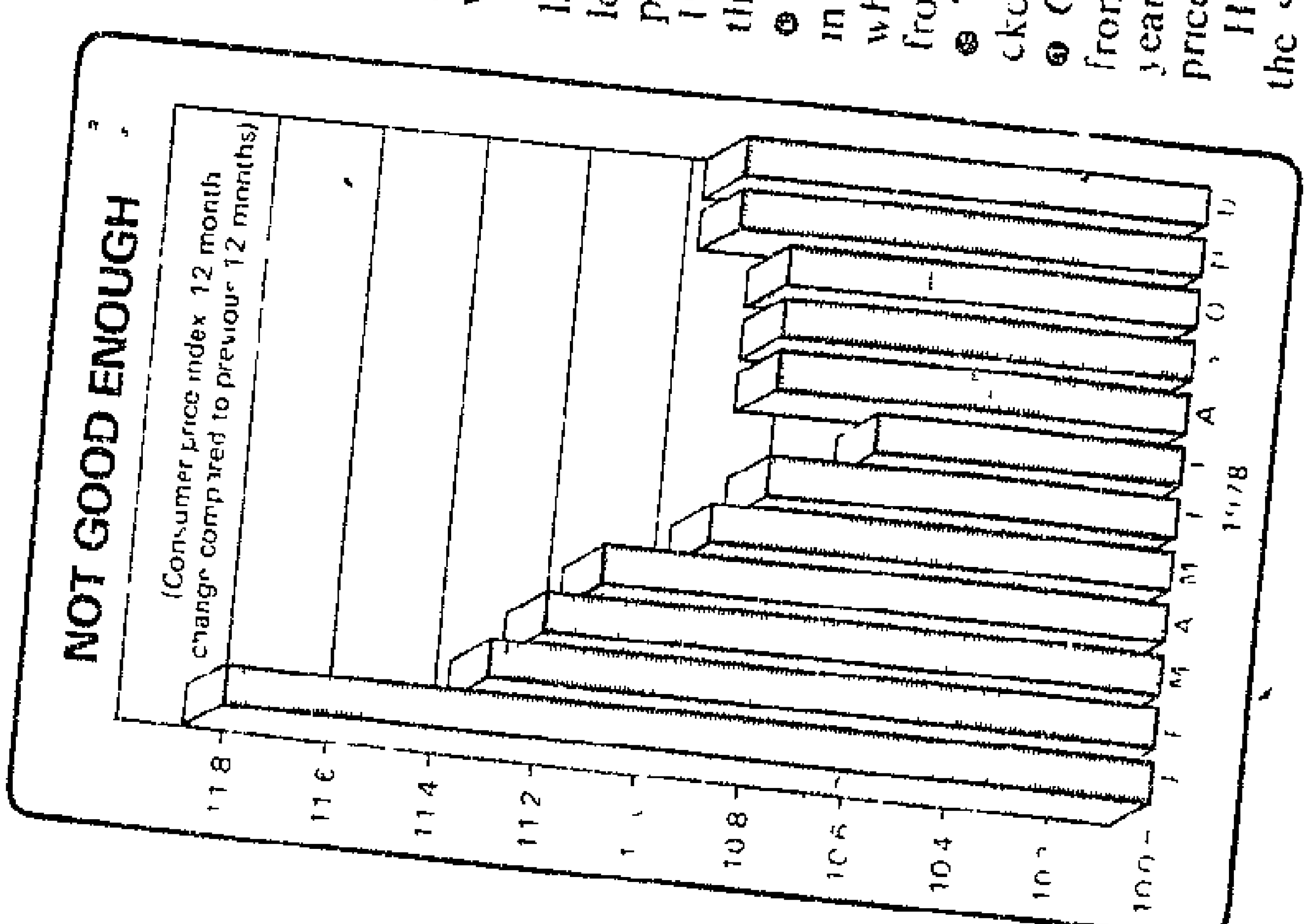
One optimist is former inflation fighter Lawrence McCrystal, who expects the rate of price increases this year to be between 7% 8%.

Rhodesia's inflation rate fell to 8,2% last year (the average of the 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 flat 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



come from continued depreciation of the rand.

Also, the growth in domestic money supply could accelerate above last year's 13,5%. Even that rate of increase has

SA inflation seen at 10% this year

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11/1/79

RDM

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 Horwood, 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 12% 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 hesitant 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 pent-up monetary demand has now, however, been checked.

There are, however, some "cost-push" factors that will exert inflationary pressures this year

Most economists also assume — and the Government implicity accepts — that further measures to stimulate the economy will also be taken this year

Mr Merton Dagut, chief economist of the Nedsual group, has estimated that inflation this year could be held to 8% on a basis of no change in existing policies

He argues, however, that measures to boost the real economic growth rate to around 4% rather than the "no change" course of 3% will push the inflation rate up to about 10%.

Dr De Kock has acknowleged that 10% is likely to be the outcome

Dr Jan Hupkes, formerly chief economist of the Federale group and now at the University of South Africa, also suggested yesterday that while the inflation rate might dip to 8% during this year, oil price increases and other factors would probably send it back up 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 in themselves be inflationary, 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 accomodation, it seems reasonable to suppose that the Reserve Bank will allow some easing in monetary policy as it proves necessary.

Star 21/2/79

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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.

[redacted]

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 paid 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 reining in the cost of living index in the short term look slim.

Inflation below 8pc forecast by Volkskas

14/3/79 Argus

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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 2,8 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 1979 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.'

RECESSION

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 devaluation 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 price as well as the Railway budget standstill on fares and rates.

INFLATION

FM 27/4/79

(153)

A double-digit year

Prospects of SA's inflation rate falling below last year's level of 10,6% 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 9,5% (*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 At 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 Wilsey Kilian 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 pressure."

Barclays economist Johan Cloete estimates this year's inflation rate at 11%-12%. And Johan Louw, Sanlam'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."

Senbank economist Rudolf Gouws argues that although "the chances of getting the inflation rate below last year's level have diminished," the effects of gst must be taken into account. Without the impact of gst, 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 gst 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 brisker business could also precipitate pressure for higher wages which may spill over into another burst of price increases.

2.

QUESTION 1 - SUGGESTED SOLUTION (continued)

Check:

Material costs
Less: 100 kg Alpha

Labour
Variable overhead

Less: Closing stock

Fixed costs

Sales and waste

Loss

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PRICES STILL SOARING

Sun Tribune finance 6/5/79

By BEN TEMKIN

ALTHOUGH the latest company profits reflect a better tone of the economy in the past half-year, the overall performance of the economy has to be viewed against a continued and serious inflation.

The fact South Africa is battling with double-digit inflation makes it difficult to envisage consumer demand building up to a level at which production overcapacity will be more than taken up.

This situation was emphasised this week by the Department of Statistics that wholesale prices rose by 1,1 percent in March — an annual rate of increase of 13,2 percent.

This does not mean the rate of inflation has surged from around the 10 percent level to 13 percent — a jump of about a third but the escalation in wholesales prices does have serious portents for the inflation rate as a whole.

The major factors which hit wholesale prices in March almost certainly included:

- The increased price of petrol.
- Rises in the costs of raw materials as components of finished goods. This would have been particularly pronounced as restocking took place in the period following the Christmas season.
- Higher costs of salaries and wages as components of finished goods. This would have been part of the pattern of normal wage increases plus considerable additional compensation for inflation as manufacturers increasingly have had to increase remuneration in the light of holdbacks over the past two to three years.

These same factors must filter through to some extent to the consumer sector. It cannot be imagined, for instance, that the Wholesale Price Index would rise while the Consumer Price Index would fall

But, while there is no blatant direct relationship between the two sets of indices, there is certainly a pronounced indirect relationship — and wholesale price changes are usually a warning that consumer prices are likely to change in the same direction.

On the consumer front, the biggest single inflationary sector is still that of foods. Meat prices have restabilised following the Christmas season and abbatoir troubles in the Witwatersrand area.

But most grocery prices are rising at a formidable rate and this is likely to accelerate with the maize price rise.

With an improving property market and almost certainly a reversal in the emigration-immigration trend, demand for rented property has increased and this is being reflected in higher rents in most of the major urban areas.

With additional decontrol of rentals, this rise in rents will be further emphasised.

Little more need be said on fuel costs but the impact of these will be felt increasingly in almost every consumer sector over the next few months.

The only sector that seems to remain relatively stable is that of clothing where competition is keeping margins very narrow and prices fairly reasonable — except at the luxury end of ranges where, in any case, there is little price-sensitivity on the part of buyers.

The car front, where competition is keen, despite a continuation of fair demand, has as its biggest apparent problem the fact that so many models are Japanese or German-based.

Imported components remain relatively expensive in rand terms — managed float notwithstanding.

The situation could improve, however, if the dollar strengthens further in the coming months.

On the whole, though, the outlook in the battle against inflation continues to look grim. Double-digits are apparently here to stay which means that to achieve Senator Horwood's hoped-for four percent in real economic growth, the economy will have to grow at at least 14 to 15 percent. That's a tall order.

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THE RADIOCARBON CHRONOLOGY

The rates derived from the simulations have shown that the fission model provided the fastest rates of expansion. The fission model was also characterised by a lower rate of expansion for a single culture than for

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he results.
n the present study are shown

RESULTS

The regression line for the Urewe culture had a slope of 0,54 with the origin at 92 years (Fig.4). This gave a rate of expansion of 0,57 Km/year. The slope for the Urewe to Silver Leaves expansion was 0,116 with the origin at 34 years. The overall expansion rate was 9,6 Km/year (Fig. 4). The overall rate of expansion corresponded fairly well with the values derived from the simulation (Table 2) with moderate to high rates of population growth (0,035; 0,040) and medium population densities (5-10/km^2).

The slope of the regression for the Kwale to Silver Leaves route was 0,096 with the origin at 138 years (Fig.5). The expansion rate was 10,3 Km/year considerably slower than the values derived from the discontinuous spread model (Table 6).

The values for the rates of expansion derived from the radiocarbon chronology are considerably faster than the values for the wave of advance model (Table 1) and this coupled with the evidence for a difference between the rate of expansion for a single culture and the whole tradition provided support for a discontinuous spread model of the Early Iron Age expansion.

DISCUSSION

The regression analysis of the Early Iron Age radiocarbon chronology supported a North to South temporal ordering in the flutted and bevelled complex. The complex used in the present analysis differed from the eastern stream and therefore the regression analysis in no way supported the historical reconstruction proposed by Phillipson (1975; 1977). However the temporal ordering within the complex indicated a North to South spread and hence a 'stream' model.

The relatively slow expansion rates associated with the simulations of the continuous spread model indicated that the wave model (Soper, 1971a) is probably incorrect. The rapid rates of spread generated by the simulations of the discontinuous spread model suggest that this was the most likely mechanism of dispersal. This mechanism mimics movements known from oral tradition (Kimambo, 1974; Legassick, 1969; Monnig, 1967; Turner, 1954; Were 1974). The groups that were hived off would have moved some distance and settled and they could have acted as nuclei for further expansion. Because more than one

CONSUMER SPENDING (153)

Inflation in the woodpile

FM 18/5/79

Consumer confidence has perked up "dramatically" since January, when it was at a particularly low ebb, according to the latest Consumer Survey Report by the Stellenbosch Bureau for Economic Research. "It would appear as if the budget did boost the confidence of consumers and the general improvement in sentiment could point to a more acceptable political climate," says the survey

The pick-up in sentiment is a sure sign that consumers are poised for heavier spending. The Bureau also points out that although households' financial position last month was much the same as in January, respondents expect that the next 12 months will see an improvement.

Consumers were more inclined to buy relatively expensive goods in April than they were at the beginning of the year, and say they will step up spending on those items in the months ahead Exceptions, however, are motor cars, television sets and caravans This could point "to a levelling-off in the high level of sales of cars during the recent past."

Though over 90% of respondents are still delaying purchases, replies suggest that the period of postponement is shortening. Further, a drop in the percentage of consumers who are economising in one way or another suggests that their spending has started to climb

Inflation remains worrying. Over half the Bureau's sample anticipate a faster rise in prices in the next 12 months. The Bureau admits it is impossible to judge how this will affect consumer spending, "but it is fairly certain that consumer confidence will deteriorate should the government fail to bring inflation under control." And that will not be easy to do

FM

And now the bad news . . . inflation takes off again

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Sund Trib 27/5/79

SUMMARY BY BEN TEMKIN

AS EXPECTED, the latest figures for the overall Consumer Price Index show an acceleration in the rate of inflation to 12,8 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 foreshadowed 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 253,8 to 257,8 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 rise 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 tax rates 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 might spend less on petrol even if they have to pay more a litre 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 in which demand is at a continuous level The more 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 assess 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 catcall that further rises in these are inevitable?

Rapport 27/5/79

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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 vooruitskatting vir vanjaar en 1980.

Die groep sê dat inflasie in die jare 1974 tot 1976 heelbo op die lys sikliese probleme in die land se ekonomie gestaan het. Dit was die geval ondanks die feit dat 'n ernstige afname in die reële groeikoers, stygende werkloosheidsyfers en dalende buitelandse valutareserwes reeds sedert die begin van 1975 merkbaar was.

Dit gebeur gewoonlik dat wanneer 'n nuwe gevaar uiteindelik besef word, dit reeds te laat is om doeltreffend 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 813 miljoen in 1975 is nie net tot 'n oorskot van R1 412 miljoen in 1978 omgeskep nie, maar daar is nou ook hoop op ten minste 'n gedeeltelike herstel in die beweging van langtermyn-kapitaal.

Hoewel werkloosheid steeds hoog is, was daar in die tweede helfte van 1978 'n besliste draaipunt en die groeikoers is nou op pad na 4 persent vanjaar.

Hoewel 'n mens dit natuurlik nie kan bekostig om groei, werkverskaffing en betalingsbalansoorweginge te ignoreer nie, vereis die toestand agter die inflasiekoers dat daar nou weer meer gekonsentreerde aandag daaraan geskenk word.

Oor die onderliggende faktore van inflasie sê die groep dat die geldvoorraad oor die volgende paar kwartale regstreeks of onregstreeks 'n uitwerking op die inflasiekoers al hê. En van watter kant 'n mens ook na die probleem kyk, sal die oorskot in die vraag toeneem.

Maar die verontrustendste aspek van inflasie in Suid-Afrika lê oënskynlik by die kostefaktore, veral arbeidskoste of, anders gestel, produktiwiteit.

Hoewel die styging in die pryse van ingevoerde goedere 'n uitwerking op inflasie het, is dit kwantitatief nie belangrik genoeg om verantwoordelik te wees vir die hele inflasionistiese druk wat die land ondervind het nie.

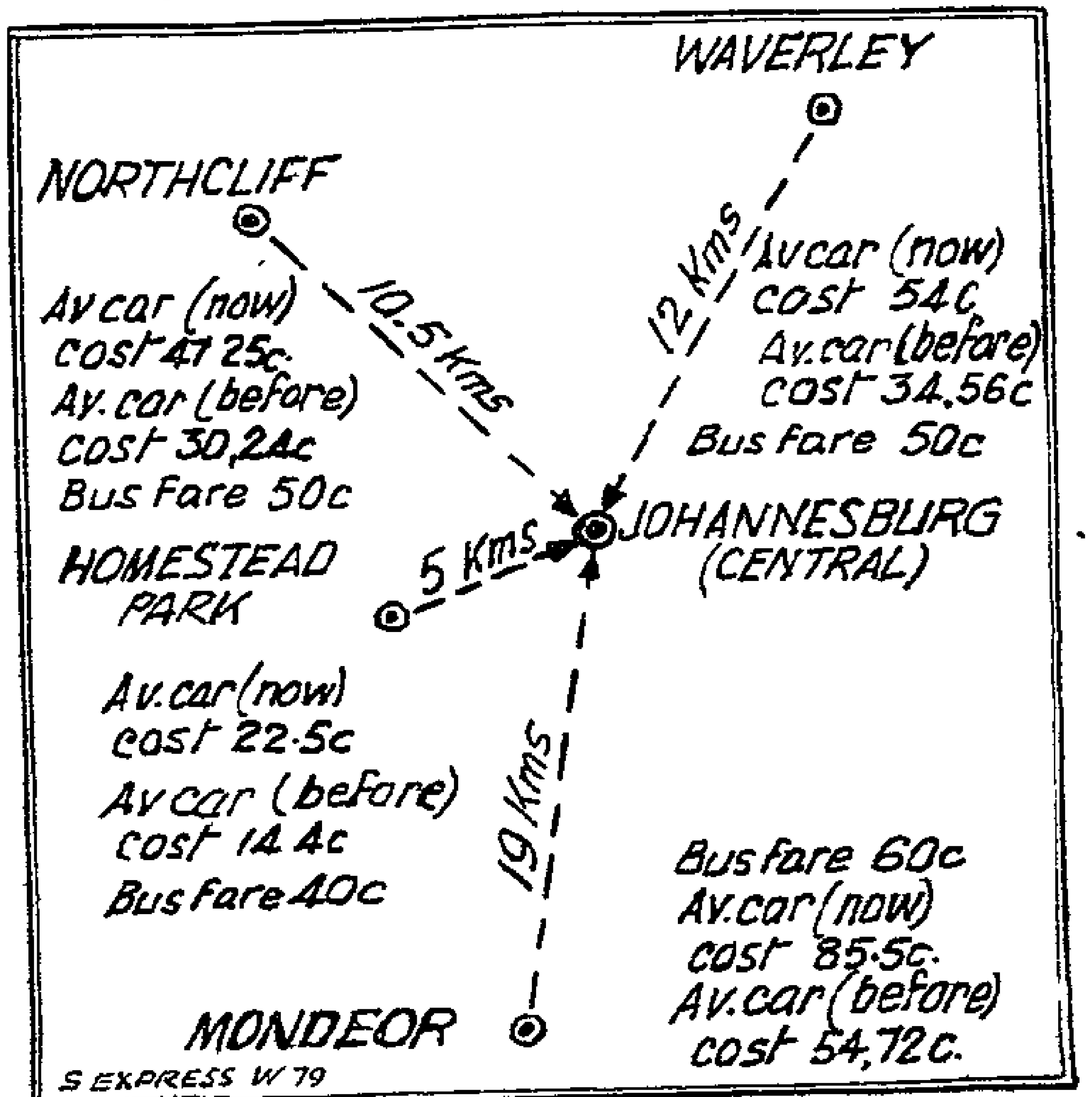
Die gemiddelde produktiwiteit van die totale arbeidsmag is baie meer ontstellend. Sedert 1965 was daar 'n volgehoue styging in die geldkoste per eenheidwaarde van arbeidsproduksie. As die gemiddelde loon per werker hoër is as die gemiddelde produksie per werker, is dit baie duidelik dat daar 'n koste-motivering vir produsente is om die prys van hul produksie te verhoog.

Dit, tesame met ander kostedruk-faktore, sal die inflasiekoers oor die volgende paar kwartale opstoot, ongeag die reële groeikoers wat die ekonomie ondervind.

153 10/6/79 Sund Express

EXPRESSCOPE COUNTING THE COST OF THE NEW FUEL

Inflation: Experts say 20% by the year-end



● What it costs to get to work .. a comparison of old and new petrol prices and bus fares from three popular Johannesburg suburbs into the city centre.

By DEREK TAYLOR

THE WORLD oil shortage has slapped South Africa back into recession — with the looming nightmare of runaway inflation at 20% or more at the end of the year But again, the poorest are going to take the heaviest hammering.

The appalling prospects:

● The squeeze of blackmail prices on South Africa's back-door oil purchases can take the petrol price up to R1 a litre within the next six months.

● Because the United States is snapping up all the spare oil it can find, even South Africa's double-priced back-door oil supplies may soon diminish to the point where the Government will be forced to dip into its strategic oil reserves.

The appalling facts:

● This week's 36% increase in the price of petrol, diesel and paraffin will be smashing its way through the market place, bumping up prices in all directions, with the full effect due in about two months.

● A 25% increase in wheat prices, which is expected next month, will send bread up to about 30c a white loaf. There will be similar increases in the prices of wheat products such as pasta.

● Meat takes off again this weekend — floor-price of beef up by 14%, mutton 14,5%, pork 20%. Meat Board chairman Mr P R du Toit expects an overall rise of 10% in consumer prices.

● The whopping 20% increase in the maize price — there has been a total increase of 76,5% over the past four years — is still bumping up prices of maize-fed farm products.

The most conservative economists expect inflation to hit 16% within the next few months.

Some fear that inflation will take off and stampede right through Government attempts to control it by squeezing the money supply.

They expect the growth rate to slump, which will mean:

● Rising unemployment — just as Minister of Finance Senator Owen Horwood's Budget nudge towards an economic upturn was beginning to provide more jobs.

● A wave of fresh wage demands to relieve workers whose pay packets are already already limping behind existing inflation.

● More poverty among Blacks as even those with jobs find their wages sinking below the breadline.

● A new spurt of bankruptcies, as small businesses are shaken out of the market by big business shaving prices — and a subsequent rise in White unemployment.

WHITE GOODS

(153)

FM 22/6/79

At a standstill

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 1980 is seen as a year of consolidation However, a growth of 5% in real terms is projected for 1981-82 "Bits 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 12% in 1978 and likely to increase by year's end Already wage increases are 14%-15% Massive plastic price increases announced by AECI and Safripol vary from 10% for AECI's PVC to 35% for low density polyethylene

Hoover SA MD Ted Ashdown (Hoover has roughly 20% of the 84 000, R27m 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% probably in 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 surprisingly 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 we didn't count on the quantum jump We're trying to minimise the impact for the consumer We're still working on prices " OK Bazaars merchandise executive on appliances Arthur Solomon says "increases in OK house brands Hotpoint (manufactured by Defy) and Kelvinator Knight (manufactured by Barlows which has 39% of the overall market) will be 7%-9%

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 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 "

Pick n Pay director Ig Ferreira expects unit sales to drop "But with more families doing without servants I expect a 10% growth in dishwashers and washing machines There has been a 15%-17% growth in freezer sales People are cost conscious and are buying in bulk " Ferreira expects Pick n Pay will "have to start longer term buying of housebrand lines which will retail at least 10% less than major brand names "

The industry outlook certainly isn't rosy and isn't expected to change in the short term Says Turner MD of Barlows 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 4% " Even more serious is the underutilisation of capacity "Across the board it's at least 40% less than available capacity — an enormous surplus

Having established what, in its view, are the essential principles in dealing with work reservation in all industries - that of abolishing the statutory work reservation provisions and that of negotiating between parties to provide safeguards - the Commission did not deal in this Part of the Report with such measures existing in the Mines and Works Act, 1956 (Act 27 of 1956). It felt that for the present, the parties in the mining industry should be encouraged to negotiate an accommodation of this sensitive matter.

CHAPTER 4 OF THE REPORT

AN INDUSTRIAL COURT

An overwhelming majority of witnesses in their submissions and oral evidence highlighted the need for a special judicial body to deal with disputes which involve a conflict of rights or aspects of a legal nature. The interpretation of provisions of labour laws, industrial agreements, orders, awards, determinations and ma... the
rights of a worker to belon... of the
sort of matter which needs ...

After consideration of all t... pments
which may follow on the Co... t of
the Report, the Commissio... a
judicial body in the field of ... ndustrial
court should adjudicate in t...

1. The interpretation of ... ions,
industrial council agr...
orders and other suc...

ii Complaints about irr...
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employer without con...

(153)

Blacks in red are industrial danger

5/6/79 RDM

THE risks of industrial unrest on a scale comparable with the troubles of 1973-74 have been greatly increased by the spate 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 12 months, food prices have risen by more than 16% and there are more in the pipeline.

The general secretary of the Federation of South African Trade Unions, Mr Alec Erwin, said the risk of spontaneous action similar to the 1973-74 strikes had greatly increased with wages not keeping pace with rising costs.

Another federation spokesman said the right of most Black workers to negotiate was blocked or severely restricted by legislation.

For this reason they were unable to negotiate increases commensurate with the cost of living.

At the weekend, an authority on applied social services at Natal University, Professor Lawrence Schlemmer, warned that if wages fell too far behind prices there could be a repeat of 1973.

The president of the Garment Workers' Union and an executive member of the Trade Union Council of South Africa, Senator Anna Scheepers, said: "If this country wants to avoid industrial strife, then we must see to it that the escalation in basic food prices is stopped and that subsidies be made available to cheapen basic foods like milk, bread and mealie meal."

Senator Scheepers said increases recently negotiated in the clothing industry had been neutralised by the rocketing prices of basic foods and other essentials.

She stressed there was a large percentage of Black workers still not 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 R153 a month. In Cape Town, the figure was R174.—Sapa.

(153) FM 29/6/79

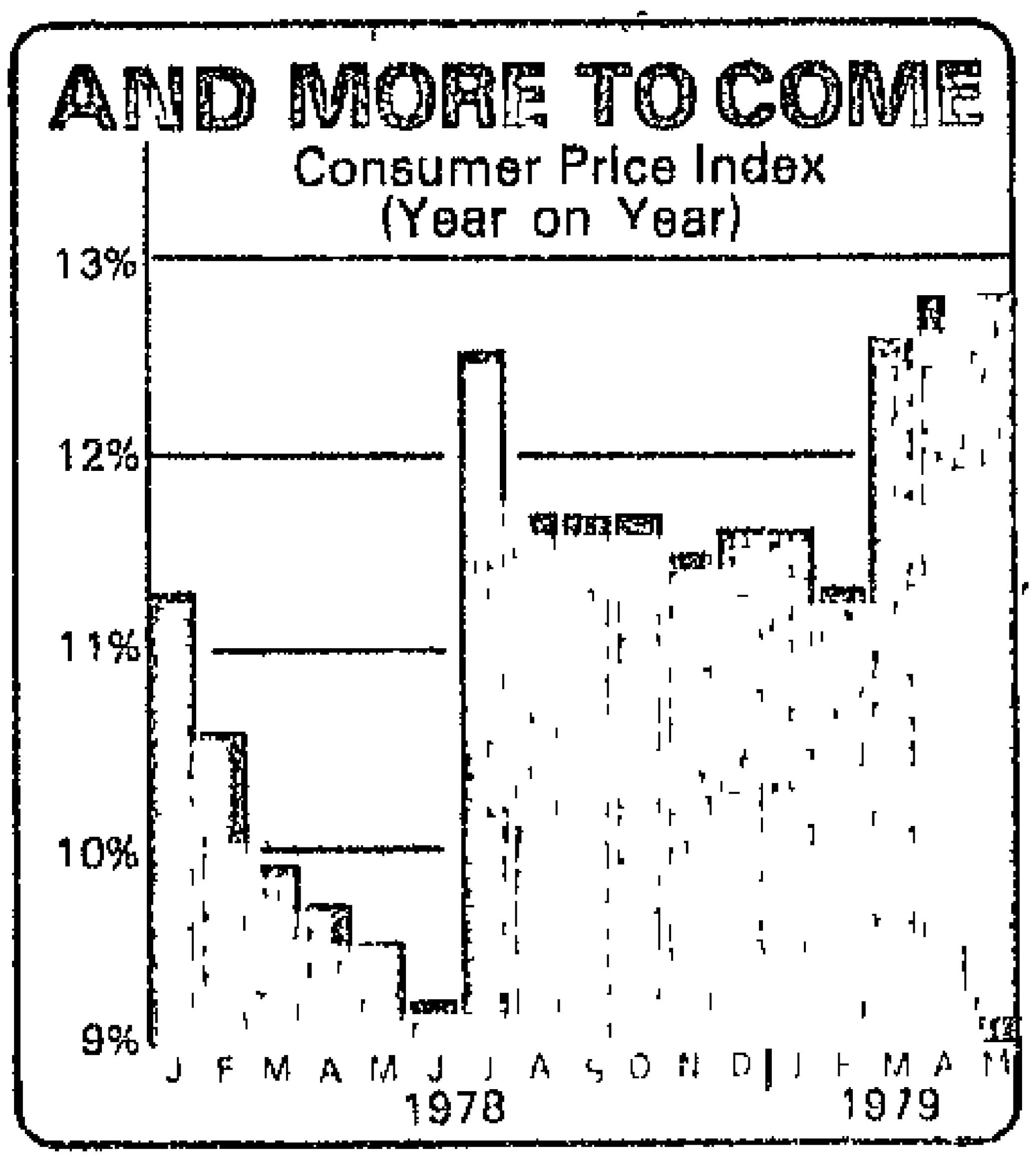
INFLATION

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 0,5%, from 0,9% in April and 1,7% in March The annualised 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 15,9% 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

Gouws asserts that since government is unlikely to deviate from its go-for-growth policy, its efforts at fighting inflation will probably concentrate on the postponement of administered price rises

At Engelbrecht, Volkskas's economist, who says that higher fuel prices could boost inflation by as much as 2,5%, warns that "energy costs could rise again — we cannot look forward to a levelling off of prices " He also points to the rising tide of imported inflation

Workers are likely to start pressing for higher wages as the inflation spiral twists upward. Gouws reckons that claims of 15% to 20% will be common Geert de Wet of RAU agrees that wage settlements will have a strong impact on inflation Engelbrecht and Louis Geldenhuys of Senbank add that skilled labour bottlenecks have already started to emerge, another factor which will push up labour costs

Sun. Tribune 8/7/79

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Gloomy picture on the inflation front

By Tony Hudson, Financial Editor

ANY HOPES that South Africa is going to be able to contain the inflation rate during 1979 have faded and the indications are that it could be well over 13 percent by the end of the year.

Latest blow to the country's hopes comes with the announcement by the Department of Statistics that the wholesale price index for all commodities sold here jumped by 1,9 percent during April and is no less than 12,3 percent up on the figure for May 1978.

This means that if the April/May increase were calculated on a yearly basis it would give an increase of 22,8 percent.

The unsettling aspect of these increases is that they took effect before the massive oil price rise that shook the country last month. When the ripple effect of these are fed into the economy, a further jump in the index can well be expected. All of which means that the inflation rate will more than likely move well into double figures by the end of the year.

And not taken into consideration is the possibility of further fuel price rises if the demand for spot crude pushes the price past the previous high of 40 dollars a barrel.

Although the wholesale price index is known to fluctuate easily, it can be regarded as a harbinger of things to come at the retail level as prices take time to mive through to the distribution point.

Probably one of the main causes of the sudden leap in the index was the dramatic prices rises foisted on the public last month

These increases have already started to filter through and most of the average retail prices for food show increases for the month of May Pure vegetable cooking fat has gone up by nearly 2 cents for 500 g, froezn peas by nearly three cents, some fresh vegetables by between two and four cents a kilogram, fruit between half a cent and two cets, Ceylon tips tea by 2,4 cents for 250 grams and honey by nearly one cent for 500 grams.

Major exception to the round of price increases was meat which showed a price drop by as much as 12,4 cents for a kilogram leg of lamb

One ray of light is the fact that the rise in the index of imported goods is far higher than that of locally produced items. Imported goods were 3,2 percent up on the April figure in May 11,7 percent up on May a year ago, while locally made products increased by 1,4 percent and was only 11,7 percent up on last year's figure.

If the inflation rate does top the 13 percent mark by December, the chances of achieving any meaningful growth in the economy are remote.

And there is very little that the Government can do about the situation Committed as it to a policy of sustained growth, any meaningful steps taken to try to bring inflation back under control could well halt what growth there is at present and could even bring about another recession.

So it seems as if South Africa is going to have to learn to live with rampant inflation.

Zwelitsha housing racket exposed

By TAMI MOSE 14 APR 1979 Imvo

ZWELITSHA — The acute shortage of houses in this township has created an opportunity for greedy house owners to exploit all people who are in desperate need of accommodation, by demanding exorbitant prices for their houses from prospective buyers and rentals from desperate lodgers who only [illegible] roof over their heads.

We [illegible] frustrating in this mass exploitation is the fact that the victims have no protection from the [illegible] any other [illegible] price of a house. The houses are sold on a "take it or leave it" basis.

In one case we discovered that a man who bought a house through the Xhosa Development Corporation (XDC) wants R6 000 for a matchbox type of house.

He rented the house to a teacher who installed electricity and a new ceiling in two rooms. The teacher was not compensated at all for his expenses.

The prices of houses range from R4 000 to R12 000. Even three roomed houses are not sold at less than R3 000. In most cases the amounts are paid in cash.

The township manager, Mr T Lindi, told us that so far they have no control over the sale of houses — it is an agreement between the two parties concerned only.

Many people are living in wood and iron shacks which are bought at R60 by the tenant and they usually pay a rent of R10 per month. People who get rooms inside pay up to an amount of R20 per month. Most of these rooms have no doors and the tenant has to buy his own grocery and do his own washing.

BALANCES

When we asked Mr Lindi about the people who sell houses for cash while still owing balances on the houses he said that they do not have many problems in this regard. He said that the system is that a person is allocated a house and then applies for a deed of grant and after that he can do anything he likes about it.

A lawyer in King William's Town Mr Sieg Baul confirmed Mr Lindi's statement by saying that the price of a house depends on the owner.

Group Editors Transkei co[ntract]

UMTATA — Group Editors the Johannesburg based public relations firm has been awarded a 15 month contract to plan and co-ordinate public relations for the Transkei Government.

An executive director of the group Mr Greg Kukard said yesterday the contract was to take immediate effect.

Group Editors is to be

Students in [illegible] agreement [illegible]

11 APR 1979 Post

By GEORGE MAYI KISO

LEKWA Shanda High School students boycotted classes yesterday in protest against the engagement of a new principal.

Throughout the boycott which lasted until midday police in camouflage uniforms and members of the security police kept a low profile watching the protest from a distance.

The boycott started the morning as when the new pr[incipal] Mr B Makgamath[o was] introduced t[o the] students. The s[tudents] claimed that the[y] Mr Makgamatho formerly principal [of] bohang High Sc[hool in] Boipatong and t[hey did] not want him [as] principal.

The principal [of] Lekwa Shandu [was] ed by Makgoko[] end of last year

Inflation '15 percent by year end'

Mercury Correspondent

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.

153 10/4/79

Arsonists burn school

17 APR 1979 Argus

Argus Bureau

PORT ELIZABETH — Arsonists burnt down Uitenhage's Cummings Memorial School at the weekend.

[illegible] were seen

Land Act. In 1977 104 297 ha wer[e] bou[ght] under the Development Tru[st] and Land Act and last year 117 1[] ha bringing the total purchased t[o] date up to 1 104 200 ha at a cost o[f] R358m. Still to be purchased at 632 184 ha.

117 70[] ha have been added to th[e] black states as compensation for th[e] removal of black spots (ex[clu]ding badly situated black areas) still to b[e] removed.

The amounts allocated over the la[st] five years for the purchase of land f[or] the consolidation of black states we[re] 1974/75 R26,6m 1975/76 R[]; 1976/77 R[]m 1977/78 R47,[]; 1978/79 R[]m (Hansard [])

M[r] [] P G J Koo[rnhof] [] PM 20/4/79

WINTERVELD

20 APR 1979 Financial Mail

People are living there

Out of sight, out of mind. That seems to be the fate of the 500 000 or so people in Winterveld, a vast slum in the BophuthaTswana archipelago 35 km from Pretoria, for many years a catchment area for waves of homeless and dispossessed, including people driven out of the "white" areas by resettlement schemes and tougher influx control.

According to "Flip" Smit, professor of geography at Pretoria University, more than 24 000 people were moved into BophuthaTswana from "black spots," mission stations and poorly situated homeland areas between 1968 and 1975. Close on 100 000 were moved off white farms or out of townships in white areas. In particular, people from the old Pretoria townships of Lady Selborne and Eastwood who could not find accommodation in GaRankuwa or Mabopane overflowed into Winterveld.

Still more came from other bantustans in search of jobs in nearby Pretoria, to which transport is easily available. David Mokale, BophuthaTswana's Minister of Urban Affairs, tells the FM that people continue to stream in day and night.

Some of the Winterveld land is zoned for agriculture but the black landowners find it more profitable to sublet to tenants. Mokale however tells the FM that his government regards many of the tenants as illegal squatters since they have come in without permission. "The landlords are farming their brothers," he says. Raids on illegal traders have been stepped up, and this week 13 schools for squatter children were reported to have been closed.

One cause of friction between the squatters and the BophuthaTswana government arises from the fact that most of the tenants are not Tswanas. Many Winterveld people claim that they have been told to take out BophuthaTswana citizenship or leave the area. Smit says that friction is heightened because non Tswanas are seen as competing with Tswanas for scarce jobs. Soaring unemployment makes things worse.

But Mokale claims that "there is no distinction in our eyes between Tswanas and non Tswanas."

Nevertheless, as a recent private study points out, raiding has made tenants edgy, and many are leaving of their own accord. Some go to the new Ndebele bantustan, where, unlike Winterveld, there is not even the remotest possibility of work. Thus, continues the study, the unemployed in the towns are moved to the homelands and the homeland unemployed are moved to more remote areas in other homelands — areas where they can barely subsist.

Although Mokale claims that most of the Winterveld people are to be accommodated in proper housing, this is clearly beyond the resources of his government. Smit proposes an upliftment programme on site and service lines instead. While some infrastructure would be provided, the people would be permitted to erect shacks as their skills and financial means permitted.

Nusas rejects proposals

Cape Times

Staff Reporter 18 APR 1979

[] government proposals for future development of [] [ca]mpus announced last [wee]k by the Minister of Plural [Rela]tions Dr P G J Koornhof have been condemned by the [Nati]onal Union of South African Students (Nusas).

[In] a publication on Cross[roa]ds which appeared yesterday [Nus]as says the new approach adopted by the govern[ment] [] [is] nothing more than greater control over the community.

The publication says this new approach has been necessitated by the resistance of the community to government coercion.

The government's response has been to control the community with a greater and more subtle means of sophisticated control.

Govt calls an inflation crisis meeting

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RDM. 24/7/79.

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 Schalk van der Merwe, representatives of the Association of Chambers of Commerce, the Afrikaanse Handelsinstituut, the Federated Chamber of Industries, and leaders of the Trade Union Council of South Africa and the SA Confederation of Labour.

Major aim of the meeting is to find effective defence against what threatens to be runaway inflation This could involve voluntary curbs on price rises and wage increases

Background to the meeting is the lost 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 pressured the rate to one of the highest peaks in the past decade — 13,5%, according to the June Consumer Price Index

Disturbing is the fact that the 13,5% did not take into account the huge 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 15%

It is understood that no attempt will be made to re-activate the 1975 anti-inflation manifesto but that appeals will be made to the private sector to make renewed efforts 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 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

Friends (Quakers) en van die American Friends Service Committee deurgebring. Hy het 'n aantal konferensies in verskillende dele van die land bygewoon, baie vergaderings toegespreek en senior beamptes van die Carnegie Corporation, van Community Relations Services van die Departement van Justisie van die Amerikaanse regering, van die American Friends Service Committee en kollegas verbonde aan verskeie universiteite besoek.

Gedurende Augustus en September het die Direkteur Engeland, Nederland, Switzerland, Swede, Israel en Zambie besoek Hy het vooraanstaande joernaliste, Suid-Afrikaanse diplomate, senior amptenare van die Suid-Afrika-Stigting en verskeie regerings betrokke by Suid-Afrikaanse belange ontmoet. Hy het besprekings gevoer met stigtings, trusts en opvoedkundige verenigings As gevolg van sy besoek aan Nederland het hy 'n toelae vir die Konstruktiewe Program ontvang van die Algemeen Diakonaal Bureau van die Gereformeerde Kerken in Holland.

Professor J.L. Boshoff, ere-Fellow van die Konstruktiewe Program, het met 'n aantal instansies, wat universiteite in Natal en Transvaal insluit, en met verskeie handels- en industriele firmas in Natal, kontak opgebou.

(b) Konferensies

Gedurende 1978 het die Direkteur die volgende konferensies bygewoon

Jaarlikse Konferensie, Nasionale Uitvoerende komitee- en Raadsvergadering van die Suid-Afrikaanse Instituut vir Rasseverhoudinge, Kaapstad (Januarie).

Suid-Afrikaanse Jaarlikse Vergadering van die Religious Society of Friends, Stutterheim (April).

Negende Wêreldkongres van Sosiologie, Uppsala, Swede Verhandeling voorgelê in Werkgroep 6 en vergaderings bygewoon van die Raad van die Internasionale Sosiologiese Vereniging as die amptelike afgevaardigde van Suid-Afrika (Augustus).

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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

VERSPREI DEUR INLIGTINGSDIENS VAN SUID-AFRIKA OP VERSOEK VAN DIE MINISTER VAN NYWERHEIDSWESE EN VAN HANDEL EN VERBRUIKERSAKE

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 VOORTSETTINGS= KOMITEE INSAKE DIE IMPLEMENTERING VAN DIE AKSIEPROGRAM TEEN INFLASIE TE PRETORIA OP 25 JULIE 1979

'N BESONDERE WOORD VAN WELKOM, VERAL AAN DIEGENE WAT SAAM MET MY VOORGANGER MEDE-ONDERTEKENAARS WAS VAN DIE MANIFES VAN VASTE VERBINTENISSE DEUR DIE REGERING EN DIE BELANGHEBBENDE PRIVATE SEKTOR ORGANISASIES VAN DIE REPUBLIEK VAN SUID-AFRIKA OP 7 OKTO= BER 1975, TEN EINDE 'N GESAMENTLIKE VELDTOG TEEN INFLASIE VAN STAPEL TE STUUR. SOOS U SAL HERINNER, IS DAAR OP DAARDIE STADIUM BESLUIT DAT 'N GESAMENTLIKE AKSIE TEEN DIE VERSLEGTENDE INFLASIEPROBLEEM GELOODS MOES WORD AANGESIEN DIT ERNSTIGE GEVARE VIR DIE LAND OP SOSIO-EKONOMIESE GEBIED INGEHOU HET.

EK/...

EK WIL U VERDER DAAROP WYS DAT DIE EKONOMIESE SITUASIE TYDENS DIE INWERKINGTREDING VAN DIE MANIFES IN 1975 GEKENMERK IS DEUR 'N TIPIESE OORBESETTING VAN DIE LAND SE PRODUKSIEBRONNE EN WEL IN SO 'N MATE DAT DIE LOPENDE REKENING VAN DIE BETALINGSBALANS IN DAARDIE JAAR 'N REKORD TEKORT VAN R1 813 MILJOEN GETOON HET. HIERDIE TIPIESE TOESTAND VAN VRAAGINFLASIE, GEKOPPEL AAN EKSTERNE INVLOEDE SOOS DIE SNEL STYGENDE OLIEPRYS, SOWEL AS VAN ANDER VER= VAARDIGDE GOEDERE-INVOERE, EN DIE OPEEN- VOLGENDE DEVALUASIES, HET DAN OOK TOT GEVOLG GEHAD DAT SUID-AFRIKA IN 1975 IN SOMMIGE MAANDE, TEEN 'N JAARKOERS BEREKEN, 'N IN= FLASIEKOERS VAN NIE MINDER NIE AS 15,2 PER= SENT BELEEF HET.

DIE REGERING SE STANDPUNT WAS TOENTERTYD, EN HY IS DAARIN HEELHARTIG DEUR DIE PRIVATE SEKTOR, SOWEL AS DIE OORBLYWENDE BELANGEGROEPE IN DIE

LAND/...

LAND ONDERSTEUN, DAT 'N INFLASIEPROBLEEM VAN HIERDIE OMVANG SLEGS MET 'N TOTALE BENADERING DIE HOOF GEBIED SAL KAN WORD. IN OOREENSTEMMING MET DIE BASIESE FILOSOFIE DAT DAAR SO MIN AS WAT PRAKTIES MOONTLIK IS DIREK MET DIE VRYE WERKING VAN DIE MARKMEGANISME VAN ONS KAPITALISTIESE EKONOMIESE STELSEL INGEMENG MOET WORD, HET DIE REGERING OOK AANVAAR DAT DIE BEKAMPING VAN INFLASIE OP 'N MEER INDIREKTE WYSE SAL MOET GESKIED EN DAN BEPAALD MET DIE VOLLE SAMEWERKING EN ONDER= STEUNING VAN ALLE BELANGEGROEPE. DIE ANTI-INFLASIE MANIFES IS DAN OOK BASIES OP HIERDIE UITGANGSPUNT GESKOEI. IN SY GEHEEL WAS DIE AKSIEPROGRAM WAT HIERUIT GEVLOEI HET DUS OP POSITIEWE MAATREëLS GEGROND, WAT GELYKTYDIG DIE MAKSIMUM BYDRAE TOT DIE STRYD TEEN INFLASIE KON LEWER, TERWYL DIT DIE GERINGSTE NADELIGE UITWERKING OP DIE LAND SE EKONOMIESE GROEIKOERS MOES Hê. DERHALWE

WAS/...

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 UITOEFENING VAN STRENG FISKALE EN MONETêRE DISSI= PLINE DEUR DIE OWERHEID;

(iii) DEUR BINNE PERKE WETGEWING OF ANDER BEHEERMAATREëLS WAT 'N INFLASIONIS= TIESE INVLOED KON Hê SODANIG TE WYSIG DAT HIERDIE EFFEK UITGESKAKEL OF ENIGSINS VERSAG KON WORD; EN

(iv) DIE TOEPASSING VAN DIE UITERSTE MATE VAN SELFBEHEERSING BY ONDERHANDELINGS OOR HOëR LONE, SALARISSE EN PRYSE.

DIT IS SEKERLIK NIE NODIG OM HIER MEER UIT

TE/...

TE BREI OOR DIE SUKSESVOLLE WYSE WAAROP DAAR DEUR DIE OWERHEID, SOWEL AS DIE PRIVAAT= SEKTOR POSITIEF SAAMGEWERK IS OM HIERDIE PROGRAM DEUR TE VOER NIE. DIE FEIT IS DAT ONS MET DIE STRYD TEEN INFLASIE SODANIGE SUKSES BEHAAL HET, DAT DIE INFLASIEKOERS OP 'N JAAR-TOT-JAAR BASIS VANAF 15,2 PERSENT IN JANUARIE 1975 TOT SLEGS 9,2 PERSENT IN JUNIE 1978 GEDAAL HET. DIT MOET EGTER NIE UIT DIE OOG VERLOOR WORD NIE DAT HIERDIE PRESTASIE SAAMGEVAL HET MET 'N TYDPERK WAARIN DAAR 'N ALGEMENE VERLAGING VAN DIE EKONOMIESE GROEI= KOERS EN DIE DAARMEE GEPAARDGAANDE VERHOGING IN DIE KOERS VAN WERKLOOSHEID VOORGEKOM HET. HIERDIE VOORTGESETTE VERLANGSAMING IN DIE KOERS VAN STYGING IN DIE ALGEMENE PRYSPEIL HET DAN OOK DIE KOMITEE IN STA T GESTEL OM DIE TOEPASSING VAN DIE KORTTE RYS EN LOONFORMULE, WAT SO 'N BELAN NDERDEEL VAN DIE MANIFES AS, OP 31 M 1977 TE

RVANG/...

VERVANG MET 'N VERSTANDHOUDING DAT ALLE BELANGHEBBENDE PARTYE STEEDS SOU VOORTGAAN OM DIE HOOGSTE MATE VAN VERANTWOORDELIKHEID BY PRYS- EN LOONVERHOGINGS TOE TE PAS. DIE LANGTERMYNMAATREËLS VAN DIE MANIFES 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/...

EMPHASIS ON THE EQUALLY IMPORTANT POLICY OBJECTIVE OF INCREASING THE RATE OF ECONOMIC GROWTH. IN FACT, AN IMPORTANT RATIONALE BEHIND THE STIMULATORY POLICY MEASURES ADOPTED BY THE GOVERNMENT, HAS ALL ALONG BEEN THAT A HIGHER RATE OF ECONOMIC GROWTH WOULD IN FACT BE ANOTHER POSITIVE MEASURE THROUGH WHICH THE INFLATIONARY PROBLEM COULD BE KEPT IN CHECK. THIS IS BORNE OUT BY THE FACT THAT DESPITE THE UPSWING IN THE SOUTH AFRICAN ECONOMY SINCE THE LATTER HALF OF 1977, THE INFLATION RATE HAS NOT SHOWN AN UPWARD TENDENCY UNTIL RECENTLY. THIS CAN TO A LARGE EXTENT BE ASCRIBED TO THE FACT THAT THE HIGHER RATE OF ECONOMIC GROWTH HAS RESULTED IN A NOTICEABLE IMPROVEMENT IN THE OVERALL LEVELS OF PRODUCTIVITY.

HOWEVER, THE INFLATION RATE HAS ONCE AGAIN REACHED DOUBLE DIGIT LEVEL. IN FACT, THE

AVERAGE/...

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/...

WILL CONTINUE IN THE FORESEEABLE FUTURE. THIS IS PROBABLY ONE OF THE MAJOR REASONS, COUPLED WITH THE TREMENDOUS INCREASE IN OIL PRICES, WHICH HAS 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 LEVEL 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 ~~LEVELS OF~~ ECONOMIC ACTIVITY AS A RESULT OF A STRON CYCLICAL

DOWNSWING/...

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. FURTHER= MORE 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.

EK/...

EK HET PROBEER OM VIR U AAN TE DUI DAT, HOEWEL DIE INFLASIEKOERS SEDERT 1975 TOE DIE ANTI-INFLASIE PROGRAM IN WERKING GESTEL IS, AANSIENLIK AFGENEEM HET, DIT IN DIE JONG= STE AANTAL MAANDE WEER VERSNEL HET. HOEWEL DIE EKONOMIESE OMSTANDIGHEDE IN ONS LAND IN SOMMIGE OPSIGTE WESENLIK VERSKIL VAN DIé WAT IN 1975 GEHEERS HET, IN DIé SIN DAT ONS TANS 'N MATIGE EKONOMIESE OPLEWING MET BETREKLIK LAE BESETTINGSPEILE ONDERVIND, TEENOOR 'N TOESTAND VAN OORBESTEDING IN 1975, HOU DIE INFLASIEPROBLEEM VIR ONS NOU NET SULKE GROOT GEVARE AS DESTYDS IN. DIE REGERING HET HOMSELF VERBIND TOT DIE VERDERE VERHOGING VAN DIE EKONOMIESE GROEIKOERS SOVER AS WAT DIE PRAKTIESE EKONOMIESE OMSTANDIGHEDE DIT TOELAAT. IN HIERDIE VERBAND IS DIE BEKAMPING VAN INFLASIE NATUURLIK 'N SLEUTEL= FAKTOR. RAMINGS DEUR GES [illegible] IE INSTANSIES DUI DAAROP [illegible] DIE AANSIEN= LIKE STYGINGS [illegible] N OLIEPR[illegible] [illegible] VANJAAR,

.../...

EN DIE VERWAGTE INFLASIONêRE UITWERKING WAT DIT SAL Hê, DIT MOEILIK SAL WEES OM DIE ALGEMEEN AANVAARDE MIKPUNTGROEIKOERS VAN 4,0 PERSENT VIR VANJAAR TE KAN BEREIK. TROUENS, TENSY DIE INFLASIE-EFFEK GROOTLIKS AAN BANDE GELê KAN WORD, KAN 'N GROEIKOERS VAN NADER AAN 3,0 PERSENT EERDER VERWAG WORD. DIT IS DAAROM DUIDELIK DAT BAIE GAAN AFHANG VAN DIE BEREIDWILLIGHEID EN VERMOë VAN DIE SUID-AFRIKAANSE BEVOLKING OM DIE VERHOOGDE OLIEPRYSE, ASOOK ANDER KOSTESTYGINGS WAARMEE ONS LAND TANS TE KAMPE HET, TOT DIE MAKSIMUM MOONTLIKE MATE TE ABSORBEER EN DIE SKADELIKE EFFEK OP DIE GROEIKOERS VAN DIE EKONOMIE OP HIERDIE WYSE TE VERSAG.

EK KAN MET VRYMOEDIGHEID Sê DAT DIE VAS=BERADENHEID VAN DIE SUID-AFRIKAANSE BEVOLKING, SOOS WAT REEDS BEWYS IS DEUR DIE SUKSESVOLLE TOEPASSING VAN DIE MANIFES, OM DIE

INFLASIEPROBLEEM/...

INFLASIEPROBLEEM TE BOWE TE KOM EN DIE NODIGE AANPASSINGS TE MAAK, EEN VAN DIE BELANGRIK=STE FAKTORE WAS WAT DAARTOE BYGEDRA HET DAT DIE EKONOMIE NIE VERDER NA BENEDE BEWEEG HET TYDENS DIE LAAGTEPUNT VAN DIE VORIGE AFSWAAI=FASE NIE. TROUENS, IN TEENSTELLING MET DIE MEESTE ANDER VERGELYKBARE LANDE, HET SUID-AFRIKA DAARIN GESLAAG OM DEURGAANS 'N POSITIEWE GROEIKOERS TYDENS HIERDIE AAN=PASSINGSFASE TE HANDHAAF. HIERDIE PRESTASIE VAN DIE SUID-AFRIKANERS, WAT VERAL GEREFLEK=TEER WORD IN DIE GROOT VERBETERING IN DIE LOPENDE REKENING VAN DIE BETALINGSBALANS, HET GUNSTIGE REAKSIE VANUIT DIE BUITELAND GELOK. DIT HET VERAL TOT GEVOLG GEHAD DAT DIE VERTROUE VAN BUITELANDSE BELEGGERS IN ONS EKONOMIESE GROEIVOORUITSIGTE IN 'N GROOT MATE HERSTEL IS.

DIT WIL MY DUS NOU VOORKOM DA[illegible] A[illegible] [illegible] BELANGE=GROEPE IN DIE SUID-AFRIKAANSE [illegible]NOMIE WEER

SAL/...

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 BEHOEFTE OM DIE REEDS BEHAALDE VERBETERINGS IN PRODUKTIWITEIT 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 AANDUIDING TE PROBEER GEE VAN DIE MOONTLIKE ALTERNATIEWE BENADERINGS WAT GE= VOLG KAN WORD NIE. SOOS EK REEDS AANGEDUI HET, 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 HË. AAN DIE ANDER KANT IS DIE REGERING NIE GENEË OM OOR TE GAAN TOT DIREKTE INGRYPING IN DIE MARKMEGANISME DEUR MIDDEL VAN LOON- EN

PRYSBEHEERMAATREËLS/...

PRYSBEHEERMAATREËLS NIE EN HET HOM TROUENS HERHAALDELIK TEEN SO 'N BELEIDSBENADERING UITGESPREEK.

'N ANDER BENADERING WAT NA MY MENING MEER BELOFTE INHOU, IS OM DIE SUID-AFRIKAANSE PUBLIEK WEER EENS TE MOTIVEER OM DIE NODIGE AANPASSINGS EN OPOFFERINGS 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 PRESTA= SIES IN DIE VERLEDE IN ONS STRYD TEEN INFLA SIE, ONS WEL DAARTOE IN STAAT BEHOORT TE WEES OM, MET DIE NODIGE SAMEWERKING VAN AL DIE BELANGEGROEPE, WEER EENS SUKSES TE BEHAAL.

EK VERNEEM NOU GRAAG WAT D[illegible] [illegible]IENSWYSE VAN DIE VERSKILLENDE SEKTORE [illegible] [illegible]ERDIE VERBAND

GOVERNMENT TO ACT ON HIGH PRICES

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26/7/79 Argus

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 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.

GENERAL NEWS

'Wage, price freeze won't halt inflation'

RDM 26/7/79

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 jeopardise 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 in 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 that, although much had been achieved in accordance with the original objectives of the adopted 1975 manifesto towards increasing productivity, among others, through better training and utilisation 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 —Sapa

---lik tot die Sentrum se

Mennonite Central Committee se Konferensie oor: 'Die Rol van Geskiedkundige Vredeskerke', Gaborone, Botswana. Verhandeling voorgelê oor: 'The Role of Churches in Promoting Justice in Southern Africa' (Oktober)

Konferensie van die Afrikaanse Calvinistiese Beweging, Potchefstroom (Oktober)

(c) Deelname aan Welsyns- Professionele en Openbare Organisasies

Die Direkteur het aktief gebly in die Suid-Afrikaanse Instituut vir Rasse-Verhoudinge as 'n lid van die Weskaap-Distrikskomitee, die Nasionale Uitvoerende Komitee en van die Raad.

Hy is Voorsitter van die Quaker Service Fund in die Kaap, die diensafdeling van die Godsdienstige Vriendekring (Quakers), wat gemeenskapsontwikkeling op die platteland en in die stadsgebiede bevorder.

Die Direkteur is gekies as lid van die Raad van die Vereniging vir Sosiologie in Suidelike Afrika. Hy is ook 'n lid van die Suid-Afrikaanse Sosiologiese Vereniging en van die Internasionale Sosiologiese Vereniging. Hy is aangestel as die Suid-Afrikaanse afgevaardigde in die Raad van die Internasionale Sosiologiese Vereniging vir die tydperk 1978-1982

WAARDERING EN DANK

Ek is altyd dankbaar vir die geleentheid wat die jaarverslag bied om my waardering te betuig aan lede van die Akademiese Advieskomitee en die Beheerraad vir hulle leiding, aanmoediging en belang in die aangeleenthede van die Sentrum.

Die Universiteit van Kaapstad het benewens 'n bydrae tot die bedryfskoste van die Sentrum, ook vir die Sentrum sedert sy stigting in kantoorruimte voorsien. Met die uitbreiding van personeel het ons die huisie op die laer

N.M. 26/7/79

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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 sometime in the future, he [illegible]

received preliminary feedbacks on the effect of the restriction but it was still to 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 might, therefore, get 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 jeopardise 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 feed-backs on the effect of the restriction but it was still to early to say to what extent it had been successful

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

"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 1990s — Sapa

INFLATION

Which way out?

(753) FM 27/7/79

"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 this recession or depression stems from inflation, I think we should reverse the usual order of words and call it 'inflession' — inflation leading to recession" — **Robert Triffen, a prominent American economist, speaking at an international economic conference in Claremont, California (1975).**

Triffen'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 this week when new Industries, Commerce and Consumer Affairs Minister, Schalk van der Merwe, called an urgent meeting with organised commerce and labour and told them that "SA can expect a 1979 growth rate closer to 3% than 4%" unless inflation "can be greatly curbed"

At first glance there seems to be barely any link between SA's rate of inflation and growth in the money supply M1 - the narrowly defined money supply, including demand deposits, coins and notes - grew by only 6,7% in 1975, 3,4% in 1976, 5% in 1977 and 10,1% in 1978, while inflation rates persisted at 11,7%, 10,8%, 11,1% and 11,6% in the respective years

Nonetheless, SA's monetarist-minded economists maintain that government's failure to keep a tight rein on money growth in the past lies behind SA's persistently high inflation rate To blame inflation on rising costs such as higher wages, oil prices and various administered prices, they claim, is to put the cart before the horse

Standard Bank's Frank Shostak insists that the divergence between annual money growth and inflation rates does not negate the direct link between these two Various SA studies have shown, says Shostak, that a time lag of about two and a half years exists between the growth in the money supply and its full impact on prices, and that even after five years money still exerts an influence Thus, he concludes, the high inflation rates of the past few years are simply a reflection of excessive money growth prior to 1975

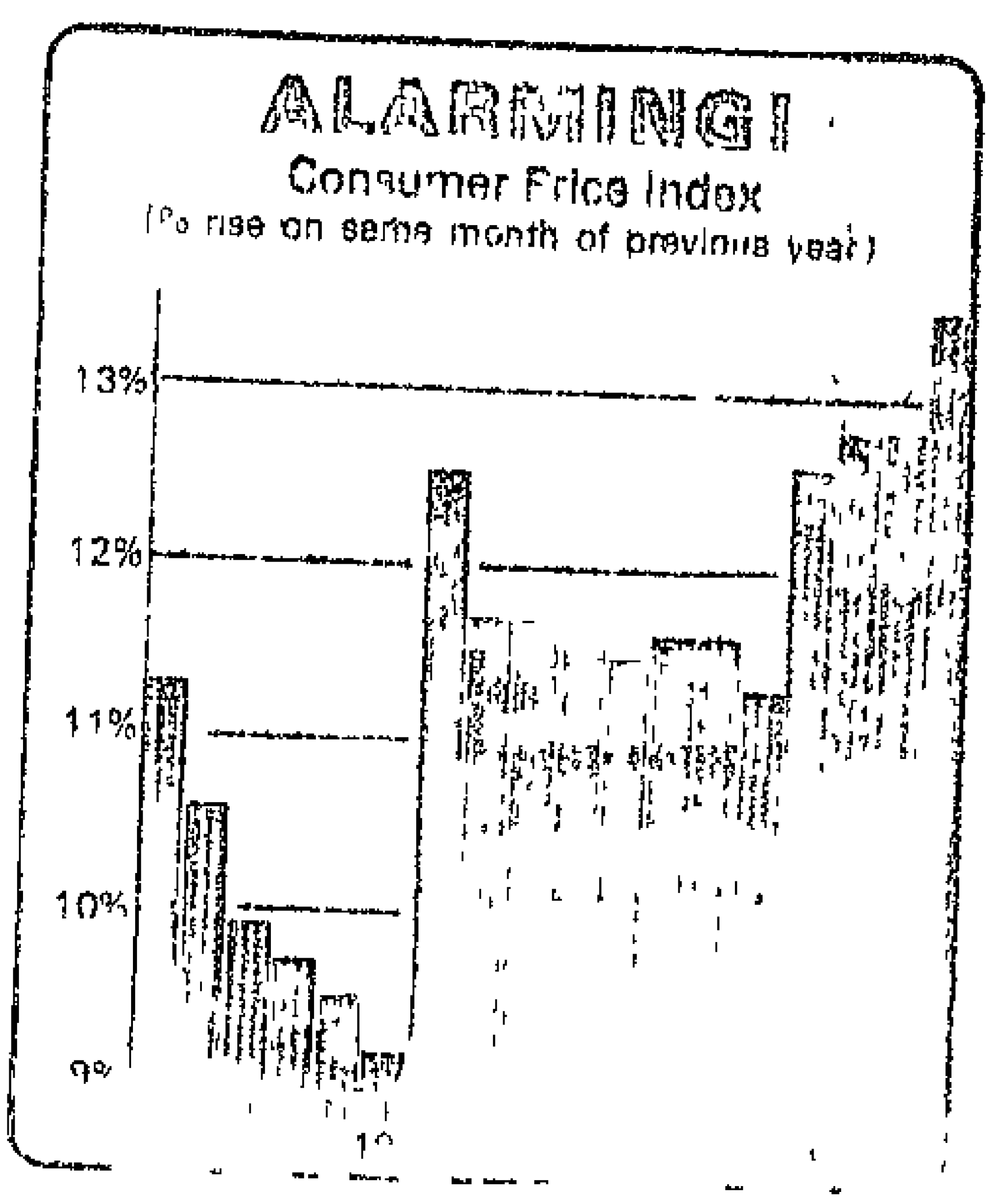
If this is true, why is the CPI climbing at over 13%, when two and a half years ago M1 was growing at less than 5%? Shostak claims that what we are seeing today are "distortions" in the CPI, created by "irregular shocks" such as the sharp rise in the fuel price Such an increase does not necessarily spell inflation, 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 only at the CPI *trend* - which ignores irregular shocks and seasonal changes and is directly influenced by money supply changes - it can be established that the inflation rate is actually dropping. By Standard's measurements, the rate has eased from 12,1% in February to 11,7% in April and to 9,6% in June

Not only does the CPI suffer from inaccuracies, claim economists but it also gives psychological impetus to inflation As Wits University economics lecturer, Mark Addleson, puts it "Provided 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 escalations built into longer-term contracts

Not all economists go along entirely with strict monetarist views Many still point to rising costs - in particular wage hikes which exceed productivity increases British economist Lord Robbins, at the conference in California, succinctly summed up the wage-push argument as follows "I have heard it said -indeed, 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, with all affection and Christian charity, I can only say that I wish Milton and his friends would prolong their 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 pressure comes from labour costs, while the soaring price of imports, administered prices and GST "are simply not big enough to account for the sustained high rate of inflation" However, Shostak asserts that the effect of low productivity "is a drop in the ocean"



According to the RAU forecast the easing of the inflation rate since 1975 up to the end of last year was largely attributable to a slight decline in the [illegible] labour costs which [illegible] probably the result of widespread voluntary wage restraint But both RAU economists and various private sector economists foresee a stronger wage-push [illegible] unless government is successful in persuading unions to exercise restraint Senbank's Louis Geldenhuys also points to rising housing costs and higher import prices, among others, that will further aggravate inflation during the next six months

For those who think SA suffers from "wage-push" inflation, the long-term solution is clear raise labour productivity In the short-term, reckons Geldenhuys, there is nothing much government can do, since both fiscal and monetary policies are sound Barclays' economist Johan Cloete, sees the solution lying in a prices-and-incomes policy, "for this appears to be the only way in which accelerating inflation can be prevented without first 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 *target* rate of growth in the money supply The rationale for this is based on the "theory of rational expectations", which states that peoples' expectations will be determined by their experiences. Thus, assert the monetarists, since people have learned that changes in the money supply are followed by changes of roughly the same magnitude in the inflation rate, any increase in money growth automatically creates expectations of [illegible] fore people act to protect themselves But, if government sets a target rate of growth in money supply - and sticks to it - these expectations should be neutralised Or, as Addleson says, "the psychology of the inflationary spiral" should be broken.

However, the price of monetary restraint for SA may be too harsh in the short term. Slower money growth [illegible] [illegible] growth [illegible] worsen SA's unemployment [illegible] many this [illegible]

The IMF believes it may be preferable to suffer moderately now than [illegible] at a later stage

Inflation: tough line expected

1/8/79 (153)

Mercury Correspondent

PRETORIA — A tough new inflation strategy is expected to be recommended to the Cabinet by the Prime Minister's Economic Advisory Council which meets in Pretoria later this month.

The country's inflation rate is in grave danger of hitting a new ceiling by the end of the year, and extraordinary efforts, according to economists, will have to be made if a 15 percent or higher rate is to be avoided

The Prime Minister's Economic Adviser and Chairman of the council, Dr Simon Brand, said the major task at the coming meeting would be to draw up a programme to slow down the inflation rate

This will be done at the request of the Continuation Committee for Action Against Inflation which met in Pretoria last week with the Minister of Industries and Commerce, Dr. Schalk van der Merwe.

He said sacrifices were called for from all, especially those in the more affluent living levels of the South African society.

There were those who were unable to make further sacrifices, and none in this category would be asked to make any more

For other sections it could mean harder work with less reward, he said

However, the solution being recommended by some economists — a wage and price freeze — was rejected by Dr van der Merwe and the continuation committee

He said this stragegy could be counter-productive.

It is expected that the Economic Advisory Council's recommendations will revolve round a new and more determined effort on the part of commerce and industry to raise productivity levels.

This, council members point out, is the only real basic way of combating inflation But how to achieve it, how to motivate workers is the problem facing the council

JAARVERSLAG
1978
SENTRUM VIR INTERGROEPSTUDIES
(Geregistreer as The Abe Bailey Institute of Inter-Racial Studies Limited (Beperk deur Garansie))

Posadres:
p/a Die Universiteit van Kaapstad
Rondebosch
Republiek van Suid-Afrika
7700

Kantooradres:
Social Sciences Building
...versity Avenue
...te Schuur Campus
...5-4145; 69-8531 Uitb. 766

INLEIDING

...nege jaar van sy bestaan het die ...pstudies gereeld 'n Jaarverslag oor ...pliseer. Om die Sentrum se 10de ...il 1978 te vier is die Jaarverslag 'n Oorsig oor die Eerste Tien Jaar.

DOELSTELLINGS VAN DIE SENTRUM

...tliks gefinansier deur die Abe ...volge die testament van Sir Abe ...t is geregistreer as The Abe Bailey ...ocial Studies Limited (Beperk deur ...appy beperk deur garansie en sonder ...ragtens die Maatskappywet 1973 (Wet

INFLATION

Another try

FM 3/8/79

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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.

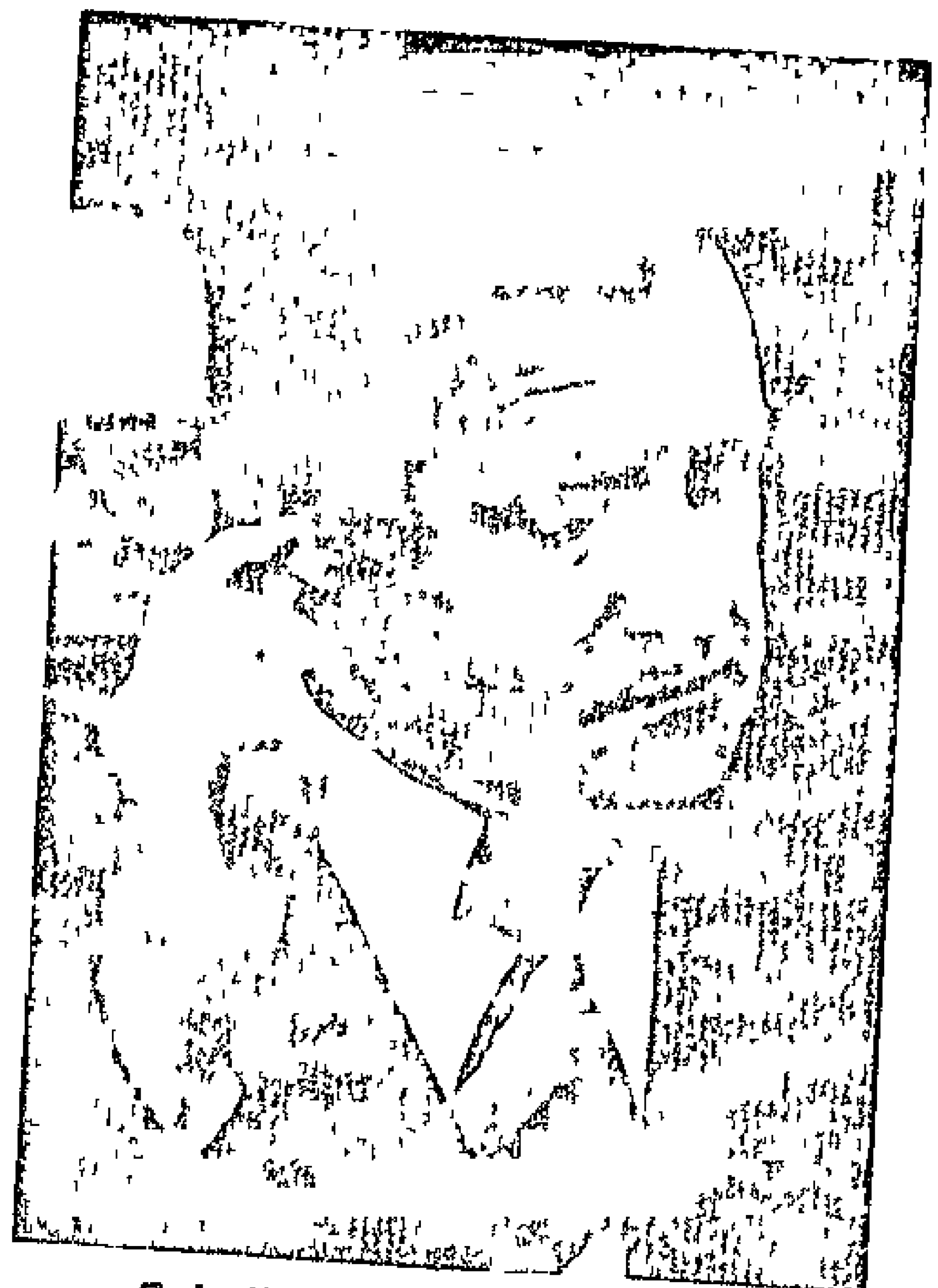
Minister of Industries and Commerce, Schalk van der Merwe, is mum on details of the proposals, which he is putting to the Economic Advisory Council for review. He has merely disclosed that everyone present agreed (as they have for years) that improving the productivity of capital, labour and management 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 resuscitation 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



Schalk van der Merwe
any new ideas?

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 absorbing soaring production costs The union argues that farmers have already made a real contribution to fighting inflation — between 1970 and 1978 prices for produce rose 144%, while production costs shot up 190%

Attie Nieuwoudt, chairman of the Confederation of Labour, observed that he was coming under increasing pressure from trade unionists 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

Sun. Tribune 5/8/79. (153)

By BEN TEMKIN

ALL 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 17,6 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 is 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

NM 11/8/79 (153)

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.

African Affairs Correspondent

Professor Lawrence Schlemmer, dean of the faculty of social science at Natal University, said. "The situation presented here is a serious one, and I am afraid that the climate of mild 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 R152, 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 R43 in basic weekly wages for unskilled labour, wereas 12 months ago these figures ranged from R30 to R40

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 R32,66 last year to R35,84 — or 9,7 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

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 32 cents, a 10,3 percent rise

Mealie meal

Mealie meal, 12½ kilo R1,95 to R2,39, 22,6 percent increase

Samp, 2½ kilo. 46 cents to 53 cents, 15, 2 percent

Milk, 1 litre 30,7 cents to 35,7 cents, 16,3 percent.

Tinned fish, 450 grams 32,1 cents to 38 cents, 18,4 percent.

Beans, 500 grams 31,4 cents to 38,9 cents, 23,9 percent

Glentea no increase

The owner of two large supermarkets at Umlazi disclosed that sugar had gone from 30 to 35 cents, a 16,7 percent increase, mealie meal rose from R1,99 to R2,66, a 33,7 percent increase, samp, 49 cents to 65 cents, a 32,7 percent increase, milk, 36 cents to 44 cents, 22,2 percent, tinned fish, 55 cents to 60 cents, 9,1 percent, beans, 32 cents to 49 cents, 53,1 percent, and unlike the city stores, Glentea 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 income 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 retrench 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 R1,50 to R2 in 12 months, a 33,3 percent increase, while paraffin has gone from R8,22 to R10,88, a rise of 32,4 percent.

Rents at Umlazi, as an example, have risen from R6,90 a month to R12,32, a 78,6 percent increase, while water charges have jumped an astronomical 425 percent. At Kwa Mashu 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, unemployed migrants will from now on have fewer opportunities to seek casual work in the towns because of the new influx control regulations"

The Star
Monday August 20 1979
CLASSIFIED ADVERTISEMENTS INSIDE

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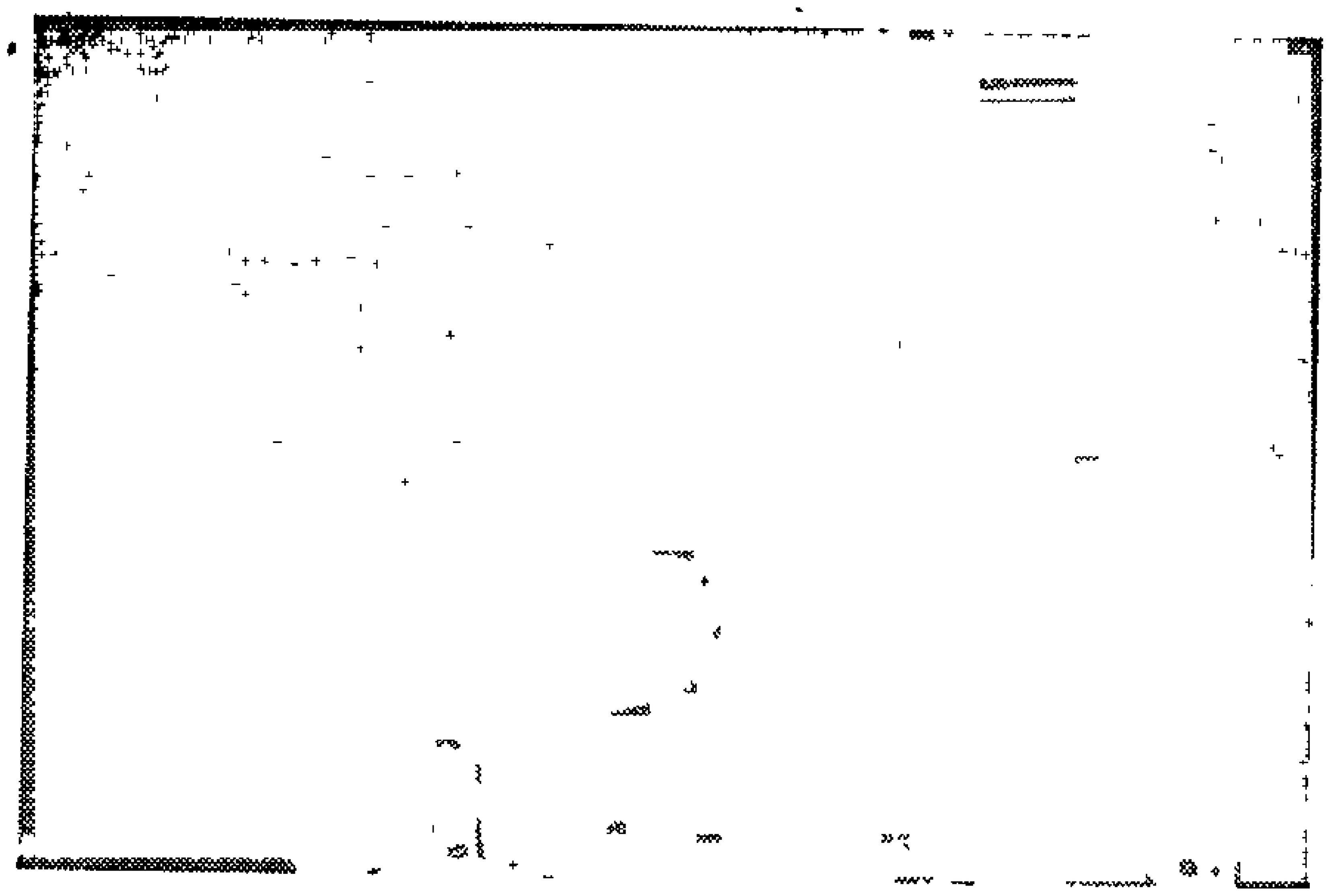
SHOPPING SHOWS UP POVERTY OF MANY BLACKS

Consumer price indexes show that the cost-of-living is rising faster for the lower than the higher income groups. For the poor man this can simply mean less food on the table. Higher rents in Soweto aggravate the dilemma faced by black housewives who may have to cut down on essential household groceries. DAVID BREIER reports.



Blacks usually have no need of a trolly when they go shopping, as this queue at a Johannesburg supermarket shows. Their pockets don't run to more than a few essential groceries.

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 trolly for her. She doesn't have the money to buy enough groceries to justify a trolly. And 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 55 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 40 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 for butter, 48c for Cheddar, 52c for Gouda and 5c a litre for milk. Skim milk powder increased by 10 percent in February, when sugar went up by 8 percent.

Fish increased by a huge 34 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 18 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. Medium income families spend 13,8 percent on transport and higher income groups 17,8 percent.

The recent Putco fare increases would therefor have a smaller effect on the budget of lower income groups than similar increases in the price of petrol and motoring have on higher groups.

Putco 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 A similar increase would mean about a 6 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 ironically, white bread was still the black man's food.

"Black people see white bread as something between the necessity of eating bread, and the luxury of eating cake," he said. "Since they can't afford cake, they eat white bread"

BUSINESS

Star 20/8/79

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Cost of money 'will stay down'

The cost of money will remain low for another six months at least, so giving industry and commerce the chance to expand and create job opportunities That's Hill Samuel's reading of fundamental factors influencing interest rate patterns.

Hillsam says there does not, at this stage, appear to be any reason for large-scale drainage of liquidity from the money system The exception would be a material drop in the gold price — something the bank does not anticipate.

Reasons for the high liquidity include.

- Reluctance by institutions to commit funds long term or at negative real rates of return.
- The decision by the Government to use forward cover discount as a protection for the balance of payments, thus removing the need to prop up local rates in the face of rising off-shore rates.
- The continuing large surplus on current account.
- Huge gold revenues.
- The faltering nature of the economic recovery.
- Demand for credit from the private sector

Nor is the private sector likely to sop up excess liquidity, as demand for credit will remain moderate unless confidence picks up markedly or unless the just-announced bank rate and prime rate cuts have an unexpectedly stimulatory effect

Confidence in turn depends on the timing and extent of the coming US recession, the gold price, the current account surplus — which the bank believes will begin to decline towards the end of the year — the oil price and inflation.

Like some other pundits, Hillsam feels Pretoria will step in to re stimulate the econoy should it show signs of slipping back into recession, thus side-stepping the socio-political upheaval of more black unemployment.

Specific fluctuations in rates patterns predicted by the bank include a widening of the forward cover discount to counter rises in rates overseas and a further decline in long-term rates as institutional cash flow accelerates

Die hoofdoel van die Sentrum is om navorsing na die onderlinge groepsverhoudinge in Suid-Afrika te bevorder en te lei, in die besonder oor verhoudinge tussen rasse- en taalgroepe

AKADEMIESE ADVIESKOMITEE EN RAAD VAN BEHEER

Die program van die Sentrum staan onder die toesig van 'n Akademiese Advieskomitee wat in 1978 bestaan het uit die Direkteur (Voorsitter), die Prinsipaal van die Universiteit van Kaapstad, Sir Richard Luyt, die Adjunk-Prinsipaal, professor M.F. Kaplan, professor W.H.B Dean, professor G.F.R Ellis en mede-professor D J. Welsh.

Die Sentrum word beheer deur 'n Beheerraad waarvan die Prinsipaal van die Universiteit van Kaapstad, ex officio

Vaste personeel bestaan uit Hendrik W. van der Merwe, M.A (Stellenbosch), Ph.D. (Kalifornie), die Administratiewe Assistente, mev. H. Albertyn en 'n deeltydse sekretaresse, mev. B.J. Chapman

Gedurende die jaar is mej. J. Morna Cornell en Ruth Rutherford as tydelike klerklike assistente en mej Judith Cornell, B.A. (Universiteit van Kaapstad) as deeltydse navorsingsassistente in diens geneem. Twee ere-

kampus, waar ons gedurende die laaste vyf jaar gehuisves was, ontgroei. Daarom is ek besonder dankbaar vir die ekstra ruimte wat ons nuwe kantoor in die Leslie Social Sciences Building op die Groote Schuur Campus aanbied.

Ek wil weereens die Carnegie Corporation en die Algemeen Diakonaal Bureau van die Gereformeerde Kerken van Nederland bedank vir hulle gulle ondersteuning van die Konstruktiewe Program wat ons in staat gestel het om meer personeel aan te stel en om publikasies en werkgroepe te finansier. Ek wil ook graag weereens die ondersteuning deur plaaslike skenkers, firmas en trusts noem, kort nadat die Program gestig is. Hulle hulp het dit moontlik gemaak om etlike publikasies gratis te versprei onder almal wat in die bevordering van 'n oop samelewing belang stel.

Experts at odds over inflation

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By Sieg Hannig

A "staggering" 3,6 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 250 000-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 rise in consumer prices for the previous year up to [illegible] percent, coincided with the Reserve Bank's annual report which held out little hope for dramatic improvements

● GST swells State coffers — Page 18.

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navorsings-Fellows het aansienlik tot die Sentrum se program bygedra. dr Sheila T. van der Horst, afgetrede mede-professor van Ekonomie, U.K., en professor J.L. Boshoff, gewese Rektor van die Universiteit van die Noorde.

b) Sewentien persone wat ... jaar lede van die Be... lede aan)

Professor E.V. Axel...
Professor J.F. Beek...
Professor J.F. Broc...
Mnr C.S. Corder
Professor W H.B. De...
Dr J.P. Duminy
Professor G.F.R. E...
Biskop A.W. Habelg...
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Professor M F Kapl...
Ds W.A Landman
Mnr G.K. Lindsay
Sir Richard Luyt
Professor S.J. Saunders
Professor H W. van der Merwe
Mede-professor D.J. Welsh
Professor Monica Wilson

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Mennonite Central Committee se Konferensie oor: 'Die Rol van Geskiedkundige Vredeskerke', Gaborone, Botswana Verhandeling voorgelê oor 'The Role of Churches in Promoting Justice in Southern Africa' (Oktober).

...wat gemeenskapsontwikkeling op die platteland en in die stadsgebiede bevorder.

Die Direkteur is gekies as lid van die Raad van die Vereniging vir Sosiologie in Suidelike Afrika. Hy is ook 'n lid van die Suid-Afrikaanse Sosiologiese Vereniging en van die Internasionale Sosiologiese Vereniging. Hy is aangestel as die Suid-Afrikaanse afgevaardigde in die Raad van die Internasionale Sosiologiese Vereniging vir die tydperk 1978-1982.

WAARDERING EN DANK

Ek is altyd dankbaar vir die geleentheid wat die jaarverslag bied om my waardering te betuig aan lede van die Akademiese Advieskomitee en die Beheerraad vir hulle leiding, aanmoediging en belang in die aangeleenthede van die Sentrum.

Die Universiteit van Kaapstad het benewens 'n bydrae tot die bedryfskoste van die Sentrum, ook vir die Sentrum sedert sy stigting in kantoorruimte voorsien. Met die uitbreiding van personeel het ons die huisie op die laer

CONSUMER MAIL

THERE IS NO LOVE SINCERER THAN THE LOVE OF FOOD — GEORGE BERNARD SHAW

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.

Annual Per Capita Consumption in kg
Dept of Agriculture Economics & Marketing

	Maize & maize products	Wheat & wheat products	Sugar & sugar products	Rice	Fresh milk	Eggs	Chicken	
73/74	88,6	48,5	38	3,4	50,2	4,5	8,9	33,6
74/75	95,4	48,1	39,9	2,8	46,5	5,0	10,2	31,1
75/76	90,8	51,7	44,2	2,6	45,0	5,0	10,8	31,4
76/77	88,9	44,7	43,8	3,0	44,0	5,1	11,2	32,2
77/78	85,4	49,5	39,4	2,6	39,9	5,0	11,1	32,4

More mouths — bı

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 3% a year

Retail trade sales for the Department of Statistics show that the volume of food sales has been declining at an average rate of 5,7% a year since 1977

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 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 able to cushion the ripple effects 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 The July index reflected only the intial impact of the fuel 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 between 4c to 8c 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 An

"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 underpriviledged 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 take 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 subsidise 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 Frankel, of Tiger Oats

Before 1976, he said, the sales of staples had grown between 8% to 10% Since then sales of some basic ...

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 subsidise 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 Stastics 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 how 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 subsidise 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 subsidise 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 blatantly outstripped the abilit...

talk of higher rents in Soweto in the order of 200%

"I have watched people switch from meat to fresh and sour milk but after the price of milk went up they cut down on that, too Customers have even switched from the 2,5 kg packs of ... the more expensive packs because they ... the money

"If the Governmen... to subsidise food they

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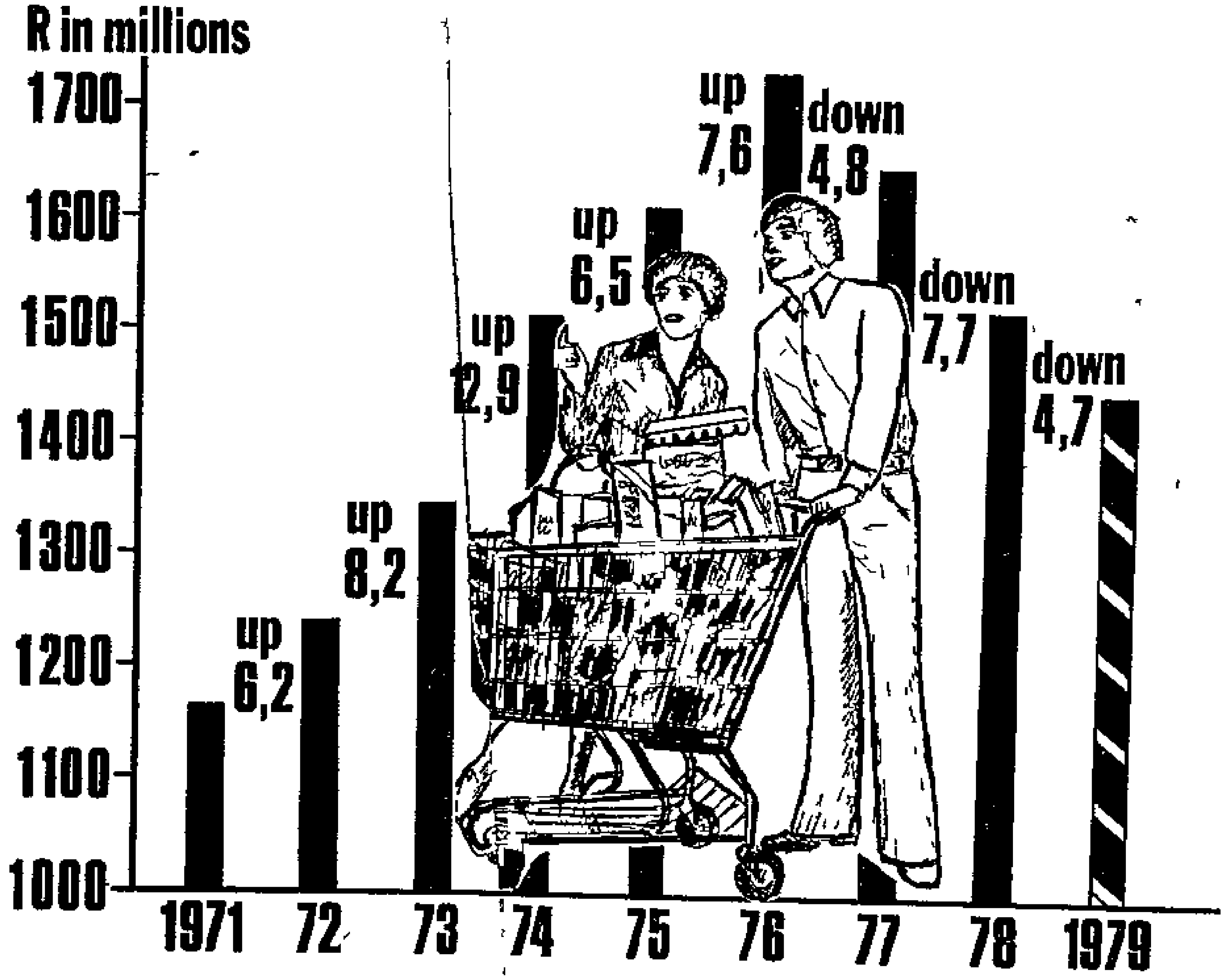
	Citrus	Dried beans	Vegetables excluding potatoes & Sweet Potatoes	Potatoes
	14,7	1,4	41,4	22,4
	15,1	2,3	42,1	22
	10,6	1,9	45,8	22,4
	12,3	2,1	47,0	18,7
	10,4	1,7	—	—

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 67,5 kg were eaten in 1977/78.



The graph shows how food volum has slumped to 1974 levels despite population growth

ıt less food

cheaper
meal to
smaller
n't have

is unable
must ap-

ply to Unesco for help."

● Some of the economists Consumer Mail spoke to said that they questioned the extent of the decline in food sales as shown by the Department of Statistics but none of them could argue that there had been a steady decline. To this extent they concede that the downward trend was worrying — given the fact that every year there were many more mouths to feed.

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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

had shown that sales were barely growing in line with population.

"The maize hike of 21% at the beginning of this year was shortsighted in view of the fact that people could not afford to pay for it."

Mr Gordon Utian, Tiger

consumers prefer to go hungry — but hungry they are — forced into it by the gilbertian food distribution methods and socialistic 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 stoep 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 Minister 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 Govenrment 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

CoL up 16 pc on last year

Star 4/9/79.

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By Michael Chester
Financial Editor

Price explosions now in the pipeline threaten to push up the cost of living to almost 16 percent higher than a year ago

It will be the worst bout of inflation since the 1974 prices crisis

Official figures released today by the Department of Statistics show that the wholesale price index — the first alert of price changes on the way to retailers — soared by 2,6 percent in July

The average wholesale prices on items from bread to steel have risen 15,8 percent in 12 months

On locally produced goods the rise is 11,9 percent, and 18,4 percent on imported goods

The first oil crisis of 1973, which fuelled the initial inflation crisis has been repeated by the 1979 oil price increases — and made worse for South Africa because Iran cut off supplies

The petrol that R1 bought on the Witwatersrand in 1970 now costs R[illegible]

This table shows how much you must now pay for goods which cost R1 in 1970

Coal	R5,17
Leather	R4,32
Bricks	R3,14
Newsprint	R3,15
Plate steel	R4,29
Food	R2,78
Meat and milk	R[illegible]

The Bureau for Economic Research the University of Stellenbosch reported recently that consumer confidence is evaporating in the heat of inflation

And Dr Jan Hurter, chairman of Volkskas Bank, has warned that the acceleration of inflation must be regarded as the most under-estimated problem facing the South African economy

INFLATION HITS DENTISTS TOO

Argus 4/9/79 153

THE latest medical and dental fees increase has been heavily criticised 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 taxes and suppliers profit margins is astronomically expensive by the time it reaches the surgery. One can expect never to pay the same price twice for any dental requisite.

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 February 1978 well below the scales demanded and shown to be reasonable for a four-year gap.

The profession is expected to provide an instant service day or night that plumbers and electricians would simply scoff at. Ironically, the skilled artisan if he does condescend to make a call after hours quite unabashedly charges a comparable, if not a higher fee, and on a COD basis.

The same man would expect his doctor or dentist to drop everything, attend to his ills and then complain about the account when he finally grudgingly settles it, if ever, six 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 it 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

SUNDAY TIMES Business Times September 9 1979

'We must accept that inflation is here to stay'

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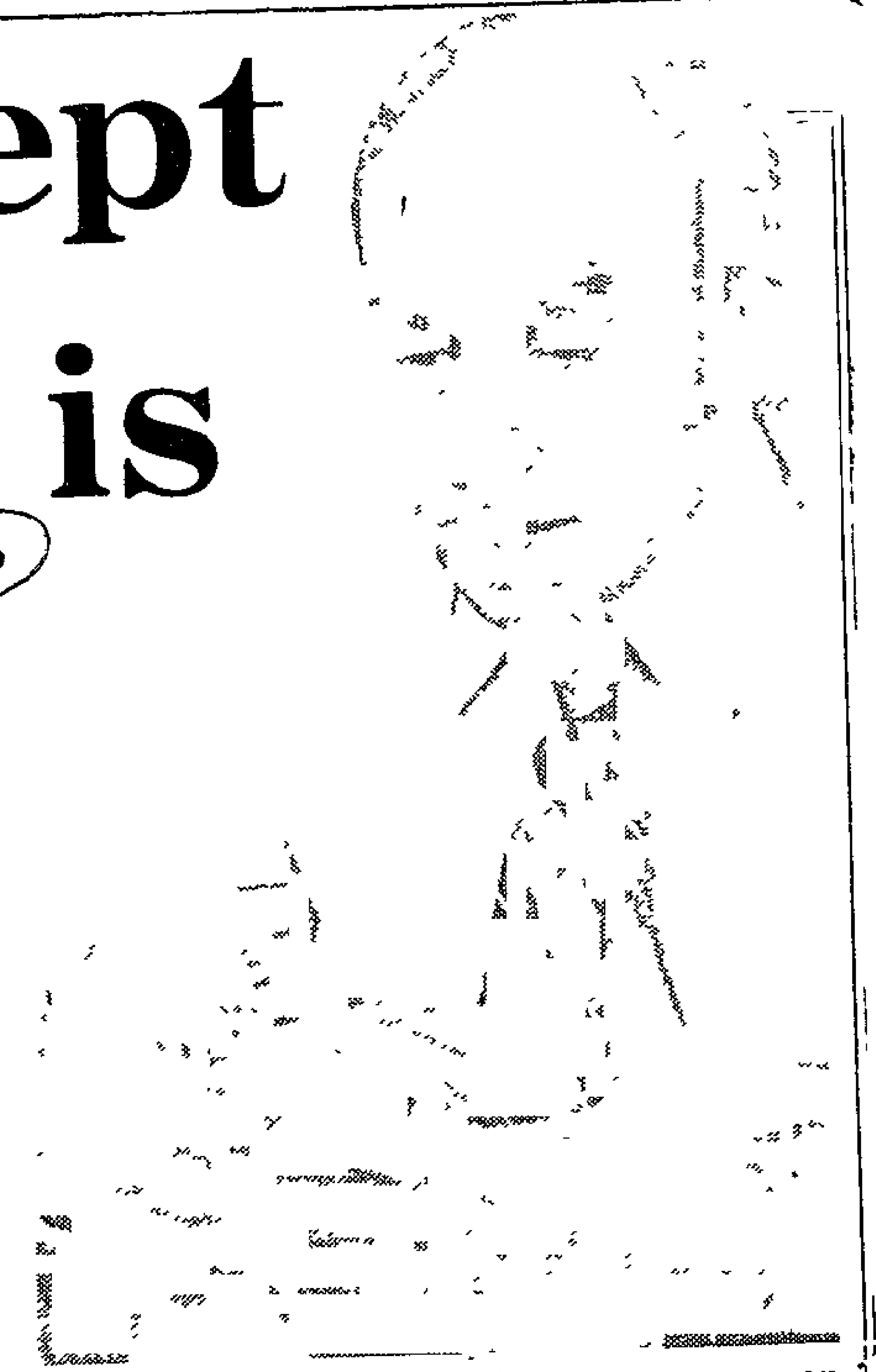
Economic trend is towards protectionism



Professor Peter Oppenheimer ... recession won't be that severe

INTERNATIONAL inflation looks firmly entrenched and carries with it the danger of a growing trend towards protectionism in world markets.

This is the view of Peter Oppenheimer professor of economics Christ Church Oxford University

Mr Oppenheimer a former Research Fellow of Nuffield College Oxford and a former staff member of the Bank for International Settlements Basle is visiting South Africa and this week addressed the Economic Society of South Africa on 'Is the World Economy Disintegrating?'

In an exclusive interview with Business Times he told me

"How far the world economy is disintegrating is arguable But there is little doubt that there are trends away from liberal trading regimes and towards protectionism

"And the longer the problems of inflation and unemployment persist the stronger the likelihood that this will gather momentum

'A free market economy is in many ways a fair-weather system and people tend to run for cover when things go wrong This is happening and is likely to continue'

ANDREW McNULTY reports

Mild slump

Dr Oppenheimer s replies to other questions

A recession in the US is widely expected How severe do you expect this to be?

It depends on how long the credit squeeze is maintained in the US and countries such as Germany and Japan and on the seriousness of the oil situation

The 1979 oil price increases are exercising a deflationary effect on the world economy

At the same time we have become relatively accustomed to high oil prices and inflation

On balance I don t expect that the recession will be all that severe or prolonged

Will the dollar continue to weaken?

In the short term probably not There are signs that the dollar depreciation over the past two years is affecting not only the US inflation rate but also US industrial competitiveness

US exports of manufactures are increasing at a fast pace this year while imports are fairly flat

So the US current balance of payments is showing significant improvement and the BOP should be in surplus next year If this happens it may well put a brake on the desire to diversify out of the dollar at least in the short term and tend to stabilise the dollar

Ingrained

Can inflation be cured?

Not in the near future All signs are that it is deeply ingrained in most Western market economies

The rate of increase in the consumer price index has not dropped below 8% in the last six years in Europe and the US has now reached double figures I don t think they have had that rate of inflation since the civil war

Do you see a further dramatic deterioration?

No I see it remaining a persistent problem

Of course it would be a lot easier to solve if we didn t also have unemployment and worries about adapting to oil price rises and about the weakness of investment

Need unemployment necessarily follow from action against inflation?

Given the natural rigidities of the labour market and the need to curb inflationary expectations, it isn t possible to make a serious attack on inflation without also having unemployment

Are you a monetarist?

If you mean by monetarist as I do someone who believes that a government can t reliably influence any aspect of a market economy except the rate of inflation then I am reluctant to subscribe to that doctrine

However the rigid battle lines between Keynesians and monetarists are really a bit out of date

The Keynesian message used to be that you can rely on the natural inertia of the system to maintain stable prices and use control of purchasing power to influence the physical level of activity It's clear we can t do that at the moment

The rate of inflation and inflationary expectations have pushed us very much in the direction pointed to by monetarists so in a sense we re all monetarists now

Do you accept the monetarists' approach to inflation and in particular Friedman's view on the importance of the money supply?

The view that all you need do is control the money supply is a brilliant over-simplification

Control

It requires a great deal to control the money supply and it won't always be enough except over the long term — and the long term could be 20 years for Milton Friedman

In practice the central bank is not really a free agent in managing the money supply If there s a blow up in the labour market in a country like Britain or France then sooner or later it s a political necessity to finance it

How significant is the apparent swing to the Right by world economic authorities?

One can point to various examples Britain and France being obvious cases But the truth is that it is very much a half trend

Welfare

Today governments play a very large part in their economies and they are bound to continue doing so partly because they are responsible for so many welfare services

Even today the difference between Sweden, which is Left-wing and Germany, which is relatively Right-wing, is very slight We have mixed economies which are here to stay and it's no use believing we can go back to 19th century laissez faire

Opec not to blame for inflation—Gatt

153 STAR 10/9/79

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 "misguided" response to the oil price changes, the effects of which could be kept "both relatively small and mostly temporary," the report says

Gatt says inflation was already rising in the US and Western Europe last year, "when the impression that a petroleum glut existed was widespread" At that time a sharp slowing down, if not recession, 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

"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 accuses Western management of a 'paralysis of policy" It is unable to understand the problems of unemployment and inflation, and is mistakenly tightening its grip on trade at the expense of the Third World, the report says

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
onions
carrots
tomatoes
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 stalks. Place the carrots, pineapple, tomatoes, sliced 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.

---oOo---

GERMAN POTATO SALAD — Ethne Beard, Port Elizabeth

boiled potatoes
cooked bacon
mayonnaise
chopped onion
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.

---oOo---

EGG SALAD — May Bennett, Ridgeworth

hard boiled eggs
salanaise
salt and pepper
paprika and parsley

Cut eggs in half and lay on a flat salad platter; cut side down. Pour over salanaise.

---oOo---

CHICKEN AND CUCUMBER SALAD — S. Drury, East London

1 cup cooked chicken, diced
4 T finely chopped walnuts
French dressing/mayonnaise
lettuce
1 cup cucumber, peeled and diced
1 cup cooked green peas

Marinade chicken, cucumber, nuts and peas with French dressing. Serve on lettuce with mayonnaise. Cover with greaseproof paper and refridgerate until ready for use.

French dressing:
Blend together 6 T salad oil and 2 T lemon juice.

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SPRING GREEN SALAD

Racial friction in housing feared

DD 12/9/79

EAST LONDON — Fears of racial friction over housing in Duncan Village were revealed at the Coloured Management Committee meeting here last night

It surfaced during discussion over confusion among the more than 500 Coloured families living in Duncan Village who were allocated houses by the Parkside housing office in an area which is administered by the East Cape Administration Board

The meeting was informed that because Coloureds were being moved into houses that used to be occupied by blacks, racial friction was building up

Mr Errol Klaassen reported there had been assaults over the issue already.

The acting chairman, Mr Corrie Alexander, said the CMC should show they were not toeing the apartheid line

"We must make it quite clear we do not want houses occupied by other people"

Mr J Temmers said the government was sensitive about causing racial friction and this matter should be looked into "as we are treading on very dangerous ground"

He said while a new dispensation with the 99-year lease was being sought for Duncan Village, Coloureds were being seen as wanting to take over the area

"This must stop and we must be very careful in this matter," he warned "we are pressing for houses, but it must be made clear we do not want houses occupied by other people

The director of housing, Mr Ken Martinsen, is to sort out the confusion with the administration board about control of the area — DDR

... stir all the time, then add the cooked beans and onions, bring to boil again. Bottle.

---oOo---

APPLE TUNA TOSS SALAD

1 medium head lettuce, torn in bite-size pieces (4 cups)
2 cups diced apple
1 11 oz can (1 1/3 cups) mandarin orange sections, drained
1 6 1/2 or 7 oz can tuna, drained and broken in large chunks
1/3 cup coarsely chopped walnuts
1/2 cup mayonnaise or salad dressing
2 t soya sauce
1 t lemon juice

In a large salad bowl, combine lettuce, apple, orange sections, tuna and nuts; toss together. Combine mayonnaise, soya sauce and lemon juice; mix well. To serve, add dressing to salad; toss gently. Makes 4 - 6 servings.

---oOo---

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'Baboon' insults anger delegates

135 STAR 13 9 1979

CAPE TOWN — Reports that black miners were insulted as "baboons," provoked indignant outcries, counter-insults and a telegraphic appeal for possible prosecution, at the annual conference of the Trade Union Council of South Africa (Tucsa) yesterday.

The multiracial conference decided to send a telegram to the Minister of Justice asking him to investigate the remarks and, if necessary, to institute legal action for racial incitement against Mr Arrie Paulus, leader of the Mineworkers' Union.

"Many a white mine worker owes his life to some of these so-called baboons," said Miss Dulcie Hartwell, a veteran labour leader, before making some "rude" remarks of her own.

An excited Mrs Lucy Mvubelo, Tucsa's black deputy vice-president, said she shuddered to think what racial hatred Mr Paulus was planning for this country. It made her think of the 1976 riots.

● **Mr Paulus is quoted in yesterday's Vaderland as stating in reaction to being questioned about his baboon's remarks: "The Vaderland and Post and Motlana and all the kaffirs can go and . . "**

Praise for Tucsa and a plea for caution

135 STAR 13/9/79

CAPE TOWN — The Trade Union Council of South Africa had been one of the most valuable institutions for the preservation of democracy and decency, the Minister of Labour, Mr Fanie Botha, said this morning.

Addressing the 25th anniversary conference of Tucsa, Mr Botha said it had also played a prominent role for the social and economic advancement of all workers in the country.

He applauded Tucsa's attempts to educate union officials, to promote and elecit support and assistance for trade unions, to present an accurate perspective abroad of labour conditions in this country, and also its stand against economic sanctions.

Mr Botha advocated the establishment of a "think-tank" to work out and establish a new labour dispensation from which everyone could derive the benefits of personal effort.

Four issues formed the crux of the Wiehan report — the exclusion of blacks from the statutory bargaining system, job reservation, segregation of facilities and the non-indenture of blacks as apprentices.

When the Wiehahn Commission recommended that these issues be scrapped "every person knowing the South African history of prejudices" agreed that they were drastic measures.

Mr Botha pointed out that the commission was still busy with its report and until then the government "dare not" move ahead.

"In fairness to myself and the country, I request you not to expect of me to act overhastily by putting into law the commission's principles and to be tolerant on these very delicate and emotional issues," he appealed.

Conference condemns strikers

135 STAR 13/9/79

CAPE TOWN — After intense debate the Tucsa conference yesterday asked its national executive committee to investigate and report on last year's wildcat strike by white miners and on conditions for blacks in the mining industry.

The resolution condemned the action by Mr Arrie Paulus's White Mineworkers Union in striking "for the sole purpose of preventing or hindering the advancement of black mineworkers."

The resolution also questioned the sincerity of the Chamber of Mines. — Sapa

Tucsa wants a State lottery

135 STAR 13/9/79

Own Correspondent

CAPE TOWN — The multi-racial Trade Union Council of South Africa yesterday decided to urge the government to legalise controlled gambling and to establish a State lottery.

It was a "crying shame" that large amounts of money were leaving the country to be gambled away in casinos of neighbouring states, said Mr Steve Scheepers, a deputy vice-president of Tucsa.

"Let's rather try to legalise it and get some revenue out of it," he said. This would help to overhaul social services which were in great need of money.

Miss Christine du Preez opposed the motion, saying that Bonus Bonds were a form of State lottery but yet an excellent investment.

Senator Anna Scheepers said people gambled away "a week's money in one go" at horse races. A State lottery was the least dangerous form of gambling.

Mr Solly Ariefdien, opposed the motion on grounds of strong religious convictions.

'SA won't get back to the ILO'

155/~~135~~ STAR 13/9/79

CAPE TOWN — There was absolutely no chance of South Africa being re-admitted to the International Labour Organisation, Mr Arthur Grobbelaar, the general secretary of Tucsa, said yesterday.

Mr Grobbelaar said this would remain so while South African labour legislation remained inferior to international standards.

It was also true, however, that the ILO would probably set standards for South Africa which were higher than the international norm if South Africa should reapply for membership.

Low pay for black miners is questioned

135 STAR 13/9/79

Own Correspondent

CAPE TOWN — If it cost the mines R50 a month to feed and house one black miner, how could that miner's family be supported on as little as R58 a month, the Trade Union Council of South Africa was asked yesterday.

The questioner was Mr Alan Fine of the Witwatersrand Liquor and Catering Trades Union.

He told Tucsa's annual conference that the minimum wages on the mines were a mere R58,46 for surface workers and R86,77 for underground workers, although they had increased by 600 percent in six years.

The average income of black migrants was around R135 a month. Mr Fine asked how workers could live on these wages today. There was no good reason for such low pay in view of the present gold boom.

The social problems caused by more than 500 000 workers forced to live without their families could not be solved until the migrant system itself disappeared, Mr Fine said.

A motion questioning the Chamber of Mines' sincerity on these and other matters was referred to Tucsa's executive committee for consideration.

(153) 03/9/79

Inflation — don't expect a lifebelt

Sunday Times business 23/9/79

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COMMENT
By STEPHEN ORPEN

FASTEN seat belts for an acceleration in inflation up to a rate of 15% a year — if not more

Also, do not expect Pretoria to leap to the rescue

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 unswervingly and rightly committed

That is the official message spelt out for me by the Ministry of Finance on Friday

The cadre of free marketeers 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 rises 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 rise in the inflation rate (now about 13%) are listed as the advent of the general sales tax, the oil price explosion, disproportionate increases in black pay without parallel rises in black productivity and quantum 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 Hennie Reynders, FCI chief until his 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 key notes of the inflation policy seem relatively simple

- Keep the growth in the money supply modest — certainly below 10%
- Get 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

Food prices rocket by 15pc

NM 25/9/79

(153)

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 28 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.

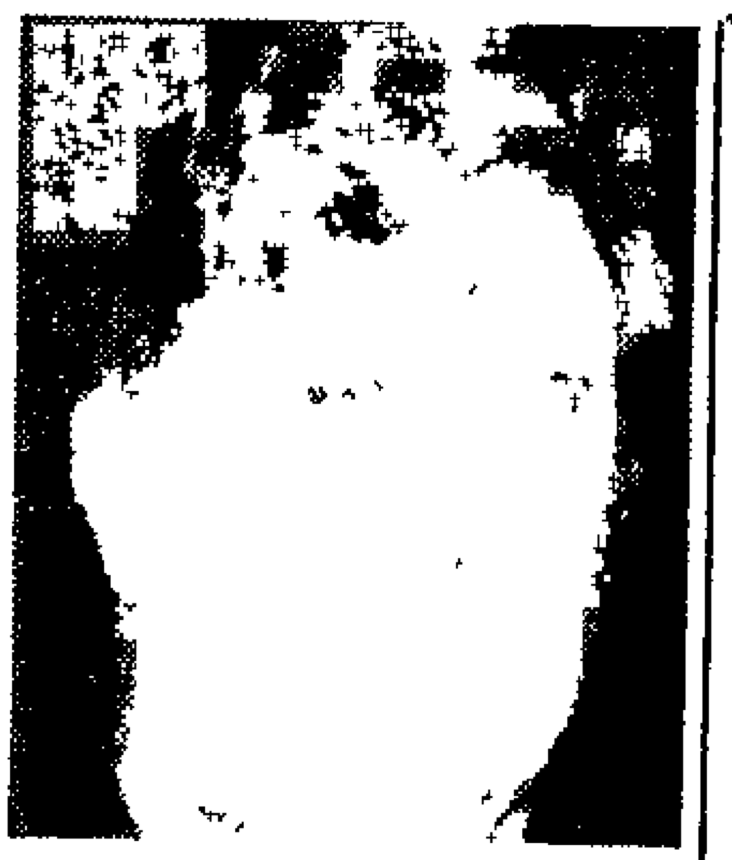
Senator Owen Horwood, the Minister of Finance, announced a giant money package last week but only R77 million will be used directly to stem the inflation tide.

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



SENATOR Owen Horwood asked to do more.

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

153
~~244~~
RDM
25/9/79

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 70km/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

153
RDM
26/9/79

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 0,9% 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 accumulations 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. — Reuter

PURCHASING OFFICE

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(2) Department ....

(3) Please state why new machine is required ......

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Is this machine for a

(1) Part-time post ....
(2) Full-time post ....
(3) Additional post ....
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INFLATION

Still to peak

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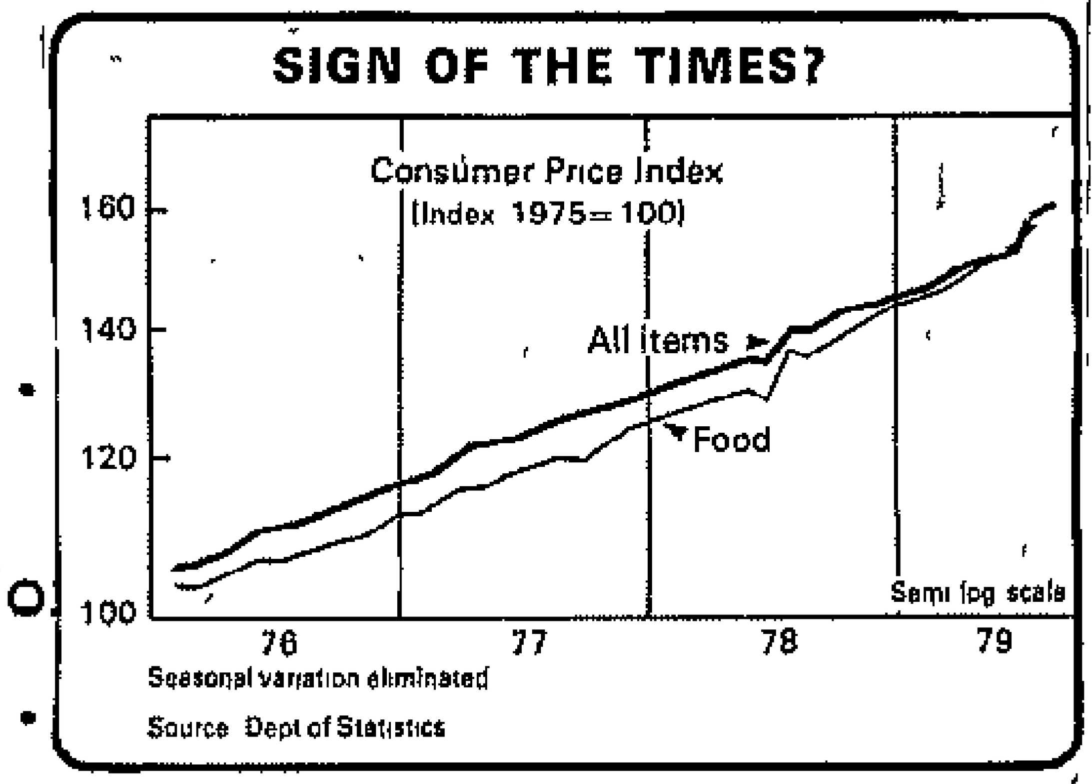
FM 28/9/79

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 backlogs 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

Sun Tribune 30/9/79

Growth can solve inflation problem

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By BEN TEMKIN

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. Its concern is well-based. This week 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 maize 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.

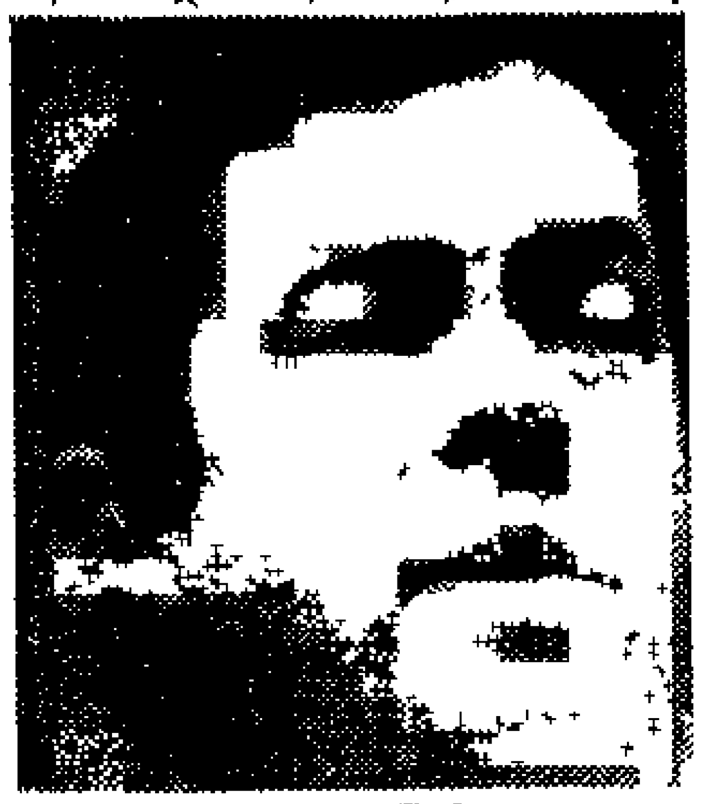
If there is sufficient real growth in an economy then the pressure which arises through the sharing of growth must to some extent be reduced.

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 in rate of inflation.

The problem is that if inflation is at a rate of say, 15 percent then no business 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 miniskirt 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 at least the 6 percent level—and, at that level, we should see inflation as more manageable — if not a problem solved.



Dr Johan van Zyl . . . new school of thought

Inflation must be tackled now, says FCI chief

Sun Times Business 30/9/79

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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.

By DONALD ANDREW

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 profits 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 Manpower 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.

Administered 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

Inflation hits Reds too

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6/10/79 N.M

JOHN DORNBERG
—Munich—

SOMETHING happened to Karl Marx and his disciples on their way into the third quarter of the 20th Century.

Some of their theories, it seems, have got lost.

Inflation, which they regarded as a disease peculiar to capitalism and just one more piece of evidence that capitalism has within it the seeds for its own destruction, is now hitting the communist countries of Eastern Europe and the Soviet Union, too.

Whopping

In Hungary last month electricity rates were raised by 55 percent, prices 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 50 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 furniture 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 gobbledygook, 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 spiralling cost of oil and primary energy sources, and 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 unrealistically low interest rates High domestic demand is being fuelled 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 expense 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

Rare is the Muscovite who pays more than 10 percent of his monthly takehome pay for the rent of an apartment

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Inflation statistics — a new horror story

152 S Times 4/10/79

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 market 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 Japan, 5,8%; Germany 2,7%; France 4%; United Kingdom 4,1%, Italy 3,9%, Switzerland 3,3%, Turkey 5,9%

During the past few years inflation accelerated to current disturbing proportions

In the first six months this year, the annualised rate of inflation was 14,4% for the United States, Japan 7,9%, Germany 6,7%; France 12,2%, United Kingdom 22,3%, Italy 16,5%, Switzerland 8%, Turkey — wait for it — 70%.

The depressing fact about these inflation figures is that countries in Europe, have, in fact, been pursuing anti-inflation policies since 1975

Two economic heads of major London clearing banks report that the European countries policy aims at sticking to tight monetary targets

All EEC countries are committed to lower government expenditure

There is a shift towards market forces with the lifting of price controls in France and Britain

Though France continues with an incomes policy in the form of voluntary wage restraint, there has been a shift away from this form of anti-inflation measure as well

But present tight money policies — which are already reflected in rising interest rates in Europe — have been singularly unsuccessful in curbing the inflation.

Economists of the OECD sum up the problem "Because of the momentum of inflation inherited from the past, a return to earlier low wage and price trends solely via the demand-management route may, for many countries, be far more costly than in the past, and perhaps, in some countries, seem socially and politically unacceptable in terms of lost output and employment"

All anti-inflation attempts have been squashed by the huge increase in oil prices and more countries are concerned about the effect of higher commodity prices on imported inflation.

Germany and Switzerland have, to a large extent, countered this imported inflation by allowing their currencies to appreciate and recently the UK authorities allowed the pound to appreciate for the same reason

So far, however, the conventional anti-inflationary measures have been singularly unsuccessful and though the European economies are beginning to shift into recession, few expect a sharp reduction in inflation rates because energy costs, alone, will remain high.

The prospect is depressing stagflation, with no refreshingly new ideas to remedy the problem

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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%

SUNDAY TIMES, Business Times, October 14, 1979

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S Times
14/10/79

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 heavyweight analysts have a tendency to behave like a flock of chickens when they crowd and smother 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 o financial journalists to the oard room at the Federal Re- ve

Mr Volcker had made headines earlier in the week when 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 rumours, 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 $30-billion swap line of credits Another part would be a doubling of the US Treasury gold sales as a way to drive the $400 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 money supply growth, just reduce inflationary pressures, assist 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 a record 12% — 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 relending capital, large certificates of deposit, Eurodollar borrowings and repurchase 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 strict, monetarist restraint of bank reserves themselves

No longer, Mr Volcker announced, would the Fed try to tinker with money supply growth by manipulating the interest rate for Federal funds which banks lend each other overnight

Instead, the Fed would soak up, or add to, bank reserves themselves and thereby have a more direct influcence on credit growth

The irony of the Fed's shock wave was that it was not imposing sudden, new stringencies on US credit markets

Mr Volcker was merely making sure that year-old clamps on the system would finally begin to work

So what does it all mean?

For one thing the historical similarities are closer to the 1974-1975 recession than to the 1929 crash

And, indeed, the truly ominous event of the week was not what the Fed did or how Wall Street reacted but the fact that Kuwait, Mexico and Canada announced substantial price increases on the oil and natural gas they sell America and other nations

This heightens the elements of risk for the policies Mr Volcker announced last Saturday

With American imported energy costs already 60% higher than they were a year ago, the US trade and payments accounts can stand very little more strain

But the Fed has clearly toppled 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 550 range

A 16% prime rate is now considered the testing point of the Fed's tight money policies before rates turn down again.

Unemployment rolls will swell by as much a 3 s-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.

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Draw up the income statement for the 19.8 financial year under a) liability method

b) deferral method

Assume the tax rate remains 42%

GENERALLY ACCEPTED ACCOUNTING PRACTICE

APPLIED EXAMPLES

QUESTIONS

DEFERRED TAX

A. Alpha Limited acquired an item of new plant for R60 000 on 1 May 19.6. Depreciation is provided at 12½% p.a. straight line. A 25% initial allowance is granted for tax purposes, wear and tear being 20% on the reducing balance. Tax rates were 40% in 19.6 and 42% in 19.7, and taxable income amounted to R45 000 and R50 000 respectively, for the financial years ended 31.12.19.6 and 19.7

1. What is the balance on deferred tax account in respect of the plant at 31.12.19.7, assuming

   a) deferral method

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Times 14/10/79

But big doubts remain that skewed investment can be overcome

By NEIL BEHRMANN: London

The violent fluctuations in world currency, commodity and stockmarkets are merely a reflection of the basic malaise of the international economy — persistent inflation

Inflation has helped create the huge surplus of funds which wash around from currency to currency and market to market When the huge surplus enters a particular market prices rise dramatically and when it is withdrawn there is a sharp collapse

These actions are interlinked with the present policies to counter persistent inflation, without creating the inevitable depression which follows an inflationary binge

The latest example is the tighter money policy of the American authorities The US stockmarket slumped and initially gold followed too Nobody seriously believes there will be an end to US inflation next year

To understand how the large surplus of international liquidity comes about, the destabilising effects of inflation must be analysed

During a period of creeping inflation, business continues to prosper and there are plenty of jobs But as the inflation accelerates, the process begins to cause malinvestment

Wages and overheads spiral To match the increase in costs, the industrialist raises prices But these are soon suppressed either by government or popular demand

With interest rates rising, the businessman has less incentive to invest in a new factory

Instead he looks for quick gains or "inflation hedges" In effect this means that the businessman becomes interested in buying and selling commodities rather than in manufacturing them

Other forms of investment — real estate and shares — are also bought and sold for the same reason

With this malinvestment diverting capital from the productive to the non-productive sectors of the economy, unemployment increases

There are less jobs about because real investment is declining and there are fewer factories 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 past few years have become the huge balances which shift 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-inflationary measures not working, the game of "short-term gains" remains more profitable than the risk of long-term ventures

This 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 — inflation

At last the Americans 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

Horwood plan needs help

1533 Tribune 21/10/79

Finance Reporter

SENATOR Horwood's approach to the control of inflation which he outlined at the Assocom congress in Bloemfontein last Tuesday is realistic, but will require the co-operation 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.

- Administered 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 artifically 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.

sion with staff and 24% as a result of with senior students and with other new

nformation Lectures

of the sample (73%) felt that they had e information about the subjects from the mation lectures, though only 31% were r almost completely satisfied with the obtained. The majority specified in their t they would have liked course content out- oklists on each specific subject to be efore 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

y 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.

n Study Methods

f 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 gested that a more practical presentation of night be desirable.

n on-going study methods course in the first ?% of the sample stated they would find it d 30% would find it very valuable indeed.

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 sampe indicated as follows:

After Belgrade — what is outlook for world economies?

IMF reaches unanimity over inflation

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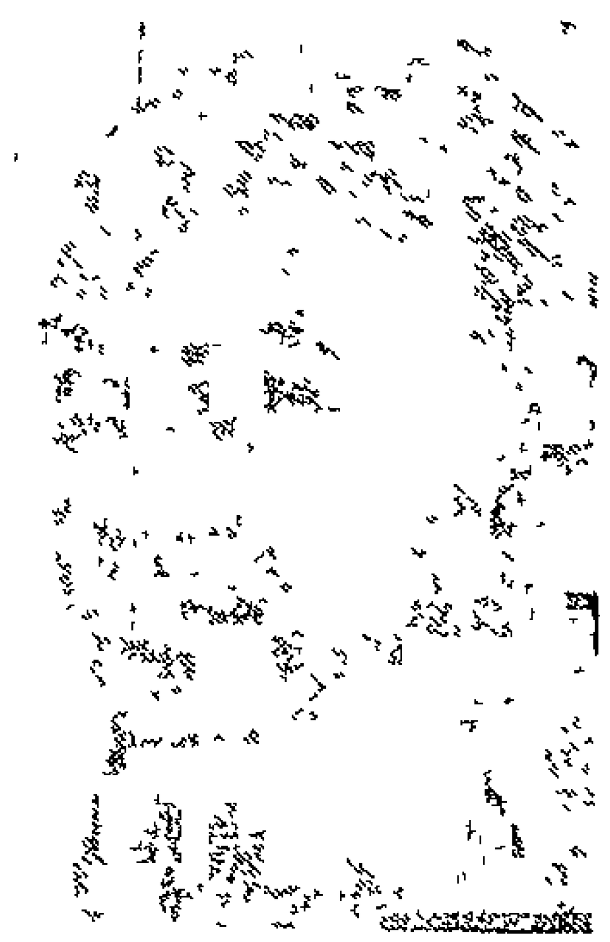
S Times 1/10/79



G William Miller call for stronger surveillance powers

By PETER RIDDELL

THE WORLD's Finance Ministers and central bankers are agreed — to a surprisingly broad extent — about the international economic outlook and on the proper response.

What has clearly emerged has been what M Jacques de Larosiere the International Monetary Fund's director described as a deeply impressive degree of unanimity on the problems of inflation.

The talks have highlighted a marked shift in attitudes over the past few years. Long gone are the days of "going for growth" as in South Africa. And this year's meeting has also seen the demise of the interim phase of convoys and locomotives of world economic growth with a corresponding list of detailed policy recommendations for individual countries.

The aspirations have been more modest over the past week though no less difficult to achieve. They have focused on the need to reduce inflation and expectations which fuel inflation if there is to be any hope of sustained growth.

There is also agreement on the importance of a tight monetary policy to achieve this objective, though some complaints have been made about high interest rates such as the record level of 11.5 in the US. It is especially significant that this view has been put forward not only by industrialised but also by developing countries.

The speeches at the IMF meeting in Belgrade of some of the poorer nations recognised that there are limits to what the industrialised world can do until their inflationary problems have been eased.

To the surprise of some participants the developing countries were less vocal and militant than might have been expected, in view of the serious deterioration in their economic prospects.

There was a note almost of fatalism about the communique put out by these countries Group of 77. Their frustrations were expressed mainly in an attempt —effectively deferred for a year — to gain observer status with the Palestine Liberation Organisation.

The problems of the non-oil developing countries — the sharp rise in their aggregate current account deficit and their average inflation rate of 30% — took up much time but with no real progress.

The World Bank, in particular faces constraints on its ability to sustain increased lending. This is principally because the US Congress has sought to impose restrictions on any support for the International Development Association the bank's soft loan arm.

Yet it is not all gloom. Although the US is in or heading for a recession most countries represented agreed that the overall economic recession should be less severe, and that inflation rates should be lower than after the last sharp rise in oil prices in the mid-seventies.

There is also now a better balance in the distribution of current account deficits and surpluses between the major countries.

Several speakers said this improved balance should help to calm the exchange markets. But such stability has been a long way off in the past fortnight.

The confirmed weakness of the dollar and the turbulence in the bullion markets where gold briefly reached a record level lent a distinct air of unreality to the occasion. It also explains why many bankers notably Paul Volcker, chairman of the US Federal Reserve left for home early behind a smokescreen of rumours and suggestions that further measures to support the US currency might be on the way.

The role of the IMF in all this remains peripheral. Several speakers urged a greater use of the fund's resources by developing countries and closer co-ordination with the commercial banks.

In the most stimulating speech of the meeting G William Miller US Treasury Secretary called for stronger surveillance powers for the IMF. He said the IMF should be allowed to scrutinise the economic and exchange rate policies of any country running either a large payments deficit or a large surplus.

But this is far from universally accepted and the IMF is a long way from being a world bank manager.

There have also been signs that the industrialised countries are lukewarm about the proposed substitution account into which excess dollars would be deposited in return for interest-bearing claims denominated in special drawing rights — the fund's own currency.

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deductible loss, which can be set off against the income from other sources of R50 000. Draw up the income statement assuming the deferral method is ...

5. Further to Note 4, assume now that the company ha... profit before depreciation of R60 000 in 19.8.

Draw up the income statement for the 19.8 financi...
under a) liability method

b) deferral method

Assume the tax rate remains 42%

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Benefit package for public service

CT 25/10/79 (347)

154

Own Correspondent

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.

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 1978 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 endeavour towards orderly administration"

The government undertook in future to improve salaries in the teaching profession simultaneously with those of the the rest of that part of the public sector which was mainly financed from the Revenue Fund

The Minister of Finance had stated clearly 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 guideline 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, and
- 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 benefit 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 "

GENERALLY ACCEPTED ACCOUNTING

APPLIED EXAMPLES

QUESTIONS

DEFERRED TAX

A. Alpha Limited acquired an item of ne
on 1 May 19.6. Depreciation is pro
straight line. A 25% initial allow
tax purposes, wear and tear being 20
balance. Tax rates were 40% in 19
and taxable income amounted to R45 0
respectively, for the financial yea
and 19.7

1. What is the balance on deferred tax
of the plant at 31.12.19.7, assuming

   a) deferral method

   b) liability method?

2. Show how the tax charge will be disc
income statement for the year ended
assuming

   a) deferral method

   b) liability method

   (assume there are no other
   timing differences)

3. How will the answer to 2. be affect
of an extraordinary gain on disposa
company, amounting to R70 000, all
in the 19.7 financial year?

4. How does the answer to 3. change if
deductible loss, which can be set o
income from other sources of R50 00
income statement assuming the defer

5. Further to Note 4, assume now that
profit before depreciation of R60 0

Draw up the income statement for th
under a) liability method

   b) deferral method

Assume the tax rate remains 42%

Sunday Tribune (153) 28/10/79

BEN TEMKIN WARNS OF THE COMING OF 20 PERCENT INFLATION

ON BALANCE, the economic signs for South Africa are good but, unfortunately, the days of 20 percent inflation are rapidly drawing nearer.

The Consumer Price Index figures released this week show a 12-month inflation rate of 14,3 percent with the September increase 1,2 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 16,5 percent which is alarming to say the least, particularly as the grain price increases will hit the lower-income groups especially hard.

It may seem that the point is being belaboured but this very high rate of inflation makes the achievement of real economic growth targets difficult. Edgars MD, Adrian Bellamy, argued at the Assocom congress for an 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, provided that it is a realistic target, of doing a considerable amount to counter inflation. Once there is more real growth to be shared, then 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 enterpreneurial 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 R247 million in September and informed forecasts are that the surplus will be more than R3000 million over theh 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 doing so if 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 profits by increasing their prices and not by increasing production and rising up their capacity.

One major company reporting this week—Afcol—commented on the viciousness 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 if 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 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.

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 merely 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 on 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 3,5 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 this 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 F.M. 23/11/79 (153)

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 purchasing power of the consumer's rand has plummeted by 65,1% from 1965 to 1979. On the international market, the rand has declined 62,4% (after eliminating the effect of changes in the exchange rate) During the period 1965 to 1979, earnings per worker increased on average by about 270%, 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."

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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

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Cloete warns on wild inflation

RDM 3/12/79

153

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 measure (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"

'SA inflation could end the upswing'

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28/12/79

Star

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 "rachet" 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

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INFLATION

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BUSINESS MAIL

Inflation on move again

RDM 23/2/1980

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 0,85%, giving it a 13,83% 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 rising by 2,08% for the month and 14,09% over the year

Last December, the CPI rose by 0,37%, which was a 14,05% jump on the 12 months to December 1978 But last November the increase was 0,6%, October 0,3% and for September it recorded a gain of 0,6%

The index numbers for January were 165,4, against 164 in December 1979 and 145,3 for January 1979

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 0,85%, the lower-income group index went to 161,3 in January, making a 1,07% increase for the month and a 12,48% rise for the year This is a reflection of the steep rise in the cost of food

The middle-income group index rose to 165, making a 0,92% increase over the month and 13,95% 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

CT 28/2/80.

Stimulating economy is not answer — De Beer

(153)

Political Staff

HOUSE OF ASSEMBLY — Dr Zach de Beer, Opposition spokesman on commerce, yesterday warned the government against believing that South Africa's critical unemployment would be solved by stimulating the economy.

Adding his voice to the Opposition's call for a "People's Budget", Dr De Beer said it would be a fallacy to think that in South Africa's situation economic growth would provide an answer to the country's economic problems.

His warning comes at a time when all the indications are that the government will go for a businessman's budget of income tax deduction and incentives to stimulate economic growth. This, the government hopes, will go a long way to solving the unemployment problem and curbing inflation.

"It is not as simple as that," Dr De Beer warned.

South Africa's problem was rooted in the fact that its manpower resources lagged behind the development of the economy. While most workers were unskilled, a growing economy created a great demand for skilled labour.

The government's top priority was therefore to educate and train workers, and this should be reflected in the Budget.

Housing and services such as electrification were other key areas where the government would have to allocate money for the welfare of the underprivileged, he said.

There was a real danger that an upswing in economic activity would be caught in a bottleneck caused by a shortage of skill. The result would be inflationary pressure and a new round of increases in the cost structure.

Inflation erodes 1975 rand to only 30 cents

RDM 23/2/80 (153)

Pretoria Bureau

CHRONIC inflation has eroded the buying power of the rand by about 70% during the past five years, according to the Department of Statistics

And economists spoken to yesterday said there was no reason to expect the erosion rate would slow down significantly during the rest of the year.

The latest Consumer Price Index, issued in Pretoria yesterday, shows the inflation rate accelerated by 0,9% in January and that during the month food prices rose by a whopping 2,1%

And although the 0,9% is greater than the 0,3% rise in November and 0,4% in December, the index rise for the twelve months to the end of January slowed down marginally by 0,2% to 13,8%

Departmental figures show that in January 1975, the all-items index stood at 94,8 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

POLITICAL comment in this issue by Allister Sparks newsbills by John Leask headlines and sub editing by Mike Stent cartoons by Bob Connolly all of 171 Main Street Johannesburg

Inflation: A cataclysmic assessment

S. Times (Business)

10/2/80 (153)

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 their 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

By JIM SRODES
Washington

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-dependence 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, socio-political 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" if infant mortality rates there are anything to judge by (e.g. in Transkei, between 170 and 280 per 1000 do not reach their first birthday).[10]

Morbidity among Blacks showed elements both of a pattern of poverty-related conditions typical of developing countries, and a pattern related to modern Western consumption habits (not necessarily due to affluence). Such problems as V.D., alcoholism and problem drinking (which is extremely prevalent) reflect a degree of social disintegration, rather than merely 'western' consumption patterns. In 'homelands', the disease spectrum shows a greater predominance of poverty-related diseases: excessive gastro-enteritis, malnutrition, TB and other infectious and parasitic diseases.

Analysing health-relevant features of society in the Ciskei, Selvan, Engelbrecht and Fincham (*67) find that lack of education is a major problem affecting both employment and compliance in health matters. They also note that health services conditions contribute to poor patient education; 38% of hospital patients did not know what was wrong with them, and only 21% knew any reason why they were sick, although at a conservative estimate between 50% and 60% of all hospital inpatients were suffering from illnesses directly related to poor socio-economic conditions (hygiene and nutrition being the main factors concerned). However, in response to a further question, 46% of the sample claimed that lack of either money or enough of the right f... sed or contributed to their ill- ... factors affect their personal

...'s found that 58% of households ... no crops or too few to live on. ... d they did not get enough food

... in the Free State, one in the ... of Graaff-Reinet (Scott, *58); ... Ciskei (Selvan, Engelbrecht ... 1.2); KwaZulu (Clarke, Vol.2); ... Pugh, *48).

(153) RDM 11/2/80

Survey: incomes will soon beat inflation

Own Correspondent

CAPE TOWN — The Bureau for Economic Research at the University of Stellenbosch believes it is possible that wages and salaries in South Africa will increase faster than inflation — for the first time in years.

In its latest opinion survey of business conditions in the final quarter of last year, and prospects for the current first quarter, it also says there are many factors which lead it to believe a real spending boom may be on the cards.

Consumers, it says, have a good deal of confidence.

The view was that more people would be employed leading to additional incomes and an increase in potential demand.

Real after-tax income would probably be raised by budget concessions and hire purchase credit was likely to be available at reasonable interest rates.

In addition, "there is a possiblity that wages and salaries will increase at a faster rate than the Consumer Price Index, thus increasing real income, and possibly consumer confidence."

Within South Africa many rural areas are served only by district surgeons (under the State Health Department) and by hospitals in large towns (under the Provinces). In the Cape, Divisional Councils are responsible for rural health services. They run fixed or mobile clinics staffed by from one to four nurses, which provide a comprehensive health service; they refer all but minor ailments to District Surgeons. The Cape Province also runs a Day Hospital in Graaff-Reinet which, in turn, runs a clinic in a rural area: it is not known how frequently the provincial administration takes on clinic work. In many areas SANTA (the S.A. National TB Association) has a vital role in case-finding, treating and immunising for TB. These facilities serve all population groups. The services of district surgeons are provided for indigent patients who have obtained a magistrate's certificate and on payment of 50c. Certain White groups, e.g. prison and railway employees, pensioners, etc. are seen free.

In homelands the health system is based on a sprinkling of former mission hospitals, many of which run outlying clinics. These are visited by a mobile team or staffed permanently, usually by only one nurse. Mobile teams also deliver TB treatment to stopping points in Transkei and Ciskei. One clinic may serve populations of several hundreds to 10 000 or so. Gazankulu also uses health centres where deliveries can be carried out and where a community health nurse is based. There is an increasing emphasis in the clinics on health promotion, nutrition education and child welfare clinics are the rule. However, the extent of preventive and community work is limited by the nurse's curative load as well as her training and motivation which, in an isolated setting, is often poor.

In South Africa it appears that the integration of preventative and curative health services occurs only in rural areas, even in some farming areas where different levels of health authorities are involved. The determining factors are probably the dispersion of population, the severity of health needs and the shortage of doctors.

In Swaziland, a decentralised system also obtains with both public and private hospitals linked to a network of clinics which provide both curative and preventive services. In addition, there exist in urban areas public health centres providing maternal and child care; the clinics are mainly rural. In order to expand the reach and impact of health services, Swaziland has initiated a Rural Health Visitor programme described by Ntiwane (*39). The RHV works at a village level and has mainly preventive

INFLATION (153)

Off the top FM 25/1/80

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 now 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 14,05% if the December 1978 index is compared to December 1979, against a rise of 11,65% 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 one, 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

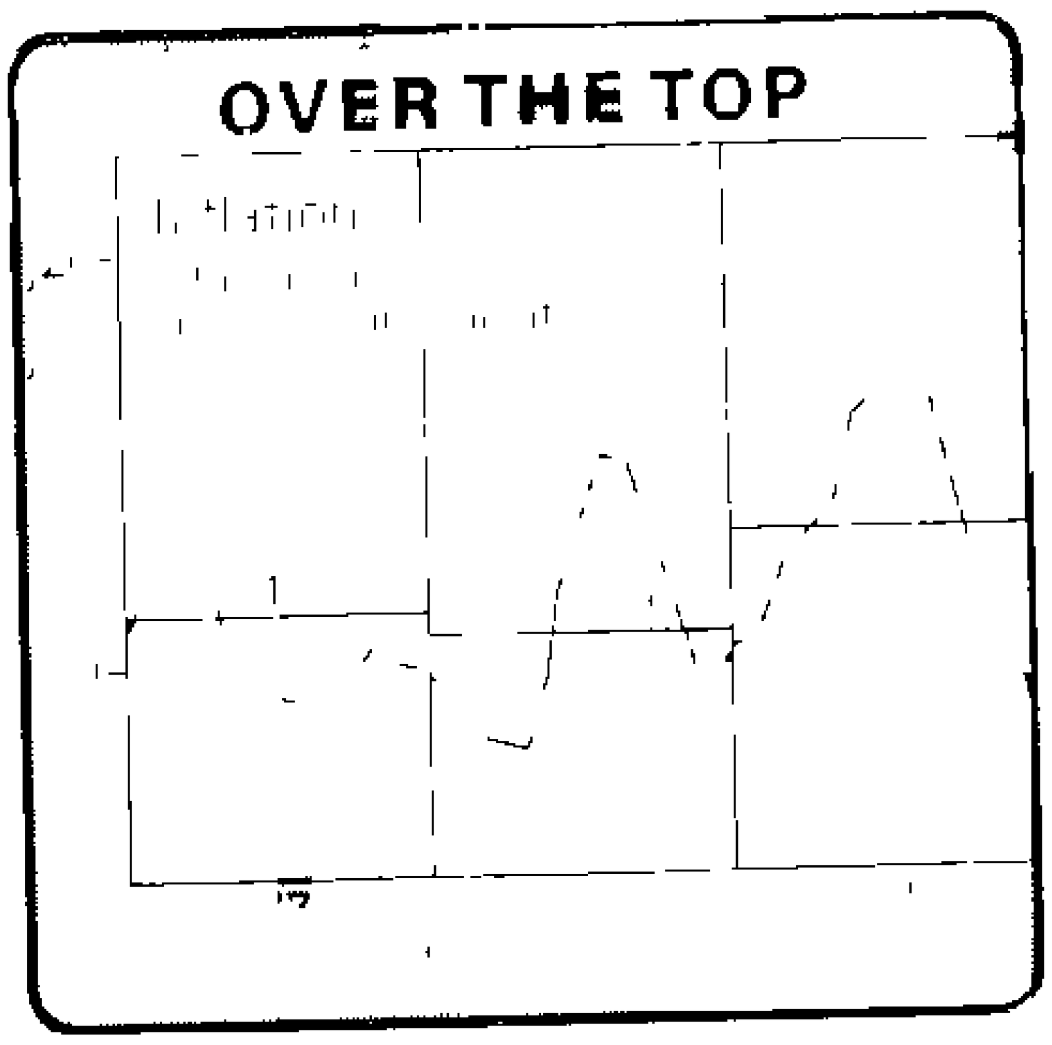
Some observers, including government policy-makers, still see the working-through of higher oil prices into the economy as a cause of a possible set-back They add that, as a result, inflationary pressures should remain more cost-push than demand-pull orientated

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 Gouws 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 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

SA inflation — the gloomiest view

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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 FRDIJHON

ONE of the games which economist-necromancers usually play at this time of the year is to try to forecast what inflationary miseries lie ahead of us during the months to come And the answers which some come up with are often weird and wonderful

Of course, the wishful thinkers choose low numbers the Job's comforters who are beset with gloom and misery plumb for upper digits and then try to soften the blow by saying "Mark you, I'm being somewhat conservative If the ball doesn't bounce in our favour, we could reach 16% or 17% It all depends on Government policy, external factors and, without doubt, the oil price"

So far this year we have had confident 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 off time to think about our economy and our politico-economic policies can't see inflation dropping below 14%, and Mr O D J Stuart of the Stellenbosch Bureau for Economic Research expressed the gravest doubts that 1980 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 steps 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 head as possible so as to stimulate employment and still more employment And putting the throttle on inflation would retard and not accelerate growth

Before looking at possible monetary and fiscal policy to restrain inflation, checklist 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 — fertilisers animal feeds, costs of vehicles and implements, and of course, the cost of fuel It would be a brave man who would predict the price of crude oil six months from now, bearing in mind events in the Middle East and in other parts of the world

Food accounts for a major lump in the CPI index and if food prices go up by 25% — as some observers expect — that's an additional six points on to the CPI for a start Obviously the Government will try to minimise food price increases with strategic subsidies but there's a limit to what subsidies can achieve and to what can be spent

Most commentators agree that 1980 will be the year of the big wage increases As the economy gets into its stride, the scarcity of skilled labour will produce what the Stellenbosch Bureau described in its building survey as "piracy" — as employers outbid each other for experienced staff

The pages of situations vacant advertising in the Rand Daily Mail last week were testimony to the fact that this process of competing for labour has started And it will quicken as the economy gathers momentum

Higher wages must lead to higher costs, and higher costs to higher prices Some savings might be achieved by lower unit costs of production as demand improves, but on the other hand lack of labour competitiveness leads to lowered productivity

In the pipeline are possible railway tariff increases higher Post Office charges, more costly fuel more expensive transport (which affects commerce and industry as well as the private user) and big increases in the cost of accommodation The list is virtually limitless and to it must be added imported inflation which exerted such a strong pull on South African prices last year

The Government could, to some extent damp imported inflation by revaluing 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 rand terms for exporters who are going to have to battle this year to retain markets in a recession blighted Western world

And a too highly priced rand would mean that in rand terms we would get less money for gold — and that could gravely disrupt Senator Horwood's cashflow accounting when he draws up his Budget He will want to see the economy buoyant and awash with money so that he can continue with his growth-from-strength policy He won't go along with a drastic cut in money supply which might foreshorten the boom

While the rand will probably be allowed to crawl up a dramatic revaluation doesn't seem likely so we can't look to a stronger currency to ease inflationary pressures

It as Dr Gerhard de Kock said, we must be prepared to meet our boom the best we can hope for is that we boom bigger than the inflation rate We might then come through the year with a twisted smile

RDM 17.1.80 (1/53)

'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

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

Increases in the public sector 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

According to the latest CPI, the all-items figure for the lower income group rose by 0,1% in December with a twelve-month rise of 12,2% Figures for the middle income group were 0,4% and 14,1% and for the higher income group, 0,5% and 14,4%

Food prices during the year rose by 14,7%

INFLATION (153) FM 4/1/80

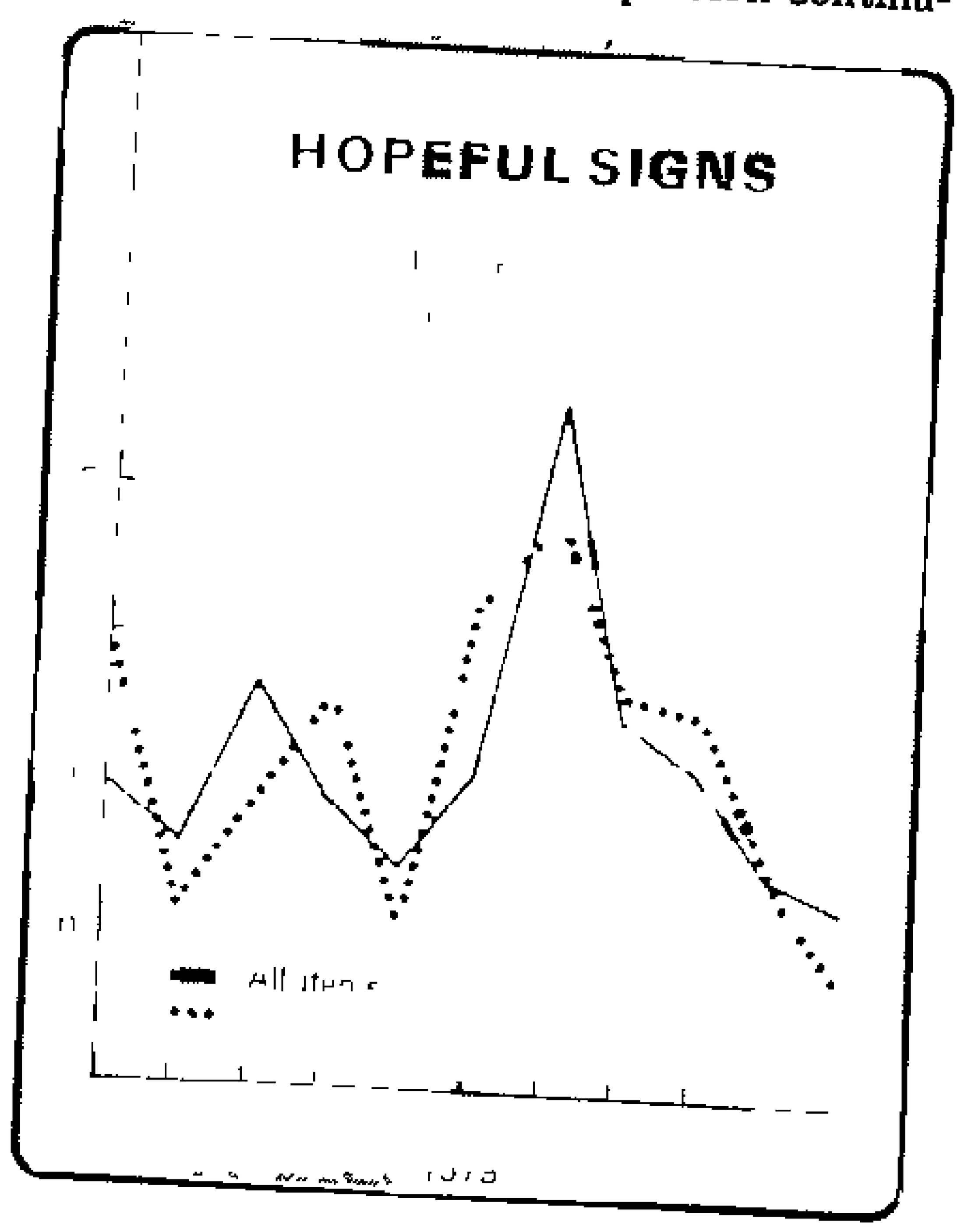
Short-term respite

Although it is almost certain that the inflation rate in 1980 will be slightly higher than the estimated average of just over 13% in 1979, latest Department of Statistics' figures indicate that progress is most likely being made in containing inflationary pressures

Department figures show that the month-on-month rise in the consumer price index (cpi) slowed in each of the four months to November last year, with November's index only 0,3% up on the previous month.

In fact, the food-only index recorded a *decline* of 0,2% in November compared with October, the first such decline for quite some time The rise in this index has also been slowing ever since the abnormal leap in July 1978 caused by the introduction of gst

A department spokesman is confident that the figures indicate the development of a meaningful downtrend in prices, although he cautions that "it is obviously dangerous to forecast this pattern continu-



ing too far into the new year "

Economists, however, are divided on the apparent slowing in the rate of inflation Some are sceptical of the significance of monthly figures and reckon the decline is a one-off phenomenon caused by technicalities in statistical measurements They add that the drastic revisions sometimes made to figures in the US and UK highlight this, and the lack of such revisions in SA make it difficult to pinpoint the importance of monthly changes

"Of course," says one economist, "if these figures are really indicative of a slow-down then they are to be welcomed, but there does not appear to have been any change in the underlying forces or in the basic trend of inflation "

However, another analyst sees the easing in monthly figures as a sign that the rate of inflation is not as high as is generally believed, and inflationary expectations can, of course, have a meaningful effect on future trends

A persistent wage/price inflationary spiral is unlikely this year, he adds, although some demand-pull pressures as a result of higher salaries being paid to skilled workers may arise later

"The inflation rate in 1979 suffered from a few large one-off shocks " he says "and if these are not repeated in the new year there may be grounds for optimism "

It is a pity that those newspapers that highlight month-on-month increases in the cpi have not seen fit to emphasise the current decline

CONSUMER MAIL

January food prices up a massive 2,1%

BY VITA PALESTRANT

THE Consumer Price Index (CPI) rose by 0,9% during January and by 13 8% during the 12 months ending January

The year-on-year increase to January shows a drop on the December to December increase of 14%

These figures were released by the Department of Statistics in Pretoria

Low income groups were hardest hit over the January period with the CPI increasing by 1,1% — and by 12 5% during the 12-month period

Middle and higher income groups increased by 0,9% and 0,8% respectively during January and 14% and 14,1% over the year

Food, which is a major expenditure in low income groups, rose by a whopping 2,1%.

Over the past year, food prices have escalated ahead of the general CPI increasing by 14,9%

In the food sector — meat increased most — by 6,2% and by 22% over the past year

Fruit rose by 2,2%, while fish, milk and milk products, fats, oils and vegetables dropped marginally

Grain products rose by 0,4%

Soft drinks increased by 0,8%, alcoholic drinks by 0,7% and cigarettes by 0,1%

Clothing and footwear increased by 0,3% during January and 6,2% over the year while furniture and equipment increased by 0,2% and by 5,7%

Household operations which rose by 0,5% has increased by 21,3% during the 12-month period, with cleaning materials alone increasing by 0,4% — and 24,5% over the year

Domestic servants were paid 0,4% in January and 21,3% more over the 12-month period

Medical hikes are filtering through, rising by a considerable 4% during January and 15,6% over the year

Transport costs, which have levelled off, increased by 0 1% during January

Every month the Department of Statistics gleans masses of information about the costs of goods and services in 11 major urban areas These figures are processed to make up the index

Consumer Mail publishes the CPI monthly as a service to its readers

	Jan 1980	Dec 1979	Jan 1979
ALL ITEMS	165 4	164 0	145 3
Lower income group	161 3	159 6	143 4
Middle income group	165 0	163 5	144 8
Higher income group	166 8	165 4	140 2
FOOD	167 0	163 6	145 3
EL1			
Grain products	164 3	163 6	150 3
Meat	159 3	150 0	130 6
Fish	186 3	187 0	159 6
Milk, milk products & eggs	156 0	157 8	140 0
Fats & oils	183 3	183 6	160 3
Fruit	179 0	175 2	172 3
Vegetables	148 5	150 2	122 5
Sugar	238 2	238 2	209 9
Coffee & tea	233 0	232 9	227 9
Other	165 2	162 8	150 7
COLD DRINKS	171 4	170 0	160 3
ALCOHOLIC DRINKS	151 3	150 2	141 1
CIGARETTES CIGARS & TOBACCO	150 6	150 8	144 2
CLOTHING & FOOTWEAR	146 7	146 2	138 1
Clothing	139 8	139 3	134 4
Footwear	183 6	182 8	159 2
HOUSING	143 7	142 6	129 8
L & POWER	212 9	212 9	180 9
FURNITURE & EQUIPMENT	151 3	151 0	143 1
Furniture	134 6	134 7	128 5
Appliances	147 9	147 5	138 7
Other	161,3	160 2	150 8
HOUSEHOLD OPERATION	201 2	200 2	165 9
Cleaning materials, etc	182 0	181 1	147 4
Domestic servants	209 1	208 2	172 4
Other services	186 1	181 7	159 1
MEDICAL CARE	159 8	152 4	158 2
TRANSPORT	198 0	197 9	159 5
Vehicles	171 3	171 3	157 3
Running costs	241 5	241 4	166 3
Public transport	156 4	156 4	149 0
COMMUNICATION	101 3	101 3	101 3
RECREATION & ENTERTAINMENT	158 9	158 6	149 5
READING MATTER	167 5	167,3	156,0
EDUCATION	176 9	176,9	153,3
PERSONAL CARE	161 4	161,2	150,1
OTHER	163 8	163 7	140 2

Railmen's pay up as train, air fares soar

STAR 5/3/80

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~~270~~

Hugh Leggatt, Political Correspondent

THE ASSEMBLY — Soaring increases worth R361-million in rail and air fares, freight rates, and other services were announced by the Minister of Transport, Mr Heunis, today

White rail users took a body blow, rail workers were handed R285 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 an 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 an 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 tariffs from April 1 to balance his books

He reckoned on revenue of R4 028 million this financial year and expenditure of R1 385-million, leaving a shortfall of R357,45 million

The proposed tariff increases would yield an extra R361 million in revenue to convert the shortfall to a surplus of about R3,55 million

Announcing the pay increase for 263 466 staff, Mr Heunis said that after years of sacrifice on their part it was time "to pay the piper his due"

It had 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 basic salary

The bonus would cost an extra R87-million a year

The Minister also announced an increase in pensions for railwaymen of 10 percent from April 1

Dealing with the rates increases, 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 15 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 13,7 percent
- Low-rated goods traffic up average of 12,8 percent
- Tariff classes for

To Page 3, Col 1

Reef motorists face another fuel increase

By Harvey Thomas

The price of petrol and diesel on the Rand will probably be increased again — by very little — as a result of increased railway transportation costs.

Oil industry sources said today that the industry would be unable to absorb the extra transportation rates for petrol and diesel announced in the Railway budget

The Government proposes to increase the price of transporting fuel inland by 3,8 percent for petrol and 4,1 percent for diesel

Sources say that if the expected application to the Government for higher prices at the pumps is approved, the increase will be marginal — about 0,2c a litre

They add that the industry works to very tight margins

Inflationary effects of rail Budget feared

Pretoria Bureau

THE higher railway tariffs will rip through the economy pushing up the prices of virtually all goods and services.

Its inflationary effects were emphasised by organised commerce and industry and by leading economists.

Welcomed however was the substantial Government subsidy paid to the railways to keep tariffs and fares down to a minimum, especially third class urban fares.

The president of the Association of Chambers of Commerce, Mr Bob Goodwin, said the Transport Budget emphasised again the need for income tax cuts in the main Budget on March 26 to reinforce stable economic growth.

"The higher transport tariffs must be partially offset through lower taxes," he said.

The association acknowledged the efforts by the Minister of Transport to hold down tariff rises to a minimum.

But Mr Goodwin said it must be realised there would be an unavoidable ripple effect right through the economy.

Certain sectors would be unable to absorb the increases.

The association believed that if the impact of the economy of future tariff rises was to be minimised it would be necessary to:

- Continue the policy of economic growth to make optimum use of transport capacity.
- Extend the welcome new policy of state subsidy for the running of uneconomic but essential passenger services where the loss cannot be recovered in any other way.

The deputy head of the Economic Research Bureau at the University of Stellenbosch, Mr [illegible] Vries, said it must be inflationary.

This was particularly so when the increase for railwaymen of more than 10% was taken into account.

This could set off a chain wage demand reaction in the private sector.

A major danger was the possibility of demand pull inflation developing on top of the cost push variety now apparent in the economy.

He welcomed the effort to keep third class urban fares down to 10%, that the state had agreed to a subsidy of R171 million and that some of the huge surplus was being used where badly needed, keeping urban rail fares to a minimum.

This was money well spent, Mr De Vries said.

Volkskas chief economist Mr A S Engelbrecht said the increases were inevitable but it was tragic they should come at a time when the inflation rate had begun to slow down.

He estimated the current inflation rate of 14% could be boosted to 15% once the increase had worked its way through the economy.

The increases would have a direct impact on such power and transport of other commodities and services. "There must be a multiplier effect throughout the economy," he said.

Unfortunately too the tariff rises would dampen down the growth rate. The effect however could be countered by the higher earnings for railway workers and those still to be announced for the rest of the public sector.

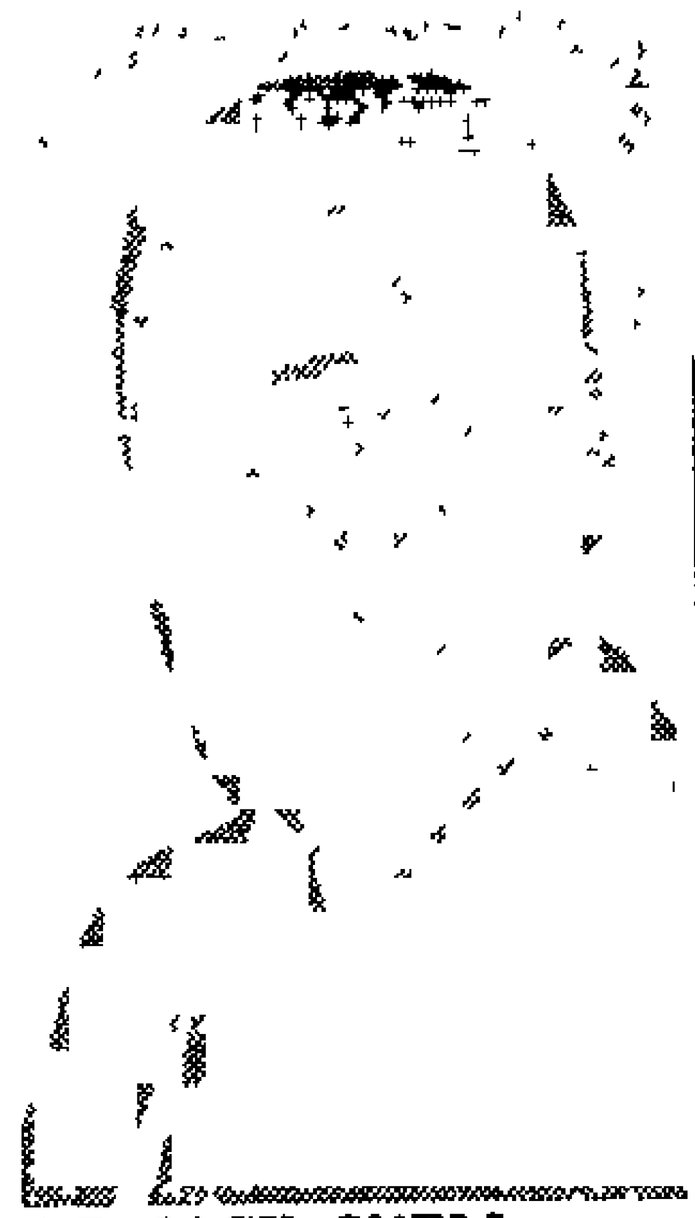
The president of the South African Federated Chamber of Industries, Mr L Borman, said the tariff increases had not followed the policy of closing the gap between high and low rated traffic.

This was particularly anomalous against the Government's welcome acceptance of the fact that subsidisation of economic services must be carried by the central Government.

In certain regions and sectors, Mr Borman said, the increases could not be easily absorbed and would not have a healthy impact on economic recovery.

MR JOHN RICH . . . inflation boost.

MR MAX PHILLIPS . . . benefit EL.



MR JACK SNELL . . . spiral effect.

Inflation fears over rail budget

7/3/80 DD

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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

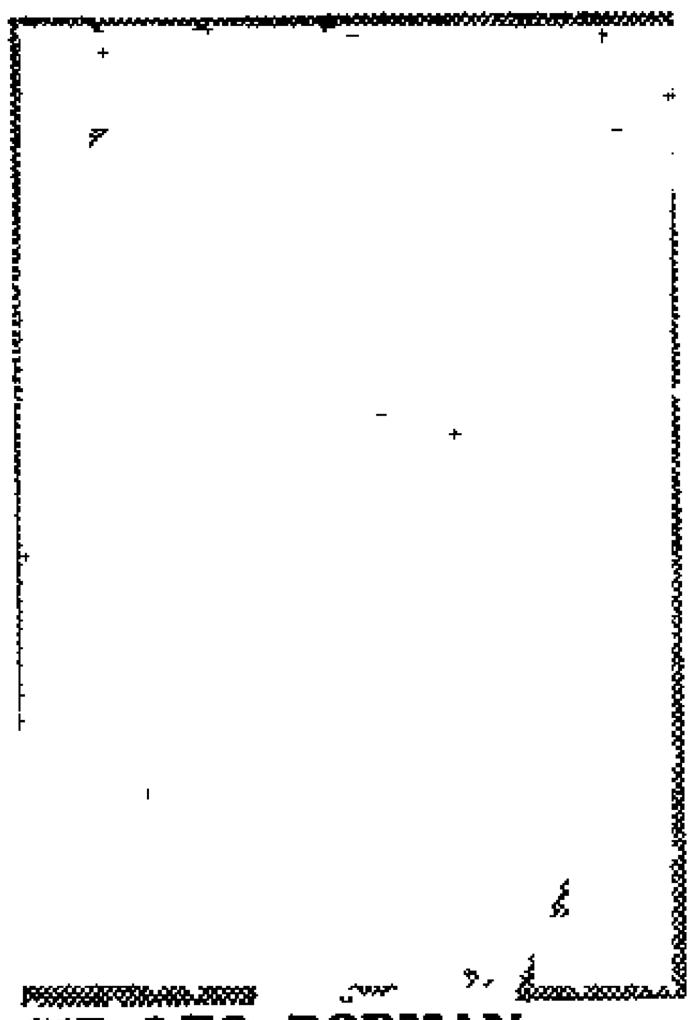
The increases average 9,9 per cent on all services and include a 13,7 per cent increase in high-rated goods tariffs Low-rated goods tariffs have gone up 12,8 per cent

"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 26," Mr Rich said



MR LEO BORMAN . . . need to co-ordinate.

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

Tariff increases would not be absorbed easily in certain areas, Mr Borman said, which could result in uneven economic development

The immediate past president of the Border Chamber of Industries, Mr Max Phillips, said he felt the tariff increases would hit East London harder than most other areas due to the long distances involved in rail transport to and from the city

"However, I feel the changes in the Cape Town and Durban tariffs are going to be to the benefit of East London rather than to the disadvantage," he said

This was because some of the disadvantage Cape Town had suffered had been removed as far as haulage rates were concerned, and East London's rates had been levelled with Durban's

"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 pursuing policies which were themselves inflationary

Mr Lorimer asked whether it was really necessary to "punish" commuters who made up 94% of the Railways' 960-million passengers a year

The Minister of Transport Affairs, Mr Chris Heunis, was due to receive R241-million from the Treasury to compensate for losses on this service

With the added benefit of the huge increases he 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 internal air fares was a tremendous jump and was serious in [illegible] many long-distance travellers would return to using cars

Sapa

(153) RDM 11/3/80.

Lay into inflation, not

THE ASSEMBLY. — The Government appeared to have given up the fight against inflation, Mr Rupert Lorimer (PFP Orange Grove) said yesterday

Resuming his Second Reading speech on the Railway Budget, he moved an amendment that the House decline to read the Bill a second time as tariff increases would aggravate the inflationary spiral and inhibit economic growth, adversely affecting the living standards of all South Africans.

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 a total 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 affect 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

The Natal Mercury, Tuesday, March 11, 1980

(153)

Inflation under fire

Railways blasted for 'skinning consumer' over reserve funds

CAPE TOWN — The Railways budget ran into a two-pronged attack in Parliament yesterday, with Transport Minister Chris Heunis being dubbed the 'Minister of Inflation'.

The opening shot came from Mr George Bartlett, the New Republic Party's chief spokesman on transport affairs, who accused the Railways of skinning the consumer

He opposed the budget because it was not synchronised with the needs of the country's economy, because the tariff increases were inflationary, and because the 'excessively avaricious profit demands' of the SAR were retarding economic growth

'One would have thought this budget would have been synchronised with the economic aims of defeating inflation and promoting growth, but this is not the case

'The tariff increases are among the highest ever, and it is just a matter of time before another round of price hikes starts in the economy as a result of this budget '

He welcomed the salary and pension increases for Railways staff as necessary for their return to a reasonable standard of living, but added that even those were inflationary in the short term

The Railways' system of inflation accounting simply meant paying today for tomorrow's inflation.

'Surely this creates inflation today Governments are the cause of inflation This Parliament will add 1 percent to the inflation rate in this country if we approve this budget '

Mr Heunis, 'the Minister of Inflation', should have accepted that the Railways' capital reserve was out of proportion

The second attack came from Mr Rupert Lorimer (PFP, Orange Grove) who said the Government appeared to have given up the fight against inflation.

Tariff increases would aggravate the inflationary spiral and inhibit economic growth, adversely affecting the living standards of all South Africans

He said a study by the Rand Afrikaans University, for the Association of Chambers of Commerce, predicted that the rail tariff increases would add 0,9 percent to the cost of the country's gross domestic policy. — (Sapa)

RAND DAILY MAIL, Saturday, March 22, 1980

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RDM 22/3/80

Inflation quickens to 14,3%

By HAROLD FRIDJHON

INFLATION gathered momentum in February when the all-items consumer price index (CPI) rose by 0,97%, giving a 14,31% 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 1,2% was recorded, largely because of the big rise of 1,6% in the food-only index 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 167,2

On a year-on-year basis the February food index rose by 14,91%, 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 foreshadowed 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 movement is that with the growth in consumer purchasing power, merchants and shops are marking up their goods less 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 gives the threat of being a bad year for the consumer

The CPI last month was 167,0 in February compared with 165,4 in January and 146,1 in February 1979

The lower-income group index rose to 162,6 in February which was an increase of 0,81% for the month and a 13% rise for the year.

The middle-income group index went up to 166,5 last month, giving a 0,91% increase over the month and 14,43% over the year

The higher-income group index went to 168,4 in February which was a rise of 0,96% on the month and 14,48% over the year day, March 22, 1980 3

Inflation rate passed 14% — index

(153) RDM 22/3/80

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 1%, which represents a steady rise since last November, and January 0,9%

The inflation rate for the 12 months to the end of February, according to the index, was 14,3% Last month it was 13,8%

And 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 Post Office tariff rises would obviously have an inflationary effect

"We now have a cost-push inflation, but with greater consumer power a demand pull situation could develop in the second half of the year"

The president of the SA Federated Chamber of Industries, Dr J C van Zyl, agreed there was more inflation in the pipeline

Industrialists had been holding back for months on passing on cost rises to consumers As the incipient boom gained momentum, however, and consumer spending increased, these would inevitably have to be passed on

The index showed a points rise in February from 165,4 to 167, on a base of 100 in 1975

Food prices rose by only 0,1% in February, with a 12-month rise of 14,9%

For the lower income group the all-item rise was 0,8% with a 12-month total of 13%, and for higher income groups 1% and 14,5%

● See Page 7

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Inflation still a serious problem

STAR 26/3/80

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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 utilisation of labour resources 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 7,3 percent on average against all other currencies and by 7,5 percent against the dollar, should be permitted to float upwards still further. This would reduce the prices of imported goods in terms of the rand and thereby counteract cost increases.

● "No artificial impediments should be put 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.

● "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 causes would be removed by measures to curb aggregate demand such as tax increases.

"Sight must also not 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. Bottlenecks are bound to create upward pressures on labour and certain other costs The signs of this are already evident in many directions, but this is a different problem from that of general demand inflation and requires different treatment," Senator Horwood said

S Times 23/3/80

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Inflation: It is the will that's lacking

South Africa's fortunes — not least the price of gold — depend on how President Carter manages an American economic crisis that has produced inflation rates of up to 20 per cent, a declining dollar, and falling productivity.

Here an eminent American economist tells why he thinks President Carter's plans won't work — and what America should be doing.

By MILTON FRIEDMAN

PRESIDENT Carter's latest anti-inflation programme is another in a long series of cosmetic measures designed more to quiet public outcry than to resolve America's serious economic problem

That problem has two faces inflation and declining productivity Inflation has discouraged productive investment and fostered economic inefficiency Declining productivity has contributed to inflation We badly need a coordinated attack on both inflation and declining productivity

The obstacle to launching such an attack is not a lack of knowledge of what to do The obstacle is a lack of political will and leadership to do what has to be done

Any effective attack must have three key ingredients

Monetary restraint A gradual reduction over a period of three to five years in the rate of growth of the quantity of money to a level consistent with stable prices

Targets

Such a policy was announced by the Federal Reserve System on October 6 1979 However performance has been uneven

In view of the wide difference in the past between what the Fed has said and what it has done, announced targets must be persistently met before any policy can attain credibility and thereby have maximum impact

Fiscal restraint A drastic cut in taxes — not just visible taxes but also invisible taxes — and thoroughgoing reform of the tax structure

The true tax burden on the American people is what government spends, not what the accountants label "tax receipts" If government spends more than it receives in visible taxes, who do you suppose pays for the difference?

The taxpayers do, through the hidden tax of inflation or the even more subtle hidden tax involved in government borrowing from the public And the true tax burden has been exploding

Figures

President Carter proposes to cut projected spending for fiscal 1980 (ending September 30 1980) by an unspecified amount and for fiscal 1981 by $13 000-million (R12 000-million) to $14 000-million (R12 900-million) That is sending an infant to do an adult's job

Consider these figures In January, 1979, fiscal spending for 1980 was estimated at $532 000-million (R410 000-million) By January 1980 the estimate had been revised upward to $564 000-million (R434 000-million) — an increase of $32 000-million (R26 000-million)

(Spending for fiscal 1984, meanwhile has been revised from $674 000-million (R556 000-million) to $839 000-million (R660 000-million)

President Carter may talk about ending inflation but his own budget numbers assume continued high inflation Nor has he proposed any meaningful cut in spending He has simply proposed a slightly smaller increase

Balance

President Carter also stressed the need for a balanced budget

But balancing the bookkeeping budget is not the real problem The easiest way to do that would be to accelerate the inflation That would raise recorded tax receipts faster than recorded spending

The real problem is the explosive growth in government spending Government outlays of $400 000-million (R320 000-million) with a $100 000-million (R83 000-million) book deficit would be far healthier for the economy than government spending of $600 000-million (R490 000-million) with a balanced budget — and would be easier to accommodate without inflation

Curbing regulations and controls The tidal wave of regulation during the past decade has been counterproductive It is a major source of declining productivity

We should eliminate price controls on natural gas, crude oil and other petroleum products These are the major sources of the energy crisis We should end the mislabeled "voluntary" price and wage controls and abolish the Council on Wage and Price Stability

Instead, President Carter proposes more regulation and more controls Controls on credit, more reliance on "voluntary" price and wage controls and a tripling of the staff of the Council on Wage and Price Stability, more regulations of energy — all harmful evasions of the basic problem

In my opinion, the American public is far ahead of Washington It will recognise cosmetics and political opportunism for what they are It is ready to be told the truth

We are reaping the accumulated harvest of mismanagement of the economy over the past several decades, by Republican and Democratic administrations alike

Tough time

There is no quick fix for the resulting economic ills Even the best policies will take time and involve a difficult transition

But we simply have no good options

Inflation rates on a month-to-month basis will be coming down almost regardless of government policy simply because recent very high rates reflect transitory shocks The basic inflation rate is far too high, but it is not as high as the nearly 20 per cent rate of recent months

President Carter will both take credit for and be given credit for any improvement That is perhaps the greatest danger from his cosmetic proposals We may be lulled into postponing still longer an effective attack on our fundamental problem

Post 27/3/80

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Inflation still a major problem

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 yesterday.

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

EVIDENCE

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 later stage

● "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 depreciated by 7,3 percent on average against all other currencies and by 7,5 percent against the dollar, should be permitted to float upwards still further. This would reduce the prices of imported goods in terms of the Rand and thereby counteract cost increases.

● "No artificial impediments should be put 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.

● "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 cause 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

He said the inflation of the past year must be attributed in large measure to substantial further increases in fuel prices Government-controlled prices or tariffs and food prices as well as the continued applications of the official policy of narrowing the gap between white and black wages.

None of these causes would be removed by measures to curb aggregate demand such as tax increases.

"Sight must also not 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.

LABOUR

Shortages of skilled and semi-skilled labour in the economy grew at the desired rate posed a serious inflationary threat

"These and other bottlenecks are bound to create upward pressures on labour and certain other costs The signs of this are already evident in many directions, but this is a different problem from that of general demand inflation and requires different treatment," Senator Horwood said.

'Too much money is lying around'

SOUTH AFRICA has a strange problem — there is too much money lying around unused.

And as a result South Africa's real growth rate is still below the potential level, Senator Owen Horwood, Minister of Finance, said when presenting his budget yesterday.

"Too much money has, in effect, been chasing not too few goods but too little scrip (investments mediums)"

In other words there is an upward surge in the financial sphere while real economic growth is relatively sluggish.

"There is a need to attain a more rapid and sustained increase, in real terms, in such areas of economic activity as production, employment, investment and imports."

Senator Horwood described the growth in the financial sphere as exceptional but the "key to our future growth" lay in fixed private investment in plans, equipment and construction

Most of the excess money was held by mining houses and other large exporters and had not yet found its way into the pockets of salary and wage earners in general.

"It has remained in what economists call a liquidity trap and has not yet been spent on either domestically produced or imported goods and services."

The main reasons for the excess money supply and the current low interest rates were a result of a large current account surplus, exchange control on capital and a sluggish demand for loanable funds

Curbing inflation is still a big problem

(153) RDM 27/3/80

THE ASSEMBLY — A gradual reduction in the rate of inflation was foreseen by Senator Horwood yesterday

"Inflation has remained a serious problem and the consumer price index increased by about 14% between February 1979 and February 1980," he said

Curbing the rate of inflation was a major objective of official economic policy, equal in importance to promoting output and employment

The cost-push inflation being experienced could not 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, the 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 "virtual certainty" 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 bound 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 in order 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 7,3% 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 counteract 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 upwards 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

Higher reserves if . . .

THE ASSEMBLY. — A higher real economic growth rate and higher net gold and other foreign reserves were envisaged, Senator Horwood said yesterday.

He said that if the Government succeeded in applying the appropriate combination of fiscal and monetary policies along the lines he had indicated, he envisaged the above.

"In the absence of unforeseen developments, we might even add to this impressive list a gradual reduction in the rate of inflation — if not in absolute terms, then at least in relation to the inflation rates of our main trading partners.

"And this in a world which, according to the latest official forecasts, will in 1980 experience a combination of slower growth, higher inflation and serious balance of payments difficulties," Sen Horwood said. — Sapa.

3/4/80 DD 153

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 single 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.

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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 leading 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 inconceivable they say, that inflationary pressures will not rise.

The biggest single inflation hazard has been identified as the substantial salary increases for State and provincial departments, Railways and Post Office workers, amounting to about R700-million.

Economists support the deputy head of the economic research bureau at the University of Stellenbosh, Dr 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 rail rates.

Just ahead are certain increases in the price of maize — at least 20 percent — and in diary products, in municipal rates and service charges in June, and a higher steel price is also likely in June

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 estimated 40 000 other 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 Gideon 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 looked as if the Budget benefits and handouts would be neutralised by the spate of price-rises during the past 10 days, and those still to come.

A Volkskas economist, Mr A J Jacobs, said it would be unrealistic not to expect a higher inflation rate this year compared with last year's 13,2 percent.

He pointed out that a damper could be placed on inflation if the gold price remained at a high level and the Minister of Finance made more funds available for food subsidies

He could also assist Iscor, Escom and other State and semi-State organisations with loan funds free of interest

Interest payments were a major reason for price escalation in services such as power and commodities such as steel.

'But even if this did happen I don't believe we could expect an inflation rate lower than the one we are forced to live with now'

Mr Jacobs said the two most significant factors in inflation were salary and wage rises, and the prices of agricultural products

'These certainly will have to be contended with this year The big wage increase in the public sector — Railways, Post Office and State departments — will almost certainly be followed by big increases in the private sector.'

Local authority service charges will also accelerate this year.

The president of the United Municipal Executive, Mr Philip Nel, said inflation had already driven local authorities into a corner, and there could be worse to come.

Mr Jacobs added to this If productivity was not greatly increased this year, an inflation rate in excess of 15 percent at the year's end was likely

Barclays Bank's 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'.

'We will be fortunate if we can keep the inflation rate down to 15 percent this year — and that is not being pessimistic,' Dr Cloete emphasised

Pushed by a wage-rise explosion, resulting from the scramble for skilled workers, the rate could easily rise above 15 percent later this year 'In fact, it could go out of control.'

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INFLATION

FM 11/4/80 (153)

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-long 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 efficiencies 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 tapping 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 quasi-governmental 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 markups 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 high 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

Tukkie's Lombard . no sign yet of demand-push

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 as 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 30% 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 9% inflation rate At a 12% 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 8% according to Ari Uhel, of the Wits University Graduate Business School And after three years of recession, domestic fixed investment and inventory investment must rise significantly, the former could rise 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 black labour, increase training facilities and, in the short run, to import immigrant skills

But, as economists are quick to point out, inflation is a curious little understood 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 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

SHORT-TERM INSURANCE

Counting the war's cost

FM 11/4/80 (58)

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 — some 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 Anscomb 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 overcapacity 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 mining 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 perils 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

Registrar Louw facing a short-term insurance dilemma

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 Laurenz 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 this starts 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 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 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

FM 11/4/80 153

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RDM 14/4/80

Inflation — seven deadly years

By **HOWARD PREECE**
Financial Editor

SOUTH Africa will experience in 1980 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 1980-81 would probably turn out to be a standstill in real terms

This, the Government readily admits is the main debit to an otherwise broadly cheerful economic outlook

Inflation will be the central issue at the meeting in Pretoria next month of the Prime Minister's Economic Advisory Council

Critical to that debate must be an analysis of the nature and causal chain of inflationary pressures in South Africa

Senator Horwood has rejected the uncompromising "monetarist" approach — in contrast with the British Government that is pinning all its hopes on it.

He has, however, consistently endorsed the need for general and sensible monetary restraint

He said in his Budget speech "Since the evidence shows that our present inflation is mainly of the cost-push kind it cannot be combated effectively by depressing output and sacrificing sound growth

"The inflation of the past year must be attributed in large measure to substantial further increases in fuel prices, 'administered' prices of tariffs and food prices as well as to the continued application of the official policy of narrowing the gap between white and black wages"

This approach is clearly not hard-line monetarist

o That austere view admits of no real distinction between cost and demand inflation — money supply increases are seen as both necessary and sufficient conditions for inflation

o It is an article of that faith that changes in particular prices cannot be inflationary in a general sense They are said to affect only relative prices Money supply is, again, the only determinant

(Professor Milton Friedman, incidentally, is not as dogmatic on this now as some of his adherents are inclined to suppose)

But perhaps the crucial paragraph in the Budget in rejecting pure monetarism is this

Senator Horwood said "We shall aim at attaining an adequate but not excessive rate of increase in the broadly defined money supply

"*What would be adequate but not excessive in present circumstances is difficult to say in advance, particularly in view of the uncertainty surrounding the gold price and overseas economic developments in general*"

That is totally incompatible with the pure monetarist approach — as held by Mrs Margaret Thatcher and Sir Geoffrey Howe in Britain — which demands as central economic strategy strict monetary targets

It will, however, be up to the De Kock Commission's second report to say how feasible such targets would be for South Africa

There can be no doubt that money supply and inflation are irrevocably linked — what is less certain, however, is the nature of that relationship

Senator Horwood appears to believe that it can be two-way — that not only can inflation result from money supply increases, but that increases can also flow from inflation itself

The attached table certainly makes it hard to sustain what is, or used to be, the hard-line monetarist view that inflation can be broadly forecast by allowing for a two-year lag for money supply changes to make themselves felt

The table shows just how simplistic that has proved to be

In fairness, the table backs the monetarist view that printing money will not achieve sustainable growth either

Money supply has expanded in response to the demands of the economy and of the inflation that the exogenous shock effect of soaring oil prices has severely aggravated

This means then that the Government has adopted a middle of the road policy approach which regards restraint in money supply —through keeping a tight curb on state spending — as a vitally necessary but not sufficient condition for tackling inflation

Attention is being focused in South Africa now — far too late — on the equally critical physical supply side

For the reality is that with the severe shortage of skilled manpower now facing the economy it will be impossible to maintain the kind of economic growth we want without facing acute inflationary pressures

The pity is that instead of clobbering the economy with monetary overkill in 1976-77 (a policy which could not have had the blessing of, ironically, Professor Friedman who has just rapped the British Government on precisely that charge) there had not been more moderation then, accompanied by a major drive to prepare the labour and social framework for the next economic upturn

Year	CPI %	Growth in money and near money %	Real GDP growth %	GDP deflator %†
1973	9,9	23,03	4,6	19,3
1974	14,1	22,30	8,2	14,6
1975	11,7	17,40	3 1	8,7
1976	10,8	9,04	1 3	12,2
1977	11,1	6,87	0,1	13,0
1978	11,0	12,00	2,3	12 0
1979	14,0	13,30	3,7	18,4
1980	*14,0	?	*5-5,5	?

* Estimate
† Derived from GDP growth at market prices minus GDP growth at constant prices

Senator Horwood has deservedly been praised for his monetary restraint and fiscal reforms

What we need urgently is action on the physical supply side of the economy to back that up

I am highly sceptical of the official view that inflation can be reduced by higher growth

But I would far rather have inflation with high growth than with low growth

And those are probably our medium-term choices

NM 15/4/80

(19) (153)

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 standstill 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 the past 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; what 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—the Railways and Escom have pushed up tariffs already. What others are in the pipeline?

Inflation must be conquered, says Bartlett

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RDM 16/4/80

THE ASSEMBLY — Inflation had to be conquered immediately as it was an evil often born from slothfulness and greed and did not create wealth, Mr G S Bartlett (NRP Amanzimtoti) said in the House yesterday

Speaking in the second reading of the Budget debate, he said South Africa was a young country and in no position to tolerate the evil

The sooner South Africans were made aware of the causes of inflation, the better it would be for the country as a whole

In this regard, Parliament and the Minister of Finance, Senator Owen Horwood, had to come clean with the people of South Africa

Senator Horwood had, through his fiscal policy, already disciplined Government spending He now had to tell South Africa and all its peoples that if they wanted a prosperous future free of inflation and unemployment and dangers from outside, they had to be prepared to work for it

The Government, however had an even greater role to play because it had the responsibility of managing the country in such a way as to provide jobs for those who wanted to work

The Prime Minister, Mr P W Botha, had persistently referred to his total strategy and 12-point plan designed to safeguard all South Africans However, he had to clarify the matter and say who it affected, who was involved and who benefited, and to what extent

The concept of a total strategy also needed greater definition, and a clearly defined direction was needed for the future

The Government had to set new national objectives and priorities with which all South Africans of all groups could identify and which they could understand

The first objective had to be the introduction of a new constitution which would firmly entrench a free and democratic society in South Africa

Because of the plural nature of the peoples of South Africa, the constitution had to divide political power along federal and confederal lines, based on ethnicity

"If the National Party delayed in this, it would put the future security of South Africa at risk

"In fact, I believe the squabbles in the NP are a security risk to SA "

The second objective had to be one of national solidarity, especially in regard to a new constitution This was, however, impossible to achieve as long as petty racist laws existed on the statute books — Sapa

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Tough money plan to curb inflation forecast

RDM 16/4/80.

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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 stimulation in the Budget makes this particularly necessary.

"To safeguard the economy from '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 sharp increase in gold and other commodity prices have also been instrumental in creating high interest rates overseas and the large differential which currently exists 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 and 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 exports might continue to create in the domestic economy and that the bank will act to gradually push up domestic rates.

"Exchange 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 as the growth rate quickens, it can be expected that large surpluses on current account of the balance of payments will be progressively reduced in the months ahead.

"This will particularly be the case if, together with other commodity prices, 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 R909 million, and a further R651-million from the abolition of loan levies.

Dr Cloete says: "Assuming an inflation rate of 14% to 15% in the ensuing year, this would, in effect, mean a reduction in the total tax burden in real terms of some 3%-4%, 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 raise personal disposable incomes by about R800-million — about three per cent in real terms.

"This, in turn, should raise private consumption expenditure by about 2,8%, allowing for the fact that part of the increase in disposable incomes will be saved."

The Star
Monday April 21 1980
CLASSIFIED ADVERTISEMENTS INSIDE ***

BRIEFING

Vicious circle of retailing

The small shop around the corner is doubtless more expensive than the local supermarket. But is the shopkeeper deliberately ripping off consumers, or is he a victim of exploitation himself? CHARLENE BELTRAMO looks at a controversial question.

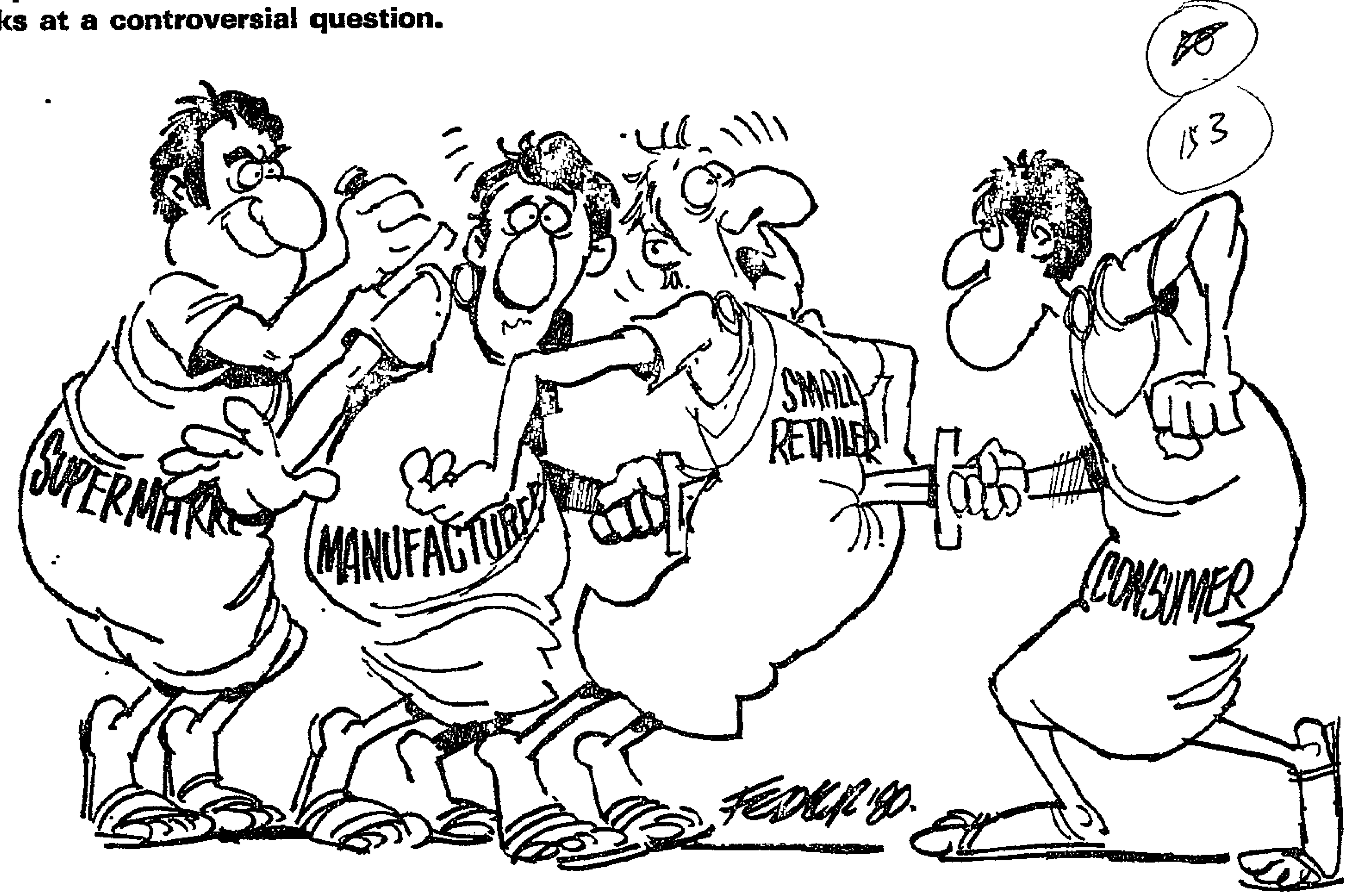
Retailing has become a vicious circle of chainstores sqeezing manufacturers for lower prices and manufacturers throttling small traders by causing them to sell at higher prices.

But the deepest thrust of the knife in the battle-scarred back of the small retailer is from the ever-growing ranks of militant consumers

The issue has become so serious that the Competition Board was asked by small traders last October to investigate secret deals between supermarkets and suppliers.

Small dealers are fond of pointing to supermarkets as the niggers in the woodpile. But a Fair Deal investigation has shown that it is often the manufacturers who have little regard for the small retailer.

Mr Graham Reed, of Sandton City Hardware, said that after a confrontation with a furious customer he investigated certain prices.



Markup

"As an example, I pay R1,37 from a wholesaler for a 250 g tin of Baygon green insecticide. My markup is 50 percent and I sell it for R2,06.

"The OK Bazaars, however, sells it for R1,20 — 17c less than I can buy it for from the wholesaler or manufacturer," Mr Reed said.

"I stopped selling HTH pool chemical. I was paying R7,95 for it. Checkers was selling it for R7,79 and the local Link pharmacy was selling it for R7,29 — 66c cheaper than I could buy it.

"If I buy direct from Lion chemicals, I'll get a five percent discount only after buying eight or 10 tons" — well beyond the storage capacity of the average small retailer.

Mr Reed said that the price he paid his wholesaler would force him to sell the product at R8,95.

"I give free deliveries, which also cost money. We've got to give service, while the large stores rake off the money.

"I'm tired of this manufacturers' dictatorial attitudes towards prices and their refusal to sell at a lower rate to the small shopkeeper"

Mr W Lenssen, general manager of Bayer SA, manufacturers of Baygon, said supermarkets used their purchasing power to squeeze prices down

"I suggest the consumer go to the supermarket The retailer around the corner is often more expensive — although my wife often goes to the corner store, for convenience, and because it has longer hours," he said.

"Our duty is to protect the established trade and keep everyone in business. The wholesaler has a function to supply the retailer.

"We would not like to supply direct to the retailer, because it would cut out the wholesaler."

Mr Lenssen did not believe small retailers would eventually cut out wholesalers when they realised they could buy cheaper direct from chain stores.

Wholesalers are also not concerned that this will happen. Mr Reuben Mo, a spokesman for a wholesaling concern, said there were advantages for the small retailer buying from wholesalers

"We have four deliveries a day in the Johannesburg area, which means that within two hours of placing an order the shop will receive it

"Retailers have 60 days in which to pay, if they pay within 30 days the goods will have an additional 2,5 percent to five percent discount. There is also a 10 percent bulk discount," Mr Mo said.

Mr J Rushton, of Lion Chemicals, said they were not geared up to supply small quantities

He said there could be many reasons why a small retailer did not receive a favourable discount: "His credit or volume turnover may not be good"

However, it seems clear from Fair Deal inquiries that small retailers cannot expect more than 10 percent discount, with 2,5 and 5 percent being the norm.

Mr D Michos, of the Tearoom, Restaurant Proprietors and Caterers Association, said they had asked the government to outlaw confidential discounts.

"Large chain stores can sell cheaper than we pay, and then we're accused of profiteering," he said.

Mr Michos pointed out, as an example, that while one supermarket chain was selling bread at slightly below the controlled price and still making a profit, cafes were losing slightly more than 1c on every loaf they sold.

On half a loaf of brown bread they lose 2,5 percent.

Margin

"For the last 10 years we have been allowed a profit margin of 1,5c a loaf of bread," Mr Michos said

"The cafe owner used to pay R1,74 a dozen loaves of bread and was allowed a profit margin of 18c on that.

"Today, he must pay R3,42 a dozen loaves but is still only allowed 18c profit."

Mr Michos said cafe owners had to pay about 75c for plastic to wrap each loaf in, as well as store rental and wages for staff

"If bread is kept for more than 36 hours, it cannot be sold except at a lower price. The bakery cannot take it back either That is why cafes often run out of bread at the weekend each old loaf is a loss to them," he said

Cafe owners rely heavily on sales of bread, soft drinks, newspapers and cigarettes to draw custom.

The wholesale prices the small storekeeper pays for goods are sometimes as much as 40 percent higher than those at which superchains are retailing the same products.

By the time the small shopkeeper has put on his markup of approximately 50 percent, his price to the consumer has doubled compared with the superchain selling price.

Mr D Michos, of the Tearoom, Restaurant Proprietors and Caterers Association, gave a list of basic foodstuffs and how much cafes pay wholesale, with the comparative selling price in a large retail chain.

Mr Michos said wholesalers had said they were giving "the most cut-throat prices they can give."

"Wholesalers say they feel superchains are twisting all sorts of discounted prices. For example, if the manufacturer says he can only sell at 50c, the superchain brings him down to 39c.

"The cafes are then forced by the manufacturers to make up their losses," Mr Michos alleged.

PRODUCT	Wholesale price to Cafe	Superchain selling price
Simba chips 150 g	47c	44c
Punch 1 kg	R1,21	99c
Canned soft drink	19,9c	18,5c
Bread	29,5c	28c
Bread rolls	60c	45c
Hot X buns	80c	45c
Carton Rothman's cigarettes 30's	R6,23	R5,99
Carton Rothman's cigarettes 20's	R4,15	R3,99
Ricoffy 1,5 kg	R5,75	R5,55
Epol crumbs dog food	R4,40	R4,05
Large condensed milk	48,3c	48c
Choice assorted biscuits	38,3c	39c
Lemon Creams	40c	39c

(b) Manual labour is hired locally from week to week.

(d) All the plant needed for Southampton has been owned for some years. £1,6000 is the year's depreciation (straight-line) in the financial accounts. If the Hull job is taken, less plant will be required, and the surplus items will be hired out for the year on similar work at a rental of £750. Interest is based on a memorandum entry, at 5% of original cost, in the cost records.

(f) Office and general expenses amount to about £1,800 every year.

Required:

A revised budget (if you think revisions are called for), adhering as far as possible to the same order as that used for the data above, showing which job you (as a director) prefer, with short notes explaining your guiding principles and any calculations. Both jobs would last 12 months; no other jobs are being done or are likely to be offered.

Inflation lowest since '73

STAR 23/4/80

Financial Reporter

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 in 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 13,06 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 rose by over 18 percent.

The prices of liquid fuels are likely to go up again soon for Reuter reports that by the end of 1980 Opec countries will be charging about 40 dollars a barrel against today's average of 30.

(153) (49)

DD 23/4/80

Public sector pay warning

PRETORIA — Public sector increases 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 R480 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 foods 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 rises are expected to rise sharply

Economists said yesterday it appeared 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 Daan 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 Ralie du Plessis, said a statement on the talks might be issued later today

The Minister of Health, Dr Lapa Munnik, 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

UNIVERSITY OF CAPE TOWN
EXAMINATION ANSWER BOOK

EVERY CANDIDATE MUST enter in column (1) the number of each question answered (in the order in which it has ... mns (2) and

External

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Inflation slows but uptrend now likely

153 (49) RDM 24/4/80

By HOWARD PREECE
Financial Editor

THERE has been a striking slowing 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 162,1 (base 100, 1975) in September, and reached 164 at the end of 1979 and 168 in March this year

However, while the annual rise 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 bear out 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, feedstocks, meat, bricks, cement, sugar, eggs 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 Horwood, 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 12,9% for upper incomes

These various figures put into perspective the 12,5% "rises" 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 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 14,40% 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 19,1%, Canada 9,4%, Italy 20,8%, Australia 10%, and Switzerland 4,1%

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 book(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
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Any dishonesty will render the candidate liable to disqualification and to possible exclusion from the University

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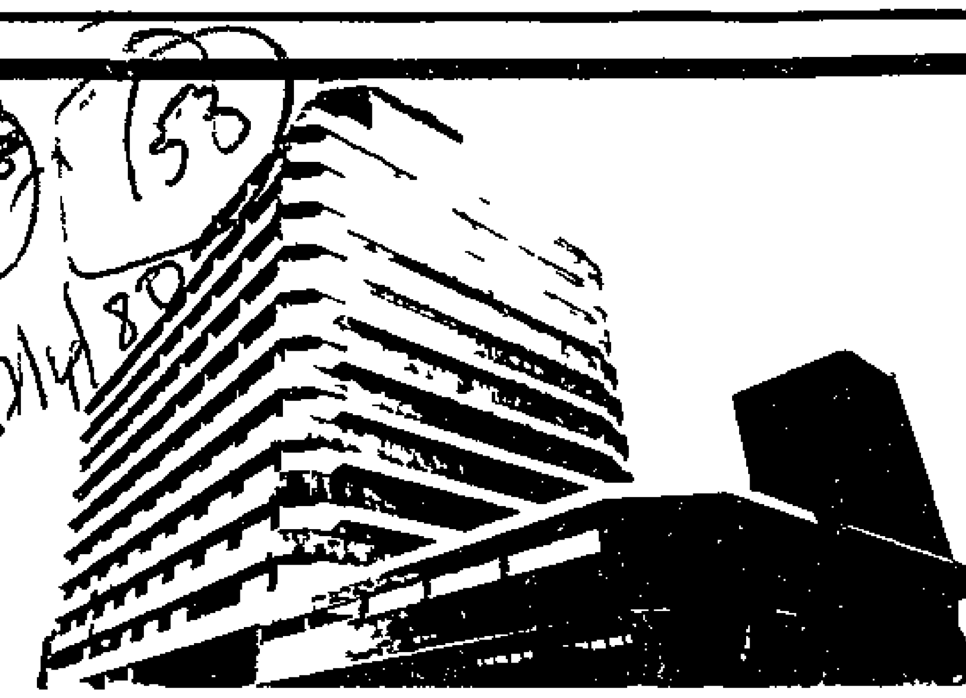
UK inflation accounting rules may spill over to SA

S Times (Business) 27/4/80



IN A MOVE which could have far-reaching consequences for South Africa's listed companies, inflation accounting has been made mandatory in the UK for all listed and large unquoted companies.

Because of the close financial links which exist between South Africa and the UK and the tendency of UK financial legislation to find similar expression in SA, the imposition of mandatory inflation accounting in Britain could, in due course, lead to like legislation here

The implications for large local companies should such a step be introduced into South Africa accordingly warrant close study

Comprehensive studies concerning such implications for SA companies have not been undertaken but a look at the likely effect of inflation accounting on British companies provides a guide as to what might be expected on the local investment scene

Three leading London stockbroking firms have published circulars estimating the impact of the new accounting system on quoted companies' reported results

W Greenwell estimates that, on average, 1979 pre-tax profits will fall by 35%, while Phillips & Drew have published a figure of 36%

The latter firm states "At the post-tax level, published profits are halved However, the more meaningful comparison for investment analysts is between the historic cost fully-taxed profits and the inflation-adjusted profits with no deferred tax

"On this basis the reduction in post-tax profits under inflation accounting is about 33% "

Looking to the 1980 results, Phillips & Drew expects the average reduction in pre-tax profits to be about 40% to 45%

After the inflation adjustments, the firm anticipates a reduction in dividend cover to about 1,1, "implying that almost half the companies will be paying dividends which are not fully covered by inflation-adjusted earnings "

Diagonal Street

By JOHN SPIRA

Turning to the balance sheet and using 1978 figures, P & D projects that capital employed rises by 35% under the new system, while shareholders' funds (and net asset values) rise by as much as 55%

As a result, balance sheet gearing, which was at an historically low level at the end of 1978, falls from 21% to 15%

De Zoete & Bevan says that a current cost return on capital employed of between 8% and 10% would appear to be an adequate aim for a company The equivalent required net of tax return on shareholders' equity would be about 6%

De Zoete believes that over the next two years investors will turn increasingly to shares in companies with adequate current cost profitability and that the prices of shares with low or negative current cost profits will suffer relatively

This will mean continued appreciation of shares in the financial and service sectors by comparison with those in manufacturing

There will also be differential price movements within the manufacturing sector between the shares of companies which can achieve adequate current cost profitability and those which cannot

Greenwell has published a list of various industrial sectors and the negative percentage impact which inflation accounting is likely to have on pre-tax earnings

Textiles	-70%
Motors & distributors	-64%
Metals	-54%
Chemicals	-51%
Oil	-48%
Mech engineering	-40%
Packaging & paper	-36%
Banks	-35%
Pharmaceuticals	-29%
Electricals	-27%
Electronics, radio, TV	-26%
Food manufacturing	-26%
Building materials	-23%
Breweries	-22%
Tobacco	-21%
Food retailing	-16%
Stores	-12%
Insurance brokers	-11%

Of particular interest in a South African context is the relatively large number of local companies which are subsidiaries of UK groups Such companies will obviously be required to submit inflation-adjusted accounts to their holding companies for consolidation

Will these companies then publish inflation-adjusted accounts in SA, since they will in any case be required to produce such figures?

At present only seven JSE listed companies — Standard Brass, Afrox, Dunlop, Utico, Woolworths, Truworths and Chemical Holdings — publish inflation-adjusted accounts

... and what it means to Std Brass

STANDARD Brass, the metal foundry and engineering company in the General Mining group, has (laudably) gone to great lengths to explain to shareholders just how inflation accounting impinges upon the figures produced by the company

In a statement accompanying the most recent annual report, the company points out that instead of the 102,9c a share earned in 1978, the inflation-adjusted figure would have been 51,9c For 1979, the 137c a share earned on a conventional accounting basis would have been 69,9c

Because dividends are paid out in cash, inflation accounting has the effect of slashing the dividend cover or even demonstrating that dividends are actually being paid out of capital rather than out of earnings

In the case of Standard Brass, the inflation-adjusted figures show that the company is earning a real return for shareholders and still generating funds to plough back into the expansion of the business

Dividend cover for 1978 was 1,3 times on the inflation-adjusted basis against the 2,57 times of conventional accounting. For 1979, the cover was 1,27 times instead of the conventionally recorded 2,49 times

The tax rate for Standard Brass went up from 36,8% in 1978 and 35,3% in 1979 to inflation-adjusted figures of 53,5% and 51,5% respectively

Genmin included the inflation accounting statement in the Standard Brass report specifically because this accounting treatement hits capital-intensvie companies worst of all Trading companies that turn over their stocks rapidly are least affected

When a sufficient number of companies have published inflation-adjusted income statements for a sufficient time, Genmin will assess the quality of the information generated in this way and make a policy decision about accounting treatments for the rest of its group

Until then — and it could take some years to gather sufficient data — Standard Brass is likely to remain the only Genmin company making the complex calculations necessary to adjust the cost of fixed assets, depreciation and cost of sales as well as to calculate an adjustment for financial gearing, some of which must be done on a monthly basis in order to produce inflation-adjusted accounts

Inflation hits rich hardest

153 ~~24~~

CM 30/4/80

BY VITA PALESTRANT

THE Consumer Price Index rose by 0,6% last month and by 13,7% during the 12-month period ending March.

Hardest hit last month were the lower and middle income groups with the CPI rising by 0,7%. For higher income groups the increase was 0,5%.

However during the past year the inflation rate has been hardest on the higher income groups.

The March to March increases show the CPI rose by 12,5% for lower income groups, 13,3% for middle income groups, and 14,4% for higher income groups.

These figures were released by the Department of Statistics in Pretoria last week.

A major increase in the CPI last month was education which leapt up by 14%.

Furniture and equipment also rose substantially — by 2,2% last month. Furniture rose by 2,1% and appliances by 2,5%.

Food — which is running ahead of the CPI — rose by 14,4% over the past year and by 0,3% last month.

Major increases in the food sector last month were:

Fruit and vegetables by 9,4% and 5,1% respectively, coffee and tea by 1%, meat and fish by 0,8% and 0,6% respectively and milk and milk products by 0,5%.

These items have increased by 21,5%, 16,3%, and 12,1% for meat, fish and milk and milk products respectively over the past year.

The cost of clothing leapt up by 1,1% last month and footwear rose by 1,5%. Over the past year they have risen by 8,5%.

Although fuel and power rose marginally last month — by 0,3% — the index shows that over the past year it has leapt up by a hefty 18%.

The cost of household operations continued to rise increasing by 0,6% and 19,8% over the 12 month period.

In that sector cleaning materials shot up last month by 1,3% and by a massive 24,8% over the past year.

Domestic servants were paid slightly more in March — 0,4% and 17,7% over the year.

Other increases in the CPI last month were medical care up by 0,8%, recreation and entertainment by 1,1% and personal care up by 1,5%.

Every month the Department of Statistics gleans masses of information about the costs of goods and services in 12 major urban areas.

These are processed to make up the CPI.

Consumer Mail publishes the CPI on a monthly basis as a service to its readers.

	Mar 1980	Feb 1980	Mar 1979
ALL ITEMS	168,0	167,0	148,6
Lower income group	163,7	162,6	145,5
Middle income group	167,6	166,5	147,9
Higher income group	169,3	168,4	149,9
FOOD	167,7	167,2	146,6
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Grain products	165,0	165,8	151,1
Meat	156,0	156,8	130,0
Fish	190,1	188,9	163,5
Milk milk products & eggs	158,1	157,3	141,0
Fats & oils	184,3	184,4	161,6
Fruit	169,8	185,8	167,3
Vegetables	155,9	148,2	130,6
Sugar	238,7	238,9	215,0
Coffee & tea	235,9	233,6	228,0
Other	168,8	167,4	154,5
COLD DRINKS	173,4	173,8	161,6
ALCOHOLIC DRINKS	152,3	152,3	141,1
CIGARETTES CIGARS & TOBACCO	150,6	150,6	144,2
CLOTHING & FOOTWEAR	150,9	149,1	139,1
Clothing	142,5	140,9	134,9
Footwear	194,9	192,0	162,6
HOUSING	144,6	144,8	132,4
L & POWER	220,7	220,1	187,1
FURNITURE & EQUIPMENT	154,8	151,4	144,2
Furniture	137,4	134,6	129,6
Appliances	151,6	147,9	140,7
Other	165,3	161,6	151,3
HOUSEHOLD OPERATION	203,8	202,6	170,1
Cleaning materials etc	187,3	184,9	150,1
Domestic servants	210,9	210,0	179,2
Other services	186,1	186,1	159,1
MEDICAL CARE	161,0	159,8	139,5
TRANSPORT	201,0	201,0	170,2
Vehicles	177,2	177,2	161,0
Running costs	243,4	243,4	188,3
Public transport	156,4	156,4	149,0
COMMUNICATION	118,6	118,6	101,3
RECREATION & ENTERTAINMENT	160,7	159,0	150,6
READING MATTER	167,5	167,5	156,0
EDUCATION	201,9	176,9	176,9
PERSONAL CARE	163,8	161,4	152,3
OTHER	171,0	163,8	141,5

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Inflationary wage boom could pose economic threat

STAR 2/5/80 (153) (355)

Political Staff

CAPE TOWN — There is growing concern in Government and other political circles about the danger of a 'wage explosion" following the public service salary increases.

It is feared that a wave of salary increases at disproportionate levels could boost inflation to the extent where it could become a serious threat to the economy.

However the Secretary for Finance, Dr J H de Loor believes the private sector salary increases at this stage are still within reasonable bounds. While public service salary increases averaged 12 percent, he believes most private sector increases will not exceed 15 percent.

It could be that in the highly skilled job sectors there would be a much larger increase because of these workers' greater bargaining power, Dr de Loor said. But information received by his department was that some companies' increases were less than ten percent.

The Government was trying everything possible to remove the bottle 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 strengthen people's buying 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 bottle 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.

ANGUAGES,

8/05/80 ARGUS

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 salaries 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.

SALARY 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 5 percent.

This will form a sound basis for a further accelerating 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 6,4 percent last year, spending on semi-durables to rise by 6,7 percent from 1,2 percent, spending on non-durables to rise by 3,9 percent after 2,4 percent last year and spending on services to rise by 4,3 percent after 3,0 percent last year.

This should lead to an acceleration in private fixed capital investment.

INFLATIONARY

However the bureau warns that the increase in consumer demand later this year could lead to increased importations of high priced goods which could give the inflation rate another boost.

Moreover apart from the danger of inflation caused by consumer demand the higher salaries and wages will also be inflationary unless productivity increases by the same percentage — which seems unlikely.

The higher demand for goods will be transformed into a higher demand for skilled workers and because they are in short supply their wages are bound to increase.

The inflation rate will be difficult to control and is unlikely to be lower than last year.

Inflation still big headache

Argus, 9/5/80

153

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 Horwood, 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.

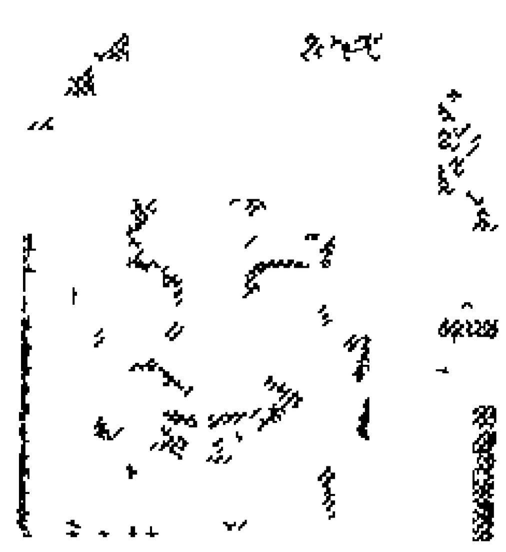
The gold market was stable and the country had an ample surplus on its balance of payments.

The real growth rate expected for the year was five percent, Senator Horwood said. — Sapa.

STAR 10/5/80

153

Pay carrots beat staff shortages



Jean Moon looks at job-poaching

Twenty - three - year - old bank clerks earning R850 a month are being lured away by stockbrokers offering R1 500 a month (plus bonuses), computer systems analysts are being offered R20 000 a year (plus a car), and computer managers are being enticed to new jobs for R30 000 a year

When all this is taken into consideration, the Bureau for Economic Research's forecast of 20 percent pay increases seems small

BUILDING

In the building industry the bill can be expected to be well above this average Russell Jackson, speaking for Merbuild, said he expected an escalation in building to the order of 30 percent in the current year, with labour accounting for 40 percent of the component costs

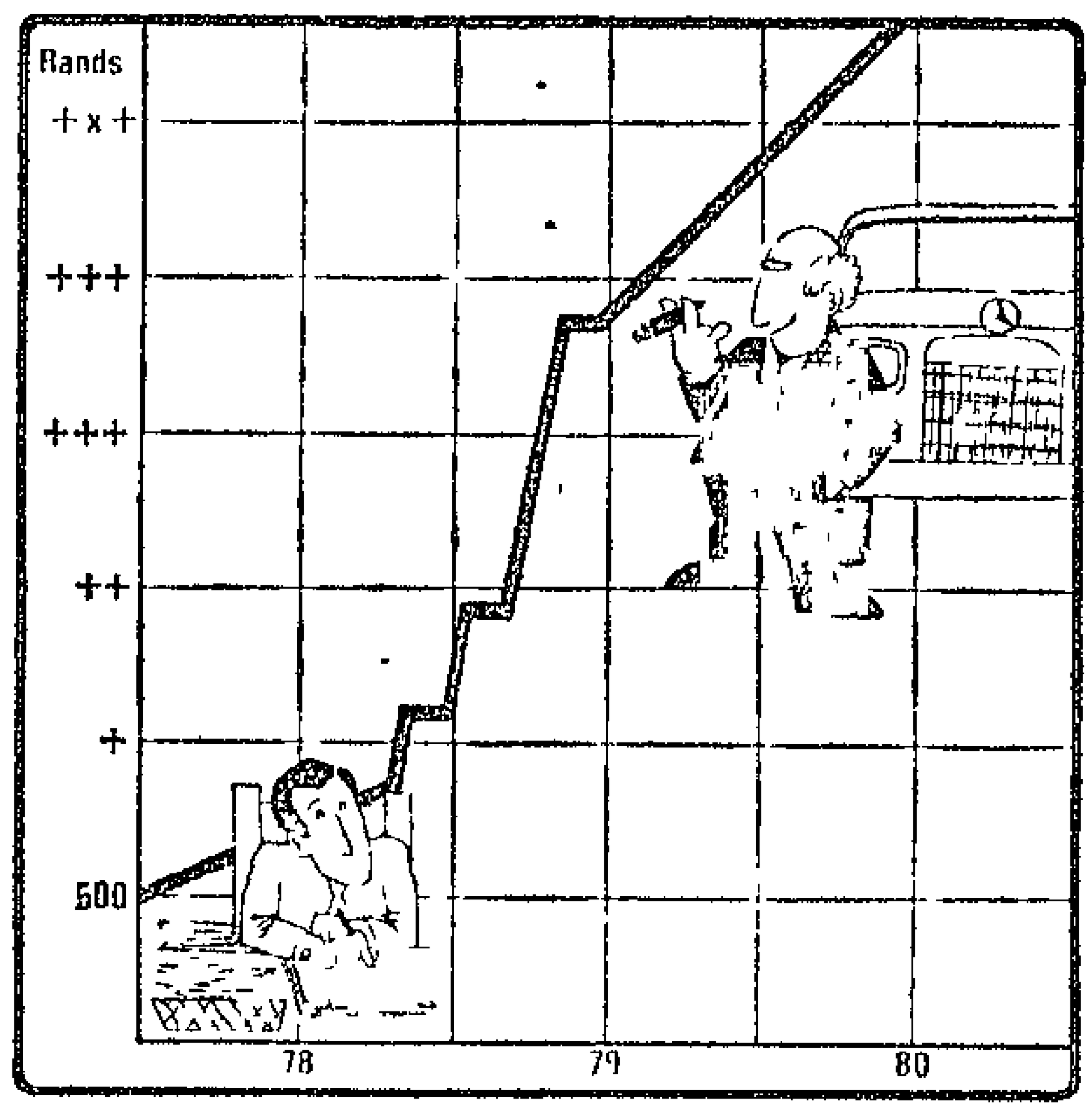
Private house-building is booming But as there is no meaningful influx of whites into the trade, things will become difficult Blacks are becoming skilled, but they do not have the entrepreneurial leanings of sub-contractors

From March 1978 to March 1979, the average pay increase for blacks in the building industry was 7,9 percent and from March 1979 to March 1980 a further 10,07 percent

In comparison, white salaries increased 22 percent from March 1978 to March 1979 and 15 percent from March 1979 to March 1980

The average salary for whites in March 1978 was R749 a month, in March 1979, R787 and in March 1980, R781 The wage average reduced in the past year because there were fewer skilled workers in the industry

Assocom thinks the increase in the wage and salary bill will stem mainly from previously unemployed people now finding jobs. But it is not just among blacks.



White married women who were previously unable to find part time employment, can now take their pick of companies desperately needing help

A large chunk will go to Government employees who have already been granted pay increases

On the Railways alone, there are 113 449 whites employed, 125 690 blacks, 1 836 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 236 000, and in local authorities more than 200 000 All these people have been granted pay increases up to 13 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 he sees attractive salaries offered, the average employee feels underpaid and decides to move on But then the gap left by him must be filled and the employer is forced to offer an equally attractive salary scale to fill it

A spokesman for the Standard Bank feels that 21 percent is perhaps a little too high, 'but it is close' he added

The bank is finding the market more fluid and volatile and agrees that there is much inter-organisational poaching going on

Large banks are more susceptible to poachers because of their well-established training programmes and staff disciplines

The number of bank employees is rising and banks are using a wider range of personnel in clearing capacity with the planned programme for training black and coloured staff in this area 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 has 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 rise in the wage bill is a fair assessment All employer bodies with which it deals are faced with substantial wage increases and 13 to 14 percent increases over the year can be expected Certainly, more people are being employed within the industry as a whole at higher wages and salaries

The 21 percent estimate appears high to the Chamber of Mines Last month, miners were granted increases but, taking into consideration natural expansion within the industry and the larger number of employees to be paid, the Chambers' estimate is something above 17,5 percent, but not as high as 21 percent

As a growth industry mining is still attracting employees But the biggest problem area is the acute shortage of skilled people Anyone with the necessary qualifications is grabbed, but the critical bottleneck still remains

When Sasol was asked to speak on the subject, "No comment' was the reply "We are reviewing and re-reviewing the situation," said a spokesman

INFLATION FM 16/5/80

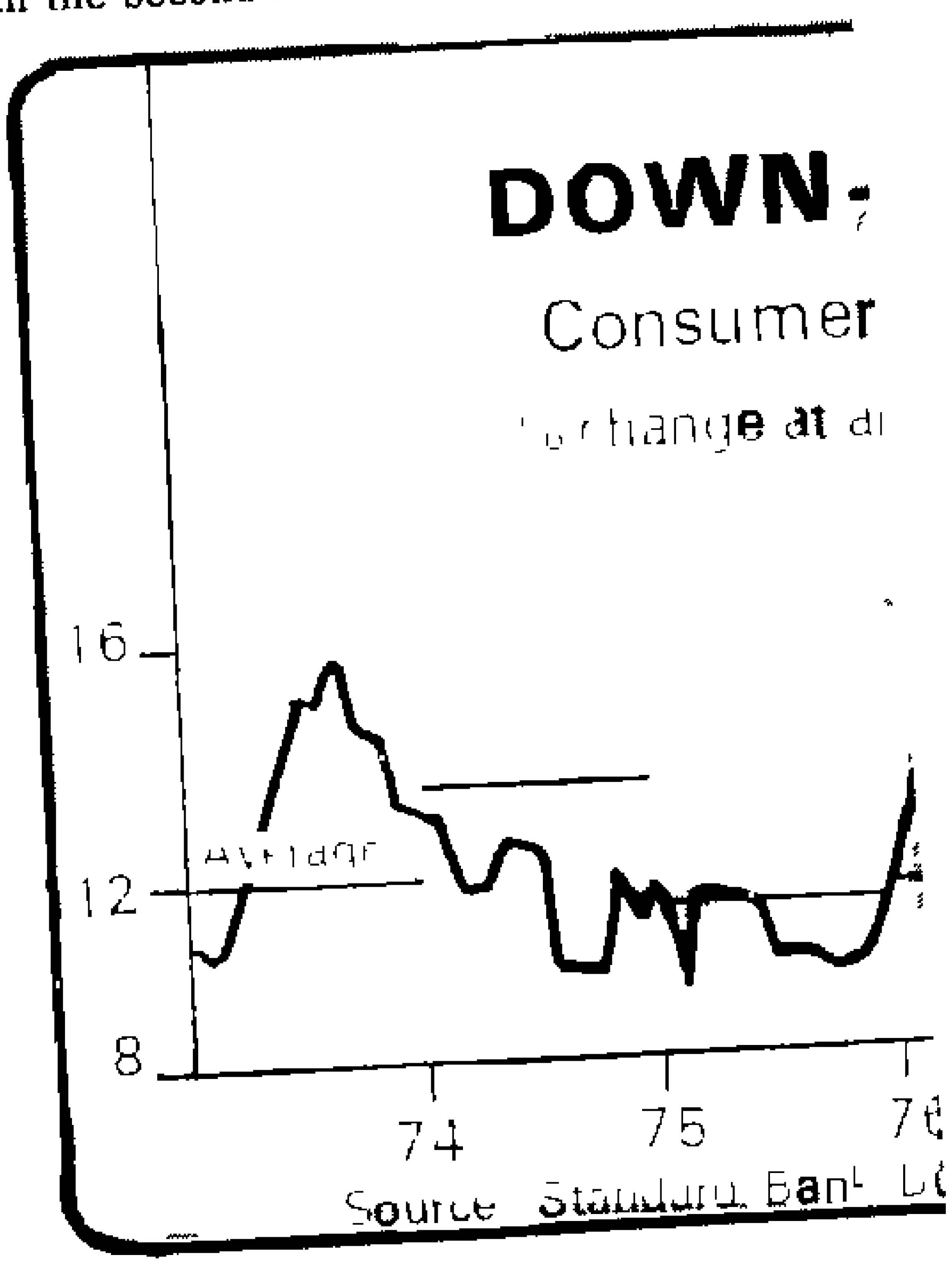
(153)

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 1979.

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, demand-pull inflation may well exert strong upward pressure on prices towards the third quarter of the year. Bottlenecks are already evident in the skilled labour market while increases are in the pipeline for, among other items, maize, feedstocks, meat, bricks, cement, sugar, eggs, and milk. Such price increases are usually administered in the first half of the year, the effects filtering through the economy in the second half.



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.

Financial Mail May 16 1980

Inflation at 13,4% as food prices leap

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RDM 23/5/80

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 1,19% increase in April in the overall CPI — over 14% annually — with the index up from 168 to 170

It was 149,9 in April 1979 with a 100 base in 1975

Food price rises played a major role in the CPI increase and the food only index rose to 171,5 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 income, the impact on different groups seems to vary from month to month

In April the lower income group index rose to 166,7, reflecting a 1,83% increase for the month and a 13,09% rise for the year, while the middle income group index rose to 169,8 giving a 1,31% increase over the month and 13,58% 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 13,6% 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 bottlenecks

On the offical 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 accomodating 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 14% in 1980 can now see the nonsense that view was

Inflation increasing say experts

(153) RDM 23/5/80

By GERALD REILLY
Pretoria Bureau

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 13 4% (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 3% and higher income groups 1 0%

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 rail 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 Cloete, 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 Cloete 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 R480 million in salary increases granted in the public sector and the R909 million in tax concessions

The abolition of the savings levy would add another R600 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

(153)

SUNDAY TRIBUNE, MAY 25, 1980

B 3

Middle men are pushing up inflation — and there's more of them each week

By BEN TEMKIN

WHILE the battle against inflation is hotting up, there are a number of aggravating factors which are making their presence felt — not least among them enormous growth in the middleman sector of the economy.

For those who don't know much about middlemen, they are the people who do not manufacture a product nor provide a direct service but act as intermediaries in the selling of products and services.

Middlemen are a vital element in the economy. For example, it would be difficult to sell insurance directly — many companies have tried and failed — and intermediaries here are essential.

The selling or buying of property is again a ...ult task for the lay... and this is where ...state agent comes ...he picture.

...ilarly, there is a variety of consul... services which re... special skills. Such ...es include design, ...rch, investment and ...eting advice.

Since the agencies work on commission, it is in their interests to try to get as high salaries for prospective employees as possible. They will also want to have as large a turnover of people through their offices as possible.

It is not uncommon for an agency which has put a person into employment to contact that person after, say, three months and tell him or her that a more suitable job at a higher salary has emerged. The result of this kind of spurious activity is a rapid spiralling of wages and salaries of direct benefit only to the employment agencies concerned.

In the same field, there are highly qualified consultants who advise on the filling of executive positions. Unfortunately, with the increased demand for 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.

This is, however, no more aggravating for the inflationary problem than normal salary and wage demands.

What is more inflationary, however, is the advent to the middleman sector of a large number of people who may or may not be providing an essential service but who put up the costs of services and products which would otherwise be much lower.

Right at the forefront are the employment agencies. The agencies would probably argue that, by channeling people to employers they reduce the cost of employment. They would also argue that by conducting the first 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.

While it is accepted that this is an inevitable outcome of private enterprise, it is unfortunate that service industries such as personnel consultancy, investment counselling, 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 enticing people to put their properties on to the market at highly inflated prices. Already, there are signs that the average family home is being priced far beyond the means of the average family.

Again, if an employee of a company has to meet large monthly commitments towards the purchase of his home, then he will put pressure on his employer for an increase in salary — yet another aggravating factor for inflation.

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, inevitably, self-professed 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 precipitate in view of the latest round of administered price increases and the eminent rise in the price of steel. The trouble with the Pretoria view is that it probably also doesn't take into account the middleman bubble.

25/5/80

(153)

THE ARGUS, MOND

26/05/80 ARGUS

Costs will hit Cape services

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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 usbsidy by four percent or almost R25-million, leading to drastic paring of provincial expenditure or services Even so, Mr Louw expects the 1980-81 book-year to end wth a R22-million deficit

SALARIES

He said the expenditure of general administration in 1980-81 would be R22 063 000, an increase of 8,2 percent over the figure for last year — and of the R1 714 200 increase R1 035 500 represents salary and other personnel benefits

He proposed to spend R214 816 000 on education —an increase of R13 832-000, or 6,9 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 4,95 percent, of which more than two-thirds would meet increased salaries and personnel benefits

Mr Louw said that when special costs were removed, the real normal growth of the Department of Hospital Services would be only two percent

The expenditure of R161 526 000 on roads and bridges represented an increase of six percent, but construction costs had increased by 22 percent and maintenance costs by 17,5 percent in the past year.

INFLATION FM 30/5/80

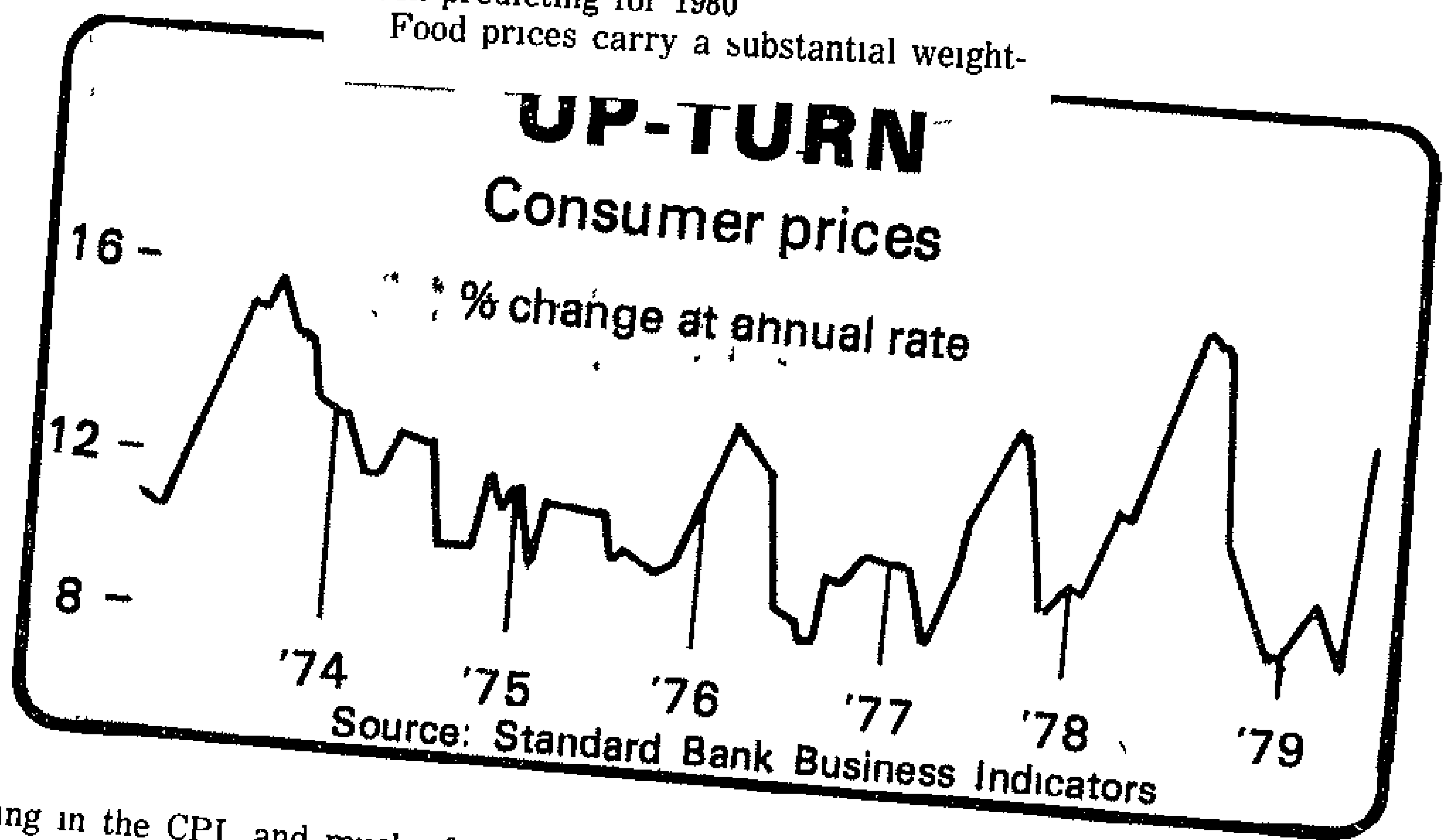
April gloom

153

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 weighting in the CPI, and much of the increase is attributable to this sector According to Statistics Department figures, the largest individual contributions were made by bread and meat Public transport was another significant factor Hence administered prices were responsible for much of April's inflationary pressures



Delayed 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

153

RDM 9/6/80

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, 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 increasingly rapid growth of the real sector of the economy has been accompanied by comparatively high rates of increase 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 revival has now spread to commercial and factory buildings, 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 become 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 trend 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 "

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OUTPUT-TARGET-CASCADE SECTION.
START-TARGET-CASCADE.
    READ TARGET-FILE AT END
        GO TO END-TARGET-CASCADE.
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Steel price set to jump by 12%

153

RDM 19/6/80.

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 R90-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 witheld 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 62 000 workers from July

This would take the total wage and salary bill to a record R400-million.

The seven unions representing 20 000 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

STAR 20/6/80 (153)

Fair Deal Staff

The steel price increase could help force the inflation rate up to 17 to 18 percent by early next yar, 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 Langeberg 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 Langeberg 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

Cape Times 21/6/80

Inflation nears previous record

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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 astounded 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

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RDM 21/6/80

Another twist to inflation spiral

By HOWARD PREECE

INFLATION speeded further last month with the consumer-price index rising by 1,1% to give a rate for the year to May of 14,1%.

This is a disappointing, if predictable, 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 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 13,4% 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 150,6 in May 1979

For the six months to March this year the CPI rose by an annual rate of only 7,3%

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 14,45% for the year to May

It was 14% for upper incomes and 13,8% for the lower incomes (basically blacks)

Food prices soared by 16,15% 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 overpessimistic, 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 of 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

(153)

RDM 21/6/80.

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% cent 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 0,35%

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

22/6/80 SUN TRIB (FIN)

Reviewing Horwood the inflation fighter

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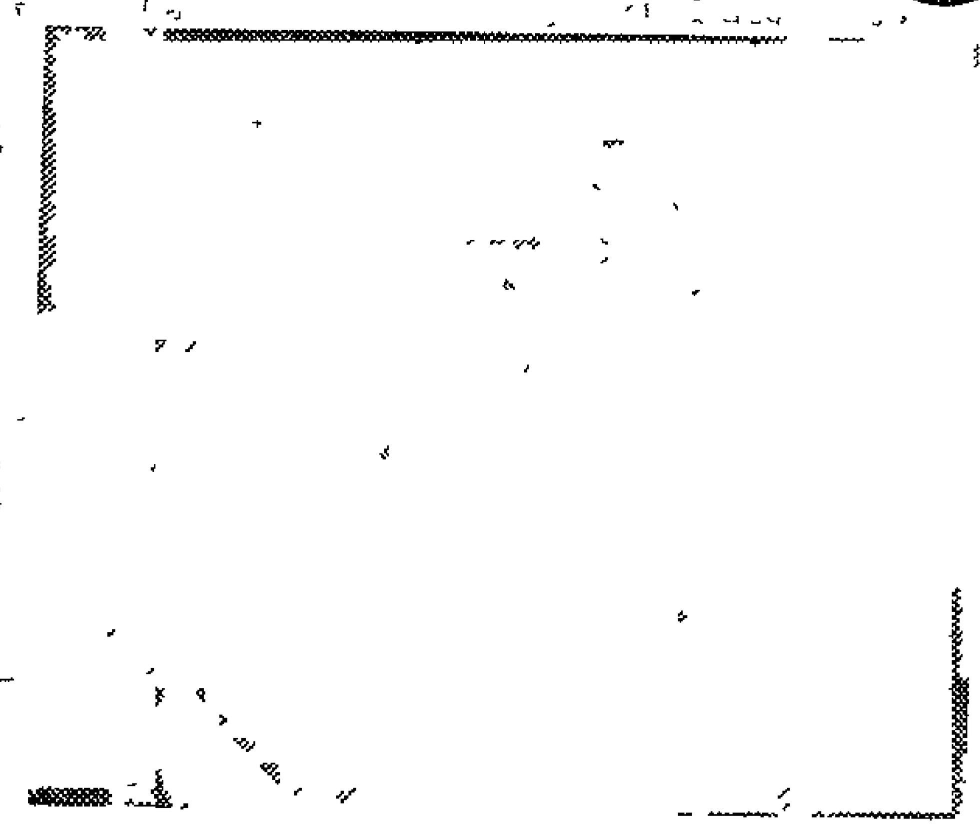


SENATOR HORWOOD

By BEN TEMKIN

MORE than seven months after the Minister of Finance, Senator Owen Horwood, at an Assocom congress in Bloemfontein, disclosed a six-point plan to combat inflation it is probably a good time to review progress on his plan.

The first point in the plan was that State spending would be kept to a minimum so that the money supply did not increase excessively. State spending has soared in recent months, but it can be argued that this is in line with economic growth and that the money supply has been controlled in this regard.

His second point was that administered prices were to be kept at realistic levels but strict discipline would be applied when further adjustments were made. It must be questionable just how strict discipline has been. Increases have been far from gradual and the impact on consumers has been severe.

The next point in the plan was that the prices of price-controlled goods would be allowed to increase economically justifiable strong action would be taken against any form of monopolistic exploitation of the public.

Again it would seem that there has been no action. Price increases on almost every conceivable kind of goods continue unabated. We are still waiting to see some kind of investigation into meat prices.

The plan for other prices was for producers and other business enterprises to apply strict discipline and to absorb a portion of cost increases themselves. There is some evidence that producers and retailers are absorbing part of cost increases. There is also strong evidence to suggest that many are taking advantage of rising consumer demand to push prices as much as possible. In any case, as was pointed out when Horwood first announced his plan, this is an area that is almost impossible to police and will need considerable co-operation from those involved.

Horwood's next point was that a closer relationship should be maintained between wage and salary increases and productivity. The idea remains good, the problem remains the same — that some sectors of the economy cannot increase their productivity in line with others. In many instances, this is because of the nature of the work involved which cannot, for example, be switched from human effort to machines.

The final point in the plan was that the Government would intensify its efforts to increase productivity and would put more effort into improving training and better use of labour resources. There can be no doubt about the serious intentions of the Government. The reorganisation of the structure of the public service will go a long way towards improving productivity while more effort is being put into the productivity side all round.

In all, the six-point plan can hardly be said to be operating successfully. Of course, it would be difficult to implement in the existing high-growth environment. Too much control too suddenly could further increase the nervousness of those industrialists who already find themselves seriously concerned about inflation and growing political problems. The country's economic development programme — as was announced this week — has to be revised in the light of stronger growth expectations. These growth expectations are allied to expansion of capacity at a much faster rate than is presently the case. This capacity increase simply will not take place if a further dampener is added to those which industrialists already have to endure.

Horwood certainly recognises this capacity problem and he must also be aware that control of inflation will depend very much on South Africa's ability to maintain its exports while the rand strengthens. The stronger rand assists on the import front since it helps to counter the very high rates of inflation in our trading partner countries.

We have, unfortunately, to return to the basic inflationary problem — that the world in general cannot accept any redistribution of wealth. This is particularly true of the changed flow of wealth from the industrial countries to the Opec countries since 1973. What has happened since then is that the non-Opec world has simply adjusted the prices of its goods to provide the extra money needed to buy its energy. No country wants to be poorer as a result of having to pay more for its fuel — or, for that matter, any other need.

To repeat what has been said in earlier articles on the subject in the Sunday Tribune, inflation is the cost of retaining the appearance of not having become poorer.

Within a single country, the same action against becoming poorer takes place. If, for instance, an industry is able to achieve gains in productivity, then it should be able to pass on some of those gains to its employees. Unfortunately, others in the same industry — and in other sectors of the economy — see these gains and wish to enjoy similar ones themselves. If they do not get the same increases in salaries and wages, then they feel they will be left comparatively poorer. Inflation gives them those higher wages.

This is why it remains important that Horwood's plan be implemented with the full co-operation of commerce and industry. Key production and other business enterprises need to sit down with Government to devise ways and means of putting the plan into action in a workable form.

To repeat our comments of last October: "Business has to be reassured that its returns on capital will be adequate and that it will not be prevented from improving its profitability when this is not the expense of the consumer. Nor should realistic adjustment to salaries and wages be prevented."

Only a shotgun could wing inflation

RDM 25/6/80.

153

By SIMON WILLSON

INFLATION was a series of moving targets which only the full blast of a shotgun could be sure of hitting, Dr Joep 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 restrictions 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 price rises 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 long-term or structural policies designed to reduce the inherent inflationary bias in the economy," Dr De Kock said

De Kock oor inflasie (2): VRAAGINFLASIE NOU NAB

DR. GERHARD DE KOCK, senior vise-president van die Reserwebank en spesiale ekonomiese raadgewer van die Minister van Finansies, se siening oor hoe om inflasie in bedwang te hou, is verlede week in Sake-Rapport weergegee. In daardie artikel is beskryf hoe 'n kombinasie van enersyds korttermyn-, fiskale en monetêre beleid — met inbegrip van rentekoers- en wisselkoersbeleid — en andersyds langtermyn- of struktuurbeleid gerig op die ekonomie se inherente vatbaarheid vir inflasie, gebruik kan word om inflasie die beste te bekamp. In hierdie tweede artikel verskyn dr. De Kock se siening oor presies waar ons nou met inflasie staan.

EERSTE STELLING: Die inflasie in Suid-Afrika sedert 1975 is tereg deur die owerheid as „inflasie van die kostekant'' of „kostedruk-inflasie", en nie as „vraagtrekinflasie" nie, gediagnoseer.

Hierdie opwaartse kostedruk het verskillende vorms aangeneem

● Daar was aansienlike toenames in olie- en ander invoerpryse;

● In een stadium is die uitwerking van die hoër invoerpryse, uitgedruk in rand, aansienlik vererger deur die onvermydelike devaluasie — 17,9 persent in September — van die rand teenoor die Amerikaanse dollar. In die afgelope 18 maande is dié uitwerking weer in 'n belangrike mate teengewerk deur die appresiasie van die rand van meer as 12 persent, teenoor die Amerikaanse dollar en byna 9 persent gemiddeld teenoor alle ander geldeenhede,

● Aansienlike verhogings is aangebring in elektrisiteits- en spoorwegtariewe, in die staalprys, voedselpryse en ander geadministreerde pryse;

● Kosteverhogings het voortgespruit uit die amptelike beleid om die loongaping tussen wit en swart te vernou;

● Die verstandige beleid om strategiese nywerhede op te rig of aan te moedig, selfs in gevalle waar sodanige optrede nie op streng ekonomiese gronde geregverdig was nie, het onvermydelik die kostestruktuur verhoog, en

● Die instelling in Julie 1978 van die nuwe algemene verkoopbelasting van 4 persent het vanselfsprekend 'n opwaartse uitwerking op die pryspeil gehad.

TWEEDE STELLING: Sommige van die vernaamste verhogings in geadministreerde pryse sedert 1975, soos byvoorbeeld dié van elektrisiteitstariewe, staalpryse en spoorwegtariewe, verteenwoordig in 'n groot mate „vertraagde" vraaginflasie

Hierdie geadministreerde pryse moes eintlik etlike jare vantevore in reaksie op vraag-en aan' 'dontwikkelings gestyg het, en in 'n vrye mark sou hulle ook destyds toegeneem het. In 'n goedbedoelde maar teenproduktiewe poging om inflasie te bestry, is hulle egter toe nie voldoende opwaarts aangepas nie. Maar in die duur was sodanige verhogings onafwendbaar, en toe hulle uiteindelik wel aangebring is, was die vraag per toeval nie meer oormatig nie. Daarom kon hulle tereg in die kort termyn as kostedrukinvloede bestempel word. In 'n langertermynsiening dien hulle egter as voorbeelde van „vertraagde vraaginflasie".

DERDE STELLING: Algemene vraaginflasie bestaan nog nie in Suid-Afrika nie, maar die land is nou nader daaraan as wat hy in vyf jaar was.

Daar is waarnemers wat meen dat Suid-Afrika reeds 'n toestand van vraaginflasie het. Trouens, daar is diegene wat nou al twee jaar of langer beweer dat vraag-inflasie 'n bedreiging is en dwarsdeur hierdie tydperk 'n beleid van demping bepleit het. Dit is nou duidelik dat hulle heeltemal verkeerd was. Die totale vraag, en dus die ekonomiese groeikoers, was in hierdie tydperk te laag en nie te hoog nie. Maar wat nou van die toekoms?

Na my mening toon die jongste inligting dat Suid-Afrika tans nog nie 'n nuwe vlaag van algemene vraaginflasie het nie. Ons nader nou egter vir die eerste keer in vyf jaar so 'n toestand. In die komende maande sal die bestedingsneigings egter besonder noukeurig dopgehou en op die tydsberekening gekonsentreer moet wees van enige beleidsaanpassings wat nodig mag word

VIERDE STELLING: Omdat die nodige ruimte vir 'n voortgesette oplewing en 'n hoër groeikoers nog bestaan, sou dit ongewens wees om nou die oplewing te probeer smoor deur middel van beperkende monetêre en fiskale maatreëls. Groei uit krag moet nog die leuse bly.

Waar diegene wat reeds in 1978 en/of 1979 vraagdemping bepleit het, blykbaar verkeerd gegaan het, is dat hulle die skerp toename in bedrywigheid in die *finansiële* sfeer, dit wil sê in die geld- en kapitaalmarkte en op die aandelebeurs, verkeerdelik aangesien het vir „oorverhitting" van die ekonomie. Moontlik is hulle ook mislei deur die feit dat die breë geldvoorraad in die tweede helfte van 1979 teen 'n jaarkoers van omtrent 30 persent toegeneem het. Hierdie duidelik oormatige koers van toename was wel 'n ongewenste en verontrustende verskynsel wat gekeer moes gewees het, maar gelukkig was dit net 'n tydelike opwelling — in die eerste kwartaal van 1980 het die breë geldvoorraad weer teen 'n seisoensaangesuiwerde jaarkoers van net 14 persent toegeneem.

Wat meer belangrik is, is dat daar nog nie 'n oormatige toename in óf investering óf verbruik was nie

'n Groot deel van hierdie bykomende geld was in die besit van die mynhuise en sekere ander groot uitvoerders, en nie in die hande van die onderwysers, die voetplaatwerkers, die staatsamptenare, die verpleegsters en dergelike groepe nie. Inteendeel, die reële inkome van blanke werkers het in die laaste jare gedaal, terwyl dié van nie-blanke werkers in 1979 ook nie veel gestyg het nie

VYFDE STELLING: Knelpuntinflasie in die vorm van veral tekorte aan geskoolde en halfgeskoolde arbeid bestaan reeds in Suid-Afrika en sal erger word indien die ekonomie teen die verlangde koers groei. Hierdie knelpunte oefen opwaartse druk op arbeid en sekere ander koste uit en verteenwoordig 'n ernstige inflasiegevaar.

Die belangrikheid van hierdie punt kan moeilik oorbeklemtoon word. Hierdie knelpuntinflasie is egter heeltemal 'n ander probleem as dié van algemene vraaginflasie en vereis dus ander behandeling

Pleks van om groei te demp uit vrees vir knelpunte, moet ons eerder die knelpunte probeer oplos deur middel van beter opleiding en mannekragbenutting, aangevul deur immigrasie waar nodig

SESDE STELLING: In Suid-Afrika bestaan 'n aantal onderliggende strukturele faktore wat aan die ekonomie 'n inherente inflasiegeneigdheid besorg en wat deur 'n langtemyn- of strukturele anti-inflasionistiese beleid teengewerk behoort te word

Die volgende is 'n paar voorbeelde van sodanige faktore

● In verskeie markte vir goedere en dienste in Suid-Afrika bestaan daar onvoldoende mededinging en word pryse nie hoofsaaklik deur onpersoonlike markkragte bepaal nie, maar in 'n groot mate deur óf die Regering óf die private sektor „geadministreer",

● Soortgelyke oorwegings geld ten opsigte van die arbeidsmark. Dit is wel so dat die o...

vakbonde in die verlede meer verantwoordelik as dié van vakbonde in baie ander lande was, en dat daar in Suid-Afrika min- ... gevalle was van bui- ... blyklik nie deur oormatige vraag veroorsaak word nie, maar wel deur kostedruk.

In sulke omstandighede is daar diegene wat meen dat een of ander vorm van finansiële dissipline gepaard gaan. In die huidige omstandighede in Suid-Afrika is daar dan ook geen botsing tussen groei en volgehoue finansiële dissipline nie.

gestel word sonder inagneming van vraag- en aanbodtoestande

Suid-Afrika het 'n strukturele tekort aan sekere soorte geskoolde en halfgeskoolde arbeid. Ook bring die ingewikkelde rassesituasie mee dat daar nie in die verlede altyd die beste benutting van mannekrag was nie. Daar is ook reeds verwys na die inflasionistiese sydigheid wat voortspruit uit die beleid om vir geregverdigde maatskaplike en politieke redes die gaping tussen swart en wit lone geleidelik te vernou; en

● Ondanks die waaksaamheid en uitstekende werk van die Raad van Handel en Nywerheid deur die jare, het daar om begryplike redes by geleentheid tog onekonomiese nywerhede in Suid-Afrika tot stand gekom, wat kosteverhogend op die ekonomie ingewerk en sodoende 'n strukturele inflasionistiese faktor geword het

DR DE KOCK

SEWENDE STELLING: Meer regstreekse prys- en loonbeheer bied geen oplossing vir Suid-Afrika se inflasieprobleem nie, maar sal die groei en gesondheid van die ekonomie ondermyn

In Suid-Afrika, soos in baie ander lande, is dit verstaanbaar dat die vraag van tyd tot tyd gevra word of die antwoord op inflasie nie strenger pryse en loonbeheer of selfs die algehele „bevriesing" van pryse en lone is nie. Hierdie soort van „inkomebeleid" kry dan ook gewoonlik mee... aanhangers wan... e inflasie klaar-

regstreekse prys- en beheer doeltreffend gewend kan word om sierende faktore van kostedruksoort, sowel „voortplantingsfaktor soos die loon-prysspiraa teen te gaan

'n Groot mate van re streekse prys- en loonb heer bestaan natuurlik reeds in Suid-Afrika. Die Regering beheer nie net die pryse en tariewe van openbare korporasies nie, maar ook die pryse van 'n lang reeks van goedere wat deur private ondernemings geproduseer word. Die lone en salarisse in die staatsdiens en in die res van die openbare sektor word ook in die laaste instansie deur die owerheid bepaal. Die vraag is nou of regstreekse prys- en loonbeheer in Suid-Afrika verder uitgebrei moet word of nie

Wat hierdie belangrike beleidsaak betref, wil ek my skaar by diegene wat die mening huldig dat 'n uitbreiding van prys- en loonbeheer in Suid-Afrika teenproduktief sal wees en meer kwaad as goed sal doen

Dit is nou maar eenmaal so dat indien die prys van 'n artikel kunsmatig deur die owerheid vasgestel word op 'n peil benede dié wat in 'n vryemarksituasie sou gegeld het, twee dinge sal gebeur. Verbruikers sal meer van die produk wil koop en produsente sal minder daarvan produseer. Omdat daar dan 'n groter vraag en 'n kleiner aanbod sal wees, sal die goedere neig om van die rakke te verdwyn en die uiteinde sal tekorte, lang toue en sluikhandel wees

AGTSTE STELLING: Die jongste Begroting vorm die kern van die huidige amptelike stabilisasiebeleid en is geensins inflasionisties nie

Die Begroting van Maart 1980 moet gesien word as deel van die Regering se ekonomiese beleid van „groei uit krag". Hierdie beleid is daarop gerig om te verseker dat die huidige oplewing voortduur en voldoende stukrag opbou

Die Minister van Finansies het dit egter duidelik gestel dat hierdie volgehoue klem op groei met 'n ewe sterk klem op die handhawing van strer

Confidence in SA never higher — Horwood

Inflation is the only bleak spot

153

RDM 15/7/80

By GERALD REILLY

SOUTH Africa's inflation rate flawed an otherwise favourable economic picture, 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 the 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 R53-million public bond issue launched by a leading German bank, with other prominent banks involved, had been "a very real success "

European economies, 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 bigger 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 Nkomo and Prime Minister Mugabe in Zimbabwe

Swa/Namibia was another concern, but Europeans increasingly saw Swapo 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 initiated 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 R25 000-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

Asked 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 we 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 - 14,5% compared with 14,1% in this country

extal loading.

2.54

Financial Mail

FM 18/7/80 (153)

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 iniquitous 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 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 12% in 1980, after the 1979 average of 13,3%

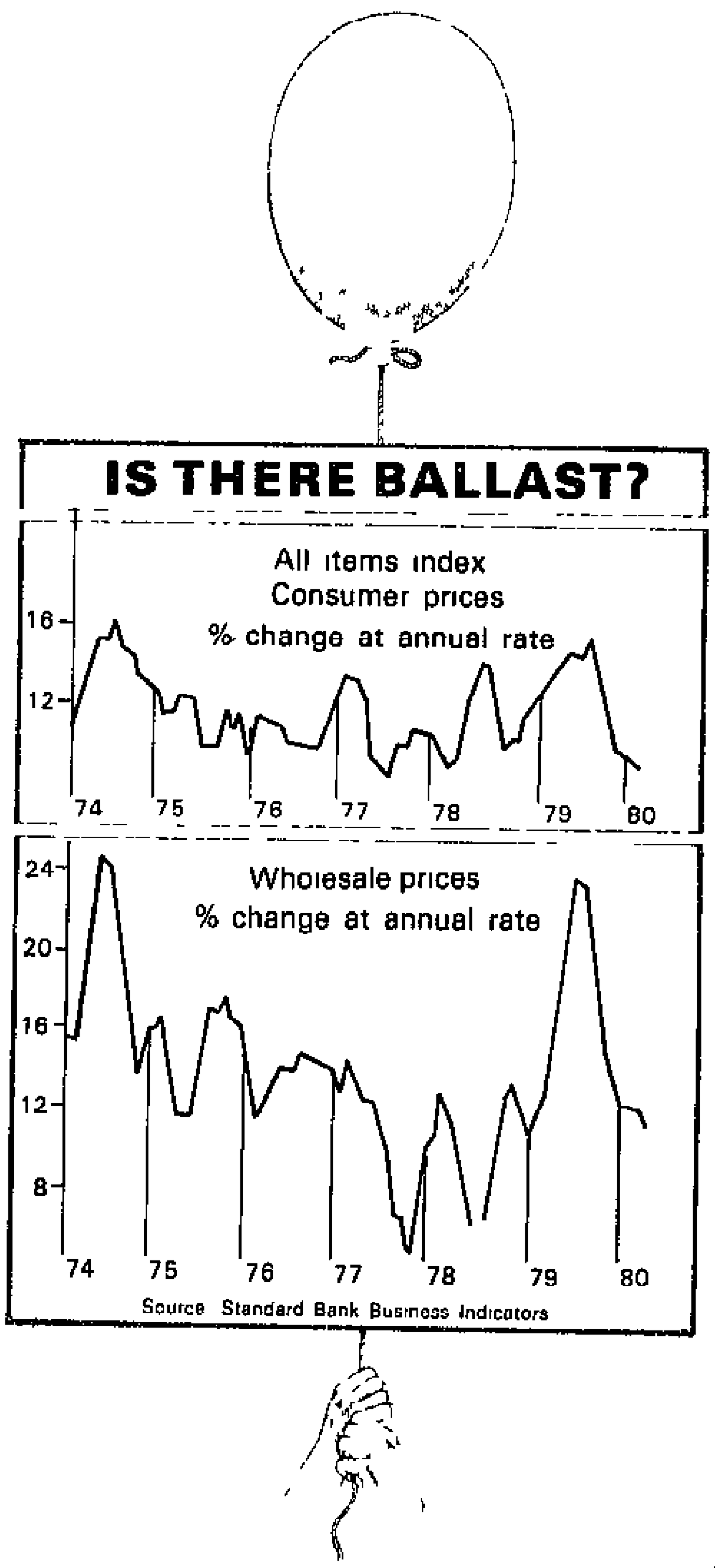
The pessimists, on the other hand, regarded the Budget as over-stimulatory Fundamental growth, they argued, was sufficiently well-established to obviate the need for further encouragement Sanlam's Fred du Plessis maintained that the increase in disposable income achieved by the tax cuts would not dampen 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 Senbank'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 in 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 Keynes' "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 aim for 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 39% in the five years between 1969 and 1974, against an increase in money supply of 94%. Monetarists talk about a time lag between money supply control and its effects on inflation of up to 18 months or longer, " which 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 RAU's Geert De Weet, 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. And 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 uncontrolable grey market lending shooting ahead.

Even if monetary control were feasible, argues Cloete, 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 eroded 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, the FM 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 Plessis Cloete forecast appear modest indeed. And that, PM Botha, would be extreme political as well as economic folly.

SECTION R

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RDM 23/7/80.

Costly oil fires SA's coal-burning boilers

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nd

Simon Willson

Down to business

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 fitting the requirements of cost-conscious oil users on a large scale in this country, and industries of all sizes and energy consumptions are switching to the more solid of the globe's two fossil fuels without any long-term cost disadvantages

The inflationary impact of the oil-price increases of the 1970s, therefore, is likely in the medium to long term to be self-correcting as energy users convert to a domestically sourced product which is not subject to cartelised distribution politically inspired embargoes sabotage-susceptible pipelines or any of the other snags 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-additive Sasol plants

The Transvaal Coal Owners Association (TCOA) reports a deluge of inquiries about coal supply and plant conversions from oil to coal-burning energy sources from manufacturers and processors in the industrial heartland of South Africa

The TCOA is the marketing arm of the collieries of the biggest mining houses including Anglo American, Lonrho, General Mining Rand Mines, Gold Fields, the Tavistock Group and Eikeboom

The association supplies 90% — about 20-million tons — of the South African inland coal market, and expects to supply an extra 3 500 000 tons over the next three years, most of it to oil-substituting industries

This projected extra demand excludes the larger State-owned plants, such as Iscor, Escom and the Sasol complexes, which use tied collieries It is a sign of the wide-ranging and 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 entered into oil supply contracts which have periods still to run But TCOA officials are confident that coastal industries will join their inland counterparts in the swing to coal

The trend is not away from oil only Electricity 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 fusion are still in the early stages of development and leave a lead 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 IMPI Drying Systems now uses specialist coal-based processes for drying timber, latex coated products, hides and animal feed

Lesotho Pulp & Paper, which used a coal-tar 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

Fedmis is said to have placed an order for coal to gasify it and fuel its fertiliser dryers Masonite is expected to convert to gas to dry its processed 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 level Bakeries, 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 infrastructural supply bottlenecks

The switch has come at a time of expansion in the economy as a whole, and the transport routes are already under 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 logjams can be expected to recur in a period of increasing economic activity

The TCOA is working on a possible solution by studying the logistics of stockpiling coal nearer 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 book(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 commissioner or to an invigilator before leaving the examination

Any dishonesty will render the candidate liable to disqualification and to possible exclusion from the University

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Grim warnings as inflation takes off

153 RDM 23/7/80

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

23/7/80

spute is 144
at Veka 152

most Veka workers are members of Bawu

Newcastle is a border area in terms of the Government's decentralisation 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 Veka 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 is 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 15,[illegible]

The increase over the May rate for the lower income group was 2,4%, for the middle income group 1,8%, and 1,2% for the higher income group

Barclays Bank's chief economist, Dr Johan Cloete, said demand-pull inflation became apparent soon after the quickening pace of the economy exposed a serious shortage of skilled workers.

The pull would become stronger with total spending power swollen by the big Paye reductions, which will be reflected in pay cheques at the end of the month

The upward pressure on wages and salaries would also continue.

These factors, linked with imported inflation — imports are expected to rise steadily during the rest of the year — would mean at least a 15% inflation rate before the end of December, with 17% or more being possible towards the end of the first quarter of 1981

A senior economist at the Bureau for Economic Research at the University of Stellenbosch, Dr O D T Stuart, agreed that demand-pull inflation would become stronger during the second half of 1980.

He also agreed that [illegible]

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Jacobus said he was adamant

Minister warns on inflation 'cancer'

(153) RDM 24/7/80

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 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 cold comfort.

Between 1970 and 1979, the Minister said, labour productivity increased by a mere 10%

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.

(153)

Inflation slows in 14 IMF countries

RDM 25/7/80

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 6% in the same period"

IMF officials were 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

INFLATION (153)

Heavy rise

FM 25/7/80

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

Senbank, 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

153

RDM 28/7/80

Financial Reporter

THE toughest of the major scourges that had befallen the world economy in recent years was global inflation, Mr Robert P Mayo, 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 15% 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 in what seemed to be the 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 itself far 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 governments 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 chronic, ever-rising inflation spelling doom for capitalistic, market-oriented systems

Mr Mayo rejected those conclusions because he had confidence in people's ability to reverse those trends once their malignancy became generally recognised

He was encouraged by developments in the US and the UK and by the fact that there was a growing public awareness of these issues and of a willingness to accept the sacrifices necessary to take the right road

Indexation as an answer to inflation rejected

(153)
RDM
31/7/80.

By SHAUN HOLLICK

INDEXATION is not the answer to South Africa's inflation, according to economists who view it as capitulation to the problem, although they recognise 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 organised 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 Hammersma, 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 is 13,9% In May, annual increases occurred in M_2 (16%), and manufacturing production (11%)

Anti-inflation meeting called

(153)

RDM 1/8/80.

THE Minister of Industries, Commerce and Consumer Affairs, Dr Schalk van der Merwe, will call another meeting of the continution 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 use 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 afforded the opportunity to express the views of their respective organisations, and consideration will be given to possible guidelines for further collective efforts to contain inflation — Sapa

Pretoria clamps to beat inflation

153 RDM 6/8/80.

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 Attie 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 by, for instance, adjusting interest rates.

The Volkskas 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.

V [illegible] 492

Gen Malan calls for war on inflation

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SA

S/TAR 8/8/80

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 battlefields 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 econnomic 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 opportunites 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

RDM (153) 9/8/80

By HAROLD FRIDJHON

THE danger of a demand-inflation in South Africa was real, Dr J 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 strenghten 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 harvets 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 R119-million — a big burden on the establishments 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 figure the red light was shining 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

Beard criticises policy of 'growth at any cost'

DURBAN — With South Africa running into the real danger of a 20% inflation rate by the year-end, 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 debasement of its money was South Africa's most pressing and alarming problem

Administered price increase - mostly on agricultural prducts - 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 thq rules of free enterprise

These price increases merely subsidised the inefficinet 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 inflation a "necessary evil' which had to be accepted if economic growth were not to suffer

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 raised 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 having increased allowances on new plant machinery and factories (including additions) to 100% — Sapa

INFLATION (153) FM 15/8/80

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 Kantor

Their forecast is 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 4,36%.

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 exhange 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

CONFIDENCE

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Coasting along

FM 22/8/80

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 causing investment uncertainty among businessmen

However, the BER argues that "most financial factors influencing consumer spending are likely to boost private consumption expenditure and lack of confidence is unlikely to prevail against the positive influence of these so-called objective factors

As evidence, the report cites the high level of household liquidity, already at its highest point since mid-1975 and which will ease even more as increased wages, salaries and the July tax cuts further boost consumption expenditure The current account surplus too, can accommodate a higher volume of imports to meet consumer demand

This optimism could be misplaced As the BER says a 14,6% inflation rate is eroding most of the purchasing power of additional disposable income Consumers the report indicates, are more pessimistic about future price increases while 52% more respondents than a year ago judge the present time to be suitable for consumer spending Thus a buy-to-beat inflation psychology could develop which might choke the upswing prematurely as goods run into short supply and wages out of control

Moreover the prospects for renewed labour unrest have certainly not yet dissipated And skilled labour shortages are already causing production bottlenecks in some sectors

But other evidence this week supports the BER's view The Seifsa capital investment survey projects new fixed investment of R645m for 1980, a 51% rise over 1979 which it says reflects the broadening confidence in the Seifsa group of industries in the long-term outlook for the SA economy

The Federated Chamber 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

23/8/80

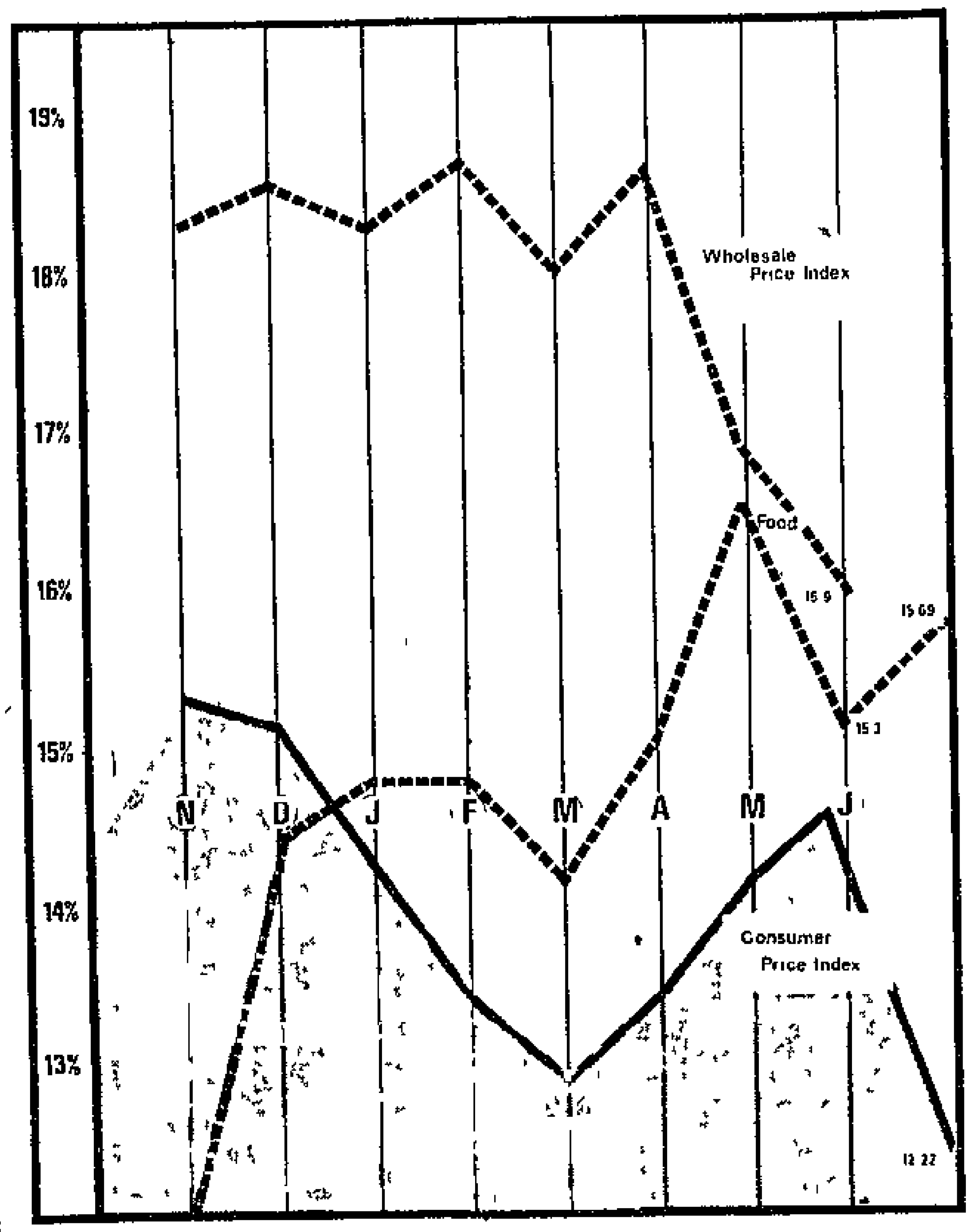
(153)

The Natal Mercury, Saturday, August

Inflation drops: food price up

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.



THE graph illustrates the year-on-year inflation rate from November 1979 to July for the CPI and food-only indexes and to June for the Wholesale Price Index

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 at two significant meetings

The inflation figures from the Department of Statistics said that the Consumer Price Index in June rose by 14.57 percent on June 1979 The food-only yearly index was 15,3 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 punting for 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

STAR 26/8/80 (153)

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 Riekert Commission, that there should be no racial connotations when extension of factories was being considered.

2/6/80

Anti-inflation team's latest plan of attack

Com 153

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 towards a lessening of 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 Riekert and Wiehahn recommendations,
- Increased productivity by management and labour at all levels;
- The maintenance of adequate and effective competition in the economy, with continued discipline of prices and wages

Dr Van der Merwe said that since inflationary expectations were partly based on misinterpretation 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

RDM 21/9/80. (153)

Own Correspondent

DURBAN. — The proof 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'

(153) RDM 22/9/80

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 an extension of price controls was part of the answer, he said "At present between 15% and 20% of all products are subject to price control

"However, the Government's policy is to interfere minimally in the free market system, and it is only when there are compelling reasons that we impose controls "

The Government was convinced wage and price freezes would not help slow down inflation, but higher productivity would

"And 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," he warned

He gave an assurance that his department's inspectors were constantly monitoring prices and said the Government would not hesitate to impose price controls on goods where it was obvious attempts were being made to exploit the consumer

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 (153) FM 26/9/80

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 this 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 rises 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 Senbank's Peet Strydom, who correctly forecast that inflation would fall to between 11% and 12% earlier this year, is confident that the average rate for 1980 as a whole 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, imported prices, has declined sharply from a 27,7% yearly 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'

81

153 340

4/10/80 ARGUS

By John Fensham

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 overriding influence of inflation and in 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 this sense they are experiencing a boom But many 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

AGGRAVATED

The problem — experienced by all race groups but most apparent in coloured and black communities — was aggravated by the determination of retailers to climb on the bandwagon before the boom flattens out or begins a downswing, probably late next year or in 1982

'Aggressive and sometimes unscrupulous salesmen are selling in a market which is facing saturation Most of them sell on commission only, so their livelihood depends on sales and some will go to almost any lengths to clinch a sale,' Mr J Malone, chairman of the Cape Region of the Institute of Credit Management in South Africa, said

'When this aggressiveness is directed at the lower socio-economic communities, they simply do not have the education or sophistication to resist They are talked into buying furniture, clothing, electrical appliances, educational aids, household improvements, and so on, until they land themselves in very real financial trouble'

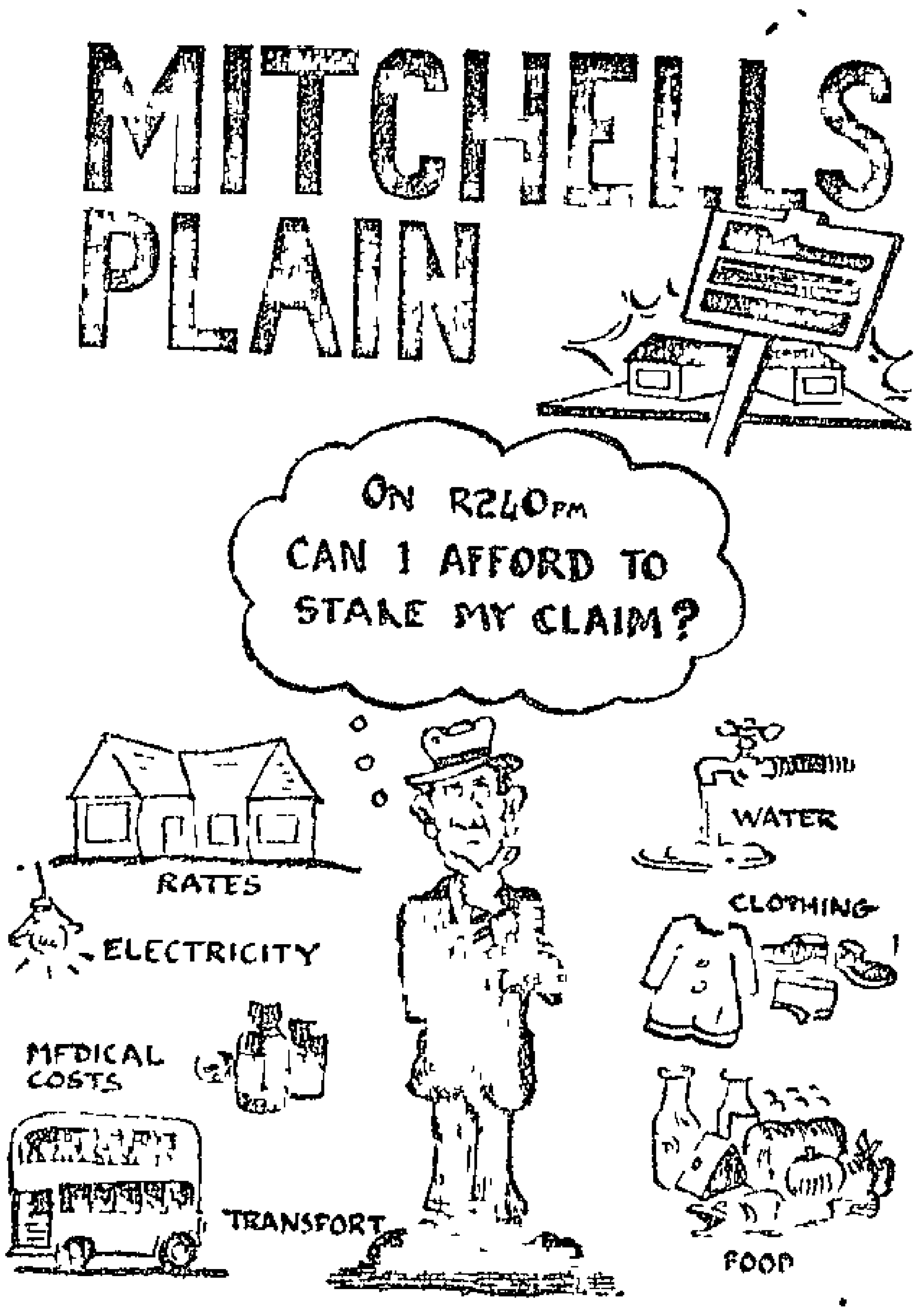
Mr Oliver Lawrence, chairman of the Residents' Association at Portland in Mitchell's Plain, said the movement of people into Mitchell's Plain — problem was aggravated by people who had never before owned a home and had no concept whatever of the expense involved in home ownership

'Many of these people do not realise that home-owners must pay rates electricity, water Most of them come into these new homes from rooms in other people's homes or in back yards They come with very little furniture, so their new home looks bare, and they go out and buy lounge suites, carpets, bedroom suites, curtains and kitchen equipment

SALESMEN

'Then suddenly they realise the carpet needs cleaning, so they need a vacuum cleaner Since many mothers also work, they have no time for manual housecleaning, so they need floor polishers The family, which has never owned a garden, suddenly finds it needs garden tools, a lawnmower and plants Perhaps they have a car, and decide they need a carport

'The salesmen are aware of all this, and at any time in Mitchell's Plain you can see salesmen cruising around, going from house to house When somebody moves into a new house 10 different salesmen will call on them in one day,' Mr Lawrence said.



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 that has sent prices sometimes to unrealistic heights Repayments could be a difficulty if the boom tails off And middle-class and poorer people are often in a similar predicament They are often talked into taking on more debt than they can afford — and it just needs a serious illness, a lost job or some other misfortune to put them into serious difficulties.

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New jolt for inflation

153 4/10/80 RDM

By HOWARD PREECE
Financial Editor

WHOLESALE prices have shown an accelerating trend again after a surprisingly hefty jump of 2,13% in August. The effect of that large increase was to push up the annual rate to 14,82% for the year to August against 14,5% 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 1,96% 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 25% 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 cheers 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 11,86% 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 in the CPI this year (a slightly different calculation to the simple 12-month rate) will be 13,8% with a marginal drop to 13,2% next year

Senbank 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, 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."

Senbank/BER says. "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 this is based on a greater degree of monetary and business discipline than was the case recently"

● The wholesale price index, base 1975, was 196,8 in August, 192,7 in July and 171,4 in August 1979.

1980 inflation seen at 13,5%

RDM 28/10/80 (153)

By ALEC HOGG

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 7,84%, but increases in administered prices pushed the second quarter's annualised rise to 15,48%

Last quarter was the worst however, with the 2,01% increase in the index in September (the biggest monthly rise since July 1979's 3,6%) pushing the annualised increase in the three months to 18,52%

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.

Senbank's group economist Mr Louis Geldenhuys points says meat accounted for 1,1% of the 2,01% rise in the CPI in September Meat has a weight of 9% 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, and the possibility that food prices will remain fairly constant, companies could now take the advantage of pushing up prices, says Mr Jacobs

"Nevertheless, there should be a decelaration 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 contempories 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 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

STAR 28/10/80

153

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.

GENERAL NEWS

Industrial wage rises overtake inflation

STAR 29/10/80

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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 2,9-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 biggest increase in average earnings, 29,5 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 6 percent.

This compares with a 28,2 percent rise in the earnings of black building and construction workers And coloured workers in these industries raked in an increase of 37 9 percent

The average increase in earnings for workers in the building industry was 24,5 percent

SA's fast spending pushes up inflation

RDM 20/10/80

By GERALD REILLY
Pretoria Bureau

SOUTH Africans are spending so much money so fast that the inflation rate could reach 18% by mid 1981.

Saying this yesterday, leading economists warned that this was why they expected moves by the Government — such as stricter hire-purchase terms — in a bid to shrink the money supply

And they said these could be introduced before next year's Budget in March

The retiring Governor of the South African Reserve Bank, Dr Leo de Jongh, making his final address yesterday as chairman of the National Finance Corporation, urged the Government to reduce inflationary pressures by "taking more money out of the system"

In August, when he addressed the annual meeting of the Reserve Bank, Dr De Jongh hinted strongly at a tightening of hire-purchase conditions and credit

Higher taxation next year, or the reintroduction of the loan levy, are other obvious ways of checking excessive spending

Last week, in a speech in West Germany, the Director-General of Finance, Dr Joep de Loor, hinted at possible tax cuts in 1981

However, he said in Pretoria yesterday that though the Minister of Finance, Dr Owen Horwood, might be in a strong position to grant further tax relief in 1981, this would depend on the fiscal strategy thought appropriate at the time for the country's economic situation

Barclays Bank's chief economist, Dr Johan Cloete, said restraints on spending were needed The economy was loaded with too much spending money and credit was too easy "There's too much money around, and it's too cheap".

The increase rate in the money supply was still too great, he said It had to be reduced if an inflation rate of 17% or 18% by next June was to be avoided Interest rates, too, should be raised to inhibit borrowing

Volkskas's chief economist, Mr A S Engelbrecht, said that because of mushrooming consumer spending, the economy was reacting to a demand pull inflation

"The economy has started to overheat, the volume of imported goods is rising too fast, and the authorities will have to look at the possibility of imposing measures to curb spending

The chief economist at the Bureau for Economic Research at the University of Stellenbosch, Dr O D H Stuart, agreed that the spending binge was overheating the economy

"We warned of the dangers of demand pull inflation and it seems it has now taken hold"

Some of the causes were excessive pay increases caused by the shortage of skilled workers, and a too-relaxed credit policy

In the six months to June, consumer spending rose by 22% because of excessive credit buying and spending in anticipation of the tax cuts in July

Dr Stuart agreed that a curb on hire-purchase would be part of any Government package to curtail spending

Inflation may surge to over 15% by Christmas

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RDM 21/11/80

By GERALD REILLY
Pretoria Bureau

SOUTH AFRICA's living costs are surging to record heights and economists warned yesterday of an inflation rate in excess of 15% 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 5% 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 186,3

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 1,6%

The 12-month rate to the end of October for the lower income group was a massive 17,2%, for the middle income group 15,3% 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 to 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 an obviously overheated economy could be expected, probably before the March budget

WHOLESALE PRICES (153)

Changing nature

FM 7/11/80

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 196,8 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 rate of increase 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

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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 because of the considerable under-utilisation of production capacity which existed at the beginning of this year

This helped 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 wage and unit costs will be translated into more rapid price increases all round and so into an acceleration of the inflation rate

"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 convinced that stricter monetary 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"

Even if the authorities do not act to reduce the growth rate to "sustainable" levels, the rate of salary and wage increases will slow down next year, although Dr Cloete expects total employment to pick up further, and for individuals' standard of living to rise

Given the continuation of the current rate of fixed investment expenditure, Dr Cloete expects total employment to increase by 5% next year, following the 3,5% increase projected for 1980 as a whole.

With the likelihood of stricter anti-inflationary monetary policy, and the fact that consumer credit has increased too quickly over the past year (and therefore less will be available in 1981), he projects the total working population's buying power will rise by between only 5% and 5,5%

The second factor which Dr Clote expects to have a depressing effect on total demand in the economy next year is a forecast turnaround in the balance of payments — from an expected surplus of R2 200-million this year to a deficit of R1 475-million in 1981

He believes the recessionary conditions abroad will restrict the growth in South Africa's merchandise exports to 10,7% (12,8% in 1980) while imports will remain relatively high, increasing by a further 25% (1980 50%) in 1981

Interest rates will, under this scenario, also increase substantially, and "by the end of 1981, we expect to see the three-month bankers' acceptance rate in the neighbourhood of 11% or 12%, with the commercial bank prime overdraft rate also at about this level".

Top-level policy clash on inflation

11/11/80

Howard Preece — **Economic Spotlight**

A MAJOR clash over some of the reasons and remedies for South Africa's continuing high inflation rate is taking place among the key financial policy-makers

It has led Senator Horwood, the Minister of Finance into making what has been seen as a sharp public rebuke of Dr T W de Jongh, the retiring Governor of the Reserve Bank

There is general agreement that the money supply has been expanding excessively — 48 6% in the third quarter of this year, 26% annually seasonally adjusted, for January to September

But there is bitter disagreement about the main causes and the best solutions

At the highest level the clash sees Senator Horwood and Dr Gerhard de Kock, the Governor-designate of the Reserve Bank, ranged on one side and Dr De Jongh and some other of the Reserve Bank hierarchy on the other

Basically, Senator Horwood and Dr De Kock want money channelled out of the country and deposited overseas 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 seem to be profoundly diverse views on just how far South Africa should really be prepared to move away from controls and towards more market-oriented policies

That, in turn, involves the particular 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 spelt out his position unequivocally in his far-reaching policy speech at the Union Acceptances' anniversary dinner in Johannesburg last week

He referred to "the fallacy still propounded in some circles that the Budget of March 1980 has contributed to the inflation by overstimulating the economy through excessive tax reductions"

Senator Horwood said "The fallacy appears to rest in part on a 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 1980-81 was likely to be one of South Africa's lowest ever as a proportion of gross domestic product

Senator Horwood said "From all of this only one conclusion can be drawn far from being inflationary the Budget is having a marked stabilising effect on the economy"

Now who are those circles propounding "the fallacy" to which he referred?

Well, the economics department of Volkskas has advanced that argument

So have a few other commentators and financiers

But the main target has surely to be the annual address by Dr De Jongh on October 28 in Pretoria in his capacity as chairman of the National Finance Corporation

Dr De Jongh warned of the serious inflationary danger and of the rapid rise in money supply

He commented *"The large tax concessions* and the sharp rise in wages and salaries are stimulating consumer expenditure to such an extent that a situation of excessive demand could easily develop"

Dr De Jongh put some of the "blame" for the present inflationary pressures on tax cuts in the last Budget

Senator Horwood said nonsense

At the top of Senator Horwood's priority list is the huge rise of R1 158-million in the net gold and foreign exchange reserves in the third quarter of this year

This, he is adamant, is why money supply went into orbit in that quarter

Senator Horwood told UAL "We shall have to reassess the role of exchange control and large discounts on forward dollars at a time of current account surplus excess domestic liquidity and unduly low money market interest rates

Dr De Jongh has consistently taken a luke-warm attitude to that approach

So who is right?

Well, let us be clear first of all that whatever changes are made to exchange control or whatever stiffening of domestic monetary policy is introduced there are no easy answers to our inflation problem

The difficulty of reining back inflation without stamping out growth (even with stamping out growth, ask Mrs Thatcher) offers easy answers only to charlatans

Nor could I go along with wholesale scrapping of exchange controls, given South Africa's permanent underlying political crisis

It may well be, too, that Dr De Jongh and others are right to view our balance of payments with caution We are still too close to a one-crop economy for comfort

But with all those reservations it is hard to see why the proposals of Senator Horwood and Dr De Kock should be particularly controversial

Suppose, for example, that Anglo American were allowed to leave R100-million or what you will of its vast gold mining and other foreign exchange revenues overseas on short-term deposit, if it wished

That and other such actions would take a lot of pressure off domestic money supply (in a way which would not happen if the facility was granted only to banks)

For all practical purposes those funds would be part of South Africa's foreign exchange reserves — able to be quickly mobilised if the worst fears for the balance of payments were realised

Nobody can seriously suggest that any large corporation could or would wish to flout a Reserve Bank directive to repatriate funds

Meanwhile it would be good business for the companies good business for the country because of the additional interest rate earnings and good business for international confidence in this economy

It would also be a useful brake on inflation

SA's inflation rate may go up

13 11 80

RDM

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PRETORIA — There was reason for concern that there might be a further rise in the inflation rate ahead for South Africa, the Minister of Finance, Senator Owen Horwood, said in Pretoria last night

However, after noting that the Consumer Price Index had risen by 12 to 14% on an annual basis, Sen Horwood said that the Government was determined to ward off the danger of a further rise

This would be achieved by adhering to the policy of fiscal discipline and monetary restraint which had contributed greatly over the past five years towards achieving the present sound state of the economy

Addressing members of the board of the International Wool Secretariat, which is meeting in the capital, Sen Horwood said that South Africa was suffering like all other countries from an excessive inflation rate However, South Africa's inflation rate had at least held steady while those in many other countries had doubled over the past year or two

Concern about a possible further rise in the inflation rate stemmed from the high level of liquidity in the economy which had been brought about by the favourable balance of payments and the shortage of skilled labour being experienced

The Republic was riding the crest of an economic boom, and its immediate economic prospects were favourable compared with most countries

The expected growth rate of between 7% and 8% in real domestic product for this year and the exceptionally large surplus on the current account of the balance of payments could not be sustained for too long

"It must be expected that it will adjust to a more sustainable rate in 1981, but it should still be in the vicinity of 5 to 6%, which we regard as the realistic long-term average growth rate from the South African economy"

Sen Horwood said the current account surplus could be expected to be smaller next year and some economists even expected it to change into a deficit

Even if this should happen — although he himself expected a current account surplus throughout next year — South Africa's improved credit standing in the international capital markets should enable it to finance any deficit

Referring to wool as an important sub-sector of South African agriculture, he said agriculture was neglected in the development strategies of under-developed countries This was one of the main reasons for the "disappointing" results of industrial development in those countries

South Africa had not made this mistake Agricultural production in the Republic had grown at an average annual rate of more than 3% since the early 60s — Sapa

Over 10% inflation for eighth year

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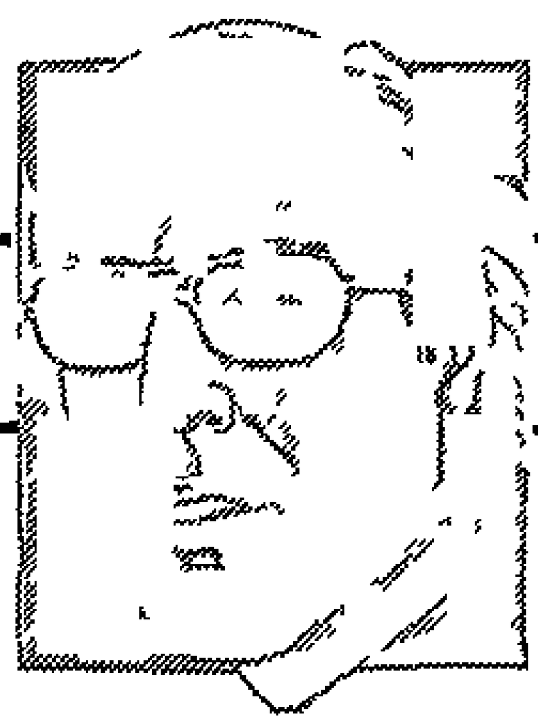
Howard Preece **Economic Spotlight**



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 deposit 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 one 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

	Increase in supply of money and near money	Annual rise in consumer price index
1973	23,0	9,9
1974	22,3	14,1
1975	17,4	11,7
1976	9,0	10,8
1977	6,9	11,1
1978	12,6	11,6
1979	13,3	14,0
1980	26,0*	13,5#

*** Seasonally adjusted annual rate for the first nine months of 1980.**
 # Estimated.

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 accommodating 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

Annual rate now 14,4%

Meat leads inflation surge

RDM 21/11/80

153

By ALEC HOGG

CONSUMER prices are showing a new upward surge, led by meat, with a 1,9% rise in October taking the annual rate up to 14,4%. The running 12-month rate slowed to 11,9% at the end of August, but has accelerated sharply again since.

Meat prices played a key role in the 2% jump in the CPI in September

They continued to add sharply to overall prices pressures in October, although the impact was slightly less than in the previous month

The consumer price index, base 1975, rose from 182,8 to 186,3 in October, which is 14,36% higher than at the same time last year This year-on-year increase is the second highest ever, and is only slightly below the annual rate to June 1980 of 14,57% rise

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's 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 2,5% to 187 — 17,2% higher than at the end of October 1979

The middle-income group index rose 2% to give a year-on-year rise of 15,3%, while the top-income bracket s index rose 1,6% to a year-on-year 13,1%

Helped along by meat, the food only index increased by 4,8% in October, to a level 25,2% 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 13,4%

Senbank economist Dr Peet 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 13,6% and 13,7% for 1980," Dr Strydom said yesterday.

In November and December 1979, the index recorded month-on-month rises of 0,3% 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 yearend

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 rigorously next year

As the Reserve Bank's Governor-elect, Dr Gerhard de Kock, said when addressing the University of Pretoria in June, it is unrealistic to believe South Africa's inflation problems can be solved over the short term

But if certain given guidelines are strictly adhered to, he has said, "we should succeed in first, curbing the tendency for our rate of inflation to accelerate, and then, bring about a significant reduction in the rate itself'

Both Dr De Kock and the Minister of Finance, Senator Horwood, 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

(153) 23/11/80

Sake-rapport 23/11/80

153

Só voel sakelui oor inflasie in SA

DIE Minister van Finansies, sen. Owen Horwood, en die aangewese president van die Reserwebank, dr. Gerhard de Kock, het die laaste paar weke duidelik laat blyk dat geldvoorraad in die land baie vinniger gestyg het as wat in die Begroting in die vooruitsig gestel is. In algemene besprekings wat daarna gevolg het, is die indruk geskep dat die Reserwebank dalk nie vinnig genoeg opgetree het om hierdie situasie te voorkom nie. Sake-RAPPORT het vandeesweek met 'n klompie top-sakemanne gepraat om te hoor wat hul raad met inflasie is

Deur GERT MARAIS

OP die kort termyn moet dringend na die geldvoorraad gekyk word. Op die lang termyn na produktiwiteit. Veldtogte soos die anti-inflasieveldtog van 'n paar jaar gelede, het geen rol te speel nie.

Dit is algemene sienings van die sakemanne met wie Sake-RAPPORT vandeesweek oor inflasie gepraat het.

Net soos wat hulle oor die te vinnige styging in die geldvoorraad saamstem, stem hulle saam dat Suid-Afrika nie aanstaande jaar inflasie van minder as 12 persent sal sien nie. Die skattings wissel tussen 12 en 20 persent — duidelik 'n teken dat hulle nie glo dat inflasie onder beheer is nie.

Veral een, dr. Fred du Plessis, besturende direkteur van Sanlam, voel die kwaad is reeds gedoen. Niks wat die owerheid nou doen, sal veel help om aanstaande jaar se inflasiekoers af te bring nie. Dit wat nou gedoen word, sal in 1982 help en dit wat vanjaar en verlede jaar nagelaat is, sal tot aanstaande jaar se hoe inflasie lei.

Hy stel aanstaande jaar se syfer op tussen 17 en 20 persent. Dit is heelwat hoër as wat die ander sakemanne gesê het.

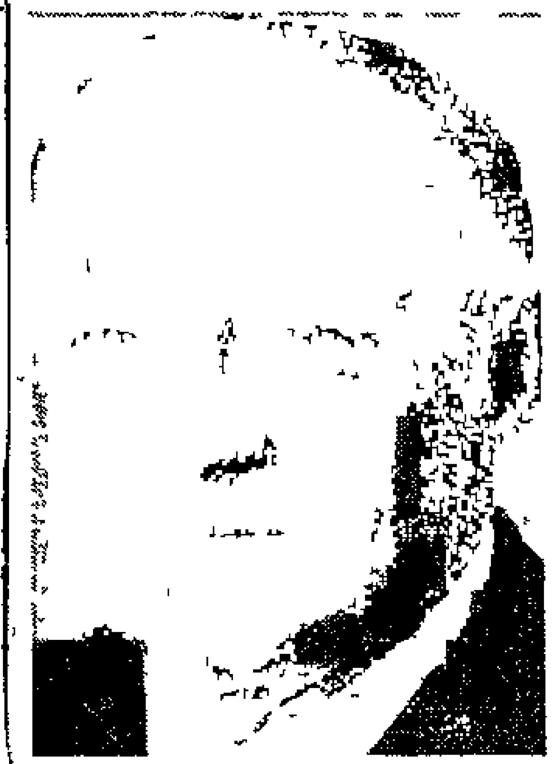
Een punt van algehele ooreenstemming is dat verbruikersbesteding nie nou aan bande gelê moet word nie. Dit sal die oplewing doodmaak voordat dit behoorlik op dreef gekom het. Enige optrede wat verbruikersbesteding raak, moet so versigtig as moontlik wees.

Almal stem saam dat die verslapping van valutabeheermaatreels baie sal help om die geldvoorraad te verminder. Oor hoe ver daarmee gegaan moet word, bestaan 'n mate van verskil. Sommige glo dit sal goed genoeg wees om toe te laat dat uitvoerders hulle buitelandse verdienste in die buiteland hou, terwyl ander glo dieselfde moet vir diegene geld wie se geld reeds in Suid-Afrika is.

Almal stem ook saam dat die private sektor 'n groot rol kan speel om produktiwiteit te verhoog. Dit moet hand aan hand gaan met die beter benutting en opleiding van die swart bevolking. Presies hoe dit gedoen moet word, is nie heeltemal duidelik nie.

Wat heeltemal seker is, is dat Suid-Afrika nie weer 'n anti-inflasieveldtog soos dié van 'n paar jaar gelede nodig het nie. Dit word as 'n absolute vermorsing van tyd en geld gesien.

Niemand het 'n kitsoplossing nie.



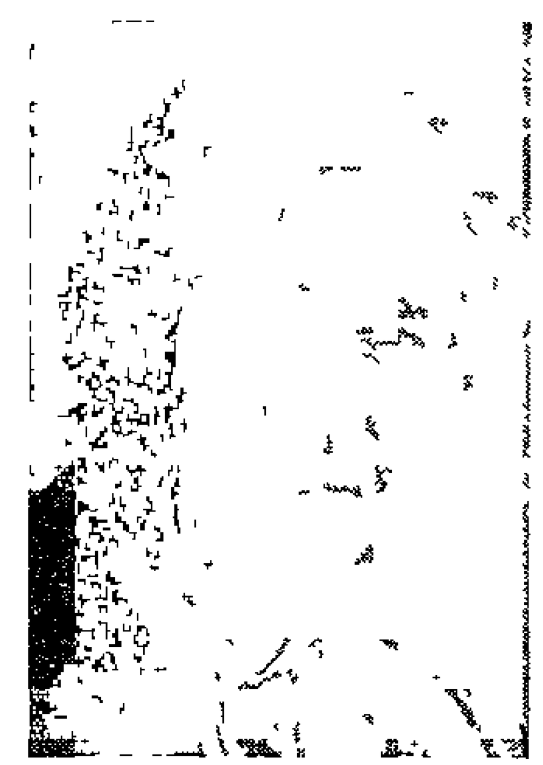
DR FRANS CRONJé, voorsitter van Nedbank en SAB

Die toename in die geldvoorraad moet baie verminder word. Dit kan waarskynlik die beste gedoen word deur Suid Afrika se uitvoerverdienste oorsee te hou. Hy glo nie aan fisieke beheer nie en sê dit sal 'n fout wees om nou beperkings op verbruikersbesteding te plaas, veral omdat die vinniger groei baie onlangs begin het. Dit is al oorsee bewys dat vinnige groei en inflasie nie noodwendig hand aan hand moet gaan nie, byvoorbeeld in Japan. In die langer termyn moet produktiwiteit verhoog word. Die relatiewe vinnige verhoging in nie-blanke lone is 'n ingeboude inflasiefaktor, want dié lone het vinniger as produktiwiteit gestyg.

Aanstaande jaar se inflasiekoers 12 tot 14 persent

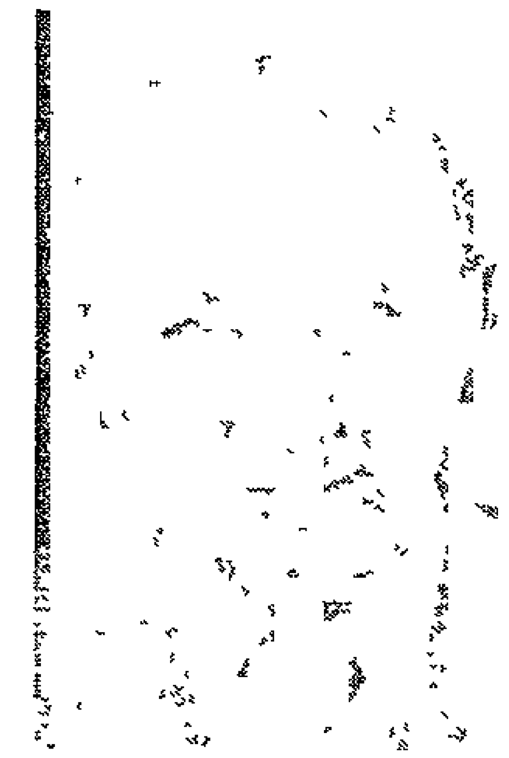
DR FRED DU PLESSIS, besturende direkteur van Sanlam. Dit is noodsaaklik dat na die vinnige groei in die geldvoorraad gekyk word — die hoë likiditeit moet uit die stelsel kom. Verder kan oorweging daaraan geskenk word om net een datum per jaar te hê waarop salaris en loonverhogings ingestel word. Dit kan vir die staat sowel as die private sektor geld. Die huidige salaris en loonverhogings raak onrealisties en sommige organisasies gee nou reeds twee verhogings per jaar. Dit jaag inflasie op. In die langer termyn lê die fundamentele oplossing in die skepping van meer werkgeleenthede en opleiding van mannekrag. Om dit reg te kry is meer investering nodig. Daarom moet winsgeleenthede gesond bly. Anti-inflasieveldtogte werk nie.

Aanstaande jaar se inflasiekoers· 17 tot 20 persent.



MNR BASIL HERSOV, voorsitter van Anglovaal.

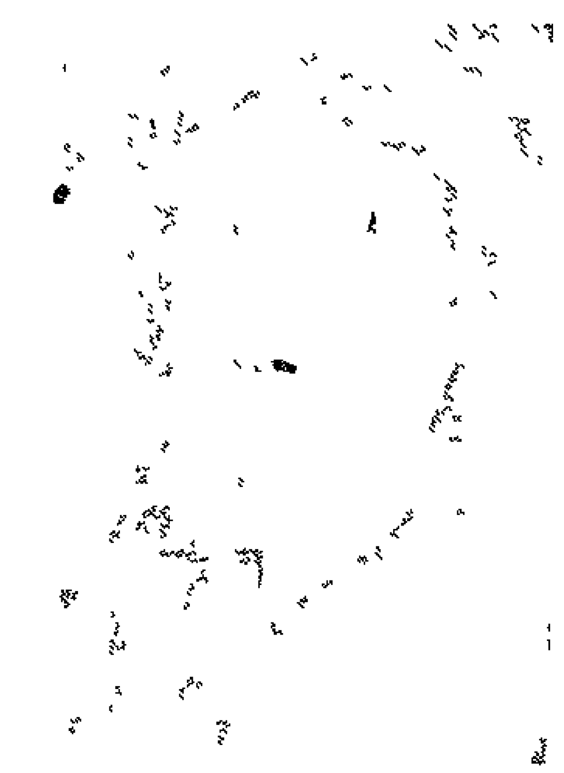
Die mark moet vry wees van allerhande vorme van beheer. Die private sektor en die Reserwebank moet egter saamwerk om 'n oplossing te probeer vind. Die Reserwebank moet indringend kyk na die koers waarteen geld geskep word en die private sektor moet toesien dat salarisse en lone nie buitensporig styg nie. Verder moet groei en indiensneming verhoog word en moet dit vir die private sektor makliker gemaak word om uit te voer. Dit is onmoontlik om heeltemal weg te doen met inflasie, maar dit moet in enkelsyfers gehou word. 'n Sekere mate van inflasie kan selfs nodig wees vir groei. Verbruikersbesteding moet nie nou ingekort word nie. 'n Anti-inflasieveldtog werk 'net tot op 'n punt, daarna styg pryse baie. Aanstaande jaar sê inflasiekoers sowat 14 persent, nie veel laer nie



DR KERNEELS HUMAN, besturende direkteur van Federale Volksbeleggings

In die kort termyn moet die groei in die geldvoorraad in toom gehou word. Verbruikersbesteding moet nie nou ingekort word nie. Dit is egter nie 'n langtermynoplossing nie. In die lang termyn kan sukses teen inflasie net behaal word as daar 'n aansienlike verbetering in produktiwiteit is. Die beskikbare mannekrag moet tot die volle vermoë gebruik word. Elke bestuurder moet in sy eie kantoor begin, want daar is steeds 'n groot mate van losse ondoeltreffendheid in baie organisasies. Televisie kan baie suksesvol gebruik word om veral die swart bevolking te help skool — veral noudat 'n tweede kannaal ingestel gaan word. Anti-inflasieveldtogte werk nie

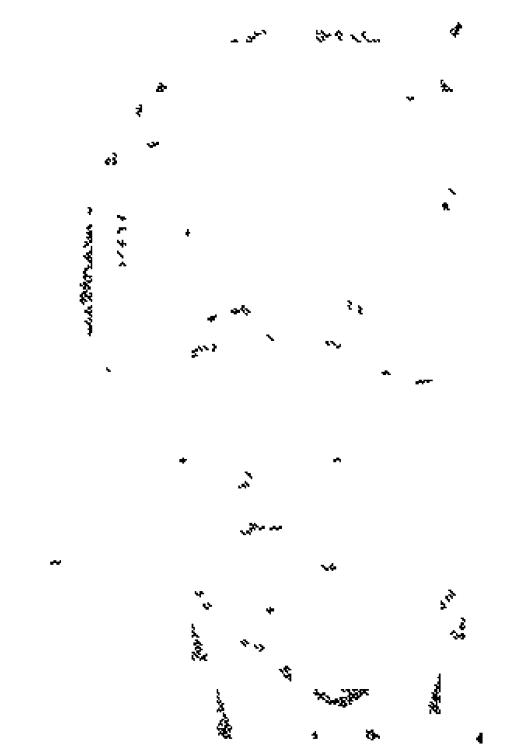
Aanstaande jaar se inflasiekoers 13 persent



MNR MEYER KAHN, besturende direkteur van OK Bazaars

Die owerheid moet nie oorreageer en die groeikoers heeltemal af dwing nie. Dit lyk egter of hulle realisties sal wees. Aanpassing van valutabeheer is van die belangrikste middels om inflasie nou af te hou. Die makliker toelating van ingevoerde verbruikersgoedere uit byvoorbeeld die Ooste kan verder help om die styging in pryse teen te werk. Produktiwiteit kan baie verbeter word — by fabrikante sowel as by kleinhandelaars. Anti-inflasieveldtogte het geen betekenis nie. Die administratiewe koste daarvan is ver te hoog. Die klein winsgrense van kleinhandelaars dui daarop dat hulle help om pryse laag te hou

Aanstaande jaar se inflasiekoers 12 tot 13 persent.



MNR TED PAVITT, voorsitter van Union Corporation

Daar bestaan geen korttermynoplossing vir inflasie nie. Die tekort aan geskoolde mannekrag sal inflasie bly aanblaas. Opleiding moet so vinnig moontlik geskied en velkleur moet hier geen rol speel nie. Hier is genoeg mense om in Suid Afrika op te lei sonder om na oorsee te kyk. Die Regering moet versigtig wees in enige optrede op die oomblik en nie oorreageer nie. Hy glo die huidige hoe pryse het 'n ingeboude weerstand en dit sal verbruikersbesteding outomaties demp. Dit sal 'n fout wees om verbruikersbesteding nou deur inmenging aansienlik te wil beïnvloed

Aanstaande jaar se inflasiekoers 14 persent plus

DR ALBERT WESSELS, voorsitter van Toyota

Die geldvoorraad moet verminder word, maar dit moet nie paniekerig gedoen word nie. Dit is reeds self besig om te verminder. Indien valutabeheermaatreëls verslap word, moet uitvoerverdienste nie toegelaat word om oorsee te bly nie, maar geld wat reeds in die land is, moet toegelaat word om uit te vloei. Vraaginflasie bestaan nog nie. Ander faktore soos hoër lone en oliepryse stygings is tot 'n groot mate vir prysstygings verantwoordelik. Matige optrede is nodig. Skerp optrede wat die groeikoers kan raak, is onwys. Dit sal eenheidskoste laat styg omdat fabrieke nou eers teen volle vermoë begin produseer. Tot dusver was daar 'n groot opgepotte vraag, maar daar is nou reeds tekens van krake in verbruikersvertroue. Anti-inflasieveldtogte werk nie.

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INFLATION

FM 28/11/80

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 Cooperation 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 rises 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

30/11/80 S. Tribune 153

INFLATION CHECKED?

By TONY HUDSON and JACK BRICKHILL

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 59 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 Europe-South Africa run by 14 percent this year However, shipping companies base 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 rising 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

153 STAR 1/12/80

Political Staff

The Economic Advisory Council has strongy 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 49 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 R469-million 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 this was 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 economic 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

Inflation makes a mockery of pension calculations

153 STAR 15/10/80

By Jean Moon

Pension funds face considerable cost increases in the near future to accommodate the requirements of the expected legislation on the preservation and transferability of pension rights. Present funding rates could increase between 15 and 50 percent.

Allan Dellbridge, MD of Associated Pension Consultants (APA), a company providing employee benefit services to small and medium-sized companies, points out, however, that there is a greater danger lurking on the horizon — inflation.

Inflation has struck a hammer blow at pension funds' ability to provide meaningful benefits to both present and prospective persons planning retirement.

Escalation rate

"If a company wishes to start funding for pensioners that increases in retirement, the increase in cost is astronomical," said Mr Dellbridge.

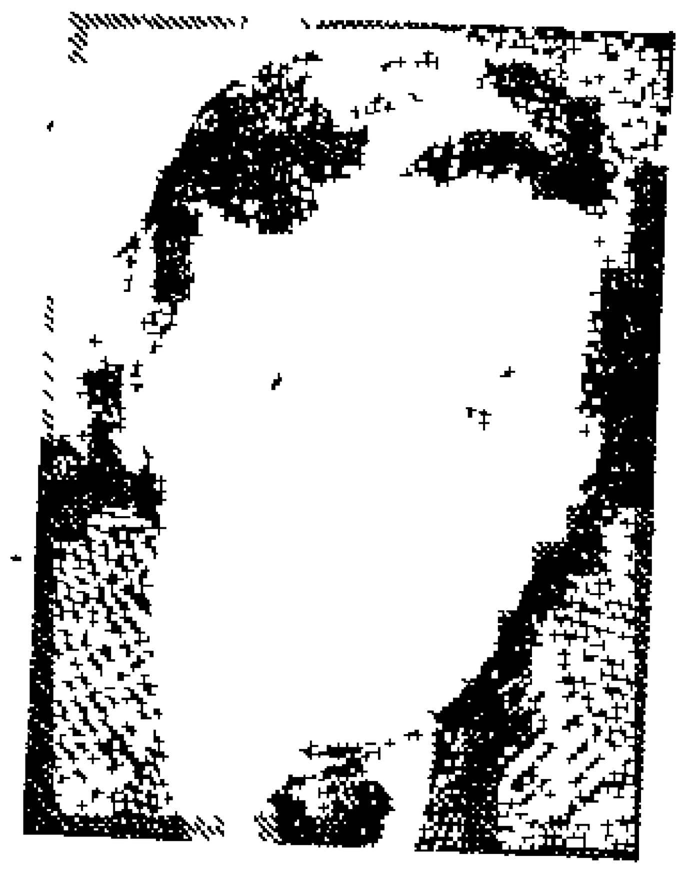
Even if a pension increased by a modest 3 percent a year, this would call for an increase in a company's existing fund rate of 20 to 25 percent. A 5 percent escalation would call for a 40 to 60 percent increase. Even at 10 percent (which is well below the current inflation rate), the increase would amount to 120 to 150 percent.

While it is widely recognised that inflation has been hard on pensioners, it is doubtful whether many corporate executives fully appreciate how severe inflation's impact has already been and how critical a threat to the private pension system it could become.

Mr Dellbridge points out that living costs have jumped at an annual rate of 7,4 percent in the past decade, so the purchasing power of the private pensions of those who retired 10 years ago has already been slashed by over 50 percent.

If inflation continues at the same rate for another five years, the same pension would then be worth a third of its original value.

The problem is compounded elsewhere by a declining birthrate and increasing longevity. In the US life expectancy of the average 65-year-old man has risen by 10 months in the last five years, and a female's by eight months. A man of 65 can therefore expect to live another 15 years and a woman 19 years.



Allan Dellbridge, who warns that it is imperative that planning for retirement should begin 20 years beforehand.

Mr Dellbridge draws attention to such trends, which are already bolstering the older segment of the population.

More than 37 percent of those over 64 years of age are now at least 75, and a quarter at least 85. In 10 years the ranks of those over 64 will grow by about 20 percent but those over 74 and 84 will both jump by nearly 28 percent.

Mr Dellbridge warns that unless inflation moderates or pensions are adjusted, the process of ageing for these people will be accompanied by a rapid decline in living standards.

Since the post-war baby boom the ratio of working people to pensioners is declining rapidly. In the USA in 1950, the ratio was 12:1, but today it is 5 or six. At this rate, the drain on financial resources of the working population to finance pensions might be so great by the turn of the century that the whole system might just fall apart.

In South Africa civil service and government employees tend to spend their entire working lives in one organisation, so their pensions are a reasonably high percentage of their salaries.

But in commerce where there is high job mobility, few people ever complete more than 15 to 20 years' service with the same employer. Therefore, pensions are likely to be 30 to 40 percent of the final salary. When the purchasing power of the pension is eroded by inflation, after 10 years it amounts to only 10 to 15 percent of the original retiring salary.

Job transfers

While the problem will let partially solved by the expected compulsory transferability / preservation, it will take at least 15 to 20 years for this to have any notable effect.

The frantic search for solutions is on, and some major corporations are granting periodic ad hoc increases to pensioners to offset the impact of inflation. But, says Mr Dellbridge, these increases are usually of the order of 50 percent of the increased cost of living.

Mr Dellbridge puts forward a few possible solutions:

- The Government should issue index-linked bonds.
- The retirement age could be raised. Why waste the productive talents of senior executives after the age of 65, he asks. Such a step could cut the cost of pensions by 20 to 25 percent.
- Pension funding should be at a higher rate from both employee and employer.
- Companies could pay ad hoc increases from their income at the time, but this is a costly exercise.

Mr Dellbridge stresses that it is imperative for people planning their retirement to start at least 20 years beforehand and to start making additional private savings to supplement their pension.

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Local content plan raises fears of inflation

STAR 153 ~~264~~ ~~189~~ 19/12/80

Farming Correspondent

Tractor price increases of about 40 percent will push food prices up again.

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, an executive of a large Nigel factory said today

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.

Hefty 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 manufactered Atlantis diesel engine, he said.

If the consumer was to foot all cost rise 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 was no reason for subsidising some staple products such as bread, but as soon as farm costs caused dangerous new inflationary pressures, agricultural requirements should be subsidised out of tax revenue.

Food up 28 pc this year

By David Breier
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 229,5 last month.

The average consumer price index increased by 0,8 percent last month compared to October, and the increase compared to 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 16,1 percent for the middle-income group and 13,5 percent for the higher income group

This disparity is caused by the high proportion of income spent by the lower-income group on food

153 FM 26/12/80

November's consumer price index rose 0,8% to bring the yearly rate to 14,9%, its highest level since January 1975 And 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

Meat prices, at 0 6% accounted for the lion's share of the 0 8% 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 (listed since July as production price index figures) rose at an annualised 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, toiletries and tyre and tube prices Beer and wine prices are also set to rise Projections for food inflation next year run between 16% and 30% 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 prices 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

15/11/81 — 31/12/81

Inflation in 1981 may exceed 15 pc—survey

15/1/81

(153) Star

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 percent

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

(153) FM 16/1/81

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 loading 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

INFLATION RATES FOR WHICH 30% INVESTMENT ALLOWANCE COMPENSATES

	Operational asset life			
	5 years* %	10 years† %	15 years† %	20 years† %
All expenditure in one year, initial production in same year	25,5	16,5	16,0	15,8
Expenditure phased over 3 years, initial production in third year	12,7	9,7	9,4	9,3

*Wear and tear allowances on straight line basis
†Wear and tear allowances 20% on declining balance
NB Initial allowance 25%

industrial development)

Government already recognises the need for adjustment — the Standing Commission is currently investigating the entire system of investment allowances, assisted by Protesor A P Zevenbergen head of the Bureau for Financial Analysis of the University of Pretoria (*FM* December 12 1980)

The FCI's recommendations on inflation protection 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 rules for 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 the asset is acquired " The alternative of asset revaluation would confront the accounting profession with intractable problems involving a large subjective element

The deduction of the full amount of 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 administrative 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 money as that in which the assets are purchased, this 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 pre-production interest) which are necessary in practical terms for the operation of an industrial concern, but not currently given recognition by the Income Tax Act either on the capital or revenue side

The FCI recommends that all 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 as a short-term measure for trading stock the more general application of the lifo ("last in first out") system of stock valuation This would require the removal of certain current complexities and argues the FCI a more co-operative attitude by the commissioner But other sources say there is no major obstacle to any taxpayer switching to lifo Perhaps the real cause of the reluctance to switch is that lifo would throw up lower disclosed profits

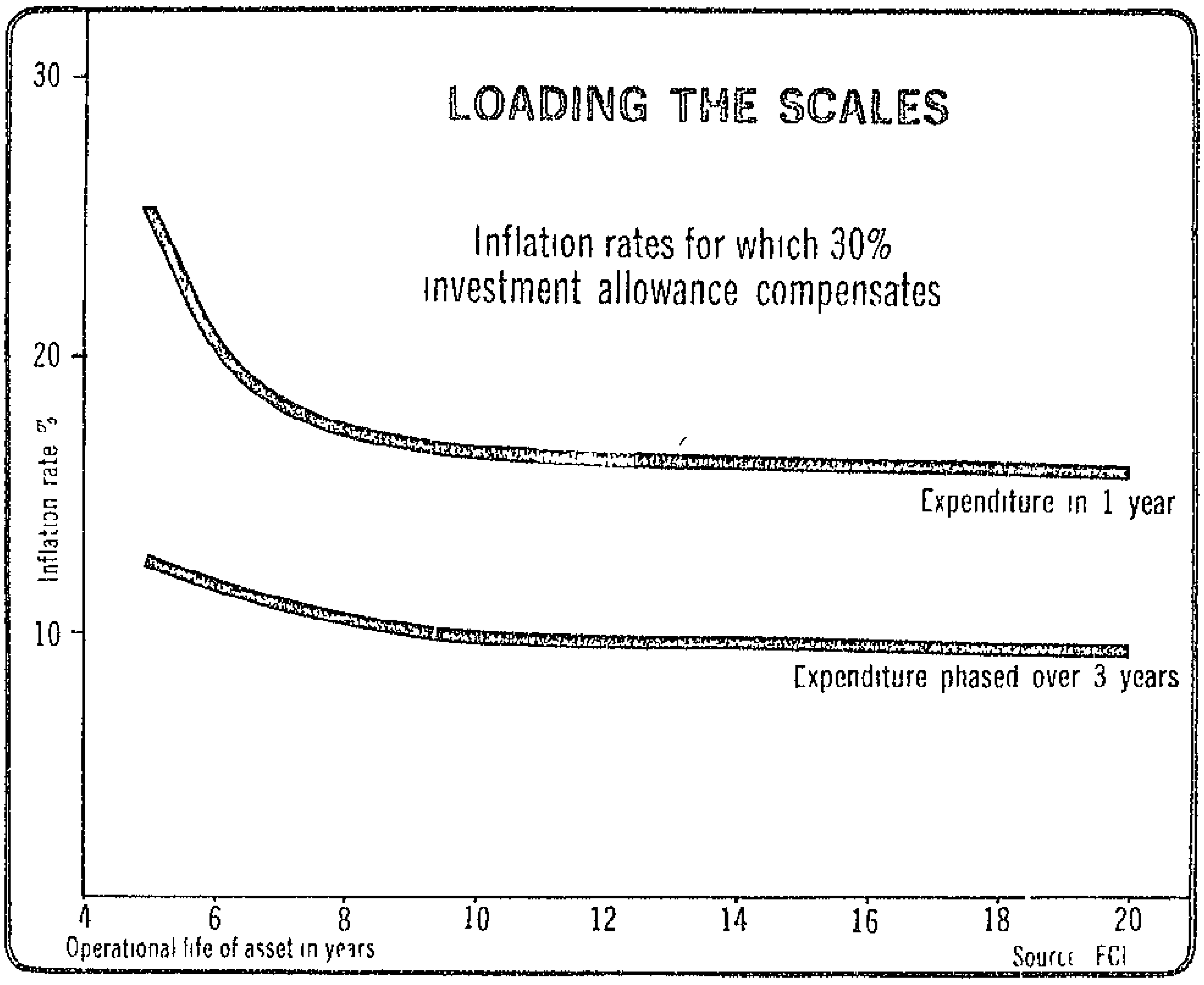
In the longer term, says the FCI, a formal system of inflation adjustment is needed, enabling the taxpayer to deduct from taxable income the rise in stock values attributable to inflation during the year of assessment (It seems that this is broadly speaking achievable without encountering the accounting complexities involved in revaluing capital assets) The lifo 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 of 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 4 003 of the National Council of Chartered Accountants (SA) which regrettably few concerns have actually adopted The more general application of GAAP 4 003 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 Both disclose the effect of inflation in their accounts in one way or another, and Iscor has just switched to a lifo 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 36c, 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 4 003 Quoted companies which evade this obligation should not escape criticism from investment analysts

FINANCE

SA shows no alarm at 28 pc growth in money supply

Argus 21/1/81

153

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 28 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 economies 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 573,50 dollars

In New York gold rose 5,75 dollars from its London close to 569,50 dollars on the news that the Iranians had freed the American hostages

Fixings in London yesterday:

	Dollars an ounce	Rands a kg
10 30 am	563,50	13 621,87
3 00 pm	562,00	13 585,61

UNIT TRUSTS

	Buy	Sell	Yield
Old Mut	376.00	351 58	4,18
	(375,92)	(351,50)	(4 18)
NGP	219,65	205,09	4,96
	(219 84)	(205,27)	(4,96)
Sage	403,17	374,32	5 18
	(402,61)	(373,81)	(5,19)
UAL	391,50	369,78	5,52
	(391,85)	(370 11)	(5 52)
SATS	167 83	156,54	5,48
	(168,46)	(157,12)	(5,46)
Snlmtrst	349 62	326,35	4,63
	(350 26)	(326,96)	(4,63)
Trust	111,12	103,70	6,39
	(111,12)	(103,73)	(6,39)
Santam	158,80	148 35	5 29
	(159,62)	(149,14)	(5,26)
Intergro	114,41	108,40	6,64
	(114,60)	(108,57)	(6,63)
Guardbk	357,27	336,45	4 87
	(358,52)	(337,62)	(4,86)
Standard	238,97	227 11	5,48
	(239,78)	(227 82)	(5 46)
Stand Inc	90,97	88,58	10,86
	(90,96)	(88,57)	(10,84)

Rand hits new low, inflation rate soars

STAR 23/1/81

153

By Caroline Mehliss, Consumer Reporter

Inflation is soaring so fast in South Africa that in 10 years the value of R1 has plunged to only 33,6c. 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 going up by 50c a bottle, wine by 8,5 percent and South African spirits by 5 to 6 percent.

Beer prices are not affected.

The economists warn that the inflation rate could touch 20 percent this year after reaching 15,8 percent last year — one of the worst rates on record.

In Stellenbosch, Professor Rias van Wyk, professor of business economics at the University of Stellenbosch, said that by the year 2000 a Volkswagen Golf car could cost R20 000 — more than a Mercedes-Benz costs today — and parking it could cost R1 for 30 minutes.

The main reason for the cost-of-living increase was food prices, which rose a massive 30 percent.

Hardest 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 16,9 percent, and for higher incomes 14,1 percent.

Professor van Wyk said a number of "dark trends" in the economy had become so complex that the State could no longer solve them on its own.

He predicted unemployment would vary between 11 percent and 22 percent of the working population during the next decade.

Population explosion too was a major problem. Predictions of 41 million people in South Africa in 20 years showed that infrastructure demands would outstrip infrastructure supply, Professor van Wyk said.

Boom

Dr Johan Cloete, chief economist for Barclays Bank, said the rate was not unexpected because South Africa was in a boom period with plenty of money in circulation.

"With wage increases averaging 18 to 20 percent last year, consumers had money and they spent it. There was no consumer resistance at all to high prices."

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 rises correspondingly," he said.

Dr Cloete said a possible solution to the inflation problem would be for workers and business firms to negotiate a slow-down in wage and price increases.

19

PROSPECTUS ENTRY 1981

MANAGEMENT ACCOUNTIN

COURSE OBJECTIVES

On completion of the course, the student

- provide information to enable manag
and control decisions;
- determine the cost of products util
systems.

The structure of the course is as follows

1. OVERVIEW
1.1. Objectives of the firm
1.2. The nature of management accounting
1.3. The links between management accoun
accounting and the relationship wit
disciplines of economics and statis
2. VARIABLE COSTING

Inflation will hit 18% this year, Barclays' chief economist warns

S. Express 25/1/81 153

By DEREK TAYLOR
Financial Editor

THE potential inflation rate for 1981 is 18%, Dr Johan Cloete, Barclay's 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 15,8% 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

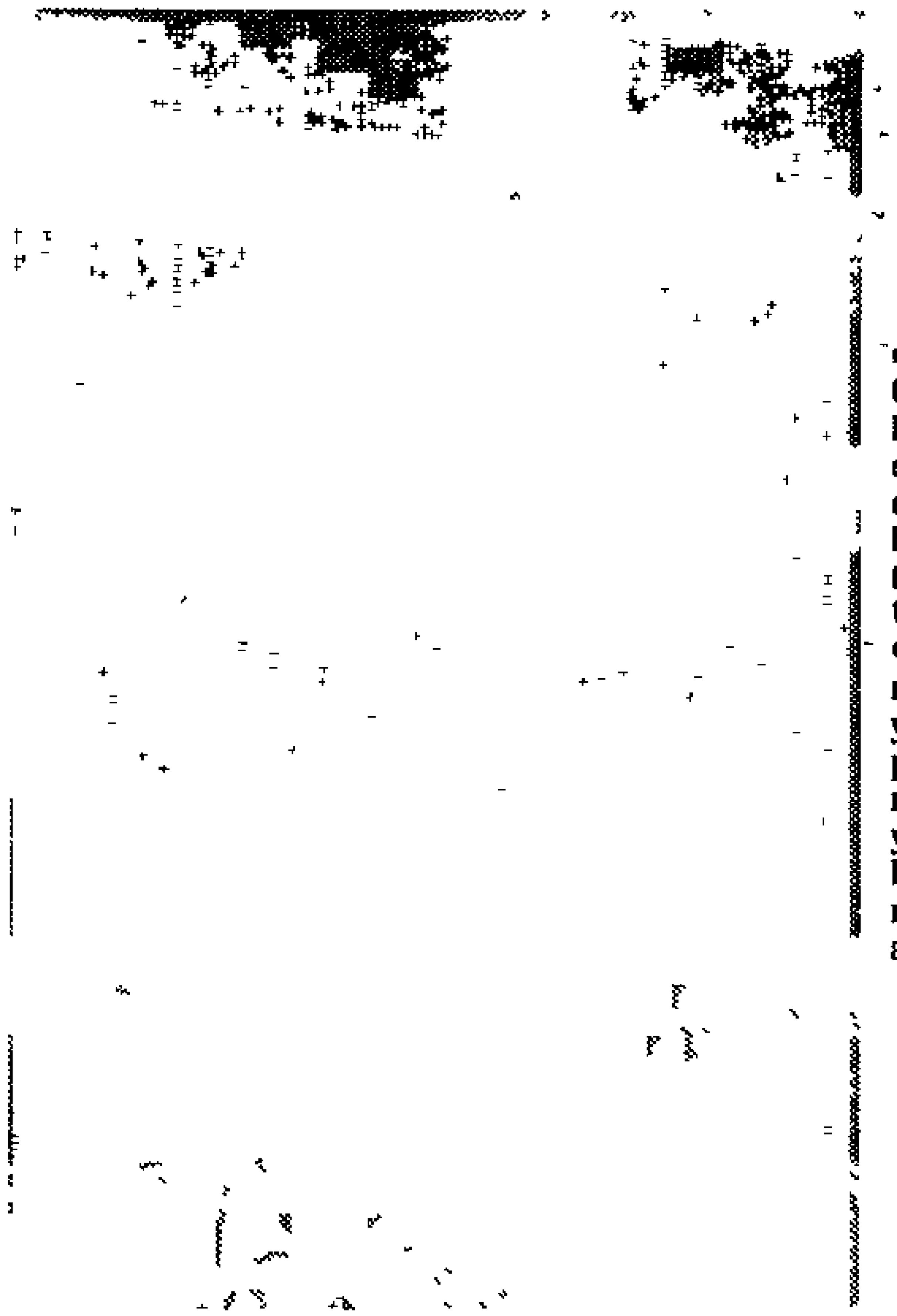
"But this slack has now been taken up and there is nothing favourable in sight for unit costs," he said

"There will have to be a tightening up on credit restrictions so that interest rates can rise 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 5%," said Dr Cloete.



• Dr Johan Cloete, Barclay's chief economist, has warned the country to beware of 18% inflation this year — his predictions in previous years have been remarkably accurate

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ARCHITECTURE

(Continued)

SKILLS VITAL TO STEM INFLATION

Argus 29/1/81 (153)

Parliamentary Staff

WITHOUT skilled labour and trained people it was impossible to stem the tide of inflation in South Africa, said Mr Ron Miller (NRP Durban North) in the Assembly yesterday.

Speaking in the no-confidence debate Mr Miller said that within the next three years there would be a shortage of between 50 000 and 80 000 skilled labourers in the country.

It was this great labour shortage which would lead to the country's downfall.

The shortage was due to the Government's policy of job reservation and separate education for blacks.

A call for a 'massive' anti-inflation campaign was also made by Mr Harry Schwarz (PFP Yeoville), who said inflation was a destabilising factor in society.'

If nothing was done inflation would grow — it already appeared 1981 would be worse than last year.

Mr Schwarz said that although South Africa had experienced an economic boom, there were those whom the boom had passed by. They were the housewives, black workers, the unemployed, those in depressed rural areas, and the elderly living on fixed incomes. They were the victims of inflation.

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

Inflation 'out of control'

Argus 30/1/81

Parliamentary Staff

(153)

RAMPANT inflation threatened to get worse and the Government appeared to be incapable of doing anything about it, Mr Rupert Lorimer (PFP 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 rose 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 26 percent last year.

In spite of difficulties, South Africa was the largest food exporter in Africa.

ARCHITECTURE (Continued)

Mrs. Thornton White Prize
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BUILDING

SA inflation facing 20 percent

Argus Correspondent

Argus 30/1/81

(153)

JOHANNESBURG. — South Africa's inflation rate of 15,8 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.

Hardest 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 16,0 percent, and for higher incomes 14,1 percent.

Dr Johan Cloete, chief economist for Barclays Bank, said the record cost of living hike was not unexpected, because South Africa was in a boom period with plenty of money in circulation.

'With wage increases averaging 18 to 20 percent last year consumers had money and they spent it. There was no consumer resistance at all to high prices.'

POTENTIAL

Dr Cloete said there was a potential of 18 to 20 percent inflation rate this year, which was directly related to last year's wage increases.

'The more money people have, the more they spend, and the inflation rate rises correspondingly,' he said.

Dr Cloete said a possible solution to the inflation problem would be for workers and business firms to negotiate a slowdown in wage and price increases.

CLAMP DOWN

Another option would be for the Government to clamp down on credit facilities, so that the public and business had less money, and price and wage increases could not be financed at their present accelerating rate.

Professor Brian van Wyk, Professor of business economics at the University of Stellenbosch, said the inflation problem had become unmanageable, and would have to be solved by individuals rather than the state.

He said that in current terms, a R1 coin would buy only three minutes of parking in the year 2000, [illegible] would cost R20 000 and a 10c coin would take the place of the current 1c coin.

ARCHITECTURE (Continued)

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BUILDING

Inflation running steepest for lower income groups

RDM 30/1/81 (153)

By VITA PALESTRANT

Consumer Mail

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

Full details of the Department of Statistics CPI is published by Consumer Mail every month as a service to its readers

The latest figures show that low income groups continue to be hardest hit by inflation, which is running far steeper for them than for middle and higher income groups

The CPI for lower income groups increased by 1,3% last month and by 20,1% during the 12-month period, while that for middle and higher income groups rose by 1% and 16,9% and 1% and 14,1% respectively

Food continued to rise sharply well ahead of the CPI, increasing by 1,7% last month and by a whopping 29,5% during the 12-month period

The brunt of heavy food price increases fall most heavily on the lower income groups — predominantly blacks — who spend proportionately more on food (between 50% to 70% of their earnings)

In the food sector meat continued its climb upwards increasing by 2,8% last month and by a staggering 57,3% over the year

Both milk, milk products and eggs, and fats and oils dropped marginally — by 1,4% and 0,4% respectively during December

Over the 12-month period they have risen by 10,6% and 12,5% respectively

Fish rose by nearly 1% last month and by 9,8% over the year, while grain and grain products rose by 0,5% during December and by 15,2% over the 12-month period

During the 12-month period fruit has risen by 8,1% while vegetables rose by 29,6%.

Sugar and coffee, and tea rose by 10,7% and 5,5% 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 0,4% last month and by 9,6% during the year, while footwear increased marginally more — by 0,6% last month and by 12,2% over the year.

Housing rose by 0,4% 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 have been substantial increases, as much 5,1% last month and 14,7% during the year Furniture alone rose by 8,9% last month and by a massive 18,8% over the year, while appliances rose by 1,3% 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 0,8% last month and by 13,1% over the year

Domestice servants, who show the slowest upward movement in the inflation spiral, were paid only 0,6% more last month and a meagre 4,9% 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 14,6% during that period and vehicle running costs rose by 3,1% Public transport rose by 7,5% during the year

Communications increased by 13% over the past year.

Recreation and entertainment — which rose by 0,6% last month — went up by 10,7% over the 12-month period And reading matter — which leapt by 4,1% last month — went up by a whopping 54,6% 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 11,3% over the year

Every month the Department of Statistics in Pretoria analyses masses of information about the cost of goods and services in 11 major urban areas

These are processed to make up the monthly CPI

	Dec 1980	Nov 1980	Dec 1979
ALL ITEMS	189 9	187,8	164,0
Lower income group	191,6	189,1	159 6
Middle income group	191 1	189,1	163,5
Higher income group	188,7	186,8	165,4
FOOD	211,8	208,2	163,6
Grain products	188 5	187,6	163,6
Meat	235 9	229,5	150,0
Fish	205 3	203 4	187,0
Milk milk products & eggs	174,6	177 0	157,8
Fats & oils	206,6	207 4	183,6
Fruit	189,4	172,4	175,2
Vegetables	194,6	193 0	150,2
Sugar	263,8	263,1	238,2
Coffee & tea	245,7	244,7	232,9
Other	187,4	186,8	162,8
COLD DRINKS	196,4	196,4	170,0
ALCOHOLIC DRINKS	162,8	162,8	150,2
CIGARETTES, CIGARS & TOBACCO	157,4	157,4	150,8
CLOTHING & FOOTWEAR	161 1	160 3	146 2
Clothing	152 7	152,1	139,3
Footwear	205,1	203,8	182,8
HOUSING	158,7	158,1	142,6
L & POWER	239 6	239,6	212,9
FURNITURE & EQUIPMENT	173,2	164,8	151,0
Furniture	160,0	146,9	134,7
Appliances	162 1	160,0	147,5
Other	178 4	176 1	160,2
HOUSEHOLD OPERATION	215,7	214,6	200,2
Cleaning materials, etc	204,9	203 3	181 1
Domestic servants	218 4	217,2	208,2
Other services	198 1	198 1	184 7
MEDICAL CARE	177 4	175 5	152,4
TRANSPORT	212,8	212,8	197,9
Vehicles	196,3	196 3	171 3
Running costs	248 8	248,8	241,4
Public transport	168,1	168,1	156 4
COMMUNICATION	114,5	114,5	101,3
RECREATION & ENTERTAINMENT	175 6	174 5	158 6
READING MATTER	258,6	248,3	167,3
EDUCATION	201,9	201 9	176 9
PERSONAL CARE	179,4	176,6	161,2
OTHER	190,3	187,8	163,7

Hansard 1 Ques Col 23

153

30/1/81

The provisional figures up to 31 December 1980 are

(a) R466 435 235

(b) R52 605 235

Rate of inflation (153)

113 Mr I F A DE VILLIERS asked the Minister of Statistics 30/1/81

What on an annualized basis, was the rate of inflation in October November and December 1980 respectively?

The MINISTER OF STATISTICS

The percentage increase in the Consumer Price Index at an annual rate, was as follows

1980
October -25,6
November—10 1
December—14 3

PAGE ONE COMMENT

S Times 4/2/81 153

Inflation: Time to draw blood in the food sector

"Plain, 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 all their cost increases — and more — to the consumer
— Professor Jan Sadie, head of the Bureau for Economic Research at the University of Stellenbosch.

"Increased attention to the rising inflation rate can be interpreted as a shift in (Government) policy
— Dr Simon Brand, financial policy chief in the Department of Finance.

Stephen Orpen

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 supersalesman 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 one way of looking at the matter.

The fact that, according to at least one major store chain, spending on many 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, consumbers will shoot 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 R10 apiece 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-elaborate 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 these are *in surplus* and when, despite the surplus, the same produce is imported.

He would hang his head at the spectre of large and even monopolistic corporations holding and even increasing their selling margins despite the reaping of new (cost) benefits of scale, occasioned not least through an overwhelming concentration of buying muscle

Inflation is not merely a matter of too-rapid growth in the

● To Page 3

Bank rate rise will dampen demand

CT 3/2/81

153

BY PAUL DOLD
Financial Editor

THE authorities last night took their first major step to negate the growing danger of demand inflation by raising the bank rate one percent.

Reserve Bank Governor Dr Gerhard De Kock said in a statement that it was imperative for the authorities to regain effective control over the money supply and add monetary discipline to the existing fiscal disciplines if the threat of accelerating demand inflation was to be avoided

And he hinted that the hiking of the bank rate to eight percent was only the first step in a new anti-inflation programme

The announcement underscores 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-inflation measure is all the more noteworthy in that the announcement comes ahead of a vital general election Few can thus 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 Usuary Act

The fact that the bank rate was raised by a full percent to eight percent suggests the authorities are determined to slash 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 this year of between 4,5 and 5 percent should not be severely hampered by the planned measures Last year the economy grew by some 8½ percent which is far too high a rate and this has resulted in numerous bottlenecks such as manpower shortages The Government's plan probably is to ease back the growth rate to a more sustainable rate thus preventing the outbreak of the much feared demand inflation which would lead 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 stages

The money supply (the broader definition) grew by a massive 30 percent last year which is excessive

The authorities have been trying to mop 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 seem 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 Kocks' 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

CT 3/2/81

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By GORDON KLING

THE GOVERNMENT last night formally pulled in the reins on one 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 progress, Dr Gerhard 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, stock exchange and property prices, economists believe that dearer money can be expected to dampen further boom conditions in the economy which have led to strong inflationary pressures

With gold trading below $500 an ounce on 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 their dividend prospects — which has accordingly de-...d gold share prices to ... many cases are less than a third of those ruling at the peak of the market late 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 alleviating bottlenecks

Dr Gerhard de Kock

and other outcomes of last year's hefty eight percent growth

Announcing the bank rate increase in Pretoria last night, Dr De Kock said it signified official recognition of the recent upward tendency in domestic interest rates, and the determination of the monetary authorities to act with speed to reduce the rate of increase of the money supply

Last year had been one of the best ever for the South African economy It had been a year of prosperity and rising standards for most South Africans, and of increased confidence in the economic future of the country, as shown by the substantial increases in real fixed investment and in consumer-spending in the private sector

Dr De Kock said that the current account of South Africa's balance of payments — which basically reflects its trade position with the rest of the world — showed a surplus of between R2,5 billion and R3 billion for 1980 as a whole, in spite of an increase of about 47 percent in imports

This performance, he said, largely reflected the virtual doubling of the average gold price for the year in comparison with 1979

Exceptional liquidity, as reflected by an increase of more than 20 percent in the broad money supply (money plus near-money) between November, 1979 and November, 1980 was, however, very disturbing

This rate of increase was more than double the broad guideline of 10 to 12 percent indicated by the Minister of Finance, Mr Owen Horwood, earlier in the 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

Indications were that this would also be true of the fiscal year ending March, 1981

Dr De Kock said the inflationary potential of the excessive increase in the money supply needed no underlining

At the beginning of 1980 inflation in South Africa had still been largely of the cost-push kind (in which higher costs push up the price of goods), and the emergence of general demand inflation (in which too much money chases too few goods) had not seemed inevitable

"But as the year progressed, the excessive low level of interest rates made the general financial situation increasingly conducive to general demand inflation, in spite of the continued restraints on government spending and the marked increase in tax receipts,"

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 had risen from 8,6 percent in the first quarter of 1980 to 13,3 percent in the second quarter, 16,3 percent in the third quarter and 22,3 percent in the fourth

This had resulted in an increase of 15,7 percent between December 1979 and December 1980.

HORWOOD TO LAUN

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ATTACK ON INFLAT

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ON

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.

By Derek Tommey
Finance Editor

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 relaxation in 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 percent in the first quarter of 1980, spurted to 13,3 percent in the second quarter, to 16,3 percent in the third and 22,3 percent 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 sterilising 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 ease exchange control and allow much of the money that has flowed into the country to flow out again

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Awarded to the student with the best classwork in Engineering Drawing.

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Blacks 'losing in inflation battle'

By Craig Charney

Despite rapid economic growth, the wages of black workers in Soweto and on Transvaal farms have been going down in real terms, according to two papers presented at the University of the Witwatersrand.

In papers presented at the Wits University history workshop, Mr Jeremy Keenan said wages had fallen behind inflation between 1978 and 1980 among a sample of Soweto residents, while Mrs Phyllis Lewsen and Mrs Jennifer Dagut concluded that the same was the case from 1945 to 1980 among Transvaal farm workers they had studied.

"It seems to be widely assumed the quality of life in Soweto and the country's other black townships has been improving over the last couple of years," Mr Keenan wrote.

"There is not only little evidence to support these beliefs, but black earnings in many sectors have actually declined in real terms in the last few years — sometimes quite substantially.

"As far as job opportunities are concerned, the 1976 level of black employment in the non-agricultural sectors, excluding mining and quarrying, was not reached until the end of 1979. During 1980, a year of an exceptionally high rate of economic growth, black employment opportunities have improved only sluggishly."

Of the families Mr Keenan studied in Rockville, Soweto, about 70,5 percent saw their incomes decline between 1978 and 1980.

The average decline was 13,5 percent, with the incomes of men down 8,4 percent and those of women 16,5 percent.

The Lewsen-Dagut study examined both the records of a farmer on the highveld who paid above-average wages continuously from 1945 to 1980, and more general farm wage data.

They concluded "Cash farm wages did not increase at the same rate as the urban cost of living. This is not unimportant even though a considerable proportion of the income of farm labourers is in kind.

"There is no evidence to suggest the prices of other goods and services (clothes, schoolbooks, holidays) increased on average more slowly than the price of foodstuffs, house rent and urban household expenses."

Inflation — the damning choice

RDM 10/2/81

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Howard Preece **Economic 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%.

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 depreciating rand that it will not fall below it by 1983 either

Two unhappy but semi-paradoxical truths have to be faced

- Inflation is the long-term enemy of growth
- Curbing inflation, 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 overstressed

Political, industrial and social changes are needed to remove or reduce some of the factors that exacerabate inflation

I doubt, in fact, whether any juggling of monetary, fiscal and general financial policy can of itself produce sustained high growth and single figure inflation in the next few years

Inflation is statistically a monetary phenomenen and, on one overblown theory, soluble 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 and was necessitated by the rand devaluation of September 1975

This was reflected in the average annual increase of about only 8% in the broadly defined money supply for 1976 and 1977 — 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 there was a negative growth of some 5% in the economy in 1974

The rich Swiss thought that a price worth paying Tens of thousands of migrant workers, however lost their jobs — and some Swiss bankers conceded that deflation on that scale was not a practical option for most countries

It certainly was not deemed so for South Africa by 1978 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 stakes among industrial countries

Mounting black unemployment put a heavy premium on a resumption 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 accelerated

Real growth this year may drop to around 5%, but that will still mean acute problems in many areas of the supply side of the economy

Rising interest rates a likely easing of exchange controls, a continuing clamp on Government spending and a cautious 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 — and the Government is anxious to keep growth at least above 4%

On second thoughts I will take two rands that inflation will still be above 10% in 1983

Drastic change outside the financial arena 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 1975-77 we had only the inflation

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18% inflation is Cloete's forecast

RDM 12/2/81 153

By HAROLD FRIDJHON

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 the 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 of 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 18%

Monetarist economists, says Dr Cloete, would probably ascribe the acceleration in the inflation rate to failure by the authorities to practise 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 greatly inflated prices. While money incomes and money supply are not identical because banks finance demand for their 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 undisciplines 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 constituent 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 "stringent" 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 19% or 20% 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 33,5% 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 19% to 20% 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 rising 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 supplemented and 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

CT 14/2/81. (153)

THE South African economy is facing a formidable inflation threat which seems set to escalate in coming months and prospects of the rate being held at 14 — 15 percent are fading fast

Talking business

by

PAUL DOLD

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 1980 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 Barclays Dr Johan Cloete warned that the country could be facing runway 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 no 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 Equally, the past few years of fairly high inflation rates and ultra low growth, where the economy failed to respond for months to persistent prods are quickly being 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 quick but disasterous measure

To move towards such a drastic step however would undermine all the confidence and progress made by Finance Ministyer, Mr Owen Horwood and his team at the finance ministry

It would kill the free market philosophy stone dead and without doubt lead to even higher inflation when the freeze eventually was lifted

Rather than move down that slippery slope of greater State intervention in the economy and bureaucractic control the authorities should rather grasp the opportunity and high confidence factor created by the new enlightened financial policies and move rapidly ahead towards a freer economy

This would lead to fewer controls greater efficiency and production and less inflation

Business confidence in Mr Horwood is high — probably a record level for a finance minister in recent decades — and the time is opportune for less talk of free market and more action

Dr De Kock's much awaited report generally expected to have been released early in the new year is now only likely to appear much later in the year The Budget due to the election has also been postponed

No doubt the turn down in the gold price has been partly responsible for some of these developments But one only has to look back to last year to see the authorities missed the boat in fully implementing their new free market philosophy

Exchange control

Exchange control has not yet been relaxed nor has the financial rand merged with the commerical rand or the grasp on prescribed investments been relaxed or scrapped

The pace is slacking in the new programme and in a year's time the climate may be more unsuitable and our main trading partners economies sluggish

Key private sector monetary experts ranging from the gilts markets to banking are ready to throw their support behind a bold initiative by the government A minimum of disruption is likely over a free market package which will be popular and command wide support

Why should their be a uniform stockbrokers' commission on share deals, why should building society bond rates be the same?

Let a highly efficient society offer lower bond rates and higher deposit rates or a stockbroking firm offer lower brokerage rates

Let the free market play its part

Let the registrar confine his activities to liquidity and other monitoring safeguards

But it is not only in the financial sector that attention is required There is no reason why a multiplicity of produce markets should not exist across the country nor why the free market principles should not extend through the entire key beef industry and other food products Producer and marketing competititon needs to be strongly encouraged across the food spectrum One wonders whether the hefty price rises of the past year are due to the concentration of power in too few hands The country cannot afford food prices of the current magnitude

Not only does the public require a better deal from government but business men must play their part in responsible pricing otherwise they will face far more rigid controls as the seeds of free market policy are obliterated as the inflation rate mounts

Fighting inflation

To fight inflation, business and particularly government needs to open up the system to encourage competitition and to avoid the temptation of placing uniformity above all in striving for convenience

The prime minister has shown his organizational ability in streamlining the public service Now his eyes should directly swing towards the bureaucratic red tape in the system which is keeping food prices high and generally aiding inflation

In the grand strategy which is slowly unfolding a high growth rate and job creation are crucial pillars and the country cannot afford to have growth threatened by a plethora of inflationary government controls and a direct or indirect State clamp on wages and prices

The simple solution is less State interference

Govt to act on inflation

16/2/81 (153) STM

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

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CHEMICAL

Govt to set up top-level inflation meeting

RDM 17/2/81

153

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 1980 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, taken at a seasonally adjusted annual rate, the rate of increase of the consumer price index moved up from 8,6% 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 had to endure in the past few years were initiated by international developments over which the Government had no control

Among these were the world-wide cost-raising effects of the successive increases in the price of crude oil and world-wide 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 till 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 cost than would otherwise had been the case, and
- The tendency among various groups in society to attempt to extract more from the economy than their [illegible] productive contributions could justify.

However desirable narrowing of the wage gap was, it had not benefitted the anti-inflationary struggle, Mr Horwood said

It was time that a meeting be called of top-level representatives of the business sector, organised labour, consumers, academics and the public sector to discuss in-depth the inflation problem

Mr Horwood said his department would arrange such a meeting and the details would be announced as soon as was practicable. — Sapa

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'Inflation still chief problem'

207 11/2/81 (40) (153)

THE ASSEMBLY - 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 Horwood, said yesterday.

Concluding his mini 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 to 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, which I do not expect, the current account 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 partly 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 13% in the real gross domestic product over two years.

"At some stage of course there will be a temporary downward phase of the normal business cycle to be followed in turn by the next upswing which would carry the economy to new record heights," Mr Horwood said. - Sapa

Government policy emphasis switches to fight inflation

CT 17/2/81 (153) (49)

BY PAUL DOLD
Financial Editor

SOUTH AFRICAN interest rates will soar still further as the Government takes firm action to control the money supply and remove the threat of demand inflation. The emphasis in Government policy has abruptly changed from growth to fighting inflation.

This is clear from yesterday's mini Budget when the Finance Minister, Mr Owen Horwood, told the country that the government would not stand in the way of interest rates rising to their market levels

"The South African monetary authorities will not hesitate to allow interest rates to rise to their natural market determined levels This forms an essential part of an effective anti-inflationary policy"

And he noted that local rates were low compared with our main trading partners and are still negative in real terms

Determined

He left business men in no doubt that the Government was determined to cut money supply growth and would be using its impressive armoury of conventional weapons — open market operations, the stabilization account and the discounts on forward dollars

It is to be hoped that that the minister's remarks will be followed by swift action in the market place itself so that the authorities can gain an important psychological advantage

The track record both here and in the United States and Britain has shown that it is difficult to control money supply and techniques have still to be refined

Overseas, broad agreement does not yet even exist as to which definition of money supply should be regarded as the market barometer

Reading between the lines of the mini Budget speech one gained the impression that the authorities are unhappy with the huge spurt in commercial bank credit to the private sector during the past year — a rise of R3 240m which the minister labelled as the principle cause of the huge increase in the money supply

Thus post-election monetary policy could be strengthened and credit tightened The banks may well be asked to restrain credit and I would not be surprised to find credit cards which are widely used as a credit function coming under closer scrutiny

It is certain however that monetary policy will not have an instant impact on the inflation rate and it will take several months at least for the new monetary package to have an effect

Thus, in the interim the private sector will be asked to make some contribution to price stability What the trade off will be is unclear but Mr Horwood will no doubt tell the private sector in no uncertain terms of the dangers of demand inflation and ask for their co-operation

If the economy faces rampant demand inflation with the cost of living rising to some 20 percent, business could face the possibility of an official or unofficial incomes policy dashing the cherished free market hopes

Growth rate

A fair growth rate for country of some 4 — 5 percent at the huge impetus propelling the economy ahead at around an 8,5 percent rate is unlikely to slacken until the second six months, leaving average growth of four percent plus

The new active public debt management and open market operation policy of the Treasury and the Reserve Bank will be widely welcomed by the capital and money markets

The Reserve Bank has, of course, been active in recent months in buying short-dated government stock but this accelerated activity could herald the start of the much awaited free market financial policy which is expected to be the cornerstone of Dr De Kock's report

The minister's announcement that the Central Bank's activities in the money market would concerate on easing the expected seasonal tightening of the February and March month ends is sound strategy

From next week the money market could be facing one of the tightest periods in years and the policy should be able to cushion the market from the worst

Next stock issue

Under the current monetary policy it is reasonable to predict a very attractive rate on the next government stock issue with a coupon of 12,75 to 13 percent

Hopefully, the policy will assist in mopping the vast surplus cash in the short end of the market with switching taking place into the long end where this liquidity really belongs

At a glance the pay rises announced seem to be well within reasonable bounds, particularly considering this is a pre-election Budget and there is no doubt that Mr Horwood's prime achievement to date has been his success in limiting government spending It is vital that this be continued if the policy of growth through the private sector is to be maintained

The relaxation of exchange controls will delight the travel industry It is a pity that the supply of Kruger rands to the local market are only being increased now when the gold price is well below the $500-mark

For too long South African's have been denied a meaningful opportunity to buy these gold coins and it is hoped that the totally inadequate method of distribution will be revamped

While this Budget, which heralds new rises in interest rates, has been discounted by the stock market it can but only reinforce the major bear trend in share prices

Mr Horwood is to be congratulated for grasping the opportunity provided by the mini Budget to enunciate government policy ahead of its implementation rather than using it merely as an appropriation exercise

5

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CHEMICAL

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Up goes interest on HP and overdrafts

By HOWARD PREECE
Financial Editor

INTEREST rates on hire purchase deals of less than R5 000 will mostly go up next month from 21% to 24% a year.

Personal overdrafts will cost up to 16%.

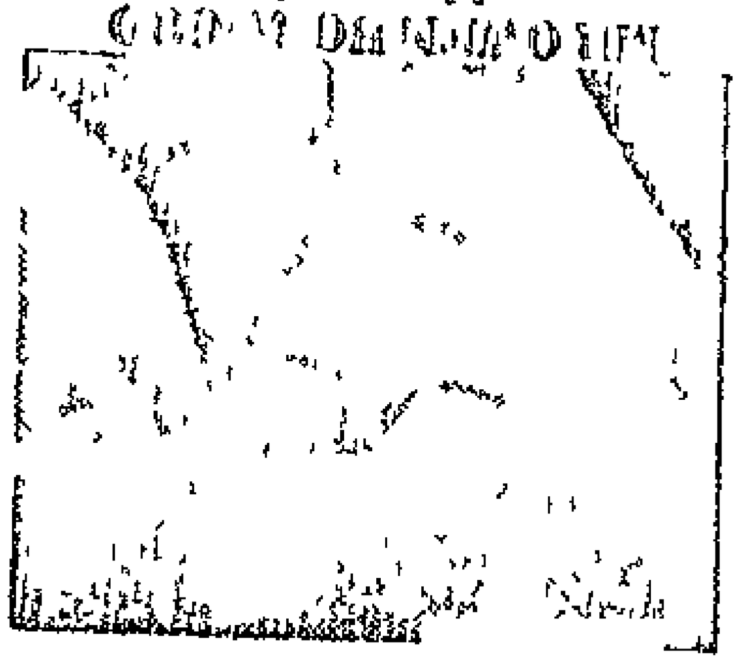
People who use bank credit cards may be charged 18% if they fail to settle debts promptly.

Bank customers who run up small, unofficial overdrafts may even find themselves paying a punitive 24%.

These are the main consequences of the Government's decision to raise the 14% "usury" ceiling on money lending and to let interest rates rise with market forces.

The decision was announced after Monday's mini-budget by [illegible] Minister of Finance.

Rates on hire purchase deals of more than R5 000 will remain pegged at a maximum 21% a year.



MR OWEN HORWOOD ... Pushing up interest

The dearer HP charges will not have a major, immediate impact on consumer spending.

The effect on furniture, for example, costing R500 with a R100 deposit and the balance payable over two years will be [illegible] a month to [illegible] a month.

A second-hand [illegible] R5 000 [illegible] the deposit) might cost [illegible] a month more depending on the repayment period.

The rise in interest rates has to be seen against a background of inflation running at nearly 16% in 1979 as measured by the consumer price index.

This means, of course, that an overdraft of 16% 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.

Rising interest rates will inevitably choke off some borrowing and thus restrain the demand for money.

In the short and medium term, however, rising interest rates can have the paradoxical effect of adding to inflationary pressures by pushing up costs.

But over a longer period they will act to reduce inflation. The Government won't stifle economic growth by acting against inflation now.

INFLATION (153)

The Ford option

FM 20/2/81

The Carlton hotel accord between government and big business to present a united front against the "total onslaught" and improve the quality of life for all South Africans, is to be followed in the coming weeks by a similar summit to devise a total strategy against an only slightly less pernicious bogy than marxism, double-digit inflation

Said Finance Minister Owen Horwood this week "I am of the opinion that the time has arrived for the calling of a meeting of top level representatives of the business sector, of organised labour, of consumers, of academicians and of the public sector, to discuss the inflation problem in depth and to agree on ways in which each and every one of us can make a more significant contribution to the solution of this all-pervading problem." This raises the shade of former President Gerald Ford who called such a conference in the US in 1974 and devised the WIN (Whip Inflation Now) button that somehow failed to do so

What government clearly has in mind is another social contract or anti-inflation manifesto, in terms of which worker and employer groups in the private and public sectors commit themselves to voluntary price and wage restraints for a period to be agreed upon, but probably not less than six months

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 clamps 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 gushing into the system Moreover, voluntary restraint is not in itself a change in expectations It is merely acquiescence 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

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STUDY SHOWS THAT EVEN AFFLUENT SOWETANS ARE IN DIRE ECONOMIC STRAITS

Boom for whom?

Proponents of restriction-free capitalism say that during a period of economic growth the benefits filter down to everyone prepared to work. But a new study of household patterns in Soweto has found the opposite to be true

Political Reporter AMEEN AKHALWAYA analyses the study made by Dr Jeremy Keenan, of the Department of Social Anthropology at the University of the Witwatersrand

A STUDY by a University of the Witwatersrand social anthropologist has added a new dimension to the capitalism versus socialism debate by disproving a popular capitalist theory that during an economic boom everyone tends to benefit.

A newly-published study by Dr Jeremy Keenan shows that the economic circumstances of those who are not so well off actually deteriorate in some cases.

Among his findings is that while average wages for blacks in his study have gone up by nearly 20% between July 1978 and December, 1980, the Consumer Price Index (CPI) has shot up by 38,6% in the same period; that despite the economic boom more households are now operating below the breadline.

What is more, the households in his sample are generally above average in socio-economic terms in Soweto. Thus those economically worse off have been even harder hit.

Dr Keenan outlined his findings in a paper delivered at Wits History Workshop 1981 recently and elaborated on them in an interview with the Rand Daily Mail this week.

He conducted a study of 50 households in a neighbourhood of Soweto's Rockville township comparing the situation in July, 1978 to that in December, 1980. Dr Keenan points out that 1980 was a year of almost unprecedented economic growth.

The study proceeds to disprove some popular notions about living and income patterns in Soweto.

While he sets out his findings in understated, academic terms, they nevertheless make harrowing reading about the strategies people adopt to offset the ravages of inflation, how tension and sus-

of male and female adults still living in their parents' home quite frequently with their spouses and usually a number of their offspring, about half of whom are illegitimate." (Illegitimacy is not regarded as a social stigma.)

His findings contradict the view that the household is a single, economically rational "corporate" unit where incomes are pooled. It is quite frequent for members of a household not to know the place and description of fellow-household members' work, let alone their income.

One of the main sources of conflict and physical violence between family members is that people are suspected of holding back part of their incomes from the household and spending them elsewhere.

Much of the income attributed to a household does not reach it. The result is that a household which may be well above the HEL in terms of aggregated incomes may in fact have several of its members living in a state of poverty.

"In practice," Dr Keenan concludes, "the degree of poverty and hardship is higher than the data indicates."

His study also finds that 60% of the households in the sample give an average R31,60 each in financial maintenance to dependants elsewhere, usually in the homelands.

FINDINGS:

Inflation between 1978 and the end of 1980 outstripped increases in wages.

In July, 1978 the 50 households contained 285 people, an average of 5,7. (The actual number of people per household ranged from one to 16.)

move to urban areas in search of employment usually leave their children behind in the homelands.

With mothers at work, who takes care of a household's domestic chores? Dr Keenan has found that the household employs domestics who themselves are exploited. They are usually female kinsfolk brought out from the homelands and elsewhere or "illegal immigrants" from Transkei or Lesotho brought to and placed in Soweto by agencies operating in these areas.

"The subordination of these (teeenage) girls is assured by their illegal status, their lack of any supporting social network (they are usually placed far apart to avoid mutual contact), and their lack of knowledge of the urban situation," says Dr Keenan, who found two of the houses in the sample actively engaged in this form of exploitation.

The increasing relative economic autonomy of women, together with a relaxation of certain limitations on their rights in urban areas, would seem to be accelerating the trend towards the matrifocal family as the dominant type of household structure.

"It also appears to be associated with what seems to be ... the already

further than of those in the relatively affluent Rockville sample.

He concludes: "To those familiar with the economic growth development argument and the real conditions of South Africa's black working class, the data (in the study) will come as no surprise.

"To those who have expounded so vehemently in the last few years on improving 'the quality of life in Soweto,' it may come as a sobering thought that during one of South Africa's periods of greatest economic growth, the number of households below the HEL in one of Soweto's 'better' areas has increased so markedly."

Dr Keenan dismisses the theories of "heritage marketeers" that if South Africa were to have a totally unrestricted capitalist system, market forces would ensure better standards of living for all who tried for them.

He regards the terms used by proponents of capitalism as smokescreens to hide the crises in international capitalism, where he says the free flow of capital is manipulated and controlled by oligopolists, or the few.

Increased capitalism in South Africa leads to increases in monopolies and oligopolies, and thus a further manipulation of the market place.

"This tremendous increase in the concentration and centralisation of wealth has been very evident in South Africa since the late 1960s, as seen, for example, in the very considerable increase in mergers between 1969 and 1972.

"The recent phase of economic growth has enabled these enterprises to recoup the costs of this process of concentration and centralisation, and the relatively lean times between 1974/5 and the start of the recent upswing.

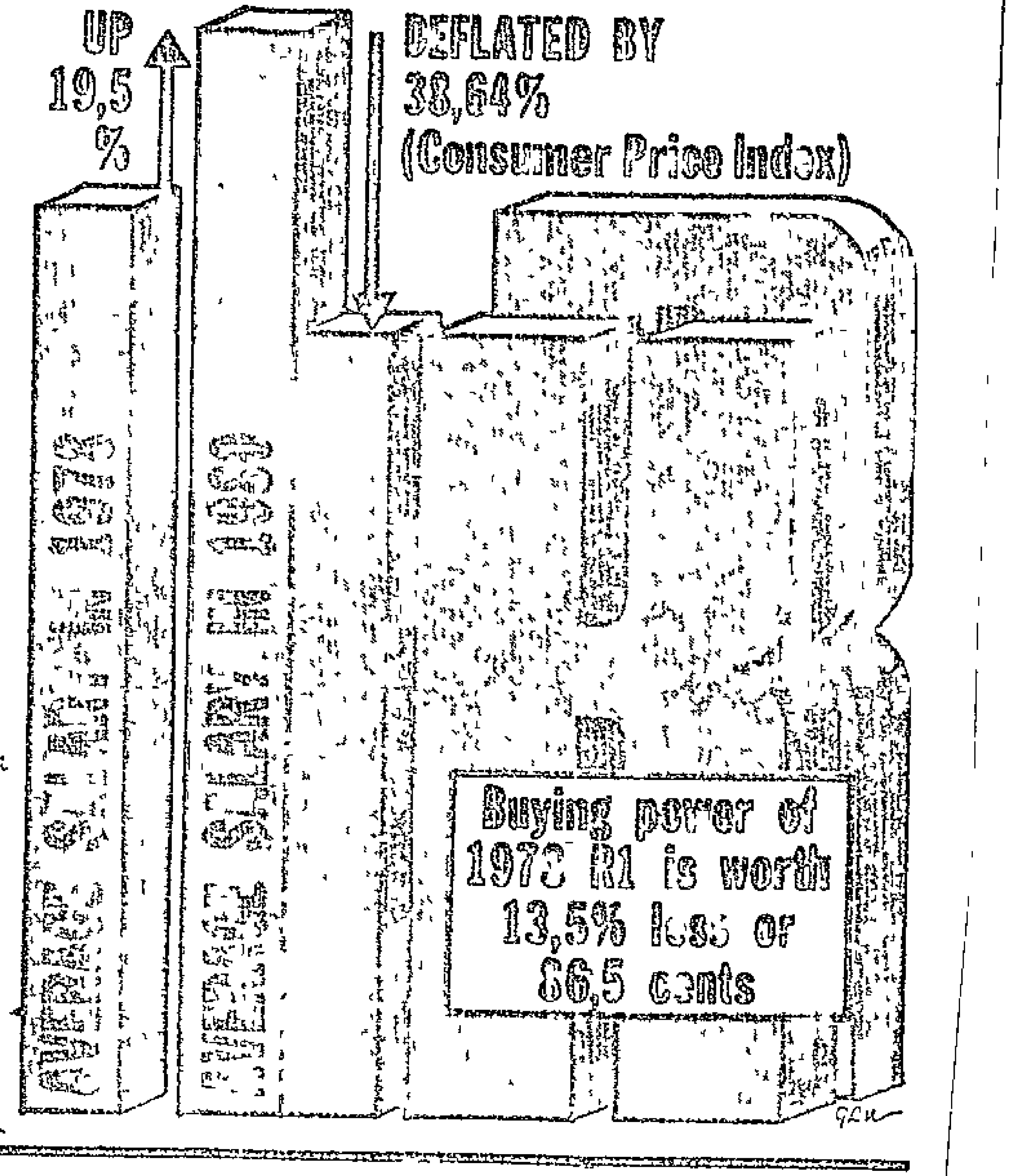
"But this economic growth has itself generated inflation."

He points out that the crucial factor in inflation is that whites have various options to cushion its effects, while blacks have none.

"The value of assets such as property and jewellery increases with inflation. Whites have that cushion. If inflation runs at 15%, and whites get a 12% salary increase, their families will not starve.

"If blacks get an increase of 20% when inflation runs at 15%, they will not even have maintained the status quo."

For blacks, Dr Keenan believes bigger wage increases during an economic upswing will make little difference to their quality of life so long as inflation and the Consumer Price Index continues to hit hardest those on the lowest rungs of the economic scale.



CIVIL

Inflation only just off the boil

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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 months's figures in isolation

But because any apparent worsening 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 sub-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 19,65% 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 rises in line with, or even exceeding, the inflation rate.

But it is difficult to believe that most workers will have secured rises in the 20% region.

This makes it all the 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 1,27% — to take the 12-month rate to 28,4%

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 13,85% 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

Argus 20/2/81

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Political Correspondent

THE Government, by printing more money to finance its own expenditure on separate development, had 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 philisophy 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 artificial scarcity of com[munities by] allocating them on racial lines were some of the major causes of inflation

Implementing influx control under the present circumstances cost about R112-million a year

Meanwhile prisons were overcrowded and almost 40 percent of the prisoners were there for technical offences under the pass laws

There were four education departments, which meant the duplication and under utilisation of educational facilities

The pool of skilled labour in the country had been deliberately limited

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 enshrined the duplication 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 develop-

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Inflation

(Continued from Page 1)

ment 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, nursing 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 under-privileged

'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 policital discontent by announcing hopelessly inadequate concessions.

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exploited labour is used to do their domestic chores

At the same time, a tendency towards a matrifocal family is emerging, away from the accepted stereotype of a male head-cum breadwinner

Using Rockville for the study is important in several aspects

For one, many of the residents are "three or four generations urbanised", having been resettled from the old Western Native Township in the early 1960s They presumably have a better knowledge of and access to the labour market than those more recently established in town

More important, Dr Keenan asserts, is the class position, Rockville is probably more "petty bourgeois" than most other parts of Soweto, reflected in matters such as occupational classes, house ownership, incomes and so forth

Average household incomes in the sample are significantly higher than for Soweto as a whole Using the 1977 average and inflating it with the Consumer Price Index for lower income groups for 1977-78, he calculates the mean household income for Soweto as a whole to have been R274,90 in 1978

The average household income — supplemented by other "informal" income — in the study was R340, about 25% higher than for Soweto as a whole

METHOD OF CALCULATION:

In understanding Dr Keenan's findings, it is necessary to look at the methods he has used for calculations

He has modified the widely used HSL calculation developed by Professor J F Potgieter and, basing his study on the HEL, Dr Keenan argues that present methods of calculations do not include a number of factors.

Present methods, he says, calculate transport costs on the assumption that only one person in the household is working; they assume a stereotype structure of a household consisting of a core nuclear family with a male head-cum-breadwinner, and they assume that households act as rational "corporate" economic units — in other words, that the incomes are pooled for common expenses.

The overall base of present methods, Dr Keenan adds, is conservative, and current calculations also assume that no income goes to dependants outside.

The value of the HEL is that it provides a base for comparison, he says, and as an absolute measurement, it is conservative and consequently underestimates 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

[illegible] produced irregular incomes Some of the activities often bordered on the illegal, and included dagga trading, prostitution brewing shebeens, stealing goods and redistributing them

'Informal' income made up about 12,4% — most of it earned by women — of the overall total Dr Keenan outlines figures which indicate that the majority of households participate in 'informal' activities in order to maintain a base level of subsistence

However, because of various restraints, 'informal' income dropped to 11 [illegible] of the total by the end of 1980, and wage earners are becoming increasingly dependent on opportunities for overtime work

In 1980 alone, the CPI for lower income groups increased by 20,05%, and the food index went up by 29,5% In the 30-month period to the end of 1980, the CPI for lower income groups went up by 38,64%

In the same period, average wages went up by less than 20% — from R153 per month in 1978 to R183 at the end of 1980

In fact, the study finds, 70,5% of all individuals' wages have declined — men's wages by an average of 8,4% and women's by 16,5%

STRATEGIES:

What strategies are adopted by people to adjust to prolonged erosive pressure and to counter the attack on their living conditions?

Dr Keenan says there has been a conscious attempt to decrease the number of dependants in each 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 385 in 1978 to 362 at the end of 1980, while the number of people in employment went up from 110 to 117 The overall dependency ratio thus dropped by 11,7%

The increase in the number of people employed was made up almost exclusively of women, while the figure for employed men dropped from 58 to 57

Obviously, with more women at work, significant changes have taken place in household patterns

The number of people who are least able to contribute in terms of wage or domestic labour has been reduced on average Except in the 15-18 age group, there has been a decline in the number of children of both sexes in the 1-6 age, girls in the 11-14 age group, and older people

[illegible] further dimension in the overall deterioration in incomes — increasing dependency of people on overtime work to keep households marginally abreast of or ahead of HSL/HEL

Dr Keenan observes "In one case, the husband/father puts in an extra week of nightshift as a security guard for one week in the month at what may be considerable cost to his health as well as his family life"

In another case, the man leaves home at 4am and returns at 9pm "The nature of the work is very heavy and his mother does not think he can keep it up," Dr Keenan explains "She has begun brewing beer for the first time in many years to meet the impending crisis"

During the period of the study, some changes have also taken place in occupational patterns among both men and women There has been a slight increase in the number of men in the manufacturing sector, while among women, there has been a more significant shift from manufacturing to trade

There is also a marked switch among women from semi-skilled to clerical, white collar technical and other non-manual jobs

The incomes of men who switched jobs often decreased, while the incomes of women increased slightly as a result of job changes

Dr Keenan outlines the reasons for the drop in "informal" incomes

One of these is the increasing risk and heavy penalties faced by unlicensed shebeens, another is the tightening up of security in work places, making the stealing of goods and their distribution more difficult and risky

Women engaged in dressmaking for "informal" income say business has declined in recent years for various reasons, among them increased competition from big chain stores now catering more for blacks

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 crisis, Dr Keenan has found that the number of households below the HEL increased from 29,4% in July 1978 to 37,3% 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 59% of the households Dr Keenan observes that during the period, one man committed suicide and another attempted to do so because they felt they could no longer maintain their dependants

Dr Keenan says the stereotype of a nuclear family headed by a male breadwinner is not that common "Most households are extended family units, usually headed by old people, more often than not women who are widowed, separated from their husbands or who may never have married

"The rest of the household usually consists of a number

Dr Keenan says the children in the lower age groups are sent to the homelands or to other kinsmen to allow mothers to go out more easily to work

Although the number of children sent away is relatively small, it nonetheless signifies an important added factor in the breakdown of family life it is generally accepted that parents who

A negative change of just 10% would put more than half the households below the HEL Dr Keenan believes it is likely this figure has already been reached with big new increases in both rents and consumer items

And, with inflation affecting the poorest people even more, Prof Keenan has no doubt that their "quality of life" has deteriorated even changed the proportions of total expenditure accounted for by the three tiers of government.[7] Health services provided in the private sector largely comprised hospital services (including the nursing of the aged), and the services of private medical and dental practitioners. An indication of the relative importance of these services is given in Tables 2 and 3.

Govt major source of inflation, says Slabbert

CT 21/2/81

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Political Staff

HOUSE OF ASSEMBLY — The government had become the major source of inflation by printing huge quantities of money to finance its separate development policies, the Leader of the Opposition, Dr Frederik van Zyl Slabbert, said yesterday.

Instead of introducing clear-cut reforms away from inflationary spending, the government resolutely stuck to its ideology while ignoring the essential services necessary for sound administration, he said.

Speaking during the third reading of the Part Appropriation Bill debate, he charged that instead of abandoning wasteful expenditure the government had looked for other ways to cut back on expenditure.

"It started neglecting its essential services like looking after its teachers, policemen and nurses. It started getting stingy with the poor and 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 hopelessly inadequate concessions."

Dr Slabbert said the government did not have the guts to tackle inflation where it hurt politically "namely in the policy of apartheid or separate development".

Because of this South Africa was heading for greater economic hardship towards the end of the year.

The minister of Finance knew that to curb inflation he had to cut back on unnecessary and unproductive expenditure.

"But he is in a dilemma. The official policy of this government demands unnecessary expenditure and therefore stimulates inflation," he said.

The policy of influx control alone cost R112 million a year to administrate. Prisons were overcrowded. Statistics showed the daily prison population was more than 100 000, but there was accommodation for only 70 000. "Almost 40 percent of these prisoners are there for technical offences under the pass laws," said Dr Slabbert.

The government was not satisfied with one education department. "No, it must have four." Consolidation was costing millions and millions.

Dr Slabbert said it was ironic that the real threat to South Africa — the government's policy and its consequences on the economy and race relations — was being swept under the carpet and the election platform would be the total onslaught from outside South Africa.

"Are we stronger now than in 1977, or safer. Is there less subversion and terrorism?" he said.

be analysed, as comprehen-
ult to assemble and the
year's expenditure can
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ditures will understate the

amount of resources consumed, since government health costs do not include an allowance for depreciation and interest.[10] Included in current expenditures are the costs of training medical personnel, and these costs would be more appropriately allocated to capital expenditure.

Table 1 Expenditure by Type of Service Provided in the Public Sector 1969/70 (b) (c)

(Percentages)

Service (a)	Level of Government (a)			
	Central	Provincial	Local	All Levels
Administrative (d)	23 (80)	2 (20)	- (-)	7 (100)
Mental Hospitals	27 (100)	- (-)	- (-)	6 (100)
Infectious Diseases (f)	42 (85)	1 (6)	43 (9)	11 (100)
General Hospitals (g) and Nursing	4 (1)	91 (97)	57 (2)	70 (100)
Subsidies to Hospitals in the Private Sector	4 (15)	7 (85)	- (-)	6 (100)
All Services	100 (22)	100 (75)	100 (3)	100 (100)

Notes:

(a) Figures in parenthesis show the proportion of the row totals accounted for by each level of government, and those not in parenthesis show the proportion of the column totals accounted for by each type of activity.

(b) Expenditure data is drawn from: Estimate of the Expenditure to be defrayed from Revenue Account during the year ending 31st March, 1970, RP 2/1969.
Part II of the Report of the Controller and Auditor General for the Financial year 1969/70, RP 51/1970
Report of the Provincial Auditor on the Accounts of the Province for the Year ended 31 March, 1970, Province of the Orange Free State, Cape of Good Hope, Transvaal and Natal.

(c) Local Government expenditure is not available in published reports but has been estimated by assuming that the maximum rate of subsidy was paid, and using this as a multiplier on all subsidies paid from Central Government. Amounts of subsidies are drawn from Central Government estimates, adjusted for actual expenditures.

(d) Including training and laboratory examinations.

(f) Including hospitalisation, expenditures on prevention, and the salaries of local health officers.

(g) Including outpatient services, and ambulance services.

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TODAY TWO ECONOMISTS GIVE THEIR VIEWS ON FINANCE MINISTER HORWOOD'S MINI-BUDGET

By JILL NATTRASS
Associate Professor in Economics, Natal University

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

S. Tribune 22/2/81

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Public Enemy No 1

(... THAT'S INFLATION — 1980 WAS BAD BUT 1981 IS GOING TO BE MUCH, MUCH WORSE!)

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, anticipating 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 22,3 percent in the last quarter) clearly poses a significant threat

Mr Horwood proposes to re-enter the lists to do combat against inflation in 1981, armed with the same weaponry with which he entered the fray in 1980 (to emerge unsuccessfully!); namely higher interest rates, lower Government spending, a non-inflationary approach to Government financing, and an exhortation to the private sector to hold down wage levels and to increase productivity.

Friedmanism still stalks the halls of financial policy making in Pretoria.

This approach failed last year — will it succeed this year?

"Too much money chasing too few goods" was the phrase the Minister used to describe inflation. A phrase which indicates clearly there are three areas for action — money, goods, and the rate at which money changes hands.

Pretoria (in company with other devotees 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.

While monetary and fiscal discipline will clearly be a crucial element in any anti-inflationary package, the experience of 1980 must suggest that it will not be easily achieved and that even if it is it may well prove insufficient.

Despite the intentions of the authorities, Government consumption expenditure over the nine months to September 1980 rose faster, at 10 percent a year, than either private consumption (8,6 percent) or fixed investment (2,8 percent).

The situation was made considerably more difficult by the massive increases in the money supply that followed from the combination of a high gold price and strict exchange control measures.

The money supply increased by more than 20 percent over the year and the increase would have been very much higher had it not been for the effort made by Government to reduce their indebtedness to the banking sector

Output — the other side of the equation — grew by eight percent which, although it must be counted as a good performance, was not enough to prevent an increase in demand-led inflation pressures

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, compounding the problem

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 rate ceilings,

● 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 flow 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 is inflation 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 prisons, and health areas.

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.

Civil servants are, on average, being asked to start 1981 with lower real salaries than they had in 1980 and then to suffer falling standards of living Even increases of more than 20 percent represent very small increases in real standards of living, so small that they may well have already been eroded by the time they are paid out

It does not seem that the Minister was serious in his intention to safeguard the public sector, particularly those sectors such as education, justice, health and the military, whose efficient operation is crucial to the long term health of the private sector.

He should not be surprised should he find the present crisis, far from being relieved, actually deepens.

One of the more 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 content 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

Ben Temkin on the 'vote-catcher'

HORWOOD'S CHICKEN BUDGET

Owen Horwood . . . too little too late

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 punting 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 chickened 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 now feel had he decided to put an extra R150 million or thereabouts into black primary education — the most critical educational area of all?

If you are in favour of 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 or lose 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 begin school.

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Meat prime factor in beefing up COL

23/2/81 (13)

By HAROLD FRIDJHON

THE average year-on-year inflation rate for this year should *at least* be about the same as it was in 1980, that is between 13,5% and 14%, says the Nedbank Economic Roundup. The key element in the consumer-price index appears to be the price of meat.

Last year the food price index rocketed in the second half after accelerating only slightly in the first half. Although the rising meat price was not the only reason for the jump in the food index it was a predominant factor.

The Nedbank Economic Unit says the meat factor was not a phenomenon of 1980 only: meat also gave the index a shove from 1973 to 1975. In those years meat prices rose an average of 25% a year and slowed down only in the second half of 1975.

"This caused the food-price index to rise sharply during this period and apart from the petrol price increase was the major cause of the increase in the overall consumer-price index in those years."

It seems that demand-pull forces were responsible for the jump in meat prices. The sharp [illegible] es and salaries particularly among the lower-income groups was probably the main reason for the sharp rise in per capita meat consumption which went up by 10,4%.

This resulted in cattle numbers dropping by about 10% between 1976 and 1980 to the level of 1971.

If meat prices had not risen as fast as they did in 1980 but had moved up in line with other food prices the increase in the overall CPI would have been 12% — a rate lower than in 1979.

Looking at the CPI for 1981 [illegible] Nedbank Unit says the non-food component of the index should not increase by more than the 13,6% recorded in 1980.

Electricity tariffs should not rise by more than 8,5%. Although steel and railway tariffs are bound to go up they should not rise faster than they did last year although wage increases could contribute to increases. These however, will probably follow the inflation rate not lead it.

An imponderable is the price of petrol, but thanks to the equalisation fund, South Africa has been able to avoid petrol-price increases since the steep rise of 1979.

If this reasoning is right says Nedbank, the inflation rate in 1981 will to a large extent again be determined by the rise in the food component of the CPI and particularly by the rise in the meat price.

As consumer spending is not likely to rise at the same rate as last year, the Meat Board expects prices to stabilise at the same level as at the end of 1980. But if the view about consumer spending is wrong a possible increase of up to 20% could be expected. This however, does not mean that the average rise in the price of meat this year will be between zero and 20%.

"The sharp rise during the last four months means that even if the price of meat does not rise at all above the December 1980 level (the most optimistic probability), the average increase in the price of meat will be 32%, about the same as in 1980."

On the less-optimistic probability the overall meat price increase can be as high as 50%, making at least the same contribution to the inflation rate as it did in 1980.

Y OF ENGINEERING

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L Cragg

State to meet bosses in new inflation fight

RDM 23/2/81 (153) ~~44~~

By GERALD REILLY
Pretoria 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 study of spiralling prices

The Progressive Federal Party's finance spokesman, Mr Harry Schwarz 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 advisers the Governor of the Reserve Bank, Dr Gerhard de Kock, the Director-General of Finance Dr Joop de Loor, 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 prices of the wide range of key commodities and services it controls

Price 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 bread price rises are also expected before the end of the year

Economists have warned that the pipeline is bulging 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 train and, possibly, air fares

Another strong inflationary influence will be the higher salaries in the public sector

From April, R60-million a month will be pumped into the economy and there is little hope that the increase will be matched by higher productivity

It is expected that the CPI (Consumer Price Index) for February will rise above 16% — 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 28,3% in the year to the end of January This has been mainly responsible for raising the cost of-living of lower income groups by 26%

Despite appeals by the country's biggest trade union organisations — the Trade Union Council of South Africa, the SA Confederation of Labour and the Federated Consultative Council of Railway Staff Associations — Mr Horwood last week refused to exempt basic foods from sales tax

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Professor George Menzies Prize
Awarded on results of final examinations to the best male student in Land Surveying or Civil Engineering.

CHEMICAL

Rail charges set to stoke up inflation

RDM 24/2/81 153

By GERALD REILLY, Pretoria 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/ℓ to 55c because of the 0,45c/ℓ increase in pipeline charges.

However, appeals have been made to the Government to absorb the increase from its pipeline profits — at present more than R100-million.

Farmers are dismayed by the extent of the increases in freight rates for agricultural products — up 15 8%

There was belief in some quarters last night that the lower income groups, particularly blacks, would be hard-hit — by a probable coal price rise following a 16,6% increase in coal freight rates, and because of increased pressure on food prices

Some economists warned that the tariff rises would make the inflation outlook even worse than the present 15% level.

Other economists pointed out, however, that the rail increases had generally been kept below the present rate of inflation and would not, therefore, make the position any worse

Organised commerce and industry also forecast an inflationary ripple effect from the tariff and fares rises although representatives agreed they had been kept to a minimum

Mr Schoeman also announced that salary increases for the 270 000 Railways workers would cost R230-million in the new financial year

The chairman of the Federal Consultative Council of Railway Staff Associations Mr Jimmy Zurich, said the 12,5% salary rise was acceptable, although it would not compensate for the 15% inflation rate of the past year, and failed to take into account that the rate was expected to go higher

He welcomed the 12,2% increase for Railways pensioners

The chief economist of the Bureau for Economic Research at the University of Stellenbosch, Dr O D J Stuart, said the effect of the tariffs and fare rises would obviously be inflationary, and again the lower income groups would be hardest-hit

Manufacturers and retailers were virtually certain to load prices at least to the extent of the higher tariffs

The Volkskas chief economist, Mr Attie Engelbrecht, agreed the higher tariffs would have serious inflationary repercussions

However, a positive factor was that most of the increases were below the present inflation rate

The deputy director of the SA Agricultural Union, Mr J Swart, said farmers already struggling to maintain reasonable incomes would be hard-hit by the rise in agricultural freight tariffs

"Because of the marketing system, farmers producing fixed-price products will be unable to pass on the increases immediately," he said

But the higher rates would

More Reports — Page 5

All the details of the new tariffs

Political Staff

THE ASSEMBLY — Rail and air tariffs are to increase by an average of 12,8% from April 1

The increases, announced yesterday by the Minister of Transport, Mr Hendrik Schoeman, are

- Blue Train fares up by between 30% and 50%,
- Domestic air fares and air cargo rates up 15%,
- Main line tickets up 15%, with a new 40% discount on off-peak fares for people over 60,
- Suburban weekly and monthly season tickets up by about 12% Other suburban fares up by 15%,
- Low-rated goods traffic up 16%, high-rated goods traffic up 13,3%,
- Unit container rates up 15%, with the tariff for empty containers jumping 20%,
- Coal trucking rates up 16,6%,
- Agricultural produce rates up 15,8%,
- Livestock rates up 15%;
- Conveying petrol between Durban and the Reef up by 0,45c a litre and diesel up by 0,34c a litre,
- Parcels up by between 12% and 15%,
- Harbour charges, except the ad valorem wharfage tariff, up by varying percentages,
- Tariffs for worked steel in less than full truck-loads up 11%

The only item to go down is worked iron and steel in truck-load quantities, which drops by 34%

Mr Schoeman also announced the following benefits for Railways staff and pensioners

- White salaries up by 12,5%,
- Salaries for all other races — who also now get full salaried status — up by 15%,
- White pensions up 12,2%,
- Black pensions up 12%.

Rail charges set to push prices up

RDM 24/2/81

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eventually be reflected in consumer prices at least to some extent

The president of the Trade Union Council of SA, Mr Andre Malherbe, said the higher tariffs would add more momentum to the inflation spiral

He agreed the lower income groups would be most seriously affected

The executive director of Assocom, Mr Raymond Parsons said the increases had been regarded as inevitable

Although there would a ripple effect on the cost structure of the whole economy, it appeared the Railways administration had tried to keep tariff increases to a minimum

"It none the less illustrates the parasitic nature of the current inflation, and the need to take active steps to break the wage-price spiral," he said

This gave a special significance to the top-level meeting of public and private sector representatives being called by the Minister of Finance next month to view the overall inflation situation

The vice-president of the Afrikaanse Handelsinstituut, Mr I J Steyn, said the AHI welcomed the news that the Minister had set the average tariff rise at 12,8%, below the present inflation rate

It would help combat inflation if the Government could follow the example of the Railways in similarly pegging the level of administered prices

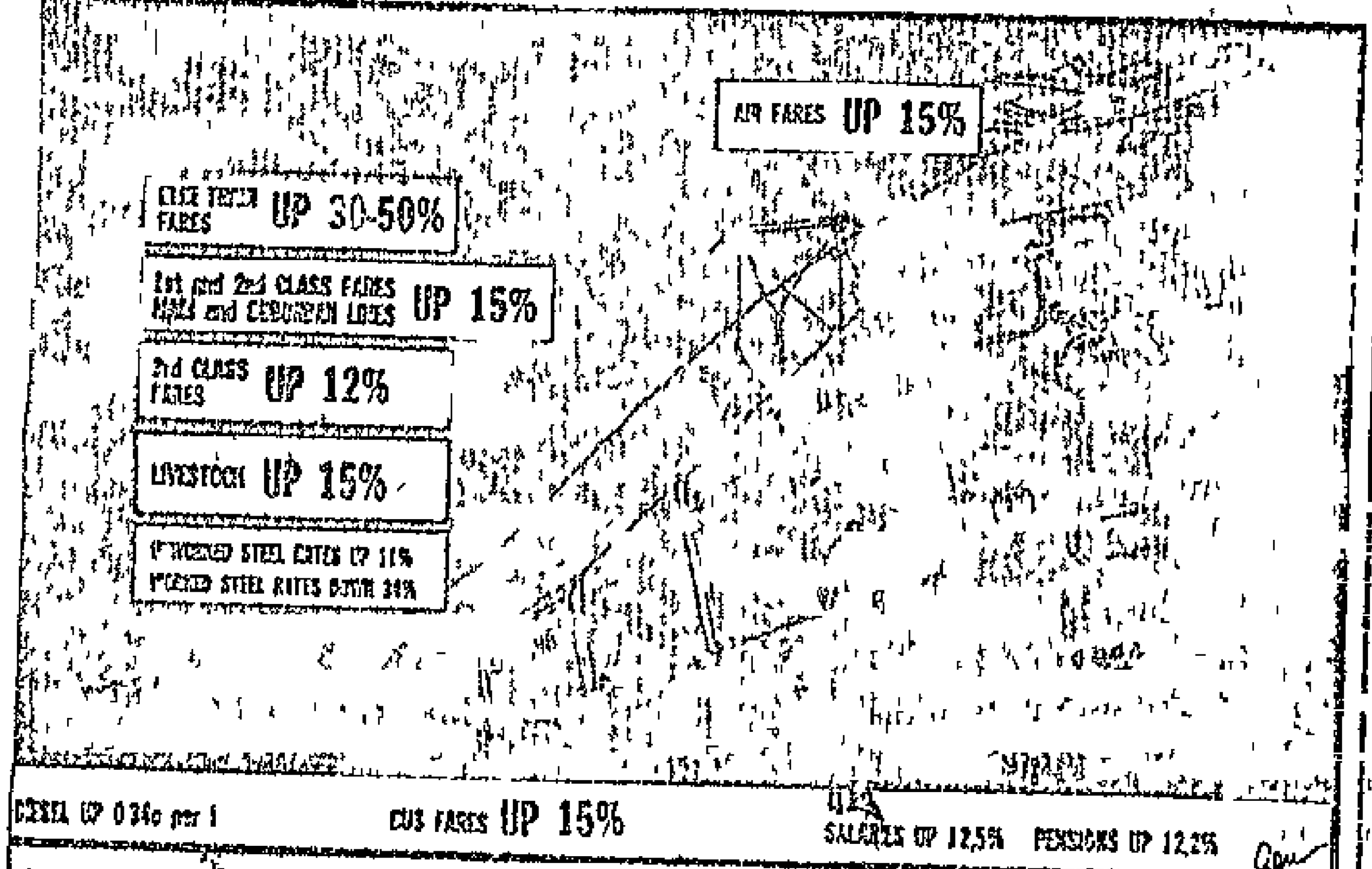
Mr Steyn estimated that the tariff hikes — fuel excepted — would raise inflation by 0,1%

But the fuel transport tariff rise would probably lead to a 0,5c/ℓ increase in the fuel price, and this add another 0,1% to the inflation level

The total effect on inflation would, however, be stronger, because of the indirect effects on consumer prices

The director of the Federated Chamber of Industries, Dr J C van Zyl, said the need to maintain an efficient transport system for a fast-growing economy was a main contributing factor in the extent of the increases

go travel costs



the incre[illegible]s in travel and transport costs announced in [illegible] yesterday by the Minister of Transport Affairs

25/2/81

(153)

Salary boost will push up inflation

Financial Editor

WHAT sort of a boost can the injection of R920m 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 500m 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 632m between the 1979 budget and December 1979

It increased by 33 percent to R30 203m from the 1980 Budget last March up to last December That is, the R2 500m boosted spending by a multiple of three to an increase of R7 517m

Economists are agreed that the surge of consumer spending which caught 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 rand being out of the question Somewhere about $1,28 is more likely for the next few months

This will also have its effects on the value of exports and the balance of payments 'A drying up of the trade surplus will also mean reduced domestic liquidity — a deflationary move

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 rail tariffs 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 adjustmnents to the bread price
- The Seifsa 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 Atlantis 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

Cement and prices are expected to get a 10 percent rise from April 1

How apartheid feeds inflation

RDM 26/2/87

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INFLATION is Public Enemy No 1 in South Africa. As the American economist Milton Friedman has pointed out: "Inflation is a disease, a dangerous, and sometimes fatal disease that, if not checked in time, can destroy society".

● *What is inflation?*

A more rapid increase in the quantity of money than the quantity 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 is worth 36 cents today.

Inflation makes us all poorer, increases the cost of living and crushes the poor, elderly and under-privileged. It forces people to ask for higher wages and it forces prices to go up. Between 1975 and 1980 the Consumer Price Index rose by 82,8% on all items and 94,8% on food items. Between 1978 and 1980 the Consumer Prices Index rose by 37,9%. In the last five years the cost of housing went up by 57%.

At present the inflation rate is 15,7%. By the end of the year it will be at least 18%. 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, 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

Apartheid is breeding even more inflation, the Leader of the Opposition, Dr Fredrik van Zyl Slabbert, told the House of Assembly in a scathing denunciation of Government policy. Here are extracts from his speech during the recent Budget debate

available to be purchased with that money.

And who prints money? — The Government.

The Government is the major cause of inflation in South Africa because it alone can print money. When it prints too much money it destroys the value of money.

Therefore, if inflation is Public Enemy No 1, then this Government is the willing friend of that enemy because the Government alone has the power to increase the money supply by printing more rands.

● *Why does the Government print too much money and cause inflation?*

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.

When the Government spends money non-productively against the interests of most of the people, then it causes inflation when it prints money to finance that expenditure. Spending money on apartheid is doing just that.

● *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 conservatively estimated that to implement influx control under the present circumstances costs approximately R112-million a year.

Our prisons are totally overcrowded. General Brink has said that prisons daily accommodate more than 100 000 prisoners although there is only accommodation for 70 000. Almost 40% of those prisoners are there for technical offences under the pass laws.

Then too, we are not satisfied with one educational department — no, we must have four. This means duplicating educational facilities and under-utilizing them.

The Government has also deliberately limited the pool of skilled labour.

Since 1964 we have had a "civilized labour" policy. This simply means that with an expanding economy, increasing population and a declining pool of skilled labour, the Government labour policy has systematically over the years caused over-inflated wage demands. Now they want to improve this by broadening the productive capacity and still stick to segregation — thereby compounding inflation.

Land areas are being consolidated non-productively for ideological purposes. The Van der Walt Commission chairman himself has acknowledged that consolidation cannot take place and is an economic failure. It has cost us millions and millions of unproductive rands that this Government has spent.

The Separate Amenities and Group Areas Acts epitomise and legally enshrine the 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 and Government expenditure has to finance it by printing more money, the result must be increased inflation.

Therefore, by printing money to finance its own expenditure on separate development, this Government has become the major cause of inflation in South Africa. It is making us all poorer by trying to implement an unattainable 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, nursing and the civil services.

● *The cure for inflation?*

The only cure is 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, Mr Owen Horwood, knows this but he is in a dilemma. The official policy of this Government demands unnecessary Government 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 under-privileged.

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 hopelessly 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 this 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 for granted as simply voting fodder. It is cynical in its manipulation of household budgets for the sake of political expediency. And it thinks it can bluff people about the ravages of inflation by giving them short-term handouts.

In the No-Confidence Debate I accused this Government of half-hearted leadership — of promising reform without telling us how it hoped to achieve it.

I said tell us what you are going to do about land consolidation — the Prime Minister said he could not take the public into his confidence. I said tell us about how you wish to remove discrimination — he said the Government continues to consider these things from time to time. I said tell us more about the new deal for blacks in urban areas — the Bills have been withdrawn — and yet another commission of inquiry has been created.

All these issues bear directly on wasteful and inflationary Government expenditure and this Government calls an election and deliberately avoids telling the people 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 appreciate what it means when, since 1972, the price of bread went up by 136,4%, potatoes up by 147,2%, sugar by 131,5% and mealie meal by 185,3%.

Do Cabinet Ministers still remember what mealie meal tastes like? Do they realize that this is the staple diet of more than 75% of the people of this land? A Rand in 1970 is worth 36 cents today! I repeat "Inflation is a disease, a dangerous and sometimes fatal disease that, if not checked in time, can destroy society."

Inflation is Public Enemy Number 1 and this Government not only does nothing to stop it but actually pursues a political ideology that feeds inflation.

(153) STAR 23/12/81

Inflation snakes up

The most recent Consumer Price Index (CPI) released by the Department of Statistics showed a 15,8 percent 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 enjoying a diversity of incomes spent on diversely constituted "family baskets" of goods and services

The average 15,8 encompasses a range of price increases varying from 4,4 percent for cigarettes and tobacco to 57,3 percent for meat or, if more comprehensive categories of consumer goods are distinguished, from 9,6 percent for clothing to 29,5 percent 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 11,8 percent only, which is less than the 13,8 percent 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 spent a larger portion of their income on food than allowed in the calculation of the above 15,8 percent average increment, experienced a higher rise in their CPI.

Retrospect

The Department of Statistics' figure for the "lower income group" is, in fact, 20,1 percent

The latest double digit rise in consumer goods prices is a continuation, in accentuated form, of the inflation that has plagued the economy for a decade.

The last year of reasonable price stability was 1970 with a rise of 4,2 percent in the CPI [illegible] extraordinary, though [illegible] was con[illegible] which indeed [illegible] December to December time reference — the increment was 6,9 percent, rising to 14,1 percent in 1974.

During the four years 1975 to 1978 it fluctuated between 10 and 12 percent, but gained renewed vigour in 1979 to register a 14 percent rise.

At these rates consumer prices, on average, are doubled and, concomitantly, the purchasing power of the rand (as measured by the CPI) is halved, every six years.

The frightful impact is perhaps best appreciated by the pensioner who retired in 1970, to find that the value of his savings has now shrunk to just about one-third of its 1970 level.

Impulses

For a clear insight into the phenomenon of inflation — (the technical definition would not be appropriate here) which finds expression in price rises in the absence of a suppressive action, two sets of forces or determinants have to be distinguished: the initiating impulses and the propagating or transmitting forces.

One can imagine the price system ticking over at a stable rate of increase, say 3 percent, when an impulse shifts it on to a new incremental price path, say 6 percent.

This change then sets into motion reactive forces which transmit the effects in the economy over time to maintain or intensify the rate of increase.

The price system can revert to a path of lower rises if no new impulses are received or the transmission mechanism does not by itself generate new secondary impulses.

With its import and export bill together registering a ratio to the Gross Domestic Product (GDP) of almost 60 percent, the South African economy is easy prey to initiating factors.

With our trading partners not performing much better than South Africa in curbing inflation, while an important one — the United Kingdom — is faring even worse, and the South African demand for imported capital and intermediate goods being price-inelastic, inflation abroad is introduced into the price system at the bottom of the production-distribution system.

Appreciated

The higher costs escalate in their progression to the final consumer If we compare the average wholesale prices of imported goods with these of goods produced domestically we find the former exceeding the latter quite significantly during the 1970/80 span in 1972, 1974, 1975 and 1979, and not significantly lower during the other years.

Prices are doubling in six years

In the specified four years the excess arose from oil prices and devaluations of the rand.

After describing a downward and an upward phase between 1969 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 = 127,8 and 1978 = 101,9)

Since then the rand has appreciated very substantially without, apparently, registering any salutary effects on our price level

The raising of administered prices has been another cost-booster This has been particularly severe in electricity, coal and transport which are primary inputs in the productive process, and the adjustments to whose prices had been postponed until they wreaked their greatest havoc.

They bear little or no relation to demand but maintain, rather, the rate of income or profit of the producer 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 invariably hardest hit by the price fixing The 20 percent increase in prices for the 1980 maize crop, which was expected to be 25 percent better than 1979s, and therefore meant an effective 50 percent 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 freely negotiated in an efficient market which effectively transmits the desires of consumers as expressed in the prices they are prepared to pay, to the producers

Competition

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)

Probably the only really "free markets" we have in the classical sense — apart from export markets — are those where products (particularly perishables) are subject to auction

For a free market to exist, it is not enough that producers compete for the consumer's rand, macro-economically, that is, they have to compete micro-economically, that is in price, quality constant or in quality, price constant — unless the "free" refers to freedom to exploit ignorance

One suspects that the free marketeers are campaigning, not for an economically efficient competitive market, but for the private enterprise system in which Government participation or intervention is minimised and non-price marketing devices such as loss leaders, advertising, gentlemen's agreements, RPM systems, etc, can be continued

In the circumstances, producers tend to raise prices when demand increases, charging what the traffic will bear, and to raise prices when demand slackens to compensate for reduced turnovers

So far, wage hikes cannot be said to have constituted pure autonomous initiating forces in South Africa — although the custom of demanding rising living standards unrelated to their productivity might constitute such a factor on the margin

While the precipitous rise in mineworkers' wages during the first half of the 1970s might equally be described as such in that it set wage norms for other industries to compete with, while the mining sector was replacing foreign workers with domestic supplies, the increases reflected no more than an improved real marginal product of labour arising from the higher prices fetched by their product overseas.

Productivity

In other industries improved productivity has been conspicuously absent Of course, the shortages of skilled labour are forever a powerful inflationary force.

Initiating impulses from consumer demand could have become significant in 1970, 1974 and the second half of 1980.

As reflected by the figures reported in the introductory paragraph, this asserted itself very vigorously in recent months for meat and vegetables Whenever demand has been allowed to assume a role in price formation it has been only upward, never or seldom downward

For the rest, demand changes were consequent upon cost-related actions as explained below

The continual relative increase in the demand of

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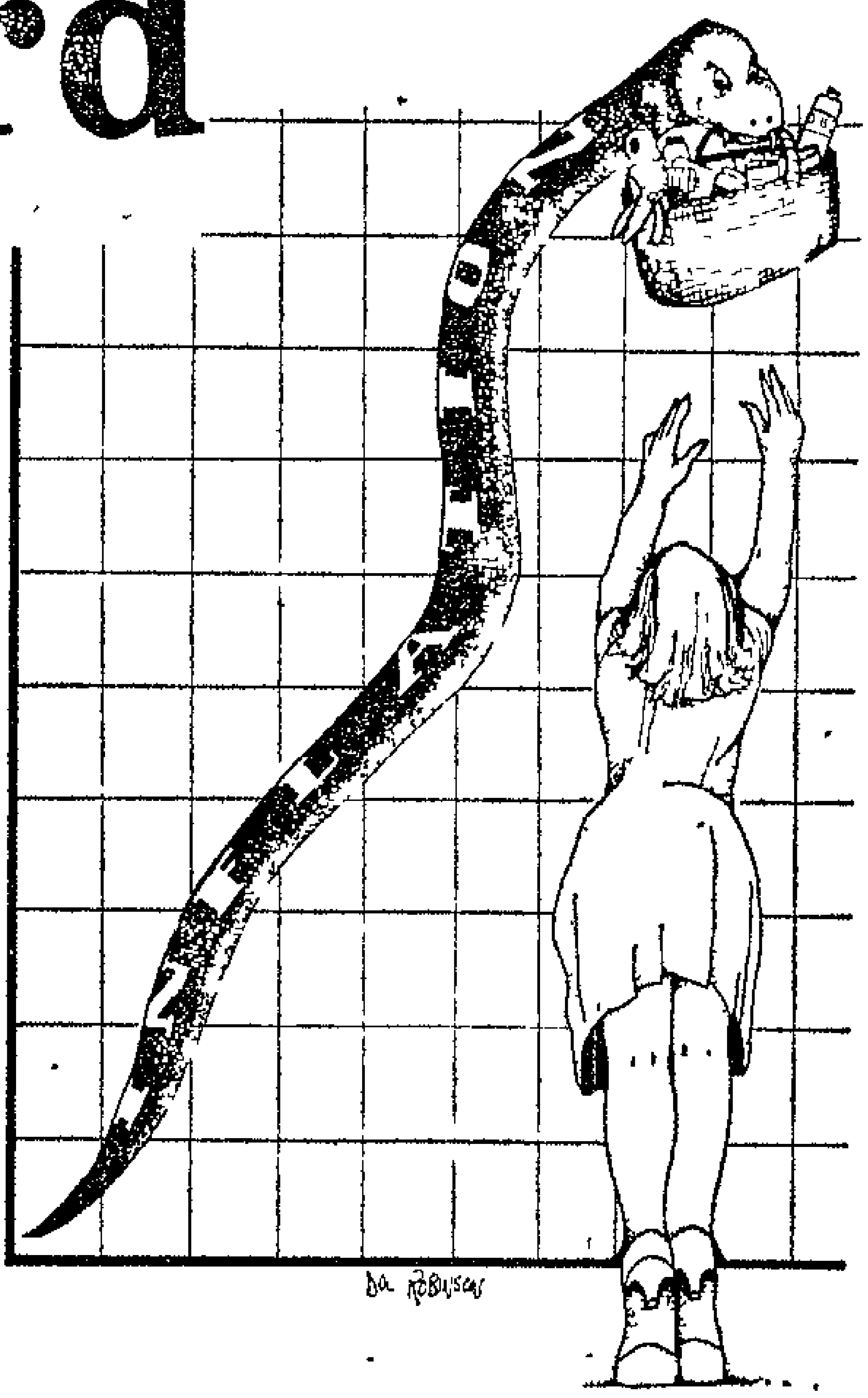
ward

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 public sector up to 1976/77 — from 19,1 percent of GDP in 1969/70 to 28,3 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 actors.

Liquidity

The autonomous large increase in money supply or liquidity induced by the favourable balance of payments in 1980 has first to be activated 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 is a function of last year's (month's) rise

The spiral is aggravated by an imagined entitlement to rising standards of living of workers, regardless of the state of their productivity, and by demands for advance compensation for future expected increases in the CPI .

There can, in fact, be many instances in which wage and salary earners cannot economically justify compensation for an increased CPI when it results from the levying of an indirect tax such as the GST, when it is the result of better quality, when consumers have to pay more for petrol and other imports, when their increased demand for meat and vegetables (with or without a reduced supply due to climatic conditions) has made them more expensive, etc.

These are all examples of increases in the real cost of living, restitution 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-

● To inside back page

Distance and Cost

Nearly 37% of consultations in the sample (excluding facilities to which patients were later referred) required a journey of over 20 km, although the modal group was the one which travelled less than 5 km to the point of primary health care (34% of the sample).

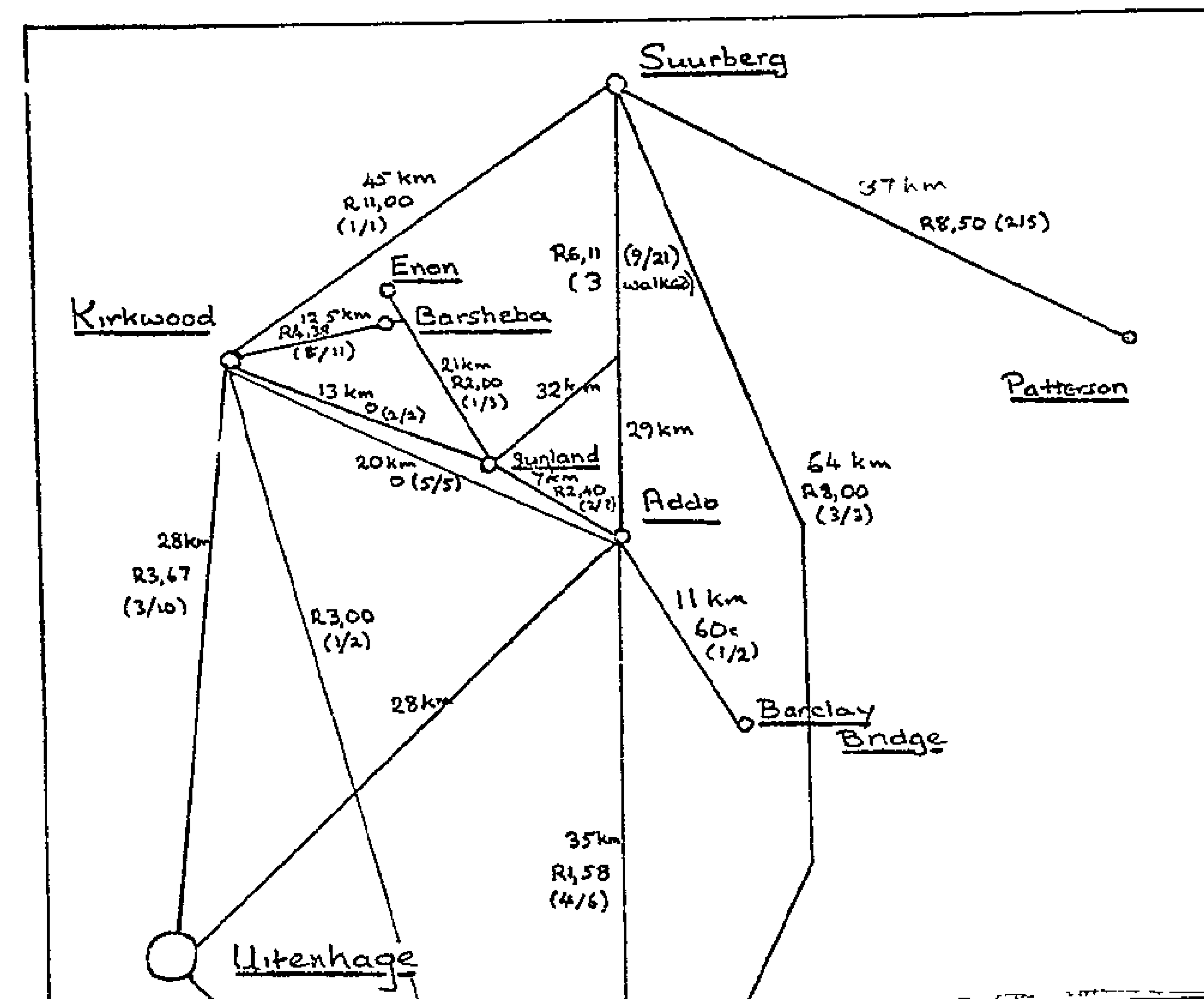
Table 8: Distance travelled to consultations*

Km	0-4,9	5-9,9	10-14,9	15-19,9	20-29,9	30-39,9	40+	Total
Addo	15	24	3	-	6	5	-	53
Kirkwood	16	1	6	-	6	1	-	30
Suurberg	5	-	-	-	-	21	6	32
Bersheba	13	-	9	-	4	2	2	30
Total	49	25	18	-	16	29	8	145

* Consultations to indigenous practitioners were included but not home treatment.

The disadvantages of Suurberg and Bersheba are again evident, but these can only be understood in terms of the cost of travelling without aid from white employers. Map 2 shows the average amounts paid for journeys to health care facilities over the most common routes. The amount shown depends of course on what method of travel was used. Addo to Port Elizabeth [illegible] was available.

Map 2. Distance and Transport cost to health facilities



How inflation nibbles away at the value of your rand

153 since

By Caroline Mellis, Consumer Reporter

[illegible] the value of your [illegible]

Prof. J. L. Sadie, Director of the Bureau for Economic Research at Stellenbosch University, says the frightful impact of inflation is probably most felt by the pensioner.

A pensioner [illegible] his savings [illegible] 1970 [illegible] finds today that the value of his savings has shrunk to just a third of the 1970 level, he says.

Professor Sadie has outlined the causes of inflation in a special report [illegible].

One of the major 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 groups are invariably hardest hit by the price-fixing.

"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 turnovers."

Professor Sadie 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 Gross National Product per worker has grown 2,7 percent a year since 1970 while the average remuneration a worker has increased 13,4 percent a year.

Professor Sadie 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 liberal wage increases because of trade union pressure.

If all employers disciplined themselves and their staff in this way, inflation could be kept down to two or three percent a year, Professor Sadie says.

● Professor Sadie's complete article appears in BRIEFING today — see "Inflation snakes upward."

5.

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. (2)

The lowest earning was R43 per month. (2)

...sability award was R202 p.m.

...ability award was R61,85 p.m.

...sability award was R114 per month,

the tax-payer:-

...ths.

...bility awards for 6

...oss of production

for 6 months gives a yearly total of R 714 000.

(2) These match the figures given by U.C.T's wages commission of, R49 to R290 per month.

Inflation spectre spurs spending

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24/2/81

CAPE TOWN — Optimism is on the wane but still not enough to damp consumer spending significantly — if at all, says the latest issue of Consumer Survey Report.

Consumers seem to be in the mood to buy goods now because of expected high rates of inflation and future rises in interest rates, says the report, compiled by the bureau for economic research of the University of Stellenbosch.

"The financial situation of consumers has once again become tighter but it has apparently not reached the point where it is likely to act as a damper as far as consumer-spending is concerned.

"In all, the impression gained is that consumers might advance spending and consequently the tempo of spending is likely to be curbed significantly only later on in the year."

The report is based on an opinion poll conducted last month among 2 000 heads of white households to assess general sentiment.

Referring to the opinions of businessmen in the consumer-goods sectors, gained when about 2 000 businessmen were questioned in December, the report says that should the expectations of car traders materialise, the tempo of activity will level-off fairly significantly during the first quarter.

By contrast, retailers remain most optimistic and so do wholesalers, but to a lesser extent.

Manufacturers are also fairly optimistic but less so than a year ago.

The inference from statistics is that optimism is still high, but faltering.

In an assessment of and prospects for consumer spending, the report states that most of the so-called objective factors are likely to have a negative influence.

6.

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~~ treating for 500 patients at R1,11 (the new price given to me by the suppliers) ~~gives a yearly total of~~ is a mere R33 300.

Table 5 here

Rifampicin expenditure as a ratio of the figures alone is ~~but~~ 1/10th or, 1/20th, respectively. Further, the cost of a full 4 drug therapy for 6 months, containing its ... a total outpatient ...mes to 250 000 rands ...he "social welfare" ... approximately 325 million dollars ~~are~~ is still being spent on hospitalisation, eight times as much as ~~compared with~~ ~~to~~ the an-estimated 40 million dollars has spent on outpatient treatment, ~~a mere 12%~~ (5).

Possibly one of the most interesting ~~and one~~ of the very ~~extremely~~ few commentaries published on hospital expenditure is that on ~~of~~ the "Arizona Experiment" (6). ~~where they showed that~~ In a change-over from a State Tb. sanatorium to Tb. beds in a General Hospital, although the patient/day rate was far

THE ARGUS, FRIDAY FEBRUARY 27 1981

Inflation halving your rand every 6 years

Argus 27/2/81

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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 cases 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 invariably 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 turnovers.'

Professor Sadie also attributed inflation to South Africa's high import bill which reflected the high rate of inflation abroad.

Another factor was 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 13,4 percent a year.

...management should try to curb inflation by disciplining itself and its employees. It should not put up prices in anticipation of other price increases, and should not grant liberal wage increases because of trade union pressure.

If all employers disciplined themselves and their workers in this way, inflation could be kept down to 2 or 3 percent a year, Professor Sadie said.

2/3/81 STAR 153

Companies refute inflation charge

In 1980 many big companies showed vastly increased profits — in some cases more than 300 percent over those of 1979 — and this has led consumers to make charges of profiteering and contributing to inflation. The companies deny this and, in turn, accuse consumers of ignorance about the causes of inflation.

By Marion Duncan

Massive profits announced by companies for 1980, some of which are more than 100 percent over those of 1979, are baffling consumers.

Accusations of blatant inflationary practices are being levelled at the larger organisations.

But at the same time there is a large body of opinion — mainly economists and businessmen — who maintain that the free market principle of profit motive, with its resultant high profits and high prices, is not a direct cause of inflation.

There is no doubt that 1980 was a record year for profits. Of 41 companies and groups who have announced their figures since the middle of February only three showed profits of less than 20 percent.

Nine were between 21 and 40 percent, nine between 41 and 60 percent, 11 between 61 and 100 percent, six between 100 and 150 percent and three (Toyota, Group Five and Gresham Industries) exceeded 200 percent.

All of which, says Professor Joubert Botha (head of the department of economics at the University of the Witwatersrand) proves that big business is responsible for South Africa's soaring inflation.

"Companies cannot justify rising prices with profits like this. I know and support the free market principle but business is freer than it should be," the professor said.

"Inflation is due not so much to the excess of private money and consumer spending — as Mr Horwood has said — but to the price-forming policies of big business."

Professor Botha is supported in his accusations by the Housewives League of South Africa whose national president, Mrs Joy Hurwitz, said her organisation had received many complaints and queries about the profit announcements.

"We are concerned about these high profits because we know what the consumer is paying for commodities of all kinds — and for food in particular.

"We are not opposed to profits. We support private enterprise. But these enormous profits have been earned by prices being set at levels companies think consumers can afford. But not all consumers can afford them.

"I agree that inflation comes from price-setting rather than from consumer spending. It is obvious."

Another to support Professor Botha is ombudsman Mr Eugene Roelofse who says: "I believe there has been a smash-and-grab raid on the incomes of consumers by big business. The recent upsurge in the economy has caused those in company boardrooms to run wild.

"Most people still think the price for which a commodity sells has some relation to its cost of production. Nothing is further from the truth. Price is a policy laid down by companies and usually corresponds to what they think the market will bear.

"It seems that we are reaching the stage where the profits of some companies or groups of companies are being made at the expense of the creation of poverty among sections of the population. It is time to draw the line. The Government must step in because it bears part of the responsibility for these inflationary pricing policies."

But many economists and most businessmen do not agree. A survey of 10 economists working for banks and large businesses produced the following points:

- Companies have a duty — if not an obligation — to their shareholders to make as much profit as possible.
- Many companies prefer to finance increased plant capacity (thereby increasing output and employment opportunities) from profits rather than by borrowing, which means that actual return on investment is not as high as profit figures suggest.
- Consumer demand causes prices to rise.
- A figure of profit increase is meaningless without relation to turnover and capital invested.
- Company pricing policy is not a direct cause of inflation.

Businessmen added that 1980 profits seemed higher than usual because of the low base (1979), which was the start of the recovery from the recession to which they are compared.

They also deplored consumer ignorance of inflation and a majority (18 out of the 20 canvassed for comment) said the Government should educate the public about inflation and its causes and effects.

The Consumer Council supported the companies. Said council public relations officer Mr Chris du Plessis: "Only a few companies have made questionable profits."

The h... ... individuals or groups of people who do get involved are a definite minority. Most of those I met are firm believers in Westernisation and they believe that "development" is possible as long as people work hard.

... oject often set up the same type of project successfully. The important thing here is that these people often watched what was going on, decided that the activity would be beneficial and then as a group decided to try to implement it.[53]

External development work often consists in a group of people sitting in a distant city developing plans and models it was agreed that in the majority of cases silicosis could not be present without the appearance of tuberculosis.[19] 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 tuberculo-silicosis were respectively coined.[20] 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 th rarely did cases of silicosis run a 'dry' - that is course to a fatal termination. Instead they contend culosis was contracted in advanced cases of silicosi this infection was the ultimate cause of death. Fo reasons they suggested that the 'wider' term 'mine should be retained 'to describe this complex of path conditions and clinical symptoms.[21]

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 cau disease and that the silicotic nodules did not have t any element of tuberculosis.[22] Despite these findi controversy continued to exist about tuberculosis and association with silicosis. An American doctor, Le Gardner, believed that when the two diseases co-exist could be classified as silicosis or tuberculosis. He that each was a disease entity of its own. In 1947 A ston, one of the foremost British authorities in pneumoconiosis, especially coal-workers pneumoconiosis, still regarded all cases of complicated silicosis (progressive massive fibrosis) as tuberculous in origin.[23] It is for these reasons that a basic understanding of silicosis and tuberculosis is necessary.

Silicosis is a man-made disease.[24] 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 technology and technical skills have evolved so 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.[25]

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_2).[26] 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 (SiO_2, that is silicon dioxide) - and this is the cause of silicosis - or

Economist's light on the inflation bogey

RDM 3/3/81 (153)

Staff Reporter

SOUTH Africans must guard against being brainwashed and conditioned to accept inflation, Professor Jan Sadie, head of the Bureau of Economic Research at Stellenbosch University, said yesterday

He was speaking at the Consumer Mail conference on the food price crisis, in Sandton yesterday

Prof Sadie explained the inflation problem in South Africa as it was reflected in the Consumer Price Index which affected most people's pockets

There were many reasons for rising prices, among them increased costs, the effects of the openness of the South African economy which led to imported inflation, and monopolistic tendencies.

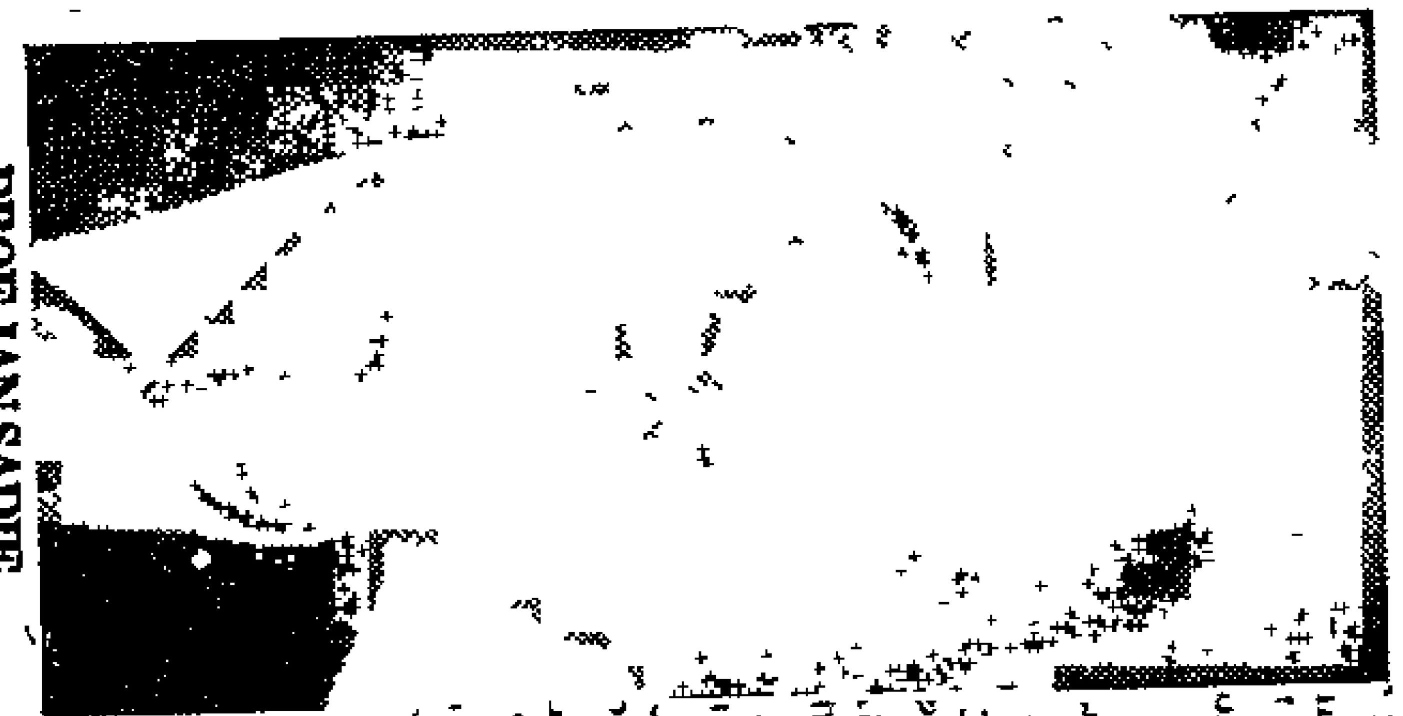
The problem was aggravated by the changing value of the rand, he said.

He told the meeting that whites spent an average of 15% of their budget on food, Asians 35%, coloureds 36% and blacks 39%

"The higher the increase in food prices, the higher will be the increase in the CPI for the lower income groups," he said.

The Department of Statistics had reported that the CPI increase for the lower income groups was 20,1% compared with 14% for the higher income groups, Prof Sadie said.

The lower income groups suffered most They could substitute



PROF JAN SADIE
... 'don't be brainwashed'

one type of food for another but it meant a decline in their standard of living, he said.

He told the meeting that economists had thought the inflation rate of 4,2% in 1969 was "extremely high".

However, price increases since then had meant that prices have just about doubled every six years, with the rand's purchasing power being 35c compared with what it was in 1970, he said.

amphorous forms of silica ... properties. However they may acquire them if heated and melted (calcined).[33]

Quartz has special qualities which makes it valuable in a number of industries Its peculiar crystalline structure enables it to resist fracture or cleavage giving it the required industrial hardness.[34] It is ubiquitous and relatively cheap[35] It is of great importance in the refractory industries because of its high melting temperatures, its low co-efficient of expansion and the inertness of its high temperature forms.[36]

Maize price 'major factor' in inflation

ROM 4/5/81

Consumer Mail

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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 52% 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 to about R100 a ton, while the price on the domestic market was likely to be R140 a ton

"Anybody could grow maize inefficiently," Mr Stevens said, pointing out that the maize industry was not, 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

ST 6/3/81 (153)

Own Correspondent

JOHANNESBURG. — The consumer price index for all income groups rose by 0,6% overall in January and by 15,5% in the 12-month period ending in January

Inflation is hitting low-income groups hardest

The CPI reflected an increase of 0,7% in January for them and as much as 19,7% in the 12-month period

Middle and higher-income groups were less severly hit, increasing by 0,5% and 0,6% respectively in January, and by 16,4% and 13,8% respectively over the year

Food continued its upward spiral, increasing by 1,3% in January and by 28,4% in the 12-month period It is almost double that of the general CPI

As it is the most basic item of expenditure, increases in this sector hit low-income groups hardest

The highest increase reflected in the food sector was once again meat — 1,9%, which in the past 12-months rose by 50,9%

Other increases in the food sector were grain — 0,8% in January and 15,6% over the 12-month period, fish — 0,5% and 10,8%, milk milk products and eggs — 0,5% and 12,5%, fats and oils — 0,8% and 13,6%, fruit — 4,1% and 10,2%, vegetables — 0,3% and as much as 30,7%, sugar — 0,04% and 10,8%, coffee and tea — 0,9% and 6,4%, cold drinks — 1,4% and 16,9%.

Alcoholic drinks rose by 0,1% and 8%, while cigarettes cigars and tobacco rose by 0,1% and 4,6%

Clothing and footwear — which rose by 9,9% over the year — showed that footwear is increasing faster than clothing

Clothing rose by 0,3% in January and by 8,9% in the 12-month period while footwear increased by 1,6% and 13,5%

In the housing sector which rose by 0,[illegible]% and 10,7% — fuel and power rose by 0,4% and 13%

Over the past year furniture and equipment has increased by 14,8% with furniture rising in price by 18,9% and appliances rising by 10%. There were no increases in these items over January

Household operations also continued their upward climb 0,8% during January and 8,1% over the past year In that sector cleaning materials rose by 1,6% in January and 14,4% 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 [illegible] in the 12-month period

Transport went up by 0,5% in January and 8% over the year

In that sector vehicles which showed no increase in January reflected a 14,6% increase over the year and their running costs went up by 0,9% and 4[illegible]

Public transport rose by 7,5% in the 12-month period

Communication recreation and entertainment which showed little or no increase in January — rose by 13% and 10,6% respectively during the year

Reading matter went up by 0,2% in January and a massive 54,7% over the year

Education which also showed no increase in January, rose by 14,1% in the 12-month period

Personal care went up by 1,5% 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 11 major urban areas to make up the monthly CPI

5

Semi-gilts could be attractive if battle on inflation is won

Argus 7/3/81 (53)

Investment

By DEREK TOMMEY

DEVELOPMENTS overseas make one wonder whether the days of high inflation in the Western world may not be numbered.

This may seem a little fanciful in the light of the price increases of recent years. But on the other hand there is increasing evidence to show that many of the factors responsible for the high inflation of the past decade are either losing some of their potency or are being brought under control.

One of the main reasons for the inflation of the 1970s was the American Government's policy of trying to finance the unpopular Vietnam war without placing additional burdens on United States taxpayers.

Instead of meeting the additional expenditure caused by the war by increasing taxes, it resorted to deficit financing.

This sharply increased the money supply in and outside of the United States and generated serious inflationary pressures throughout the world.

The second cause of the world inflation was the steep increase in energy prices.

The inflation resulting from American budget deficits began eroding the real earnings of the Arab oil - producers who were getting less than two dollars a barrel. This was in 1972.

In a bid to recover the wealth they were losing they first increased the oil price more than two dollars a barrel at the time.

When this succeeded they increased the price to 10 dollars, then to 18 dollars and so on. Today the price of crude oil ranges between 34 and 40 dollars a barrel

BIGGEST WAVE

These increases, and those in the prices of competitive fuels, triggered the biggest wave of inflation the world has known.

But times change and at last it seems as if the new American administration could have some success in reducing that country's budget deficits.

Even more promising, the oil producing states are losing their ability to hold up the world to ransom.

Spurred by the ever-increasing cost of energy, the Western world has embarked on an energy saving campaign which is beginning to pay off.

US imports of oil dropped by 20 percent last year and European imports by 9 percent At the same time, alternative fuel sources have been developed

The upshot of this is that an oil surplus is developing, and could continue for two or three years, and possibly indefinitely.

As a result the Opec states have lost their ability to hold consumers to ransom and a substantial easing in inflationary pressures seems likely.

Unfortunately this does not mean that we can look forward to an inflation-free world. Many countries, including South Africa are experiencing an unprecedented growth in their populations.

This must increase pressure on food - supplies, accommodation and other resources and lead to a steady increase in prices.

Therefore inflation will be with us for some time to come. But, hopefully, it will be at a more moderate rate in the future, say at around 5 percent instead of the 12 percent or so in recent years

Whether this will be the case remains to be seen. But if it does happen it will greatly alter the investment scene.

For example, it would again make it profitable to hold money — especially at present interest rates.

13 PERCENT

Even the 13 percent now being offered on some semi-gilt-edged stock such as Escom does not fully compensate the investor for inflation. But if the inflation rate were to drop this and similar rates would become extremely attractive.

Meanwhile, the possibility that interest rates could fall in the future has been taxing the minds of the people who run Nedbank

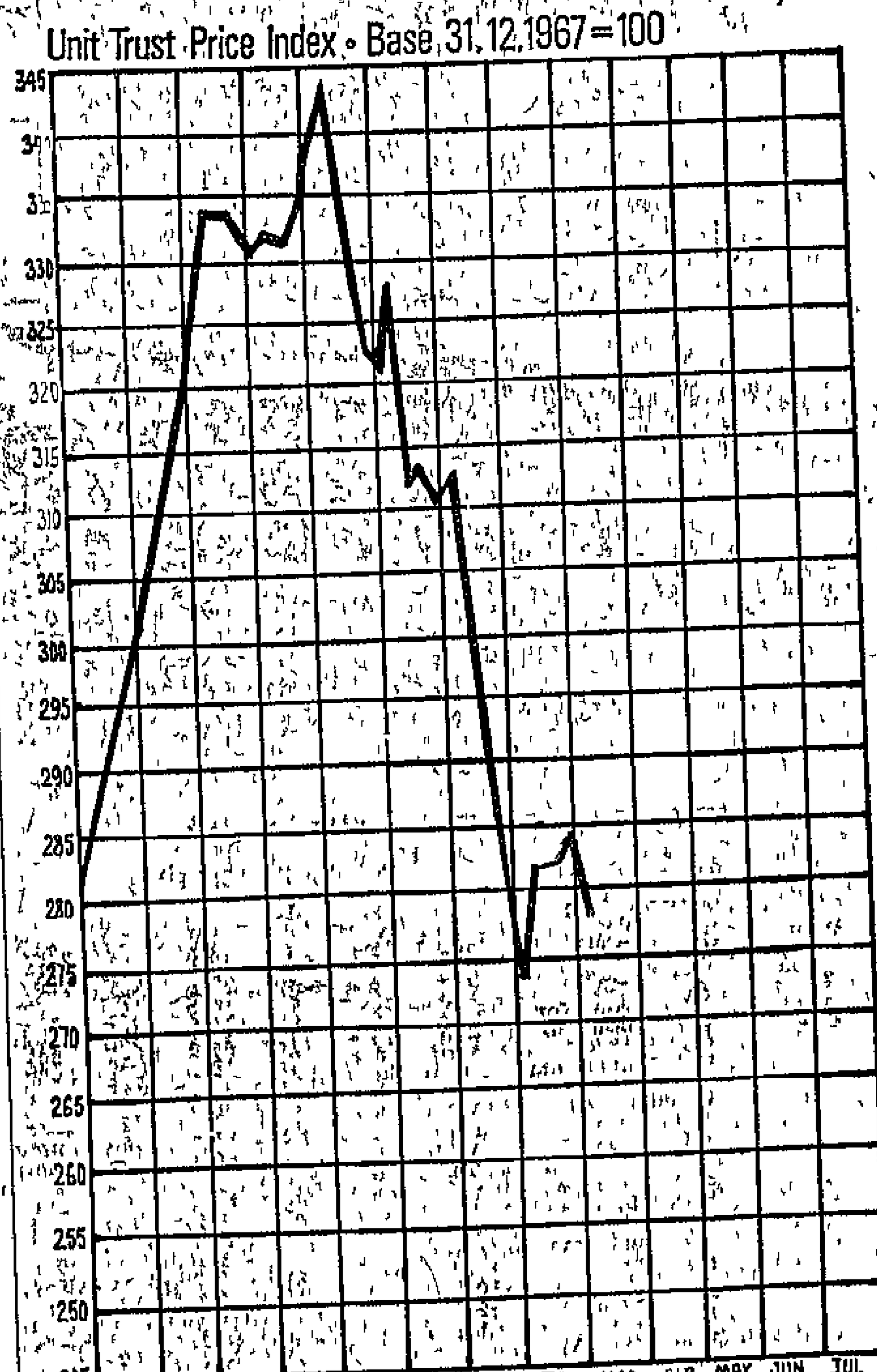
This week they announced a scheme which will enable investors to get a higher rate of interest on their deposits should interest rates be raised.

However, in the event of rates falling, investors will continue to get the old higher rate until the investment matures

TWO YEARS

ON THE subject of money investments, many people have asked whether they have to hold the new Government five-year tax free certificates for the full period before they can redeem them The answer is no.

These certificates can be redeemed after two years, during which period the holder would have received a return of 8,5 percent tax free.



THE ARGUS unit trust index fell 6,74 points this week to 277,77.

75 pc STAKE

FEDERALE Volksbeleggings announced this week that it has acquired a 75 percent stake in Firestone South Africa from the parent company in the United States.

This is good news for the Federale group Federale is believed to have bought Firestone at a most reasonable price and while the purchase may not have any impact on Federale's profits this year, it should be an important contributor to them in the years to come

The takeover could also be good news for the two listed tyre companies, Dunlop and General Tire.

From time to time the tyre manufacturing industry faces considerable disruptive dumping from overseas

With Firestone now in the Federale stable one would imagine that greater pressure will now be put on the Government to take action whenever this dumping occurs

To raise funds for the deal Federale is issuing R30-million worth of R5 9,5 percent preference shares convertible into Federale shares

The preference shares will be convertible into ordinary shares when the dividend on the ordinaries — now 26c a share — reaches the 47,5c dividend paid by the preference shares

It is not known at what price the preference shares will come to the market, but if it is anywhere near their issue price of R5 they could be well worth holding.

Buying them at this price would give an investor a high fixed initial return and the prospect of buying into Federale ordinary shares cheaply at some future date.

Federale shares — standing at around 455c — give a yield of 5,7 percent on the last two dividend payments.

TUESDAY, MARCH 10, 1981 153

ROOT OF INFLATION

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 combines 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 to compete with earned 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.

for agricultural labour in the area and will be discussed below.

Many workers are probably not attracted to the towns.

It seems, from answers to questions like 'Have you ever thought of moving to a town? If so, why don't you?' that

Cloete's inflation counter

Wage-price policy plea renewed

RDM 13/3/81

153

Financial Reporter

A RENEWED appeal for some 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 changes in exports which operate 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 cylcical 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-cylcial 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 procylically, thereby exaggerating the amplitudes of the cylical upswings and downswings.

"The implications for the present economic outloo-k. . 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, probably by 1982, to the downswing 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

RDM 16/3/81 (153)

By ALEC HOGG

SOUTH Africa is paying the heavy price of 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 Dickman of Anglo American and Mr Ronnie Bethlehem of Johnnies

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 Dickman says, the rand is worth the same today as it was immediately after its devaluation (from $1,4 to $1,15) 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 5,8% since the 1975 devaluation

Last year, when the gold price averaged more than $600, was a perfect opportunity to allow the rand to appreciate By doing so imports could have been paid for with far fewer rands, 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 upswing in the economy, but they are operating from a much lower base than they should have.

Athough there has been much 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 $1,35 last year, and most observers believe it should have been nearer $1,4 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 David Roux, says that on Friday the gold price rose more than $10, sterling (which has a 22% 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 $1,2675/95 to $1,2637/57

Mr Roux said he would bet his bottom dollar on a rand rate of $1,25 withing the next four weeks

Nedbank group economist Mr Rudolf Gouws is another who believes the rand is headed lower in the medium term

He says imports will remain high this 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 Gouws is, however, a lot more optimistic over the longer term. He says Sasol in particular will take pressure off imports through its oil 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, export-based industry will provide the impetus for sustained economic growth to provide employment.

Exporters suffered heavily from the hardening rand last year, which made SA goods more expensive in a severely depressed international market

April price rises is new forecast

KPM 9/3/81

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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 R720-million public sector pay increases

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 R60-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 got their promised rises in July

The chief economist of 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 restructive measures are applied

From a Government source in Pretoria it was learnt that the Price Controller would probably have to agree to the producers of 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 Owen Horwood, said during the mini-Budget debate in the Assembly last month that if the bread price was not increased, the total food subsidy bill would rise above R300-million

And a maize price rise is also on the way The Maize Board will meet next week to discuss future prices for the record 13 500 000 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 R60-million a month pay rise in the public sector, and other imminent price increases, will significantly raise inflationary pressures from the beginning of next month

DAVID REES (153) FM 20/3/81

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 this 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 than 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 marketing 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 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 finds 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 attend 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

S. Times 22/3/81

~~206~~ 453

By Tony Hudson

SANLAM REVIEW URGES MAKING PROVISION TO COMBAT INFLATION

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 of R100 which commenced 10 years ago and which was not adjusted for price increases is today worth R36.

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 10% 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 rand.

The group says. "It is very expensive to index pensions fully to the inflation rate, but many pension funds periodically increase pensions by about 50% 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 R750 a year and increasing annually at 5%. After seven years the R1 000 mark will have been reached and will become R1 920 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.

And, says Mr Wolfaardt, another area that can be badly hit by inflation is life assurance. A policy that would today seem to be perfectly adequate for the care of a family could leave the widow in penury in 10 or 15 years.

He says that what is needed by the client is a policy that increases the sum assured upwards with inflation and the man's increasing salary. Mr Wolfaardt told Business Times that 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 battle financially for survival as the inflation rate continues to send prices rocketing."

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(134) Eastern Record, 15 May 1915.

(135) Worker, 16 Oct. 1913.

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(137) Irvine(a), op. cit., p.3.

(138) Fraser and Irvine, op. cit., pp. 4-5.

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(141) Ibid., p.7.

(142) Ibid.,pp. 16-19 passim.

(143) Ibid., pp.20-27 passim.

(144) Worthington, E.B., Science in Africa: A Review of Scientific Research Relating to Tropical and Southern Africa (London, 1938) p.542; Worthington, E.B.,

(154) Grey, op. cit., pp. 181, 187, 202-205 passim.

(155) BRA, H.E., v.138, S. Evans to J. de Jongh 17 July 1905, v.244, file 98, memo for L. Reyersbach, 31 May 1906.

(156) For details on the WNLA's recruiting rights, and improvements in services rendered, see Grey, op. cit., pp. 117-172passim, 183-185, 188-189.

(157) Ibid., p.187; Cartwright, op. cit., p.18.

(158) Grey, op. cit., pp. 185-189 passim.

(159) BRA, Crown Mines Ltd. Chief Medical Officer's Annual Report 1916; BRA, 4th Sanitation Report,1918.

(160) Irvine and Macaulay, op. cit., p.357.

(161) Ibid; BRA, H.E., v.244, file 107H, 'Report of Mortality amongst Natives employed on the Witwatersrand.'

(162) Irvine and Macaulay, op. cit., p.365; BRA, H.E., v.244, file 107H, 'Report of Mortality amongst Natives Employed on the Witwatersrand.'

(163) FRMRC 1910, pp.50, 254, Table J, par.17.

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(165) BRA, Crown Mines Ltd. Chief Medical Officer's Annual Report, 1916. See also Irvine and Macaulay, op. cit., p.365; BRA, H.E., v.258, file 154H, 'Subcomitttee on

S Tribune 22/3/81

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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 from 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 pinpoints the crucial problem in the inflationary spiral — that there is a general expectation among people that their standard of living will always continue to rise.

Those of you who watched Milton Friedman on television recently will remember the glowing tributes he paid to Hong Kong, Ja-

pan 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 biased from 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

KDM 24/3/81

153 (58)

By ALEC HOGG

INTEREST rates are still too low and rising rates must be seen as a result of sound policy to restrict the banking sector's ability to credit extention, 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 outpaced 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 says 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%

RDM 24/3/81

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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-division 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 rise 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 16% at the end of February

It was 15,8% for calendar 1980, the highest annual level recorded since 1945

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 1979 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% "

Those 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 16,3%

This points to a strong inflationary undercurrent.

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 breakdwon 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 0,3% to the increase.

A further consequence of the chronic overcrowding was unsanitary conditions and exposure   The Report noted a number of hospitals where such conditions prevailed. Kowie hospital was noted as having a particularly primitive and unhealthy sanitation system. It was further subject to periodic floodings, patients often being forced to spend their days in the open, exposed to wind and rain.

In the light of such severe criticism from the Lamont commissioners, despite the pressure of overcrowded wards, the real number of beds dropped by 15%. The number of inpatients dropped more rapidly over the same time ... 27%. The population pressur... By 1976, state hospitals wer...

Racial Bias

Mental health facilities were... between the white and black ... the whites. in some spheres have narrowed... was still one of a grossly un... tical returns reflect this ra...

Mentally Disordered Persons

In 1925, 52% of the 8 667 know... in South Africa were white (4 ... (4 140). In 1976, only 30% of ... disordered people were white (... being black (25 600).

In 50 years the number of known ... more than doubled. The number of mentally disordered blacks has increased six-fold. In 1925 one in every 880 persons in South Africa was known to be mentally disordered, one in every 350 whites and one in every 1 500 blacks. Thus mental disorders were recognised among whites four times

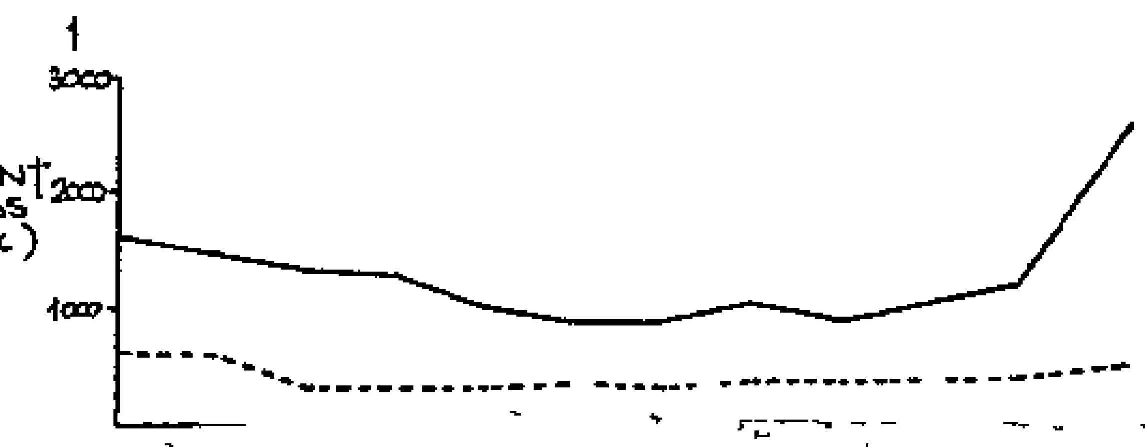
. / ...

more commonly than among blacks (per head of population). In 1976 one in every 390 whites and one in every 900 blacks were recognised as being disordered. Thus mental disorders were still being recognised twice as commonly in whites as in blacks in 1976.

GRAPH 15

NUMBER OF PATIENTS RESIDENT AT STATE MENTAL HOSPITALS AS FRACTION OF POPULATION (1 x) 1919 – 1976

— BLACK
-- WHITE



... resident in state mental hospitals over the sixty year period.

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Inflation: govt main culprit says Slabbert

DD 25/3/81 (153)

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.

Mr Slabbert called on the Minister of Finance, Mr Owen Horwood, to devote tomorrow's Carlton 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 black man's lot was separate development, with all its restrictions intact.

"That would be the surest 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 40 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)

GENERAL NEWS

Now 12-point plan issued to tackle inflation

SCM 153 27/3/81

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 wide-spread quasi-automatic adjustment of wages and social benefits to rising prices;

CONTROLS

- A degree of deregulation by public controls to enhance the freedom in decision making on 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 background of 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.

INFLATION (153) FM 27/3/81

Horwood's tacit appeal

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 to be 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 indaba 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 propogated in Latin American countries in the Fifties and Sixties"

Finance Minister Horwood . . . squaring up to the tough inflation problem

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 imports 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 in important positions in the National Party, in the administration and in influential positions who generally favour this oversimplistic view They draw succour from the opinions of 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 prices and incomes freeze 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

Krugerrands . . . a new look to selling

tween the Treasury and the Chamber of Mines

The selling price will also from April 13 be based on the average of the previous working day's two price fixings on the London gold market This is a change on the old system of determining Krugerrand selling prices on the previous Friday/Monday London gold fix A new distribution system has also been introduced

These moves says Intergold chief executive, Don Mackay-Coghill, are aimed at eliminating the secondary premium market in Krugerrands, which was open to speculative abuse

The existing distribution system had also led to long time delays for prospective buyers By doubling the supply of Krugerrands for sale in SA to 300 000oz (announced by Finance Minister Owen Horwood in last month s Part Appropriation Bill) and increasing the official premium to a level about half that which prevails in the secondary market government and the Chamber hope to move substantially towards matching supply to demand

Plans are for the 18 banks at present in the distribution system (these include the leading commercial banks) to operate the new changes Existing bank commission on Krugerrand sales will be abolished and the buyer will pay only the new fixed premium The banks will be reimbursed by the Chamber

[redacted]

versely if supply is greater than demand premiums will be adjusted downwards

Ideally agrees Mackay-Coghill the solution is to make coins freely 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

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More to come

FM 27/3/81

Tuesday's announcement of a 0,5% 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 Daymond, 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 hoisted 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

Although the Reserve Bank's Senior Deputy Governor Chris Stals expects a seasonal easing in the money market in April there are indications that liquidity may not be as great as expected Stals himself has noted a current account deficit last month (the provisional trade figures from Customs and Excise show a minimal R414,5m 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 Colin Dunn 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

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PENSIONS PRESERVATION

Talks about talks

FM 27/3/81

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 one 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 pensions flexibility

Jobs, growth plan put forward

153
RDM 27/3/81

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 Handelsinstituut.

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 indices 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 Stockenstroom of Assocom, the FCI and the Handelsinstituut 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"

Enon, Bersheba and Dunbrody (see map) Child health work and immunization of schoolchildren were also done from the start. In due course the D.C. ... more

11-point strategy to combat inflation

ROM 27/3/81

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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 Handelsinstituut

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 are said to hold back profits and productivity,
- Holding a fullscale inquiry into food prices

Mr Horwood said the meeting been "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 cost increases, 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 jailed without a chance of paying a fine"

● See Page 16

of Infirm at home. This was ... pensioners in the old-age location of Zwelitsha, some 5 km from the Addo clinic. The D.C. however found this becoming too expensive and has curtailed home visits. This means deliveries cannot be attended to at home, although up to 3 postnatal visits can be made.

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Maternity services are provided at the neighbouring clinic of Sunland where there is a small labour room and one sister is always on call at night and at weekends. The responsibility for transport is that of the patients (or the employer). In the case of women on farms, the usual procedure is for the farmer (if he is informed in time) to telephone the sister at her quarters. He then takes the mother to Sunland clinic, picking up the sister en route. After the delivery he takes sister, mother and baby home. Those who live in the locations would however have to pay a considerable sum (e.g. R5) for transport to the clinic late at night in a private car, unless relatives of theirs possess transport. Many deliveries, even on farms, are assisted by untrained midwives or relatives. At Bontrug the nurses do home deliveries.

A good deal of other district work of a preventive and promotive nature is done by the sisters, depending partly on their particular interests, and almost exclusively by white nurses. This includes visiting schools for Heaf testing, BCG vaccinations and prophylactic treatment, and other immunizations which may not yet have been given. There have also been campaigns to visit every farm for the same purpose. X-rays for TB contacts and suspects are done at 6-monthly visits of The State Health Mobile Unit, emergency cases being done in between at the Divisional Council's expense at the Kirkwood district surgeon. One sister at Sunland gives family planning education to groups of farm workers and school leavers. Pap smears cannot be done at State expense.

Charges at the clinics are 20c per visit for minor ailments, family planning, and TB treatment are free. A charge of R6,00 is made for the comprehensive maternity service including antenatal clinics, delivery and post-natal checkups.

3.1.3. Outclinics

A weekly visit is made by two sisters from Sunland to

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11-point plan to combat inflation

CT 28/3/81

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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 Handelsinstituut

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- Removing government controls which were said to hold back profits and productivity
- Holding a full-scale inquiry into food prices

SUNDAY TRIBUNE, MARCH 29, 1981

S. Tribune 29/3/81 153

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 this confession.

While the conference had been called to discuss inflation, Horwood also used it as a platform to win approval for his well tried 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 probing marketing practices of control boards and voiced 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 AHI, 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 the seven million tons of maize which will probably be exported at a loss should be carried by a Government loan.

been included.

kers

d take

ive %

Distribution of workers according to milk received, litres a week.

TABLE 11

ration (skim plus full milk) in litres a week.

below shows the distribution of workers according to milk

were given some skim and some full milk daily. The table

workers were given full milk and on a few farms workers

off the milk before handing it out to workers, on others

milk ration. On some farms the farmer took the 'top'

Most of the workers (89%) were given, free, a daily

(ii) Milk.

ECONOMISTS AGREE THAT MAN-IN-STREET'S PART IS ESSENTIAL

Inflation — the public's role

S. Times 29/3/81 (153)

By Tony Hudson

THE man-in-the-street plays a vital role in the fight against inflation, and without his co-operation all efforts will fail, say economists.

Adam Jacobs, a Volkskas economist, told Business Times this week that the consumer had as important a role as industry to play in bringing the inflation rate under control.

He says that there are only 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, those 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 month-on-month 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 emphasises 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.

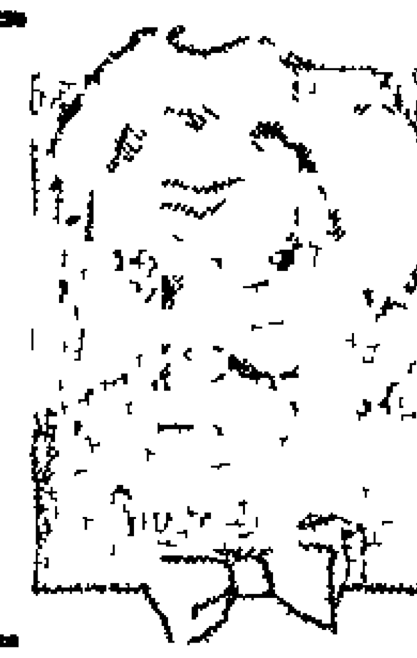
He told Business Times that the savings rate in South Africa last year dropped from over 10% to a historic low of 6 7%, and if enough people believe that the inflation rate is going to fall again the savings rate will start to rise.

RAND DAILY MAIL, Monday, March 30, 1981

Inflation — the instant answer is no instant solution

RDM 30/3/81

153



Harold Fridjhon on Monday

ONE fact emerged with crystal clarity from Thursday's cluttered Government-private sector 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 Most of the thoughtful suggestions — and there were many advanced by a reasonably high-powered assembly of businessmen and economists — were possible part-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 opening address when he dismissed short-term expedients and stressed that long-term measures were the only effective means of getting inflation under control

He spelt 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 there are no easy substitutes 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 everyone spoke to his book Businessmen, depending on their individual positions in the manufacturing-distribution-chain, wanted controls or more freedom Economists ranged in their philosophies 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 compromise, it was a 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 obession 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 Franszen report which recommended only 50% from retained profits But some utilities are gaily romping 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 fanatics, 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 constellation concept is a chimera

What has this to do with inflation?

A great deal because planning for these people, providing for these people means that the rigid doctrinaire discipline of the convinced Friedmanites is unacceptable We must temper 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 sentimentality 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 sector 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 satrapies, and of gorged boards is not a wave-of-the-wand happening 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

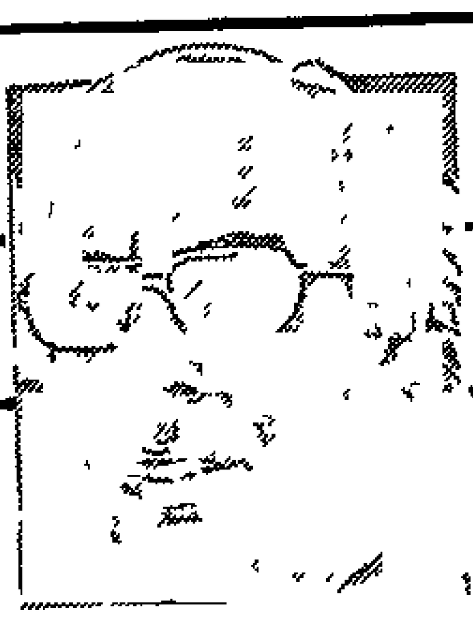
RDM 1/4/81 153

	Average inflation rates US	UK	West Germany	Japan	France	South Africa
1953-66	1,5%	3,4%	2,2%	3,9%	3,9%	2,1% (1953-64)
1967-74	5,4%	7,5%	4,3%	7,5%	6,5%	9,1% (1969-76)
1980*	12,5%	12,5%	5,5%	8,0%	12,7%	15,8%

*Or latest running 12-month figure.

	Money supply (m2)	Consumer price index
1973	23,0%	9,9%
1974	22,3%	14,1%
1975	17,4%	11,7%
1976	9,0%	10,8%
1977	6,9%	11,1%
1978	12,6%	11,6%
1979	13,3%	14,0%
1980	15,0%*	15,0%

Howard Preece



Economic Spotlight

WHY on earth is inflation now so deeply entrenched in the South African economy?

Why don't the Government and the Reserve Bank stop dithering, take a firm grip on money supply and wring inflation out of the system?

That is the kind of instinctive reaction that many people will have to the news that the consumer-price index is now showing a 16% increase on the latest 12-month count

The questions are certainly legitimate — they go to the heart of the central economic issue of today's world

I think, however, that they implicitly contain all kinds of oversimplified assumptions and dodge some unpleasant realities

The South African authorities could indeed try to take drastic action to curb money supply rises

But how successful they would be, and what consequences would flow from such action is far from clear

The authorities have obviously decided that the game would not be worth the candle

What has attracted most attention, understandably, is the extraordinary 27% rise in the supply of money and near-money (M2) last year in this country

It was, however, back in 1978 that South Africa's financial policymakers crucially rejected the hard-line monetarist approach most popularly, though not always accurately, associated with Professor Milton Friedman

Before considering how and why that happened, and what it means, it is perhaps worth trying to set South Africa's inflation problem in a wider context.

Look at the table showing comparative inflation rates in the major Western economies and in South Africa over the past 25 years or so

The figures for 1953-66 seem unbelievable in retrospect, not least because of the remarkably low record of the United States and, to a lesser extent, of Britain in that era

This table should also be a caution against assuming that inflation is all a product of "Keynesian" economics — and never mind that much that passes under that heading is a travesty of the writings of John Maynard Keynes.

During those 14 years of 1953-66 a low level of inflation was compatible with a world economic order that was supposedly Keynesian

Just as relevant, South Africa had an average annual inflation rate of 2,1% with the apartheid tentacles clamping ever more strongly and with a highly paternal control-bound economy

There are those who say that inflation in South Africa is primarily a product of the country's socio-political structure

How come inflation was minimal during 1953-64 when that structure was also in being?

Others say today's inflationary pressures as indirectly but vitally influenced by exchange and other controls

Again how about 1953-64?

But the table shows the fundamental change that overtook the world economy in the 1960s and into the early 1970s

Inflation rose rapidly although the figures for 1980 show, the position was still not as bad it is today

There can be little doubt that the trigger for this was the sustained and huge balance of payments deficits in the US that flooded dollars on to the world market and acted as a classical monetary printing press

Then came the final blow, the oil price take-off in 1973.

Technically, Western governments could have applied rigid monetary policies to prevent oil from pushing up general inflation levels

Fearful, in practice, of the short-term deflationary effects this would have on jobs and output they mostly "accommodated" oil by easing monetary policy

The combination of the dollar flood and the oil shock is seen in the inflation figures for 1967-74

South Africa followed the band and average inflation for 1969-76 raced up to 9,1%

The world had shifted on to a much more inflation-prone base, where the medium-term price of cutting back on inflation had become far painful than before Ask Mrs Thatcher and the British Government

The real crunch for this country is reflected in the accompanying table showing the money supply and inflation figures for 1973-81

The 1973 oil crisis produced an international recession which hit South Africa in 1975 after the gold-price crutch had been kicked away.

The crisis that caused the 1975 devaluation of the rand left the Government with no option but to apply severe deflationary policies There was no Damascan conversion to monetarism.

The effect, however, was the same Real economic growth plunged from 8% in 1974 to zero by 1977

The money-supply increase tumbled from 22,3% in 1974 to 17,4% in 1975, to 9% in 1976 and 6,9% in 1977

That, of course, was essentially through the largely forgotten side of the equation — the *demand* for money was severely checked as a consequence of the worst recession in South Africa since the 1930s

No matter, the moment of truth was there Money supply was on the floor

So, however, was the economy Unemployment was soaring to politically menacing levels, particularly when viewed against the Soweto uprising of 1976

Overseas, South Africa's economic image was that of one whose time had gone

The authorities were fervently anxious to get economic growth on the march again

Helped by cyclical factors and a gradual recovery in the gold price the economy began to move up again *So did money supply as a necessary consequence*, with the tacit blessing of the Government, Treasury and Reserve Bank

In 1978 M2 expanded at 12,6%, nearly twice the level of 1977

Mr Owen Horwood, the Minister of Finance, explained it this way at the "inflation conference" last week

"We do recognise that conditions can prevail in the short term which make it useful for policy purposes to distinguish between demand-pull and cost-push inflation

"This applies to a situation like that of 1977-79 in which the inflation is manifestly not due to earlier or concurrent increases in domestic monetary demand but, in fact, occurs despite conditions of inadequate demand, large-scale unemployment and surplus productive capacity

"The significance of recognising this kind of inflation as cost-push rather than demand-pull inflation lies in the implication that in such circumstances a more restrictive policy might merely exacerbate the recessionary conditions without materially reducing the rate of price increases"

I broadly agree — but if we are given policies labels that has to be Keynesian and not monetarist

More to the point, if South Africa was to stick to rigid monetarist principles, then it should have kept the lid firmly on the economy in 1978, 1979 and 1980

The fact that economic growth would have been way below the levels achieved should have been no deterrent to a true monetarist

It may take five years' hard labour, according to the present monetarist rubric, before true salvation is found

On that philosophy taxes could not have cut to the extent they have, the housing boom of 1979-80 could not have occurred, and unemployment could not have eased as it has

Mr Horwood took the other course. I think he was right, although I still think there were policy options open to him last year that could have held the money-supply rise to nearer 20% than the 27% achieved

So, yes, we could try to wring inflation out of the system by pure monetarism as Mrs Thatcher is trying

But we are not going to because the authorities think there are other critical issues

To quote Melvyn Westlake, the economics correspondent of The Times· "If inflation canot be driven below 8% at the trough of the business cycle it is hard to believe that it will be pushed lower when or if any recovery comes along"

His analysis of Britain is precisely what did happen in South Africa over 1975 to 1978 onwards

South Africa is going to face double-digit inflation throughout the early 1980s and maybe beyond

We have not got five years we can give over to Thatcher-style policies But our growth rate will be inhibited over the next few years as we battle to get inflation at least down to more manageable levels

Post-election price rises kept 'secret'

RDM. 1/4/81 ~~244~~ 153

Pretoria Bureau

A NUMBER of big cost of living shocks are being kept tightly under wraps until after the April 29 elections

They include substantial increases in the prices of maize and maize products and dairy products

The prices of literally dozens of other products — dog and animal feeds, powdered and condensed milk among them — will also be bumped up in the wake of these price rises

And soon after the new dairy and maize prices are announced there is certain to be a big increase in the floor price of beef.

The Marketing Council is now processing the prices recommended by the Maize Board and the Diary Board

The council will pass its recommendations on to the Minister of Agriculture within the next three weeks, it was learnt

It is understood that the National Maize Producers' Organisation (Nampo) has recommended a net producers' price of about R140 a ton — R18 a ton above the current price

The gross price could be as high as R147 a ton

Out of this however the farmer will have to pay a substantial levy into the Maize Board's price stabilisation fund which, after a season of heavy export losses, is in the red

And provision will have to be made for what are expected to be record export losses during the 1981/82 season on the 6-million ton export surplus from the record 13,5-million ton crop.

Maize Board sources claim however that the farmer will bear all of the losses suffered on exports

It is understood that the Dairy Board recommended to the Minister of Agriculture that dairy produce prices should be raised from April 1

For obvious political reasons this was rejected.

Dairy product prices are normally increased from the beginning of June but the plight of dairy farmers is so serious, the industry claims, that the board recommended an earlier price rise.

The fresh milk, butter and cheeses price rises are expected to be large enough to cover the claimed increase in production costs of 18 to 20%

The South African Agricultural Union is now putting together its motivation for a higher beef floor price

It is claimed that the current floor price has no relevance and that there will have to be a substantial increase

The present floor price for super beef is R1,50 a kg. But, an SAAU official pointed out yesterday, this week's auction price for super beef in Pretoria was R2,80 a kg

He also pointed out that if demand fell away and the price dropped to the floor level, farmers would suffer heavy losses

The need for an adjustment was therefore urgent and obvious

And the biggest shock of all — a bread price rise will come later in the year.

Pretoria sources said yesterday that maize farmers were "fussing" about the large — nearly R200-million — bread subsidy, and claimed that they merited greater subsidy support

This is one reason why a substantial increase in the bread price — probably from the start of the new wheat season in October — is expected

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.(94a) However by 1911 it was universally accepted that water, but in plentiful supplies, was needed the more especially as it was recognised that not only drilling and shovelling produced dust, but in fact all underground worl were exposed to its dangers. In addition, after the intr in 1914 by the Chamber of Mines of routine dust sampling, devisal in 1916 of the Kotze Konimeter by the Government I Engineer, Robert Nelson Kotze, and the practice of 'surpri visits to mines by inspectors also to carry out dust sampl procedures, it was realized that water had to be absolute pure. Earlier the water contained dust in suspension (an even urine) which made it more dangerous than dry dust wh settled more quickly; and for the same reason dust had t allayed 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 dri was a great improvement on its 1902 predecessor, because better quality steel was used thereby preventing water es into the atmosphere before the production point had been reached. The dangers of the use of the dry jack-hammer i duced at the end of 1917, in which exhaust air passed dov hollow drill, were only realised after they had been in u for some time. Despite the simultaneous use of separate jets it was discovered that the drills were ejecting dust dangerous quantities. All these circumstances led to the introduction in 1921 of a regulation which stipulated tha rock drill could be used on the mines without prior appr from the Department of Mines.(95)

The evidence strongly suggests that from 1903 to 1910 fe men who had any connection with the mining industry, inc government, management and miners (and other mineworkers could claim ignorance of the dust hazard and its causal r 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 haphazard 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

inadequately trained local miners were replacing the skilled overseas miners, many of whom had returned home after the 1907 strike, whilst others were so badly incapacitated that they returned home to die. Overseas miners, who by 1910 still

How Pretoria is regaining control of money supply

(153)

ROM 3/4/81

By HAROLD FRIDJHON

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 manager of the Discount House 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 in the stabilisation account, the encouragement to importers and exporters to finance their transactions domestically 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 mor than R2 000-million was indicative of the official approach

The techniques included the issue of tax Treasury bills, the marketing of Reserve Bank debentures and the buying of very short-dated Government securities.

Dr Faure warns that some of these actions might be construed as being an easing of monetary policy. But this temporary assistance to the banking system 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 not only heralded a changed philosophy about the money market but 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 even 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 the 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 correctives" of the money-supply position take effect The most important of these is the current account of the balance of payments With 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 reserves by encouraging inflow on capital account of the balance of payments through intervening in the forward exchange market, through the negotiation of private and public foreign loans, through gold swop 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 adaptations directed at maintaining a tight rein over the money market are to come. This implies a reassessment of rediscount policy and the role of the bank rate

THE DEVELOPMENT OF PSYCHIATRIC SERVICES IN MATABELELAND

INTRODUCTION:

In developing countries, patients with psychiatric illnesses frequently present with somatic complaints ; consequently they may be hidden amongst the patients attending general medical out-patients where they may be over-investigated, misdiagnosed and mismanaged (Giel & Harding 1976)(1). This is obviously expensive in terms of human and material resources and ...

... Figures for the number of cases seen at the clinic each year are set out in Table I.

However, it was by no means certain whether:-

a) in the brief time available a diagnosis could be made with sufficient accuracy to be useful.

b) patients could be adequately managed in an out-patient setting without prior admission to hospital for stabilization on treatment.

In order to clarify these issues it was decided to undertake a prospective study of a small sample of newly referred patients.

Patients and Methods:

During the period 29th November 1977 to 2nd February 1978, 21 clinics were held at which 104 newly referred patients were seen. For the purposes of the study "newly referred" was defined as meaning patients who had had neither in-patient nor out-patient treatment previously - as far as could be ascertained.

/...2

TABLE I

Number of Cases seen at the Psychiatric Out-patient Clinic at Mpilo Hospital.

YEAR	1974	1975	1976	1977

Investment

By DEREK TOMMEY

Unit trusts can help small saver counter inflation

Argus 4/4/81 (153)

IT IS a matter of considerable surprise in these days of high inflation — but also fortunately of strong economic growth — to see how few people invest in unit trusts.

The movement continues to report that sales of units by holders steadily exceeds new purchases. Yet, as the 49,6 percent increase in the Old Mutual Unit Trust's dividend declared this week shows, the unit trusts have much to offer the big investor and small saver alike.

The Old Mutual Unit Trust is paying a dividend of 10,02c a unit for the six months ended March. A year ago it paid a dividend of 6,7c for the same six-month period.

Santamgro's dividend is up 112 percent to 7,2c and Sanlamtrust's 27 percent to 9,5c.

I believe that a regular purchase of units in a unit trust should be an integral feature of any savings programme. It is about the only way a samll saver who can't afford to buy shares regularly or build up a property portfolio can protect his savings from being eroded by inflation.

This is an extremely imported consideration in prevailing conditions.

16 PERCENT

Inflation is running at 16 percent a year at present. This means the purchasing power of money is being halved every four and a half years. A hundred rand today will be worth only R50 in 1985 and R25 in 1990 if the present situation continues.

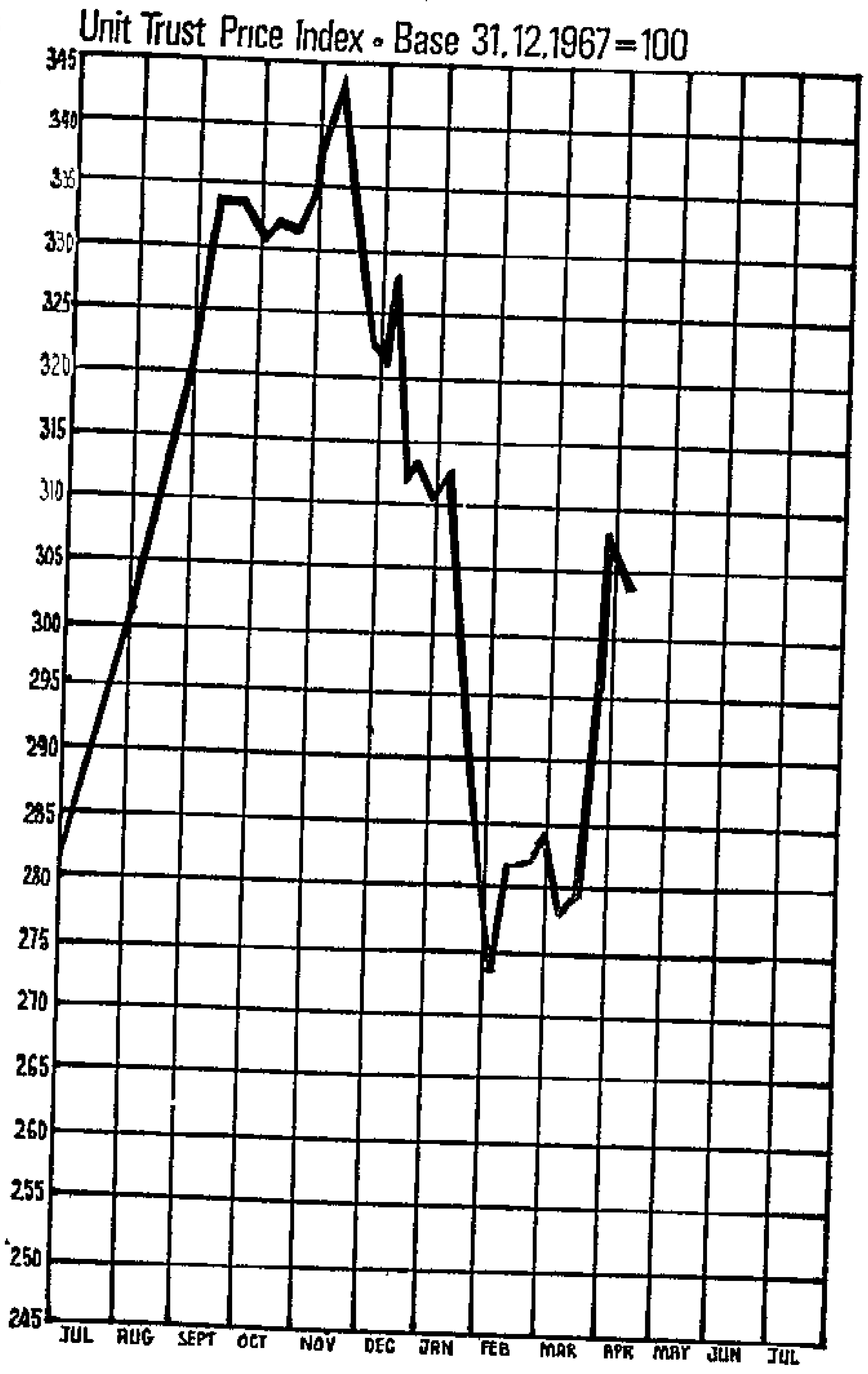
It is possible that this inflation rate will decline in the coming months. But it seems most unlikely that it will go into single figures for some time.

Hence the value of money is likely to continue to fall. Thus is seems simple prudence to try to protect your savings against inflation.

And this is where an investment in a unit trust can be extremely helpful. A unit trust operates by selling units, which have some similarities to shares, to the public. The money it receives is used to buy shares in companies listed on the Johannesburg Stock Exchange.

The market price of the units is directly related to that of these shares. So the price of the units will rise and fall in line with changes in the share price.

The unit trust distributes all the dividends it receives to unit holders. Thus if company dividends are in a rising trend as they are now, the dividends paid on the units also increase.



THE ARGUS unit trust index fell 2,77 points this week to 302,79. Several trusts were quoted ex-dividend during the week.

You protect yourself against inflation by holding assets, such as a house, machinery, gold, jewels and other valuables, which you think will rise in price faster than the rate of inflation.

This is where unit trusts can render a valuable service. When you buy units in a unit trust you are getting a stake in the country's most important physical assets — the factories, mines, shops, offices, banks and hotels that make up the South African economy.

Over any reasonable period the value of these assets must increase at least in line with inflation. Similarly, the return on these assets should also keep pace with inflation. Thus the unit holder can expect the value of his units and the return on them also to rise with inflation.

This has certainly been his experience in the past decade.

10 YEARS

But more than this can be gained from holding units. There is also the fact that South Africa is experiencing an economic boom which could last for a great many years.

The boom which followed the Sharpeville disturbances in 1960 lasted 10 years and there seems no reason why the boom which is following the 1977 Soweto troubles should also not last 10 years.

The maize crop this year is a record. So it would seem that the growth rate this year could easily reach 6 percent. Moreover, later this year the United States and Europe should start emerging from their depression and increase their purchases from South Africa.

So next year should also be a highly prosperous one for the South African economy.

As the value of quoted shares and of units grows in line with the growth in the economy, a high rate of increase in unit prices and in dividends, over and above that resulting from inflation, is likely for the next two years at least.

SUPERVISED

Unit trusts are closely supervised by the Government. As a result they are run by organisations of impeccable virtue. So a would-be investor need not fear he is dealing with a fly-by-night organisation.

With the Old Mutual, Sanlam, the Guardian Insurance, the Standard Bank and Syfrets-UAL the only organisations operating unit trusts, you will be in good hands, should you invest in units.

One result of the tight government control is that the administration fees that can be charged in this country are extremely small by overseas standards.

This is probably the reason unit trusts are not better publicised than they are. For not only do the low administration fees restrict the funds available for promoting them, but it also makes the sale of units a far less profitable proposition than say the sale of insurance policies.

In the short term, selling insurance could be up to 10 times more profitable than selling units. Hence salesmen can't be blamed for making little effort to sell them.

But, though the low administration charges may limit selling efforts they do not affect the investment expertise employed.

The unit trusts bear proud names and the reputations of these organisations as managers of money is on test. Thus they can be depended on to use all their expertise to ensure their unit trusts perform well.

These organisations have access to many sources of information and can afford to employ highly trained and experienced investment staff. As a result, the track record of the unit trusts is extremely good.

The small saver should aim to invest a regular amount monthly.

With a growing economy and a buoyant share market it is amazing how quickly a fairly substantial investment can be built up and a useful income obtained.

And if you stop investing and decide to cash your units you suffer no penalty. Unlike a life insurance policy there is nothing contractual about investing in unit trusts.

BETTER DEAL

Meanwhile, it is interesting to see that the small saver is getting a slightly better deal from the banks and building societies. They are offering 6,5 percent on special savings deposits and 8 percent where more than R20 000 is invested.

On three-year deposits they are now prepared to pay 11 percent.

But this is still someway below the current inflation rate. It is also below the 14 percent some institutions were offering for 12 months deposits in large amounts.

It seems that rates still have to rise much further before the small saver gets his proper due.

Building plans up 90 pc

THE value of building plans passed in the first two months of this year jumped 90 percent to R541,9-million from R284,2-million a year ago, the Department of Statistics reports.

Residential building plans accounted for R287,4-million, while non-residential plans accounted for R128,8-million. Alterations and additions made up the balance of R125,7-million.

The value of all buildings completed in the country in the first two months rose 61 percent to R213,6-million from R132,5-million.

veniently recruited in Britain with the promise of high wages from the South African El Dorado. But the use of British immigrant mining engineers and artisans fulfilled a double purpose for the capitalists; the purely economic purpose, as a ready supply of necessary skilled labour, and the political purpose, as a pro-British (jingo) pressure group against the Boer Republican government that administered the gold-rich Transvaal.

The mining capitalists had hoped to keep their white skilled labourers in a vulnerable position so as to ensure their absolute control over production. This meant that the white wage earners' organizations were not initially recognized by the capitalists and those who attempted to form trade unions were victimized.

But British immigrant skilled labourers had brought their class consciousness to South Africa, and all capitalist efforts to prevent their trade unionization failed. However, it took the white labourers until the early 1920's to consolidate their position as a permanent and protected group of skilled labourers and supervisors in South African mining production

The mining capitalists recognized the importance of a group of satisfied white supervisors who would command the African workers on their behalf. But they tried to keep their "sergeants" in a weak position so that in times of crisis they could reduce their wages, dismiss the inefficient and force the remainder to supervise a larger number of African workers per man. [74] It was against this vulnerability that the white supervisors fought, successfully entrenching their role as unassailable supervisors of black labour and obtaining legal recognition of the "colour bar" in the Mines and Works Amendment Act of 1926.

It is of crucial importance to note that at no time did the ruling capitalist class ever consider even the partial replacement of their white supervisors with cheaper black supervisors, i.e., the formation of a multi-racial group of skilled labourers and supervisors. [75] The maintenance of a white's only supervisory group was fundamental to the colonial structure of exploitation, which aimed to keep the black working class in a state of permanent submission.

The capitalists greatly feared the development of class consciousness among the enslaved African workers. Only by walling-off the African proletariat from the white supervisors, could they retard the growth of African class consciousness and trade unionism which so greatly threatened their interests.

CLOETE RINGS WARNING BELL

S. Tribune 5/4/81

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By JACK BRICKHILL Finance Editor

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 8 percent growth rate into a recession.

The Sanlam 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 fo finance growth."

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 prognostications out of the window is the gold price. If it settles above 550 dollars, the Government will enjoy more flexibility but the chances are growth will take off and inflation will get the upper hand again.

Tribune Chartist Tony Henfrey says the bear market in gold is now long in the tooth, having run for 14 months. The drop in United States inflation has continued for 12 months

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 this final drop, probably after July, will signal the start of a bull run. Gold should rise to around 700 dollars before July.

uct, of course, went to the capitalists. [79] But, of particular interest is the distribution of wages between the white wage earners and the African working class.

S. Tribune 5/4/81

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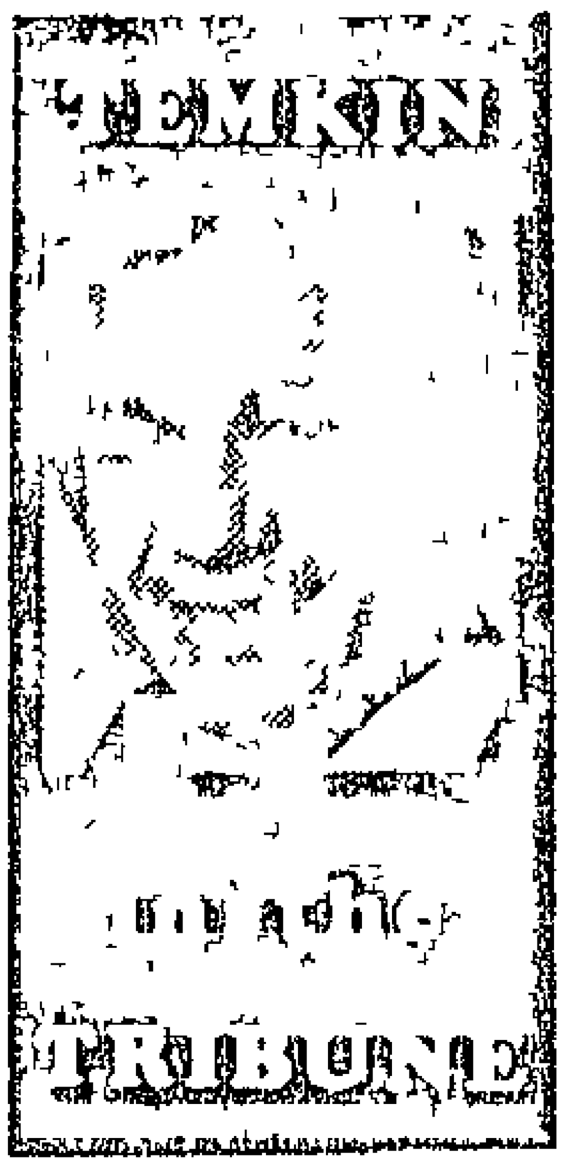
Interest rates and the farmers



LAST Tuesday's Mercabank seminar on financial rates — notwithstanding its brevity — may well have contributed more to stimulating thought on the control of inflation than Mr Horwood's jamboree the previous week.

One of the most significant points made in the discussion period arose when Dr Braam van Staden of the Reserve Bank discussed the impact of negative interest rates. He referred in particular to the low rates given to farmers by the Land Bank and the central and commercial banks.

Land Bank mortgages are currently seven percent while the central bank finance crops at eight percent and the commercial banks at 8.5 percent.

At first glance, it might well appear that offering so vital a sector as agriculture subsidised interest rates should be anti-inflationary. But this is a superficial view since every subsidy required payment somewhere along the line. Thus any counter-inflationary effect through low interest rates will be offset by higher prices being charged elsewhere in the economy for money. Moreover, low interest rates obviously encourage borrowing which has an aggravating effect on money supply and, therefore, on inflation.

The more interesting part of what Dr van Staden said was, however, contained in his explaining the effect of crop finance on money supply. It is expected that 1981 will see a record maize crop. This crop has to be financed. The financing will be done through long term mortgages from the Land Bank and through Land Bank bills and overdrafts to farmers via the banking system itself. The Land Bank bills are classified as liquid assets. As the banks increase their liquid assets so too they are enabled to increase their lending which means there is a serious multiplier effect on money supply in this regard.

Anglo American's Aubrey Dickman was particularly pertubed at the problem this posed to the authorities in respect of their objective of controlling money supply in order to control inflation. Crop finance was clearly a very serious factor in increasing money supply and not a factor which could be curbed by cutting back on the finance itself.

The suggestion was made, therefore, that it might well be good policy on the part of the authorities to provide crop finance at market-related rates rather than at subsidised rates — and thus make such finance less attractive to farmers.

At the same time, of course, the agricultural sector would not be deprived of funds which would still be freely available along the same lines as previously.

Dr van Staden was unable to commit himself on this point. But he did say that if interest rates were to play an important part in the regulation of money supply then it was important that the agricultural sector should be financed at rates which arose from market forces and not be subsidised.

I don't know whether the Reserve Bank will, in fact, follow through and allow farmers to be charged more for their finance.

I know it would be politically unwise for any decision to be taken in this regard right now. What impresses me, however, is that there is strong evidence the authorities are not prepared simply to tinker with the problem of inflation.

They are looking at it seriously from several points of view, not least of which is the monetarist one. They are concerned with facts which tend to increase money supply and they even admit to mistakes that they may have made in the past.

It was argued at the seminar that it would have been in South Africa's interest if last year South African institutions had been allowed to deposit moneys overseas and so to have reduced money supply.

This, it was felt, could have done much to reduce money supply and to have kept inflation at a more reasonable level. This admission, together with the explanation of the problems arising from current methods of financing agriculture, underline the movement towards market-related methods of controlling the balance of payments.

In the long run, it is important for us to put our economic cards on the table rather than running for cover because we are worried about our political instability. Politics are too intertwined with economics for one to be separated from the other.

If we are truly to see ourselves as operating in a free enterprise system then this applies equally to our international trade and financing. While we have to exercise caution in respect of sudden cash-flows in and out of the country, we must be prepared to allow much more movement in this respect since this can only, in the end operate to our advantage.—BEN TEMKIN

Inflation — simple reasons for it

NM 7/4/81

(153)

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 which 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 imaginery partnership that we will form to print counterfeit money We must assume that our counterfeit money is perfect.

Let us take R20 000 of this counterfeit money to a small town called Pofadder and purchase R20 000 worth of goods. The local merchants of Pofadder are delighted with the mini 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 Podadder 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 bid 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 imaginery 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.

McCrystal worried at profit erosion

RDM 9/4/81

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By HAROLD FRIDJHON

GROWTH in the economy this year is expected by Dr Lawrence McCrystal to be substantially lower than it was in 1980 and it will be accompanied by a higher rate of inflation

He makes this prediction in his Field Industries chairman's review for 1980 He says that in the light of the effects of the 1980 level of inflation on company profits, the likely higher rate of inflation in 1981 is a source of serious concern

A pro forma statement showing the effects of inflation on Field Industries income reduces the profit of R1 015 000 to R600 000 and Dr McCrystal comments that Field's experience is probably no different from that of most other industrial companies

"In fact, there is a good case for believing that, after allowing for inflation, most moderately capital-intensive industrial companies will make little or no addition to the real value of their net worth during 1981 "

Under these conditions the pressure on management to keep costs under control while raising turnover at a higher rate than the rate of inflation becomes severe There also needs to be an even heavier emphasis on productivity than before

"If the economy achieves a real growth of 5% and inflation averages at say 17% for the year, turnover will have to rise by nearly 23% if performance is to be above the average for the economy as a whole "

In spite of the bleak inflationary prospects, South Africa's economic growth rate will be well above the average for most Western countries This weighs in SA's favour

International bankers now regard this country as being one of the better financial risks and it strengthens its ability to withstand a short-term deterioration in the balance of payments -- as will probably happen this year

Overall, except for the rate of inflation which could have serious implications for the longer-term position of medium-sized industrial concerns, the business prospects for the year are good

Dr McCrystal forecasts increased pre-tax atributable profits for Field Industries in 1981 provided that operating companies achieve higher turnovers with costs held tightly under control Greater effort will have to be directed at achieving acceptable production and marketing performances in the industrial rubber operation

The problem of molecule-manipulation should also not be overstated; 80% of research funds are devoted to entirely new research and only 18,8% to the development of existing products.(6)

The conclusion to be drawn is that although sore problems exist in the area of research, not all the research expenditure is wasteful and, secondly, that rationalisation or direct controls on the market would stifle initiative and incentives.

(a) Pricing and Research.

he price then show luct at R9 show an w answer succeeding thing,

The problem to resolve is to establish how B, C and D should design their pricing strategies to ensure they make a reasonable, on-going return from all their new products without fleecing the consumer, without overloading the price of one product with the R+D costs that failed to produce another, and without being ousted from the market by companies acting

./...

like D in the case of the cure for arthritis.

In addition, one must resolve how B, C and D should design their South African pricing strategies, given that their S.A. chief executives are, above all, expected to contribute to the world group's profits.

These problems are revealed as issues of research, but in fact the only reason that they come across in this manner is that

ear signals ovates leeced" do so. d another lar areas rugs all sts. , directly is not possible to have ... funds should be channelled. If, for example, a board decided to channel funds into hypertension research, those people who presently suffer from arthritis would automatically be condemned to continue their suffering.

The question of the extent of research in the ethical drug market should also be raised. Why is it that such large amounts are spent on research in this industry? The answer could be that the returns to such effort are greater in this industry than in others. If this is the case, then it could be true either because firms generate drugs of value to the patient or because the industry is able to promote the output of its research whether it is of value or not.

The main problem therefore is to retain the incentive for firms to invent and research, but to ensure that such incentive is guided by the wants of the patient. Such a system involves more than just the issue of research which is only one facet of the market. The following section will draw together the foregoing discussion in an effort to identify the basic causes and possible solutions to the problems in the market.

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Money supply as inflation counter

ROM 9/4/81

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By SUSAN DALLAS

THE Deputy Governor of the Reserve Bank, Dr Bramie van Staden, has given support to the Government's policy of controlling the money supply to counter inflation

He told the Rapportryers of East London he was against wage and price controls — at best, these could deal with the symptoms of inflation but not with the real causes

Quoting the Minister of Finance Mr Horwood, who spoke at the Johannesburg conference on inflation Dr Van Staden said "Price and wage controls lead, without exception to a distortion of relative prices

'Even the best estimates will set some prices too low and others too high and the distortion will result in a bad distribution of already scarce labour and resources undermining the growth potential of the economy

"Certain price increases, such as the oil-price increase in the world markets, are beyond Government control, and have an unavoidable secondary upward pressure on other prices"

Dr Van Staden said artificially low prices would affect company profits and would eventually stop companies from functioning

In the long term this would lead not only to unemployment and recession but to a shortage of essential goods and services in turn this would lead to black markets and even greater price increases

Inflation that was suppressed by Government controls was still inflation and unless the real causes were stamped out, it would eventually become impossible to stem the upward pressure on prices

He said such controls would be in opposition to the Government's policy of fostering free enterprise and the operation of the free market

Demand for goods and services had outstripped supply and consequent demand pressure on labour and capital had stimulated the money supply

He identified this as demand-pull inflation — against which monetary control could be a useful weapon — as opposed to cost-push inflation which would not benefit from financial discipline

He explained the policy of financial discipline saying lower Government expenditure would give more room for expansion to the private sector

A seldom-remembered aspect of financial discipline was finding the best sources for Government loans

In inflationary times of fast growth in the money supply, Government loans had to be financed outside of the banking sector and outstanding Government debt to the banks should be reduced

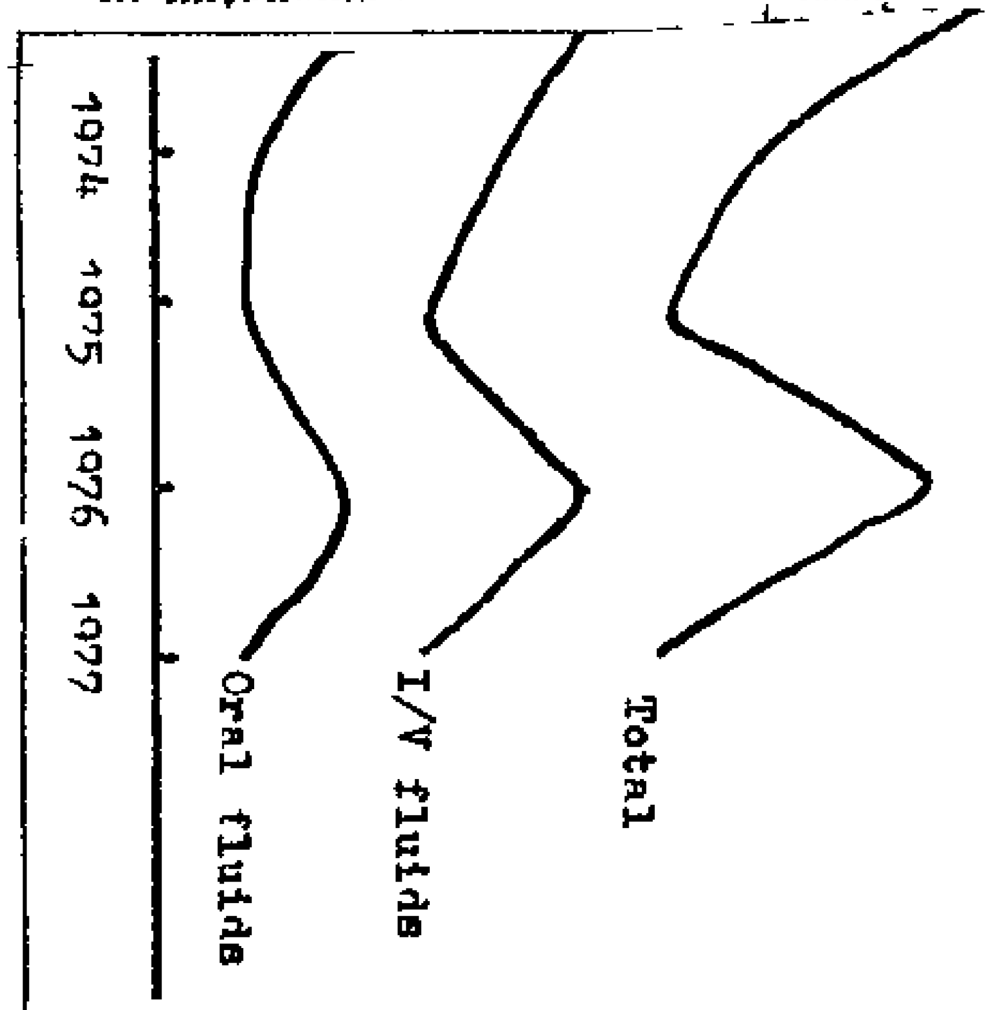
The Government would have to sterilise money in the stabilisation account

Dr Van Staden said the Reserve Bank could help to curb the money supply by the sale of Government bonds and money-market instruments, especially those that did not rate as liquid assets

Graph 5

No of patients

Number of Patient days in drip room, Red Cross Children's Hospital 1967-1977



For the average length of stay of patients at Red Cross Hospital overall, from the Director Of Hospital Services Report ... Furthermore, an accurate head count of patients treated in the drip room is available for the years 1975-1977, kept by the doctor in charge of the drip room since 1975.

These principles are:

1) To establish a separate clinic for diabetics.
2) To see patients very frequently.
3) To place emphasis not on their diabetes but on their weight.
4) To give dietary instruction at each visit.
5) To introduce partial group therapy. Patients are seen together, weighed together, their records taken together, and then they are taken aside and talked to individually.

In addition to the diabetic clinic, most Day Hospitals run a 'diet club' run along the lines of the 'Weight Watchers' club. Following the group weighing session at which losers are applauded and gainers fined, the patients are given a rigorous session of exercises, to encourage them to follow their diet sheets and take exercise regularly.

The costs associated with the diabetes are not only the consultation and drug therapy but also the costs of treating diseases associated with obesity and diabetes - hypertension with a high incidence of cerebral haemorrhage, thrombosis, varicose veins, osteo-arthritis, hernias, skin infections. The hypoglycaemic agent used in controlling diabetes are ...-R20 per month ...a. Once weight ...ued and the ... Throughout ...f-care and

4.

4) See Report of the Dept. of Obstetrics and Gynaecology 1973 p.7.
5) Smith and Houland p.3.
This decrease cannot be attributed to the work of the Day Hospitals alone, as many other factors are involved.
6) Goldberg, Bersohn, Joffee, Kort and Seftel p.279.
7) Jackson.

practitioners are generally far preoccupied with the pressing needs of the ill to spare time to study a parallel and often presumed inferior rival system. There is also a general lack of epidemiologic knowledge for this type of research: there is also a lack of interest in community medicine in South Africa. Most therefore contribute impressionistic information based on samples of patients who come to them after a failure in the hands of a traditional practioner. Their impressions then confirm the incompetence of the traditional practitioners. The fact that many of their own patients perceive treatment failure

Fears over control of money supply

97 10/4/81 153

ONE of the biggest banks in South Africa believes the authorities have lost control of the country's money supply in a development which threatens to push already high inflation rates to unprecedented levels

Standard Bank says in its latest economic review that the major component of the money supply increased at a seasonally adjusted annual rate of more than 100 percent between December and January

The challenge posed by this expansion was "formidable", but it appeared that the monetary authorities were determined to check it, and one direct consequence of this could be a general interest rate level not previously experienced in the Republic

Inflation was already running at a record 16,05 percent and this would increase if the growth in the money supply was not curbed

In the short term, the necessary measures would add to factors already working towards a slowing of growth in the economy, but it would ensure the country would be in a sounder benefit from a revival of world economic growth next year

manner in which the traditional medical system continues to serve the needs of the society and to be able to determine how far a <u>changed situation</u> as a result of western contact can lead to a <u>modification</u> of the traditional system.

We need to ask ourselves the following questions:

1. How does the traditional medical institution serve the present needs of the society?

4/ .....

2. To what extent has the introduction of scientific medicine led to changes in the practice of traditional medicine?

3. What type or kind of organizational base supports either type of medicine and why?

4. In what circumstances do the sick prefer one type of medical attention to the other?

5. What are some of the social consequences arising from the introduction of scientific medicine?

6. What are the psychological implications of the use of scientific medicine on a traditional society?

To understand the concept of preventive medicine in rural Xhosa requires a knowledge of Xhosa social structure and concepts of ill health and disease. Consequently a very brief description of these beliefs is necessary. As with such brief descriptions this one is highly selective in nature since this subject may be dealt with in greater detail by other contributors in this conference. This description will take us to the following areas : political system, kinship system, marriage and family, the economic system and the concept of the individual.

1. <u>Political System</u> : In the rural areas paramount

5/ .....

Big rise in money supply may worsen inflation

CT 10/4/81 153

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 demand inflation but a tighter monetary policy will lead to sharply higher interest rates well above current levels.

The January money supply figures have soared once again with M2 rising more than 30 percent for the first time in that month in more than a decade as the adjacent graph shows

The current liquidity in the money market suggests that the trend for February, March and April could be high as well

Although the sharp rise in the money supply figures in January are at least partly due to the lifting of the bank ceilings and the subsequent inclusion of grey market activities in the official system, once again the trend is causing concern

The pattern last year was equally worrying with the economic planners seemingly have great difficulty in controlling the money supply

Growth rate

The country's high growth rate over the past year was undoubtedly due in no small measure to the high growth in monetary aggregates and for the 12 months money, and near money supply increased by 27 percent as against 13 percent the previous year while the narrowly defined, money supply grew at 36 percent (21 percent)

The Reserve Bank recently pointed out that in spite of the sharp rise last year the ratio of the money and near-money supply to the gross domesltic product increased only slightly from 23,1 percent in the fourth quarter of 1979 to 24,1 percent in the same quarter last year

"If the banks' short-dated and medium-dated repurchase agreements with the private sector are taken into account the growth rate in the broadly and the narrowly defined money supply amounted to 34 percent and 45 percent respectively"

The cause

The cause of the big rise in the money supply were the claims of the monetary banking sector on the private sector, particularly during the second half of the year These rose by R3 251m, or 26 percent

After the credit ceilings were abolished there was a big spurt in bank lending to the private sector as can be seen in the second graph on the facing page During the last four months of 1980 this lending rose at an annual rate of 39 percent

While the seeming inability to come to grips with the burgeoning money supply is arousing growing criticism of our monetary control it should be remembered that the Reserve Bank and the Treasury have been faced with a highly volatile gold price and by economic events overseas which have made the adoption of the correct measures a hazardous task Indeed, there is no consensus overseas as to what the money supply figures should consists of, or even if monetary targets are the answer

But, equally, economists may argue that it is up to the Reserve Bank to control the key monetary base and not point a finger at bank lending

While the much awaited De Kock report is expected to focus on the whole issue of monetary control the country can ill afford to wait until then for action

The De Kock report (which was initially expected by the private sector to be ready in the first quarter) has already been delayed far too long And in may respects the envisaged measures, including a possible relaxation of exchange control, could have been more readily introduced last year when the gold price was higher

The authorities could also have allowed the commercial banks to place short-term deposits overseas to take advantage of the comparatively higher interest rates

It is of the utmost impor-

Continued on page 17

	No. of children	Mortality rate at 6 weeks
UN, all treated as outpatients	603	0
MN, managed as outpatients	150	51%
MN, hospitalised	142	14%

A comparison of 63 MN children who were treated as outpatients and survived and 65 children who were hospit...

and supervision after discharge.

Young girls with only children were encouraged to come in with their babies. Inability to mother was increasingly observed, ironically in a

people who are legendary breast feeders
I would like to suggest that this is due to the
mother's own lack of mothering as an infant, so that "maternal instincts", which are hardly instincts at all, but learned responses to an emotional environment, fail to develop. It is common to observe a young woman sitting beside her starveling, sullen, resentful, reluctant to suckle at ample breasts. If the baby is held to the hostile nipple, he sucks for a few minutes and then goes frantic. These women fail to stimulate or respond to their babies, to coo or smile. In the ward it was attempted to show them how to relate and interact with their babies, with limited success.

(b) Mothering stimulation.

A special danger of hospitalisation for young children is the effect of institutionalisation. In paediatric wards of underprivileged areas it is common to find that malnourished children, especially those with marasmus, who often require prolonged hospitalisation, do not thrive despite an adequate diet and no other demonstrable illness which may inhibit growth. In many hospitals, because of overcrowding, inadequate facilities and an unfavourable nurse/patient ratio it may be difficult even to ensure adequate physical care for children. There is certainly no time for the demanding and necessarily leisurely activity of "mothering".

Even under good conditions, babies may be subjected to a very abnormal environment compared with a normal home. They are often nursed in small cribs with opaque sides and for visual stimulation have only the ceiling to contemplate for the greater part of their waking hours. Toys are ... from the psychological point of view as, not only was there but one nurse to some seven children, but, for reasons of hygiene, the children were living restricted to cots and cubicles in what amounted to solitary confinement". Such deprived babies may "fail

Rise in money supply

CT 10/4/81 (153)

Continued from page 16

tance, too, that the Governmnent action should be of sufficient strength to convince market expectations that the money supply will be brought under control with a resultant lessening of inflation

Open market

While the authorities have been playing a commendable role in open market transactions this year in 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 At Engelbrecht believes it is vital that South Africa lowers its inflation rate through firm 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 And 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 fighting inflation he said possible special concessions could be made to industries or sectors which will be affected by high interest rates There could, for example, be tax rebates on housing bonds

But the high interest rates were a small price to pay for controlling inflation The price would have to be paid for capital to secure growth in the longer term

In the current economic phase the movement by the current account of the balance of payments into a deficit was a positive factor in that it would help to trim the money supply Volkskas is forecasting a deficit of some R2 000m plus for this year

Turning to ways of refining monetary growth control, Mr Engelbrecht said that the problem with monetary targets was that one first had to properly define the money supply

The Budget later this year would have to be sychronized with monetary policy and would probably be neutral with no stimulus planned

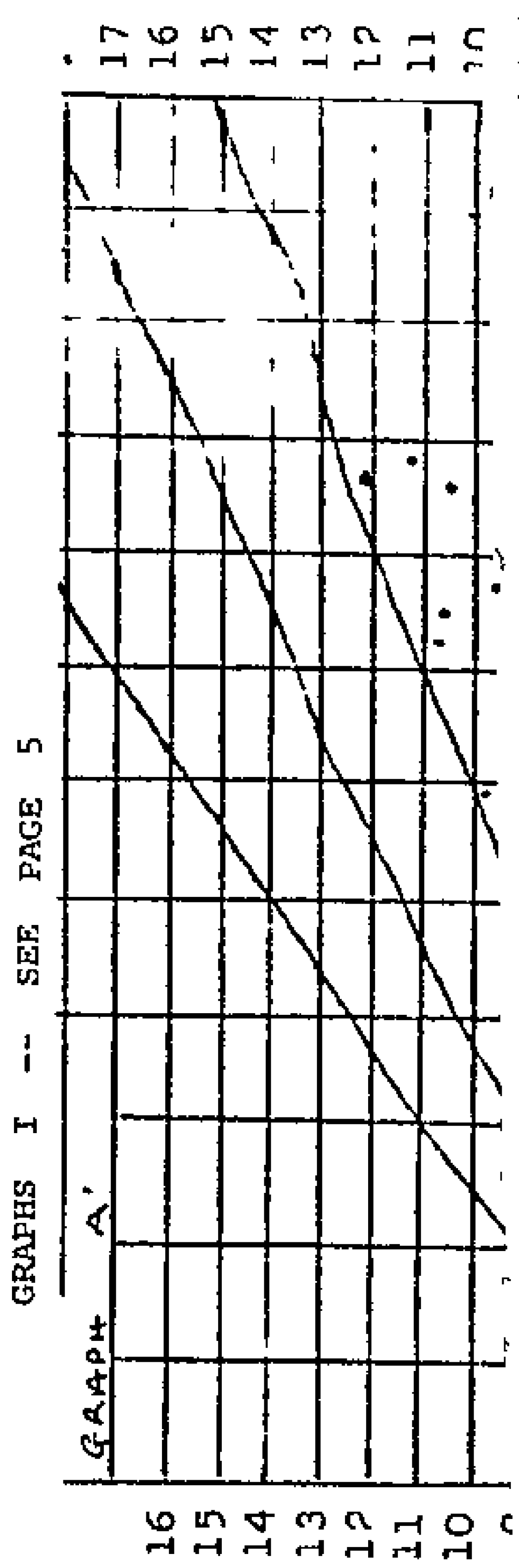
Monetary growth in the past year had been excessive, particularly in certain quarters

There is little doubt that the money supply growth has flowed from the increase in net reserves due to the high price of gold.

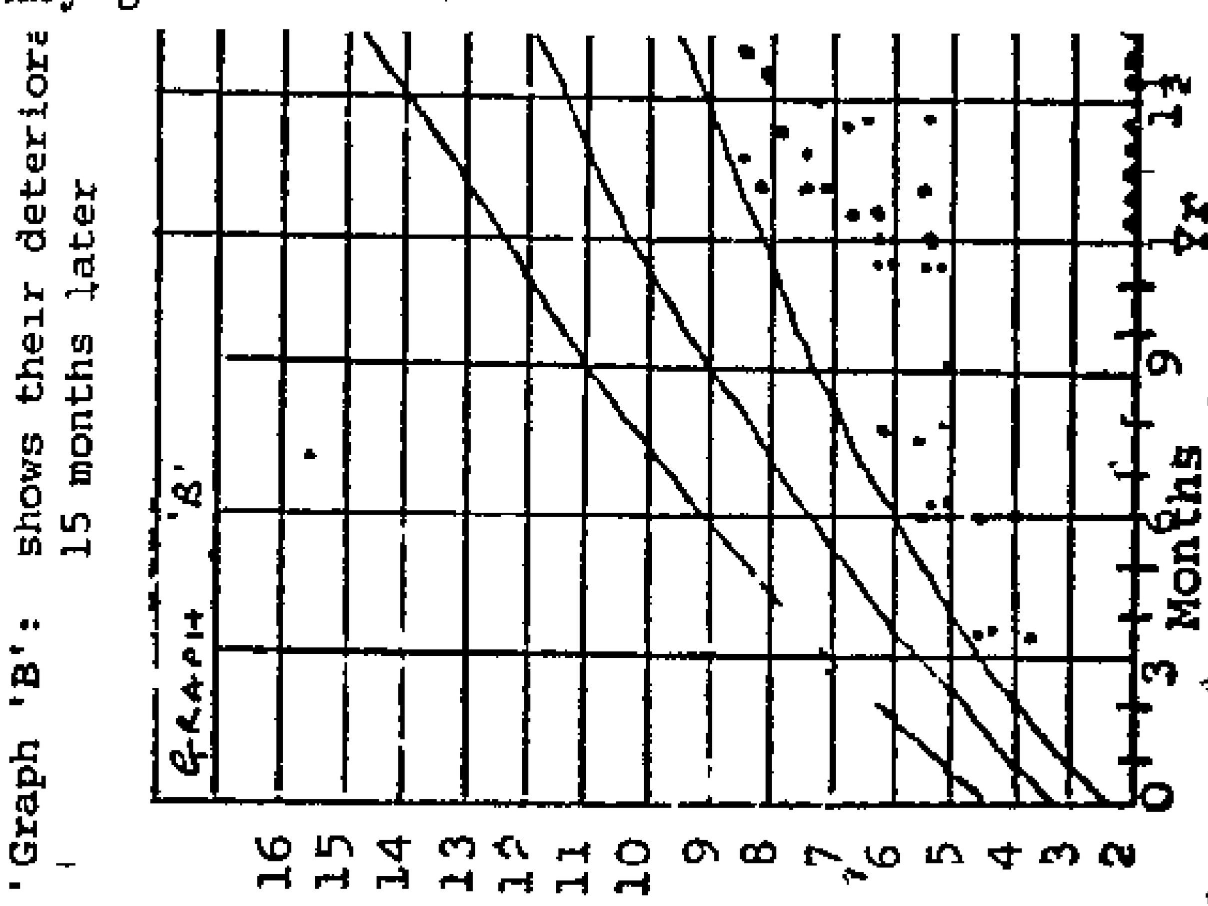
Mr Engelbrecht is forecasting a 4,5 percent growth rate this year — which is historically a high rate for the economy and will be taking place on top of last year's far larger economic base

5(a)

GRAPHS I -- SEE PAGE 5



Graph 'B': shows their deterioration 15 months later



they are at special risk of many infections which may precipitate overt MN. Thus in a series of fifty children with kwashiorkor, one in four had been seen during the previous month with UN + measles. Again, in an analysis of the progress of 260 children attending a nutrition clinic, 56 had previously been seen with UN but not treated and had all deteriorated, one in four to kwashiorkor or marasmus. (See Graphs I) If the aim is to detect malnutrition and define its ... approach.

An interesting aspect of the campaign was the accurate recognition by guardians of undernutrition. Many children appeared active and lively, but except for a handful of opportunists, every child who came was found to weigh below the third Boston percentile.

2. Hospitalisation.

Undernourished children usually come from integrated homes and enjoy the personal care of their mothers, and their fathers' support. Their undernutrition is simply and directly related to their poverty. These children only need a supply of protein to be brought within their means and their nutrition will improve because their mothers are both competent and well motivated to make good use of any available resources.

On the other hand, MN children are usually even poorer than UN children, and in addition come from extremely disorganised homes. It is essential to recognise that MN is the result of an extremely hostile home and community environment and that circumstances which caused it in the first place are seldom suitable for its treatment. MN children who are not hospitalised often die. This was dramatically illustrated during the nutrition campaign described above when, because of the overcrowding it caused, it was not possible to admit all new cases of MN in accordance with normal hospital procedure. Children with less severe diseases and more suitable guardians were managed with milk and instruction. The following table shows their fate at six weeks compared with the hospitalised group :

Standard sees threat of unprecedented inflation

CT 10/4/81

(153)

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 M-1 some 46 percent higher in January than a year earlier

Between December 1980 and January this year M-1 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 co-ordination, Standard Bank said

Also required would be preparedness to alllow interest rates to respond fully to market forces and allowing capital to flow in and out through the balance of paments 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 interest rate level 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 1982 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 — Reuter

Standard Bank warning

Money supply threatens dire inflation

RDM 10/4/81 (153)

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 Economic 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 veritable explosion of food prices, which escalated at annual rates of some 50% towards the yearend

"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 seen recently seriously threatens to push inflation rates to levels unheard of in South Africa "

Standard says. "Recently there has been an unprecedented increase in the 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 46% 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

To do so four policies must be included

- Effective control over the monetary base of the economy to regulate bank credit to the private sector.
- Co-ordination between monetary and fiscal policy.
- Preparedness 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 percentages may be a general interest rate rise not previously experienced by the economy

"In the short term this will add to the forces already working towards slowing economic growth.

"In the medium term, however, it will ensure that next year the country will be in a sounder position to benefit from a revival in world economic growth.

"It is rapidly becoming clear that the economy will fare very differently this year compared with last

"After years of slack economic growth, the sudden expansion from mid-1979 was spectacular in virtually all sectors of the economy with the high gold price and a consequently strong balance of payments shielding domestic growth from an escalating world recession

"Since last year this favourable position has begun to change

"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 soaring 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 more normal levels must now be expected to occur in many sectors "

Liquidity blamed for inflation

RDM 16/4/81

(153)

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 of late 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 occasionaly 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

INFLATION FM 17/4/81 (153)

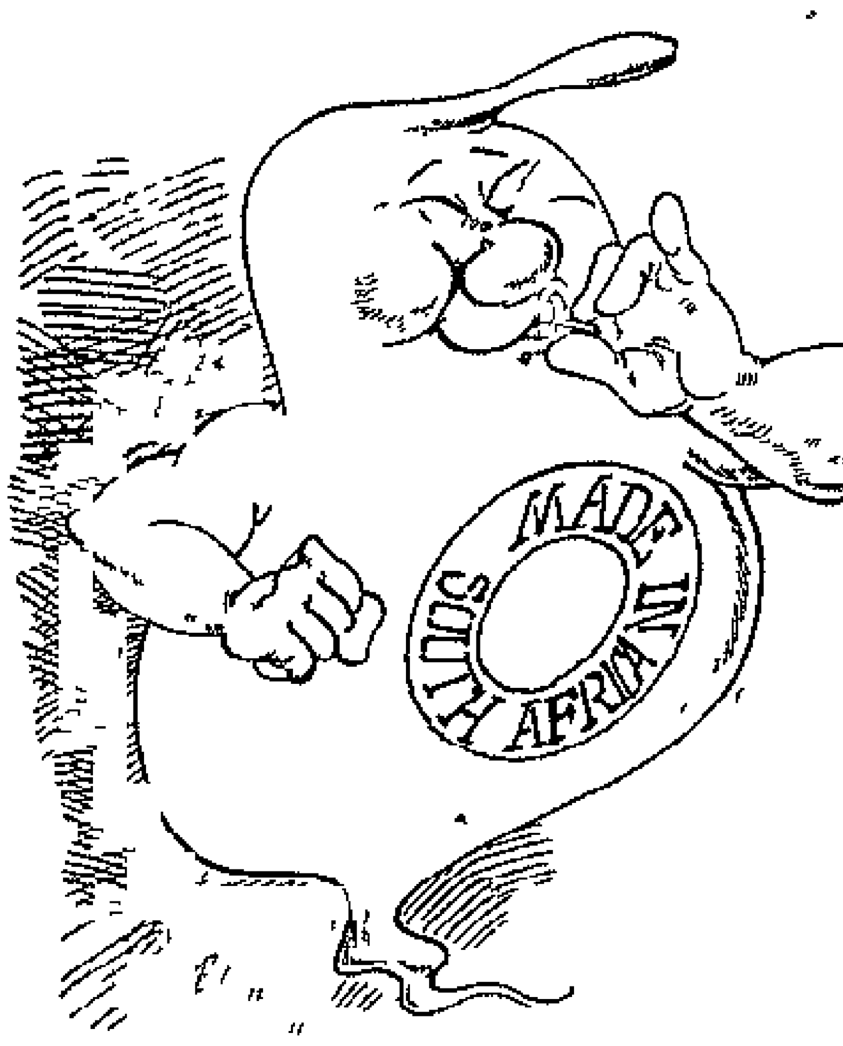
Spiral continues

A 1,5% increase in the consumer price index (cpi) in February took the year-on-year rate of inflation to exactly 16%, the highest it has ever been But a monthly increase of 1,5%, of course, yields a seasonally adjusted annual rate of 18% which is where some economists believe the rate will be by the end of this year if appropriate 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 45c/kg, Kimberley has replaced Klerksdorp as the cheapest purveyor 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 comparison But some products and services have barely moved over the year The cost of domestic servants is only 4 5% higher and the cost of communication has actually dropped by 1,5% Reading matter on the other hand, has risen no less than 55% in price despite the fact that the wholesale prices of paper and printing have risen less than 12%



The wholesale price index (wpi) showed a year-on-year rate of increase of 16 2% in January bringing it closer to the cpi than it has been for a long time In contrast to the cpi, the wpi is clearly established on a downward trend, after moving in a cyclic fashion that took it to an 18,4% peak in January 1980, a dip to 14,5% at mid-year, and another peak of 17% in November last year

Significantly, the relative effects of local and imported components on the wpi have been reversed over the last year In January 1980 imported inflation peaked at nearly 30% By August, the two sides of the index were about level at 14% each, as a rising local index met a falling imported index By January 1981, the local component was over 17% against an imported input of slightly more than 12% So the spectre of imported inflation has been superseded by a more substantial domestic poltergeist and no longer provides a ready excuse for rising prices

Revealing changes

Equally revealing of changes in relative economic conditions is the fact that wholesale prices are rising faster among commodities produced locally for domestic consumption than among those intended for export In most cases, of course the differences are only in the prices, not the actual products, clear evidence that price rises in this case are determined by pricing decisions as to what the market will bear, rather than the pure push of costs More competitive foreign markets and a stronger rand require more conservative price policies in the export trade The SA consumer, on the other hand, is a captive buyer

Plastic bottles, to single out one commodity, registered one of the highest rates of increase on the wpi at 32% over the year Copper, on the other hand, fell by 16%, a most unusual occurrence

A superficial analysis of both indices reveals one sure way of minimising inflation in your personal living costs move to Kimberley, cut out all food, stop reading and furnish your home in copper

Higher interest rates will lead to lower inflation

CT 18/4/81 (153)

By Dr Bramie van Staden

PAUL DOLD, Financial Editor, writes.

AFTER months of remaining at very low levels South African interest rates are rising rapidly and short-term rates at least may increase fairly dramatically over the last six months of this year At the same time the country's inflation rate has been reaching record levels.

For the ordinary home-owner the interest rate trend is hitting pockets with sharply higher bond repayments But taking a view across the economy the new upsurge in interest rates should do a great deal to control inflation and prevent a dangerous overheating of the economy and severe demand inflation which would ultimately stunt growth and hit consumers hard.

In this article, the latest in the series in which outstanding business men, economists and academics give their view on current business topics , Dr Bramie van Staden, Deputy Governor of the South African Reserve Bank, sketches the background to the trend in interest rates and suggests that the rising rates are necessary to bring down the inflation rate.

The article on aspects of the South African interest rate structure is based on a speech made by Dr Van Staden at a recent Mercabank seminar in Johannesburg.

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 establishing of tax accounts with the banks in which tax collections by the Treasury can be paid 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 lower turning point in about the middle of the upswing and a higher turning point in about the middle of the downswing

This behaviour can be explained by the 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 reach a low level towards the middle of the economic upswing [illegible]

The real yield on Escom stocks fluctuated between 0,4 percent and 5,6 percent between 1953 and 1971, but since then showed marked fluctuations between negative rates of 5,1 percent in 1973 to a positive rate of 4,3 percent in 1977 and again to a negative rate of 5,0 in May 1980

At the end of 1980 this rate was still 1,4 percent negative The rate on building society mortgages was 3,5 percent negative in December 1980, the prime lending rate of commercial banks 3,8 percent negative and the rate on 12 month' deposits with commercial banks 4,6 percent ngative Since December 1980 these rates became less negative

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 financial institutions adjust their lending rates much easier upwards than downwards But apart from this rigidity, certain interest rates are for socio-political reasons 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 consequences

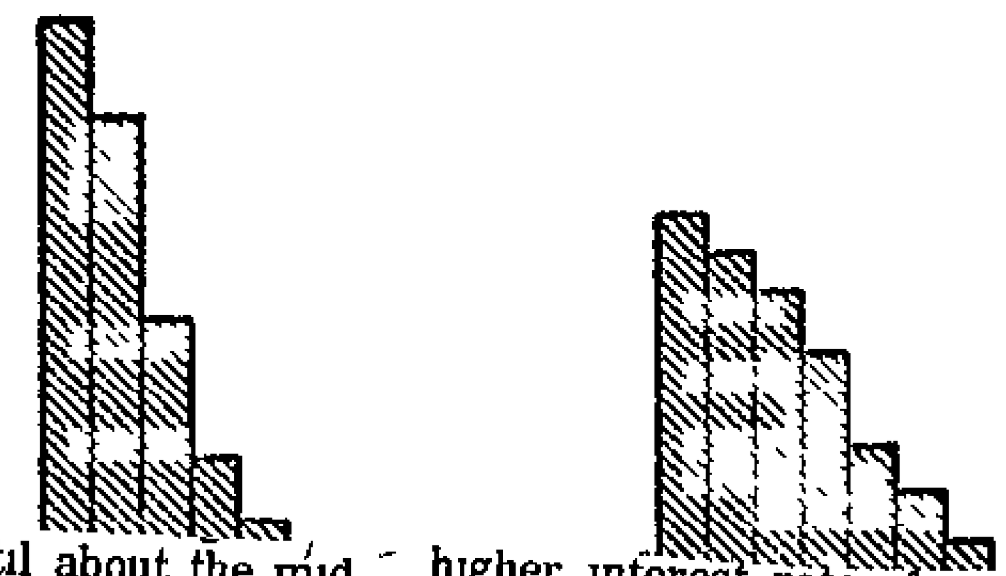
But the authorities often [illegible] to [illegible]

crease 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 This is of the utmost importance in the present situation because of the large amount of short-term bank credit which the Land Bank will need in 1981 to finance the expected record maize crop

Fig. 1 Age Structure of the Population



narrowing until about the middle of the upswing

Thus, the margin between the yields on gilt-edged and semi-gilt-edged securities increased from about 0,3 percent in 1973 to 1,7 percent in 1976 before declining to 0,4 percent in December 1980

Similarly, the margin between the yields on gilt-edged securities and company debentures rose from 1,4 percent in 1973 to 3,6 percent in 1976 and then narrowed to 1,2 percent in December 1980

However, in the case of the yield margin of gilt-edged securities and commercial and industrial shares, it declined from 4,0 percent in 1973 to 0,1 percent in 1976 and then rose to 6,5 percent in 1980

The former two differentials can therefore on historical evidence be expected to widen again, whereas the latter differential will probably decline

Short-term interest rates show much more volatile movements than long-term rates and the differential between them changes according to economic conditions and expectations Short-term rates are usually lower than long-term rates but may at times go higher than long-term rates as some did in 1974, i e towards the end of that boom Such a situation indicates strong expectations that long-term rates will level off or decline in the near future

In a situation when short-term rates are very low in relation to long-term rates, like in 1979, expectations are strong that long-term rates are going to rise in the future

Long-term interest rates are strongly influenced by the actual and expected rate of inflation and it is not always realized that the level of long-term interest rates should also be judged on a real basis, i e taking the decline in the purchasing power of money into account

In the fifties and sixties when inflation rates were still modest (less than 4,0 percent), the real long-term interest rates were positive

higher interest rates from the private sector — in general those who blame the authorities for breaking the boom by higher interest rates — and in partiular the house-owners and farmers who regard higher interest rates as an unnecessary increase in costs

It is often not realized that to maintain monetary discipline and thus curb inflation in an overheated economic situation necessitates higher interest rates which will in the long-run lead to lower inflation rates It is also not realized that with a high inflation rate real interest rates are sometimes, like now, negative

The most outstanding example of interest rates which are not related to market forces can be found in the Land Bank financing of the agricultural sector From 1962 to 1975 the Land Bank extended mortgage loans to farmers at 6,0 percent and from 1975 to date at 7,0 percent

This compares with the present building society mortgage rates of 11,75 percent and insurers mortgage rates of 11,50 percent

The short-term financing of agricultural crops is done with funds obtained from overdrafts which the banks (convertible into 180-day Land Bank bills) and Land Bank bills, at present 8,0 percent, and bank rate plus ½ percent to overdrafts with the banks

Apart from the question of market-relatedness Land Bank bills and overdrafts with banks are classified as liquid assets and are rediscountable with the Reserve Bank

It is important to note that the Land Bank bills taken up by the Reserve Bank increase the cash component of liquid assets of the banks and that overdrafts extended to the Land Bank by the banks also increase their liquid assets

The financing of the crop therefore not only increases the money supply but also broadens the cash and liquidity base of the banks and therefore increases their ability to extend additional bank credit and in-

In: Cock, J 1980 Maids and Madams: A Study in the Politics of Exploitation. Johannesburg: Ravan Press. Pages 231 - 264.

Food costs double in rural areas

DD 20/4/81 (153)

PORT ELIZABETH — Blacks living in rural areas in the Eastern Cape pay almost twice the city prices for maize, which they say is their staple food.

A survey of villages in the vicinity of Fort Beaufort, Alice and Peddie has established that the spiral in food prices has pushed many more people in these areas below the breadline

"Food is what we work for these days," was a common remark during interviews with breadwinners

A difference of about 20 per cent was found between prices in the rural areas and those in Port Elizabeth townships

But people in the areas surveyed have also been floored by the recent 50 per cent increase in the price of offal

It emerged from interviews with a number of rural families that what were regarded as basic commodities by city folk were luxuries to most of them

They have had to change their staple diets, increasing their consumption of low-protein foods — mealie-meal being the most common

The survey showed that people in these areas were most susceptible to soaring prices because of the drought which had ravaged their crops and livestock and a chronic scarcity of employment in the towns nearest to them

About three years ago red meat was in relative abundance as they had their own livestock and also plenty of home-grown vegetables

Now most families live mainly on mealie-meal. Most available work in the small towns around their villages is in gardens and the pay not enough to keep a family — DDC

Prices of basic commodities in the surveyed areas under headings — commodities, rural, township, city.

Mealie meal (1 kg): 44c, 33c, 27c
Paraffin (750ml). 42c to 45c, 28c, (not sold in bottles)
Long life milk (500ml): 32c to 35c, 29c, 55c (1 litre).
Loaf brown bread. 22c, 21c, 19c.
Jabula powdered soup (sachet): 16c, 12c, (not available).
Sugar (1 kg). 55c, 49c, 45c — 46c
Instant coffee (250 g) R1,85, R1,48, R1,33 — R1,37

Chapter 7

Discrimination: Race and Sex

-essary to situate the individual in a social context, to be able to ...ething about that context in terms of its internal structure and ...cs, the opportunities it makes available and the constraints it ..., and at the same time to grasp that essential individuality and ...ess of man that evades any total categorization.[1]

Sharp and Green, 1975.

... workers and their employers are not free and equal ...nts in interaction. Their interaction is shaped and ... by the structures which control the distribution of power ...urces in South African society. These structures define the ...hip between whites and blacks as

...master-servant relationship in all spheres, enforced through a ... of effective controls and sanctions. It is a system in which the ...ns are forced to work for the whites at bare subsistence wages ...ps not even that), deprived of all basic rights to assert their ...ts freely and legally, and subject to some of the most draconian ...rannical labour controls ever developed in modern industry. The enormous power and prosperity of the whites in South Africa is thus based on the systematic exploitation of African labour [2]

This exploitation is highlighted in the relationship between domestic workers and their employers. In a very real sense this relationship is a microcosm of the exploitation and inequality on which the entire social order is based.

13% inflation hope for 1981

RDM 21/4/81 (153)

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 tended to slow, 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 $430 an ounce for 1981, which means that with an average of around $510 for the first three months, a decline at some stage in the rest of the year to $400 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 10% in the first 10 months of 1980

This situation is expected to be reversed this year, and while a relatively good improvement of 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, coupled with a weaker demand for primary goods because of recessionary conditions in world markets, could lead to a deficit of R3 000-million on the current account of the balance 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 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 controls 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"

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 October 1971 low of the Johannesburg Stock Exchange actuarial index. The current earnings yield of about 14% compares with 12% in October 1971

However, prospects for the economy are considerably better than in 1971, and investors can expect material growth in both earnings and dividends from the average industrial company.

Because of rapid cost increases, an average gold price of $430 an ounce for the current year would affect the gold-mining industry's revenue, and consequently 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"

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"

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Overcoming Communication Problems

Basically the major problems in this area stem either from the fact that the costs and benefits that are attributed to particular projects

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various views, two things are apparent, firstly, that the solution does in fact lie in some form of state intervention into the market mechanism

(21) If this is not achieved then one has a classic example of the workings of the theory of second best.

(22) James A. Buchanan, 'An Economic Theory of Clubs', Economica, Vol. 32 Feb. 1965, pp. 1-14 and Martin McGuire, 'Group Segregation and Optimal Jurisdictions', Journal of Political Economy, Vol. 82, No. 1, Jan/Feb 1974, pp. 112-131.

(23)

Price spiral cuts food consumption

153

DD 21/4/81

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 this 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 maize 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 meal, 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 — 93 per cent, coffee — 211 per cent

During the past year alone, meat has gone up 57 per cent — and met with consumer resistance. During the last three months of last year, beef consumption alone dropped 16 per cent on the previous year.

RDM 23/4/81 (153)

Living costs soar to new record level

By GERALD REILLY
Pretoria Bureau

SOUTH Africa's living costs continued their upward spiral during March, according to the Consumer Price Index figures released by the Department of Statistics.

Although the increase slowed down to 0,7% in March, the 12 month inflation figure to the end of March reached a record level of 16,2%.

And leading economists warn that all the indicators point to further rises in the inflation rate during coming months.

A disturbing feature of the index is the increase of 20,6% in the living costs of the lower income group in the past year.

This is considered certain to rise even more steeply after the increased maize and milk prices come into operation after the election.

The all-items figure for March rose by 0,7%, compared with 1,5% during February.

The food-only figure dropped sharply to 0,1%, making an increase for the year of 29,9% — a marginal drop of 0,2% against the year's figure.

- For the lower income group the index rose by 0,8% during March — 20,6% for the year.
- For the middle income group by 0,7% — 17,2% for the year.
- And for the higher income group by 0,7% — 14,6%.

Barclays Bank economist Dr Johan Cloete says the latest CPI clearly indicates that the upward trend 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 spurt in the index could be expected after the elections, when a number of Government administered 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 meaure 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 availablity 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 dump the country in another recession.

An aggravating factor which would have an inflationary influence during the months ahead was the more than R60 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 to the end of March 1980 was 13,1%.

Since then the index has risen by more than 3%.

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.

(8.2) Pricing and Research:

Consider the following hypothetical illustration:(7)

Drug companies B, C and D research and manufacture in the U.S.A. and Europe and sell worldwide - South Africa included. B spends R30m on research to find a new cure for, say, arthritis; C spends R10m and D spends nothing.

B discovers nothing. C discovers two cures. D finds nothing, but analyses B's most promising cure and by developing it at a cost of only R50 000, comes up with an equally effective cure.

C markets its new product at R10 for 100 pills, the price designed to recoup its R+D costs in four years and then show a return on capital of 20%. D markets its new product at R9 for 100 pills, designed to undercut B's sales and show an immediate return on outlay of 90%.

Simultaneously, the three companies work on a new answer to hypertension. B spends R7m on research before succeeding with a "breakthrough". C spends R15m and finds nothing, D spends R26m and finds nothing.

The problem to resolve is to establish how B, C and D should design their pricing strategies to ensure they make a reasonable, on-going return from all their new products without fleecing the consumer, without overloading the price of one product with the R+D costs that failed to produce another, and without being ousted from the market by companies acting

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in this industry [...] to firms. In more usual markets, the firm that innovates successfully is rewarded and the consumer is not "fleeced" because it will not maximise profits for a firm to do so.

In the drug market this policing does not hold and ~~another~~ the problem of too many firms focusing research on similar areas occurs. The result is a proliferation of similar drugs, all selling at prices high enough to recoup research costs.

It is clear that a control board designed to deal directly with the problems of research cannot succeed. It is not possible to have the knowledge to decide how research funds should be channelled. If, for example, a board decided to channel funds into hypertension research, those people who presently suffer from arthritis would automatically be condemned to continued ~~their~~ suffering.

The question of the extent of research in the ethical drug market should also be raised. Why is it that such large amounts are spent on research in this industry? The answer could be that the returns ~~to such effort~~ are greater in this industry than in others. If this is the case, then it could be true either because firms generate drugs of value to the patient or because the industry is able to promote the ~~output~~ outcome of its research whether it is of value or not.

The main problem, therefore, is to retain the incentive for firms to invent and research, but to ensure that such incentive is guided by the wants of the patient. Such a system involves more than ~~just~~ the issue of research, which is only one facet of the market. The following section will draw together the foregoing discussion in an effort to identify the basic causes of, and possible solutions to, the problems in the market.

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Inflation soars to record 16,19%

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RDM 23/4/81

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 29,87%, 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 14,59% 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 195,2 in March, up 0,72% on February's 193,8 In February the month's increase was 1,47% 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 fluctating rates of increase can be ascribed 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 29,87 compared with a jump of 30,08% 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%, 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 a 0,77% increase for the month and a 20,59 increase for the year In February the gain was 1,5%, to make 20,5% for the year

The middle-income group rose to 196,4, giving a 0,72% 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 0,73% 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

CT 24/4/81 (153)

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 $510 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 first 10 months of 1980

This situation is expected to be reversed this year, and while a relatively good improvement of 5% 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 R3 000-million 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 obtainable 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" practitioners are generally far preoccupied with the pressing needs of the ill to spare time to study a parallel and often presumed inferior rival system. There is also a general lack of epidemiologic knowledge for this type of research: there is also a lack of interest in community medicine in South Africa. Most therefore contribute impressionistic information based on samples of patients who come to them after a failure in the hands of a traditional practioner. Their impressions then confirm the incompetence of the traditional practitioners. The fact that many of their own patients perceive treatment failure in their hands and seek out help in the traditional sector goes unreported. The case of the Thalidomide baby should be a constant reminder for all.

... result of western contact can lead to a modification of the traditional system.

We need to ask ourselves the following questions:

1. How does the traditional medical institution serve the present needs of the society?

2. To what extent has the introduction of scientific medicine led to changes in the practice of traditional medicine?

3. What type or kind of organizational base supports either type of medicine and why?

4. In what circumstances do the sick prefer one type of medical attention to the other?

5. What are some of the social consequences arising from the introduction of scientific medicine?

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is necessary. As with such brief descriptions this one is highly selective in nature since this subject may be dealt with in greater detail by other contributors in this conference. This description will take us to the following areas : political system, kinship system, marriage and family, the economic system and the concept of the individual.

1. Political System : In the rural areas paramount

RDM 27/4/81 153

Money rate blunder claim

By SUSAN DALLAS

GOVERNMENT monetary authorities made a huge blunder with the exchange rate of the rand last year — a blunder which has caused inflation to run out of hand

University of Cape Town economist Professor Brian Kantor has said on the radio programme "Microphone In" the rand should have been allowed to rise to $1,50/1,60

The rand only reached $1,35 and trades now below $1,25

Prof Kantor believes if the rand was allowed to grow to its true worth last year, much of the inflationary consequences of high import costs could have been avoided

It is estimated that 40% of South Africa's inflation is "imported" in this way

Prof Kantor's fellow panel member on the programme, University of Natal economist Professor Jill Natrass, argued that by allowing the rand to appreciate to this level, exporters would have suffered.

She said that a rate of $1,50/1,60 would have hit exporters hard — their goods would have been more expensive on international markets

This would have meant that people would have bought lower-priced goods from other countries in preference to South African goods

According to Prof Kantor "We should have said to exporters we were pushing up the rand in order to push down inflation — meaning they could have benefitted in the long run by having lower costs."

"We have failed to understand that to cope with flexible international exchange rates we need an appreciating value on the rand"

It was suggested that prices in South Africa could be kept at as low a level as they were anywhere in the world if free trade was allowed South African importers and exporters.

Prof Natrass argued that the social cost of such action would be high, as some industries would go under — industries which would in the long run be profitable,

RDM 27/4/81 (153)

CPI rises by 16% over year

By VITA PALESTRANT
Consumer Mail Editor

THE Consumer Price Index rose by 0,7% last month for all income groups, and by 16,2% 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 17,2% 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 2,8%, medical care 1,8%, and clothing 1,5%

Food continued to go up, increasing by 0,2% last month and by 29,9% 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%, grain 1,1%, milk, milk products and eggs 0,5%, 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 18,9%, fats and oils 13,3%, milk, milk products and eggs 11,8%, fish 11,8%, sugar 10,6%, and coffee and tea 4,6%

Soft drinks rose by 15,9% during the past year and by 0,3% last month, while alcohol rose by 7,3% during the past year and showed no increase last month Cigarettes showed an increase of 4,2% over the year and a drop of 0,4% last month

Clothing and footwear increased by 1,3% last month and 10,3% last year, with clothing alone up by a substantial 1,5% last month

Housing went up by 0,9% 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 2,6% 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 11,2% 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 7,5% 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 analyses masses of information about the cost of goods and services in 11 major urban areas

These are processed to make up the monthly CPI

CONSUMER MAIL

	March 1981	Feb 1981	March 1980
ALL ITEMS	195,2	193,8	168,0
Lower income group	197 4	195 9	163,7
Middle income group	196 4	195,0	167 6
Higher income group	194,0	192 6	169 3
FOOD	217,8	217,5	167,7
Grain products	194,2	192 0	165,0
Meat	239,8	240,7	158,0
Fish	212,5	210,5	190 1
Milk, milk products & eggs	176 8	176 0	158,1
Fats & oils	208 9	209 5	184,3
Fruit	201,9	213,1	169 8
Vegetables	210 1	204 4	155,8
Sugar	264,1	264,0	238,7
Coffee & tea	246,7	246 4	235 9
Other	193 2	190 8	168,8
COLD DRINKS	201 0	200 3	173 4
ALCOHOLIC DRINKS	163 4	163,4	152 3
CIGARETTES, CIGARS & TOBACCO	157 0	157,6	150,6
CLOTHING & FOOTWEAR	166 5	164 3	150,9
Clothing	158 0	155 7	142 5
Footwear	211 6	209 8	194,9
HOUSING	163 8	162,4	144 6
L & POWER	247,7	245,0	220,7
FURNITURE & EQUIPMENT	179,5	174,9	154 8
Furniture	166 6	160,5	137,4
Appliances	167 0	165,1	151,6
Other	183 6	180,9	165,3
HOUSEHOLD OPERATION	218 0	218,0	203,8
Cleaning materials etc	208 2	209,2	187,3
Domestic servants	220 2	219 6	210 9
Other services	199 4	199 4	186,1
MEDICAL CARE	180 6	177 4	161 0
TRANSPORT	217 4	217,4	201 0
Vehicles	203,1	203,1	177,2
Running costs	253,8	253,8	243,4
Public transport	168,1	168 1	156 4
COMMUNICATION	114,5	114,5	118 6
RECREATION & ENTERTAINMENT	180 3	177 6	160,7
READING MATTER	259 2	259,2	167,5
EDUCATION	244,8	201 9	201 9
PERSONAL CARE	182,6	182,1	163,8
OTHER	198,3	197,0	171,0

SO 28/4/81 SC

Stop eating and save R20

153

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 gormandizing on your R20 and wish to lose weight. It is patriotic to have a thin time

But there is no future in fasting indefinitely, unless you're Irish Sooner or later you will have to lash out with a morsel or two You can still do so without biting into a R20 note.

Water is free You may drink for as long 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 gulps of it you can't eat another thing You can't even jog to get trimmer, because if too much slops to one side of your insides you capsize.

Grass is good for you, as all pets who can't make out on R20 a month will tell you A tip Kikuyu is more digestible than Buffalo, but not as nourishing

Mushrooms, in season, are free in most pine groves If you are daring enough, try a small portion of the so-called fly agaric It will make you so high 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, unless 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 soon 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 have anything 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 loo, if you don't feel like eating that day

Scott-free

The JOHN SCOTT column

COMPUTING AND DATA PROCESSING

Year 1	Course	Semester	Time-table Present	Proposed Change
	Environment & Structure of Business	1	M,W,F, 4	
	Management of Human Resources	2	M,W,F, 4	
	Mathematics I	1 & 2	M - F 5	
	Economics IA	1 & 2	M - F 3	
	Introduction to Management Accounting	1	M - F 2	
	Introduction to Computing	2	M - F 1	
Year 2				
	Mathematics IIC	1 & 2	M - F 2	
	Computer Science IIA	1 & 2	M - F 5	
	Economics II	1 & 2	M - F 4	
	Applied Business Statistics I	1 & 2	M,W,F 3	M,W,F, 1
Year 3				
	Computer Science IIIS	1 & 2	M - F ...	

INFLATION (153) FM 1/5/81

Load the dice, Jones

The real rate of inflation in SA is substantially understated by official figures, claims JCI economist Ronnie 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 19.3% in the year to 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 assumption 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 argue which is the more accurate is misconceived, according to another economist They each measure different things, so they cannot be compared And they both suffer from the disadvantage of being averages of averages

Another critic claims that the opposing points of each index — the one looking at total expenditure, and the other at total income — should be integrated if a more representative index is to result And each income group should be measured in isolation, since there is no such thing as an average inflation rate in a country where income and expenditure differ so substantially

"The average South African does not exist," he concludes "and no-one will approximate to the chosen baskets of goods Except perhaps for Mr Jones!"

close the window," he adds "But we urged the banks to consider the possibility that our scenario for the next few months might be right And we did it in order to prevent them coming to us and accusing us of taking away the umbrella when the rain starts

The Reserve Bank is clearly picking its way cautiously through the structural inadequacies of the conventional tools of monetary control But it [illegible] probably tighter than is generally [illegible], and will no doubt tighten after the election. Hopefully not too many banks will have to dive for shelter when the rain starts

STAR 1/5/81 (153)

Assocom 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" Viljoen, 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

Argus 2/5/81 (153)

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 sjambok 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 correcting itself

They argue that further measures could lead to overkill 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 a record 16,2 percent 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 percent, working costs on some gold mines increased by more than 40 percent and the cost of new houses by 35 percent

According to the Bureau of Statistics, the average cost of the 3 111 houses for which plans were approved last month was R38 090, which is R10 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 R1 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

INFLATION

Argus 2/5/81 (153)

● From Page 1

money market is temporarily well supplied with money as the Government resumes its new year spending.

Money market conditions will again tighten from June, as business resumes tax payments and the economy feels the full effect of the lower gold price and smaller trade surplus.

This is leading some pessimists to predict a mortgage rate of 15 percent and a call rate of 20 percent by mid-year.

Consumer spending is also showing signs of levelling off. Inflation, fiscal drag and heavy commitments on new houses and cars is beginning to reduce disposable income, as indicated by the levelling off of retail sales in the past month or so.

These developments must reduce inflation pressures, it is argued, thus there is no need for further action by the Government.

Nonetheless, business is anxiously awaiting the first Cabinet meeting of the new Government to hear what the authorities have in mind.

Believe it or not—inflation rate is slowing

S. Times 3/5/81 (152)

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

FOOD PRICE HAS BEEN FACTOR IN DISTORTION

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 8%

Also, the all-in index, which was almost 19% for the last seven months of last year, stands at 11,9% when the last five months are annualised.

He points out that the index, which excludes food, is just on 10% for the past five months.

Volkskas economist Adam Jacobs, while cautious of figures that do not include a full 12 monthss, 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 growing 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.

Inflation — the culprits

RDM 20/5/78 153

INFLATION in South Africa could not be halted, only alleviated, said Mr S I 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 28%

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

RDM 21/5/81 (153)

Assocom fears demand inflation

By HAROLD FRIDJHON

ASSOCOM urges that more emphasis must be place 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 yesterday, said that inflation was predominantly the cost-push type in 1979, but demand inflation started to have had 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 addition to 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 sights 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 expected lower growth rate, the tighter money conditions, and the slowdown in the rate of increase in consumer spending

Businessmen are urged to make every effort to increase and improve the training of labour by using the incentives offered by the authorities

People in business will have to adapt to the tighter money situation by good stock and credit control

Assocom calls on all businessmen to encourage the Government to make more use of the private sector and to stop calling for action to bring in controls when market-related policies sometimes work against a section of the business community in the short term

Inflation rate slowed

Argus 21/5/81

153

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 price, 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 217,8 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%

RDM 22/5/81

153

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 Owen Horwood, the Minister of Finance, and his key advisers at the Treasury and the Reserve Bank

Curbing 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 35% 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 0,62% in April However, food showed a 27% price jump on a 12-month count

The CPI rose to 196,4 in April against 195,2 in March and 170 in April last year

For upper-income groups the sub-division showed an index rise over the year of 14,15%.

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 10,5% for upper incomes, 10,9% 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 dampener on general demand, not 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

RDM 22/5/81 (153)

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 0,6% 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 price 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 PFP's financial spokesman, Mr Harry Schwarz, 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 "

● See Page 17

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PLEASE CIRCLE ITEMS REQUIRED

Fight against inflation priority, says De Loor

Argus 22/5/81 153

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.

FINANCE

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 1976-77 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

S Times 24/5/81 (13)

AUTHORITIES CRITICISED FOR LATE ACTION AGAINST INFLATION

By Andrew McNulty

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 of activity in 1982 there are few criticisms of the Government's handling of economic policy.

The sharp increases now under way in the interest-rate structure are accepted as essential measures against inflation, which is seen as the country's foremost economic problem.

But there are some severe criticisms of the authorities for allowing the situation to develop.

o Henri de Villiers, managing director of the Standard Bank group, says:

"The present action on the monetary front has been left too late, and measures taken now therefore need to be drastic to be effective.

"I hope that sacred political cows such as housing and agriculture are not going to intrude."

He says that it will be impossible to bring inflation down meaningfully in the short term but serious efforts are now being made to prevent a further escalation.

Mr De Villiers forecasts an average inflation rate of 15% in 1981 falling to 12% to 13% in 1982.

He expects an economic 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 a broad front during the remainder of the year leading to a further slowdown of economic activity before recovery begins again towards the end of the coming 12-month period.

"The business cycle has moved into a downward phase probably in the first quarter of this year and consumer confidence is waning although no drastic decline is expected."

o Dick Goss, managing director of South African Breweries, says:

"We are finding that conditions remain pretty good. There is a slight change in the growth rate but nothing dramatic. There is still real growth although it is gradually slowing."

Consumer confidence, he says, has slackened but without any dramatic change.

He does not expect that changes being experienced in interest rates will have much impact on consumers except in areas such as home loans and big-ticket items such as motor vehicles.

Mr Goss has no doubts that higher rates are necessary.

"We understand the problems. Getting the money supply under control is vital. That means the interest rates will have to move up and pretty quickly.

"But there is no doubt that if action had been taken earlier we would not have had to see such dramatic rises with their less pleasant consequences in coming months."

Mr Goss expects the average GDP growth rate for 1981 will be 4%, with a PCE (private consumption expenditure) rate of 5%. In 1982 the figures are expected to fall to 3% and 4%.

He expects inflation to stay at 15% to 16% for 1981, falling to about 13% in 1982.

o Isaac Kaye, chairman of the Greatermans group, remains confident.

"Our activity is still buoyant and we are still very positive. We have felt no downturn as yet — in fact sales in April and May were over budget. I am concerned, however, that we may talk ourselves into a depression."

He expects GDP growth of 4% to 4,5% for this year.

For 1982 he forecasts a rate of 3% to 4%.

Mr Kaye also takes an optimistic view of inflation which he anticipates will be no more than 13% to 14% and could start declining before the end of the year.

o Peter Wrightson, deputy managing director of the Premier Milling group, which derives 80% of its business from the food sector, says:

"We have seen no change in activity yet although we do expect a levelling off in the next six to nine months."

He adds that activity for the group is strongly dependent on maximum employment and disposable incomes, particularly among blacks.

"When the slowdown comes it will be a levelling off rather than a downturn for the group — and certainly not to the extent as in the previous economic recession," he says.

Although GDP growth of about 4% is expected for 1981/2 and about 2,5% to 3% in 1982/3, Mr Wrightson says that the slowing will be eased substantially for the food sector by annual population growth of about 3%.

Premier is more optimistic than most on inflation. Mr Wrightson expects that the CPI will fall to about 13% by year end, with food prices lower at about 10% to 12%. Single digit inflation is forecast by 1983 "although that is possibly on the optimistic side".

CONSUMER PRICES (153)

Political hiccup

FM 29/5/81

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 of 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, consumers 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%

Meat prices rose by a huge 50,4% over the year, while the price of vegetables rose by 22%, those of dairy products by 11,9% and of grain products by 9,2% But in April, increases came to a standstill, with the cpi index for food standing at 217,8 in both that month and in March

An explanation is not hard to find Inflation is cyclical and, as one daily newspaper put it few things are more cyclical than general elections They tend to delay, momentarily, the momentum of administered price increases For instance, the maize price increase (9,5% in the week before the general election) will affect the prices of such staples as eggs, meat and poultry Already the price of eggs is up — an increase of 4c per dozen was announced in the first week of May And the milk price rose by 14,5% last Monday

Other prices on the way up are canned 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 those in 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 3,4%

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 £114,1-million (R200-million)

Profits before tax slumped from £68-million (R119-million) to £5-million (R8.75-million) in the year to March.

But after paying tax the group was in the red A further £98-million (R171,5-million) has been set aside to cover an extensive programme of redundancies and closures.

FINANCE

Argus 1/6/81 (153)

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 1978 the rate of increases 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 13,8 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 1979 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 69 percent, 36 percent and 15 percent respectively in proportion to that of whites, appreciably narrowing the wage gap.

The survey noted large disparities in income but says much of it can be accounted for by the difference 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 slightly 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 stand of the Government. — Sapa

Question 9

Price Discrimination

Price Discrimination — … commodities to different pro… + incomes irrespectable … commodity.

Thus a ~~shopkeeper~~ producer … s by selling 1 loaf of bread for R1 … here along the time there are pe… very high monie… willing to pay for … l h. … el so ~~[illegible]~~ profit

FM 12/6/81 153 214

INFLATION INDEX

Riding the Hydra

As the many-headed Hydra of inflation has become the most visible economic enemy the consumer price index has leapt to notoriety 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?

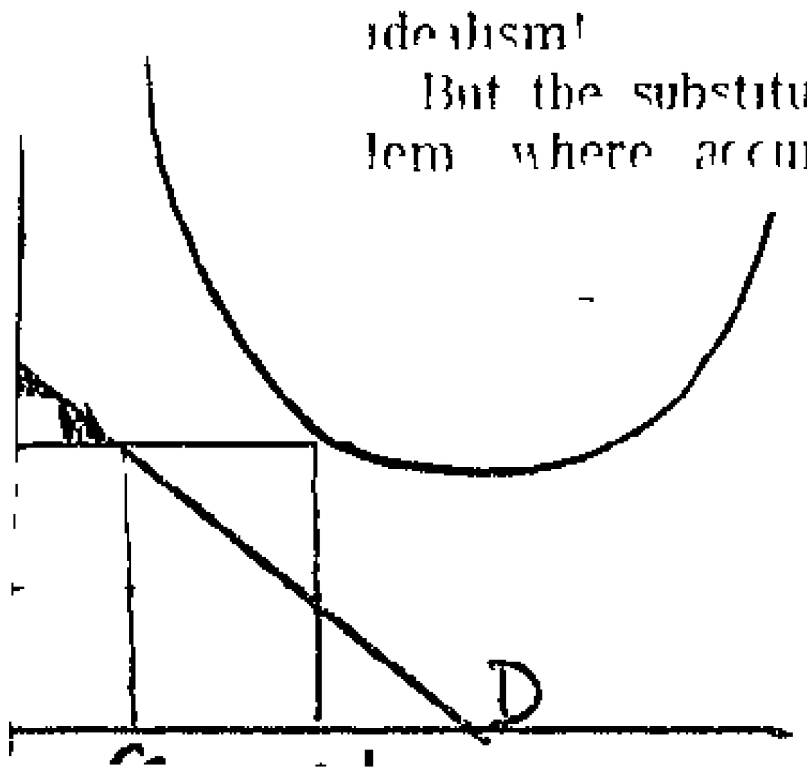
Like all such indexes the SA cpi is ultimately an abstraction of several abstractions It is based on a statistical method created by a Frenchman called Laspeyre Its main competitor is the Paasche system which differs primarily in stressing the measurement of the substitution effect As prices rise consumers substitute cheaper goods for more expensive but comparable goods like butter and yellow margarine Spending patterns can change considerably over time in this way But monitoring them — and Paasche recommends updating at least monthly — is itself expensive and guaranteed to inflate statistical costs So French practicality in the great inflation indexes of the world tends to outweigh German idealism!

But the substitution effect is the problem where accuracy is concerned To

G.

derive an SA index, the Department of Statistics chose an arbitrary base year — 1975 in fact — and charted price changes from that point "It based its expenditure pattern on an average of those of 5 000 households in the 12 main urban areas dividing them into lower, middle and upper income groups on the basis of their annual incomes Because it collectively spent most, the upper income group was given a 55% weight in the index So as it emerges monthly, the cpi records primarily the struggle between the upper middle class and the rising cost of living As the upper income index rises more slowly than the other two, the overall inflation rate looks better than it might, but understates the socio-economic unhappiness of the population at large

Each income group was given a "market basket" based on how it divided its total expenditure in 1975 between lamb chops, light bulbs, gardening tools, and so on These differ considerably of course The lower income group was given a 36% weighting for food in general but appeared to spend less on mutton than the higher (who spent less than the middle incomers) and considerably more on offal than either of the other two By the same token the lower group s expenditure on home ownership was minimal as was its contribution to domestic servant costs But it spent proportionately more on an item headed "drinks and prepared food bought away from home "



The Lespeyre 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 143% 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 in along with other housing costs like rates and municipal service fees These are registered monthly in postal returns from the

his costs. Now … the cover his costs at selling at price p. Obviously he must discriminate his prices and sell a ~~very~~ small quantity at a

Inflation: drastic steps forecast

STC 17/6/91 153

The economy will experience difficulty over the next two years because the steps that will have to be taken to curtail inflation will be painful and at times drastic, says Dundee Industries chairman, Mr A C Heber-Percy, in his annual report.

South Africa had seen unprecedented prosperity during the last few years, he said, but the concurrent growth in inflation and its consequences could not be allowed to continue.

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 Jaqmar Motor Spares and Accessories subsidiary

During the latter part of the review year this company suffered a setback as a result of overtrading and recorded an overall loss

During the current financial year this subsidiary was expected to return to profitable trading, Mr Heber Percy said. — Anne Crotty.

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any of the ne ...

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limited time available, and cons ... number of
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farmers, and not from the worker ... choolchildren,
who as we have seen constitute a ... oportion
of the thinning labour force, at ... the
large numbers of schoolchildren ... g, it appears
particularly fortunate for farme ... ays coincide
with the thinning season. It se ... sides the
teachers) are almost all employe ... building
industry; they wish to suppleme ... er the
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) <u>Elgin</u>

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 "

R744 " 6 "

R1 116 " 9 "

R1 488 " 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.

/ These match the figures given by U.C.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 [illegible]

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 Tb. sanatorium to Tb. beds in a General Hospital, although the patient/day rate was far

Inflation rate slows —below 10 pc

Argus 22/6/81

153

THE inflation rate is slowing down, the Department of Statistics reports today.

For the past five months the inflation rate on an annual basis has been below 10 percent.

This helps to strengthen the forecast, made by a group of University of Cape Town economists at the weekend, that the year-on-year inflation rate could fall to single figures by the end of 1981.

PRICE INDEX

The Department of Statistics reports that its consumer price index (1975 = 100) rose 1,3 points last month to 197,7.

This means that prices overall rose by 0,66 percent last month or by 8,4 percent at an annual rate.

This increase brought the rise in prices since December to 4,1 percent — or 9,8 percent at an annual rate.

But the year-on-year increase to the end of May was still a high 15 percent owing to the steep increases in prices in the second half of last year.

IMPROVEMENT

This 15 percent increase, however, represents a marked improvement on the position earlier this year when prices were showing a year-on-year increase of 16,2 percent.

One of the main reasons for the drop has been the levelling off of food prices.

The index for food has risen only 0,4 points or less than 0,2 percent in the past three months to 217,9 at the end of May.

This means that food prices in this period have been rising at an annual rate of just over 1 percent.

The more stable food prices have meant that the year-on-year increase dropped to 25,7 percent at the end of May from a record 30 percent in the 12 months ended February.

Medical Aid Schemes

Table 3 shows that a racial bias exists, in terms of which medical 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 medical aid schemes are also too high for lower-paid workers. It is however 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, medical 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, Engineeering Trades, Iron, Steel, Metallurgical industry, motor industry, hairdressing and Furniture. (See Appendix C - list of Trade Unions who are parties to medical aid and medical benefit agreements.) 81% of white workers are covered, whereas Africans have virtually no medical aid coverage. (See Table 3). The high exclusion rate of Africans 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 medical 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 medicine, 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 Example o

Consultation in rooms

Visit between 8.30 a.m & 5.30 p.m.

Home visit (weekends)

Night visit

From: Matheson J.: Th

Source: 'Paying the d

SDV 25/6/81 (153)

Curbs urged on prices and wages

The increase in the bank rate must be accepted as a further attempt by the authorities to curb the growth in money supply which is necessary to curtail inflation, Mr P W Penzhorn, executive director of the National Development and Management Foundation, said today.

"It is however urgently necessary that we must look at a much wider spectrum to bring inflation under control if we are not seriously to curb essential economic growth and run the risk of heavy unemployment with all its consequences," he said in a statement.

"An attack on inflation on a broad front must include institution of some form of price and wage discipline, which I believe should be voluntary to start with and concerted action to improve efficiency and reduce the appalling waste in all sectors of the economy

"Urgent attention is also needed to administered prices, control boards, public and semi-public bodies. The Minister of Finance recently did indicate that this was being done but it should receive the greatest priority.

"What we in fact need and what we are advocating is a reinstatement of the anti-inflation manifesto, although in a revised form incorporating the lessons learnt in the last campaign

"There is no doubt that despite some weaknesses which can be largely corrected the campaign did produce positive results

"The manifesto is a rare document in the free world, containing as it does a pledge by all sectors of the economy to play a positive part in curbing inflation

"During the last campaign much progress was made in motivating management, obtaining the co-operation of workers, keeping public expenditure within bounds and improving work performance

"Only by such concerted action can we hope to contain the unsatisfactorily high rate of inflation of about 15 percent and up to 18 percent on the poorer sections of the community.

"The danger is that we are becoming complacent and almost accept this kind of insidious inflation rate with all its detrimental effects."

./...

Gold price drop may reduce inflation

Star 1/7/81

153

By David Breier, Chief Reporter

Johannesburg economists today predicted the plummeting gold price would help reduce inflation in South Africa.

Severely reduced gold profits for South Africa will have two conflicting effects on inflation, economists say.

- One effect will be deflationary. It will cause money to drain from the economy. This reduces the excessive money supply which has created demand and therefore inflation.
- The other effect will be inflationary as lower gold profits will cause a balance of payments deficit. This will reduce the exchange rate of the rand and imported goods will become more expensive, adding to inflation.

An example of the recent lowering of the rand exchange rate will be the 5c or 6c per litre increase in the petrol price expected shortly.

Economists agree that the deflationary effect of the gold price decline will be more powerful than the inflationary effect. The overall effect will be anti-inflationary, they say.

Professor Joubert Botha, 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.

Dr Johan Cloete, chief economist of Barclays Bank, said on balance the effect of the declining gold price would be anti-inflationary.

He said the outflow of money would help the Government's policy of reducing the money supply which has already begun with higher interest rates.

Mr Andre Hamersma, chief economist of the Standard Bank, said the lower gold price would assist in the fight against inflation by causing more money to flow out of the economy.

FINE ART & ARCHITECTURE

ARCHITECTURE

Cape Provincial Institute of Architects' Prize
For the best student in :-

Sixth Year
P F Dunckley

Helen Gardner Travel Prize
For a student who has satisfactorily completed 1st, 2nd and 3rd major courses.
P A Rappoport

Molly Gohl Memorial Prize
For the best woman student

fourth
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Prize
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Govt has 'failed dismally' on inflation control

Star 3/7/81

153

Staff Reporter

Opposition spokesmen and consumer organisations are dismayed by the continuing spate of price increases since the general election.

Recent price rises include 16 percent for milk, 21 percent for cheese, 16 percent for tinned foods, 14,5 percent for dog food and 15 percent 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

ANAESTHE

FACULTY OF MEDICINE

Bronte Stewart Research Prize
For the student (35 years or under) submitting the most meritorious thesis for the degree of MD, PhD, or ChM.

Dr D W Beatty

Forman Prize
For the undergraduate who is of adequate academic standard and has made a special contribution to student affairs.

J T Taylor

Barnard Fuller Prize
For the best student qualifying for MB ChB with first class honours

J M Cornell

RDM. 4/7/81 (153)

Double inflationary blow

By GERALD REILLY
Pretoria Bureau

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 F P Kotzee, 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 Kotzee 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 prices policy would remain out of line with the Government's fiscal and monetary policies

The director of the Motor Industries Federation, Mr Jannie van Huyssteen, said the higher steel price could add as much as R130 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

QUANTITY SURVEYING (Continued)

Bell-John Prize
For the best all-round student in any year of study.
P C Key

The Committee of the Western Cape Chapter of Quantity Surveyors' Prize
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

S A 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

SA inflation rate 'to stay in double figures'

RDM 9/7/81 153

Own Correspondent

PORT 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 Afica Foundation, 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 could 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 1983

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 liquidation

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 1981 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 1982 or early 1983 through substantial increases in exports particularly minerals

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 rising production, an improvement in the Balance of Payments can be expected, he said

URBAN REGIONAL PLANN

QUANTITY SURVEYING (Continued)

Bell-John Prize

For the best all-round student in any year of study.

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For the best student in the subject of Building Construction.

C W von During

Putting the squeeze on inflation — what impact?

153

S Tribune 19 JUL 1981

By MIKE PEIRSON
Finance Editor

THE financial fundis putting together the August Budget will no doubt have been searching long and hard to find a suitable knock-out blow for inflation.

Their deliberations must have included, to a considerable extent, how the booming dollar, coupled with high US interest rates has overturned many monetary forecasts of yesteryear and how 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 vice 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 tight-money policy means 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 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 motion monetary and fiscal policies aimed at stablising the balance of payments and curbing the exesses 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

growth rate of more than 4,5 percent this year and some 2 to 3 next.

Many economic experts believe, therefore, that next month's budget has got to be a tough one to come to grips with a difficult situation caused by enormous fall in gold revenue.

Don't be surprised if there is a rise in GST. Some have expressed the fear that it might even double to 8 percent.

Drastic as that may sound it must be remembered that in many other countries who have similar taxes their percentages range much higher at anything from 1? to 15

The much-put-on-ice perks tax may at last rise from the ashes of the previous potential measures department.

The time has come, say some, for government to risk the wrath of the business sector on this issue.

NOTES:

(1) Department of Mines, Mining Statistics, various years.

(2) Report of the Government Mining Engineer, in Report of the Department of Mines, 1977, R.P. 27/1978. All further references to the Mining Engineer are from this source.

(3) Department of Mines, Mining Statistics, various years.

(4) See, for example, the work of I.R. Phimister and Charles van Onselen on Rhodesian Miners.

(5) Dudley Horner and Alide Kooy, Conflict on South African Mines (Cape Town, SALDRU Working Paper no. 5, 1976).

We first tried to analyse the influence inherent factors had upon the family. These include:- whether any member of the family is literate; whether the father is a migrant labourer; whether the family contains a member belonging to a particular social group (i.e. chiefs, traditional doctors, teachers or women's groups); whether it has been resettled; and how often the father comes home.

We found that every family had at least one literate member, and that except in the case of pit-latrines (discussed elsewhere), being a member of a social group did not seem to be a factor in determining whether a family possessed the health requirements or whether they were more likely to come into contact with the care-group members.

SUNDAY TRIBUNE, JULY 12, 1981

ANGLO'S DICKMAN BACKS THE NAT SOLUTION

DICKMAN The long road to recovery

The long road's RIGHT!

S. Tribune 12/7/81

153

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.

Finance Reporter

Speaking at Assocom's economic outlook seminar Dickman said the Governfent 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 than those of the 'growth at all — or almost all — costs' school of thought."

Of importance was the approach of the so-called "structuralist" school which saw South Africa's current inflation as the product of deep-seated features of the economy and which, in terms of the analysis, was not amenable to control by conventional means.

"The debate about current policy which arises from these conflicting views is based on a misconception about the nature of stabilistion policy in South Africa of the structural features could be itself accelerate inflation unless adequate money was available — the essential element that translated what ought to be specific price changes into generalised inflation.

"Physical controls would merely distort and worsen the position by inhibiting the necessary adjustment of relative prices and thus undermine long-term growth.

"For this reason the authorities argue that, in the short-term, there is no alternative to using monetary and fiscal measures to counter inflation while simultaneously pursuing objectives to deal with long-term structural problems. I believe this is the correct policy."

Unfortunately,

Socioeconomic status

The overall socioeconomic status of the caregroups and the population was measured using three indices:

a) Primary source of income
b) Wealth
c) Social group membership

a) Primary source of income

The source of income was classed in seven categories:

1. subsistence farming
2. local farm employment

3. other farm employment
4. self-employment
5. employment elsewhere
6. pension
7. nil, unemployed

As we have indicated, a large proportion of the general populace are migrant labourers and thus it is not suprising that approximately 60% of the population of both villages received their income from absent family members.

Overall the care-groups differed little from the general population of the villages from which they came, although no care-group member quoted either subsistence farming or local farm employment as their major source of income.

... seem to belong to the higher socio-economic classes of their villages, the Chavani group is wealthier, of higher social status and perhaps more authoritative than the Mbokota group. As will be noted later there are a few areas where this might make a difference.

4.1.2 Attitude to health

The attitude to health of the two villages and their associated

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 MBOKOTA 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 for

2. METHOD

The survey was undertaken in two vi
which are comparable distances from
possesses a care-group and clinic,
care-group. Aerial photographs of
grids from which a random choice of
one hundred households per village
16% of the households in Chavani, a

Questioning was carried out in team
student and an interpreter. The in
from Elim Hospital or trainee-teach
ducted through the head of each hou
mother or grand mother. Two genera
boundry lines of each area, and en
grid were not questioned.

3. PROBLEMS WITH THE SURVEY

There were problems in both 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.

Greater involvement of the villages in the planning stages of the project would have guarded against the probable cultural bias inherent in our questions.

We used local 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 white students present were often seen as officials
... interviewees may have attempted to give
... rather than the true
... vented by more vigorous
... re informed of their
... to any official body
... ely informed of the
... have been embarassed
... factor which may have
... t interviewers could
... ad to rely entirely on
... ion of the answers
... ror.
... groups was not to spread
... thus diminish their impact.
... 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.

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*refer to 1) A Primary Health Care Programme in Gazankulu
E. Sutter (paper no. 26).
2) Further Health Care Developments in Gazankulu
P.W. Kok (paper no. 27).

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today.
"There are without doubt various institutional features of our economy which contribute towards the inflationary process.
"One thinks, for example, of inadequate competition and price inflexibility in many fields, including agriculture, lack of sufficient labour mobility and shortages of skilled and semi-skilled labour, protection of industry for strategic and other reasons and so on."
Given this underlying situation the argument was that there is a predisposition to inflation following some initiating impulses — like the rise in the price of oil.
"The process gets propogated by other consequences, like higher wages, resulting in the familiar wage/price spiral."
These distinctions conveniently directed attention to areas which required corrective treatment to reduce the inherent inflationary bias. But most of these rigidities had been with South Africa for a long time and would take time to remove.
"They account for relatively high prices, yes, but how can they account for rising prices?"
It was clear that none
Dickman says, all too often neither arm has been employed adequately but this should not prevent support for the approach while pressing for its consistent application in all directions and in the most sensitive areas.
"The predisposition of the economy to an intensification in the prevailing socio-economic environment was that much greater last year than in preceding years."
Various other factors had contributed to an even greater need to prevent money creation from getting out of hand.
"Monetary policy embraces all aspects which ultimately affect the behaviour of the monetary aggregates, interest rates and exchange rates. These are intermediate targets — the ultimate target is the state of the real economy.
"The responsibility for keeping all these elements at appropriate levels is the authorities' but there are no easy, precise and unambiguous rules.
"In opting for what I believe is a sensible and pragmatic approach, the authorities are not taking the easy way out of a knotty intellectual dilemma."

RAND DAILY MAIL, Monday, July 13, 1981

SA inflation rates among West's worst

RDM 13/7/81 (13)

Financial Reporter

SOUTH Africa's inflation rate is now among the worst of major Western industrial nations.

This is mainly a reflection of the slowing of inflation in the West generally under the impact of recession while South Africa showed an accelerating tendency last year and in the first quarter of 1981 under pressure of an [illegible] boom.

The other side of the coin, of course, is that South Africa had the highest real growth rate — 8% — in 1980 of any big industrialised nation.

Even this year's expected decline to around 4,5% will still be very close to the top of the list.

In the 12 months to the end of May the consumer price index in this country rose by 15% — a reduction on the 16,1% for the year to the end of March.

It is unlikely, however, that the rate for calendar 1981 will be less than 15% as price rises, notably oil, work their way through.

The International Monetary Fund said that consumer price inflation in industrial countries as a whole slowed in March (the latest full figure available) to a 10,1% annual rate, the lowest since September 1979 and the fourth consecutive monthly decline.

Wholesale prices of internationally traded commodities declined for the third consecutive month in April when the index of all commodities dropped to 148,8 on a base of 100 in 1975. Preliminary calculations by the fund's research department indicate that the index fell by three per cent in May, bringing the cumulative decline since January to 11,1%.

The IMF said the 10,1% annual inflation rate in March compared with 10,4% a month earlier.

Still, nine industrial countries had double digit consumer price inflation in March. Full data are not yet available for Ireland and Italy, which had year-to-year rates of 20,9% and 18,3% respectively in February.

Although the average rate of increase for the group declined in March, this was [illegible] in the United States, [illegible].

In all other [illegible] countries the rate actually [illegible] in Argentina, [illegible] and Spain where the March rates were the highest [illegible] for this year.

These figures were announced in "International Financial Statistics", a monthly publication of the IMF.

In a separate picture of the same story the Organisation for Economic Co-operation and Development, which comprises virtually every main Western country (South Africa is not included), said prices in the 24 OECD countries rose 0,8% in May after a revised 0,9% rise in April, giving a year on year rise of 10,4% compared with 10,6% the previous month.

Falling food prices, particularly in North America and Japan, were largely behind the lower figures, it said.

[illegible] prices rose less than the non-food index because of the continuing weakness of international energy markets, it added.

US wholesale prices, as measured by the producer price index for finished goods, rose a seasonally adjusted 0,6% in June, the US Labor Department said.

The increase followed a 0,4% increase in May and left the index at 269,9% of its 1967 average, up 10% from the year earlier level.

Prices of intermediate goods rose 0,[illegible] in June after a 0,5% May increase and were 10% higher than a year ago.

O In its annual report published last month the Bank for International Settlements, BIS, says the prime question for the 1980s is whether public support for anti-inflationary policies in Western economies will be sustained.

But the bank says that the application of supply oriented policies requires some caution so that progress made in slowing inflation is not lost or eroded.

The bank also says a policy of constantly [illegible] in response to [illegible] prices and cost [illegible] political, social and economic risks.

The dangers of an ineffective incomes policy are eloquently illustrated by experience in both the US and Western Europe.

But by the same token the costs of severe demand restraint in the absence of such policies are also apparent in many countries, in particular the UK.

The recurrence of external price shocks over the past decade together with the stubbornness of wage cost pressures, suggest that the character of macro economic problems has undergone a fundamental change.

The BIS says that in economic terms, the greatest risks from restricting aggregate demand are of creating high levels of unemployment and low rates of industrial utilisation which reduce activity and ultimately undermine profitability and the incentive to invest.

It would seem undeniable in principle, BIS says, that some more direct form of anti-inflation policy, be it known as concerted action, social contract or incomes policy, can contribute to the maintenance of real income growth.

But in practice the authorities in various countries have not yet succeeded in creating the market structure and social cohesion needed as the basis for such a policy.

The bulwark of any attack on inflation must remain the traditional tools of demand management, namely monetary and fiscal policy, the BIS says.

But lessening the obstacles to success against inflation may also require other tools, namely policies relating to incomes, energy conservation and substitution, as well as to regulation

Govt warned on inflation measures

RDM 22/7/81 153 ABAS

Jobless rate could worsen — Tucsa

By GERALD REILLY

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 12.5%, the general secretary of Tucsa, 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 1 500 000.

Some economists warned that in the short term inflation would be "inflamed" by the increase in the price of money.

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 a shortage of building society funds the expected increase in bond rates is likely to discourage borrowing.

"Higher unemployment is not a risk associated with the new bank rate — it is a certainty," Mr Grobbelaar said.

"The dilemma is to find an acceptable, tolerable inflation rate that we can live with and at which employment levels will be maintained."

Barclays Bank's chief economist, Dr Johan Cloete said that when monetary devices were used as economic weapons to fight inflation the effect was to reduce spending and the tempo of business activity.

The danger was that if the policy was pressed too far recessionary conditions could be induced.

be no illusions if you reduced inflation by monetary policies you reduce economic growth at the same time.

In short, he said, if more has to be paid for money the volume of buying is eventually reduced, if the volume of buying is reduced factory orders fall off production is inhibited and workers have to be laid off.

The chief economist of the Bureau for Economic Research at the University of Stellenbosch, Dr O D J Stuart, said in the short term the high bank ...

... ruling ...

Illusions

"You can't have your cake and eat it. If the aim is to reduce inflation, then you must accept a slide in the growth rate."

The British Prime Minister, Mrs Margaret Thatcher, had persisted with her montary policies and reduced inflation, but at a high cost, Dr Cloete said.

The British economy was probably at its lowest ebb since the end of the Second World War and unemployment was moving towards the 3-million mark.

"That's another risk you have to accept when you try to fight inflation with monetary weapons — greater unemployment."

Dr Cloete said there should

More expensive money would compel borrowers in commerce and industry to pass on the additional costs to consumers and this would inflame inflation.

"Consumer spending will be dampened and this will obviously mean a brake on growth," he said.

But in the longer term the higher rate would mop up excessive liquidity — a problem which had dogged the economy for the past 12 months.

In the longer term, too, the move would be deflationary, he said.

Side effects

The Progressive Federal Party's spokesman on finance, Mr Harry Schwarz said the steep rise in the bank rate would raise living costs across a broad front.

Mr Schwarz disagreed with the president of the South African Reserve Bank, Dr Gerard de Kock, who claimed the small man would not be affected.

"The small man will decidedly be affected when the higher costs of money are passed down the line to the consumer," Mr Schwarz maintained.

It was clear South Africa was in for a bout of high interest rates in most areas of the economy.

More expensive money would mean more expensive goods and services. Where money had to be borrowed by commerce and industry, and by the public authorities, the higher rates would be passed on to consumers.

The increase in the money supply was so serious the Government had been compelled to take stern action, he said.

"If they had taken the appropriate measures a year ago the medicine being applied now need not have been so drastic."

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P R Swift

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: N D G Sessions

: A R Low Keen

: No award

ick Association Prize

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n During

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Inflation rate down — but CoL will go up

ROM 22/7/81

153

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 1,2%

However, it soared by 1,6% in June 1980 — 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

Big price rises still to come

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 broadly defined money supply measure 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 Volkskas, 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 15,3% for middle incomes and 13,5% for the upper incomes

QUANTITY SURVEYING (Continued)

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II : A R Low Keen

III : No award

S A Brick Association Prizes

For the best student in the subject of Building Construction.

C W von

Inflation down, but money up

Star 22/7/81

153

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 rates to 17,5 percent and was swiftly followed by Nedbank

Barclays Bank announced that it will increase its prime lending rate to 16 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 Ladofca 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 25,8 percent during the past year.

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P M Salmon
T J Cumming
D P Weeks
J H Rens
B F McClelland

No let up on inflation

Star 23/7/81

153

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

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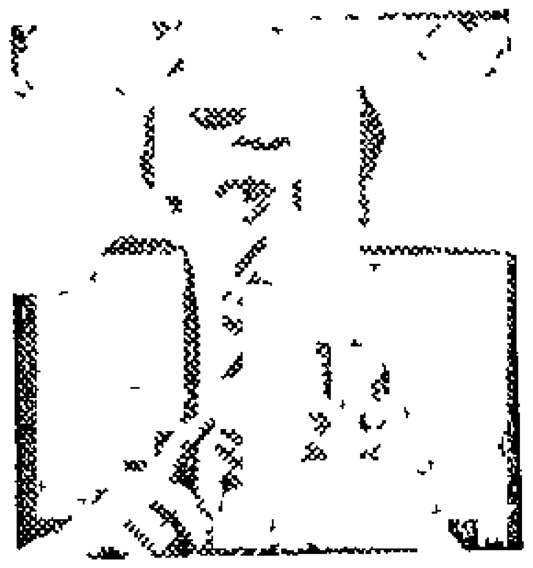
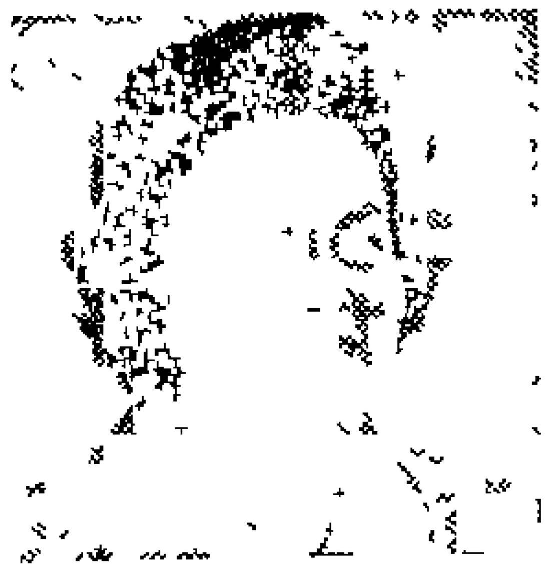
B F McClelland

(153) 20/7/87



MARAIS
South Africa does not have a hope in hell of eliminating inflation

CLOETE
The rich man can protect his money by investing in assets



HURWITZ
The past year has been the worst in memory for the housewife

STOP THIEF!

IN the face of rocketing food costs, creeping prices in most other commodities and this week's increase in interest rates, inflation has become Public Enemy No 1. With the Budget due early next month the Government will make an effort to control inflation now running at 15 percent, but with growth as a priority, it is unlikely the Budget will be too stringent because it is almost impossible to restrain inflation without restraining growth

YOU CAN'T — AND HERE'S WHY INFLATION IS EATING YOUR MONEY

26 JUL 1987

153

By PETER DAVIS

INFLATION is one of the most sophisticated forms of theft devised.

This is the opinion of former banker and former MP for Pinetown, Dr Jan S. Marais, on a subject which is highly complex and has no solution because so many of its facets are out of South African control.

Inflation affects us all and in a simple way its vicious circle goes something like this: A factory produces an essential item and pushes up its price because the imported content of the product has been increased. Because everyone must have this product, people go to their employers and demand wage and salary increases. These are granted but they have now pushed up the costs of all the products and services provided by the employers, so these too go up in price. The Government has to print more money to keep up with these increases and with more money available, the demand for products grows, so prices go up, so wage demands increase, so prices go up ...

"In my experience," said Dr Marais, some businesses, some professions and Government prosper in times of high inflation. Those people who have put their hard-earned money into banks, building societies or other interest bearing investments and insurances lose out.

"A man puts relatively good money into the monetary system, but the money he gets back is bad because even with interest he is not able to buy the same amount of goods as before. The value of his money has been eroded and this is the 'theft' I was talking about."

Bank economist Dr Johan Cloete agreed.

"Businessmen also want an increase so they put up prices and in some respects this suits the Government because increased profits mean increased taxes.

"And it is these very people who cause inflation who are able to protect themselves when the economy dips through the excesses made in the good times," Dr Cloete said.

"The rich man can protect his money by investing in assets which are indexed to inflation like certain shares and gold, but the wage and salary earner is not protected and inflation eats away at his savings and pension."

Dr Marais pinpointed five causes of inflation which work together in the economy:

(1) The human animal wants to work less for more pay.

(2) Politicians have to please so they are reluctant to take unpopular economic decisions.

3) When the gold standard was abandoned, the disciplines of financial control were thrown out of the window. Now governments are able to print money almost at will.

(4) The price of oil and other commodities affected by drought and scarcity are out of control of the authorities.

(5) Production is not related to pay and creeping socialism is costly.

"Because of these reasons, South Africa does not have a hope in hell of eliminating inflation on its own but unless something is done, there will be a revolution because people will no longer have faith in the system."

Dr Marais said while it was important to have some cash in the bank for emergencies, people should invest at least 50 percent of their capital in "hard assets."

"I would advise people to invest in assets which increase in value at a higher rate than inflation such as gold, diamonds, selected properties and, if they have the expertise, in stamps, shares and Persian carpets."

Dr Cloete's attitude is more optimistic.

"The problem is difficult and world-wide, but we are learning to live with it. The real problem in this country is to keep the rate of inflation steady so that we have a fixed index."

Dr Cloete says incomes are being indexed to prices on an informal level and even interest rates are becoming more inflation orientated.

"The figures show the real standard of living went up by 1,5 percent between 1970 and 1980 which means people were beating inflation. Of course, without inflation, the standard of living could have increased by more."

Dr Cloete said although the incomes for blacks had risen better than the inflation rate, the starting income level had been too low and there was still much to be done in this field.

"The fact is, inflation is here to stay. Last year wages and salaries went up by about 20 percent but output of production only went up by 8 percent. This means there is too much money chasing too few goods which puts an upward pressure on prices."

There is also the conflict of interests. Last year, according to Volkskas, the financial position of farmers improved considerably with greater production volumes and higher prices which meant the nett income of farmers increased by 42 percent to R2 313 million.

On the other hand the past year "has been the worst in memory for the housewife," according to Housewives League president Joy Hurwitz who also called for a fight against continued increases of basic food prices.

"Never since the annual statistics were first recorded has there been a more monumental rise in basic foods as during the past year."

Mrs Hurwitz said since 1975 the price of maize had risen by 150 percent, white bread by 100 percent, brown bread by 61 percent, margarine nearly 60 percent, eggs 74 percent, milk 60 percent, sugar 214 percent, chicken 100 percent, tea 93 percent and coffee 211 percent.

She also criticised the control boards, the attitude of producers with a near monopoly who pushed up prices and supermarkets who advertised the best deal for the consumer while their annual statements showed increased profits.

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QUANTITY SURVEYING

(Continued)

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P C Key

The Committee of the Western Cape Chapter of Quantity Surveyors' Prize
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

S A 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

URBAN & REGIONAL PLANNING

Student Planners Award
For the student who has shown greatest promise at the end of the first year.

M P Morkel

Inflation the worst problem — expert

RDM 31/7/81 (153)

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 bread price rise alone would add 1% 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% 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 combatting 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

CT 31/7/81 (153)

SA inflation rate worst 'since 1924'

Industrial Reporter

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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 combatting it even if economic growth must suffer," he said

Control Boards and those controlling the money supply, because there had been too much liquidiy 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

SAr 14/8/81 153

The chief executive of the South African Free Trade Organisation (Safto), Mr W B Holtes, has welcomed the emphasis placed in the Bedget 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 underwrites 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 altitude 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 1982. — Patrick McLoughlin.

Parliament

'Fight inflation' challenge

Argus 18/8/81 153

Parliamentary Staff

INFLATION, rising food prices and the plight of the poor were the main issues on which opposition speakers attacked the Government's handling of the economy on the first day of the Budget debate in the Assembly yesterday

One opposition theme was that it was futile to continue pouring more money into defence when the war against poverty was being lost in South Africa

Government members interjected angrily last night when Mr Philip Myburgh (PFP Wynberg) called for a reduction of up to two percent in the R2 400-million defence allocation in order to stabilise the price of bread

Opposition arguments were rejected by speakers on the Government side — with some heavily emphasising the Marxist threat to South Africa

Various aspects of inflation were included in the amendment moved by Mr Harry Schwarz (PFP, Yeoville), the chief Opposition spokesman on finance, at the start of yesterday's debate

The amendment accused the Government, among other things, of failing to take adequate steps to combat inflation, to contain rising food prices, to safeguard living standards of the aged and adequately to protect the nation's health

Mr Schwarz said the Minister of Finance, Mr O P F Horwood, had described the budget as 'consolidation and adjustment' while it was no more than a cover for a disastrous economic situation

The New Republic Party's finance spokesman, Mr George Bartlett (NRP, Amanzimtoti), moved an amendment accusing the Government of failure to take adequate steps to meet 'the critical political, economic and social challenges of the future'

Both opposition parties called on the Assembly to decline to pass the second reading of the Appropriation Bill

Mr Bartlett said the Minister of Finance had failed to make any real impact on inflation The rate of inflation had been fuelled by extended credit for which the man in the street and the small business concern would soon have to pay the price

There were thousands of retired people in South Africa whose standard of living was being eroded by inflation

Mr Bartlett suggested that the Minister could have controlled the mass inflow of money from abroad instead of swamping the South African economy with it

Defending the budget, Mr G J Kotze (NP, Malmesbury) said it had been favourably received by industry and commerce

He backed up his argument by quoting from an editorial in The Argus which commented favourably on aspects of the Budget

Mr Kotze said 'positive aspects' of the Budget included the increased spending on defence which was South Africa's 'priority number one'

Another positive aspect was the large amount allocated for training This showed that the Government was serious about the manpower situation

Mr Kotze appealed to the private sector to discipline itself in staff matters and not to continue outbidding the State when it came to recruiting staff

Mr Barend du Plessis (NP, Florida) said the Budget showed that a meaningful redistribution of wealth was taking place in South Africa

The Minister had resisted pressures from various sources to increase general sales tax to increase State revenue

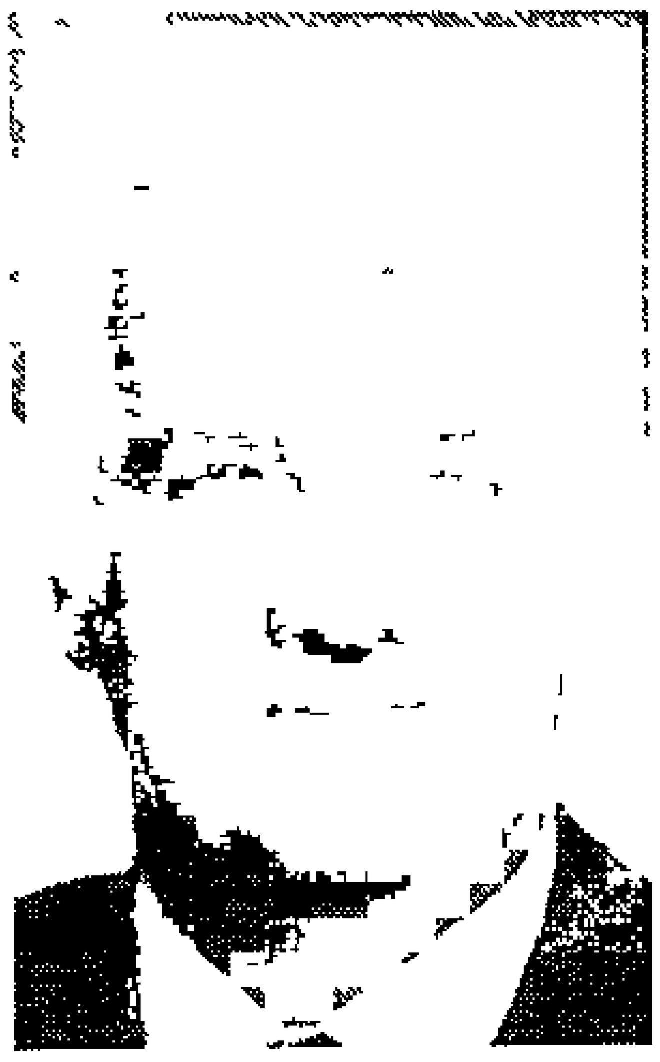
Rejecting opposition criticism, Mr du Plessis said the PFP represented the 'fat cats' of South Africa, and yet it claimed a monopoly over sympathy for the aged and the poor

When the debate was resumed after the dinner adjournment last night, Mr Philip Myburgh (PFP, Wynberg) said many people were facing hunger after the 'unbelievable' increases in food prices during recent months

Since the election the price of almost every food commodity under Government controls had been increased again

Inflation boosting govt revenue — Malcomess

CT 19/8/81 (153)



Mr John Malcomess

Political Staff

HOUSE OF ASSEMBLY. — The government would rake 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 R904 million, taking the current estimated income of R1 805 million to R2 710

"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 taxes 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 reduce state employment in its rationalization programme Masses of red tape meant more staff to administer, police and control

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 eradicated 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 retrenchment We seem to have managed even though the staff shortage is of the order of 22 percent"

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

Star 21/8/87

153

~~128~~

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 than 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 thna when the same question was asked in a similar survey last year

Substantially more consumers now felt their financial positions would deteriorate over the next 12 months

The majority of consumers expected the South African economy as a whole to deteriorate during the next year

"The confidence of consumers has dropped sharply since a year ago, 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

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.

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 foreseen

Mr de Vries said the following factors should be taken into account when trying to assess the prospects for private consumption 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 dropping and that credit was becoming scarcer were not supported by banking and building society spokesmen in Johannesburg

INVESTED

Mr Boet Viljoen, chairman of the Association of Building Societies, said money which was withdrawn from building societies was 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 25 150 summonses for hire purchase debts. The 1979 figure was only marginally lower

Union big guns take aim at runaway prices

FBa 155 Rdm 31/8/81

By GERALD REILLY

MAJOR trade union groupings are being mobilised for a joint effort to pressure the Government into slowing the breakneck tempo of price increases of the past few years.

In a move initiated by the Federated Consultative Council of Railway Staff Associations, a direct appeal is to be made to the Prime Minister Mr P W Botha to call a meeting with commerce leaders to draft a combat plan

The FCC president, Mr Jimmy Zurich, said yesterday that approaches had been made to the Trade Union Council of SA and the SA Confederation of Labour and he was confident they would join the FCC in its bid to brake the price spiral

As soon as Tucsa and Sacol formally agreed to join forces a telegram would be sent to the Prime Minister

The three trade union umbrella organisations represent more than 500 000 workers

Mr Zurich said Mr Botha would be asked to call a top-level meeting of businessmen to find a formula which would put the brakes on unbridled price rises

The approach comes after the 2,3% increase in the July consumer price index — an alarming annual rate of nearly 28% — and as standards of living fall among many thousands of lower-paid workers

Out of hand

A major aim of the joint union approach is to get a commitment from commerce and industry, particularly the wholesale and retail trade, to modulate the profit drive and rein in price rises

Mr Zurich said yesterday "There is plenty of evidence to support the view that inflation has virtually run out of control"

Company balance sheets over the past two or three years reflected "excessive" profits in many industries and in the wholesale and retail trade

There was also growing dissatisfaction and alarm at the ease with which companies gained permission from the Price Controller to raise prices

"We believe the formula being used to determine prices is too heavily weighted in favour of the businessman, and that too little regard is paid to the consumer," Mr Zurich said

There was general support for a free enterprise system but the freedom now being given to commerce and industry was being abused

The general secretary of Tucsa, Mr Arthur Grobbelaar, said fat profits and excessive price rises were at the root of the inflation problems

'Rip-off'

Price adjustments were necessary from time to time, but for too long they had been patently excessive This applied particularly in the retail and wholesale trades

"They have been ripping off the consumer in a permissive economic climate and shrugging off appeals for restraint"

Price and profit restraints had become essential to protect living standards of earners, and to slow the drift into poverty of many thousands of South Africans

The executive director of the Federated Chamber of Industries, Dr Johan van Zyl, said "Price restraints, yes, but not a price freeze

"Restraints would wound the inflation beast They might not kill it, but would lop off some of its tentacles"

Dr Van Zyl said, however, that for price restraints there would have to be a "quid pro quo" Employers would then be justified in asking for wage restraints Concessions on both sides could prove effective against inflation

Reflation out of the question, says Dr De Kock

CT 15/9/81

Background to current monetary policy

By PAUL DOLD
Financial Editor

/53

RESERVE BANK Governor, Dr Gerhard de Kock, in a recent major address outlined the policy options open to the authorities to ensure rapid growth during the eighties The governor's address covered inflation, monetary policy and interest rates

He spoke at Unisa's School of Business Leadership seminar in Johannesburg and gave the background to the current monetary policy as well as sketching likely developments

His view on interest rates is of particular interest emphasizing that Church Square's policy is not one of high rates or low rates but one of realistic and flexible market-related interest rates resulting from effective control of the money supply

Dr De Kock also said that leading Western countries had accepted that the improved control of the money supply and monetary demand was a key ingredient in policies aimed at solving current economic problems

"They have also, quite rightly in my view, accepted that in the short-term the purposeful implementation of such policies of increased financial discipline necessarily implies much higher rates of interest — a conclusion which has in varying degrees been accepted by both monetarists and Keynesians"

"TO REFLATE or not to reflate" — that is not the question in monetary policy in South Africa at present (September 1981) It might become the question in 1982 But at this point, even though the economy appears to have moved (technically) into a downward phase of the business cycle, a monetary policy of reflation or stimulation is literally out of the question as far as the Reserve Bank is concerned

Dr Gerhard de Kock

For the present it is decidedly in the national interest that the monetary authorities should permit and encourage the twin processes of "cooling-off" or "consolidation" in the domestic economy and of "adjustment" in the balance of payments to continue

Such a policy stance is essential if we are to minimize inflation, maintain a strong currency and prepare the ground not only for the next upswing of the business cycle but also for a high average annual rate of growth in the (1980s)

It is to this central theme that my remarks today will be directed this choice of subject reflects the firm belief that sound money is a prerequisite for optimum growth in South Africa in the decade ahead

A fundamentally changed environment

To deal with this theme in a meaningful way it is, perhaps, useful to remind ourselves, first, that in framing and applying monetary and fiscal policies in South Africa in the early 1980s, the monetary authorities are operating in an environemnt which differs in many fundamental respects from that which prevailed during most of the period since World War II The main differences are the following

First and foremost we now have a sharply fluctuating gold price, whereas formerly, until the institution of the two-tier gold marketing system in 1968, we had a fixed dollar price of gold, namely $35 per fine ounce It is my considered opinion that we have not yet appreciated the full implications for the South African economy and for monetary policy of this fundamental change

Secondly, we are now living in a world of fluctuating exchange rates and no longer under the system of fixed exchange rates — the so-called Bretton Woods par value system — which prevailed from 1946 until the early 70s

In these circumstances, South Africa took a wise decision in January 1979 to cease pegging the rand at a fixed rate to the United States dollar and to institute instead its own system of managed floating for an independent rand But even if we had decided to continue with a system of pegging the rand to either a single currency or a "basket" of currencies, the rand would, of course, in the changed international currency circumstances, still have floated in terms of most other individual currencies in the world

Thirdly, the South African economy now finds itself part of a world economy which is still struggling hard to adjust to the enormous increases in energy costs during the '70s

This structural change has fundamentally altered the relative economic positions of countries in the world and has contributed greatly to the combination of inflation, greater cyclical instability and balance of payments disequilibrium in the international community

Fourthly, in recent years the authorities in the United States, the United Kingdom, Western Germany and many other important countries have increasingly come to realize the vital importance of improved control of the money supply and monetary demand as an essential ingredient in any set of policies for dealing with their present economic problems

They have also, quite rightly in my view, accepted that in the short-term the purposeful implementation of such policies of increased financial discipline necessarily implies much higher rates of interest — a conclusion which has in varying degrees been accepted by both monetarists and Keynesians

Fifthly, inside South Africa, most financial markets have developed rapidly and have become much broader and more active and competitive than formerly

Indeed, it is widely recognized that for a country in its stage of general economic development, South Africa has a remarkably sophisticated financial system The far-reaching implications which these developments have for monetary policy are currently being investigated by the Commission of Inquiry into the Monetary System and Monetary Policy in South Africa

All these changes taken together have not weakened the South African economy On the contrary, their net effect has been to strengthen the underlying economic situation and prospects in South Africa

Certainly, some of these developments, such as the increase in oil prices, world inflation and increased international cyclical instability, have affected us adversely But, on balance, mainly as a result of the structural 10-fold increase in the price of gold over the past 10 years and the growing importance of many of our other exports, the South African economy has emerged from the '70s in a stronger position than formerly

This, however, in no way changes the fact that we are now operating in a fundamentally changed economic environment and that this has significant implications for South African monetary policy in the decade ahead

Against the background of these fundamental changes, I now return to my central theme — the present policy stance of the monetary authorities

Present stance of monetary policy: Pro-cyclical or anti-cyclical?

In my recent chairman's addressed to the Reserve Bank's stockholders I summed up the policy dilemma presently confronting the South African monetary authorities in the following ... is

economic activity in an attempt to prevent the growth rate from declining much further, keeping in mind the inevitable time lags involved, or should the present conservative and restrictive approach be maintained with a view to consolidating the enormous economic gains of recent years, curbing inflation and assisting the balance of payments in adjusting to the lower gold price and the other external factors now adversely affecting the South African economy?"

I immediately added that the Reserve Bank had no hesitation in choosing the latter course and that it fully associated itself with the approach of "consolidation and adjustment" announced by the Minister of Finance in his Budget speech two weeks earlier

There is no doubt in my mind that this is the correct policy and I wish to emphasize today that we shall persevere with this strategy for as long as necessary, i e until it has achieved its objectives

The question has been asked, however, whether it is appropriate to apply what appears to be a pro-cyclical rather than an anti-cyclical policy at this stage This is a good question which deserves an answer

It is true that the South African business cycle has now passed an upward turning point and has entered a downward phase

Although this does not mean that the economy is about to experience a "depression", it does imply that in the months ahead the rate of increase of real gross domestic product will probably decline further and that many of the economic indi- ... w ...

tively employed a number of techniques designed to prevent or offset undue fluctuations in money market conditions

These these and other ways it has to a significant extent "cushioned" the domestic economy against the adverse impact of the decline in the gold price and in the value and volume of many of our other exports — not only by preventing the rand prices of the export commodities in question from declining as much as their dollar prices, but also by moderating the upward movement in interest rates and the tightening of conditions in the financial markets

As far as fiscal policy is concerned, the recent Budget provides for an increase in expenditure of 16,8 percent in nominal terms and contains no increases in either income tax rates or general sales tax and no imposition of loan levies

Even allowing for "fiscal drag" or "bracket creeping", the net outcome is expected to be an increase in the "deficit before borrowing" from 0,5 percent of gross domestic product last year to 3,5 percent in the current fiscal year Although not designed to be expansionary, fiscal policy is therefore clearly meant to be less contractionary than last year

Nevertheless, in spite of all this "leaning against the contractionary wind," it is technically correct to describe monetary and fiscal policy during recent months as "pro-cyclical", in the sense that the authorities have, on balance, permitted "pro-cyclical" forces such as the decline in the value of our gold output and other exports, the tightening in the ... markets

adjustment process" to work, even if this implies a temporary "pro-cyclical policy" in some respects

Curbing inflation

As far as inflation is concerned, there can be no doubt that the development of excess monetary demand during the course of 1980 and the early months of 1981 exerted undue pressure on available resources and contributed to price and cost increases

The advent of this state of demand inflation was long delayed by two factors, namely restraint on government spending and the considerable scope for imports to rise as long as the balance of payments on current account showed a large surplus

This gave us a long upswing and in 1980 an eight percent growth rate But for reasons now well-known, monetary demand increased excessively from the middle of 1980 onwards and brought about an overheating of the economy

Although the economy is now cooling down, its temperature for the time being is still too high rather than too low The evidence for this is to be found in the continued critical shortage of skilled and semi-skilled labour, the relatively full utilization of production capacity, the strong demand for bank credit and the continued sharp rise in imports

Thus, if we are to minimize the rate of inflation, this cooling-off process must be allowed to continue for the time being Quite apart from the difficulties of reducing the rate of inflation, there is always a danger of a further increase in the rate

Experience in other countries has shown that, with permissive monetary policies, a rate of inflation of, say, 15 percent can easily rise to much higher levels

Whatever else may be needed in the fight against inflation, it is therefore imperative that the rate of increase of money supply and total monetary demand be reduced further

The balance of payments adjustment process

Equally important is the need to permit the balance of payments adjustment process to work effectively The lower average gold price, the recessionary tendencies overseas and the high nominal rates of interest in the main industrial countries are all facts of life which we in South Africa cannot ignore.

It is naive to think that we can neutralize or off-set these adverse external developments by domestic money creation or fiscal manipulation We cannot We have to adjust

We can argue about the appropriate methods of adjustment, but the inevitability of adjustment must be accepted We can forget about soft options. In the short term we can finance the balance of payments deficit, but in the longer term we have to adjust it

If we apply reasonably appropriate monetary and fiscal policies, the present deficit on the current account of the balance of payments need cause us no concern South Africa has one of the strongest underlying balance of payments positions in the world

In addition, according to all the known criteria, South Africa must be one of the most "under-borrowed" countries in the world

Moreover, in recent years there has been an enormous switching of trade financing from expensive overseas sources of credit to cheap domestic sources To reverse this process to the required extent would be relatively easy.

The proviso, however, is that we achieve and maintain effective control over the rate of increase of our money supply and that we do not attempt to keep our interest rates artificially low

That is one of the principal reasons why we have been following a deliberate monetary policy of permitting our financial markets to tighten in response to changes in supply and demand, and of permitting interest rates to rise from their abnormally low and distorted levels during 1979 and the first three quarters of 1980, to their present more realistic levels

Coupled with judicious use of the Reserve Bank's discount on forward dollars, our present level of interest rates should ensure the necessary foreign financing without undue difficulty

Future interest rate movements

Whether our interest rates will have to rise still further in the months ahead before they start their next downward movement, is impossible to say at this stage Much depends on the behaviour of the gold price and of overseas interest rates.

It is certainly possible to envisage a number of scenarios for the coming months which would result in a decline in South African interest rates If these rates come down for the right reasons, i e because the economy is cooling down or the rate of inflation is falling, the Reserve Bank will permit and encourage them to decline

Conversely, it is possible to imagine circumstances in

Continued on page 11

De Kock outlines monetary policy

CT 15/9/81 (153)

Continued from page 9

which it would be in South Africa's interest to permit its interest rates to rise still further If necessary to strengthen our economy and to achieve our policy objectives, we shall permit such a further increase and not prevent it by creating more money

Our policy is not one of "high" interest rates or "low" interest rates but one of "realistic and flexible market-related" interest rates resulting from effective control of the money supply.

Importance of sound money

It is heartening to note that the money supply (M2) is now rising at a much lower seasonally adjusted annual rate than before — only 11 percent during May and June — and that nearly all the financial markets have tightened considerably and are producing realistic market-related interest rates

If our restrictive policies continue to work in this way, however, they will no doubt attract increasing criticism Not everyone will recognize the anticipated cyclical slowing down in general economic activity as the natural and unavoidable consequence of the prevailing combination of adverse external forces and normal internal cyclical influences

Some commentators will, no doubt, blame it all on the "pro-cyclical" policies of the monetary authorities, with the implication that it could largely have been avoided if only a more expansionary anti-cyclical policy stance had been adopted

Such ill-informed criticism will not, however, deter the monetary authorities from their course The present conservative policy stance will be maintained as long as necessary

The whole object of the exercise, it must be emphasized, is to promote stability and growth If we play our cards right, we can, with every justification, already start looking forward to the next cyclical upswing and to a high average annual rate of economic growth in the 1980s

But to attain these objectives we must first "consolidate and adjust" Only in this manner can we lay a solid foundation for the realization of our enormous growth potential Sound money is a pre-requisite for optimum growth in South Africa in the decade ahead

"Should fiscal and monetary policies now be directed at an anti-cyclical stimulation of spending and sharply during the recent upswing, will either rise at a lower rate, level of or actually decline

Keeping in mind that changes in monetary and fiscal policies normally only take effect after a certain time lag, the question therefore arises whether it would not now be desirable to apply an anti-cyclical policy of encouraging spending by such measures as increased government outlays, lower taxes, increased bank credit expansion and money creation, and lower rates of interest.

First let us consider the question whether official policy has, in fact, been pro-cyclical in recent months, as alleged In this regard it is relevant to note that the Reserve Bank has taken strong anti-contractionary action by deliberately permitting the rand to depreciate against the rapidly rising United States dollar by 22 percent since the beginning of 1981, as well as by making extensive use of its own foreign credit facilities and, more recently, also by quoting attractive forward discounts on dollars in order to encourage the use of foreign trade credits and loans

It has also continued to perform its function of lender of last resort by granting accommodation, albeit at higher interest rates, to discount houses and other banking institutions at times of seasonal financial tightening, in addition, it has accresultant rise in interest rates, to exert a certain restraining effect on monetary demand

The essential point, however, is that a deliberate anti-cyclical policy involving such measures as large increases in government spending, tax reductions, increased money creation and lower interest rates would be totally inappropriate and irresponsible at this stage

Given the existence of demand inflation, the critical shortages of skilled and semi-skilled labour, the large current deficit on the balance of payments and the high interest rates overseas, any such expansionary "anti-cyclical" policy could have extremely adverse consequences for the South African economy

The inflation would almost certainly be exacerbated, the balance of payments deficit would increase, the rand would depreciate, South Africa's credit rating would decline, and we might end up with the worst of all worlds, in the form of low growth, high inflation and a serious balance of payments problem

To gamble with South Africa's economic stability and strength in this way would be highly irresponsible The Reserve Bank will not take the economy to the casino

In monetary policy top priority will therefore be given at this stage to curbing inflation and permitting the so-called "balance of payments

INFLATION 153

Housing cost pressure

FM 18/9/81

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 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 less than 1% per month, suddenly rocketed by 7,2% in the month of July This brought the year-on-year rate of increase of the cpi for housing to a record 15,6%, and accounted for 1,2% 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

	Inflation rate (year-on-year)	Inflation rate excluding housing	Inflation rate excluding food	Housing	Food
August 1980	11,9	11,7	11,8	10,5	15 7
September	12,8	12 9	13,2	11 5	20,2
October	14 4	14,7	11 6	11,5	25,2
November	14,9	15,6	11 4	11,3	28
December	15,8	16 6	11,8	11,3	29,5
January 1981	15 5	16 4	11,8	10,7	28 4
February	16	16 8	12	12,2	30 1
March	16 2	16,8	12,4	13,3	29 9
April	15,5	15,9	12,4	13,3	27
May	15	15,5	11,4	12,6	25 7
June	14 5	15,4	10,8	9,9	25,8
July	15,5	15,4	13	15 6	22,5

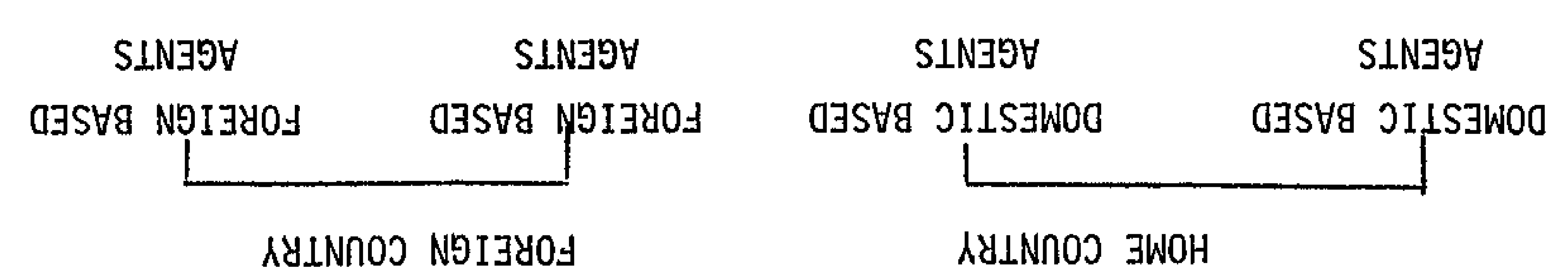
for the first six months, running at below the average rate Inflation for lower income groups ran at levels well above the average

In July, however, higher income groups began to suffer rising inflation and this 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

EDM 22/9/81 (153)

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.

Mail Reporter

Some anticipate a figure of more than 15%.

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 ended August 31 the rate was 16,1% — the second time this year that 16% has been exceeded.

The PFP'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.

18. FASB DM: Op

19. Ibid, paragr

20. Suggested by ... onnaire.

21. Respondent t

22. Interview wi ... Haskins & Sells.

23. FASB 34: Op

24. FASB DM: Op

25. Arthur Young ... cussion Memorandum -

26. Coopers & Lybrand: Op. cit.

27. Ernst & Ernst: Op. cit.

28. FASB ED: "Capitalisation of ... cember 15, 1978, paragraph 10.

29. Ernst & Whinney: "Financial ... ients : Capitalisation of Interest Co ... page 13.

30. Martin, D. Edward: "Somethin ... ng : Capitalisation Interest", Fin ... May 1980, page 26.

31. FASB DM: Op. cit., paragraph

32. Ibid, paragraph 62.

33. Ibid, paragraph 63.

34. Ibid, paragraph 64.

35. Ibid, paragraph 65.

36. Deloitte, Haskins & Sells: "Letter in Response to proposed Statement of Financial Accounting Standards - 'Capitalisation of Interest Cost'", April 4, 1979.

37. Arthur Young & Co: "Letter in Response to Discussion Memorandum - Accounting for Interest Cost".

38. FASB DM: Op. cit, paragraph 16.

39. Gray, O. Ronald: "Implementation of FASB Statement No. 34 : Capitalisation of Interest Cost", The National Public Accountant, April 1980, page 24.

SA inflation rate to drop, says Horwood

EDM 2/10/81

153

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 relaxations of exchange control Any further actions on this must await, however, the second report of the De Kock 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 convertability of the dollar by the US

Such a decision would obviously depend in 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 Africa's largest trading partner, at least as important to the country as Britain

The Minister said that while at the IMF he had had valuable private talks with Mr Donald Regan, the US Treasury Secretary

- The best way for South Africa to maintain the living standards of all its peoples was to ensure that the countries around it had stronger economies

South Africa was offering major development assistance to help this

- There had been no signs of political animosity to South Africa at this meeting of the IMF Mr Horwood could not, however, give any indication as when, if at all, the country might get back direct or indirect representation on the executive board of the IMF which it lost in 1974
- The Government was giving urgent attention to spending money on education and training for peoples of all races as the best way of improving productivity in the economy

INFLATION INDEXING FM 13/11/81 15.3

The curious case of the cpi

"Tell us the one about the consumer price index." In years to come the rags to riches story of Cinderella could be replaced by an equally poignant tale — the saga of the cpi. The story of its rise to fame is rich not only in moral truth but in irony as well.

Anticipating some recently-announced proposals for changes in the US cpi, the *Wall Street Journal* described it thus: "The consumer price index, a once homely measure liked only by textbook writers, is now glamorous with appearances on network news and headlines on front pages and debates in the US Congress. And why not? Over the past couple of decades a lot of chequebook activity has come to depend on every rustle of its bustle ... from social security down to royalty payments. If glamour comes from power, then the cpi ranks with Miss Piggy."

Therein lies something of an irony. The burst into star-spangled prominence of the cpi has accompanied the persistent bout of inflation that has plagued the world since World War 2. The cpi has been accepted as the primary thermometer of inflation. Its steady increases have nurtured the self-fulfilling phenomena of inflation ... the wage and salary increments that follow price rises which in turn follow the higher production costs arising from wage and salary increments *ad infinitum* and to the embattled consumer *nauseam*. The irony is that the humble cpi professes to measure inflation only by default.

Agreement between economists on the definition of inflation is limited, and the rifts widen further when its causes are considered. Under these circumstances, to ask how accurate is any one index is to invite ridicule. One commentator even goes so far as to say: "Of course there is no such thing in reality as a true rate of inflation." The inescapable conclusion is that the cpi claims to measure something that does not exist but which changes all the time. At this point we are dropped without ceremony in a truly fairy-tale world. Let us try to retrace our steps.

There is little dispute about the fact that our apparent costs of living are rising all the time. The cost of living is an issue with wide social and political ramifications and the cpi is accepted as our most reliable indicator of the speed and extent of changes in it. This goes a long way towards explaining the prominence given to it. But to see it as an accurate yardstick of inflation is mistaken. As another economist puts it: "Actual measures of inflation are necessarily arbitrary. When such a measure becomes a widely accepted convention and can be used consistently, it can of course be very useful. But the meaning of what is measured must be derived strictly from the measuring procedure, that is, it must not be regarded as an approximation to various theoretical concepts and everyday notions of inflation." The problem of course is that inflation rates are different for everyone. They depend on the mixture of commodities that each consumer habitually purchases.

A parallel can be drawn with the gatsometer, the curse of motorists who exceed the speed limit and are forced on its evidence to pay traffic fines (which incidentally have risen substantially over the years). The gatsometer is not used to measure the speed of cars travelling on open roads. It is used to measure the speed at which a certain car crosses a certain distance at a certain time. Its purpose is both specific and limited. So is that of the cpi. The difference

between the two is that the cpi attempts to collate myriad pieces of specific information and transform them into a national average. Therein lies both its metrical weakness and its political strength.

If the cpi is at best a rough measure, what exactly does it measure roughly? Commenting on the SA cpi in the *South African Journal of Economics*, a statistician at the Department of Statistics in Pretoria says: "Since the consumer price index is a yardstick for measuring the change in the purchasing power of money in the hands of the consumer, the weights used should be related to the expenditure pattern of the consumer." This piece of common sense gives the clue to one of the central statistical problems involved. Little meaning could be attached by a teetotaller to the news that the inflation rate was rising at a certain percentage if the index used to measure it were based only on the soaring prices of imported whisky. And it would be somewhat immoral of the same teetotaller to use this information in personal wage negotiations.

At the same time the framing of relevant price and quantity categories is hardly a simple procedure. As one analyst asks: "Do tickets to a cinema show, a famous ballerina's last performance and an election victory ball make up three units of entertainment?"

These are problems that occur at the margins, however. At the centre are a vast range of goods and services, all neatly packaged in multiples of grams and litres and all bearing clearly-marked prices denominated in a single currency. They are easier to deal with. Expenditure patterns, the individual combinations of those goods and services that different consumers consume, are not.

At the outset an index framed from market surveys of expenditure patterns may be relatively accurate. But as prices continue to rise at differing rates, consumers switch to cheaper (or less inflated) substitutes — the so-called substitution effect. Real expenditure patterns change, but in extreme cases the index continues to reflect with disproportionate weight the steadily-rising prices of commodities serving a drastically diminished demand. Current criticism of the US inflation index, for example, notes that though only 6% of all Americans buy a new home in any one year, housing accounts for almost 23% of the total cpi.

The theoretical base of the SA cpi, and those in most other countries, is the Laspeyres system. It measures price changes relative to an arbitrary base year — in this case 1975 — and its expenditure patterns are based on regular field surveys — in SA about 10 000 households. These are updated every ten years, the next being due in four years' time. The index makes a distinction between consumption and investment goods and between private and collective consumption. Food is a consumer non-durable and has almost a 25% weighting in the index. At the other end of the scale, houses are consumed over a long period of time. The index aims at accuracy in this area by ignoring property prices and instead monitors mortgage interest rates, the prices of municipal services (rates) and a residual item entitled "the cost of home ownership". This is an assessment of the rent foregone by self-occupation. Interestingly, it embodies the principles of proposed revision of the US cpi in which the housing component concentrates on mortgage rates.

Between food and housing lie consumer durables like cars and fridges and stoves

PTO

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 the 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

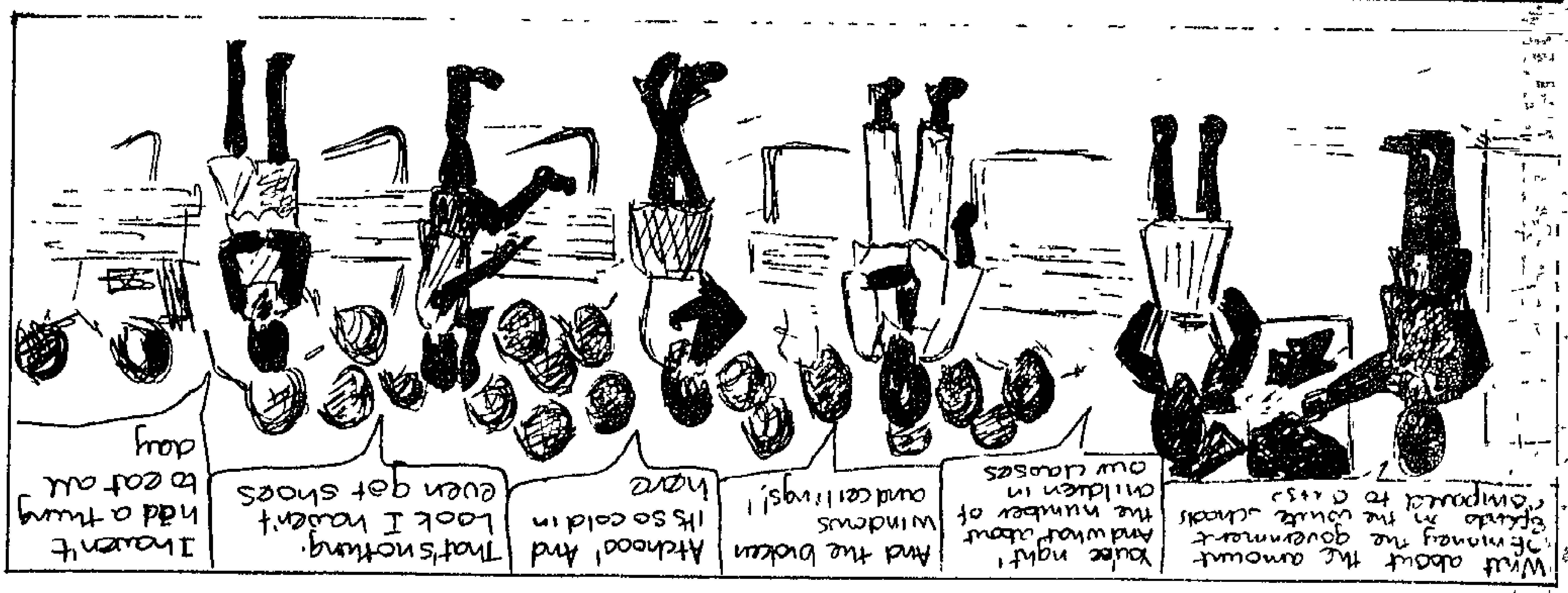
The SA cpi is internationally innovative in that it divides its consumer base into lower, middle and higher income groups Resting on the principles of private consumption expenditure embodied in national accounting systems, the higher income group has the heaviest weighting (55%) because of its proportionately larger contribution to total expenditure Economists like JCI's Ronnie Bethelehem have criticised 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

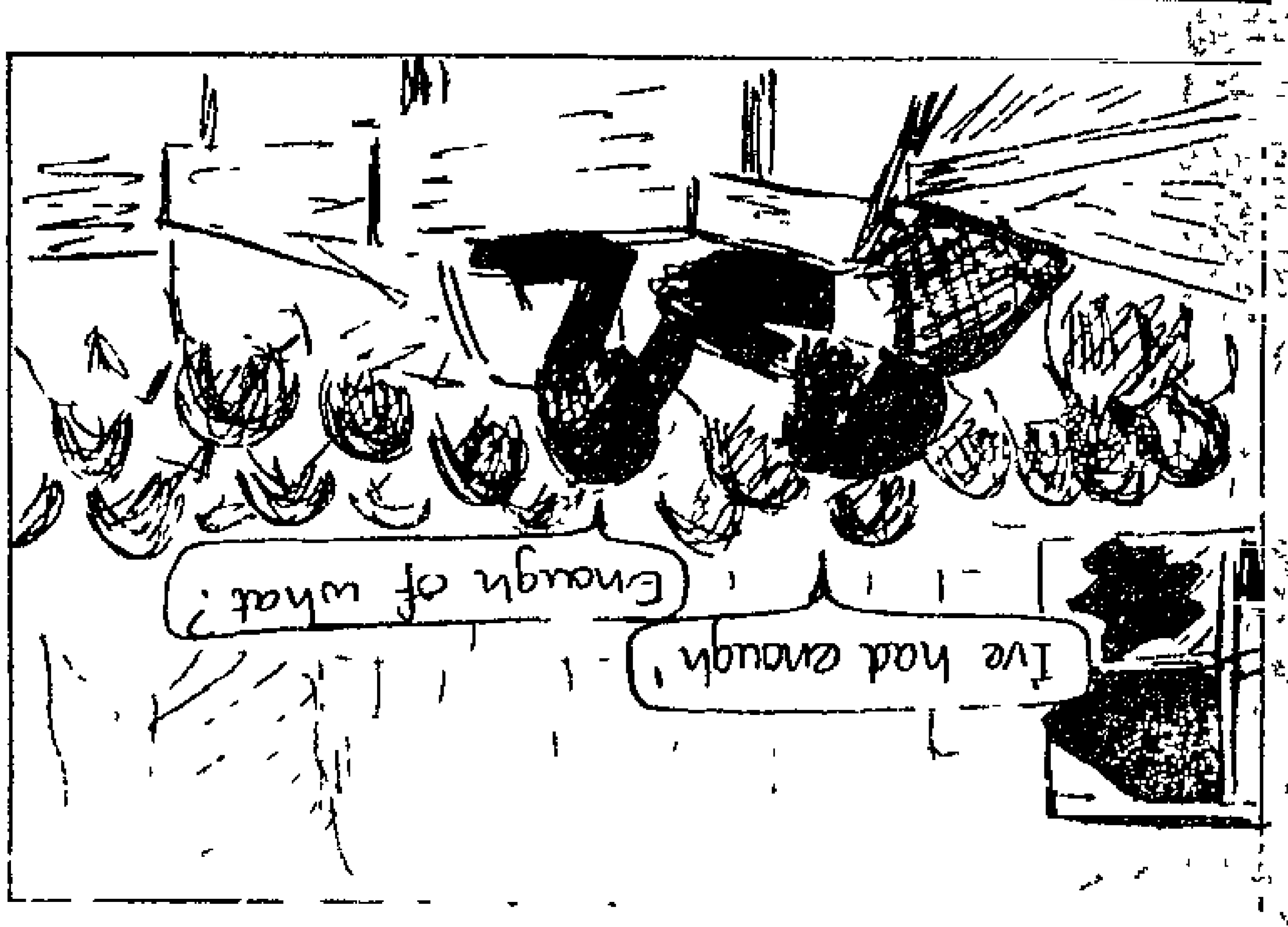
Another point of criticism is that the Laspeyres system can generate percentage increases based on expenditure patterns that can be as much as a *decade* out of date The Paasche system, conversely, recommends monthly expenditure reviews Apart from the practical problems involved, studies in SA have shown 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 non-entity 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

ROV 15/10/81 (153)

THE PROBLEM of inflation was the combined rsponsibility of the State, the private sector and the individual, said the Deputy Minister of Finance, Mr Danie 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 aplied 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 This 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, benefit 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

RDM 5/10/81

~~270~~ 153 ~~271~~

Financial Reporter

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 R97 800 000 (R72 200 000) for the year to June 30, 1980, with earnings a share of 1 373c

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

"It is to be hoped that indications of recovery in the world economy will make the slowdown of the South African economy of shorter duration and less painful than the slowdown that followed the decline in the gold price in the mid-1970s"

● INVESTMENTS JCI has taken its stake in SA Breweries to more than 20% with another 1 780 000 shares at a cost of nearly R7 900 000

● GOLD "Despite fluctuations caused by a recurrence of exchange market uncertainties 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.

"In addition, whereas a year ago oil prices were rising, a glut in supplies, notwithstanding continued turmoil in Iran and the war between Iran and Iraq, is now causing oil prices in the spot market to ease or at least to stabilise

"As long as such circumstances persist the gold market is likely to be adversely affected

"However, the still unresolved problems of Poland, Iran, Afghanistan and Lebanon will continue to influence gold price movements

"For these reasons fluctuations in the gold price are likely to persist and interest in the metal should be maintained whatever the outcome of government efforts in Western countries to contain inflation"

● LABOUR "Unskilled labour (in gold mining) remained in oversupply during the year, but the critical shortage of skilled staff continued

"If production is not to be affected it is essential for the industry to be able to utilise its available manpower resources in the most efficient manner possible.

"This can only be achieved by the removal of the discriminatory provisions of the Mines and Works Act and other legislation affecting industrial relations in the mining industry."

● 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

Blacks' cost of living climbs 12% in Joburg

(153) RDM 17-10-81

THE household subsistence level (HSL) for an Indian family of six in Durban is R259,98 a month, the University of Port Elizabeth's Institute for Planning Research reported yesterday

Including 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 surveys 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 (R218,23) and R219,45 a month in East London It was highest in Johannesburg at R242,49 a month and Cape Town with R231,64.

Windhoek, however, remained the most expensive city where the HSL was calculated at R250,44

A socio-economic survey had just been completed among households in Port Elizabeth's black townships

From preliminary results it was interesting to note that while the HSL for a six-member household was R219,46 the average actual household income was R226 a month

It was estimated that by 1985 — provided the current rate of inflation remained more or less unchanged — the average HSL for a black household in the five major urban centres of Johannesburg, Pretoria, Cape Town, Durban and Port Elizabeth could reach R338 a month.

Coloureds

Regarding coloureds, the average increase for the 10 comparable surveyed centres since the April survey was 7,7%,

The lowest percentage changes were found in Queenstown, Kimberley, Johannesburg and Port Elizabeth

In Cape Town, Pretoria and East London the percentage increase varied between 8,1% and 8,6%, which was more or less on a par with the Consumer Price Index increase over the same period.

Of the surveyed urban centres — excluding King William's Town and Queenstown — the HSL for a five-member household ranged from R216,74 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

Argus 22/10/81 153

Inflation 'still biggest problem'

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 Attie 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 Klomfass, 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 Klomfass 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 sign of regressing I cannot see it dropping much below 14% for 1982," he said The food CPI was unlikely to drop much below 20%

Consumers would try to save after the spree of the previous two years and would be helped by "seductive offers from hungry money insitutions"

"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 bonanza 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 Klomfass said "Retailing chains 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 notorious suppliers or manufacturers who enjoy monopolies, who operate price fixing cartels or who are legislatively protected from competition

Mr Klomfass 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 increments to the lower levels of store workers would be higher than in other business sectors

Economy winding

...son ...llers ...e run

DOW Matthysen

FROM 10 until 11 30 tomorrow morning the Children's Bookshop is celebrating its 30th birthday in Tyrwhitt Mall, Rosebank There will be free cool drinks, a Punch and Judy Show, drum majorettes and a bubble blowing competition All children are welcome

□□□

THEN also tomorrow morning there is grand prix racing on a small scale on the go at the Steeldale Hypermarket, on the corners of Outspan and and Kliprivier Roads, Southhills

□□□

AND at noon drag racing starts at the Tarlton Dragstrip, off the Pretoria/Krugersdorp Highway

□□□

ALSO at noon tomorrow there is a championship cat show at the West Ridge High School, Ontdekkers Road/Horizon

□□□

STAR-GAZERS may be interested to learn that the Planetarium will present "Voyager Encounters Saturn" at 3pm in Yale Road, Braamfontein

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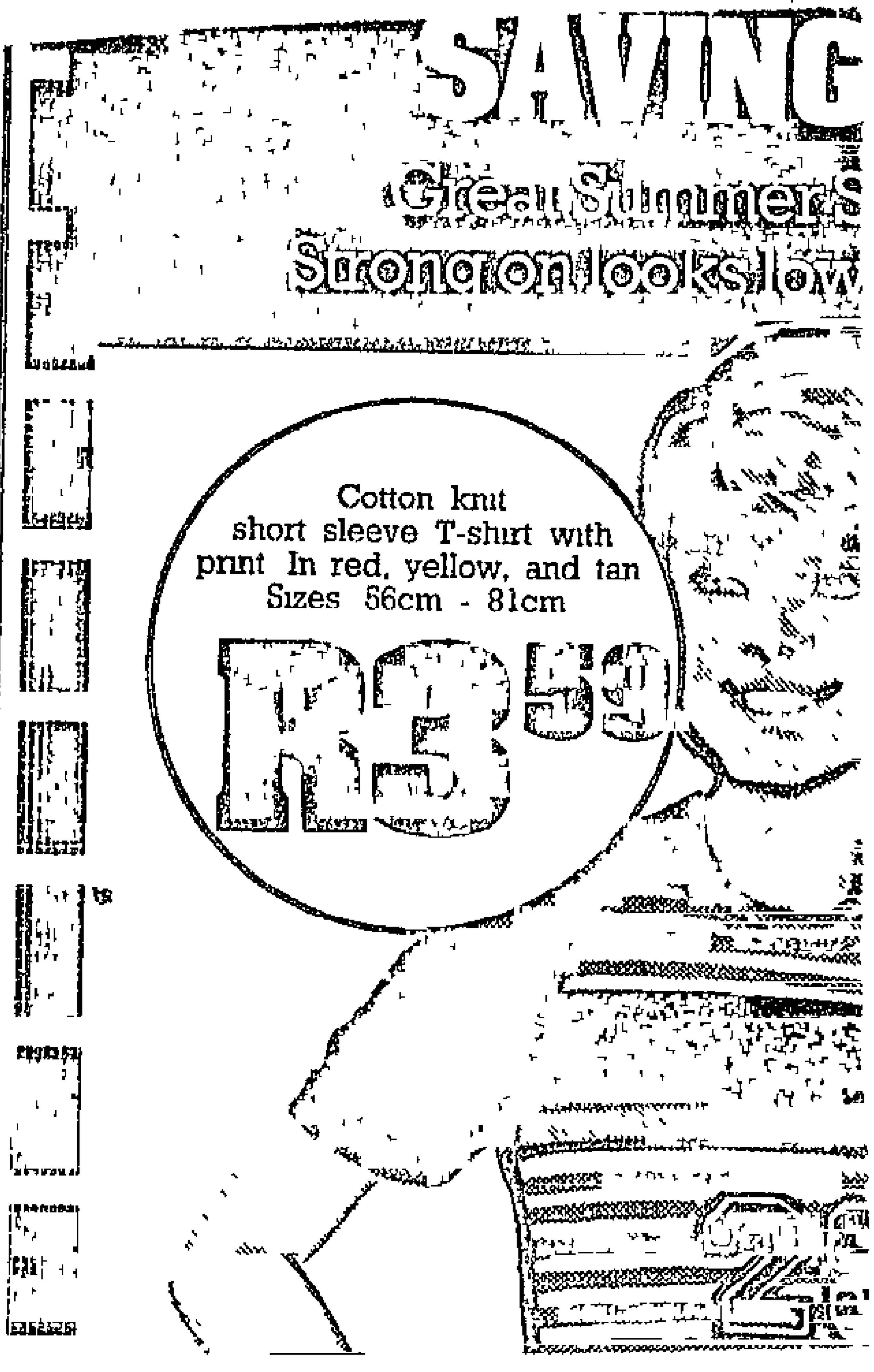
NOW about some Sunday happenings At 10am the annual commemorative service of the Battle of El Alamein will be held at St Catherine s Church, 51 Dalene Road (corner of Homestead



Inflation's grip tightens as CPI soars 22%

RDM 23/10/81 153

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 22,2% in the third quarter of this year

That arose from monthly rises of 2,3% in July, 1,7% in August and 1,6% in September

The overall CPI was 211,3 in September compared with 208 in August and 182,8 in September 1980

That gave a 12-month increase of 15,6%

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 19%

An exceptionally heavy jump in meat prices in September 1980 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 15,45% 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 22% in the fourth quarter of 1980 to 13,1% and 10,4% in the first and second quarters of 1981"

That seemingly hopeful trend was clearly sharply reversed in the third quarter

PAT SIDLEY reports that Professor J L Sadie of Stellenbosch says the year-on-year CPI figure for 1981 should fall below the present 12-month level because of large increases in the index in October, November and December last year

He says Pretoria's present fiscal and monetary policy has failed to contain inflation effectively and that other means, such as wage and price controls, should be introduced

Most private economists are, however, opposed to this.

A bank economist says the inflation rate has been accelerating

When the increase between August and September — which appeared to slow — is seasonally adjusted, it in fact increased from 1,17% to 1,36% last month.

The inflation rate will slow down, he says, but not significantly and this will only be visible in 1982

Inflation running at 17,7%

RDM 29/10/81

(153) 24

Financial Reporter

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 Gerhard de Kock, the Governor of the Reserve Bank.

This followed a decline from 22% in the last three months of 1980 to 10,4% 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

Dr De Kock said "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 inescapable 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 12% 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 this 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

ARGUS 29.10.81 ~~67~~ 153

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.

FINANCE

The bureau makes these forecasts in its publication Prospects for 1982, prepared by its deputy director, Mr A J M de Vries, and two Volkskas Merchant Bank economists, Dr I 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 pe cent in 1982 from an estimated 4,1 percent this year

HARDEST HIT

However, the primary sector is expected to be the hardest hit with a 3,2 percent 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 percent from this year's 4,8 percent, while the rate of growth in the tertiary sector is estimated at 2,9 percent against 3,8 percent 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 percent in 1980 and 2 5 -3,0 percent this year to below 3 percent next year

As the population will grow by more than 2 percent 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 sees the Budget deficit rising to 6 percent of GDP from 4 percent this year and 0.5 percent in 1980

To reduce this deficit the bureau assumes that the Budget next year will

- Increase the general sales tax from 4 to 5 percent
- Re-introduce a 10 percent 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 percent for next year

INFLATION 153

No clear trends

FM 30/10/81

The year-on-year rate of increase in the consumer price index reached 15,6% in September, according to the Department of Statistics

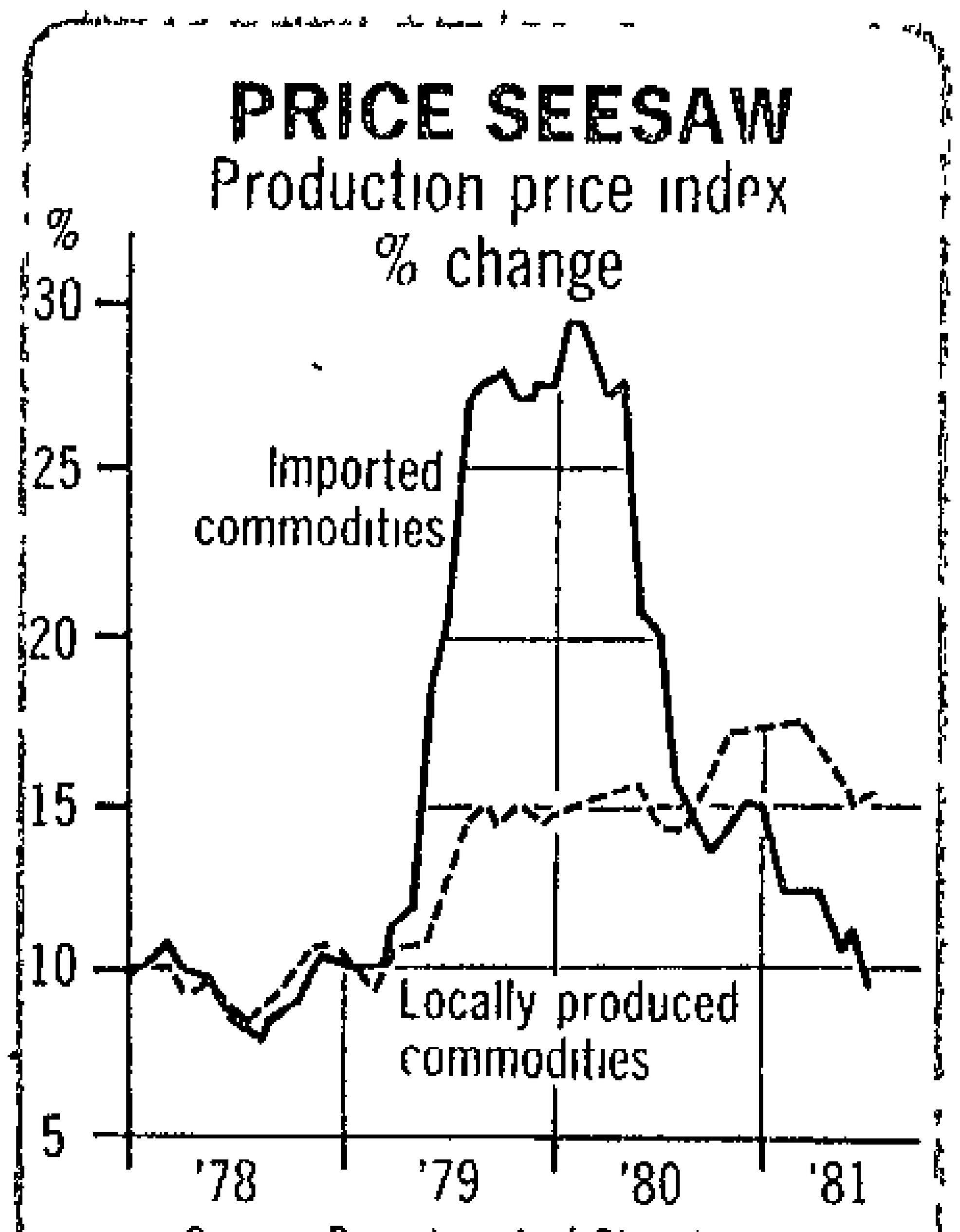
This figure is lower than that recorded in August, but higher than those of the three months before that, and no clear trends may be extracted from it But it should be viewed against the fact that the rate of increase in the prices of imported goods has slowed sharply since the middle of 1980 According to Sanlam'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 in 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 2,3% "

The latest overall cpi figure yields an annualised rate for the last quarter of almost 23%, 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 increase 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



Source Department of Statistics

CT 30/10/81

BER predicts GST will go up

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By GORDON KLING

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 this 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 23 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 2,3 percent next year after this year's 4,1 percent rise, while job and production capacity boosting 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 14,3 percent after a rise in the consumer price index for 1981 of 15 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 occured 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

NM 30/10/81

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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 6 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 among other things contain

- An increase of 1 percent point in general sales tax to 5 percent,
- The re-introduction of a loan levy on companies and individuals of 10 percent; and
- A sharply reduced rate of increase in subsidies but no 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 R4 000 million deficit.

But while the deficit will be recorded throughout 1982 the amount will decline throughout the year

The gold price swing pushed the current account into deficit after 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 27,5 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 on an annual basis for the last quarter of 1981

Competition

'The outlook for 1982 is at best a slight moderation in the average rate of increase Increased competition following weaker domestic donditions, coupled with better control over the increase in the money supply, must be regarded as the main forces that could assist towards a deceleration in the rate of inflation. There are also factors at work that will exert an aggravating influence on inflation

'The lagged effect of the depreciation 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 5 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'

'As the growth of the monetary demand is expected to subside markedly during the second half of 1982, some 'softer' monetary policy approach can be expected towards the end of that year

'However, no relaxation of reserve requirements nor a lowering of the bank rate is assumed for the forecast period'

Policy

Monetary policy is expected to remain fairly restrictive during 1982

With monetary expansion still high, most South African interest rates were not yet positive in real terms and only of late more in harmony with overseas interest rates

FORECAST IN A NUTSHELL

KEY ITEMS	1981 Change %	1982 Change %
GROWTH		
Real GDP	4,1	2,2
• Primary sector	2,9	−3,2
• Secondary sector	4,8	3,7
• Tertiary sector	3,8	2,9
REAL CONSUMER SPENDING		
Total	4,1	2,3
• Durables	0,2	−8,3
• Semi-durables	3,5	2,9
• Non-durables	4,3	3,9
• Services	6,2	4,2
REAL INVESTMENT		
Total fixed	11,1	−0,4
• Public authorities	4,0	4,5
• Public corporations	6,0	5,5
• Private sector	16,8	−5,0
Change in inventories	R1 425m	R556m
CURRENT ACCOUNT		
Exports	−4,4	18,0
Imports	31,6	3,2
Deficit on current account	−R4 042m	−R2 645m
INFLATION		
Average CPI	15,0	14,3

Cost of living index suspect, experts say

ARGUS 31·10·81 153

by DEREK TOMMEY, 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, is 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 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 feeds on itself, he says.

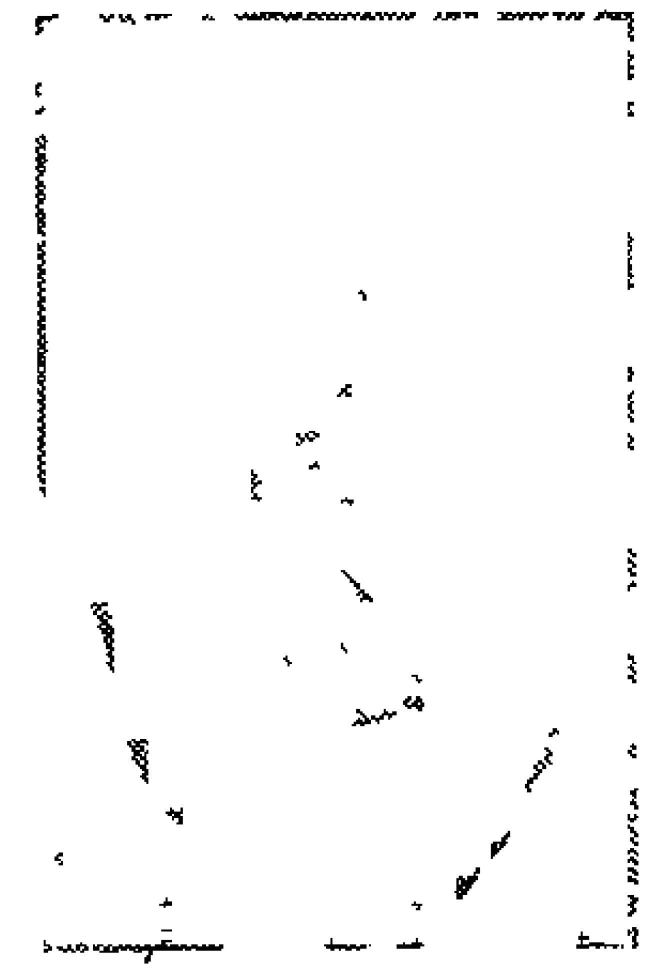
In an interview this week, he said: 'Last year's rise in the index is this year's inflation rate.'

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?'

Increases in the cost of imported goods should also be eliminated from



Professor J L Sadie

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 there 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

(Continued on Page 5)

CoL index

Argus 31/10/81 153

(From Page 1)

of living index if this led to a reduction in the inflation rate

But economists point out that any changes in the constitution of the index would probably be strongly opposed by organised labour

It would be far better to abolish the index altogether, one suggested

Then workers would not automatically get wage increases when prices rose and it would be far more difficult for producers to increase their prices and continue to sell their products

In fact, any increase in production costs would be more likely to lead to the producer attempting to improve his efficiency, which would be far better for everyone than just increasing prices as he does today.

DD 20/11/81 153

Inflation rose 1 pc in October

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 182,8 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.

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P R Swift

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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

S A 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

URBAN & REGIONAL PLANNING

Student Planners Award

For the student who has shown greatest promise at the end of the first year.

M P Morkel

F.M. 18/12/81 153

INTEREST RATES

The inflation factor

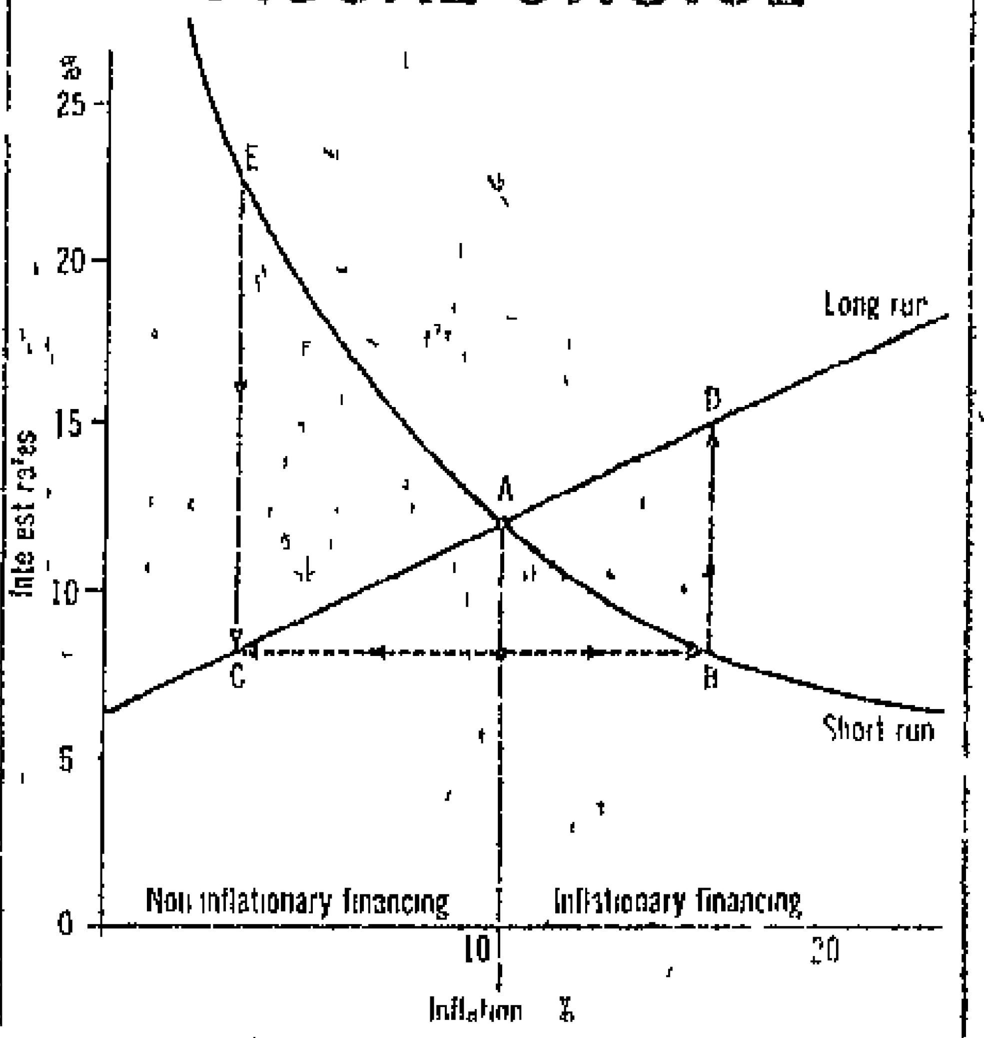
Market interest rates in the long run are more positively and strongly correlated to the inflation rate than to any other single economic or financial variable In other words, high inflation rates are invariably associated with high interest rates *in the long run*

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 recognise 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% prevails, is less than R26 000 The interest income it generates is also subject to the same erosion. In general, fixed-interest investment is subject to an unduly high risk relative to its low real return One conclusion is that the concept of the long-term will have to be shortened, drastically Five to seven years, rather than 20-30 years, is a safer horizon in an inflationary environment.

FISCAL CHOICE



The causal relationship between inflation and interest rates has serious implications for fiscal policy (see graph) Whereas in the long-run the relationship between inflation and interest rates is positive, the *short-run* relationship is an inverse one Government can relieve immediate economic pressures by financing in an inflationary manner, causing temporary liquidity and a fall in interest rates A higher rate of inflation is the price to be paid, as higher liquidity increases aggregate demand and puts pressure on prices.

At the next stage, as this demand filters through into the real sectors of the economy, investment decisions are made to expand capacity The demand for loanable funds increases, assisted by the erosion of the real purchasing power of existing money by inflation, and interest rates rise Hence the positive long-run (one to two years) relationship between inflation and interest rates is preserved The short-run inverse relationship is the one most often perceived by governments influenced by political pressure to lower interest rates

The government of US president Ronald Reagan is an exception Finding itself at point A on the graph, it chose to move towards the C position, thus causing interest rates to increase towards E *in the short-run*. On the *long-run* curve, however, it is in a favourable position that augurs for low inflation and low interest rates in the future

The SA government now finds itself at point A on the graph, faced with a similar choice Should it move toward point C, although interest rates will rise in the short-run, it will have laid a healthy long-run basis for the next inflation/interest rate cycle Tight fiscal and monetary policies assisted by non-inflationary financing of the fiscal deficit will lower the rate of inflation, in the wake of which interest rates will fall

Should it resort to the politically expedient, to point B, the same liquidity factors that cause interest rates to fall in the short-run will cause inflation to rise It will, however, have placed itself on a long-run course that promises continued high inflation rates, and high interest rates to match them

Based on ideas supplied by Ari Uhel, lecturer in economics at Witwatersrand University Business School and consultant in fixed-interest investment to a firm of Johannesburg stockbrokers

Financial Mail December 18 1981

GENERAL NEWS

(153) Star 28/12/81

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 — come 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 Denzyl 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 14,99 percent over the same period

The overall consumer price index had risen by 15,59 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 Jannie van Huyssteen, 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.

Weak rand set to push car prices higher

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RDM 28/12/81

By DAVID CARTE

CAR prices are set to rise by between 3% and 5% soon, says the managing director of Volkswagen SA, Mr Peter Searle.

Mr Searle said the softer rand would be the main reason for imminent increases. The weaker rand, on its own, had added up to 20% to car maker's imported component costs in the past year.

If Mr Searle's prediction is realised, a car costing R6 000 today would cost between R180 and R240 more, while an R8 000 car would go up by between R240 and R400.

The size of price increases would depend on the amount of local content in a car and the exchange rate of the country from which the car was sourced, said Mr Searle.

The rand has fallen 9% against the dollar, 13% against the mark and 11% against the yen in the past six months. It has appreciated 7% against sterling.

Mr Searle said the softer rand notwithstanding, car prices should not increase by more than the general rate of inflation next year even though labour and local component costs were bound to rise.

He said hotter competition in a cooler economy would inhibit car price increases.

A spokesman for Sigma Motor Corporation agreed that car price gains next year would not exceed the inflation rate.

Motor industry spokesmen said truck and commercial prices would outstrip general inflation next year "by far". This is because they have more foreign content than cars — also because diesel engines produced by Atlantis Diesel Engines would be more expensive.

An industrial economist agreed with Sigma marketing director, Mr Ron Haward, that car sales next year were likely to fall by between 10% and 12%. This would leave most manufacturers close to capacity.

But, he said, motor cycle sales were due to "nosedive". This was because motor cycles were wholly imported and their prices were more obliged to move up as the rand moved down.

In addition, the overwhelming majority of motor cycles were bought by individuals, as opposed to companies, and individuals next year will find credit "extremely expensive".

Mr Kevin Byren, managing director of Midmacor, Honda franchise holder, said national motor cycle sales had fallen from about 8 000 units a month six months ago to 6 000 a month.

"That's a 25% drop and we could see another 10% fall next year", he said.

Smith Mitchell had made a profit of R10½ million in 1973. It is clear that Smith Mitchell do profit, otherwise they would not operate. They have no competition in the field of mental health, i.e. a virtual monopoly. The extent of its profitability remains a secret.

...ses is "Are patients better off in 1976 ... his fair question cannot actually be ... assess this are not comparable. The ... of care expressed in the opening para- ... With 3 million outpatient visits ... of anti-psychotic drugs, the impression ... ment. But this remains impression,

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1. Throughout the period under review, and even prior to 1916, there was a constant, relentless and progressive discrepancy between demand for and supply of facilities. This discrepancy acted as a spur to the expansion of services. Between 1960 and 1970, the demand for more facilities was so critical that the authorities were compelled to take radical measures. But to state that Demand creates its own SUPPLY, i.e. by inverting Say's famous law, tells us as little about supply and demand as Say does. It deals only with the surface of the matter. It does not explain how the demands arose, or why they arose in the particular way they did. Nor does it provide any insights into how the supply itself was generated to meet the demands. In this specific case, it does not explain why supply was not being generated in ... in terms of overcrowding ... at 12%, while in 1965 ... and at 23%. ... pply was supplied is ... velopment of psychiatry ... The discovery of the ... chiatry from a largely ... treatable science. ... organization of ... larger numbers of people ... services. It made it possible to receive therapy, and to receive it in their natural community environment. The emergence of high turnover inpatient and outpatient sections of psychiatric hospitals, and at increasing numbers of general hospitals, is a natural consequence. Thus the large-scale penetration of these drugs into South Africa in the 1960s coincided with the early attempts at reorganizing the delivery of mental health care, i.e.. the expansion of outpatient departments, the clearing of state mental hospitals and the greater use of private companies in the provision of custodial care institutions. The later developments of community services in the mid-1970s also flows from this.

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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 towards 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 in terms of job creation and income generation to the benefit 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 7,8 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 Butcheries, 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'

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~~125~~

Mercury 31/12/81

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 60 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 R175 would now fetch at least R325 a month

He said there was little chance of anyone renting a house in top areas such as Durban North or Westville for less than R650 or R700

Landlords were asking for 'key money' deposits, usually in the region of a month's rent in advance when letting a home Mr Goudre considered this to be reasonable in view of the fact that some tenants were inconsiderate 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 R13 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 for R M S Syfrets,

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Fewer flats available

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said this week he had let a top-quality 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-bedroomed flat was renting in 1979 at between R90 and R100 In 1980 it reached the R140 mark and this year was leased at R180,
- A two-bedroomed flat was R150 in 1979, up to R200 in 1980 and between R250 and R300 in 1981 and
- A three-bedroomed flat could be rented for R180 in 1979, R275 in 1980 and between R400 and R420 this year

Other examples A two-bedroomed flat just off the Ridge now rented at R275 — in 1979, the rent was R120 A single-bedroomed flat in the Cato Road area was being let at R220, R90 more than in 1979

Mr Brink said any two-bedroomed flat, even in the poorest area, would be about R250 a month — there was nothing under that.

Three-bedroomed 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 home-owners 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-bedroomed flat cost R16 000 and a single bedroomed flat R12 000 The two-bedroomed apartment now was fetching between R28 000 and R30 000

Why are rents so high? Mr Brink explained that many 'mini-landlords' who own a few sectional-title flats were only just breaking even

'If a landlord has bought a flat for R30 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 R300 just to break even,' said Mr Brink.

'If a landlord bought at the R15 000 to R16 000 mark, he can let at R150 to R180 But if he sells that flat now, the new owner will have to pay R30 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 rents 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 bond 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, said Mr Bunny Reilly, letting manager for J H Isaacs, Geshen

He also said the problem was cost Owners of individual flats had the bond repayment and monthly levy problem and this forced rents up

He had let an upstairs maisonette in Essenwood Road for R550 a month, but quoted a case on the beachfront where a three-bedroomed 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 As 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

(9)

3. Expenditure.

In this section only current expenditure will be
sive data on capital expenditure is more difficu
inclusion of investment expenditures in any one
lead to a distorted picture because of the lumpi
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services in future years. At the same time, cu
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(10) V.R. Fuchs "The Output of the Health Industry", in ... ed. M.H. Cooper and A.J. Culyer, Penguin, 1973, pp 41 ...

(11) B. Abel-Smith, An International Study of Health Expenditure, pp.40-44.