

INFLATION

1982 JAN. — DEC AND
1983 JAN — DEC.

DECEPTIVE RELIEF

153
FM
11/82

The rate of increase of food prices has eased to a point where it is virtually in line with the whole consumer price index

The food index for October was 14.6% higher than the same period last year and 1% higher than September this year. The year-on-year increase is fractionally above the general cpi figure for October, which stood at 14.5% on October last year.

This does not mean of course that

prices are actually declining — merely that its rate of increase has declined. It must be borne in mind too that the high rate of increase in food prices last year — in the region of 20% — produced a high price base from which the current increase is being assessed. The current rate of growth, though it has declined to the overall cpi level, must be seen as an unbroken continuation of that of last year, which substantially outstripped the overall cpi.

The prices of most basic foodstuffs have more than doubled since 1976. Five years ago, for example, consumers were paying just over 17c for a loaf of white bread.

Today the same loaf costs 42c and, there is talk of the bread price going up again. In the same period a kilo of chicken has increased from 99c-R2.18, a dozen eggs from 45c-90c, 2.5 kg of white sugar from 43c-R1.33 and 250 g of tea from 64c-R1.37.


No

price *Mercury*
relief *6/1/82*
in sight

Mercury Correspondent

PRETORIA—The year has started with an explosion of basic cost increases for the entire economy and hopes of a substantial drop in the inflation rate have crashed, according to economists

Fertiliser and steel prices have been raised and another steel price rise is likely in the middle of the year, postal tariffs have been raised by a massive 19 per cent from April 1, and just ahead is another rise in the price of fuel

And the expected increase in the general sales tax of one percent to five percent in the March budget would further inflame the inflationary climate, it was stated

Another expected blow is an all round rise in railway tariffs and fares in the Minister of Transport's budget, also in March

Condemned

Yesterday commerce and industry condemned the hikes in postal charges announced by the Minister of Posts and Telegraphs earlier in the week.

The higher tariffs would load costs in the business world, and unavoidably result in a 'fairly drastic' increase in the inflation rate

Barclays Bank's chief economist, Dr Johan Cloete, said 'What is happening now, and will continue to happen for the rest of the year, is the vicious cycle of cost rises followed by price rises'

Again all administered prices were virtually certain to rise, including railway tariffs

The railways and post office had enormous salary and wage bills and the increases expected in April would have to be recovered

A political deal to crush inflation

153 RDH
14/1/82

THE most important challenge facing the South African economy in 1982 is the need to reduce significantly the rate of inflation.

	Real economic growth	Increase in money supply (M2)	Increase in consumer prices (CPI)
1974	7,6%	22,3%	14,1%
1975	1,6%	17,4%	11,7%
1976	1,7%	9,0%	10,8%
1977	0,0%	6,9%	11,1%

Howard Preece



Economic Spotlight

There are plenty of other problems — and plenty of medium- and long-term opportunities, too — but curbing price increases is the most critical.

Unless a major slowing in the cost of living can be achieved while the economy is on the downswing the inflationary outlook for the next upswing — starting perhaps in late 1983 or early 1984 — looks pretty grim.

The prospects of even moderate success this year do not look particularly good.

In 1981 the consumer price index rose by about 14,5% (the final official figure is not yet available).

The average forecast for 1982 by private sector and academic economists is a rate of about 13%.

While that improvement would be welcome it would hardly be dramatic.

It would also leave South Africa with a dangerously high inflationary base from which to begin any new growth charge.

The nature of the danger can be seen from the accompanying table which shows the way real growth, inflation and money supply changed in South Africa between 1974 and 1977.

There was, of course, a hectic gold-backed boom in 1974 with growth getting close to 8% (as it did in 1980).

But the wheels fell off in 1975 as the gold price tumbled, the balance of payments went into heavy deficit on current account and the rand was devalued.

The economy was also then dangerously overheated with inflation, as now, a crippling threat.

What the table shows, depressingly, is how severe a recession the economy then went through — and how comparatively little impact this made on the inflationary pressures.

Dr Gerhard de Kock, the Governor of the Reserve Bank, has said that the authorities may well have tak-

en too soft an approach to the economy in 1981 in terms of curbing inflation.

That was not the case in 1975-77, although other criticisms could be levelled at the overall policy package of those years.

The running down of the expansion of money supply, M2, from 22,3% in 1974 to 6,9% in 1977 can hardly be called lenient.

By 1977 real economic growth had tumbled to zero which, when allowance for the 2,6% annual rise in population is taken into account, meant a setback as severe as that which Britain, for example, has suffered over the past year.

But in 1977 the CPI still rose by 11,1%.

In those circumstances it was, in practice, almost inevitable that as growth picked up gradually in 1978 and with an accelerating tempo in 1979 inflation would reach menacing levels in 1980 as the boom peaked.

This pattern was not a purely South African phenomenon. Far from it.

A fundamental change in the world economy, has taken place.

From the post-war 1940s to the early to mid-1960s it was, in retrospect anyway, reasonably easy in most countries to check an inflationary outbreak.

A conventional tough fiscal and monetary policy, a modest rise in unemployment and a dampening of growth and, hey presto, inflation was under control again, certainly by today's standards.

By the late 1960s, however, prices were becoming stickler, inflationary pressures more deep rooted.

A variety of economic and socio-political factors accounted for this (and economists will disagree sharply on the priorities), but it was a critical change.

This was hugely reinforced by the oil price shock of 1973. It is now apparent that in

virtually every country in the world the recessionary medicine has to be vastly stronger than before to bring about a solid downward effect on inflation.

There are, in fact, fears as to whether it is even possible in many democratic societies for the medicine to be administered long enough and in sufficient quantity to be lastingly effective.

So much for the problem, which is easy to set out. But what of any kind of solution?

There are patently no easy answers and any economists — monetarist, Keynesian, supply-side, socialist, marketeer or what-have-you — who suggest otherwise must risk the charlatan label.

What is evident though is that there is no option to a tough fiscal and monetary policy, with all the adverse consequences for growth and employment.

That harsh package is the first necessary condition for restraining inflation.

In the South African context it is also evident to most economists that some radical changes in labour practices are needed, although the benefits of this would mostly be felt only in the medium to long term.

Then there are certain policy options.

In 1978, inflation as measured by the consumer price index on a 12-month basis did fall briefly below the psychologically vital level of 10%.

However, the introduction of general sales tax promptly added 2,8% to the CPI and it has never been below, or even near, 10% again.

In the Budget this March Mr Owen Horwood, the Minister of Finance, will certainly have to raise taxes.

He will be under pressure from some quarters to rely heavily on raising GST.

This proposal has many attractions.

The drawback, however, is that such action must give a further upward twist to the

CPI and thus excite inflationary expectations even higher.

For that reason I would prefer any rise in GST to be kept to a minimum with a loan levy used as the main vehicle for new taxation.

There is also, as I have argued before, a danger in the generally admirable view that public corporations should charge full market tariffs for their goods and services.

The danger is that this commendable principle can become a carte blanche for disguising all kinds of inefficiencies in those corporations.

The Cabinet should, therefore, take a fairly brutal "prove the need" approach to demands for increases in administered prices.

By the same token, however, the heads of the public corporations should be equally blunt in spelling out to the Cabinet just how inflationary some of the racist practices are that they are obliged to follow.

There is one other possibility, which could arguably be called an "incomes policy" although that term tends to generate extravagant emotions on all sides.

At any rate there is a case, as urged by the highly conservative Bank for International Settlements, for incomes policies in some form in the special short-term situation of trying to help reduce inflation when strict fiscal and monetary discipline is already being applied.

One feature of the South African economy is the remarkable concentration of economic power in many areas of the private sector, a factor that may help explain some of the stubborn upward momentum of prices.

Suppose Mr P W Botha, the Prime Minister, were to meet with, say, Mr Harry Oppenheimer, Dr Andreas Wessenaar of Sanlam, Dr Anton Rupert, Dr Wim de Villiers of Gencor, Mr Chris Saunders,

Mr Mike Rosholt of Barlows and a few other key private sector figures in an exclusive Carlton Three gathering.

Mr Botha could ask for price restraint — but with no rules, no policing and no re-criminations. Companies would be free to raise any prices unconditionally where they believed circumstances compelled this. The rest of the private sector would also be unaffected.

But, in return for some restraint in discretionary areas, Mr Botha could offer to push through at least some of the social, political and labour reforms that many leading businessmen have been demanding.

For Mr Botha the informal deal would have the benefit of showing the Government even more resolutely determined in its anti-inflationary approach (a position that could further lower inflationary expectations) and of moderating at least some price rises.

For the private sector the enormous boost to business confidence from major structural reforms would surely outweigh any short-term drawbacks of selective and wholly self-imposed price restraint.

Sunflower power

LONDON — Sunflower oil is being used to power a 25-foot motor cruiser in Cambridgeshire. Mr Ian Kerr, a company director, who operates the boat from Littleport, near Ely, is thinking of extending the idea to the 120 other luxury cruisers his Derby-based company hires to holidaymakers.

The project is supervised by the Perkins diesel engine company at Peterborough. It warned other boat owners not to experiment with sunflower oil — Financial Times

Inflation rate is down on 1980

KOM 23/1/82

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RAND DAILY MAIL

2%

By HOWARD PREECE and GERALD REILLY

SOUTH Africa's inflation rate was 13,9 percent in 1981, as measured by the official Consumer Price Index — nearly 2 percent down on the 1980 figure of 15,8 percent.

The final 1981 figure was slightly below the level predicted at the beginning of last year by private sector economists and well under the 16 percent yearly rate that inflation touched on occasions last year.

It was also marginally less than the 14 percent rate that was effectively assumed by Mr Owen Horwood, Minister of Finance, in his mini-budget last March.

The CPI rose by only 0,66 percent in December, bringing the 12-month rate down to 13,9 percent compared with 14,4 percent at the end of November.

There was also a sharp drop in the Wholesale Price Index, with the rate for the year to the end of November down to 11,6 percent against more than 16 percent at the beginning of the year.

The all-item CPI index, calculated by the Department of Statistics, was 216,3 in December 1981 compared with 189,9 in December 1980.

Food prices

Food prices rose by "only" 12,7 percent in 1981 — the rise was nearly 30 percent in 1980 — and this played an important role in moderating the increase in the cost of living.

It is highly unlikely that the rate will drop below 10 percent this year, despite the downswing in the economy.

Dr Johan Cloete, chief economist of Barclays National Bank, said last night that there was already plenty of inflationary pressure in the pipeline.

Still to be taken into account were the higher fertiliser and steel prices announced earlier this month and the big jump in the Land Bank's interest rates.

Just ahead, too, were a likely hike in the fuel price and higher railway tariffs.

Salaries' let-down

Mail Reporter

THE Cabinet decided this week what the average increase in public servants' salaries will be from April 1 — and it's not 25 percent, say Pretoria sources.

The Commission for Administration will probably inform the Public Servants' Association (PSA) what the rises will be on February 5, or even before.

February 5 was the deadline set by the PSA for responses from the commission on a number of demands, including 25 percent pay rises.

The PSA said if the responses were unsatisfactory, a meeting of the PSA's executive on February 8 would decide what action to take.

Clash likely

So, according to senior Government workers, a clash is likely unless there is a swift review of what is expected to be at most a 15 percent increase.

The Minister of State Administration, Dr Andries Treurnicht, said in Cape Town that details of public servants' rises would be set out during the no confidence debate in the Assembly in the first week of February.

He said this after discussions between Cabinet members and the Commission for Administration in Cape Town on Wednesday.

Meanwhile, railway and post office workers are expecting no more than 15 percent — which one railway union leader said yesterday would at least compensate for the inflation rate. But, like the public servants, they have given the Government a hands-off warning on their subsidised housing loans.

Perks Tax

It is clear if their cheap loans are to be taxed in terms of the Perks Tax without full compensation, there will be an angry outcry from thousands of public servants.

So along with the announcement of their increases, public servants expect an assurance that they will not be adversely affected by the fringe benefit tax.

The Government, it is pointed out, is aware that 15 percent rises will have little effect on the discontent in the State departments and that the resignation rate is likely to continue at the current worrying level.

However, the Government is committed to slashing State spending whenever possible. In these circumstances it has to risk a further deterioration in some vital services, because of a continued staff shortage.

It is understood, however, that one concession is likely to be made — increases in the entry grades in the service are expected to be raised by more than 15 percent.

Inflation rate expected to ⁽¹⁵³⁾ stay at 15,2% ^{Staw 26/1/82}

Own Correspondent

The average inflation rate for 1981, measured by the consumer-price index, was 15,2 percent — and this year it is expected to be about the same

This is more than 1,5 percent up on 1980's inflation rate

A Volkskas Bank economist said in Pretoria that there had been a lot of misleading reports which claimed that the inflation rate for 1981 was 13,9 percent — nearly 2 percent down on the 1980 figure

These reports were creating a false impression because it was the December 1981 inflation rate figure that was 13,9 percent and compared to December 1980, this was down about two percent.

The inflation rate, expected to be about 14,5 percent this year, is expected to drop in 1983

The two main

reasons given for this year's high inflation rate are

- The external value of the rand declined considerably against most other currencies last year and it will be reflected in the consumer-price index.

- The services' component of the consumer-price index started increasing quite rapidly at the end of 1981 and last month was 16 percent up on December 1980

Because of the many food price increases last year the consumer-price index for the lower-income groups was the highest because proportionally they spent more on food

Things are expected to equal out this year because of an increase in the services component of the consumer-price index. This mostly affects the higher and middle-income groups.

AN INFLATION shockwave — generated by higher fuel prices and Railways rates — is expected to hit the economy at the beginning of April, as postal tariffs rise by about 16 percent.

And taxpayers should brace themselves for the most unpopular Budget in years on March 24, confidently expected to include an increase of GST to at least 5 percent and a new loan levy, among other measures.

At the weekend, the Minister of Mineral and Energy Affairs, Mr F W de Klerk, indicated that when a study of the factors affecting the fuel price had been completed, the Cabinet would make a decision on the price

Exchange rate

A major reason for an adjustment in the price is the rand-dollar exchange rate, which has been hovering close to parity for months

South Africa pays for its crude imports in dollars, and last year's deterioration of nearly 30 percent in exchange rate has cost many millions of rand in additional foreign exchange

Another vital factor in the fuel cost structure is the Railways pipeline charge.

This, as well as all other freight rates — and passenger fares — are expected to be increased steeply in the Railways budget next month

The chairman of the Federal Consultative Council of Railway Staff Associations, Mr Jimmy Zurich, estimates that average increases of between 15 percent and 17 percent are likely.

Last November the fuel price was raised by 4,6c/l. However, the increase was borne by the equalisation fund, and the retail selling price of fuel was unchanged.

About 16c/l of the retail price of petrol is paid into the fund

No prospects

Announcing the November increase, Mr De Klerk said the fund could hold out against another increase until the end of March

Economists claim there are no immediate prospects of a dramatic improvement in the rand/dollar rate, and this makes it virtually certain the price will be raised.

The announcement is likely to be made by the Minister of Finance, Mr Owen Horwood, in his Budget

Economists warn that higher fuel prices and rail rates would have an alarming impact on the 15 percent inflation rate

Higher tariffs set to fuel inflation wave

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8/2/82

BY GERALD REILLY

The poor will be hardest hit, say the experts

CONSUMER groups and supermarkets yesterday predicted that the 1% increase in GST would hit those on the breadline hardest.

VITA PALESTRANT reports that the increase, announced by the Minister of Finance Mr Horwood in yesterday's mini-Budget and effective from March 1, comes hot on the heels of substantial food price increases.

While most consumers expressed relief that it was only 1%, they nevertheless said consumers would feel the pinch.

And two leading supermarkets called on the Government to remove GST on basic foodstuffs while the National Housewives' League called on the Government to police the collection of GST more effectively.

This was in a clear reference to a recent expose by a Johannesburg Sunday newspaper which showed millions of rands meant for State coffers could not be traced.

Mr Raymond Ackerman, chairman of Pick 'n Pay, said "Although it wasn't unexpected it is a great shame as it is going to affect the man in the street particularly the poor. Price increases during January and February have been horrendous."

Imports

"I feel the Government could have met the deficit if it had made provisions during the past two years when the balance of payments was good."

Sapa reports that, commenting on the mini-Budget, the group economist of the Standard Bank, Mr Andre Hamersma said "The increase in the GST was expected because Mr Horwood has a financing problem — his income does not grow as fast as his expenditure because of the dramatic fall in the gold price."

But small rise is welcomed

"The import surcharge of 10% will affect about 40% of our total imports directly and Minister Horwood will get an income of approximately R600-million because of this."

Relief

He said the Government should consider, even at this late stage, removing basic foods like mealie meal from GST. He said retailers could implement this fairly easily.

Mr Rex Glanville, managing director of Checkers, said relief on basic foods was essential. "People are finding it increasingly difficult to balance on the breadline. This cannot be in the long term interests of the country."

Mrs Lyn Morris, vice-president of the Housewives' League said "I hope the increase is not to make up for the GST shortfall which through staff shortages they will again not be able to police."

"Low income groups are going to be hardest hit — as it is they are battling and have nothing to fall back on. I hope this doesn't lead to problems."

The chairman of the Consumer Union, Mrs Betty Hirzel, said "This will force us to pull in our belts, but it's the only way of coping with inflation."

It was thus an attractive means of income and he could justify it because it would curb imports and at the same time he would get an income.

"The disadvantages of both these measures are that they will both have an effect on the country's inflation rate and a surcharge is also discriminatory because it will only affect certain countries."

Perturbed

"In total, Minister Horwood should get an additional income of approximately R1 100-million," Mr Hamersma said.

Mr Raymond Parsons, chief executive of Assocom said "The association shares the Minister's broad assessment of the current economic outlook for South Africa and the need for corrective action on the monetary and fiscal fronts — especially in the light of the lower gold price."

"While the association understands the fiscal difficulties faced by the Minister of Finance, the combination and timing of the rise in GST together with a 10% import surcharge will undoubtedly be inflationary," he said.

The general secretary of the Trade Union Council of SA, Mr Arthur Grobbelaar, said he was deeply disappointed and perturbed at the Minister's decision to increase GST.

The tax had always been unpopular with the lower income groups and highly unfair toward the unemployed in particular.

Mr Grobbelaar was sceptical about whether the Paye reductions would soften the blow of GST, but said the import surcharge would be welcomed by workers in certain industries.

MANAGER

Yours faithfully

In the presence of the president

The director of the Steel and Engineering Federation of SA, Mr Sam van Coller, said he hoped the 10% import surcharge would restore some of the competitiveness of the local metal industry vis-a-vis imports.

He said that in the absence of specific details about the Paye concessions it was difficult to judge whether they would effectively reduce the impact of higher GST.

The executive director of the Building Industries Federation, Mr Lou Davis, said the measures announced by Mr Horwood were reasonable and would have no significant effect on building costs.

The industry was, however, much more interested in the main Budget still to come, and the announcement of Government housing allocations.

The deterioration of South Africa's current economic situation in the wake of the declining gold price and prolonged international recession had made it inevitable that Mr Horwood should introduce further measures to curb the deficit on the current account of the balance of payments and to strengthen Government finances, Mr Chris du Toit, president of the SA Federated Chamber of Industries, said.

Following letters. Comment

Living is hard and worsening

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Sta
18/2/82

By Caroline Braun,
Consumer Reporter

The last three months have dealt consumers a cruel blow. Almost one in eight middle-income families is now running up debts regularly.

This is the finding of a consumer survey by Mr O D U Stuart, of the Bureau for Economic Research at the University of Stellenbosch.

The survey warns that the next three months will be even harsher as the South African economy enters a "rather severe" contractionary phase.

Consumer spending, which has dropped during the past three months because of less money and the high cost of credit, is likely to be curbed even further.

The survey predicts that goods which will probably not sell well in the coming months include cars, household appliances, recreational and entertainment goods, clothing and footwear.

BUILDING

A slowdown in building activity is also likely. This will further dampen the demand for furniture, furnishings and household appliances.

The survey shows that the financial situation of consumers in general has become tighter in the past three months.

The middle-income group struggles the most to make ends meet, with 11,9 percent running up debts compared with 11 percent of the lower income group and 6,4 percent

of the higher income group.

Younger households, especially in the 25 to 39 age group, find it difficult to live within their budgets.

Householders above 55 seem best able financially to fulfil their needs.

Young consumers in the 25 to 39 age group are becoming increasingly concerned about the state of the economy and the future outlook.

PESSIMISTIC

The majority of respondents said they were financially better off a year ago.

They expected their financial positions to deteriorate even further this year.

The lower income group was especially pessimistic about its finances in the coming year.

More than 90 percent of respondents predicted there would be no slowing down in the rate of inflation this year.

The survey concluded there would be little if any growth in private consumer spending in the near future.

This in turn would dampen the fixed investment of the private sector, leaving little scope for growth other than that brought about by the Government.

SUNDAY TRIBUNE, MARCH 14, 1982

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slow the wage-price spiral

IT'S THE ONLY WAY TO CONTROL AND BEAT INFLATION, SAYS BARCLAYS' CHIEF ECONOMIST

Finance Reporter

ORGANISATIONS and industries whose annual increases fuel the fires of inflation should agree voluntarily to keep those annual increases below the inflation rate, says Dr Johan Cloete, Barclays Bank's chief economist.

The Railways, being particularly big buyers, should, for example, agree to do this, provided those it buys from, such as Escom and the suppliers of its rolling stock, agree to do the same.

"And the farmers should say to the Government that they are prepared to accept an increase of one per cent below the inflation rate, provided it (the Government) ensures that the fertiliser, implement and seed companies do the same," he said.

"If the government is really serious about

spiral, which Cloete has for many years been propagating as the only rational way there is to control and eventually beat inflation.

"The only alternative way there is, is to allow a really serious depression or recession to develop, which is extremely harmful," he said.

"Such a course of action will certainly cut inflation, but at what cost?"

"There will be mass bankruptcies, tens of thousands will be put out of work and a host of socio-economic problems will manifest themselves — and the economy will be badly harmed."

"How will it control inflation? There won't be much money around and those that have managed to survive will be far too scared to increase their prices, lest they chase away their share of the little that will be around."

On railway tariff increases Cloete said: "They are more victims of circumstances than villains, but the real tragedy is that their Minister, Hen-

NEW PLANET

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should take the initiative and call a Carlton-type conference of all the big organisations and industries whose annual increases boost inflation and get them to agree to this course of action"

Essentially, this would mean slowing down the wage-price

Schoeman, does not realise that a price increase offers only a short-term solution to his money problems.

"The only thing it really does is to guarantee that he will have to make another price increase, possibly much bigger, next year"

Cloete added: "Another problem is that Minister Schoeman does not appear to understand how inflation works — and he is not alone on that count in the Cabinet

"He appears to be adopting a common philosophy, that inflation takes place because of the increase in the money supply so the railways have nothing to do with it. Control the supply of money and you have no more inflation. It doesn't work like that

He said South Africa should take a page out of the Ford Motor Company of the US book, where the workers agreed not to ask for any wage increases for two years, provided that they would not be retrenched in that period and that the company did not increase the prices of its cars.

Cloete does not believe the inflation rate will come down this year, in spite of the Government's stringent monetary policies, but he does see the growth rate being a casualty of those policies.

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change yesterday when in
vestors took time-out to
await the Budget

Turnover was well
down and not even a firm
ing bullion price could in
ject much enthusiasm

Gold stocks firmed in
early trading and peaked
just before lunch but as
reports of unfavourable
Budget proposals filtered
through traders were
quick to mark prices
down

Overseas interest was
also minimal but an ob
server said that foreign
trading could make more
of an impact today — pos
sibly in the form of in
creased offerings

Falls outnumbered
rises 20 to nine

None of the falls was of
more than 100c (the big
gest being minimal 75c
losses by Buffels and
Dries) and just one issue
made any headway Har
ties, which closed 150c up
at 5 200c

The only sector which
showed any sign of uni
formity was coal mining
Among the eight stocks
that traded five closed
firmer with no losses Am
coal and A T Collieries
were the best performers
both adding 50c

Diamond heavyweights
De Beers and Anamint
eased — by 25c and 5c re
spectively

The industrial boards
were even quieter and,
indeed, one broker said
there was not one indus
trial stock among the top
20 traders of the day

One of the few notice
able movements was a
135c slump by Picfood to
500c On Tuesday, it fell
65c

During the previous two
trading days, investors
had marked Picfood
sharply higher on specu
lation that it would ac
cept the Kanhym cash
offer for its Karoo stake
rather than Kanhym
scrip Picfood's chairman
proved the rumour incor
rect when, on Tuesday, he
said the company would
take the Kanhym shares

Kanhym, incidently,
also lost ground It closed
50c lower at 1 000c - its
second successive 50c
fall



Mr R. 'Ralph' Rose
man, assistant
general manager of
Old Mutual, has
been elected presi
dent of the Insur
ance Institute of the

JOHANNESBURG — Re
sponsible, realistic, dis
appointing, surprising —
descriptions of the Bud
get by business leaders
Surprise centered upon the
cutback in government expen
diture and the avoidance of
direct taxation on the man-in-
the-street, save a five percent
loan levy, previously expect
ed by most commentators to
be at least that, or more
Disappointment was ex
pressed in most quarters on
increased company taxation
in the form of loan levies, and
particularly on the gold and

SA inflation rate down again but not for long

By HOWARD PREECE

JOHANNESBURG — South Africa's inflation rate — as measured by the Consumer Price Index (CPI) — fell in February to 13.6% to continue a six-month declining trend

This pattern looks cer
tain to be reversed in
the coming month how
ever, as the impact of
the rise in general sales
tax, the 10% import sur
charge, higher petro
prices, the declining
rand and other mea
sures in the Budget take
their effect

A moderate downward
trend is likely again to
wards the end of the
year however, as the
full impact of the eco
nomic downswing is ful
ly felt

The rise in the CPI for
the 12 months to the end
of February of 13.6%
compares with 13.9% for
the year to the end of
January

The CPI last month
was 220.2 against 217.6
in January and 193.8 in
February 1981

This is how the annual
rise in the CPI has been
slowing

August 1981 16.1%
Sept 1981 15.5%
October 1981 14.6%
Nov 1981 14.4%
Dec 1981 13.9%
January 1982 13.9%
Feb 1982 13.6%

In the six months from
the end of August last
year to the end of Feb
ruary 1982 the underly
ing trend was even
easier — down 11.8% on
an annualized basis

That is accentuated
even more in the four
months November to
February when the an
nual rate of the CPI was
only 9.6%

Unfortunately, howev
er, that seemingly en
couraging picture is now
bound to change for the
worse

Meanwhile it is clear
that the United States is
achieving considerable
gains in reducing infla
tion

In the 12 months to

the end of February the
US index of consumer
prices rose by a modest
7.7% remarkably low by
the standards of recent
years

The index increased
by only 0.2 in Febru
ary and by 0.3% in Jan
uary

The latest figures for
some other leading
countries for the 12
months to the end of
January include, ac
cording to the Organis
tion for Economic
Cooperation and Devel
opment, the following

Japan 3.3%
West Germany 6.3%
Canada 11.4%
Britain 12.0%
France 13.9%
Italy 17.6%

It is clear from the in
ternational figures that
South Africa is still in
the upper end of the in
flation range — and that
is without all the price
shocks in the pipeline

UK banks urged to use black officials to serve blacks

Own Correspondent

LONDON — The major
banks in Britain are be
ing urged by Mr Michael
Heseltine, Environment
Secretary, to appoint
black officials to deal
specifically with black
businessmen

He believes this will en
courage small businesses
in inner city areas The
banking, insurance and
finance union has wel
comed the move

"It would certainly pro
vide a new avenue of pro
motion for black and

coloured employees with
a special background and
knowledge," said the
union's press officer

Banks employ a large
number of Asians and
West Indians

Barclays have already
appointed a white former
London East End branch
manager, with extensive
experience of the needs
of ethnic communities
Although this appoint
ment is considered to be
in the right direction, it is
not quite what the Envi
ronment Secretary had in
mind

A spokesman for
National Westminster
Bank said they were still
considering Mr Hesel
tine's request They have
two black managers at
their head office and
many black and coloured
staff "coming through"

Williams and Glynn's
bank said that business
proposals were always
dealt with on merit "At
the moment we don't
sense that we are missing
any opportunity to help
these groups They are
not backward in coming
to banks for help"

Duiker
Rusplat
Kr
Ammed
Protes
Kr Quarter

Bankr 11.5Cp
Dunswat Opt
Ed L Bate
Hosker
Iss & Inv
Wit Cons
Wahons
Picfin
Trust Bank
E Haddon
Kanhym
Malbak
Sinclair
Saah
Pikwik
Waverly
Seardel
Afr Pers

London

LONDON — Closing
sterling on the Lon
don exchange

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standard — quiet 400,
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Tin Standard —
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ment 7140

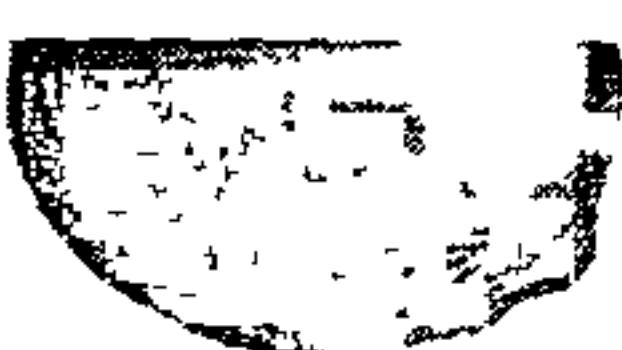
Tin High grade
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get but at the

inflation was far
under 12 percent
down expend
the minister on
Capitz, congratu
Mr Heseltine's
Life's general
Northern Life



Mr Peter Bieber



the tender system is being
adopted This points to a
freer market
The increased company
tax would have a negative
effect on earnings per
share growth in 1982 and
profit growth would de
crease This had only
been partly discounted by
the market
He was disappointed
that the minister had not
abolished the marketable
securities tax on debent
ures which was prevent

oved up on these
t-term rates have
might ride at the
or quite a while
the JSE the impor
rise in the low
ty tax and the
ent spending tar
is bad news for
sectors Some of
act may have been
nited but, on the
I think the mea
are slightly worse
market anticipat

Cape institutions

All simple stories are wrong

153

FM 16/4/82

There are at least four simple stories about inflation, writes Professor Robert Solow of the Massachusetts Institute of Technology. They all have adherents who believe that inflation has a single cause and will yield to a single remedy. They are all false, but they are not nonsense. Each explains an inflationary episode somewhere, sometime. None explains all inflationary episodes everywhere, everytime.

The first simple story about inflation is that its underlying cause is deficit spending by central government. In that case, the way to fix things up is simply to balance the budget.

The story is wrong. Recent history in many countries proves it. In the US, for example, anyone who believes in this story must explain why inflation accelerated between 1976 and 1980, precisely while the federal budget deficit was getting smaller. They must explain how "so small a tail could wag so big a dog." This holds true even if the aggregate deficit of the whole public sector is considered.

The second simple story about inflation blames it all on central banks. Inflation happens because the money supply grows too fast, turn off the printing press and you turn off inflation. This doctrine is usually called monetarism and it has two faces. One face is subtle theory and the other is a simple story. The subtle theory has a lot of truth in it, but it is not so different from mainstream economics and does not lead to any easy policy conclusion. The simple story is wrong and misleading.

Once again the facts in many countries disprove the simplicities. In the US again, money supply growth showed a clear downward trend from 1976 onwards. Inflation went the other way.

Monetarists

There is a ticklish variation here. You may grant that there is no simple one-to-one correlation between money supply growth and inflation. You may grant that controlling money supply consistently and persistently for a long time would first and foremost result in high interest rates, low economic activity and a creeping recession. But, you may add, it would eventually work its way into wages and prices.

The weasel word here is "eventually." How long would it take? Monetarists them-

selves differ on the answer to this question. On the most reasonable reading, it would take rather a long time — more like five years than two. During that time the economy would be depressed, perhaps severely. Since the experiment has not been performed, it is hard to say with any confidence what the exact outcome would be. Meanwhile, anyone who tells you that all you have to do is turn off the money supply and it won't hurt you a bit is cheating.

The third simple story is that inflation is caused by overheated economies. Here again the facts refuse to conform. In the US, unemployment averaged 6% in the last four high-inflation years of the last decade. It was much lower in the late Sixties.

In the same period, capacity utilisation was lower than it had been in the late Sixties and at about the same level as each post-war business cycle peak. There is nothing in this record to justify attributing accelerating inflation to broadbased overloading of industrial plant. The effect would be out of all proportion to the supposed cause.

The fourth and last simple story blames it all on wages. In this scenario, wages rise faster than productivity, pushing up unit costs. Prices rise in self-defence, wages follow prices and the familiar spiral follows. As simple description, this story can hardly be false. The question is whether wage push can be identified as the *cause* of continued inflation.

When you look at the facts, the curious thing about the behaviour of the wage level is its inertia. In the US, the most comprehensive measure of wage rates showed an average annual rise of between 8% and 10% between 1973 and 1979. Annual increases in the producer price index during the same period ranged between 3% and 18%. Wage push cannot account for inflation.

But it can accompany it with its built-in inertia, and this is important. Prices respond to costs and costs are somebody else's prices. Once a round of price increases gets started, it is likely to continue as long as the economy remains reasonably prosperous — and this can include short, mild recessions. The hot potato is tossed from one to another and nobody wants to be holding it when the game ends. Put another way, many economies are pretty well in-

dexed, either by statute or custom. They are usually indexed enough for inflation to perpetuate itself *once it gets started*.

But how does it get started? A period of real overheating could start it, like the inflationary financing of an unpopular war. A massive price increase in an important raw material like oil could start it. The one could be followed by the other.

No quick solution

The price history of the post-war period, by contrast to periods before it, is one of inflation without deflation. Prices in this era have become sticky downwards. This is probably one of the negative side effects of the comparative economic stability of the post-war period. In the bad old days, any hesitation in economic growth might have been the beginning of a real depression. Only a brave or over-confident seller of goods or labour would maintain prices and wait for things to improve.

In an economy where recessions are infrequent, short or mild, prices are less likely to plummet when demand weakens. Sellers are more likely to stand pat and cover their costs. If the upturn arrives on schedule, their strategy is vindicated. As long as the economy remains in that belt of "reasonable" prosperity, the best we can hope for is that the spiral of cost and prices will unwind only very gradually.

Solow concludes that there is no known way to perform the right trick, which is to stop inflation in a hurry. The crucial question is how to make prices and wages — instead of production and employment — respond to fiscal and monetary contraction. If this was possible, disinflation could be got over more quickly, and with less pain.

There are slow or bad ways of doing this — to throw the economy into recession, or to freeze wages and prices. But their cost is high, their morality questionable.

Worse, adds Solow, they are directed only at the external symptoms of the disease. Inflation is a chronic condition woven deeply into economic institutions. It is a complex mixture of economic tendencies, social relationships and individual expectations. If the flaws are institutional, so must be the remedy. Unhappily, Solow does not offer one.

Presumably the remedy, no less than the flaws, is not contained in a simple story.

The numbers crunch

There should be no surprise that the consumer price index increased by 16,5% in the 12 months to April. Indeed, in the months ahead this measure of inflation could be higher.

The reason is that earlier the money supply was allowed to rise so fast that recent increases in administered prices, gst and the cost of imports were easily accommodated.

In other words, despite the fact that nominal interest rates have doubled over the past year, the amount of austerity our authorities have doled out so far has been relatively modest.

Certainly, it has not been nearly as severe as that experienced in the United States and Britain. Real interest rates here are currently at best 2%-3% — and that's before tax. In the US they are closer to the 6%-7% range.

Nominal interest rates here may have risen faster and to a greater extent than in the US. But that is because they were held down artificially in 1980 in relation to inflation by the misguided previous Governor of the Reserve Bank. Their subsequent climb was from a very low base.

Experience in the US illustrates, moreover, that when the money supply growth is contained sufficiently, there is a fairly rapid impact on prices. Towards the end of last year, the Reserve Bank did manage to get SA's money supply growth down to 10% for a number of months. And early this year there was a corresponding decline in the rate of inflation. At the end of February the rise in the cpi over 12 months was down to 13,6%.

Unfortunately, the Department of Finance later negated the good work of the Reserve Bank by drawing on the Stabilisation Fund to finance the purchase of strategic supplies. That sent the domestic money supply soaring by more than 40% in the first quarter of this year.

So Pretoria's current response to the rise in the latest cpi should be to increase its efforts to contain the growth in the money supply. In the months ahead that could be hard.

In the second quarter, government spending raced ahead and now the maize crop has to be financed again. This has to be done despite last year's crop not yet having been sold. The loans extended to finance it still remain unpaid.

What would help, too, is for an increasing number of administered commodity prices to be deregulated. They are adjusted now according to cost pressures. But resources would be more efficiently allocated if supply and demand were allowed to have an increasing influence.

The FM acknowledges that it is most likely difficult politically for the authorities to tighten the austerity screws. Prospective house buyers and farmers would

waste no time in protesting to local MPs to protest. Therein could be the seeds of disaster.

Take Progressive Parliamentarian Harry Schwarz. According to the *Rand Daily Mail*, he wants the Reserve Bank to take immediate action to halt the deteriorating value of the rand and to bring about a healthier balance of payments.

That is very interesting. More so because he doesn't tell the Reserve Bank how it can achieve ends which short-term are irreconcilable. The only way to support your currency short-term is to go in to the market and buy it. And you have to use your own reserves of gold and foreign exchange to do that, thus running them down and achieving the opposite of what Schwarz has in mind.

The price of the rand is no different to any other price. It is nothing more than a signal of underlying conditions. By artificially changing that signal, you don't cure the underlying problems — in fact, you exacerbate them.

Sure, we could borrow abroad to support the rand. But that, in turn, would increase the money supply and boost domestic demand. The consequent inflation would damage the country's terms of trade, thus increasing the balance of payments deficit.

The crux of the problem is a 16,5% inflation here and a 6% one in the US. To equalise the difference the money supply must be crunched and the rand allowed to find its own level. Eventually, that will bring about a healthier trade balance and stronger rand. If that is what Schwarz wants, the FM is right

behind him.

There is no denying that a declining rand is injecting inflation into the economy. For the cost of vital imports is rising accordingly.

But the weaker the rand gets and the more expensive these imports become, so demand for them will decline. The inflation that results while that occurs is a cost of financing the trade deficit and of ultimately achieving price stability.

The sooner the value of the rand reaches the stage that will boost exports and discourage imports, the faster price stability will be achieved.

Once that occurs and cheaper rand prices begin to encourage investment, there should be off-setting productivity gains.

Apart from some unfortunate setbacks in monetary policy, government has steered a reasonable course so far. The inflation rate will respond given time if the money supply growth is curbed.

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



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

Any dishonesty will render the candidate liable to disqualification and to possible exclusion from the University

BOARD TELLS OF THREAT TO LIVING STANDARDS

ARGUS 31/5/82

153

INFLATION of more than 10 percent constitutes a serious threat to the living standards of most sectors of the community, says the Competition Board.

It says that in the past year inflation has hovered between 15 and 16 percent, exceeding the rates of the country's principal trading partners.

In these circumstances competition policy acquires particular importance because of sensitivity about price increases that may be blamed on imperfect competition.

One way in which the effects of inflation can be reduced is to raise the efficiency of the economy. This is done negatively by avoiding all acts that afford excessive security to its industries,

such as over-protection against imports.

Positively, it requires applying measures that increase productivity.

It is sometimes presumed that economic power corrupts and is always bad. But it is unavoidable in developing small markets.

It need not be bad if the firm or firms concerned can gain by charging reasonable prices and by being efficient. It makes possible economies of scale and better use of plant capacities.

However, oligopoly situations and conglomerates should be under constant scrutiny so that possible abuses can be detected.

In particular, the destruction of viable small and medium-sized businesses important to the preservation or establishment of stable socio-political conditions must be prevented.

Most abuses of economic power can be effectively dealt with in terms of the Maintenance and Promotion of Competition

Act of 1979 and other forms of State intervention should not be required, the board says.

Local disability statistics used

JOHANNESBURG

Sanlam says it has used local statistics for the calculation of premiums for cover against loss of income during disability, which have led to lower premiums.

The risk of disability among the working population is at its lowest between the ages of 30 and 35, the statistics show — Sapa.

ers and Welders Society

Amalgamated Engineering Union of S.A.
Amalgamated Union of Building Trade Workers
Amalgamated Society of Woodworkers of S.A.
Black Allied Workers Union
Black Mineworkers Union
Federated Mining Explosives and Chemical Employees Union
Iron Moulders Society of S.A.
Mine Coloured Staff Association of South Africa
Mine Surface Officials Association
Mine Workers Union
S.A. Bollemakers, Iron and Steel
S.A. Electrical Workers Association
S.A. Engine Drivers, Firemen and
S.A. Technical Officials Association
Underground Officials Association

MINING AND QUARRYING

Black Allied Workers Union
Farmworkers Union
Food and Canning Workers Union
National Certified Fishing Officers Association
Orange-Vaal General Workers Union
Trawler and Line Fishermen's Union

AGRICULTURE, FORESTRY AND FISHING

National Federation of Workers
Orange-Vaal General Workers Union
General and Allied Workers Union

Unions have been classified according to the Standard Industrial Classification of All Economic Activities. The full extent of the operation of the following general workers unions has not been established:

UNIONS OPERATING IN 1981 GROUPED ACCORDING TO INDUSTRIAL CLASSIFICATION

BUYING POWER OF RAND HALVED IN SIX YEARS

THE buying power of the rand has halved in the past six years.

This is the devastating effect of inflation, which in April rose to 16.5 percent — the highest level in South Africa since 1920.

Many countries suffer from exorbitantly high inflation today, among them Argentina, and Israel.

However, South Africa's inflation is worse than that of its major trading partners.

SINCE 1972

The annual average rate of inflation in South Africa has steadily increased since 1972 whereas inflation has peaked in other countries and has shown sharp falls in America and Britain this year.

March figures show a rate of 6.8 percent in America, 10.4 percent in Britain and 3.1 percent in Japan.

Further falls are expected, but in South Africa economists forecast an even higher rate before a decline sets in towards the end of the year.

The average rate for this year would still be around 15 percent and next year around 12 percent, it is believed.

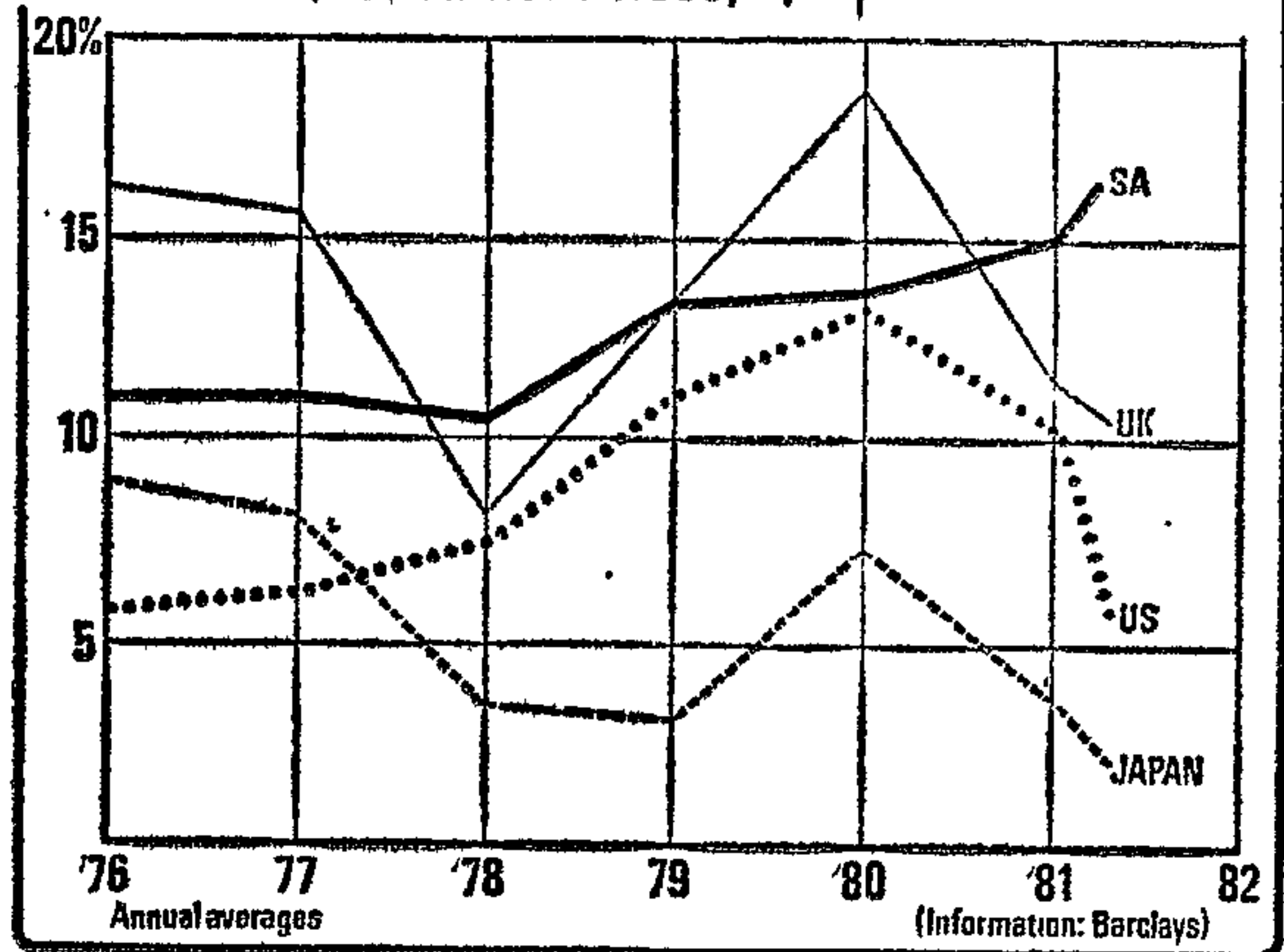
A fall to below 10 percent seems remote.

The decline in economic growth overseas is the major reason for the drop in inflation rates there.

Dr Johan Cloete, chief economist of Barclays, says South Africa may look to inflation levels below 10 percent if economic growth ceases for a year or two.

But unemployment at levels comparable with

INFLATION (Consumer Prices)



THIS GRAPH shows the annual averages of inflation from the end of 1976 to the end of 1981 with the trend in the first months of this year. While the rate continues to rise in South Africa it is sharply down in the United States and Japan and in Britain is approaching 10 percent.

those of the country's major trading partners — in the United States unemployment runs at its highest level since the depression of the thirties and in Britain the figure is around 3-million — could prove disastrous in South Africa.

"The price would be too high," Dr Cloete says.

OIL PRICE

America, Britain and Europe were also favoured by the drop in the oil price and drop in the prices of metals and minerals.

This helped to reduce the prices of their goods though it had a negative

impact on the South African economy.

There are several reasons for the current high inflation rate in South Africa. Among them are:

- The high rate of economic growth up to the end of 1981, which led to sharp rises in salaries and pressure on all production facilities.

- The narrowing of the wage gap, public spending on housing and other social amenities, high defence spending, the increase in general sales tax and the weakening of the rand in international trade — a factor which

automatically raises the prices of imported goods.

- As the South African market is considerably smaller than the home markets of many of its trading partners, competition — important in keeping prices down — is not as strong here. In South Africa regular increases of administered prices for items ranging from bread to electricity, usually in line with the rate of inflation or even higher, consolidate price rises and often push the price spiral higher.

- Poor productivity which does not keep up with pay rises.

Report Nov. 1980/81
Fosatu Annual

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'A new kind of fiscal drag'

ARGUS 3/6/82

Parliamentary Staff

ALL three opposition parties yesterday expressed concern in the Assembly about the inflationary effect of general sales tax on foodstuffs.

The Second Sales Tax Amendment Bill provides for a number of technical changes to the Sales Tax Act and includes provision for the GST to apply to advertising and public relations services.

During the second reading debate on the Bill, Mr Harry Schwarz (PFP, Yeoville) introduced an amendment calling for the House to decline to pass the Bill unless the Government abolished GST on basic foodstuffs.

He said the high inflation rate and rising prices had resulted in an increase in taxation bringing about a "new kind of fiscal drag."

The poorest people were the hardest hit by

GST as they spent a greater proportion of their income in GST.

Subsidies on basic foods were insufficient to relieve this burden.

Mr S P Barnard (CP, Langlaagte) said he agreed with Mr Schwarz that there were problems with taxation on foodstuffs. When prices rose, the GST increased correspondingly.

He urged the Government earnestly to consi-

der this problem and possibly adjust the sales tax system to one whereby the tax was incorporated in the marked price of an item.

Mr George Bartlett (NRP, Amanzimtoti) appealed to the Government to take a "good look" at the production and distribution costs of foodstuffs in respect of taxation, and to ensure that these costs be kept as low as possible.

153 Star 4/6/82

No real incentive to halt SA inflation

By David Bamber
Financial
Correspondent

LONDON — The South African authorities have little real incentive to stop inflation, says a special report published by the Economist Intelligence Unit today.

The authors say that inflation has been an instrument whereby the Government could redistribute income in

favour of the non-white population without it being directly obvious "and thus causing immediate difficulties from conservative white voters."

"Further, most public authorities have committed themselves to massive long-term borrowing at high fixed interest rates which could prove an embarrassment if inflation rates and interest

were to fall.

"Even the individual white worker, in conditions of full employment sees himself to be largely a beneficiary of inflation, because higher wages are easy to come by and many people have relied on inflationary wage adjustments to rescue them from over commitments on home mortgage and hire-purchase repayments.

That future pensioners

may find their lifetime savings dissipated has not struck home yet."

The study says business has done reasonably well out of it thanks to special investment allowances and a general ability to push up prices 'at least as fast as costs'.

"The ability to recover from wrong investment decisions under the guise of adjusting for inflation has also

saved many a venture from bankruptcy."

Almost every capital investment decision can be justified in an inflationary environment but it is damaging to an economy such as South Africa's where there are many needs for capital investment in social spheres and where there is a need to create as many new low-skilled jobs as possible in the short term, the study says.

Farming blamed for high inflation

By GERALD REILLY
Pretoria Bureau

THE prices of agricultural products played a major role in the country's high inflation rate, the Deputy Minister of Finance, Mr D W Steyn, said in Pretoria yesterday.

Addressing a Transvaal Agricultural Union conference on wheat, Mr Steyn said inflation was one of the country's greatest economic problems.

When the price of agricultural products rose, he said, a price shock was felt throughout the economy. It hit again the following year when new demands were made for further price rises.

The Minister said in spite of a production increase last year to 2 100 000 tons, the Wheat Board had to import 106 000 tons.

In addition to South Africa's high demand for wheat there were problems such as varying climatic conditions, with periodic droughts, which affected all farmers.

He said South Africa had been forced to import wheat — at cheaper prices than it could be produced in this country — to meet

the big local demand.

The Minister asked to what extent the level of the country's fixed grain prices, including wheat, contributed to the increased prices of agricultural land during the past few years getting out of line with the prices of other land.

Mr Steyn said according to the principle of relative cost differences South Africa ought to export those products which could be produced cheaply, and import those which were costly to produce.

Mr Steyn asked whether the country could not produce enough wheat for its needs if the mealie price was lower.

In recent years there had been a big increase in the amount of land used for grain production.

"Is this not one of the reasons for the swift rise in the price of meat? Have we not perhaps used land more suited for meat production to extend our crop production?"

He asked, too, what role the level of grain prices played in this respect. On many farms there were areas not suited for grain production, he added.

ARGUS 11/6/82
Defence,
Wage rises
'increase
inflation'

MONEY spent on defending South Africa and on wage increases accounted for half the present inflation rate, Mr Owen Horwood, the Minister of Finance, said yesterday.

Moving the third reading of the Appropriation Bill, Mr Horwood called for a national effort against inflation, which he said was unacceptably high.

The world-wide problem of inflation had arisen after August 1971 when the United States terminated the convertibility of the dollar into gold.

In South Africa, elements contributing to the problem included the deliberate policy of raising wages of lower income groups, done not so much for economic reasons but for broader social and other reasons.

Although this policy had its advantages, it was undoubtedly inflationary.

DEFENCE

Another reason for the high inflation rate was the amount spent on defence.

"Whether we like it or not, we are in what I would call a near war position. We have to spend increasing amounts on the safety and defence of this country."

A large part of the R3 000-million South Africa had to find for defence was strictly uneconomical expenditure, although essential.

It was not only the Government's responsibility but that of the whole country to deal with inflation, which was an exceptionally complicated and complex issue.

The Bill was read a third time — Sapa

● See Pages 6 and 7

SEVEN YEAR MOVING AVERAGE OF MONETARY GROWTH M1 VERSUS INFLATION
RATE AS MEASURED BY C.P.I.

PERIOD	GROWTH IN M1	PERIOD	GROWTH IN C.P.I.
1967 -73	10,47	1973	9,5
1968 -74	12,5	1974	11,6
1969 -75	12,41	1975	13,8
1970 -76	11,03	1976	11,1
1971 -77	11,13	1977	11,3
1972 -78	11,27	1978	10,9
1973 -79	11,7	1979	13,2
1974 -80	13,26	1980	13,7
1975 -81	16,03	1981	15,2

Inflation: Another bombshell

PRETORIA warned in talks with Business Times this week that the rate of inflation — already a towering 16%-odd as measured by the Consumer Price Index — is unlikely to moderate soon, and may get a little worse before it gets better

Responding to criticism that a surge in the money supply, as shown in

By Stephen Orpen

the latest official figures, was the villain of the piece, senior spokesmen for the Ministry of Finance pointed out

"Unlike, for instance, the US economy, the South African economy is much more open, so that monetary control within the institutional framework is far more difficult

"This does not mean that the battle to curb growth in

the money supply should not continue

"But we are obviously reluctant to take tough new anti-inflationary steps when the economy is already cooling off fast and when growth prospects for this year and next are poor"

In its latest review released this week, the Standard Bank notes that, with the money supply continuing to rise at an alarming pace, the omens are not good for an early drop in the inflation rate

The broadly defined money supply (M2) soared by 41% on a seasonally adjusted annual basis in the first quarter of this year, with the narrower M1 leaping by no less than 48%

Last year, M2 rose by 25% and M1 by 34%

The Standard Bank notes that the growth in the money supply occurred despite a negative contribution of R1200-million from the Government and a large decline in the gold and foreign exchange reserves

Against this, however, the banks borrowed heavily abroad to ease the effects of the domestic credit squeeze

Main reason for the latest, excessive jump in the money supply, says Pretoria, has been a substantial ballooning in bank credit to the private sector

In a special report on South Africa published this week by the economic intelligence unit of *The Economist*, the point is made that "The South African economy has a number of inflationary pressures more or less 'institutionalised'

"Most important are

- The need to protect strategic sectors and companies even if their costs are higher than those of foreign competitors.

- The need to continue increasing real black wages irrespective of productivity

- The desire to spread economic development geographically even if this is less economical than allowing activity to concentrate in the metropolitan areas

"These factors will not go away, and thus inflation must be expected to continue in South Africa even if world inflation is conquered."

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153
Times
13/6/82

Own Correspondent

Average consumer prices have risen by 130.3 percent since 1975 and the rand only 43.4 cents in real terms.

It is estimated the inflation rate this year will increase on average to 15 to 15.5 percent.

A Volkskas economic survey shows a Consumer Price Index increase of 100.5 percent since 1915 — or an average of 3.7 percent a year since 1915. Anyone who put aside R1 in 1915 would find today its purchasing power had diminished to a mere 9 cents. The consumer Price Index rose by 130.3 percent between 1975

1975 rand now

buys only

43.4c

worth of goods

increased sharply, mainly because of the rise in the cost of mortgage bonds. The bond rate in turn led to an increase in house and flat rental costs.

Factors influencing current price increases include the sharp decline in the external value of the rand, high interest rates, the increase in General Sales Tax and the 10 percent surcharge on imports.

During the past 18 months the rand has declined in value by about 18 percent on average. In relation to the United States dollar its value has sunk by 31.4 percent.

On the positive side, the inflation rate of South Africa's major trading partners is declining. This usually has a favourable effect on the price of imported products and therefore on general domestic price levels.

But at the same time it makes it more difficult for South Africa to compete internationally.

At the same time wages and salaries will rise more slowly. But if this were not to happen the report says a sharp increase in unemployment could be expected.

Volkskas says the inflation rate, as measured by the Consumer Price Index, probably reached its peak in the past two months and should decline in time possibly to rates of 12 or 13 percent.

were sharp increases in the prices of public transport services (33.2 percent), communication services (26.9 percent), cigarettes, cigars and tobacco (27.1 percent) and educational services (23.0 percent).

Housing costs

and tea (153.1 percent).

The only prices which did not double between 1975 and 1982 were clothing, housing, furniture, household appliances and communication services.

In the 12 months up to May this year there

and May this year. The price of food products rose at a higher than average rate of 146.8 percent.

Of basic foodstuffs, sugar recorded the largest price increase — 218.6 percent — followed by meat (162.4 percent), and coffee

Country	1975 to May 1982	May 1981 to May 1982
Italy	192.7	15.2
Great Britain	138.9	9.5
South Africa	130.3	16.5
France	107.6	13.9
Canada	88.3	11.8
United States	78.1	6.7
Belgium	57.5	9.5
Netherlands	51.0	6.4
Japan	48.9	2.3
West Germany	35.7	5.3
Switzerland	25.4	5.9

The table shows the rise in consumer prices in South Africa since 1975 has been outpaced only in Italy and Britain and is currently outstripping price rises in any of South Africa's trading partners.

Schwarz blames Govt control

Argus Correspondent

DURBAN — Government mismanagement of the economy was the primary factor in yesterday's controversial 1 percent increase in the mortgage bond rate. Mr Harry Schwarz Progressive Federal Party finance spokesman, said today

Mr Schwarz said the soaring bond rates were putting "housing out of the reach of the ordinary man"

"He is being hit by not only the high bond rates but also increasing building costs. The effects of the bond rate are going to leave scars, not only on the economy but also on the social structure of South Africa"

WARNED

Mr Schwarz said Government mismanagement of the economy was clearly a primary factor in the soaring interest rates

"We warned during last year's general election that it was a 'vote now pay later election' This was one of the best economic forecasts ever made"

Mr Schwarz demanded to know what had happened to the commission of inquiry appointed during the general election by the Finance Minister, Mr Owen Horwood, to investigate increasing bond rates

"Since then the bond rate has increased on a number of occasions and the ambit of the commission has been increased. It is now time the public is told whether the commission has reported and, if it has, what is in its report," he said

Commenting from Pretoria, Mr Horwood said "The factual position is that determination of mortgage bond interest rates is in the hands of the building societies"

Bonds rise: New strain on the Col

ARGUS 20/7/82

THE cost of living for many South Africans will rise again in September when building societies increase mortgage rates by a further 1 percent

This will be the fifth increase in the past 21 months. Homebuyers will now be paying between 14.25 percent and 16.25 percent for their bonds

Since the end of 1980 the rate of interest on mortgage bonds has risen by 5.25 percent

The new increase means repayments of between R7.50 and R8 a month more — depending on whether they are repaying bonds over 20 or 25 years — for every R10 000 they have borrowed from a building society

The monthly repayment on a R20 000 bond repayable over 25 years will increase by around R16 to R252 while the monthly repayment on a R32 000 bond repayable over 20 years will increase by about R24 to R450 a month

A R45 000 bond will now require monthly repayments of R634 while a R75 000 bond will mean about R1 050 a month

TIGHT

Since the end of 1980 the cost of a mortgage bond has risen by R40 a month for every R10 000 borrowed

The building societies say the increase in rates is necessary because of tight money conditions and increased competition from the commercial banks for funds

Building society officials point out that most of the funds they are receiving these days are coming from "back-to-back" or forced loans. This is money put up by third parties to assist the building societies to grant mortgage bonds

Shoppers showing bad temper

ARGUS
27/7/82

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A HOME economist employed to advise supermarket customers told me she had noticed shoppers becoming more tense and aggressive. She put it down to the strain of trying to budget with constantly rising prices.

"They become very aggressive on coming into the shop, at the thought of having to spend so much on basic necessities," she said.

"You notice them shouldering each other aside and bashing into each other's trolleys."

"People used not to be so bad-tempered. I am sure it is because they find themselves faced with such big rises in prices."

I would not be surprised if she is right.

An economic survey carried out in Volkskas Bank shows that the cost

of living has risen by over 130 percent in the past seven years, which means that R1 now buys as much as 43 cents did in 1975.

Food products alone have gone up by more than that. The average for them is 146,8 percent.

SUGAR PRICE

The survey shows that the biggest price increase was in sugar, which has gone up by 218,6 percent since 1975.

Meat has gone up by 162,4 percent and coffee and tea by 153,1 percent. The only prices not to double between 1975 and this year are clothing, housing, furniture, household appliances and communication services.

The survey shows an astonishing speeding up in the rate of inflation in the past seven years.

Between 1950 and 1960

it was only 3,5 percent a year and from 1960 to 1970 only 2,8 percent a year. Yet in 1975 it was 13,5 percent and since then it has never fallen below 10,9 percent, the figure for 1979.

Last year it was 15,2 percent and the Volkskas survey anticipates that it will be 15 percent to 15,5 percent for this year as a whole.

RAY OF LIGHT

But the survey gives one ray of light.

It suggests that the worst is over and that the rate of inflation reached its peak in the past two months and should decline in the rest of the year.

Prices usually do fall during a downturn in the economy and there is no doubt that we are in one now.

How SA can beat inflation

By PAUL DOLD
Financial Editor

THE Old Mutual's Dr J G van der Horst is one of South Africa's most influential business leaders.

As chairman of this huge life assurance group — net assets total R4 298m — he is with Anglo's Harry Oppenheimer and Rembrandt's Anton Rupert — one of the staunch supporters of free enterprise in South Africa.

He has played a leading role in the huge growth of the Mutual over the past decade — cash flow alone is now around R4m a day.

Investment income alone in the year ended June 1981 rose by 36 percent, or more than R100m, to R405m, premium income rose by R200m to R820m and dividend income was up 56 percent.

The percentage growth is staggering, given the size of Mutual's existing base.

The harnessing of the small man's savings into the huge cash flow now totalling R4m a day has contributed towards the country's economic growth.

Every sector

Mutual's investments range to every sector of the economy. It has large stakes in gold and coal mining, platinum, industry and retailing with significant investments in Anglo American and De Beers. Recently the Old Mutual bought a substantial stake in Barlows, the country's largest industrial company.

Mutual takes an active interest in the companies in which it has major stakes but the group's philosophy is far removed from a position of exerting control through its financial muscle. As such, it is a sought after partner in new investments, being openly welcomed by both public and family controlled quoted companies. While policyholders' interests are well looked after, Mutual also has a reputation for old-fashioned morality in the increasing tough in-fighting in the market place today.

A strong proponent of closer Government — business sector links, Van der Horst this week gave a wide ranging interview covering issues such as inflation, black housing and P W Botha's reform measures.

Business Report Inflation



Dr J G van der Horst

Few financial institutions have thousands of outlets which have thousands of people who process you to put your funds away. This is singular of the life insurance industry.

And then there is the virtue of thrift. People want a little independence, a nest egg. There is some safety valve in the savings mechanism but having examined these factors it must be recognized that one of the major motivators is tax.

Let us look at the building society. Apart from when rates rose recently, as building societies had to keep a balance of funds in their balance sheet, paying 9.5 percent when the inflation rate is 15 percent is not really a deal.

It is alright if it's a hiccup, a short-term development and the rate will decline but if there is a persistent high rate of inflation of 12 — 16 percent and our rates here are such that we have had a negative rate of interest why should people save?

I have come to the conclusion that the one main reason that relates to the income is tax.

Nine and a half percent, then, for a man in a certain income group is equivalent to 20 percent. Tax is playing an important role in life assurance, too. RAs, which constitute a large proportion of the life insurance industry sales and pure group pension business are really tax sheltered. BR: Is inflation then irrelevant under an indexed system?

VdH: Some Israelis say Israel does not have inflation as everything is indexed — money is irrelevant — it is merely a point of reference. This is a very interesting thought. In other words, you can organize so that inflation becomes less onerous because if you index everything I think there is more relative justice than what we are doing here today.

your cash flow position equates I could argue that you could, after the 13 years, reissue the bonds. In this case, if you had R1m bonds and the Government pays five percent positive and keeps the value, and assuming 15 percent cpi, then after 13 years the debt will have grown to about R3m.

Then the question arises can it reissue after 13 years and keep the cash flow the same. The problem is that in the end somebody has to pay.

There is only one institution that can do that and that is the State with taxing powers. On the other hand, you know life is going on in Israel, they have had enormous expenses — the first two weeks of the war alone cost \$1m dollars. Admittedly, they have the support of world Jewry and the US but South Africa should study the linkage option.

BR: At the moment the saver takes the knock of the negative interest rate.

VdH: Yes I do not want to go further than pose the question is there a case for a wider circle to carry that burden. If you really are serious about thrift and saving and we want to build up the country, if there is to be a burden of a negative rate, must the saver carry it. Because, in the end, he is not going to save unless you give him very high tax incentives.

BR: Is this the reason why our saving rate is so low?

VdH: I believe we are at the crux of the issue.

BR: You are a strong supporter of increased home ownership for blacks.

VdH: Our whole capitalist system rests on private enterprise of property and without it one does not have the system. If we believe in free enterprise then everyone in this country must share in it.

The best investment the average South African has made in his life is a house.

scheme there was already a scheme to sell the black man a house for 30 years on a lease I had great difficulty in accepting this — although it did a lot of good — conceptually. In Roman-Dutch law you cannot sell a man something on land he does not own. The land continues to belong to the state.

If the tenant builds on a room — is there provision for him to be paid compensation. The 30-year scheme gives rise to all kinds of difficulties. Also, 30 years is hardly a generation recognizing this whole thing of temporariness. And then came 99-year lease which is recognized internationally — much of London is owned on this basis.

BR: You were a prime mover in this direction.

VdH: I was privileged to have something to do with it.

BR: What problems have arisen with the implementation of the 99-year system? VdH: One of the first problems was that in order to give a proper lease of 99 years it has to be written in a deeds registry and how do we measure the property.

It is an enormous task to survey all the erven in Soweto that have never been measured. You have many places where there are infringements of boundaries. To that seemingly impossible and arduous task the surveyor-general has come up with a solution. They are providing an aerial survey which is quite suitable for the deeds office and surveys on the ground are only necessary to check pegs in cases where difficulties arise.

At that stage they wanted to form a separate survey department in the Department of Co-operation and Development. Fortunately, they did away with that but they did not stick to our normal deeds registry.

A special deeds registry was opened in the commissioner's office. Staff had to be trained for that. All these things took time.

One thing we did not fully appreciate at the time was this. If a man stays in a house where the rental is subsidized why should he buy a house, put in the capital on a price which is market-related because he is losing on a cash flow basis. It went very slowly initially but the pace is now quickening.

I was at the building societies world conference in London in 1980 and there I found a large proportion of the housing stock in the UK was actually council houses let.

Margaret Thatcher's government decided to sell these homes to the tenants on a basis which would give preference to the existing tenant and the government guaranteed that a mortgage bond and finance could be made available.

The government agreed to sell this, not at a market-related price, but on a cost-related price. To my mind, this would overcome the problem of subsidy because if you go back to cost in the vast major-

ty to do it, the scheme can be launched. The transaction is essentially a bookkeeping entry. No finance is really involved.

BR: Is there the will to implement the scheme?

VdH: I would believe, yes. My impression is a man like Mr Botha and the minister of finance would be very keen to implement this scheme. I think they are going about it in the right way not making a political decision but taking a business decision. I am hopeful.

BR: There are no estate agents in Soweto?

VdH: Yes that is so but the position must be rectified. The middleman's role must be recognized. Estate agents make a property market and we are looking for a property market in Soweto.

BR: As a business leader you seem to be quite encouraged by Mr Botha's verligte policies on housing. What of relations between business and government?

VdH: Business is such a broad concept I would rather frame it differently.

The prime minister, as I have learnt to know him, believes that the private sector has a contribution to make. In various steps taken he has shown that — at Good Hope for instance.

Through consultations he has also shown that he, personally, and through his ministers is prepared to have a dialogue with the business sector.

To my mind only good can come out of it. I have just attended a meeting in Belgium of an international group called the International Public Affairs Centre. This is simply a businessmen's forum. We meet two or three prime ministers a year. We recently met the Portuguese prime minister and members of his cabinet and the chairman of the Council of Ministers of the EEC.

One foreign minister told us recently. I have a need to talk to you. What do you think of business in the year ahead and can the private sector do anything to improve the European economies? Can governments do something?

Mr Botha has already started such a debate here — an open debate in which everyone was invited to say his piece. I think that this has been invaluable for us. Mr Botha deserves a lot of credit for his initiative. One of the problems of the South African situation has been that separating people led to people not knowing one another. If we don't know one another we cannot understand one another.

BR: There is a debate in progress between business and government — has it been worthwhile for business?

VdH: In any debate the one changes but the other side also changes. If we talk we gain mutual insight into the problem areas. That, to my mind, is the major benefit to government and to business. And to benefit, and it must be viewed in this perspective, we must go on talking.

is still continuing at a extremely high rate with some forecasters predicting it could rise to 20 percent before easing. The persistent double figure rate must be extremely worrying for the insurance industry. How can long-term savings institutions cope with continued inflation?

Van der Horst: I recently visited Israel especially to study this subject and had discussions with the heads of the seven most important life insurance companies. One has to be very careful looking at the Israeli example, as there is only one Israel in the world, a country heavily supported by world Jewry and the United States government.

Israel is an enclave of 4m Jews amid 100m arabs. It is something special and what can be done there need not necessarily be adopted elsewhere and cannot necessarily be done elsewhere.

But what they have achieved is most interesting. The Israelis have linked everything financial to the consumer price index. They correct the capital values of government bonds monthly according to the inflation of the month and government bonds then carry a positive rate of interest of 5.2 percent.

As a result of this there is a savings element in life insurance and not merely like Brazil, a term insurance element.

Rates are linked, premiums are linked. If you have a life insurance policy and inflation rises you pay higher premiums. Salaries are linked with a correction made every three months as to 80 percent and then at the end of the year the correction is made in total.

BR: So the salary linkage acts as a brake?

VdH: Yes, there is a retard and then a recognition, eventually.

BR: How is the insurance industry structured?

VdH: The insurance industry is small. The sales take place mainly through lines similar to our retirement annuities — they are tax motivated. There is a deduction of some 18 percent from tax which the company and individual can make and this is put into an executive scheme.

VdH: It is important to examine why people save. We must recognize the discipline of contractual saving the fact that the saving of life insurance comes about due to the fact we sell it.

Although we do not, and will not, admit it when we deal with salary increases today instead of linking to it as a result of our manpower shortage we continually try to beat it.

If there is 15 percent inflation people are inclined to offer 16 percent. So I think there is relatively more justice, particularly for certain classes of persons. Pensioners on a fixed pension are finding it difficult to make ends meet.

BR: Is indexation applicable to South Africa?

VdH: Yes, but let us examine the concept in more detail. If a country is in an environment that does not have anything to do with the outside world it could arrange its affairs and distribute its income and wealth according to an indexed system.

The problem arises when you go beyond the borders of a country, particularly fighting a war, because one has to buy very expensive equipment. Provided you have a favourable trade balance you are alright, but if you have an unfavourable trade balance it becomes most difficult.

BR: What would the position be in South Africa's case?

VdH: Look at the recent results of our mining companies. Due to the 30 percent devaluation, and because we express the results in rands, the profits were not so bad, although the gold price fell sharply.

Now, if we reverse the position with an outflow on current account the cost would rise 30 percent. This is where your linkage problem arises. But if we are exporting sufficiently to cover the cost of the more expensive imports it is alright.

BR: The UK has its granny bonds which are now linked to the CPI. Should SA follow?

VdH: Instead of government issuing bonds at, say, 15 percent on which it pays cash interest every six months, a bond paying interest at five percent could be issued and the difference between the five percent and inflation linked to the end value of the bond.

The authorities could say: We are really going to pay you 20 percent, but the method will be 5 percent positive in cash and 15 percent linkage in the bond so that your bond will retain its monetary value and you will have five percent in your pocket.

Today government pays 15 percent, inflation is 15 percent and you have nothing in your pocket. You are earning nil.

BR: Is the Mutual studying the issue?

VdH: We are currently examining the issue. It seems that over a period of 13 years

The building societies have geared it for them with 20 — 25 year bonds. This is a tremendous deal taking into consideration the growth of equity in the house.

If we want to make the black man convinced of and a supporter and, moreover, an enthusiast of this thing I believe in — free enterprise — we must give him a stake and the best stake is a house.

He will look after the house, become house proud, become the centre of his family. The house will become a cultural asset — the start of a different community.

BR: Why is so little progress being made in granting bonds to blacks?

VdH: I think we must go back a little bit. The protagonists of the then government policy believed that by 1978 the black tide would be turned from the cities. I think we have moved a long way from that era.

This theory that they are temporary sojourners in our metropolitan areas I think has been changed. This is my interpretation, and with this new view came the possibility of offering them a stake.

BR: What was the position before the 99-year scheme?

VdH: Before the 99-year

have a cheap house. We are promoting the idea that Soweto should be sold to the people at cost.

BR: What reception have you had?

VdH: An enthusiastic reception in certain quarters. I am hopeful that the Steyn committee which is examining the financial implications of the Viljoen report and on how private enterprise can play a role in housing will consider the issue.

The provision of housing is beyond even the resources of government. At the Good Hope meeting the prime minister announced that the government had accepted the principles of the Viljoen report and appointed the Steyn committee. The Viljoen committee recommended that this cost-related idea be accepted.

If South Africa has the will

How inflation hits us

INFLATION has become a fact of life yet the consumer keeps receiving assurances from official sources that we are not so badly off compared with some other Western countries. What are the facts? The following table, dated July '82, is taken from a review issued by the economics division of Volkskas. It shows that in the past year South Africa notched up the highest inflation rate among leading Western industrialized nations and Japan and was third highest of the group over a seven-year period.

Course of the consumer price index from 1975 to May 1982 and during the past year in certain countries (percentage increases)

Country	1975 to May 1982	May 1981 to May 1982
Italy	192,7	15,2
Great Britain	138,9	9,5
South Africa	130,3	16,5
France	107,6	13,9
Canada	88,3	11,8
USA	78,1	6,7
Belgium	57,5	9,5
Netherlands	51,0	6,4
Japan	48,9	2,3
West Germany	35,7	5,3
Switzerland	25,4	5,9



Does answering telephones drive you crazy? Or perhaps you only lose your cool when paying the bill or waiting for a reply WATCHDOG asked the Post Office and the Department of Hospitals for their view

Why call costs go up

THE rising cost of phone calls and the recent practice of charging Western Cape subscribers for the Peninsula directory were the subject of a number of complaints to WATCHDOG. One reader pointed out that the cost of telephone calls was increased from five cents to six, an apparent 20 percent yet if the reduction in the number of seconds allowed for a call is taken into account the effective increase is 40 percent.

We put the matter to the regional director of the Post Office in the Western Cape, Mr J D R de Villiers, who gave the following explanation:

"As far as the metering periods for trunk calls is concerned, it should be explained that while it was necessary to shorten the metering periods for calls over distances up to 25km and 50km, the periods for long-distance calls (800km and above) were actually increased.

This was done to keep the tariff for long-distance calls at a reasonable level while at the same time ensuring that the Post Office is compensated in accordance with the value of the services offered over the shorter distance.

In view of the increased printing costs it is no longer possible to supply clients with free copies of the telephone directory other than that of the area in which their telephone services exist.

The selling price of our directories is regarded as most reasonable, represents only the average printing cost per directory, and does not include compilation, transport and handling costs."

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Rate of
inflation
24/8/82
drops by
1,7 pe

Consumer Reporter
South Africa's annual inflation rate dropped to 14,4 percent in July from 16,1 percent in June, according to the Consumer Price Index.

But a bank economist, Dr Johan Cloete, has warned that the drop is no cause for optimism.

"There is no indication that this drop is a new trend."

Prices rose by 0,9 percent last month, compared with a 0,8 percent increase in June 1982.

Dr Cloete predicted an average inflation rate for 1982 of 15 percent.

The CPI index on food increased by 1,2 percent from June to July 1982. The inflation rate for food during July on a year-by-year basis was 12,4 percent.

Higher food prices during July were the biggest single contributor to the inflation rate increase. Food increased by 0,3 percent.

Govt hopes for a tough wage stand by bosses

By GERALD REILLY
Pretoria Bureau

THE Government hopes the private sector will follow its lead and put up a tough resistance to demands for large salary increases, according to Government sources in Pretoria

Even increases to just compensate for rising prices would be too high, they said

The reason is the growing concern that inflation is running out of control at a time when the economy is not growing

Big wage increases in the private sector would only make matters worse, economists say

The Government's apparent policy is to keep wage increases for State and provincial personnel down to an absolute minimum, despite the storm of dissatisfaction certain to follow

This tough stance was evident in a speech made at the Public Servant Association (PSA) congress in Pretoria this week by the Secretary for the Treasury Mr R P Wronsley

He said a 15% pay rise for

public servants would cost the Government R1 000 million

He said he would be mis- leading the conference if he failed to warn that there was little room for manoeuvre for higher State spending including a bigger State salary bill

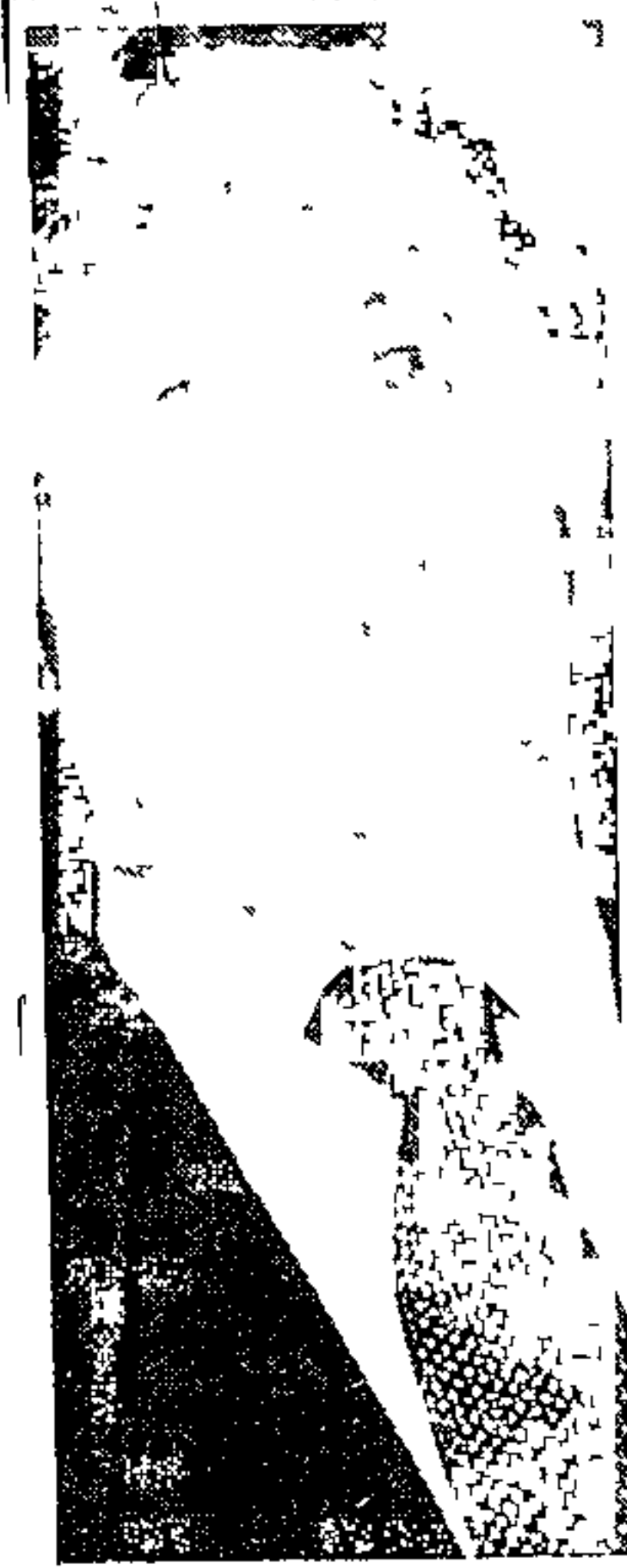
However, the president of the PSA, Dr Colin Cameron, said anything less than 15% would be unacceptable

Senior public servants said a clash between the Government and the PSA on the salary issue seemed unavoidable

They pointed out that the staff crisis had worsened since last year. There were more than 20 000 vacancies in an establishment of 80 000. Unless adequate pay increases were given, the crisis would deepen

Increases lower than 15%, it was argued, would have a negative effect on recruitment

The country's 280 000 rail workers and 78 000 postal workers will also get little more than token increases next year



MR OWEN HORWOOD
his GST rise fuels inflation

Inflation slows but COL still rises

ROM 22/9/82

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By GERALD REILLY
Pretoria Bureau

THE inflation rate as measured by the Consumer Price Index sagged below 14% during August for the first time in five months

However economists warned consumers against excessive optimism that this signalled the start of a downward trend in living costs

This was mainly because of the 1% increase in General Sales Tax imposed by the Minister of Finance, Mr Owen Horwood

This it will add nearly 1% to the inflation rate

The big bread price increase from the beginning of October and the virtual certainty of a substantial petrol

price rise in late October or early November will also fuel inflation

According to the CPI for August released in Pretoria yesterday by the Central Statistical Services, the increase in August was 1,2%, with a 12-month figure of 13,8%

It was 14,4% at the end of July

Food only rose by 0,3% with a 12-month figure of 10,3%

Major reason for the decrease in the 12-month figure, according to the Central Statistical Office, is that the big increases in July, 1981-2, 3% — and in August, 1,7% — have fallen out of the calculation

The 12-month figure last August was 16,1%

The fact that the annual rate to the end of August this year was 13,8% decidedly did not mean commodities were becoming cheaper, but that they were becoming more expensive at a slower rate

According to Barclays Bank chief economist, Dr Johan Cloete, the most significant and disturbing feature was the fact that the August increase of 1,2% was greater than the July increase of 0,9%

This indicated an accelerating trend

Dr Cloete stressed that before any meaningful decrease in the inflation rate could be expected the recession would have to bite far harder

Inflation is a sleeping monster — economist

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slow
22/9/82

By David Braun

and Hannes Ferguson
Economists warned today that inflation was still a sleeping monster despite the slowdown last month in the increase of the cost of living.

Inflation dropped to 13,8 percent in August, figures released by the Central Statistical Services today reveal.

In July the increase in the consumer price

index was 14,2 percent above July 1981

Food prices in August were, however, only 10,3 percent above those of August last year, while food prices rose by only 0,3 percent from July to August

Economists warned that the present let-up in the cost of living increase was a lull before the storm.

Mr Frank Shostak,

chief economist of Santambank, described the dwindling inflation rate as a sleeping monster

"Like other economists I believe there will be a surge in inflation again, probably from November

"The natural level for the inflation rate next year will be at least 15 percent"

Mr Shostak said he believed inflation was a monetary phenomenon and that it required a similar solution

"It would be a mistake to think inflation was being killed. South Africa has not even started tackling the problem. Experience in the US and Britain has shown that strict monetary policies must be adhered to for at least three years before inflation is brought down"

The seven-year moving average for growth in the country's money supply was about 18 percent. The inflation rate would inevitably be coupled to that percentage increase, Mr Shostak said

Mr Shostak warned that the recent increase in general sales tax still had to work through the system. The increase in the bread price and the expected increase in the petrol price would further aggravate the situation

"We have also not yet felt the full effects of the depreciation of the Rand. When that works through there will be a considerable increase in the cost of living."

Prices go bananas in inflation riddle

S. Post

22/9/82

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By LOUIS BECKERLING
Business Editor

THE rate of inflation as measured by the consumer price index (CPI) now stands at 13,8%

Figures released yesterday by the Central Statistical Office for the month of August show a further 1,2% increase on a monthly basis and the CPI now stands at 236,8 compared with 234,1 in July (which in turn showed a 0,9% increase over June)

On an annualised basis the rate has apparently shown a decrease (from 14,4% to 13,8%) but this is accounted for by an unusually steep increase in the CPI in July last year and in no way indicates a downward trend in prices

Bear in mind also that all it takes to push up the index a few points is another round of price hikes forced upon commerce by a rise in administered prices — and already rumours are circulating that petrol is shortly due for a further increase in price

Consequently the short-term difference in a monthly rate is clearly no reliable guide to what may happen in a matter of weeks, let alone 12 months. A trend will only emerge over a sustained period of months and for the year to date the rate of change on a monthly basis has been stubbornly high — and rising

In January the index stood at 217,6, which represented a 0,6% increase over December 1981 and a 13,9% rise in prices when compared with the same month last year. In February prices rose by another 1,2%, in March by 2,3%, in April by 1,6%, in May by 0,6% and in June by 0,8%

The CPI is calculated on the basis of a hypothetical collection of bills faced by families in the lower-, middle- and higher-income groups. The monthly food bill is given the greatest "weight" when calculating this index (25%) followed by the cost of housing (17,6%), and transport (15%). Lowest on the ladder is education, at only 0,82% in the case of the upper-income group

In order to measure the monthly change in food prices, for instance, officials of the Central Statistical Office call on a select group of stores in 12 different regions and price the items in their "basket". The officials call on the same shops in the first week of every month and price the same items every month and are thus in a position to measure with some accuracy what changes have taken place

The Central Statistical Office publishes the findings made by these officials, but warns that in view of the select nature of the shops concerned the prices between regions are not necessarily comparative in the long-term

Nonetheless the findings do give an idea of the trend between regions, and Business Post has extracted at random some of the prices quoted in the July comparisons (see table)

Significantly the difference between regions on a basket of groceries costing around R100 is not substantial — in our sample Port Elizabeth provided the cheapest shopping and Pretoria the most expensive and the difference between the two was no more than R6,18c (or the price of a kilogram of rump steak)

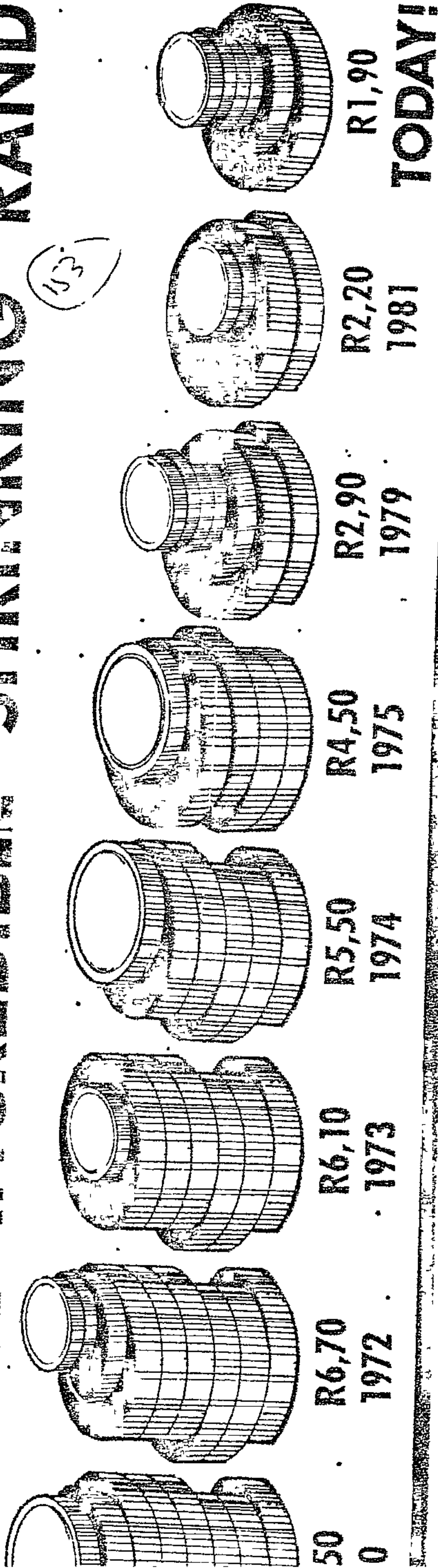
Thus the first observation that can be drawn is that rises in the cost of living occasioned by transfers can be offset by a fairly modest sacrifice once a month

Of some consolation to Port Elizabeth and East London shoppers is that their bills are below the national average (R2,24 cheaper in the case of East London and R2,91 in the case of Port Elizabeth)

Surprising to those not familiar with the techniques of marketing men and the sometimes tortuous relationship between supply and demand is the fact that in our sample bananas were most expensive in Durban, and oranges most expensive in Port Elizabeth

(The totals reflected in the table are the sum of all the items contained in the shopping basket whereas, for reasons of space, the table contains only a few of those items)

THE INCREDIBLE SHRINKING RAND



By David Braun

ever of the rand has shrunk to less than it was 22 years ago

could buy for 19c in 1960 would

mauling the currency has received inflation, according to the official index

ou could buy for R1 in 1960 would

started shrinking in the 1960s, for in value by 1970

me the big oil crisis and world

ing decade South African inflation, where it has remained stubborn-

rand had shrunk to the equiva

A call to switch

lent of 35c in 1960. A year later it was 45c

From consumer price group indices supplied by Central Statistics it is apparent that the product which has been subjected to the largest price increase since 1975 is sugar

The amount of sugar you could buy in 1975 for R1 will today cost you R321

For every R1 spent on education in 1975 R3,01 is needed today

Meat has gone up 152 percent, fish 130 percent and milk, milk products and eggs by 136 percent

Fruit has fared better. For six rand spent seven years ago would require R210 today

Vegetables are up 125 percent and coffee and tea 161 percent

Alcoholic drinks went up 115 percent and cigarettes doubled in price

The area where consumers have come off best

is clothing. Prices went up by only 94 percent in the past seven years

Every R10 000 spent on buying a home in 1975 would require R20 340 for the same standard of housing today

The cost of furnishing has gone up 66 percent

Materials to clean the home doubled and the wages of domestic staff cost 146 percent more

Surprisingly, medical care has risen by a moderate 116 percent since 1975

Not so surprisingly the costs of transport have soared to 170 percent

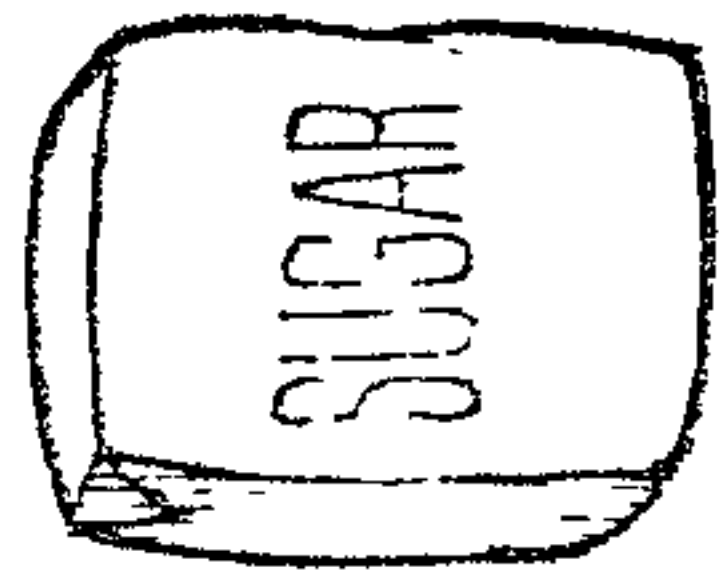
Vehicles are up by 141 percent and running costs have tripled

Personal car has risen by 128 percent and recreation is up 106 percent

The price of a loaf of bread has risen by more than 100 percent

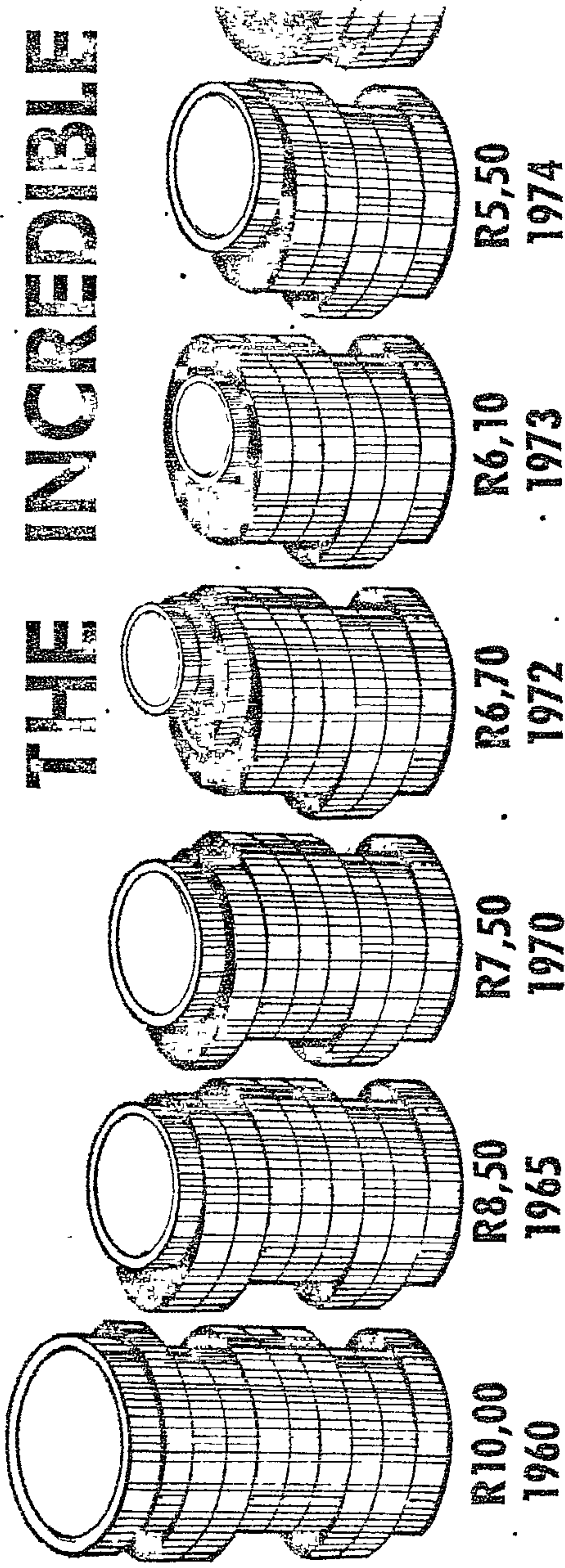
The cost of the star however, only doubled -- and you get more for your money from it

1975 — 1982



Gift flats help the aged

In the wake of the latest figures showing that inflation is down to 13,8 percent and the cost of living increase has slowed, consider this Liz Warder graphic on the dramatic drop in the value of R10 since 1960...



Rand's value down 80pc in 22 years

The buying power of the rand has shrunk to less than a fifth of what it was 22 years ago.

What you could buy for 19c in 1960 would cost you R1 today.

This is the mauling the currency has received at the hands of inflation, according to the official consumer price index.

And what you could buy for R1 in 1960 would now cost you R5,26.

The rand started shrinking in the 1960s, falling by a quarter in value by 1970.

In 1974 came the big oil crisis and world inflation soared.

In the ensuing decade South African inflation hit double digits, where it has remained stubbornly.

By 1974 the rand had shrunk to the equivalent of 19c in 1960.

From consumer price group indices supplied by Central Statistics it is apparent that the product which has been subjected to the largest price increase since 1975 is sugar.

The amount of sugar you could buy in 1975 for R1 will today cost you R3,21.

For every R1 spent on education in 1975 R3,01 is needed today.

Meat has gone up 162 percent, fish 180 percent and milk, milk products and eggs by 136 percent.

Fruit has fared better. Every rand spent seven years ago would require R2,10 today.

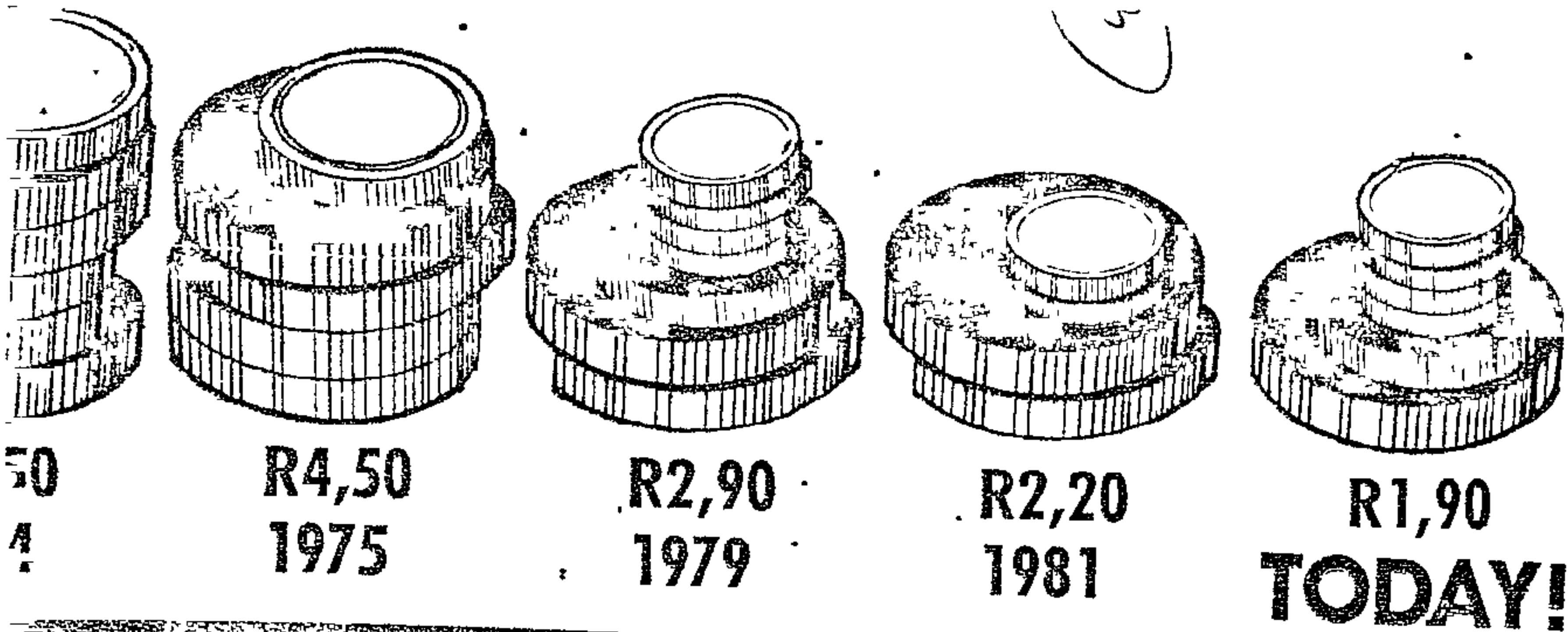
Vegetables are up 125 percent and coffee and tea 161 percent.

Alcoholic drinks went up 115 percent and cigarettes doubled in price.

The area where consumers have come off best and

A call
to switch

Gift flats help



supplied the price in 1975 is R3,01. The cost of furnishing has gone up 96 percent. Materials to clean the home doubled and the wages of domestics cost 146 percent more. Surprisingly medical care has risen by a moderate 116 percent since 1975. Not so surprisingly the costs of transport have soared to 170 percent. Vehicles are up by 143 percent and running costs have tripled. Personal care has risen by 128 percent and recreation is up 106 percent. The price of reading matter has risen by more than 140 percent. The cost of The Star however only doubled — and you get more for your money from it.

help the aged



fit in each a new stove and a secure door. The building was occupied when it was taken over and about 20 old age or disability pensioners who qualified for accommodation have been retained. The rentals are R60 for pensioners and R75 for those who have extra income from work or any other source. "We found genuine need and already have a waiting list," said Mr Storey. The church has a team which visits the residents and there is a low-priced restaurant

called The Pione Centre at the Central Methodist Church five blocks away. The team hopes to establish a community in the building by opening a community room where the residents can meet.

"We have not finished renovating and need more money to do it but pensioners can get help from the M-Share Association. Write to Mr Storey at 944 St. George's Road, Johannesburg 2000. Telephone 37 5375.

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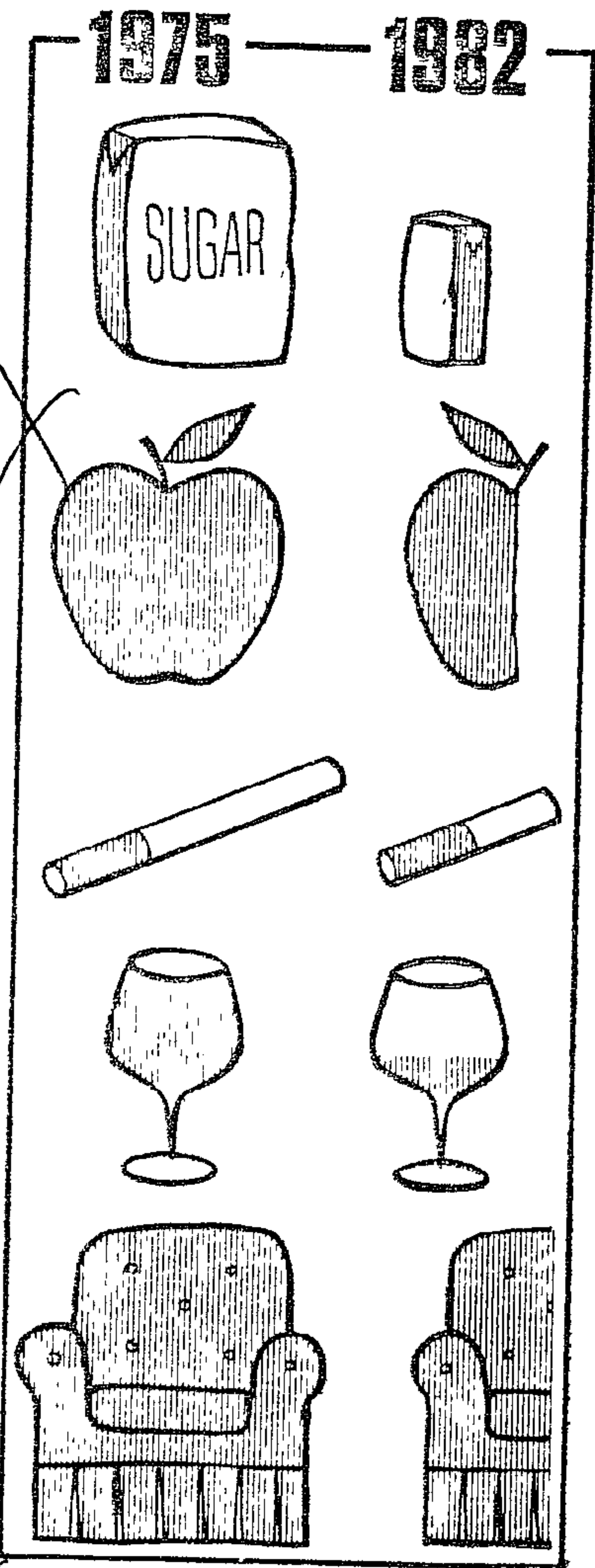
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Film of their lives

BEVERLY HILLS — Elizabeth Taylor and Richard Burton say they are looking forward to acting together in 'Private Lives' because its plot mirrors their own tangled love life. Burton and Miss Taylor have broken two stormy marriages to each other but are promising not to back out of Noel Coward's comedy set to begin on

May 5 in New York. It will mark their first theatre duet.

Miss Taylor and Burton first became romantically involved in 1963 and marriage caused a sensation noted for its concerns a married couple who broke up their romance when they meet on a white honeymoon in new places.



GENERAL NEWS

Rising CoL 153 was a problem 25 years ago

By Caroline Braun

"Rents are too high for most young couples," says the headline. Sound familiar?

Yet the story was not taken from last week's newspaper but from files of 25 years ago.

High rentals and the soaring cost of living are not problems peculiar to today, it seems.

Judging from the flood of letters and articles in newspapers in 1957 and 1958, young couples of a generation ago also had an uphill battle to keep pace with rising prices.

In a letter to The Star on January 23 1958 a reader wrote that the future for young married couples looked dismal because of high rents and too few homes on the market.

Mr David Murray, who was director of social affairs in Johannesburg at that time, said that proper budgeting was all that was needed to enable the average family to live within its means.

"People spend far too much on rent. They should rather live in areas they can afford," he said.

He gave an example of a budget for a family of four where the

Rents are too high for most young couples

To the Editor of The Star

SIR,—I suggest that something should be done about the high rents people have to pay today. The future for young married couples looks dismal, especially with the high rents.

It is the dream of most young couples to have a house but today the cheapest house a person can rent is about £25 a month. This means that a young man with a salary, say, of £90 a month, starts married life paying £25 a month rent.

The other night an advertisement appeared in a newspaper for a house to rent. On telephoning I was advised that I was the 150th person to telephone for the house.

Action needed

I suggest that the Government do something to help the young married couples today.

Even if you can find the money to buy a house the monthly repayments are about £25 plus £4 for light and water.

I stay near at least four young couples and we are all having a terrible battle to make ends meet and one by one we are having to go back to work, and leave our children with Native servants. All day long I am worried in case the servant does something silly.

In the newspapers we read that working mothers are leaving their

children and that mothers should not be allowed to work, but let one of our Government officials take a census of South African budgets and I am sure he would get a shock.

Monthly outlay

I maintain that a young couple with say two children have a budget more or less as follows:

	£	s	d
Rent	25	0	0
Light and water	4	0	0
Native servant	4	0	0
Doctor's bills	2	0	0
Furniture	3	0	0
Groceries	12	0	0
Butcher	6	0	0
Vegetables and fruit	5	0	0
Car	10	0	0
Clothes	6	0	0
Dry cleaning	2	0	0

The headline in The Star 25 years ago

combined earnings of the husband and wife were £160 or, in today's terms, R1 920.

The expenses included £10 (in today's terms, R120) for rent and £9/10 (R114) for tax. Total expenses added up to £110 (R1 320) a month,

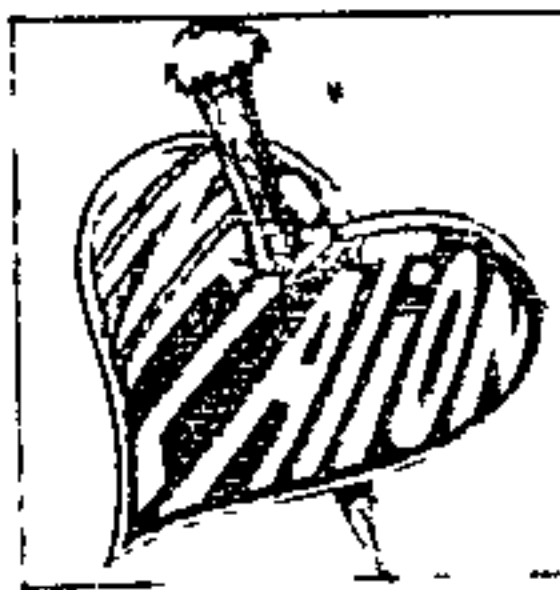
which left £50 (R600) for saving.

This shows that young couples a generation ago were far better off than their modern counterparts. Rentals and taxation have increased out of all proportion to what they were 25 years ago.

INFLATION

It can be beaten

(153) FM 1/10/82



Inflation — a persistently rising general price level — tears apart not only the prosperity of any society but also its very fabric. It is no coincidence that high rates of inflation are accompanied by high levels of social instability. Compare for example a low inflation model such as Switzerland with South and Central American countries.

Thus, leaders in SA such as Fosu's Alex Irwin should think twice before complaining about government's desire and determination to curb demand and slow down the economy in order to reduce the rate of inflation.

In the short term, much like a drug addict's quick fix, pumping up demand beyond an economy's ability to supply might produce a few jobs. But in the long term, the resultant inflation destabilises society itself.

This perception is the justification for policies which have been followed in recent years in the world's two major English-speaking economies, the US and the UK. The cost has been severe and the political risks for those involved high. It has taken courage and vision. But if Ronald Reagan and Margaret Thatcher had failed to embark on the path of fiscal and monetary restraint, had failed to make the effort to direct resources to the private sector, then it is fair to say that the system of democratic capitalism would today face a bleak and imperilled future if it had a future at all.

It is instructive to remember that Nazism grew out of the despair of a Germany brought to its knees by hyper-inflation. The growth of a free and prosperous West Germany was brought about by leaders whose greatest fear was always the threat of a return of inflation.

The latest US figures suggest that the rate of inflation in the US for the whole of 1982 will be under 5.5%, the lowest rate since 1976. Two years ago, by contrast, it was 13.5%.

In England in July, consumer prices did not rise at all. It was the second time in 12 years that it had happened, the other occasion being in February this year. These have helped to put the UK on an inflation course that has economists predicting an annual rate this year of about 7.5%. The Chancellor Sir Geoffrey Howe, says the rate will be running at below 6.5% by the year end.

Little more than two years ago, the rate was almost 22%. It had doubled in the year that the Conservative Party, under PM Margaret Thatcher, came to power. It is now at its lowest level in four years.

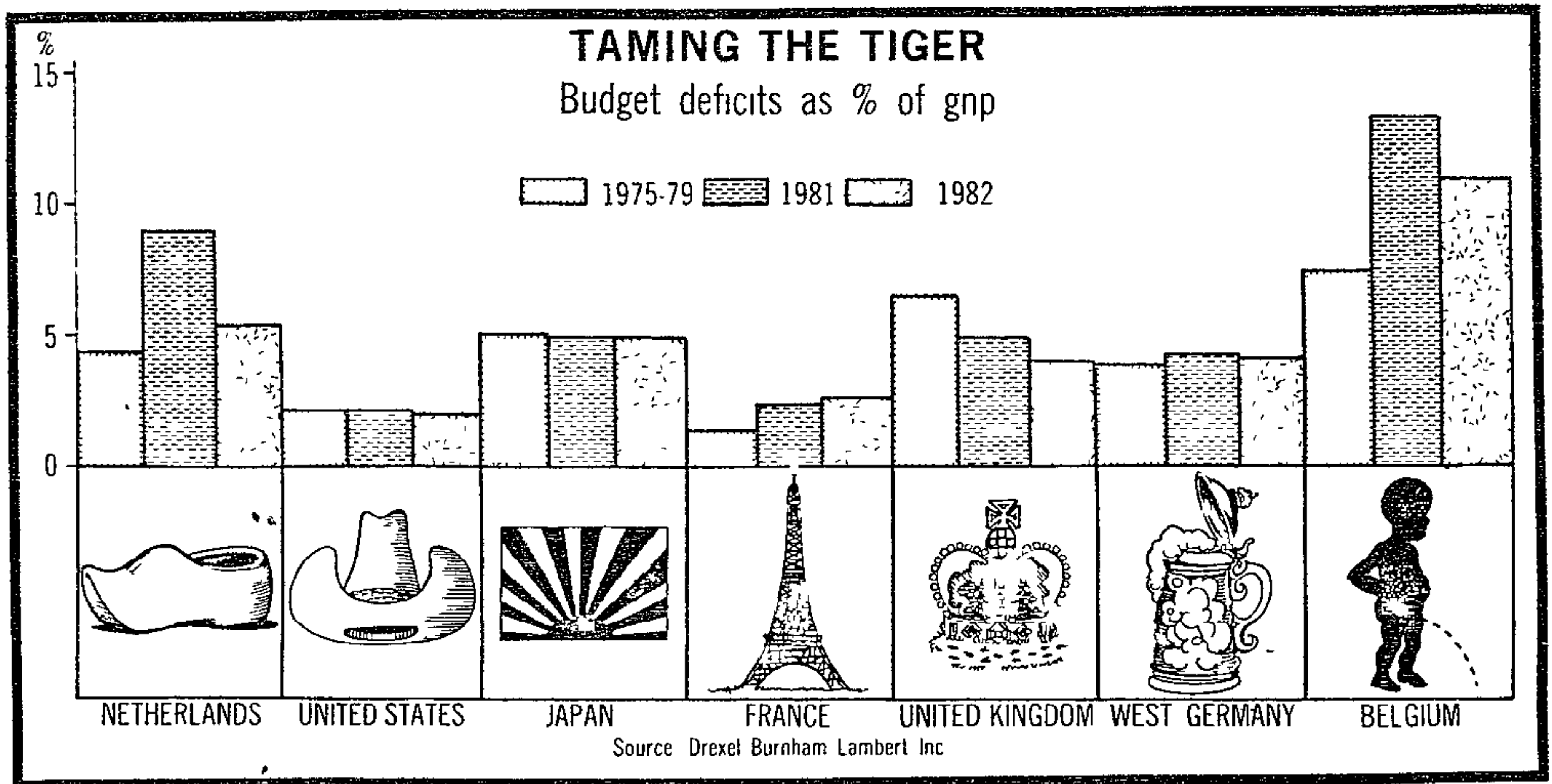
Policymakers and economists in all the industrialised countries are now beginning to claim, with characteristic caution, that inflation is being beaten. Similar trends to those in the US and UK are appearing in virtually all the states belonging to the Organisation for Economic Co-operation

and Development (OECD). It is an impressive achievement against huge odds. The question of how it is being done is an intriguing one. But it begs another: Why?

In all these countries, and in the US and UK in particular, inflation has become in recent years the major policy priority. The battle against it has been fought at great personal and political cost — and it is not yet over.

What is inflation? The answer is complex and it has facets that touch on virtually every sector of modern economies. A popular definition of inflation runs along the lines of "a persistent increase in the general level of prices." The price mechanism is the "invisible hand" that allocates resources in market economies. If demand for certain goods rises, their prices rise. Higher prices mean higher revenues for the producers of these goods, which feed back into production and raise the level of resources flowing towards it. The price, in this simplified view, acts as a signal to the economy that more resources must be pumped into a particular line of manufacturing to meet the increased demand for it.

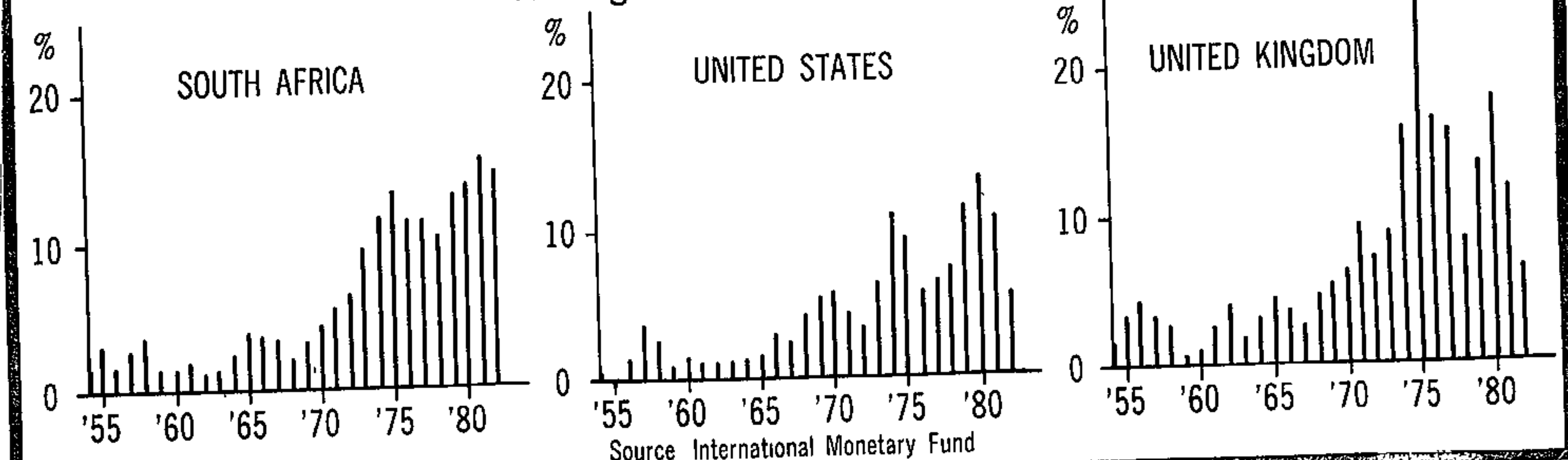
This sort of price rise is not inflation. It is a zero-sum situation for those resources are being drawn away from other sectors of the economy. The most frequent analogy, of course, is that when the demand for guns goes up, the demand for butter (along with its production and its price) must fall. Putting it another way, a one-off price rise in any food or service is not, of itself, inflationary.



Any dishonesty will render the candidate liable to disqualification and to possible exclusion from the University

MOVING TARGET

Average annual inflation rates



However, when the *general* price level rises — and keeps rising — inflation is upon us. When incomes rise — and keep rising without corresponding increases in output — inflation has arrived. When the total output of an economy remains constant, but prices generally rise and keep rising, it is safe to say that the economic environment is inflationary. Aggregate demand is in excess of the economy's ability to produce or supply.

Needless to say, this kind of persistent rise in the general price level can be accommodated only by an equally persistent rise in the money supply, that is, cash and credit. This theoretical truth, known as the quantity theory of money, has been known for a long time, but only in the last few years has it become the basis for an economic school, the "monetarists," whose best known exponent is Milton Friedman. And only in the last few years has it been the central theme of economic policy in a number of countries.

When most people talk of inflation, though, they are talking about the behaviour of the consumer price index. This is a complicated system of monitoring rises in the cost of living. The retail prices of consumer-type goods — food, housing, clothing, etc. — are scrutinised. Each is weighted according to that proportion of an average household's income which is devoted to it and the result is a monthly index figure. The percentage change between this month's figure and that for the corresponding month one year previously, is the annual rate of inflation.

The consumer price index is not necessarily the most accurate measurement of inflation. But its popularity has obvious reasons. It measures changes in the cost of living of people and people (not firms) are voters. The cpi, as it is known, has the highest political profile.

Much attention has been centred on inflation over the last decade. Yet inflation is not a new phenomenon. General price rises were recorded in pre-historic Egypt and

classical Greece over 3 000 years ago. The flow of gold to Europe from the US after Christopher Columbus' epic voyage in the 15th century set off a wave of price rises. By modern standards it was modest — in Andalusia, a five-fold increase in 100 years.

Wars and revolutions, paid for by indiscriminate bank note issues, have been traditional generators of inflation. Britain paid for the struggle against Napoleon with Bank of England notes. Wheat, as a matter of no coincidence, almost tripled in price between 1798 and 1800, a rate of almost 100% a year.

The American revolution was floated in on a wave of notes — in Virginia, circa 1780, the price of shoes rose to \$5 000 a pair. During the American civil war, prices in the Southern states rose at an average rate of about 10% every month (an annual rate of 120%) from 1861 to 1865. The French and Russian revolutions were no exception, nor was World War 1. Its aftermath, in a Germany swamped by war notes and faced with huge reparation payments, saw a wave of hyper-inflation. By 1923, prices were more than 1 400 billion times higher than their pre-war levels.

There is, however, a crucial difference between historical bouts of inflation and the kind that has dominated the international economy for the last decade and longer. Earlier inflations, currency crises aside, were almost always followed by periods of deflation, when prices tended to fall to earlier levels and sometimes below them. The authorities cut the money supply by 30% after the great crash of 1929 in the US and by the early Thirties, prices were a third of their 1929 levels. There was a heavy price to pay, of course. Apart from massive unemployment, over 2 000 US banks failed in 1931. Friedman is critical of the inappropriate reduction in the money supply at the time. The essence of his policy is to keep it growing modestly in relation to growth. A sudden rise or fall causes disruption that is not conducive to growth.

After World War 2, prices were

relatively stable. In the two decades to 1967 in the US, prices rose only about 20% — an average of 1% each year. In the UK, mainly under Labour, the rate was higher, averaging about 3% during the Fifties and about 4% during the Sixties.

During that time, especially in the UK, a trade-off between inflation and unemployment was evident. It was found that any deflation of demand that increased unemployment even slightly acted as a brake on price and wage rises, which tended to be equally slight.

The experience of the Seventies changed all that. Inflation became very widespread, affecting most of the industrialised economies. And it developed a resistance to economic recession, the traditional deflationary periods that tend to follow booms.

The pages of economic journals and textbooks have been filled with attempts to analyse the causes of this new, persistent inflation. One reason was the rapid — almost automatic — adjustment of wage and social security payments to increases in cost of living indices. Another was the socialisation of large economies, such as Britain, which reduced the disciplines of the market, made them less efficient and more resistant to policy implementation.

During the Sixties, there was sustained growth and a marked absence of deflationary recessions. Largely this was because of the artificial boom that US President Lyndon Johnson created to pay for the Vietnam war and introduce his Great Society. The growth of organised labour and industry inhibited the downward mobility of prices.

Outdated Keynesian fiscal policies had become conventional wisdom. This entailed enlarging government deficits to stimulate growth when economies did not have sufficient capacity to supply. The essence of Keynesianism was to stimulate general demand through government spending when surplus productive capacity existed, as it did after World War 2.

The UK was the hardest-hit of the major industrial economies. Its inflation was intensified by "the British disease" — excess demand from high wage rises on low productivity growth being met by imports (thus trade deficits) and price increases.

As Herman Kahn, research director at the Hudson Institute, puts it in his new book, *The Coming Boom*: "The current inflation is costly, disruptive and dangerous. It undermines both morals and morale, inflicts the greatest harm on people who are least able to cope with it mentally or financially, distorts many economic processes and threatens the stability of the US economic and political system."

Inflation results in distorted transfers of wealth. Those on fixed incomes, like pensioners and recipients of social aid, become steadily more impoverished as the real value of their earnings falls.

Government gains as nominal incomes rise and push people into ever-higher tax brackets, a process known as "fiscal drag" or "bracket creep." Like other debtors, it can gain by repaying old loans with devalued cash. In general, debtors gain at the expense of creditors.

Inflation creates uncertainty. It encourages the spending, rather than the saving of money which is losing its purchasing power all the time. It discourages investment for long periods and has a cumulative eroding effect on existing capital investments. It overstates profits and cuts across established accounting methods of valuing assets which, for depreciation and amortisation purposes, have always been based on original and not replacement cost.

If inflation becomes the dominant psychology in an economy, it feeds on itself. Prices are raised on expectations of future inflation, as are wage demands. Government aid and social expenditure is indexed. It means that increasing proportions of national budgets are devoted to non-productive sectors. Fiscal deficits increase and, if they are not carefully funded, they can induce banking systems to expand the money supply to accommodate them. Even if they are carefully funded, they inflict on free markets a cost-insensitive bureaucracy that fuels inflationary pressures. And the state competes with productive sectors for investment and, because it is the sovereign power, is capable of crowding out more productive private sector investment. Interest rates rise, adding to cost pressures. The circle is a vicious one.

Welfare billions

In the US, for example, government spending on welfare rose from \$24 billion in 1960 to \$333 billion in 1981. Its proportion of the federal budget rose from 26% in 1960 to over 50% in 1981. Between 1955 and 1959, new Treasury borrowings constituted on average 1.3% of all credit market funds. Between 1975 and 1979, their share was 19%.

During the Sixties and early Seventies,

repeated attempts were made to hold prices and wages down through coercion and legislation while governments continued to pay for extravagant welfare schemes by creating credit. But prices and income policies merely bottled up inflation, which shot ahead when the barriers were lifted and credit created by government to pay its bills boosted consumption demand above economic output.

In Britain, when the Tories lost the 1974 election after the miners' strike, Labour came in with the social contract and three years of incomes policies. Wage rises (34%) and inflation (27%) peaked in 1975 when unemployment was 4.1%. Labour (under the tutelage of the IMF) managed to screw inflation down to 8% in 1978 when unemployment was 5.5%. But it was less successful in holding wages partly because of large public sector pay awards. When it tried to limit wage increases to 5% in the famous winter of discontent in 1978-79, it ushered in the monetarist policies of Thatcher's government.

The rise of monetarism in the late Seventies was not, however, the adoption of a crude belief in recessions. At the base of modern monetarism is simply that the amount of money injected into an economy affects two variables — prices and economic output. Curtail the supply of money, the argument runs, and prices more elastic than economic output, will be affected more quickly.

The monetarist school of economic theorists argue that there is overwhelming empirical evidence of a relationship between credit creation (broadly speaking the growth in the money supply) and rising prices. But so little is known of the relationship, that governments should aim at a steady growth in the money supply consistent with expected growth in output.

It argues that, simultaneously, Western economies should curtail socialisation programmes and free resources to the more productive private sectors. This would help the economies to produce more of what was required from them, thus reducing excess demand and stabilising prices.

Thatcher introduced a policy of targets for money supply growth coupled with a fiscal strategy which would reduce the budget deficit (the public sector borrowing requirement) so as to avoid financial crowding out. She was also committed to incentives — reducing taxes or earnings in favour of taxes on spending — and cutting the cost of nationalised industries.

On the wages front, rates of increase soared in spite of rising unemployment, especially in the "monopoly" public sector industries, government workers and special groups such as police and armed forces. The PSBR had soared from £6 billion in 1977 (during the IMF's "rule" through the Labour government) to £12 billion in 1979. A year later it was up to £13.2 billion, 0.7% of GDP.

Inflation also rocketed. The 1979-80 sec-

ond oil price shock (crude doubled) was added to a series of government inspired increases. Value Added Tax rises pushed retail prices 3% higher after the 1980 budget. Cuts in government subsidies for nationalised industries simply produced higher prices rather than cost savings. And to bring energy prices into line with oil, power and gas prices rose. In addition, tight money meant higher mortgage interest rates. The effect was to push inflation from 10.3% when the Tories took power to 22% a year later.

Exports lost out

As a result, British exports lost 50% of their price competitiveness at a time when world markets were slipping into recession. Squeezed by high interest rates and unable to raise prices at home or overseas, industrial profits have been hammered.

Closures and redundancies have driven unemployment to record levels of one in seven — more than 3.3m — as real GDP fell 7.5% from 1979 to last year.

On the positive side, the money squeeze and high interest rates did reduce inflation in a world of weakening commodity prices. Even though the money supply (sterling M3) was showing growth of 27% in mid 1980, the pound appreciated by 24%. Industrial input costs have fallen sharply and, as unemployment climbs, so have wage demands. Combined with a 10% rise in productivity, the process enabled British exporters to recoup about 16% of their lost competitiveness.

The other numbers are also going well. The PSBR is down to £8.8 billion in 1981-82 or 3.5% of GDP, is set to drop to £7.5 billion in 1982-83. And £6 billion next year. Britain is, however, bolstered by North Sea Oil revenues running at £7 billion.

Money supply growth after a surge in 1981, is back to 10% — inside the 8%-12% limits set in the last budget — and comparing with the 14.5% of 1981-82.

With the heat taken off US interest rates, Britain is now able to boast both declining inflation and cheaper money. Inflation is running at 8%. By the year-end, according to Chancellor of the Exchequer Sir Geoffrey Howe, it should be 6.5% — a full point lower than best expectations and the lowest for 10 years.

Paul Volcker, the chairman of the Federal Reserve System, the US central bank, has steered the course of monetary policy in that country. Since 1981, he has been backed by Reagan. His revitalisation of the classical principles of "supply side" economics (reducing taxes to encourage investment and boost supply) has meant, against all odds, declines in the size of US budgets relative to gross national product. Its deficit is now proportionately smaller than any of the other large industrialised economies — and declining. This has been achieved despite cuts in personal and corporate taxes.

Another key element to the reduction of

University

inflationary pressures — and also to the increased health of the dollar, by the way — is the surprisingly low level of American oil imports these days. Throughout the first half of this year, the US averaged fewer than 2.5m barrels a day in economic consumption and the level was low enough for the Reagan administration to feel it could afford to buy another 500 000 a day for the US strategic stockpile of crude petroleum.

Even with a revival in oil imports, it is unlikely that the US will average a 4m barrel daily flow, even at the reduced prices now being offered by Opec and by the troubled neighbour to the south — Mexico.

Another surprising factor in the disinflation process here has been the willingness of American unions to moderate their wage demands as a way to save jobs. One must hark back no further than 1979 when the teamsters (long-haul lorry drivers) union called a nationwide strike that paralysed shipping to enforce a 30% wage increase package over the next three years. Wage rises of 10%-15% a year were common-

place, now union wages rises are under 4%.

There are other factors. The dollar has certainly been helped by the political instability in France and elsewhere in the world. America's energy consumption levels have been helped by large-scale discoveries of natural gas since 1980. Bumper US grain crops have provided farm income and balance of payments earnings. And the development of a substantial underground economy, where persons hold one or sometimes two income-earning occupations that are not reported for tax purposes.

All these have helped the current reduction of inflation pressures — the latter because the money earned off the books tends to get put away for an emergency, which curbs money supply growth.

Can Reagan take much credit for other things? He has cut state and local government employment levels by 200 000 this year by slicing funds for locally-administered social welfare programmes and thus cut the jobs of the administrators. He has cut, or will soon cut, three times that many

from the federal workforce and the ultimate transfer of half a trillion dollars bound for Washington back to the private sector has to help keep prices stable.

The question now is whether, with inflation being squeezed out of these leading Western economies, they will return to the prosperity of the Fifties? The answer, the *FM* has no doubt, is yes. But the withdrawal symptoms of the government spending and socialisation binge of two decades are unlikely to be short. These economies are going to need to dry out.

It will take time for investment confidence to rise, for the unemployed to find jobs and rekindle a spirit of enterprise and adventure. While this happens, government must not be tempted back to "quick fix" stimulation. If monetary discipline is maintained and resources continue to be released to the private sector, the market economies will regenerate themselves and economic growth and prosperity will return. If governments take care of inflation, growth will take care of itself.

Inflation — the causes and suggested remedies

E-Post 15/10/82

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What is it?

AN increase in the general price level (Dr Cloete's definition is important, because it excludes the qualification of a sustained increase. Refer to the argument under "Which is best")

Why does it happen?

Inflation can be caused in three ways

- The total amount of money spent on consumption and investment may exceed the total value of the consumer and capital goods and services produced. This leads to prices being bid up.

Normally, Dr Cloete, told delegates to the Manpower and Management Foundation conference, "such excessive monetary demand puts pressure on the resources of production (labour, capital, raw materials, etc) with the result that prices for these resources are bid up". This sets the snowball rolling.

Example During 1980 and '81 South Africa's total expenditure on gross domestic product (GDP), rose by 34% and 26% respectively. However real GDP increased by only 7,8% and 4,6%.

This is a classic "too-much-money-chasing-too-few-goods" scenario, and salaries and wages increased accordingly by no less than 18% in 1980 and 20,5% in '81 (To be followed by increases in other factor costs such as interest rates).

- The second, and more controversial scenario might well be called the "octopus-origin" (though Dr Cloete didn't use this term).

In such a situation, according to Dr Cloete's analysis, the spread of influence of large corporate units — representing both producers and employers — ensures that "prices and wages are inflexible in a downward direction".

In other words the adjustments assumed to follow from the operation of a free and, most important, competitive economy remain a textbook pipedream. In the real world beneath the ivory tower "large corporate units, with considerable control over their suppliers, tend to dominate the production and distribution processes, while a large proportion of the total labour force tends to be organised in trade unions".

- The tug o' war waged between labour and business, with each competing for a larger slice of the national cake.

Or, as Dr Cloete expressed it "It seems that continuous inflation must be related to some kind of process such as the struggle for the distribution of a national product, whereby employees raise their wage demands to compensate for wage or price increases elsewhere in the economy, or for inflation experienced in the immediate past, and employers in their turn raise their prices to protect their profit margins against those wage increases".

Example The price of chickens goes up and workers in the egg industry want more to be able to afford a Sunday roast — and there you have a real chicken-and-egg conundrum developing.

How can it be cured?

For the record, Dr Cloete believes South Africa's particularly pernicious brand of inflation "probably reflects a combination of all three kinds of inflation, namely cyclical excess demand inflation ("too much money", etc), upward shifts in the price level due to relative price and wage changes (the octopus theory), and continuous wage/price "push" inflation (the chicken-and-egg conundrum).

What can be done about it?

1. The Keynesian approach.

The Keynesian school (after British economist John Maynard Keynes, 1883-1946), says Dr Cloete, "believes that fiscal measures should constitute the centrepiece of anti-inflation demand management policy".

What this means in practice is that the level of Government expenditure and taxation should be manipulated as an anti-inflation demand management policy.

Two supportive measures are required

- The monetary prescription, namely control over the money supply by the central bank (in South Africa's case, the Reserve Bank).

- An incomes policy, which demands some sacrifice from business and labour. For such a policy to succeed, employers must accept lower profits and workers must

INFLATION is a nasty word that only recently entered our vocabulary. But what it lacks by way of a history it makes up for in the frequency with which it is used today — as an "excuse", suspect many consumers, for plain greed.

While such a view is perhaps understandable, it is not altogether correct. Business Editor LOUIS BECKER-LING analyses the latest report on inflation by Barclays Bank chief economist Dr Johan Cloete. The cure Dr Cloete proposed at this week's Business Outlook conference in Johannesburg, endorses minority support for the largely discredited British economist John Keynes.

accept lower wage increases

2. The monetarist theory.

The rather complex neo-Keynesian policy prescription favoured by Dr Cloete has been abandoned by most Western economies in favour of this solution in terms of which, says Dr Cloete "it is sufficient to exercise control over the money supply by the central bank, which includes the prevention of excessive bank credit to finance Government deficits".

Which is best?

Dr Cloete believes in Keynes. The monetarist theory so vigorously propounded by US economist Milton Friedman, he says, makes the mistake of assuming there cannot be inflation unless there is an accommodating (and prior) increase in the supply of money.

In the good old days, he argues, inflation used to mean "an increase in the general price level".

"But the monetarists have changed this to a sustained increase, in order, it seems, to be able to say that there cannot be inflation unless there is an accommodating increase in the supply of money".

The Keynesian school, on the other hand, supports the apparently incontestable fact that prices and wages can go up first, and these increases are then financed by way of increased credit.

Dismissing the efficacy of the monetarist solution, Dr Cloete says the Reserve Bank cannot effectively prevent such an accommodating increase in bank credit because in practice

- Employers find the extra wages by cutting back on employment and output.

- Political pressure forces the bank to relieve the tensions generated by rising unemployment.

- In any event private banks can increase the velocity of the circulation of money to offset, at least in part, cutbacks in the money stock.

- While such cutbacks do drive up interest rates (a desired objective of the monetarist policy), "both corporate business and the consuming public do not readily respond to rising interest rates".

The net result is that the rates must rise dramatically, with unnecessarily severe consequences for the economy, before they exercise the desired effect.

Far better, argues Dr Cloete, to ease the screws via appropriate changes in the level of taxation. When recession threatens, for instance

What does it do?

Dr Cloete takes a final swipe at the preferred monetarist solution to inflation in the conclusion to his address "The principal impact of inflation", he concludes, "is not so much the disease itself, as the 'cure'".

"Unfortunately demand-depressing policies first impact on growth and employment and only after a relatively lengthy time lag on wage and price increases, thereby inflicting substantial damage in terms of lost output, employment and a destruction of capital assets which can never be made up again".

Dr Cloete believes the Keynesian approach limits this damage, and therefore should be preferred. Regrettably he does not endeavour in his address to assess the apparent success of the monetarist policy in dragging down inflation rates in the United States and the United Kingdom (albeit at the expense of horrifying unemployment rates).

The monetarists would simply shrug and say such an effect is unavoidable. Dr Cloete will presumably argue that its impact could have been limited. It is a pity he did not address himself to this question.

Inflation too steep —SAAU economist

Own Correspondent

South Africa's inflation rate was too high compared with that of its trading partners, Mr B J Willemse, chief economist of the South African Agricultural Union, said yesterday.

The consumer price index increased by 102 percent from 1975 to 1981, Mr Willemse told the Brits District Agricultural Union congress.

The comparative increase in the United States in the same period was 69 percent, in West Germany 29 percent, in Japan 37 percent, and the increase for all industrial countries was only 66 percent, he said.

Producers' costs had risen by 148,6 percent since 1975, but the prices producers received had risen by 137,8 percent, which was much more than the increase in production prices.

DIMINISHED

Increases in food prices as well as producers' prices were also much more than the increase in the inflation rate, which was only 118,6 percent since 1975.

The competitiveness of South African agricultural exports had diminished a great deal on overseas markets, Mr Willemse said.

Locally, agriculture could not break even by way of higher producers prices any longer.

"Consumer resistance is also building up against abnormally high local prices," he said.

PROFITABILITY

Mr Willemse said the Marketing Act did not protect the producer in a time of inflation.

A method had to be found to ensure profitability to the farmer, reasonable prices to the consumer and competitiveness of agricultural exports on overseas markets.

19/10/82
**OECD
inflation
under
8% (153)**

PARIS — Inflation in industrialised non-communist countries fell below 8% in August for the first time since 1978, says the Organisation for Economic Co-operation and Development.

Consumer prices rose an average annual 7,8% in the 24 OECD member-states in August against 8,1% in July.

Seasonally variable food prices helped to keep the August figure low, but price rises for other products were also more moderate because of depressed demand.

The rate of inflation in the European Economic Community fell from 10% in July to 9,6% in August and US inflation fell from 6,5% to 5,9%. Japan had the lowest inflation rate in the OECD area at 3,1%, although this showed a rise from July's 1,7%. Iceland had the highest at 49,2% up from 45,5% in July.

The OECD groups Western European and North American countries, Turkey, Japan, Australia and New Zealand.
— Sapa-Reuter

EXPRESSSCOPE INVESTIGATES THE INFLATION-PAY SPIRAL

Inflation feasts on that 12% rise as you starve

By JEAN LE MAY

THE 12% salary increase which, according to a recent survey, most firms plan to give this year will mean a R180 increase for a man earning R1 500 a month — but he'll have only an extra R24 in his take-home pay

The balance — R151 — will be eaten up by increased tax deductions, higher pension and medical aid payments and higher prices for almost every item in his monthly budget

His budget will swell with an expected inflation rate of an estimated 13%

An Expressscope investigation this week examined the way in which inflation has bitten into the average white wage-earner's pay packet

It found that a married man with two children who gets the average 12% increase will have R382.35 deducted from his pay cheque in tax and pension

fund deductions — R63 more than before as he will move into a higher bracket

Medical and contributions will take a bigger bite out of his budget as doctors, dentists and physiotherapists have all asked for increases. Allowing for a 10% medical aid contribution increase, the breadwinner will pay R39.10 instead of the present R35.60

These deductions (tax, pension fund and medical aid) add up to R384.85 leaving R1 295.15 out of his new R1 680 salary

But that is not where it ends. Prices will continue to rise next year, although probably not as fast as they have up to now. It has already been announced that electricity will go up 16% on the Witwatersrand, of which increase consumers will have to pay half, and there has been speculation that the prices of coal and petrol will also rise

Next year could well see a repeat of random price increases this year commodities which rose in price were petrol (15%), postal rates (17%), air fares (12.5%), train fares (10% to 15%), mortgages (2%), car licences (15%), liquor (8% to 14%), sugar (12%), bread (up to 50%), eggs (12%), cigarettes (16%) and clothing (13%)

Other items went up, too — fish, meat and poultry, fruit, and fresh and frozen vegetables. Rises in the cost of soft drinks, cakes, biscuits and confectionary followed the rise in the sugar price, breakfast foods, cereals, pet foods and tinned meats went up with the price of meat, maize, wheat and other grains

So the breadwinner, having suffered substantial de-

ductions from his pay cheque, is still facing erosion caused by inflation he must pay more than ever before for almost every commodity that he must buy to keep himself and his family alive

According to a family budget supplied to the Sunday Express, the R1 680-a-month man will this year spend R1 271.10 on living expenses leaving him R24.06 for sav-

ings, holidays and emergencies

This is the stark reality of a survey made by a Johannesburg firm of research consultants which found that most companies are likely to grant end-of-year increases of 12% to their white employees

So, if you earn R1 500 a month and your firm falls in line with most others in

granting a 12% increase, you can forget about blowing part of your new wealth on a celebratory meal at a good restaurant

A family outing to a steak-house — at about R25 for two steaks, two hamburgers, coffee and cold drinks — will take care of it

You'll probably have to dig into your savings for the

How one couple battles to balance the books

GEAR and Kathy MacFarlane run their own business designing and building sets for commercial TV

They bought their Norwood, Johannesburg, house 'cheaply' in 1978 and R420 a month goes on bond repayments, including insurance

Their two children are Andrew, four, and Kirsty, 18 months, so there are no school fees — yet

"Kathy does a bit of free-lancing. We're trying to save this income but making improvements to the house eats into savings," Mr MacFarlane said.

"We included only a portion of the phone account in the budget since many of our calls are on business

"I don't carry any personal insurance"

Mrs Kathy MacFarlane, 29, said they had not had a holiday for years

"I think we live frugally, even modestly. We don't smoke and spend a minimum on entertaining. We have a small TV and have

	1982	1983	Reason for increase
MONTHLY INCOME	1 500	1 680	12% pay rise
DEDUCTIONS			
Tax:	185.25	236.55	higher bracket
Pension fund (6.5%):	97.50	109.20	higher bracket
Medical aid:	35.60	39.10	10% increase
Total deductions:	318.35	384.85	
Take-home pay:	1 181.65	1 295.15	
EXPENDITURE			
Bond repayment:	420.00	428.40	2% increase
Rates and taxes	25.00	28.00	CPI 12%
Light and water	60.00	67.20	CPI 12%
Car (running costs only):	110.00	124.70	CPI 13.4%
Food (meat, fish, eggs, dairy products, groceries, bread, fruit and vegetables, liquor)	300.00	342.00	CPI 14%
DOMESTIC WORKER			
Cleaning and laundry	80.00	95.00	15% rise
Personal care (toiletries etc):	30.00	34.20	CPI 12%
Medicines:	20.00	22.60	CPI 12%
Clothing:	15.00	16.50	CPI 13.4%
Entertainment:	50.00	56.70	CPI 13.4%
Phone	30.00	33.60	CPI 13.4%
TOTAL	1 160.00	1 271.10	
SUMMARY			
Take-home pay:	1 181.65	1 295.15	
Monthly expenditure:	1 160.00	1 271.10	
Balance	21.65	24.06	

Picture by DOUG LEE

included the cost of the licence in entertainment

The table at right is the budget given to the Sunday Express by the MacFarlanes; next year's inflation rate (the Consumer Price Index) was taken at 14% for food, 12% for services and 13.4% for all other commodities.

This budget shows that:

- Salaried workers and wage-earners are already struggling to make ends meet and that next year will be worse — despite expected pay increases.

- In most cases wives are obliged to work, even if they have young children.

- Middle-level workers cannot afford comprehensive car or personal insurance, giving their lives an enforced element of insecurity.

Recession — back to 1976-77 worst

Financial Reporter

STANDARD Bank's business activity index is falling as fast as it did in the worst period of the 1976-77 recession, according to the bank's November Economic Review

It says that although conditions in some sectors cannot yet be compared with those in late 1976 and early 1977, the rapid decline of that index reflects the unusual position where both the externally and the domestically orientated sectors of the economy are declining at the same time

The bank's overall conclusion is clear — a recession is entrenching itself in South Africa

It says that conclusion is evident from economic and business statistics and the growing number of poor company results

In the first few months of this year at least some segments of the economy retained buoyancy, but from the second quarter onward conditions have worsened rapidly over a broad front

"This development could have come as a surprise only

to those businessmen, consumers and politicians who either believed they were immune from the factors pulling the economy down, or gave credit to predictions of a so-called 'soft landing'

"While there have been some encouraging developments in the form of a surprisingly fast move of the external trade balance out of the critical zone, an apparent reduction of the inflation rate, and a decline in interest rates, these are the results of the country coming to grips with a serious overspending problem rather than indications that better times will be here soon

"In the post-war years general activity levels in the economy have hardly ever declined at as rapid a pace as during the last few months

"That the volume of mining production other than gold (where output has increased) should still be falling, does not come as a surprise"

In spite of a stabilisation in the downward momentum, foreign demand remains weak in most areas and even demand for coal has softened

However, a new factor now aggravates the position of the mining industry — declining domestic demand for metals and minerals

As a consequence lay-offs have multiplied and the drying up of order flows from the mining industry has had a detrimental effect on a wide range of manufacturing companies — from engineering works to timber suppliers

This has served to aggravate the delicate position of the manufacturing industry

Standard says that after levelling off late last year production has dropped significantly from the second quarter

In that time production fell at an annual rate of nearly 10% — about the same downward pace as in the recession of 1976

Major downward adjustments are still in the pipeline

"With few exceptions the industries most badly affected have been at the heavy or

the durable goods end of the market, but other industries, such as clothing and footwear producers, have also been sucked into the downward spiral, in part because

of intense competition from imports"

As a consequence of declining overall production spare capacity has begun to increase, the amount of overtime worked is falling rapidly and staff lay-offs have become commonplace

Since late last year the number of workers employed in the manufacturing industry — the largest employer — has declined

Similar conditions apply in the building and construction industry

"In the building sector conditions had already worsened significantly during 1981

"Until now the seriousness

of the situation in that sector has been camouflaged, on the one hand by the effect of the high rate of cost escalation which characterised the industry until recently and on the other by the continued strength in the industrial and commercial segments of the building industry

"This combination of factors has left an unduly positive impression because it produced continuing increases in the overall value of building plans passed"

THE behaviour of the consumer price index might suggest that inflation is well under control — but this is not so, according to the Standard Bank Review.

It says that although the inflation rate as measured by the CPI for all items and all income groups has risen about 15% for most of 1982 — a month compared with the same month of the previous year — there has been a substantial slowdown in the monthly rate of increase in prices since June

"In fact, according to the index, prices rose very slowly from June to August at seasonally adjusted annualised rates far below 10%

"What is more, the acceleration in September to an annualised rate of 15.4% was largely attributable to the 1% hike in GST which affects about 70% of the items comprising the CPI"

This behaviour could be taken to mean that inflation is now well under control

But, Standard says this is not so, and the impression engendered by the official inflation statistics that the rate of price increases slowed down significantly does not appear to be shared by everybody

The explanation for the persistent slowing in the official inflation figures in spite of waves of announced price increases ranging from tyres to bus fares, electricity tariffs, bond rate and rents, as well

All's not well with inflation statistics

as other unpublished price rises, is to be found largely in the structure of the CPI used in South Africa

"This index does its best to be representative of the escalation in living costs faced by the average consumer, but may end up by satisfying only a few people because of the great divergences in the make-up of consumption expenditure in the country"

An analysis of the composition of the CPI shows that movements in food prices, and in particular the meat price, are the major determinant of the inflation rate

The food category accounts for almost 25% of the overall CPI, with meat representing 37% of the food index and no less than 9% of the overall CPI

By comparison all expenditures related to housing account for only 17.6% of the overall index — the major constituent being rent at 5.66% of the overall CPI — and transport accounts for 14.94%, major constituents being vehicles, petrol and diesel, and public transport which account for 5.57%, 3.79% and 3.17% respectively of the overall index. — Sapa



MR Jos Heller has joined Hedley Byrne National, the Cape-based advertising agency, as marketing director

State to act on inflation

ARGUS 8/11/82 (153)

GOVERNMENT economic policy is to be directed towards curbing inflation, now that the battle to improve the balance of payments has been

won the Minister of Finance Mr O P F Horwood has announced

As a first step the authorities are seeking to check increases in "controlled" prices

Mr Horwood announced in a news broadcast last night that an investigation had begun into the issue of administered prices (electricity, steel and transport) and discussions were being held with the public corporations involved

However Mr Horwood made clear that the anti-inflationary package would include restrictions on excessive pay rises

RULED OUT

"Marked increases in salaries and wages in the year ahead have been ruled out," he said

But salary discipline should not interfere with the process of professional differentiation in the civil service pay structure

Stringent discipline would be maintained on Government spending. It was absolutely essential to keep this in checks, said Mr Horwood, and he expressed concern about the level of subsidisation of food

The R198-million bread subsidy was about as far as the Government could go

The Minister said there had been only a small increase in real terms in Government spending in the past few years

The deficit before borrowing in the budget was now running at only about 24 per cent of the gross domestic product, compared with 7 per cent some years ago

He would do everything in his power to keep up this record and would like to see the deficit reduced further

HEALTHY WAY

He also intended to finance the deficit in a healthy way and use Reserve Bank credit, which was inflationary in all circumstances, as little as possible

Mr Horwood said that prospects had improved on the inflation front. While no dramatic switch could be expected, there had been a welcome lower trend in the consumer price index in the past few months. The inflation scenario was looking better than it had for a long time

The Governor of the Reserve Bank, Dr Gerhard de Kock, speaking on the same programme,

said the recent end to the slide in the value of the rand was very good news. It would take a few months to work through, but the fact that the rand had begun to appreciate moderately improved the chances of success in the fight against inflation

SHORTFALL

On the strength of the latest figures -- particularly the trade figures announced last week, the shortfall in the country's international trading performance could be as low as R1 000-million on an annual rate for the third quarter

This compared with the shortfall of nearly R7 000-million on an annual basis only six months earlier

But De de Kock said more sacrifices still would be necessary

While the financial side of the economy (monetary and fiscal policies) had reached a turning point, the real side of the economy, reflected in production and employment, would drop further

He expected the bottom to be reached in the second half of next year, from when it would start showing a gradual improvement -- Argus Correspondent and Sapa

First Name (s)

Date

7th November

Degree/Diploma/Certificate for which you are registered (e.g. B.A., B.Sc.)

Subject

ECONOMICS

(to be copied from the heading on the paper)

Paper No

2

(to be copied from the heading on the paper)

NOTE CAREFULLY

- 1 Enter at the top of each page and of the block on this cover the number of the question you are answering
- 2 Blue or black ink must be used for answers. The use of a ball point pen is not acceptable. Red or green ink may be used for underlining, emphasis or for headings. 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

5

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

5 Times 14/11/82 (152)

Inflation set to plunge

By John Spira

SOUTH Africa's inflation rate will fall to 11,5% during 1983, giving rise to positive real interest rates next year

This is one of the projections contained in a survey of financial markets compiled by Econostat, the applied economics research unit.

Econostat forecasts that short-term interest rates will decline by more than three percentage points over the next 12 months, while long-term rates will go about one percentage point lower

Both rates will therefore decline to around 12,5% by November next year

"Falling interest rates," the unit comments, "confirm the decline in aggregate demand. With the economy firmly in recession, interest rates, barring exceptional circumstances, will continue to fall"

"The rate of decline will depend largely on the behaviour of the gold price over the short run and on aggregate demand"

Econostat suggests that there is potential for a further adjustment in the prime overdraft rate.

The rand will improve vis-a-vis the dollar by early 1983 at the latest, with its value projected to appreciate to the early to mid-80s (US cents), by the end of 1983.

October
inflation
pegged
at 1,2%

Pretoria Bureau

THE inflation rate as measured by the Consumer Price Index increased in October to a 12 month rate of 14,3%

1,2% on the level for the year to the end of September

The big bread price rise in October and higher medical costs were major contributory factors in the CPI increase of 1,2% for the month

Volkskas chief economist Mr A S Engelbrecht said last night that South Africa was now firmly in a stagflation - no growth coupled with a high inflation rate

For the rest of 1982 he expected an inflation rate of 15% or marginally below

From January 1, Eskom tariffs would rise by about 16%, Railways tariffs were almost certain to rise at the same time and there was a distinct possibility of a new hike in fuel prices

In Johannesburg yesterday, however, Dr Gerhard de Kock, the Governor of the Reserve Bank, said he was confident that inflation would be significantly lower in 1983 than in 1982

Meanwhile, South Africa's annual inflation rate compares with these European examples:

Greece 20,2%, Italy 17%, Belgium 9,4%, France 10,1%, Denmark 9,7%, Luxembourg 9,5%, Britain 7,3%, Holland 5,1%, Germany 4,9%

Food lifts inflation to 14,3%

153
12.5m
20/11/82

CONSUMER
prices rose by 1,2%
in October — tak-
ing the annual rate
up 14,3%.

Dearer food played a
major part in this.

The October figures follow
an accelerating trend in the
cost of living in September
after the increase in general
sales tax from 5% to 6%.

The official consumer
price index was 243,9 in Octo-
ber compared with 241 in
September and 213,4 in Octo-
ber 1981.

This is how the 12-month
rate of increase in the CPI
has varied to the end of these
months

April 1982 16,5%.
May 16,5%
June 16,1%.
July 14,4%
August 13,8%
September 14,1%
October 14,3%

The sub-divisions of the
CPI show that the rise for
upper-income groups for the
12 months to the end of Octo-
ber was 14,6%, for middle in-

comes 14,2% and for lower
incomes 13,5%.

Food prices rose by 2,2% in
October to push the annual
rate up to 10,8%.

Dr Gerhard de Kock, the
Governor of the Reserve
Bank, told the Financial Mail
investment conference in
Johannesburg yesterday.
"Now that the balance of
payments situation is im-
proving and the pressure on
our foreign reserves has been
greatly eased it should be
possible to give a higher pri-
ority to curbing inflation."

"If we can maintain ade-
quate control over the money
supply and bank credit the
likely further cooling down of
the domestic economy and
strengthening of the rand in
the foreign exchange mar-
kets should assist us in reduc-
ing the rate of inflation to
well below its present level
of 14%."

He commented "The ex-
periment to determine whe-
ther a policy of control over
the money supply can effec-
tively curb inflation has not

been carried out in South
Africa in recent years.

"The experience of the
past three years does not in-
dicate, as some observers
have suggested, that mone-
tary policy is ineffective in
combating inflation."

"All that it shows is that an
excessive increase in the
money supply and inflation
go very well together."

"However, it is possible
that we may now be entering
a period in which it will be
possible to draw some con-
clusions about the effects of
monetary and fiscal policies
on inflation in South Africa."

In his speech to the confer-
ence on Thursday, the Minis-
ter of Finance, Mr Horwood,
also insisted that a contin-
uing tough monetary policy
was a necessary condition for
any hopes of a lasting reduc-
tion in inflation.

He implied, however, that
the authorities might try to
complement this year next
by a tough approach to pub-
lic-sector pay and pricing
policies.

Inflation still at ¹⁵³ ^{Stas 22/11/82} 14 pc

Consumer Reporter

South Africa's annual inflation rate remained above 14 percent during October, according to the latest Consumer Price Index

Consumer prices in October 1982 were 14,3 percent higher than in October 1981, according to figures released by Central Statistical Services in Pretoria.

The annual inflation rate in September 1982 was 14,1 percent

Increased food costs during October contributed significantly to the high inflation rate. The food only index increased by 2,2 percent during October

Clark thinks 24/11. ~~24/11~~ 153

Traffic volumes had dropped by 23 percent.

The executive director of the Bureau of Industries Dr Jan van Zyl said the timing of

The vice president of the South African Agricultural Union Mr Kobus Jooste said the increases would load the farmers' cost structure at a time when agriculture was in an exceptionally weak position.

[illegible]

(to be copied from the heading on the Examination Paper)

- 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
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- 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

Made in South Africa

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Vervaardig in Suid Afrika

quality of life ~~states~~ questions. It is my
RI worth only *one needs essential*
a person after he
is on the following
8c by 1999

Economic gurus expect the inflation rate to drop to 13 percent next year, but even so today's R1 will be worth only 8 cents by the turn of the century.

At the moment the consumer price index is running at 14.3 percent on an annual basis

The sharp reminder about the speed of the erosion of the rand is given in the 1981-1982 executive director's review of the Manpower and Management Foundation.

The review makes the point in an argument that it has become imperative to revive the Anti-Inflation Manifesto signed with gusto in 1975 but which slipped into oblivion.

However, a resuscitated manifesto, says the MMF, should be amended to ensure that targets are better monitored, "Attention should be focused on promoting competition and counter-acting monopolistic practices, increasing productivity, streamlining reduction of unnecessary bureaucratic involvement, and constant review of administered



prices

"It is also necessary to ensure that wage and salary monitoring of increases are matched by improved performance

"A world-wide comparison of productivity between 1972 and 1980 indicated South Africa was second last only to Zambia, with an annual growth rate of 0,3 percent, compared with 1,5 percent in the UK, 1,6 percent in Australia, 1,9 percent in the US, 2,1 percent in Canada, 2,7 percent in Germany, 3 percent in Japan and 6,8 percent in Taiwan.

"We clearly cannot hope to bring inflation under control until we effect a substantial and national productivity improvement."

- of lower primary voltage)

na, but my ~~friend~~ he

current facilities ✓
amvaf"

schools, clinics,
visiting should be

equality
~~equality~~ of the

Our supply is
smaller.

be made consisting of

a) literacy rate (people who ~~don't~~
education might not have at

b) entertainment ^{recreation}, such as prox
(including the sea and any

4) The most neglected area
services. In addition ^{askin} to
(water, latrines, roads
churches, local ~~all~~ autho
added

a) the accessibility of the

b) an estimate should be

above, both in form & sufficient in number to

c) ~~in order to work with cost~~

~~a basket of~~ for each area, as the price of rent and consumer goods,

~~differs from area to area.~~

(d) improvements made by the authorities as well as planned by them should be listed.

d) ^{to be visited.} accessibility of a post office & telephone

e) fire-fighting facilities

f) ambulance & medical facilities, grooming

9 rainfall & sustainability of soil for agriculture

h) crime rate

i) climate

ARGUES
2/12/02
153

the effects are spreading
to the retail trade

The Government has also announced there will be no general pay rise for public servants this year, which will also reduce consumer spending

This has already been hard hit by the high inflation, the 50 percent increase in general sales tax, and the Government's failure to adjust income tax rates for fiscal drag.

Of even greater significance for the country's long-term future is that it is between two and three times greater than that of the country's major trading partners and major competitors

Another important weapon is expected to be the rand's exchange rate. It is claimed that the drop against the dollar earlier this year to 85 US cents accounted for a third of this year's inflation.

The rand is now on the way up again and is likely to reach \$1 within the next few months and reverse the imported price increases.

The main weapon in the fight against inflation until now has been a reduction in Government spending. This has reduced the pressure on prices and labour in the construction and engineering industries, and

The higher rand should also take the pressure off the petrol price. In fact, so many oil producers are selling at a discount that a reduction of only 1c a litre seems rather paltry. Perhaps the prob-

The Government has appealed to Escorn to reverse its recently announced tariff increases. It probably would have made a similar appeal to South African Transport Services, which has just announced a 15 percent rates rise. But this body is already running at a loss.

As a result it seems likely that the price of the main components of the consumer price index — food (24,98 percent), housing (17,6 percent) and transport (14,94 percent) — could level off or even fall next year, resulting in at least the official inflation rate levelling off

A number of economists are forecasting it will drop to below 10 percent by this time next year.

NEW YORK — The stock market opened lower yesterday after Tuesday's broad advance, began to climb later in heavy trading but retreated again in the last 30 minutes.

The Dow Jones industrial average closed 8,19 down at 1031,09 Volume totalled 107,85-million shares, up from the previous 93.47-million

Meanwhile, Mr. Martin Feldstein, chairman of President Reagan's Council of Economic Advisers, said the Federal deficit could reach \$200-billion in the current fiscal year and the unemployment rate for November would rise from October's 10.4

**FEDERALE VOLKS-
BELEGGINGS** was
hard hit by the eco-
nomic downswing and
high interest rates in

continue to face unfavourable conditions

● Most of Gencor's gold mining dividends for the six months to September are sharply up on those

OUT THE DEAL

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SA should consider indexation

— Van der Horst

Cape Times 3/12/82

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SOUTH AFRICA should consider a limited form of indexation, along the lines of the scheme operating in the United Kingdom, Dr J G van der Horst, chairman of Old Mutual, said at the general meeting of Old Mutual policyholders yesterday.

In his chairman's address, Dr Van der Horst said the scheme should be available to those who had saved and were saving on a long-term basis for their old age, possible long-term ill-health and for their dependants in the event of their untimely death.

Dr Van der Horst emphasised that these suggestions were not offered in a spirit of criticism of what the government was trying to do to combat inflation, but rather in recognition that this was a difficult task and that an improvement in the position of the saver could substantially contribute to this goal of combatting inflation.

Arguing the case for indexation, Dr Van der Horst said "Since World War II, several countries, including Finland, France, Denmark, Brazil and Israel, have experimented with widespread indexation as a method of coping with the ravages of inflation.

"Key prices in the economy, including the interest and capital values on loans, wages and salaries, and pensions, have been tied to a general indicator of the price level, such as the consumer price index.

"The primary purpose of this indexation was to adjust as smoothly as possible to inflation, to remove the arbitrary unfairness of inflation and to protect certain sectors in particular pensioners.

"Our studies have shown that this very generalized form of indexation has been a failure, in that in most cases it has had to be abandoned when it became clear that it was preventing the workings of disciplined adjustment processes, particularly in

relation to balance of payments problems.

"In the two cases where it has been most extensive and has not been abandoned (Israel and Brazil), it appears to have had severe adverse economic consequences.

"In particular it has led to endemically high inflation and structural balance of payments problems. Furthermore, indexation has probably only been sustained, even in these cases, by special factors which normally do not apply to other countries.

"Another type of indexation has, however, been introduced recently, in this case in the United Kingdom. This type of indexation has been primarily motivated and implemented as a tool to reduce inflation, by the issuing of index-linked government stock with a guaranteed real rate of return.

"This indexation is quite deliberately limited to one specific area and has been introduced in the context of strict financial policies designed to control inflation."

Advantages

The main advantages of this innovation have been

- The reduction of inflationary expectations, by removing or reducing the government's vested interest in the continuation of inflation, and by promoting an increased level of savings.

- The focussing of attention of the "real" rates of return available on financial assets, as opposed to an illusory "money" return.

- A substantial cut in the costs of government borrowing in the short-term because of the initially low interest payment, and in the longer term if inflation falls.

Dangers

The principal dangers, however, are

- That pressures to extend the scheme may in the end result in the gradual emergence of the kind

of widespread indexation we discussed previously.

- Should inflation continually tend to increase rather than decrease, then government borrowing costs will be raised rather than reduced.

"Clearly, there are important potential implications for South Africa.

"As we have discussed already, the application of strict monetary and fiscal policies to reduce inflation has clear limits here, because of the unacceptable political implications of the necessarily severe short-term economic consequences.

"On the other hand, the continuation of high inflation

poses the very real threat of drastic curtailment or even destruction of our savings industry, and with it the largest part of the stable capital formation system so vital to the continued growth of our relatively free market economy.

"The disastrous economic consequences are equally unacceptable, even though this may only show up in the long-term.

"We therefore face a great dilemma, a situation in which there are no clear and obvious solutions. We should thus be prepared to debate alternatives and to experiment."

BUSINESS



Mr Nick Fredericksz has been appointed a general manager of Union Acceptances, with responsibility for the public-sector finance division

Barbican alters rights terms

BARBICAN Industrial Holdings has revised the terms of its proposed rights issue and dropped the offer of linked units with its automotive division Atlas-Utas, says Senbank

The bank says it would be inappropriate to list Atlas-Utas now

Barbican shareholders will now be entitled to shares at 35c each on a 60-for-100 basis

The proposal offered shares at 25c on a 35-for-100 basis, as well as shares and debentures in Atlas-Utas

The new rights offer will raise R2 460 000 against a total of R2 800 000 in the original terms and will involve the issue of 7 040 000 new Barbican shares against 4 100 000

Barbican shares last traded at 42c

A Senbank spokesman said the Atlas-Utas issue had been postponed for the time being because of the economic climate and market conditions, adding that the Barbican issue provided an easier vehicle to raise the required funds

Asked why the discount on the Barbican rights shares had been cut since the original details were announced, he said it was now believed the market had had time to discount Barbican's interim results

Barbican incurred a pre-tax loss of R200 000 in the six months to August 31

Price pace slows in November

1982 inflation set to top 14%

153 RDM 23/12/82

CONSUMER prices rose by only 0,62% in November, an annual rate of less than 8%.

However, the running annual inflation rate slowed only marginally to 14,25% from 14,3% for the 12 months to the end of October

This was because the consumer-price index also showed a well-below average increase in November 1981 — 0,67%

The CPI was 245,4 in November this year compared with 243,9 in October and 214,8 in November last year

It is now virtually certain that inflation for 1982 will be more than 14%

In December last year the CPI increased by a modest 0,66% and it is unlikely to be less than that this month, if indeed it is not higher

For that reason there is little prospect of the inflation rate for 1982 dropping significantly

cantly under the 14,25% for the 12 months to the end of November

Food prices have had a restraining effect on the cost of living this year

They rose by 10,4% in the 12 months to the end of November

This has had an important influence on the differing impact of inflation on the various income groups

For the year to November the sub-divisions of the CPI reflected increases of 14,6% for upper incomes, 14,1% for middle incomes and 13,3% for lower incomes

What remains unhappily clear overall, though, is that South Africa's inflation rate is still far too high by current international standards

In the year to November the rate in Britain — which was worse off than South Africa for much of the 1970s — fell to 6,3%, the lowest in that country for more than 10 years

Among other latest 12-

month rates are 5,1% for the United States, 3,1% for Japan and 4,9% for West Germany

In Canada, however, the level is 10% and in Australia it is about 12%

Some industrial countries are finding inflation even more difficult to contain than South Africa

Italy, for instance, has a rate of 17%

But the average level for the members of the European Economic Community is 7,2%

Add the US and Japanese rates and it is obvious that South Africa is badly out of line with most of the main Western countries

This is why the Government and the Reserve Bank are bound to persevere with tough monetary and fiscal policies next year and why the economic recession is likely to persist longer than many businessmen expect, even if the gold market is firm in 1983

In its December quarterly

bulletin the Reserve Bank says "In the third quarter (of 1982) consumer prices were beginning to reflect the cyclical downturn in the economy

"Compared with the corresponding period in 1981 the increase in consumer prices slowed down from 16% in June 1982 to 13,9% in August before accelerating slightly to 14,3% in October

"This moderate rise was largely due to the increase in the general sales tax from 5% to 6% from the beginning of September

"All the major items in the consumer-price index showed lower rates of increase in the third quarter than in the preceding quarter, with the exception of the prices of dairy products and housing costs in the form of rent and water and electricity tariffs

"Despite the slowdown in consumer-price increases these prices were on average still 14,9% higher in the first 10 months of 1982 than in the corresponding period of 1981"

Private investors boost golds on JSE

By ADAM PAYNE

GOLD shares were strong on the Johannesburg Stock Exchange yesterday with a bigger turnover than on Monday or Tuesday.

At the close some stocks were marginally off the top. Notable gains included Randfontein up R6,50 at R146

Buying was triggered in the morning by the \$10 rise in the gold price and prices remained firm throughout the day. The financial rand un-

R23 and Winkelhaak was up 200c at R48,25. Kloof rose 250c to R53,50 and Western Deep Levels 425c to R70

Platinums were firm on London buying of Impala which rose 35c to R10,25. Rusplats was up 15c to 715c

Palamin firmed 25c to R15,50 with buyers ready to wait for the world economic upturn which should result in a copper-price rise

Against the trend of the mining market, asbestos counter Gefco lost 10c to 260c and Cons Murchison was down 10c to 680c

Industrials had a firm undertone, but Amic dropped

to R18,25

Group Five, which lost 20c on Tuesday, was down another 30c to 250c

De Beers moved up 18c to 745c, influenced by the Ashton announcement and by the strength of the Dow Jones average

Anglo American, with more than 40% of its income from gold, was strong and closed 40c up at R20 10. Fewer than six months ago the share was traded at R9,50

GFSA advanced 350c to R117, but TC Land with a heavy coal portfolio was down 50c to R52

Amgold, which holds Anglo

firmed 450c to R134. Amgold has moved up less than the shares in its portfolio, but would also fall more gently than the mines in this portfolio if the gold price dropped.

New Kleinfontein, which will treat gold-dump material and has property holdings, rose 10c to 260c and Summers, which will mine underground as well as treating surface material, was up 20c to 510c

Coal shares were marginally off their previous levels with Amcoal down 25c at R25, after losing 25c on Tuesday. Trans-Natal regained its 5c loss on Tuesday to close at

It's 'bye, 'bye, double-D inflation

FOLLOWING a decade of painful double-digit inflation, South Africa can look forward to a dramatic drop in the rate at which prices have been rising.

A culmination of several factors is combining to ensure that inflation will fall to single figures by 1984.

An in-depth report on inflation released by Econostat yesterday points to the following as instrumental in exerting downward pressures on prices.

- The decline in the inflation rate of the country's major trading partners will reduce the rate of growth of imported inflation.
- The appreciation of the rand is making imports less expensive.
- The rise in food prices has slowed.
- Profit margins are under severe pressure, with manufacturers having to absorb increases in costs.
- Capacity utilisation is down to 83% from 89% a year ago.

By John Spira

● Salary and wage increases are significantly below the rise in the consumer price index.

● Money supply growth has fallen to a rate which is comparable with the gross domestic product

● The authorities seem increasingly committed to lower inflation — witness the decline in petrol prices, zero or very low public service salary/wage increases, adjusted Escom tariff increases, competitive requirements for the agricultural industry and control of the money supply.

Because of these favourable influences, Econostat believes that South Africa's in-

flation rate will decline to around 11% in 1983 and to fractionally below 10% in 1984.

The applied economics research unit adds: "It is anticipated that international inflation will not rise markedly during these years; if so, and with South Africa's balance of payments no longer a problem, further attempts to reduce the rate of inflation will be renewed and will continue."

The benefits to the country of a sharply lower inflation rate will be significant and widespread

Those many South Africans living on fixed incomes (and, in particular, pensioners), will find it easier to meet their day-to-day living expenses.

Business, too, will welcome the advantages of slower cost increases and the facility of lower stockholding implied by reduced inflation rates.

Perhaps of overriding importance, the mining industry (still the mainstay of the country's economy) will experience a measure of relief from the constant and sustained cost pressures of past years.

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30/1/83

S. Times

Union pushes for
anti-inflation day

193 Labour Reporter

The 32 000-member Amalgamated Engineering Union has called on South Africans to hold a national day of protest against inflation

The unaffiliated union said an "Anti-Inflation Day" (AID) was essential as recent Government attempts to curb inflation had not reached the man-on-the-street.

The union wants consumers to stay away from shops and not to consume goods on the proposed day

The function of the AID was threefold.

- To demonstrate to the Government the public's desire for urgent measures to curb inflation which would show positive results.
- To demonstrate to the manufacturing sector the public's serious objection to continual price increases.
- To demonstrate the public's unqualified abhorrence over the exploitation of the present shortage of accommodation by landlords' frequent sharp rent increases

The union also wants other trade unions to support the concept of an anti-inflation day.

Inflation — the pension buster

By Michael Chester

If the rate of inflation stays at 12 percent a year — that's been the average over the past decade — a 40c loaf of white bread will cost a staggering R3,86 by 2001, only 18 years away. A 54c bag of sugar will cost R5,21.

The R100 a month rent on a modest town or suburban flat will have streaked to R965. A R12 electricity bill will be a R116 shock.

The examples have been compiled by economic researchers at Sanlam, the insurance giant that underwrites more than 800 pension funds and somehow has to find the investment formula to ensure the profits it makes will, at least, give pensioners a chance to make ends meet.

Sanlam is not alone in trying to outpace inflation and protect the purses of South Africans going into retirement. A recent count put the number of pension funds engaged in the struggle at 11 000, controlling R25 000 million in assets. Assets which have to be mobilised to safeguard the future of 5 million members.

The problems are enormous. And, as people tend to live longer, so the problems increase. Sanlam studies show the life expectancy of people reaching the age of 65 was little over 10 years at the turn of the century. Now it's 14 years.

Old Mutual, which is responsible for running 2 258 pension funds with 1 650 000 people relying on them, calculates that an annual inflation rate of 15 percent — it was above the level in 1980 and only a shade below last year — means the value of money is slashed by half every five years.

"Finding the investment portfolio mix to stay ahead of the consumer price index and, hopefully, room for pension pay increases can be nerve-racking," remarked a fund manager.

"It's like mountain

The Star's Network chose as its first project the subject of pensions — mostly because every young and middle-aged person hopes one day to live a comfortable life in old age.

As Andre Spier of Syncom pointed out, today's pensions have relied on handouts by governments working on huge deficits and private pension funds which have cashed in on the buoyant growth of the past few years.

But the world recession has chopped growth, and world governments can no longer maintain huge welfare handouts.

Andre Spier suggests, as a basis for argument, that retirement should no longer be compulsory. Let people go on working as long as they wish — tax free after the age of 65 if necessary.

That would, at least, increase productivity and national wealth and result in fewer people living off the working population.

There are pensioners today who are receiving more money than they ever earned. No system can endure if it allows people to spend more than they have earned.

Today Network presents the reaction of pension funds.

If you have any views or ideas to add to the debate write to Network, The Star, Box 1014, Johannesburg 2000.

A conference is being planned for this year on the subject of old age. All the data presented by Network, as well as relevant ideas and views of readers, plus data coming from the conference, will be pulled together by Andre Spier's Syncom organisation (a think-tank organisation) into booklet form for the guidance of those who are interested.

● Network is a combined project run by The Star's CARE campaign and Syncom.

climbing when you reach one objective and find there is still a high peak above you. In fact, there seems to be no summit."

Fortunately, most pension fund managers have learned to become adroit at mountaineering. On average the funds made returns of about 30 per-

cent increases in the consumer price index. A few, oil companies among them, have passed on the full index increases to their pensioners.

The hurdle for pension funds is that they do not have complete freedom in the selection of investments with the

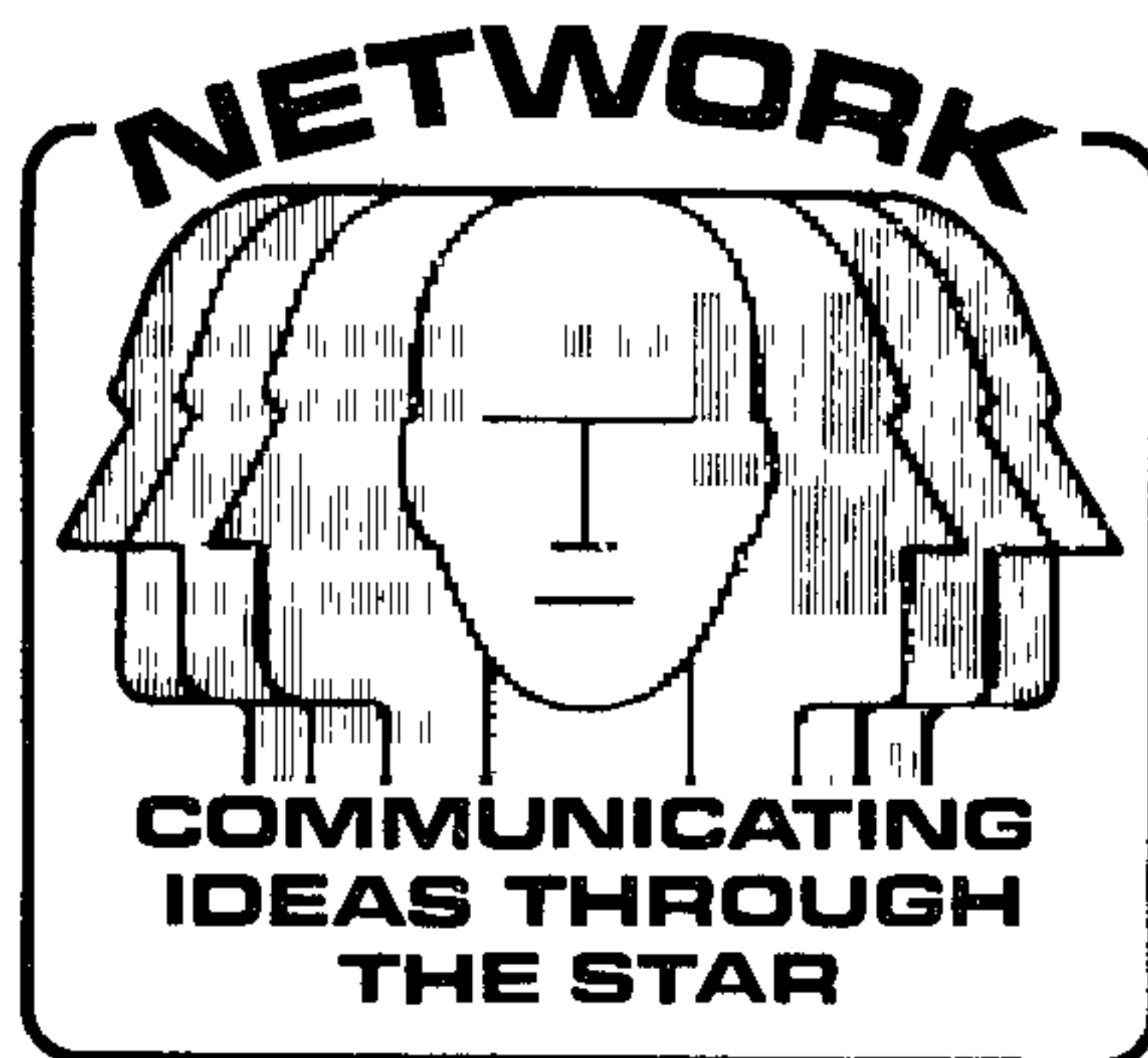
semi-government stocks that carry a fixed interest. It brings a moan from Mr Pierre Steyn, senior general manager at Sanlam. The real yield from them — allowing for inflation — has been almost invariably negative since 1973, he says.

It means that the pension funds have to lean harder and harder on company shares and property investments to make their money grow. Because of the huge reservoir of cash they hold — and the avalanche that keeps coming in from contributions — fund managers have enormous clout in the economy as a whole.

The power of Sanlam was shown recently when even Dr Anton Rupert's vast Rembrandt Group could not shake the iron grip with which it controls the General Mining and Union Corporation empire.

The Sanlam shopping complexes around the country and the network of Trust Bank branches are other reminders of its business tentacles.

Old Mutual showed a few of its investment cards when the size of its shareholdings made it the kingpin in the merger between Tiger Oats and the C G Smith sugar



cent on their investments in 1982, according to Mr Clive Morgan, senior pensions actuary of Old Mutual.

The majority of funds, he says, have outpaced inflation by between three and four percent over the past decade and now aim at boosting pension payments by about two-thirds of any

R4 000 million ploughed in every year by contributors and employers — usually on the basis of six or seven percent of wages or salaries of employees and about 10 percent from the employer.

They are forced by law to keep 53 percent of their investments in prescribed government and



Unless fund managers can whip out of the hat a return on investments higher than the consumer price index increase, the value of savings for old age will shrink in buying power.

Dr J G van der Horst, chairman of Old Mutual, advocates this solution: the issue of special government stocks that guarantee to pay interest at rates two to four percent more than the inflation rate.

It is a device that the experts call indexation. Used widely — regularly hoisting wages and everything else to outrun inflation — it seems to have more failures than successes. Brazil, for instance, applied it on a widescale and found it had an outrageous inflation rate of around 100 percent a year.

Dr van der Horst does not want to go nearly as far. But he is convinced that government stocks linked with the cost of living index can solve the dilemma — as long as buyers are restricted to pension funds and life assurance companies and other savings institutions and on condition that the benefits go only to pensioners, savers or anyone out of work because of illness.

He argues that such a scheme would prove an incentive in getting people to save and, simultaneously, encourage the Government to use every muscle to pull down inflation. The lower the rise in prices, the less interest it would have to pay.

"There are risks in this scheme," concedes Dr van der Horst, "but there are probably much greater risks in maintaining the status quo."

interests to create the largest food conglomerate in the country. Old Mutual came out holding a very sizeable chunk of the Barlows industrial sprawl.

It, too, is deeply involved in the property market. Although it keeps a low profile about its investment manoeuvres it is known to hold a big stake in Nedbank and many other major companies.

Liberty Life, which also administers pension funds, turned out to be the keystone in the takeover of Edgars Stores by South African Breweries not long ago — all because of its shareholding clout.

But most funds give high priority to the problem of how to make better returns from millions of rands forced into prescribed fixed interest stocks.

	1981	1991	2001
Rent	R100	R311,00	R965,00
Electricity	R12	R37,00	R116
Bread	40c	R1,24	R3,86
Eggs	48c	R1,49	R4,63
Milk	47c	R1,46	R4,53
Soap	32c	99c	R3,09
Sugar	54c	R1,68	R5,21
Coffee	69c	R2,14	R6,66
Bus fare	40c	R1,24	R3,86

A table compiled by Sanlam shows how prices will rocket if inflation stays at the annual rate of 12 percent that has been the average over the past 10 years.

(153) DOM 12/2/85

Another round of high inflation 'is on the cards'

By GERALD REILLY
Pretoria Bureau

SOUTH Africa is in for another period of accelerated inflation, at least in the short term, economists said yesterday.

However, the fuel price is expected by sources in the motor industry to be decreased by at least a cent a litre — it could be more — next month, which will take some of the heat off the still bouyant inflation spiral.

And the blame for the expected new inflation spasm lies firmly with the Government, and its inability to moderate administered price rises, some economists claim.

On January 1 Railways tariffs were raised by 15% and Eskom power charges were upped by more than 14%, and this week the Minister of Posts and Telecommunications, Dr L A P A Munnik, announced a 14,6% across the board rise in Post Office tariffs.

Power, transport and postal charges, it was pointed out are basic costs in virtually every enterprise and business in the economy.

It was unlikely that the private or public sector would absorb the new increases. The consumer would again have to foot the bill while his living standards sagged, it was stated.

Business men also fear the Minister of Transport Affairs, Mr Hendrik Schoeman,

will announce further selective increases in Railways tariffs in his budget on March 2.

Mr Schoeman has indicated there will be no rise in the fuel pipeline tariff in his budget — because of the Prime Minister's commitment to reducing the fuel price — but he has been vague on the issue of further tariff rises.

It is known that the South African Transport Services administration is heading for a record operating deficit which could reach R400-million for the 1982/83 financial year.

SATS is committed to a huge capital development programme — it was slashed as an economy measure last year from a level of R2 000-million.

The Minister has emphasised that the SATS cannot neglect expansion programmes. If it did, he warned, the administration could be "caught with its pants down" when the economic recovery starts.

Economists pointed out that the acid test of the Government commitment to lowering the inflation rate will come in the next five or six weeks when it has to decide on demands from dairy and maize farmers for increased prices.

The dairy committee of the SA Agricultural Union has already submitted its demands and the National Maize Producers' Organisation will submit theirs late next month.

Sugar men seek price increase

Natal
Mercury Reporter 16/2/83

THE sugar industry is seeking the Government's approval for an increase in the local price and loans to cover a loss of about R50 million in the 1981-82 season.

If the industry does not receive assistance, the loss for the current season could be more than R150 million.

The last price hike in the domestic market was in March, 1982, when refined sugar was increased by R50 a ton and brown sugar by R42.

In April there was a further increase in consumer prices to off-set higher rail and motor transport tariffs. These did not affect Durban.

The industry, which already has a debt of about R130 million, has been driven into a corner by drought and the low export price.

Last season the industry sold 1 152 027 tons on the local market and shipped 802 417 tons to Japan, Canada, South Korea and the U S.

Much of these exports were priced forward when world prices were standing at a level of £300 to £400 a ton.

Today, the world price is down to £110 a ton — well below the cost of production.

World price

Natal companies, which are having to face large losses in their sugar divisions, are making drastic economies. In addition, due to the drought and the poor quality of the cane, their mills are expected to crush for a much shorter period this year.

Much of the blame for the low world price can be laid at the door of the Common Market countries which have previously set their faces against joining an international sugar agreement. Their producers receive official price support.

However, meetings are now taking place in London with a view to a new agreement coming into operation at the beginning of 1984. The International Sugar Agreement's Committee will have its next session in March.

Meanwhile, all sugar-producing countries are in difficulties and the more sugar they export the more desperate is their position.

If the Government does not come to the assistance of the local industry, and there appears to be no alternative, a wide range of consumer goods will be affected by a price increase.

Among these are mineral waters, sweets, canned foods, ice cream and jam.

Fresh produce prices soar

EAST LONDON — Fresh produce prices have rocketed to all-time highs as a result of the drought and are expected to remain at their present levels for as long as the drought prevails, a spokesman for the municipal market at Willesden said yesterday.

"The drought has severely affected supply, but the demand for fresh produce has increased, pushing up the prices even further," the spokesman said.

Locally produced vegetables, particularly tomatoes, potatoes, carrots, beetroot and turnips, are "very expensive".

Tomatoes, which could be had for R1,25 a box during the glut in November last year, now go for R6 a first-grade box on the market. Greengrocers are selling first-grade six-packs for between R1,80 and R2, but lesser grades are up to 5 per cent cheaper.

"Potatoes too, are very expensive, going for between R6 and R6,50 for a first-grade pocket. Even at that price there is no shortage of buyers," he said.

Greengrocers are asking up to R9 for a pocket of first-grade potatoes.

Bunches of carrots, beetroot and turnips bought for between 40 and 60 cents on the market are retailing at up to 90 cents.

Cucumbers are fetching R2 a half a pocket of 12, and are retailing at up to 69 cents each. Pumpkins are being sold for up to R3,70 for a bag of between six and 10. Green-grocers are asking an average of R2 a pumpkin.

The quality of produce brought to the market has been fair.

"It's not outstanding, but it's being snapped up," the spokesman said.

Fruit, although expensive, had not escalated in price as a result of the drought, although locally grown pineapples are expensive. A bag of between 18 and 26 is selling for between R7 and R8 on the market and pines are being sold for up to 50 cents apiece at greengrocers.

"Other fruit, 'imported' to the Border from the Western Cape, is still fairly reasonable for this time of year although prices are up about 30 per cent on last year."

Red Delicious first-grade medium apples are fetching R6 a box (± 150 apples), while large Red Delicious are going for up to R13 a 100 and retail at 25 cents each.

Mangoes are fetching between R2,50 and R3 a dozen and are retailing at up to 72 cents each. Peaches, which cost on average 25 cents at greengrocers, sell for between R3 and R3,60 a half box of 50 on the market. New-season pears, going for up to R6 for 120 on the market, are retailing at 25 cents upwards each.

Referring to the shortage of locally produced fresh produce, the spokesman said that the reluctance of a number of farmers to pump water to irrigate their lands because they feared they would not cover their production costs had been a major contributing factor to the price rise.

"Once the drought has eased, things should be better all round, for the producer, retailer and consumer" — DDR.

D. Dwyer 16/2/83

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EXCHANGE CONTROL

Dismay as fund inflow keeps ^{20/2/83} fuelling inflation

Minister of Finance Owen Horwood in Johannesburg this week "One of the aims of abolishing exchange control was to remove artificial control that might contribute to excessive liquidity and inflation in the domestic economy. Of course, if the move turns out to be so successful that it brings an increase in the net inflow of foreign capital, even in the short term other steps will then have to be considered to achieve this particular objective."

AS the men at the Ministry track the results of the exchange-control relaxation, maintaining close discussions with the country's banking and financial community, will Mr Horwood's critics please stand up and be counted.

Where are their dire predictions now?

Not only has the stock market held up surprisingly well. Not only has the new "unitary" rand been almost universally welcomed.

The problem has become too much of a good thing rather than the "chaos" forecast by many experts who ought to have known better

By Stephen Orpen

Just one problem — and a major one

It is early days, of course, but so far Pretoria's important objective of stemming the deluge of funds pouring into South Africa from overseas — funds which have been threatening to swamp the SA system in inflationary liquidity — is far (too far) — from being realised

Late on Friday one saw the way the wind was blowing when the latest issue of SA Treasury bills fell a spectacu-

● To Page 3

● From Page 1
lar, 166 points to 956, from 11 22 1/2

The SA discount houses cut their 90-day quota bank acceptances rate 60 points to 9,9% from 10,5%

Applications for the Treasury bills totalled R209,49-million against an allotted R60,02-million

David Bullard of National Acceptances commented that it seems there is suddenly a new surplus of cash chasing relatively few short-term assets

Crudely, the message is that there is currently more (potentially inflationary) liquidity building up in the banking system than Pretoria can pull out

Partly, this is seasonal But it also appears to underline the inflationary threat which the still-roaring avalanche of liquidity in the system represents.

According to a senior Reserve Bank spokesman, as well as private-sector institutional leaders, money is still gushing into SA faster than it is splashing out

In the past 10 months about R2 000-million has been mopped up by the authorities in a brave effort to neutralise the excess, inflationary liquidity. Came the moment when Pretoria's ability to apply the usual instruments for this was near exhaustion, and the exchange-control bombshell was (finally) detonated

Yet, even so, as much as an additional (net) "several hun-

Dismay over inflow

dred million rands" has come into SA in the short time since the forex announcement

What's to be done?

The Reserve Bank "Obviously it would be quite wrong to jump the gun The February tax payments will siphon a great deal out of the market, and by April we expect to have drawn about another R400-million out in the usual way

"It is too early to say that the inflow will not subside and even reverse as conditions both in this country and overseas change

"We need to know how things will work out once our interest-rate patterns and business cycle are more in line, or contracyclically reversed, compared with our major trading partners and investment friends overseas

"We are reluctant to agree prematurely to the lobby from certain private-sector institutions for a relaxation which will allow them to invest overseas, thus returning the funds that are coming into this country to overseas economies in a non-inflationary way.

"At the same time, we will need to watch what happens

very closely

The Minister has said that the battle against inflation has now assumed paramount importance

Banking and institutional leaders are generally surprised that any of their members should want to invest abroad under present conditions But they support the idea in principle.

Nedbank deputy managing director Anton van der Merwe-Vance. "With SA interest rates tending down but still higher than in most alternative markets, and with the rand hardening against major currencies overseas, the incentive to invest overseas is currently questionable.

"Also, if Pretoria were to relax aspects of exchange control as it applies to *South African residents*, again I doubt if many would take immediate advantage Their money can do better domestically"

The chief executive of one of the other Big Four banks adds "Pretoria has reason to be worried about the continuing, inflationary inflow of funds into this country

"The authorities can continue to market Treasury bills and government stock to siphon money out of the banking system, but there is a limit to how long they can continue — it is costing them a fortune"

Vigilance is now the watchword for all concerned Fast action may be as necessary sooner as later

Food price rises push inflation rate up to 14,4%

By HOWARD PREECE

SOUTH Africa's inflation rate as measured by the Consumer Price Index accelerated to 14,4% for the 12 months to the end of January.

That followed a 13,8% rise for the 1982 calendar year

A big rise in food prices in January — up by 1,9% — was a key reason for the general upturn in inflation last month.

The overall CPI jumped by 1,1% in January compared with an increase of only 0,3% in December

The CPI last month was 249,9 compared with 246,2 in December and 217,6 in January 1982

According to the sub-divisions of the main index the rise in the cost of living for upper income groups was 14,5% for the 12 months to the end of January

The figure was 14,4% for middle incomes and 14,25% for lower incomes

The 12-month rate of increase in the CPI is now back to the level it was at the end of last July

This is how the annual movements in the index to the end of the following months have changed since the middle of last year

June 16,1%

July 14,4%

August 13,8%.

September 14,1%

October 14,3%

November 14,25%.

December 13,8%.

January 14,4%

South African economists virtually all expect that the 1983 inflation rate will be down on that of 1982

Given the extent of the recession in the economy it would be alarming if that were not the case

But although there is a minority who think the year-on-year CPI will be less than 10% by the end of 1983 many think it will closer to 11%

Even if comes down to 10% South Africa is still likely to fare badly in comparison with the main industrial countries overall

This is the 1982 position for a leading sample

Japan 1,8%

United States 3,9%

Holland 4,3%.

West Germany 4,6%

Britain 5,4%

Switzerland 5,5%

Belgium 8,1%

Canada 9,3%

France 9,7%.

Italy 16,4%

Mr Owen Horwood, the Minister of Finance, said in Johannesburg last week "We cannot lose sight of the fact that the rate of inflation in South Africa has for some time now been more than double that of our main trading partners

"We, therefore, consider it important to retain adequate control over the money supply in the months ahead"

THE GREAT guesstimating game about the rate of inflation likely for South Africa in 1983 continues.

On the cheerful side is the coming 1,6c a litre cut in petrol prices — the first such reduction for nearly 20 years

On the debit side is the severe drought that has hit most of the farming sector.

This is bound to have an aggravating upward effect on food prices, as has been pointed out by Mr Andre Hammersma, the chief economist of Standard Bank.

The 1,9% rise in food prices in January, as disclosed by the Department of Statistics, is an unhappy pointer to the way things might go

It is not easy for people in Johannesburg and other urban areas to appreciate how critical the drought is proving

Suffice it to say that Dr J H de Loor, the Director-General, Finance, (the head of the Treasury) has warned that this disaster could cancel out most of the benefits to South Africa from the recent surge in the gold price

The inflation outlook is, then, being tugged in different directions.

Overall, what are the prospects?

On the more optimistic side there are a number of economists who believe that the year-on-year figure for 1983 will be down to about 10%

One or two even think it could dip below that rate.

Against that the most pessimistic analysts are talking in terms of 14% this year — much the same as the 1981 and 1982 rates of 13,9% and 13,8% respectively.

The most popular forecast seems to lie in the 11% to 12% range, although it is not always clear whether that is a measured judgment or simply a matter of merely picking the middle way

There is, however, one point on which all the forecasters should be able to agree.

This is to hope that the

Inflation: one guess as good as another

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2004
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**Howard
Preece**



**Economic
Spotlight**

relationship between money supply and inflation is looser than has been claimed by some monetarist economists.

For it is (or certainly was) an article of strict monetarism that countries reap precisely what they sow — that the rate of inflation in any year will mirror fairly accurately the growth in money supply two years before.

This causal chain is particularly associated with the research of Professor Milton Friedman.

There is obviously a lot of statistical evidence that can be mustered in support of it.

Economics is, however, full of statistical traps.

There are plenty of relationships that appear to hold good for long periods, but then fall apart in a fundamental change of circumstances

One of the best examples of that is the so-called Phillips curve — purporting to offer a consistent trade-off between various levels of inflation and various rates of unemployment.

The experience of the 1970s has simply not borne this out

In similar vein, Britain had an inflation rate of 5,4% in 1982 — in spite of a leap in broadly defined money supply of more than 30% in 1980

So much for any mecha-

nistic connection between the two developments.

That is comforting for South Africa.

In 1981 the broadly defined M-2 money supply measure bounded up by 25% while the narrower M1 soared by 34%

On strict monetarist analysis that would seem to make the inflation outlook for 1983 pretty grim

Nor would there be any cheer from taking a wider look

In 1980 M-2 raced up by 27%. Even in 1982 it was 19% higher for the first nine months of the year

It does seem, however, particularly from the British experience, as if the relationship between past growth of money supply and future inflation is far more complex than was assumed by some economists a few years ago.

It looks, in fact, as though a deep economic recession has such a traumatic effect on the demand for money that past excesses of supply do not filter through to the real economy.

On that basis there is a good chance that inflation in South Africa will be down to 11% or so this year

But the other side of the coin must be a continuing recession

Inflation: 'Mollycoddled' farmers in firing line

UNNECESSARILY HIGH FOOD PRICES TAKE MAIN BLAME FOR UPTURN IN CPI

By John Spira

INFLATION, which accelerated to 14,4% for the 12 months to the end of January, could be significantly reduced if the South African policy of mollycoddling the inefficient farmer were abolished

This is an amalgam of the views of several produce traders canvassed by Business Times this week, following the release of the latest consumer price index (CPI) figures, which showed that a whopping 1,9% rise in food prices in January was primarily responsible for the overall upturn in the CPI

One of the traders interviewed pointed out that the artificially high

prices of farm land in South Africa is a telling symptom of food prices, which are considerably higher than they need be

He says that under normal climatic conditions a good maize yield in this country is five tons a hectare. Such land has a value of around R1 000 a hectare

In Argentina and Australia, by contrast, a similar piece of land with a similar yield has a value of R500 a hectare

The wide divergence in values is all the more remarkable when it is appreciated that much of the farming land in Argentina produces high yields without the need to add fertiliser to the soil

Another trader whose views were sought drew attention to the impact

of the interest factor on land, which is twice as expensive as it should be

If one applies an interest rate of 15% to the difference in the cost of farming land as between South Africa and Argentina, then local farming land costs an extra R75 a hectare a year

This is equivalent to a R15 difference in the cost per ton of the land's produce — an important factor in light of the fact that the local cost of maize production of around R300 a hectare is already high by world standards

Moreover, the farmers of few countries elsewhere enjoy the same tax privileges as they do in South Africa

In spite of these privileges, food production costs here are a good deal

higher than in other advanced countries

The high average cost of South African maize production is especially disadvantageous when it comes to the export market

This is because transport costs in South Africa (where the produce has to be transported long distances to the coast) are higher than in most other countries (where the maize-farming areas are generally situated close to port facilities)

A third trader called for the abolition of the use of the inefficient farmer as the base for determining subsidies

"Until this system is scrapped," he said, "food prices will continue to hamper efforts to reduce increases in the CPI"

Statistics show new inflation culprits (153)

Farming Correspondent

Star 10/3/83

Escom, sawmills and greengrocers are now the major sources of inflation, says Central Statistical Services

Its figures for January show that electricity tariffs, mainly Escom's, and gas and water charges went up by 10,8 percent in January. Wood prices increased by 10,5 percent — with furniture and paper following suit.

Production prices of food products decreased by 3,6 percent, but food products were mainly responsible for the jump of 1,14 percent in the Consumer Price Index.

Economists said the drought had been blamed for the rise in food retail prices, but as producer prices had dropped, it must have been the trade margin which caused the inflation. Soaring fruit and vegetables prices suggested that some greengrocers were making large profits.

Production prices of South African-made goods increased by 0,9 percent, but the landed prices of imported goods went up only 0,1 percent. This showed that inflation was not being "imported", but generated inside the country.

Bus ARGues 12/3/83
Inflation still worrying

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DR DE KOCK described as almost miraculous the swing in the balance of payments in the past year from a huge deficit to a surplus.

But he was still worried about the high rate of inflation.

He attributed part of the recovery in the balance of payments to the adoption of market-oriented policies, including flexible exchange and interest rate policies.

These had kept the South African economy strong and viable and the country was now reaping the benefit.

The net reserves had increased enormously, the rand had appreciated in terms of other currencies and interest rates were coming down.

However, there remained one dark spot in South Africa's economic performance — the inflation rate, which was running at 14 percent.

This was more than double that of South Africa's main trading partners and must affect the competitiveness of South African industry. It compared with 3 to 4 percent in the United States and about 5 percent in Britain.

Now was the time to tackle inflation. The basic way would be to limit the growth of the money supply still further and to allow the rand to appreciate. However, an excessive appreciation would have to be avoided as this would hurt exporters.

Wage and salary restraint was needed. "When the world is in recession we cannot afford to pay ourselves more for producing the same amount of goods."

R10 000-m SHOCKER!

Out-of-line pay and price hikes cost SA 'hidden' billions in growth



HOW UNEQUAL PRICE AND PAY RISES HAVE COST A FORTUNE IN GROWTH

By Stephen Orpen
AT least R10 000-million in growth potential has been lost to South Africa in the past 10 years

This is equivalent to more than 12% of the country's current annual gross domestic product (GDP) at factor cost

The lost billions are the result of prices rising faster overall than real wages and salaries and productivity — if one measures price inflation by the so-called GDP Deflator

It is also the result of the unequal way in which inflation impinges on the rich, the poor and on various business sectors, all with a different propensity to add to the national wealth and to national growth

There are two common yardsticks of inflation the well-known Consumer Price Index (CPI) and the GDP Deflator

Thus, between 1970 and 1981, there was a 12,5% average annual jump in the Deflator compared with an 11,1% yearly rise in the CPI

Even using the "under" Consumer Price Index, nominal salaries and wages, which grew at an annual average rate of more than 13% in 1973-82, reflected a paltry real increase (that is, after allowing for CPI inflation) of only 1,8% a year

By contrast, the average increase in the "general price level" was a whopping 12,6% a year

Moreover, signs are that

the discrepancy has got worse rather than better in the recent months of severe economic recession

Pay packets have been frozen or increased very little, whereas prices have continued to steam strongly ahead, albeit at a rate some claim is gradually slowing

As a result of the skewed pay and price rates of increase in 1973-82, wage and salary earners have collectively been able to buy proportionately less each year than in 1972 — if one applies the Deflator to their earnings so as to arrive at the real purchasing power of their money

In 1973-82, preliminary calculations show that this has cost the country R10 000-million in lost sales

Again using rough yardsticks, this has acted like a loss of steam in a locomotive — substantially slowing up the economic train behind

A special Reserve Bank study shows that in 1973 the remuneration of all employees in SA was R10 116-million at current prices, compared with a Business Times estimate of about R34 000-million (240% up) for 1983

In the same period prices of the goods and services bought by all income earners has remained about one-to-one, suggesting that, as employees were gradually able to buy less and less with their

earnings, income from other sources like investment enabled those who received investment income to make up the shortfall, but not to improve the ratio

The value of goods and services bought by employees at current prices seems to have risen from around R10 000-million in 1973 to much more than R34 000-million for the same or equivalent shopping basket today

The country's gross GDP has meanwhile moved from R19 774-million (at current prices) in 1973 to more than R65 000-million estimated for 1983

However, it could have been much higher by the end of the period if employees had kept pay and productivity increases ahead of the erosion of the GDP Deflator

First to uncover the matter in detail and publicly (although it was always there for those who knew where and why to look in official statistics) was the chief economist of Barclays National Bank, Dr Johan Cloete, well known for his unpopular lobby for a price-and-incomes policy

In Barclays' latest Business Brief, Dr Cloete notes "The uneven pace at which wage and price inflation proceeds has resulted in deficient aggregate demand, which has kept economic

● To Page 3

February food prices up 2,5%

Inflation (153) bounds 23/3/83 up to 14,9%

By HOWARD PREECE

SOUTH Africa's inflation rate, as measured by the official consumer price index (CPI), bounded up by 1,6% last month to take the annual level to the end of February to 14,9%.

That compares with a running 12-month rate of 14,4% at the end of February and 13,8% for 1982.

Another big rise in food prices, fuelled by the severe drought, played an important part in the overall CPI surge last month.

The 14,9% rise to the end of February is the highest level since the 16,1% recorded at the end of June 1982.

It is obviously a major blow to the authorities.

Mr Owen Horwood, the Minister of Finance, and Dr Gerhard de Kock, the Governor of the Reserve Bank, have made their main immediate economic priority a significant and sustained reduction in inflation.

The CPI was 253,1 in February compared with 249,9 in January.

Food prices rose by 2,5% last month after jumping by 1,9% in the previous month.

In the year to the end of February they rose by 13% compared with only 9% in the 1982 calendar year.

The prospects are that this upward trend will continue, though perhaps not at such a pace, over the next few months.

Most urban South Africans do not appreciate the devastating effect that the current drought — the worst in 100 years on some calculations — is having on the agricultural sector.

Or at least, they do not appreciate it until they are buying fruit and vegetables.

The shock later in the year will come from meat prices.

At present meat seems comparatively cheap.

This is because tens of thousands of animals have had to be slaughtered.

Once that effect has been absorbed meat will become in short supply generally and prices will rise accordingly.

The sub-division of the CPI shows an increase of 14,7% for upper income groups in the year to February 28.

It was 15,2% for middle incomes and 15,65% for lower incomes.

That last figure indicates the impact that rising food prices have on the poorer groups, essentially blacks.

For 1982 the CPI sectoral rises were 14,2% for upper incomes, 13,7% for middle incomes and 12,6% for lower incomes.

Rising interest rates, particularly mortgages, hit the wealthier groups hard last year.

Now the sudden sharp rise in food prices means that the proportionately heaviest burden of inflation is once again falling on these least able to bear it.

The only comfort for the authorities is that the underlying trend in general inflation is at least 2% less than the CPI figure if the drought factor is excluded.

This means that when this effect has been absorbed and, it is hoped, agriculture got back to health, there could well be quite a large drop in the official inflation level.

Meanwhile, however, Mr Horwood may be deterred from any further rise in GST (which would further boost food prices) even if he should run into revenue problems from a falling gold price.

This is how the 12-month rate of the CPI has changed:

June 1982 16,1%

July 14,4%

August 13,8%

September 14,1%

October 14,3%

November 14,25%

December 13,8%.

SA inflation rate up by more than 30% in 2 years

By PAT SIDLEY
Consumer Mail

	Feb 1983	Jan 1983	Feb 1982
All items	253,1	249,0	220,2
Lower income group	253,5	248,5	219,2
Middle income group	254,2	249,8	220,7
Higher income group	252,4	248,6	220,1
Commodities	256,5	253,2	227,0
Services	246,0	240,0	206,1
Food	271,7	265,1	240,4
Grain products	290,3	289,8	239,2
Meat	262,1	260,0	257,2
Fish	239,7	237,7	220,3
Milk, milk products and eggs	244,9	244,9	210,9
Fats and oils	264,3	263,2	235,5
Fruit	269,4	263,6	229,3
Vegetables	291,9	254,4	215,3
Sugar	329,0	329,0	294,7
Coffee and tea	281,2	278,0	250,3
Other	250,3	248,6	214,6
Cold drinks	258,9	258,9	229,6
Alcoholic drinks	222,2	222,2	199,7
Cigarettes, cigars and tobacco	213,1	213,1	195,9
Clothing and footwear	212,4	210,8	188,6
Clothing	204,7	203,8	180,5
Footwear	253,8	248,6	231,8
Housing	228,4	223,3	190,8
Fuel and power	331,1	328,7	276,5
Furniture and equipment	227,5	227,4	197,7
Furniture	210,8	210,8	183,6
Appliances	212,4	212,4	181,2
Other	232,9	232,6	205,0
Household operation	277,6	275,8	236,5
Cleaning materials, etc	283,4	282,2	225,6
Domestic servants	264,7	261,8	234,8
Other services	266,1	266,0	228,9
Medical care	242,7	242,7	195,8
Transport	283,4	277,6	252,2
Vehicles	254,3	250,6	233,5
Running costs	318,3	315,6	290,6
Public transport	264,6	248,3	206,6
Communication	145,3	145,3	114,5
Recreation and entertainment	221,7	221,7	195,6
Reading matter	296,6	296,6	276,1
Education	301,0	301,0	244,8
Personal care	243,8	243,8	207,9
Other	263,6	255,1	226,2

SOUTH Africa's inflation rate — as measured by the Consumer Price Index (CPI) — which rose by 1,6% last month, has risen by more than 30% over the past two years.

At the end of February, the inflation rate was running at 14,4%.

Lower income groups were hardest hit with price rises of 15,6% for the year to end February. In this group, prices rose by 2% between January and February.

Higher income groups paid 1,5% more in the month and 14,6% over the year.

Food inflation, which jumped 2,5% last month, will rise still further after the maize price rise has been announced and when longer-term effects of the drought are felt.

Vegetable prices, according to the Department of Statistics, rose 14,7% in one month from January to February and rose 36% for the year to end February.

This figure is likely to get worse as the drought hits vegetable production.

Grain products rose 21,4% in the year to end February. This figure will worsen after the effects of importing maize and the annual price rise has filtered through.

While meat prices have not risen much in the past year, the drought is likely to eventually produce a shortage which will be met with rises. Fuel and power prices rose almost 18% in the past year, and these, too, will rise further after the expected rise in the price of coal and anthracite at the end of the month.

Housing inflation was running at 19,7%.

Medical care prices rose 24% during the year, but stayed the same between January and February.

In areas where prices are controlled and no price increases were announced, the prices stayed static.

No prices dropped.

Every month the Department of Statistics in Pretoria analyses information about the cost of goods and services in 11 major urban areas. These are processed to make up the monthly CPI.

Consumer Mail is reintroducing its service to readers by presenting a monthly table of the CPI changes.

INFLATION

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Looking up

FM 25/3/83

The inflation rate continues its steady climb from lows of under 14% in August and December last year. The year-on-year rate was measured at 14,9% in February, according to the Central Statistical Services in Pretoria. This is the highest twelve-month rise for nearly nine months.

The 1,6% increase in the index in the month of February was the highest since September last year. However, in that month, a one percentage point hike in general sales tax alone added 0,7%. Without it, the monthly rise in the index would have been only 0,9%. The chief causes of February's rise, on the other hand, were vegetable prices and housing.

Food prices are heavily weighted in the index, and the overall lower rates in the second half of last year owed a lot to lower food prices. Their drag effect is still showing — the food index increased by only 13% over the year to February. With the effects of drought beginning to tell, this may

change February, in fact, marks the second month of high vegetable prices — pushing their year-on-year rate of increase to almost 36%. Grain product prices have risen 21% over the year. These are being counterbalanced to some extent by smaller rises in meat prices.

Housing, by contrast, has been making a significant contribution to each monthly rise in the index for some time. Its year-on-year rate in February was almost 20%. This does not reflect directly house prices — the index is actually calculated largely

in terms of rentals. But these in turn reflect conditions in the housing market.

Other notable price rises over the year have been in fuel and power (20%), cleaning materials (26%), medical care (24%), public transport (28%), and education (23%). A combination of these may be responsible for the fact that the lower income group has regained its position as the category most severely hit. Its year-on-year rate in February was 15,6%, against 15,2% for the middle income group and 14,7% for the higher income group.

As far as production prices are concerned, the year-on-year rate in January for commodities for local consumption was 13,6%, about one percentage point higher than the rate in January 1982. This is almost certainly due to the costs of imported items, which in January were 17,1% higher than they had been a year before, compared to an annual rise a year ago of only 10,6%. By contrast, the prices of locally produced commodities rose by 12,7% in the 12 months to January 1983, as compared to a 12-month rise to January 1982 of 13%. The prices of goods produced locally for domestic consumption rose at a faster rate than those produced for export.

Given lower international oil prices and lower rates of inflation in SA's main trading partners, the sharp rise in the import index may be largely due to domestic import tariffs and surcharges. As Assocom chief executive Raymond Parsons pointed out to the Afrikaanse Handelsinstituut inflation conference on Monday, indirect tax increases help explain the persistently high rate of inflation in SA. Taking both the import surcharge and gst into account, there "appears to have been a strong element of 'tax push' inflation in SA," Parsons said.

Another example of inflationary institutional action is the arbitrary closing of the wage gap, especially in the mining industry, with wages rising faster than productivity. Yet another is excessive expenditure on non-productive items like bullets.

Mr Horwood tidies up while the roof caves in

By KEN OWEN

BETWEEN 1914 and 1917 — the date of the Communist revolution in Russia — the price of food trebled, and the cost of other commodities increased by as much as 2 000%. This was the effect of financial mismanagement by the Kerensky Government

A visitor to Russia found the middle classes had during that period become much more conservative, and the lower classes much more radical. The reason, of course, is that inflation makes the rich richer, the poor poorer.

Mr Owen Horwood is a former professor of economics as well as a Minister of Finance, and he knows that persistent inflation is ev-

grander scale the experience of Rhodesia, we must raise the living standards of the poor at a rate which will mute the appeal of revolutionary rhetoric.

What is a black man to make of a society in which a white clerk, having bought a house on credit for R40 000, having paid his monthly instalments with the help of a Government subsidy, and having done nothing but sit on his investment, can show a profit of R40 000? What must that black man think if his salary is R400 a month?

Soon after the 1976 riots, radical youngsters from Soweto ran tours through Houghton so that black schoolchildren could see for themselves 'how white people live'.

They are tired of all this nonsense. They simply didn't have the time or the resources to enforce silly moral prohibitions, and they persuaded the Government to abolish the liquor laws. Today we don't even remember that we once thought them necessary.

Similarly, the Government has finally decided to get out of the landlord business by selling off 500 000 houses, and for much the same reason it can't cope with the work.

Not that we learn much from experience. The police still run around chasing black people who happen to be in the wrong place at the wrong time, and locking them up, and producing them in court, and chasing unpaid fines, and generally wasting time and money doing it.

It was clever politics, but perhaps unnecessary. Today

and have to use conscripts from the army to keep going.

Many people blame excessive expenditure on the armed forces for the state of the country, but this is not necessarily so. The military budget is acceptable so long as it remains below 5% of gross national product, and provided it is used to strengthen the defence capability of the country rather than to, say, collect taxes or run the health services in KwaZulu (The fact that Armscor is laying off workers does, however, raise a question whether the military budget is being used as well as it should be).

The trouble lies elsewhere. Mr Horwood has budgeted a little more than R3 000-million for defence but R1 000-million goes for community development,

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● Mr Horwood, as a former professor of economics he knows persistent inflation is evidence that a country's finances are being mismanaged — and he must know inflation in SA has gone on too long.

The cost lies not so much in money as in the diversion of manpower and resources from productive to wasteful endeavours. For example, the Government has already moved 82 000 coloured families under the Group Areas Act, and plans to move another 5 000.

By the time it has found them, and prosecuted them, and built new houses for them, social patterns or political relationships may well have changed so much as to make the moves irrelevant.

In Johannesburg the Government spent millions to move an Indian community 1 500m down the road, yet it plans to move another 4 000 families.

finances are being mismanaged

There must lurk in the back of his head the worrisome thought that South Africa's inflation has gone on just too long. He has been struggling for nine years to bring it under control, and he has failed.

We are a long way from the situation that prevailed in Russia in 1917, and the analogy should not be driven too far; but the social consequences of our Government's financial policies are already becoming nastily evident.

There is a capricious redistribution of wealth, from the poor (like pensioners or the black unemployed) to the rich. Sharp spenders make quick fortunes, stolid and prudent savers go bust. Envy of sudden fortunes creates a climate in which the civil services collapses, and in which corruption breeds or is suspected to breed.

This is a tragedy because South Africa has the capacity to outrun the revolutionary expectations that have brought so much of this commitment to misery. But if we are to avoid repeating on a

achieved by letting those young people count the number of luxury cars on the streets, courtesy of the Receiver of Revenue. If Mr Horwood could devise a healthier tax system, some of the money that now goes into tax-free luxury might go into the investment required to provide jobs for those young people.

Look at the matter from another perspective. Not many years ago it was illegal for black people to buy 'European' liquor. The consequences of that prohibition were quite similar to the consequences of Prohibition in the United States: shebeens flourished on untaxed turnover, black people, like Americans, developed the habit of consuming short, deadly concoctions that could be downed in a trice — before the police came.

Courts were packed with transgressors of the liquor laws. Jails filled up. Gangsters built empires on the illegal supply of liquor. Corruption was not uncommon, and policemen had to spy on other policemen.

In the end the police them-

unecessary. Meanwhile, car theft ranks as one of the country's major businesses.

One result is that we don't have enough police to manage internal security, so the army has to perform internal security duties in some parts of the country, and then productive and highly educated young men must be called away from useful

work to go and sit in the veld. The search for qualified manpower becomes a desperate and inflationary business throughout the private sector of the economy.

Mr Horwood has been highly complimented for his latest Budget, and rightly so. He and his chief advisers, Dr Gerhard de Kock and Dr Joop de Loor, constitute the best financial team this country has had since the Nationalists came to power.

Control of Government spending is generally regarded as the key to curbing inflation, and Mr Horwood's team has done everything it can on this front. Indeed, it may have done too much. Several essential Government departments are now in a state of virtual collapse

nationalists use for smashing people's houses and persecuting them for paying rent to the wrong landlord.

The Department of Internal Affairs, which spends much of its time trying to devise and administer a system of passbooks for the entire population — and does so with spectacular incompetence — gets more than R1 000-million. And so forth.

Meanwhile, we continue the folly of subsidising paupers to live in R50 000 houses. We give subsidies to farmers so incompetent they don't belong on the land, and to farmers so efficient they don't need help.

At every level, the Budget misallocates resources to serve special interests and powerful lobbies at the expense of the country.

Each of these votes will be examined in Parliament, but if the past is any guide, the debate will generate more heat than light. In the end, nobody will question seriously the priorities of the Budget, and Mr Horwood's figures will prevail. Billions — not millions but billions — will be spent on social engineering.

Inflation at 10% possible this year

Own Correspondent

PORT ELIZABETH. — A drop in the inflation rate to as low as 10% by the end of the year was possible because of economic developments, Mr Rudolf Gouws, head of Nedbank's economic unit, said in Port Elizabeth this week.

Addressing a Nedbank function on the economic outlook up to 1984, he predicted a continued decline in interest rates, but said this would not take place rapidly.

The decline in interest rates would be helped by continued weak demand for capital and credit, mainly because of the liquidation of inventories in commerce and industry. This was a typical cyclical phenomenon at the end of an economic downswing and the start of an upswing.

The decline in private-sector fixed investment, which started in the second quarter of last year, would continue moderately this year and much of next year. This would also apply to consumer spending.

"This decline in all the main components of spending will make 1983 a difficult year and will help to bring down the inflation rate to 10 or 11%, which is still high by the standards of our main trading partners."

The international economy was on the brink of a slow revival, he said, and this should benefit South African exports. The gold price was volatile, but tending upwards, and imports would continue to decline.

"The net result will be a continued but smallish surplus in the current account of the balance of pay-

ments

There would also be a volatile pattern in net reserves, which would have an upward trend. This would lead to a slow strengthening in the exchange rate of the rand.

Mr Gouws said that if the Minister of Finance, Mr Horwood, had been faced only with the economic downswing and the balance of payments improvement, he would have been able to offer a stimulatory Budget to provide more jobs.

"He had grounds for restraint, however, in the form of an increasing money supply coupled with the high inflation rate and he, therefore, presented a neutral Budget," Mr Gouws said.

□ □ □

THE chairman of Nedbank and of SA Breweries, Dr Frans Cronje, predicted yesterday that the Government would have to inject R2 000-million into agriculture this year because of the drought.

Dr Cronje, analysing the 1983 Budget, told a business lunch in Maritzburg, that this would not be inflationary as the sensible thing would be to borrow the money as medium-term loans from insurance companies, which were liquid at present.

It had been proved in the United Kingdom and the United States that if one controlled the money supply one controlled inflation, albeit in the short term at the cost of high unemployment.

South Africa's high inflation rate was caused mainly by the rapid increase in the broad money supply from 13% in 1978 to 27% in 1980 and 25% in 1981.

By relaxing exchange controls and allowing the rand to float, the Reserve Bank and monetary authorities had succeeded in reducing the increase in money supply to 17% in 1982, and it would be further reduced this year.

"I believe had it not been for the disastrous drought, our inflation rate would have been in the single figures by the end of the year," Dr Cronje said. — Sapa

Possible building of black technikon in PE criticised

Post Reporter

THE executive director of the Midland Chamber of Industries, Mr Brian Mathew, sharply criticised the Government today for considering establishing a black technikon in Port Elizabeth — calling it “a retrograde step”

He said the concept of “yet another segregated higher education institution” was “not in the interests of industry”

“Technikon graduates — black and white — are going to work together, so why shouldn't they learn together?”

He appealed to the Government not to duplicate resources and to rather expand — “possibly with satellite campuses” — and desegregate the Port Elizabeth Technikon

The director of the Technikon, Professor D Veldsman, declined to comment on the issue today because “it is so many years into the future”

The director of the Port Elizabeth Chamber of Commerce, Mr Tony Gilson, said the chamber would welcome the establishment of any new education facilities — particularly a technikon.

“However, we are against segregated facilities — especially at tertiary level — and we would prefer an extended and desegregated Port Elizabeth Technikon”

The director of the multi-racial Struandale Emthongeni Training School, an autonomous technical training institution, Mr Dieter Kuesel, said a black technikon would result in “unnecessary duplication” and he would prefer to see a single, multiracial technikon established for Port Elizabeth

● See Page 2

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Drop in inflation possible — Nedbank

PORT ELIZABETH — A drop in the South African inflation rate to as low as 10 percent by the end of the year was possible in the light of economic developments, Mr Rudolf Gouws, head of Nedbank's economic unit, said in Port Elizabeth recently.

Addressing a Nedbank function on the economic outlook up to 1984, he also predicted a continued decline in interest rates but said this would not take place rapidly.

The decline in interest rates would be helped along by a continued weak demand for capital

and credit, due mainly to the liquidation of inventories in commerce and industry which was a typical cyclical phenomenon at the end of an economic downswing and the start of an upswing.

Consumer spending

He said that, in addition, the decline in private sector fixed investment, which started in the second quarter of last year, would continue moderately this year and much of next year. This would also apply to consumer spending.

"This decline in all the main components of spending will make 1983 a difficult year and will help to bring down the inflation rate to 10 or 11 percent, which is still high by the standards of our main trading partners."

The international economy was on the brink of a slow revival, he said, and this should benefit South African exports. The gold price was volatile but tending upwards and im-

ports would continue to decline.

"The net result will be a continued but smallish surplus in the current account of the balance of payments."

Volatile pattern

There would also be a volatile pattern in net reserves which would have an upward trend. This would lead to a slow strengthening in the exchange rate of the rand, while the slow downward trend in interest rates would continue.

If the Minister of Finance, Mr Owen Horwood, had been faced only with the economic downswing and the balance of payments improvement, he would have been able to offer a stimulatory Budget to provide more jobs.

"He had grounds for restraint, however, in the form of an increasing money supply coupled with the high inflation rate and he therefore presented a neutral Budget," Mr Gouws said. — Sapa

For the
Connoisseur's
Cabinet



Checkers spells...

Govt holds down maize price rise

Inflation rate drops to 13,6%

274
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RDM
23/4/83

By GERALD REILLY
Pretoria Bureau

South Africa's inflation rate dropped 3,6% — a fall of 1,3% — for the month to the end of March, according to the Consumer Price Index released in Pretoria yesterday.

A Volkskas economist, Mr Adam Jacobs, said the downward trend in the rate had begun.

He said, the rate for the whole of 1983 would decline to between 12 and 13%.

The 9,6% increase in the maize price announced yesterday seemed to indicate, too, that the Government was taking a tougher line on administered prices.

But he warned that consumers should prepare for rises of the order of 15% in the price of maize products.

Farmers had asked for an increase of 25% in the price of maize.

The price was announced after a prolonged wrangle yesterday morning between the Minister of Agriculture, Mr Greyling Wentzel, and the Maize Board.

However the Minister, it is understood, refused to budge on the Government's decision, and told the board it would have to work on an increase of 9,6%.

And at a Press conference the chairman of the board, Mr Crawford von Abo, claimed "the price the Minister has announced will mean a loss to producers of R1 000 million".

A National Maize Producers Organisation (Nampo) spokesman said the disaster which had struck the mealie industry after two years of drought would be greatly compounded by the small price increase.

Thousands of farmers were in a critical financial position.

"Already we have indications that some farmers are considering switching to other farming operations. A situation could arise where we will have to pay farmers a premium to persuade them to grow maize."

The Minister gave three reasons for rejecting a 25% increase.

- It would have been an incentive for planting on marginal ground.
- The high price would have created problems if large quantities of maize had to be exported next year.
- Consumer resistance to too high a price.
- Farmers would themselves be large users of maize this year because of the drought.

The Minister said the Government had given the Maize Board the go-ahead to import maize to supplement the expected shortfall on the local market, and had agreed to finance any losses caused by importation.

The director of the Consumer Council Mr Jan Cronje, said the increase was regrettable, and it would hit the lower-income groups hard.

It was heartening, however, that the 9,6% increase was lower than the inflation rate.

Maize he warned, was the staple diet of millions of South Africans, and a base for a large number of products. The increase would not be limited to maize meal, but would hit the consumer at different levels.

The lower income groups would find it increasingly difficult to provide for daily needs.

Consumers were under great financial pressure. This was shown by the 770 000 summonses issued for debt in 1982. It should be remembered, too, that few workers received wage adjustments this year.

● Mealie export contracts with Taiwan worth many millions of rands have been cancelled because of South Africa's drought ravaged crop, it was revealed yesterday.

After discussions between the Board of Foreign Trade in Taipei and a Maize Board mission headed by Mr Von Abo, it was decided

- That the 165 000 tons of maize which should have been delivered by May 31 be cancelled.
- That the 600 000 tons of maize due for delivery by the end of May next year also be cancelled.

SA inflation rate falls to 13,6% in March

By HOWARD PREECE
JOHANNESBURG. — South Africa's 12-month inflation rate as measured by the Consumer Price Index (CPI) dropped to 13,6 percent at the end of March from 14,9 percent at the end of February.

This was in spite of a 1,1 percent jump in the CPI in March in which another large rise in food prices played a major part.

The reason for the substantial, and obviously welcome, reduction in the annual inflation rate last month was because there was an exceptionally big increase in the CPI in March 1982.

In March last year the CPI shot up by 2,4 percent after the rise in general sales tax from four percent to five percent.

Freed from any such development this March, the inflation rate eased

Food prices

However, the drought is continuing to put severe upward pressures on food prices and that factor is bound to influence adversely the general inflationary pattern in 1983.

In March food prices

rose by 1,6 percent after increases of 2,5 percent in February and 1,9 percent in January.

This means that in the 12 months to the end of March, food prices rose by 13,2 percent compared with an increase of only nine percent over 1982.

The CPI was 255,9 in March this year against 253,1 in February and 225,2 in March 1982.

The reduction in the annual CPI inflation rate to 13,6 percent at the end of March takes it down to the lowest level since the end of February 1982 when it was also 13,6 percent.

It has not been below that level since 1981.

Single figures

A month or so ago many economists in South Africa were predicting that the inflation rate for 1983 would be down to around 10 percent, and the most optimistic were forecasting that it would drop to single figures by the end of this year.

But the drought has changed these forecasts and the average estimate for 1983 now seems to be in the 11 percent region.

Should the rate turn out to be that high, however, it would be slightly misleading in that the under-

lying trend, excluding the drought effect, will certainly be less.

There is still a good chance of getting the inflation rate down to nine percent or so in 1984, if the authorities pursue strict enough fiscal and monetary policies.

Western countries

Given the announcement this week that the average inflation rate in the main Western countries is now below six percent — the lowest in 10 years — South Africa does not really have much option but to give the highest priority to getting inflation down here.

What is disturbing, though, is that, even with the drought, inflation should be as high as it is in South Africa while the economy is in the grips of a deep recession.

Washington. United States consumer prices rose 0,1 percent in March as higher food prices more than offset fresh falls in petrol and fuel oil costs, the government announced yesterday.

For the first three months of the year, prices rose at an annual rate of 0,4 percent, the smallest gain for a calendar quarter since 1965.

Energy prices contin-

ued to fall last month.

Petrol prices fell a full one percent and stood at an average level 17,4 percent below their peak of two years ago.

Fuel oil prices were down a record 5,2 percent, the fourth straight monthly decline.

Natural gas prices rose 1,5 percent. In the last 15 months, these prices have soared nearly 30 percent.

Analysts generally attribute the gains to Congressional decontrol of new gas costs.

The modest increase in the overall inflation index, following five months of little or no gain, bolstered economists' predictions that the 1983 inflation rate would be as small as — or even lower than — last year's 3,9 percent.

London. Inflation in Britain fell to 4,6 percent in March, the lowest annual rate for 15 years, the government announced yesterday.

The February figure was 5,3 percent after dipping to 4,9 percent in January.

Prices rose by 0,2 percent in March compared with 0,9 percent one year earlier. The main increases were for cars and fresh fruit, the Department of Employment announced said — Sapa-Reuter.

Unions plan day of protest

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24/5/83 Industrial Week
EBESH and bigger efforts to stage "Anti-Inflation Day" a day of protest, including boycotting retail outlets, garages, building societies and banks - are underway, writes Lynn Carlisle

Amalgamated Engineering Union general secretary Tommy Neethling said appeals to agricultural unions all trade unions and the SA Housewives League will be made to bring the attention of the authorities to "blatant profiteering"

"Some positive display of disapproval at the intolerable pressures to which the man-in-the street is being subjected is long overdue"

Neethling said that manufacturers, wholesalers and retailers had a tendency to accept price rises without question because they knew they could pass these on to the "underdogs" - employees

The housing shortage had been ruthlessly exploited and homeseekers were powerless to react

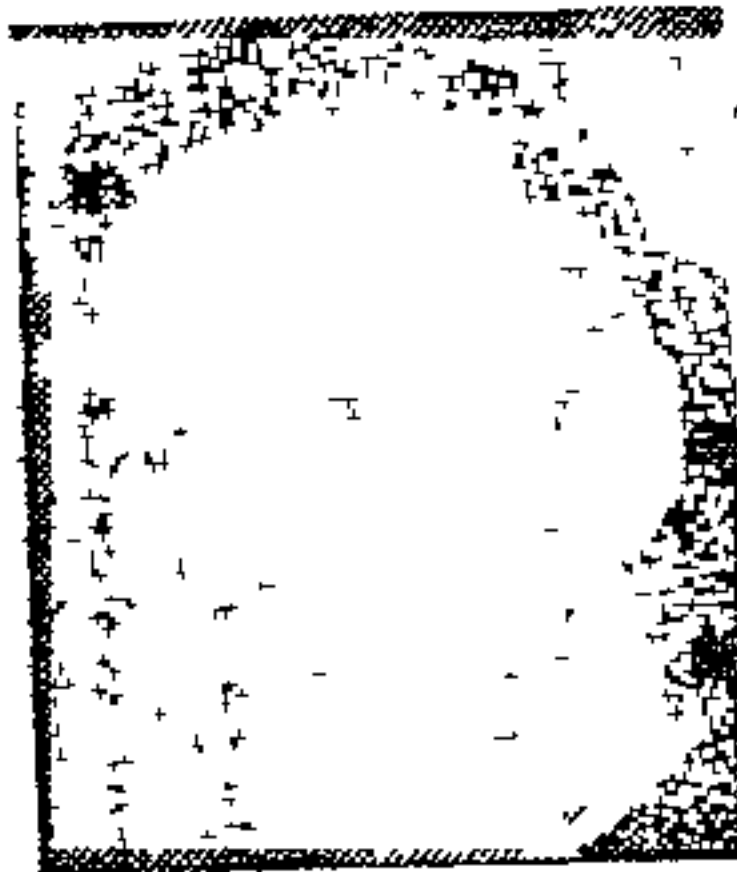
"In our opinion, the only solution is Government intervention," said Neethling

All supporters of the campaign should refuse to do business with any commercial enterprise on a date still to be set, said Neethling

Ben Nicholson, head of the Confederation of Metal and Building Unions, said he supported Neethling's reasons for a protest

"This needs visible and simultaneous demonstrations in all centres, but the implementation of such an idea presents insurmountable problems," Nicholson cautioned

SA Housewives League vice-president Jean Tatham, agreed that it was "about time" everyone woke up to unnecessary high prices



Tommy Neethling

Inflation SA's greatest dilemma — De Loor

ARGUS 25/5/83
(153)

Finance Reporter

INFLATION was South Africa's greatest dilemma, the Director General of Finance, Dr J H de Loor, said today

Speaking in Cape Town at the congress of the Afrikaanse Handelsinstituut, he said South Africa's economic problems would not be automatically solved by an upswing in the United States and Europe

Although the country would have to wait for an export-led recovery, there were factors which could prevent the country from taking full advantage of a world recovery

Describing inflation as South Africa's Achilles' heel, he said it was the greatest dilemma facing the country in the short and the long term

South Africa's overseas trading partners had successfully lowered their inflation rates. This success has been at the cost of large scale unemployment, something this country could not afford

Out of line

This meant South Africa's inflation rate of 14 to 15 percent was now out of line

"If this disparity continues we will squeeze ourselves out of world markets. It will also be fatal for our economic recovery"

It was general knowledge that South Africa had a poor record of labour productivity

"We all have a duty to do everything in our



Dr J H de Loor

power to make optimum use of our labour"

In the third quarter of last year there was a substantial drop in interest rates. Many experts felt this drop was too quick and went too far

"Cheap money"

"I cannot support the standpoint that interest rates should now drop further. The South African economy cannot afford to become an island of cheap money in a world of expensive money

"Artificial lower interest rates conflict with a satisfactory control over the money supply and the maintenance of price stability"

The drought had influenced the outlook for the balance of payments — the country had less to export and had to import more

Hundreds of millions of rand had to be made available to finance emergency farming assistance, water provisions and crisis measures not normally budgeted for

'Shun shops for a day'

By GERALD REILLY
Pretoria Bureau

AN ANTI-INFLATION DAY
on which consumers would
boycott commercial enter-
prises has been suggested
by the general secretary of
the Amalgamated Engi-
neering Union, Mr T S
Neethling

Mr Neethling made the sug-
gestion in his union's offi-
cial journal some weeks
ago and, he says, he has
had a strong response from
many other unions and em-
ployee organisations con-
cerned about spiralling
prices

He said the idea was that on a
selected day, consumers
would stay away from all
supermarkets, stores and
other retail outlets as a
protest at the continual
rise in prices, particularly
food prices

Consumers, he said, would be
asked to discipline them-
selves to eat less on "the
day" If they merely
stocked up the day before,
however, the whole object
of the exercise would be
defeated

He added that a meeting of
the supporting unions and
organisations would be
called soon to decide on a
date for the day

The chairman of the Western
Transvaal council of the
Artisan Staff Association,
Mr Chris Schutte, said that
at a recent meeting his
council agreed to support
Mr Neethling's call for a
day of protest against ever
rising prices

It is expected that the other
eight railway unions will
support the call, which will
also be discussed at an offi-
cers meeting of the Trade
Union Council of South
Africa later this month

Mr Schutte said yesterday
"Consumers are vulner-
able as a group and unless
they stand together they
will continue to be exploit-
ed The day of protest will
signal to business that we
have reached the end of
our tether"

He added that continued
price hikes were eating
into the living standards of
wage and salary earners

They were also forcing trade
unions to demand ever in-
creasing pay adjustments

The national president of the
Housewives League, Mrs
Joy Hurwitz, said the sug-
gestion was an interesting
one and it would be dis-
cussed by her executives at
its next meeting

(24) (25) (153) 1604 16633

Low productivity 'main reason for SA inflation'

A POLICY of large-scale unemployment in order to force down the high rate of inflation of South Africa to less than 10% would not be easily accepted, according to Mr Piet Liebenberg, executive chairman of merchant bankers Finansbank.

In the company's annual report, Mr Liebenberg says "On the contrary, both the public and private sectors are committed to creating as many employment opportunities as possible."

"The result is that the skilled work force, mainly whites, can put a premium on their services due to the scarcity factor. The unskilled, mostly blacks, are paid a premium for their services due to socio-political considerations."

"In other words, the productivity of the country's labour force in the private and public sectors in comparison

to their remuneration leaves a lot to be desired."

Mr Liebenberg says this low productivity of the South African worker is possibly the largest single contributing factor to the country's high rate of inflation.

"The other important factor affecting inflation is the part played by the monetary authorities, especially with regard to the control of the money supply."

"In considering this aspect it is necessary to point out that the South African economy has certain unique characteristics which have made it exceptionally difficult to foresee the trend in the money supply and thus to control it effectively."

Some of these were

- External aspects such as the sharply fluctuating gold price and the material changes (for South Africa) in the economies of the coun-

try's trading partners,

- The recent abolishment of exchange control over foreign investors, and

- Internal factors such as the unpredictable climatic conditions and the complex nature and extent of the local demands made on the Treasury.

Despite differing backgrounds, certain industrial countries had basically two things in common, namely diligence or productivity, and discipline. From time to time critics remarked that these virtues were showing signs of strain.

This was possible but it was, however, noticeable that as soon as indications of an economic downswing or some other crisis appeared these virtues reappeared.

"If we are unable to improve our approach to work and the accompanying discipline — in other words to increase productivity — we will not succeed in substantially reducing the rate of inflation," Mr Liebenberg said — Sapa

SA warned of threat to rand by inflation

By BRENDAN RYAN

IF SOUTH AFRICA'S inflation rate continues to be substantially higher than that of its major trading partners, the rand/US dollar exchange rate will be well below the current level by mid-1985.

This is the opinion of Dr Ari Uhel, a researcher for stockbrokers Simpson, Frankel, Kruger in a paper prepared for the recent International Investment seminar held by the company.

"Unlike what occurred in the past, the persistent high rate of inflation in SA since 1979 cannot be ascribed to any major external shock such as higher oil prices or higher world inflation," he commented.

"On the contrary, the prevailing international environment during the last two to three years has been a more favourable one in this regard and should have aided this country to reduce its inflation rate.

"It has been proved now without any doubt that the problem of inflation in SA is more a matter of internal affairs and less related to external-international developments.

"Official monetary authorities have clearly admitted that the abnormal monetary expansion which has taken place since 1980 has been the major cause of our high inflation rate," he said.

Dr Uhel was pessimistic on the outlook for SA's inflation rates during the 1980s and expected the dangerous inflationary process to continue.

Reasons for this were that for the first time SA's inflation rate was consistently higher than those of all its major trading partners, while the inflationary base in SA had risen significantly, from a range of about 5%-6% to a level of 9%-11%.

"SA currently is experiencing a very high rate of inflation while the real sector of the economy is going through a severe downturn of the business cycle.

"Monetary policies, in spite of official statements, have not been restrictive enough and are unlikely to change. The overall monetary policy will continue to be accommodative to all sorts of special circumstances that

arise from time to time," Dr Uhel said.

"The conclusion is that SA's macro-economic policy-makers cannot afford a high rate of unemployment and consequently are unable to apply similar monetary policies to those adopted in the US and the UK during recent years.

"The general consensus among policy authorities in SA is basically one that still revolves around the old Keynesian economics, where real growth ranks higher in terms of priorities than inflation and direct fiscal policy is more effective than one-sided monetary policies," he said.

"The likelihood for a 20% year-on-year inflation rate during some month within the next two to three years is therefore not unrealistic," Dr Uhel commented.

Turning to the effects of inflation on the SA economy, Dr Uhel said the equity market was expected to adjust to the new inflationary environment and the behaviour of nominal share prices would reflect more investors' expectations for inflation.

"It is likely the spectacular rise of our industrial share market since mid-1982 is mainly reflecting inflationary fears and only partly discounting better economic prospects in real terms.

"The level of interest rates will definitely remain relatively high and consequently the downward potential of the SA capital market is very limited.

"In the long run, inflation is probably the most important single factor which will determine the level of interest rates," he commented.

Continued high inflation in SA was bearish for investment in long-term fixed interest securities and also for the rand exchange rate.

"Against the background of low inflation rates of SA's major trading partners the rand seems to be overvalued in terms of other currencies.

"Furthermore, a moderate rise in the gold price will never be sufficient to rectify the fundamental position of the balance of payments if SA's inflation rate does not drop in line with that of our major trading partners."

Inflation hits investments

JOHANNESBURG — There was disturbing evidence that a high level of inflation was inimical to industrial investment although it might stimulate expenditure on private housing, Dr Peter Penny, managing director of Herbert Penny, said here

Addressing a University of Cape Town Graduate School of Business Association, Dr Penny said that to provide people in South Africa with the growing living standards they would demand, "we have to combat inflation and are therefore compelled to re-order our political priorities"

"There will come a day when black living standards will concern even the electors of Waterberg"

Inflation was a complex matter and its cure debatable, but a useful hypothesis was that money supply was a principal cause and thus the responsibility lay with Government

"If we are serious about curbing inflation we have at least a direction to take"

The property market in respect of commercial and industrial development was experiencing the recession common to the economy as a whole while the residential sector of the market presented a remarkable contrast

"The building societies

are commonly being blamed on the assumption that they must be pushing money into the market in the same way as they did in 1980, but it did not seem to be the case

"While net new shares and deposits taken by the societies in 1982 were higher than in 1981, they did not reach the 1980 level

The entry of a bank into the housing loan market had been only a contributory factor, he said

Mr Penny said the prime suspect from his point of view for the unwarranted investment occurring in white housing was subsidised loan schemes.

"These permeate the public sector (some 30% of white workers)

"There are also subsidised housing loans within the private sector"

One of the positive effects of an attack by the tax authorities on fringe benefits could be to reduce investment in white housing through cutting subsidised housing loans, he suggested

There was some point up to which a man's productivity would increase as his housing improves, but beyond which stimulation of housing through subsidy deflects resources from productive capacity

"South Africa needs to increase employment opportunities and to raise levels of productivity.

"We spend too much money on white housing and too little on industrial plant

"I do not wish to prevent a man from using his own discretion as to how he will

allocate his wealth, but I do plead that except for the poor we move towards the elimination of any form of housing subsidy, whether through low-interest loans, tax-free building society shares or any other device."

In long-term investment South Africa should not be concerned with dealing with inflation but with price change

"Since 1945 inflation has been so continuous that we have forgotten the possibility of increasing money values and the necessity to have fair investment arrangements to deal with this potential phenomenon

"The rate of inflation in the United States in 1981 was 9,8% Towards the end of 1982 it was dropping towards zero

"Those of you who speculate, should heed Dr Gerhard de Kock's warning that if you expect inflation to guarantee your profits you may get your fingers burnt"

The essential choices confronting long-term investors in property were that they could invest in properties with short or long leases.

Short leases did not present inflation problems because the rent could be adjusted to market levels when leases expired However, such properties, normally multi-tenanted, posed management problems which only large investors could handle

"The problem about inflation is not that it occurs but that its level is unpredictable," he said — Sapa

The Economy

IN FEBRUARY I delivered a talk to the Rotary Club of North Durban on inflation and put forward a strong plea for a wage/price freeze until the end of the year on an experimental basis.

My suggestion attracted a great deal of 'flak' from the economists and from the Press. The Natal Mercury, in a leading article, expressed surprise that 'a businessman of his stature should recommend such a doubtful cure'.

At the outset, therefore, let me repeat the two reasons which prompted this suggestion.

The first is that I have long been convinced that the Government is not as enthusiastic as it should be in its efforts to reduce our crippling inflation — probably because it does not want its right to print money restricted in any way.

No evidence

If inflation is to be reduced, of course, then the printing of money (i.e. the money supply) must be drastically curtailed and I can see no evidence that this has been tackled as energetically and ruthlessly as it should.

This is not only my opinion. The latest Financial Mail states that the money supply is still out of control and proceeds to castigate the Government — ending up with some wry humour that 'the money supply in South Africa is alive, well and still growing and that there is little being done about it'.

It has been argued that the Government dare not risk increasing our already high unemployment but we must choose between these two evils.

Either we carry on as we are and suffer the consequences of a high and crippling rate of inflation (which will, *inter alia*, seriously inhibit our exports to our main trading partners with their low inflation and render it much more difficult to achieve the anticipated export-led upturn of our economy next year) or we must introduce really tight control of our money supply and face up to higher unemployment.

Mrs Thatcher was confronted with the same problem and she chose tight monetary controls and succeeded in bringing down the inflation rate from over 20 percent to low single figures — even although the unemployment in the U.K. rose to unprecedented levels.

A hard fact

To the argument that our unemployment is mainly among the blacks and so — unlike Britain — any increase thereof would be far too dangerous I would reply that, with their extremely high birth rate, we can never, repeat never, create enough jobs for the blacks even in boom times.

This is a hard fact which we must learn to accept — i.e. the unemployment among the blacks will continue to increase in the future and we can do nothing about it. Only the blacks themselves can rectify this position.

The second reason has made me somewhat unpopular among the business community but there is no doubt whatsoever that many businessmen have not felt the real effects of inflation, as they simply pass on their cost

Case made out for freeze on prices, wages

By

Fred Beard

Chairman, Protea Holdings Limited

increases (and more) to the public. They cannot be expected, therefore, to be very enthusiastic about really tough and tight monetary controls that might affect them adversely.

I mentioned in my talk to the Rotary club that the Australian Government had just frozen salaries and wages for 1983.

Next door, in New Zealand, however, they froze both wages and prices in June 1982 and have just extended this freeze to February 1984.

N Z example

As the Premier of New Zealand, Mr Robert Muldoon, is a member of a U.K. accounting institute to which I also belong I wrote to him personally and received some very interesting statistics.

Although the overall rate of inflation has only been reduced from 15,8 percent to 12,6 percent (to March 1983), which looks somewhat disappointing, Mr Muldoon points out that there are fairly long statistical lags in some of the components of the Consumer's Price Index and that 'they disguise the very dramatic decline in the rate of inflation since June last year. For the March quarter of 1983

the CPI (all groups) moved by just 0,8 percent from the figure for the December 1982 quarter — the lowest quarterly increase since 1969'.

The CPI in New Zealand consists of six groups — All Foods, Housing (including rentals), Household Operation, Apparel, Transportation, and Miscellaneous.

What really interests me, however, is the cost of all foods (fruit and vegetables — meat, fish and poultry and other foods).

Mr Muldoon states that although the wage/price freeze 'was instituted on 22nd June, 1982, it would not be expected to have any impact on the index in the June or September quarters'.

The increases/decreases for all foods each month on the previous month from October 1982 were as follows:

1982	
October	- 0,3%
November	- 0,1%
December	+ 0,2%
1983	
January	+ 0,6%
February	+ 0,4%
March	- 0,8%
April	+ 0,4%

The overall increase for the seven months was thus 0,4%. Annualised this is 0,7% — less than 1% on the annual basis'.

Can you imagine how our pensioners and other persons with fixed incomes (and this would include the entire workforce if salaries and wages were frozen) would react if their rands depreciated in value by less than one cent per annum (virtually no inflation at all) whenever they purchased their foodstuffs — instead of being confronted with regular and unremitting price increases every time they shopped?

I accordingly 'stick my neck out' once again and strongly recommend a wage/price freeze for a trial period of, say, one year.

Tough fines

Once consumers get used to price stability — especially for foodstuffs — there would be too great an outcry from the public if the Government allowed inflation to cripple our economy again. They would thus be forced to follow Mrs Thatcher's lead and introduce really tight monetary measures.

And, finally, I have already suggested that the legislation instituting the wage/price freeze should provide for tough fines for transgressors. Nor will it be necessary to employ an army of price controllers — the consumers themselves can be relied upon to report all unauthorised price increase.

Inflation rate high in first quarter, says Reserve Bank

PRETORIA—The rate of inflation had remained unacceptably high in the first quarter of this year, according to the June quarterly bulletin of the South African Reserve Bank

The main causes were, according to the bulletin, 'the continued effect on monetary demand of the exceptionally large monetary expansion during recent years, the associated continuing effects of the earlier large depreciation of the rand in terms of other currencies, the related high rates of increase in labour and other costs, further increases in administered prices, and the effect of the drought on food prices'

On the first quarter this year, the bulletin says real economic activity continued to reflect the cyclical downswing in the economy. Real gross domestic product showed a fairly large decline owing to a fall in real agricultural output as well as a decline in the real product of the non-agricultural sectors of the economy

Recession

Recessionary conditions were also reflected in a decrease in non-agricultural employment in both the third and fourth quarters of 1982 and, judging by a further increase in unemployment, also in the first quarter of 1983

The decline in real gross domestic product in the first quarter may be explained by the absence of both the main generating forces of economic growth, namely an increase in real gross domestic expenditure and a rise in the volume of exports

Real gross domestic ex-

penditure, in fact, showed its fourth consecutive quarterly decline. This decline extended to all the main expenditure components — private and Government consumption expenditure and fixed and inventory investment

Up to the first quarter of 1983, the volume of exports had not begun to reflect the economic recovery in the US and the other industrial countries — (Sapa)

The crunch has come

At long last it appears that Pretoria could be getting tough over inflation. If what we suspect is true, interest rates could soon move sharply higher, even if the mortgage rate has to go up another 1.5%

This is the right and proper thing to do under the circumstances. There must be no irresponsible talk of "overkill" or "kicking the economy" while it is down.

Only through shock tactics will Church Square break entrenched inflationary expectations and convince investors that it is capable of stabilising prices. Its officials have huffed and puffed for too long around their jacaranda avenues, talking long and hard but doing less than enough in this respect.

Financial Mail June 24 1983

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capacity of R65 an annual ton escalates over eight years to R104 at a 6% inflation rate and to R161 at 12%. Within eight years, when world markets will be ready to absorb more of our coal, inflation at the present annual level will have priced us right out in the cold.

They don't have to be told this at Church Square. They know it already. They have for a long time. Yet still they have been allowing the money supply to grow at 3%-4% above the rate of inflation. They have allowed borrowers here to continue borrowing at less than half the real cost of credit paid by those in New York, where inflation is 4%.

Sure there have been some unexpected setbacks in Pretoria's tighter money policy. For two years record agricultural crops had to be financed. Gold earnings were unexpectedly buoyant. And the drought has meant increased relief spending.

These have frustrated a gradual contraction in the money supply, which the authorities hoped would be less disruptive and painful than the Thatcher or Reagan tactics. In theory, they may have been right. But it hasn't worked. So now we have come to the crunch.

Fortunately, Church Square appears to be reacting appropriately. An acceleration of government spending — probably necessitated by the drought — in the first quarter of this fiscal year has been countered by some lightning Treasury bill auctions. The Reserve Bank took action as it saw the waves of official disbursements begin to form.

The Bank gave tacit approval to the recent increase in the prime overdraft rate and has taken positive steps to encourage an outflow of liquidity from the country. It accelerated the repayment of foreign debt, which has kept the net reserves (gross reserves after deducting bank loans) on an upward trend. The repayment of the IMF facility is part of this trend and it must bolster confidence. But as the

The consequences of our 14% inflation rate are more serious now than they have been for years. Simply put, prices in the economies of our main customers are rising at only one-third of the rate that our prices are going up. This means that the forthcoming rise in business activity in the West could substantially pass us by.

We will lose most of the benefits of the sacrifices entailed in depreciating the rand by 30%, of keeping government spending disciplined and of curbing imports so that our balance of payments swung into surplus.

Anglo American's coal chief, Graham Boustred, is as plain a speaking man as you'll get. On Tuesday he pointed out that the present cost of establishing new mine export

loan was never monetised. Its repayment won't reduce the money supply.

The outflow in the weeks ahead of the R550m owed to the foreign shareholders in Premier and Rannies should reinforce this trend. In the short term, this effective export of capital gives the authorities considerably more leverage over the runaway money supply. It demonstrates too, that government is not easily panicked into the reimposition of controls when large sums are about to leave the country. That should encourage fixed capital investment from abroad, which remains highly desirable.

There are even indications that Church Square is increasingly keeping its hands off the rand exchange rate. The more it does this, the more the rand could trend upwards. The balance of payments is overwhelmingly in its favour, even if the inflation rate is a drag. A firmer rand will reduce the cost of essential imports, thus helping to stabilise prices. At present this advantage must outweigh the disadvantage of a harder currency to exporters of primary products. Right now export demand is flat.

Last year the Reserve Bank brought some measure of control to soaring credit by selling large amounts of government securities. Within the first quarter of that fiscal year, the full budgetary borrowing requirement was met. The consequent rise in both the size and nominal cost of servicing government debt brought some anxious frowns to the men at the Treasury.

Be that as it may, Church Square has to keep up the pressure from all quarters, including selling more official securities. That will mean unemployment rises in the short term and share prices fall. But it will lay the foundations for real prosperity in the future, enabling us to make the most of the Western upturn and ultimately creating more and lasting jobs for all population groups.

Postal tuition praised

By HELENE ZAMPETAKIS

NEXT year all technical correspondence courses previously available at the Technikon RSA will be offered at a technical college specialising in correspondence courses

Dr Gerrit Viljoen, Minister of National Education, was speaking in Johannesburg at the the Technikon RSA's first diploma ceremony on Saturday

He said technical correspondence course students had an advantage over full-time students, because there was greater co-operation between theory and practice in industry and commerce

The need for technical training was growing and in "our times of shortage of trained manpower," teletuition — offered at the Technikon RSA — brought education within the reach of increased numbers

It could extend the benefits of training to all races and contribute to the growth of developing areas and states and "improve the standard of living of all communities"

KING WILLIAM'S TOWN — There was no hunger strike in any Ciskei prison at present, the Commander in Chief of State Security in Ciskei Lieutenant General Charles Sebe, said yesterday.

General Sebe was reacting to a claim that Ciskeian prisoners transferred from South Africa recently had gone on a hunger strike in the new Mdantsane Prison.

Asked whether there had been a hunger strike at any stage, he said "All I am saying to you is that we do not have a hunger strike at any of our prisons now"

He would not comment on whether there had been complaints about prisoners who were studying in South African prisons having been denied the privilege in Ciskei — DDR

'Drastic' measures should be taken now

153 RDM
8/7/83

Warning on soaring SA inflation

By HOWARD PREECE
Financial Editor

A WARNING that inflation in South Africa could soar to 17% or 18% during the next economic upturn — unless drastic measures are taken now — has been made by Standard Bank.

It says that over the short-term such measures must result in a deepening recession, more unemployment and a slackening of the property boom.

In fact, it seems clear that the Government is already alarmed about the continuing high level of inflation (consumer prices rose by 12,8% in the year to the end of May).

The Reserve Bank and the Treasury have deliberately allowed a severe tightening of monetary policy in recent weeks.

Prime rate — the banks' minimum overdraft rate — has risen from 14% to 16% over the past month.

Money market rates are still facing upward pressures and another rise, to 17%, is certainly possible.

The squeeze on home loans is being felt.

Barclays National Bank has hardened conditions for mortgage bonds under its home purchase finance scheme.

United Building Society has raised its interest rate on new bonds above R60 000 from 15½% to 17%.

Though other building societies will not immediately follow this move, informed sources say it is likely the SA Perm will announce a similar rate change early next week.

Standard Bank says in its July economic report "An early bottoming out of the South African economy has probably shifted to a later point than expected early this year."

"In part this is the result of the effects of the seriousness of the drought.

"However, the euphoria that flowed from plentiful liquidity and easy money policies that characterised much of the first quarter of the year has also largely evaporated even though the stock exchange has yet to reflect this.

"A new sense of realism characterises the financial markets."

Standard says, however, that inflation has remained "stubbornly high despite the weak state of demand in the economy.

"At present the rate of price escalation is still some 2% higher than during the comparable period in the previous recession (1975-77).

"If not tackled vigorously there would be a good chance of inflation ratcheting itself up to 17% or 18% during the next expansion period, compared to the previous annual maximum of just over 15%."

But there has now been a significant upward shift in interest rates to try and avert this threat.

Standard comments, "The extent of the rise in interest rates and the tightening of domestic liquidity have dimmed somewhat what was only recently a brighter short-term economic outlook.

"Recessionary trends in industry are likely to be reinforced again, retail and car sales are bound to soften after a first quarter revival and the boom in home building is likely to lose some of its vigour.

"More seriously, a resumption of broadly-based recessionary trends during the rest of this year will accentuate an already difficult unemployment position."

● See Page 3

Inflation-linked pensions can prove to be too costly for funds

By Ben Temkin

While the plight of pensioners on fixed incomes is a perpetual topic of discussion, pensions linked to inflation can be prohibitively costly for pension funds.

At a recent conference of the Insurance Institute of South Africa, Arnold Basserabie, managing director of Federated Life Assurance Company, presented some startling figures on the subject. His most dramatic revelation was that the cost of funding a pension escalator of just half the rate of inflation could increase the overall costs of a pension fund by between 30 to 40 percent.

For example, in a fund yielding 12 percent a year, the funding rate will rise from 11 percent of payroll to more than 17 percent as inflation rates move from 10 to 14 percent a year.

If a pension escalator of just half the rate of inflation is built in, the cost or funding rate rises from 11 to 14 percent of payroll when inflation is 10 percent and

from 17 to almost 27 percent when inflation is 14 percent.

If pension fund contributions (from both employer and employees) to a typical fund are already at, say, R200 000 a year, to find an additional R80 000 to R80 000 is going to be both difficult and unpopular.

REALISTIC INCREASES

This is why most employers hope that the investment returns of their pension funds will more than counter the effects of inflation with resulting surpluses in the fund. These surpluses can then, they hope, be applied to increasing the pensions of existing pensioners.

Pension fund investments managed by insurers have provided returns in excess of inflation, and these funds may be able to pay realistic post-retirement increases in pensions.

Unfortunately, as Mr Basserabie pointed out, some funds have not built up sufficient reserves to make increases of this

sort. Fortunately, however, most South African pension funds don't have many pensioners, so it's relatively inexpensive to supplement pensions from current income. At the same time additional contributions have to be made to build up reserves to pay pension increases for future pensioners.

When related to periods of service and final salary, pension funds in this country do generally provide adequate benefits at retirement. The problem is that people, in changing jobs, erode their benefits and don't have enough time to rebuild them.

The answer to this problem is to have compulsory transferability between funds. This would stop employees cashing in their benefits, would enable them to continue to enjoy the contributions made on their behalf by their employers and would give them time to build up adequate retirement benefits.

● Ben Temkin is a Johannesburg investment analyst.

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Economists give choice: Inflation or recession

By GERALD REILLY
Pretoria Bureau

SOUTH AFRICA'S recession will be prolonged if the Government applies the harsh medicine needed to control inflation.

That is the view of the Progressive Federal Party's finance spokesman, Mr Harry Schwarz, and leading bank economists spoken to yesterday.

They agreed with a Standard Bank warning earlier this week that inflation could soar to 17% or 18% during the next economic upturn unless drastic measures were applied.

Mr Schwarz said the Government would have to act swiftly to slow down the price spiral before the next upturn started.

An alarming feature of the developing threat, he said, was that the Government had probably delayed too long in applying the stringent remedies called for.

If applied now they would

have more drastic consequences.

"The result is that the recession will go deeper and last longer than is actually necessary."

Some of the medicine that needed to be administered would be unpleasant. The Government had allowed the money supply to expand at too great a rate, he said.

The harsh remedies now needed included a further shrinking of the money supply, higher interest rates and other measures to discourage consumer demand.

Inevitably, however, the medicine would further aggravate South Africa's already serious unemployment problem, and quicken the pace at which the living standards of wage and salary earners were falling, he said.

Barclays Bank's chief economist, Dr Johan Cloete, said the country's economy was at a very dangerous stage.

Already the Government

was fighting the inflation threat with policies calculated to lengthen the recession, he said.

However, the costs of such a policy were high — increased unemployment and escalating numbers of business insolvencies among them.

Volkskas chief economist Mr A Engelbrecht said inflation rates of up to 18% were a very real danger.

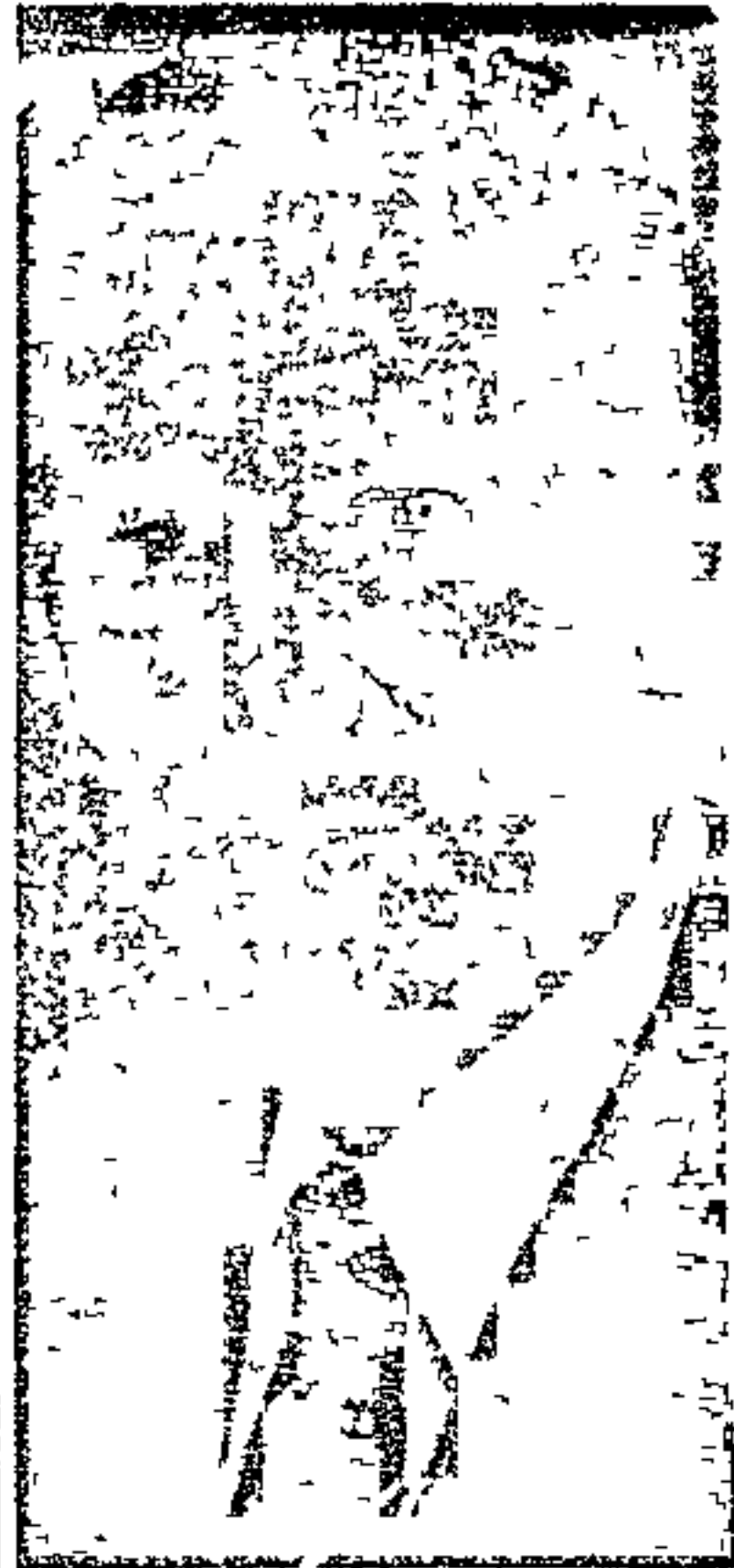
"If we can't get inflation down soon to a much lower level we are in for trouble."

South Africa had gone into every upturn in the past with an ever higher level of inflation — "and this is very dangerous."

He added the authorities must be careful not to be caught up in a vicious circle of a depreciating rand, and high and rising inflation.

Then, as had happened in some South American countries, inflation gained an unstoppable momentum, Mr Engelbrecht said.

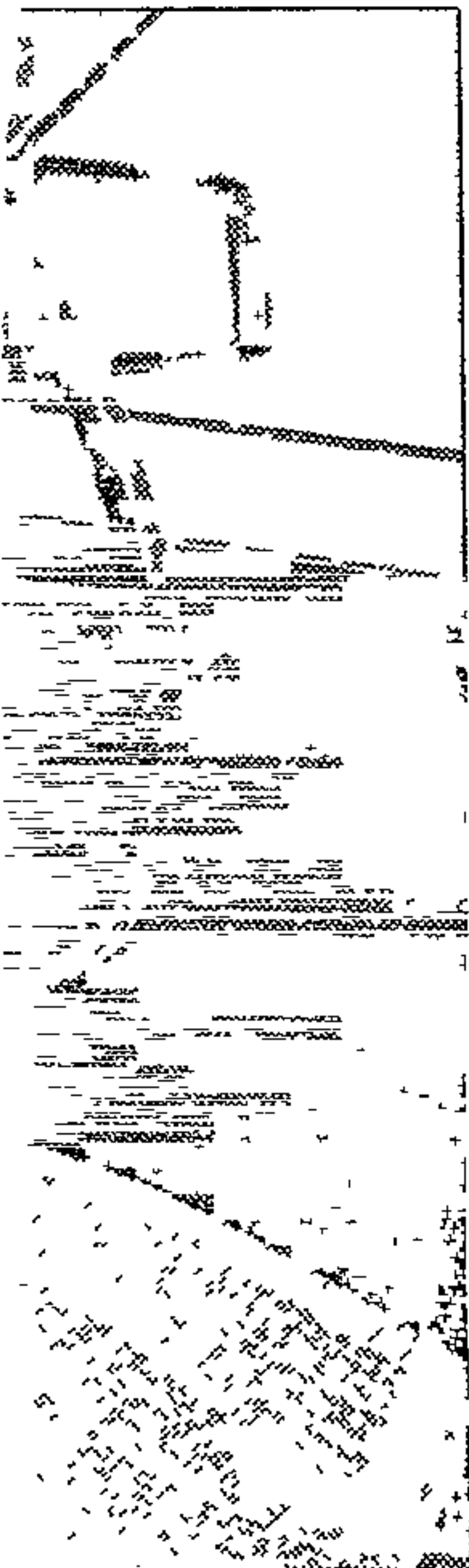
Inflation — a long time to get the message



Mr Tom Evans has been appointed production director of Krost

Steel talks

BRUSSELS — The European Community will hold urgent discussions on new US curbs on imports of high-quality steel, says Britain's Foreign Secretary, Sir Geoffrey Howe — Reuter



ND
SS

IT has taken a long time, but the message is now beginning to get through — there can be no quick and easy way out of the South African recession

That will be true — even if the gold price firms in the next few months

With gold back above \$430 yesterday, it is important to keep the full economic outlook in perspective

Any early and appreciable restoration of growth risks being short-lived. It could founder almost at the outset on SA's deep-seated and excessive rate of inflation

The economy is certainly going to be in a technical recovery phase in 1984 — with negative growth of 2% expected this year, it could hardly be otherwise

But it is highly unlikely that any durable upturn will be felt before 1985, no matter how favourable external circumstances may prove to be

That view has, in outline, been argued on various occasions in this column over the past year

Two leading banks have spelt out it with uncompromising bluntness

Volkscas says "We have to face facts. There is a very real danger that South Africa may become enmeshed in a vicious circle of

Howard Preece



Economic Spotlight

inflation and depreciation of the rand

"Once such a circle has built up momentum, it will be very difficult indeed to escape from it. We don't have to look far around the world for proof of this. There are also many examples of the consequences of such an eventuality"

The choice is clear, Volkscas says

"Either we take the popular way out by diluting financial discipline in order to accelerate economic recovery through lower interest rates and freely available bank credit, or we persist with financial discipline even if it should imply high interest rate levels for some time to come"

Standard Bank urged forcefully last week. "At present the rate of price escalation is still some 2% higher than during the comparable period in the previous recession" (that was broadly from 1975 to 1977)

Good day for golds on JSE

By ADAM PAYNE

ALL gold producer shares, Kinross excluded, rose on the Johannesburg Stock Exchange yesterday and the market closed strong in line with the rise in the gold price

The gold board opened steady but quiet. The rest of the market was mixed and steady

Industrial were featureless with a mixture of losses and gains. Metals and minerals were steady and platinum

Coals were featureless, except for a 15c drop by Natal Coal to 120c and an insignificant 25c fall in Witbank Colls to R48,50

Grootvlei and Durban Deep gained 120c and 125c respectively to R21,50 and R42,50 in gopts. Randfontein recovered some of its recent losses with a 550c rise to R162

On the Evander field, Kinross lost an insignificant 50c to R31 and Winkels rose 50c to R51

Among Klerksdorp producers, Vaal Reefs and Southvaal each added 150c to R142 and R69 25

"If not tackled vigorously, there would be a good chance of inflation ratcheting itself up to 17% or 18% during the next expansion period — compared to the previous annual maximum of just over 15%"

However, Standard took some comfort from the latest upswing in interest rates as indicating a "new sense of realism in the financial markets"

But the bank commented "The extent of the rise in interest rates and the tightening of domestic liquidity have dimmed somewhat what was only recently a brighter short-term economic outlook"

"The euphoria that flowed from plentiful liquidity and easy money policies that characterised much of the first quarter of the year has also largely evaporated even though the stock exchange has yet to reflect this"

The popular belief has tended to be that it would be much easier to come out of recession this time round than from that of 1975-77

But the circumstances are different and it may be that the main obstacle is more menacing than before

In 1977-78 the biggest problem in getting back to high growth was the balance of payments

In June 1978, The Economist observed, in a major analysis of the South African economy "On past experience the length and strength of any boom in South Africa depends on the level of the gold and foreign currency reserves"

"On that basis things look bad. Gold and foreign currency reserves are now around \$900-million compared with \$1 270-million at the beginning of the last upturn"

"The world economy, on which South Africa's exports depend, is looking dicky"

"Gold prices will continue to rise, but slowly. They may be near to a plateau in real terms"

In the event, that analysis proved to be nonsense. Gold started to rise slowly and

must be accepted as a fact that the balance of payments is still a serious obstacle standing in the way of stimulation of the economy over a wide front"

It is evident, then, that South Africa's way out of recession in 1977-78 was seen to depend primarily on the balance of payments in general and the gold price in particular

When these developed favourably a rapid upturn in growth was possible

Today the position differs. The current account of the balance of payments is in healthy surplus and the net gold and foreign exchange reserves rose by R2 500-million over the last quarter of 1982 and the first half of 1983

Of course, import levels are now quite misleadingly depressed and would certainly start soaring once any economic upturn became established

Nevertheless, it looks as though the economy could certainly move back into a growth phase with only a modest improvement in the gold price — if it were not for the inflation danger

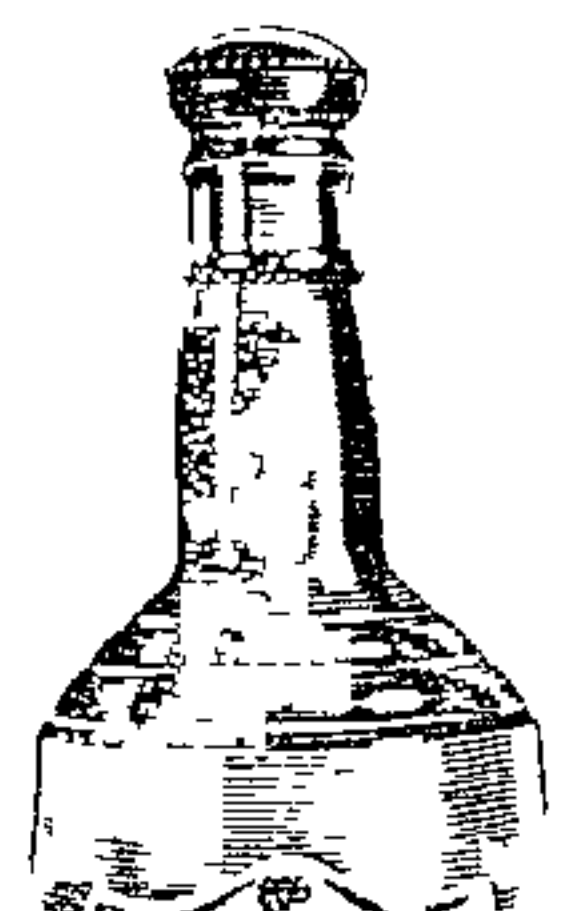
Unfortunately, South Africa is stuck with what Standard Bank calls a "stubbornly high" rate of inflation — consumer prices rose by 12,8% in the 12 months to the end of May

To allow a gold-induced economic recovery at this stage would, as Standard has pointed out, risk pushing inflation up to thoroughly alarming levels, and perhaps lose control of the whole situation

There is, therefore, no option for this year and for most of 1984 but to hold the monetary lid firmly down

Anyone who is betting otherwise should think again

For the Connoisseur's Cabinet



Inflation problem must be tackled — Standard Bank

JOHANNESBURG. — The belief that inflation in South Africa was inevitable and that people must learn to live with it, was detrimental to the country's long-term growth potential and standing in the developed world, said the managing director of the Standard Bank Group, Mr Henri de Villiers.

Speaking to a meeting of the Institute of Chartered Secretaries and Administrators in Johannesburg he said that although reducing inflation would be difficult, the problem must be tackled.

In general, South Africa's inflation experience had not been bad until the beginning of the 1970's. Inflation had only become a problem during wars or periods

immediately after them. Between 1954 and the start of the 1970's the annual inflation rate marginally exceeded three percent only on six occasions.

Escalated

Control over inflation had started to slip at the beginning of the 1970's and the problem had escalated ever since, Mr de Villiers said.

In 1969 the rate was 2,9 percent but, after ratcheting itself to ever high levels in the intervening boom periods, inflation reached its recent peak of 15,2 percent in 1981 before easing in the current recession.

Long-term inflation, Mr de Villiers said, was not only bad for both economic growth and social stability but, it eroded confidence, inhibited rational decision making, distorted financial markets, disguised relative price and value changes, and reduced checks on government, because "fiscal drag" could be used as an automatic device to increase taxation.

It also favoured the rich who could protect themselves by buying fixed assets and punished the poor and ignorant who could not.

Prevented

Mr de Villiers said that blacks who have been prevented from owning property had been deprived of an effective hedge against inflation.

"The government has made some concessions recently in the form of the 99 year lease scheme, but too many barriers remained to fundamentally alter this unsatisfactory situation," he said.

Whites had not suffered these disadvantages and the inflation hedges of the more affluent sections had been subsidized for many years.

Artificial low mortgage rates for home and real estate owners, subsidized credit and tax breaks for farmers had not only protected a section of the community from inflation, but had also provided excesses and made speculation rife.

"This was dangerous," Mr de Villiers said, "be-

cause it encouraged wasteful use of scarce resources, enhanced differentials in living standards and created envy."

In general, the government had acted to keep borrowing costs artificially high for many years by subsidizing borrowers at the expense of the small man. This had reduced the value of saving because ordinary savings no longer served as a protection against inflation.

Savings deposits

Interest rates on most savings deposits has been negative in real terms for many years with taxation and interest received adding insult to injury. This created distortions and encouraged many people to live from hand to mouth without a savings cushion, he said.

Turning to international inflation, Mr de Villiers said that South Africa's inflation performance was more or less in line with its trading partners, but while inflation elsewhere had been tackled and reduced to manageable levels, South Africa's had remained consistently above 10 percent since 1974.

The discrepancy made it difficult for domestic industry to compete — both internally against imports and on world markets — unless the rand was continuously depreciated, he said.

Mr de Villiers said the reason South Africa's inflation had failed to follow the lower pattern of the Western world was because of a failure to maintain financial discipline.

Reduced

Inflation could probably be reduced significantly if the economy was kept in recession for another two years or so, Mr de Villiers said.

"Inflation can be reduced effectively only during recession periods, but to keep the economy in recession for much longer would be risky because of an already very high level of unemployment," he said.

The next five years or so will prove to be extremely sensitive in the political sense. Failure to make substantial po-

litical adjustments in the period would mean a very narrow range of options at the end of it.

Fiscal policies

In order for South Africa to keep its inflation in check, Mr de Villiers said that responsible and effective fiscal policies should be maintained, money supply controlled, flexible and equitable interest and exchange rates be maintained, an imaginative economic policy, elimination of wasteful practices that flow from archaic philosophies, encouragement by foreign participation, and a greater participation by the private sector would all help in solving the country's problems.

The final responsibility he said, rested with the government, because real progress in reducing inflation could not be separated from advances on the political front.

Checking the threat of inflation would facilitate political and social stability he said, "because by eliminating the iniquities that flow from inflation was in fact political progress." — Sapa

Assocom seminar

JOHANNESBURG. — The Association of Chambers of Commerce will hold a half-day seminar on August 1, to enable Assocom and the private sector to formulate an opinion on the recommendations of the Welgemoed Commission of Inquiry into bus passenger transport, Assocom announced yesterday.

Dr G Prinsloo, a member of the Welgemoed Commission and executive director of the Southern Africa Bus Operators' Association (Sabo), will open the seminar by outlining the commission's objectives. Other discussion topics will include the need for co-ordination concerning metropolitan transport requirements, tariffs and subsidies, and taxis. — Sapa

'Inflation here to stay' Mercury 153 attitude attacked

Mercury Correspondent

JOHANNESBURG—A belief that inflation in South Africa was inevitable and that South Africa must learn to live with it was detrimental to the country's long-term growth potential and standing in the developed world, Mr Henri de Villiers said at the weekend.

Mr De Villiers, managing director of the Standard Bank group, told the lunchtime meeting of the Institute of Chartered Secretaries and Administrators in Johannesburg that although reducing inflation would be difficult, the problem must be tackled.

In general South Africa's inflation experience had not been bad until the beginning of the 1970's. Inflation had only become a problem during wars or periods immediately after them.

Between 1954 and the start of the 1970's the annual inflation rate marginally exceeded three per cent only on six occasions.

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15.2pc peak

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in recession for much longer would be risky because of an already very high level of unemployment,' he said.

The next five years or so will prove to be extremely sensitive in the political sense. Failure to make substantial political adjustments in the period would mean a very narrow range of options at the end of it, Mr De Villiers said.

Hopes rise as inflation rate slows

Finance Editor
THE inflation rate is starting to slow down. The Consumer Price Index, after rising at an annual rate of 14,6 percent in the first quarter of this year, increased at an annual rate of only around 7 percent in the second quarter.

This is the smallest quarterly increase in the CPI since 1979 and raises hopes that after a highly inflationary past, the country is heading for a less inflationary future.

Reasons

Mr A J M de Vries, deputy director of the Bureau for Economic Research at the University of Stellenbosch, said the decline in price increases was not unex-

pected. The year-on-year inflation rate could drop to around 10 percent by the end of the year.

The drop in inflation had been forecast for some time. It was a reflection of the recession and actions by the authorities to keep down administered prices.

Overall

However, because of the drought, he was not expecting a further marked decrease in the inflation rate at present.

The drought would continue to affect food prices and aggravate inflation.

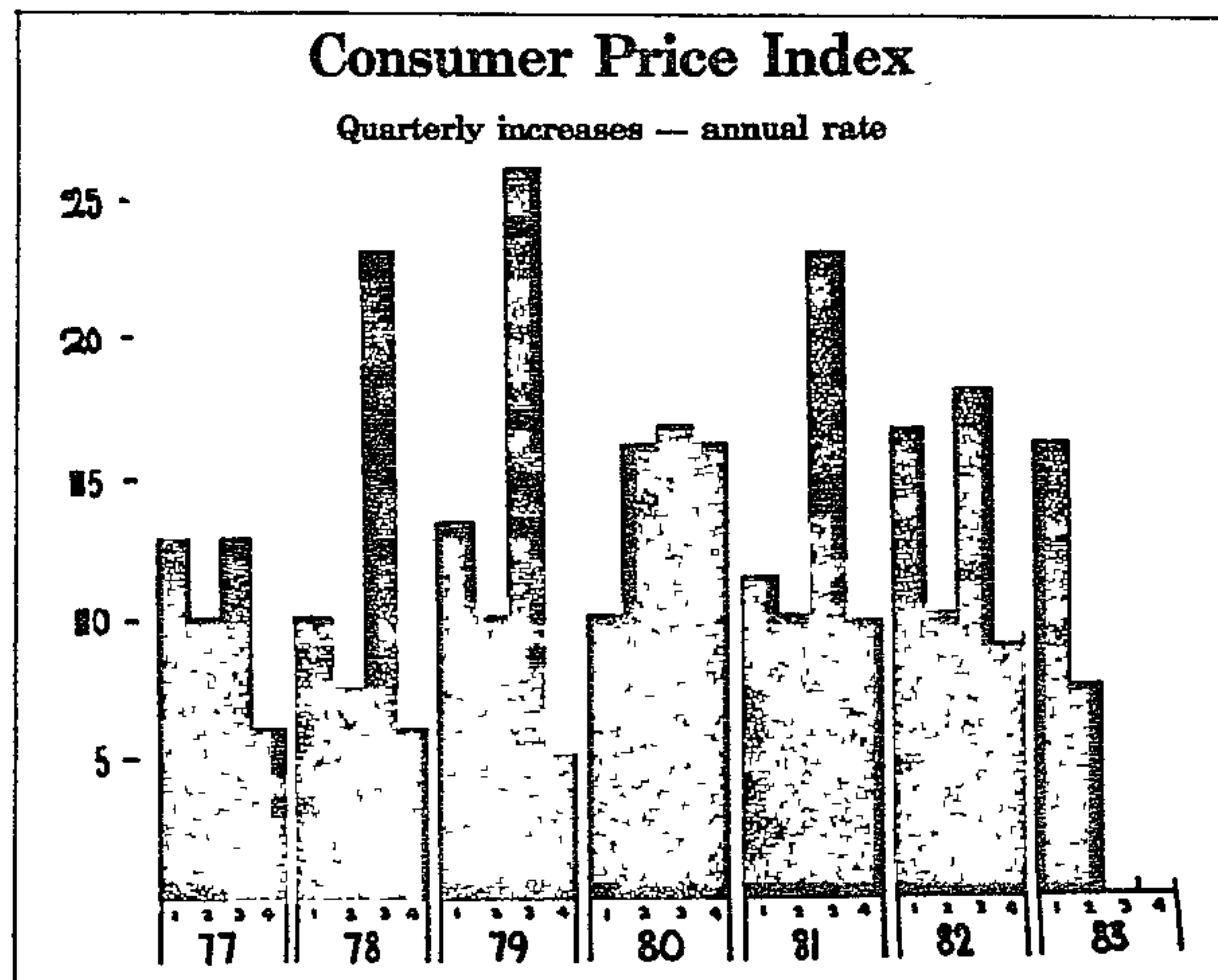
As soon as the rains began, farmers would stop sending cattle to the market, and meat prices could then rise sharply.

He believed food prices overall could rise 12 percent to 13 percent when this happened.

However, in spite of an increase in food prices, he expected inflation for the whole of 1983 would be down to around 10 percent. This would be a marked improvement on last year's rate of 14 percent.

Mr de Vries said he was also optimistic about a further drop in inflation next year, provided the authorities maintained their present policies.

Initially, the inflation rate could bump along below 10 percent, but he warned it could start to pick up when the economy began improving.



THE consumer price index recorded its smallest increase for several years in the June quarter.

Durbanville bat-

Staff Reporter
A DURBANVILLE veterinarian may keep his two bat-eared foxes — provided they don't have babies.

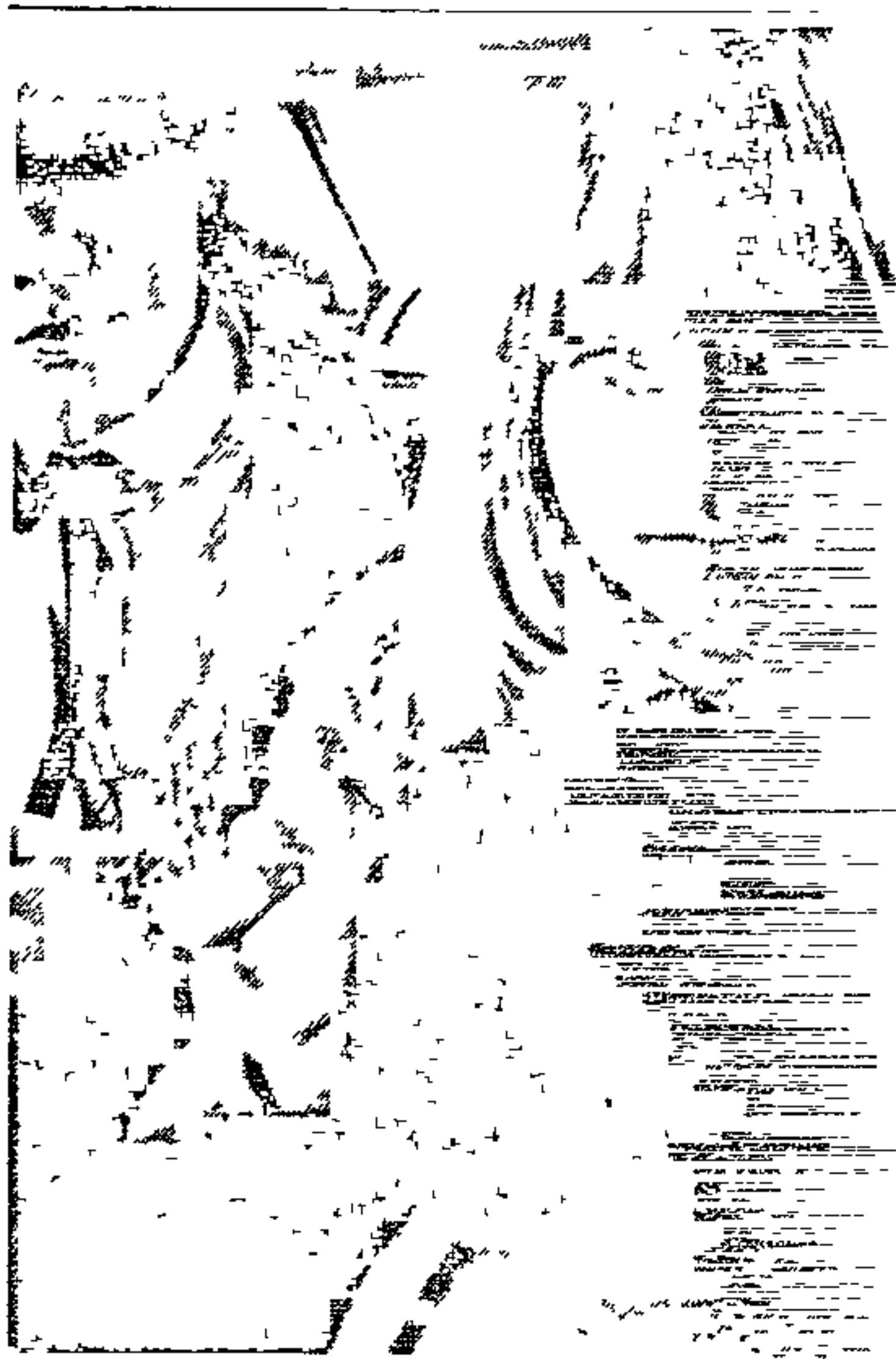
The Durbanville council didn't have the heart to deny the foxes their fun though.

The vet, who lives at Pelican Way, Durban-

ville, said in his application the two foxes had been brought to him when still very wee babies.

"They have been reared. I cannot re- train them as they will be able to fend for themselves."

"And the Tiger Zoo does not want



Miss Dawn Phillips, 20, (centre) and Evander Magistrate's Court in a plea of guilty to the murder of Mr Barend found on July 26 on a road near K... ances, the couple declined to answer. The hearing was adjourned to August 31. The magistrate orders...

Divco members c

Staff Reporter
LIBERALS and conservatives on the Cape Divisional Council clashed today on the issues of unequal pay for blacks and whites and on squatters' allowances for road construction staff.

The liberal councillors, with Mr Neil Ross, national director of the Progressive Federal Party in the vanguard, won the unequal pay issue but lost the squatter issue. The recommendation before the council was 52c an hour for married whites and 49c an hour for unmarried whites. The corresponding allowance for other married employees was to be 30c an hour and 27c for unmarried.

Mr Ross said this would mean that black and white people would receive the same qualification...

Hopes rise as inflation rate slows

26/7/83

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Finance Editor

THE inflation rate is starting to slow down. The Consumer Price Index, after rising at an annual rate of 14,6 percent in the first quarter of this year, increased at an annual rate of only around 7 percent in the second quarter.

This is the smallest quarterly increase in the CPI since 1979 and raises hopes that after a highly inflationary past, the country is heading for a less inflationary future.

Reasons

Mr A J M de Vries, deputy director of the Bureau for Economic Research at the University of Stellenbosch, said the decline in price increases was not unex-

pected. The year-on-year inflation rate could drop to around 10 percent by the end of the year.

The drop in inflation had been forecast for some time. It was a reflection of the recession and actions by the authorities to keep down administered prices.

Overall

However, because of the drought, he was not expecting a further marked decrease in the inflation rate at present.

The drought would continue to affect food prices and aggravate inflation.

As soon as the rains began, farmers would stop sending cattle to the market, and meat prices could then rise sharply.

He believed food prices overall could rise 12 percent to 13 percent when this happened.

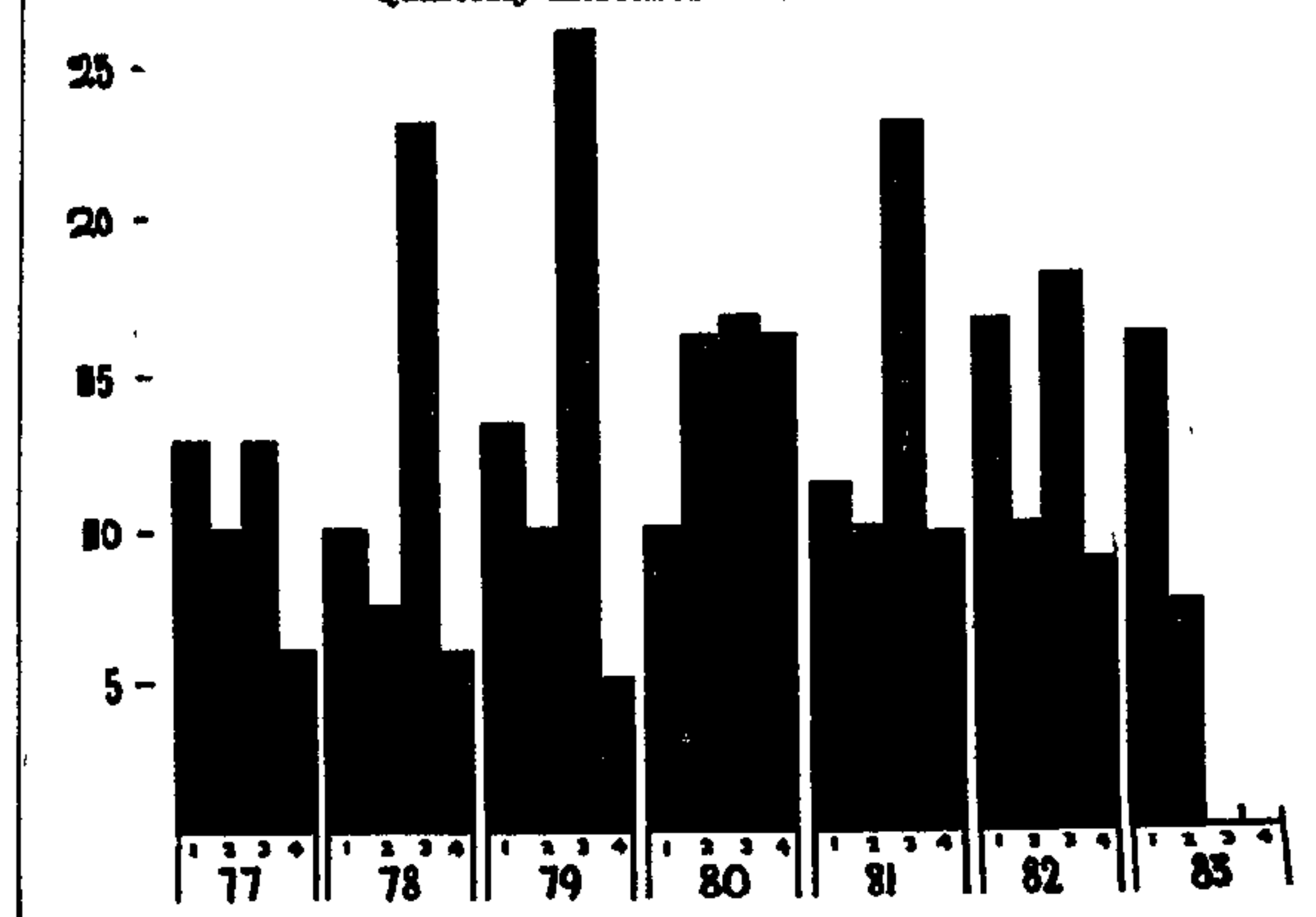
However, in spite of an increase in food prices, he expected inflation for the whole of 1983 would be down to around 10 percent. This would be a marked improvement on last year's rate of 14 percent.

Mr de Vries said he was also optimistic about a further drop in inflation next year, provided the authorities maintained their present policies.

Initially, the inflation rate could bump along below 10 percent, but he warned it could start to pick up when the economy began improving.

Consumer Price Index

Quarterly increases — annual rate



THE consumer price index recorded its smallest increase for several years in the June quarter.

Services' costs boost CoL

By HAROLD FRIDJHON

THE cost of services is a major item contributing to the rise in the consumer-price index.

In June when the CPI rose by 12.4% compared with June 1982, the cost of services increased by 15.7%. The cost of services is 32.9% of all the items in the index.

Apart from food which is reckoned to cost 25.5% of the average family budget on which the CPI is based, the other biggest single item is housing. Theoretically it takes 19.5% of a household budget.

But with the prices of houses and flats rising and mortgage rates going up there must be few white families who pay as little as 19.5% of their budget for a roof. From all accounts, the cost of accommodation is higher than 19.5% of take-home pay. Perhaps on these grounds alone one might dispute the validity of the CPI.

But be that as it may, in June the housing component of the CPI rose by 18.4% — six percentage points higher than the final numbers. All items without housing increased by 11.2% against 12.4% for the CPI as a whole.

Other items which increased faster than the total index were fuel and power which rose by 19.1%, cleaning materials 22.6%, medical

care 15.5% and education 15.8%. Personal care, which probably includes toiletries and cosmetics, rose by 14.1%.

The cost of commodities rose by 10.9% and that includes food, clothing and footwear, and furniture and household equipment. The index number of the price of clothing went up by 9.4% and that of footwear by 9.9%. Furniture increased 13.4%. The cost of appliances was only 8.9% higher and "other" 8%.

Prices of clothing, furniture and other household equipment probably showed a relatively low increase only because retailers have cut prices to induce sales in a recessionary environment. It is most unlikely that the slower rate of increase flowed from lower costs of production.

The food index rose by 12%. Prices of grain products were up by 19%, fruit 16.3%, vegetables 30%, dairy products 14.5% (before the latest increase) and coffee and tea 16.2%.

Meat prices rose by only 2.6% in a year, probably because the drought brought a surplus of cattle to the market — which carries an implicit warning that the price of meat is due to soar when all surplus stock has been sold. Fish prices were up 7.7% and sugar by 6.9%.

Economy squeeze coming

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man of Amcoal, explained the effect of this in the company's recently released 1983 annual report

He said: "The present cost of establishing new mine export capacity in South Africa of R65 an annual ton, escalates to R161 an annual ton over an eight-year period at an annual inflation rate of 12%.

"This compares with a cost per annual ton capacity of only R104 if the inflation rate is 6% over the same period

"The differential of R57 an annual ton of capacity over the period to 1991, when it is anticipated that world coal markets could absorb additional tonnages from the Republic, would place the South African coal-export industry at a significant disadvantage against coal-exporting countries with lower rates of inflation," Mr Boustred added.

A domestic inflation rate which is higher than the country's trading partners impacts even more heavily on manufacturing exporters, eventually pricing them out of international markets

Drastic measures to combat inflation

S.T. 11/83 31/7/83 (153)

By Alec Hogg
THE economic authorities are determined to bring the inflation rate below 10% in the next 12 months, and will use State-backed projects employing thousands to offset the resulting unemployment.

The Director-General Finance, Dr Joop de Loo, told Business Times this week "Unless we succeed in bringing the inflation rate down to single digits over the next six to 12 months, the country will not be able to afford a boom."

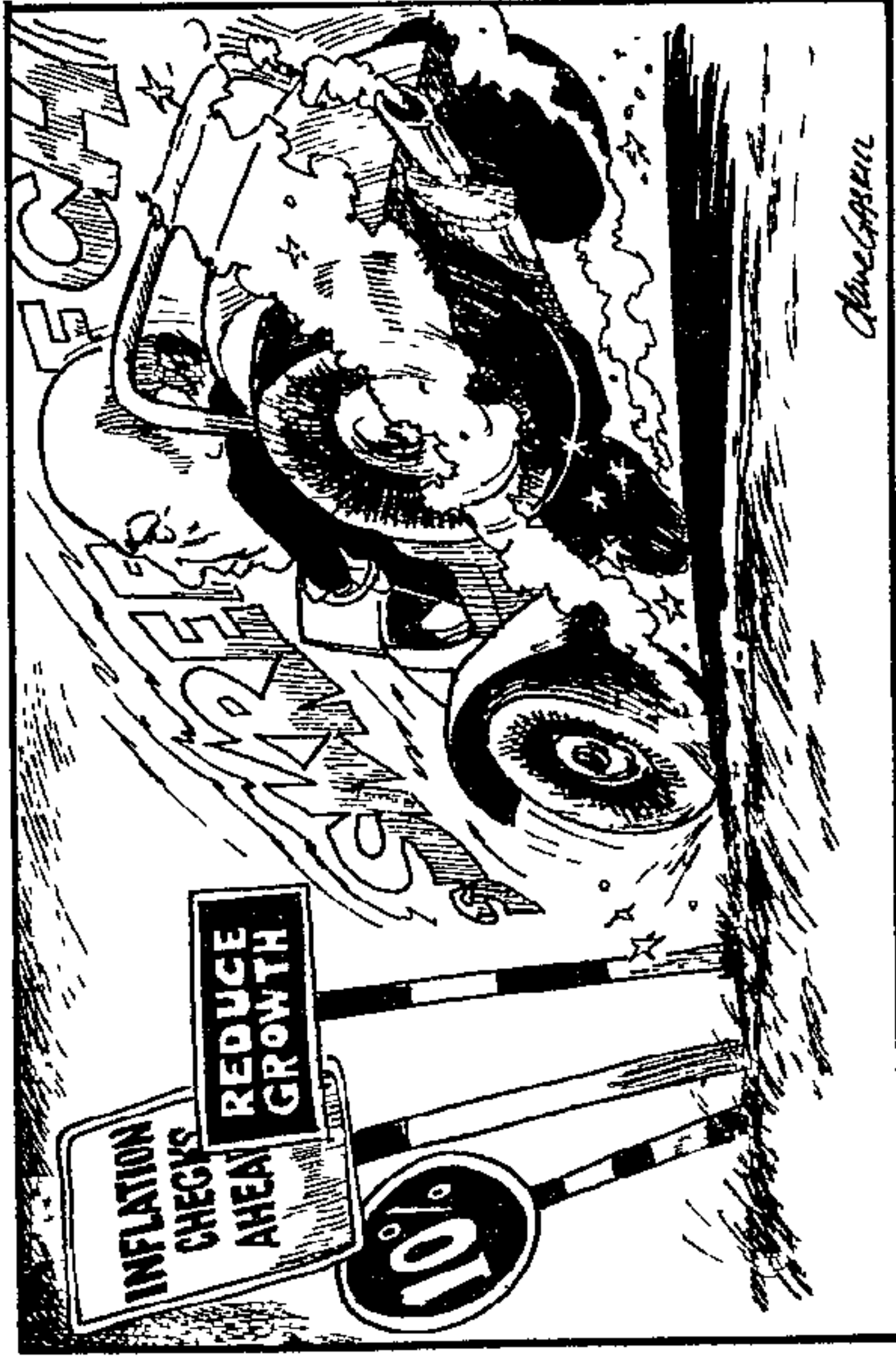
"We are totally committed to achieving a single-digit inflation rate." The last time the country experienced single-digit inflation was in 1973. It is clear that strict monetary policies are on the cards. This means another money squeeze and further hikes in interest rates.

■ ■ ■
"The clutch slippage which has occurred on the monetary side will have to be stopped," Dr de Loo said.

He did not want to commit himself to a date, but his colleague, Reserve Bank Governor Gerhard de Kock, is on record as saying that single-digit inflation will be achieved during the first quarter of next year.

This tough attitude blasts the widely held view that South Africa will not seriously attack the inflation monster for fear of disturbing the socio-political peace.

It also suggests that the policies to be implemented



Thatcher-Reagan policies are likely to be implemented

will be similar to those used with spectacular success by Mrs Thatcher in the UK and the Reagan Administration in the US.

The Government aims to

prevent increasing unemployment through huge labour-intensive schemes in the black homelands.

Reserve Bank Deputy Governor Dr Bramie van Staden said "These schemes will take the form of the labour-intensive developments which took place in 1929 and the early 1930s, when unemployed whites were put to work by the Government in the building of gravel roads, dams and the like."

Labour-intensive projects also have the advantage of not requiring billions in capital and, as imports are rarely used, the balance of payments is not adversely affected.

These hidden benefits are probably behind Dr de Loo's statement that labour-inten-

sive methods will be used on projects even if they are more expensive.

Dr van Staden argues that, though the country has influx control, the labour force is still flexible enough to allow such a scheme to work.

"There are, for example, no restrictions on blacks who move back to the homelands from the cities."

The Corporation for Economic Development already has a number of these schemes in operation, with the momentum expected to increase as the monetary screws are tightened on the economy.

Such schemes could run from land clearance and plantation establishment to the building of dams, canals and roads.

■ ■ ■
Despite continuous warnings by the Minister of Finance, Owen Horwood, and his colleagues that bringing down the rate of inflation is the major objective, most private-sector observers had interpreted this as mere lip service.

The sharp fall in interest rates earlier this year, the surge in residential property prices and the booming stock market were seen as proof.

There was also a widely held argument that Pretoria would not be able to bring the rate of inflation to below 10% because of structural factors in the economy.

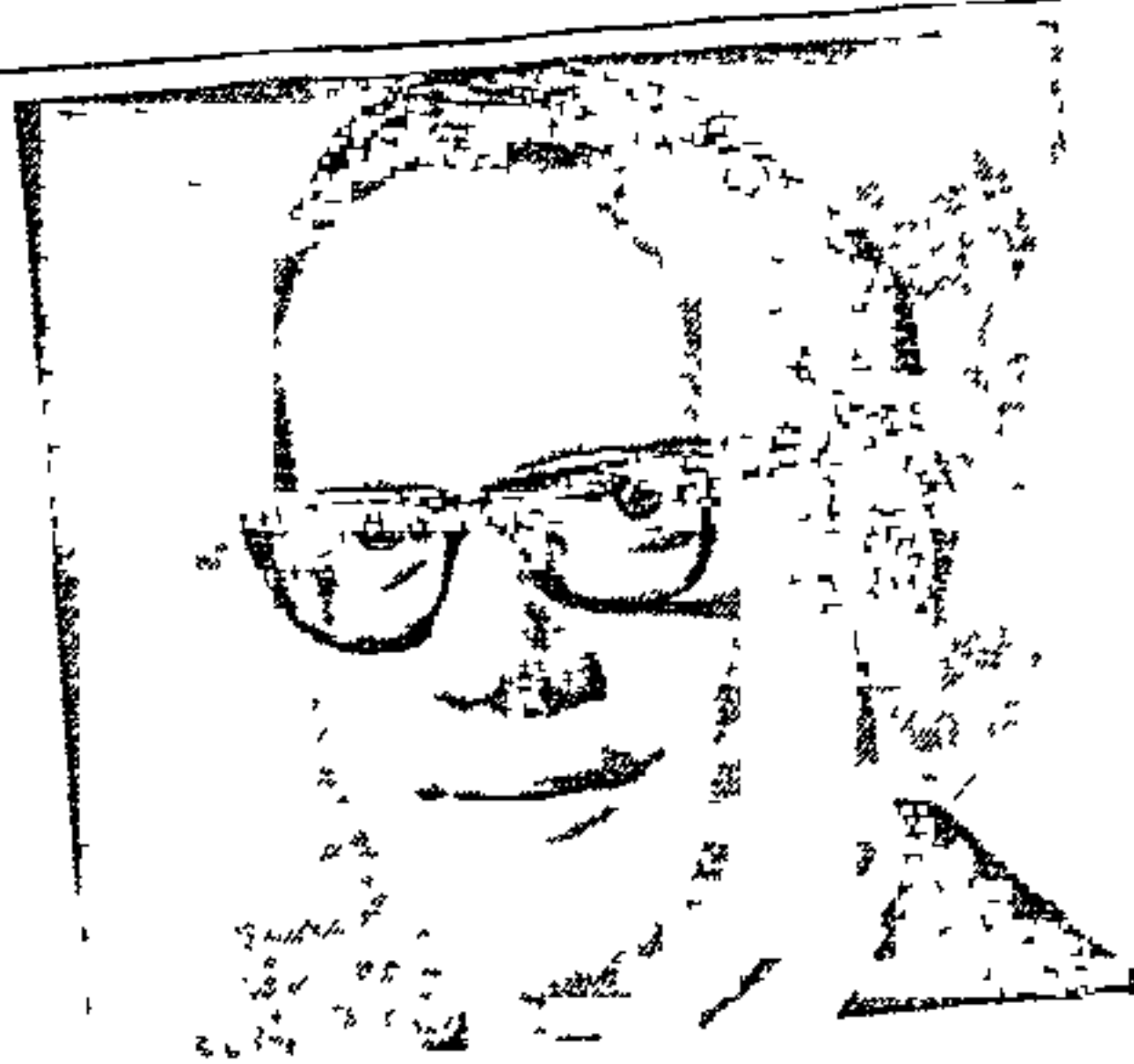
It is accepted, however, that South Africa cannot afford its current rate of inflation, which is more than double that of its major trading partners.

Graeme Boustred, chair-

● To Page 3

Inflation forces up pensions

ARGUS 2/8/83
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Mr Pierre Steyn

INFLATION has caused a large number of companies to give increases to their pensioners during the past three years, a survey carried out by Sanlam shows

Many intend improving benefits within the next year. And provision for growth in pensions is receiving special attention

The survey was answered by 341 of the 700 companies and institutions invited to take part in it

The report says "The survey reveals the concern felt by employers about the detrimental effect of inflation on pensions, as 80 percent of the respondents give their pensioners increases in some way or another

Several

"The average increase in pensions over the past three years was between 7 percent and 8 percent a year

"Several funds have granted substantial one-off increases too"

Mr Pierre Steyn, senior general manager in charge of the survey, said that 36 percent of the funds improved their retirement benefits over the past two years while 26 percent improved death benefits, 30 percent improved disability benefits and 52 percent improved the benefits of pensioners or provided growth in pensions for the first time

It was encouraging to note that almost half of the pension funds which answered the survey intend improving their benefits within the next 12 months with the main emphasis on retirement benefits

"Where it has been possible to make a meaningful comparison with Sanlam's survey of two years ago it appears as if a gradual improvement in the benefit structure of pension funds in general has taken place

"One aspect which has apparently received special attention is the provision for growth in pensions, as a substantially higher percentage of funds are now providing growth compared with two years ago"

Other facts revealed by the survey were that 86 percent of the pension funds allow employees of all races to become members of the same fund

Two out of three of the companies which do not do this make separate provision — only 5 percent make no provision for employees of all races

Highest

Men usually retire at 65 and women at 60, and 54 percent of employees of both sexes retire on 54 percent of their average salary for the final three years or for the three consecutive years in which it was at its highest

More than 90 percent of funds allow early retirement in good health. More than 70 percent of these reduce pensions by a fixed percentage in the case of early retirement

In 82 percent of cases deferred retirement is allowed, and in 54 percent of these cases pension contributions cease at the normal retirement date

Growth in pension is provided on an ad hoc basis by 64 percent of funds and on a fixed percentage by 11 percent

Some funds guarantee a minimum growth but augment it on an ad hoc basis

Over 50 percent of funds pay both a lump sum and a widow's and children's pension when an employee dies before retirement

Monopoly firm under attack

Argus Foreign Service LONDON — John Waddington, the Monopoly game maker under attack from two rival predators, has promised shareholders improved profits and dividends if they remain loyal to the group

The company says profits for the year to March will be about R5-million against R450 000 for this year

Concern felt by employers about effect of inflation on pensions

SANLAM has published the findings of a survey on the benefit structures of South African pension funds.

Of the seven companies and institutions covering the whole spectrum of the South African economy which were invited by Sanlam to participate, 341 responded.

"A 49 percent participation," said Mr Pierre Steyn, senior general manager, "exceeded all our expectations, as a 15 percent response is considered to be normal for this type of survey."

The survey reveals the concern felt by employers about the detrimental effect of inflation on pensions, as 80 percent of the respondents give their pensioners increases in some way or another.

The average increase in pensions over the past three years was between seven and eight percent per annum.

Several funds have granted substantial one-off increases too.

Other salient features established by

the survey are the following:

- Eighty-six percent of the pension funds allow employees of all races to become members of the same pension fund. Two out of every three of the companies which do not allow all races to become members of one pension fund, make separate provision for their employees. Only about five percent of the companies which participated in the survey do not make provision in some way or another for employees of all races

- Sixty-five remains the predominant retirement age for males, while more than 95 percent of funds require females to retire at the age of 60 or above, with the age of 60 being the most common.

- The most popular formula for calculating retirement benefits is by multiplying the number of years of pensionable service by two percent of final average salary. The final average salary is usually based on either the average of the salaries of the last three years of service or the average of the salaries of any three consecutive years giving the highest result.

- Death-in-service benefits as well as death benefits after retirement are in the majority of cases provided by means of a widow's and orphan's pension. The widow's pension is usually 50 percent of the member's prospective pension in the case of death in service and 50 percent of the member's actual pension in the case of death after retirement.

- About 75 percent of the funds provide for the payment of a monthly income for the period in which a member is totally disabled

- The majority of funds require males as well as females to contribute between six and eight percent of their salaries to the pension fund, while employers contribute on average more than 1½ that of the employees.

- Thirty-six percent of the funds improved their retirement benefits over the past two years, while 26 percent improved death benefits, 30 percent improved disability benefits and 52 percent improved the benefits of pensioners or provided growth in pensions for the first time.

Mr R R Pym has been promoted to production manager of the commercial services of the SABC in Cape Town.

Unless otherwise stated, all financial news in this issue was compiled by Paul Dold and sub-edited by Godfrey Heynes

Inflation rate may be cut to 10 percent soon

Areas 11/8/83 153

Finance Editor

THE 8 percent cut in petrol and other fuel prices could result in South Africa's inflation rate dropping within a few months to its lowest level for more than five years

Mr A J de Vries, deputy director of the Bureau for Economic Research at the University of Stellenbosch, said today the lower petrol price could lead to the year-on-year inflation rate dropping to 10 percent or less by the end of the year

The last time South Africa's inflation rate was this low was in 1977-78

At present, the year-on-year rate is above 12 percent

However, this year the Government launched a major campaign against inflation. This has resulted in prices in the past three months rising at an annual rate of only 7,5 percent

Mr de Vries said the direct effect of the cut in fuel prices on the inflation rate was likely to be small. But the indirect effects would be large, as the lower fuel prices would cut transport costs and have a ripple effect throughout the economy

The main impact of the lower fuel prices would be psychological

Inflation was an emotional subject, and the drop in the petrol price had shown the public that prices could come down

Volskas's economist, Mr A J Jacobs, also welcomed the lower fuel prices. He said they would reduce transport costs and he hoped these would be passed on to the public

He did not expect the year-on-year inflation rate to fall to 10 percent until about the middle of 1984

So far, South Africa had little to be proud of in its fight against inflation, he said

Its current inflation rate was

three times higher than the average of its most important trading partners

This could cause the country grave problems unless its inflation rate was reduced

In fact, the need to curb inflation must be seen as the greatest struggle of our times

The next 12 to 18 months should be regarded as critical in this fight, he said

Some prevailing inflation rates: United States, 2,6 percent, United Kingdom, 3,7, West Germany, 2,4, Switzerland, 2,8, Japan, 2,7, Canada, 5,6, France, 8,8, South Africa, 12,4

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RAND AND INFLATION

Don't leave out the exchange rate

Inflation is by far the toughest and most urgent problem facing us at present. It demands quick and robust action in every possible way. Yet, despite another encouraging rise in the banks' prime lending rate, this is not happening.

One of the most important means of reducing inflation isn't being used. It is the appropriate use of the exchange rate of the rand, the most important price in the economy.

Almost every economic indicator suggests that the value of the rand should be rising and thus reducing the cost of essential imports. In recent weeks just the opposite has happened. As this has a direct bearing on a wide spread of goods, it is significantly inflationary.

Had the authorities allowed the market to determine the rand's value from the start, the rand would not, to be sure, be on the decline now.

There has been much talk this week of further technical refinements to the foreign exchange market, especially paying the gold mines in dollars and efforts to create a market in forward rands.

No doubt these measures will gradually lead to a market-related price for spot and forward rand deals. But their very timidity suggests a reluctance by the authorities to let go. By implication they cast doubt on Church Square's

belief in the market mechanism

All that is really needed, as the *FM* has argued before, is for the mines to be able to market their own gold and hold the proceeds as they wish. A more perfect market would evolve very quickly and the exchange rate would be able to play a meaningful role in checking inflationary pressures. Nor should this lead to a significant capital outflow, as the mines would have to repatriate a large proportion of the proceeds to pay workers' wages and other costs.

The chances are, too, that a realistic exchange rate, in conjunction with a reduction in money supply growth, would soon entice back some of the foreign capital that has left the country since the removal of exchange control on non-residents.

The capital outflow represents profit-taking ahead of an anticipated crack in JSE share prices, which bear little relation to the contracting real economy. They have been buoyed by investors' seeking a hedge against rising prices and will certainly decline once there is greater conviction that inflation has been licked. Then foreign investors will buy in again. But inflation will not be squeezed out if the authorities keep on depreciating the rand.

INFLATION AND JOBS

Rising prices cause unemployment

Inflation is not, as the editor of *The Star* would have us believe, the friend of the working man. It is, in fact, his worst enemy. Consider who are the greatest beneficiaries of inflation. Most obviously, if money is going to be worth less tomorrow than it is today, it is those who are in debt.

And who are in debt? Not, for sure, the working men and women of the black masses. No, the personal debt of the nation is reflected basically in mortgage bonds over the homes of the middle-class.

The other large slice of private debt lies in the short and long-term borrowings of the corporate sector. The ownership of this sector resides almost totally in white hands, either individually or via insurance policies and pension fund benefits.

The other great borrower is government, which forces the private sector to borrow from it with good money and repays it with bad.

In his new classic, *A History of the Modern World*, the eminent British historian, Paul Johnson, pinpoints the essence of inflation in his remarks on the German experience in 1923:

"The big gainers," writes Johnson, "apart from government itself, were the landowners, who redeemed all their mortgages, and the industrialists who repaid their debts in worthless paper and became the absolute owners of all their fixed capital. It was one of the biggest and crudest transfers of wealth in history."

Inflation inhibits savings and, therefore, investment which is the source of new jobs. The beneficiaries of the creation of new jobs are clearly the working classes.

Inflation encourages speculation and conspicuous consumption, as money which loses value loses respect.

Liberals have a touching belief that inflation can be held at some sort of "healthy" level. This is arrant nonsense refuted by all respectable studies of economic history.

There are no good effects of inflation. Like an addictive drug, its first effect is to induce euphoria. The consequences are well known to those who bother to study the issue. Today, even among the economically illiterate, the effects of inflation on taxation are clear. It is a means whereby the State increases its share of earnings by stealth. Wage increases that reflect inflation push earners

SA's era of inflation may be coming to end

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SOUTH AFRICA's inflation rate is coming down — a fact highlighted this week by the news that fuel prices are to be reduced from September.

A number of prominent economists are talking already about a 1983 average inflation rate of 10 percent — a significant reduction from the 16 percent of a year ago — and there seems a good chance that the rate could drop even lower next year.

In the past three months the annual inflation has been around 7,5 percent.

With fuel prices declining it is possible that inflation in the next 12 months or so could remain around this level in spite of higher food prices as a result of the drought.

At last aware

Much will depend on the Government's determination to crush inflation.

Statements by Cabinet ministers and top public servants in recent weeks, and also the Reserve Bank's intervention in the for-

ign exchange markets, show that this country's top management is at last aware of the necessity to keep down prices if South Africa is to continue to prosper.

The Reserve Bank has been extremely active in the fight against inflation. Its senior deputy governor, Dr Chris Stals, reported this week that it had been supporting the rand against the dollar to keep down imported inflation.

This has meant that interest rates have remained high. But one major benefit from this policy has obviously been the reduction in the price of fuel.

South Africa has been subjected to double-digit inflation for nearly a decade. As a result many people are having difficulty accepting that the era of inflation is at last coming to an end.

Record levels

This is obvious from the continued strength of the industrial share market. Share prices there are still around their record levels in spite of a rash of dividend cuts recently.

It seems that many investors are still prepared to pay handsomely for an inflation-hedge which they probably no longer need.

Scarce resources

It might be worthwhile to summarise here why the Government is at last against inflation and apparently determined to crush it.

As spelt out in Volkskas' latest *Economic Spotlight*, inflation

- Causes a maldistribution of scarce resources and encourages speculation
- Discourages savings and so inhibits capital formation and the economy's capacity for growth
- Harms industry in the downward phase of the business cycle
- Leads to controls which distort market forces and promotes the inefficient application of resources
- Has a self-perpetuating tendency
- Could harm South Africa's exports and weaken the economy
- If not reduced to the level of the country's main trading partners (under 3 percent in the

United States, Germany and Japan, under 4 percent in Britain), South Africa runs the risk of becoming enmeshed in the vicious circle of a depreciating rand and a rising inflation rate — with far-reaching effects for economic growth, employment and the balance of payments.

Pay rise

A marked reduction in the inflation rate will have profound effects in many areas. It means that public servants will probably get a pay rise of about 5 percent this year — though most are hoping for 10 percent.

The Government does not appear to have the money to pay more than 5 percent unless it increases taxes, which would be most unpopular.

Pay rises in the private sector, which is also under pressure, will be similarly limited.

Lower inflation means a firmer rand which should make imports cheaper and help to curb inflation further.

It should also mean that money will retain its buying power for a little longer — but,

alas, it is most unlikely to bring back lost buying power.

However, not everybody will find a reduction in inflation to their liking.

Price increases

Both public and private sector organisations will find it harder to pass on price increases and will thus have to become more efficient.

People who have bought residential properties to sell at a handsome profit in six months or so could well be disappointed.

And, according to Dr Peter Penny, the Cape Town property economist, some retail groups which are now highly regarded could be insolvent in a few years because they over-estimated the intervening rate of inflation when leasing premises.

Still, reduced inflation means that businessmen will be able to estimate more accurately future costs and profits.

This will stimulate new investment — which is what South Africa, with its huge unemployment problem, so badly needs.

Price and wage restraints urged

By HAROLD FRIDJHON

MONETARY policy alone is insufficient to bring down the inflation rate. The authorities must also use price and wage controls argues Dr Johann Cloete in the current Barclays Business Brief

Inflation, he says, can be brought down by a monetary policy that is sufficiently strict and that is applied long enough. Monetary policy operates through recession to push down inflation by depressing demand. This forces employers to cut back wage and price increases.

But this means sacrificing growth and employment. And while the South African authorities persist in reducing the rate of increase in the money supply, business and employment conditions will continue to deteriorate.

A moderate tightening of the money supply will be insufficient to bring down the inflation rate within a relatively short space of time without affecting economic growth.

To be effective the squeeze on money supply with important lending rates well above the inflation rate will have to be strong and as the economy is already in a deep recession this will have adverse consequences for business and employment.

The prime overdraft rate will have to be kept at least 3% above the inflation rate and should only come down when the inflation rate is pushed down ahead of interest rates.

Reducing the inflation rate will take time and the prime overdraft rates will have to be kept above the inflation rate for at least six to nine months which means that hopes for an early and strong recovery in 1984 will have to be abandoned.

"Monetary policy is a blunt and indiscriminate measure of control and, to be effective against inflation, it requires

that the growth and employment objectives be abandoned in the short run in the hope that a restoration of price stability will raise the levels of these magnitudes in the longer run.

"It does not allow the monetary policy-maker to moderate the impact of his monetary squeeze on growth and employment, that is, if the monetary squeeze is to do its job effectively against inflation."

It remains to be seen whether the South African monetary authorities will persist in their policy and will accept the consequences.

Many businessmen question whether an effective anti-inflationary policy will be able to be applied because the country cannot afford the large-scale unemployment and the resultant socio-political consequences, particularly as the country is not only suffering from a serious recession but also from the drought.

Dr Cloete says that the authorities need not rely only on monetary policy to bring down the inflation rate and have to endure the losses on the economy which such a policy requires.

"It seems there is another way in which the inflation rate can be relatively quickly reduced to single figures without at the same time imposing an uncontrolled and probably unacceptable severe recession on the economy."

"It seems it should be possible for the Government to use the control it has over the prices and wages administered by large undertakings and firms both in the public and private sectors of the economy to help push the inflation rate down to the desired level."

South Africa has experienced double digit inflation since 1973 but that rate has remained in a narrow band of about 11% to 15%. The relative stability of the inflation rate has been largely the result of the important contribution which control by the Government of administered prices and wages has made towards keeping down the rate of increase in the general price level.

"The Government directly controls a number of important 'input' prices in both the public and private sectors of the economy, while it can readily use moral suasion to influence price and wage formation in those markets where competition is lacking and where price and wage formation is mainly in the hands of a few large employers."

If the Government were prepared to control increases in administered prices and wages in 1984, monetary and fiscal policy could be more accommodating. It could be applied in a contra-cyclical fashion and an uncontrolled recession could be avoided and growth and employment could be protected to some extent.

There is some reluctance in South Africa to recognise the part which proper control over price and wage increases can play and, has played in the past, to control inflation "although there does not seem to be any objection to forcing cutbacks in wages and prices through monetary restrictions. Even Mrs Thatcher has recently called for wage and price increases voluntarily limited to 4% in Britain for the year ahead."

Dr Cloete calls for an integrated policy mix which would involve setting both employment and inflation targets adjusted to balance of payments.

Money supply could then be targeted to the inflation rate. Monetary and fiscal policy could be conducted within these parameters and this would produce relatively stable interest and exchange rates.

He claims three important advantages to his suggestion:

- Monetary and fiscal policy could then be applied contra-cyclically to smooth out the business cycle,
- Price, interest rate and exchange rate stability;
- Growth and employment objectives would be the priority with money supply and inflation targets as secondary objectives.

Shortage of skills hits productivity

ARGUS

18/8/83

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Argus Correspondent

JOHANNESBURG — South Africa is building up a shortage of 23 000 skilled workers a year, Mr John Maree, an executive director of Barlow Rand and former chief executive of Armscor, warns

He said here the country needed 35 000 skilled workers and technicians a year, but was training only 12 000

"This shortage of skills and the utilisation of people who are not adequately trained or developed to do the jobs at hand is clearly affecting productivity"

THREE REASONS

He listed three reasons for South Africa's low productivity

- Wage increases were given without a corresponding rise in productivity
- The shortage of skills resulted in people being paid premium salaries, again without a commensurate improvement in productivity
- People were promoted into positions for which they were less qualified than their counterparts in Europe, which also had a negative effect on productivity

This was likely to continue for the foreseeable future. Since low produc-

tivity had a direct influence on inflation, the inflation rate would probably continue at about its present level

"I don't believe that the Government will ever really clamp down on inflation if it means large black unemployment over a long period of time

"Fighting inflation by deflation, resulting in bad economic conditions and unemployment, is like fighting a war by trying to draft people into a kamikaze corps — people are not very keen to join"

South Africa would have to make a great effort to incorporate blacks into management teams as lack of management skills was one of the greatest impediments to the country's continued growth

"I believe that in any event we will have to find new management techniques to tap the skills, experience and capabilities which exist in the management teams at our disposal

"One has to develop new management styles which will encourage the participation of senior, middle and lower management in the solution of problems"

South African managements tended to decide at the top and pass the decision down

De Kock vows crackdown on SA inflation

AAGUS 23/8/83
(153)

Finance Editor

DR Gerhard de Kock, Governor of the Reserve Bank, has again emphasised the authorities' determination to crack down on inflation.

He has also indicated that the bank is not prepared to create money to reduce current high interest rates owing to the long-term dangers this would pose to the economy.

He told the annual meeting of the bank in Pretoria today that following the improvement in the balance of payments top priority was being given to curbing inflation.

This and the maintenance of a strong currency were viewed as prerequisites for optimal longer term growth.

Dr de Kock challenged the view that South Africa, under present conditions, had the choice between rapid growth and high inflation and low growth and relatively low inflation.

DEPRESSION

He said the South African economy was being constrained by the world depression, the relatively low gold price, stagnant markets for its other exports and the drought.

"In addition, South Africa's rate of inflation is

about two-and-a-half times that of its main trading partners."

De de Kock said that in these circumstances making monetary policy more expansionary than it already was in order to expedite the expected increase in the real growth rate would be "extremely inflationary and counter-productive in the medium and long-term."

STRAITJACKET

Creating new money at a faster rate would be self-defeating since the resultant acceleration in inflation would produce higher nominal interest rates.

He warned that such a policy would weaken the balance of payments, invite speculation against the rand and produce a vicious circle of currency depreciation and inflation, and cited Mexico, Brazil, Poland and other Third World countries examples of where such policies could lead.

"Where the acceptance of realistic market-determined rates entails special hardships for certain groups such as drought stricken farmers or low-income homeowners, it is Government policy to provide overt relief through appropriate subsidies, rather than place the entire interest rate structure in a straitjacket."

"Therefore the best if not the only way to achieve the objectives of optimal growth and employment in the longer term, is to give priority to curbing inflation."

However, Dr de Kock had some encouraging remarks for hard-pressed businessmen, and hinted at some easing in interest rates next year.

"It is not difficult to envisage a scenario in 1984 in which, following an economic recovery abroad and a consequent increase in the value of South Africa's gold output and other exports, the achievement of a satisfactory money supply growth rate would be compatible with both an appreciation in the rand and a decline in interest rates."

Although it would take some time before the next cyclical upswing gained momentum, the foundations for it had now been well and truly laid, he said.

Carl Tins 25/8/83

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24/7/83

The big 'SA is a free market' lie

By PHILLIP VAN NIEKERK

A JOHANNESBURG morning newspaper commented recently that "it is a sad fact of life that most of the things you eat, you drink and you wear can in some way or another be the end result of price-fixing, cartels or outright monopoly".

Widespread concern the fixing of prices by control boards and the elimination of international competition through import tariffs further give the lie to the belief that South Africa has a "free market" economy.

Mr Robin McGregor, compiler of Who Owns Whom, believes that the effect of all this on inflation is quite simple. "Prices go up all the time because there is no competition. Monopolies and cartels — informal arrangements between businessmen to control the market — are a major contributing cause of inflation".

In this light, the role of the Competition Board, the watchdog body set up in the public interest to advise the government on monopolies and restrictive practices, has come under scrutiny. It has been accused of being a "toothless bulldog".

An often-cited example of the Competition Board's ineffectiveness was the government's rejection of the recommendation that the

and profits, particularly if there are only a few competitors on the market. He believes that the existence of such cartels is widespread.

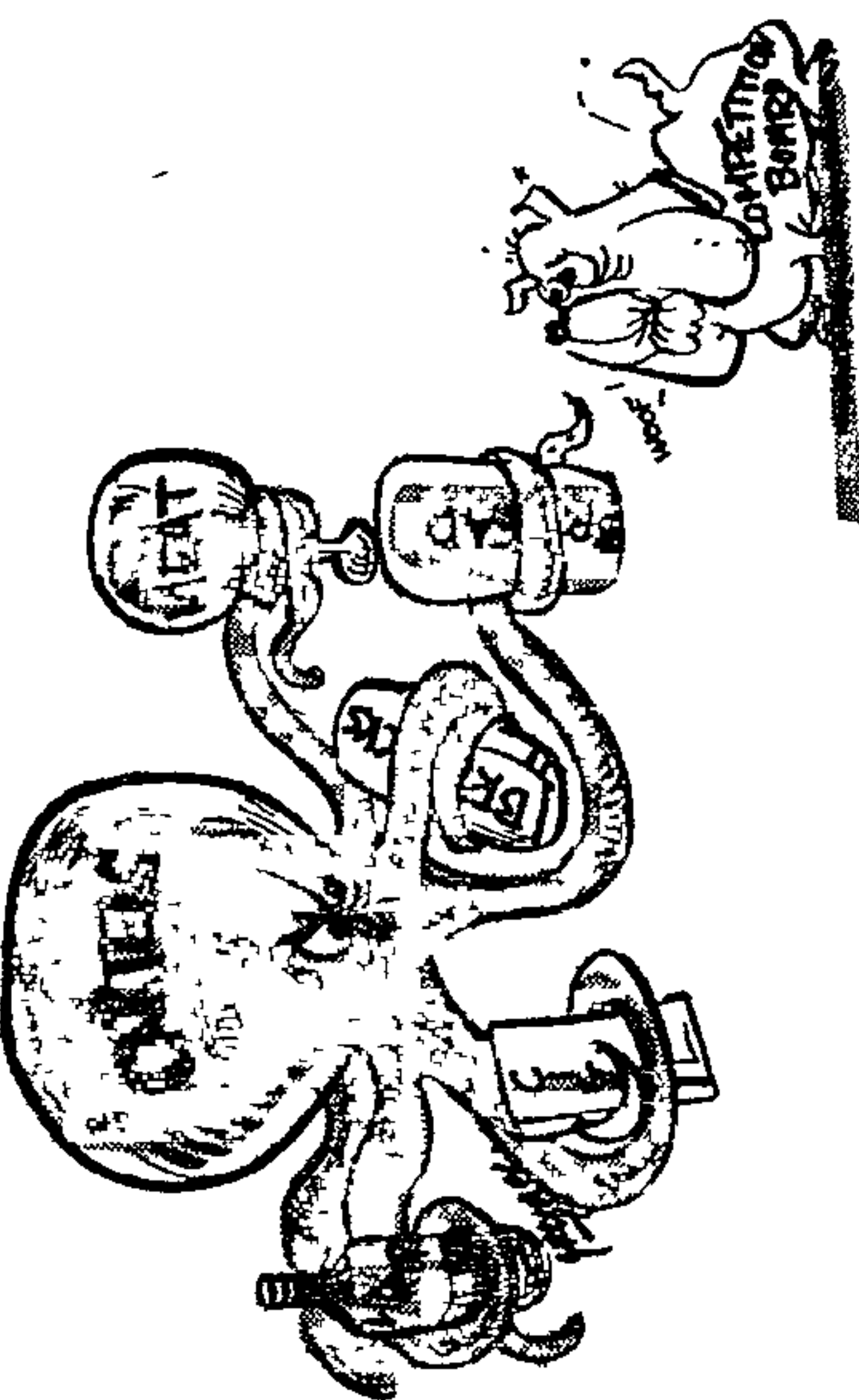
University of Cape Town economist Dr David Kaplan says that in an economy where the primary motive for business is to make as large a profit as possible, competition is the only safeguard for the consumer.

In South Africa there are no anti-trust laws such as exist in the United States to restrict monopolies and cartels and a big question mark hangs over the effectiveness of the Competition Board.

The consumer seems to suffer constantly rising prices, perhaps nowhere more than in the most basic commodity of all — food.

Thus there has been growing pressure on the government to bring in tougher anti-monopolies legislation to rectify a situation many believe should not have been allowed to happen in the first place.

Tomorrow: The social implications of the monopolies.



cents A litre of milk has shot up from 13 cents in 1970 to 63 cents today.

In the eight-year period from 1975, most basic foodstuffs have increased in price at higher than the rate of inflation. Butter has risen 211 percent, flour 183 percent, eggs 173 percent, sugar 231 percent and mealie meal 162 percent.

All this is in a country where thousands of children die of malnutrition every month and where many black families, particularly in the rural areas and homelands, live below the breadline.

Cape Wine and South African Breweries monopolies of the liquor industry be broken up. However, Dr David Mouton, chairman of the Board, denies that things are as bad as is being made out and says they have recently prevented several takeovers and mergers which were against the public interest.

Either way, the consumer seems to suffer constantly rising prices, perhaps nowhere more than in the most basic commodity of all — food. In February 1973, white bread cost 11 cents. Last year it went up to 50 cents. Over that period, brown bread has risen from 9 cents to 33

Govt to declare war on inflation

153 Rudy 12/9/82

By JOHN MULCAHY

THE GOVERNMENT is set to launch a concerted anti-inflation campaign along the lines of the McCrystal group in the mid 1970s.

As the consumer price index hovers around 12%, the hoped-for single figure target by the end of the year seems optimistic and a formalised campaign could provide exactly the added push now needed to breach the 10% mark.

The Government's intentions were hinted at by the Deputy Minister of Finance, Mr E van der M Louw, in a speech in Bloemfontein last week, although he would not elaborate. He did, however, say a further announcement would be made soon.

Considering the spate of commendable and popular Government concessions and announcements in recent weeks, including the petrol price decrease, the increase in civil servants' salaries and the probe into big conglomerates, one could be forgiven for presuming that a campaign against the inflation bogey is also likely to be announced with November 2 in mind.

Any concerted action on the subject of inflation would not want for intellectual input, as there are probably as many views on the problem as there are economists and politicians.

Brought down to the human level, an important aspect of any effective action against inflation is the education of the masses.

Understandably, given the almost runaway inflation of the past few years, it will be difficult to persuade consumers to delay spending and to save.

But this type of attitude is pivotal to

the success of any anti-inflation campaign, and the Government will need to call in community leaders as well as academics and the business community to assist in this vital task.

The latest econometric forecast by the Rand Afrikaans University's Econometric Study Group, headed by Professor Geert de Wet, puts the 1983 inflation rate at 12%, but is more optimistic for next year.

According to RAU's forecast, the inflation rate could drop to between 9% and 10% next year and in 1985, before moving up again from 1986 as the economy enters the second half of the next upswing.

RAU suggests that the inflation rate need not rise above 10% after 1985, and in fact could be held well below this level if the structural factors causing inflation are tackled timeously.

And in its latest Review, the Standard Bank last week stressed that a tight monetary policy and high interest rates were essential to the anti-inflation battle.

While conceding that continuing high interest rates would be a setback for the industrial sectors that had rallied in the aura of lower rates, Standard Bank says this cannot be helped, and the later advantages will ultimately be worth the cost.

The monetary authorities are convinced, and have gone to some lengths to persuade others to share their conviction,

that money supply growth is the most important cause of inflation.

The money supply theory is supported by few businessmen or economists, which is the first problem to be encountered by the authorities, while Prof De Wet notes that he has repeatedly emphasised that the authorities do not have control of the money supply.

While accepting the importance of monetary discipline and that excessive money creation would have many negative effects for the SA economy, including that of being potentially inflationary, RAU insists that it is not necessary or desirable to try and control money supply, for the same reasons it is undesirable to control prices.

An effective campaign against inflation would consider the views of all serious economic bodies from units such as RAU and the Stellenbosch Bureau for Economic Research to the major banks and private sector bodies.

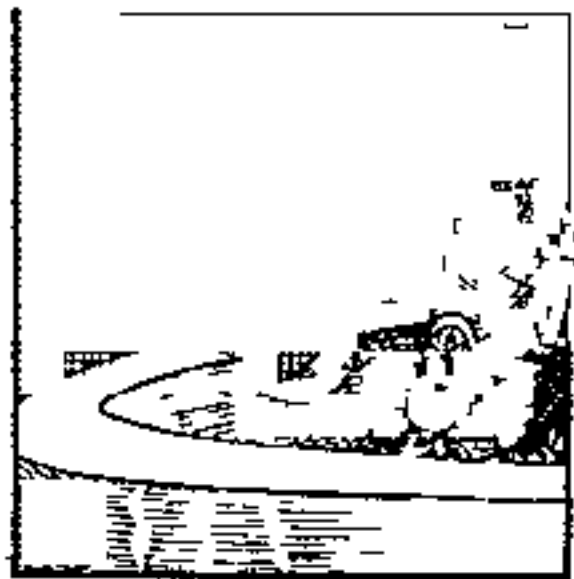
While the disparate views on the causes and effective solutions could threaten to reduce such an all-encompassing body to an economic Tower of Babel, a generally respected authority should be able to draw on the available talents and arrive at a workable programme.

The previous organised anti-inflation campaign, under the leadership of Dr Lawrence McCrystal, was partly responsible for reducing the inflation rate to 11,3% from 13,5% between 1975 and 1977.

A major element of that campaign was a voluntary curb on prices and wages, and companies were asked to absorb some of their increased costs.

WAGES AND SALARIES

Bang goes that Havana



This week two prominent economists called for wage restraint as an ally in the battle against inflation. It cannot be more than ally, of course — rising pay-

packets are simply rising labour prices, and they cannot be financed without a rising money supply. But as it happens, employers won't have to make wage restraint a formal policy — or at least not yet. Right now the market is already doing the wage restraint job for them, and doing it thoroughly.

With few exceptions, salaries and wages are the largest single expenditure for companies, and the obvious target for cutting costs in recession. Profits tend to be squeezed last — or at least the above-the-line kind that are ploughed back into hidden reserves. The point is illustrated well in the graph which shows a rise in corporate savings in the teeth of both a decline in business activity and sharp falls in corporate results.

The graphs that show lower disposable incomes and lower rises in per capita earnings illustrate another point. Managers faced with falling demand no longer need the volumes of unskilled, semi-skilled and even skilled labour that kept the show running at the peak of the business cycle. If they don't retrench, they soft peddle on recruitment and restrain annual salary increases. When this happens on a large scale, aggregate demand for labour goes for a loop, and with it, aggregate labour's bargaining power, collective and individual. Wage and salary increases stop, or slow down, and the consumer price index,

Employers won't have to take a stand on wage restraint. Falling demand, and a falling inflation rate, are doing it for them.



Parrott ... looking for those who are equal

rather than the poaching competitor, becomes the rule of thumb for the annual increment. To employees, job security suddenly looks a lot more worthwhile than pay-scale hopping.

There are exceptions to this rule. One is

the type of specialised technical skill that reflects structural shifts in the economy caused by emergent industries usually based on technological advances. At the moment, computer engineers and biophysicists are not on the same wheels as the business cycle. "Employers are still looking — and paying — for the real specialists," says personnel consultant Colin Katz. "But the more common skills are just not in demand."

Another exception is the type of managerial skill that blossoms in recession — Kamikaze marketing men, cost-crunching financial controllers and top-drawer personal assistants who carry Valium in their handbags. "There's been a shake-out," observes management consultant Ralph Parrott, "of people who haven't proved equal to the recession. They've been judged to be inadequate to recession problems. At this stage, if we recruit, we look for those who are equal." But even here he notes a tendency for employers to put ceilings on recruitment salaries.

These are the exceptions. For the rest, those lucky enough to have kept their jobs, the breathtaking pay rises of the last few years are clearly over. "I'll give you an example," says Ib Ravensborg of HAY Management Consultants. "From August 1979 to August 1982, middle management salaries rose 60%, against a CPI rise of about 46%. This year there's been a dramatic change, and people will match the CPI only if they're lucky. It'll be worse next year. If the CPI rises, say, by 12.5%, middle managers and senior executives will have gone up about 10%. For general staff in manufacturing it'll be about 8%. Only black workers and skilled professionals in service industries are likely to see 14%."

UNIONS SOFTEN DEMANDS

Not only executive pay increases have dropped substantially during the recession. During the past year, unions representing black workers in a variety of major industries have come away from negotiating tables with less than they gained in previous years.

The fact that they have been willing to settle for less is significant. When government granted statutory trade union rights to black workers in 1979, there were gloomy predictions that chaos would result from unrealistically high black expectations. Indeed, only a year ago there were claims that government's labour reforms would founder on the rocks of the recession, with unions representing black workers refusing to moderate their demands.

In fact, not only have black unions in

some major manufacturing industries accepted smaller pay increases during the past year, but the rate of industrial action has dropped substantially. Last year, according to government statistics, SA experienced an all-time high of 394 strikes and stoppages when black workers' high expectations conflicted with economic realities.

However, there has been a remarkable drop in strike action during the first six months of this year — 63 strikes and stoppages, compared with 182 during the same period last year. There has been an even greater proportionate drop in the number of manhours lost due to industrial action, while some of the most strike-prone unions have displayed a desire to use "official" dispute-settling procedures.

Events in the mining industry provide one of the best examples of black workers' willingness to compromise. This year, for the first time in its history, the Chamber of Mines negotiated with unions representing black mineworkers. Despite the fact that these unions gained pay rises substantially lower than those unilaterally granted by employers last year, there was no significant labour unrest on the mines.

Wage negotiations in many industries have obviously been protracted and acrimonious. However, as one respected industrial relations practitioner says of negotiations with black unions: "Collective bargaining is collective bargaining, and we are having to get used to living with each other in the good years and the bad."

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Statistics from the P-E Consulting Group show that in the last year, pay rises generally failed to match the rate of inflation, in most cases for the first time in four years. For executives and white-collar general staff alike, the 18% increases at the height of the last boom have shrunk to under 13%.

Even low-base income groups, the earlier beneficiaries of socio-economic pressure to close wage gaps and of strong union organisation, are showing the same patterns now. Black general staff, who received a 25% pay rise in 1980-1981, got under 14% this year. And next year is expected to be little different for most categories, worse for some and better for virtually nobody.

At the same time, staff turnover rates have also dropped dramatically. In the last year, to July 1983, they ranged from 16% to 25%. During the previous 12 months, the lowest rate was 26%, and the highest was 36%. Katz makes a gloomy point. "Good people in good jobs are not moving," he says. "The turnover we're seeing is mainly retrenchment."

Another trend tracked by the P-E figures, this time in executive salaries, is a resurgence of "smorgasbord" remuneration

— fringe benefit packages — at the expense of basic cash salaries. This suggests a lesser fear of imminent fringe benefits taxation. But it also suggests that companies are turning to the taxman to preserve real remuneration values in recessionary times. The figures show a marked shift towards fringe benefits.

The P-E figures are based on returns from 847 organisations and claim to represent over 1m employees, so they provide a good bird's eye view of what is happening across the economy. The macro-economic angle was recorded by the Reserve Bank's 1983 annual economic report last month. "Nominal factor income in the form of salaries and wages," it said, "still increased at the high rate of 19% in 1982. But owing to the general economic slow-down and the accompanying easing of labour market conditions, the further increase in the first half of 1983 decelerated to a seasonally adjusted annual rate of 10.5%."

The general trend in wage and salary rises is downwards, but it's not uniform, as the table shows. High-level technical skills and certain managerial functions are at a premium. Manufacturing staff, on balance,

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Where steady demand for new staff remains, says Chris Winborne, PRO of the Association of Personnel Service Organisations in SA, it is generally restricted to what employers call "good" candidates for middle and senior management positions. But fewer are seen as good. And many of those employers who, with one eye on the next economic upswing, are preparing to recruit people timeously are "increasingly turning to importing the skills they require from overseas."

Wage restraint is well entrenched as part of the drive towards cutting costs and riding out the recession. Says Parrott: "The tendency to fill offices and to keep cars moving is definitely down." Not without coincidence, so is the rate of growth of the money supply and inflation.

THE SHRINKING PAYPACKET

Salary Increases by Group

	Executives	General staff				CPI
		White	Asians	Coloureds	Blacks	
1978/79	6.9%	10.9%	12.4%	14.5%	13.2%	13.5%
1979/80	18.4%	16.4%	17.1%	18.2%	13.8%	14.6%
1980/81	18.4%	15.6%	22.1%	14.3%	24.6%	14.5%
1981/82	13.2%	14.6%	24.2%	18.0%	20.3%	14.4%
1982/83	12.7%	12.3%	12.1%	12.3%	13.6%	12.8%
Average increases over 5 years	91%	92%	124%	105%	119%	110%
Projected increase for 1983/84	12.9%	10%	12.5%	12.5%	12.5%	10%

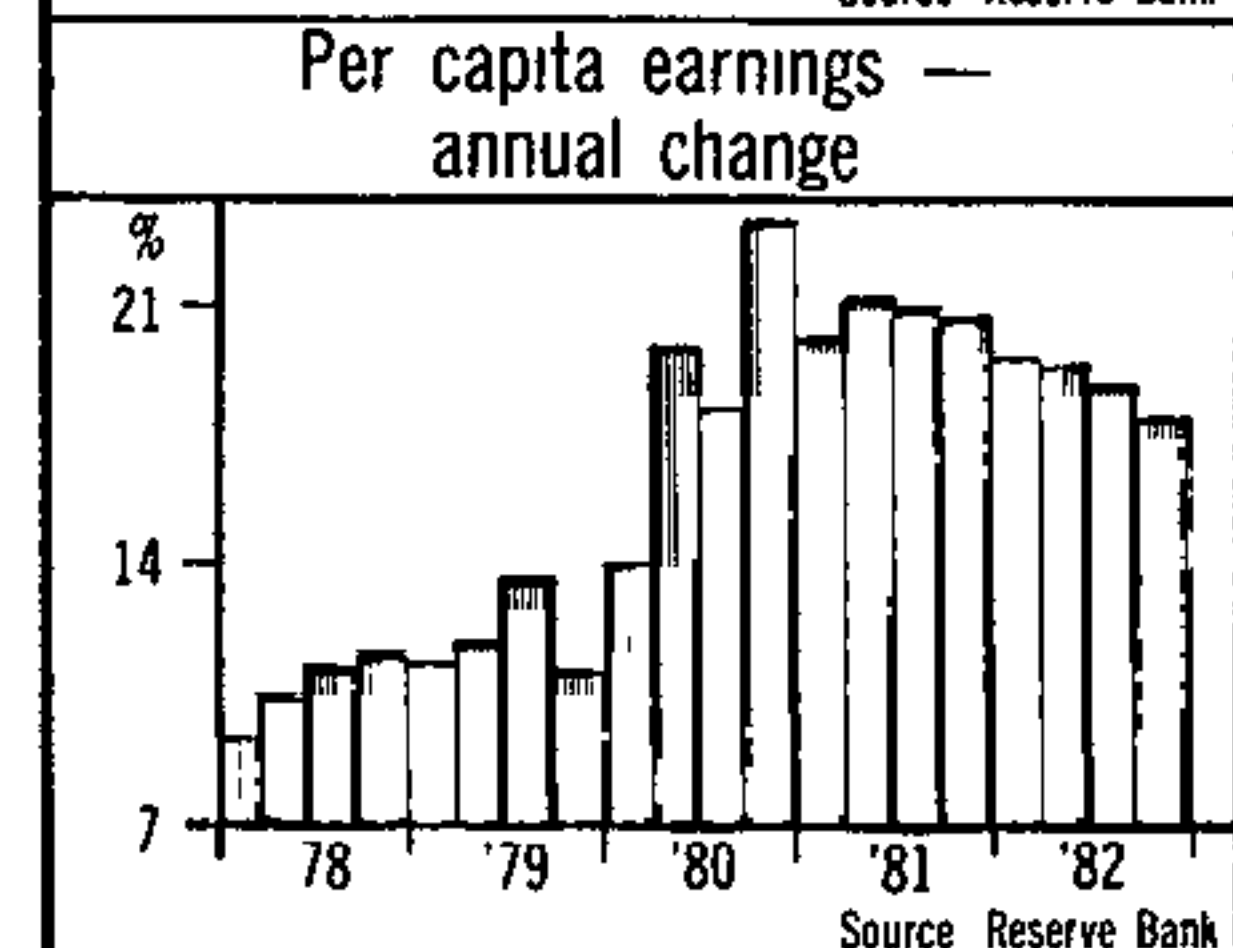
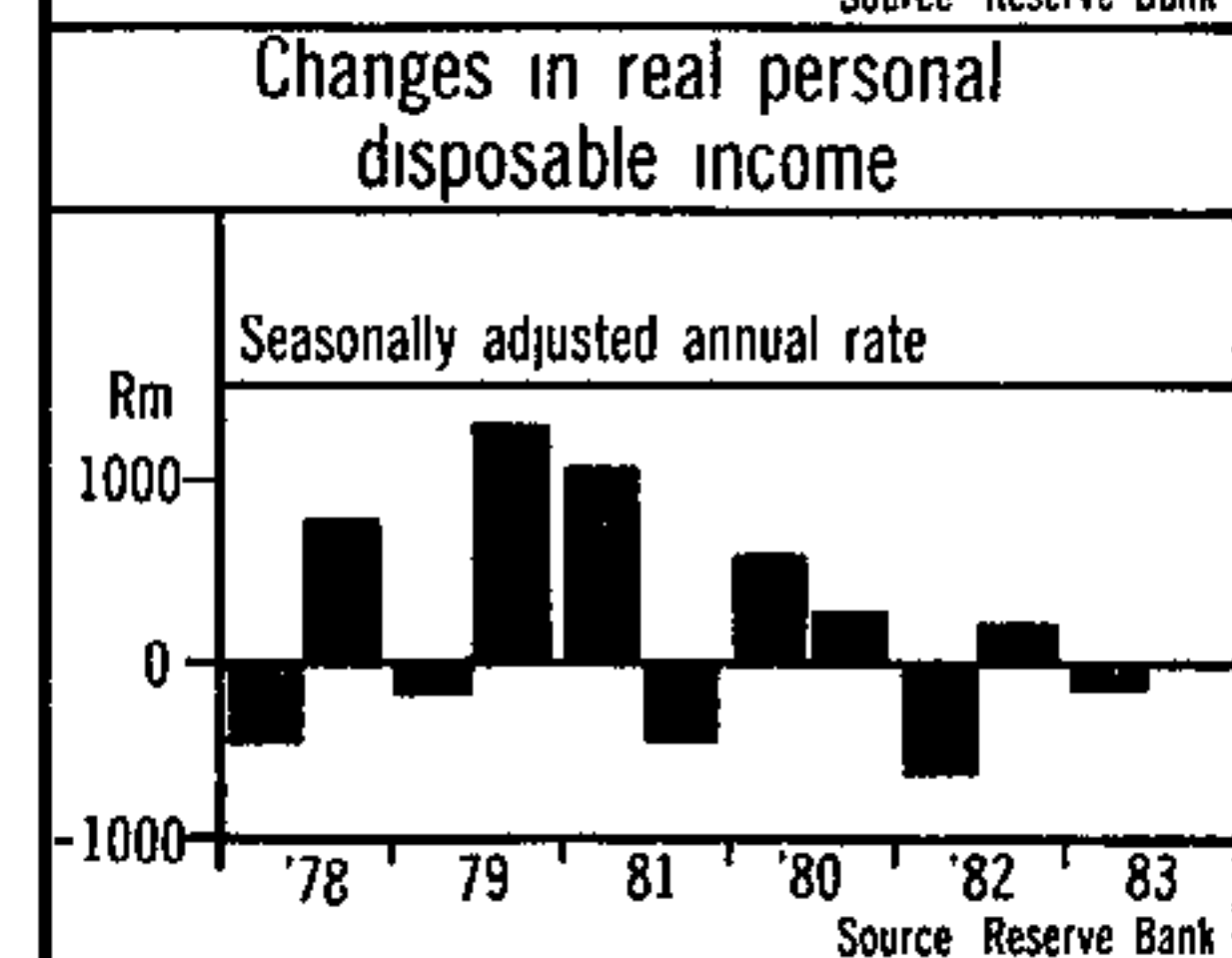
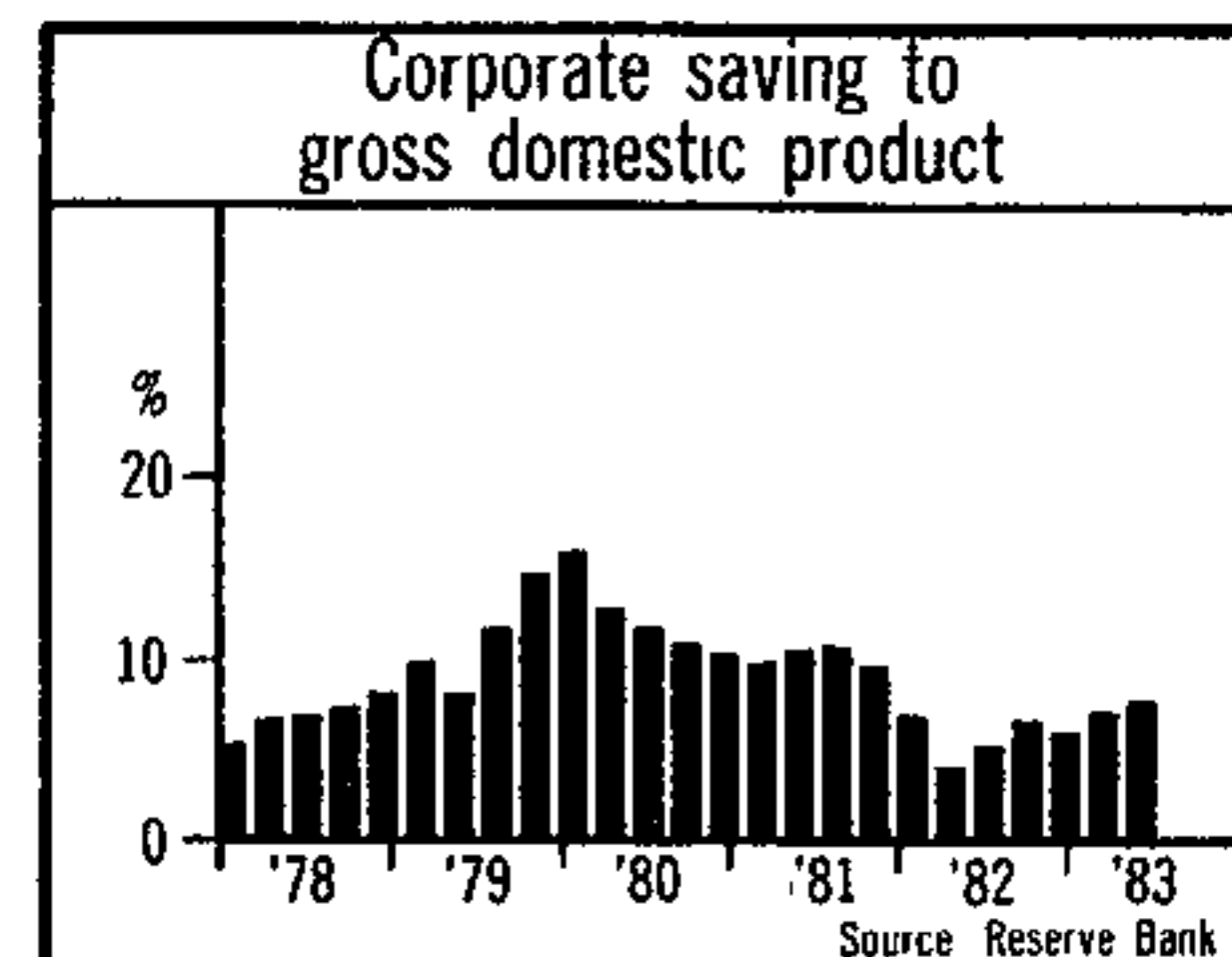
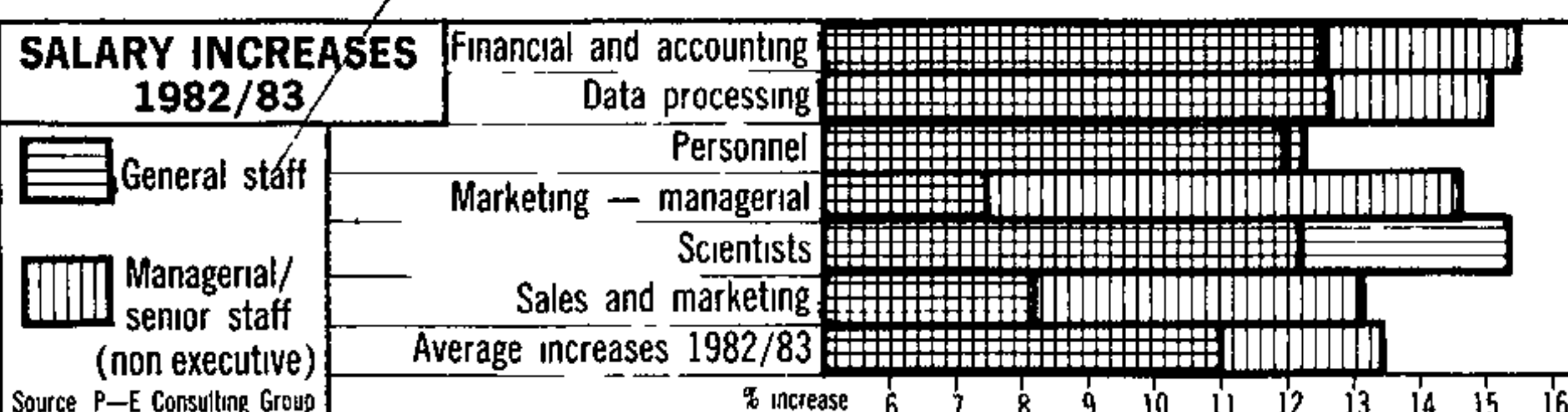
Staff Turnover

	White	Asian	Black	Coloured	Average
Overall staff turnover					
1981/82	34%	36%	26%	33%	30%
1982/83	21%	16%	24%	25%	21%
Retrenchment 1982/83					
All sectors	6%	25%	15%	15%	16%
Materials manufacture	21%	25%	39%	35%	28%
Construction	13%	35%	33%	—	25%
Financial institutions	1%	—	—	3%	3%

Executive Pay Increases

1982/83	Basic salary	Total salary*	Total cost† of employment
Weighted average			
All positions	12.7%	13.5%	13.7%
Chief executive	13.8%	13.4%	11.3%
Marketing executive	14.8%	15.2%	15.9%

* Basic salary plus bonus and directors fees
† Total salary plus fringe benefits



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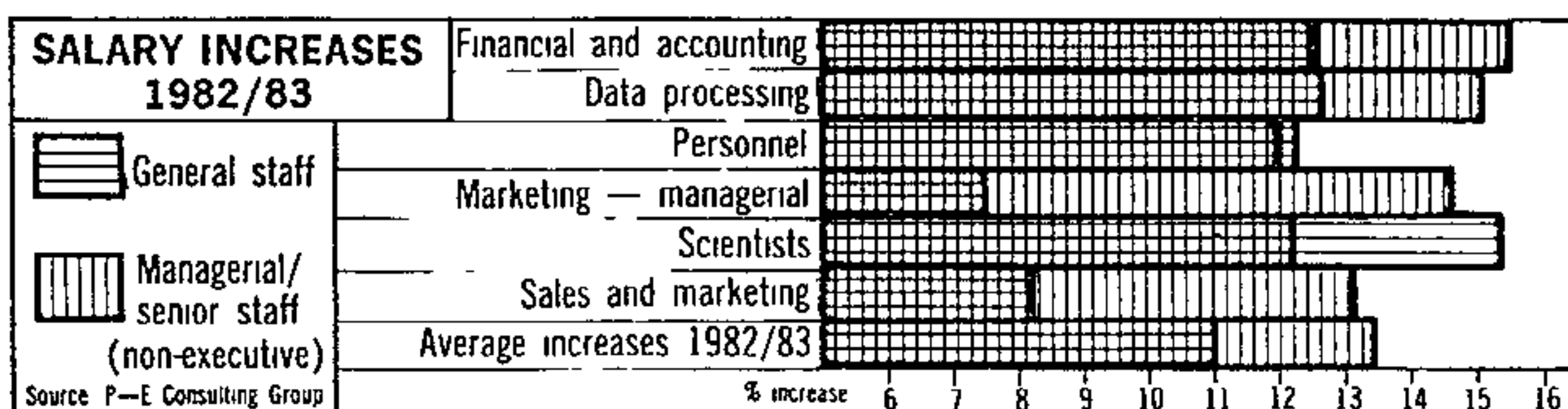
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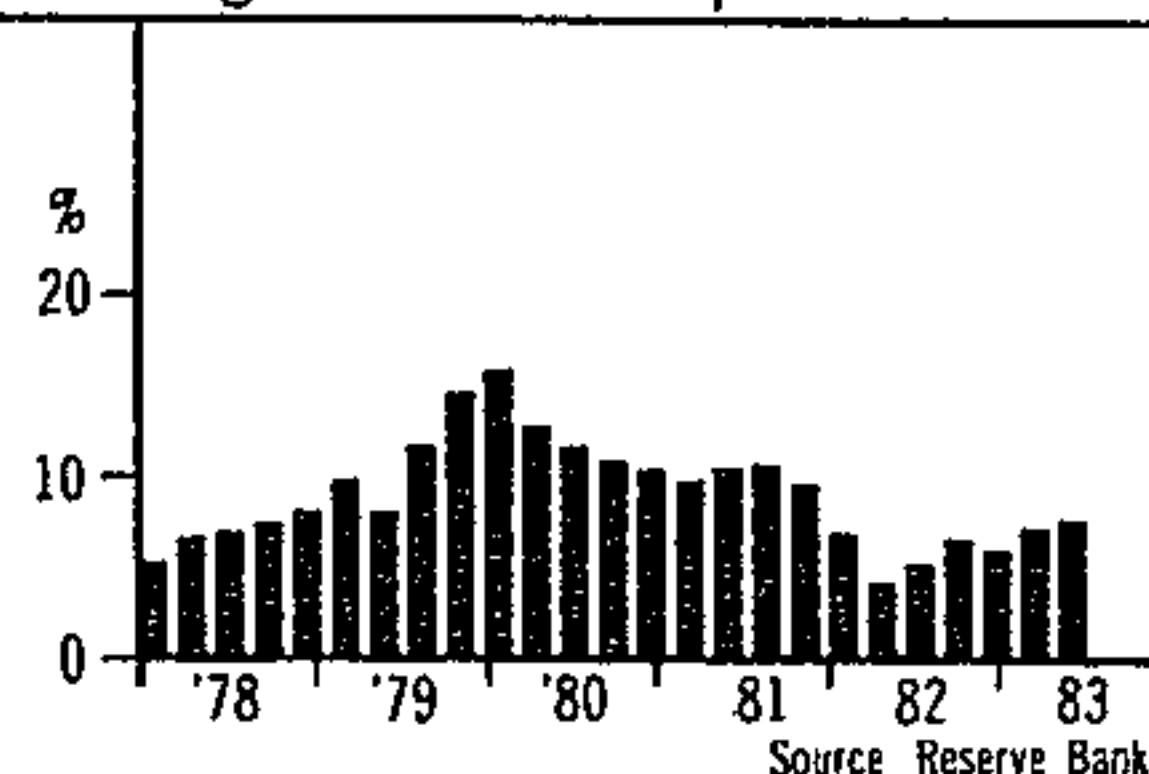
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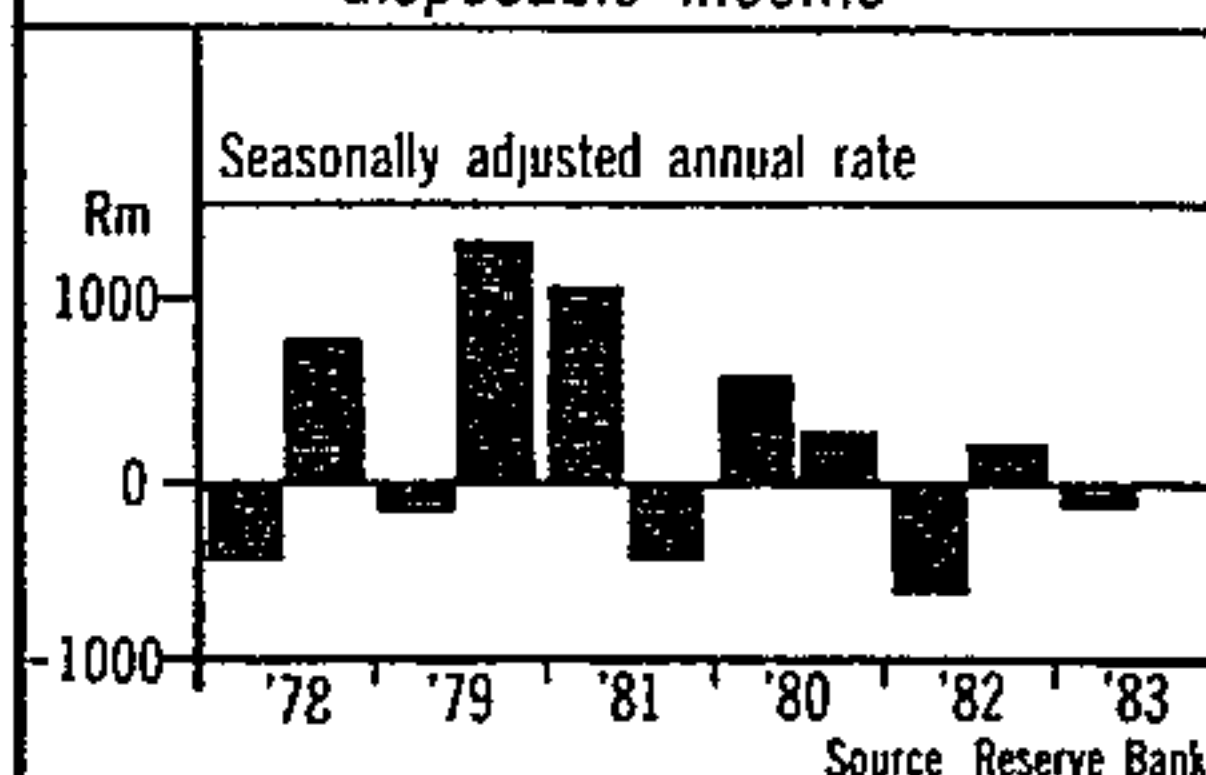
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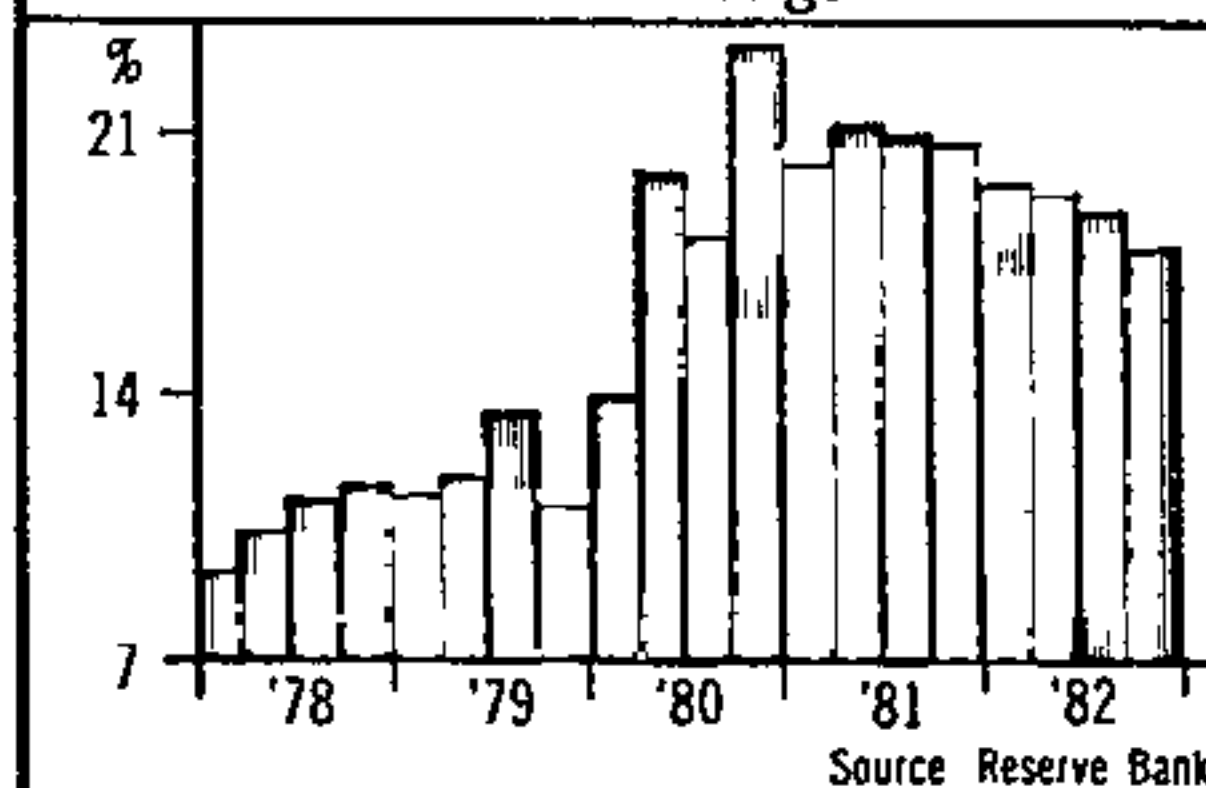
Corporate saving to gross domestic product



Changes in real personal disposable income



Per capita earnings — annual change



Govt to call a conference in bid to fight inflation

153 ROM 19/9/83

THE Prime Minister, Mr P W Botha, yesterday announced the Government intended holding a conference on South Africa's persistent inflation problem

He said the conference — the date of which had not yet been decided — would try to involve a wider spectrum of interests in bolstering the anti-inflationary strategy

Mr Botha made this announcement in a statement giving details of the September 2 meeting of the Prime Minister's Economic Advisory Council.

Figures showing that the recession had already reached its trough and that a revival in South Africa's economy could be expected next year, were put before the meeting

Mr Botha said the council had focused attention on the high inflation rate, the deterioration in the manufacturing industry's competitiveness and increasing unemployment

On inflation, the Government had emphasised it was a deep-seated process that could not be cured overnight or without sacrifice

It was accepted that the short-term interests of certain groups and individuals might be affected in the drive to combat inflation

"However, if the necessary sacrifices are not made, the long-term interests of everybody involved in the South African economy might be seriously damaged"

Appropriate monetary and fiscal policy measures were the primary ingredients of any anti-inflationary policy strategy

However, certain factors tended to perpetuate or intensify inflation and caused monetary and fiscal policy aimed at combatting inflation effectively, to have more detrimental consequences for economic growth and employment than would otherwise have been the case

"There is, therefore, a need for measures to supplement and support monetary and fiscal measures in the fight against inflation," Mr Botha said

The Government was convinced the monetary and fiscal discipline of recent years had prevented a further rise in the rate of inflation, and policy measures in this regard would therefore remain the cornerstone of its anti-inflation policy, he said

On unemployment, the council said special steps would have to be taken to soften the unusually severe effect of unemployment in the short term

But, it stressed that any action had to be taken within the framework of current fiscal and monetary policy

The council said the main reason for the decline in manufacturing's domestic and export markets was the high inflation in South Africa rate compared to its trading partners

While a devaluation of the rand might correct the competitiveness of industry, the council said this could push up the inflation rate and lead to a speculative outflow of funds

"In the long run, the recovery of South Africa's international competitive ability requires that our inflation rate be lowered to a level which is in closer correspondence with that of our trading partners," Mr Botha said — Sapa

One step beyond

FM

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23/9/83

Accounting, a science renowned for its precision is becoming a more dynamic discipline. The emergence of inflation as a widespread economic reality is changing matters, quickly. In recent years, the conceptual inflexibility of accounting in an historical context, has placed limits on the ability of the science to cope satisfactorily with the problem of just how to account for inflation.

It is widely acknowledged that there is an urgent need to develop — for users of financial statements — a method of accounting that takes cognisance of the adjustments and distortions produced by inflation. In response to this need, the American Securities & Exchange Commission requires companies with assets of over \$1 billion to account, in a recognised manner for the impact of inflation on financial statements. The UK's response to the inflation problem was the issuing of SSAP 16 a mandatory standard setting out the ac-

In the first of two articles, the *FM* examines the concept of inflation accounting and the current methods used to show the impact of price rises on corporate financial statements. An article on life stock valuation will follow next week.

counting profession's recommendations as to how corporations should go about stripping the impact of inflation from their accounts.

Since its inception, SSAP 16 has been the subject of controversy stemming from non-acceptance by both business leaders and academics (see box).

In SA, the accounting profession's Guideline 4.003 — which was released in 1978 — differs from its inspirational overseas counterparts in that it recommends that local companies provide only supplemen-

tary current cost income statements and the gearing adjustment is simpler to calculate. At the same time it recognises peculiar domestic economic circumstances.

There is obviously a need in SA to further develop the conceptual framework to account for inflation. Since SA's inflation rate is currently higher than that of most of our major trading partners, the time may well have come for this country to take the lead in pioneering inflation accounting development. Until now, SA's accounting profession has been all too willing to follow overseas developments, with scarcely an innovative development of its own. With US inflation currently down to insignificant levels, tracking American progress in this area is unlikely to produce satisfactory responses to SA's own predicament.

The most serious threat to the profession's existing recommendations on inflation accounting is the business community's broad scepticism of the current

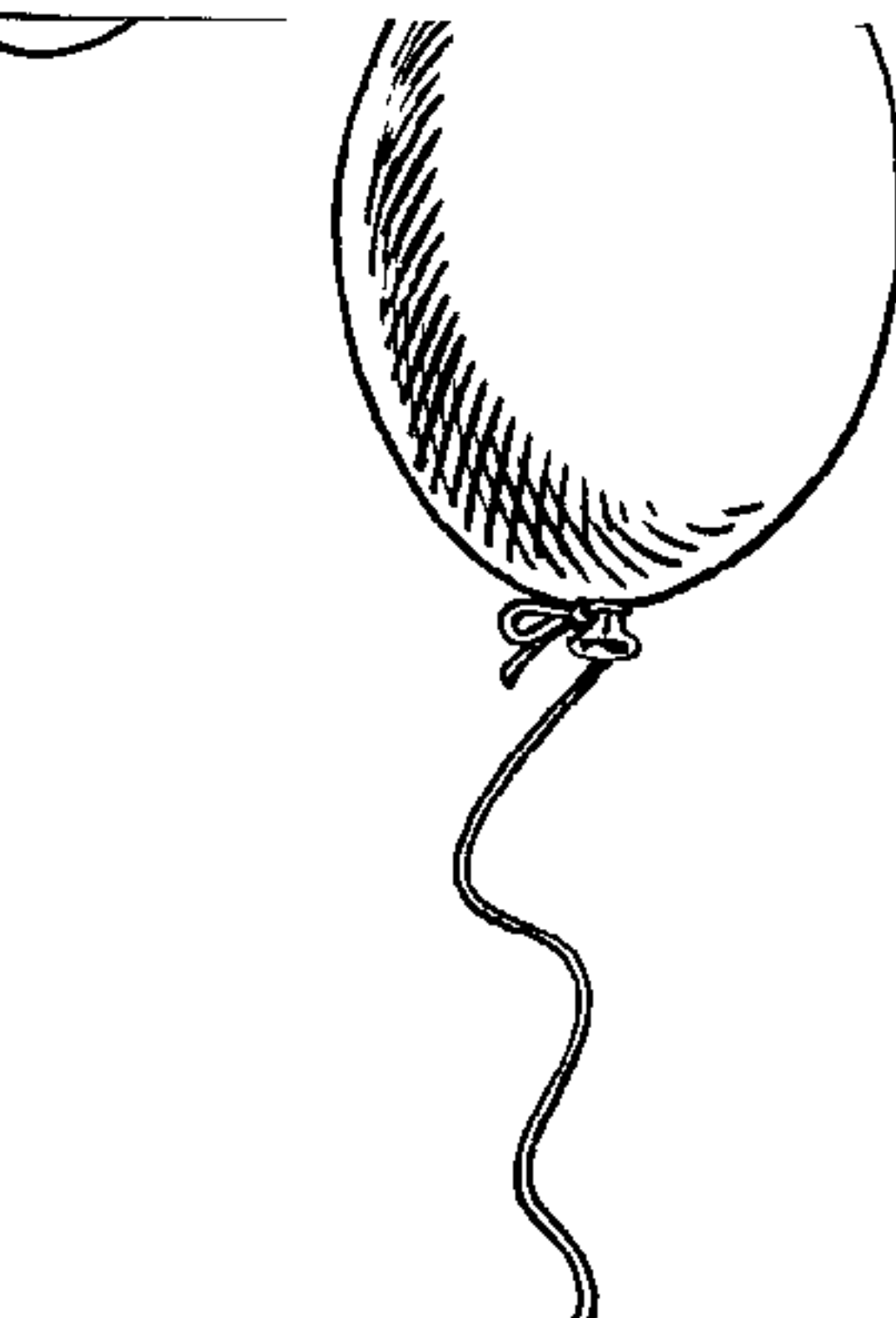
guidelines. This has caused the failure of SSAP 16 in Britain and it is in danger of producing the same result here.

From the outset, the release of Guideline 4.003 has caused prominent business executives to question whether current cost accounting did not merely amount to troublesome mumbo jumbo, which was being foisted on the business community by academics. Critics queried the validity of current cost depreciation adjustments on the grounds that technological changes and inaccurate estimation of future replacement costs of fixed assets would show that these calculations were meaningless. The Receiver of Revenue plainly endorsed this view by declining to grant tax relief for those companies which choose to show additional depreciation based on replacement cost.

Compounding the problem is the fact that, in the current recessionary climate, capital intensive industries are tending to delay replacement of expensive plant and machinery. Businesses would rather pay extraordinarily high costs to maintain old, inefficient or outdated fixed assets. This practice usually has a beneficial outcome for returns on assets, though a company's finances may be devastated as and when it is eventually forced to replace expensive capital goods.

However, it is argued that the primary purpose of inflation accounting is not to compare one year with another, but instead to make correct calculations based on the true state of affairs in any given year. In other words, if history shows a particular year's calculations to be incorrect — so what? No one will hold management to account for financial statements which were apparently correct at the time of publication, but which subsequently prove inaccurate because of changed circumstances. This is regarded as a normal business risk.

Users of financial statements are generally ignorant of the purpose of current cost accounting. Understandable confusion sets in when investors are confronted with two income statements, each of which reflects a different approach to corporate earnings calculations. Which is valid?



Sentrachem, which had previously developed its own variation of accounting for inflation in the income statement, decided to depart from his method at the June year-end. Financial 1983 was, incidentally, one of the worst trading years in the company's history. Sentrachem has now rejoined the mainstream of accounting practice since it no longer provides for inflation depreciation in the income statement. This helped to minimise last year's earnings decline.

According to Sentrachem's management, this timeous change was implemented because investors failed to recognise that

Sentrachem was effectively understating its earnings by adopting a "conservative" form of inflation accounting. That explanation is not wholly convincing.

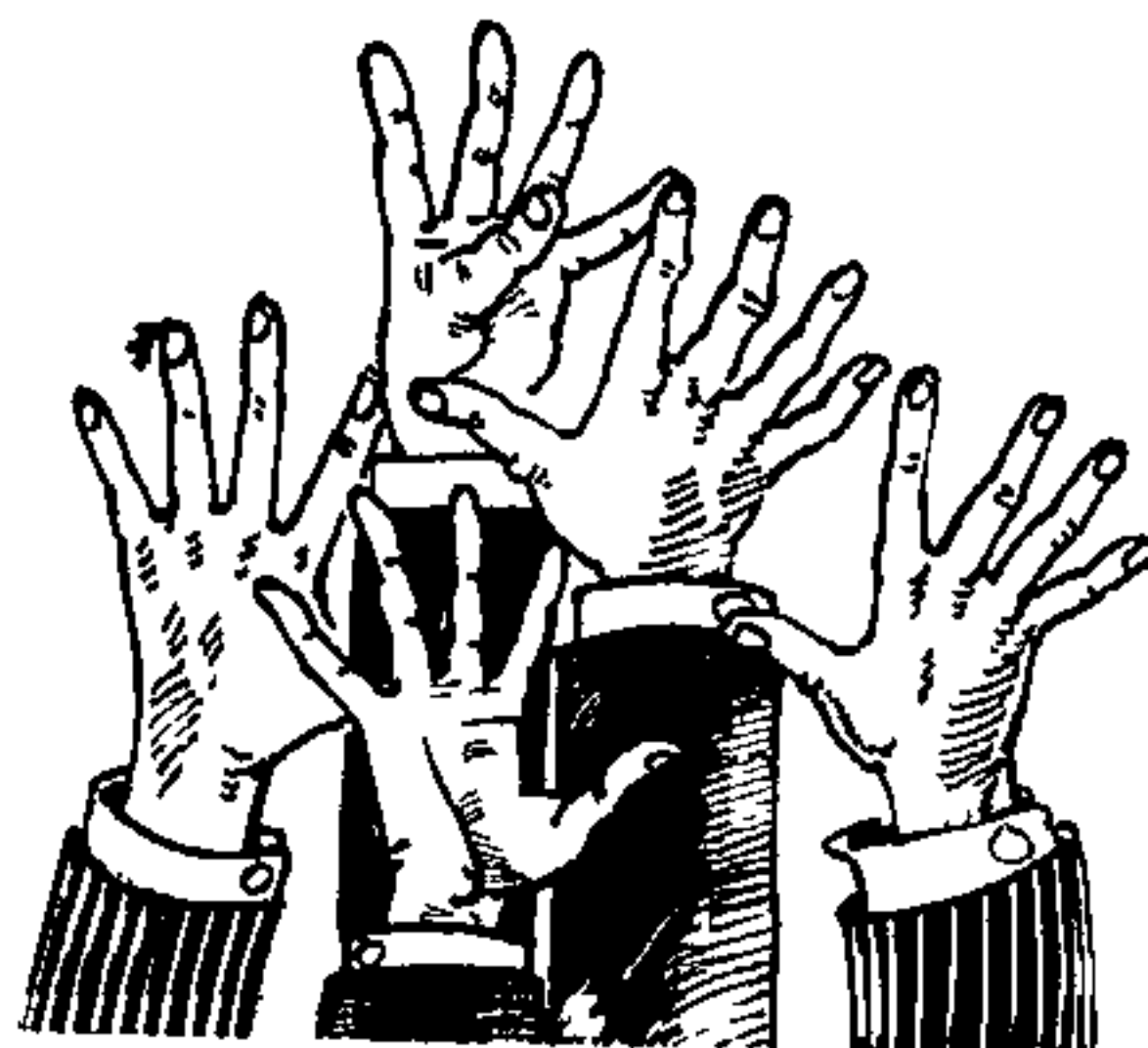
In the final analysis, the absence of tax benefits stemming from the use of current cost accounting is a fundamental reason why the practice has proved generally unattractive to SA business. Putting it bluntly: no tax break — few followers.

Lifo, which is one method used to strip inflationary profits out of the income statement, is readily accepted by corporate SA, irrespective of whether it produces distortions in the financial results or not. The plain reason for this is that lifo usually results in significant tax savings, with the attendant cash flow benefits. It would be naive to believe that the business community is motivated by anything but profit potential in dealing with the concept of inflation accounting. It is plainly more concerned with the impact of current cost accounting on the bottom line, which is just as it should be.

Even so, if a company is to survive in an inflationary environment, it has to make the necessary internal calculations for the impact of inflation. This is necessary for the formulation of business strategies and vital internal decisions.

SA Breweries, a leader in accounting reform, approximates Guideline 4.003 by disclosing inflation-adjusted income in the notes to its annual report. SAB's earnings on a current cost equivalent basis were 73c a share at the March year end compared with the 78c disclosed in the income statement. The difference between the two earnings figures is minimal because of SAB's method of charging replacement depreciation in the income statement, and the use of lifo in all its major subsidiaries.

SAB's finance director, Selwyn MacFarlane, believes that "without utilising some current cost adjusted measurement of earnings and assets employed, no management can be acting responsibly in today's inflationary environment." That should sound as a warning to those companies which have not yet attempted to tackle the very real problem of inflation accounting.



Prepare yourself for the days of the R3 newspaper

By Duncan Collings

By the year 2000 a loaf of bread will cost about R5, a newspaper R3, a medium-size car R100 000 and a four-bedroom house R1 million

Chilling statistics?

Not really. They are based on the reality of inflation as we know it today and must be offset against the fact that it is estimated that a R2 000-a-month salary today will have grown to R16 000 in 15 years

But the future shock of inflation has severe implications if one retires today on a fixed income based on today's costs

It is for this reason that more and more people have considered it desirable — if not essential — to purchase life insurance to bolster their company pension scheme

Some people who are retiring now, the lucky ones who had the foresight to provide additional funds for their retirement years, are drawing seemingly massive sums of money as their retirement annuities mature. By law two-thirds of the sum drawn must be reinvested to provide a pension

But unless these seemingly enormous sums — probably more than a person has ever held in his life before — are nurtured and invested well, they will soon be eroded by inflation and one's retirement years could turn into a nightmare of an ever-decreasing standard of living

The most common method of providing additional funds for retirement is to buy a retirement annuity of which, when it matures, a minimum of two-thirds is re-invested in an immediate annuity

But what many people, indeed most, do not realise is that they need not buy an immediate annuity (pension) from the same company which holds the retirement annuity.

It would be most unwise to accept automatically the pension offered by one's existing insurance company. Shop around and look for the best rates

At any time insurers are quoting different investment rates on immediate annuities and the difference on the amount of money one has in

hand can make a difference of several hundred rand a month on one's pension — and that is for the balance of one's life. A mistake at the beginning can cost tens of thousands of rands over one's retirement years, and more important, could result in untold trauma as the cost of living outstrips income

So great is the importance of choosing the right insurance company for an immediate annuity that two services were launched recently in South Africa to advise on this important decision

They operate in a similar fashion, and can roughly be described as a pension rates exchange where the entire range of rates offered by insurance companies can be bought for a nominal fee

One such exchange is called Immediate Annuities Advisory Service. The other operating in the local market is called Computerised Pensions Bureau

Mr Frank Gardiner of Immediate Annuities Advisory Service says that rates quoted by insurance houses for immediate annuities can vary widely, sometimes resulting in substantial loss of income to pensioners who didn't happen to buy pensions at the best rate

CAN GO ANYWHERE

"Knowledge of where the best rate is to be found can result in a substantially enhanced income for the pensioner," he says

He says pensioners do not always get the best deal from insurance companies when the time comes to retire

"People do not appreciate that they have the option to put their money on the open market"

Mr Walter Pope of Computerised Pensions Bureau says his company aims to provide immediate up-to-date data on pensions from all insurance companies

"A difference of one quarter of one percent in the underlying interest rate quoted by insurance companies can make a considerable difference"

Anyone retiring or close to retirement would be well advised to consult one of these advisory services to ensure that they receive independent, unbiased advice on the best pension for them

Doubts on govt's inflation policy

By ROBERT GREIG

UNCERTAINTY about the government's anti-inflation tactics and fear of its social consequences was shown by delegates at the South African Federated Chamber of Industries conference in the City yesterday.

The president of the Midland Chamber of Industries, Mr Wally Life, warned of the effect of a strictly monetarist approach to inflation control on unemployment.

But the deputy governor of the Reserve Bank, Mr J Stals, who was chairing the afternoon session, said that though the authorities were sympathetic to and aware of problems, controlling inflation was "priority number one".

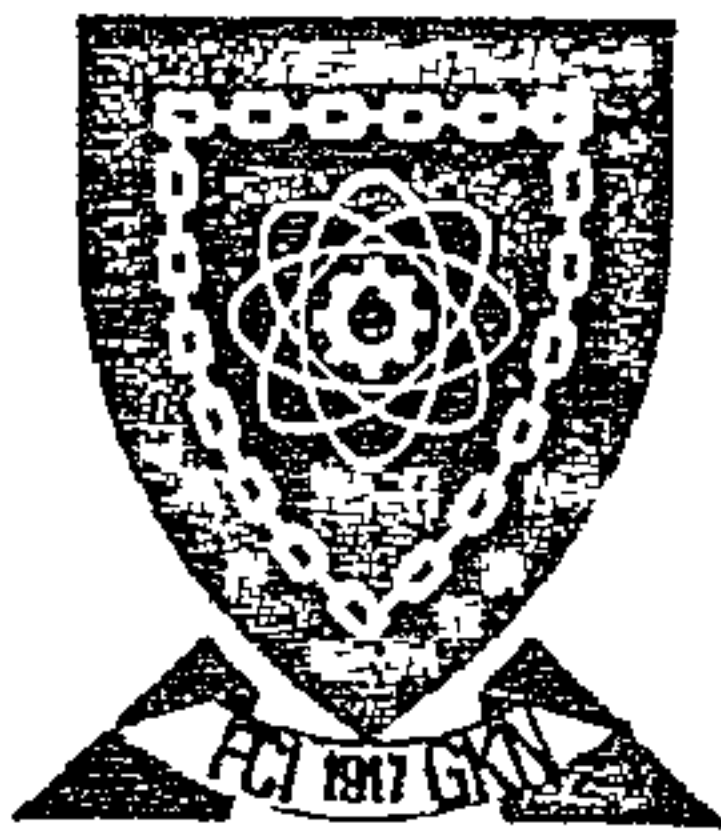
He added that questions of growth and unemployment would follow controlling inflation.

Resources

In his address, Dr J Kleu, whose report on industrial development was published earlier this year, said that industrial development had to be compatible with the country's resources.

It had to take into account the "relative shortage of skilled manpower and capital and the surplus of unskilled and semi-skilled labour".

He added that the key to growth would be shifting emphasis from import substitution to export promotion.



"In all countries where there is over-concentration on import substitution, exports are lagging."

"At the same time, the growth is slowing down."

This was, Dr Kleu said, the result of balance of payments constraints, decreasing capital-output ratios and "a suffocating network of intricate controls" and import restrictions.

He added that export-oriented development strategies could generate higher growth rates by avoiding some of the costs of the substitution strategy.

He urged a strategy which would include specialized production, exploit the world's "insatiable appetite" for diverse products and quality, and come to terms with features of the South African economy like high unskilled

unemployment.

This would necessarily imply a strategy of export incentives, avoiding of high-cost industries, perhaps reducing duties later, state assistance to improve industry's competitive ability, and discovering what affected international competition.

Dr Kleu also urged exporters to diversify their markets by moving from the traditional emphasis on "the old, sick, lame countries of the West" to "the lion in his den", namely the Far Eastern countries.

One speaker commented on Dr Kleu's not having mentioned inflation.

Labour force

He said that the American experience in farming had been that labour-intensiveness meant lower output. Income had been produced by reducing the labour force.

He added that while the rand was weak in relation to foreign currencies, hopes of an export-led recovery had to be qualified.

Replying, Dr Stals said that the rand would be strengthened by bringing down inflation.

'Administered prices rise higher than inflation'

THE president of the Transvaal Federated Chamber of Industries has accused control boards and semi-state organizations and price control bodies of not doing their bit to fight inflation.

The president of the Transvaal Chamber of Industries, Mr Joe Annegarn, said that a Federated Chamber of Industries investigation had found that "major items of administered, control board and utility prices over the last seven years have risen at a higher rate than the CPI".

"These are maize, wheat and meat marketed through control boards, electricity, transport, petrol, coal, sugar and steel which are delivered by parastatal bodies and price-controlled industries."

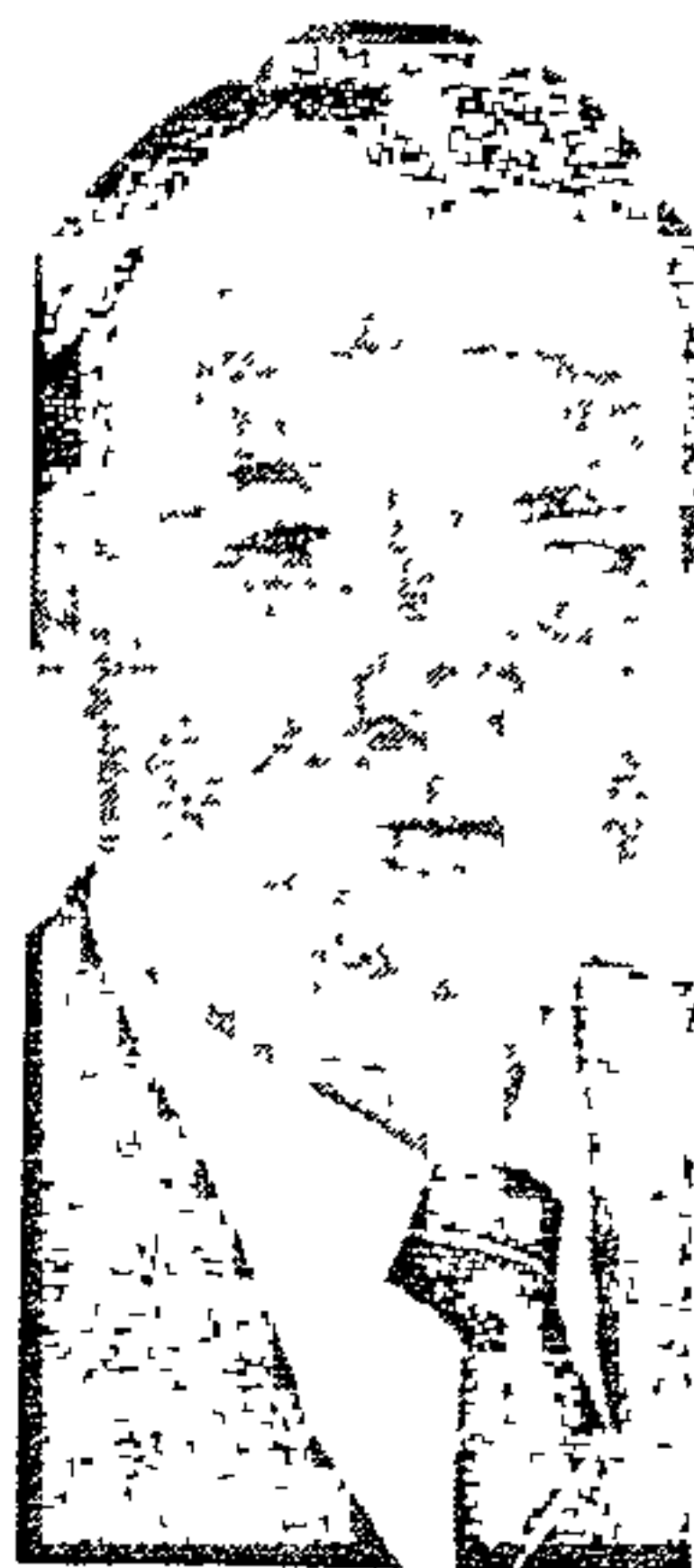
present a substantial input component, making the CPI (cost price index, a measure for inflation), their effect on accelerating the rate of inflation is a major influence."

These findings should be relayed to the various control boards and organizations "in order that they be made aware of the private sector's concern on their effect on the inflation rate".

Mr Annegarn commented "The private sector is doing its utmost to contain inflation by holding down price increases."

"We suggest that the organizations mentioned should contribute by holding price increases below the inflation rate."

He added that in the seven-year review, increases in the Post Office and dairy industry were below the rate of



Mr Bryan Hossack has been appointed director of promotions of the Portland Cement Institute.

Money market

JOHANNESBURG — Short-term money market rates dropped in a generally quiet half-day trading session, in response to the R1 billion repurchase pact assistance from the Reserve Bank announced on Tuesday.

The key 90-day liquid bank acceptance rate was fixed 30 points lower at 16,10 percent against Tuesday's 16,40 percent, with other three-month and shorter rates showing similar declines, but rates on longer-term paper held steady, dealers said.

Half of the R1 billion liquidity aid comprises new repurchase agreements which drew application totalling R1 306m at an average rate of 16,44 percent, the Reserve Bank said. The balance is a rollover of currently outstanding buy-back agreements.

The following buying rates were indicated (in percent):

BA's One month 16,60-75, two months 16,35-45, three months 16,15-20, fix 16,10

NCD's One month 17,20, two months 17,10, three months 17,10, six months 16,00, one year 15,00

Discount houses call 14,75

Treasury bill 15,12

Japan imports

Own Correspondent

JOHANNESBURG — The state-run Jap power utility, Fow development Corpora (EPDC), has called 40 percent cut in series of steam coal from South Africa, Australian and Chinese suppliers.

The main South can supplier affa the Transvaal Coal ers Association (A but the amount is small in relat the TCOA's overall exports.

Annual exports

According to managing director, Ronald Hoare, it means annual TCO deliveries to the E will be about 30 tons instead of 50 tons.

This compares annual TCOA exports around 12m tons.

The EPDC's total take from all suppliers each year is about 100 tons.

The cutback is so South African industry executives further indication of weak state of the national coal market.

Gencor's chief executive for coal, Mr Ellis, said the EPDC made a direct investment in an Australian coal mine to secure supplies.

The drop in demand

E T Co borrowing

Own Correspondent

JOHANNESBURG — Eastern Transvaal Consolidated Mines' shareholders on Tuesday proved an increase in the company's borrowing powers to R200m.

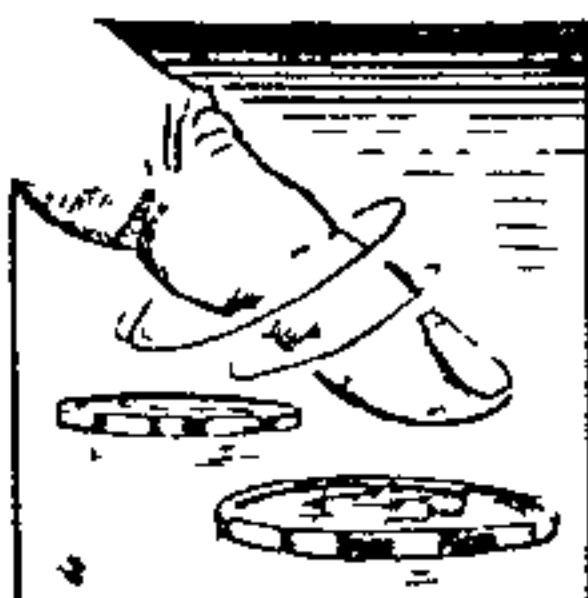
The company is carrying out a major expenditure program on which it spent R14,68m in 1982 and plans to spend R27m in 1983.

Although it has borrowings at present E T Cons directors were prudent to increase the company's borrowing powers from the present level of R5m.

Replying to shareholders' questions

INFLATION AND THE JOBLESS

Counting the costs



FM Wolfgang, could you perhaps give us an idea of whether the inflation rate will continue to come down to single figures by the end of the year, as forecast in some quarters?

Thomas My expectations are that inflation will probably come down below the 10% mark with medicine as harsh as we are using. Those who feel it is the appropriate medicine can pride themselves. My personal view is slightly different. I think we are pursuing one policy goal at a time, shifting the others pretty far into the background. So if we feel we've won the battle against inflation at the beginning of next year, I'm inclined to say "What have we won?" And "What is the cost of a single-minded anti-inflationary policy?"

Why, in your opinion, has the inflation rate come down? What is the medicine you were talking about?

Thomas Well, I think there were some external factors which obviously helped us in terms of import prices, oil prices and others. But it seems to me that we have been pursuing a restrictive macro-economic policy. We have certainly pushed the recession to the necessary extent to reduce the rate of inflation.

Johann, would you say that our policy up to now has been severely restrictive?

Louw. No, I don't think so. Especially as far as monetary policy is concerned, I think it was rather too lenient. I think the factors that contribute to lower inflation at present are stronger competition in the SA economy as a result of the recession and also lower import prices. But I can see the inflation rate coming down to 10% and lower only if government will keep down increases in administered prices. That's going to play a very important role in the coming months.

The **FM** recently invited five leading Cape economists to a wide-ranging panel discussion on topical economic issues. The result was a lively diversity of views, many of them controversial. This week, the five discuss the costs of anti-inflation policy and attitudes towards the free market. Next week, they will consider competition and economic concentration.

Rob, what's your view of monetary policy?

Lee. Well, I would agree with Johann that over the past year it has, if anything, been too lenient. We're not going to reduce our inflation rate anywhere near that of our competitors without much lower money supply growth.

Wolfgang questions the costs of reducing inflation, but I would question the costs of not reducing inflation. The disinflationary trend in the world is very strong and as a trading nation we're very quickly going to lose our ability to trade in world markets at all. I don't see the world inflation trend picking up to any significant extent in the foreseeable future, and SA can lose its competitive edge very quickly unless we get our inflation rate much closer to the world average. I would question whether policy at this stage is going to achieve that objective.

Louw: Well, the trouble of course is that in SA we can't have the same amount of unemployment as overseas countries. You have to choose a different policy here.

Lee: The short-term costs are very high. But look at the example of the US. It's had a very severe recession but now, because inflation is falling so much, their recovery is looking very healthy. It has at least the chance of being much more sustained throughout the decade as a result, first of all, of producing lower inflation. I think that has a lesson for us.

David, what's your view of the policy priority at present?

Rees: Well, I certainly think that in the last 12 months inflation has seriously become the item of major priority. But I would like to question this apparent trade-off between unemployment and inflation. There is the view that we can't afford a restrictive monetary policy because the political costs of labour unrest and so on are too high. I would question that. It seems to me that the labour market in SA is an extremely inefficient one. And if you're prepared, at the same time as you reduce the inflation rate, to implement a more efficient labour market, then in fact you can achieve both things — reduce inflation and at the same time reduce unemployment. Is it practical politics to talk about a more efficient labour market? Aren't we talking about fundamental political change like the removal of the Group Areas Act? And is it possible in SA to do that?

Rees: You don't have to do fundamental things. You can, for example, ease up on influx control, you can make marginal adjustments, and even these would be effective in reducing unemployment — in fact creating more jobs.

Brian, in your view, could this be done quickly enough?

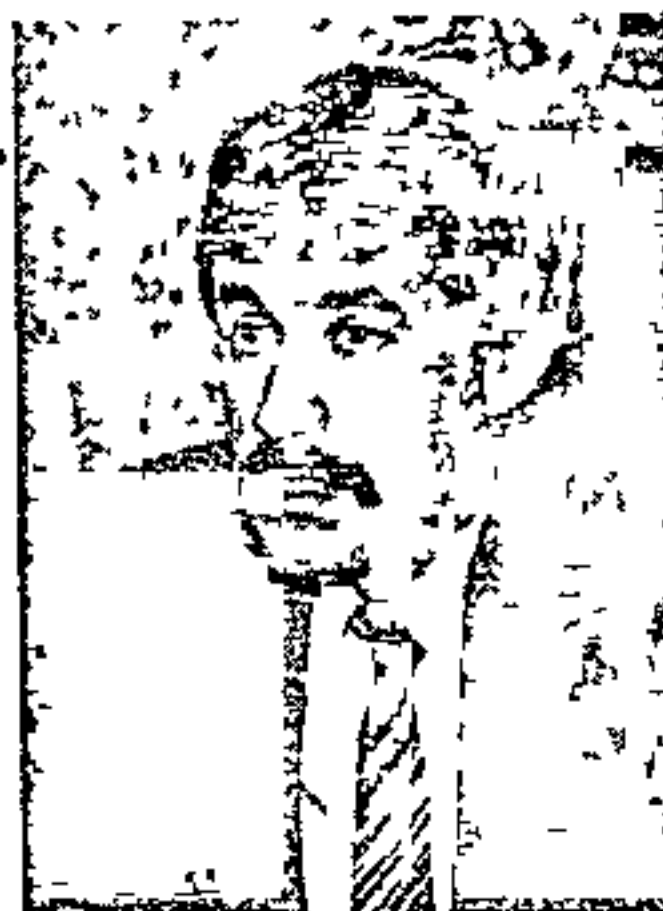
Kantor: Well, firstly I must say that I find this talk about unemployment being politically more difficult in SA than elsewhere actually wrong. Because elsewhere the unemployed actually vote, and in SA they don't vote. What they vote for, of course, in Europe and America, are high unemployment benefits, which tends, of course, to increase the unemployment rate. Why do we have such low unemployment among, let's say, whites in SA? Presumably because if you're unemployed and white in SA your benefits are very small relative to the alternative income. So you make sure you go out there and find yourself a job. So unemployment would not really create



David Rees is a senior lecturer in economics at the School of Economics, University of Cape Town.



Wolfgang Thomas is professor of economics at the University of the Western Cape.



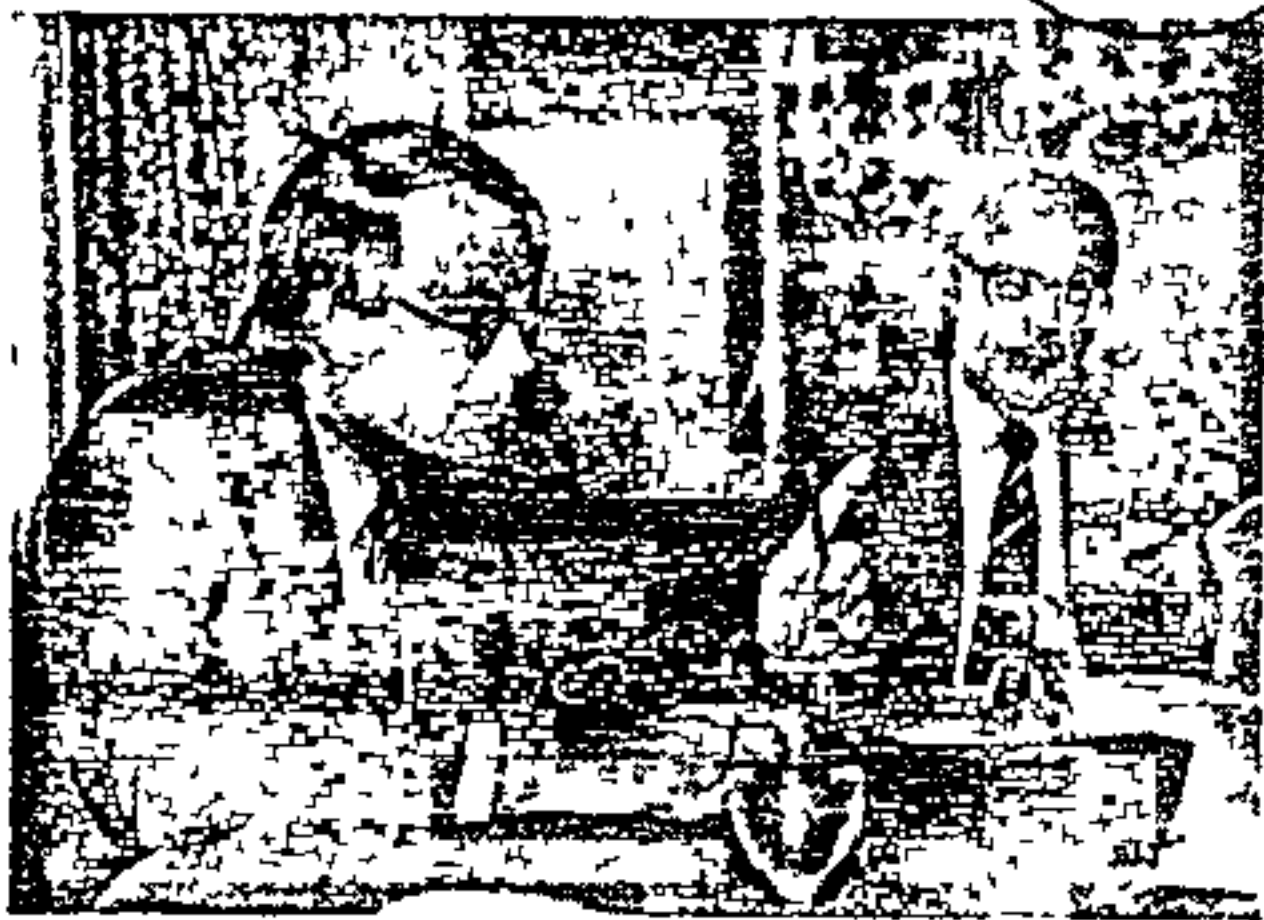
Rob Lee is the chief economist of Old Mutual.



Johann Louw is the senior manager of economic research at Sanlam.



Brian Kantor is a professor of economics at the School of Economics, University of Cape Town.



political problems?

Kantor: Well, not directly, except, of course, if you start getting riots in the townships and so forth. Then, though I hate to sound harsh, presumably SA knows how to deal with that problem. We've had a certain amount of experience.

But let's think about this unemployment/inflation trade-off. Certainly we've had more unemployment. But on a moving trend basis, which is really the only way one should look at it, inflation is right down. And so you want to ask yourself: what is the proximate cause of this fall in inflation and the increase in unemployment? I don't think they're particularly well related. I think we've had increased unemployment here since the middle of last year for fundamental real reasons against which no economic policy could have protected us.

In fact, policy over the period has really been, as we've indicated, not restrictive at all. On the contrary. There was in fact a period last year, three or four months after June, when the gold price recovered and the rand went from US89c to US87c. Nothing could be more inflationary and more stimulatory than that kind of action.

Then the gold price increased, SA imports started falling away and the rand started appreciating rather than depreciating. This is really fundamental to the inflation picture — the impact of the strengthening of the rand from very low levels, a low world rate of inflation giving SA really very little by way of cost increases, and giving SA exporters, at the same time, not very much by way of price increase.

What you're saying is that the strengthening of the rand in recent times was a major factor in bringing down prices.

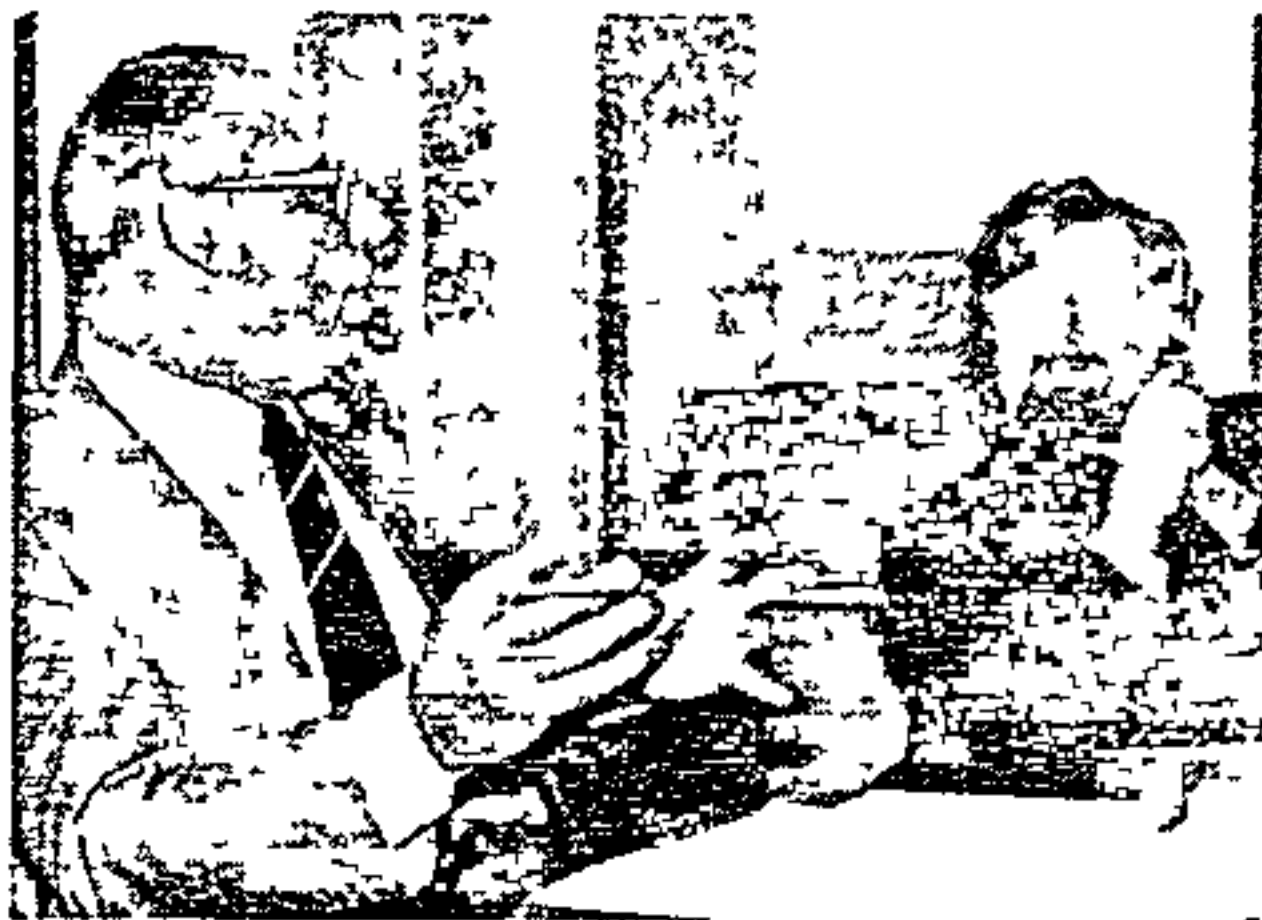
Kantor: It is the factor. If you want to think about inflation in SA, you've got to know what is going to happen to the rand. If the rand retains its strong currency value, then it's a logical corollary that the inflation rate in SA must approximate the inflation rate in other countries. Otherwise our exporters go out of business and our firms competing with imports go out of business. They have to bring their prices down to match that of imported costs. And they will.

Lee: In the US and the UK most people didn't expect their recessions to be as severe as they were, or inflation to fall as

much. And virtually the sole reason for those bad forecasts was to misread the importance of the exchange rate. The high dollar is causing a major restructuring of American industry. It's probably the single most important thing that you can look at. And in our economy the exchange rate is even more important than it is in the case of the US.

If the rand does start rising and if, now that we have abolished exchange control for non-residents, there is an inflow of money into the country, what happens then?

Kantor: Well, this is the point. The authorities have come a long way with monetary policy. They've gained the acceptance of the politicians and the public to the fact that interest rates, and possibly the exchange rate, should be flexible. It's (Reserve Bank Governor Gerhard) De Kock's achievement. He sold the policy of depoliticising interest and exchange rates. Now the question is: how's he going to use that freedom that he's won for himself? At the moment Pretoria seems to believe that it can target on interest rates, use interest rates and its control over forward ex-



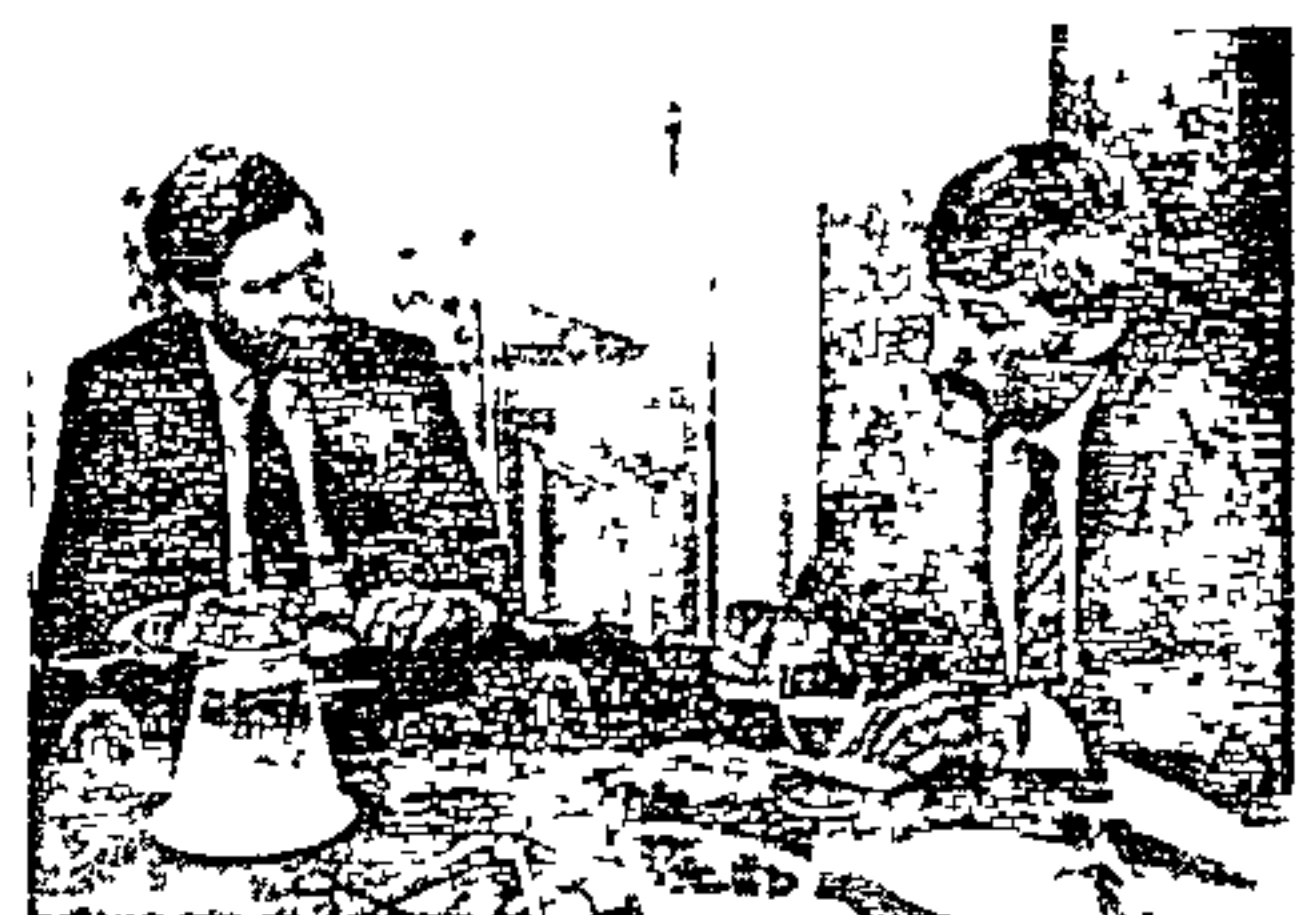
change rates as their instruments of policy. These, I'm afraid, will not be sufficient to fulfil the purpose. It failed them in the past, and it's going to fail them in the future.

Do they have a choice?

Kantor: Yes. I don't think that they actually have accepted the argument for money-based targeting as opposed to interest rate targeting. I think one still has to win that argument with them.

Louw: One must say that SA has a very open economy. It's more difficult to control money supply here than in any other country.

Kantor: Switzerland has a very open eco-



nomy, Japan has a very open economy, Germany has an open economy. The way to do it is to get out of the business of determining exchange rates, that is, the authorities cannot control exchange rates and money supply. They've got to decide that the marketplace determines exchange rates and they concentrate on money supply. That's the way you do it.

Let's get back to unemployment. Wolfgang, would you put the priorities of inflation and unemployment in the same way as has been expressed, or would you say that unemployment is a more important problem? And what is your view on improving the efficiencies of the labour market?

Thomas: My own feeling is — and I'm not part of any ideological school — that SA has to be understood both as a modern country, where you can apply the normal models, and a developing and, structurally, rather complex country. So inflation here is both cyclical and structural, which makes me conclude that we will, in the medium and the long run, not be able to keep an inflation rate as low as in some of the other industrialised countries.

It's easy to put it in a rather brutal way and say that we know how to handle unrest. As long as unemployment and the will of the majority of the people is no issue, we can keep the exchange rate flexible, and have a tight monetary policy. But we shouldn't think we have achieved much. My key question is whether in both appealing to the public and general policy we are wise in following a single-minded anti-inflationary policy?

What else could we do? What other policies could we follow?

Kantor: Let's get this on the record. The trade-off between inflation and unemployment in SA is as spurious as it is all over the world. There's a trade-off between unexpected inflation and unemployment, but not inflation and unemployment.

Thomas: Now wait a bit, Brian. I've never gone on record as claiming a simple trade-off. What I'm saying is that in the minds of the blacks, the government is at this stage pursuing a single-minded and bloody-minded anti-inflationary policy. It prides itself on every percentage point that it comes down, but doesn't give any attention to what seem to be side effects. I mean, in the short run we can do pretty little, and I'm certainly not defending a sort of old fashioned, pump-priming policy.

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Rees But the short run's the only run you've got. If you look at the long runs, the decades of the highest growth have been the decades of the lowest inflation. The decades of the highest inflation have been the decades of the lowest growth.

Unemployment opportunities

Kantor: And to talk about being brutal, the best hope of poor people in SA for growth in their own income and growth in employment opportunities is to improve the stability with which the economy functions. That will mean, fundamentally, generally lower rates of inflation. That's going to help poor people in SA, not harm them at all.

Lee: But Brian, you must agree that in practical terms the short-run effect of a very tight monetary policy in an economy which has very high inflation rate expectations must be high unemployment?

Kantor: That's right. That's why ever since we let the money supply get out of control in 1980 and 1981, I was appealing for a return to lower rates of monetary growth.

Rees: I think that Wolfgang's argument would actually be stronger if he argued in terms of fiscal policy rather than in terms of monetary policy. If government wished to express concern about unemployment, the budget was the thing to worry about. Monetary policy is really a tool against inflation. You haven't seen very much redistribution towards the unemployed simply because the unemployed don't have any votes. But, of course, in the new constitution the unemployed are going to have

some votes and they might have some quite important votes.

Thomas: On the technocratic level of monetary and fiscal management I can personally see very little problem with what is being done at the moment. But in terms of three quarters of the population in SA not being white and not having studied economics, the public relations or educational or explanatory side of present government policy is absolutely rotten.

In fact, isn't it time that the cliché of the free market economy in SA is replaced? In Germany after World War 2 there was a term among people who basically have the same thing in mind and that is a "social market economy." The term "social" at least admits, from the government side, a basic openness towards social responsibility which obviously has to be argued out in detail.

Rees: There's probably something in that. The concept of the free market becomes discredited if you talk about it and then do nothing about it.

Social responsibility

Kantor: It's quite clear that we don't have a free market system. We have a system that's highly interfered with at all levels, and one that also does accept a high degree of social responsibility — in the form of housing, medical and educational policies.

But I would have thought that the case for market solutions is precisely because the heterogeneous society makes it so difficult to win consent for government intervention. That is, everybody wants

something from government, and government of course can't deliver. So the frustrations are profound and, of course, the incentive to take over the power of government to redistribute income your way, or the way of your supporters, is a powerful one. And that is a recipe for a violent society.

Thomas: Bear in mind that for the last 30-40 years we had a social welfare state for the whites. Now it starts to widen and we see an inevitable dropping of the social welfare functions in terms of terminology and ideology. I'm not disagreeing about the necessity to do this, but we must not forget that for the black man in the street this is utter cynicism.

Monopoly of government

Kantor: We've got two things to persuade. We've got to persuade the whites that in fact they must give up some of the benefits they've had from the monopoly of government. If they want decent schools and hospitals, they've got to pay fees. If you want a provision for retirement, you've got to pay into a pension. These are hard enough things to sell to the voters as they are. And it's absolutely vital that the blacks in SA come to understand that if we have a State that attempts to do for the blacks what the State did to a degree for the whites, we will have no prospect of economic growth and no prospect of economic advancement. We would have a State with very high taxation, with strong disincentives to effort and initiative. That would lead to a migration of skilled people and capital out of SA.

SA FOUNDATION

Gearing for new era

The SA Foundation has always been an unabashedly elitist organisation. Its membership is the top echelon of the SA private sector and through this it has tapped the old-boy network of the West's power elite, both in political and private sector arenas. Now, current SA political and economic developments might indicate that it is poised not only to expand but to venture into new areas of endeavour.

Within the last five years, a significant change has taken place. As one spokesman candidly put it, the foundation is no longer a propaganda organisation, bulling ahead on the basis of my-country-right-or-wrong.

Over the past three years the foundation has been working to consolidate its base. Contacts, publications, research and information services have been revamped. With gathering momentum, the foundation is nearing a "takeoff point," where it can — if it chooses — make a quantum jump, both internally and externally.

The network has worked reciprocally to

The influential SA Foundation, in choosing its new director, has to decide whether to increase the scope of its operations worldwide and within SA.

influence SA as well as SA's major investors. And the foundation's director, Peter Sorour, stresses that it is as much the foundation's business to represent Western attitudes to SA as to represent SA worldwide. Hence the foundation's critiques of policies like influx control, removals and detention without trial. Its immediate past president, Gavin Relly, earlier this year delivered a warning on the effects of the revamped influx control Bill on how SA's reform efforts are viewed. More recently he warned that a referendum "No" vote would be interpreted overseas as rejection of reform.

Its staffed bases in Washington, Bonn,

Paris and London provide springboards for an extended outreach to second-echelon priorities like Holland, Austria, Canada, Scandinavia and Japan, where the network of contacts and connections is already firmly in place.

Changes in the private sector's position within SA also significantly affect the foundation's options. Increasingly government has wooed the private sector for support in reform and decentralisation. Particularly since the National Party (NP) split, the SA business community's leverage has increased exponentially, as government has actively to fight for support.

Campaigns like those around the Sullivan and EEC codes of conduct, Sorour points out, played a crucial role in concentrating business's attention on issues of corporate responsibility like wage gaps and labour restrictions. Equally, through engagement in organisations like the SA and Urban Foundations, as well as employer bodies, the private sector has developed a core of con-

Cost of living looks like slowing down to put...

Single-digit inflation rate well within grasp

By HOWARD PREECE

THE inflation rate, measured by the consumer-price index, should be down to about 9% by the end of March.

Inflation was particularly rapid in this year's first quarter, but the pace seems certain to be much slower from January to March 1984. That will lower the 12-month cost-of-living figures.

At this stage, however, it looks as though the CPI will still be over 10% for 1983. Indeed, it could prove closer to 11%.

The last full year in which the CPI was under 10% was 1973 when it was 9.9%.

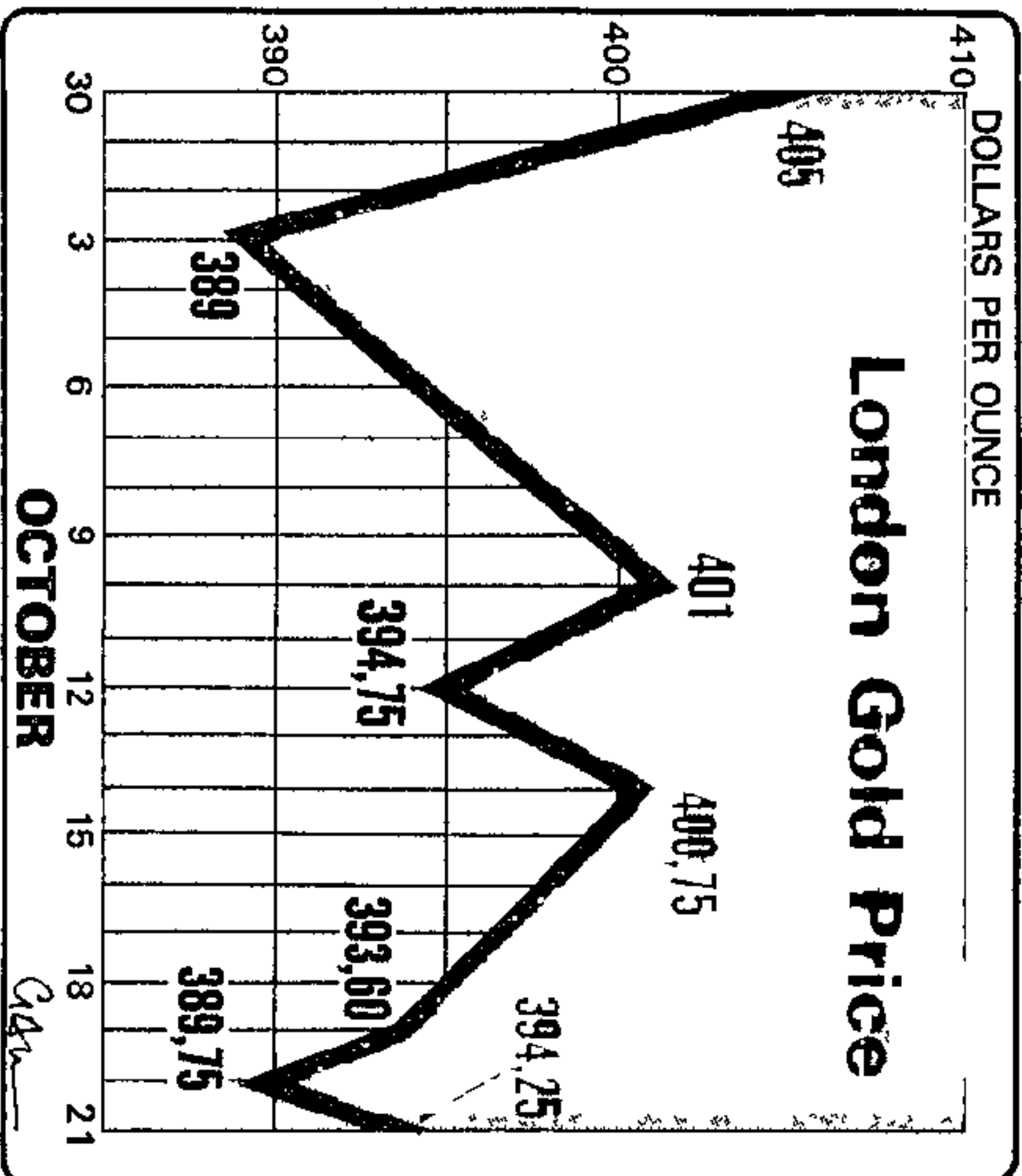
In 1977 the running 12-month rate did fall briefly to about 8%, but the introduction of general sales tax and some other special factors pushed inflation back into double figures.

The reason it will almost surely stay above 10% in 1983 is statistical.

The CPI rose by only 0.6% and 0.3% in November and December respectively last year and it will be difficult to match, let alone better, that record in the same months this year.

The CPI jumped by 1.2% in October last year and that should ensure a further fall in the inflation rate for the 12 months to the end of October this year.

The CPI rose by 10.9% for the year to September 1983 — the lowest 12-month rate in five years. In January, February and March



The gold price is struggling to hold around the \$400 level. It fell below that mark at the beginning of October and although it has shown some resilience there are still underlying signs of weakness. Most analysts think the price is more likely to weaken than firm in the short-term.

this year the CPI soared by 1.1%, 1.6% and 1.1%.

Those increases were fuelled particularly by sharp rises in food prices caused by the drought.

There are still drought effects filtering through to the economy, but provided the rains are reasonable

over the next few months, food prices should be held and the CPI should rise at an appreciably slower rate over January to March next year.

That should result in the 12-month rise in the CPI dipping to about 9%.

The annual rate over the six months March to September this year was, in fact, already down to that level.

It would, however, be wrong to take excessive cheer from the fall in inflation.

The table — for the 12 months to the end of August this year — shows how rates are faring in Western industrial countries.

Japan	1.2%
Switzerland	1.8%
US	2.6%
Holland	2.6%
Austria	3.2%
Britain	4.6%
Canada	5.5%
Denmark	6.0%
Belgium	7.9%
France	9.7%
Spain	11.0%
Italy	13.6%
Greece	20.0%
EEC* (Av)	7.2%
OECD† (Av)	4.9%

*European Economic Community
†Organisation for Economic Co-operation & Development

South Africa is doing poorly and will continue to lag even if the inflation rate drops to 9% or so over the next six months.

There is certainly no room for complacency.

It is also true that the Government will face an immense dilemma on how far to go in getting inflation below 9%.

Each 1% reduction will probably be achieved only at the expense of postponing any significant new economic upturn for perhaps six months.

Authorities set on reducing inflation

— Dr Gerhard de Kock

PRETORIA — Reserve Bank Governor, Dr Gerhard de Kock, predicating economic recovery for South Africa in the years immediately ahead, said yesterday that the country's current account surplus for 1983 would probably exceed R1 billion.

The surplus on the current account, which includes trade and invisibles, will follow a deficit of R2,9 billion in 1982.

Addressing a meeting of the State deposit-taking body, the National Finance Corporation (NFC), in his capacity as chairman, Dr De Kock said the monetary authorities would continue to give priority to curbing inflation, now running at 10,9 percent.

In its efforts to bring down inflation closer to the levels of its main trading partners, the Reserve Bank is aiming to reduce the rate of increase in the broad M-2 money supply to well below the 22 percent recorded in the year to June.

Monetary targeting

Dr De Kock said steps to pave the way for more precise monetary targeting may be introduced next year.

"Provided the necessary fiscal and monetary restraint is achieved, there is every prospect that we shall maintain a strong balance of payments in 1984 and, in addition, experience both a higher real growth rate and a lower rate of inflation than in 1983," he said.

"South Africa can look forward to an economic recovery and a return to high positive rates of growth in the years immediately ahead," Dr de Kock added.

He warned that the country still faced serious problems, including drought, a relatively low gold price and depressed economic activity which could result in a negative growth rate this year of three percent.

But he added that if the world debt crisis intensified, investors might move out of bank deposits

and doubtful paper assets into investments like gold and United States Government securities, boosting the gold price but harming the world's financial system.

He said recent economic indicators were encouraging and added that South Africa had no foreign debt problem.

Discussions were going ahead on plans to transfer the deposit-taking operations of the Public Debt Commissioners to the NFC.

"A relatively large amount of deposits, normally ranging from R1 billion to R1,5 billion, is involved, and the acceptance of this new function by the NFC will have far-reaching implications for the future structure and role of the corporation," he said.

Further details of the re-organization, due to be implemented by June next year, are to be announced soon.

Dr De Kock said the NFC's average daily level of deposits decreased to R407m in the year to June 1983 from R457m the previous year, partly because of reduced reserve requirements for some banks.

But the NFC recorded a net profit of R8,52m in the last financial year after a loss of R4,64m the previous year.

The main reasons for the turnaround were the wider margin of 150 basis points between the NFC's call money rate and the Treasury Bill tender rate, the replacement of low-yielding securities with higher-yielding short-term assets, the stability of the amount of call deposits, and the lower average rate of interest paid on deposits.

press 27/10/83

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NGK pleads for restoration of Christian ethics in labour

Religion Reporter

THE poorer community is being hardest hit by inflation in South Africa, says a committee of the Western Cape Synod of the Ned Geref Kerk in calling for a more just economic system

It said South Africa should build up "a stable and just economic dispensation" to restore sound Christian ethics in the labour market

Scripture demanded a just dispensation, an acceptable relationship between wages and work, the creation of job opportunities and a peaceful and orderly society, said the committee

The Old Testament set out rules to prevent both the amassing of wealth and the suffering which arose from poverty

Excessive inflation in South Africa was hitting the poorer section of the population hardest and

was a real threat to very existence of many

It also inhibited expansion or creation of new undertakings

It was widely suggested that because certain bodies benefited from continued inflation, including the Government itself, it was futile to protest. This created a dangerous climate

Labour unrest could arise from exploitation and underpayment, unemployment, retrench-

ments, inadequate benefits, pensions, medical funds and unemployment insurance, the lack of opportunities and promotion and the absence of housing and transport

The committee said the existence and function of labour unions and collective employee action had to be recognised and honoured

It asked the synod to call on all employers for a just labour system in relation to wages, facilities, pensions, medical funds and unemployment insurance, the lack of opportunities and promotion and the absence of housing and transport

The synod was also asked to call on the Government to make serious attempts to reduce the inflation rate as speedily as possible to avoid dangerous results

The synod decided to ask its doctrinal commission to make an in-depth study of inflation and labour unrest. At the same

time it called on employers to strive for a just labour system

It would be wrong to plead for an obligatory death sentence for rape, said a doctrinal committee of the Western Cape Synod of the Ned Geref Kerk

There was a clear difference between the destruction of life by murder or treason and the physical or psychological violation of a woman's welfare, said the committee

mittee

"If this distinction is not maintained, there would be no reason, for example, not to institute the death penalty also for racial discrimination"

While a person was responsible for his own actions, society itself had a co-responsibility in the case of rape

"Society, which allows all sorts of permissive developments, must accept co-responsibility for the actions of unstable

people who yield to tempting and stimulating circumstances — for example, a continuous bombardment of a pornographic and suggestive nature," said the committee

"The committee would suggest that in our administration of justice we should deal with human life in such a way that its sanctity and inviolability is not threatened"

(News by B Stuart, 122 St George's Street, Cape Town)

Concern over lack of representation on Media Council

Religion Reporter
CONCERN has been expressed at the Western Cape Synod of the Ned Geref Kerk that the NGK was not represented on the Media Council

The Media Council, established as an internal "watchdog" by the industry, comprises 14 public representatives and 14 media representatives, in addition to the chairman and vice-chairman

During a brief debate in the synod yesterday the Rev H J Vorster said the Media Council was one of four systems of control over the media in South Africa — internal, legislative and administrative control, as well as pre-publication censorship

In the case of newspapers and magazines, pre-publication censorship was not possible in the way in which it was applied to films

He said the Newspaper Press Union represented a billion-rand industry. It had set up the Media

Council as an independent body for internal control and had widely advertised for public nominations to the council

While the NGK General Synod nominee was not one of the 14 public representatives selected to serve on the body, the NGK had "meaningful representation" through academics on the Media Council

LOCAL COMMITTEES

NGK members also served on local committees of the Publications Control Board

The Rev L Moolman, Cape information officer of the NGK, said the doctrinal commission of the church frequently received complaints about books or films, but these complaints were often not specific

He appealed to those who wished to object to publications to name the specific portion of the document or film to which they took exception

Single-digit inflation soon, economists say

ARGUS
10/11/83

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Argus Correspondent JOHANNESBURG. — Economists are now in broad agreement in forecasts that the rate of inflation will fall below an annual rate of 10 percent in the next few months for the first time in five years.

But there is concern that the single-digit phase may be broken by a wave of increases in

state administered prices early next year

South Africa has been trapped in double-digit inflation for almost a decade, with the exception of a brief spell when it dipped between 9 and 10 percent for a month or two when the last recession scraped bottom in mid-1978

It hit its peak in early 1982 at an alarming 16,5 percent in the spending spree before the current recession set in.

SALES TAX JUMP

The new wave of optimism follows signals from Central Statistical Services showing that at the latest count the cost of living index had dropped to 10,9 percent compared with a year ago even though it had to digest the 1982 jump in general sales tax from 5 to 6 percent

However, economists are divided in predictions of how long the inflation rate will remain in single digits.

Mr Rudolf Gouws, head of the Nedbank economics team, believes it will manage to stay below 10 percent for the whole of 1984

He says especially encouraging was a slowdown in the producer price index — running at an annualised rate of only 6,1 percent at a mid-year count and indicating that easier price pressures were in the pipeline.

LOWER PRICES

"A number of underlying factors are working in favour of lower prices, including better utilisation of manufacturing capacity as the recession has forced companies to curb unit costs.

"But we need to pull inflation well below 10 percent if we hope to see export income pushing

the economy into a recovery

"Since most of our main trading partners have hauled their inflation rates to only a fraction of ours we are in real danger of pricing ourselves out of overseas markets if production cost increases do not slow down

"Happily the United States has shattered the myth that economies cannot sustain an upswing while simultaneously cracking the inflation problem. They have managed both — in magnificent style."

SHARPER RISE

The Bureau for Economic Research at the University of Stellenbosch also forecasts a drop in the consumer price index below 10 percent early next year

But the BER team fears that a sharper rise in administered prices may could push the rate back into double digits. Even so, the bureau forecasts that the calendar year average will dip from 12,4 percent for this year as a whole to an overall average 10,1 percent in 1984.

Mr Andre Hamersma, chief economist at Standard Bank, is also convinced that inflation will go down to 10 percent or a shade lower

However, he says "The rate is unlikely to decline much further because of a whole host of pent-up increases of administered prices and the return of demand pressures

"As a result, inflation may be back at the 12 percent level by the year end".

TRUE RATE

Professor Brian Kantor, of the school of economics at the University of Cape Town believes that the true rate of inflation is better measured by working out a moving average of price increases rather a simple year-on-year comparison

He says the moving average shows that inflation is already down to around 8 percent.

"Many manufacturers have been far too gloomy about the outlook for production costs in their inflation projections", he argues

mes Report

4, 1983


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had no other choice
Mr Van Vliet pointed
out that the cost of ac-
ceptances finance had
increased from 16,15
percent to over 17 per-
cent in the past four
weeks and that in these
circumstances it was im-
possible to continue at
the old prime overdraft
rate

Up to now the foreign
exchange rate had car-
ried the full burden of
the difficulties caused
by the drop in the gold
price This was unbal-
anced A higher interest
rate structure was also
necessary if the policy
of monetary discipline
was to be properly im-
plemented

Towards the month-
end money market rates
could go up still higher,
Mr Van Vliet said, with
the market shortage
again reaching the R2
billion mark.

Large amounts of
money would leave the

To page 19

By ALEX PETERSEN
Deputy Financial Editor

SOUTH AFRICA'S inflation rate
would drop to about eight percent
next year and was likely to remain at
that level until the upturn was well
under way, Prof Geert de Wet of the
Rand Afrikaans University forecast
yesterday

Professor De Wet told finance writ-
ers at a lunch hosted by Legal &
General Volkskas that although at-
tempts at restricting the money sup-
ply had been partially successful in
containing inflation, the private sec-
tor would not be slow in developing
instruments to counter controls by
the authorities

Although current controls were
billed as monetarist, they were as
much Keynesian in that they were
also used to influence rates and other
key indices

Complexity

A reason for this was the complex-
ity in defining and controlling the dif-
ferent measures of the money supply
and these were inevitably outflanked
by developments in the banking and
financial institutions

"The difficulty in exercising con-
trols through the money supply is
that the financial system finds new
instruments to befuddle the authori-
ties"

This had happened in the United
States and was happening in South
Africa

To meet the problem the authori-
ties had shifted their targets in terms
of the factors they sought to control

The dramatic changes which had
taken place in the monetary system
had included those of exchange con-
trol An important element had been
the fact that since September the
gold mines could be paid not in rands
but in dollars

Given that the Reserve Bank was
under no obligation to buy the dol-
lars, this could lead to volatile
changes in exchange rates, although
it would assist in keeping the domes-
tic money supply stable

"This would be very good from the
inflation point of view, but very bad
from the export point of view

Volatile

Professor De Wet said that if the
gold price were to go up to between
\$500 and \$600 this could place severe
strains on exporters because of the
appreciation of the rand

He predicted that both the ex-
change rate and the money supply
would become increasingly volatile
and difficult to predict Along with
this there would be a number of inno-
vations by the private sector to meet
the changing circumstances

On the question of the total abolish-
ment of exchange controls, he said a
factor to look at was the rate of re-
turns available in different countries

"South Africa is at the bottom of
the list at the moment"

He said that leaving political con-
siderations aside, it would be natural
for investors to look to other markets
to get a positive real rate of return
For this reason alone he expected
that continuing changes in exchange
control measures would be gradual

Hi-Ace 2000.

UBS predicts softer residential property market

Own Correspondent

JOHANNESBURG —
Higher bond rates and
falls in real incomes of
potential buyers are
likely to be the features
in a softening residen-
tial property market in
the final quarter of 1983
and early 1984, the lat-
est Quarterly Review
from the United Build-
ing Society says

The UBS adds that the
euphoria which pre-
vailed in the residential
market for the first
three quarters of the

sidential buildings a m²
only increased by 16,1
percent, 17,4 percent
and 9,3 percent.

"Clearly, therefore,
rocketing land prices
have masked the true
state of the building in-
dustry"

UBS says the impend-
ing decline in the re-
sidential property mar-
ket is in line with a
substantial softening of
the commercial market,
with around 389 000m² of
new office space to be
available in the next
two years

Money market

JOHANNESBURG —
Four major banks
raised their prime rate
from 18 percent to 18
percent, the move has
been expected since
last Friday following
the upsurge in money
market rates, and other
major banks are expect-
ed to follow suit soon,
dealers said

The upsurge in rates
is reflected in Money
Market's key 90-day liq-
uid bank acceptance
rate, which has risen to
17,25 percent from 16,1
percent just over a week
ago The rate was ini-
tially fixed slightly
lower at 17,15 percent
yesterday morning, but
was bid back up to 17,25

Local authorities warned about inflation

By Terry Friend

There was no legislation forcing local authorities to fight inflation by sticking to capital expenditure curbs imposed by the Department of Finance, but at the same time there was no legislation forcing the state to pay rates, and the government could always withhold payment.

This warning was sounded by a senior Department of Finance spokesman at the annual meeting of the Western Transvaal Association of Local Authorities (Wespo), held in Carletonville.

Co-operation sought

Mr Eddie Dednam, the department's director of inter-authority relations, said the state was trying to gain the voluntary co-operation of local authorities, rather than relying on legislation.

"The state is the biggest ratepayer of all. If we are looking for a stick with which to hit, we can always find one. But we do not want to walk that road," said Mr Dednam.

He said some municipalities complained they were "bleeding to death" because of the growth rate limit of 9.75 percent of the previous year's capital expenditure which was now being imposed by his department.

It had been argued that the limit was too low, and should at least keep pace with the rate of inflation.

Development

But state expenditure was one of the great causes of inflation, and municipalities were regarded as a part of the state. The co-ordination of state expenditure was of cardinal importance.

"We are trying to control inflation and limit state spending in our striving for a free market system, and to give private enterprise more latitude."

Local authorities could help by not insisting on such high standards, said Mr Dednam. They still had a freedom of choice, as individual projects were not being turned down. He had been asked whether local authorities were not regarded as responsible. His reply had been that they were indeed responsible, and this would become even more important under the new deal on local government.

The delegate for Rustenburg, speaking at question time, said he was not convinced that only state spending was inflationary. Big corporations sometimes built luxury complexes which were not necessities, and this was even more inflationary. "Some things cannot be built cheaper, and the municipalities are bleeding to death while the public sector is reasonably free," said the delegate.

Mr Dednam replied. "The difference is that the private sector works with its own money, and the public sector with public money. The problem often does not lie with building standards as such, but with the finishing off, such as expensive taps."

Mr Derrick Watcham, in welcoming delegates to the annual meeting of the Western Transvaal Association of Local Authorities, said:

"Building plans have jumped from R6 million in 1981 to R27 million in 1982 and R20 million up to October this year," said Mr Watcham.

"Projects totalling R65 million have already been approved for next year, and this excludes mining development."

"Four new townships are in the final stages of being planned. We are developing a new industrial area, and at Blybank, four kilometres away, 2 000 houses for coloureds and Indians are to be come available."

Optimism over growth

Government call for sacrifices by private sector

W/C ARKAS

26/11/83

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SOUTH AFRICANS are to be asked to make sacrifices in the interests of curbing inflation.

Delegates to the Government's anti-inflation conference in Pretoria on Monday will be asked whether they and the groups they represent would be willing to accept the possible effects of anti-inflation measures proposed by the Government "even if this should entail certain sacrifices in the short term"

In a background document issued by the Department of the Prime Minister, delegates to the conference have been told that the fight against inflation requires continuous action on a broad front

It says "Inflation is a deep-rooted problem that cannot be eliminated overnight or without sacrifices"

"Every sector of the economy will be involved or affected in the process"

It says the Government should take the lead and provide the necessary framework in the fight against inflation

By DEREK TOMMEY, Financial Editor

"But success will be impossible without the understanding and co-operation of the private sector"

Delegates are also warned "If such understanding and co-operation is lacking there is a real danger that purposeful action, particularly in the short term, could result in lower growth and increased unemployment, instead of a lower rate of inflation"

"In the process of combating inflation, the short-term interests of certain groups and individuals will suffer"

"However, if the necessary sacrifices are not made, the long-term interests of all participants in the South African economy could be seriously harmed"

Much greater

Figures in the document show how much greater has been inflation in South Africa than in other countries

It contrasts South Africa's inflation rate in August of 12.2 percent with the United States' 2.6

percent, Britain's 4.6 percent, West Germany's 3.0 percent, France's 9.7 percent, and Japan's 0.5 percent

The document says inflation has many harmful consequences. These include the arbitrary redistribution of income, the creation of uncertainty and dissatisfaction, and the curtailment of the country's savings, investments and economic growth

Because of these and other harmful effects, inflation was often referred to as public enemy number one

Small economy

South Africa has a small open economy with imports and exports amounting, on average, to about 30 percent of gross domestic product. A country such as this "cannot in the long run afford to have a rate of inflation more than double those of its most important trading partners"

"If such a situation should persist, it will have serious consequences for the South Africa economy"

The anti-inflation conference appears to be aimed at getting broad support from all the delegates for the Government's proposed measures

Delegates are to be broken up into groups in which the causes of and the measures necessary for ending inflation will be discussed. The delegates will then be asked whether they agree and support these measures

The conference comes at a time when South Africa could be on the verge of another sharp increase in inflation

The drop in the value of the rand in the foreign exchange markets in the past month must lead to the prices of many imported items increasing

At the same time the news that the money supply grew 23 percent in September, mainly as a result of a more than R1 000-million increase in bank overdrafts, is also cause for alarm

Such an increase in the money supply, if unchecked, could trigger another round of inflation

● See also Page 24. — Looking at finance.

Temporary inflation rise

By Alec Hogg

THE inflation rate took a turn for the worse last month. This should, however, prove to be only a temporary setback.

The consumer price index rose by 1,01% in October, but this was caused in the main by the higher mortgage-bond rates which became effective in the month.

Higher bond repayments led to a 2,1% rise in the housing constituent of the CPI, which accounts for just under a fifth of the total index. This increase alone was the reason for 36% of the total cost-of-living rise in the month.

The latest round of bond-rate hikes has pushed the housing-cost increase in the 12 months to end-October

to about 18,6%.

October's rise in the index pushes the underlying inflation rate as measured by the three-monthly average rise in the CPI to 11,5% — the first time this important indicator has been in double digits since it broke below 10% in June this year.

But, if the housing cost increase is stripped out of the figures, the quarterly rate falls to a more manageable 9,9%. This gives a better indication of the true position, as the bond rate increase is a one-off and will not affect future trends.

The latest figures focus more attention on the Prime Minister's anti-inflation conference to be held in Pretoria tomorrow.

At this high-powered gathering, Mr P W Botha and members of his Cabinet will discuss the inflation problem with leading businessmen and economists.

In October the consumer price index, based on a figure of 100 for 1975, rose from 267,3 to 270.

Other large increases recorded in the month were 3,8% for vegetables (which accounts directly for 3,5% of the CPI figure), 2,3% for fats and oils (1,2%), and

1,8% for fruit (1,43% of the index).

Although the price of cold drinks — up 4,8% in the month — was the largest single increase, this accounts directly for only a fraction of the CPI figure.

The latest statistics suggest that a CPI year-on-year rise of less than the magical 10% is unlikely until early in 1984.

Historically, the index rises only marginally during November and December because of the absence

of administered price increases and of intensified competition before Christmas.

This should help bring the underlying rate of inflation as measured on a quarterly basis back into single digits.

But as increases during the same two months last year were relatively small, statistically speaking, there seems little scope for the more traditionally quoted year-on-year figure to fall below 10% this year.

PM ^{CMT Tuis} 29/4/83

talks to ¹⁵³business leaders

Own Correspondent

JOHANNESBURG — The elite of South Africa's business world were in Pretoria yesterday to hear the Prime Minister, Mr P W Botha, appeal for a concerted effort "to beat the cancerous inflation that is eating away at South Africa's prosperity"

Yesterday's gathering was a follow-up to the Carlton and Good Hope conferences where Mr Botha made a major effort to bring the private sector into an alliance with the government to solve the country's major economic problems

This conference was aimed specifically at finding a collective strategy to force down the high inflation rate.

The entire Cabinet, except for the Minister of Foreign Affairs, Mr Pik Botha, who is overseas, was in attendance.

At the close of the conference the Minister of Constitutional Development, Mr Chris Heunis, warned there was no easy way out of the inflation problem

Urgent action

Unpleasant doses of the right medicine together with the will of all sectors of the economy would be needed, he warned

● The more than 300 businessmen at the conference agreed that inflation was a rampant, crippling factor in the South African economy demanding urgent and strong action

A tight monetary policy, it was agreed, was an essential part of fighting inflation, although this could have unpleasant consequences, among them high interest rates

Higher GST

The importance of restraining government spending was stressed, as well as the importance of working out spending priorities

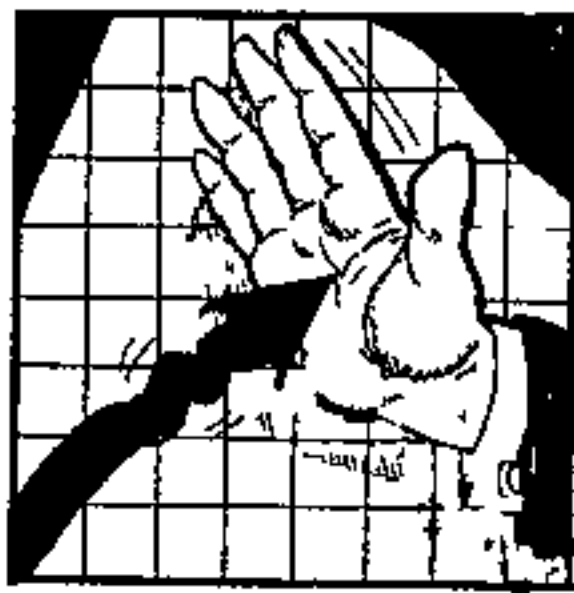
It was felt that price and wage controls should be avoided, and import control should be abandoned as soon as possible

The issue of raising GST should be handled sympathetically, it was felt. Those at the bottom end of the earnings scale and the effect of higher GST on unemployment should be taken into account.

● More on the conference, page 15

INFLATION

Blurring the issue



In pomp and circumstance, the government's anti-inflation conference in Pretoria last Monday may have been an adequate fulfilment of Prime Minister PW Botha's referendum

election promise. But there is a chance that it blurred, rather than sharpened, an understanding of the real issues.

Botha correctly highlighted its symbolic role when he drew parallels with the Carlton and Good Hope conferences. Their important consequence was the recognition of a principle of co-operation between the State and the private sector. There may not have been wholehearted agreement on the examples he chose to illustrate his theme. But the point, no doubt, was taken.

On Monday Botha paraded his Cabinet ministers to reiterate in public Pretoria's commitment to the concepts of free enterprise and free markets. They offered material evidence of the practical steps taken by their departments, and the economic sectors they represent, to contain or diminish inflation.

These are worthy statements of principle that should not be ignored. But throughout it all ran a curious sense of cross purpose that served not only to highlight the cosmetic nature of the whole affair, but to disguise some of the realities as well.

It wasn't simply that the underlying truth of widespread, embedded State interference was simply ignored, although there was plenty of that. Mineral and Energy Affairs Minister Pietie du Plessis offered, as examples of his sector's contribution to the anti-inflation struggle, the restraint shown in manipulating controlled prices. He failed to get to grips, however, with the question of how price control meshes with the principle of free markets.

Agriculture Minister Greyling Wentzel suggested that farmers had done their bit by absorbing high interest rates. He did not point out, however, that the recent increase in agriculture's financial burden was the consequence of the reform of a lop-sided and archaic structure of protectionism — hence the starting point rather than the end result, of financial rationality.

Industries, Commerce and Tourism Minister Dawie de Villiers urged the Competition Board to look more critically at government's business affairs. But he omitted to mention government's cavalier treatment of the Board over its investigation of the liquor oligopoly in SA, and did not attempt to spell out the limits of government's entrepreneurial responsibilities.

The PM's anti-inflation conference this week produced a forest of opinions. But will the trees get in the way of the wood?

Manpower Director-General Piet van der Merwe pledged his belief in the freedom of enterprise and self-management of labour, and the need to raise SA's abysmal (on the face of it) productivity records. But he steered clear of dealing with the negative effects of influx control on the free movement, and motivation, of labour.

This skirting of the real, deep-seated (and probably non-negotiable) issues of entrenched power and strategic control was to be expected, although careful passing references were made. Federated Chamber of Industries president Rod Ironside men-

tioned things like the "substantial allocation of resources for non-economic purposes" and "historical deficiencies in the basic education of those who comprise the majority of the national workforce".

Hints were also dropped by the chairmen of the discussion groups that formed in the afternoon to debate the issues more closely. Barlow Rand's Warren Clewlow warned against over-emphasising the concept of "strategic" when considering the issue of protectionism. Old Mutual's Frans Davin advocated relaxing influx control. Simon Brand, of the Development Bank, placed a question mark over the concept of "political" expenditure.

But most attention appeared to fall on the notion of productivity. It became, in fact, a buzzword. From the FM's point of view, this was a very good example of not only blurring, but also inverting, the issue — emphasising the need to raise producti-

AWARD FOR FM MAN



At a ceremony in Johannesburg on Monday, the executive chairman of Barlow Rand, Mike Rosholt (right), formally awarded the 1983 Rosholt Fellowship in Journalism to Nigel Bruce, the FM's senior assistant editor.

Rosholt said that by making possible a mid-career sabbatical for executive journalists, the Fellowship was aimed at improving understanding between business and the media.

Giving an example of what he believed was a misunderstanding, he pointed out that it was in his view, wrong to assume, as some newspapers had done, that competition between large companies was necessarily less intense than between small ones.

The Fellowship involves a period of study at Oxford University, a study visit to Time Incorporated in New York and the completion thereafter of an academic dissertation. It is one of the most valuable scholarships available to journalists.



Finance Minister Horwood ... the basic cause is overspending

vity to meet the rate of increase of prices, rather than the need to lower the rate of price rises to match changes in real output

It was this kind of confusion that gave the impression that the whole conference had missed a vital point. It had no excuse, since Finance Minister Owen Horwood spelt it out quite clearly in his address "Our point of departure," he said, "has been and still is, that the basic underlying cause of the inflation in South Africa is excess demand or overspending — caused, facilitated or accommodated by undue money creation. The main element in our anti-inflationary programme therefore remains fiscal and monetary discipline — designed to achieve control of total demand and the monetary aggregates."

Horwood took pains to point out that "structural deficiencies" in the economy "can never cause inflation." They can cause one-off jumps in the general price level. But to cause inflation they would have to be accompanied by "a sustained excessive rate of increase" of the money supply. "Inflation," said Horwood, "therefore funda-

Weak rand will fuel inflation



Brian Kantor is a professor at the School of Economics, University of Cape Town, and a well-known commentator on economic affairs

Did somebody care to ask the Prime Minister at his conference just how he hoped to reduce inflation now that the rand has fallen away so badly, and the money supply in September was some 23% higher than a year ago? The fall in the gold price is clearly part of the explanation for the weaker rand. However, in June 1982 when the gold price averaged \$314 and after the current account on the balance of payments had been in huge deficit for more than a year, the rand was worth 90c. Since then, the current account has realised, and continues to realise, consistently large surpluses.

If the past relationship between the dollar price of gold and the dollar value of the rand were anything to go by, it would take a gold price of \$300 to justify the rand at 83c. The Reserve Bank could, surely, if it so wished, have defended the rand. It chose not to do so and the inflationary implications of a weaker rand are undeniable. The bank or others may wish to argue that the

weaker rand is necessary to protect our exporters and import replacers from foreign competition. If exchange rate policy be so designed, the monetary authorities should not bother to pretend to be serious about inflation. Clearly, rapid money supply growth weakens the fundamental prospects for the rand, which is precisely why it should be kept under tight control. Therefore, holding up the rand at this moment in time, which would then demand much slower money supply growth, would have been a clear signal of anti-inflationary endeavour.

Exporters and firms competing with imports would no doubt have referred at the conference to the fact that SA's inflation rate is much higher than that of our trading partners, so justifying the weaker rand. They should have been told that this most unfortunate state of affairs is itself an inevitable outcome of the substantial depreciation of the rand between January 1981 and October 1982.

Money supply

This depreciation occurred not only because the gold price fell, but because of the huge increase in the money supply that accompanied the earlier increase in the gold price. This stimulated the economy, hugely increased demands for imports and weakened the trade balance.

Any further depreciation of the rand now or any time quite obviously and inevitably perpetuates relatively fast rates of inflation. If this is what exporters want, and it is rational for them to

prefer relatively fast inflation as long as the inflation rate lags in time behind the exchange rate, they should be honest enough to say so. What makes the recent depreciation of the rand so particularly disappointing and frustrating is that, with the more or less continuous strengthening of the rand after November 1982 until recently, the SA rate of inflation declined significantly. Had the rand retained its dollar value, our inflation would be roughly equivalent to that of our trading partners within six months or so.

Market pressures

Incidentally, inflation abroad is picking up again, as ours is declining. The decline in the rand may be a response to market pressures. In the absence of a market in forward rands and in the presence of managed interest rates, it is very hard to recognise market forces at work. One such signal is the money market shortage. Banks short of reserves may borrow from the Reserve Bank or from foreign banks. The tendency to borrow from the Reserve Bank will strengthen if the rand is regarded as overvalued. Thus, tightness in the money market in the form of heavy indebtedness by the banks to the Reserve Bank is indirect evidence of expectations about a weaker rand. The question, then, is why should the banks and others anticipate a currency depreciation?

One answer is that they understand this to be a policy preference of the Re-

mentally remains a monetary phenomenon which has to be curbed by means of fiscal and monetary discipline."

The point cannot be sufficiently emphasised. Measures like reducing protection, streamlining the labour market, de-controlling prices and de-centralising distribution are valuable only insofar as they free the overall pricing system in the economy. And only in an economy where markets are open and independent, and where prices fulfil their function as freely moving signals of resource allocation, can monetary discipline — the only known cure for inflation — operate effectively. Without this condition being at least partially fulfilled, controlling monetary demand merely adds to the distortions that inflation introduces to the economy's signalling apparatus.

There is a real danger that this lesson has not yet been learnt. At Monday's conference Anglo American chairman Gavin Relly was one who seemed to imply that monetary policy was a last ditch antidote for inflation because structural inflexibilities in the economy precluded other, pref-



Prime Minister Botha ... keeping a promise, clouding an issue

kantor comments

serve Bank — rather a case of the market doing today what they expect the Reserve Bank to do tomorrow. Another explanation for the weaker rand is the recent behaviour of the money supply, which has not behaved anything like the way the authorities intended. By September, it was 23% higher than a year previously.

Rapid money supply growth means rapid growth in expenditure and in imports and fundamentally weakens the prospect for the trade account and therefore the rand. The market would be absolutely right to be concerned about such development. The economy may well respond, as it has in the past, to this monetary stimulation. That is, unless the demand for money has permanently increased or the money supply statistics do not mean what they usually mean.

Demand up

The demand for money is certainly higher now than it was. Excluding the effect of inventory changes and the residual item in the national income statistics, which are highly unreliable numbers, the ratio of money and new money to final demands in the economy, which was 1,18 in May 1982, increased to 1,24 in June 1983. Such an increase may, of course, only be a very temporary one. The monetary statistics, the Governor of the Reserve Bank, Dr Gerhard de Kock, has warned us, should be treated with caution.

The Reserve Bank has offered its fa-

miliar explanation for the unexpected and unintended increase in the money supply to September. It is always explained that either this (the private sector's) or that (the public sector's) or perhaps the farmers' demands for bank credit increased, so causing, it will be said, the increase in the money supply. It should be recognised that this represents no explanation at all, but is something true by definition of the banking sectors' balance sheet.

Money creation

For banks, credit supplied represents assets, and bank deposits or notes, which make up the money supply, are bank liabilities. Changes in assets must equal changes in liabilities, but this equality is the outcome of a process of money and credit creation. Critical to this process is an increased supply of cash reserves to the monetary system. The money supply, and the volume of credit supplied by the financial system, cannot increase continuously, without an injection of cash reserves into it. Increases in the supply of these notes and reserves held with the Reserve Bank are what fundamentally cause the money supply and bank credit to grow.

Without an increase in cash reserves, the fact that one type of borrower from, say, the public sector, had borrowed more from the banks, would mean that other borrowers from the private sector would have borrowed less, or vice versa. Unless the Reserve Bank is able to

achieve control of the cash reserves of the banking system, there can be no prospect of money supply control. Also, if such control were achieved, the fact that some financial transactions fall in or out of the definition of money, could be safely ignored.

Because of the difficulties in precisely drawing the line between what is and isn't money, a line that becomes increasingly blurred when interest rates are forced up and credit control removed, monetarists have long recommended that the proper objective of monetary policy should be to achieve a target rate of growth for the money base of the system.

In the past, the relationship between these cash reserves and the money supply in SA has been a very predictable one. It is interesting to notice that the money base of the system has demonstrated much slower growth than that of the money supply over the past year.

Tighter policy

Perhaps the monetary policy has been tighter than it appears on the surface to have been. If so, the danger to the economy of money supply growth is less immediate and prospects for the trade balance rather more promising. Such an interpretation, if correct, makes the behaviour of the exchange market and the Reserve Bank's reaction to it even more difficult to appreciate. Unless, that is, the bank actually prefers more inflation?

(153) 2/13/83 Pm



Barlow's Clewlow and Anglo American's Relly ... contributing to the big inflation talks

erable cures. And confusion was probably compounded by the final summary given by Chris Heunis, Constitutional Development and Planning Minister. No single cause nor culprit can be discovered behind inflation, said Heunis, and there is hence no single policy solution.

The fact remains, and experience in other countries supports it, that there is a single policy solution to an essentially monetary problem. That solution is monetary control. All subsidiary efforts should be geared towards improving monetary control, at source and beyond.

By the same token, no subsidiary effort can be substituted for monetary control. If this was the lesson that delegates took with them from the PM's conference, it can be considered a success. If not, more may have been lost than won in Pretoria last Monday.

ACCOUNTS AWARD

Tough at the top

Recession has not discouraged intense competition to improve standards of corporate reporting. If results of the FM's annual Accounts Award are any guide, many companies consider better disclosure essential in adverse trading conditions.

In each of the past three years, more than one company has tied for first place. In the 1982 competition, the judges applied the more stringent rules of the 1983 competition to select York Timber as winner among six companies in first place. This year, despite the stricter rules, there were two winners: Anglo Alpha and Chemical Services. Once again, all the leading companies, as well as those which just failed to join them, deserve congratulations for their efforts.

The rigorous competition required to make it to the Top Twenty is shown by the narrow margin that separates the leaders. Anglo Alpha and Chemserve scored full marks out of the possible 120 points. And all of the companies in the Top Twenty (or 22, in fact, because three companies tied in 20th place) scored at least 78%.

The competition, for which no entries are required, is for non-specialist company accounts relating to the previous financial

The FM's annual Accounts Award was judged according to new, stricter rules last year — but competition remained fierce and two companies tied for first place.

THE WINNERS

1983	Anglo Alpha/Chemical Services
1982	York Timber Organisation
1981	Quinton Hazell Superite/Dunlop
1980	Dunlop
1979	Protea Holdings
1978	Abercom
1977	AECI
1976	Rennies Consolidated
1975	PP Cement
1974	Protea Holdings
1973	Protea Holdings
1972	United Tobacco
1971	Stewarts & Lloyds
1970	Stewarts & Lloyds
1969	Protea Holdings
1968	Massey-Ferguson
1967	Massey-Ferguson
1966	Massey-Ferguson
1965	Massey-Ferguson
1964	Massey-Ferguson

year, right up to December 31. Judges Aad Zevenbergen and Jean Myburgh of the University of Pretoria's Bureau of Financial Analysis have further amended the rules for this year's competition. These revisions, which the FM will discuss early in the new year, represent another step towards lifting corporate SA's reporting to the generally higher standards practised by companies overseas. As usual, comment on changes to the rules will be welcomed.

Five times winner

The trophy is named after Massey-Ferguson, which won the competition for five straight years and subsequently donated the floating trophy. Massey-Ferguson is now a subsidiary of Fedmech, in the Fedvolks group, so it can no longer win the award.

The competition sets standards considerably more demanding than the minimum levels set by the Companies Act and the Johannesburg Stock Exchange. Companies that do well devote considerable expense and management time. But they appear to feel the resources are well spent.

Chemserve MD Peter Francois notes that the competition does force the com-

Just a single ¹⁹⁷³ hiccup as State meets ^{4/12} Business

BY ARLENE GETZ

INFLUX control and other labour restrictions came under fire cautiously at the Prime Minister's glittering anti-inflation conference in Pretoria this week.

However, the brief criticism by several of the country's business leaders was only a small hiccup in the equilibrium of the slick public relations exercise organised to foster goodwill between state and business.

"It is and always will be the job of the government to combat inflation," the Minister of Constitutional Affairs, Mr Chris Heunis, assured the 300-strong gathering.

There had to be agreement between the private and public sectors over the importance of breaking the inflationary pattern, he said.

Mr Heunis was the last in an array of Cabinet Ministers paraded before the conference to express concern about South Africa's inflation rate, currently running at 10.7%, and reaffirm the government's commitment to free enterprise.

Controls

"In the official view, the answer to inflation does NOT lie in generalised direct controls over prices, wages, dividends, interest, imports, capital movements and so on," said the Minister of Finance, Mr Owen Horwood.

His announcement of the abolition of the 5% import surcharge was one of the few concrete decisions to emerge from a conference. Some observers criticised this as dodging the real issues.

Divided in six groups, delegates spent two hours discussing various monetary and fiscal policies. Later group chairmen briefly pointed out to Mr P W Botha that measures such as influx control created "unnecessary hardship" and could contribute to inflation.

The managing director of Old Mutual, Mr Frans Davin, reported that his group felt some aspects of influx control could be abolished.

Political

Anglo American head Mr Gavin Relly described the financial requirements of influx control and the homelands as two of the "structural" causes of inflation and Dr Simon Brand, executive director of the Development Bank of Southern Africa, said his group was concerned about the effect of expenditure for political purposes.

Top South African economist Dr Daniel Franzsen — a deputy governor of the Reserve Bank for 15 years and now a professor of economics at Stellenbosch University — reported concern over the government's failure to implement principles of the Riekert commission.

Although most of the Wiehahn commission's recommendations on labour legislation had been put into practice, little of the Riekert report — which included a recommendation that business areas should be non-racial — had been implemented, said Dr Franszen.

BUSINESS N

Horwood makes a confident 1984 prediction

Inflation at 8%

By HOWARD PREECE

SOUTH Africa's inflation rate could be down to around 8% by the middle of next year, says Mr Owen Horwood, the Minister of Finance.

But he thinks 7.5% is probably the lowest realistic possibility for 1984 as a whole.

He made these points at a press conference at Jan Smuts airport, Johannesburg, yesterday on his return from Europe.

The highlight of his European trip was the signing of a DM200m (nearly R900m) bond issue for the South African Government in Frankfurt.

The issue is over eight years and carries an effective interest rate of approximately 8.6%.

In his last Budget, Mr Horwood made provision for about R250m of foreign borrowing towards the cost of State spending.

The bond issue forms part

of that package.

Mr Horwood said yesterday that South Africa might next year make other foreign bond issues variously in dollars, sterling or ECUs (the currency unit of the European Economic Community).

The country was not particularly in need of foreign exchange, but it was important that South Africa keep a presence in the overseas capital markets.

The DM200m issue was especially successful because it had been achieved at a time when many would-be borrowers were finding the climate unreceptive.

Mr Horwood said overseas bankers believed South Africa would be doing well if could get inflation down next year to the 7.5% to 8% range.

He felt this could be achieved.

The Minister expected the rate to be down to 9% to 9.5% within the next few months.

(In the 12 months to Octo-

ber, the consumer price index rose by 10.7%)

Looking at the gold market, Mr Horwood said he was confident the price would show an upturn over the next six months or so.

This would depend, howev-

er, on an easing in the foreign exchange value of the dollar — which has been widely predicted — and on the pattern of US interest rates.

Mr Horwood said many European economists and financiers were still uncertain

about how soundly based the present US recovery was.

In any case, they saw little evidence yet of any impact spilling over into Europe where business conditions were still generally depressed.

SOUTH AFRICA

Stumbling over inflation

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The SA authorities announced early in the year that inflation in excess of 14% was unacceptable and that their efforts were to be directed towards bringing this under control. Only once inflation had been substantially reduced could attention be directed towards stimulating the economy. Sadly, in the event, the authorities failed to get to grips with the underlying problem. Although inflation has fallen to an average of around 12% for the year (and the cpi at the end of October was only 10,7% higher than that of one year earlier), this rate is still disconcerting. At the same time, the economy shrank and unemployment increased.

It seems as though the authorities have done one of two things: either they have been unwilling to allow output to fall sufficiently far to reduce the rate of inflation to a single digit, or they have not followed any comprehensive fiscal and monetary policy, and the fall in the rate of inflation has merely been the result of the severe recession.

Real gross domestic product, after increasing by 8% and 4% respectively for 1980 and 1981, declined by 0,9% in 1982 and by a further 4,5% over the first three-quarters of this year. It is estimated that real gdp will fall by about 3% for the whole year.

Gross domestic fixed investment, which some say is the engine of economic activity, has fallen markedly. For the first nine months of this year, it was as much as 9% below that for the comparative period in 1982, and that, in turn, was below investment spending in 1981. Considerable destocking was also evident: whereas inventories constituted an average of 35,1% of gdp in 1982, this had fallen to around 32% during the first nine months of the current year.

The reduction in investment had employment consequences. Official estimates show that employment for the first six months of 1983 was 1,9% below that for the corresponding period of 1982. As there had been a natural growth of the labour force, the increase in unemployment was even more serious. Official estimates also show that black unemployment outside agriculture was 9,2% in June this year. This figure does not include under-employment, however, and so some researchers have argued that this rate is, in reality, closer to 20%.

Export demand also remained weak over most of the year. This could be ascribed to the relatively sluggish world economic recovery, as well as a fairly low gold price. The price of gold on the London market averaged \$428/ounce during the second quarter of this year and a mere \$417/ounce during the third quarter. (It should be borne in mind that this was nearly \$200/ounce less than

in 1980). Despite the relatively low export earnings, the balance of payments remained in surplus over the first three quarters of the year. This is accounted for by the unprecedented decline in merchandise imports, particularly for machinery and transport equipment. In addition, the judicious reduction in oil imports and imports of military equipment added strength to the trade account. This was partly offset by the effects of the drought: exports of food and related agricultural products declined by 23% over the first eight months of this year compared with the corresponding period of 1982. Imports in this area were 27% higher.

The surplus on the balance of payments has fallen over the year and is, in part, the result of the capital outflow which has taken place since the removal of exchange

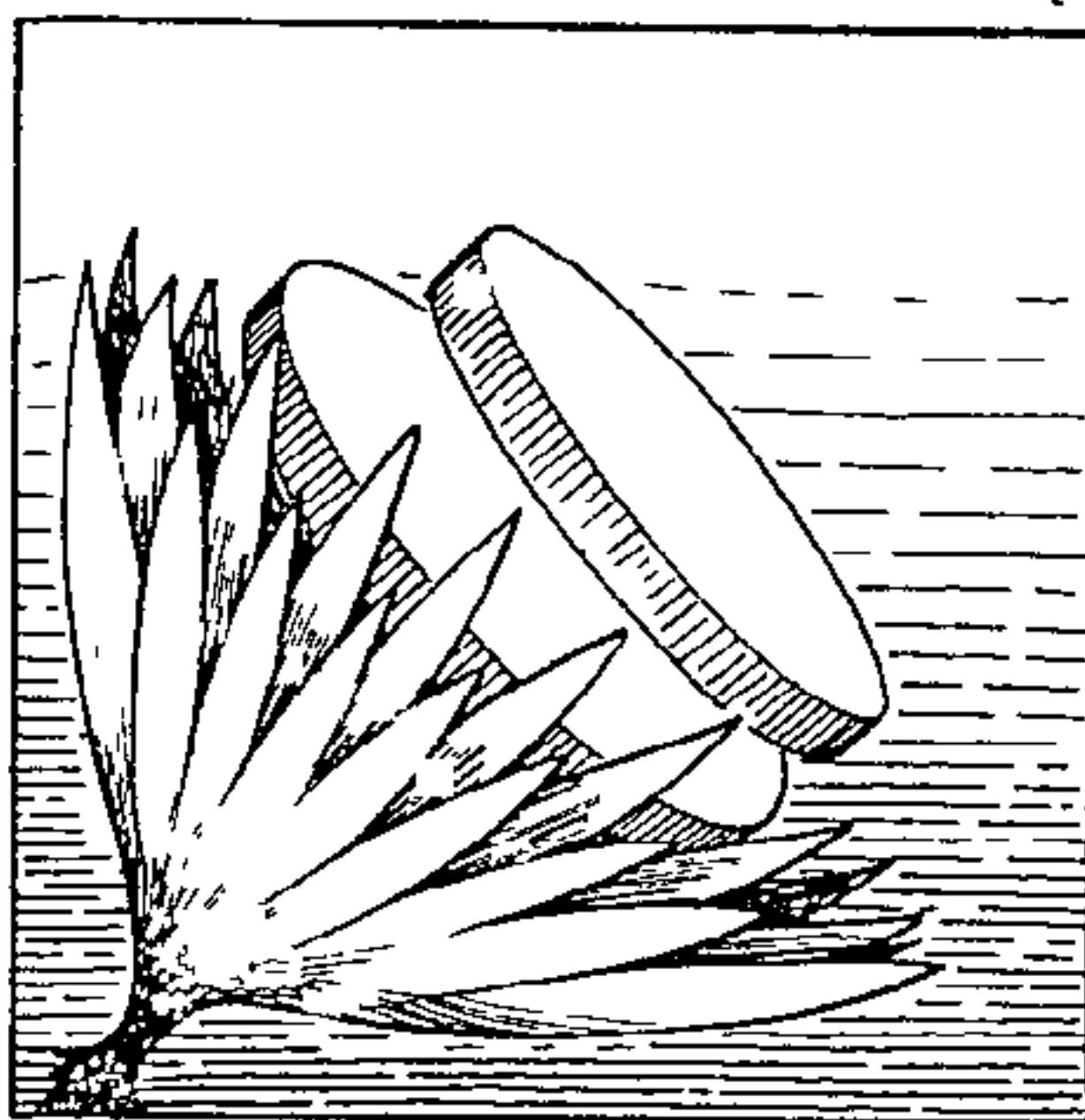
control over non-residents in February this year. It is also to be expected that a lower gold price now has a double effect on the balance of payments — partly via the trade account and partly via the capital account, where foreign investors may transfer funds to more lucrative investments elsewhere.

Yet, inflation remained stubbornly high. Experience of inflation affects inflationary expectations, which, in turn, affect wage and salary negotiations. Salaries and wages outside agriculture increased by an average of 14,8% per worker during the first half of 1983 compared with the corresponding period for 1982, yet there was a decline in productivity (as measured

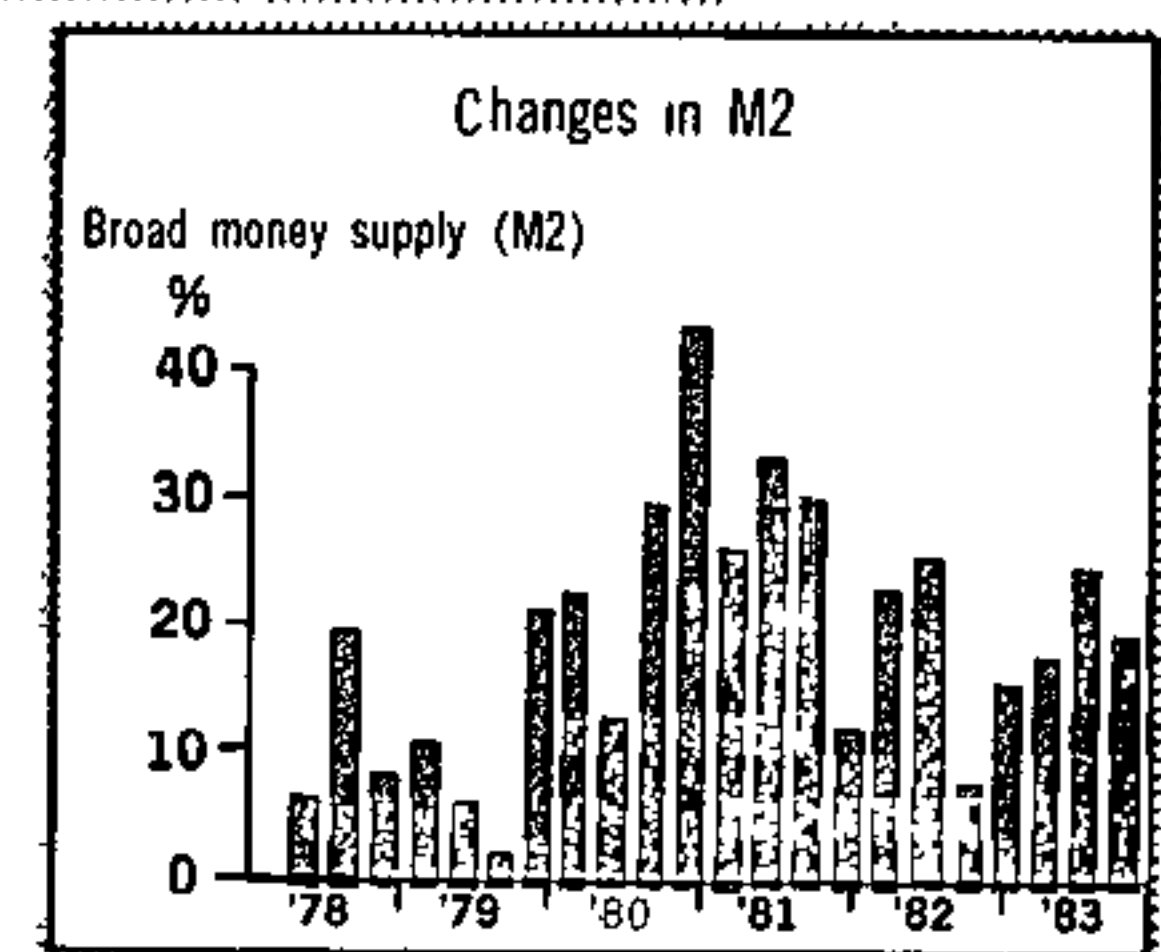
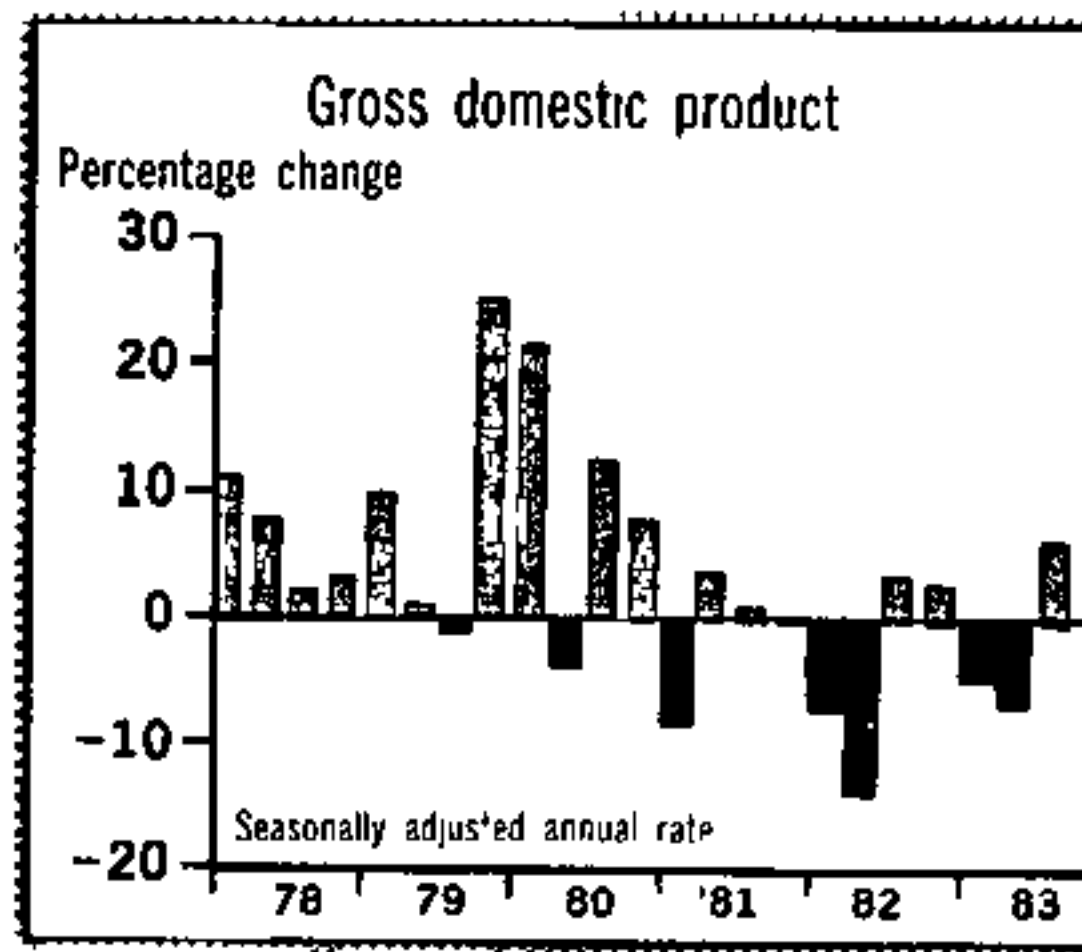
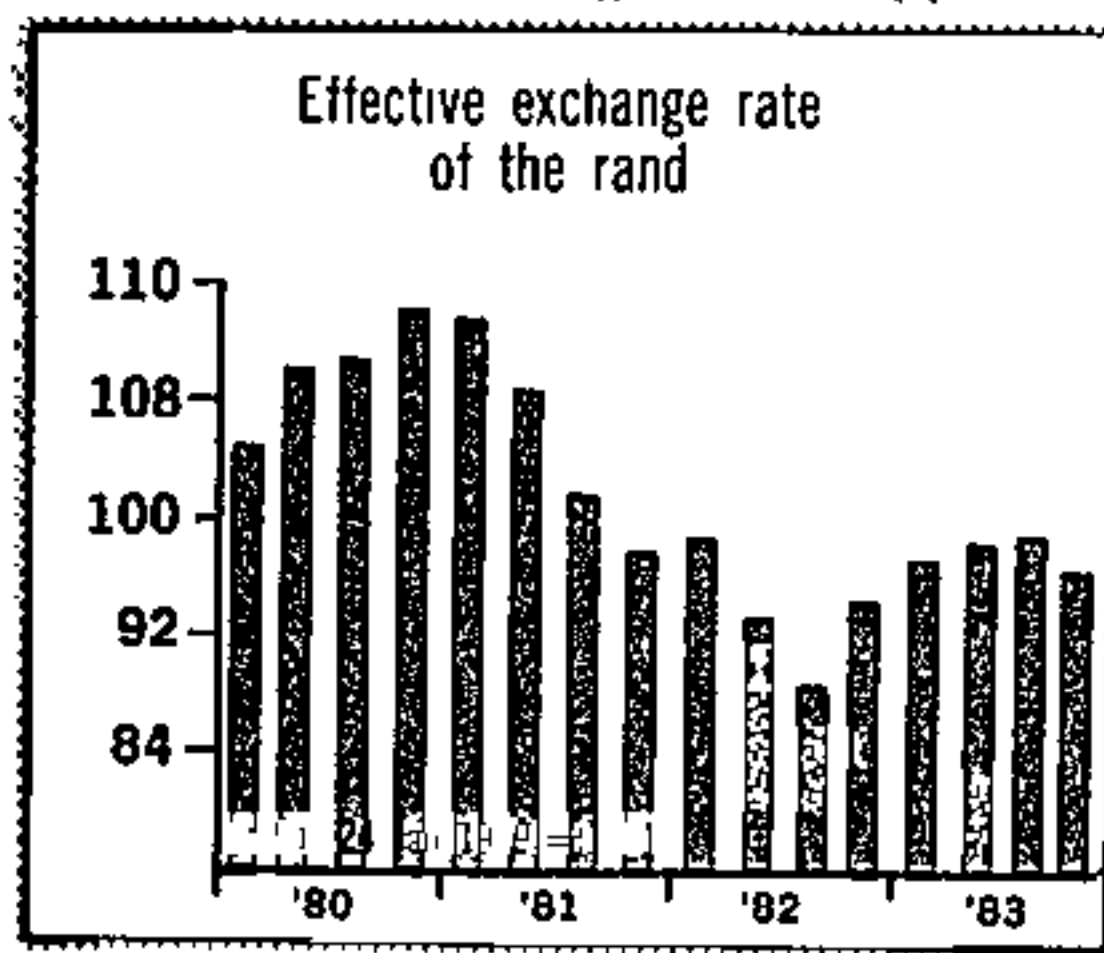
by real gdp per worker) of 2,7% over this period.

Inflation is also fuelled by excessive growth of the money supply. It could, indeed, be argued that increased nominal earnings were financed by an increase in the money supply. The rate of growth of the money supply was unacceptably high; the broadly defined money supply (M2) was, for example, 23% greater at the end of September 1983 than that of one year earlier. Rates of growth of the money supply that seem consistently around the 20% level (both M1 or M2 in most months this year) are far too high, even if seasonal and technical distortions are taken into account. In August, the year-on-year growth of M1 was 2,5% for Japan, 10,0% for West Germany and 11,6% for the US.

Apart from the impact of inflation, the economy was exposed to other significant influences. SA is a very "open" economy: exports plus imports constitute more than 50% of gdp. This, of course, means that exogenous factors, such as the state of the world economy and the consequent demand for SA exports, play an important part in this country's economic development.



OUTPUT AND RAND SLIDE, MONEY GROWS



For some time, there has been evidence of a world economic upturn. The economic recovery in the US, initiated largely by increased spending on housing, consumer durables and semi-durables, has already had an impact on a number of trading partners. The effects, however, have been dampened to some extent because of high real interest rates in the US and, of necessity, those of its trading partners.

Real interest rates at the beginning of the current upturn were considerably higher than those at the start of the preceding world upturn. High real interest rates are a deterrent to investment, and so the rate at which the world economic advancement proceeds is likely to be slower than in past recovery phases. The stimulus provided to SA exports will, in all probability, be moderate.

It must also be remembered that high real interest rates place a heavy debt burden on certain developing countries. This reduces the demand for imports from these countries, the flow of world trade is reduced and, ultimately, SA exports must be less buoyant.

Nevertheless, the stimulus of increasing world trade will be felt here. But, of course, there are always lags between the world upturn and the time it takes to increase SA exports. For this reason, export-led growth is likely to have most of its impact only from the second half of 1984.

Another exogenous factor, the gold price, has a substantial impact on the domestic economy. What it will average over the year is anyone's guess. But one might argue that, in the absence of any unforeseen occurrences, there is reason to expect a marginal increase from present levels. Given that the American election is to take place late in 1985, a slightly easier monetary policy might be followed in the US. Interest rates will probably fall in this country, the dollar will weaken slightly and the price of gold will increase. This, naturally, would have a positive impact on our balance of trade and level of domestic activity, but once again the effect will be muted.

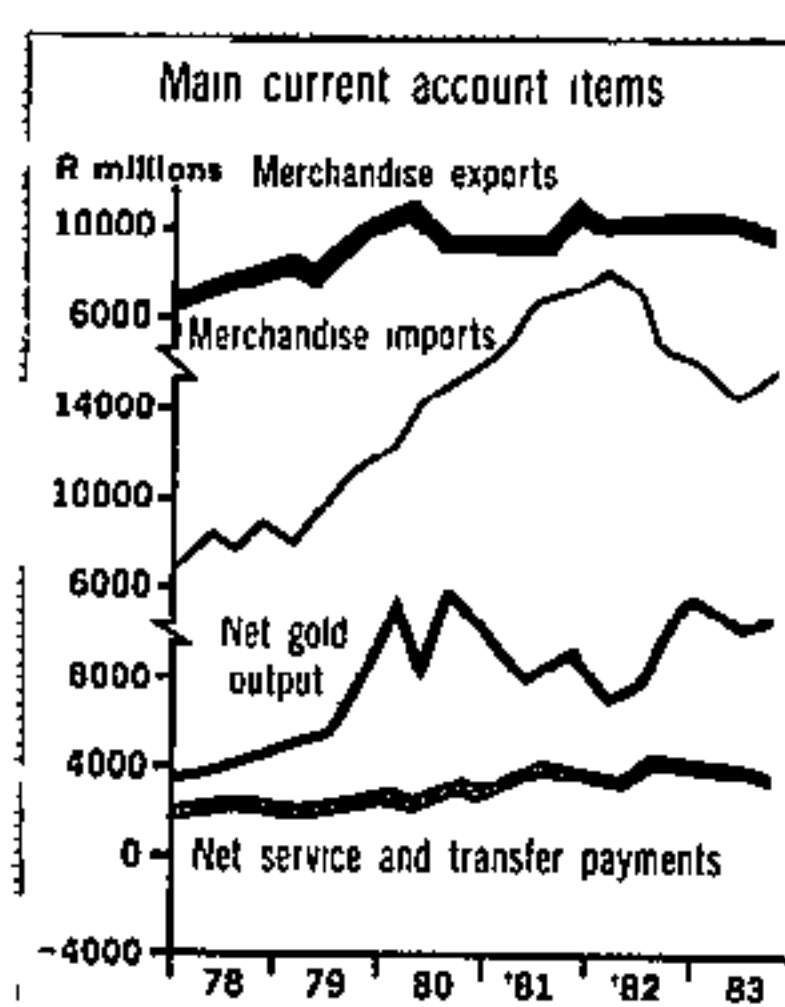
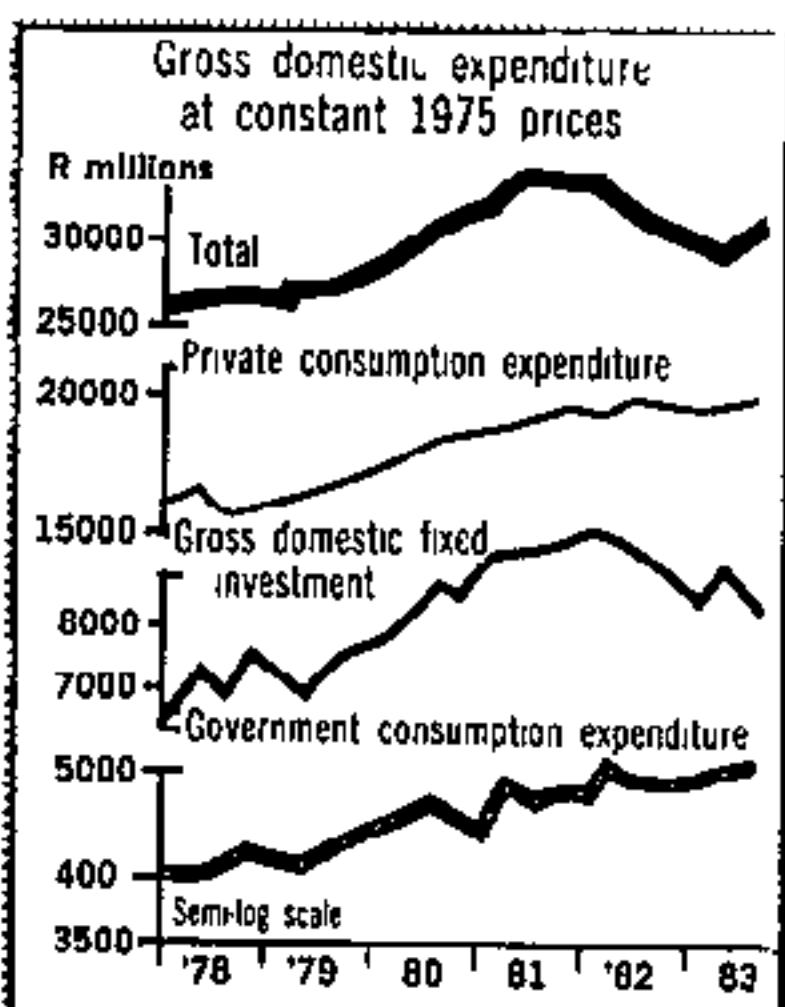
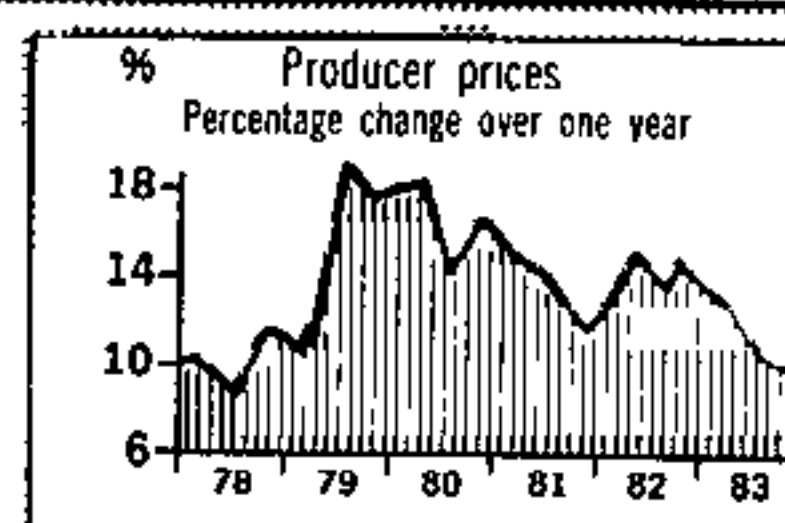
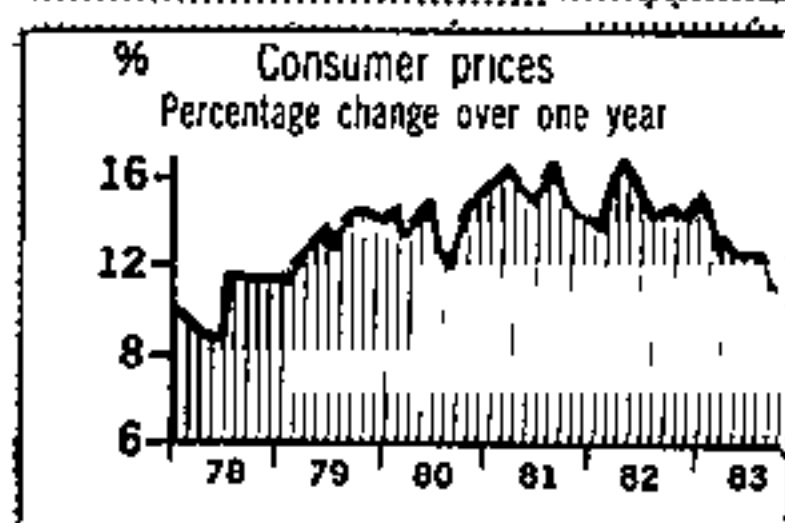
There are also one or two endogenous factors which will limit the extent of the economic upturn in the new year. It is noteworthy that levels of capacity utilisation in manufacturing, particularly of consumer durables, are above those at the lowest ebb of the preceding recession. For motor vehicles, parts and accessories, for example, the lowest levels of capacity utilisation of the 1974-77 recession and the current recession were 65,1% and 78,0% respectively. Similarly, for furniture, the figures were 79,9% and 86,7%. The implication of this is that we cannot expect a dramatic increase in replacement demand during 1984, for this demand has remained reasonably high during the current downturn.

There is some evidence that the supply of residential construction has almost caught up with demand, and a levelling off of this activity, and closely associated durable purchases, may take place. Construction of housing has not followed the usual business cycle in duration or amplitude, largely because it was distorted by the increased demand from Zimbabwean immigrants.

In view of these factors, it is unlikely that gnp will grow at its long-term rate of 4%-4,5%, but rather at a rate of about 3%. If that be achieved, the swing — from at best a 3,5% decline in 1983 — will have been quite substantial. The chances are it might have been higher if inflation had been tackled more robustly.

So far as public policy is concerned, the authorities should do everything possible to reduce the rate of inflation during the first six months of the new year. Certainly, no artificial stimulation should be provided to the economy. Reduced inflation and reduced expectations of inflation would, over the longer term, cause a fall in interest rates. This, together with a healthy surplus on the balance of payments and improved export demand, would allow for a real economic upturn in the latter part of the year, coupled with greater price stability, a healthy balance of payments surplus, and a stronger rand.

ILLUSTRATING THE RECESSION



INFLATION — 1984

JANUARY — DEC.

1983 inflation rate lowest in last five years

153
RDM
21/1/84

By HOWARD PREECE

SOUTH AFRICA had an inflation rate of 11% in 1983, as measured by the official Consumer Price Index.

That is the lowest level since the 10,2% recorded in 1978 — but still slightly higher than seemed possible a couple of months before the end of last year.

There was a 0,66% rise in the CPI in December, compared with only 0,3% in December 1982.

That pushed up the year-on-year rate for 1983 to 11% against 10,6% for the 12 months to the end of November last year.

The CPI at the end of December was 273,2, compared with 271,4 in November and 246,2 in December 1982.

Food prices last year rose 11,8% according to the Central Statistical Office.

Considering the severity of the drought that is less than was expected, but it still played an important part in the overall inflation hike.

Mr Owen Horwood, the Minister of Finance, has set a target of 7,5% to 8% maximum for inflation in 1984.

He will, however, need some fortune to achieve this.

There is little doubt that the 12-month rate of increase in consumer prices should drop appreciably over the first quarter of this year.

In the first three months of 1983, the monthly rises in the CPI were 1,1%, 1,6% and 1,1% respectively.

The increases in the same months this year should be much less and the inflation should be down below 10% by the end of March and possibly close to 9%.

After that, though, progress will be more difficult.

The decline in the gold price has caused a fall in the foreign exchange value of the rand in recent months — particularly sharply against the dollar — and this is bound to add to the cost of imports.

That will be a factor in further consumer price rises.

There has also been a continuing excessive rise in money supply over the past year and that must also add to the inflation momentum.

What does seem clear is that the Government will have to give top priority to reducing inflation — and that will hold back economic growth and job opportunities.

GERALD REILLY reports that, according to Barclays Bank chief economist Dr. Johan Cloete, the impact on the inflation rate of increases in the administered prices of basic foods, expected within the next few months, could be severe.

Food prices, he said, constituted 25% of the CPI.

GST to rise 1pc next month

CAPE TIMES
24/1/84

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Staff Reporter

THE government would increase the general sales tax by one percent to seven percent from February 1, the Minister of Finance, Mr Owen Horwood, announced last night.

Mr Horwood put the blame for the increase on the world-wide economic downswing, the inability of South Africa's trading partners to register an early and meaningful economic recovery, and the recent drought in South Africa.

He said the rapidly-declining gold price and a consequent weakening of the rand-dollar exchange rate, and the

higher-than-budgeted expenditure on essential services, also contributed to the need for the increase in GST.

'No tax increase is without sacrifice, and in view of price and cost increases evident elsewhere in the economy, the government would have preferred to avoid any increase in taxation, especially at this point in time. Unfortu-

nately this is just not possible," Mr Horwood said.

An advantage of general sales tax, however, was that it was levied on almost all final purchases.

"As a consequence, the community as a whole contributes to the financing of public expenditure, which in turn is incurred for the benefit of the whole community," he said.

The government's most important and unavoidable expenses were on drought relief, defence and the servicing of the public debt. Other expenses were on food and transport subsidies.

"On the other hand, the growth of the country's sources of income is limited by the present economic downswing and is insufficient to cover a growing deficit, due primarily to declining profits in the business sector and a decrease in net customs and excise revenue," Mr Horwood said.

Pointing out positive steps, Mr Horwood said significant progress had been made in the fight against inflation. A positive turn-about in the balance of payments had been continued and consolidated. South Africa's credit-worthiness internationally stood at a very high level.

"In addition, it seems as if the economic downswing has reached its lowest ebb, or very nearly so.

"All in all, I am optimistic that South Africa will soon benefit from the long-awaited improved international economic climate and during 1984 experience the commencement of a prolonged and healthy export-led economic upswing."

● Poor people hardest hit, page 6

FINANCIAL BRIEF

Kantor sees lower inflation rate

153 CPT. Times 25/1/84

JOHANNESBURG — The depreciation of the rand, given the lower inflation which will be sustained for the next six months or so, is highly stimulatory to the economy, says Professor Brian Kantor of the University of Cape Town, in the latest issue of Intercom, economic newsletter of the advertising group, Rightford Searle-Tripp Makin

The economy had recovered from low levels of activity and would continue to do so. The latest official figures showed that leading economic indicators turned up as early as August 1982. These were followed by the coincident and the lagging indicators some nine months later in May 1983

Discussing the recent fall in the dollar value of the rand from some \$0,90 in late October to record lows of below \$0,80 in early January, Professor Kantor said the slump indicated an unwillingness by the authorities to defend the value of the rand

Even so he expects the inflation rate to decline substantially over the next six months. It would however begin to increase again as the effect of the depreciated rand comes into effect in mid-1984.

Economic policy reflected at the moment a curious mixture of stimulation of the exchange rate and deflation via interest rates. As in the United States, the better the performance of the economy in the months ahead, the more likely would high interest rates be sustained.

The industrial sharemarket had also been remarkably buoyant in spite of the lower dollar price of gold and real interest rates. The record price levels earlier in January clearly indicated the market's view of the outlook for the economy, he said

The pace of the recovery would, as always, depend on the gold price, as would the money supply, interest rates and exchange rates

Money supply 'key to lower SA inflation

AKG4S 26/1/84
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By David Bleazard

THE inflation rate would not be brought down significantly unless decision-makers like the banks could be convinced that the money supply was under control, Professor Brian Kantor of the UCT School of Economics said last night.

He was speaking during a panel discussion on monetary policy and inflation in the Summer School series on the South African economy in the next decade.

Professor Kantor argued that the failure of the authorities to control the money supply meant an opportunity to benefit from the recession by permanently reducing the inflation rate had been lost.

"Money supply growth has remained unacceptably high and highly variable through the down-

turn phase of our business cycle"

Although money supply growth had declined from about 38 percent in the second quarter of 1981 to about 15 percent by the end of 1982, it accelerated again from the third quarter of 1982.

The authorities had been unable to control the money supply because they used the management of interest rates and exchange rates as instruments of control.

"They should abandon attempts to manage interest and exchange rates and concentrate on controlling the high-powered money — the note issue and cash reserves of the banking system"

"SCARED"

Professor Kantor said the present high interest rates were meant to counteract the effects of the failure to control the

money supply.

"The authorities are scared of the effects of the money supply growth on the economy. They are scared that the recovery will come on too soon and too strong."

"But it would have been better if we had had lower interest rates and lower money supply growth."

GOLD PRICE

Dr Jaap Meijer, assistant to the Governor of the Reserve Bank, said interest rates were high because the Reserve Bank was trying to establish credibility in doing something about the inflation rate.

He accepted the interdependence of the rate of growth of the money supply, interest rates and the exchange rate, although other factors such as the gold price also affected the exchange rate.

One could try to control inflation through interest rates or through the money supply.

However, the Reserve Bank had no direct control over the cash reserves banks held. They did not hold surplus cash and operated on the minimum amount they needed.

When they needed to replenish their cash reserves they went to the discount houses, which the Reserve Bank had no option but to accommodate.

Consequently the Reserve Bank could not exercise an exact degree of control and had to work in an indirect way through interest rates.

Dr Meijer said the Reserve Bank and Treasury hoped in future to announce target rates of growth in the money supply.

There will be a mini-budget some time in February and the main Budget at the end of March. The Minister of Finance, Mr Owen Horwood, could pounce on the consumer on both dates.

153 S-Times 12/2/84

Inflation — the great ravager of pensions

THE fall in purchasing power of pensions caused by inflation has seriously affected the living standards of many people, but the cost of providing escalating pensions to counter the problem may be beyond the resources of many funds

An investigation by Federated Life shows how the buying power of fixed pensions is affected at inflation rates of 5% and 15% a year. Even at 5%, buying power is more than halved over 20 years and at 15% inflation it is halved in under five years.

Another study by Federated Life shows that funding of a pension escalator — an automatic increase in pensions after retirement — at only half the rate of inflation could increase the overall costs of a fund by between 30% and 40%.

Arnold Basserabie, managing director of Federated Life, says that if a fund has to provide pensions at retirement which take into account salary increases at the inflation rate, then the funding rate of the fund would rise from 11% of

payroll to more than 17% as inflation increases from 8% to 12%.

Fund members would retire on pensions which have taken account of inflation and are adequate at the time of retirement.

Suppose, however, that it is decided to provide a post-retirement escalator in pensions equal to half the inflation rate. Then the cost of funding rises from 11% to 14% of payroll when inflation is 8% and from 17% to almost 27% when inflation is 12%.

Translated into cash terms, this means that if pension fund contributions from both employer and employees to a fund are already at, say, R200 000 a year, the fund will have to find an additional R60 000 to R80 000. This burden will presumably have to be carried by both employer and employee — and is unlikely to be popular with either.

The major hope for funds is to build up investment surpluses through returns on investments greater than the rate of inflation. In fact, many life-assurance companies have produced such returns over the past decade, enabling funds to

consider post-retirement escalators.

But not all funds have built up sufficient reserves to make increases of this kind, says Mr Basserabie. Fortunately, however, most South African pension funds do not have many pensioners and it is relatively inexpensive to supplement pensions from current income. At the same time, these funds have to make additional contributions to build up reserves to pay pension escalators for future pensioners.

Mr Basserabie believes that South African pension funds generally provide adequate benefits at retirement when these are looked at in relation to periods of service and the final salaries of employees. The problem is that people, in changing jobs, erode their benefits and do not have enough time to rebuild them.

"The answer to this problem is to have compulsory transferability between funds. This would stop employees from cashing their benefits, would enable them to continue to enjoy the contributions made on their behalf by their employers and would give them time to build up adequate retirement benefits."

Current account showed R500m surplus during 1983

HOUSE OF ASSEMBLY. — The current account was provisionally estimated to have shown a surplus of about R500-million during 1983, the Minister of Finance, Mr Owen Horwood, said this week.

Introducing the R6 500-million "little budget" — the Part Appropriation Bill — on Thursday, he said this surplus compared with a revised deficit of R3,2-billion in 1982, and represented a substantial improvement.

"During the fourth quarter of 1983, however, the surplus on current account was temporarily transformed into a moderate deficit. This occurred despite a distinct and most welcome increase in non-gold exports, and was mainly produced by a decline in the value of the net gold output and an increase in imports.

"The latter increase was largely due to two special factors, namely an abnormal and temporary spurt in oil imports and large imports of maize to make up for the drought-induced shortfall."

Mr Horwood said that given the decline in the gold price and the other adverse extraneous developments, the rand had held up well in the foreign exchange market. During 1983 as a whole, the rand had depreciated against the exceptionally strong United States dollar by 11,6 percent, but by only 4,3 percent in terms of a weighted "basket" of foreign currencies, including the dollar.

"Indeed, over this period it depreciated against sterling by only 1,5 percent and against the Swiss

franc by 3,7 percent, and appreciated against the German mark by 0,9 percent and against the French franc by 9,2 percent.

"From the point of view of curbing inflation, any depreciation of the rand in terms of other currencies is of course problematical. But from the point of view of counteracting a decline in domestic economic activity and maintaining equilibrium in the balance of payments, this downward flexibility of the exchange rate has served the country well.

"It has, for example, prevented the rand price of gold from declining as much as the dollar price, thereby to a large extent insulating the gold mining industry from the sharp fall in the dollar price of its product."

In addition, Mr Horwood said, it had preserved the dividend payment potential of the industry not only in rand terms, but also in terms of such important currencies as sterling, German marks and Swiss francs.

It was well known, he said, that South Africa's economic upswings had in the past usually been exported and had tended to follow the upswings in the major industrial countries, with a time lag of between six and 15 months.

"A year ago, when I introduced last year's Part Appropriation Bill, there were strong indications that in accordance with this well-established cyclical pattern, the South African economy was ap-

proaching the lower turning-point of the business cycle and was about to enter a new upward phase.

"The US economy was recovering from its recession and this augured well for our exports of minerals and other primary commodities. Moreover, in the wake of the emerging international debt crisis, the gold price had staged a strong recovery from about September, 1982, and by mid-February, 1983, was fluctuating around a level of 500 dollars per ounce.

"In addition, the balance of payments had shown a spectacular improvement during the second half of 1982. The rand had accordingly appreciated between the middle of 1982 and the end of January, 1983, by nearly 10 percent in terms of a weighted basket of other currencies, and the net foreign reserves had increased by more than R2,5-billion."

Mr Horwood said that in the months that followed, however, economic conditions and prospects had been adversely affected by a number of new extraneous developments which came to pose "quite exceptional challenges" to the authorities.

"To begin with, the gold price moved into a declining phase that was to have serious consequences for the South African economy. After reaching a peak of over 511 dollars per ounce on February 15, 1983, the gold price averaged only 427 dollars during the second quarter of 1983, 417 dollars during the third quarter, 424 dollars during the fourth quarter and a mere 373 dollars thus far this year.

"In addition, South Africa's non-gold exports remained relatively low during most of 1983 and only began to show a rising tendency during the closing months of the year."

A third adverse development had been the worsening of the drought during the first three quarters of 1983.

Mr Horwood said the pernicious combination of a declining gold price, disappointing non-gold exports and unfavourable weather conditions not only had adverse effects on gross domestic product, the balance of payments on current account and the budget, but had also contributed to a net outflow of capital.

"It did so, for example, by creating the expectation that the rand would depreciate, which produced unfavourable payments, leads and lags, and by encouraging the sales of South African securities by foreigners to South African residents."

"It is a tribute to the South African economy that, despite these new adverse extraneous developments, it performed well in 1983. It is true that following a decline of about 1,5 percent in 1982, gross domestic product regressed by about three percent in real terms in 1983 as a whole."

"But it is significant that the cyclical downswing which started from a high level of economic activity in August, 1981, 'bottomed out' from about the second quarter of 1983.

"Indeed, real gross domestic expenditure, real gross domestic product and non-agricultural em-

ployment all increased again during the second half of 1983, while unemployment declined," Mr Horwood said.

As part of the anticipated increase in real gross domestic expenditure in 1984, the volume of imports was expected to rise by about two percent from its existing low level. In value terms, the increase could be of the order of eight percent, Mr Horwood said.

"On these assumptions, the current account of the balance of payments can be expected to show a moderate surplus in 1984.

"The anticipated increase in exports and in gross domestic expenditure should be sufficient to generate an increase in real gross domestic product of about three percent in 1984. Naturally, this figure will be influenced by the extent to which the recent floods in the north-eastern part of the country and the worsening drought in certain other areas affect real agricultural output."

Mr Horwood said a positive rate of economic growth of the order of about three percent in 1984 would represent a considerable improvement on the negative growth rates of the past two years.

"Moreover, if accompanied by a lower rate of inflation than in the preceding years and by the maintenance of a sound balance of payments position, it would point the way to a further acceleration of growth in 1985," Mr Horwood added. — Sapa

Parliament and Politics

Eglin: Housing inflation havoc

CAP. T. 18/2/84 153/22

Political Staff

HOUSE OF ASSEMBLY
— Building costs had increased by 74 percent in three years, Mr Colin Eglin, Progressive Federal Party MP for Sea Point, said yesterday.

"Inflation is playing absolute havoc with property economics in South Africa," Mr Eglin said during the debate on a private member's motion on housing.

Inflation was not only pushing up the cost of building but also the cost of money.

If the value of land did not go up by 20 percent, developers and

property owners would lose money because they had to pay this rate of interest.

As a result, home ownership was now beyond the reach of young couples and older people.

Inflation encouraged speculation and the introduction of the Sectional Titles Bill had encouraged "an absolute orgy of speculation"

Mr Eglin called on the government to take action to reduce the cost of land and services, particularly by streamlining procedures.

He also said that while the State contri-

bution to the provision of housing had stayed the same, the private sector's contribution had dropped from 13,85 percent in 1960 to 12,11 percent in 1970 and to 7,16 percent in 1980

Mr Andre van der Walt (NP Bellville), who moved the motion supporting the government's housing policies, said it had a "proud housing record and much of the stability in South Africa is due to this".

Replying to the debate, the Minister of Community Development, Mr Pen Kotze, said he had been surprised that the Opposition had concentrated on the housing problems in the white community.

However, 99,9 percent of the white people on waiting lists for housing, wanted cheaper housing although they already had accommodation. The rents had increased with the higher building costs and interests.

There was no shortage of housing but there was a shortage of housing that people could afford to pay for.

South Africa had never had a more comprehensive housing strategy and it was time not for new schemes but rather for assessment as to whether current ones worked.

High inflation¹³ is pricing SA's exports out of world markets

By Malcolm Fothergill

South African exports, vital if the country is to leave the long recession behind, are hanging in the balance

On one side is the country's high rate of inflation, which makes South African exports more expensive every month, nibbling away at the ability of South African exporters to compete on world markets

On the other is evidence that the economies of the United States, Britain, West Germany and Japan — South Africa's main trading partners — are showing signs of recovery.

Once those economies are on the move, demand for South African products will soar

The bad news is that South Africa's inflation rate shows little sign of being cut to a single-digit figure in the foreseeable future, let alone to a figure approaching the inflation rates in the US or the UK

The latest figure, 10,3 percent for the 12 months to the end of January, was the lowest for more than five years (last year's figure was 11 percent).

SALES TAX

But the increase in general sales tax from six to seven percent is likely to push up this month's figure, and in the longer term the damage done by drought and floods will also tend to keep the figure high, as will other factors such as the need for the Government to provide services such as housing for underprivileged sections of the community.

Mrs Anne Moore, intelligence officer of the South African Foreign Trade Organisation, says inflation is not the only problem South African exporters are having to contend with

"Even without it, they still have an international market place that is depressed."

Safto's prediction for 1984 is that South African merchandise exports will total around R11,7 billion, up eight percent in rand terms on 1983's figure.

Safto chief executive Mr Wim Holtes is more optimistic, believing the increase in rand terms could be as high as 12 percent

As Mrs Moore points out, an eight percent increase in rand terms would mean a decline in volume, given South Africa's inflation

The Safto scenario is for the strong increase in non-gold exports during the second half of

last year to continue in a modest way in this half, followed by a significant lift in the second half of this year which should carry through into 1985.

"This will tie in with much firmer market conditions overseas," says Mrs Moore

"The fact that this is an election year in the US virtually guarantees growth there

"The UK is heading for its third year of steady growth, with a forecast growth in its Gross Domestic Product of 3 percent

Given strong recoveries in South Africa's trading partners, South Africa would benefit greatly

As Dr Braam van Staden, deputy governor of the Reserve Bank, put it late last year, the importance of increased South African exports cannot be overemphasised — they "increase the rate of growth, reduce inflation and strengthen the balance of payments"

How to stimulate those exports is the problem

NO INTEREST

Leaving inflation aside, Industries and Commerce Minister Dr Dawie de Villiers sees a lack of interest among manufacturers as the biggest single problem hampering the country's export effort

It was in an attempt to make manufacturers more export-conscious by exposing them to greater foreign competition that he abolished the remaining five percent surcharge and then eased import controls last year.

Some at least of his criticism is shared by Safto chairman Mr Paul Hoogendyk, who spoke in the organisation's 1983 annual report of the "stop-go" export pattern adopted by some local companies which react to domestic recessions by looking to international markets to revive sales.

Mrs Moore would like to see a national export strategy under which target industries could for instance be helped to increase production if economies of scale would help them on the world market.

"It's a simple answer, but of course it would be more complex than that. It would need the co-ordination of many different interests

"However, Richard's Bay took co-operation from many sources and there's no reason why that sort of dedication should not be applied to exports."

Pretoria Bureau

SOUTH AFRICA is in the grip of runaway inflation again despite the government's commitment to slow down the price spiral, according to economists.

South Africans, their earnings continually eroded by spiralling prices, are becoming poorer faster than ever before.

And, it was pointed out, this trend would accelerate after the Budget was tabled in the Assembly on March 28.

The expected increases, particularly in indirect taxation, would make further inroads into purchasing power. The unprecedented rash of price rises during the past six weeks, they say, has made the attainment of single digit inflation impossible.

And the main reason why the country's inflation rate is on its way back to the 15% level of 18 months ago is the series of recent government-administered price increases and those ahead.

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RAND DAILY MAIL, Thursday, March 15, 1984

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Economists see rate soaring back to 15%

SA once more in grip of runaway inflation

Those already announced

this year include Eskom tariffs, the bread price, sugar, railway rates, post office tariffs and fuel prices. Those expected to be announced within the next month are coal and steel prices and, at the end of April, the maize price.

Against that background, it was stated any hope of maintaining the current level of inflation could be abandoned.

The chairman of the SA Coordinating Consumer Council, Professor Leon Weyers,

said recent increases in the price of basic products and services could send the inflation rate spiralling back to 15%.

Prof Weyers said the ripple from the increases — especially railway and post office tariffs and fuel — would affect virtually every product manufactured and

sold in South Africa.

Prof Weyers said South Africa was heavily dependent on exports, especially for its hoped for economic recovery, but if inflation continued to rise, the country's exporters would be priced out of world markets.

The PRP's finance spokesman, Mr Harry Schwarz, said that in a recession prices tended to fall. In South Africa, however, the very op-

posite was happening — prices spiralled while the economy remained in the doldrums.

"The situation is very serious. Inflation is really set to take off when the upswing comes unless the government gets a tighter grip on the economy and quickly."

Trade unionists, too, are alarmed at the spate of price rises. They warn of big wage and salary demands to com-

pensate for real incomes eroded by inflation. And the higher provincial hospital fees to be introduced from April 1 will impose a heavy burden on medical aid schemes already financially stressed because of the mounting costs of illness.

In Pretoria the Administrator of the Transvaal, Mr Willem Cruywagen, announced that drastic increases in hospital costs had compelled "the administration to raise fees".

Details of the increases will be published in a provincial gazette on April 21.

The latest hospital fee increases would mean many medical aid schemes would have to adjust membership subscriptions.

● The South African Federated Chamber of Industries was surprised at the "unheralded announcement" by the Rand Water Board of an increase in water tariffs and it has expressed "regret" there had been no consultation with industry, Sappi, re-

Gimmick

MC 11915

15/3/80

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Selling 'costs SA millions'

By GLEN GARVEN

SOUTH AFRICANS are paying more for food because of marketing ploys to lure in customers, says supermarket king Mr Raymond Ackerman.

The chairman of the giant Pick 'n Pay chain yesterday criticized the use of "what he called 'frilly gimmicks' in the food industry, claiming they cost the South African consumer millions.

"The consumer would benefit by millions of rand if the money spent on these promotions by and competitors by suppliers and manufacturers was used instead to keep prices down. That is what the consumer really wants," he said.

Prices down

Mr Ackerman said in a statement to the Cape Times that his company would keep basic food prices down for the next few weeks.

"Increases in the price of bread, sugar, transport, GST and now

postage, are battering the consumer," he said. "My company will put its money where its mouth is and invest R2 million in major price reductions on forty basic food lines for one month from March 19." Pick 'n Pay, he said, would not run competitions or promotions offering expensive prizes.

"These competitions are criminally inflationary and a tragic waste of money," he said. "I am determined, with the support of the major consumer bodies, to keep these blatantly inflationary marketing ploys out of the market place in South Africa."

Other leading food chains defended their use of promotional advertising in a competitive society.

Mr Gordon Hood, managing director of OK Bazaars, said "Our prices are as good as, and in many cases better than, those of our major competitors. If, in addition, we are able to give prizes as well as prices, then surely this can only be of benefit to our customers."

"Trade coupons and discount devices are a normal and legitimate marketing strategy. They are merely one of many forms of advertising and are used extensively in many countries to the advantage of the consumer."

Mr Gordon Utian, managing director of Checkers, said "All big supermarket groups have large advertising budgets, and we are no different. Our promotions are a form of advertising, which is part of our overall budget."

Competition

"They do not increase the price of our products to the consumer, and this increased competition between the major food chains can only be of benefit to the consumer."

Mrs Joy Hurwitz, national president of the Housewives League of South Africa, called for more austerity and warned that anything that added to the cost had to be footed by the consumer in the end.

"Consumers must never forget that ultimately we foot the bill for everything."

"In these critical times of recession there must be no wastage of any sort. The league has never agreed with gimmick selling, and in the face of food-cost increases would welcome anything that saw a leveling off of prices."

Official 10 pc
inflation could
be misleading

● See Page 8, World section

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Price rises yet to be felt

Official 10 pc inflation could be misleading

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Star 23/3/84

By Bill Levitt

Don't be lulled by Government statistics showing that inflation in the year ended in February dropped to 10 percent despite the recent rise in GST — the actual figure is probably higher

The 10 percent figure does not take into account a number of price increases since January, nor the proposed price rises for such things as maize, sugar, coffee and canned goods set to hit the consumer shortly

A spokesman for the Government's Central Statistical Office said today it normally takes one to three months before price increases on non-Government controlled items had an impact on the inflation rate

The reason is that retailers can hold back price increases as long as lower-priced stocks last. Although canned goods prices may have risen nine percent in January, for instance, consumers may only start paying higher prices this month

At least one major supermarket chain said recently it had stockpiled R30 million worth of commodities in warehouses across the country in an attempt to cushion consumers against rising prices

Using its huge buying power, the 78-store chain filled warehouses across the country with such commodities as sugar, canned goods and toiletries — all bought at cheaper prices

Another major chain has purchased an undisclosed amount for storage in its supermarkets — having rejected warehousing because of the added transpor-

tation costs and the high cost of borrowing money

Spokesmen for the food stores warned that once stocks are depleted, customers will face the full brunt of price increases that, in some cases, will exceed the current 10 percent inflation rate

Since January, several announcements have been made

● The brown bread price has risen by 6 percent and the price of a white loaf has increased 11 percent.

● Canned goods have been hiked by an average of nine percent.

● Rail, air travel and freight rates will rise by 9.4 percent from April 1

● Maize is heading for an increase of at least 25 percent and this will affect a large number of other commodities

Other commodities to be hit by increases include

● Rice, which is mostly imported, is expected to rise about 16 percent. There has been no increase for 18 months

● Detergents are set to rise by about five percent and toiletries should rise by about 10 percent

● Biscuits will rise nine percent and insecticides will jump from 12 to 16 percent.

● Sugar prices will rise another three percent when rail adjustments are made

● Chocolates will rise by an undetermined percentage because of rising sugar costs

● Tea shortages will force up the price by as much as 25 percent.

● Coffee will rise 7.5 percent

● See Page 7, World section and Page 10, Metro section



Prince Charles clasps hands with a throng of

Charles's tour off to a sweet start

The Star's Foreign News Service

LUSAKA — A South African-built Land-Rover carried Prince Charles past hundreds of branch-waving school children and through thousands of hectares of sugar cane as he embarked on his first tour of Zambia yesterday

The Prince was inspecting the Kaleya Holdings sugar scheme, in which the Commonwealth Development Corporation has invested R6 250 000

Clad in a khaki bush jacket and velskoen the Prince, who is a director of the corporation, valiantly tried to siphon water from an irrigation channel into a furrow

But he was unable to obtain a sustained flow

"At least I got a little bit of water," he said throwing down the siphon

A labourer took up the siphon and to loud applause quickly achieved what had eluded the Prince of Wales

A little later, the Prince — with noticeable hesitation — took his first bite of raw sugar cane. His hosts had warned him no dentist was available

After some thoughtful munching, the Prince pronounced it "very nice", adding "But I see what you mean about the dentist"

Prince Charles is expected to go to Victoria Falls this afternoon

● See Page 8, World section

ARGUS 28/3/84 (153)

'Convincing progress in battle against inflation'

Political Staff

THE battle against inflation is making "convincing progress", Mr Owen Horwood said today

And, if as happened in many countries, indirect taxes such as GST were excluded from the calculation of the consumer price index, the current 10 percent inflation rate "would undoubtedly be a single figure"

Mr Horwood said there appeared to be a good case for reviewing the components of the index "to exclude taxes, as many countries do"

The 12-month increase in the CPI had been brought down from "the 16,5 percent recorded as recently as May 1982 to the 10 percent of February 1984"

REDUCED RATE

"This was largely as a result of the reduced rate of increase of spending and a lower rate of increase in import prices."

Fiscal and monetary policy also played an important part

Political Correspondent Tos Wentzel reports that Mr Horwood told the Assembly that South

Africa had a high international credit rating compared to other developing countries

Presenting his Budget, he said that where most developing countries were struggling to extricate themselves from the massive foreign indebtedness which was threatening to overwhelm them, South Africa had no foreign debt problem

South Africa's debt service ratio, the ratio which interest payments bore to export proceeds, was about six percent, which was low by international standards

A mission from the International Monetary Fund which visited South Africa this month again gave an encouraging report on the country's financial policies and practices

Further proof of the country's high credit rating was provided by foreign loans that were successfully raised recently

South Africa's credit rating was enhanced in recent years not only by a conservative approach but also by the positive reaction to the new constitutional system and the peace initiatives.

Standard of living

Parliament and Politics

Parliament and Politics

Middle class 'condemned' to declining

CAPE TOWN 4/4/84

Political Staff

HOUSE OF ASSEMBLY.

The failure by the Minister of Finance, Mr Owen Horwood, to take into account the impact of inflation on individual tax rates in his latest Budget meant middle-class South Africans were being condemned to a declining standard of living, one of the Progressive Federal Party's Finance spokesmen, Mr Brian Goodall, said yesterday.

Speaking in the Budget debate in Parliament, Mr Goodall said tax stat-

istics led him to conclude that it was deliberate government policy to place an increasing share of the tax burden on the backs of individuals.

Even if one received a salary increase to meet inflation, the real value of after-tax income would be seen to have dropped substantially over a few years.

The Consumer Price Index rose by an average of 76 percent between 1979 and 1983.

In the same period tax collected from individ-

uals rose by 196 percent, and income from GST increased by 208 percent.

Company tax increased by only 76 percent. The amount of tax to be collected from individuals in the coming year was estimated at R7 265-million — an increase of R1 515-million over the figure for 1983/84. Last year the rise was 34 percent. The government also expected an additional R1 160-million in GST this year.

In contrast, the amount anticipated from companies would be collected via GST would

R325-million less in 1984/85 than 1983/84.

Mr Goodall said statistics which summed up what was happening included:

- Between 1979/80 and 1984/85 the amount of tax collected from companies would have increased by 53 percent.
- Between 1978/79 and 1982/83, company profits more than doubled.
- The amount of income tax collected from individuals would have risen by 274 percent.
- The amount of tax collected via GST would

have increased by 301 percent.

- Remuneration of employees in rand terms had increased by only 102 percent between 1979 and 1983. The tax collected from them had risen at a faster rate.
- In 1979/80, individual tax and GST — which was paid mainly by individuals — accounted for 31.3 percent of the total revenue collected by the State. By 1983/84 this percentage had risen to 47.1 percent. Based on the government's own estimates, this percentage

would increase to 57.8 percent for the coming tax year.

- A total of only 10 percent of all taxpayers accounted for 52 percent of all tax paid by individuals.

Mr Goodall said the tax system was "unfair and undesirable" because it made individuals begin to doubt if it was worthwhile to work hard, and diverted energy from productive pursuits to unproductive activities.

There was danger that the initiative of the small group of taxpayers

who accounted for the bulk of individual tax collected would be killed, resulting in a strangling of the economy — which might in fact be happening already, he said.

Personal savings had declined to an all-time low from 11.3 percent of personal disposable income in 1980 to 3 percent last year. Consumer credit had also escalated.

"As we enter 1984, the outlook for consumers is bleak. Individuals are deeply in debt. Salary increases are likely to be

moderate. Personal saving has dropped to an historical low," he said.

The prospects of faster economic growth as a result of increased consumer expenditure appeared slight and would continue to have a major impact on the manufacturing sector, whose output had dropped from R8 248-million in 1981 to R7 497-million last year.

Fixed investment by the manufacturing sector declined from R2 310-million in 1981 to R1 549-million last year — a

drop of 33 percent.

In spite of generous concessions on investment and initial allowances, fixed investment declined and the allowances were considerable.

For the 1980/81 tax year it was estimated that tax foregone as a result of these two allowances alone was R822-million.

"If one looks at what was actually happening to fixed investment in the past few years, one wonders whether the benefits received were greater than the R822-

million tax foregone each year.

"One wonders if industry would not have been better served if steps were taken to lessen the impact of inflation on individual tax rates. All the concessions in the world will be of no value if the demand for goods produced is being reduced by fiscal drag," Mr Goodall said.

He said he would like to see a move towards reduced company tax, but with companies actually paying the official rate of company tax.

PEOPLE IN THE NEWS



Yvonne Bryceland

American letdown

YVONNE Bryceland won't be on "The Road to Mecca" after she's not even on the road to the United States.

American Equity has turned down Athol Fugard's plea to have the South African star in a new play, which has a premiere in the US later this year.

While waiting for a decision, Miss Bryceland turned down a lot of important roles in Britain and now the disappointed actress is hoping for some TV or film work to fill in the gap.

● Page 1, Tonight!

Mum's an engineer

MAKING her mark in a man's world is Myrene Reynolds. This divorced mother of four is a successful hydraulic sales engineer in Cape Town.

Ms Reynolds, who married at 17, went back to educating herself following her divorce.

She studied after work and gained an engineering diploma from a Transvaal technical school.

● See Page 6

People generally better off than in 1975

Pay increases 'are beating inflation bogy'

Star

By Bill Levitt

People are better off today than they were in 1975, says the National Productivity Institute.

A bleak government report recently showed that inflation had risen by 200 percent since 1975. It said that a R100 grocery bill nine years ago would now cost almost R300.

Consumers have also had to pay similar increases for shoes, clothes, furniture, household services, medical care, transportation and education.

Although the cost of living had gone up an average of 160 percent between 1975 and June 1983, this percentage had probably risen considerably after a barrage of recent price increases, the institute said.

But, despite these discouraging facts, many people were generally better off than they were in 1975.

In several sectors — including manufacturing, electrical, construction, commerce and transportation — wage increases in real terms had outstripped inflation by between five and 18 percent in the nine-year period.

Position could deteriorate

But economists warn that the position could deteriorate if the Government does not lower inflation to about five percent, the current level of its major trading partners.

Several leading financial institutions forecast that continued high inflation and lower productivity will further deplete disposable income which has been steadily declining.

Forecasters also predict that salaries are likely to trail inflation in the coming months and economic growth is likely to be hampered by the low gold price and continued high government spending.

Government statistics show that the Witwatersrand and Maritzburg had the highest average increase in consumer costs — 165 percent.

Durban had an increase of 162 percent, followed by the Vaal Triangle at 164 percent, Pretoria 161 percent, East London 153 percent, Port Elizabeth and Cape Town, 152 percent and Kimberley 149 percent.

If food prices are taken separately, the percentages rise by another 25 percent.

The Government's Central Statistical Services emphasised that the consumer price indexes did not indicate whether it



With text books in hand, a group of Shangaan women hit Gazankulu wait at an open-air literacy school for correct their work. According to officials, people in

Festival committee is seeking R26-m

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The Johannesburg Centenary Steering Committee revealed its hand last night and produced 22 prominent Johannesburg businessmen, educators and administrators, each of whom will help mount an exciting range of centenary projects.

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NEWS



Yvonne Bryceland

American letdown

YVONNE Bryceland won't be on "The Road to Mecca" after all she's not even on the road to the United States

American Equity has turned down Athol Fugard's plea to have the South African star in his new play, which has its premiere in the US later this year.

While waiting for a decision, Miss Bryceland turned down a lot of important roles in Britain and now the disappointed actress is hoping for some TV or film work to fill in the gap.

● Page 1, Tonight!

Mum's an engineer

MAKING her mark in a man's world is Myrene Reynolds. This divorced mother of four is a successful hydraulic sales engineer in Cape Town.

Ms Reynolds, who married at 17, went back to educating herself following her divorce.

She studied after work and gained an engineering diploma from a Transvaal technician.

● See Page 6.



Pay increases 'are beating inflation bogy'

Star

By Bill Levitt

People are better off today than they were in 1975, says the National Productivity Institute.

A bleak government report recently showed that inflation had risen by 200 percent since 1975. It said that a R100 grocery bill nine years ago would now cost almost R300.

Consumers have also had to pay similar increases for shoes, clothes, furniture, household services, medical care, transportation and education.

Although the cost of living had gone up an average of 160 percent between 1975 and June 1983 this percentage had probably risen considerably after a barrage of recent price increases, the institute said.

But, despite these discouraging facts, many people were generally better off than they were in 1975.

In several sectors — including manufacturing, electrical, construction, commerce and transportation — wage increases in real terms had outstripped inflation by between five and 18 percent in the nine-year period.

Position could deteriorate

But economists warn that the position could deteriorate if the Government does not lower inflation to about five percent, the current level of its major trading partners.

Several leading financial institutions forecast that continued high inflation and lower productivity will further deplete disposable income which has been steadily declining.

Forecasters also predict that salaries are likely to trail inflation in the coming months and economic growth is likely to be hampered by the low gold price and continued high government spending.

Government statistics show that the Witwatersrand and Maritzburg had the highest average increase in consumer costs — 165 percent.

Durban had an increase of 162 percent, followed by the Vaal Triangle at 164 percent, Pretoria 161 percent, East London 153 percent, Port Elizabeth and Cape Town, 152 percent and Kimberley 149 percent.

If food prices are taken separately, the percentages rise by another 25 percent.

The Government's Central Statistical Services emphasised that the consumer price indexes did not indicate whether it was more expensive to live in one city than another — they indicated price increases only.



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The chairman of the committee, Mr David Lewis, said "At the centre of the plans is the multimillion-rand integration of the Gold Mine Museum at Crown Mines, the proposed early Johannesburg village and the new showgrounds, all in the same vicinity. The National Sports and Recreation development with its proposed theme-park, sports stadium and other facilities will also form



Mrs Carol Keil

Goods and services pass inflation rate

Pretoria Correspondent

In the last three months the cost of goods and services has risen above the average inflation rate of 10,4 percent, according to the South African Co-ordinating Consumer Council.

While the cost of commodities rose by 8,6 percent the cost of services increased by 14,4 percent, said the council.

The main increase in

food prices was caused by a 17,7 percent increase on fats and oils, 18,9 percent on fruit, 13,2 percent on tea and coffee and 14,4 percent on other items.

According to the council, cold drinks showed an extraordinary price increase of 19,5 percent which was much higher than the price increases of 6,2 percent for alcohol, and 9,9 percent for tobacco and

cigarettes.

The Consumer Council said the building industry was an economic barometer so it was disconcerting that the inflation rate for housing had risen so much.

The council also maintained that a 15,5 percent increase in domestic servants' wages contributed to inflation and that setting minimum wage levels for

them would be inflationary.

The retail price of vehicles increased by 11,8 percent in the last three months — excluding the increases on vehicles above and below R15 000 announced in the Budget.

The Consumer Council also criticised the increase in communications tariffs, saying it was an unhealthy economic principle to close gaps so suddenly.

The council said it could be reasoned that there had been no communications increases between 1975 and 1979, and that communications during this period had slipped behind other services which introduced periodic price rises.

But the council said it was a harsh measure to rectify the gap by introducing a 26,4 percent increase in tariffs.

april 13 1984

Financial
Mail

INFLATION

Go back to monetarism

If you want to see the nearest thing to a bureaucratic yawn, talk to someone at Church Square, or for that matter the Treasury, about Milton Friedman and the need to crunch the money supply to reduce inflation.

It is not that they do not believe in Friedman. On the contrary, they regard the correlation between money supply and inflation as proven beyond doubt, like the boiling point of water, as *Fortune* says in its March 19 edition. They are the converted and they feel that preaching to them is a waste of breath.

Why then is Pretoria not translating this proposition into practical policy? Of course, to some degree it has done so and this has so far only emphasised the correlation.

The annualised money supply (M2) growth has been reduced from 25% in 1981 to 16,5% last year and indications are that it is growing by about 18% presently. Over roughly the same period — bearing in mind the time lag — the rate of inflation has come down from 16,5% to 10% now.

It has not been easy for the authorities to reduce the growth in the money supply. The unfortunate and unexpected drought had to be financed. There have also been some technical difficulties, which the Governor of the Reserve Bank, Gerhard de Kock, described rather whimsically last November as being caused by "statistical noise".

The fact remains, however, that inflation is still a grave — if not the gravest — problem facing the country. If it continues at current levels — or to decline at its current snail's pace — it will ultimately erode disposable incomes, destroy jobs and inhibit investment in the future. That means there is little chance of an early return to sustained economic growth.

Last year output from the economy actually contracted by a substantial amount (about 5%) largely because of the drought, the fall in the price of gold and the low demand for our exports. Yet aggregate demand, fuelled by continuing growth in the money supply, increased quite substantially. In other words, output from the economy is still a long way from being able to meet demand, and this is reflected in rising prices.

As there have not been sufficient fiscal incentives to boost output and increase supply, Pretoria has no choice now but to control demand through the money supply. The battle for price stability is far from over.

Difficulties there may be, but it is nonsense to argue that technically the money supply cannot be controlled. It has been done before. Those who doubt that might care to cast their minds back to the governorship of Bob de Jongh.

He may have mistrusted markets and had a rare talent for doing the right thing at the wrong time. But for a

considerable time in the mid-Seventies he managed to contract the money supply, never mind only arrest its growth. The FM has never been and is not now an advocate of his policies. But the point is that technically he showed that the money supply could be managed.

Many of the monetary and market reforms piloted by his successor, Gerhard de Kock, may have made control mechanistically less easy. That the reforms were necessary is beyond question. They enabled the economy to adjust smoothly to reduced circumstances beyond Church Square's control. Chances are, too, that without them inflation would have by now reached Latin American proportions. But they do mean that the chaps in the *hoofstad* have to try harder to be monetarist.

It is also true that the Reserve Bank in recent years may not have had a sufficient monetarist state of mind. Clearly too much emphasis has been placed on influencing the level of interest rates rather than keeping down the growth in monetary aggregates and ignoring the cost.

One consequence of this emphasis has been wide swings in monetary aggregates over short periods. This disrupts the banking system, inhibits trade, discourages investment and entrenches inflationary expectations. It is precisely for attempting to control the cost of money rather than its quantity that Friedman has castigated the Federal Reserve.

The volatility that this type of control sets off becomes almost self-perpetuating. According to *Fortune*, Friedman says that it "overrides noise and other random factors" and sets the economy galloping in one direction or the other. Friedman adds "If I have a sharp shock, I'm more likely to react more rapidly than if I have a mild shock."

Maybe Church Square is reluctant to tighten its monetary grip adequately because it fears the disruptive social consequences of rising black unemployment. But surely it is as plain as ever that there are unlikely to be any.

Partly the unemployed have been absorbed by the subsistence economy and, as experiences in Britain and the US have shown, in the midst of recession organised labour loses membership (in Britain the trades union have lost two million members) and its clout and becomes less — certainly not more — militant.

If the men in Church Square need reminding — which patently they do — that curbing inflation is as important as drought relief, then the FM makes no apology for risking their yawns and again waving Friedman at them, self-evident though his principles may be. For there can be no return to sustained economic growth until inflation has been licked.



CONSTRUCTIVE ENGAGEMENT

Now the differences



There is an agreement between the South African and United States governments. It says that if Washington can get the Cuban troops out of Angola, SA will agree to implement

UN Security Council Resolution 435 for the independence of Namibia.

From Pretoria's point of view, official sources make plain, that agreement still stands. What it does not do is bind SA to co-operate with every twist and turn of US policy or to wait indefinitely for Washington to fulfil its side of the bargain.

As the Americans are discovering, to their distress, Pretoria is perfectly capable of thinking what Washington likes to regard as unthinkable — what to do if US policy falls flat on its face and the Cubans remain

So far, SA's thinking, and the signals it has been sending out about the various possibilities, may be designed to do no more than pressure Washington into intensifying its efforts on the Cuban question. However, the possibility that SA might indeed attempt "a regional solution to a regional problem" has profound implications for the Reagan administration's policy of "constructive engagement" with SA

Differences are emerging between the US and SA over Namibian independence. A Namibian settlement is not a particularly pressing issue for the US, which continues to insist on a Cuban withdrawal from Angola as a precondition of Namibian independence. Pretoria, on the other hand, needs a settlement, and is more flexible on the question of the Cuban presence in Angola.

In effect, PM P W Botha's government has put Washington on notice that much as SA values friendly relations with the US, it is no American client state, and is both ready and willing to try different solutions if the US is unable to deliver its side of the bargain.

From Pretoria's viewpoint an indefinite return to the *status quo ante* in Namibia (while a new American administration, whether Reaganite or not, fashions a new set of proposals) is unacceptable. As one source pointed out to the *FM* this week "We have waited almost two years since the last obstacles to a settlement were removed in July 1982.

"In that time we have borne heavy administrative and military costs in Namibia. We have received no support but have indeed been subject to the arms embargo and to increasing diplomatic isolation — as was shown in the Security Council votes on our (military) activities in southern Angola at the end of last year and in January this year"

The implication is that SA is not prepared to wait much longer for a Namibian settlement. Yet the same source is adamant that implementation of Security Council Resolution 435 is dependent on a Cuban withdrawal.

But if 435 is dependent on a Cuban departure, what other solution is possible that does not carry the same precondition? Clues to this were recently given by Foreign Affairs Minister P W Botha. They came as an unpleasant surprise to the Americans — who were not consulted in advance.

One was his proposal for a regional peace conference — that would include Swapo and Unita as well as the Namibian internal parties and the SA and Angolan governments. The other clue was his statement that if the Cubans did not withdraw SA would still attempt to find a way of bringing Namibia to internationally recognised independence.

Botha has denied that his peace conference proposal was designed to by-pass resolution 435 or to exclude the United Nations

from a role in the Namibian peace process.

A diplomatic source adds to this "If it is not possible to implement 435 and if the Namibian parties, entirely unprompted by anyone, come forward with a solution of their own, Pretoria would see no reason to stand in their way."

This idea begs an infinity of questions — including that of American reaction to being publicly excluded from a settlement that has promised to be the Reagan administration's sole major foreign policy success.

Official sources admit that for a settlement to be recognised internationally it would have to be acceptable to black Africa — and particularly to the frontline states which have so far been adamant that any settlement must accord with resolution 435.

The proposed "internal" settlement would require a deal between Swapo and the various internal parties, particularly those in the Multi-Party Conference (MPC). It would require Angolan concurrence and at least the agreement of the frontline states. In addition, and American sources tend to emphasise this, it would also be dependent on a deal between Luanda and the Unita movement involving formation of a coalition government of Unita and the ruling MPLA.



PM Botha ... putting the US on notice



Reagan ... obsessed by the Cuban issue

10/14/84

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Inflation down but likely to rise soon

Financial Reporter

THE annual rate of inflation probably dropped below 10% in March for the first time since June 1978 — but it is likely to accelerate again over the next few months.

This is the conclusion of the April economic review from Barclays National Bank.

It says "The decrease in the (inflation) rate in February took place despite the fact that the increase of 1% in general sales tax raised the consumer price index by 0.7% and

was mainly the result of an increase of only 9.1% in the index for food prices."

That rise compared with 13% in the year to the previous February Barclays says of similar statistical developments over March this year that it is likely the inflation rate fell below 10%.

But it warns: "Thereafter, however, the inflation rate is likely to reaccelerate again and it is going to be very difficult to achieve an average inflation rate below the 10% to 11% level for 1984 as a whole."

"Following a likely increase of some 17% in salaries and wages for

civil servants it is unlikely that average salary and wage increases in the economy for 1984 will be much below 12% to 13%."

This is especially because of the likelihood that food prices will rise strongly in the year ahead under the impact of the drought, while salary and wage-earners will also expect to be compensated for the impact on their cost of living of the further increase in GST, higher bond interest rates, etc.

"This would mean that costs, generally, are likely to rise to roughly the same extent."

"With profit margins under pres-

sure, most of the salary and wage increases (except perhaps for 1% to 2%) is likely to be passed on into higher prices, particularly as a number of other important cost items, such as electricity, transport, postal tariffs, water, etc have also risen."

Dr Johan Cloete, the chief economist of Barclays, says that Mr Owen Horwood, the Minister of Finance, did not appear to have a clear inflation target for this year in his Budget.

He says: "It is also not clear at what levels money supply growth or interest rates are to be kept in

the year ahead

"Presumably, however, a policy of monetary discipline will continue to be pursued. This implies that the prime overdraft and related short-term lending rates will be maintained at a high level until the excessive demand for consumer credit in particular starts to fall away."

"Even thereafter the prime rate will be kept at a positive level in real terms — that is, some 0.75% above the prevailing inflation rate in order to continue to exert downward pressure on the inflation rate," he adds.

Volkskas warning on growth rate

Living standards below 1978 level

ROM 17/4/84 153
By HOWARD PREECE

AVERAGE living standards were lower last year than in 1978, according to the April Economic Spotlight from Volkskas.

Thus, the bank says, explains why Mr Owen Horwood, the Minister of Finance, is anxious to see economic growth increasing again.

Volkskas also adds to the general warnings about the extreme difficulties that Mr Horwood will have in keeping State spending in 1984-85 down to the maximum planned level.

It says that Government expenditure could overshoot by as much as R1bn and in that case, "we may expect higher taxes later this year".

Volkskas says the country is faced with a rather difficult situation.

A higher economic growth rate is needed, but not of the type currently experienced where an increase in consumption expenditure is the main stimulant in the recovery process, with the result that imports rise sharply.

"What we would much rather see is that imports remain at a low level in 1984 while exports rise so that we can have growth, together with a strengthening of the balance of payments."

It says that SA had negative economic growth during the past two years.

In 1982 the real gross domestic product declined by a little more than 1% and in 1983 by about 3%.

If population growth is taken into account, it appears that the

per capita real gross domestic product dropped from R1 105 in 1981 to R1 012 in 1983 — a decrease of 8,4%.

"In fact, the figure for 1983 was somewhat lower than that for 1978."

Looking at last month's Budget, the bank says that Mr Horwood has to take major account of the inflation problem.

"In this regard it is encouraging to note that the rate of increase in the consumer price index declined considerably in recent months."

"However, the inflation rate is still too high."

Moreover, says the bank, the factors which underlie the high rate of inflation at present should be considered.

"Is inflation at the moment caused by demand or cost pressure, or a combination of both? In our view the major cause of current price increase is cost pressure."

The bank argues that the most serious question mark hanging over the 1984-85 Budget is whether Mr Horwood, his colleagues and government departments are likely to succeed in pegging real expenditure for the year at about R25bn.

"We must be forgiven if we sound a little sceptical and express certain reservations."

Volkskas says that according to the information given, it appears that expenditure on education and training, defence and interest payments on Government debt will rise by 23%, 21,4% and 25,3% respectively in the coming financial year.

Together these three votes account for 45% of total expendi-

ture budgeted for, it says.

"If the increase in total Government expenditure is to be limited to about 12%, the remaining expenditure votes can rise by only about 2,2% on average."

This seems improbable to the bank, though it notes that expenditure on certain subsidies, transfers, loans and the purchase of shares to public corporations has been substantially reduced.

It cautions "If our fears were to be realised that government expenditure in the 1984-85 financial year may yet again prove to be about R1bn higher than budgeted — would that we are proved wrong — then we will be up against many problems in the economy."

Tax rises, possibly an increase in GST, could then occur.

Volkskas says it would welcome a recovery in the current circumstances, provided it is an export-led revival or if the country can succeed in reducing imports.

It says there can be no doubt that the economy will be seriously damaged by too rapid a rate of increase in both private and government consumption expenditure.

"In this regard the Government will have to do everything in its power to curb its spending, while individuals, in particular, will have to restrain their inclinations to buy."

"If not, additional measures will have to be taken to keep private consumption spending within acceptable limits."

"It is imperative that the man in the street reduce his spending and increase his savings in the coming year," the bank adds.

SA inflation rate rises to 10,2% ^{CAPL} ^{Trails} ¹⁵³ ^{20/4/86}

By JOHN MULCAHY

JOHANNESBURG. — The inflation rate, as measured by the Consumer Price Index (CPI), crept up to 10,2 percent for the year to the end of March from 10 percent at the end of February.

The inflation rate has now dropped steadily from 15 percent at the end of February last year, but hopes that it might slip below 10 percent now seem to have little chance of fulfilment.

The CPI rose by 1,26 percent last month to 281,9 (base 1975 100) from 278,4 at the end of February.

Over the last six months the year-on-year CPI has proceeded as follows

January — 10,3 percent

February — 10 percent

March — 10,2 percent

Commenting on the latest CPI figures in an interview with Sapa, Mr Nico Czipionca, senior economist at the Standard Bank, said the increase in the inflation rate between February and March was 16,2 percent, reflecting the continuing acceleration in inflation since late 1983.

Higher rate

Mr Czipionca said "The year-on-year rate partly disguises the true current inflation rate. The acceleration in inflation between February and March is much higher than only 0,2 percent and on an annualized basis it works out at 16,2 percent."

He saw the increase as no surprise as the rate on a month by month basis had been accelerating rapidly in the past six months or so. But it showed that

many price increases that had been postponed were now coming through, with inflationary consequences.

It also indicated the effect on the economy of the depreciating rand and the continuing high cost of the drought. Demand was still buoyant while high interest rates and the measures introduced by the Minister of Finance, Mr Owen Horwood, in last month's Budget to slow down the economy, were yet to have an effect.

Mr Czipionca said there was every reason to expect the acceleration in the inflation rate to be slower in the next few months as a result of these measures.

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Central Statistical Services also disclosed in Pretoria yesterday that the CPI for last month was 281,9, while that for February was 278,4. The food-only index for March was 302,4.

Private sector economists have warned repeatedly that inflation is the single biggest problem facing South Africa's business sector, and that euphoria at the drop in the inflation rate to 10 percent last month should be tempered by the experience elsewhere in the world.

South Africa's main trading partners are all boasting inflation rates well below 10 percent — and below five percent in some cases — and the prospects for an early

recovery in South Africa are seriously endangered by inflationary considerations.

South African exporters are already facing intensely competitive prices in markets abroad, and with inflation again threatening to move strongly into double-digit territory the ability to compete is further restricted.

Failure

One economist noted earlier this month that the failure to bring the inflation rate down to a single-digit increase in a time of severe recession boded ill for the long-awaited recovery.

"What in heavens name is going to happen to the inflation rate when the economy finally hits the recovery path — the possibility of a 20 percent rate must be a serious prospect."

Credibility

With GST widely expected to be lifted to eight percent within the next few months — both Mr Horwood and the Commissioner for Inland Revenue have stated that there is a likelihood of additional revenue being required — and the prospect of administered price rises assured, the year-on-year CPI rise is likely to entrench itself above 10 percent again.

It is critical that consumption expenditure be contained before a serious dent can be made in the inflation

rate, but a serious credibility gap needs to be closed before consumers will believe that inflation is being effectively tackled.

And it is here that the classic "Catch 22" situation arises.

Consumers will not curb their spending until there is evidence that inflation is being brought under control, but there is no prospect of inflation being brought under control until spending is curtailed.

BUSINESS

SA inflation rate creeping up again

RDM, 20/4/84 (153)

By JOHN MULCAHY

THE inflation rate, as measured by the Consumer Price Index, crept up to 10,2% for the year to the end of March from 10% at the end of February.

After dropping steadily from 15% at the end of February last year to a low of 10% at the end of February, there was hope that the rate might be brought below the important psychological 10% mark, but there now seems little chance of fulfilment.

The consumer price index rose by 1,26% last month to 281,9 (base 1975 = 100) from 278,4 at the end of February.

For the first three months of this year, the year-on-year CPI has proceeded as follows

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February — 10%

March — 10,2%

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the rate on a month-by-month basis had been accelerating rapidly during the past six months or so. But it showed that many price increases that had been postponed were now coming through, with inflationary consequences.

It also indicated the effect on the economy of the depreciating rand and the continuing high cost of the drought.

Demand was still buoyant while high interest rates and the measures introduced by the Minister of Finance, Mr Owen Horwood, in last month's Budget to slow down the economy, were yet to have an effect.

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facing intensely competitive prices in markets abroad, and with inflation again threatening to move strongly into double-digit territory the ability to compete is further restricted.

One economist noted earlier this month that the failure to bring the inflation rate down to a single-digit increase during a time of severe recession boded ill for the long-awaited recovery.

"What in heavens name is going to happen to the inflation rate when the economy finally hits the recovery path — the possibility of a 20% rate must be a serious prospect."

With general sales tax widely expected to be lifted to 8% within the next few months — both Mr Horwood and the Commissioner for Inland Revenue have stated that there is a likelihood of additional revenue being required — and the prospect of administered price rises assured, the year-on-year CPI rise is likely to entrench itself above 10% again.

It is critical that consumption expenditure be contained before a serious dent can be made in the inflation rate, but a serious credibility gap needs to be closed before consumers will believe that inflation is being effectively tackled.

And it is here that the classic Catch 22 situation arises. Consumers will not curb their spending until there is evidence that inflation is being brought under control. But there is no prospect of inflation being brought under control until spending is curtailed.

RDM
MAIL, Friday, April 20, 1984

Inflation continues to spiral upwards

By GERALD REILLY
Pretoria Bureau

SOUTH AFRICA'S chronically high inflation rate increased again during March, according to the latest consumer price index (CPI) released in Pretoria yesterday by Central Statistical Services.

In February the rate dropped by 0,3% to a 12-month figure of 10%.

During March however, it rose again to 10,2%.

Economists said yesterday the 10% barrier would be hard to break and it was unlikely it would be broken for the rest of the year.

During March the all-item index rose from 278,4 to 281,9 an increase of 1,3% which, on a 12-month basis, is more than 15%.

The food-only index reflected the escalating costs under the impact of last summer's disastrous drought.

The index rose by 2% during March, with a 12-month figure of 9,6%.

A Volkskas economist, Mr Adam Jacobs, said the CPI was likely to continue rising during the months ahead.

Major factors in the level of the country's inflation rate were the weakening of the rand which made imports much more costly, the high growth in the money supply and the high level of Government spending, which had a short term impact.

Other economists pointed out that higher railway and post office tariffs, which came into effect on April 1, still had to make their impact on the index.

Just ahead, too, were price increases in two major foods, maize and milk.

CAL TIMES 27/4/84 153

Control of inflation does not augur well for gold

MAJOR industrial nations are reviving from the worst recession since the 1930s. This recovery which has been in progress for more than a year, is different from the sporadic upswings which occurred in the past decade. For the first time since the 50s and early 60s, the United States and other Western economies are experiencing economic growth with minimal inflation.

These developments have created problems for South Africa.

In a disinflationary world it is difficult for the country to make a fortune out of the gold price.

Following hardship and record unemployment in the early 80s, conservative economic policies are beginning to reap rewards.

Institutes

West Germany's five leading economic research institutes, predict that the United States economy will grow by five percent this year, Japan by four percent, West Germany by three percent, Britain by 2.5 percent, Italy two percent and France by one percent.

While economies have slowly improved, inflation of the 24 member nations organization for economic co-operation and development, fell from an average of 10 percent between 1973 and 1982 to five percent last year.

Progress of some individual states was more notable. Britain's average inflation rate was

Business Report's European financial editor, Mr Neil Behrmann, recently visited South Africa. In a series of three articles, he discusses international economic trends, their impact on the South African economy, and the political situation. The first article covers economic developments of South Africa's major trading partners. This is of vital importance to the performance of South African exports, the balance of payments and the internal economy.

nearly 14 percent between 1973 and 1982. It is currently five percent.

From a nine percent average, United States inflation fell to three percent, although it rose above four percent recently.

The success against inflation has not encouraged policy makers to return to "growth at all costs".

The British electorate backed the Conservative government's anti-inflation aims, even though unemployment rose above 3m.

Confidence

Such is his confidence in the present gentle recovery that the Chancellor of the Exchequer, Mr Nigel Lawson, recently stated that he preferred zero inflation.

Most forecasters expected easy money policies ahead of an American election year.

Instead the Federal Reserve Bank has tightened credit and raised interest rates fearing that brisk economic growth will soon lead to higher inflation.

This change in international economic policies has already affected the movement of South Africa's exports.

The slow international industrial revival is beginning to boost export volumes and prices of non-ferrous and ferrous metals ranging from chrome manganese, vanadium antimony to zinc nickel and copper.

But the disinflationary world economic environment has hindered demand for precious metals and quality diamonds. Platinum is an exception because it is widely used in rapidly expanding industries.

Chart

A long-term chart of precious metals dealers J Aron illustrates gold's problems.

With the exception of a brief collapse to \$300 in mid-1982 and a spurt to \$500 early 1983, gold has been locked between \$360 and \$430 for well over two years.

Excitement has gone out of the gold market and speculators and investors are trading between a 20 percent

band. Physical demand improves when gold falls to around \$380 and then abates when it rises above \$400.

Besides the lethargic investment interest the metal is suffering from another aspect of disinflation. Huge price increases in the late and early 70s encouraged fabricators to use smaller quantities of gold in jewellery. They are still doing so.

Since supplies continue to outpace fabrication demand, the price finds it difficult to make headway. The diamond industry is experiencing similar problems. Small cheap diamonds are popular while expensive stones are unfashionable.

Economists

Most South African economists are predicting a precious metals and diamonds revival ahead of the election. Their forecast is based on a weak dollar.

This prediction is really a bet on Federal Reserve Board chairman Mr Paul Volcker. Will he or won't he ease money ahead of the election?

History indicates that he probably will.

But unless a Democrat becomes president any ease in credit will be temporary.

In these circumstances, it is hardly surprising that the Reserve Bank is presently raising interest rates, hoping that the country will bite the bullet.

If the gold price remains between \$360 to \$430 South Africans will have to do so.

Your R60 000 house worth R4m in 20 years — professor

By FRANK JEANS

INFLATION is a vicious circle, especially when it involves homes and building society bonds — a fact thumped home in a speech to building management graduates by Professor T L Webb of the School for Business Leadership at UNISA

"The effects of prolonged inflation on building costs are brought into perspective if one remembers that at an annual inflation rate of 25 percent, a house costing R60 000 today will, in 20 years, cost over R4-million or about 70 times as much," says Professor Webb.

"One particularly insidious effect of inflation has resulted from the traditional way of repaying the mortgage on a house in the form of a fixed monthly amount.

"It means that the original loan is repaid with money which is, in real terms, worth less each year

"This situation which is seriously exacerbated by often unrealistically high housing subsidies, substantially fuels inflation in that the disposable income of the borrower, who pays a progressively decreasing percentage of his annually increasing income, increases yearly"

He says if a home buyer pays 25 percent of his income, in the ninth year he pays 8,6 percent. In the

19th year he pays 3,2 percent and in the 29th year 1,1 percent, assuming he has a 30 year loan.

This is based on two assumptions: that the annual inflation rate is 12 percent and that the man's income increases with inflation

* * *

THERE are more than 600 approved townships comprising 56 000 home sites in the Transvaal which could help to ease the accommodation shortage but are being bogged down on two fronts:

- Delay in the township process, and,
- Failure of developers to comply with pre-proclamation requirements which probably has been aggravated by economic conditions and availability of money

These facts emerge from the reports from the Commission of Inquiry into Township Establishment which are now before Parliament.

And the commission pulls no punches when it comes to delay in getting the townships going.

"The extremely long time taken by the township establishment process at present is one of the most critical factors that hampers the rapid and effective production of new residential sites," it says

"A drastic reduction in the period required to complete establishment is necessary if the industry is to function on a sound basis at all"

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City motor trade booms in rush to beat 10% GST

Staff Reporter

THE rush for cars is on in Cape Town as buyers climb in to avoid paying hundreds of rands — and in some cases thousands — when GST goes up

Everyone in the motor trade, from those in the second-hand market to those dealing with six-figure jobs, appears to be experiencing a boom, with an even greater rush expected when the tax deadline approaches at the end of next month

Mr David Wayne, manager of Market Cars said that although the GST increase was announced only on Friday, there had already been a general upturn in demand for second-hand cars

LIKE CHRISTMAS

"We are expecting a big rush like the last weeks before Christmas. We had the same thing last time when GST went up by one percent, but

this time it's three percent," he said

On a second-hand car costing R5 000 a buyer would pay R150 more, and would be reluctant to pay the extra cash

He said he expected three months' business to be squeezed into six weeks, and there could be a slump once GST was increased, before the market returned to normal

FLASH IN PAN?

Mr Jack Kerby, franchise director of Porter Sigma, said that an improvement in sales was noticed on Saturday and yesterday following the announcement on Friday that GST would go up in July

"Whether this was a flash in the pan, we must wait and see," he added

On an average R10 000 family sedan the new GST would add R300 to the price. This was the

difference between buying a good car radio or a sun roof, he added

Mr Piet Slabbert, managing director of Motors WP Porsche said that since the GST announcement more pending deals had been concluded

In one case this involved a car costing R102 000. If the buyer had delayed until July this would have added more than R3 000 to the price

Although this might be "peanuts" to such buyers, to people in that income bracket "tax" was a dirty word, he added

40 electrocuted

DELHI — Forty passengers were electrocuted when luggage on top of a bus touched power cables near Allahabad — Sapa-Reuter



Bazaar, an American magazine, says modelling. From left: Paulina, Nancy De Severance. The magazine made its

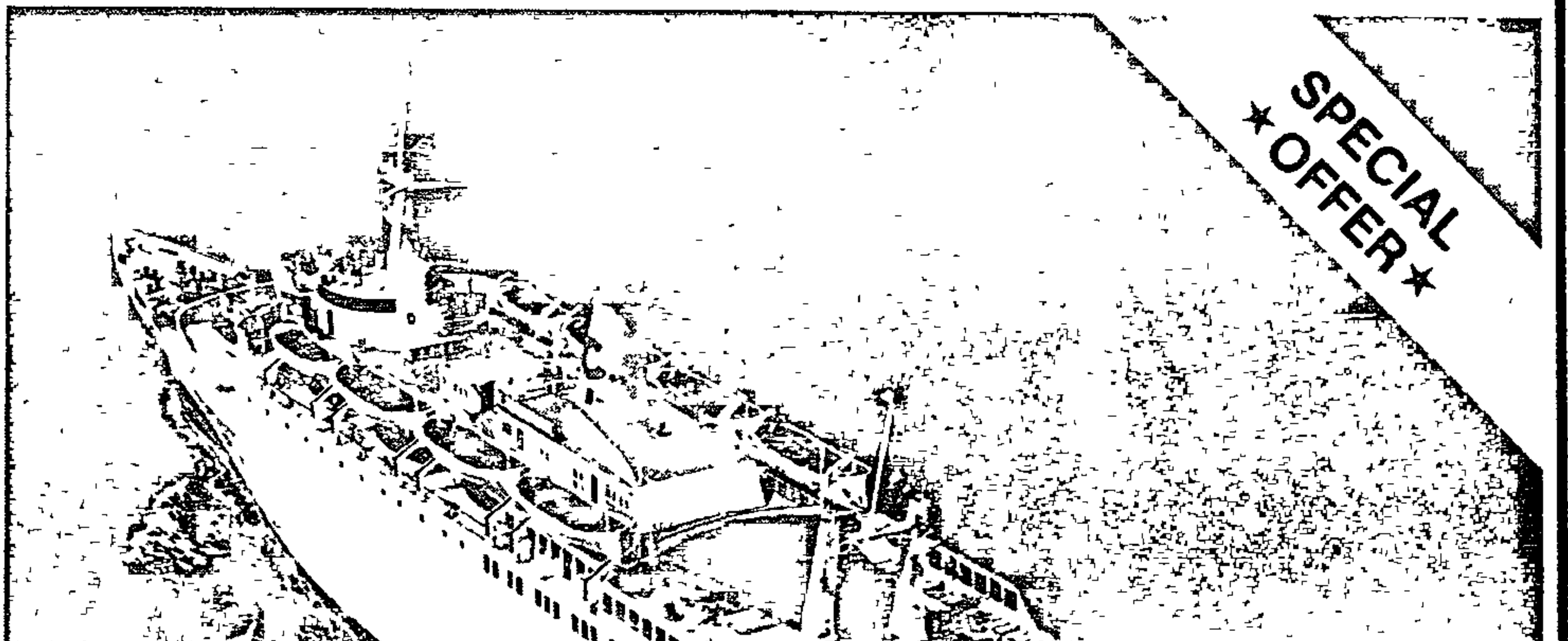


BARGAIN CRUISE OFFER

ON

MV "WORLD RENAISSANCE"

A HOLIDAY OF A LIFETIME



SPECIAL
★ OFFER ★

GST starts spending spree

CAPE TIMES 21/5/84 153

By EBRAHIM MOOSA

CONSUMERS threatened by the 10 percent increase in sales tax from July 1, have started a spending spree which may herald the beginning of a "mini-boom" in the retail market, dealers said.

Car, electrical appliances and household furniture dealers, said they had received more inquiries since the announcement of an increase in GST and that brisk trading in the coming weeks was anticipated. In the clothing and food sector trading in most cases remained normal.

"We're definitely going to do 60 percent more business this month," said a car sales manager at Farber-Nissan in Cape Town. The upsurge was noticed immediately after the announcement of the increase in GST, he said.

"There is no doubt that there will be an upsurge in the car industry," dealership manager at Atkinson's, Mr Terry Sorour said. "A car that retails at R10 000 will have an increase in GST of around R300, which is a substantial amount."

Mr Colin Abel, managing director at Victrix — dealers in electrical appliances — said that people were cognisant of the price increases which will take effect in July. Inquiries for higher priced items such as video recorders, television sets, stoves and refrigerators had increased markedly.

"The psychological impact of the increase in GST on consumers has been unbelievable, because people do not see it as an increase of three percentage points, but more as 10 percent," said Mr Stanley Fleishman, director of operations for Dion.

"One of the major reasons for increasing GST was to stem consumer demand, but in fact it has stimulated demand," he said. However, sales could be expected to bottom out during July, August and September before they picked up for Christmas.

Marketing director for Edgars — the clothing chain — Mr Robin Carlyle, said from Johannesburg. "So far there is no indication that consumers are going on a shopping spree in our end of the market. Some people are definitely going to buy a new car before July, but not many will care to buy a new shirt before that time."

Inflation, tax burden worry Louw

ARGUS
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Provincial Reporter

WITH income tax and higher GST, the man in the street was probably not better off, even with an increased salary, Administrator Mr Gene Louw said in the Provincial Council.

He said he was concerned at the "increased tax burden on the shoulders of the man in the street" at a time when inflation was reducing the value of his money.

The whole economic tendency was inflationary.

"You give a man more money and you take more off in taxes. And I'm not sure you actually get more in the balance."

Anomalies

There were other anomalies in the South African situation. In the Western Cape, for example, the prices of houses had risen, yet homes were difficult to find. In a time of recession housing costs were actually rising.

He told of a provincial employee who lived free on provincial premises. "Then he came to me and said he could no longer afford it. As long as he lived free, he lost a R400 to R500 housing subsidy."

Mr Louw said he was concerned about high increases in the salaries of some top officials in the public service. They warranted better salaries, but it had the tendency to create a need for all the lower echelons to be raised proportionately.

At the same time public servants in these top posts had to be paid competitive salaries or they would be lost to the private sector. With the Cape handling a budget of R1 770-million a year, these specialists were needed.

Jobs needed

Poverty could not be solved by charity and hand-outs, but by creating jobs and houses. This in turn depended on beating inflation.

The Provincial Administration intended to exercise more financial discipline, with a continuous reassessment of its priorities.

He moved the second reading of the 1984-85 Cape budget of R1 770-million. This was approved by the council by 42 votes to nine — the PFP voting against.

Political Staff

THE 'once' cosy relationship between the government and businessmen appears to be souring fast as the economy slips deeper into a recession.

In the latest indication that the honeymoon is over, the Minister of Constitutional Development and Planning, Mr Chris Heunis, yesterday sharply criticised comments this week on aspects of the government's economic policy by the president of the Cape Town Chamber of Commerce, Mr R W Stern.



Mr R W Stern



Mr Chris Heunis

And it is reliably understood that certain senior cabinet ministers believe the private sector has not made sufficient effort to combat inflation and therefore has no right to accuse the government of adopting inflationary measures.

Criticism has also been expressed at cabinet level of the private sector's exploitation of the Income Tax Act and of the fact that the private sector's contribution to State revenue has dropped.

The government has been widely criticized for its economic policies since the Minister of Finance, Mr Owen Horwood, presented his Budget.

Some of the most surprising comments came this week from the outgoing president of the Afrikaanse Handelsinstituut, Mr Hennie Klerck, who accused the government of "apparent incompetence" in handling the economy.

Mr Stern said in his annual report released in Cape Town on Thursday that the government appeared unable to control its spending, but expected others to impose curbs on their's.

'Squalid and dangerous conditions'

He was also critical of official proposals to tax the business sector to finance local government under the new constitutional dispensation.

Yesterday Mr Heunis said the attack on the government by Mr Stern was "extremely negative".

In a statement, Mr Heunis said the chamber's president had not acknowledged that the authorities had spent "many millions of rand to improve the squalid and dangerous conditions under which many people had been living in the Western Cape". Nor had he acknowledged the government's "concerted efforts" to provide housing in which "it had in fact received very little active support from all but a handful of companies and employers".

Mr Heunis said the local authorities had had taxing powers for many years.

The proposals for additional sources of revenue for local authorities which had been approved in principle were also not new.

These proposals had already been discussed with commerce and industry on an informal basis.

"During these discussions it was stressed that the proposals would only be implemented once the government had taken final decisions on any possible changes in the form of local government and after comprehensive negotiations had then been conducted with organized commerce and industry as well as organized local government."

However, he was gratified to note that Mr Stern appealed to employers to shoulder some responsibility for housing as this was not the responsibility of the government alone.

Heunis hits back at Stern

CAPE TIMES 26/5/84
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SA 'winning' fight
against inflation'

THE FIGHT against inflation was being won in South Africa, but increases in administered prices and within the public sector, were resulting in a Government-led price spiral according to Mr Chris Ball, managing director of Barclays National Bank

He said the authorities had been far from disciplined in dealing with prices in their sphere and this had been the major factor in the price escalation pattern

Year-on-year inflation increased to 10.98 percent in April from 10.16 percent in March

It was not the commercial banks' but the

Reserve Bank's policy to keep interest rates high, to influence the demand for credit through its price and thereby the demand for goods and services and therefore the inflation rate

SPENDING

However, the problem was that there was no excess demand and productive capacity was adequate

Only when the public's perceptions of continued inflation changed would spending be curbed, he said

He said the marked shift of deposits into the short-term end of the market and a narrowing of the differential between different maturing of deposits occurring as a result of the current pattern of interest rates established since January was not good for the banking community.

LIQUIDITY GAP

The change in the deposit structure had a significant impact on the liability structure on the liability side of the balance sheet

Foreign deposits had also increased to plug the liquidity gap

The Reserve bank had been underpinning the current rates and draining cash from the market when surpluses occurred — Reuter

How Trust Bank was 'saved'

Staff Reporter

BIG-BUSINESS support prevented the Trust Bank from going under a few years ago, the chairman of Sanlam, Mr Marinus Daling, said yesterday

He was speaking at a lunch-time seminar at the University of Cape Town on the concentration of economic power in South Africa. The other speaker was Professor Brian Kantor of the university's School of Economics.

"The Trust Bank would not have been here today if Sanlam had not stepped in," Mr Daling said.

He said the intervention of Sanlam had been necessary, too, because the economy was at a critical point and would have been badly affected by the collapse of the Trust Bank.

Question

The difficult question to answer was "When does size become bad?"

There was greater competition in a market where there were three or four strong groups than in a fragmented market.

A University of Pretoria study had also

shown that inflation could not be attributed to concentration of economic power.

Mr Daling said the process of concentration of economic power would continue in future and would be in the interests of South Africa.

As a member of the Competitions Board, Professor Kantor said, he was concerned with the efficiency and the individual's freedom of choice.

Constitution

The preamble to the new constitution, he said, proclaimed the idea of effective competition which best guaranteed efficiency and choice.

Professor Kantor quoted the South African Transport Services as an example of an unit which did not make for effective competition.

Conglomerates were not yielding the same dividends for investors as they would have received had they invested through a diversified institution.

"They are becoming less valuable than the sum of their parts."

GROUP NO 15
Transvaal 2

Moodie and Gollino (251)
Moodie and Gollino (252)
Bopape (65)
Graaff (60)
Parnell and Mabin (62)

GROUP NO 16
QwaQwa

Beukes (230)
Bank (282)
Sharp and Martiny (286)
Spiegel and Sharp (52)
Niehaus (297)

GROUP NO 17
Relocation

*Platzky (73)
Claassens (74)
Donald/Kerchoff (75)
*McLennan (76)
Hayson and Armstrong (78)
Mfenyana (78)

GROUP NO 18
Protecting Jobs

Hayson and Thompson (8)

*Nupen (117)
Webster (111)

GROUP NO 19
Health A

Jacobs (179)
Disler (186)
Mann (191)
Raynal (280)

Roberts and Ripp (254)

GROUP NO 20
Health B

Von Schirnding (180)
Yach (181)
Moola (183)
Steyn (184)

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More money for less work can only increase inflation,

'Work gap' threatens catastrophe

By Michael Chester

There is renewed alarm over the yawning gap between fatter pay packets and shrinking productivity — blamed as a main cause of high inflation and revealed in a special study.

The study, prepared by the National Productivity Institute, warns that it has spotted a widening gap that threatens "catastrophic results" in the consumer price index spiral.

It shows that while salaries and wages jumped by an average 14.2 percent in the manufacturing sector in 1983, labour productivity skidded 4.6 percent lower — the worst on record.

The overall labour cost of units coming off factory production lines soared by 19.6 percent — nearly four times faster than five years ago.

The NPI plans to invite the chairmen of leading companies in each of the main business sectors — selected from the JSE Top 100 — to form a special panel to work out a strategy on how to reverse the worsening trends.

The first session of the business brains trust is expected to be held early next month during a nationwide Productivity Week in which the gravity of the situation is likely to be spelled out by

Mr Dawie de Villiers, Minister of Industries and Commerce

"South Africa has paid lip service to productivity in recent years, but now it has become crucial that positive action is taken," Dr Jan Visser, executive director of the NPI, told 24 Hours

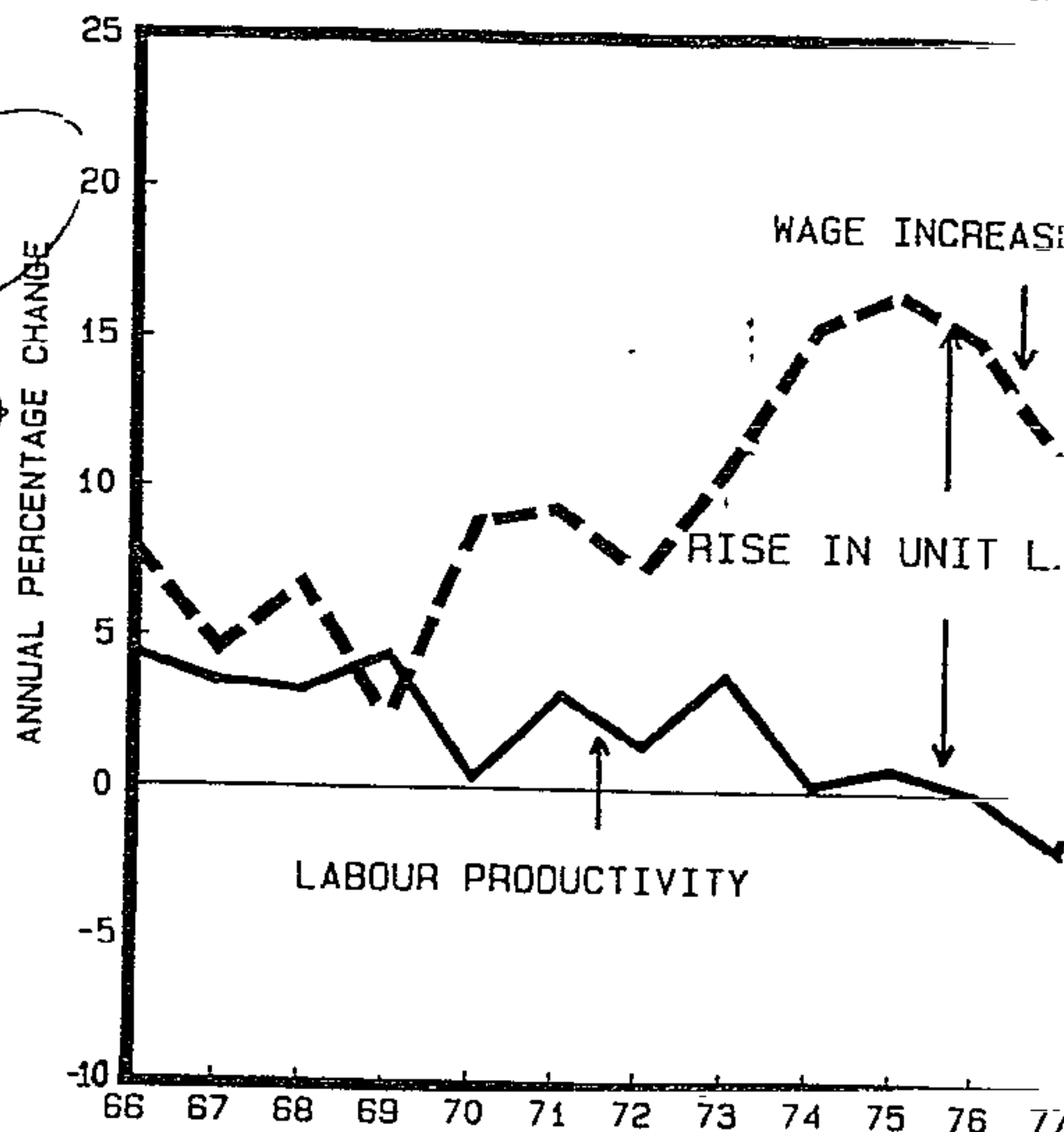
"It's no longer a matter of tut-tutting over our dismal performance. We are now talking about virtual economic survival as our overseas trading partners go striding further and further ahead of us and our high production costs threaten to squeeze us out of world markets."

Dr Visser blames the poor productivity record for the way ultimate living standards are being eroded by inflation.

FURTHER BEHIND

The study shows that output a head is now running more than six times higher in Switzerland, five times higher in the United States, four times higher in Japan and three times higher in Britain than in South Africa.

And annual average changes are pushing South Africa further behind. The NPI study notes that Taiwan has taken less than a decade to overtake South Africa in gross domestic product a head, the first measure of living standards, with annual increases running 10 times faster since 1972



"It cannot all be blamed on employees, especially in a recession when total production declines because of less demand and there is more capacity standing idle," argues Dr Visser

"The chronic high birth rate also needs solution if families hope to attain a better living standard

"But first and foremost it is management that needs to put on its thinking cap about the catastrophic way things are going"



'How we raised output, quality and profits too'

By Malcolm Fothergill

Productivity in South Africa will come under the spotlight at a high-powered one-day conference in Johannesburg next month.

Four South African companies, winners of National Productivity Institute annual awards, will tell delegates in detail how they have increased output, improved quality and boosted profits during the worst recession since the 1930s.

The "Productivity Through People" conference on July 30 is being presented by the Management and Manpower Foundation and The Star as a follow-up to the highly acclaimed "In Search of Excellence" conference in March. It will be opened by the Minister of Industries, Commerce and Tourism, Dr Dawie de Villiers.

Case histories will be given by senior executives of Middelburg Steel, David Whitehead, Rowen (SA) and Standard Bank.

Also speaking will be Mr Dennis Etheredge, president of the SA Institute of Management and former chairman of the gold and uranium division of Anglo American; Mr Mof Lemmer of Sigma Motor Corporation, and Dr Jan Visser, executive director of the National Productivity Institute.

Increases will keep inflation on the rise this year, say experts

MORE STOCK PRICES RISE

By CHRIS ERASMUS
and BRUCE HOPWOOD
Weekend Argus Reporters

SOUTH Africans, already reeling under a long list of price increases, can expect no relief.

New price increases in July, including a 43 percent jump in GST from seven to 10 percent, threaten to keep inflation on the rise for the rest of the year, experts predict.

Two further blows have been announced in the past day. Foreign postal rates are to be increased from July 1 and Barclays Bank is to increase its interest rates on home loans with effect from Monday.

The increase in foreign postal rates will be between 17 percent for airmail letters to Japan and Taiwan, and 40 percent for airmail postcards.

Bond rates

The rate on loans up to R40 000 will increase by 0,5 percent to 18,5 percent, said Barclays. On loans above R40 000 the rate is to increase by 0,25 percent to 19,25 percent.

The year began with an increase of six percent in Escom's electricity tariff — on October 1 there will be a further increase of 7,2 percent. January also brought increases in maize (between six and seven percent), tea and coffee.

In February, 1,25 percent was added to the bond rate, followed by increases in tinned foods (14,75 percent), eggs (13c/doz), GST (from six to seven percent), beer (between 5,3 and 9,2 percent), white bread (11,1 percent) and brown bread (16,7 percent).

In March, sugar was increased by 10 percent, petrol by 1,5c a litre inland, transport tariffs (railway, air and harbour) by 9,4 percent and postal tariffs by 9 percent.

Provincial hospital tariffs rose by about 50 percent on April 1, and are expected to rise again before the end of July. At the end of April maize went up by 18,5 percent. Cape egg producers also put their price up by six cents a dozen.

In May, third party insurance jumped between 8,9 percent and 11,8 percent, while bricks went up by 9,6 percent.

Earlier this month the bond rate went up again, by 0,75 percent. This week eggs went up by an extra three cents a dozen. Next week tyres go up by an average of 7,5 percent.

Next month brings another wave of price increases which have already been announced.

Doctors' tariffs

Doctors' tariffs rise by 8,8 percent, dentists' tariffs by 10 percent, milk by six percent, butter by seven percent, spirits by one percent and malts by four percent.

And certain Cape divisional council ratepayers will pay up to 46 percent more in local area rates from July 1.

Mrs Joy Hurwitz, national president of the Housewives' League, said the largest and most important increases had been those in the price of maize, bread and GST, notwithstanding the removal of GST from basic foods.

"The removal of GST is, of course, to be welcomed but the increases in administered rail and air transport tariffs are highly inflationary and will continue to push up the cost of living," she said.

● South Africa's economy is facing troubled times. The main economic problems facing this country and possible solutions are analysed in three articles by the Financial Editor, Derek Tommey, in The Argus starting on Monday.

W/E Argus
23/6/84
K3

Spended, Spended

S. Turner 24/6/84

HEAVY government spending has killed any short-term chance of bringing the inflation rate back into single digits.

The latest Reserve Bank quarterly Bulletin, shows Government con-

By Alec Hogg

sumption expenditure was 28% higher in the first three months of 1984 than during the same period last year.

Reserve Bank economists say this is equal to an increase of 18.4% in real (inflation adjusted) terms.

This stimulant, together with hectic spending by private consumers, has been a major cause of a rising inflation rate. Between September and December last year inflation was running at an annualised 8.8%. In the first four months of this year it had increased to 14.8% GST is set to push the rate even higher.

Consumption spending reflects salaries and day-to-day operating expenses. It is more inflationary and less of a job creator than investment spending.

The Bulletin notes "Real (inflation adjusted) government consumption expenditure, which had risen steeply from the second quarter of 1983, maintained a fairly strong upward trend in the first quarter of 1984. This further increase was

evident in the remuneration of employees as well as in expenditure on goods and other services," it adds.

Government's overspending has fuelled inflation and indirectly postponed a sustainable upswing. It has helped to keep interest rates high and adversely affected SA's already fragile trade account.

The first quarter's figures do not yet reflect the extra thousands of millions of rands which the implementation of the new constitution is expected to cost.

Push up growth

Additional demand from government caused the economy to enjoy a false boom when it could least afford it.

In mid-1983 government consumption expenditure accounted for 16.5% of total spending. Recent profligacy has lifted government's share of total spending to 19%.

On its own, this was enough to push up economic growth by 3.2%, when economists are unanimous on the need for brakes on the economy.

Until now, consumers have taken most of the blame for unwanted economic buoyancy. Some economists argue that the consumers are behaving rationally and responding correctly to recent economic developments.

The banks' quarterly returns show that in the year to end March, balances in savings accounts increased by just 6.8% — well below the rate of interest that was paid to them during the year. During the first quarter, savings balances actually declined by R200-million.

By contrast, bank overdrafts rose by more than 40%, while leases and hire purchase accounts were both more than 30% higher than at the end of March 1983.

The result of this surge in debt and drawdown of savings has been that the personal savings ratio has fallen to an all-time low of 2.5% of disposable income.

Economists say inflationary expectations are inducing consumers to keep on spending. One area bearing this out has been motor vehicles.

Undeterred by a 14.7% increase in the cost of cars over the past 12 months, consumers are set to boost car sales to another record this month. Inflationary expectations also lie behind buoyant demand for shares, property and big ticket durable items.

Increased bond rates together with sub-inflation rate salary increases have knocked disposable incomes. Increased GST from next month will be another blow and consumer spending is widely expected to fall away after July.

In February, the number of civil summonses for debt was 17% higher than at the same time last year. The value of,

debt judgements was a record R23-million during the month — 29% higher than in February last year.

Until inflationary expectations are broken and consumers start cutting back on borrowing to finance their

spending habit, this trend will continue. A cutback in spending by government would be the first step

Inflation rampant as

State goes on a binge

Sanlam-Kirsh bid to avoid legal action

By David Carte and Brian Steel

ALL parties to the dispute over the Sanlam-Kirsh partnership are trying to avoid legal action, but Kirsh director Mr Mervyn King warns it may be unavoidable.

The JSE listings committee ruled that there had been a transfer of effective control in Kinnet, ordered an offer to the minority and suspended the share.

Marius Daling, Sanlam's general manager, is "dumbfounded" by the decision. He and Nate Kirsh figure that as Sanlam has only 49.9% of Sanki, control has not changed.

And Mr King said he could quote three authorities on company law which would unequivocally show that control had not changed.

But Mr Paul Ferguson, president of the JSE, said "Effective control has moved to a consortium. Previously Kirsh-Industries had unfettered control. Therefore control is now shared."

He said the JSE had acted cautiously after consulting many experts and had taken its decision "calmly and carefully." He hoped Sanlam and Kirsh's reaction would be the same.

"The suspension was not a threat", said Mr Ferguson. "Our insistence that an offer be made could have affected the price and that is why we suspended."

Mr Daling said "Control was never an issue. Nate Kirsh made it clear that control was not for discussion. Sanlam even has certain protection rights as a minority shareholder."

Some critics argue that the Premier-Oil and Gencor-Sanlam takeovers are clear cases of change of control and yet no offer was forced by the JSE.

Mr Ferguson says Gencor bought its original 8% in Sanlam in the market. Iscor then had 42%. The JSE has been told and had to accept that in 1977 Gencor and Iscor agreed that their joint stake would not fall below 50%. This was tantamount to joint control, so the recent move, in which Gencor took outright control, was a shuffle within a control situation.

In the Premier-Oil situation, he says Premier bought 8-million shares in Oil in the market. The Owenstone family then had about 11-million shares. This holding of about 50% was put into a joint holding company, which subsequently bought another million shares.

Control, therefore changed when Premier first moved in — and it was acquired in the market. Premier's assumption of unfettered control recently was thus a "shuffle within an existing control situation."

The Owenstone family received a R1.5-million "restraint of trade", seen by some as a means of giving the controller a better price than the minority.

The effective price Sanlam paid for its holding in Kinnet has not been disclosed. A spokesman for the JSE says the price is not in line with the Kinnet's suspended market price of 310c, but would not indicate if it was higher

or lower than the suspended price. Mr Daling says a forced offer to Kinnet minorities will not be in their interests.

Mr Kirsh says he has given two basic minority protections to Sanlam. They are that Sanki cannot sell or acquire a major asset without agreement and that dividends will flow up into Sanki. No-one in Kirsh Industries will receive a restraint of trade payment. Mr Kirsh says this proves he remains in control of the group.

SA inflation rate is accelerating

ARGUS 27/6/84



Financial Editor
Derek Tommey

In his third article analysing South Africa's economic difficulties The Argus Financial Editor DEREK TOMMEY looks at what is probably South Africa's biggest problem — the continued high level of inflation. He also looks at the need to bring the money supply under control

MANY top economists, including the University of Cape Town's highly regarded Professor Brian Kantor, say inflation is South Africa's biggest economic problem.

They maintain that if the inflation rate could be reduced most of the country's other economic problems would disappear.

Whether they are right or wrong there is no doubt that the South African Government should hang its head in shame every time it looks at its record on inflation. For in most of the Western world — except here — inflation is rapidly retreating.

Only 5%

In Europe, North America and Japan, double digit inflation is just a distant memory. Most Western countries this year are expecting inflation rates no greater than 5 percent. In the United States prices recently have been rising at an annual rate of around 2,5 percent — the smallest increase since 1967.

Yet in this country the year-on-year inflation rate is almost 11 percent and, far from declining, is again accelerating.

In the first four months of this year prices here were rising at an annual rate of just below 15 percent, and show no signs yet of leveling off.

National disaster

South Africans may have become blasé about such high price increases. But this does not alter the fact that such an inflation rate — which is more than three times that of our major trading partners — is a national disaster.

Most people nowadays know how inflation eats up the money in their pockets and in their savings accounts and reduces their standard of living.

Not so widely appreciated is that a continued high level of inflation in this country at a time when the rest of the world is deflating could put many jobs at risk.

Rising prices reduce the competitiveness of our exports and deter firms from making new investment. Both these developments re-

duce jobs and job opportunities. If this process were allowed to go unchecked the eventual outcome would be a stagnant and depressed economy.

Economists put forward different reasons for the cause of this country's high rate of inflation.

Lack of control

Some point to the drought, the high level of defence spending, the high cost of the bureaucracy, to poor management and low productivity, to the high degree of spending on credit and also to the continued decline in the exchange rate of the rand against the dollar.

But while these factors have all contributed to higher prices, it is a moot point whether they can be blamed entirely for the high level of inflation.

Professor Kantor takes a rather different view. He maintains that the basic cause for South Africa's high rate of inflation is the failure of the authorities to control the money supply.

"Until the authorities realise this South Africa will continue to be in trouble," he adds.

He argues that inflation everywhere and at all times is a monetary phenomenon.

"In general, prices cannot continue to rise unless buyers are willing to demand goods at higher prices."

"However, a buyer's ability to spend depends upon the availability of money. A low rate of money supply growth will mean less spending and a lower rate of price increases. It is as simple as that."

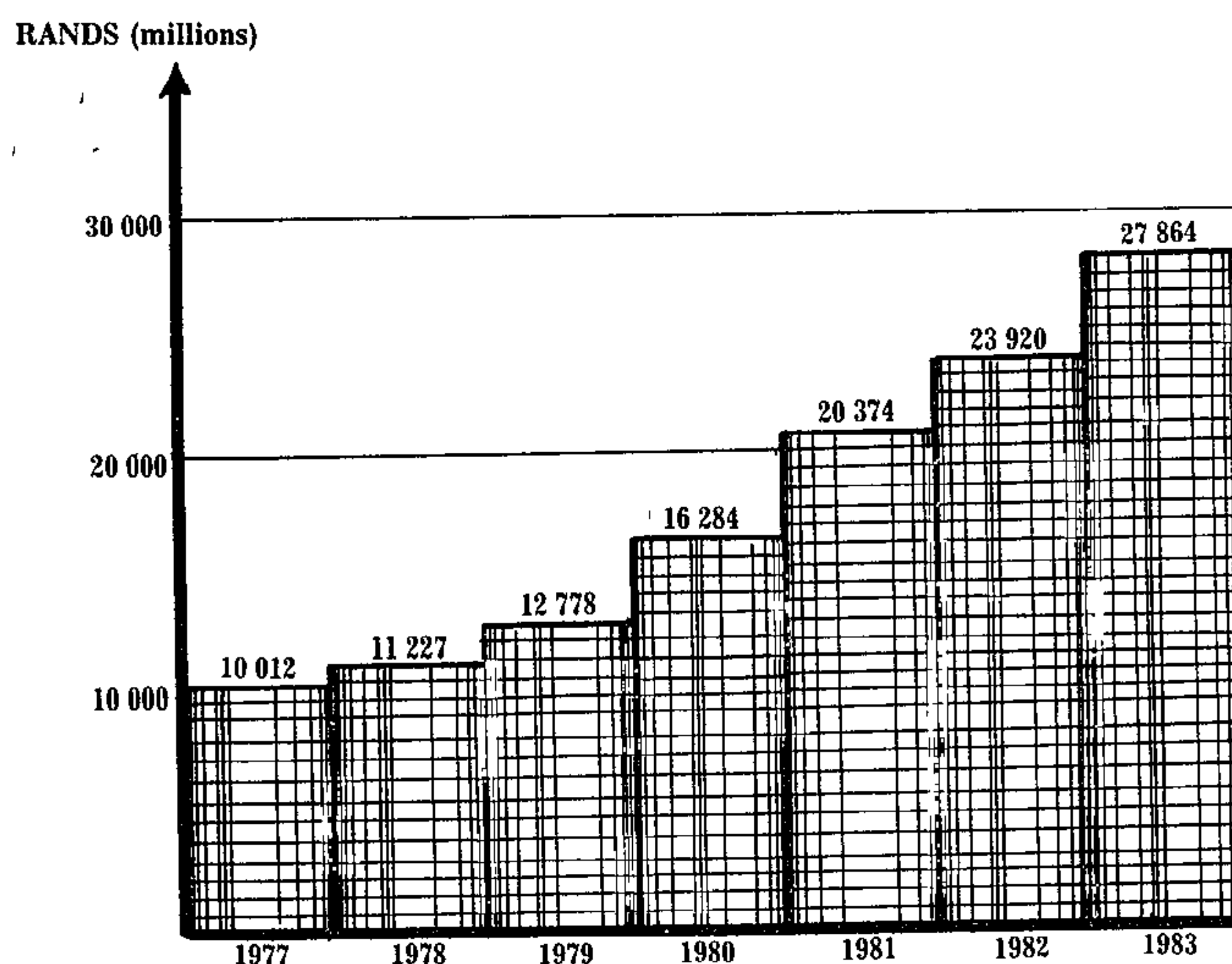
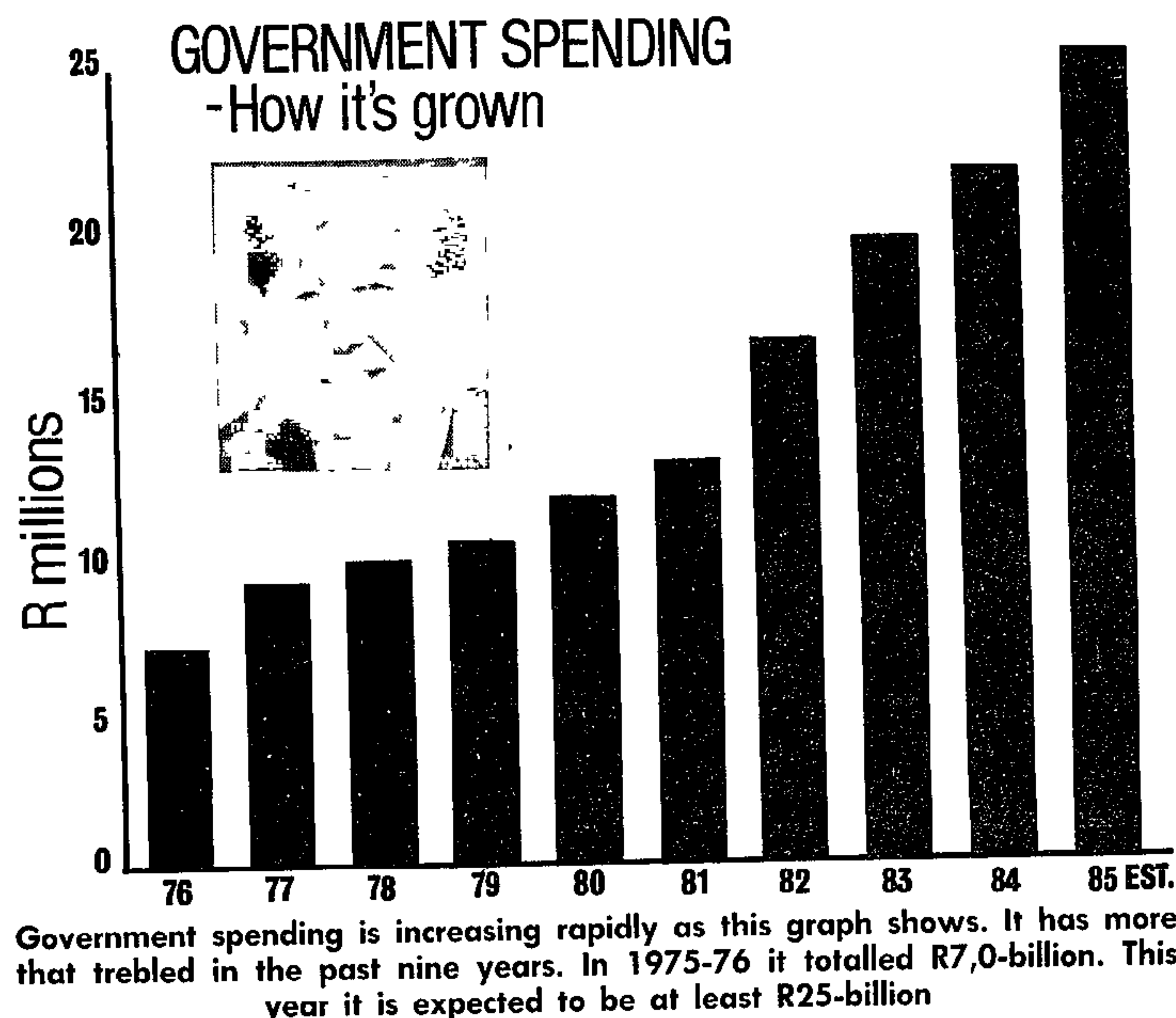
Too much demand

Professor Kantor says inflation is a problem of too much demand, not too little supply.

Prices rise either because demand for goods has increased or the supply of those goods has declined.

As in South Africa the volume of goods and services has risen steadily, growing by about 4 percent a year since 1970, high prices cannot be blamed on a reduced supply of goods.

"Instead, demand has increased much faster than



Graphic shows the growth in the money supply since 1977

this — because the money supply has risen so dramatically," says Professor Kantor.

The latest money supply figures issued by the Reserve Bank present a hair-raising picture. In the 12 months ended April the amount of spending money (M1) in circulation in South Africa increased by 37,3 percent. In contrast short-

term savings (near-money) showed hardly any change, actually dropping slightly.

The Reserve Bank figures show that the main reason for the jump in the money supply is a sharp rise in commercial bank lending. In the first four months of this year the banks increased their loans by an additional R2,6-billion, bringing the increase in the 12

months to April to more than R6-billion, which was equal to a 45 percent increase in their total loans and advances.

But the consumer should not be blamed for borrowing and spending more, says Professor Kantor. "We should be happy because it shows the consumer has confidence in the country and the economy."

Where the blame lies is in the failure of the Reserve Bank to limit the commercial banks' ability to expand their loans and advances, he believes.

"It has long been apparent that the operating procedures of the Reserve Bank are totally inadequate to the purpose of achieving even moderately successful money supply control," he says.

Reserve Bank officials would probably admit that there is much truth in this claim. In a bid to achieve a more efficient financial system the bank in recent years has stopped relying on direct physical controls to limit the money supply. Instead it has been using indirect means such as open market operations and changes in the rates of interest. However, until recently it has not had the success it desired.

However, doubt remains about whether the Reserve Bank ever will be able to control the money supply without resorting to physical measures.

Professor Jan Sadie of the University of Stellenbosch believes that indirect controls do not have enough "bite" to control the money supply in the South African system.

He points out that trying to control the money supply through keeping interest rates high has not worked. The consumer has proved to be insensitive to the higher interest rates. On the other hand the producer has had to face a sharp increase in the cost of money.

Put a lid on

But it is possible that the Reserve Bank has also realised that indirect controls alone will not allow it to exert effective control over the money supply.

There are signs that as a result of a slight deviation from its free market principles recently in limiting what commercial banks can charge for certain loans, it has at last been able to put a lid on commercial bank lending and secure control over the money supply.

If this is so then perhaps South Africans can start looking forward to a slightly less inflationary future.

CONCLUDED

letters



THE views of a Teleletters caller in yesterday's column on pensioners aroused strong reaction from other readers, and Mr Owen Horwood's departure was noted with wry comment.

Mrs Rita Stringfellow, Green Point: "I am tired of people who smugly say that others should provide for old age. Many of us have had families to bring up on our own or have suffered ill health and its attendant expenses. State pensions are so inadequate that a white squatter problem is likely to arise soon."

Mr D Bazeley, Rosebank: "I was surprised at the publication of the view that people depending on state pensions are selfish (because that is what it amounted to). It is no consolation to realize that, with the current rate of inflation, pensioners of the future are going to be even worse off than we are today."

Mr G Blackie, Rondebosch: "One must remember that most of today's pensioners, even while still working, were not earning enough to keep them in today's economic situation. I would also point out to the same caller that 20 million people died between 1939 and 1945 for our freedom — and look where we are now."

Mr F Domingo, Wynberg: "Mr Owen Horwood may be leaving, but he will be remembered as a star among the ranks of the 'slogan' ministers. He covered his eyes to sign documents, which qualifies him to join Dr Munnik with his R20 survival course, Mr Hennie Smit with his slow thinkers, and the icy cold Mr Jimmy Kruger."

Mr R Omar, Grassy Park: "It would appear that the only way to get Suurbraak declared a disaster area is to have it declared a 'white area' first."

Mr B Viljoen, Bellville: "Why all the sentiment about housing for black workers? From experience I know of a man living at Cross-

roads who does so through choice to avoid having to pay rates and rental in Langa or Guguletu."

Mrs J MacRobert, Bergvliet: "What was the point of Mr P W Botha spending R640 000 on an overseas trip to promote South Africa's image to Western nations, when back at home we have the vicious annual winter crack-down on homeless people at Brown's Farm, KTC, etc? Actions such as the Divisional Council's demolition of squatter homes this week make a mockery of any attempt by the government to convince the world that this country is really on the road to any kind of democratic reform."

Mr Kevin Keyser, Newlands: "I am surprised that the Cape Times persists as it does in referring to Ciskei as a country."

Mr C Penny, Kenilworth: "I am surprised that no one has yet pointed out that the picture on the front of the new telephone directory is the wrong way around. It does not take very careful scrutiny to realize that Skeleton Gorge and Giant's Castle have been transposed."

Mr A Legget, Cape Town: "It is stupid having to return the old cover before being issued with a new telephone directory. What happens with new subscribers?"

If you would like to comment on these views or any other topic, telephone Teleletters on 24-2233, extension 216, between 9am and noon on Tuesday.

UDF pamphlet blitz against CoL rises

30/6/84
Labour Reporter C. Times

THE United Democratic Front of the Western Cape will distribute 100 000 copies of a pamphlet condemning cost of living increases and the government's new dispensation at the weekend.

In a statement yesterday, Mr Jonathan de Vries, UDF publicity secretary for the Western Cape, said 500 volunteers would distribute the pamphlet at City bus stops, stations and shopping centres.

He said people were struggling to make ends meet and were being "driven to desperation" by their inability to cope with escalating prices.

"We seek the kind of change that will address these fundamental problems," he said.

"Because the new deal will worsen the plight of our people we in the UDF are committed to opposing it through a boycott in August," he added.

A UDF mass meeting will be held in Elsies River tomorrow, focusing on rents, evictions, cost of living increases and the forthcoming elections.

Speakers will be UDF vice-president Mr Joseph Marks, local community leader Mrs Muriel Vambo and other local speakers.

The meeting will start at 2 30pm in the Shawco Hall, Halt Road, Elsies River.

Snoek weather due

MOST OF the past week has been one of perfect "summery" weather with little or no wind — exactly the wrong conditions for making good catches of fish, especially winter snoek.

But a big blow was brewing yesterday with the north-wester coming up and it looked as though it was bringing a windy and wet weekend.

Commercial fishermen at Kalk Bay this week said it was the weather that was keeping the snoek in the north on the west coast. They were hoping for some north-westerly wind and they certainly got it yesterday.

The only reported catches of gamefish last weekend were some yellowtail off Cape Point, and one skiboat is reported to have boated 21

Sportfishing



with
Brian Grobber

fish. The area around Cape Point and just inside False Bay may produce more fish this weekend if the north-wester does not blow too hard.

The best catch reported during the week was that of Kenny Kingma and his crew on the Gary, fishing on the so-called 80-mile bank off Cape Agulhas. They picked up a shoal of red steenbras and the biggest fish tipped the scale at 79kg, which is enormous even for a red steenbras.

ANNOUNCEMENT

FACE BRICK SPECIAL OFFER

Controlling inflation and rising costs has become the prime focus in business today, not least of all in the construction industry.

With this in mind, we are pleased to announce a major development which will contribute substantially towards cost savings in the building industry — the introduction of the cheapest high quality face brick range in the Western Cape.

The price of R160 per thousand ex factory has been achieved by controlling production costs at our new Paarl factory.

ss is bugged

c Durbach
cw York



One record low follows another as The rand withers under inflation

By Alec Hogg

SA has become locked into a declining rand.

This week it reached a record low of 73 US cents — 46% off its 1980 peak of \$1.35 — and although there may be periodic upticks in its value, economists are convinced the rand will remain weak in the long term.

Increases in the gold price may lead to short bursts in which the rand will appreciate, as happened in 1980. But the overall trend is down.

According to economists, SA has fallen into the classic vicious circle where its high rate of inflation will continuously erode the buying power of its currency.

Impossible

Wits University economist Roger Gidlow, writing for stockbrokers Mathison & Hollidge, warned in August last year: "If SA fails to reduce its inflation rate quickly there is a danger that it could become locked in a circle of a declining external value of the rand and escalating inflation."

Other economists are convinced that following the recent surge in the inflation rate, Professor Gidlow's forecast has come true.

Exchange rates are determined over the long term by the difference in the inflation rates between countries.

The only way to combat a phenomenon where the prices of goods manufactured here rise at a faster rate than those produced abroad is through a continuous decline in the rand. This keeps SA products price competitive with international goods.

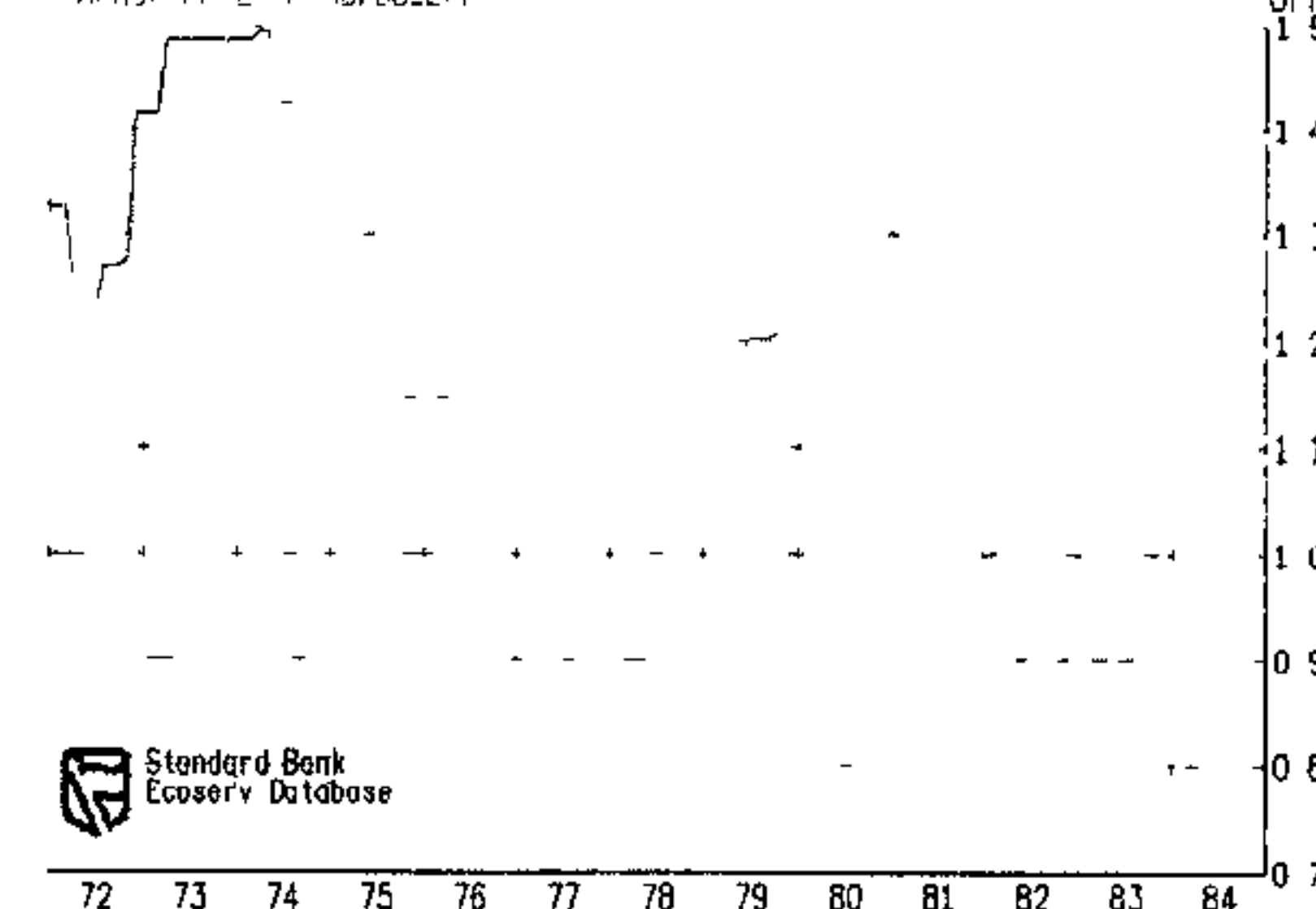
Partners

SA's major trading partners have broken the back of inflation, but for social reasons that kind of action is virtually impossible in SA.

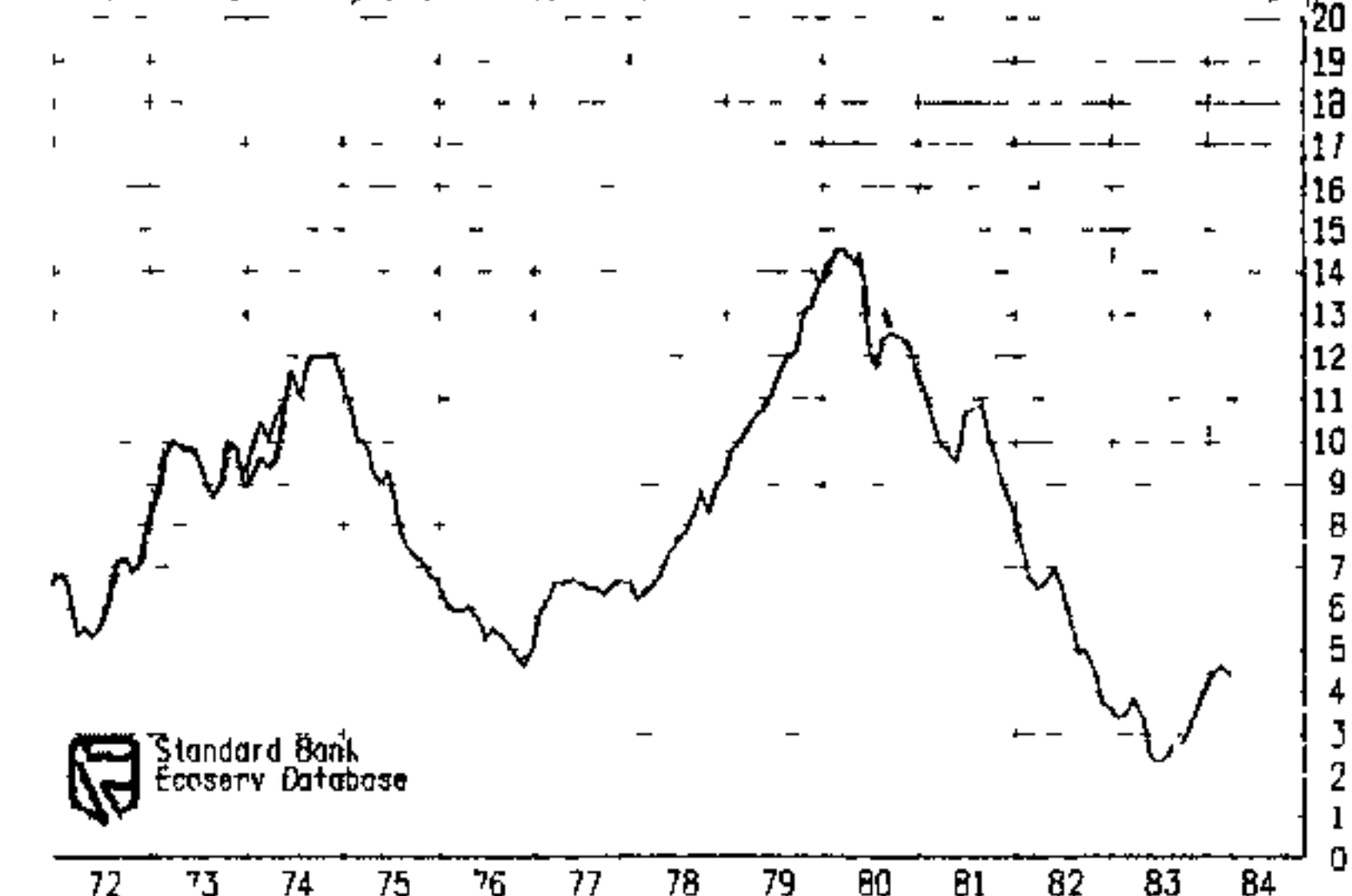
Says The Discount House of SA's economist Sue Kell "There has been a great deal of education on the dangers of inflation among politicians in the major Western nations."

"Everybody now knows how much high inflation

EXCHANGE RATE R AND/DOLLAR



U.S.A. CONSUMER PRICE INDEX (1967=100)



hurts and I cannot see the voters allowing inflation in these countries to rise back to 10% or more again."

London stockbroker Phillips & Drew concurs with this view in its Market Report. "We conclude that (US) inflation can indeed be kept well within single figures."

Mrs Kell adds, "Because of structural factors in the SA economy, there is an inbuilt core which will keep inflation at about 8%. To break through this level would mean adopting the tough strategies used by Reagan and Thatcher."

"Unlike the US and the UK, we do not have a social welfare system in this country to support the jobless and can simply not afford the high levels of unemployment which such anti-inflationary policies would cause. If we did, people would starve to death. Nobody would advocate that."

JCI's Ronnie Bethlehem concurs "We are going to have a great deal of difficulty in closing the inflation gap between SA and its major trading partners."

"The world and SA have changed. Internationally the economic system is no longer based on fixed parity in currency markets and is vastly more complex and interdependent in its financial structure."

"In SA we now have black trade unions who can be expected to try to test their newly acquired muscle and the constitutional dispensation will increase the pressure for a redistribution of wealth from whites to blacks — both of which could be powerful inflationary factors."

Mr Bethlehem argues that although increases in the gold price will temporarily boost the rand, "this in itself will also serve to undermine

the currency over the long term".

He argues that every time the gold price rises it is treated as a windfall.

"Labour makes demands on mines and all other sectors of industry to pass on the benefit in higher wages."

"But the problem is that when the gold price falls back, organised labour is equally unimpressed with any suggestion of a wage cut."

"The result is that a higher cost structure has been installed and the only way the economy can accommodate the change is by allowing the exchange rate to fall."

Labour costs

Phillips & Drew says labour costs make up two-thirds of total business expenses, easily the biggest single component and therefore significant in the inflation formula.

As the graphs on the left show, SA's inflation rate has been consistently higher than America's since 1972. This is translated into the performance of the rand against the dollar, with the bearish trend reversed only in the short spells when the gold price boomed.

What are the consequences? The head of the University of Cape Town's economic faculty, Brian Kantor, maintains: "The weaker exchange rate will bring, in its turn, more inflation."

Employment

But the effects are not all negative. Professor Kantor writes in the Rightford Searle-Tripp Makin publication, Intercom. "The depreciation of the rand has opened up a profitable gap for exporters and firms competing with imports, which will stimulate mining and some manufacturing activity."

This leaves a solid base for SA's industries, particularly those competing in the export markets. It is from this sector, most economists agree, that upswings and consequent increases in employment must come.

The MINISTER OF LAW AND ORDER

- (1) Since the documents relating to this matter did not in the opinion of the director of archives warrant permanent preservation, it has already been destroyed on his authority in terms of section 3(2)(b) of the Archives Act, 1962, and consequently the required particulars cannot be furnished

(2) and (3) Fall away

Civil claim against Ministers/Police Force

1111 Mrs H SUZMAN asked the Minister of Law and Order

- (1) Whether the family of a certain person, whose name has been furnished to the South African Police for the purpose of the Minister's reply, instituted a civil claim against (a) him or the South African Police and (b) any other member of the Cabinet following the death of the person concerned on 4 February 1969, if so, (i) for what amount, (ii) against which other member of the Cabinet and (iii) what is the name of this person,
- (2) whether the claim was settled out of court, if so, what amount was paid in settlement, if not,
- (3) whether the claim was successful, if so, what amount was paid to the family?

The MINISTER OF LAW AND ORDER

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- (1) Whether the family of a certain person, whose name has been furnished to the South African Police for the purpose of the Minister's reply, instituted a civil claim against (a) him or the South African Police and (b) any other member of the Cabinet following the death of the person concerned on 10 March 1969, if so, (i) for what amount, (ii) against which other member of the Cabinet and (iii) what is the name of this person,

- (2) whether the claim was settled out of court, if so, what was the amount paid in settlement, if not,

- (3) whether the claim was successful, if so, what amount was paid to the family?

The MINISTER OF LAW AND ORDER

- (1) Since the documents relating to this matter did not in the opinion of the director of archives warrant permanent preservation, it has already been destroyed on his authority in terms of section 3(2)(b) of the Archives Act, 1962, and consequently the required particulars cannot be furnished

(2) and (3) Fall away

Toll roads: public relations services

1113 Mr D J N MALCOMESS asked the Minister of Transport Affairs

- (1) With reference to his reply to Question No 1 of 22 June 1984, (a) which firms of public relations consultants were invited to submit tenders for appointment to conduct general public relations services concerning toll roads and (b) (i) what are the amounts of the three lowest tenders submitted and (ii) by which firms were they submitted in each case,

- (2) why (a) was it considered necessary to appoint public relations consultants on this occasion and (b) were tenders called for on a selective basis?

The MINISTER OF TRANSPORT AFFAIRS

- (1) (a) Die Agentskap,

Errol Fyfe,
De Villiers and Company,
Forum 2000,

Kirkpatrick Marais and Associates,

KMP-Compton,

Francois Marais and Associates,
McKinstry Schonfeld,

Complete Communications,
Norton, Glyn Communications,

and
David Hilton-Barber and Associates

Of the above-mentioned firms five eventually submitted tenders

- (b) (i) and (ii) R48 000 Consortium of Norton, Glyn Communications and David Hilton-Barber and Associates
R100 000 Errol Fyfe
R109 000 Consortium of KMP-Compton and Francois Marais and Associates

It can be mentioned for your information that the National Transport commission awarded the tender to the highest tenderer namely Kirkpatrick, Marais and Associates who tendered an amount of R240 000

- (2) (a) The arrangement of meetings form part of the Agreement with the particular firm

(b) It is customary when the appointment of public relations consultants is contemplated to select firms of known ability and expertise who are then briefed on the service required before

tenders are submitted together with a presentation of how each firm intends to approach the matter. This procedure was therefore also followed by inviting the eleven firms mentioned in (1)(a)

Pinetown/Westville: offences

1136 Mr R M BURROWS asked the Minister of Law and Order

How many cases of (a) murder, (b) rape, (c) culpable homicide, (d) assault with intent to do grievous bodily harm, (e) robbery and (f) theft were reported at the (i) Pinetown and (ii) Westville police station in 1983?

The MINISTER OF LAW AND ORDER

	(i)	(ii)
(a)	74	6
(b)	71	17
(c)	—	2
(d)	325	23
(e)	225	25
(f)	2 197	248

Rate of inflation 11/7/84

1149 Mr J J B VAN ZYL asked the Minister of Constitutional Development and Planning

What was (a) the average rate of inflation of the Republic in each of the years from 1974 up to and including 1983 and (b) rate of inflation of the Republic in each of the months from January up to and including June 1984?

The MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING

- (a) 1974, 11,7%
1975, 13,5%
1976, 11,1%
1977, 11,3%
1978, 10,9%
1979, 13,2%

1980, 13,8%
1981, 15,2%
1982, 14,7%
1983, 12,3%

(b) January, 10,3%
February, 10,0%
March, 10,2%
April, 11,0%
May, 11,0%
June, figures are still being processed

Consumer price index

1150 Mr J J B VAN ZYL asked the Minister of Constitutional Development and Planning †

At what rate did the service components of the consumer price index increase in each of the latest three years for which figures are available?

1981, 13,5%
1982, 17,9%
1983, 16,2%

THE MINISTER OF CONSTITUTIONAL DEVELOPMENT AND PLANNING

THURSDAY, 12 JULY 1984

†Indicates translated version

For written reply
Hansard B.C.1. 2031
Housing 12/7/84
724 Mr T ARONSON asked the Minister of Co-operation and Development

(1) Whether any plans have been submitted to his Department by Mr Louis Rive for the (a) upgrading of existing infrastructural services and (b) extension of infrastructural services with a view to the provision of housing, if so, in respect of which area or areas,

(2) whether these plans have been approved for implementation, if so, when is it anticipated that they will be implemented,

(3) whether he will make a statement on the matter?

THE MINISTER OF CO-OPERATION AND DEVELOPMENT

(1) (a) and (b) Yes, in respect of the urban Black residential areas in the Port Elizabeth-Uitenhage metropolitan area including Motherwell

(2) Only some of the plans have been approved for implementation

(3) No

The following contracts have been entered into and are in the process of being carried out

(a) Two contracts in respect of the installation of services in the new extension to Kwanobuhle,

(b) six contracts for the upgrading of services in KwaZakhele,

(c) three contracts for the installation of new services in Motherwell,

(d) one contract for a main sewer for KwaDwesi

In regard to financing the Department of Finance is at present giving consideration to project financing proposals by various financial bodies, with varying foreign participation. As soon as the consideration and negotiation processes are completed a statement about the successful tender and terms will be made.

The Port Elizabeth-Uitenhage project will after escalation over the construction period of five to six years amount to more than R200 million for infrastructure.

A sum of R20 million as bridging finance has been allocated to the East Cape Development Board in respect of

projects at present in the process of being carried out

1023
Q. 61 *Hansard*
KaNgwane/Ingwavuma 12/7/84
784 Mr F J LE ROUX asked the Minister of Co-operation and Development †

Whether, with reference to his reply to Question No 10 on 2 February 1983, the final cost calculations in respect of the court cases in connection with the proposed incorporation of KaNgwane and the Ingwavuma area into Swaziland and related matters have been received from the various State Attorneys, if not, (a) why not and (b) when are they expected to be ready, if so, what amounts are payable by the State in respect of each such court case?

THE MINISTER OF CO-OPERATION AND DEVELOPMENT

Yes

In respect of the Ingwavuma cases

Paid by the State

R166 519,15

Paid by the KwaZulu Government

R 81 804,27

In respect of the KaNgwane case

Paid by the State

R58 467,56

Paid by the KaNgwane Government

R25 549,57

649 Mr R A F SWART asked the Minister of Co-operation and Development

(1) What was the ratio of persons to land area in KwaNdebele at the end of each of the latest specified five years for which figures are available,

(2) how many persons were moved to KwaNdebele from (a) each (i) national state and (ii) independent Black state, (b) Black spots, (c) urban areas and (d) White farms in each year from 1975 to the latest specified year for which figures are available?

THE MINISTER OF CO-OPERATION AND DEVELOPMENT

(1) 1980—1,5 persons per hectare
1981—1,9 persons per hectare
1982—2,1 persons per hectare
1983—2,4 persons per hectare
1984—2,9 persons per hectare

If the addition of the 183 000 hectares of land approved by Parliament in 1983 be taken into account, the ratio will be 0,87 persons per hectare

(2) None The Department of Co-operation and Development did not move any Ndebele into KwaNdebele. They moved of their own accord from wherever they lived to settle there

1021
Q. 61 *Hansard*
National states: Investments 12/7/84
921 Mr R A F SWART asked the Minister of Co-operation and Development

What was the total amount invested in each national state by (a) its development corporation, (b) South African companies and (c) foreign companies in each of the latest specified five years for which figures are available?

THE MINISTER OF CO-OPERATION AND DEVELOPMENT

(a) KwaZulu

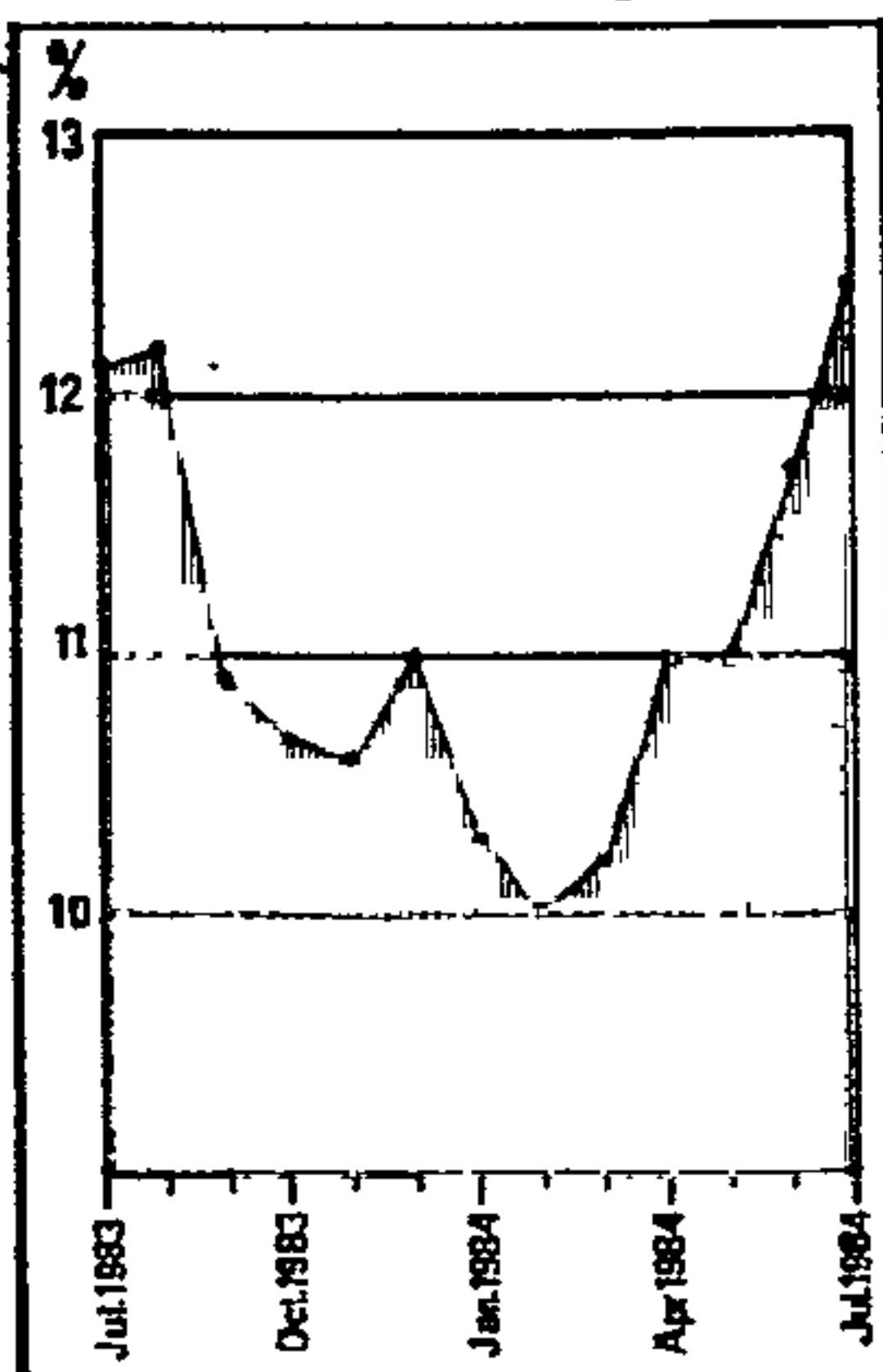
1979 — R27 954 000
1980 — R44 408 000
1981 — R66 401 000
1982 — R91 206 000
1983 — R107 126 000

Qwaqwa

1980 — R2 380 802
1981 — R4 156 351
1982 — R8 560 609
1983 — R10 197 229
1984 — R33 542 696

Lebowa

1980 — R6 123 000
1981 — R6 530 000
1982 — R8 875 000
1983 — R10 015 000
1984 — R10 845 000



Inflation still climbing, but not as quickly as experts predicted

Consumer Reporter 153
Inflation rose to its highest level in a year last month — and is expected to be higher by the end of the year

Figures released in Pretoria yesterday by Central Statistical Services show that consumer prices, measured by the Consumer Price Index (CPI), increased by 12,4 percent from July 1983 to July 1984

This is less than predicted by some economists, who expected the inclusion of the in-

creased GST which came into effect last month to push the index to over 13 percent on an annualised basis

Group economist for a major bank, Dr Johan Cloete, said he had expected the inflation rate to be higher than 12,4 percent

"The exemption of basic foodstuffs from general sales tax last month must have played an important role in keeping the rise in the inflation rate lower than expected," he said

Lower vegetable prices during July — the report shows a 6 percent decrease — played a major role in keeping inflation down

The CPI for food dropped by 2,3 percent from June, and the annual rate of inflation on food measured 11,2 percent during the last year

But Dr Cloete warned the depreciation of the rand was still to be reflected in CPI figures. He predicted that the inflation rate would rise further, later this year



musical
me Champ

Exotic names for exotic dogs Benjamin Mandelbaum of Johannesburg with a Lhasa Apso champion named Xanadu Genghis Khan and two Tibetan terriers, champions Thabataseka Sho - Nnuma and Tsering La Nima. They will share the limelight with a host of other breeds at the Dogmor Dog of the Year

Show at Gillooly's Farm, Bedfordview, tomorrow. More than 2 500 dogs have been entered in the various categories — working dogs, obedience and beauty. The show continues on Sunday. It will reach a climax with an international contest for working dogs from the United States and South Africa

Bike club accused in cells for safety

By Joe Openshaw

A Johannesburg magistrate today ordered that two men who allegedly shot dead three members of the Breeds and Step-

Joshua Doore, South Africa's biggest selection of branded furniture under one roof. Plus more a curtains, carpets, TV and sound equipment on easy terms with up to 18 months to pay. Choose from our showroom display of 134 room settings up at our on-the-spot warehouse. Or use our low-cost service and still save.

THE BAD NEWS IS THAT INTEREST RATES HAVE GONE UP INFLATION AN ALARMING RATE, AND THE MIDDLE EAST IS IN A MESS...

NOW FOR THE

'1984 rises averaged 10,3 pc'

Inflation still beats increases

24 HOURS News Team

By Michael Chester

Average salary increases over the past 12 months have failed to keep pace with inflation and look likely to fall further behind next year, according to a nation-wide pay survey.

The remuneration division of P-E Corporate Services, which surveyed more than 1 000 firms, found 1984 increases worked out to an average of 10,3 percent, the lowest in seven years, while the consumer price index rose by 12,5 percent.

The majority of companies forecast that raises next year would range between 7,5 and 12,5 percent, against expectations of an inflation rate of 15 percent.

In certain staff categories, rises may fall below the 7,5 percent line.

One in four firms in the construction industry, braced for worse to come in the recession, expected increases next year of between 5 and 7,5 percent.

"It's a dismal picture and doesn't auger well for the man in the street as he battles with double-digit inflation", said Miss Jane Ashburner, division manager.

Whites have suffered the worst in the 1984 pay round, with average increases of only 10 percent — the second year running that pay packets have fallen short of inflation.

Raises for white artisans shrank to 9,2 percent compared with 11,4 percent last year and 15,5 percent in 1982. Raises for managerial staff dropped to 9,9 percent.

Increases for blacks averaged 11,6 percent, the first time in five years they failed to matched inflation, for coloureds 11,5 percent and for Asians 10,3 percent.

Whites are generally worse off than 10 years ago, with increases over the decade amounting to 304 percent while the consumer price index has advanced 322 percent.

Over the past five years the pay packets of Asians have grown the fastest, with cumulative gains of 120 percent.

This compares with 116 percent for blacks, 100 percent for coloured people and 91 percent for whites.

The biggest salary gains for Asians have been secured by the large numbers who have moved into data processing jobs.

Among blacks, the largest gains in 1984 have been won by qualified artisans, whose pay has gone up an average 12,3 percent.

Among coloureds, gains have been best for financial and accounting staffers (13,2 percent), technical and engineering staff in manufacturing firms (12,4 percent) and scientists and chemists (12,6 percent).

"With inflation racing upwards and salary increases next year expected to be worse, or at best to remain at 1984 levels, managements are going to be walking a tightrope in 1985", said Miss Ashburner.

"Poor company results will prevent increases that will keep pace with inflation but they will nevertheless be under massive pressure to do so."

It is therefore apparent that there has been serious overspending by both private and public sector. Stated in another way Our country has been living beyond its means and an essential corrective process is unavoidable. Individuals and business undertakings are already burdened by the harsh restrictive measures of the authorities and it seems that these steps are having a drastic effect on business activity. It is important consequently that government expenditure, particularly current, should also be curtailed substantially. The announcement that spending will be cut by R650 million is therefore a step in the right direction.

2.2 Inflation

2.2.1 General

Although the change in the scales of general sales tax resulted in a decline of 3,9% in the food price index in July, the total consumer price index rose by 0,4%. However, taking into consideration normal price increases as well, the food price index dropped by 2,29% and the total consumer price index increased by 1,34%.

Percentage change in the consumer price index				
1984	Compared with the preceding month		Compared with the same month a year ago	
	Food	Total	Food	Total
February	1,47	1,35	9,1	10,0
March	2,02	1,26	9,6	10,2
April	1,72	1,49	11,1	11,0
May	0,52	0,77	11,6	11,0
June	1,68	1,01	13,7	11,7
July	-2,29	1,34	11,2	12,4

Source Central Statistical Services

In July the consumer price index in respect of those in the higher, middle and lower income groups was 12,8%, 12,6% and 10,8% higher respectively than in the same month last year. In view of the fact that people in the lower income group spend a markedly larger share of their income on basic foodstuffs — exempted from GST — the change in the tax rates has caused the annual increase in the consumer price index to be appreciably less for them than for the other income groups.

At this stage it seems that on average the consumer price index will be about 11,5% — 12% higher this year than in 1983.

2.2.2 Inflation and indirect taxes

In South Africa — as in many other countries — changes in the official consumer price index are accepted as the general indicator of inflation. It is, however, but one of several measures normally used to obtain a broad indication of trends in the general price level of goods and services in a country. Other possibilities are to use retail prices, wholesale prices, production prices, etc. as a basis for calculation.

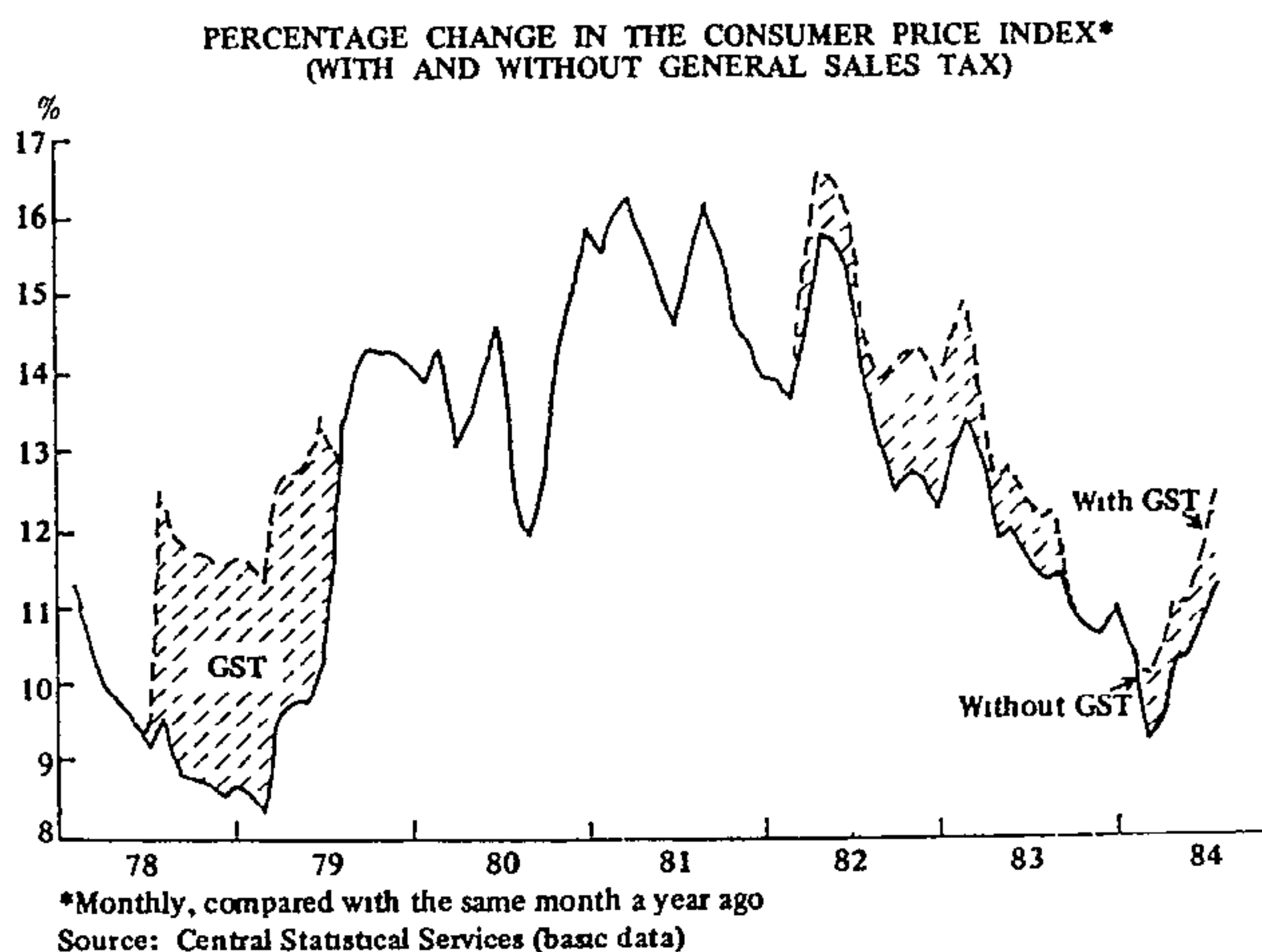
In the short term the introduction of or increase in an indirect tax (whether it be during one of the production stages or at the final point of sale) normally results in an increase in the selling price of consumer goods and services (At times it is expressly used as a policy instrument to influence the relative prices of goods.) In order to obtain a broad impression of inflation in a country it is therefore correct to include such tax changes in the relevant index.

Many entrepreneurs and individuals have, however, adopted the consumer price index as a measure of their real welfare (or changes to it). Inflation in terms of changes in the consumer price index is then used as point of departure in price, wage and salary bargaining. This action causes the initial purpose of the tax as an instrument of economic policy (e.g. to obtain increased revenue for the exchequer, to curtail surplus consumption, to promote a fairer distribution of income, etc.) to be largely neutralised. In any case it makes little sense economically to compensate a consumer or producer for a tax that was created to have the opposite effect.

Sales tax — which admittedly may serve the beneficial purpose of curbing inflation in the long term — has the drawback, as has been pointed out already, that it causes consumer prices to rise immediately and that it places the consumer price index on a permanently higher level. Linking costs or remuneration to an index that includes tax, means that the relevant tax becomes an inherent portion of the next round in the inflation spiral and that it erroneously forms an integrated part of inflationary expectations.

The introduction of GST in 1978 and the subsequent changes in the rate have caused the official consumer price index to be about 5,5% higher than it would have been otherwise. Because consumer prices are subject to other forms of indirect taxes too (e.g. customs and excise duties, which in the past fiscal year amounted to more than R3 000 million or about 78% of the revenue from GST), an index without these taxes would naturally be even lower.

The following graph which reflects the year-on-year rise of the consumer price index — with and without general sales tax — shows clearly that in a given period there can be a marked difference in the inflation rate depending on the basis of measurement used.



Because the consumer price index, with all its failings, will continue to be used as the most important measure for calculating inflation — also in wage claims — and in view of the fact that changes to the scales of indirect taxes will occur continually (and probably increasingly), we consider that the publication of a consumer price index with the exclusion of indirect taxes could fill an important gap.



Economists see inflation rising to 13% by year-end

By ANDREW DUNCAN

JOHANNESBURG. — The year-on-year inflation rate as measured by the consumer price index rose from 11,8 percent in August to 12,2 percent in September.

Figures issued yesterday by the Central Statistical Services show an increase in the all-income index from 297,9 in August, to 299,9 in September compared with 265,6 in August 1983 and 267,3 in September 1983.

While the increase over August is not exceptionally high, it is well above May and April's figure of 11 percent and February's six-year low of 10 percent.

The lower income group index rose by 10,9 percent year-on-year, and by 1,3 percent compared to August.

The middle income group index went up by 12,5 percent — 1,0 percent over August.

The year-on-year increase in the higher income group index for September was 12,3 percent, while the monthly increase was of 0,8 percent over August.

SOUTH AFRICA'S inflation rose again in September to 12,2 percent from 11,8 percent inflation rate of its main trading partners, the United States and EEC countries, dropped more.

The inflation rates of South Africa's main trading partners dropped in the same period as measured by the Consumer Price Index.

United States inflation for the same September to September period was down to 4,2 percent while inflation in EEC countries also fell — to 6,6 percent from 6,9 percent.

The reason for the jump in the overall CPI is probably the increase in the food index. Price hikes in food products, which were contained, after the lifting of GST on certain basic foods in July, are now making themselves felt.

The food only index rose from 308,6 in August

to 312,8 in September, an increase of 10,34 percent compared with September 1983 and by 1,3 percent over August this year.

The prediction by economists that with July's increase in GST with its resultant price increases plus the weakening of the rand against the dollar and other major currencies, the inflation rate might rise to 13 percent, now seems certain to come true.

This view is echoed by Barclay's economist Dr Johan Cloete, who said that the impact of the devaluation of the rand and an acceleration in food prices combined with higher import costs, had caused the rise in the inflation rate.

"It seems likely that we will see a figure of at least 13 percent by the year-end."

Standard Bank sees higher inflation rate

JOHANNESBURG — South Africa's inflation rate will almost certainly accelerate significantly before it can be brought down to a more acceptable level, the Standard Bank said in its monthly review.

According to official figures, the inflation rate is running at 12.2 per cent.

It said the dramatic decline in the rand and continuing high interest rates reflected serious problems in the country.

"Principally because progress in regaining control over some critical variables has been slower than hoped for, the current penal interest rates will now probably have to stay longer than expected."

The report added that South Africa has lived on foreign credit for too long, that government spending has been, and still is, too high, and that individuals, too, still have to come down to earth in their basic expectations concerning living standards.

"An atmosphere of realism needs to be created among individuals, companies and in gov-

ernment circles," the Standard Bank review said.

While commending new changes in government policy, the report said they "regrettably" were not reflected in current trends.

"The demand for commercial bank credit has escalated rather than declined while the decline in the fall of imports has not yet accelerated significantly," it said.

Saying that a reduction by some R650m in the anticipated overspending by government was announced in August, it added "However, even after that revision, government spending will show an enormous increase for the year, and in the remainder of the fiscal year it will continue at such a high level that its share of domestic expenditure will increase" — Reuter

Boland Bank raises profits

THE Boland Bank group has shown an increase of 5.6 per cent in its after tax profits in the six months ended September, the Bank announced in a statement in Cape Town yesterday.

This year's profit was R3,28m, compared with R3,11m for the corresponding period last year.

Earnings per share increased from 46.7c to 49c and the interim dividend declared rose by 1c to 16c.

Boland Bank's managing director, Mr Gert Liebenberg, said "Although interest margins came under severe pressure over the past six months, the Boland Bank group successfully increased volumes, mainly by expanding its commercial banking activities."

"Consequently an increase in income over that of the same period last year was attained."

Mr Liebenberg said prospects remained uncertain, especially as a result of an expected downward trend in the demand for credit facilities.

"It is expected that the operating results for the full financial year will at least equal those of the past financial year," Mr Liebenberg said — Sapa

SUN Times 25/11/84

Escom increases to fuel inflation

By Don Robertson

ESCOM'S tariff increases are symptomatic of inflationary forces and should be accompanied by a Government statement that they are in line with the overall inflationary policy, say economists

They believe that increases of this nature will keep inflationary expectations high and make it more difficult to achieve the 10% hoped for in 1985

The 10% increase in electricity prices announced for January 1 came as a shock. Depending on economic conditions, Escom says a rise of "similar magnitude" is possible in the middle of the year

Vital

This does not include a possible further 2% rise which could be caused by a rise in the price of coal

Johan Cloete, chief econo-

mist at Barclays Bank, says the January price rise is in line with Government inflationary policy and should not be seen as excessive. However, if there should be a second increase mid-year, it would indicate that the monetary authorities and the fiscal authorities were at odds with one another

He says it is vital that the electricity price increase does not push up the price of other government-controlled

services and commodities. "It is strange that Escom should make a statement like this, without an accompanying statement from the Minister of Finance on wages and prices policy," says Dr Cloete

Bolster

Louis Geldenhuys, chief economist at Senbank, says the Escom announcement will bolster inflationary expectations and will make it more difficult to contain

However, weak consumer demand which is expected next year will make it difficult to pass on price rises resulting from the electricity price increase in spite of cost pressures. As a result, "inflation is unlikely to change much from present levels"

He believes that it is better to have small increases spread over time

Farmers hit

The agricultural community has criticised the tariff increases

Kobus Jooste, president of the SA Agricultural Union, says farmers are in an unfavourable position to absorb increased production costs because of the hardships imposed by several years of drought.

The prospects for increases in 1985 are also disturbing, he says

The union looks forward to the publication of the De Villiers Commission of Inquiry report into electricity supplies

The union has strong reservations about the structure and implication of the tariff policy followed by Escom

Economy caught in vicious circle

SUNDAY STAR 25/11/84

153

Malcolm Fothergill
Industrial editor

SOUTH Africa is caught firmly in the grip of a vicious circle in which domestic inflation is feeding the depreciation of the rand, which in turn is feeding domestic inflation

Economists agree the country can still escape the circle, but say it will be a tough, and long, process

"The only way to get out of it is to reduce the domestic rate of inflation," says Senbank's Louis Geldenhuys, "and that's not easy."

Geldenhuys, who warned two years ago that South Africa was in danger of being caught in the circle, believes the country will be in its grip for a "prolonged" period which could be two or three years

During this time South Africa's inflation will continue to be higher than the inflation of its trading partners, causing the rand to depreciate further and inflation to rise

Inflation will not be licked in the short term, says Mr Geldenhuys

"Some of the Government's

measures will have an impact over the longer term, but their efforts now are aimed at dealing with the very different situation of overspending"

Barclays Bank's Dr Johan Cloete believes that unless the rand/dollar exchange rate improves to 70c within the next year "we will undoubtedly have a very considerable problem."

South Africa is unlikely to suffer as badly from the depreciation-inflation circle as some South American countries and Israel have done, "but we have got quite a nasty little vicious circle of our own

"There is scope for the rand to appreciate if the country's current account shows a surplus from now on, as most people expect it to, but there's doubt over what sort of appreciation the authorities will allow

"It can't be too much or export industries won't be able to provide the stimulus for renewed growth"

Escom's recently announced tariff increases

"make one shudder", says Dr Cloete "They are a direct result of the depreciation of the rand"

Professor Roger Gidlow of Wits University says one essential condition for South Africa to escape the vicious circle is for inflation to be brought down to levels that compare with the rates of inflation in the country's trading partners.

"There are doubts over whether we can do this."

Success would involve steadily reducing the growth in South Africa's money supply

"This would entail very grave risks on the social and political fronts

"For a long period of time, perhaps five years, there would be little or no economic growth

"One couldn't do it overnight — and I for one wouldn't like to prescribe such a solution"

UAL's Rudi Gouws says the rand's exchange rate could improve in the immediate future as the balance of payments improves

But in the longer run, if inflation stays high, the pressure on the exchange rate will be down

"We are hoping the apparent conviction with which the Government is attacking spending means the country can slow or perhaps halt inflation, which will then gradually bring benefits to the exchange rate"

If the country fails to attack inflation with sufficient energy, he warns, "big trouble" lies ahead

The consensus is that whatever happens, times are bound to be tough for the average South African in the next couple of years

Edith Mieke of the Board of Executors believes prime will remain above 20 percent for most of 1985, which means mortgage and other rates will also stay high

And Louis Geldenhuys believes one essential ingredient in trimming inflation will be some way of bringing pay packets into line with what the economy can afford — in other words, most people's standard of living will have to fall even further

Inflation rate rises to over 13 percent

STAR
20/12/83

South Africa's inflation rate as measured by the Consumer Price Index has risen to 13,3 percent for the 12-month period ending November 30, the highest level in the past 20 months, Central Statistical Services announced in Pretoria today.

This is a marked increase on the year-on-year figure for October of 12,5 percent, the 12,2 percent for the year to September and 11,8 percent for August.

The inflation rate for the 12-month period ending November 1983 was 10,6 percent.

In November this year, the Consumer Price Index rose to 307,4 (base 1975, 100), while the figure for October was 303,7.

At the end of November last year, the CPI stood at 271,4.

The index for food only rose to 322,6 last month. It stood at 318,4 in October and at 288,4 in November last year.

By reaching its highest level in the past 20 months, the new inflation rate has confirmed economists' predictions that the CPI would break the 13 percent barrier by the end of 1984.

GST INCREASE

They cited the July increase in GST to 10 percent, the weakening of the rand against the dollar, and the slump in the gold price as being among the main factors causing the increase.

The commodities index for November was 304,9, compared with 300,6 in October this year and 271,4 in November 1983.

The services component stood at 312,1 compared with 309,8 in October and 271,2 a year ago.

The year-on-year inflation rates by income group for November are.

● Lower income group. Inflation rate of 12,0 percent (CPI figures: November 301,5, October 298,8 and November, 1983, 269,1).

● Middle income group. 13,6 percent. (CPI November 310,1, October 306,4 and November, 1983, 273,0).

● Higher income group. 13,4 percent. (CPI November 307,5, October 303,5 and November, 1983, 271,2). — Sapa.

Rate of inflation over 13pc

Own Correspondent
JOHANNESBURG

South Africa's inflation rate soared to 13,26 per cent for the year to November, according to Consumer Price Index statistics released in Pretoria yesterday.

The inflation rate has reached its highest level in 20 months, confirming economists' predictions that it would push past the 13 percent level by the end of the year.

And there may be worse to come. The general opinion of a number of economists interviewed yesterday was that the inflation rate would continue rising in December and January.

The main reasons for the jump are the weak exchange rate for the rand, the low gold price and the GST increase in July.

The year-on-year inflation rate rose from 12,48 percent in October, while for the year to November 1983 the inflation rate was 10,59 percent.

Even higher

Economists say the December figures will be even higher and there is no reason to believe the inflation rate will start falling in the new year.

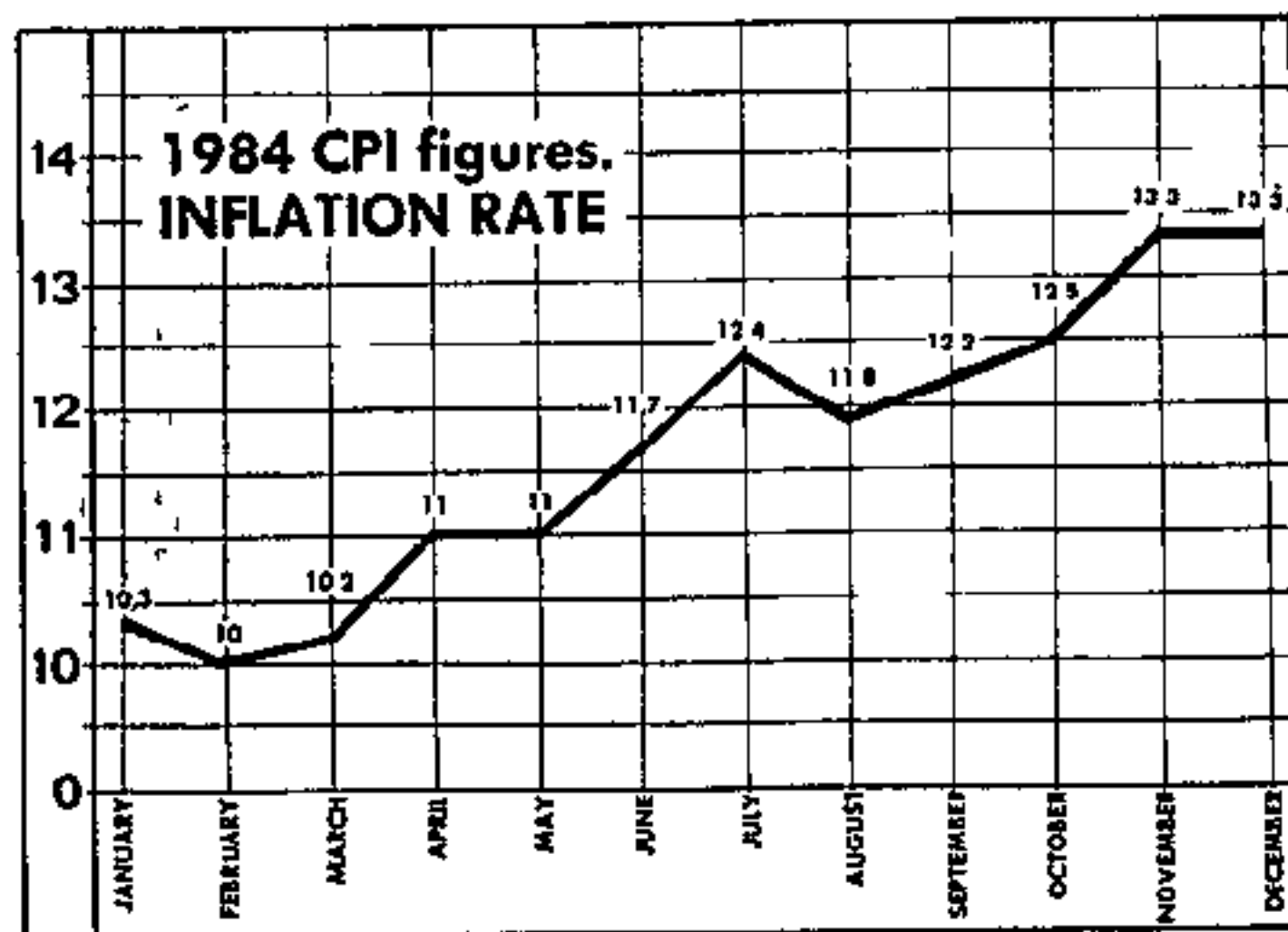
The 10 percent increase in electricity tariffs from January and rumours of increases in GST and the cost of fuel effectively rule out any decrease in the rate of inflation.

Mr Adam Jacobs of Volkskas said the high inflation rate was the price South Africa had to pay for its lack of financial discipline. He said inflation could go higher in the near future, especially if the price of fuel went up.

He urged householders to learn to lower their standard of living. The man in the street was not prepared to exercise financial discipline, as was shown by the decrease in personal savings and the continued desire to live on credit, he said.

Mr Rudolf Gouws of Nedbank said the situation underlined the real need for tight monetary policy.

INFLATION — 1985.



This graph charts the steady spiral of inflation during 1984. A trend which is expected to get worse in 1985.

(153) Star 22/11/85 Inflation set to soar in 1985

The inflation rate, which peaked at 13,3 percent last November, remained constant during December, the latest figures released in Pretoria show.

The Central Statistical Services figures show that consumer prices, measured by the Consumer Price Index (CPI), increased by 13,3 percent from December 1983 to December 1984

But economists predict it will soar in 1985. A major bank's group economist, Dr Johan Cloete, predicts the inflation rate during 1985 will average between 13 and 15 percent.

He said an even higher inflation rate

was expected in 1985 because the rand had weakened compared to other currencies and this pushes up the price of imports.

The year-on-year inflation rates for income groups for December are:

- Lower income group. inflation rate of 12,1 percent.
- Middle income group 13,6 percent
- Higher income group. 13,3 percent.

The CPI for food increased by 0,6 percent from November, and the annual rate of inflation on food measured 11,6 percent during the last year

South Africa's double digit inflation rate started in 1974.

SA faces 20% inflation

Staff Reporters

AS announcements of more price increases followed the shock petrol price rise, big business warned today that inflation could rocket to 20 percent or more — the highest yet.

And there could be further increases in the petrol price and higher taxes

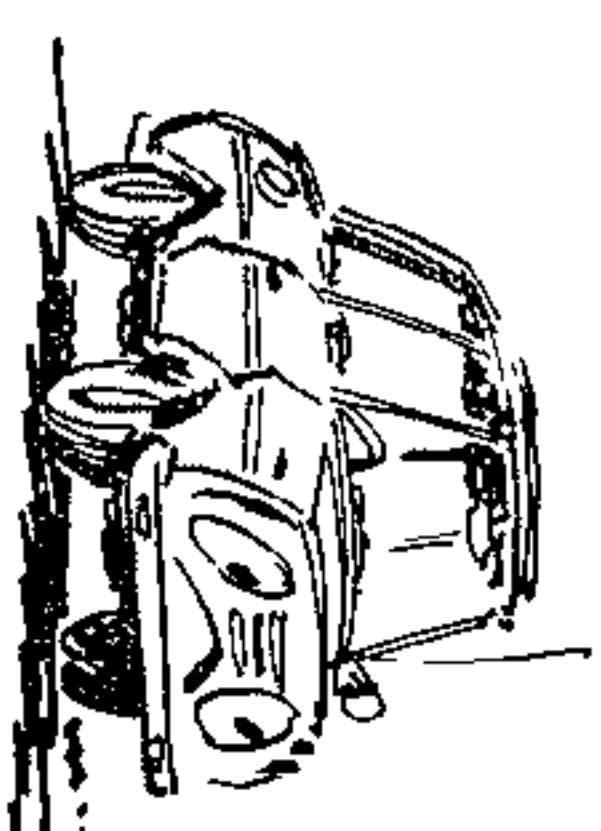
Bus fares will rise next week

To add to consumer woes, the price of liquefied petroleum gas (LPG) rose by 21 percent today

Oil companies said the reason for the increase — the fourth in 11 months — was the poor performance of the rand against the dollar

The 22.9c price-rise brings the cost of a kilogram of LPG from R1.04 to R1.27, further increasing the cost of living for domestic users and adding thousands to the gas bills of heavy-industry users

The Association of Chambers of Commerce estimated the new petrol price would push the consumer price index from 13.5 percent to at least 15 percent immediately



Consumer price index will rise — Assocom

The chain reactions in heavier transport bills for everyone from private motorists to farmers and business would push the rate up by at least another five percent in the next nine to 12 months

And Senbank forecast an even higher general sales tax

Mr Louis Geldenhuys, its senior economist, predicted the Government would be forced to increase taxation — most likely through GST — to bring in an additional R1 000-million to balance its books.

South Africans also face more expensive

Road, rail, sea and air transport.

Agricultural products and all food which has to be transported,

Municipal tariffs, and

Consumer goods

The general manager of SA Transport Services, Dr Bart Grové, said the effect of the fuel price on all transport would be far-reaching

It is doubtful whether Sats can absorb the increase and the Minister of Transport, Mr Hendrik Schoeman, is expected to make a statement soon

Taxi-owners and passenger transport company spokesmen said they too would have to pass the increase on to passengers

There was also warning today that a steep climb in air fares was likely within days, with worse to come in April

Mr Michael Menoff, joint managing director of Miller Weedon Travel, said an announcement by the Minister of Transport was imminent and he forecast that

Domestic air fares would rise by between 11 and 15 percent, and

International fares would go up on a sliding scale from eight percent to as much as 25 percent on single tickets to the United States

Details of new fuel costs

HIGHER coastal prices which come into force today	
Petrol, premium 98 octane, 84.9c a litre — up 27.1c	At midnight 98 octane petrol went up by 27.1c a litre and 93 octane by 25c a litre
Petrol, regular 93 octane, 81.4c — up 25c	Based on a former price of 56.4c a litre for 98 octane petrol and 57.8c a litre for 93 octane in Cape Town, here is a selection of cars, their tank capacity and recommended fuel rating, yesterday's cost to fill it, today's and the difference
Diesel, 84.8c — up 25.3c	● Mercedes Benz 230E 83c tank (98) R47.97, R70.46 — up R22.49
Diesel, agricultural and other non-road users — up 12c a litre	● Toyota Cressida 2c GL sedan 75c tank (98) R43.35, R63.67 — plus R20.32
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The increases are based on a rand exchange rate of 46.5 US cents	● Renault 5 49c tank (98) R28.32, R41.60 — plus R13.28
Today the rand rate is about 43.40 cents	
From today it costs most motorists between R13 and R22 more to fill up their petrol tanks with premium octane fuel	

Prices of consumer goods set to soar . . . and soar

Argus Correspondent	
JOHANNESBURG. — Prices of consumer goods are set to soar during the next two months — and the increases do not take the petrol-price rise into account.	
There will be further price increases on consumer goods later to make good the petrol-price increase.	
Wholesale prices of several items rose during December and January but have not yet filtered through to consumers, said a director of Pick n Pay, Mr Richard Cohen	
TEA, COFFEE	
These increases — the result of the rampant dollar — are expected to affect consumer-prices in February and March.	
Consumers can expect price increases in:	
● Tea and coffee, up by between 12 percent and 15 percent;	
● Rice, 25 percent,	
● Cereals, 15 percent,	
● Jellies and cordials, 10 percent,	
● Canned meats, nine percent;	
● Paper products, 10 percent;	
● Toiletries, between nine and 12 percent;	
● Detergents, 13 percent, and	
● Household cleaners, about 12 percent.	
Other goods set to rise in price include poultry, cooking-oil, cold meats and frozen vegetables	
"Thus bleak outlook does not take into account the increase in the petrol price and cost of distribution," Mr Cohen said	
The managing director of Checkers, Mr Gordon Uthai, said: "While the low rand makes this fuel-price increase inevitable, the impact will rampage through the economy, hitting food prices and the consumer."	
"Prices will inevitably go up," he added.	

ARGUS
24/1/85 153



**could be raised
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cents a litre**

He feared there would be widespread retrenchments throughout the travel industry and sharp cutbacks in private and business trips.

Petrol prices could be raised by at least another four cents a litre by June, if the rand/dollar exchange rate did not improve, said the Minister of Mineral and Energy Affairs, Mr Danie Steyn.

If the rate declined more the Government would be forced to consider another fuel price increase.

Such an increase could be at least four cents a litre because the saving obtained by using stockpiled crude oil to offset further increases would, by then, no longer be in effect.

Another increase in petrol prices could also result from an increase in GST.

Replying to questions at a news conference, Mr Steyn said that if crude oil prices were to drop drastically the Government would consider a cut in the petrol price.

● Anger and despair — Page 3.

ICES 2070 inflation

Staff Reporters

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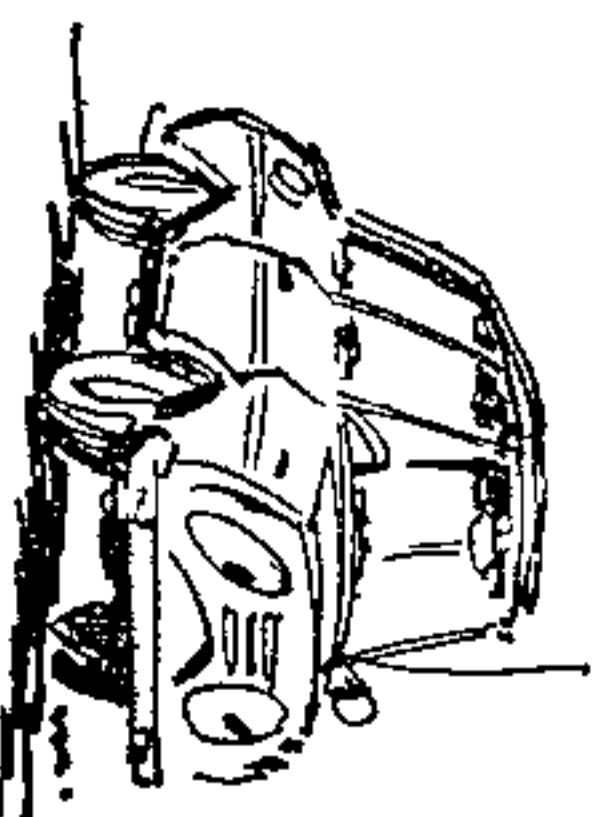
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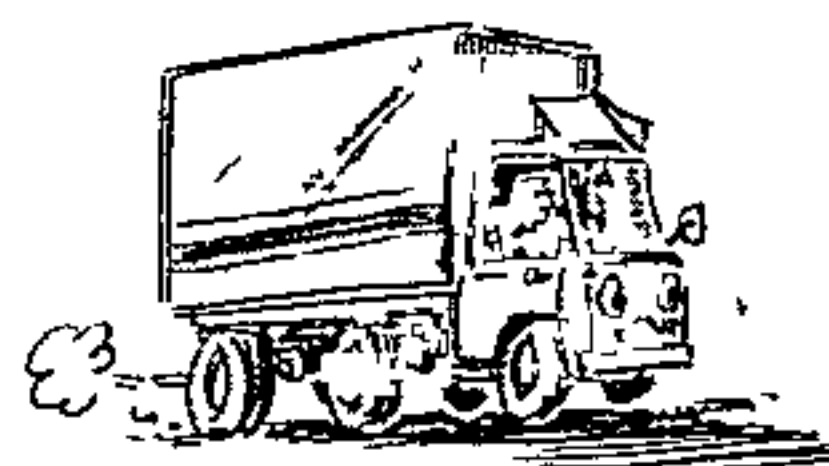
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- Canned meats, nine percent;
- Paper products, 10 percent,
- Toiletries, between nine and 12 percent;
- Detergents, 13 percent; and
- Household cleaners, about 12 percent.

Other goods set to rise in price include poultry, cooking-oil, cold meats and frozen vegetables.

"This bleak outlook does not take into account the increase in the petrol price and cost of distribution," Mr Cohen said.

The managing director of Checkers, Mr Gordon Utian, said: "While the low rand makes this fuel-price increase inevitable, the impact will rampage through the economy, hitting food prices and the consumer

"Prices will inevitably go up," he added.

aries, wages, interests and fixed costs, for example. The new cover will be available from 12-24 months, or longer by negotiation, under a separate insurance policy — though it must run concurrently with the coupon that certifies the material damage portion of the Sasria cover.

The basic premium rate is the same as for the coupon, 0,1%. But for longer indemnity periods than 12 months, reduced rates will apply: 0,093% for 18 months, and 0,083% for 24 months, for instance. But there's more to it than that since the premium rate is calculated, not on the amounts up to Sasria's R100m limit, but on the client's "full value." This is the total insurance cover the client requires for combined material damage and consequential loss incurred through politically-motivated acts. When the discounts are worked out, the client pays his fee, receiving a coupon and policy for the combined cover on a "first loss" basis. This means Sasria will pay the first loss up to the R100m limit before other policies come into play.

And this is where the fun starts because clients will have to buy up a variety of additional policies to fill all the gaps left by Sasria. The big corporations will simply need more insurance — excess of loss cover — on top of the R100m Sasria cover, of course, also excludes the homelands. So, for outside SA, clients will need cover from the ground upwards.

Other important insurance requirements, specifically excluded by the association, that will need purchasing elsewhere, include consequential loss (net profits), utilities extension, and suppliers extension. Utilities extension covers losses indirectly caused by politically-motivated acts disrupting power supplies. Suppliers extension does the same thing for covering disruption to other supplies.

Don Gallimore, executive director of Priceforbes Federale Volkskas, points out that the cover is also confined to "own premises" owned or occupied by the insured in SA. The problem here is linked to

FM BLUE CHIP

The January issue of the *FM's Blue Chip Forecast* will be published next week. It contains the latest economic forecasts and the most recent consensus view.

Subscription rates are as follows:

- ☐ 3 months R58,62,
- ☐ 6 months R117,24, and
- ☐ 12 months R234,48

For information on subscriptions to the *Blue Chip Forecast*, please call Helen Williams on 710-2229.

the question over suppliers extension since both could have a serious bearing on the claims position.

"The 'own premises' rule puts the onus," says Gallimore, "on the client to cover all his premises within the framework of the law protecting Sasria, with the correct and adequate supporting insurance from overseas markets." This is not easy to organise, especially where subsidiaries or "associated" companies are involved.

But Sasria MD, Rodney Schneeberger disagrees. "Sasria defines 'One insured' as any single one insured or holding company and all its subsidiaries — as contemplated by the Companies Act 1973. So it is quite straightforward, and indeed we have never had any problems arising from this in the past."

Yet the law has nevertheless been the source of much dispute on this point elsewhere. Indeed, the definition of a subsidiary runs to a full page in the Act, and owning more than half the equity of a company is not the only criteria. A subsidiary is also one that is a "member" of another company that also controls the composition of its board. Further provisions complicate the matter since cross-shareholdings might encompass additional subsidiaries within the group through a combination of shares.

This could make it very difficult for a

client to prove that the Sasria insurance purchased applies to the specific premises in question since the buildings attach to the "own premises" concept, which in turn attaches to the group's respective list of subsidiaries. So for him, calculating which companies belong to his group as subsidiaries and therefore fall under the R100m limit, and which buildings belong to "associated" companies that must hold separate cover is going to be a nightmare.

Schneeberger points out, however, that Sasria coupons and policies attach to the underlying policy of the direct insurer, an industrial fire policy, or an assets all risks policy, for example. So in the event of a claim, even if there is a dispute, and provided the client holds both non-political and political riot covers, the insured is paid out regardless, leaving the direct insurer and Sasria to argue the matter after the event.

Still, if, for example, a subsidiary is mistakenly omitted from the group list, then the client could find the subsidiary's separate Sasria cover invalidated as exceeding the overall group's R100m limit. If, on the other hand, the client includes a company wrongly as a subsidiary, he could end up breaking the law because he would have to be buying more top-up cover from the overseas markets than he is permitted to do. For by including it within his group's R100m limit he deprives Sasria of providing that company with separate own cover.

This is only a hint of the possible confusions that lie ahead. Not surprisingly, perhaps, clients who want to arrange their excess Sasria-type insurance overseas, have to ask permission. For according to the rules, excess of loss covers over and above the first loss limit of R100m may be obtained elsewhere, "subject to a letter of confirmation that Sasria is not prepared to give the cover."

Schneeberger says "The purpose of this legislation is to ensure that the Sasria facilities are used to the full." And indeed failure to obtain the necessary permission is a criminal offence.

INFLATION RATE STEADIES

The inflation rate remained unchanged at 13,3% for December 1984, according to the latest statistics from Central Statistical Services in Pretoria. This is in comparison with the previous month on a year-on-year basis.

The cpi, which stood at 274,7 at the beginning of 1984, had risen by 12,6% to 309,4 by the end of December. Yet the index showed only a 0,7% increase from November's figure of 307,4. This compares with a much higher average of over 1% a month for most of the rest of the period.

The latest apparent trend is surprising in view of widespread price increases that have taken place recently. But one possible reason for this, accord-

ing to one bank economist, was the large-scale price discounting that occurred during the pre-Christmas shopping period. And certainly, this was unusual since such periods are traditionally times of price inelasticity. It is just another confirmation, perhaps, of excessive and expensive inventory positions forcing embattled retailers to deplete stock levels through unseasonal price cuts.

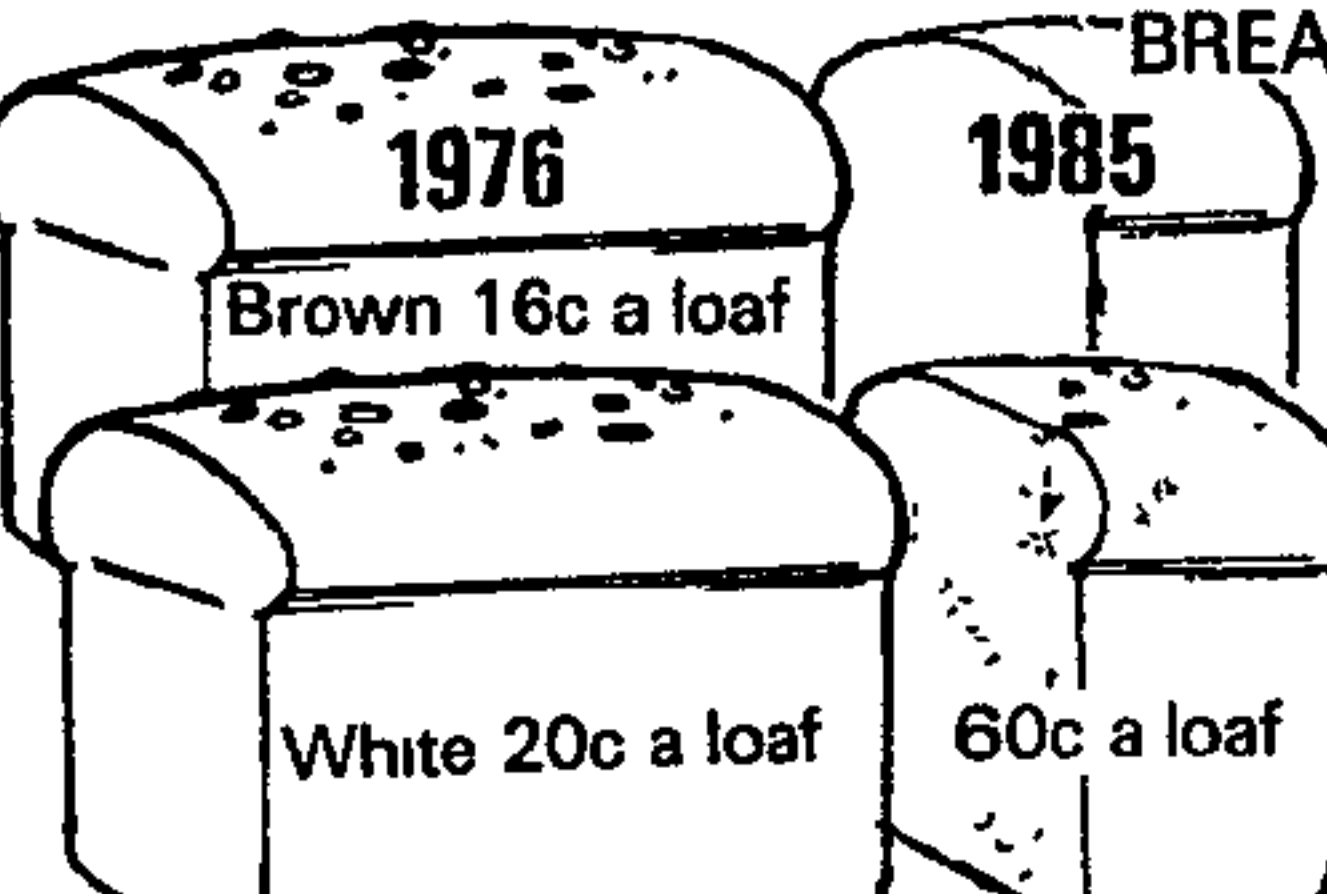
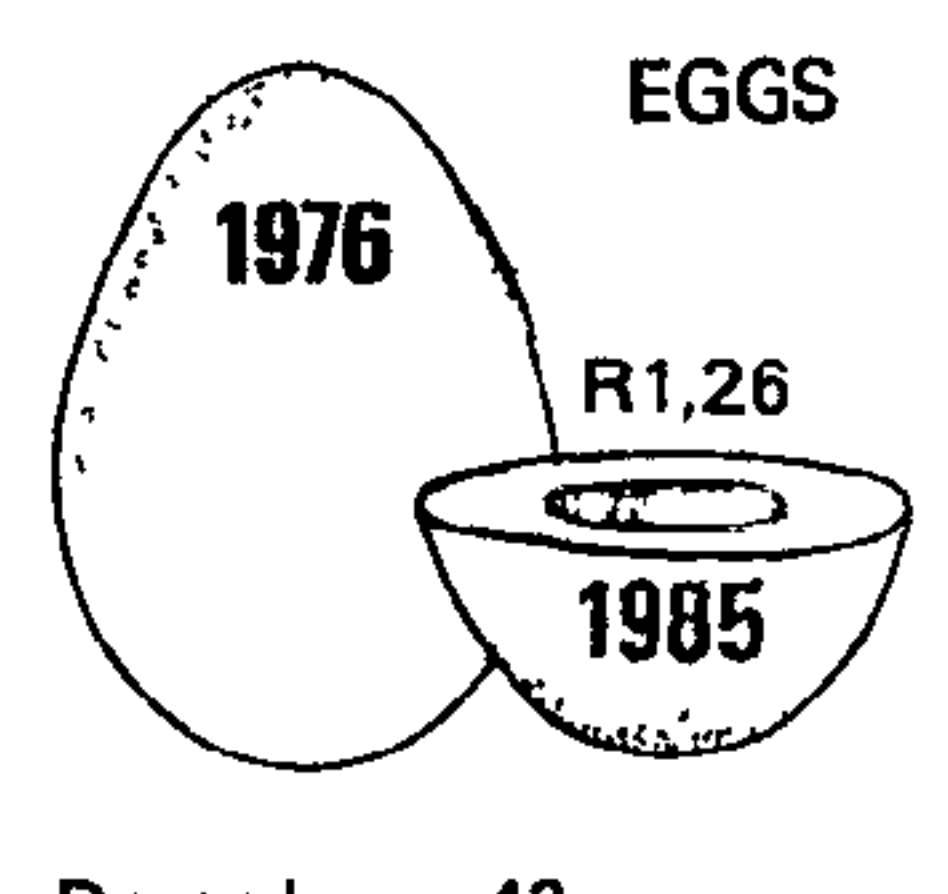
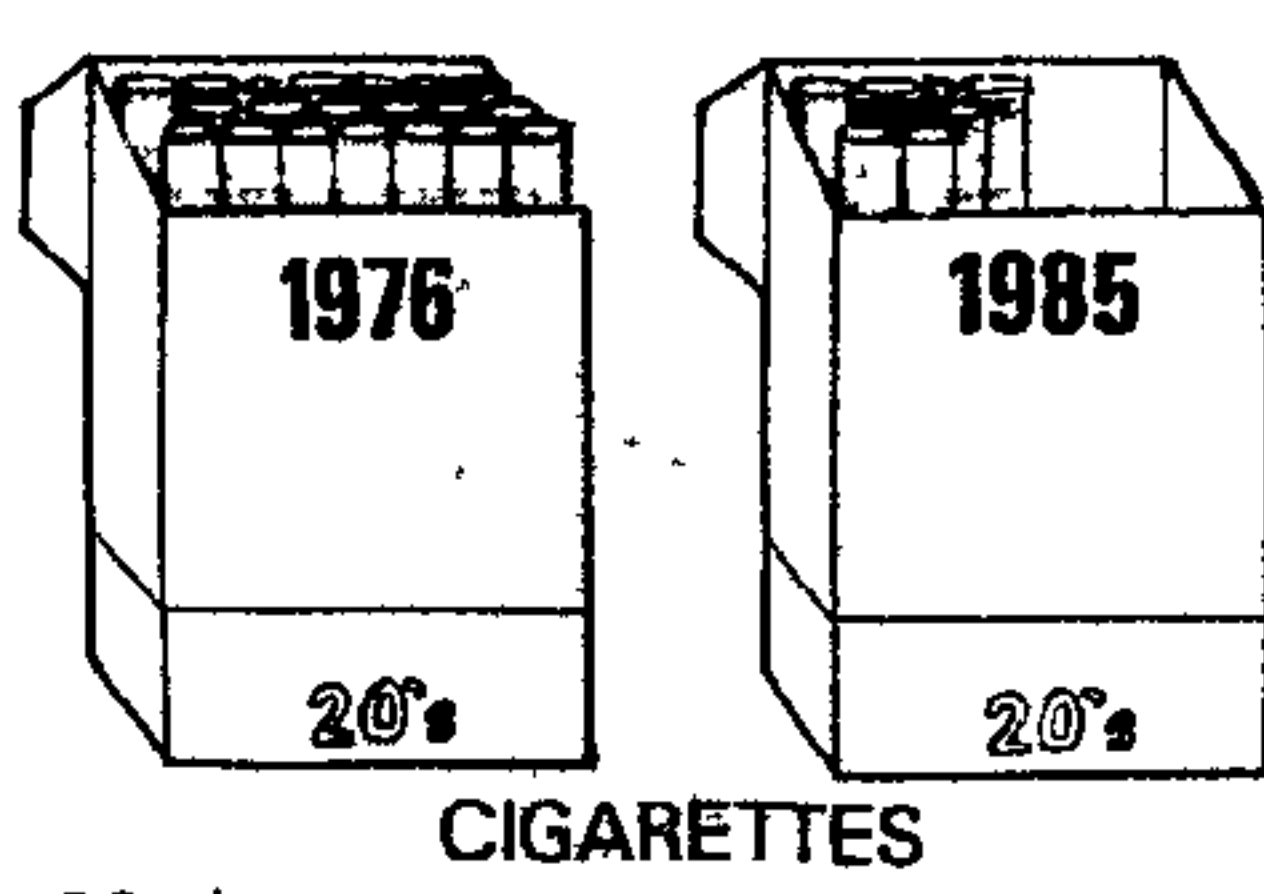
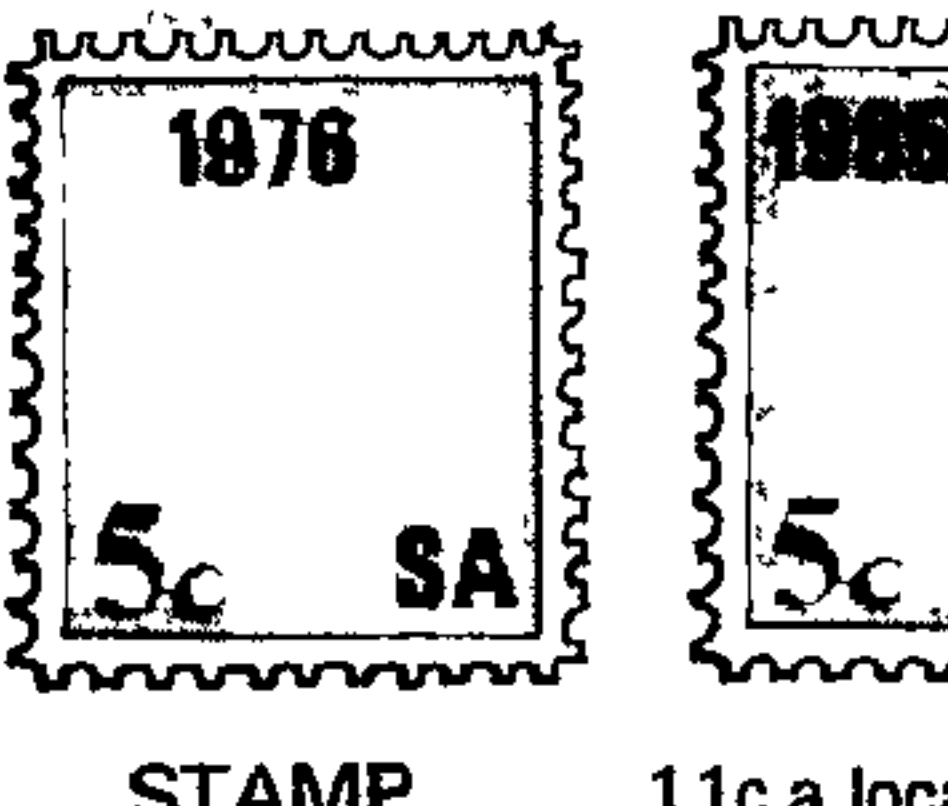
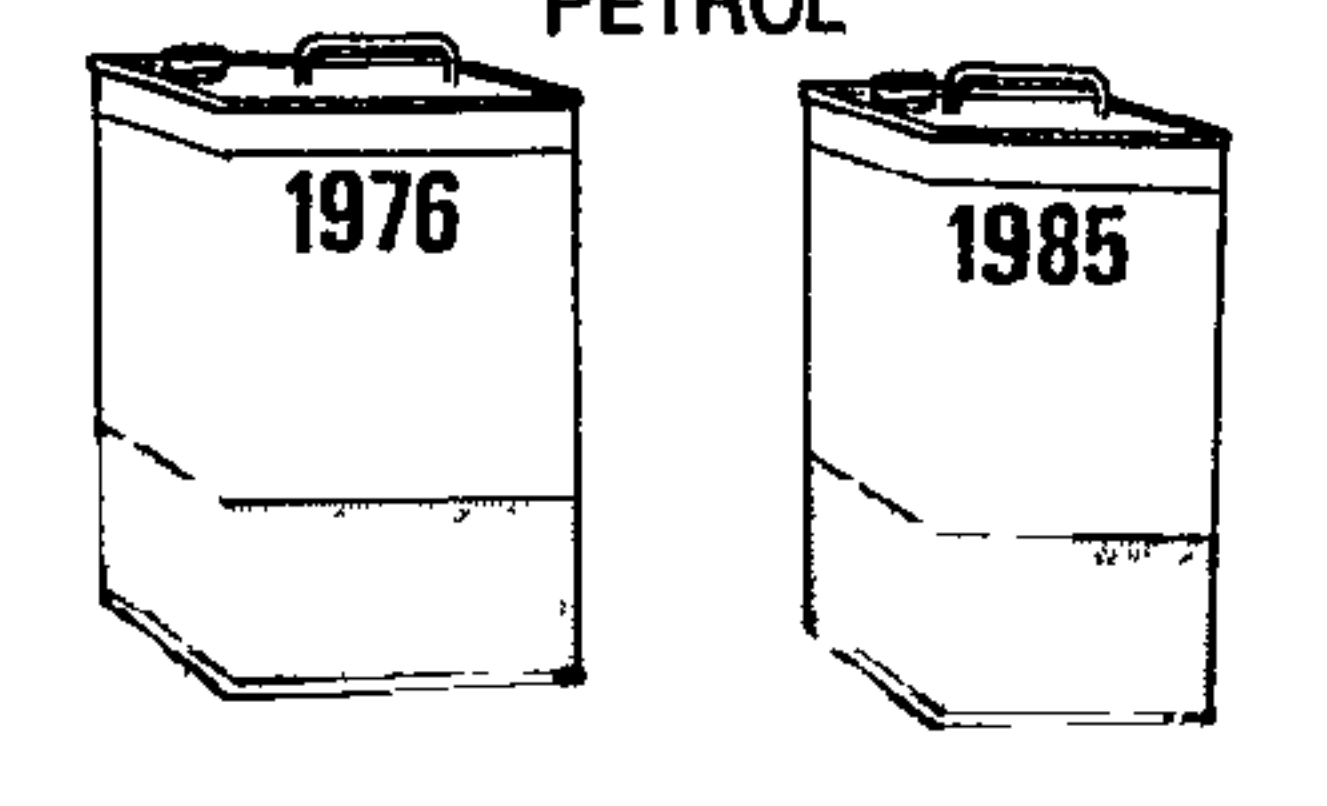
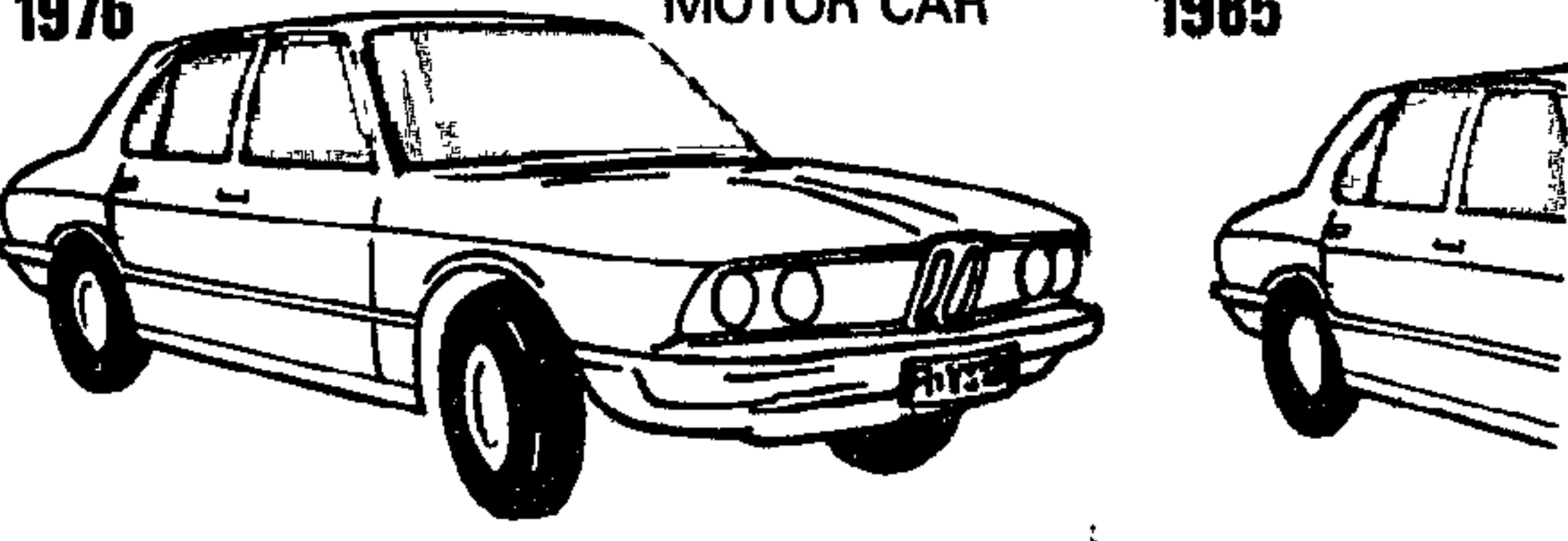
Another factor holding the rate down is that some 20% of the weighted index, which includes transport and alcoholic drinks, remained unchanged. But no doubt, on the transport side, certainly, the impending petrol price rise will inject a dramatic increase.

Indeed, many components of the index will, over a nine-month period, receive price boosts from this factor as the impact filters through the economy.

Effects of the slide of the rand have yet to filter through, even if the currency appreciates in the meantime. Standard Bank's André Hamersma says there is the general perception that inflation is on the increase and will rise further.

He says importers are facing tremendous problems with the fall of the rand, so that the price of many imported goods have escalated dramatically. Such increases may take time to work their way through the system before being reflected in the cpi.

HOW YOUR RAND BUYS LESS . . . AND LESS

 MILK 1976 Up from 25c to 27c a litre 1985 69c a litre a litre (Jan)	 BREAD 1976 Brown 16c a loaf White 20c a loaf 1985 60c a loaf	 EGGS 1976 Dozen large, 43c 1985 R1,26	 CIGARETTES 1976 38c (pack of 20's) 1985 90c for 20's
 STAMP 1976 5c (local) 1985 11c a local letter	 PETROL 1976 24,1c a litre 1985 88,5c	 MOTOR CAR 1976 Ford Cortina (2l) R4 094 1985 R13 504 (2l) Sierra	

Inflation: bitter pill 'the only way out'

Jackie Linwin

The purchasing power of the rand is down to 34,1c compared with 1975 and could go as low as 30c this year.

Dr Johan Cloete, Barclays Bank's group economist, estimates that the inflation rate in 1985 will average between 13 and 15 percent.

And unless a bitter pill is taken, he can see no end to the inflation spiral with the main victims being those, such as pensioners, with a fixed income.

"Inflation is a social phenomenon," he says, "a device we have developed to resolve a conflict situation temporarily."

The double digit inflation rate which started in 1974 was initially caused by an increase in the oil price.

"But instead of using less petrol people demanded more money to pay for it," said Dr Cloete.

"People feel that because their cost of living last year went up by 11,7 percent they want their salary increased by about the same percentage."

"The employer agrees so as to avoid a strike and puts up the prices of his goods to offset the increased costs to himself."

"Next year we do the same thing. We are no better off but we have avoided a strike."

Dr Cloete said an even higher inflation rate was expected in 1985 because of the weakened rand compared to other currencies which pushed up the

price of imports such as petrol.

He added that there were only two ways to stop high inflation — and both hurt.

"One way," he went on, "is to experience such a severe recession that there is unemployment."

"A fear of losing their jobs forces people to accept a cutback in annual wage increases."

"But such a recession together with unemployment is something politicians and society don't want to accept."

The other way is to persuade people to cut back voluntarily on their wage increases.

"We can either do it sensibly," said Dr Cloete, "with people toning down their wage demands, reducing the cost of business and making it possible to cut back on price increases or we have a recession, which is what we are opting for at the moment."

"This is the more painful way."

Dr Cloete felt the Government could lead the fight against inflation.

"As the public sector employs one out of every three persons," he said, "it has a lot of power and could by either decree or voluntary negotiation with its employees pay lower wage increases."

"It could do a great deal by just seeing that the price and wage increases under their direct control are reduced."

"If the Government took the lead the private sector would probably follow its example."

THE SOUTH AFRICAN CONSUMER PRICE INDEX

1910 to 1984 (all items: 1975 = 100)

Year	Index	Change (%)	Purchasing Power of the Rand
1910	16,1	—	6,21
1915	17,3	-1,7	5,78
1920	31,5	24,0	3,17
1925	23,3	-0,4	4,29
1930	22,5	-2,2	4,44
1935	20,3	-0,5	4,93
1940	22,3	3,2	4,48
1945	28,6	2,5	3,50
1950	34,4	3,9	2,91
1955	43,6	3,1	2,29
1960	48,6	1,3	2,06
1961	49,5	1,8	2,02
1962	50,3	1,6	1,99
1963	50,9	1,2	1,96
1964	52,2	2,5	1,91
1965	54,1	3,6	1,84
1966	56,0	3,5	1,78
1967	57,9	3,4	1,73
1968	58,9	1,7	1,70
1969	60,6	2,9	1,65
1970	63,8	5,3	1,57
1971	67,7	6,1	1,47
1972	72,1	6,5	1,39
1973	78,9	9,4	1,27
1974	88,1	11,7	1,14
1975	100,0	13,5	0,90
1976	123,7	11,3	0,81
1977	137,2	10,9	0,73
1978	155,3	13,2	0,64
1979	176,7	13,8	0,57
1980	203,5	15,2	0,49
1981	233,5	14,8	0,43
1982	262,2	12,3	0,38
1983	293,0	11,6	0,34

The situation for retired people on fixed pensions is desperate, with rampant inflation devouring the buying power of their rands.

The chart indicates an alarming decline in the value of the rand. Given a par value in 1975, it has declined to 34c in 1985.

Retirement Association statistics show that only 8 percent of people at present can live on their retirement incomes without augmenting them.

For a man who retired 20 years ago the value of money has declined about 80 percent. The individual who retired 15 years ago on R200 finds its value has fallen to R70.

If a pension is not subject to periodic increases, its buying power is likely to be about half its initial value five years after retirement.

"What is it going to be by 1990?" asked Mr Hugh Goyns, director of the Retirement Association. "This is the crunch. Things are getting steadily worse and inflation is not being contained. And the problem is being exacerbated by higher life expectancies."

For those on fixed pension, the outlook grows bleaker

"If people realise early enough, they can make their own arrangements to see they have a reservoir sufficient to take up some of the loss in the value of money in retirement. They have to avoid over-spending on items they don't need."

"But it's the South African way of life to own items like a boat and TV, giving no thought to the fact that you cannot eat these things or get interest on them."

Mr Goyns said the association ran an employment bureau for retired people, many of whom needed to work to supplement their pensions.

One man who retired on what was an adequate pension 10 years ago has been forced to seek work again because he can't manage.

Up, up and away go the prices

by Jennifer Tennant

Time is money, so the saying goes, and as time passes so costs rise.

This week the price of petrol rose by 25c a litre to 88,5c, stunning consumers throughout the country. It was the latest in the economic blows faced by South Africans.

The Star, highlighting the soaring cost of living, looks back to the year 1976 when a litre of petrol cost less than 24,1c and compares prices with the present.

Today it costs more than R53 to fill a 60-litre petrol tank. In 1976 it cost R14,46 — a difference of R38,64 in nine years.

A family-size car of two litre capacity now costs R13 504. In 1976 a similar model family car was R4 094. And it now costs twice as much to park that family car at a parking metre in the central business district. In 1976 it was about 30c for an hour, now it is 60c an hour.

And to escape the Johannesburg rat-race and fly to Cape Town a one-way ticket nine years ago was R62. The latest price quoted is R171 for a one-way ticket.

Food prices have also risen dramatically in less than a decade. Remember 1976, a time when there was no general sales tax, white bread was 20c a loaf and brown bread cost 16c.

Nowdays GST is 10 percent, a loaf of white bread is 60c and brown bread is 40c.

Milk has increased by more than 175 percent in the past decade. A litre of milk was 25c in 1976 while today it is about 69c a litre.

And the price of eggs has risen by almost 200 percent in nine years — from 43c a dozen to R1,26 for a dozen large eggs.

Inflation rate of 14,5% predicted for this year

153 E. Post 28/1/85

JOHANNESBURG — Sanlam predicts that South Africa will have an inflation rate of at least 14,5% during 1985.

In its latest economic survey, released today, it states "It is disappointing that the latest sharp downturn in economic activity will not be able to arrest price accelerations this

year

"Indications are that the annual rate of increase in consumer prices has already bottomed out and that it may accelerate again considerably in the coming year — a process which will be aggravated by the drastic weakening in the external value of the rand. In view of the drastic increase in the price of fuel it seems unlikely that consumer prices will rise on average by less than 14,5% this year."

In an analysis of the consumer price index during recent years it highlights the fact that the vehicles component of the CPI last year increased by an aver-

age annual percentage of 12,9%, compared with 9,3% in 1983

Other components which increased at a higher rate than in 1983 were clothing and footwear, 11,1% (9,9%) and housing 17,7% (17,3%)

It adds that services contributed far more to the inflation rate in the past few years than in 1980 and 1981

"During this time the price of services also rose at a much faster rate than that of goods — regardless of the fact that the latter was fully subjected to successive GST hikes," Sanlam says.

"The sharp increase in the cost of housing, owing to the appreciable upward ad-

justment of mortgage bond rates was an important component of the higher service charges of the past few years

"This shows that the use of higher interest rates as an instrument of policy to curb inflation in the longer term actually has a negative effect in the short term

"Furthermore, over the past five years consumers have had to spend 16% per annum more on average for education, and tariffs for medical schemes were

raised a number of times

"Other factors contributing to increased service charges included public transport, postage, domestic servants' salaries and personal care

"In the case of goods, food represents the greatest weight and price fluctuations in this exercise a significant influence on the total consumer price index

"Nonetheless more expensive furniture, clothing, footwear and cars also played a major part in the higher inflation rate"

Oil price collapse seems improbable

GENEVA — A collapse in world oil prices, much mooted in the Western media recently, appears increasingly improbable as Opec ministers meet in conference here today

A world oil glut, price reductions by its competi-

tors — notably Britain and Norway — and visible tension between some of its 13 members have led to self-serving predictions in consumer nations of the imminent demise of the Organisation of Petroleum Exporting Countries

R A Consulting to be restructured

HUMAN resources consultants R A Consulting, which has operated in the Eastern Cape since August 1984 in the spheres of recruitment, industrial relations, training, and management advisory services is to restructure its organisation. The aim now is to provide an even more specialised, professional service, to the Eastern Cape, Southern Cape and Border

From next month the original RA Consulting will

specialise in management consultancy, while a new division — RG McLuckie and Associates — will specialise in industrial relations, training and related services

The firm recently concluded a franchise agreement with Organizational Interface Management (Pty) Ltd to enable it to offer a wider range of flexible industrial relations, leadership, supervisory and management programmes.

INFLATION

The fuel duel

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A flood of price increases will wash through economy as the direct and multiplier effects of the unprecedented 40% fuel price hike begin to bite. Many business sectors are expected to exploit the situation unfairly, and some are already doing so, sources say.

But whether the compounding effects will seriously dilute company profits and thus shrink the Receiver of Revenue's share will depend on the level of cost increases passed on to customers, and the timing (see *For*).

South Africans have long since learnt to cope with 10%-15% price rises, but this massive fuel price jump will create an unprecedented "inflation psychosis," warn industry watchers.

Federated Chamber of Industries (FCI) research shows that most commodities go from factory to consumer within three months. "However," says a FCI spokesman, "manufacturers are already tagging new and higher prices on to old stock as a result of the fuel price rise. That's the way it goes."

He adds that many prices of existing stocks handled by the "not-so-unscrupulous" commercial sector may remain unchanged until they are worked through to the consumer within three months.

"Business organisations and the consumer alike should beware of being ripped off as the gasfuel component in manufacturing costs is well below 10%, and often below 5%, in most manufacturing sectors," he says.

Business sectors which have done their homework are already forecasting that additional operating costs will result in significant profit reductions before price increases can be implemented.

When the indirect effects of the increase begin to filter through from June to December, economists expect the inflation rate to creep towards 20%. Some researchers say the indirect costs could easily be twice that of the direct cost, but the FCI source puts the figure at a lower 50%-70%.

Transport, mining and agriculture have calculated what the first round of the direct price increases will add to their operating-production costs. They estimate that:

- SA Transport Services' operating costs will jump R600m a year,
- The petrol cost component in running a car will go up from an average of 53% to 61%. That is, a 1,8l-2l car travelling an average 18 000 km a year now costs 14,5c/km against 11,9c/km to run (this includes other running cost increases resulting from the new fuel price),
- Farm production costs will leap by

R150m a year, excluding transport costs,

- Road hauliers' costs will increase 9%-12%, and
- Gold and coal mining costs will rise by at least R38m a year.

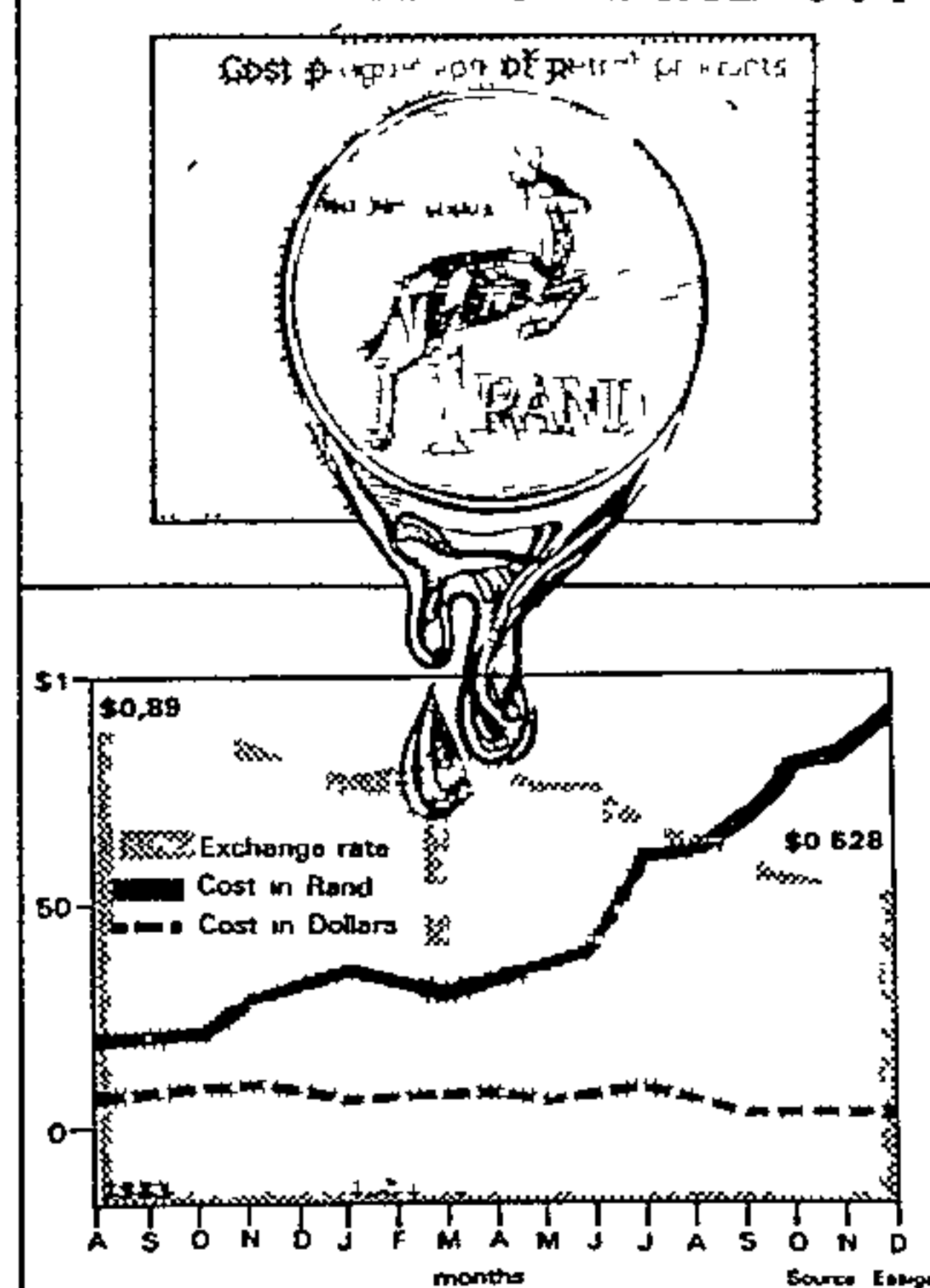
Other mining sectors are still calculating the impact, and both AECI and Sentrachem can give no immediate indication of the cost to the petro-chemical and plastics industries. But it is bound to be high.

According to the FCI's research unit, the combined cost component of petro-chemicals and chemicals in "basic chemicals" production is 12,3%. In fertilisers and pesticides it reaches 28,6%, in synthetic resins 27%, paints 25%, medicines and pharmaceuticals 13,9% and in soaps/cleaning components 15,2%.

Fuel cost component in glass production is a high 10,8%, but transport/storage is



THE LEAKING RAND ...



only 4%, rubber 5,5% and textiles 4%. Most other industries are below these figures.

But, still punch-drunk from three successive droughts, agriculture will be hit like a hailstorm by the extra R150m a year in direct costs of primary products. And still to be computed are inevitable increases by Sats, other transporters and manufacturers, says SA Agricultural Union chief economist Johan Willemse.

"Agriculture cannot meet any of these increases, so we will have to go back to government with new representations," he warns.

To soften the blow, hauliers have put up strong recommendations through the Public Carriers Association for increased maximum axle loads for goods-carrying trucks from 8 200 kg to 9 600 kg for tandem axles and 10 000 kg for single axles, says PCA past-president Mike Norris.

He says this would create parity with bus axle loads without causing any "significant" road wear or damage. "This 15% increase would contribute greatly towards enabling the road transport industry to absorb a major part of the inflationary impact of the price increase on operating costs," says Norris.

A Chamber of Mines spokesman says it is impossible to calculate the effect on production costs of base minerals and ferro-alloys yet. But it will be severe because mining uses a large amount of diesel.

"Inevitably this will result in lower profits and less in tax payments," says the Chamber man. "The general effect on SA as a whole will be inflationary in the extreme."

FORD/AMCAR

A better idea?

The first steps in what is likely to be a major rationalisation of SA's ailing motor industry have been decided.

The details of the long-awaited Ford/Amcar merger were released after the *FM* went to press, but industry sources were predicting the emergence of a rejuvenated group, 60% owned by Anglo American — Amcar's parent — and 40% by Ford of the US.

Ford vice-president Lindsay Halstead flew to SA to break the bad news to Port Elizabeth Mayor Ivan Krige at a 40-minute meeting on Monday. Later Krige told the *FM* that although the intent to merge was clear, the "situation is still fluid, with few firm decisions already made."

The outcome of "preliminary discus-

CAPE TIMES 8/2/85
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Inflation, even
if rand mends

Own Correspondent

JOHANNESBURG — The stage for spiralling inflation, especially in foodstuffs, was set even if the rand strengthened, a major hypermarket chain predicted this week.

And consumer bodies have warned of the impact on the living standards of the lower-income groups if the government slashes food subsidies in the new financial year.

The fear is that a financially-embattled government will adopt crisis measures in the coming Budget to make ends meet, including possible sharp cuts in State subsidies.

There are also expected to be a series of meetings between consumer bodies and the Maize Board, preceding an announcement of a huge increase in the maize price from May 1.

Food retailers were this week given price increase figures on supermarket goods — expected to be effective by March — which indicate that consumers face inflation of at least 20 percent in the next few months, with imported items especially high.

On basic foods, rice will increase by 25pc, poultry 13pc, milk blends, creamers and soups up to 15pc, snack foods 11pc, spices 8pc, tinned fish up to 12pc, toothpaste and sweets 10pc and soap 16pc.

A spokesman for a major hypermarket chain said "The tragedy is that the infrastructure for inflation already exists no matter what the position of the rand becomes."

● A spokesman for Dun and Bradstreet, business-information collectors, said 2 800 firms were forced into liquidation in 1984 and indications were that this would increase to 3 300 in 1985. There had been a 20 percent increase in default judgments.

(B2) (153) Star 19/2/85

Striking for danger pay

By Langa Skosana,
Labour Reporter

An atmosphere of gloom and anxiety hung over the AECI dynamite factory at Modderfontein yesterday where about 1 000 workers are on strike after an explosion there last week resulted in the deaths of at least 14 people.

They are demanding an extra R500 a month in their pay packets because of the risk of working with explosives. They say they get a minimum salary of R408 a month.

Yesterday, sorrow was

written on the faces of the men and women who sat near the recreational hall.

A few metres away, rescue teams battled to find five of their colleagues — unaccounted for since the blast.

As hope of rescue or the recovery of their bodies faded, the factory management issued a statement saying they had to be assumed dead.

"It's no child's play to work in a dynamite factory where you can be blasted to smithereens at any moment," said Mr

Mike Obose, who has been there for more than two years.

"We're risking our necks each day we come here, but we are getting peanuts," he said.

His comments were echoed by many others.

"For instance, families of our friends who have died, have been promised a year's salary multiplied by five. It means support for only five years," said a striker.

But the grief soon turned to anger.

"We are prepared to

pack our belongings and go home rather than stick around for this nonsense," said a Transkeian.

Most agreed, however, that stringent precautions were taken.

But one said supervisors had been careless and had caused last week's blast.

A company spokesman, Mr Murray Joubert, said they were investigating all claims by workers.

The union and management were discussing the demands, he said.

by
**Duncan Collings and
Jackie Unwin**

South Africa's inflation rate in January hit its highest level in nearly two years at 13,9 percent — but, with the impact of the increased fuel price still to come, most economists expect it to rocket to 17 percent in the next few months.

Several are even predicting that it will reach 20 percent — in contrast to South Africa's major trading partners, who have all consistently kept inflation at under five percent

The authorities' inability to come to grips with inflation locally — and many economists believe the real figure is much higher than the official figure — is destroying the country's competitive ability abroad

Export drive

South Africa now has an opportunity to take advantage of the effective devaluation of the rand by selling its goods more competitively overseas. But if it keeps on having to push its prices up because of inflation the export drive is likely to peter out

Ironically, however, it is also the low level of the rand which is partly to blame for the high inflation rate as the country's imports are costing more.

The recent 40 percent increase in fuel prices is wholly blamed on the fall in the value of the rand as fuel prices in dollar terms on world markets have been falling recently

This seemingly unbreakable circle will be the Government's

main priority in the months ahead. It has pledged to tackle the question of the country's high inflation rate and recent central bank moves have illustrated its anxiety about the ever-falling rand on the foreign exchange markets

The official January inflation figure is surprising in that it was expected to be higher than 14 percent. But, warns one economist, "this simply tends to confirm many people's suspicions that the official consumer price figures do not represent the true inflation rate"

He said he believed the unofficial inflation rate at present was close to 15 percent and would rise to nearly 20 percent before coming off the top

"We can expect to see a massive jump next month in the official index when the effects of the fuel price increase and many other price rises begin to work through the system."

In December the inflation rate as measured by the CPI was 13,3 percent

Dr Johan Cloete, group economist for Barclays Bank, said "As a result of the administered price increases at the beginning of the year it was generally expected that inflation would accelerate, which has happened

"But we will see further substantial acceleration with the impact of the petrol price increases, the railway increases, and mealie price increases still to come

"The Escom tariff rises would have been reflected in the January figures"

He expected the index to rise to 16 or 17 percent during the next six months and then slowly to decline

But he did not expect the inflation rate to get down to 10 percent this year

Inflation soars: 20 pc is in sight

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Star
23/2/95

Dismay at PO tariff increases

Cape Times 5/3/85 153

OPPOSITION politicians, economists and consumer organizations have condemned the Post Office tariff increases announced yesterday as inflationary and unacceptable.

Increases set for April 1

Own Correspondent

JOHANNESBURG — April Fool's day will bring a 25 percent increase in some telephone tariffs, an increase in postal costs and a new 12c stamp to replace the current 11c one.

The Minister of Communications, Dr Lapa Munnik, announced extensive increases yesterday during the reading of the Postal Budget in Parliament, which is expected to come into force on April 1.

The extra one cent on the 11 cent stamp represents an increase of nine percent for standard postal items.

Dr Munnik announced increases of 25 percent in the telephone unit price for local and trunk calls from eight to 10 cents, about 14 percent for automatically dialled overseas calls — R3,52 a minute to R4 a minute, 29 percent in telephone rentals — from R7 to R9 a month, nine percent in standard postage — from 11c to 12c, about 20 percent in parcel tariffs, and 20 percent in telegrams.

Opposition spokesman Mr Alf Widman, said he was "shocked and disappointed". He said Dr Lapa Munnik, Minister of Communications, could have avoided the increases by budgeting for a deficit instead of a R68-million surplus.

He said Dr Munnik had expected a deficit of R131-million this year but had finished instead with a surplus of R29,4-million. This meant the Post Office was R160-million better off than it had expected to be.

New Republic Party spokesman Mr Brian Page described the Post Office budget as a "bad news budget", but said it was gratifying that Dr Munnik had kept increases on everyday items, such as letters, down to a minimum.

'Inability'

The PFP spokesman on finance, Mr Harry Schwarz, said "The government is setting the worst possible example by failing to exercise control over administered prices."

The government could not expect the private sector to curb price rises if it continuously demonstrated its own inability or unwillingness to curb the prices of vital services and commodities, he said.

The president of the Afrikaanse Handelsinstituut, Mr Leon Bartel, deplored the extent of the increases, while Volkskas economist Mr Adam Jacobs said the increases would add a further twist to the price spiral.

Cape Town Chamber of Commerce, Mr Brian McLeod, warned that the increases would have a ripple effect through the entire economy.

"They are totally unacceptable with the economy in its present predicament," he said.

The increases would provide another boost to the inflationary spiral and this was to be viewed with great alarm, he said.

The Consumer Council said in a statement that they viewed the tremendous rise in Post Office tariffs with extreme disapproval — especially considering the quality of service consumers had to put up with.

The council said it was clear that the Post Office tariff structure needed to be reviewed at a high level.

The government's concern about greater productivity should be applied to Post Office personnel as well by changing their current working hours.

System

Service hours in particular needed to be carefully looked at because, according to the present system, personnel worked a 39-hour week with an hour for lunch on weekdays.

The council felt that service should be available between 13h00 and 14h00 when townspeople needed to do business at the Post Office.

Other aspects which constituted a cause for concern were the scope of certain tariff increases and the constantly growing telephone in-

PO tariff increases

Cape Times

5/3/85

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OPPOSITION politicians, economists and consumer organizations have condemned the Post Office tariff increases announced yesterday as inflationary and unacceptable.

Increases set for April 1

Own Correspondent

JOHANNESBURG — April Fool's day will bring a 25 percent increase in some telephone tariffs, an increase in postal costs and a new 12c stamp to replace the current 11c one.

The Minister of Communications, Dr Lapa Munnik, announced extensive increases yesterday during the reading of the Postal Budget in Parliament, which is expected to come into force on April 1.

The extra one cent on the 11 cent stamp represents an increase of nine percent for standard postal items.

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The president of the Afrikaanse Handelsinstituut, Mr Leon Bartel, deplored the extent of the increases, while Volkskas economist Mr Adam Jacobs said the increases would add a further twist to the price spiral.

By failing to keep the increases below the inflation rate the Post Office had made a negative contribution to the fight against inflation. A 17 percent rate was likely by mid-year and an even higher rate threatened if general sales tax was raised in the main budget, he warned.

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The council felt that service should be available between 13h00 and 14h00 when townspeople needed to do business at the Post Office.

Other aspects which constituted a cause for concern were the scope of certain tariff increases and the constantly growing telephone installation back-log.

It was particularly unwarranted to increase telephone rentals by 28,5 percent at a time when the country was suffering from the effects of a recession, the council said.

According to economists the increases could be the last straw for some companies determining their outlook.

INFLATION — 1985's MAJOR PROBLEM

My Budget

by HARRY SCHWARZ, MP

WHAT kind of Budget should be presented on March 18?

In responding, it is not unfair to point out that perhaps if we would have had the opportunity of contributing to the framing of economic policy in years gone by, the country might not be in quite the economic mess it finds itself, and which now requires more drastic medicine than would otherwise be the case.

The setting in which the budget is to be presented requires due regard for both the strength of the dollar and the weakness of gold and realistic budgeting cannot rely on a sudden major crack in one or an upsurge in the other.

The drought appears to have been broken in many parts of the country and this means that assistance to the farming community need not escalate further.

Consumer demand is still at relatively low levels. The current account of the balance of payments while likely to improve during the year needs to be carefully monitored. A "Safety First" approach to the balance of payments situation is, I believe, necessary.

Inflation is going to be 1985's major problem, with the plethora of administered price increases, high cost of imported goods and the filtering through of such increases as in fuel, transport and postage, the Budget should be anti-inflationary orientated.

Recession in past eras meant high unemployment and low prices. In 1985 it means not only increasing unemployment, but also high prices. The incidence of high unemployment cannot be brushed aside, particularly in a volatile political situation, and after all stability should be an economic as well as a political objective.

The key options to be exercised in this budget are whether to:

- cut back drastically on state expenditure,
- increase taxes,
- limit borrowings.

The option I would choose is to limit govern-

ment expenditure where it can be done without permanently harming the economy and causing undue hardship. I do not believe in asking those who are already in many ways deprived to make sacrifices.

There needs to be zero based budgeting. Every rand a department of state needs to spend must be justified. We must decide whether a particular state activity is necessary, whether we can safely do without it or postpone it.

Cutting remuneration when inflation is running at 14% per annum and is likely to increase is not an option except in the most dire straits, as a constant nominal salary actually means a reduction in real terms, ie, a reduced purchasing power. A reduction of wages in nominal terms will not encourage productivity, nor will longer hours in the public service necessarily produce more work. Incentive to work hard and encourage productivity requires much else.

What should be done is to not replace those who retire, die or resign. Nor should vacant posts be filled unless the replacement or filling is shown to be absolutely essential. So that without retrenchment and without reduction in nominal salary terms the overall cost of personnel would be substantially reduced.

All the innumerable laws which are administered by our public service should have been reviewed long ago to determine which of them we can do without. Massive savings could be effected in this way in this over-governed and over-regulated society.

While there must be major cuts in government expenditure they can only be effected where stability and essential services are not effected adversely. There are aspects of expenditure which cannot be cut back. In some cases there will have to be increases. We will have to provide extra money for pensioners and adjust the means test and we will have to adopt a formula for closing the gap between the races. In respect of social services there needs to be money for the relief of real poverty which is biting seriously in many parts of the country.

There should be assistance, through guaranteed bank loans and lower interest to employers,

of labour who have viable businesses, but have had temporary set-backs. We help farmers in a drought, why not viable industrialists in a depression? One is pleased that previous appeals to do this have resulted in some limited offers of such assistance by the State.

There also needs to be money for housing, but we at this time need it for removals and consolidation?

There cannot be cutbacks on education and training as this lies at the root of a solution to some of our long term structural problems. The object is a budget without excessive borrowings and without tax increases, particularly not of GST. This is necessary and is also attainable.

There are some tax reforms which could be considered even now without waiting for the Margo Commission Report, such as incentives for new job creation without ideological strings, incentives to save for the private individual, en-

couragement to foreign long-term equity investors as part of an answer to disinvestment, and encouragement of product

The public would, from the measure, know that the country is being put on a path of political reform, but economic in regard to de-regulation, privatisation, productivity, opportunity and solving long term structural problems education and training and other skills. While current economic conditions make immediate major changes difficult the Budget should indicate the road the country is to be set

What we would try to do, is to use as a mood piece, to set the tone for optimism and confidence as to the future credibility and a belief in ourselves an ability to solve problems. If we do not have in ourselves then we cannot expect to have it.



My Budget

by HARRY SCHWARZ, MP

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M. J. O'SULLIVAN
1985

9/3/85

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Inflation Soars to 160%

(153) Star 23/3/85

by
Colleen Ryan
and Jackie Unwin

South Africa's inflation rate soared to a staggering 16 percent last month (3,2 percent up on the January figure) and all the signs are that this is only the beginning of the crunch.

The main reason for the latest cost of living price hike was the impact of the increased fuel price — and worse is yet to come predict economists.

Economists anticipate it will be another six or seven months before the top of the spiral is reached. Some fear inflation could go as high as 20 percent.

The shock 3,2 percent inflation rise was far higher than expected.

"More than half of the rise in the month was due to the increase in the petrol price, but there were increases almost across the board," said Mr Rudolf Gouws, chief economist of the Nedbank Group.

"The rise indicates the necessity for the continuation of strict monetary and fiscal policies.

"The inflation rate is almost certain to rise further in the months immediately ahead before starting to reflect the weakening of domestic demand and the impact of the tighter po-

licies later this year and in 1986."

He said one reason for the high inflation rate was the lagged effect of the earlier fall in the exchange rate of the rand and the easy monetary conditions which prevailed for much of last year. He said the impact of the current conditions should be seen in the CPI later this year.

Factors which contributed to the high inflation rate were the petrol price increase and the fact that Central Statistical Services had changed its basis for comparison from 1975 to 1980.

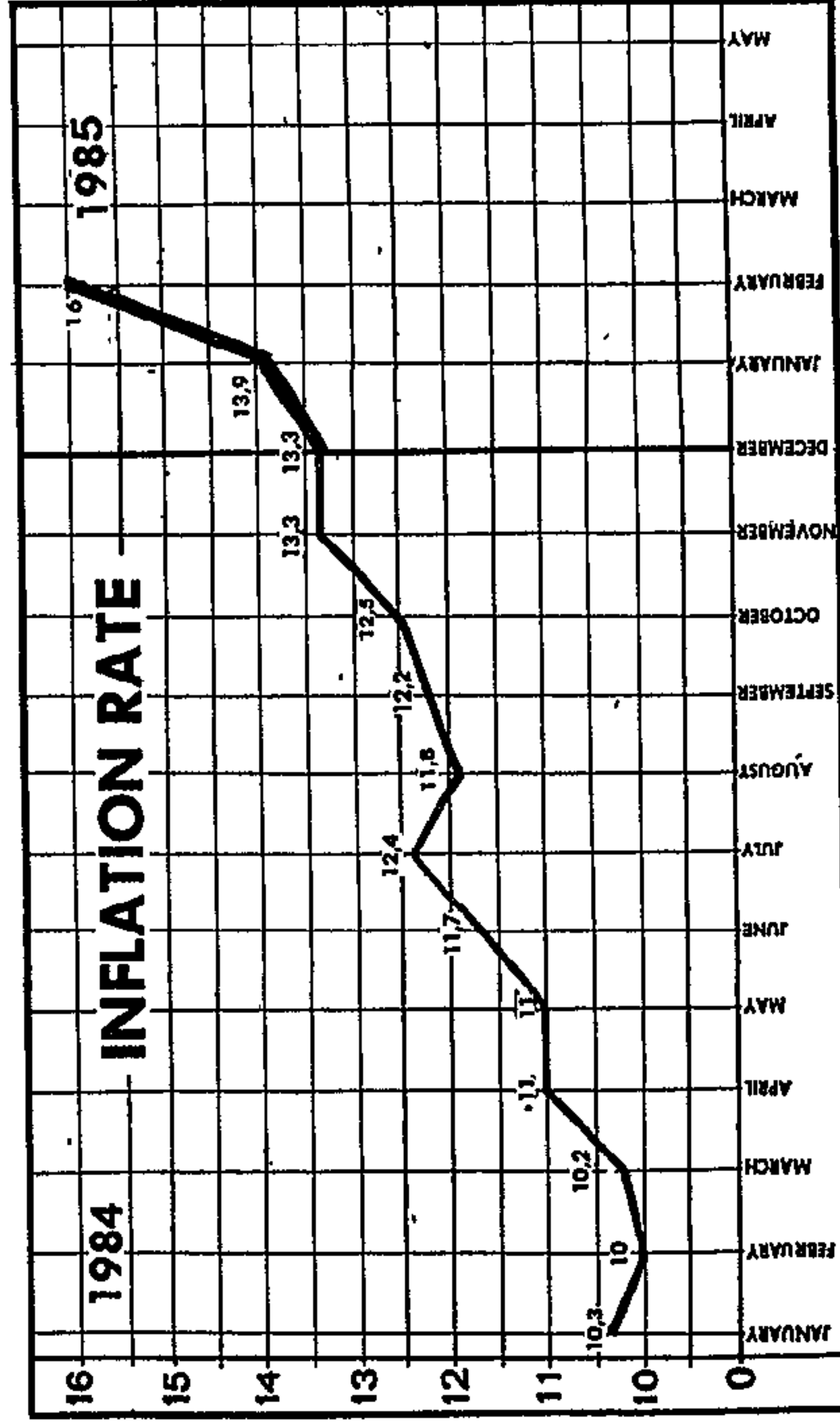
"The change in the base period could affect the inflation rate by as much as four percent," said economist Dr Kit Le Clus.

"Over and above this, general price increases could push the inflation rate up by another three or four percent by the end of the year," he added.

Mr Alan Doyle, economist at Barclays Bank, said: "As the effects of the petrol price permeate through to other goods, for which petrol is a factor, it will push the CPI up even further."

"The short term inflationary effects of the GST increase introduced in the Budget will also impact on prices. But the GST in the long term will help put a cap on inflation by reduction of demand."

The figures released by Central Statistical Services in Pretoria (base 1980 100) showed that the food-only index rose to



Series of price shocks on the way for consumers

180,8 in February from 180,4 in January and 161,1 in February 1984, a monthly rise of 0,2 percent and 12,2 percent year on year.

The lower income index rose to 179,3 from 176,3 in January and 157,0 in February 1984, giving a 1,7 percent monthly increase and 14,2 percent change year on year.

The year on year increase for the middle income group was 16,7 percent, while that for the higher income group rose by 16,2 percent.

The only category to go down was meat which decreased by 0,2 percent.

Prices on a wide range of consumer goods including cereals, insecticides, detergents and toiletry are set to increase by between 10 and 15 percent within the next two months.

Retailers have been notified by suppliers of the pending increases. By the end of May, consumers can expect increases on the following items:

10 percent on insecticides, milk powder, toiletry, chocolate bars, antiseptics and canned goods.

Cereals and mayonnaise will go up by about 15 percent and detergents by 12 percent.

Many of these items are imported or contain ingredients that are imported and prices have been affected by the dollar/rand exchange rate.

attributable to the full year are expected to decline 30 percent over the previous year

No interim from Retco

Following a significant write-down on property held for trading, Retco reports an attributable loss of R2,7 million in the six months to December 31, compared with a profit of R3,2 million in the same period of the previous year

Deteriorating economic conditions and high interest rates in particular substantially reduced the volume of property sales which were affected at reduced margins

The company has passed its interim dividend against 3c last year

Buffalo's forex loss

After a foreign exchange loss of R2,8 million Buffalo Corporation had an attributable loss of R1,8 million in the half year to end-December against a profit of R203 000 in the same period of 1983

Foreign exposure has now been covered forward. The directors expect that earnings in the second half will go a long way to covering the losses recorded in the first half but say that no dividend will be paid for the full year

29/12/85 Inflation differential with trading partners widens

193 Financial Staff

In contrast to the successful anti-inflationary policies followed by the major industrial countries of the Western world during recent years, South Africa continued along its path of double-digit inflation, the chairmen of Gencor gold mines St Helena, Stilfontein, West Rand Cons, Grootvlei and Marievale say in the annual reports

Furthermore, the country is expected to experience a higher rate of inflation in 1985 because of price rises in the pipeline due to structural imbalances resulting from the inflation differential between South Africa and its major trading partners which is set to widen in 1985

Undoubtedly the drought exacerbated these problems and the recent fuel price hike and the introduction of fringe benefits tax will permeate through the economy and lead to further price increases and wage demands, the chairmen said

Reporting for Stilfontein gold mine, the chairman, Mr J C Fritz, said the average gold price received during the year increased from R15 265 to R16 891 per kg. Gold production declined by 1 547kg, or 12,5 percent to 10 781kg, which resulted in working income of R40,5 million, compared with R66,2 million in the previous year

Income after taxation and State's share was R48,3 million compared with R40,8 million in 1983. Dividends totalling 310c a share were paid, compared with 280c a share previously

In his report for West Rand Cons, Mr Fritz said the company once again experienced a satisfactory year. The average gold price received rose by 8 percent from R15 424 to R16 671. This rise, together with an improvement of 379kg in gold production, resulted in an 18 per cent higher turnover of R72,8 million

Income after taxation was R8,0 million compared with R5,1 million in 1983

Reporting on St Helena, the chairman, Mr E Pavitt, said despite a higher gold price received, which increased from R15 255 to R16 772 per kg, total gold working income decreased by 9 percent to R114,1 million, due mainly to a decline in yield from 6,1 to 5,4 grams a ton at St Helena, which resulted in the combined gold production declining from 15 214 to 13 631kg. The net loss on uranium, however, improved somewhat from R22,1 million to R17,1 million due to the scaling down and eventual cessation of operations at Beisa mine

Income after taxation and State's share was R54,7 million which is 0,8 percent down on the figure for 1983

Dividends totalling 320c per share were paid to shareholders, compared with the previous year's 440c

Grootvlei chairman, Mr C R Netscher, said turnover increased 20 percent to R130,6 million. This was due to an increase of 563kg in production as well as a rise in the average price from R15 188 to R16 919 per kg

However income after taxation remained virtually the same as 1983, at R22,1 million

Dividends totalling 165c were paid, compared with the previous year's 126c

Reporting for Marievale, Mr Netscher said the average gold price increased from R15 290 per kg in 1983 to R17 023. Despite this increase, income before taxation remained at R5,4 million, virtually the same as that of 1983, due to gold produced during the year decreasing by 19 kilograms. Income after tax was R2,5 million compared with R2,6 million in 1983

Dividends totalling 54c were paid, compared with the previous year's 50c

New moves tighten squeeze on inflation

w/L. ARGUS 30/3/88

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By DEREK TOMMEY
Financial Editor

DEVELOPMENTS in the past two weeks show that for the first time since 1959 the Government is deadly serious in its fight to curb inflation in South Africa, a leading stockbroker says.

With the value of money having fallen 85 percent since 1959, South Africans have developed a healthy scepticism of any Government claim that it is giving top priority to bringing down prices.

But this time, it is going to be different.

The broker said recent moves by the Government and the Reserve Bank were likely to be extremely painful, but

would severely curb spending and could have a dramatic effect on the inflation rate.

The Government's attack on inflation was in three forms:

- It was holding down its own spending
- It was curbing consumer spending with heavy tax increases
- It was tightening credit by squeezing the banks, though allowing short-term interest rates to ease

Disinflationary

In last week's Budget the Government announced that it was holding down the increase in its spending to 13,6 percent.

This was less than the increase in inflation and in real terms represented an actual decline in Government expen-

diture, and thus is disinflationary.

It also announced a number of tax increases which were unnecessary from the fiscal viewpoint.

The latest Treasury figures showed that tax revenue in the first two months of this year was running at an annual rate of R28,5-billion. This was all the Government was budgeting to receive in the whole of 1985-86 after increasing GST and other taxes and granting hardly any relief to income tax payers.

Provided spending was tightly controlled it now seemed possible that the Government could end the 1985-86 fiscal year with a surplus of between R1,5-billion and R2-billion, which would make last week's Budget highly disinflationary.

Finally, in a series of moves this week the Reserve Bank had been preparing the ground to squeeze the commercial banks and force them to curb credit to their less deserving clients.

Good news

The good news, however, was that — somewhat incongruously — these moves could lead to some reduction in short-term interest rates in the next few weeks.

The squeeze on the banks was expected to lead to overdrafts advanced for non-productive purposes being called in or reduced.

This could lead to some forced selling of luxury items such as beach cottages or second houses.

The general expectation was that the squeeze would intensify until the end of June by which time inflationary pressures in the economy should have been greatly reduced.

The only real threat to the anti-inflationary plan was a loss of nerve by the Government. Some of the effects could hurt many people.

With the gold price apparently starting to recover, the possibility was not discounted that the Government could use the increased revenue from the metal to soften some of the impact of the anti-inflationary measures.

However, it had also been pointed out that the need to strengthen the economy to overcome the disinvestment threats, could stiffen the Government's resolve to push ahead with its anti-inflation plan against all opposition.

Business Day

Pay rises run well below inflation rate

153 2001 3/4/85

Financial Reporter

WORKERS have been dealt a severe blow over the past eight months with average earnings running at 4.4% below the inflation rate.

This is shown in the April general staff pay survey published by the remuneration division of P-E Corporate Services

It shows the average rise in pay of all race groups from July to March was 6.2%. This compares with a consumer price index rise of 10.6% for the same period

"This dismal picture is made worse by the fact that it is anticipated the inflation rate will rise at an alarming rate," says Miss Jane Ashburner, the manager of P-E's remuneration division

"The latest figures show a CPI increase of 16% for the year February 1984 to February 1985 and economic

forecasters put the CPI as high as 20% for this year"

Further bad news is that companies are projecting pay increases for this year of only 11.8%

Miss Ashburner says still worse is that actual pay rises come in at 2% below those predicted. This means 1985 increases could be as low as 9% in most categories, or 11% below the inflation rate, if it does rise to 20%.

The survey, based on data provided by 689 organisations employing close to 1-million people of all race groups, finds that white wages reflect the lowest movement at 5.6%. For others pay rates have moved 7.9% for coloureds, 8% for Asians and 8.9% for blacks

This shows the wage gap is being narrowed, says Miss Ashburner. "It is a marked departure from last year when, for the same period, blacks recorded the lowest movement at 5.8%, followed by coloureds at 6.1% and whites and Asians equal at 6.2%"

(193) 220 M
3/4/85
Senbank warns of 19% inflation rate peak

Financial Reporter

INFLATION is likely to be 10%-12% next year in spite of the slump and tough monetary and fiscal policies

Senbank, in its latest capital market report, also warns that inflation could go as high as 19% this year and probably show an average rate for the year of around 16%-16,5%

The reasons for this are many "but seem to point mainly to cost push"

It comments "Firstly, there was the increase of approximately 40% in the fuel price

"Experience has shown that a fuel price rise leads to widespread reactions of prices throughout the economy because transport plays such an impor-

tant role in price determination of most products.

"Furthermore, costs of carrying stock have risen substantially for all businesses as a result of high interest rates which, sooner or later, are passed on in the form of higher prices."

Senbank says that the increase in GST to 12% will push up the consumer price index by more than 1%

In view of restrictive economic policy, and the slump in price rises should, however, slow down in the second half of 1985 and 1986, Senbank says

"Moreover the willingness of the government to administer strong medicine is an indication that hyperinflation is not about to develop"

INFLATION

Further rise ahead

Central Statistical Services (CSS) seems to be reporting a more accurate inflation rate these days, with the latest figure announced

as 16% a year

Despite a perceived rapid rise in the cost of living, particularly during the latter half of 1984 and through into 1985, earlier figures seemed to bely reality with reports of, for example, 12,2% and 12,8% for recent months

The latest inflation rate figure for the 12 months to the end of February was reported as 16% — a year-on-year February increase from 157,6 to 182,8 in the official cpi. This new index is based on 1980 = 100. The year-on-year rate for January was 13,9%. Thus an increase of 2,1 percentage points has been recorded in comparison to January.

The 16% rate is near SA's 65-year-old record of 16,5% and is particularly serious when seen against the fact that SA's main trading partners have average annual inflation rates of between 2,5%-5%. This inflation differential is widening and is a major reason why the SA economy is currently so weak.

There were only five items which did not record an increase over the last month. These were communication, furniture, reading matter, "other services" and education. Together these make up a mere 7% of the listed weights of items in the index.

This seems to indicate that the authorities are pushing through most of the increases now, rather than delaying them, as has been the case in the past.

Attie de Vries, the director of the Bureau for Economic Research, mentions the 40% petrol price rise as the most important reason for the cpi increase. Petrol and diesel make up 3,8% of the cpi. Therefore, a 40% increase means a jump of 1,5 percentage points in the inflation rate.

Furthermore "the secondary effects of the petrol price rise are still to be felt."

Volkskas economist At Engelbrecht, agrees and says that fuel and transport price increases probably contributed as much as two of the 2,1 percentage point increase in the February figure.

He adds that before the turning point is reached inflation will probably rise to over 17%. "Businesses have not yet absorbed the costs of the low rand and upward pressure on prices can still be expected."

Sanlam's Economic Survey for March estimates that the rise in gst from 10% to 12%, together with the higher customs and excise duties on certain items, will bring another one percentage point increase in the inflation rate. This will, however, "be moderated by the curbing of government spending and control over money supply." Sanlam expects an average inflation rate to turn out at 15,5% for the year.

Inflation fears fuel market rally

W/E ARK 42
13/4/85
~~SP 42~~
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Financial Editor

IN SPITE of the recession, the drying up of consumer demand, the record high taxes and the record high interest rates — all factors which should depress investors — the industrial share market has started to move up strongly.

The industrial share price index jumped more than 20 points or 2.4 percent yesterday, which was more than it had risen in the previous three trading days. This rise was a continuation of the trend that has lifted the index more than 90 points, or 12 percent, since its March low.

The increased business this upsurge has brought stockbrokers has been most welcome as they have been going through a lean time recently, with clients as scarce as grapes in spring.

But not all brokers are happy about this turn of events. It meant that people have

taken the view that the country's high rate of inflation will be around a long time, one said.

"The share market rally is actually a vote of no-confidence in the Government's anti-inflation measures," he added. "It shows that people have again started seeking inflation hedges."

It seemed that a repeat of the 1983-84 industrial share rally was about to take place, he continued.

He was referring to the situation in late 1983 when investors sensed that a renewal of inflationary pressure was imminent. They invested heavily in industrial shares and were rewarded by seeing share prices rise by about 25 percent on average by early 1984.

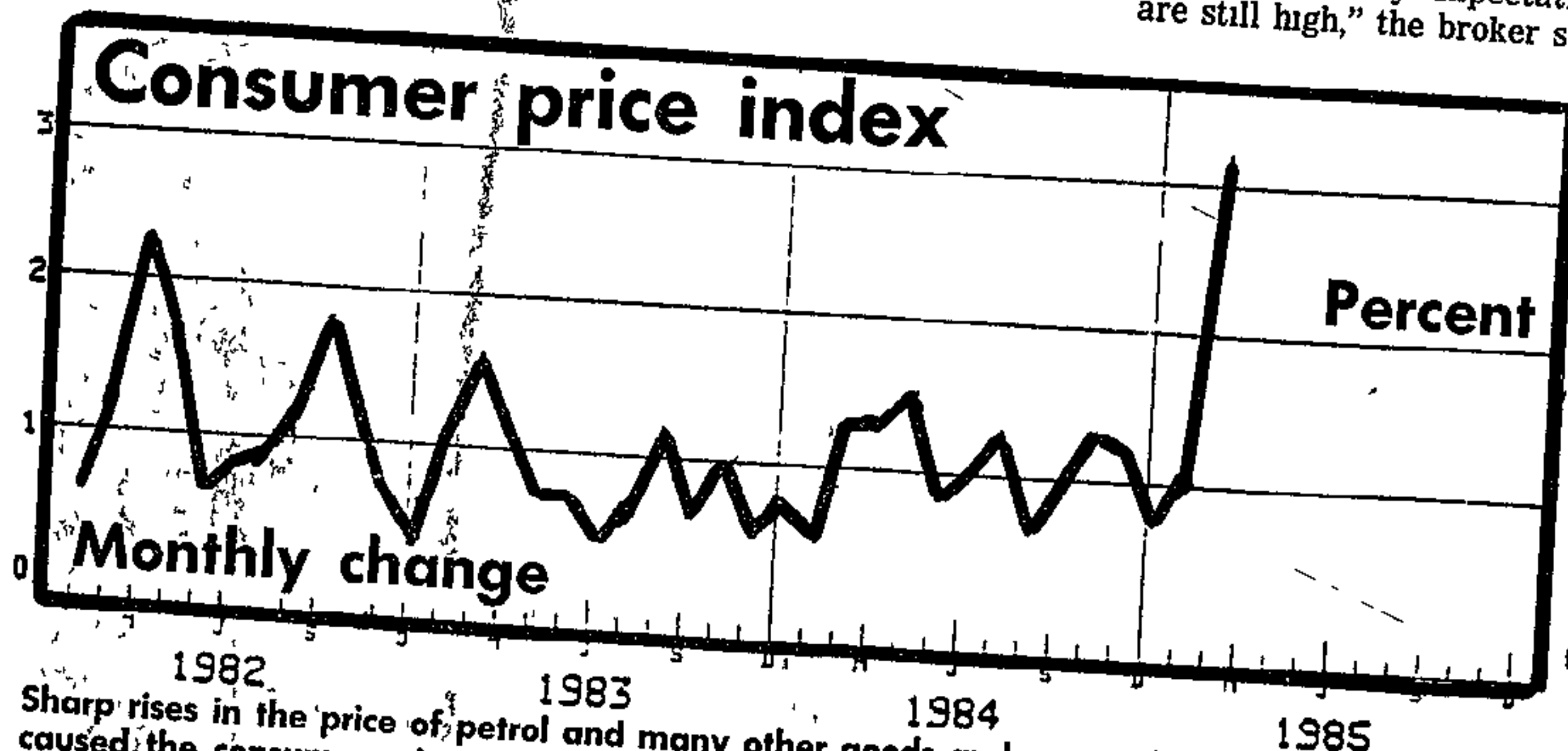
Their action in fleeing to an inflation hedge proved to be justified. The monthly inflation rate in the six-month period increased by about 50 percent from around 10 percent to 15 percent.

In recent weeks there has been plenty of evidence that South Africa is again riding the tidal wave of inflation. In the first two months of this year the consumer price index rose more than 4 percent, to give an annual inflation rate of more than 24 percent.

Since then a host of other prices, including postal and telephone tariffs and railway freight rates have been increased.

Motor manufacturers have been forecasting further sharp increases in car prices, even though the cost of running a car has risen 36 percent in the past 12 months, official figures show. And brick prices have also risen substantially in some parts of the country.

"If businessmen and Government departments see nothing wrong in increasing prices by up to 30 percent in today's business climate, then it is clear that inflationary expectations are still high," the broker said.



Sharp rises in the price of petrol and many other goods and commodities, including rail fares, caused the consumer price index to soar in February by more than 3 percent. This was the largest monthly rise for several years as this graph from Central Statistical Services shows.

Double standards phoenix

by
David Braun,
Political Correspondent

153 Stan 20/4/85
rises again

CAPE TOWN — The Minister of Foreign Affairs, Mr Pik Botha, this week resurrected the double standards debate

He did so at a Press briefing on Tuesday when he remarked on the American reaction to the Government's scrapping of the Prohibition of Mixed Marriages Act and Section 16 of the Immorality Act

He warmed to the theme on Wednesday when he commented on US Secretary of State Mr George Shultz's policy statement on Southern Africa. The thrust of Mr Botha's argument is that while South Africa did not object to being criticised, it did take exception to what he described as the increasing tendency on the part of the US Government to judge the country on a double standard.

"What concerns us is that we are judged in terms of American standards. We cannot get away from the conviction that the US will not see South Africa in the African context

"I think there is an element of racism here. If the United States will not judge us by African standards it should say why not. Perhaps it does not want to admit that it expects more from a white government than it does of black countries," Mr Botha said.

The Minister lashed the US for

not exacting the same high standards it expected of South Africa in many other countries in Africa, Eastern Europe and South America

"They know that there are very few other countries in Africa in which there are elections, independent judiciaries, lively trade unions and freedom of speech — to say nothing about efficient administration and financial discipline"

South Africa, Mr Botha added, was not worried that it was being measured against international standards. The country merely objected to being singled out.

On Wednesday Mr Botha took Mr Shultz to task for aspects of his speech made to the National Press Club in Washington.

The United States, he reiterated in a Press statement and again on television news, was expecting standards of South Africa which were not expected of any other African country.

"I have talked to US representatives about this several times and will continue to do so," he added.

Mr Colin Eglin, the Progressive Federal Party's chief spokes-

man on foreign affairs, said Mr Botha was being ridiculous.

At the very least South Africa should be judged, or should judge itself, on some of the ideals of Christian and civilised values, individual freedom and the rule of law as set out in the preamble to the Constitution, Mr Eglin said.

The preamble to the Constitution, for readers who are hazy, declares among other things a consciousness of responsibility towards God and man and a conviction of the necessity of standing united and pursuing certain national goals.

The list of goals includes

- To respect and to protect the human dignity, life, liberty and property to all in our midst
- To further the contentment and the spiritual and material welfare of all
- To uphold the independence of the judiciary and the equality of all under the law

The noble ideals contained in the preamble serve as a sort of declaration of human rights. They were drawn up and ratified by the Government and are undoubtedly the commendably high standards that South Africa sets

for itself

The test for South Africa should, therefore, be whether it meets its own exacting standards and not those lamentably poor norms that one has come to expect of much of the Third World.

South Africans ought not to be peeved that America, which has done so much to advance the cause of human freedom all over the world, should criticise us for not coming up to the highest standards, even if this is done largely for US domestic political reasons.

Surely it would be better to be criticised for one's shortcomings, which implies scope for improvement, than to be lumped with the hopeless cases of the world.

Can South Africa, furthermore, really aspire to be a member of the free world while hiding its shortcomings under the excuse that the country is after all part of Africa?

Mr Botha indirectly gave the answer when he said that South Africa did not mind being measured by international standards and when he correctly pointed out that the country has a lot more going for it than many others.

The real issue is that so much more needs to be done by way of real reform rather than paying lip-service to how much is supposed to have been achieved.

South Africa argues that it has a case which it can defend with dignity. The country should be judged by its own high standards.

Price rise ^{11/6/85} rate slows ^{22/4/85} food costs ^{22/4/85} go down ¹⁵³

Financial Editor

THE rate of increase in consumer prices slowed dramatically last month, giving South Africa its lowest monthly inflation rate for several years.

Consumer prices, after rising a record 3,2 percent in February, rose only 0,43 percent in March, while food prices actually went down by 0,44 percent, official figures show.

This is the smallest monthly increase in the consumer price index since the late 1970s, which will be good news for the authorities, say economists, as it shows that their policy of squeezing inflation out of the economy is beginning to work.

Economists point out that the Government is curbing demand as much as possible in order to stop importers increasing prices.

Because of a number of increases in administered prices, April's inflation rate is likely to be above the March figure. But, with the Government's squeeze expected to intensify in the next few months, price increases in May and June could well be no greater than the modest March increase.

However, in view of the country's poor history of combating inflation, no economist would be likely to forecast such an event.

The consumer price index (1980 = 100) rose from 182,8 to 183,6 last month, to stand 15,1 percent above the figure for a year ago. This is a reduction from the 15,9 percent increase in prices in the year ended February.

The food index last month dropped from 180,8 to 180,0.

22/4/85

The Star Monday

Inflation rate is down, but experts remain cautious

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By Jackie Unwin

The inflation rate for March dropped to 15.1 percent after it reached a high of 16 percent in February — but economists feel the drop is only a temporary phenomenon and not too much emphasis should be placed on this marginal decline.

However, they are encouraged by the decrease and expect the index to go up to only 17 percent and not to as high as over 20 percent, as feared.

Dr. Hans Falkena, chief economist of the United Building Society, said he was "happily surprised" at the drop as he had expected the rate to accelerate more during the period. It indicated the inflation rate would not go up to 25 percent.

He said "We are expecting the inflation rate during the first part of the year to go up to between 16 and 17 percent and to slowly taper down during the second half of the year. We expect the average inflation rate for the year to be between 15 and 16 percent."

Dr. Johan Cloete, group economist for Barclays Bank, said "It seems the drop is due to the reduction in the food price index in March over February. I still think that when the GST impact hits and the railway and postal tariffs and maize price increase come through, the index will still go to 17 percent in the next couple of months."

BAREND PINPOINTS HIGH INFLATION

ROM Own Correspondent

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REDUCTION of the unacceptably high inflation rate was probably the most important objective of the country's economic policy, the Minister of Finance, Mr Barend du Plessis, said in Pretoria yesterday.

Opening extensions to the South African Banknote Company, he said great concern was also felt for the rise the annual rate of increase in the consumer price index.

In 1964 the rate was only 2,5%. Recently the rate had reached 16%. Inflation, said Mr Du Plessis,

23/6/85
might be good for those involved in printing banknotes but decidedly not for the country. South Africa's gross domestic product increased 16 times to R105bn between 1964 and last year.

The value of banknotes increased from R302m at the end of 1963 to R3,5bn at the end of last year. This confirmed the dynamics of a country on the move but it also told the story of inflation, the Minister said.

Making use of the printing press to finance domestic spending was

symbolically accepted as the major cause of inflation. However banknotes presented only a minor component of the money supply.

At the end of last year, for instance, total notes and coins in circulation accounted for less than 12% of total money and near-money. Mr Du Plessis also announced the Government had accepted a recommendation for a newly-designed series of banknotes.

A steering committee would be appointed soon to work on the new series, he said.

Inflation won't be beaten, says banker

RDM
23/4/85
JOHANNESBURG — Inflation will not be beaten in South Africa in the foreseeable future, says Mr Nic Cypionka, chief economist of the Standard Bank Investment Corporation.

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Addressing a Standard Bank symposium on factoring, Mr Cypionka said inflation was unlikely to go below 10%.

"I do not believe we'll lick inflation, because we don't have a policy to lick it with," he said.

He expected the inflation rate to peak at about 18% this year. Political factors and the redistribution of income in favour of blacks precluded the possibility of bringing inflation down to single digits.

Mr Cypionka said there were

clear signs that the Government's measures were having the desired effect.

Exports were increasing and imports had declined. The foundation was being laid for economic growth, but this year the gross domestic product would grow only by a modest 1.5% - 2% — Sapa

Inflation beats pay rises

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Financial Reporter

FOR the first time since 1968 overall increases in pay over one year have fallen below the increase in the rate of inflation, reports the Peromnes remuneration survey.

The survey bases its findings on information supplied by more than 200 companies employing more than 3 million people and covering 19 levels of employment.

Mr Mike Zimmerman, director at FSA Remuneration, publishers of the Peromnes survey, said the standards of living of whites were continually falling in real terms.

He said black employees who remained in employment were faring relatively better, though on a considerably lower income-base.

"Our survey a year ago revealed that increases in market salaries were in line with the inflation rate and I believe our next survey in September may show an even worse position in respect of inflation than the current April one."

According to the survey, the pay gap between black males and white females has been reduced, though white males as a whole, are still significantly out in front.



Investors!

Rate drops to 15,1% in surprise lull

ROM 23/4/85 Lower food bill cuts inflation ⁽¹⁵³⁾

By HOWARD PREECE

THE inflation rate dropped to 15,1% for the 12 months to March from 16% for the year to February, the official consumer price index (CPI) shows.

This welcome, and generally unexpected announcement, came yesterday from the Central Statistical Services, Pretoria.

The main reason for last month's slowdown was a fall of nearly 0,5% in food prices. It cut the 12-month rise in food prices to 9,6% from 12,2% in February.

Economists generally think, however, that overall inflation will show an upward trend over the next few months.

There is still a widespread belief that the annual rate will, in the near future, go over 16,5% for the first time since the post-war crisis of 1920.

Food prices, led by maize, could show a sharp rise soon.

The CPI for April will be pushed up appreciably by the hike in general sales tax from 10% to 12%, which went into effect just before the end of March.

Inflation will be further boosted by the imported element — the lagged impact of the steep depreciation of the foreign exchange value of the rand.

But the CPI may not show much of a rise in the annual rate in April.

This is because it rose by 1,5% in April 1984.

However, the CPI rose by "only" 0,8%, 1% and 0,7% in May, June and July last year. These figures seem certain to be overtaken in the same months this year, thus pushing up the annual rate.

The fears expressed earlier by some economists that inflation

could go close to 20% this year now appear groundless.

A peak rate of 17% or so seems more likely.

Against that, though, is the view that, while inflation will surely ease over the second half of this year, it will nevertheless continue at an unacceptably high level.

Few economists believe it will be below 14% for the year as a whole, with 15%-16% being the most widely held estimate.

The CPI for March this year was 183,6 (1980 100). It was 182,8 in February and 159,5 in March last year, says the statement.

The index for food was 180, a fall of 0,8 on February's figure.

One small consolation from the latest figures is that the poorest sections of the community are ap-

parently suffering from lower inflation than well-off groups.

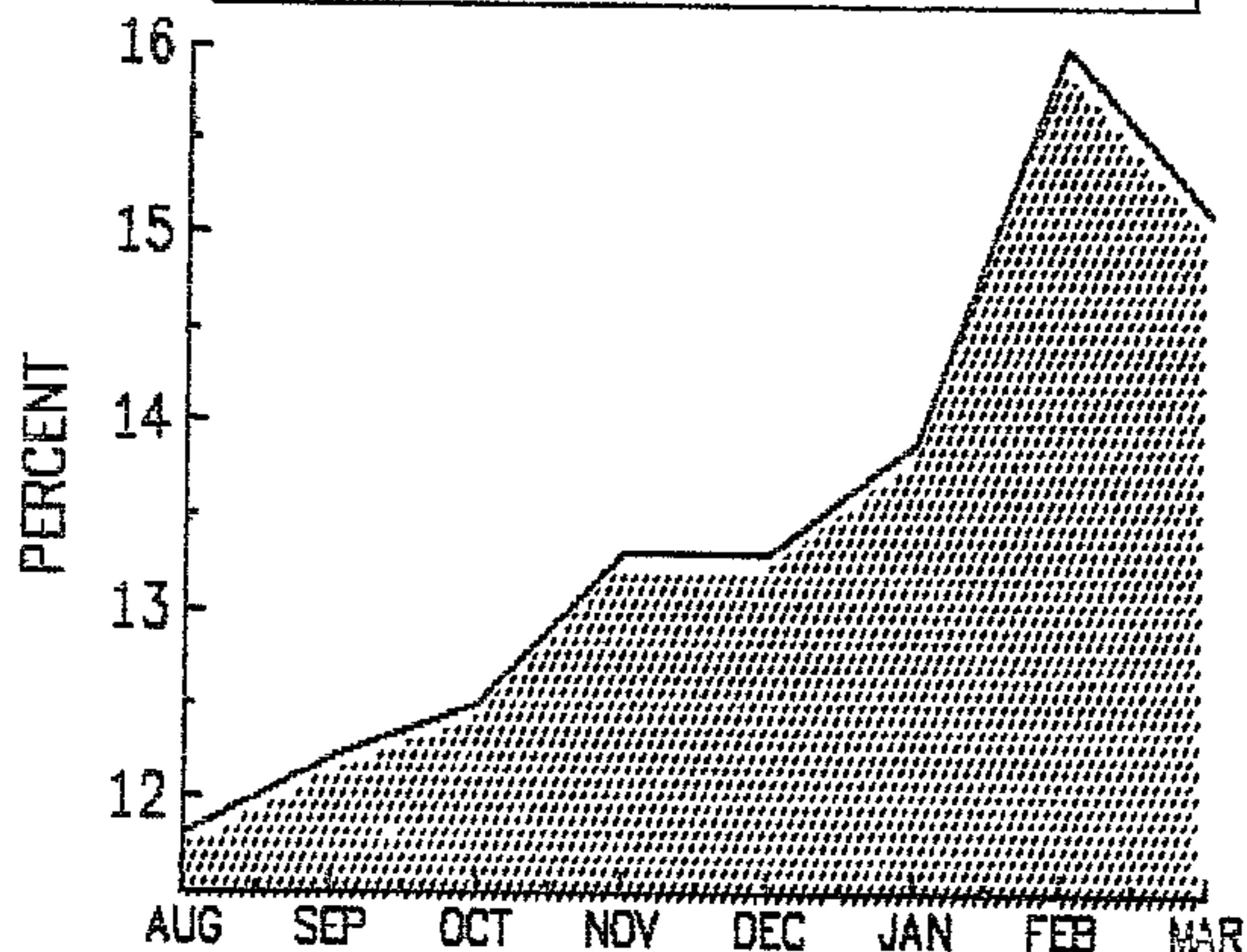
The inflation for lower-income groups for the year to March was 12,7%, compared with 15,6% for middle incomes and 15,5% for upper incomes.

Upper- and middle-income groups have been particularly hit by increases in home mortgage rates.

Although economists are pessimistic about this year's inflation prospects, they are confident the rate can be considerably reduced in 1986, provided the Government continues its tough monetary and fiscal policies.

Long-range forecasts mostly look to inflation of about 10% next year on the assumption that policies do indeed remain severely restrictive.

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SA inflation slows in

By HOWARD PREECE

JOHANNESBURG — South Africa's inflation rate dropped to 15.1 per cent for the 12 months to the end of March from 16 per cent for the year to February according to the official consumer price index (CPI).

This welcome and generally unexpected announcement came yesterday from the Central Statistical Services in Pretoria.

The main reason for the slowing in the cost of living rise last month was a fall of nearly 0.5 per cent in food prices.

This cut the 12-month rise in food prices to 9.6 per cent from 12.2 per-

cent in February.

Economists generally think, however, that overall inflation will show an upward trend over the next few months.

There is still a widespread belief that the annual rate will in the near future go over 16.5 per cent for the first time since the post-war crisis of 1920.

Food prices, led by maize, could show a sharp rise soon.

The CPI for April will also have been pushed

up appreciably by the hike in General Sales Tax from 10 per cent to 12 per cent which came into effect just before the end of March.

Inflation will be further boosted by the imported element — the lagged impact of the steep depreciation of the foreign exchange value of the rand.

The fears expressed earlier by some economists that inflation could go close to 20 per cent in 1985 now appear unlikely to be realized.

A peak rate of 17 per cent or so seems more likely.

Against that, though, is the view that while inflation will surely ease over the second half of this year it will continue at an unacceptably high level.

Few economists now believe it will be below 14 per cent for 1985 as a whole and 15 to 16 per-

cent is at present the most widely held estimate.

The CPI for March this year was 183.6 while it was 182.8 in February and 159.5 in March last year says the statement.

The index for food was 180, a fall of 0.8 on February's figure.

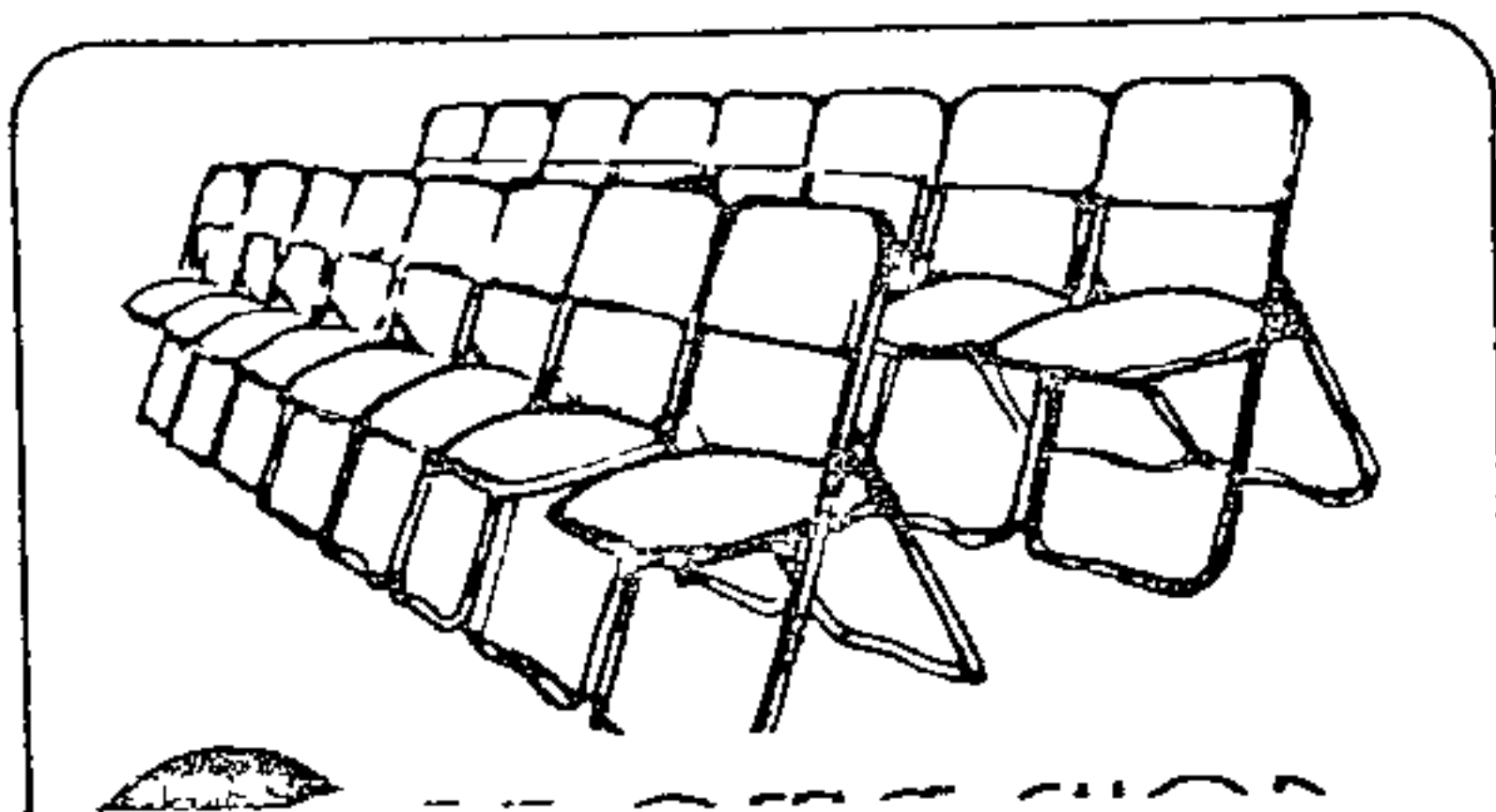
The inflation for lower income groups for the year to March was 12.7 per cent compared with 15.6 per cent for middle incomes and 15.5 per cent for upper incomes.

Upper and middle income groups have been particularly hit by increases in home mortgage rates.

Long range forecasts at this point are mostly looking to inflation of around 10 per cent next year on the assumption that policies do indeed remain severely restrictive.

But this will mean that real economic growth will also be depressed and that unemployment is bound to become an even greater threat than that already posed.

CRIC Times 23/4/85
March ¹⁵³



Levies will increase jobs and inflation

Mercury Reporter UM 10/5/85

ORGANISED commerce and industry yesterday hit out at the method of funding regional government proposed by the Regional Services Councils Bill and said it would increase inflation and put more people out of work.

Spokesmen for the Durban Metropolitan Chamber of Commerce and the Natal Chamber of Industries said the levies would further depress industry and commerce and lead to higher inflation, higher unemployment and more businesses going under.

Chamber of Commerce general manager, Mr Ken Hobson said the chamber agreed with the concept of regionalisation.

'But we are quite convinced the authorities have no idea of the widespread implications of the two new taxes.

'It verges on the unbelievable that while the Government is voting considerable funds to relieve unemployment, they can at the same time contemplate a tax on wages, which can only aggravate the existing unemployment.'

But Mr Owen Jones, chairman of the Metropolitan Consultative Committee, said without the power to levy taxes the regional services councils would be 'totally incapable of operating, especially in the Durban area'.

A Metrocom-sponsored financial investigation had last year shown that regionalisation would lead to an overall reduction in the rates burden of R5 000 000 a year, he said.

The executive director of the Natal Chamber of Industries, Mr Roland Freakes said 'We recognise the need to finance the councils and that they must have an ability to generate income.

'But industry is already saddled with extremely burdensome taxation and in many ways has its back to the wall at the moment.

'We have heard that some of this taxation could be levied within the next few months and the timing is very unfortunate.

'Industry has already retrenched a large number of people.

'The payroll tax will tend to make people do all they can to limit their payrolls by reducing the number of employees.

'We were told the levies would be recovered by means of a tax abatement, but instead it is just a deductible expense, so we are only compensated by about 50 percent.

'The Government said we would get some relief by way of reductions in transport service levies and so on.

'But none of these concessions have not been spelled out and it looks like we're simply faced with another tax burden, another factor that can only depress industry further.'

Both the Chamber of Commerce and the Chamber of Industries said they had asked the Government not to introduce the new taxes until the Margo Commission investigating the tax structure had examined them and made recommendations.

'The levies take no account of ability to pay. They will have to be paid even if companies are not making a profit or are on the verge of liquidation,' said Mr Hobson.

More companies could be forced into liquidation.

'It could well be the straw that breaks the camel's back.'

Our Parliamentary Correspondent reports that the reservations of commerce and industry were backed by Mr Harry Schwarz, MP for Yeoville and chief finance spokesman for the Progressive Federal Party.

Mr Schwarz said the turnover tax could have an effect on prices comparable to an increase of up to 2 percent in GST.

Mr Schwarz said that in spite of appeals by the minister that the tax not be passed on to the consumer he had no doubt that, at a time when profits were under pressure, this was inevitable.

He described the payroll tax as a hindrance to job creation in urban areas. It would encourage an intensification of capital-intensive industry, and act as an incentive to decentralise at a time when the country needed to create jobs as cheaply as possible — which was best achieved in urban areas because of the lower cost of infrastructure.

He also predicted that the Bill's poor definition of the manner in which it would tax non-GST paying vendors would lead to serious problems.

He drew attention to the heavy tax burden carried by business and consumers and called on the Government to refer its proposals to the Margo Commission.

LIFE BUSINESS

A boost to benefits

A huge increase of 38% in total benefits paid out by life assurers marks the end of a difficult 1984 for the industry

According to the latest figures released by the Life Offices' Association (LOA), a total of R2 173m was paid out to policyholders, pensioners and other beneficiaries. This was made up of annuities and other pension benefits (R780m), death and disability claims (R730m), maturities (R449m), and surrenders (R214m).

Significantly, benefits for annuities and pensions were a whopping 56% up on the previous year, exceeding death and disability claims for the first time ever.

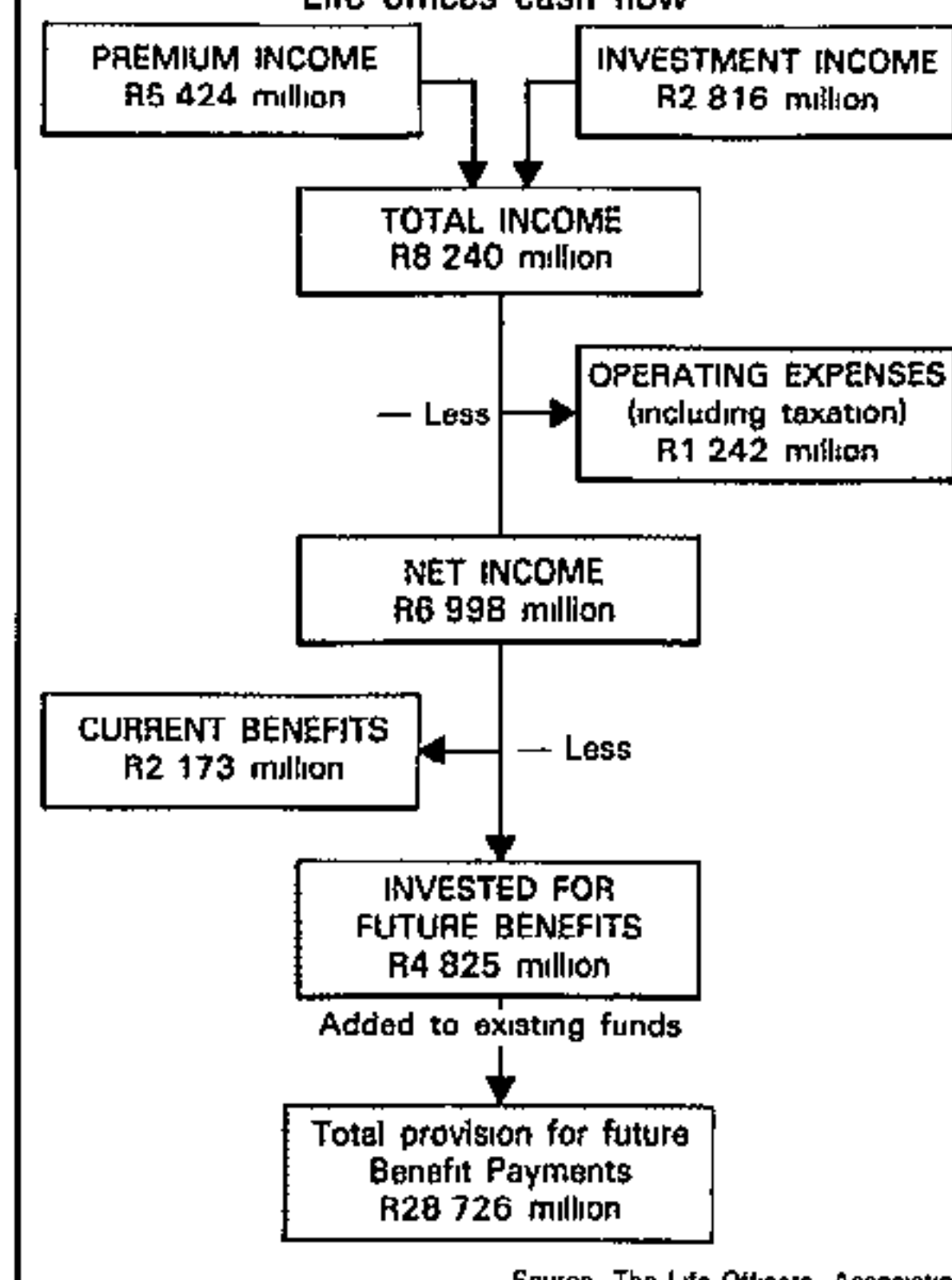
According to Dick Geary-Cooke, executive director of the LOA, this reflects the increasing amount of switching of pension fund business from one assurer to another. He also points out that overall pension fund business has increased steadily over the years.

The asset base of the long-term insurance industry grew by R5,34 billion to reach R28,7 billion by the end of 1984 — a 23% increase on 1983. This is the lowest growth rate since 1978, clearly indicating that the severe economic downturn has finally reached the life industry.

The investment mix is slightly changed

PAYING OUT MORE

Life offices cash flow



Public sector securities constitute 41% (42%) of the R28,7 billion total assets, investment in shares 25% (26%), and property investments grew to 19% (18%) of the portfolio.

During 1984 total premium and investment income rose 27% to pass the R8 billion mark — and that amounts to an incredible

R940 000/hour every hour of the year. Of this amount policyholders paid in R5,4 billion, a 27% increase over 1983. This confirms the industry's ability to attract savings at a time when the ratio of personal savings to personal disposable income rose to only 5,5%, according to the latest Reserve Bank Quarterly Bulletin.

Operating expenses and taxation rose by just under 23%, or by R226m to R1,2 billion. Of this taxation is estimated at R164m, an increase of 21% on the previous year. ■

INFLATION

SA on a limb

The February year-on-year cpi of the 24 Organisation for Economic Co-operation and Development (OECD) countries increased by an average of 4,9%, according to the latest figures on trends in consumer prices released by the organisation.

But in SA, over the corresponding period, inflation measured 16%. Among the OECD countries, only Turkey (54,6%), Portugal (25,9%) and Greece (18,3%), had higher rates while 20 members had rates below 10%. And of SA's major trading partners, the US had a year-on-year 3,5% February inflation rate; Japan 2,9%, West Germany 2,3%, and Britain 5,4%.

Adding to this sorry picture for SA is that

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few economists believe the local inflation rate has bottomed out. The majority expect it to rise further, some say to as much as 20%, before it comes down towards the end of the year.

Economists have been emphasising continually that if the SA economy is to recover, its inflation rate must be brought into line with world economies. But, if anything, the gap is widening as is shown by the fact that 18 of

the OECD countries experienced a fall in inflation from December 1984.

This goes some way to explaining why SA exporters are finding it so difficult to take advantage of a weak rand.

CEES BRUGGEMANS

A menu for prosperity



Cees Bruggemans is the designated successor to Barclays group economist, Johan Cloete.

FM: How would you describe your approach to economics?

Bruggemans: Much thought is dictated by fashion, and that includes economics. While Keynesianism was the revolution of the century, at present the supply-siders are in fashion.

I would, however, describe myself as an eclectic — I select what is useful in helping me interpret events. What I see as vital is to select a menu around which I can construct a theoretical framework. This must then be adjusted and simplified.

Economists, unfortunately, are often misinterpreted as forecasters. They then become high priests and are tempted to make predictions. I see my role rather as someone who summarises and analyses events, providing as skilful an interpretation as possible.

What "menu" would you then select in looking at the long-term prospects for the SA economy?

The long-term objective is obviously economic growth through which the country is modernised to provide higher standards of living. But there are several problems which will inhibit this progression in SA. On the demand side, there is an over-emphasis on consumption, we are living like the Americans, while we should be living like the Japanese who have a high saving and investment propensity.

The problem lies mainly with the individual consumer. This, essentially, reflects the priorities of modern consumerist society where individual interests are oriented toward the short rather than the long term.

And on the supply side?

Firstly there is the internal problem of low productivity growth, which we have managed extremely badly. We have a dire lack of skilled labour — a reflection of the past, where economic growth was given priority over education. This has led to premature

promotion and inexperience throughout industry.

There is also a First World orientation whereby the economic elite has developed a preference for certain types of investments. This was exacerbated by the fact that the cost of capital was low for so long, creating a dependency which has now turned against us.

Wage pressure remains real, especially in sectors of the economy where employment should be growing. Overall, these factors limit growth to unsatisfactory rates. Yet these are issues we should be able to manage.

Finally, there are the external factors. Most important is the economic structure of the balance of payments. We are not, and have never been, self-sufficient. This implies a certain dependence on overseas suppliers. To meet this we have to export.

It is the profile of our exports which gives cause for concern. The ironic thing is we are well-endowed and rich compared to other countries. Yet if our growth rates are averaged out over the last few years, they are pretty horrendous.

What then are the options open for SA as far as our export profile is concerned?

International conditions could adjust, and our existing profile benefit. This could happen if the oil situation deteriorated to favour coal, and there was a growth in hedge assets, for example.

Or we could adjust to external conditions through the beneficiation of our natural commodities. This would reduce our dependence on gold and diversify our risk. There is, however, the problem of acquiring market share with our value-added goods.

On the other hand we could diversify out of our comparative advantage in primary commodities into manufacturing. For this, however, we would need a shift in entrepreneurial mentality towards a total management of the economy. This is crucial.

For example, the number of importers and exporters springing up is phenomenal. But will this be sustained when the exchange rate changes? All the factors are in place to make us competitive but there are no signs of any planning taking place.

Which path should we adopt in changing the long-term profile of our exports?

At present we are exercising the first option. We have been lulled to sleep by the difficulties of changing course on the one

hand and our external hope in the gold price on the other.

We need to emphasise the manufacturing route which should broaden employment, at the same time as easing the BoP situation. It is a tough challenge, and we can only hope the process will be eased by windfalls. But we must begin to see these windfalls for what they are.

At present the economy is in a strong contractionary phase. How do you see things developing over the next few months?

The adjustment process has been incredibly successful, but the productive base of the economy has been weakened at a terrifying rate. Now that the BoP is moving progressively into a surplus we should begin paying attention to economic growth.

The nature of the BoP surplus is such that it represents as much an increase in exports as a decline in imports. The increase in exports may not be sustainable, while any recovery will stimulate imports.

Then there is the question of capital outflows — which for the time being will simply use up the surplus that is being created. The government and the private sector have been repaying their short-term liabilities, while the political unrest and disinvestment pressures have reinforced this outflow.

But scope is growing for a considerable drop in interest rates. This depends on whether a tight fiscal policy is upheld, and the gold price remains steady. These factors could place a questionmark behind the ability of the surplus to be maintained.

By continuing as we are, we are undermining the productive base to such an extent that the entrepreneurial elite is being massacred.

What about the prospects for inflation?

I expect inflation to be way down in a year. You must remember the five percentage point increase in gst over the last 12-month period. And the massive drop in the exchange rate, of course, was extraordinary. But by next year we should have got the shocks out of the system.

Wage increases are way down from what they were. If the government manages to contain wage increases this will also contribute dramatically. A major drop in interest rates could reinforce this by limiting price increases. But the main motivation of a drop in short-term rates is to save the entrepreneurial sector, and commence the process of financial revitalisation.

FACE
TO FACE

(153) FM 10/5/85

Volkscas chief economist At Engelbrecht says SA's high inflation rate is the country's major problem "Since 1975, it has, on average, been 2,5 to 3 times higher than its main trading partners" This wide inflation differential has an adverse effect on the balance of payments, pricing SA right out the market

"In turn," says Engelbrecht, "this exerts downward pressure on the rand But SA simply cannot afford to be caught in this vicious circle of high inflation and a low rand value from which it is difficult to escape"

In the long-term, Engelbrecht has no doubt that a wide inflation differential results in slower economic growth, a decline in living standards and increases unemployment "This is a dangerous situation and as such inflation must be contained at all costs"

A relatively high inflation rate is clearly a reflection of serious problems within an economy Mike Brown, of stockbrokers Davis, Borkum Hare, says this would obviously discourage much needed capital inflows to SA "People," he adds, "will lose confidence in the economy and no longer find investments attractive High interest rates are then needed to maintain the value of the currency as well as to attract foreign capital."

But hopefully, this vicious circle will be avoided

Engelbrecht believes the current downward move in interest rates will help bring inflation into line with other countries True,



Volkscas's Engelbrecht ... inflation our major problem

this will afford lower rates of return for foreign investors. But this will be more than outweighed by the confidence generated by the strict monetary and fiscal policies now in force

LIFE ASSURERS

A capital idea

Life assurers could well become more involved in venture capital investments if Finance Minister Barend du Plessis has his way This is in spite of the assurers' main priority, which is to get "the best possible returns for their policyholders with the least amount of risk," as one of the fraternity puts it

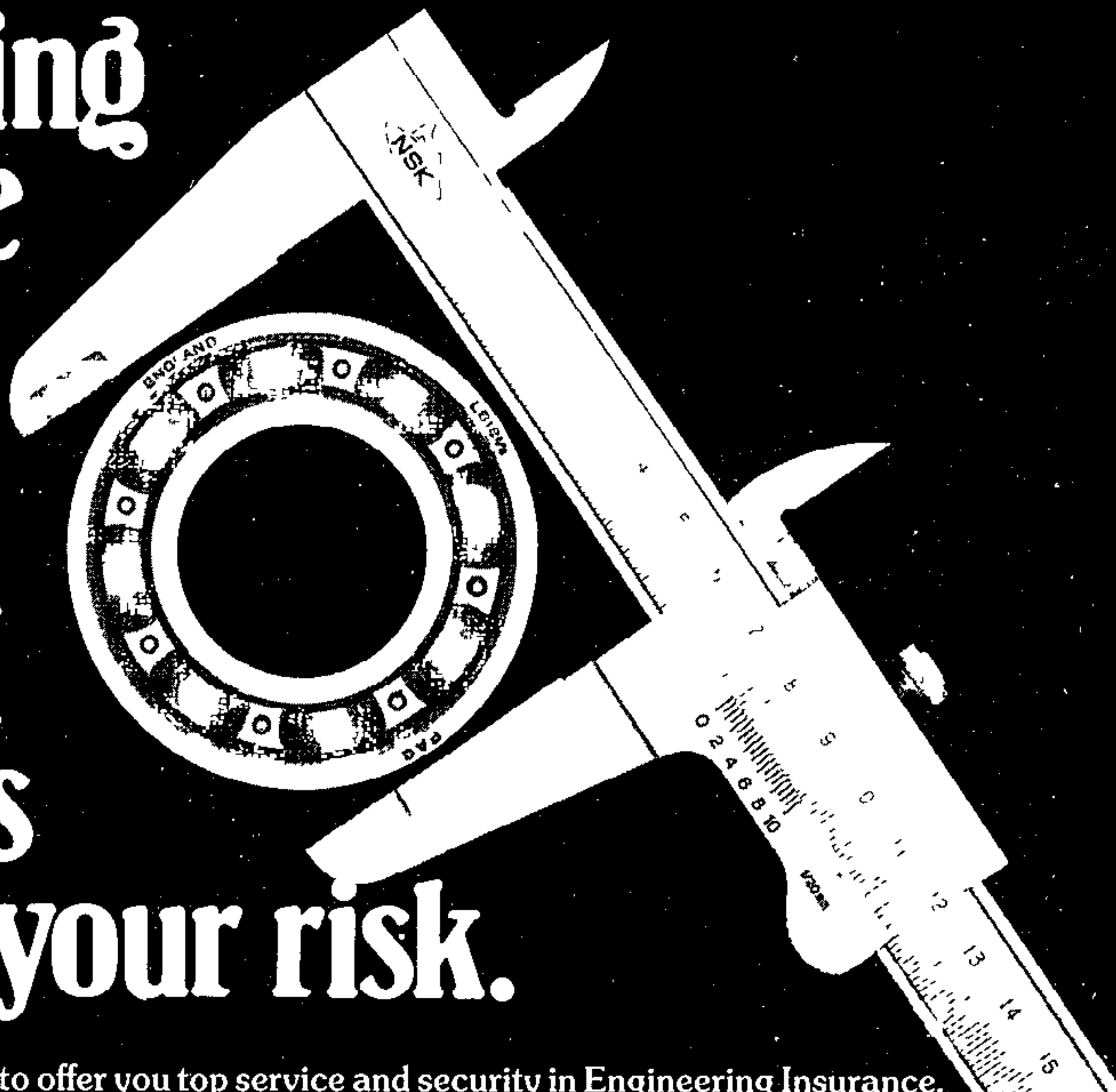
What amounts to a compromise, however, could well be achieved by negotiating the rules regarding prescribed investments These are, without doubt, the biggest thorn in the life industry's side They are obligatory and based on a proportion of a company's assets, so that, by their nature, they do not provide a true market-related rate of return

Figures just released by the Life Offices' Association (LOA) show that public sector securities absorb 41% of total industry assets, representing R11 833m Discretionary investments in the private sector represent 25%, including R7 212m in shares and units, and property holdings of R5 475m or 19%.

Some kind of change in the prescribed assets ratio would certainly woo the industry Du Plessis tells the *FM* he is prepared to discuss all serious proposals with the industry, including a *quid pro quo* on prescribed assets

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For example, investment in the deconcentration areas is being accepted as part of the prescribed assets package as well as direct investment in the Small Business Development Corporation (SBDC). One leading insurer has said that SA's housing backlog could be wiped out if investment in that sector was treated as prescribed.

Various proposals arose after a speech by Du Plessis to the LOA jubilee dinner in Cape Town last week. He has now invited the industry to come forward with concrete suggestions.

Du Plessis firmly believes there is a way to boost investment in new businesses by the assurance industry — without exposing their trust funds to excessive risk. "The main objective is that we should mobilise as much capital and expertise as we can in the creation of new job opportunities," he says. He stresses that top-level management input from the leadership levels of the life insurers must be part of the concept.

There is a quiet ripple of agreement from within the industry that an over-concentration of power has taken place through recent takeovers. Figures from Robin McGregor's new *Who Owns Whom*, to be released in three weeks, show that Sanlam now controls 12,2% of all equity on the JSE, Old Mutual 10,6%, and Liberty Holdings 2%. That puts the leading two firmly into second and third place behind Anglo (53,6%) with Rembrandt fourth at 3,8%.

The assurance industry is acutely aware of its fat cat image — witness a remark at the dinner by one leading insurer. Agreeing that there was too much emphasis on takeovers, he said that greater investment in venture capital would "have us looking more like entrepreneurs and less like sharks."

Another idea being floated by government — although officials stress it is at this stage only an idea — is some form of tax rebate for assurance investment directly related to export stimulation. LOA members approached by the FM agreed this holds possibilities.

It remains to be seen whether government will accept a change in the prescribed assets formula. The 7,5% levy imposed on the assurance industry in the recent Budget is also seen as a negotiating point, with banks already having won the concession from Du Plessis that the deposit tax imposed on them will be deductible from income.

Assurance industry chiefs say that, at the very least, they expect the same concession to be extended to them. All that Du Plessis will say at this stage is that his door is open and that he will welcome proposals from the LOA.

Du Plessis also made it clear to the FM that he is talking about more than just cash. "I don't think that, in seeking a way to mobilise these funds, one should think only of the capital aspect. In many instances where capital is available, it is the extent of

the entrepreneurial and management skills that makes the difference. Simply employing capital is perhaps what has led to the impression of an over-concentration on takeovers."

The industry is certainly aware of the need to create new business. Sanlam MD designate and LOA vice-chairman, Pierre Steyn, told a media seminar in Cape Town the day before the LOA dinner that 300 000 people are currently entering the labour market annually, and that this will rise to 400 000 in the next decade.

"The long-term implications are that about 1 500 new jobs will have to be created each working day," he said. Emphasising the role of life offices in the savings market, he pointed out that while personal savings as a percentage of personal disposable income had dropped from a long-term average of 10% to just over 3% in 1984, premium income by life offices had grown at an average annual rate of 22%. ■

WORLD INSURANCE

SA feels the pinch

Like it or not, the local market is facing huge increases in insurance premiums across a wide range of covers, especially in the corporate sector. Reinsurers here have been pressing for a better deal for several years, although it is only recently that the sheer weight of losses has forced them to take action.

For SA, reinsurance experience overseas must be seen as a sign of things to come. In the past, generous investment incomes have supported insurers and reinsurers alike in keeping their books in the black. Indeed, such income has encouraged a great deal of so-called "cash flow underwriting" over the years.

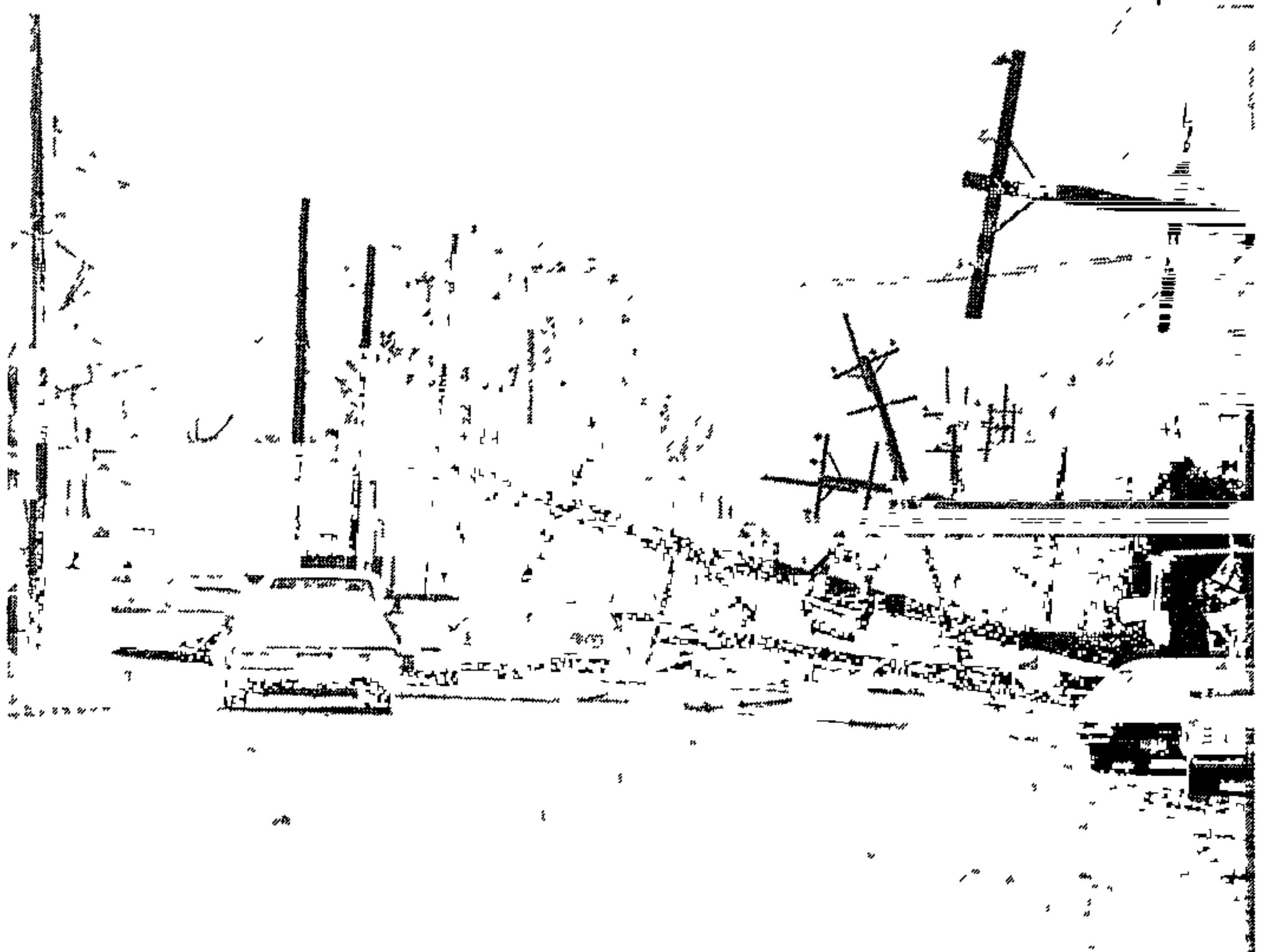
There's no doubt, however, that more recently a combination of higher losses and lower investment returns have forced world markets to reduce capacity and introduce sharp increases in premiums.

And reinsurers in this country can no longer rely on a bottomless pit of support from their overseas principals, a point made quite clear by Swiss Re in its monthly report, *Sigma*. According to this report, worldwide natural and human-induced catastrophes in 1984 resulted in over 13 600 deaths, insured damage worth some US\$3 7 billion, and left more than 2m homeless.

The highest insured loss in 1984 was the hailstorm in Munich, with total insured damage amounting to \$500m, while the largest insured fire loss was from the oil-sands extraction plant in Canada.

Swiss Re lists a total of 145 disasters, including tornadoes in Denver, Colorado (\$277m insured loss), the satellite Westar VI, which was put into the wrong orbit (\$110m), a blowout in an oil and gas field in Indonesia (\$55m), the running aground of the passenger ship *Sundancer* (\$32m), and a fire in a warehouse in London (\$174,6m).

Overall, the report notes that marine and aviation insurance witnessed a more favourable loss experience in 1984 than in 1983, while high losses from fires and road and railway traffic were again registered.



Storm damage... coming down on the insurers

Food prices slow inflation gallop

By Ciaran Ryan

THE Meat Board's decision not to recommend an increase in the floor price of red meat is likely to moderate price demands from agricultural control boards.

Some economists believe that brakes on food prices could slow inflation to 10%.

The Meat Board has recommended for the second consecutive year that the floor price of meat be pegged. The price of beef dropped 5% last year.

The decision comes in the face of a 10% increase in the consumer price of maize which will increase beef production costs by about 14c a kilogram and pork by about 8c.

Dearer wheat

The Government is said to be standing firm on its decision not to grant an increase in the producer price of maize. The National Maize Producers Organisation (Nampo) wanted a 23% increase.

A wheat price increase of about 5% is likely to be recommended. General manager of the Wheat Board Dennis van Aarde says input costs of farmers increased by 13% in the past year, but because of the poor economic climate, price increases will be low.

Wage rises

Central Statistics Office figures indicate that producer prices rose by only 1% in March compared with 2,8% in February.

Johan Willemse, chief economist of the South African Agricultural Union, says the Government's decision to hold the maize price at R217 a ton for another year is unlikely to have a dramatic impact on inflation.

"Other areas in the economy must be addressed before inflation will drop below 10%. Demands for higher wages, for example, will have to be limited."

Food has a 25% weighting in the consumer-price index, of which less than half is made up of producer prices. Mr Willemse says food price increases are lagging behind other commodities and food is having a progressively smaller impact on inflation.

Parastatals

But a strong dollar means that South Africa's import bill is kept high and counterbalances low food price increases by fuelling inflation.

At Engelbrecht, chief economist at Volkskas, says a 10% drop in the rand-dollar exchange rate results in an immediate 1% rise in inflation.

"Inflation is about 15% at present and is likely to rise further before dropping."

One economist told Business Times, "If the Government can delay price increases from the statutory bodies, such as Escom, Iscor, South African Transport Services, then we have a good chance of reducing inflation to 10% by this time next year."

"The regional councils, which according to some estimates will divert another R1,2-billion from the economy, could push inflation up another one or two percentage points."

"The effect of GST and petrol increases on inflation will no longer be of importance in February next year."

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S. Times

12/5/87

CAPL Times 20/4/85 Inflationrate set to spurt higher

Own Correspondent

PRETORIA — The inflation rate, as measured by the consumer price index for the 12 months to the end of April, is expected to spurt above 16 percent. The index will be released here this week.

The May issue of Volkskas's economic spotlight warns of "still expanding money supply", and that a high inflation rate for 1985 is certain.

Volkskas expects the CPI to rise to as high as 16 to 17 percent in April and May.

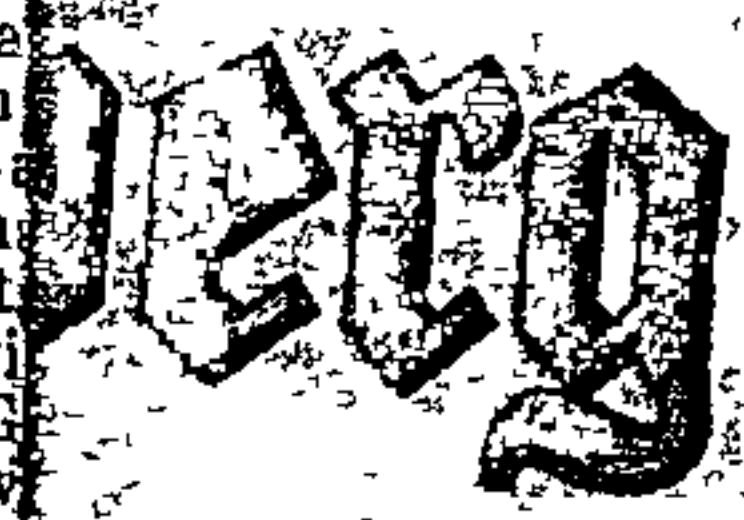
Economists say major influences on the April index will include the full impact of the 2 percent increase in GST to 12 percent, the higher railways and Post Office tariffs and the continuing effects of the 40 percent fuel price rise.

The senior economist at the Bureau for Economic Research at the University of Stellenbosch, Dr O D J Stuart, said the rising costs of imports because of the weak rand would add further pressure to the CPI.

Still to come are bread and milk price rises and the 10 percent rise in the maize price from May.

flames licked the edges of a major highway, prompting police to seal off part of the heavily-travelled route. Clouds of smoke drifted over Miami and Fort Lauderdale, showering the coast with cinders and ash. — Sapa-Reuter

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Wage restraint urged

Big pay rises are fuelling inflation,

21/5/85 B. Day

— Bepa report

A VOLUNTARY restraint on wages and administered prices to combat inflation has been called on by Pretoria University's Bureau of Economic Policy and Analysis (Bepa)

According to the Bepa study of inflation and wages over the past few years, large wage increases for the rest of this year and early 1986 could prolong the inflationary pressures and postpone the recovery in economic activity and employment

The government-sponsored study calls on employers and wage negotiators to consider marginal wage increases

At the same time, it calls on government to freeze or marginally increase prices for administered goods

Bepa's Professor J A Lombard, a major compiler of the study, said in Pretoria yesterday that wage inflation not only retarded cyclical (recession) unemployment, but also produced structural unemployment because it stimulated the substitution of capital for labour

"The anti-inflation policy may have a high cost in the short-term because of surplus capacity and unemployment. But it is crucial that the public's idea of inflation and what to expect in 1985 and 1986 should be realistic"

The report says inflation must be reduced to 4% or 5% by the end of next year

Although productivity can be improved substantially to about 3% annually, this alone will not curb inflation. The roots of the problem are on the side of over-expenditure and excessive rises in nominal wages

By LESLEY LAMBERT

More than 25% of the labour force outside agriculture is employed in the public sector, where nominal wage increases will be minimal this year, the report says

If the monetary authorities persist in restraining wages in the public sector and high rates of interest in the capital market, the CPI (inflation) growth rate is expected to drop to about 10,3% in 1985 and 1986

At the same time domestic real output will begin to expand, reaching an annualised real growth rate of 8,2% in the fourth quarter

Inflation is a political phenomenon in which the pressure of vested interest groups and public opinion prevail, the report says

In such a political dispensation, even monetary and fiscal policies become subordinate to political pressure

Lombard said that in the past government had not been prepared to tackle the inflation due to fear of alienating its constituency

Although CPI (consumer price index) was a reasonable yardstick for wage bargaining, the report said the impact of GST should be removed to avoid an inflationary spiral in which sales tax was endlessly shifted forward

The worker does not benefit by high nominal wage increases in this situation, because inflation erodes the purchasing power of his wages

Inflation rate to break 16 p c

Mercury Correspondent

PRETORIA—The inflation rate as measured by the consumer price index for the 12 months to the end of April is expected to spurt above 16 percent

The index will be released here this week. The May issue of Volkskas Economic Spotlight warns of 'still expanding money supply and that a high inflation rate for 1985 is certain'. Volkskas expects the CPI to rise to as high as 17 percent in April and May

The expected average for the year, the bank forecasts, will be 14,5 percent

Economists say major influences on the April index would be the full impact of the 2 percent increase in GST which came into effect late in March, the higher railway

and Post Office tariffs, which were imposed from the beginning of April, and the continuing indirect effects of the 40 percent fuel price rise

The senior economist at the Bureau for Economic Research at the University of Stellenbosch, Dr O D J Stuart, said the impact of these increases could push the April rate up by 1,5 percent

The still rising costs of imports because of the weak rand would add further pressure to the CPI, Dr Stuart said. Still to come are bread and milk price rises — both could be announced later this week — and the 10 percent rise in the maize price from May

The March CPI showed only a marginal increase of 0,4 percent over February.

SA offers prime returns, Davin tells US investors

By ROBERT GREIG

FOREIGN investors in South Africa can expect above-average returns, in spite of political and exchange rate risks and high inflation, the managing director of the Old Mutual, Mr Frans Davin, has told an American investment conference.

Speaking yesterday at the Institutional Investors' Investment Conference in New York, Mr Davin said that the major risks of investing in South Africa were high inflation, political risk and foreign exchange uncertainty.

On the credit side, South Africa offered

- Probably the most sophisticated infrastructure in Africa,

- A "commitment" to free enterprise,

- A long record of high real economic growth and "very good returns in dollar terms",

- Impeccable international credit standing.

London stocks after hours
Blyvoors 7¹/₁₆, Bracken 180, Drie
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275, Randfont 110¹/₂, SA Land
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8¹/₈, Venters 9¹/₈, W Rand Cons
4¹³/₁₆, Zandpan 96 — Reuter

- Technological innovativeness

- A massive potential market

- A renowned raw material base, and

- Leadership as a food producer of Africa

He said that South Africa's average inflation rate over the last decade was 12.7 percent compared to the United States's 3.7 percent.

"The South African economy is and will for many years to come be subjected to strong inflationary pressures which are mainly of a socio-political nature and an inflation rate equal to the current rate of the United States is not foreseen."

Mr Davin said that political changes eventually tended to increase government spending and inflationary pressures, but added that the government was committed to controlling its spending.

"I am quite confident that inflation will not be allowed to get out of control."

Mr Davin also told American investors that

he believed that the rand was "substantially undervalued", given South Africa's balance of payments prospects and the rand's purchasing power.

He saw the rand appreciating in the short to medium-term.

Mr Davin assured his audience that the government was committed to "orderly" change.

This would not, Mr Davin predicted, be accompanied by "economic deterioration" because "a sufficiently large core of management expertise and skilled people" was "permanently committed to the country" and its development.

He asked the "outside world" for understanding and encouragement.

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Wage, price restraints urged to relieve inflation pressures

PRETORIA — A voluntary restraint on wages and administered prices to combat inflation has been called for by the University of Pretoria's Bureau of Economic Policy and Analysis (Bepa)

According to the Bepa study of inflation and wages over the past few years, large wage increases for the rest of this year and early 1986 could prolong the inflationary pressures and postpone the recovery in economic activity and employment

The Government-sponsored study calls on employers and wage negotiators to consider marginal wage increases

At the same time, it calls on the Government to freeze or marginally increase prices for administered goods

The report says inflation must be reduced to 4 percent or 5 percent by the end of next year

Although productivity could be improved substantially to about 3 percent annually this alone would not curb inflation. The roots of the problem were on the side of over-expenditure and excessive rises in nominal wages

More than 25 percent of the labour force outside agriculture was employed in the public sector, where nominal wage

increases would be minimal this year

If the monetary authorities persisted in restraining wages in the public sector and high rates of interest in the capital market, the CPI (inflation) growth rate was expected to drop to about 10,3 percent in 1985 and 1986

VESTED INTERESTS

At the same time domestic real output would begin to expand, reaching an annualised real growth rate of 8,2 percent in the fourth quarter

Inflation was a political phenomenon in which the pressure of vested interest groups

and public opinion prevailed

In such a political dispensation, even monetary and fiscal policies became subordinate to political pressure

Although CPI (consumer price index) was a reasonable yardstick for wage bargaining, the report said the impact of GST should be removed to avoid an inflationary spiral in which sales tax was endlessly shifted forward

The worker did not benefit by high nominal wage increases in this situation, because inflation eroded the purchasing power of his wages — Sapa

Inflation S A's biggest problem, says Assocom

153 NM 23/5/85
JOHANNESBURG— The biggest problem facing South Africa is inflation and unless this is brought down drastically the country's problems will increase — they cannot improve, the Association of Chambers of Commerce of South Africa (Assocom) decided at its midyear executive council meeting in Johannesburg yesterday.

Mr Raymond Parson, Assocom's chief executive, told a Press conference that the association felt the problem of inflation overrode all other crises facing the country, including unemployment.

Inflation and unemployment were 'misery indexes' in the economy, but inflation which Assocom learnt yesterday is running at 15,8 percent, 'is four times higher than in countries with which we deal.'

He said 'It is the barrier to what we want to do (to improve the economic outlook)'

Control

However, he had a 'gut feeling' the authorities were coming to grips with the problem and were taking determined steps to bring it under control.

'Unless there are unforeseen decisions in the field of administrative prices, the problem looks as if it is beginning to come under control. Assocom feels the country has to make the sacrifices now and the direction of the authorities is the correct one.'

'Administrative prices are, however, the worm in the apple. But we are half-way down the road of sacrifices and to turn back now would be disastrous. Let's see it out and those who survive will reap the benefits. If we turn back now we will only postpone the inevitable day of reckoning.'

'Maybe, and we think probably, we have seen the worst of inflation. Assocom hopes so,' Mr Parson said.

More unemployment would follow the decision to combat inflation as the 'most urgent problem to be dealt with, but it had to be faced and should be treated 'humanely.'

'The outlook for 1985 is that things will get worse until they get better, but

they will not get better unless they get worse,' he said.

Assocom, he said, welcomed the recent moves to reduce primary rates, 'provided they are not coming down for the wrong reasons. If in the future we have to reverse the position and re-introduce higher rates we will only store up trouble for the future.'

Rates

Rates should be 'steadily but carefully' reduced if the position warrants it, he said.

In a memorandum, Assocom said that within the overall policy mix, the authorities must maintain a balance between policy instruments which will allow interest rates to moderate, the exchange rate to recover and remove the need to increase taxes.

'On this latter issue it is imperative to ensure that the level of local government taxation proposed by the Croeser Committee will be appropriately offset by tax reductions elsewhere,' the memorandum states — (Sapa)

Inflation the bogeyman to beat

By AUDREY D'ANGELO

THE dismantling of controls preventing real competition would help to bring down this country's high rate of inflation, says Mr Brian MacLeod, retiring director of the Cape Town Chamber of Commerce.

In an interview this week he said South Africa was in a Catch 22 situation because high unemployment was helping to cause unrest, which discouraged badly needed foreign investment.

But the Government could not reflate the economy, providing more jobs, while the rate of inflation remained so far above that of major trading partners.

Reflating the economy at this stage would cause the inflation rate "to sky-rocket".

It was already hampering exporters by pushing up their production costs so that they derived little benefit from the weakness of the rand.

"The length of time this recession lasts will depend on whether the Government takes more effective steps to deal with inflation."

"The Government has been pretty lax in this so far, acting as though it wants inflation to rise because it is an easy way of increasing revenue."

"But we have to bring it down because it is preventing economic growth and affecting our exports."

Mr MacLeod said the phasing out of influx control, which was costly, would help to reduce inflation.

So would the dismantling of controls which pushed up the price of essential foods, such as bread.

Restrictive licensing arrangements by the Wheat Board which limited the number of bakers were an example of this.

"The reasons the board gives for these controls show how little it knows of market forces."

"It claims the number of baker's licences is limited 'to prevent excessive and wasteful competition'."

"There is no such thing as 'excessive competition' — the market place sorts that out."

The Competitions Board was now carrying out a long overdue investigation into market sharing agreements and collusion in fixing prices between large firms.

"The way to bring inflation down is to maximise competition and move towards the operation of a free market system."

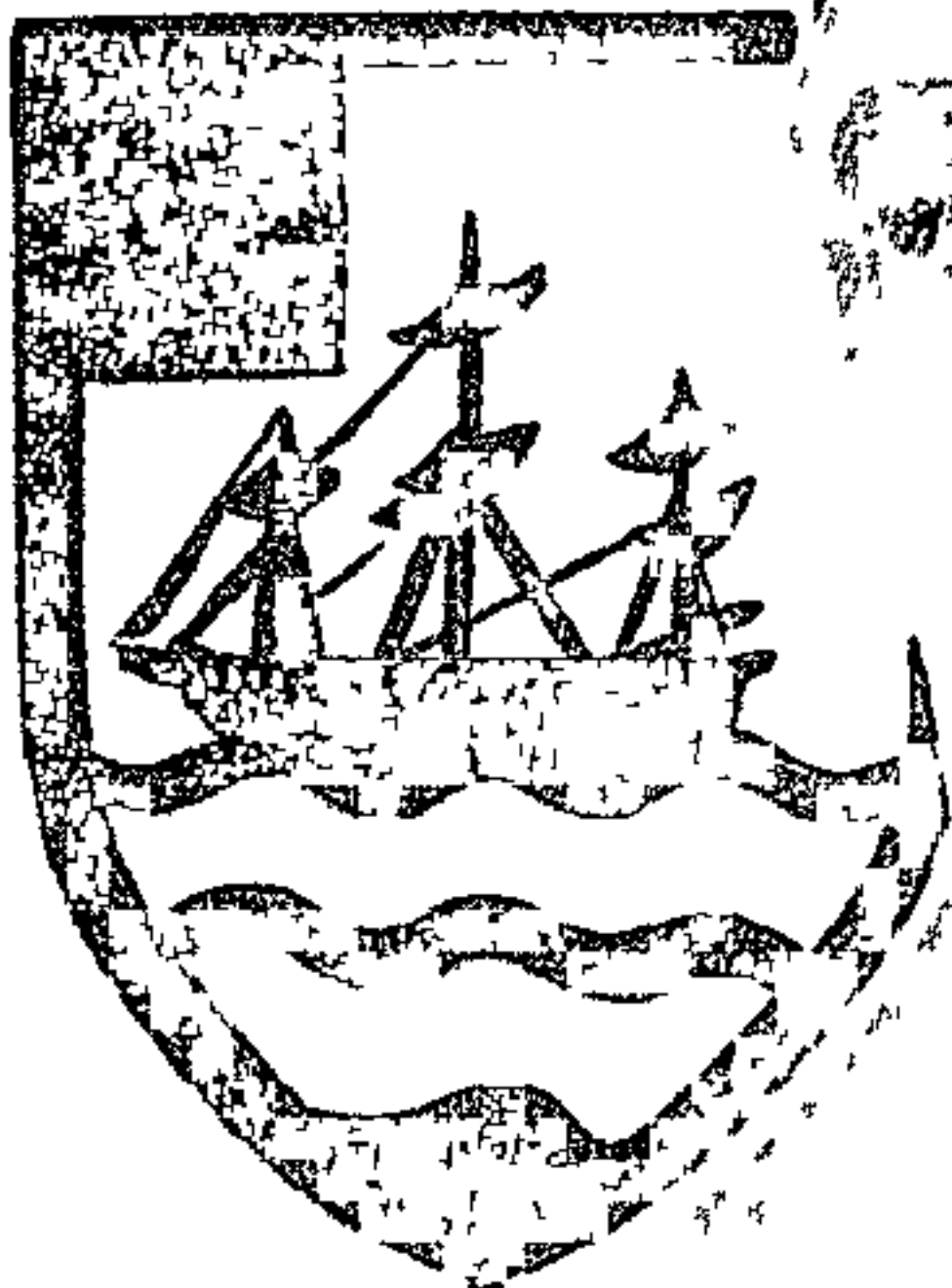
During his 37 years with the chamber of commerce Mr MacLeod has been active in helping to formulate policies

which have included repeated calls on the government to allow black people greater participation in the economy.

This resolution was first passed in 1948.

Now, preparing to retire at the end of this month, he said "I have had a very stimulating career in the chamber and I am certainly going to miss it."

"I have been right in the middle of the action and I have made friends all over the world."



Mr Brian MacLeod, retiring director of the Cape Town Chamber of Commerce.

Short-term plan won't do, says Santamtrust

Inflation easing 'still in doubt'

4/6/85
153
B. Day

PROSPECTS for an improvement in long-term inflation remain doubtful.

In its monthly newsletter, Santamtrust portfolio management takes a sceptical view of the authorities' total commitment to fighting inflation

It says the key to overcoming further growth in an already bloated inflation rate lies in more effective handling of aggregate demand — total economic activity

If this fails to materialise, then "the chances are that the next economic upturn will cause inflation to reach even higher levels".

Restrictive measures have so far been aimed only at neutralising external factors like the gold price, the dollar and the drought as and when they occur. Instead of monitoring long-term movements, the authorities are more inclined to follow procyclical policies and over-stimulate the economy

A large component of South Africa's inflation is structural, says Santamtrust. That means it is a side-effect of the nature of the economy. The inclination toward an oligopolistic structure — a small number of relatively powerful corporations — has resulted in a licence for "excessive" profit taking.

The tendency for these operating profits to take off during the early upswings in economic activity is a major contributory inflation factor, says Santamtrust. With demand for goods outstripping supply at these

By ALAN SENDZUL

early stages of the business cycle, prices start increasing

So when the economy is well into the expansionary phase, the already high inflation rate, which has been built up, results in more than otherwise inflated wages for labour.

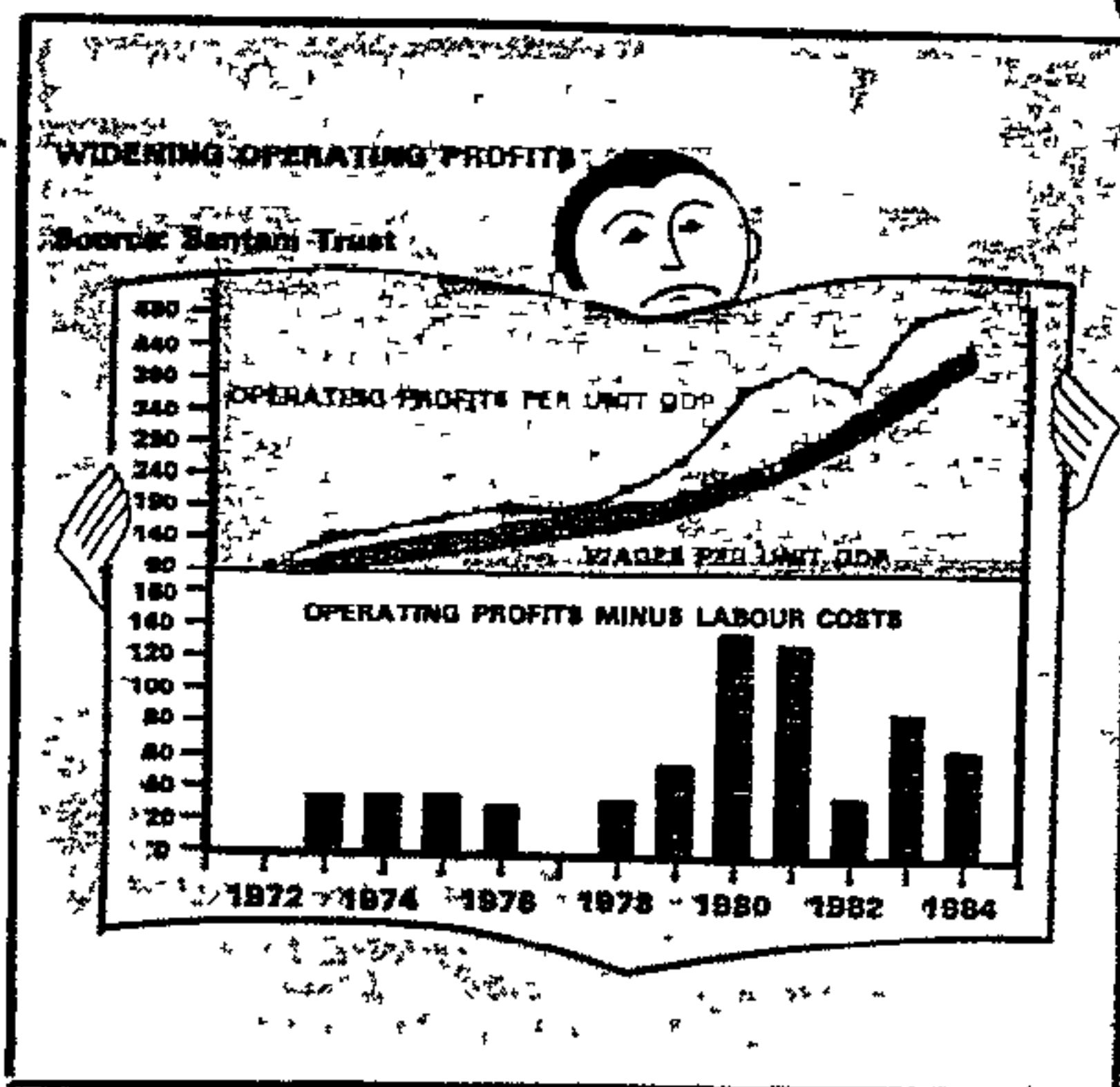
"This inflationary tendency, which originates from excessive profit-taking in an expanding economy, ripples through the whole spectrum of prices and costs and makes its mark on inflation at a later part of the upswing"

The report concludes that companies are relatively inflexible in adjusting their margins downward. This would imply that the costs are not generally absorbed by corporations, so that the inflationary aspect is passed on to the consumer

Santamtrust feels "inflation will only decline to below 10% in the case of a lengthy, drawn-out recession". With such strong overtones for unemployment, it is doubtful that the authorities will contain the economy to the extent necessary for single digit inflation

Nor is it a *fait accompli* that a serious recession would actually achieve sustained low inflationary growth, which will in all probability rocket in the consequent expansion

The report says that as a forerunner to dismantling the power concentration of corporations, moral suasion could be used to halt the tendency to excess profit-taking



Greek crowds laud Socialist poll win

ATHENS — Huge crowds poured into the streets yesterday to celebrate the election victory of Premier Andreas Papandreou's Socialists, who have loosened ties with the United States and Nato and pledged to shut down US military bases

Papandreou, 66, a US citizen for 20 years and former dean at Berkeley College, University of California, told reporters "I believe this vote is a triumph. It's a great defeat for the reactionary forces, whether they're Greek or foreign. The Greek people don't expect anything from anyone"

As he spoke, tens of thousands of cheering supporters surrounded his home in the fashionable suburb of Kastrí. Traffic jams blocked traffic to the city centre, about 20km away

Some supporters outside the Premier's home carried black wooden coffins and chanted "The Right is dead"

Earlier, returns from 14 650 of 14 738 polling stations showed the Socialist Party, known officially as the Panhellenic Socialist Movement (Pasok), had 45.82% of the vote — Sapa-AP.

ARGUS 7/6/85

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Wages spiral must be broken — Du Plessis

PIPPA GREEN
Parliamentary Staff

LABOUR costs in South Africa were a "pillar of inflation" which had to be cracked, the Minister of Finance, Mr Barend du Plessis, told the House of Assembly.

Speaking during the third reading of the Budget, Mr du Plessis said it was "absolutely imperative to address the problem of average salary and wage increases"

He said an agreement had to be negotiated whereby trade unions and employers built a "productivity formula" into annual increases

"Too many people rely on regular increases and this lies at the bottom of the strong upward pressure on inflation."

Referring to the disinvestment campaign against South Africa, Mr du Plessis said those who would feel the worst effects would be blacks

He said Government fiscal policy had achieved good results in reducing the money supply.

The chief Opposition spokesman on finance, Mr Harry Schwarz, asked Mr du Plessis whether alternative anti-inflationary measures could have

been adopted that would not have had the "harsh effects" of the present ones

Mr Schwarz cited business bankruptcies, increased unemployment and the "permanent destruction of jobs in South Africa" He said the Government had not tackled the "real structural problem at the root of inflation"

He said: "The result is that, when the next upswing comes, these sacrifices will be shown to have been made in vain"

Spelling out the dangers of unemployment, Mr Schwarz said South Africa did not have the social benefit system to cushion its effects

Unemployment could lead to "endemic unrest which, if not controlled, can turn to revolution"

There was "grave concern" that the type of economic policies the Government was applying would lead to increasing unemployment and affect the stability of South Africa

On the disinvestment campaign, Mr Schwarz said the greater the degree of new investment, the more wealth there would be to redistribute among blacks

He said "Anything which hinders economic progress will hamper job creation"

Need for ceiling on prices and wages — economist

BLOEMFONTEIN — Even if the gold and foreign exchange reserves are restored to a satisfactory level in 1985, South Africa can not allow a renewed upswing to take place next year unless the inflation rate is brought below 10 percent.

This was stated yesterday by Dr J Cloete, group economist for Barclays National Bank, when he addressed the Asso-com's Free State regional congress.

Otherwise any deceleration in the inflation rate achieved by the current "overkill" of the economy would soon cease and be transformed again into a renewed acceleration.

Dr Cloete said that whether or not the likely favourable impact of this year's "overkill" of the economy would be

translated into an inflation rate below 10 percent by early next year would depend on the size of the administered price and wage increases that the government allowed to take place in the early part of next year.

If the severe damage done to the economy this year was not to be in vain, it was essential that the government should set, and should announce in advance, an appropriate ceiling for average increases in administered prices and in public service salaries and wages that it would allow for 1986.

In the prevailing circumstances, the private sector would almost certainly follow the example set by the public sector in this respect.

If the government placed an appropriate

ceiling on administered price and wage increases for 1986 a reduction in the inflation rate to below 10 percent was a real possibility. There would then be scope to allow a recovery to start.

The outcome on the balance of payments would have an important bearing on the general economic outlook.

The recession could be at its deepest in the third quarter of this year when the full impact of the government expenditure cutbacks and the tax increases in the March Budget were likely to come through to the economy.

Given likely trends in imports and exports a substantial current account surplus was likely to be realized for 1985, unless the gold price should fall again.

— Sapa

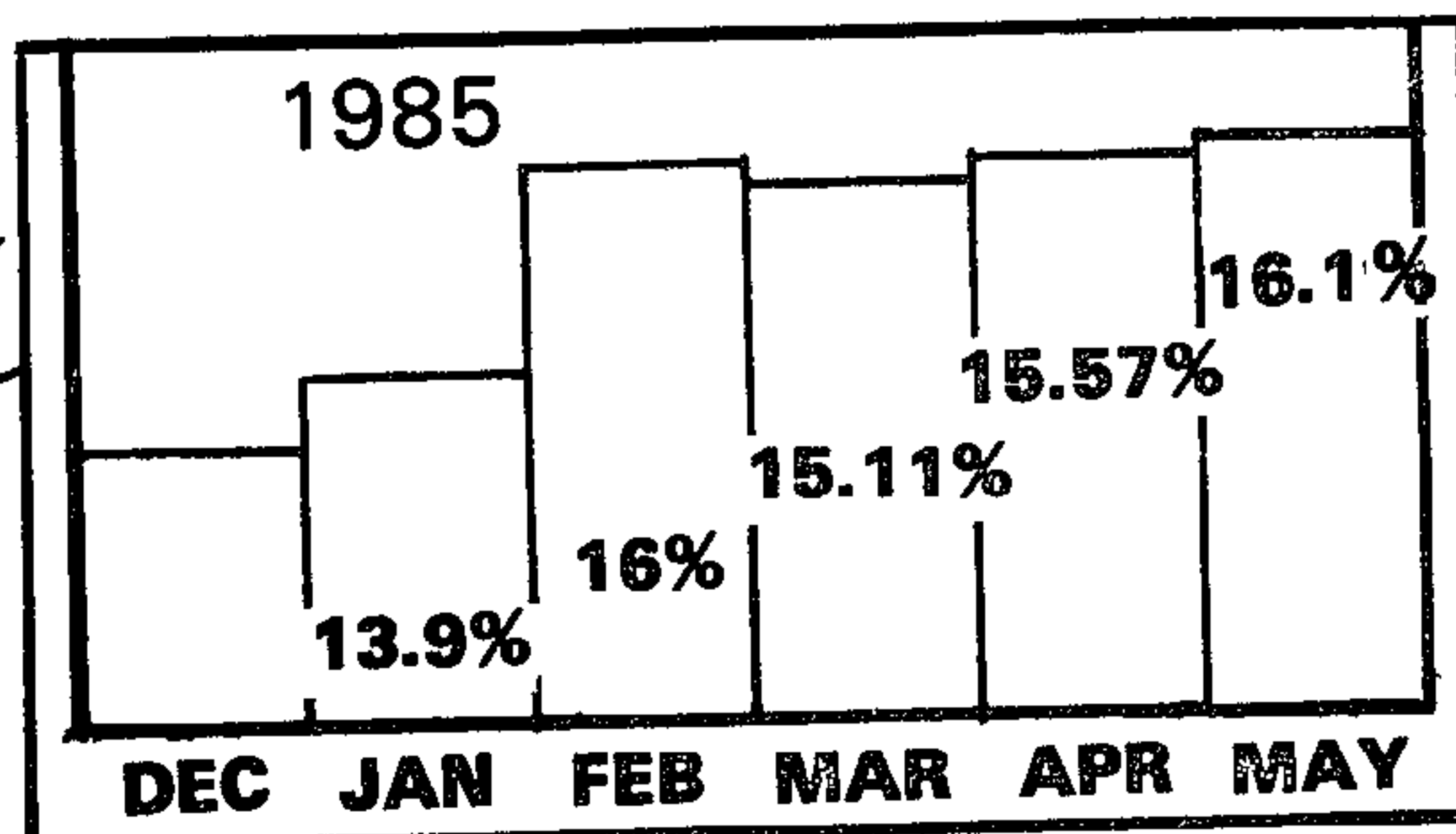
Inflation steadily heading to 17%

Pretoria Bureau

THE inflation rate is still on its way to 17% although the rate of increase slowed during May, economists said last week.

The rate, as measured by the consumer price index (CPI), reached its highest level in three years in the year to May — 16,1% compared with 15,8% for the 12 months to the end of April

In April 1982 inflation peaked at a record 16,4% and economists believe this will be exceeded within the next two months. The May over April increase was 1,1%, while the April over March increase was 2%. Minister of Finance Barend du Plessis has warned of a further rise before the



rate starts to fall.

Barclays Bank economist Johan Cloete agrees. He said the slowdown in the rate of increase in May was an encouraging sign.

However, a rate of 17% was still probable, although the possibility of 20% inflation forecast in some quarters had now faded. Under pressure from the very severe recession the rate would start to decelerate significantly later in the second half of the year.

According to the CPI, issued in Pretoria on Friday by Central Statistical Services, the index reached 189,5 in May, compared

with 187,4 in April, and 163,2 in May, 1984. The food index during May rose by 0,6% to a twelve month level of 9,4%, compared with 1,5% and 9,3%. The year-on-year figure for the lower income group was 13,3%, for the middle income group 16,4%, and for higher income groups 16,7%.

Contributing to the 1,1% increase in May were grain products 0,1% (the maize price was increased by 10% from the beginning of May), fish 0,1%, housing 0,3%, vehicles 0,2% and communications reflecting the April increase in postal tariffs by 0,2%.

That inexorable, never-ending inflation spiral

Too much reliance on gold is the problem

By John Fetter

Over the last few decades, inflation in South Africa has climbed inexorably. The prescribed method to deal with inflation has been to make money dearer, that is to increase interest rates. In addition, taxes are also usually put up.

A strange cure, to say the least. Surely, anyone with a little imagination and commonsense can see that it is our lemming-like failure to take cognizance of the over-reliance on our gold resources which is giving us our characteristic feast-famine economy, which in turn is responsible for our inflation woes.

When interest rates are put up, our houses, cars and furniture cost more. Business operating costs go up. A chain reaction follows and many goods and services go up in price. Permanently.

In boom times, everyone buys with readily available credit. Then, as the economy wanes, interest rates are put up. The process repeats itself every cycle and at the end of every cycle all goods and services will have become considerably dearer.

The effects of our high interest rates on the conscientious economic planner is to punish him arbitrarily. He reads that this is the "wonderful free market" at work. This is far removed from the truth. We don't

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"Economic recovery is in the hands of our industrialists and entrepreneurs. Fiddling with interest rates merely alters the shape of the hole in our economy, and leaves the size of the hole exactly the same as before. Without a new, bold and imaginative approach to business as a whole is steering with a faulty rudder."

have a free market system in South Africa. If we had a free market system we would be exporting computer micro chips, cars, advanced chemicals, farming and mining machinery instead of oranges, sugar, iron ore, coal and the like and our economy would have naturally become significantly less reliant on gold.

Our local content programmes have helped to stoke our inflation ever since their inception. Everything we make under licence is more expensive than had the product simply been imported.

Government is exhorting industry to export more finished goods. No doubt, a few thousand extra first-class exporting manufacturers would have a highly beneficial effect on our economy. The methodology which is being employed at present leaves much to

be desired. For years, South Africa has been presented overseas as a country with game parks, gold mines and ostrich farms. But only a few meek appearances at the more important international trade fairs about sums up our efforts to gain and export market for our finished goods. Our efforts in this field are abysmal.

Our local industrialists have traditionally eschewed research and development, preferring to await licensing offers from overseas. Consequently, product knowledge is superficial in most local companies. Management, relieved of the burdens of technical decision making which accompanies product development, becomes almost exclusively administrative in nature.

Manufacturing companies in these fields are most likely to experience considerable difficulties in gaining access to overseas markets.

It must be acknowledged that economic recovery is in the hands of our industrialists and our entrepreneurs. Only they possess the means of creating tangible wealth for this country. Exportation of goods will enrich us and, thereby, appreciate the rand. Fiddling with interest rates merely alters the shape of the hole in our economy and leaves the size of the hole exactly the same as before.

nise the international implications of its high tax rates. It says the tax rate should not exceed a limit set by a combination of the political risk facing SA investors, the economy's competitiveness, likely exchange rate trends, and the inflation rate's relative long-term expectations.

For example, SA's nominal and effective tax rates are way out of line with those of Western countries. The *nominal* corporate tax rate has risen from 42% to 50% — with the *effective* rate rising from 26% to an estimated 40% in 1985/86. The equivalent figures for the US are 46% and 19%, and for the UK 35% and 18%. The difference be-

tween nominal and effective rates reflects the effects of tax allowance and other breaks in the tax system.

A top priority for government says the FCI is to fund less of the activities demanded by growing urban populations through the tax system. More of these services will have to be supplied through the market mechanism. Unless this principle is recognised, the tax system will grow to levels where other reform objectives will have to be aborted.

Internationally, taxes favoured are those imposed on a value-added basis, a broad-based regressive indirect tax. Changes in financial and banking systems have made it

more difficult to tax profits and dividends, leading to a shift in tax transactions.

The FCI stresses that the economy has not been subject to review for more than a half-decade, when the Franzser Commission reported. This has had a serious and immeasurable impact on the economy. There has been, for example, a decline in fixed investment as a percentage of gnp from 5% in 1971 to 3% in 1984.

Pivotal to the FCI submissions is the need for a greater degree of control over government expenditure. Central, provincial and local government spending has risen from a

BASIL MOORE

Taxing wage inflation

Basil Moore is a visiting Professor of Economics at the University of Stellenbosch.

In the Minister of Finance's own words, the 1985-1986 Budget was addressed primarily to the current "unacceptably high rate of inflation." The Minister maintained that total spending had in the past been permitted to rise at an excessive rate, owing to "too lenient" fiscal and monetary policy, with adverse consequences for inflation and the balance of payments. He also declared that the "mix" of monetary and fiscal policy had not been ideal.

His policy prescription was a classic Keynesian demand-management restrictive Budget: little or no attention was given to supply-side factors. The Budget's goal was to reduce the government's deficit to less than 3% of gnp. This is to be accomplished, primarily by a reduction of R0,5 billion in government expenditures, largely realised by a one-third reduction in public servants' bonuses, and an increase of R1,7 billion in tax increases, of which the largest share (R1,2 billion) is due to an increase of 2% in the gst, which will unquestionably boost inflation in the short run.

In view of the very large past Budget overruns, the chief question appears to be whether government expenditure increases can be held to their targeted 11%.

I would like to suggest that the Minister's diagnosis of the inflation menace threatening SA is based on an incorrect model of inflation. As a result, his budgetary policy is unlikely to attain its stated goals, and may well produce extremely undesirable side-effects.

The Minister's restrictive fiscal and monetary policy, by withdrawing more than R2 billion from aggregate demand for goods and services, combined with current high levels of interest rates, would be entirely appropriate if the country were facing a classic excess-demand inflation — "too much money chasing too few goods."

If prices were being driven up by a general

excess of demand, the government's decision to restrict aggregate demand could be welcomed. It would still be painful medicine, but, in such circumstances, entirely appropriate.

In contrast, the current inflation in SA does not appear to be of this nature. It seems rather a classic case of cost or pressure-group inflation, combined with slump conditions. This is sometimes called stagflation, a term coined to describe the painful situation of simultaneously rising prices and rising unemployment.

The current inflation rate of 16% is not accompanied by shortages, bottlenecks or excess aggregate demand pressures, quite the opposite. The evidence for this is that layoffs and unsold stocks appear to be rising, and employment and capacity utilisation ratios falling. In addition, bankruptcies have been increasing sharply, owing to the combination of low demand and high, and rising costs, particularly interest rates.

The appropriate way of dealing with stagflation is to operate directly to reduce the rate of growth of costs. Cost inflation may be very simply explained. Since wages are on average about 75% of total costs, they dominate the behaviour of average unit costs of most commodities. Prices of most goods are set at some stable mark-up over unit costs. If wages are rising at a certain rate, unit costs will therefore tend to rise at the same rate, less the rate of increase in labour productivity. Since productivity increases, historically, have seldom been above 2%-3%, this is the maximum rate at which nominal average wages can rise that is consistent with stable prices.

If, for example, wages are rising on average at about 11% a year — the rate in SA in 1984 — and average labour productivity is increasing at 1%-2%, this means that unit labour costs will rise by about 9%-10%. Since prices are some broadly stable mark-up of unit costs, the average price of domestically produced goods, or the basic inflation rate, will also rise by about 9%-10%.

The government's brutal fiscal policy of pushing SA further into its recession will, in time, serve to depress demand. But the cost in terms of goods and services foregone, bankruptcy, unemployment and human suffering caused is great. Moreover, it is largely unnecessary. Why should the government purposely shoot the economy in the foot?

The Budget's reduction of aggregate demand by more than R2 billion, plus the high interest rate policy pursued by the Reserve Bank, will further depress demand and business output and raise unemployment. It will thus, in the process, have a powerful but indirect effect on companies' willingness to grant, and labour's ability to demand, the current high rates of wage increases. Unfortunately, the reduction in demand will also lower the rate of improvement in labour productivity to the extent that firms hoard rather than lay off workers as slump conditions spread.

The present strategy clearly appears to be the wrong policy at the wrong time for the wrong inflation. Instead, it is the basic inflation rate that the government should address.

To conquer inflation, wage increases must be brought down to the level of average labour productivity increases, or about 2% a year. This is the essential bottom line as far as inflation is concerned.

How is this to come about in SA? Political parties here do not divide along broadly pro-labour and anti-labour lines. Is it really conceivable that the current government would permit sufficiently high levels of unemployment?

Or would it open up the economy sufficiently to foreign competition, which would produce the crisis conditions necessary to halt the present ever-upward scramble of money wages? If not, must SA then resign itself to the prospect of further stagflation and pressure-group inflation for the foreseeable future?

Consider the following alternative fiscal measure: suppose the government were to

level of just over 20% in gnp in the early Seventies to an estimated 30% in 1984

The FCI says government's spending levels are the result of a lack of a targeting approach or the establishment of guidelines and rules for expenditure growth. Added to this fiscal and monetary policy simply have not worked to achieve the objects of growth and stability.

The FCI proposals, in essence, indicate support of a fundamental "supply-side" approach to SA's economy. This follows international trends and is marked by a reduction in taxes and a cut in government's share of total consumption. The proven results of al-

lowing the supply side more leeway is greater entrepreneurship and increasing output.

In calling for a simplification of the tax system the FCI favours the movement to a broadly based flat-rated tax system. This eliminates the numerous tax allowances which complicate SA's tax laws, estimated to cost the fiscus billions of rands a year.

The supply-side approach emphasises the effect on the economy of the tax burden, specifically so on production, savings, investment, and entrepreneurship. By simplifying tax systems and removing special concessions, market distortions introduced by government intervention diminish. ■

IN MY
OPINION

introduce a special inflation tax on business firms, on all increases in their wage bill per worker in excess of 2%. For administrative reasons, such a tax could be imposed only on firms with more than, say, 10 or 20 employees, which account for the overwhelming share of production.

Note that the 2% refers to a firm's entire wage bill per worker, as an average rate. Combined with the abolition of influx control, such a policy would have a substantial impact in encouraging the incorporation of black workers into the organised sector. By increasing the proportion of lower-salaried, less-skilled workers, firms would thereby reduce their average as well as their unit costs of labour.

As a result, they could pay higher categories in short supply, without incurring any tax surcharge.

Such a tax would be specifically designed to reduce the average rate of wage increase to rates consistent with approximate price stability. Competition would serve to prevent firms from simply passing on such a tax in higher prices, and the tax rate could be adjusted to ensure this outcome. The growth of the public sector wage bill would be subject to the same 2% limitation. It is true the price level, and so the inflation rate, would still fluctuate because of foreign-induced changes in the terms of trade. But there is little the government can, or should, do about this.

The great advantage of such an approach would be that, with the rate of growth of costs — and so prices — under control, the government would then be free to use both monetary and fiscal policy judiciously to achieve its stabilisation and growth goals.

A level rate of growth of aggregate demand consistent with potential output, employment opportunities and improvements in productivity — in both the private and public sectors for black and white workers alike — could then be at last within reach.

It will, of course, be argued that bottlenecks and selective shortages of skilled la-

bour will force firms to offer more than 2% wage increases to attract the necessary manpower.

But that is, in fact, one of the advantages of the above proposal. It is not a wage ceiling only a tax. If firms believe wage increases above 2% are selectively necessary to attract workers in short supply, it is a free country and they are perfectly at liberty to make them.

The above argument suggests that inflation may be viewed as a kind of negative public good rather like pollution. Whenever a firm grants wage increases above productivity gains which force it to raise its prices, it thereby imposes inflation pollution on the rest of us.

Because of its externality dimension, no group of workers or union has any incentive to desist unilaterally.

Quite the opposite. Each will desperately attempt to keep up with inflation and even outpace its rivals.

When everyone stands up at a rugby match no one sees any better — but no one has any incentive to sit down, so long as all others remain standing. Some co-ordinating agency is required to ensure that everyone disinflates together, so that no group will loose out relatively, but all will share in the benefits of price stability and productivity growth.

The Minister's tough Budget demonstrated, for all to see, his determination to control runaway public spending. The business community has surely been appropriately impressed and assuaged. But he must now face an even more challenging issue: can he control runaway wage growth?

In most other countries, incomes policies have been defeated by the united opposition of business and labour groups at the expense of the consumer and the economy. But look at the alternatives: continuing and probably increasing stagflation, de-industrialisation, a deliberately engineered, semi-permanent slump, price and wage controls, or some form of incomes policy. ■

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No jolly green giant



If we're going to have a recovery next year — and indications don't suggest otherwise — should we be doing more about inflation? The ravages that can be perpetrated by the beast —

conscienceless, striking all best intentions aside — shouldn't be underestimated. Fortunately, it looks as if the debate about how best to tackle the danger has intensified.

Most economic analysts are quite certain about the first step: if inflationary expectations are not axed before the next upswing, inflation itself will merely resume an upward spiral from the present high levels. Then another recession will be precipitated to bring it under control.

For more than 10 years inflation has rampaged unchecked through the economy, eroding incomes, sapping vitality, adversely affecting trading relationships and corrupting our currency, particularly in recent years (see graph). There is one big reason for this.

We are now reaping the fruits of years of official mismanagement. The growth of the money supply has continued unabated, spurred by excessive government spending — mainly on salaries and wages for public servants. Also, in the five years up to 1980, the velocity of money circulation accelerated, exacerbating the situation. Interest rates have frequently been held artificially low for political reasons, and have not fully played their part in restricting the growth of aggregate monetary demand. Administered prices, which protect special interest groups, have distorted markets and passed on inefficiencies in the economy.

Little wonder, then, that official attempts to curb inflation have so far been about as successful as shooting peas at the Incredible Hulk. The problem starts in the official sector. Recently the inflation rate, as measured by the consumer price index (cpi), has risen from 10% at the beginning of 1984 to 16,1% last month. Measured by the gross domestic product deflator, it has increased 650% since 1960 — and been accompanied by a 23-fold increase in the broadly-defined money supply (M3). That's what the De Kock Commission says.

The Commission's report also says that the only way to maintain stable prices is for the monetary authorities to exert better control over money creation and total spending — whatever the implications for interest and exchange rates.

A note of optimism has begun to sound in recent Reserve Bank statements, possibly reinforced by the acceptance by government of the Commission's view. This really is a step in the right direction, since Pretoria has

There are indications that the Reserve Bank's August 1984 austerity package is beginning to do its work. But while its full implications have not yet been assimilated, it's dangerous to talk of rescue operations for the economy. Both further inflation and a depreciation of the rand would be the result.

in the past studiously ignored the Central Bank's warnings. Despite this, however, it is believed the authorities have come under increasing pressure from various lobbies to take more drastic, and more direct action. Suggestions centre largely around restricting wage and price increases — if necessary by edict, say the extremists in this grouping.

To these critics, it would seem, the sight of blood in the marketplace is not pleasant. However, recent increases in inflation do not

that the worst is behind us. The rapid rise in inflation since August last year caught few by surprise. What is surprising is that there are signs that the rate could peak earlier than expected. When punitive monetary measures were imposed last August there was talk of inflation hitting an unprecedented 20%. Some now believe it could turn at its present level of 16%, and that's good news.

Recently the rate of increase in the producer price index (ppi) — which measures the cost of manufacturing — dropped for the first time in many months (see graph). Generally, decreases in the ppi precede reductions in the cpi, the most widely-used measure of inflation. Although the success of last year's austerity measures is being questioned, critics may have jumped the gun.

Granted, domestic demand has collapsed like a pricked balloon, but the costs of this were considered necessary to deflate inflationary expectations. At the time the Reserve Bank introduced its package last August, it made it clear there would be four stages to its plan.

Initially, demand would have to be curbed,

The BoP on the current account would improve,

The cpi would first peak and then begin sliding, and

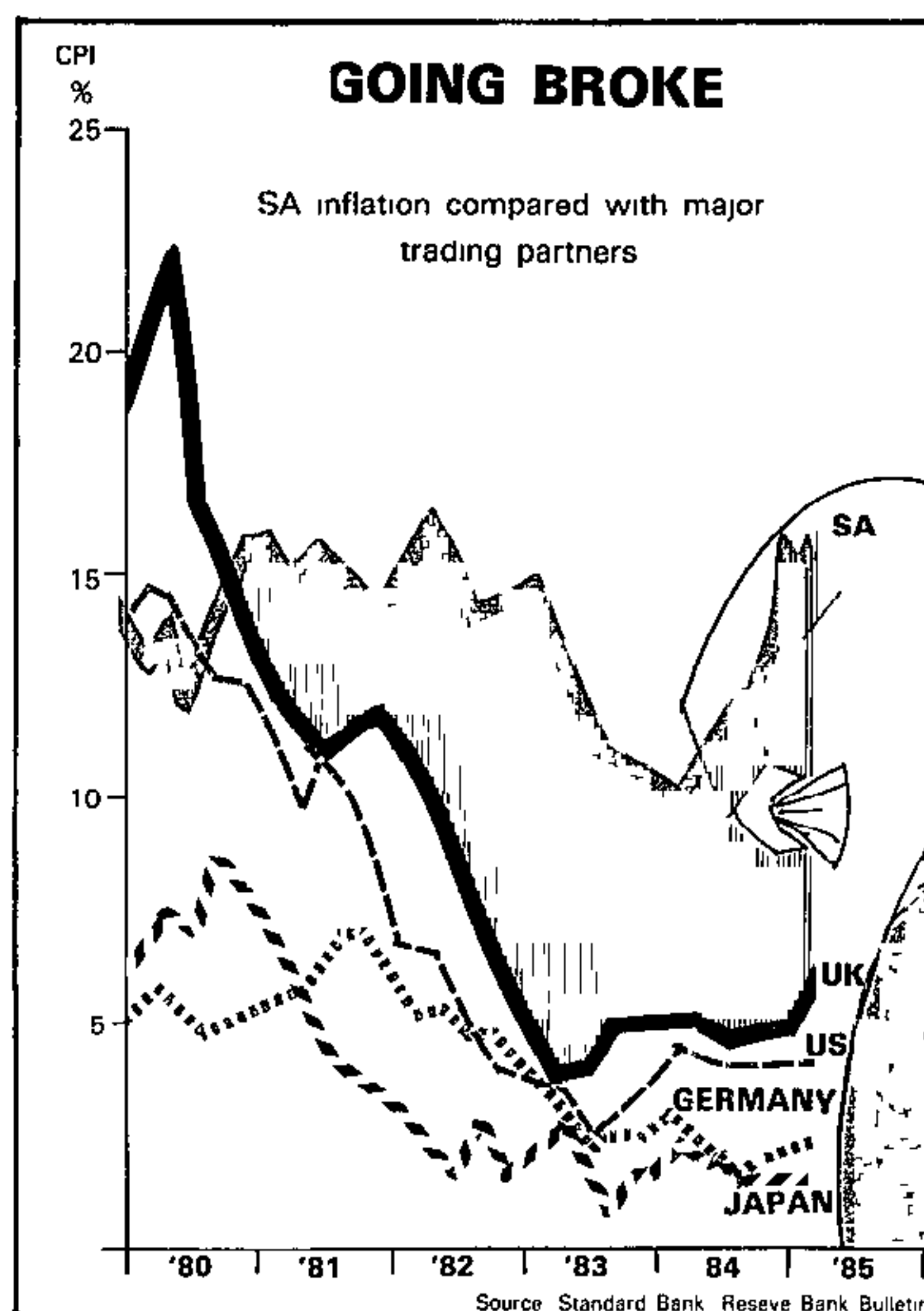
Finally, real growth would begin.

The first two are behind us. Also, indications are that wages are now rising at a slower rate than inflation — and the rand appears to have stabilised. Added to this, in the past five years velocity of circulation has been slashed by half, possibly suggesting that monetary policy has been tighter than anyone previously believed. This would explain why spending has fallen so rapidly and rates increased so sharply.

Senbank's chief economist, Louis Geldenhuys, says inflation is set to drop in the near future for two reasons.

Cyclical factors and the general slowdown in the economy will inevitably force prices lower, and

One-off factors, such as the recent hikes in the petrol price and gst, have worked their way through the economy and will no longer exert upward pressure on the cpi.



necessarily mean that the trend will continue indefinitely — or that the economy is out of control. So the screaming for controls should also be studiously ignored.

While business and some economists are fearful, the Reserve Bank has indicated its cautious optimism by lowering the rediscount rate three times in the past two months — with the possibility of a further reduction within the week. So the feeling is growing

SOCIAL CHANGE

Business has a role

The status quo cannot be maintained — that is perhaps the core finding of the authoritative Human Sciences Research Council (HSRC) investigation into "intergroup relations" published this week

This realisation — in itself not particularly dramatic — gains force from the scientific precision with which the HSRC conducted its task. Businessmen would do well to consider some of the major findings since they are indicators of the environment in which they will trade

The HSRC canvassed opinions on change, and found *inter alia* that not only is there a willingness to move from the restrictive racial practices of the past, but a sense of inevitability. In other words, the report confirms an awareness of the requirement for change among whites, 60% of whom believe that SA will be fully integrated in 20 years. One is dealing here with prediction and perception, which tend to shade into each other. The survey shows the way the wind is blowing

A mere 4% of the survey sample, interestingly enough, believed in a future in which there would be complete segregation

But if we are looking ahead to a South Africa stripped of its obsession with apartheid, the whole issue of ways and means enters and (unfortunately but inevitably) muddies the debate. The HSRC conclusion is guarded, but the outlines are there. One way or another, our children will live in a different, and with luck, better society than ourselves

"The key issue," the report contends, "is whether the forces active in society are sufficient to ensure, separately and collectively, that SA will develop a stable social order with an inescapable but manageable minimum of social disruption and conflict."

"A social order is called for in which, firstly, individual human rights and the rightful interests of spontaneously developed groups will be reconciled democratically, in which, secondly, equal civil rights will be guaranteed to all South Africans irrespective of race, class, creed, ethnic group, language and culture, and in which... each individual will enjoy equal opportunities to improve the quality of his life optimally"

The reference to groups which have "spontaneously developed" is pertinent — every thrust of ruling policy since 1948 until fairly recently has been aimed at creating artificial groups

The ethnicity of the homelands, for example, is largely the product of the grand design of apartheid, and no true reflection of actual socio-economic developments of which black urbanisation is the most evident

The contradictions of a policy which segregates, and does so unequally in any case, have led to the violence we are now experiencing throughout the country, the report finds. The HSRC, as indicated above, has no illusions that violence will wane even once such central violations of human rights as population registration, detention without trial, influx con-

trol, inequitable land distribution, and the denationalisation of Africans have been scrapped or ameliorated

But then terrorism is a worldwide phenomenon. And participants in the envisaged unitary SA — political and economic — would have an overriding loyalty not to their race or class, but to the country itself. That is the way out of the morass

Having said that, the report wisely states: "There will not be much consolation for those who are under the illusion that the transition from an apartheid society to a broader democratically orientated social order will occur virtually overnight and without a hitch, or that the whites have such control over their own destiny that they can dictate the rate, direction and nature of change according to their own need, and as a matter of fact not for those either who simply assume that uncontrolled violence will lead to the ideal society"

History, in other words, is evolutionary; and change is brought about by so many factors that the illusion of control — which some groups certainly adhere to — is without substance. The form of the democratic SA which the report points to is ultimately not for us to say

This does not mean, however, that we should become fatalists — waiting for events to save or engulf us. Business, for example, has a major role to play in developing that stable society in which disruptions and revolutionary aspirations must be kept to an "acceptable" minimum

This is not to suggest that organised commerce and industry should suddenly turn crusaders for free enterprise — that isn't its function and it certainly wouldn't meet the primary commitment to the best interests of shareholders.

Rather, business should look ahead to an economic climate in which no special protection should be afforded to pressure groups. Enterprise which shelters behind tariff barriers, and appeals for controlled reflation when times turn tough, is not free. The entire system of apartheid, it can be noticed, was put in place simultaneously with precisely such cossetting for groups — farmers come to mind — whose unthinking support at the polls was a prerequisite for racial segregation in its post-colonial incarnation.

Adaptation to a freer business environment will be painful — there will be casualties — but essential. The restructuring of society cannot take place without a concomitant abandoning of the safety nets of the past. These include State monopolies, private-sector cartels, and other distortions by way of which fiscal and monetary policies have served sectional interests and been paid for in inflation

The fact that these and other reflections, based on hard social evidence, come from a body like the HSRC must indicate that government is preparing the way for further, and more significant, reforms than we have yet seen. In the chilly economic and political circumstances in which we find ourselves, the report does provide a little warmth and a basis for guarded optimism

Geldenhuys believes the rate could slow to 10% by the second quarter next year. If those who talk of an early recovery are right, this would not be a moment too soon.

However, the issue is not quite so clear-cut. When activity picks up, the present vice-grip on consumer spending will be loosened. And as the recovery gathers momentum, incomes will rise, liquidity will build up, and spending take off. Increased demand will take the lid off prices, which will rise rapidly.

Also, the pick-up in business will make it

company balance sheets.

These inflationary pressures, then, are set to resurge the moment circumstances permit. Certain "ratchet effects" will remove disinflationary pressures in the economy fairly swiftly after the balance of payments turns into deficit, and this swing could occur before the end of next year.

It is crucial, therefore, that inflation be tamed and inflationary expectations be squeezed out of the economy before an upswing changes into top gear. Otherwise the pain inflicted by the recession will have been in vain.

The De Kock Commission's recommendations should allow the monetary authorities more control over the money supply — meaning control over inflation. However, critics of government policy in general, and the Reserve Bank in particular, are increasingly arguing that it is not possible to combat inflation merely with monetary policy measures. They say that if people want money they will get it — if not domestically, then from overseas sources. Demand for money, they argue further, will not be curtailed except by the most extreme interest premiums. To control money demand, they conclude, more direct controls are needed. They therefore advocate an array of policies to stem demand at source, and break the vicious wage and price spiral.

But could the fight against inflation be speeded up by applying direct restraints on wage increases and by laying down maximum price levels in the private sector? Like it or not, setting and managing these types of controls would inevitably become a bureaucratic nightmare. There could also be seri-

ous political and social repercussions such as widespread labour unrest.

The De Kock Commission believes that with the correct mix of monetary and fiscal policy, an income policy is, in fact, unnecessary. It does of course emphasise the importance of wage restraint in the public sector since these salaries are not determined by market forces. To this end, the report recommends that fiscal policy — in the form of



Signs of the times: a strike, petrol price rises, selling to survive

more difficult for employers to resist demands for higher wages to compensate for the erosion of real incomes in the last few years.

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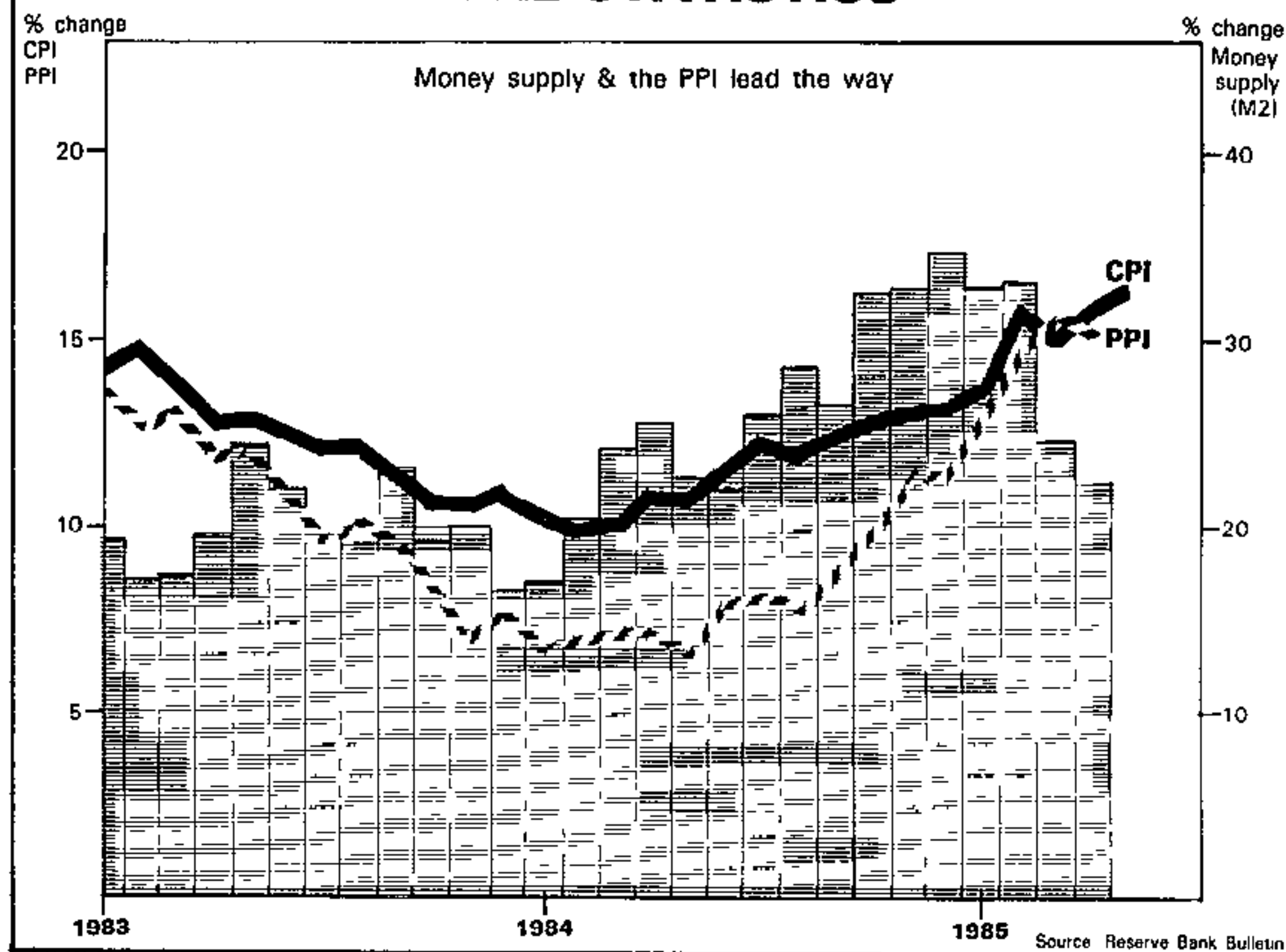
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VITAL STATISTICS



Senbank's Goldenhuys ... inflation will drop soon

decisions on government wage and salary increases — be made with overall economic objectives in mind. In other words, if government does not set an example in determining wages, who would?

With the perception overseas — however misinformed — that SA could join the world's "delinquent" foreign borrowers, it is critical that the monetary authorities be seen to stick to their guns. Switching direction

midstream will signal lack of resolve, just when the current monetary measures appear to be doing their job. Vacillation will do little to restore confidence in SA's economy — nor would the failure to curb inflation.

PEPKOR

Running shoes on

Pepkor chairman Christo Wiese cuts an elegant figure as a man of charm, innovation and articulateness. It's the right image to project for a group which runs a lot more than a platteland-orientated chain of clothing and footwear stores.

Pepkor is SA's second largest clothing manufacturer, and fifth largest food retailer. Wiese reckons that it ranks behind Pick 'n Pay and OK Bazaars as the country's third most profitable seller of food. Unlike many others, it has maintained a robust expansion through the recently torrid conditions. Acquisitions have greatly helped the expansion in clothes retailing and manufacturing, and in branching into food and consumer durables sales. In the year to end-February turnover grew by 41% to R581m.

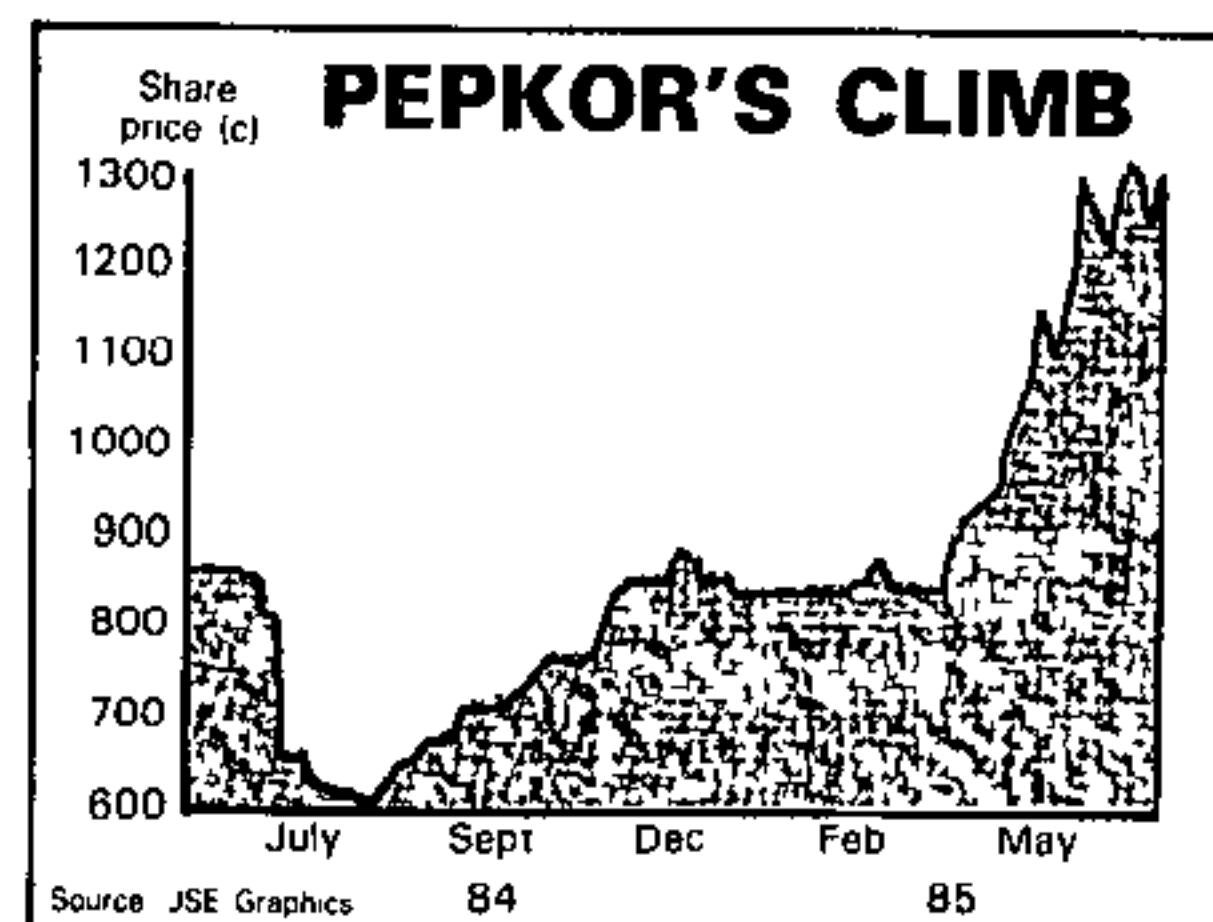
But will Pepkor be able to expand its profits sufficiently quickly to support its larger asset base? So far, growth has not been achieved at the cost of sluggish profits. Pepkor's 47% rise in operating profit to R46,9m at a time of recession was the result of the success in turning around the House of Monatic, and stronger sales of clothing, footwear and food on maintained margins.

However, expansion has resulted in rising debt at a time of record interest rates, and the soaring finance charges were compounded by foreign exchange losses on offshore borrowings (which are now fully covered). The capital base has thus come under strain.

Pepkor, moreover, does not publish a full breakdown of divisional contributions to

Pepkor is holding its own in a highly competitive sector — partly because people are "buying down" in the recession. But there are other strengths, including expansion into the urban areas.

group turnover and profit, these figures being provided only for the retail and manufacturing activities as a whole. Without them it becomes harder to assess the extent to which



growth is organic or generated by acquisitions. A somewhat worrying factor is that return on capital employed has slipped, falling last year from 21,3% to 20,3% — but this still rates as a pretty solid achievement given present conditions.

Retail operating company Pep Stores, according to Wiese, runs a lean business, with

no despatch, receipt and wage managers or clerks. "There are only branch managers and sales assistants at Pep," he says. "We adopt a service-orientated approach. On a Saturday morning, the day of our biggest sales, the staff don't take tea breaks at 10.30. They take tea before and after the doors open."

Among the ingredients of the success are customer service, cost control, a policy of discounting prices constantly rather than erratically at periodic sales, and the group's clearly-defined market in the lower end of the clothing and footwear sector. Margins are kept tight, but productivity per employee rose last financial year. Wiese proudly points out that Pepkor did not retrench a single employee in 1984 as a result of the recession. Some people were retrenched during restructuring of some activities, but in net terms the payroll has increased.

Comments Niall Brown, analyst at stockbroker Simpson, Frater: "Their clothes sell at the cheap end of the sector and they are not as hard hit as the up-market end. Pepkor has good quality products and consumers tend to buy down in a recession. The group makes about 40% of what it sells in the Pep stores, and their clothing factories operate at full capacity, even though some other major listed groups have had to close plant."

The flagship of the group's operations remains Pep Stores, which Renier van Rooyen started at Uppington in 1965. Stock turnover remains relatively low. But Wiese argues that this is explained by the year-end being

Inflation rate may be 10pc in 1986

JOHANNESBURG — The South African inflation rate could fall rapidly to between 10 and 12 percent by early 1986, after peaking fairly soon at 16,5 percent, Standard Bank said.

Annual inflation was put at 16,11 percent by the May consumer prices index.

Standard's latest economic review said the economy was reacting well to tough austerity measures introduced by the Government last August.

'There is increasing evidence that credit creation and money supply growth have come under control in the first two quarters of this year,' it said.

The rand

However, the rand, which rapidly declined last year, from around 85 US cents in March 1984 to about 42 cents, before recovering to its current 52 cents, would maintain short-term upward pressure on the inflation rate, Standard said.

It said a cumulative current account balance of payments surplus of R3bn was feasible for 1985, against a R1,04bn deficit in 1984, even if gold remains in its current relatively soft \$315 to \$320 an ounce range.

Standard saw continued strong commodity demand and slightly firmer prices boosting the current account throughout 1985 and 1986 — (Reuter)

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Inflation down to 10 percent in '86, Old Mutual predicts

Financial

South Africa's inflation rate will be brought down to the 10 percent level in 1986 Old Mutual predicts in its latest economic survey.

But in its Economic Monitor for July the company questions whether this will be a "cyclical phenomenon" or "are we at the point of structurally lowering our inflation rate below the 10 percent level?"

"Optimism regarding the longer term outlook for inflation requires the belief that the public sector will continue to restrain the growth in its demands on the country's scarce resources and that monetary policy will effectively keep the expansion in domestic demand in line with the economy's growth potential."

FOREIGN DEBT

Meanwhile, in a special section dealing with South Africa's foreign debt position Old Mutual points out that the amount of risk capital South Africa now attracts from foreign investors is much less than it used to be. In addition the short-term component of total

debt is much higher.

It says that the nature of the country's outstanding foreign liabilities has changed noticeably over the past 25 years.

"Initially SA attracted more risk capital ie dividend yielding liabilities but since the Sixties the share of interest-bearing capital (loans) has increased substantially."

INTEREST PAYMENTS

The trend towards interest-bearing liabilities was also clearly illustrated by comparing interest payments to foreigners to the total dividend inflow.

"This ratio has increased from an average of 17 percent between 1965 and 1969 to 81 percent for the period 1980-1983."

Short term liabilities comprised on average 18,3 percent of total outstanding liabilities between 1957-1969.

The corresponding figure rose to 21,1 percent for the period 1970-1979 and increased even further to 27,7 percent in the 1980s. At the end of 1984 roughly 40 percent of the outstanding foreign debt was ac-

cording to the Budget speech by the Minister of Finance of a short-term nature.

A clear pointer that South Africa was out of step in its foreign debt position in an international context was that the short-term component of its total bank credit was high.

At the end of June last year 66 percent of the country's international bank borrowings were of a short-term nature compared with an average of 44 percent for comparable developed countries. In addition outstanding short-term international bank liabilities at the end of June 1984 measured as a percentage of export receipts for 1984 amounted to roughly 60 percent — well above the average ratio of 33,5 percent for the comparable developed economies.

"The more recent increase in our foreign debt burden has however not been accompanied by any substantial increase in investment. In fact real fixed investment per annum actually declined in three of the last four years. Over the latter period our real capital stock only increased by 17,8 percent whereas between 1972 and 1984 the expansion was 30,1 percent."

Inflation is ¹⁵³reaching peak?

South Africa's inflation rate rose again last month, but the rate of increase is slowing and most economists now expect it will start coming down in the next few months after peaking at about 17 percent *S4a*

The inflation rate, as measured by the consumer price index, rose to 16,44 percent in June after reaching 16,11 percent in May. *23/7/85*

Insurance giant Sanlam says in its latest economic survey released today that it believes the annual inflation rate has now more or less reached a high.

The company expects that inflation will fluctuate around the present high level in the next few months before gradually declining up to the end of 1985.

As from the first quarter of 1986, however, Sanlam expects a marked decrease.

It says that inflation for the whole of 1985 will be around 15,5 percent and that it will fall to 10 percent during 1986.

● See Pages 22 and 26.

CAPE TIMES 23/7/85

Inflation rate rises to 16,4%

JOHANNESBURG — The South African inflation rate last month showed a further increase to reach 16,4 percent on a year-to-year basis. This is the highest level since April 1982 when the inflation rate was 16,5 percent.

It is generally expected that the rate will reach its highest point in the course of this month or next month, after which there will be a decline. Several economists have already forecast an inflation rate of ten percent by next year.

Price increases

The monthly rate of price increases last month was 1,3 percent, compared with 1,1 percent in May.

The rate for the lower income group last month was 13,9 percent, compared with 16,8 percent for the middle income group and 16,9 for the upper income group.

The biggest contributions to last month's increase came from milk and eggs, grain products, running household costs, meat, vegetables, housing, recreation and personal care, each of which accounted for an increase of 0,2 percent — Sapa

Inflation

153 rises to 16,44pc

PRETORIA—South African year-on-year consumer price inflation rose to 16,44 percent in June from 16,11 percent in May and 11,66 percent in June 1984, Central Statistics Office figures show

The all-items index (base 1980) rose 1,27 percent to 191,9 in the month after a 1,12 percent increase to 189,5 in May, and stood at 164,8 in June 1984

The lower income group index rose 1,62 percent to 188,2 in June from 185,2 in May and 13,92 percent from 165,2 in June 1984, while the middle income index rose to 193,9, up 1,41 percent from 191,2 in May.

The higher income index rose to 191,8 from 189,7 and 164,1 respectively, giving a monthly rise of 1,10 percent and 16,88 percent year-on-year, while the food-only index rose to 187,5 from 183,8 and 170,9 for a monthly increase of 2,01 and year-on-year of 9,71 percent — (Reuter)

Economists see inflation rate peak later this year

Own Correspondent

JOHANNESBURG — South African inflation, which reached a new high of 16,4 percent in June, may only peak at the end of August but should be about 14 percent by the end of the year.

This view of some economists contradicts the opinions of others who have agreed that monster inflation has hit the ceiling and will fluctuate for a couple of months before dropping.

Factors

Barclays chief economist, Dr Johan Cloete and consultant economist Mr Gad Arievich have indicated factors which may keep the monster up for a little longer.

Mr Cloete has said that a 1,3 percent percentage point increase in the Consumer Price Index (CPI) from May to June compared with a one percentage point increase the previous month, indicates an acceleration of price in-

creases

Secondly, the Production Price Index (PPI) for imported goods was 21 percent in April (the most recent figures). This means the rand's weak value continues to have a strong effect on the CPI which reflects an increase in the price goods.

"It will take at least another month before the effect of the recession begins to push inflation down. From about September it should start declining and could reach 14 percent by the end of the year."

"Salary and administered price increases will have an important effect on the rate of inflation next year."

Price increases

"Already many employers are talking of salary increases below 10 percent this year. If this happens and administered prices increase by less than 10 percent, inflation could reach 10 percent next year."

Consultant economist,

Mr Gad Arievich said that while the CPI may have peaked, core inflation — the sustained increase in prices — would take another two months to peak.

"The cyclical effects of inflation may have come down as a result of the recession but core inflation which is determined largely by the money supply and affected by the devaluation of the rand, will take longer."

Although Stellenbosch Economic Bureau economist, Dr Ockie Stuart, said he believed inflation had peaked, he cautioned that the economy still faced the effects of a weak rand which meant that South Africa continued to "import inflation."

The price of imported capital and consumer goods had doubled over the past year due to the devaluation of the rand and this would take some time to work through the economy.

A positive effect, however, was that excess de-

mand had been chopped off by August's austerity measures.

Demand was expected to contract further as a result of the harsh fiscal measures announced in the March budget which would cause incomes to increase more slowly.

"I don't believe inflation will drop below 10 percent next year because the government will be pressurized to stimulate the economy sooner than they had planned."

Unemployment

"The rate of unemployment and other detrimental effects of the recession can not continue for very much longer."

Nedbank economist, Mr Rudolph Gouws said vital economic factors like high interest rates, a slowdown in spending and the resolve of the monetary authorities to slow down growth in the money supply had impacted on the inflation rate.

"Underlying factors like the petrol price increase and the rise in GST earlier this year caused, to a large extent, the high rate of inflation."

Insurance giant Sanlam said in its latest economic survey the annual inflation rate had peaked. It would fluctuate around the present high level in the next few months before gradually declining up to the end of 1985.

The average inflation for 1985 would be 15,5 percent, Sanlam said.

CAPE TOWN 24/7/85

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At the root of inflation

THE REX COLUMN
CEES BRUGGEMANS'

view of the South
African and world scene



THE increase in the consumer-price index may slow soon, but inflation is unlikely to fall much in the medium to long term

We are not necessarily in the throes of hyperinflation, although the risk of that remains considerable. But the rand will remain under pressure from the inflation differential. Given our current problems and market expectations, the rand will remain undervalued. The extent of its undervaluation could well become South Africa's newest misery index.

Trade-off

This is unlikely to be news to businessmen, few of whom believe in the return of a strong rand, low inflation or robust growth. This view is also prevalent in Government circles.

The policy trade-off seems to be between domestic growth and protecting the balance of payments. Inflation may be a serious problem in distorting financial values and investment behaviour, but it is a poor third priority.

We have not given up entirely on inflation, but reality apparently dictates a pragmatic closing of the eyes.

Even so, we do not have such a bad inflation record. For the past decade we have contained inflation within a 10% to 15% range. It compares well with those, mostly Third World, countries that suffer from hyperinflation.

It remains a reflection though of the degree to which we are not in charge of our own affairs.

Defence bill

Inflation is a monetary phenomenon, but it has socio-political roots. It is evidence of insufficient competitive forces in society, which must sound strange for a nation that needs a Competition Board. In a hyperinflation society there may be special factors at work.

In the case of Israel it would seem to be the external threat and huge defence spending needed to contain it. This has placed such a burden on society that one and all try to protect their economic position by demanding more of everything.

The results are high taxes, increased wages and salaries, more credit and higher prices.

When the financial pressures become intolerable in that they can no longer be contained in a well-organised structure, an inflationary spiral gets under way.

Israel is a relatively efficient country compared with most developing nations which are suffering varying degrees of hyperinflation. The developing nations are not afflicted by an external event placing society under pressure, except the development process as such.

Their markets are crude, their economic relationships still unstable. Pressure for resources, by the individual, the corporations and the Government is undisciplined and it is all shown in price behaviour.

The more mature societies as a rule do not exhibit these excesses. But when a particular growth cycle lasts too long, the demands placed on an economy go up.

In the 1960s and 1970s there was an inordinate rise in demand in most industrial nations, by labour as well as governments. The resultant resource pressure resulted in spiralling inflation which was fuelled by the two major oil shocks.

Temporary

In a developed society, such excesses are usually of a fairly temporary nature. The turning of the long cycle generally reintroduces the kind of discipline that accommodates the various competitive forces within a reasonably stable monetary environment.

This return to normality is generally not found in developing nations, at least in the modern post-war period. Their position is one of change, with growing pains a feature for several generations.

Most of these nations seem to suffer from a permanent inflation problem, indicating the unceasing struggle to improve relative economic positions, and the still-immature economic structures that harbour them.

Inflation in developing nations seems to have been worsening in spite of heroic efforts by institutions like the International Monetary Fund which periodically try to enforce, with limited success, their own code of sophistication on what remains essentially an unreceptive environment.

The SA economy is an interesting one in that it does

not now face an overwhelming external threat as Israel does, and its economic organisation is fairly sophisticated compared with other developing nations.

Therefore, neither necessity nor incompetence has as yet pushed us into hyperinflation. But we do not have a mature economic structure in which competitive forces can be efficiently accommodated.

We suffer from a shortage of skills. Those with marketable training can and do drive wages up in each economic upturn.

Painless

Private-sector labour unions remain bastions of negotiating power for large numbers of employees. The public sector, employing more than 30% of SA's labour force, has for years followed the political route to ensure its economic position. The evolving black unions have only recently started to exert their power.

Apart from these sources of wage pressure, there are the material aspirations in our society which are capable of pressing many into debt to bring forward the enjoyment of goods which would otherwise require saving first.

Instant gratification has become the norm, and let no 32% interest rate stand in its way.

It is these private demands, in combination with the socio-political demands of the Government, that are

giving our society its resource pressure.

Spiralling prices result because we do not know painless ways of containing these competitive pressures. The only tool that remains is enforced underutilisation of resources by way of recession, in this way reducing price pressure in most markets.

But to read into the present recessionary conditions an active anti-inflation manifesto would be to delude oneself. We need to grow and provide jobs.

The recession came only because of a constrained external environment. That it has helped to contain inflation below 15% annually has been an incidental side effect.

Stagflation

To put it differently, if our external trade had not placed an effective ceiling on our domestic growth, we would probably have had robust gross domestic product growth and even faster-rising inflation, for such are the economic pressures in SA society today.

Stagflation is, therefore, the wrong term to describe our present condition as it suggests that inflation may in some way explain our stagnating economic growth. That has not been the case.

This year's estimated current account surplus continues to be adjusted upwards. In the first half of the year we achieved an annualised surplus of R6 000-million. The fi-

nal tally may be even higher as imports continue to fall while gold holds above \$300.

At some point this huge net foreign earning will cease to be solely applied to repaying foreign debt as recovery begins.

The inflationary fires have for the moment been partly quenched in spite of the impression of a still-accelerating inflation rate. But the GST increases and the impact of 1984's declining rand should be discounted to the extent that they will not recur.

Increases

In doing that one is confronted with this year's wage and salary increases, which for most of us will have been below 10%.

But our economic structure remains essentially unchanged, and equally so the willingness of monetary policy (or in its absence the velocity of money) to accommodate the competitive forces once the upturn starts.

A mountain of demands is building up in public and private pay, in fringe benefit compensation, in white and black aspirations, in Government priorities (consumptive as well as infrastructural).

To win the fight against inflation we require a consensus of which we seem incapable.

Who will be first in the next wage round, the public or the private sector? Or has the export sector never really stopped firing the last cycle's salvos?

Inflation eases

STAR 7/8/85
South Africa's year-on-year producer price inflation eased to 16,59 percent in June from 16,91 percent in May after a sharp decline in the monthly rise to 0,84 percent from May's 2,13 percent increase, Central Statistics office figures show

However, this is still sharply up from year-ago levels. In June 1984, producer price inflation stood at 8,13 percent.

The index (base 1980) rose to 179,2 in June from 177,7 in May and 153,7 in June 1984.
→ Reuter.

If subsidy goes, brown bread price hike of 17c?

Dispatch Correspondent

PORT ELIZABETH —

The national president of the Housewives League, Mrs Joy Hurwitz, has warned consumers of a possible 17c increase in the price of brown bread if a rumoured removal of the government subsidy is effected

She said that while the subsidy on white bread had been dropped, subsidy on brown and whole wheat bread had increased yearly to around R200 million. It was now rumoured that the subsidy would be removed next month — pushing the price of a loaf of bread up by at least 17 cents

The league, she said, was totally in favour of

retaining the subsidy until the economy lifted and she had written a paper to the Department of Agriculture in this regard

"It would be deplorable to remove it (the subsidy), and I believe with enough persuasion not only from the Housewives League but from other bodies the subsidy will be retained"

She said she was delighted that the government was considering making surplus meat available to South Africans instead of exporting it. She would be more pleased if it was sold direct to the public at no profit

"Consumers need something, a goodwill, to give them a boost in these difficult times. Some are simply fed up with red meat and have changed their eating habits. But I am sure if frozen meat is sold to them at half price they will buy it"

Mrs Hurwitz also said she believed the double-digit inflation was the biggest threat facing consumers

"Inflation is public enemy number one, more than what is happening overseas. We must starve it not feed it. We must counter it from all angles. Many families are living on the bread-line and others are making sacrifices to keep up. If inflation is not down, there is no hope of recovery," she said

New gold swap seen in offing

Ailing rand hits hopes of inflation fall

20
98%
98000
10.10
20%

B. Day
27/2/85

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THE 30% slide of the rand over the last 12 days has led to a drastic revision of inflation forecasts and kindled rumours of another gold swap.

Economists believe that if the rand stays weak, instead of hitting 10% within 18 months, the rate of inflation will decline in that period to only 13%. In other words, instead of falling by 37%, it will be down by only 18.7%.

Standard Bank's warning yesterday that the rand could trade as low as \$0.38 this week, below its \$0.3840/70 spread last week, provided little comfort.

Standard's weekly newsletter saw a trading range between \$0.36 and \$0.41. It said the authorities could be forced to intervene directly if politically induced downward pressure caused further falls.

Referring to fears about rioting and pressure abroad for sanctions, Standard saw the rand guided by political factors and by the implications of persistent capital outflows.

The 30% decline of the rand over the past few weeks has serious implications for the SA economy, says UCT economist Brian Kantor.

"It represents a major devaluation. The effect is like a massive increase in

CHRIS CAIRNCROSS

GST. Prices must rise and disposable income will further through the ringer," he says

It makes any economic recovery that much more difficult to achieve and does nothing to aid efforts to quench unrest, he says

Old Mutual's chief economist Rob Lee reckons the fall in the rate of inflation to 10% in 1986, which he had been forecasting only weeks ago, is now a forlorn hope.

On the other hand, he believes the weakness in domestic demand will continue to have a dampening effect on prices. Though there may be cause for concern, there is no reason to panic yet, he says.

Sanlam says a further hike in the petrol price appears unavoidable and must inevitably impede any efforts to reduce inflation.

Inflation prospects aside, SA's foreign indebtedness and the apparent difficulty borrowers are having in rolling over short-term loans, is considered the single most important problem.

"Of all the threats facing SA, the withdrawal of short-term credit is the most hazardous," says Kantor.

He estimates that SA's short-term foreign debt amounts to about R17bn. "As a proportion of exports, this is about 50%. This is a highly manageable number by most standards, but not so in the case of SA.

"If it (short-term debt) is being called up as we have been led to believe, it could be potentially damaging to the economy."

Old Mutual's Lee believes the situation has not yet deteriorated to the point where SA will have to consider rescheduling some of these loans.

"I would have thought it was the last thing foreign banks would want. I am surprised another gold swap has not been considered, if it has not already occurred."

The Reserve Bank's stock of gold is currently about 6.5-million ounces, after being reduced by about 424 000 oz in January and by two further withdrawals in February and March to top up previous gold swaps at then-higher dollar prices for gold.

A gold swap is in reality the pawning of gold with a foreign bank at an agreed price. The pledge is redeemed at about the market price.

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No trend yet

The consumer price index (cpi) has registered a decline at last. The figure for the year to end-July dropped from 16,44% in June to 15,9%. The 65-year-old record of 16,5% achieved in April and May of 1982, much to the surprise of some, is still intact.

However, while this 0,9% increase — 191,9 points in June to 193,6 points in July — is promising, there are several inflationary pitfalls still to be encountered on the downward leg. As Barclays Bank economist Johan Cloete says, a 15,9% rate by no means suggests inflation is under control.

The central problem remains the beleaguered rand. According to the 1985 Reserve Bank annual economic report, the depreciation of the currency was in part related to the domestic inflation rate moving sharply out of line with inflation rates in trading-partner countries. In June this year, the increase in SA consumer prices was about three times as high as the weighted average increase experienced by our major trading partners.

The rand's recent fainting spell, however, has been determined by political issues, rather than economic fundamentals. If it continues at current lows, there will be a surge of inflationary pressure throughout the economy. This would be transmitted through rising import bills, as essentials continue to be brought into the country.

The effect of a depreciating rand is clearly illustrated by the import price component of the production price index (ppi). This indicator accelerated from a low of 4,8% in May 1984 to 23% in June 1985.

Other factors looming on the horizon are the prospect of a petrol price increase and possibly another rise in the Escom tariff. In any event, the August cpi is likely to be up on the July figure. Last year, the August increase was a sober 0,7% above the July figure. Any increase above this will push up the index again next month.

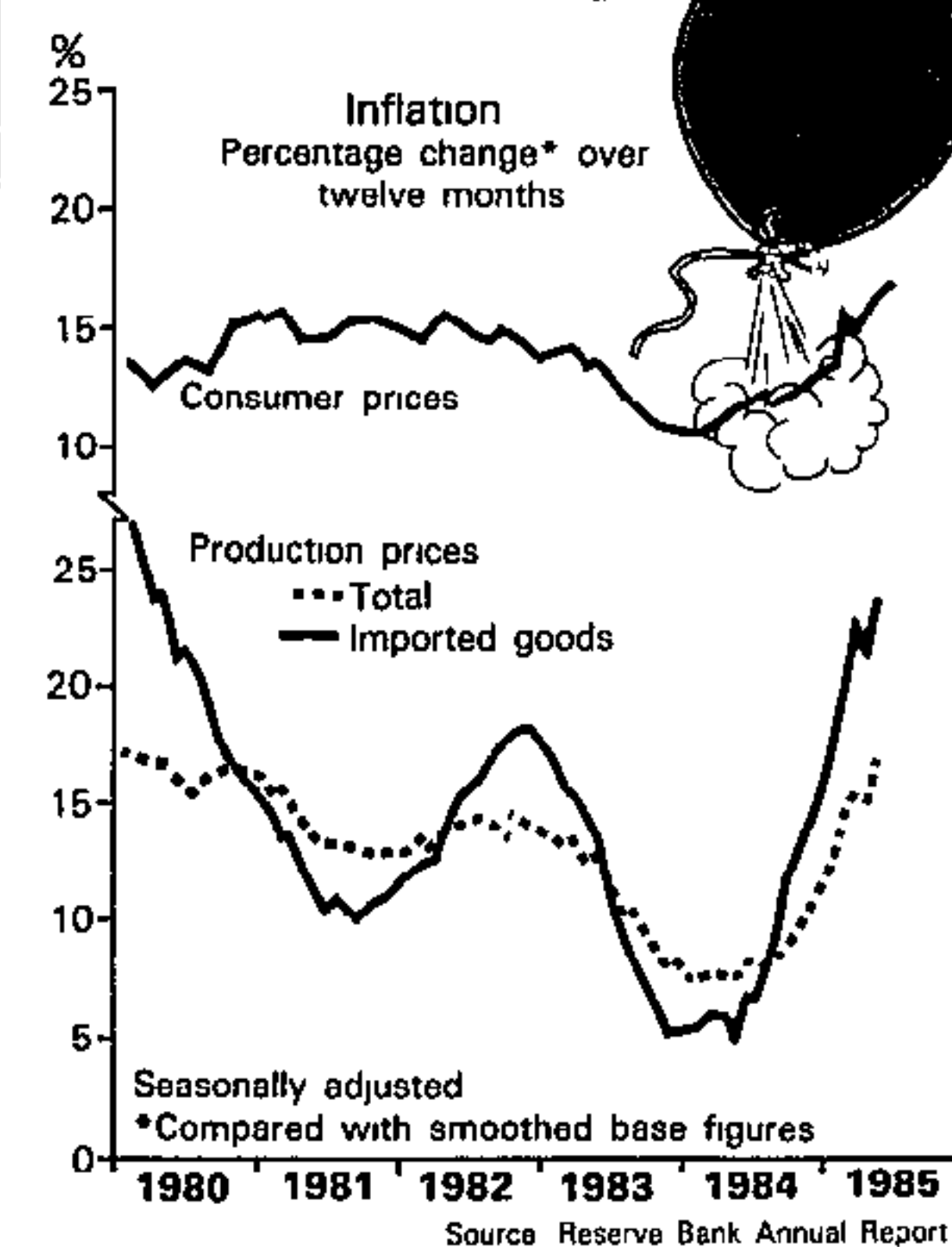
The monetary authorities are also precariously balanced as to what direction monetary and fiscal policy should take over the next few months.

Economists say that the reintroduction of the bank rate last week was pitched at the relatively low rate of 16% with the intention of easing the recessionary conditions.

This was despite massive capital outflows on the capital account and an indication that the authorities were prepared to take a calculated risk on the balance of payments situation.

However, this first drop in the cpi does not indicate they have the inflation cat in the bag.

Says Cloete: "The authorities have now accepted there is an overkill in the economy which is contributing to the unrest, and have decided to relax their policies. However, inflation is still the major problem. Although I agree with the recent policy change as far as

IN THE BALANCE

interest rates are concerned, it would be disastrous if, within a year, they have to take measures to rein in the economy again.

"It must come down below 10% in a relatively short period of time, or we have achieved nothing."

However — and perhaps ironically — there is a countervailing tendency. Political uncertainties and capital outflows will serve to prolong the recession.

Says Nedbank economist Rudolf Gouws: "The dragging out of the recession will actually act as a disinflationary force. On balance, therefore, I believe we will see the inflation rate dropping. Although we can't hope for too much by the end of the year, it should decline in the early part of next year, especially if there is an easing of political tension."

ZIMBABWE**Tightened credit**

Zimbabwe last week joined the growing list of governments pursuing expansionist fiscal policies on the one hand and restrictive monetary strategies on the other. Less than a month after Finance Minister Bernard Chidzero presented an expansionist and inflationary budget, which was welcomed by business leaders as "realistic," the government moved to tighten credit and curb inflation.

The statutory reserve ratios of the commercial and merchant banks have been increased from 8% to 10% while the Reserve Bank of Zimbabwe announced its intention of increasing the issue of non-transferable and non-rediscountable Reserve Bank bills which are used to sterilise the money supply by mopping up excess liquidity.

Still to come are promised measures to tighten up hire-purchase regulations for the purchase of consumer goods, although the central bank says cheaper and easier credit is to be made available for investment.

Two reasons are cited for the new credit squeeze. First, the agricultural marketing authority which buys most of the country's maize from the farmers and all its wheat, meat, oilseeds, cotton and coffee, will need to borrow a minimum of Z\$1 billion and possibly as much as Z\$1,2 billion this year, compared with Z\$700m last year. This is the result of a bumper harvest and higher producer prices.

Secondly, the central government's budget deficit has been allowed to increase again this year from Z\$640m to Z\$808m and the central bank estimates that Z\$550m will have to be borrowed locally, mostly from the banks.

What this means is that, unless counter-measures are taken, the money supply will grow at 40% — up from the present 12% rate — while inflation could double from its current level of 10%.

In a statement last week, the Reserve Bank warned that if these developments went unchecked, inflation would damage the country's export drive, while growth in the productive sector of the economy would not match money supply expansion. The general thrust of the measures is to tighten consumer credit while leaving room for productive investment to continue.

To that end, while money market rates can be expected to tighten substantially, bank lending rates are to be held unchanged at existing levels, thereby squeezing bank profit margins. The bellwether short-run market rate in Zimbabwe — that on 90-day NCDs — is currently hovering around 9% and can be expected to move up towards the 15% level over the next six months.

Whether additional measures will be imposed remains to be seen. The authorities are obviously anxious to avoid a hike in interest rates which will both raise the cost of government borrowing and is unpopular with the new elite which has already costly mortgage payments to meet. But an increase in the banks' liquidity ratios is very likely.

Despite this, the outlook for inflation is less than encouraging. The inflation rate fell from around 20% in 1983 to just below 10% in the middle of this year, but there are a number of administered price rises in the pipeline, especially increased prices for milk, bread, maize-meal, meat, oilseeds and petrol — all of which are likely to ensure a 15% inflation rate by early 1986.

SASRIA**Facing the critics**

The description "one insured" is costing SA's giant conglomerates millions of rands in extra political riot insurance each year.

Don Gallimore, executive director of Price forbes Federale Volkskas, who has been negotiating with the SA Special Risks Insurance Association (Sasria) on the subject for more than a year, believes the time has now come for those involved to make collective

Survey finds worst gap between salaries, inflation in 15 years

AR 642 4/9/85 (153)

JOHANNESBURG — The gap between salary increases and inflation is at its widest in 15 years

This has emerged from results of the 1985 general staff salary survey released yesterday by the remuneration division of P-E Corporate Services

The survey, which was undertaken with data provided from over 1 000 organisations employing 1 200 000 staff of all race groups, showed the overall percentage increase in basic salary levels for all race groups for the period July 1 last year July 1 this year was 10,8 percent

The consumer price index (CPI) for the same period was 16,4 percent, reflecting a lag of 5,6 percent

"DISMAL"

"It's a dismal picture," says Miss Jane Ashburner, manager of the division "This is the third year in a row that salary

and wage increases have lagged behind the inflation rate

She added that this was also the first year that companies had so obviously ignored the CPI as a measure of determining increases

This year's survey shows that once again whites have received the lowest increase at 9,9 percent This is the third consecutive year that the average increase for whites has fallen below the CPI

"Last year whites' salaries moved by 10,0 percent but this was against a CPI of 12,4 percent This year's 9,9 percent increase must be seen against a CPI of 16,4 percent which means there has been a negative increase in real terms and people are actually worse off than they were last year," said Miss Ashburner, adding that this applied to all race groups

As with last year, blacks received the highest increase at

12,3 percent which, although slightly higher than last year's 11,6 percent, is still below the inflation rate

Asians also received a slightly higher increase than last year's 10,3 percent with an average of 10,7 percent for this year, while the coloured group dropped 1,2 percent from last year's 11,5 percent to this year's 10,3 percent

"The fact that increases for non-whites — and especially for blacks — is higher than those granted for whites shows that attempts to close the wage gap are still being pursued where possible," said Miss Ashburner

Among whites, highest increases again went to data processing staff who received a 13,2 percent increase against the average 9,9 percent

According to the survey, 86 percent of companies are predicting increases next year of below 12,5 percent — Sapa

Forex must improve, says Alberts

Petrol price will affect cost of living experts

TODAY'S fuel price increases will unleash a spate of cost-of-living hikes, and more could follow unless there is a spectacular and sustained improvement in the rand-dollar rate, according to government, business and consumer bodies

Mineral and Energy Affairs director-general Louw Alberts announced the rises at the weekend



● ALBERTS

Should there be no significant improvement in the foreign exchange rate, a further price adjustment would be necessary, he said

From today

□ Petrol and diesel rises by 4,5c a litre, including 0,5c GST, for road users

□ There is no increase in the diesel price for the agricultural and fishing industries. However, the wholesale price of industrial diesel goes up by 2,9c a litre, and for bus transport companies by 4,7c a litre

□ The illuminating kerosene price, for industrial use only, has been lifted by 6,9c a litre

Economists fear the fuel price hike and the expected increase in the wheat and bread prices later this month will halt the slowdown in the consumer price index

Director of the Consumer Council Johan Cronje said all consumer commodities would be affected as the increase was loaded onto prices

An AA spokesman said the price hike would add to the long list of woes of motorists

AHI executive director Fritz Stockenstroem said the motor industry, already hit by the decline in vehicle

Business Day Reporters and Sapa

sales, would be put under further pressure by the increase

Transport operators would be forced to pass the fuel price rise on to clients, said Public Carriers Association deputy chief executive Gert Grobler

But RAU Department of Transport Economics spokesman Jackie Walters felt efficiency of industrial transport operations left a lot to be desired

"There is scope for better management," he said

"Our high inflation rate is already making SA products unattractive," said FCI information services director Jan de Jager, "and as transport is one of the basic costs in the economy, it is bound to have an effect"

Alberts said the 40% price hike in January this year was calculated at an exchange rate of \$0,5015 to the rand. In reality, however, the rand had been \$0,465 then and the difference was subsidised by the sale of a small quantity of the country's oil reserves

The only subsidies now operating — which would remain until the end of the year — were 3,5c a litre on diesel for agricultural and fishing industries and 12,6c a litre for household kerosene

Alberts denied Sasol was making exorbitant profits. Government had an agreement with industry that its total profit on investment would average 15% after tax and interest

The present increase reflected the effect of the exchange rate, and the profit margin of service stations remained unchanged on petrol sales, although an additional 0,2cs a litre was allowed on diesel pump sales

In South West Africa the petrol and diesel price was raised by 4,4c a litre

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GOVERNMENT FINANCE

Pretoria's tax bonanza

The significant gap between government revenue and expenditure in the 1985-1986 tax year has been confirmed by figures for August. They show that if taxes continue to come in at the rate they have done in the first five months of the fiscal year, the tax take will be up R7,4 billion on 1984-1985.

Put another way, total revenues for the fiscal year would be R31,2 billion, almost

spending seems set to exceed budget.

In particular, the costs of financing the recent unrest and what Finance Minister Barend du Plessis calls "strategic costs" are unknown factors in the spending equation. Although of little comfort to taxpayers, revenue figures more than cover the spending overruns — and the "tax harvest" months are yet to come.

foreign exchange, banking and township unrest disasters is unavoidable. So despite the taxpayers' gift to government, they can expect very little in return.

PETROL PRICES

153

Future fall?

The idea that petrol could once again return to 70c/l may seem like something out of wonderland. But then so would a statement in 1973 that oil would cost over 1 800% more in just seven years' time.

But that's what happened. By late 1980, crude had peaked at \$40 a barrel, having climbed from a mere \$2.08 in 1973. Yet the price is now back down to \$27 and heading to as low as \$20 a barrel, according to many energy economists.

That the price of petrol was increased by 4,5c/l recently was not unexpected. Nor will it do much to confirm the suggested downward trend in the inflation rate. With Reef 93 Octane at 94,6c/l, it is certain that inflation will resume its upward spiral.

The latest figure for the cpi year-on-year rate dropped to 15,9% for July, after a peak of 16,44% the month before. It had been the first petrol price increase — by a massive 40% in January from 63,5c/l to 88,5c/l — followed by another in March when gst was raised to 12%, that gave the inflation rate its sharp boost from the beginning of the year. It rose from 13,9% in January to 16,44% in June.

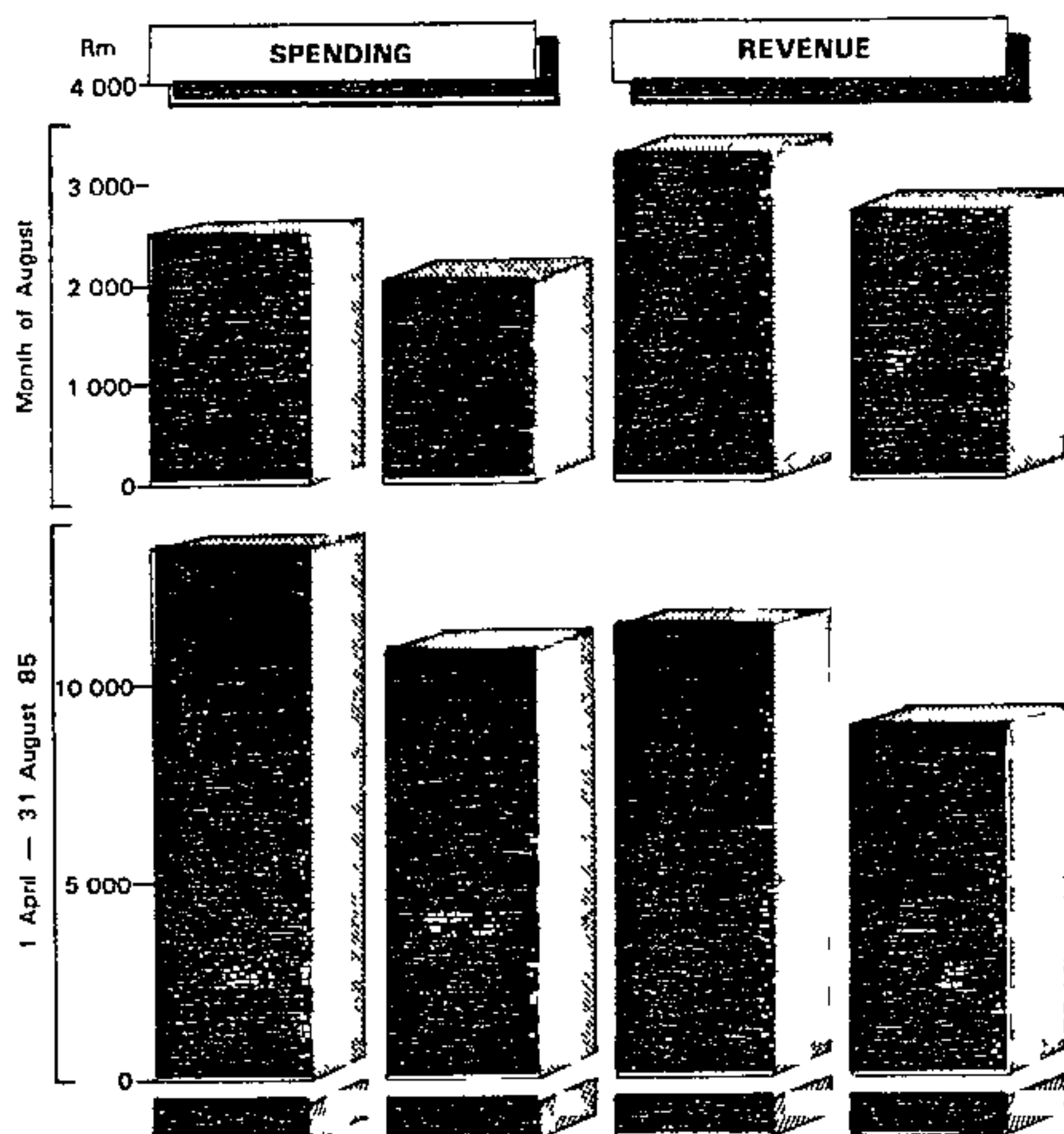
Considering its weighting in the inflation index and accounting for indirect effects, inflation could be pushed up to as much as 17,5% over the next six months. Meanwhile, petrol pump specialists are adapting equipment for the R1 litre of fuel. It all looks very gloomy.

So perhaps a more cheerful outlook can be gleaned if one looks further ahead. A more favourable picture for domestic fuel depends primarily on two factors: the cost of crude oil and the dollar-rand exchange rate. One could not ask for more elusive imponderables.

Nevertheless, there is a distinct possibility that crude could fall to as low as \$20 a barrel. The rand is expected to improve towards the end of this year, to, say, US\$0,65. Put the two together and that suggests a pump price of 75c/l. A further improvement in the rand, even if crude picks up back to, say, \$25 a barrel, could still justify the authorities here setting a pump price of 70,5c/l by the end of 1986.

Those from the dismal science will dismiss

WATCHING THE GAPS

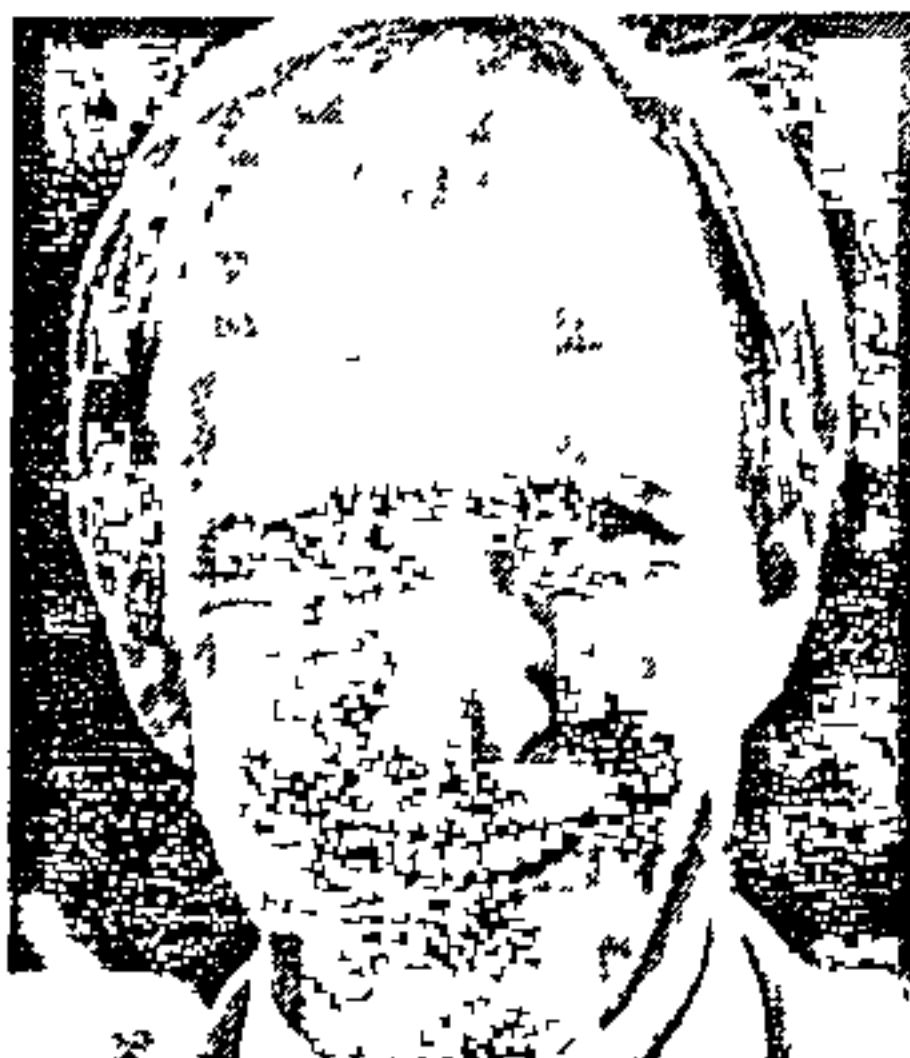


covering projected spending of R31,5 billion and making the Budget deficit before borrowing largely academic.

The latest stats show that, year-on-year, August revenues increased 21% (52% in July). At the same time spending slowed to 19% against July's 38%. For the first five months of the 1985-1986 fiscal year, revenues have increased 31% against a budgeted 19%, while spending has risen 23% (11,4%).

Most encouraging, perhaps, is the lower rate of government spending in August, although the average overspend for the year remains critically above estimates. The latest statistics show therefore that revenue estimates have been wildly under-estimated and, also, that government

to 28% in August — partly due to the smaller gap in the gst rate for the respective months.



Du Plessis

But overall Inland Revenue's increase for the year as a whole is up 39% on a year ago, more than double the budgeted 19%.

The encouraging fall in August's spending is in line with Pretoria's commitment to improve expenditure monitoring in the 1985-1986 fiscal year. The purpose of the control system is to create an early warning mechanism for possible overspending.

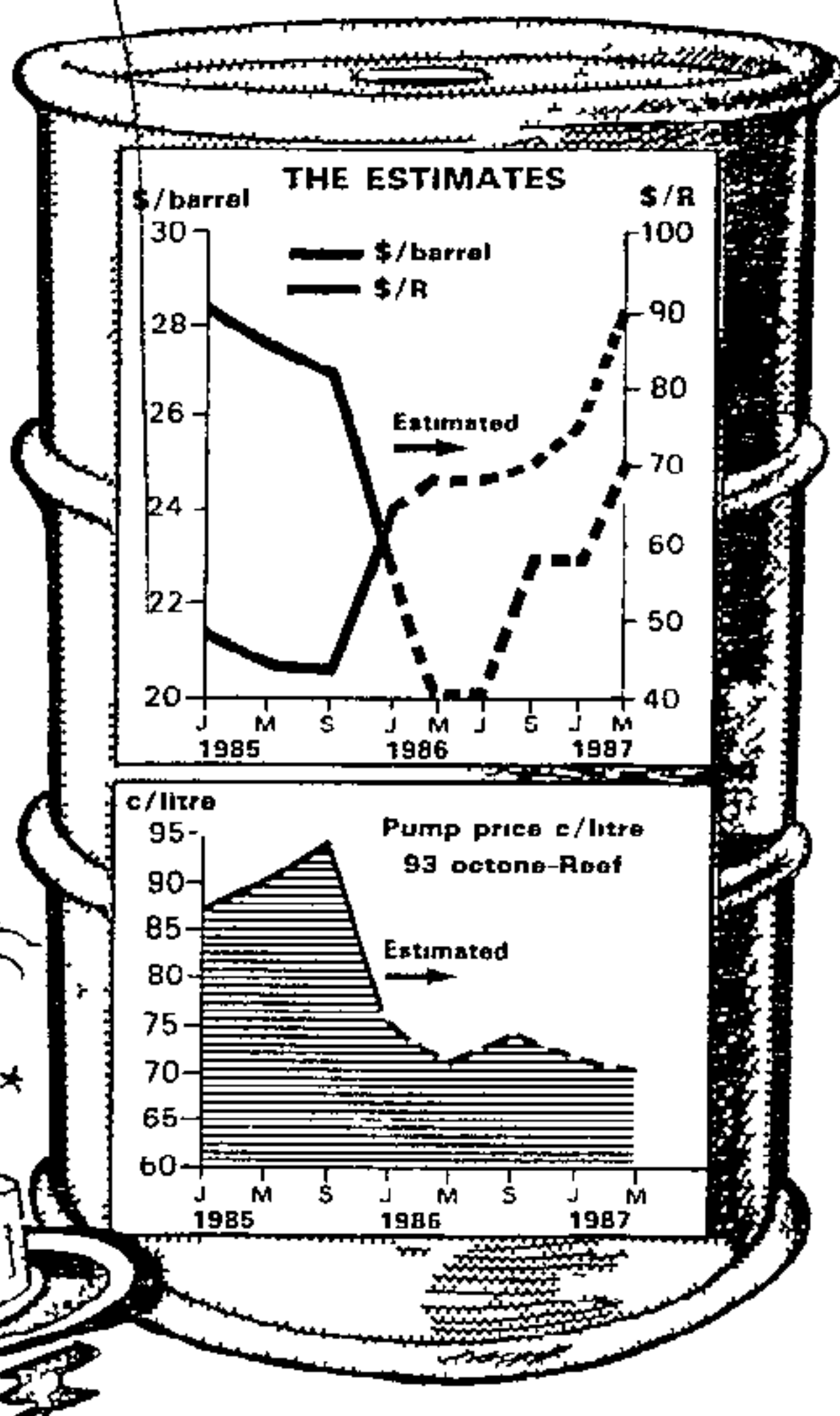
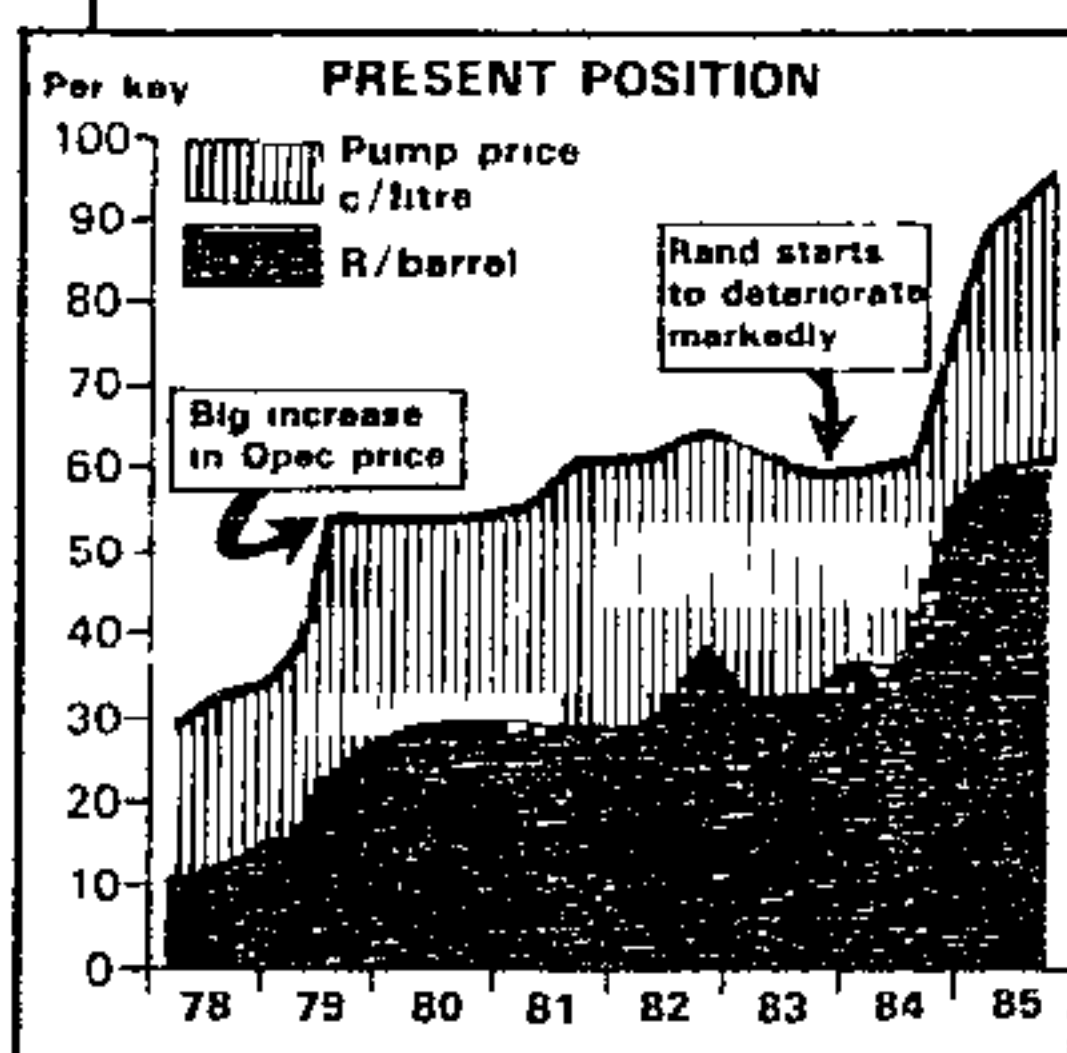
But government has a safety valve in that it may

"consider the priority and other implications of unavoidable but justified additional expenditure."

And clearly, expenditure to finance the

CRUDE GUESS?

How changes in the crude oil price and the rand exchange rate could affect SA's petrol pump price



such guesswork as a mere "flight of fancy" So, what are the arguments?

Since 1979 consumption of crude oil has shrivelled by 10m barrels a day to 44m, a drop of 20%, according to various reports. And while non-Opec producers increased their output by some 4m barrels a day during this period, the 13 Opec countries had to slash their production by over 50%. Current estimates put their production at only 15m barrels a day. This welcome reduction in the bargaining position of the cartel has naturally brought about a gradual decrease in world prices from their peaks of about \$40 a barrel in 1980, according to Econometrix to \$34 in 1981, \$29 (1983), \$28 (1984) and around \$27 currently.

Saudi Arabia is producing only 2.5m barrels a day at present — considerably below its quota. Since it was producing over four times this in 1980, there is a deal of wrangling still being exchanged among cartel members, wrangling that can only send crude prices down further.

Meanwhile, according to the Econometrix publication, *Revs*, a new Iraqi pipeline system will be fully operational next year, several new producers have recently completed refining plants, while there has been a recent proposal to disband the British National Oil Commission, opening the way for more market-related pricing of North Sea Brent crude.

As far as the SA pump prices are concerned, the recent domestic increases have been entirely attributable to the fall in the value of the rand (see graph). While the crude oil price in dollar terms fell some 32%

to around \$27, the rand cost per barrel started to rise slowly from 1981, although it was not until towards the end of last year that deterioration in the currency finally swamped the benefits of falling crude oil prices.

By mid-1984, crude cost around R35 a barrel. Last week the cost hit R65. Yet it is not the economics of the country that has driven the rand to the wall, at least according to the Governor of the Reserve Bank, Gerhard de Kock.

As he said at a press conference last week: "Overseas perceptions of SA have deteriorated enormously over the last six to eight weeks. The political and economic situation could not have changed so dramatically, only marginally." He said that, if anything, the economic fundamentals had improved. So it could only be one thing: people's perceptions had changed. He added that these perceptions were, of course, wrong, but we nevertheless had to live with them.

As one overseas banker has suggested, if the political perceptions could deteriorate so quickly, they might recover as quickly if a few steps were taken on the political front that would satisfy lobbyists. Such moves needed toward political reform are well-documented. The recent announcement regarding citizenship for all blacks may be a precursor of more meaningful reform and a more healthy exchange rate.

This could mean cheaper prices in the forecourt.

As always, however, there is a catch. Cheaper world crude oil prices have disadvantages for SA too. According to Tony

Twine, economic consultant to Econometrix, this would depress two of SA's largest foreign revenue earners: gold and coal.

"Should the price of oil fall below present levels, the disinflationary sentiment would have a negative effect on the gold price," he says.

He adds that international coal consumption would be hurt by cheaper residual fuel oils which would be reinstated as the main energy source. "Decreasing export revenue would obviously reduce the flow of dollars, reduce the value of the rand and therefore push up the costs of imports, including oil," says Twine.

He adds that gold would become attractive if and when the dollar loses its impetus. "But this is likely to be accompanied by a move to other commodities too, including oil. Thus the dollar price of oil would also be likely to increase."

It sounds like a no-win situation — but only if the politicians here fail to act swiftly on the reform front. It is remarkable how quickly sentiment can change. And if SA does its spring cleaning efficiently and puts its house in order, overseas perceptions will become favourable and the rand will "normalise" once again. Then, a litre of petrol at 70.5c won't look so much a part of wonderland.

TAXATION

The Lifo loop

Another round has been played in the potential multi-million rand dispute between Inland Revenue and companies which disagree with its Lifo rulings (*FM* September 13).

Revenue has now issued, for only the third time in 70 years, a practice note which it hopes will clear the uncertainties surrounding valuation of stock (see box). The policy of issuing practice notes is designed to clarify how Revenue treats the application of tax law.

With the Income Tax Act's numerous discretionary provisions and uncertainties, there is justification for more "secrets" to be



Kessel Feinstein's Fine ... agrees up to a point

Weak rand means slower fall to 12%

Economists not so sure about inflation

153

B. Day

16/9/85

LESLEY LAMBERT

ECONOMISTS who predicted that inflation would drop to 10% next year have altered their views to a rate nearer 12% as the impact of a weak rand and recent upheavals take their toll.

Another rise in the domestic petrol price and increased cost of imported goods have played a major part in halting the downward trend in the rate of inflation which, according to official figures, hit 17% this year.

However, the effect of the weak rand should not be a major long-term inflationary factor because a low exchange rate will diminish the volume of imports, through which inflation may flow into an economy, according to Rand Afrikaans University's Professor of Economics, Geert de Wet.

He cautions that a continued drop in the rate of inflation is critically dependent on monetary and fiscal discipline as well as wage restraint.

tary and fiscal discipline as well as wage restraint

"It seems as if government has managed to maintain relative fiscal discipline up to now. However, a 4% to 5% increase in government spending, rather than the budgeted increase of 1% to 2%, as a result of recent upheavals, would cause inflation to rise again."

Standard Bank economists refer to a rapid shift of government's economic priorities, away from the control of inflation as the main objective, towards growth stimulation and creation of employment.

Unfortunately, they say, the new policy is also bound to result in increased government spending. A combination of faster monetary growth and less fiscal discipline should produce the de-

sired recovery of consumer demand next year, but it also means that the inflation rate, which has been set to decline, is now likely to fall by less.

Attie De Vries, of the Stellenbosch Bureau for Economic Research, believes that the weak rand will not necessarily cause prices to spiral as the forces of the recession pulling prices down are still stronger than the forces imposed by higher import costs.

"The domestic economy is at a stage now where the authorities could ease the harsh measures they imposed last year to cool down domestic spending and inflation, but with the sword of a capital account hanging over our heads, it is not easy to stimulate the economy."

On a more optimistic note RAU's De Wet forecasts that the rate of inflation should continue to decline for the next three years.

Lower inflation rate is urgent national priority — NPI director

By Stan Kennedy
Reducing the inflation rate soon, and permanently, is one of South Africa's most urgent eco-

153 STAR 11/9/85
nomic and social priorities, says Dr Jan Visser, executive director, National Productivity Institute (NPI), in his 1984/85

annual report.

It is time that producers, in their reaction to cost increases, place greater reliance on higher efficiency and less on product price adjustments and that labour exercises greater discipline in wage negotiations.

In 1984, there was a 2,7 percent increase in labour productivity — a striking improvement on previous years, when there were decreases of 0,3 percent in 1982 and 0,9 percent in 1983.

Real output increased in all sectors except construction and employment increased substantially in mining, electricity supply and finance.

Workers' earnings increased more or less in line with inflation, which averaged out at 11,7 percent in 1984 in all sectors except transport and commerce, where exceptionally high increases linked to high labour productivity were awarded.

The picture for 1984 was further improved by the increase in fixed capital being much lower in real terms than the averages experienced over the past decade.

Dr Visser says the slowdown may be seen as a swing to a relatively less capital intensive economy and a more labour intensive economy. This could assist in the creation of jobs.

"Whether or not this trend will continue depends on the relative cost of labour and capital. Excessive wage increases would not only ruin efforts at reducing inflation and improving competitiveness, they would render employment growth prohibitive."

Commenting on the enhanced awareness of productivity resulting from the recession, he says: "Our observations indicate that the importance of productivity growth is much more clearly understood now than in previous periods of upswing in the business cycle."

"There is a common will emerging to join the race and accelerate the pace of productivity and, hence, economic development."

Inflation rate hits 16,4 pc; economists warn of

153/1
South Africa's inflation rate rose sharply in August to hit 16,4 percent, the same level as in June when it reached a three-year high.

Figures released by Central Statistical Services in Pretoria today show that the Consumer Price Index (CPI) for August was 195,6 (Base 1980 : 100), compared with 193,6 in July.

The index for food, which stood at 167,7 in August last year, rose from 186,7 in July to 188,6. The commodities index rose 2,3 points to 188,8 between July and August, up from 162,3 in August a year ago.

Leading economists say South Africa could

STARK
be entering a new cycle of price increases as a result of the Government announcement of drastic steps to save the economy and assist the hungry and unemployed.

They have warned that the inflation rate — which hit 17 percent earlier this year — could soar again with the effect of the new surcharge on imported goods.

Dr Johan Cloete, chief economist for Barclays Bank, said the import surcharge was a wrong move for the Government. "This import surcharge is going to give an upward twist to the inflation rate, together with the

fuel price increase and the electricity tariff increase."

He said the Government had no option but to try to stimulate the economy, but that this would lead to a new round of price rises.

The price of petrol is expected to rise again within the next few months. The Government has warned that motorists can expect a series of small rises as a result of the continuing bad performance of the rand against the dollar.

Higher fuel prices will also put pressure on the transport sector, and substantial increases in bus and taxi fares can be expected.

More bad news for consumers is that an increase in the price of bread is expected to be announced next month — the second this year.

On Friday the Government announced a new-deal economic package to create employment, boost the small business sector, and give direct farm relief assistance. This is to be financed by a R500 million State grant and R400 million from the import surcharge.

The Reserve Bank has also announced a drop from 16 to 15 percent in the Bank Rate. Another leading economist, Mr Frank Shos-

tak, was strongly critical of the decision to introduce an import surcharge. He said the economy would recover only if the State reduced its interference and reduced spending. He said the latest measures were "crisis management".

Further pressure on the Government came when the Public Servants' Association met in Pretoria today to discuss salary increases.

Government workers are demanding that salary parity be maintained with the private sector — Pretoria Bureau and Sapa.

Inflation rate up to 16,36pc

153 Mercury 25/9/85
Finance Editor
THE inflation rate rose sharply in August to hit 16,36 percent — the same level as in June, when it reached a three-year high. In July, the inflation rate declined to 15,9 percent.

Commentators do not expect inflation to decline materially.

The imposition of the 10 percent import surcharge, with the decline in the rand, will make imports cost more.

The price of petrol was increased recently and while the anticipated dollar oil price decline could offset the slump in the rand/dollar rate, political factors will put a premium on the oil South Africa has to pay.

This price rise has yet to work its way through the economy.

Borrowing

So far the Government has managed to balance its books without any inflationary borrowing, but moves, forecast by Standard Bank economist Mr Nico Czipionka this week, to embark on an expansionary and inflationary policy to cope with unemployment, will require money.

It has to be raised from somewhere and temporarily.

In view of the continuing improvement of the economy the decline in the inflation rate was expected to continue but political developments caused the rand to depreciate further, which in turn caused the inflation rate to rise again in

August.

The 16,4 percent level reached in June was the highest level since 16,5 percent was measured in May 1982.

Figures released by Central Statistical Services show that the Consumer Price Index (CPI) for August was 195,6 (base 1980 = 100), compared with 193,6 in July and 168,1 in August last year.

The index for food, which stood at 167,7 in August last year, rose from 186,7 in July to 188,6.

Index up

The commodities index rose 2,3 points to 188,8 between July and August, up from 162,3 in August a year ago.

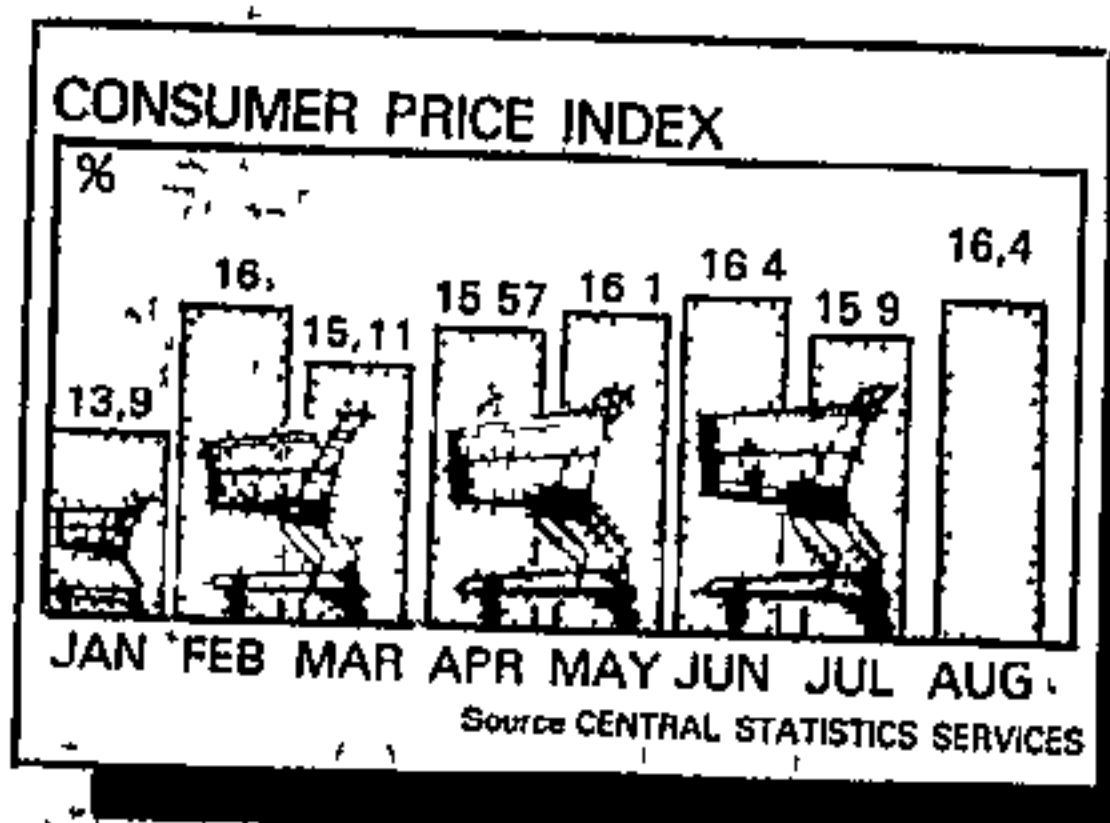
The services component went up to 211, compared with 209,7 the previous month and 181,3 a year before.

The year-on-year inflation rates by income group for August were.

● Lower income group: 13,9 percent (CPI August 189,5, July 188,4, August, 1984, 166,4.)

● Middle income group 16,4 percent. (CPI August 196,9, July 195, August, 1984, 169,2)

● Higher income group 17 percent (CPI August 196,6, July 194,2, August, 1984, 168)



Inflation back above 16% ^{27/9/85} (153)

GERALD REILLY *13 Day*

THE inflation rate has bounced back above 16%, and economists yesterday stressed the grim prospect of an accelerated rate in the months ahead.

According to the consumer price index released by Central Statistical Services in Pretoria yesterday the index rose by 1% in August, with a 12-month figure of 16.4%, up by 0.5% compared with the 12 months to the end of July.

The rate was 16.4% in June, "but you have to go back to April 1982 to find a higher rate — 16.6%", economists said yesterday.

The food-only index rose by 1% in August, to reach a year-on-year figure of 12.5%. All-items index for the lower income group was 13.9%, up by 0.6%; middle income group 16.4%, up by 1.0%; and higher income group up by 1.2% to 17%.

Stellenbosch Economic Bureau economist Dr Okkie Stuart said indications last month were that the rate was on its way down. "Now, however, it appears the badly depreciated rand and imported inflation are exerting powerful pressures on the index."

"The rate will go higher — around 17% — influenced, among other factors, by the petrol price hike and the expected increase in the bread price."

"There is reason for concern for the latter half of next year and 1987," said Volkskas economist Adam Jacobs.

SEPTEMBER 25, 1985

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CAPIT Tink 25/9/85

Inflation rate rises to 16,36%

PRETORIA. — South African year-on-year consumer price inflation rose to 16,36 percent in August after falling to 15,93 percent in July from 16,44 percent in June, Central Statistics Office figures show

This followed a monthly rise in the all items index (base 1980) of 1,03 percent to 195,6 in August after a 0,88 percent increase to 193,6 in July

A year ago the index stood at 168,1 and year-on-year inflation at 11,82 percent

The lower income group index rose to 189,5 in August from 188,4 in July and 166,4 in August 1984, giving a monthly

rise of 0,58 percent and a year-on-year rise of 13,88 percent, while the middle-income group index rose to 196,9 from 195,0 and 169,2 respectively for a 0,97 percent monthly increase and 16,37 percent year-on-year, the figures showed

The higher income group index advanced to 196,6 from July's 194,2 and August 1984's 168,0, giving rises of 1,23 percent and 17,02 percent respectively

The food only index rose to 188,6 in August from 186,7 in July and 167,7 a year ago, up a monthly 1,02 percent and 12,46 percent year-on-year

The commodities index rose 2,3 points to 188,8 between July and August, up from 162,3 in August a year ago

The services component went up to 211, compared with 209,7 the previous month and 181,3 a year before.

In a breakdown of the CPI in various cities, the highest index, of 200,3, was measured in Durban and the Vaal Triangle, followed by the Orange Free State goldfields, at 200,2.

The indexes were almost as high for Pretoria, at 199,7, and Maritzburg, at 198,6

The lowest index, of 183, was measured in East London. — Sapa-Reuter

Pick
n
ay

Discount
Supermarkets
& **Superstores**



CAL 11/25/83
Shock report
on inflation ¹⁵³

INFLATION is back to its highest level for three years — and seems set to rise still further this year

The Central Statistics Office in Pretoria yesterday reported that the consumer price index inflation rate for August was 16,4 percent on an annual basis. This is the same as it was in June, which was the highest for three years.

More bad news for consumers is around the corner with the bread price likely to increase in the near future, another petrol price rise probable and a weak rand pushing up import prices.

● Full report, page 14

BUSINESS BRIEF

Gold (close) \$328,50
Rand \$0,3880/90

982.70

Earnings below inflation rate, but households are saving more

W/C AREAS 28/9/85 153

JOHANNESBURG. — Domestic saving improved during the second quarter of this year, with private households making the largest contribution, the SA Reserve Bank says in its latest quarterly bulletin

Nominal factor income increased at rates well below the current rate of inflation during the second quarter

"A slow-down in employment growth and a moderation of wage increases resulted in an increase in total remuneration of employees at a seasonally adjusted rate of only 9.5 percent during this quarter.

"The other main component of factor income, namely total gross operating surplus, increased by only 5 percent because of the impact of the economic downswing on corporate profits

"A large increase in the operating surplus of the mining sector reflecting higher rand export prices as well as higher export volumes of metals and minerals, was partly neutralised by declines in the operating surpluses of the sectors electricity, gas and water= commerce=

and transport, storage and communication

"Despite the lower rate of increase in factor income, domestic saving improved substantially during the second quarter, and the savings ratio increased from a recent low of 20 percent in the second quarter of 1984 to a level of 26 percent of gross domestic product

"The largest contribution to this improvement came from increased savings by private households," the Reserve Bank says

"Personal saving as a percentage of personal disposable income, in fact, changed from a negative figure in the second quarter of 1984 to a positive figure of 7.5 percent in the second quarter of 1985

"General government saving remained negative, but the savings shortfall was reduced appreciably in the second quarter. Corporate saving, however, declined as company profits slowed down."

Demand for labour also diminished. Seasonally adjusted, the number of registered unemployed Whites, Coloureds and Asians rose

from a low of 29 350 in July 1984 to 40 570 in December and 67 900 in July 1985

The easier labour market conditions were accompanied by a slow-down of the rise in nominal remuneration per worker in the first quarter of 1985.

"Measured over a four-quarter period, nominal salaries and wages per worker increased by 12 percent, while in real terms they actually declined by 2.7 percent in the first quarter of 1985."

Labour productivity declined at a rate of 1.8 percent in the first quarter of 1985

Real gross domestic expenditure declined at a seasonally adjusted annual rate of 8 percent in the second quarter.

"All the main expenditure components contributed to this fifth consecutive quarterly decline

"At a seasonally adjusted annual rate, private consumption expenditure at constant prices declined by 5.5 percent after its downward tendency had been temporarily interrupted by an increase of 4 percent in

the first quarter of 1985

"The decline during the second quarter was particularly evident in real outlays on durable goods, which decreased by 28 percent. Expenditure on non-durable goods also declined, but at a substantially lower rate of 5 percent. This low level of consumption expenditure continued during July and August."

Real gross domestic fixed investment declined by 13.1/2 percent in the second quarter of 1985. This was mainly due to declines in real fixed capital outlays. The decrease in the real capital expenditure of public corporations amounted to only 4.1/2 percent

"The decline in capital formation was widely dispersed among the various sectors of the economy, but was particularly evident in agriculture, construction, commerce and finance

"Although the real fixed capital formation of the mining sector improved somewhat in the second quarter of 1985, it was still 27 percent below its peak in the third quarter of 1981" — Sapa.

force for at least ten substantial tax savings, most in a major role in the invest-
ment of the nation's savings
These portfolios are active
it would be well ad-
none reason
to

Timesharing: how to beat vacation inflation

Only 10 short years ago a family of four could go to a three-star, seaside hotel in Durban or elsewhere on the Natal coast for a two-week holiday, all meals included, for R500.

Today the same holiday will cost more than R2 000. What that holiday will cost tomorrow is not worth thinking about.

Hotel holidays for some families are largely a thing of the past.

Because of ever-increasing costs, families are turning more and more to holiday flats, seaside cottages and caravans.

But holiday flats and cottages have also been caught in the inflationary spiral.

A modern two-bedroomed flat on Durban's beach front and the North and South Coasts which cost R40 000 just a few years ago, now costs anything from R80 000 to R140 000.

What is the solution? It's timesharing — vacation ownership.

TANGIBLE

It is your opportunity to enjoy the vacations you've earned now and in the future for a one-time purchase price, plus an annual maintenance fee.

It is something tangible and lasting which you can enjoy for years to come.

Vacation ownership makes sense because you don't pay for what you don't need or use.

To enjoy a round of golf or a tennis match you don't have to buy the whole golf course or tennis court.

When you travel by air you don't have to buy the whole aircraft.

The same is true when you purchase your vacation.

By sharing with others, you bring down costs, and for the cost of a single holiday, you can own a five-star holiday in perpetuity.

In timesharing each owner buys a flat for a certain number of weeks during a fixed time of the

buyers who have found that timesharing is not merely a case of splitting the cost of ownership but is in fact a new holiday lifestyle.

Timesharing started overseas about 12 years ago and its growth is expected to continue and the industry to expand with further innovations and benefits being created.

To overcome the disadvantage of having to holiday at the same resort and time each year, the industry has created a need for an exchange facility on an organised basis worldwide.

EXCHANGE

This enables buyers to exchange the time that they owned in their own resort with other resorts in South Africa and almost anywhere in the world.

This exchange facility really makes the timesharing industry exciting.

Similarly, should the owner not be able, or want, to use the unit one year, the time owned can be let out with the proceeds going to the owner.

A payment at today's prices eliminates future holiday costs.

An analysis of past increases in holiday costs show increases at a far greater rate than the inflation rate — take a look at the cost of a holiday today and compare it with the cost in 10 years' time.

Because one pays only for the time needed each year, the cost of owning and maintaining a super

luxury holiday home is no longer a big financial commitment.

The payment is a once only payment, the repayment terms of which can normally be structured to suit the buyer's needs.

The purchase of timesharing property should, of course, be made because one likes the particular resort and the concept.

INVESTMENT

But there is the added and undeniable benefit of the investment (the South African's urge to "own" property) aspect for the purchaser, which offers pleasure and security at a price most people can afford.

In conclusion, in a world of changing fortunes the person who has wisely put a little money into timesharing will be able to view the whole shifting scene of rising costs and inflation in holiday accommodation from the comfortable and secure vantage point of his own sunny patio, while enjoying a marvellous holiday — and peace of mind.

IS YOUR RE ANNUITY M

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the most comprehensive selection in S
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In timesharing each owner buys a flat for a certain number of weeks during a fixed time of the year.

BENEFITS

This entitles him to the full use and all the extras and privileges of that flat for the specified period each year, for the rest of his life and for his children or theirs after him.

One of the main benefits of timesharing is that it can be passed on in the form of a bequest.

While timesharing owes its inception to the advantages of the multi-ownership concept, its rapid growth worldwide has been due to the obvious satisfaction of

aged and young people expected to continue and the industry to expand with further innovations and benefits being created.

To overcome the disadvantage of having to holiday at the same resort and time each year, the industry has created a need for an exchange facility on an organised basis worldwide.

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INVESTMENT

But there is the added and undeniable benefit of the investment (the South African's urge to "own" property) aspect for the purchaser, which offers pleasure and security at a price most people can afford.

In conclusion, in a world of changing fortunes the person who has wisely put a little money into timesharing will be able to view the whole shifting scene of rising costs and inflation in holiday accommodation from the comfortable and secure vantage point of his own sunny patio, while enjoying a marvellous holiday — and peace of mind.

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Coins offer a chance of making capital gain

Beating inflation is the investment challenge

Making the most of it

30/9/85 (49) 153 STAR

Coins, like stamps, are highly regarded among investors and collectors, and while they offer no actual return, there is always the possibility of making a capital gain on resale.

Among South African coins the rarest of them all is the 1926 farthing, of which only 10 are known to exist. Only 16 proof farthings were minted that year so someone, somewhere, could possibly have one tucked away in a drawer.

Two or three years ago a Durban coin dealer placed a front page advertisement in the local newspaper. Among the coins he wanted to buy was a 1926 farthing. He was offering R10 000.

Knowing the scarcity of the coin he didn't expect a response, but sure enough, a man walked into his shop a few days later and produced the prized coin.

Unfortunately, the coin was not perfect and a price corresponding to the condition of the coin was paid. Not bad for a quarter of a penny.

If you are so lucky to have a proof set of 1926 coins, it could fetch upwards of R76 000.

Future price trends are impossible to predict, only past performance can be used as a guide.

Judging by the world-wide unavailability of South African rarities (and, for that matter, scarce items) one must predict continued price increases. Remember, there is no factory to buy from.

Rare items remain rare, and with time more buyers are chasing fewer items, causing today's high price to become tomorrow's bargain price.

One of the most important factors affecting investment today is inflation. During periods of high inflation, rates of interest may lag behind the rate of inflation.

This state of affairs does not usually last for very long because people soon realise it is better to spend their money than to invest it with banks, building societies, municipalities and other forms of fixed investment.

They do this because they realise they are going to get back at the end of a specified period of time less, in real terms, than they invested.

So, if you are to save for your retirement or for those times when you need reserves to fall back on, what are you to do with your savings?

Real assets

Syfrets comments that real assets which are desirable and in short supply, like antiques, paintings and other works of art usually provide an inflation-proof shelter, but do not provide income.

Nor is there any guarantee that you will be able to sell them, should you need to, for their real value. However over the longer term, land and buildings have proved to be a good bet, as have gold and diamonds.

Traditional investments sought by the investor when estate planning include shares of companies listed on the JSE, listed Government and quasi-



We all know how best to use our physical assets, but making the most of our carefully acquired material assets is another story!

The answer, is to plan carefully says DAVID CLOETE, (left) Transvaal director of Syfrets Trust.

He points out that the primary objective of estate planning is to arrange your estate so that

you, and the people you wish to benefit, can enjoy it in the most appropriate way, both during your lifetime and after death.

Syfrets says that in estate planning it is important to consider:

- Balancing assets between equity and fixed term investments; short, medium and long-term investments and between easily realisable and more liquid assets;

- Arranging your affairs so as to attract the least amount of income tax;

- Saving the greatest amount of estate duty;

- Deciding upon the actual distribution of assets amongst the people, institutions and organisations you wish to benefit;

- Ensuring there is real growth in the value of your disposable estate and if this is not possible, defending it from the ravages of inflation.

- Financial strength — This does not apply to hard assets as one is buying a tangible commodity rather than a going concern, so before buying you must be satisfied of its marketability and portability.

- Marketability — the ability to acquire or dispose of an investment with relative ease, without paying a substantial penalty either in terms of commission or price.

- Physical possession — this is the only characteristic that hard assets possess that is not available in other forms of the more traditional investment.

Individuals may want physical possession of some of their assets for their own personal reasons. However, this

and the supposed benefits it bestows on an investor are often exaggerated.

- Income tax. While it may be an advantage not to receive income from your investment but to look instead for capital growth, you must be sure that this is your underlying investment objective.

If your asset produces income, you cannot also automatically expect capital growth when a sale occurs. It should also be remembered that the Receiver of Revenue would probably subject capital profits to income tax. Naturally this may have implications for the other assets in your portfolio and it may at the same time reduce the expected return when this type of investment is compared with conventional investments.

There is certainly no guaranteed return, with speculators in commodity markets providing the liquidity necessary to make those markets a success. But, with the options route, the risk is greatly reduced.

Whatever the outcome, taking options on a commodity is a welcome addition to local investment opportunities — albeit one which is still only available on a limited scale at this stage — which allows South African investors the chance to participate on an equal basis with their counterparts in foreign countries.

Interested in commodities? Look at options

An exciting new investment medium has received the go-ahead from the Reserve Bank.

This new medium allows certain sections of the population to become involved in the world's commodity markets.

Those who are involved in the handling of a physical commodity, be it as a producer, a user or a trader, can now dabble in the futures markets of those commodities in which he deals.

Holcom Commodity Brokers have drawn up a series of option contracts, denominated in rands, based on the

trading of the US and European commodity futures markets.

Options already form a significant slice of the deals struck on the international futures markets, and are increasing in popularity because of the limited downside risk.

What you pay up front as a premium — often only a small percentage of the total outlay — is the maximum an investor can lose.

The basic options offered by Holcom cover the copper, lead, zinc, aluminium, silver, corn, cotton, wheat, sugar, soybeans and live cattle markets.

Of particular interest to Natal cane farmers has been the sugar market.

Holcom has established a network of brokers around the country offering local representation to its widely growing client base.

The options were only made available from the end of last year, after the Reserve Bank gave its blessing for this sort of trading.

And although a producer may produce only five tonnes of sugar a year, he can trade in many times that amount of sugar on the futures markets.

Saving is the first step to being an investor

Investment is all very well if you've got spare cash lying around, but in today's economic climate it's as much as most people can do to make ends meet at the end of the month.

So how do you set about saving your hard-earned cash so that sometime in the future you can join the 'haves' and have a flutter on the myriad options which make your money grow?

Money makes money and that's what the aim should be for every family in South Africa which, by any standards, has one of the world's worst personal savings records in recent years.

But hopefully, the lot of the individual is going to be eased shortly. The bank rate, which affects overdrafts and mortgages, appears set on a downward path and when the benefits filter through to the house owner, there should be some spare cash available.

What is really needed though, is a signal from government that people who do save some of their hard-earned cash will not be penalised by the incredibly high marginal tax rates now applicable — that's the tax you pay on income over and above your salary.

Currently interest on savings attracts tax at the top end of an individual's tax bracket, so, for every rand saved, the tax man is going to take up to 50 percent of the interest earned.

Hardly an incentive to save. With inflation currently topping the 16 percent level even tax-free investments of the order of 10 percent don't look attractive — yet another disincentive to saving.

However, don't let this put you off saving something on a regular basis. Building up capital is a lot easier than trying to meet the monthly cost of a new car, furniture or TV with today's interest rates at usurious levels.

A simple example. A new car costs R10 000. Interest over three years costs about R7 000 — total R17 000.

Ignoring any deposit or trade-in, the monthly instalment on that amount is R472.

The same car bought for cash, with a possible discount, comes to a monthly instalment (that is, saving up to buy the car over 24 months) of R395.

Looking at an HP deal of three years, that's a saving of about R77 a month for 24 months and R472 a month for the other 12 months, a grand total of R7 512.

At this stage of the exercise that is only a paper profit.

To convert it into real cash you would have to save R472 a month for three years. Can't do it?

If you buy the car on hire purchase you will spend R472 anyway, so why not save the money, buy the car for cash and pocket the balance?

If you invest the money at 14 percent on 31 days notice with a bank, it would bring in more than a R1 000 a year in interest.

Other saving alternatives pay even higher rates. The point is that if you can afford to buy a new car on hire purchase, by delaying the purchase for 24 months you can pay cash and save a lot of interest — money that would otherwise go to some finance company.

That's the first step towards becoming an investor. But we're not all buying new cars, so where does the family man find the cash to invest?

The answer to that question is bound up in the old building society rule that no more than a quarter of your salary should go towards purchasing a house.

It was made for a very good reason, although in today's high inflation economy, with banks offering payments on mortgages of up to a third of your salary, it requires a lot of self-discipline to make it work.

But the bottom line for worthwhile saving is that you should not be paying more than a quarter of your salary towards putting a roof over your family's heads.

If it is more, then you'll have to await a substantial salary increase until the proportions even out.

So with one quarter of salary paying for the house, the second quarter should be sufficient to put food on the table, the third quarter goes towards expenses such as running a car, paying servants, the telephone and electricity bills, and the fourth quarter is for saving.

The amounts in the various quarters can be juggled around (of course, pension payments can be considered part of savings) but the end result should be that you have a quarter of your salary left over.

That leaves you free to invest the leftover, the 25 percent of your pay you saved — the information in these pages details a tremendous range of investments, from time share property to retirement annuities, from part bonds to cons.

Now

Inflation: a phenomenon that thrives

on itself

by David Braun,
Political Correspondent **153**

The news this week that South Africa faces "nightmare inflation" as a result of, among other things, the Government's new package to alleviate unemployment sounded ominous.

If history is anything to go by, our governors should be very careful about this. The last time there was hyper-inflation in this part of the world it preceded the decline of the economy, the collapse of the wool trade and the abolition of slavery. We also ended the century in war.

According to "The Oxford History of South Africa" (in a chapter by T R H Davenport) there was rapid growth in the Cape colonial monetary system in the late 1700s.

Like the American colonies on the eve of independence, the Cape in the 1780s and 1790s travelled under the uncertainties of paper money (first printed in 1782) and lack of specie, Davenport says.

"The (Dutch East India) Company did its best to redeem its paper issues, and had recalled nearly all its first notes by 1789, but by 1795 over a million paper rix-dollars were in circulation again.

"The British printed another half million, but left behind an equivalent value in military stores. "The Batavians recalled all paper and issued fresh, and (although they were faced with a trade recession) they left the rix-dollar at about its par value of four shillings when they departed in 1806," the historian writes.

Then, however, "serious inflation" began.

Finding 2 million rix-dollars in circulation on their arrival, the British authorities were encouraged by the success of the wine trade to issue another million between 1810 and 1815, with the result that, aided by the post-war depression and the collapse of the St Helena trade after the death of Napoleon, in 1821, the value of the rix-dollar dropped steadily.

"Thus might have passed largely unnoticed but for the Imperial Treasury's decision to convert the foreign currencies of annexed colonies to sterling in 1825," says Davenport.

"When this was done, the rix-dollar had fallen to 1s 6d. As it was commonly taken for granted that it had maintained its par value in relation to sterling, the outcry among colonial creditors was great, and the Government felt obliged to leave the rix-dollar as legal tender until 1841 (although naturally without restoring its exchange value) in order to cushion

the shock"

STAF 28/9/85

With the rand now at 38c to the dollar, and probably still on a downward trend, one wonders who or what is going to save our bacon in 1985.

This week we heard that the inflation rate had crept back up to 16.4 percent, and some economists are predicting that it will soon reach 20 percent or more.

Inflation is apparently a phenomenon that itself is subject to inflation — the higher it goes the more rapidly it climbs, until there is a situation akin to that in Israel or, much worse, that in certain South American countries (where inflation is measured in thousands of percent).

Some people apparently argue that inflation would give the present dollar level of the rand a more accurate value of the currency. They do not say what happens if inflation continues to debase the currency beyond that.

It has never been entirely clear who benefits from inflation. In the process of an incessant price and wage spiral there must be a certain redistribution of wealth to some sector of the economy.

Governments tend to profit from inflation because higher wages push taxpayers into higher (percentage-wise) tax brackets, and allow them to collect more revenue while not having to impose poli-

tically unpopular tax increases. If inflation pushes taxpayers into higher tax brackets too fast, Governments may even create politically popular illusions of "reducing" tax.

Profiteers cash in on inflation by raising their prices more than is justified, and in so doing create more inflation.

People who borrow money at interest rates lower than the inflation rate get rich at the lender's expense.

Who suffers? The people on fixed income, such as pensioners and widows, because each year that goes by puts less money in their pockets.

People who save, and whose taxed earnings on their investments are less than the inflation rate are also penalised. They are effectively paying more than they are getting for the privilege of saving, so they are encouraged to spend their money while it is still worth something.

The country suffers because its currency becomes worthless and because people are not saving. And in our country, where we are not going to easily attract foreign capital, we need every cent we can invest for our development and future.

Inflation lurks even larger

153

B. Day

17/10/85

GERALD REILLY

POWERFUL inflationary pressures are clearly illustrated by the latest production price index, say economists.

The index, released in Pretoria yesterday by the Central Statistical Services, showed the all-commodities figure rose by 17% to 183,2 in the 12 months to August.

Locally-produced commodities rose by 15,1% in the same period and imported goods by 23,8%.

The index reflects the price of goods at the manufacturing level, excluding the costs of services.

Volkskas economist Adam Jacobs said imported inflation was still running at a high rate because of the depreciated rand.

This was clear from the 23,8% increase in imported commodities.

He said the trend was likely to continue

The index also reflected the strength of inflationary forces deep inside the economy, which would maintain inflation at a high level.

Other economists pointed out that the locally-produced goods weighting factor in the index was 75% and the imported factor 25%.

Prices of a large range of imported commodities would rise even higher after the imposition of the 10% surcharge last month, they said.

Govt bid to stimulate economy slated

B. Day

Mini-boom may spell trouble for SA — Kuun

Business Day Reporter

GOVERNMENT steps to stimulate the economy could plunge the country into even greater trouble, leading to an inflation rate of up to 25% in 1987, Afrikaanse Handelsinstituut's vice-president Christie Kuun has warned

Kuun, who is also senior general manager of Saambou National Building Society, strongly criticised government's economic moves saying a mini-revival was the very last thing SA needed now

Addressing the Western Transvaal AHI regional conference in Lichtenburg, he said government steps might lead to lower interest rates but an artificial revival would be too short to activate employment in a constructive way

In addition it would lead to the decline of the surplus on the current account — something which should be jealously safeguarded

"Political expediency rather than sound economic considerations appear to have led to the announcement of the steps," he said

"This type of action indicates a lack of positive economic strategy"

Kuun said it was important that government should exercise the greatest judgment and care in doing the right thing at the right time, rather than allow day-to-day political and economic panic action with any indication of a constructive economic plan

SA was in its deepest crisis since the Second World War and the business sector would rather see normal economic forces of supply and demand run their course so that sound foundations could be established on which growth could take place through the investment cycle

Israeli raid provokes claims and counter-claims

153 STAR 3/10/85

By Peter Allen-Frost,
The Star's Foreign News Service

JERUSALEM — The accusations and counter-accusations flew all day here yesterday.

The Palestinians said the United States helped the Israelis to bomb Palestinian Liberation Organisation bases in Tunisia, and PLO chief Mr Yasser Arafat promised retaliation.

A top PLO military strategist said in Tunis the US Sixth Fleet had vessels in the area near Tunisia during the raid.

The Libyans accused the US Navy of providing aircraft carriers for the Israeli warplanes.

And the Israelis said they did it all themselves. How? They were shy about details. "We might have to do it all again sometime," an officer said.

As far as America's purported role was concerned, President Ronald Reagan said "I don't know, I don't have the facts."

The flying time from Israel to Tunis, following a flight path mainly over the ocean is just under 150 minutes — one way. With a few minutes needed for each plane to unload its bombs and rockets, that means an attack duration of about 15 minutes.

Which meant the pilots had to spend more than five hours in their cramped cockpits. Former Israeli Air Force chief General David Ivri said "That was the main problem, not the mid-air refuelling."

Reports from Tunis said about eight US-built Phantoms and F-16s carrying rockets and bombs, hit the 700 metre square target area after first flying in on a low reconnaissance run.

Israeli officers said the operation was a complete success, and that all targets were destroyed including a communications centre (although reports from Tunis say the airdrops of the centre appeared untouched).

Air Force chief General Amos Lapidot implied that so-called "Smart" or guided bombs were used. He said they had selected weapons that would destroy the targets and yet be accurate enough to ensure that nearby civilians were not hit.

CLUSTER BOMBS

Much of Israel's sophisticated weaponry is American in origin but local industries have an excellent record in producing their own, including 500 kg and cluster bombs which Palestinians in Tunis claim were also used in the attack.

The target was almost 3200 km away, across the Mediterranean along a coastline of countries not particularly friendly to Israel. A faulty plane might have had to ditch in the sea or try to land elsewhere.

The Israelis said they refuelled their own planes which have operational ranges of up to 700 km depending on weight of the payload and whether or not they carry reserve fuel tanks (the actual "ferry range" of the aircraft can

however, be counted in the thousands of km).

For refuelling, they probably used a Boeing 707 specially adapted to refuel warplanes (the Israeli-produced "Guide to the Israeli Air Force" says this plane serves F-15s and F-16s) or the Hercules C-130 (model KC-130h) air tanker.

Sources said there were two refuelling stops for the attack force.

Were the Israelis aiming for Mr Arafat? Again, despite denials and statements that they did not want to create a martyr, it seems likely Israel did want to blast the buildings with Mr Arafat inside.

Reports from France say a meeting of top PLO officials including Mr Arafat was scheduled for about 11 am Israeli time when the attack reportedly took place.

It was really a revenge mission to boost Israeli morale after the killing of three Israelis in Larnaca, Cyprus, last week.

It was also intended to wreck the major PLO headquarters but Israel's Chief of Staff Moshe Levy said on Tuesday that Mr Arafat was a target.

He said the PLO chief was expected to be at the scene of the raid at the time scheduled for the attack (Mr Arafat was only minutes away when the Israeli planes came in).

Israel's Defence Minister and Chief of Staff praised the operation and the intelligence which made such accurate bombing of such a long range operation possible.

US tries to explain statement discrepancy

The Star's Foreign News Service

WASHINGTON — The United States Government, trying to avert further condemnation for its defence of the Israeli bombing of the Palestine Liberation Organisation's headquarters in Tunisia, has described the airstrike as "deplorable" but "understandable".

Senior US Government officials are trying to keep Middle East peace efforts moving while explaining an apparent discrepancy in the reactions of President Reagan and Secretary of State, Mr George Shultz, to Israel's destruction of the headquarters.

At least 73 people died in the bombing by F-16 jets which flew 2400 km from base on Tuesday to Hamam Plage, a beach-side suburb about 19 km south of Tunis.

A senior Reagan administration official said the attack was a retaliation to the killing last Wednesday of three Israelis on a yacht in the harbour of Larnaca, Cyprus, for which the PLO is held responsible.

It was also a response, the official said, to Israel's interception on its coast of three "boatloads" of PLO terrorists the *Atavarius* was sunk in April this year; on August 25/26, the

vessel *Castelardit* on an operational mission was siezed; and the *Ghanda* was apprehended on August 30/31.

President Habib Bourguiba of Tunisia profoundly regretted and was greatly surprised at the US feelings that the raid was a "legitimate response" and an expression of self-defence.

After an emergency meeting with the US Ambassador, Mr Peter Sebastien, he called on the United States to urgently reconsider its public defence of the attack.

Mr Shultz, in New York on Tuesday for a lunch with Persian Gulf Foreign Ministers, condemned acts of violence "from whatever quarter they come and without respect to the presumed rationale for them".

State Department spokesman Mr Charles Redman yesterday expressed US condolences to the people of Tunisia. "Yesterday the Secretary of State reiterated that we deeply deplore the rising pattern of violence in the region, including the latest incident of the attack in Tunis."

Mr Redman noted the international community should be able to defend against attacks. "Without such defence, the practitioners of terrorism in the Middle East will move closer to their goal of stopping efforts towards peace in the region."

A White House spokesman said he did not think Mr Shultz's response was any different from what the President had said.

Doubt clouds the future

Uncertainty will continue until decision on debt repayments is made, says Liberty

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S. A. L. 20/10/85

THERE is now a far greater degree of uncertainty over what the future holds than at any other time this year, Liberty Life said in its latest economic review this week

The group warned that until a decision had been reached on the rescheduling of amounts due to foreigners after the expiry of the freeze on December 31, it would be almost impossible to forecast economic developments with any degree of accuracy. Future capital flows and the value of the rand were the key.

Inflation was in danger of surging beyond the high base of 16,4 percent. In the short term the rate might fall slightly as the effects of the huge petrol price increase implemented in February and the increase in GST to 12 percent "work their way out of the comparatives".

Further inflationary pressures could materialise through increased demand emanating from the lower level of short-term interest rates. Liberty felt the manufacturing and retail sectors would use such circumstances to attempt to restore margins by raising prices.

"Whatever may be agreed upon in the negotiations regarding the treatment of foreign debt, the longer term prospects for the rand are bleak," the report warned. "For the foreseeable future, South Africa is unlikely to be able to attract the foreign capital which it needs in order to sustain a healthy rate of economic growth. At a purely fundamental level, the wide differential between our inflation and that of our major trading partners will tend to lead to weakness of the rand in the medium to long term."

The rest of this year would remain an extremely difficult period. It was imperative it was used to continue the process of reform with a view to enlisting

Finance Editor

the support of overseas parties in the "mammoth task" of uplifting the general standard of living of all. With its open economy South Africa simply could not "go it alone".

Exports which had added to the health of our current account balances, which would in turn help alleviate our debt problem, should grow by 11,4 percent this year, according to Barclay's latest Business Brief.

This growth could not be totally explained by the continued slow growth in the economies of our trading partners. At least part had to be attributed to extra demand generated by the depreciation of the rand.

Prospects for next year would depend similarly on economic growth overseas and the effect of the lower exchange rate. Expectations overseas generally pointed to a continuation in the slowdown of growth in the industrialised world. Much would depend on the extent to which European countries in particular decided to reflate their economies next year to counteract the slowdown in the US.

Nevertheless, according to Barclays, it seemed likely that our non-gold exports would experience a continued, albeit slower, increase in demand from overseas in 1986.

On the negative side, however, increased pressure for boycotts of South African goods could limit to some extent the demand from abroad.

"This fact would seem, at present, to be of more concern in the medium rather than short term," the Business Brief concluded. "We accordingly foresee an increase in real exports of goods and non-factor services of 4,5 percent in 1986."

Little fear of galloping inflation, says Sanlam

By Stan Kennedy

22/10/85

recovery phase

153 STAR

Because of a strong increase in exports, the total surplus in South Africa's trade account for the first eight months of the year was almost R7,7 billion, compared with R1,6 billion in the same period last year.

Taking net payments for foreign services into account, the current account of the balance of payments will be in surplus by about R6 billion this year, estimates Sanlam's Economic Research Department.

However, in its October *Economic Survey*, Sanlam says that because of an expected moderate rate of expansion of the world economy and relatively low inflation rates, there will be no sharp increases in the demand for commodities.

This will result in there being no further appreciable growth in South Africa's export trade next year. Exporters will also not be able to depend on the advantages of a sharply depreciating rand to the same extent as in 1985.

The report predicts that the March 1986 budget will be less tough, with moderate tax concession being made. There will also be an appreciable increase in government spending to stimulate the economy and to make essential improvements to and expansion of the social infrastructure.

Summarising the growth prospects for the economy, Sanlam says the emphasis of government policy is clearly falling on the moderate, selective stimulation of economic activity rather than on curbing inflation.

"That South Africa will hardly be able to depend on a strong, sustained inflow of foreign capital in the foreseeable future will definitely have a significant effect on the extent and/or duration of the coming re-

"Consequently, we do not expect the average growth rate of real gross domestic product to be much more than three percent a year in the period 1986 to 1989"

Because of weak domestic demand for goods and services and the extensive surplus production capacity, it seems unlikely that demand inflation will become a real problem in the near future, the report says.

While increased taxes, higher interest costs and higher prices for imported goods have been responsible for the high inflation rate, and the 10 percent surcharge on imported goods not bound by GATT — about 50 percent of South Africa's imports — will exert further upward pressure on the prices of goods and services, Sanlam does not see the country having to contend with galloping inflation.

It sees the demand for goods and services remaining relatively slack, which could prevent business undertakings from passing on their full cost increases to customers.

A smaller interest burden resulting from further easing of interest rates will have a healthy effect on unit costs of businesses while the lower mortgage rates will curb increases in the consumer price index.

As a result of an expected increase in domestic activity in the second half of next year and because a considerable amount of foreign debt will probably be replaced by domestic loans, there will be a marked rise in demand for local bank credit.

Sanlam has no doubt that the banks will be able to satisfy the demand for short-term funds because of an improvement in domestic savings and further easing of monetary policy.

Economists review earlier forecasts

Inflation likely to end next year at around 12%

B. Day 153
21/10/85

INFLATION is likely to be around 11% or 12% by the end of next year, according to economists

The latest batch of economic reviews and forecasts issued by institutions have contained revisions of earlier predictions of the inflation rate. But they are largely discounting gloomy predictions of a rate above 20% next year.

Stellenbosch University's Attie de Vries, co-author of *Prospects for 1986*, says "We expect the rate of inflation to average 14%, as it will be very high at the beginning of the year. But after a few months the lag effects of the low rand will work their way out of the system."

"We are assuming that there will be no further increases in indirect taxation and are hoping for some hardening of the rand. The economy will remain in recession, which will impose a discipline on prices in the private sector, while there should be tighter control on wages and salaries in the public sector."

"There is some danger from the government's proposals to stimulate the economy, but we assume that this will mainly take the form of tax cuts rather than increased expenditure."

Barclays' Johan Cloete believes the greatest danger is that there will be a "profit push", as companies seek to repair the damage done to their balance sheets over the past 18 months.

Liberty Life, in its *Economic Review*, reports that money supply growth has been sharply reduced. M1 went down by 4,8% in the second quarter of the year, while in the fourth quarter of 1984 it grew at a rate of 34%.

Standard Bank economists argue that although all measures of inflation have slowed down in recent months, "the extreme weakness of the rand in the recent past and the government's recent shift in policy towards stimulation at the expense of price stability has now caused analysts to expect no more than a mod-

STEPHEN CRANSTON

est and temporary decline in inflation over the next few months."

The imported content of the consumer price index (CPI), the usual measure of inflation, is about 25%.

While the overall trend of the rate of inflation may be downwards, there will be huge variations within the economy.

The CPI consists of 600 goods and services weighted to equate to the purchases of the "average" South African.

It rises at different rates for different income groups. In August, for the lower income groups, prices rose only 13,9%, middle income groups 16,4% and higher income groups 17%.

The largest weights are on food at 24,98% — of which meat accounts for 9,12% — housing at 17,6%, transport at 14,94% and clothing at 7,31%.

The most ominous prospects are for car prices — vehicles have a 5,57% weight. Brian McCarthy, director of the McCarthy motor group, is expecting car prices to increase by 35% over the next year.

Meat is also subject to the possibility of large increases. A Meat Board spokesman said the drought had compelled extra slaughter of animals so that the national herd had been depleted from 9,5-million to 7,5-million. Instead of the usual slaughter of only 22% female animals, this year it was as high as 40%. This is bound to have an effect on prices.

Claims that the recent fall in interest rates was likely to lead to an increase in house prices were treated with scepticism by Eskel Jawitz, MD of Eskel Jawitz Real Estate. "Rates of around 19% compare poorly with United States rates of 10-11%, so they are still extremely high. I can't see anything that can happen in the near future which will dramatically alter prices."

Guy Ter Bellen

September (153) inflation, at 16,6%, matches post-war

THE inflation rate climbed to 16,6% in the year to September to match the highest point reached since the end of World War Two.

Consumer price index figures released in Pretoria yesterday showed an increase of 1,1% over August.

The food-only index rose in September by 1,3% (annualised 15,6%), with a year-on-year figure of 12,4%.

The 12-month figure for the lower-income group in September was 13,7%, for the middle-income group 16,4%, and 17,3% for the higher-in-

come group.

The higher rate for the top income group reflected the effect of imported inflation. This group has a higher imported component in the basket of goods used to calculate the CPI.

The index was last at 16,6% in April 1982. Economists are pessimistic over prospects for a slowdown in the rate of price increases in the next few months.

Volskas's Adam Jacobs said the fact that the rate had reached so high a point at this stage in the business

GERALD REILLY

cycle was grave reason for concern. If the recent measures to stimulate the economy resulted in greater consumer spending, a very dangerous situation would develop.

The danger was increased by pressures still in the pipeline. The low point hit by the rand during August was not yet reflected in prices of imported commodities. The petrol price was almost certain to rise soon.

Escom had announced tariff rises

which could amount to 30% next year. "And right across the board the prices of a wide range of commodities are continuing their chronic climb."

All imported product prices were rising at a tremendous rate, said Jacobs. There were other factors exerting downward pressure on the rate and hopefully, these would result in a slowdown.

However, he expected for the next 12 months the rate would not fall significantly below 15% or 16%.

He said too, that retailers and man-

ufacturers, who had been absorbing some cost increases, would try to recoup lost profits once the stimulatory measures began to work.

Professor Jan Sadie, of the Stellenbosch Bureau for Economic Research, expected the rate to go even higher during the course of next year, mainly because of the depreciated rand and the rocketing costs of imports.

It could be towards the end of next year, he said, before the rate slid off significantly from its present high.

Economists see ominous signs

Inflation to top 20% in 12 months

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B. Day
28/10/85

The depressed value of the rand and government's decision to de-emphasise the fight against inflation suggest that the inflation rate is now heading for a rate in excess of 20% within 12-18 months.

In the short-term, the rate of inflation could well decline from its present nearly 17% to about 13%. But after that it is likely to shoot up perilously close to hyper-inflation levels.

"You won't see the major impact in the course of the next year," says Standard Bank economist Nico Cypionka. "On a year-on-year basis, we are probably at a temporary peak. We expect the rate to go down to 13% within the next few months — for purely technical reasons — and then start rising again.

"But a rate of 13% would be the highest bottom we have ever seen in this country."

Ronnie Bethlehem, chief economist of Johannesburg Consolidated Investments (JCI), warns against complacency over the temporary downturn in inflation.

TONY KOENDERMAN

"The danger 12 to 18 months out is that the effects of government's policy switch, prompted by the debt crisis, will start to work back into the economy.

"I can see the day when we will be paying R30 000 for a small car. Prices of imported appliances will bellow in a manner South Africa has not experienced before. As has happened in Israel, second-hand cars may become extremely valuable things which owners hold on to before selling at a profit.

"Once one gets into the 20%-30%-40% inflation brackets, it is very difficult to prevent inflationary expectations taking on a very firm grip. There has been a very noticeable deterioration in inflationary expectations in South Africa in the last four weeks.

"People expect that the fall in the rand will cause prices to rise. They may not."

● To Page 2

Cape Times 28/10/85

Everyone getting poorer — bank

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PRETORIA — South Africa is saddled with a stagflation dilemma, with a stagnating real economic growth rate and a relatively high inflation rate, says Volkskas in its latest Economic Spotlight.

"To make matters worse, the balance of payments position must also be taken into account, in particular the limitations which the foreign debt burden and everything associated with it place on the balance of payments," it says.

"This in turn inevitably limits freedom of movement in the economic policy strategy"

Sluggish economic growth led to a decline in the national product or income per capita, increased unemployment, lower company profits and more bankruptcies.

"In short, everyone or almost everyone is becoming poorer. Moreover, the danger is that the economic recession can feed on itself

"Sluggish growth leads to poor consumption and investment which in turn can further depress the growth rate — thus, a vicious circle that could lead to a highly dangerous state of affairs," says Volkskas.

How far the government's domestic stimulation package would go was not yet clear

"However, keeping in mind the recent course

of events, it seems as if a real economic growth rate of from three percent to four percent can be expected in 1986.

"Compared with this year, the inflation rate should be a percentage point or two lower in 1986, while the current account of the balance of payments could continue to show a surplus.

— Sapa

INTEREST RATES

The authorities are winning out

The monetary authorities are winning out — at least for now. The whole pattern of short-term interest rates is moving downwards, in line with the official policy of gentle deflation.

This week, the two largest building societies — SA Perm and the United Building Society (UBS) — substantially cut their bond rates, and the banks all fell in step with the Standard Bank move to reduce prime by one percentage point next Monday.

Since September, mortgage bond rates have been cut three times. Now the top rate on private home loans has been reduced to 18,25% by UBS and the Perm. This means that the rate on loans over R60 000 has dropped 3,75% in two months, saving existing bondholders about R2 700 this year.

Financial institutions, however, are expressing reluctance to follow what they call an "artificial" reduction in rates. The government's drive, says Perm MD Bob Tucker, directly contradicts prevailing market forces and the high rate of inflation. "We want to express our grave concern at the appropriateness of the action, and whether it can be sustained."

As one economist says: "There is just no economic explanation for the current interest rate pattern: it is determined solely by political forces. Within a year we will be back where we were at the beginning of the year, with prime heading towards 25%."

There is consensus that the downward movement in short-term rates will be temporary, and that the turning point will probably come in the second quarter of next year. The Perm is strongly advising bondholders to maintain instalments at current levels.

The other side of the coin is the downward trend in the deposit rate structure. Building society bond rates, it is clear, cannot be reduced unless deposit rates fall.

But, as one economist says: "The main problem is that people and companies have

overcommitted themselves. Either they have too little equity to cover themselves, or extensive hire-purchase commitments. While these pressures will be reduced in the short term, this is merely an exercise to buy time. The problems won't, I'm afraid, disappear."

Although the drop in rates, say the banks

and building societies, has little to do with economic fundamentals, it is impossible to swim against the tide engineered by the Reserve Bank. The primary reason, they say (apart from a little moral suasion from the monetary authorities), is cut-throat competition among the institutions.

Says UBS chief economist Hans Falkena: "If all rates are declining, we have no choice but to go with the flow. But the smaller building societies are still in a difficult position concerning the estimated 4% capital

reserve requirement to be introduced next year. If they reduce rates now, they will find it difficult to fulfil these requirements."

There is also consensus, however, that short-term rates will fall further within the next few months. The Reserve Bank is still expected to cut the Bank rate further, although probably not below the inflation rate. The banks and building societies expect rates such as prime and bonds to fall another 2%.

INFLATION

Riding the rand

Sorting out which way inflation will go in the next few months, let alone the next year, is not as easy as it might seem. True, the latest figure for September, at a year-on-year rate of 16,56%, would seem to confirm a continuing upward trend.

Indeed, this is a record since the mini-boom, a level only reached once during the past 40 years. The September figure compares to 16,3% for the previous month,

15,9% for July and 13,3% reached toward the end of 1984.

Yet economists believe that inflation is close to a "short-term peak," and will fall to around 15,5% by December. The rationale for this, amongst all the confusion, is that the first shock wave from a depreciating rand during the second half of 1984 has now almost worked its way through to consumer prices.

According to Standard Bank's analysis, for example, "on the margin" inflation has fallen dramatically from a peak of 20% in April, on a month-on-month basis, to around 12% (see graph). "This indicates that upward pressure on the CPI from the 1984 depreciation has pretty well been exhausted," notes a spokesman.

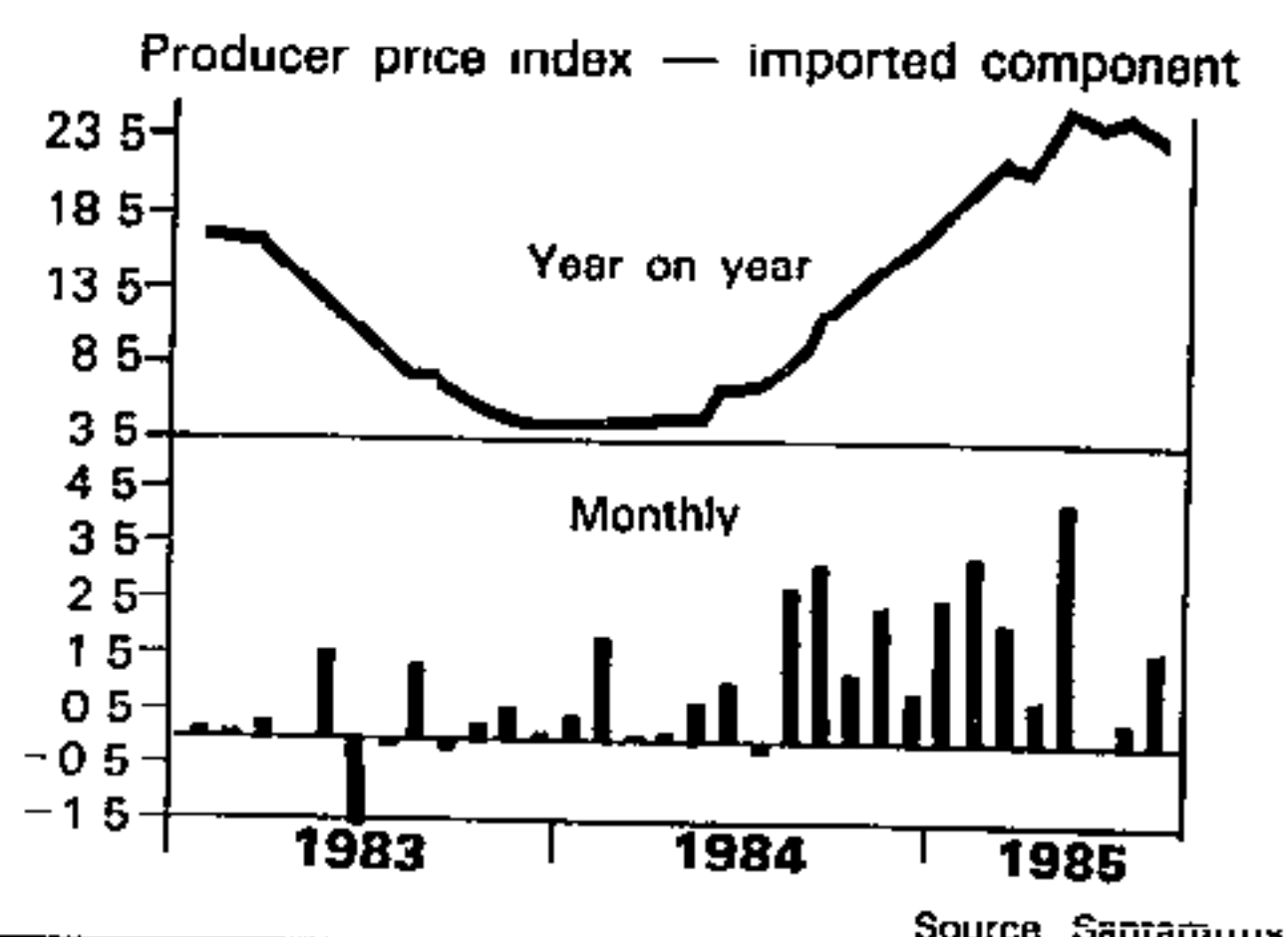
But the rand will remain a key factor in considering future inflationary trends for 1986.

According to the latest *FM Blue Chip Forecast* for October, the average inflation rate for 1985 is expected to be 15,5% compared to an average 12,7% for the past ten years, and just 11,7% in 1984. It adds that economists have been revising inflation figures upwards, however, for 1986 with an average 14,1% expected because of "only a

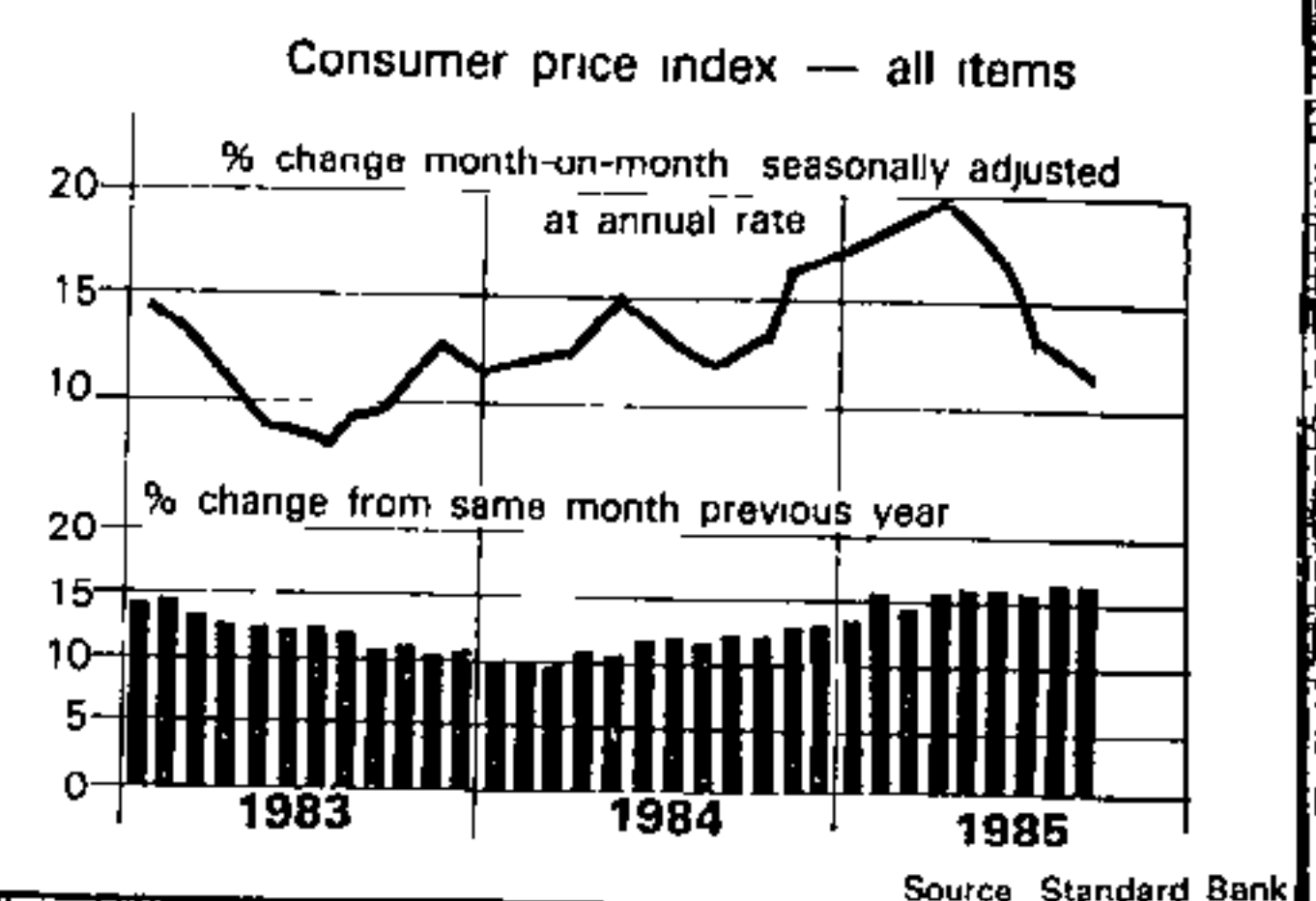


SA Perm's Tucker ... State contradicting market forces

FILTERING THROUGH



ON THE MARGIN



(153) FM 1/11/85

moderate strengthening of the rand next year."

Already, a massive increase in the imported price component of the production price index (ppi) has been recorded for July, with plenty of further upward pressure expected (FM October 4). Essential goods now account for 80% of imports, giving little flexibility to reduce demand in response to higher prices.

And the more recent depreciation of the rand has yet to be fully reflected in the cpi through a second shock wave. Of more direct concern is the likelihood of another big increase in the price of petrol.

The graph from Santamtrust shows the year-on-year imported price component of the ppi. Leon Steenkamp, assistant GM of Santamtrust, estimates a short-term peak will be reached in December. But, he says, the recent softening of the indicator is probably temporary, caused by the slight appreciation of the rand against the dollar during

the first half of this year.

Probably towards the middle of next year the second shock wave from the more recent depreciation of the rand will finally work its way through to the cpi. The effect could be more serious than last time, since it may well be associated with increased consumer spending. Government's intention to reflate the economy, promises of tax cuts and the renewed dangers of a drought could combine to add a sharp upward twist to inflation from a February or March trough.

So, in attempting to boost demand, the authorities are playing a dangerous game — although most commentators agree the strategy is unavoidable. Says At Engelbrecht, chief economist at Volkskas: "Certainly, it is dangerous to reflate the economy, but then look at the state we are in." He believes the government has no option, though it must "reflate cautiously — just enough to stop the downward trend." Most sectors, he believes — including total fixed investment, stock

levels, and consumer spending — have gone down far enough. "In fact, I think stock levels have gone down too far in relation to current turnovers."

It's possible, then, following a rise in consumer demand, that restocking could accelerate the adverse effects of the present weaker rand. Many retailers may also take the opportunity provided by rising demand to recoup profit margins, currently squeezed to the bone. Both factors could push inflation up further next year.

The key, however, could be a question of timing. Engelbrecht doesn't expect demand for imported goods to pick up "since we are operating considerably below capacity — around 84%. So there's quite some room for expansion before we see any real demand for capital goods."

So, if this demand occurs after, rather than before, a moderate appreciation of the rand, future upward inflationary pressure may be avoided in the nick of time. The Bureau for Economic Research, for example, added a promising note in its *Prospects for 1986*: "As capacity utilisation begins to rise modestly towards the end of 1986, the rate of increase in unit costs of domestically produced goods will begin to slow."

So whether the pressures for higher prices are accommodated by improving consumer demand — and therefore causing higher inflation — could depend more on timing than anything else, timing ultimately in the hands of government strategists. ■

FM INVESTMENT CONFERENCE

There has been a change in the line-up of speakers for the FM international investment conference, *Investment in 1986*, which is to be held at the Carlton Hotel on November 14 and 15. Wim Bischoff, chairman of J Henry Schroder Wagg, will be confined to his London base for the whole of November so will be unable to deliver his address on privatisation as originally planned.

However, conference delegates will not be short-changed. In his place, Johannesburg-based trade expert John Bell will speak on a subject which could hardly be more topical: "Trading in a Hostile World."

Bell is CE and owner of Breyer Development Services, a private company specialising in trade and export promotion.

A mechanical engineer by profession, he went directly into international marketing after qualifying in the UK.

He became export manager of a British company and thereafter joined an American group, with interests in the US, Britain and Italy, as international marketing

manager. In 1969 he came to SA to head a division of Incedons before being wooed to the SA Foreign Trade Organisation (Safto) as a divisional head.

In 1974 he and Krugersdorp industrialist Tony Marsden bought ailing Breyer Development Services and nursed it back to health as an export consultancy specialising in engineering products.

Bell, who has subsequently become sole owner of the business, thus has a long background in the export field. He has also specialised in problem trade — including sanctions busting in UDI Rhodesia — and will no doubt have many tips to pass on to South African businessmen keen to export in a hostile world.

Sharing the afternoon session with him on Thursday November 14 will be Barclays' Chris Ball (FM August 30) and Richard P Case, director of technical personnel development of the world's biggest computer company, IBM.

Case's "View of the Future" address is expected to be particularly fascinating. It is, after all, a time of rapid technological change — and Case is in the thick of it.

Since joining IBM in 1956, he has seen the computer-manufacturing business from all sides. Starting with engineering design, he moved to system programming before becoming director of advanced systems in 1971.

After a spell as consultant to the director of research, he became group director of advanced systems for the data processing products group staff and division director of technical operations for the systems products division.

He became general technology division vice-president in 1981 and product laboratory director in 1983 before being appointed vice-president of the systems technology division.

In September last year, he assumed his present position as IBM director of technical personnel development, with responsibility for fostering the technical excellence of IBM engineering, programming, technical and scientific staff throughout the world.

ZIMBABWE

In for slower growth

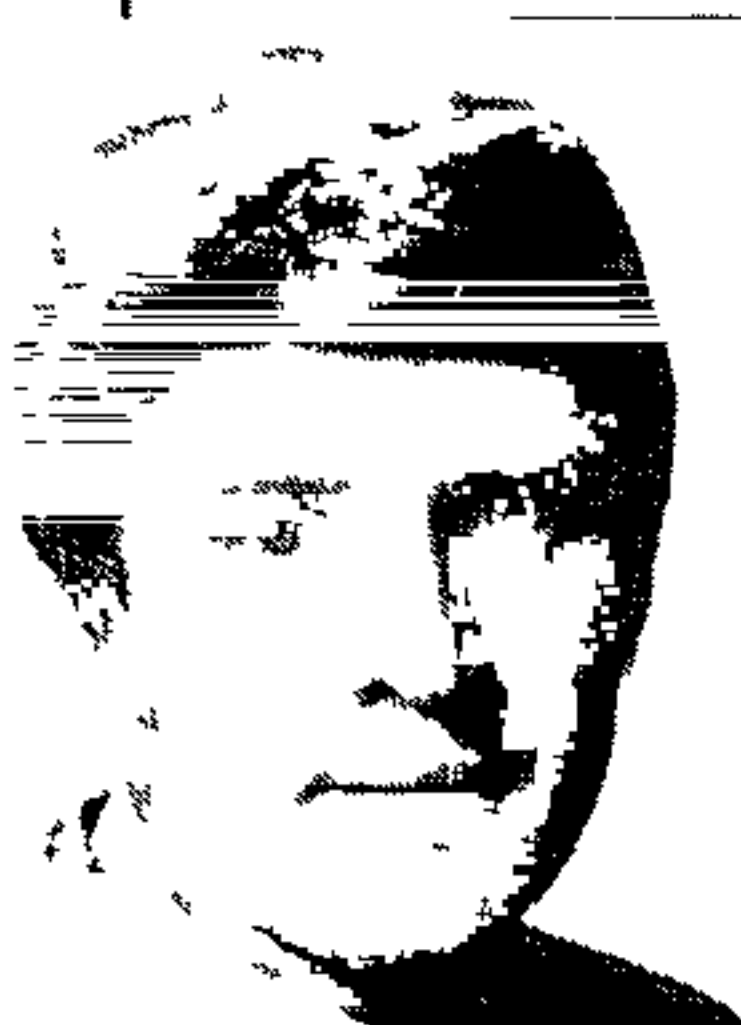
After a strong upswing in 1985, with real gdp growth forecast at 6%, the Zimbabwe economy will expand at only 3% at best next year, according to Standard Chartered Bank.

In its October economic bulletin, Zimbabwe's largest bank forecasts slower growth as a result of a weaker world economy, the escalating regional crisis and a more normal agricultural season.

The main impetus to expansion this year came from agriculture, with real output growing an estimated 25% in the rebound from the three-year drought. This stimulus won't be repeated in 1985-1986 with above-average rains necessary merely to maintain output levels. In other words, farm output is likely to remain flat or decline, throwing the full burden of expansion on mining and manufacturing.

There will be significant structural change within agriculture as maize and cotton plantings are reduced in response to depressed producer prices while tobacco plantings are increased by at least 20%. Prospects for strong growth in mining are slim, according to the bank, given depressed world markets and the near-total lack of new investment.

This leaves manufacturing as the great hope. But its prospects are constrained by



Retailers predict rampant inflation

STEPHEN CRANSTON

LEADING retailers are pessimistic about inflation. Clive Weil of Checkers says he cannot see price rises of less than 20% over the next year.

"The rise in fuel costs, the Eskom hikes and the increased cost of imported raw materials are all going to take their toll," Weil says.

"There should be a clear signal from government that curbing inflation is a high priority. On the other hand, there has to be a certain amount of stimulation of the economy. Unemployment is causing much of the unhappiness in this country."

Stanley Fleischmann of Dion stores says prospects are even dimmer in the durable sector.

For some products, such as VCRs, there have been monthly rises of 10-15% and sometimes two increases in one month. In the past three months, the price of VCRs has risen from R499 to R900, he says.

However, Fleischmann says, curing the country's social problems will be expensive and a certain

amount of inflation may be necessary to curb unemployment.

Rough calculations, using the components of the consumer price index, indicate that the CPI is likely to be at least 18% higher this time next year. Any further unfavourable movements in exchange rates could make the situation worse. For example, while the rand has remained relatively stable against the dollar in the past two weeks, it has weakened significantly against the Japanese yen.

A considerable number of items will increase by much more than 18%, but the CPI rise will be kept in check by relatively small price increases expected for meat (7%), fruit and vegetables (10%), tobacco (10%) and housing (10%).

There are likely to be increases of more than 30% in the cost of motor vehicles, fuel, appliances and possibly in imported wines and spirits.

Domestic wine and spirit prices are unlikely to show an increase of much more than 10%.

Some imported furniture could go up by 50%. Medical schemes are likely to go up by 24% soon and the price of coffee is set to rise by between 18% and 30%.

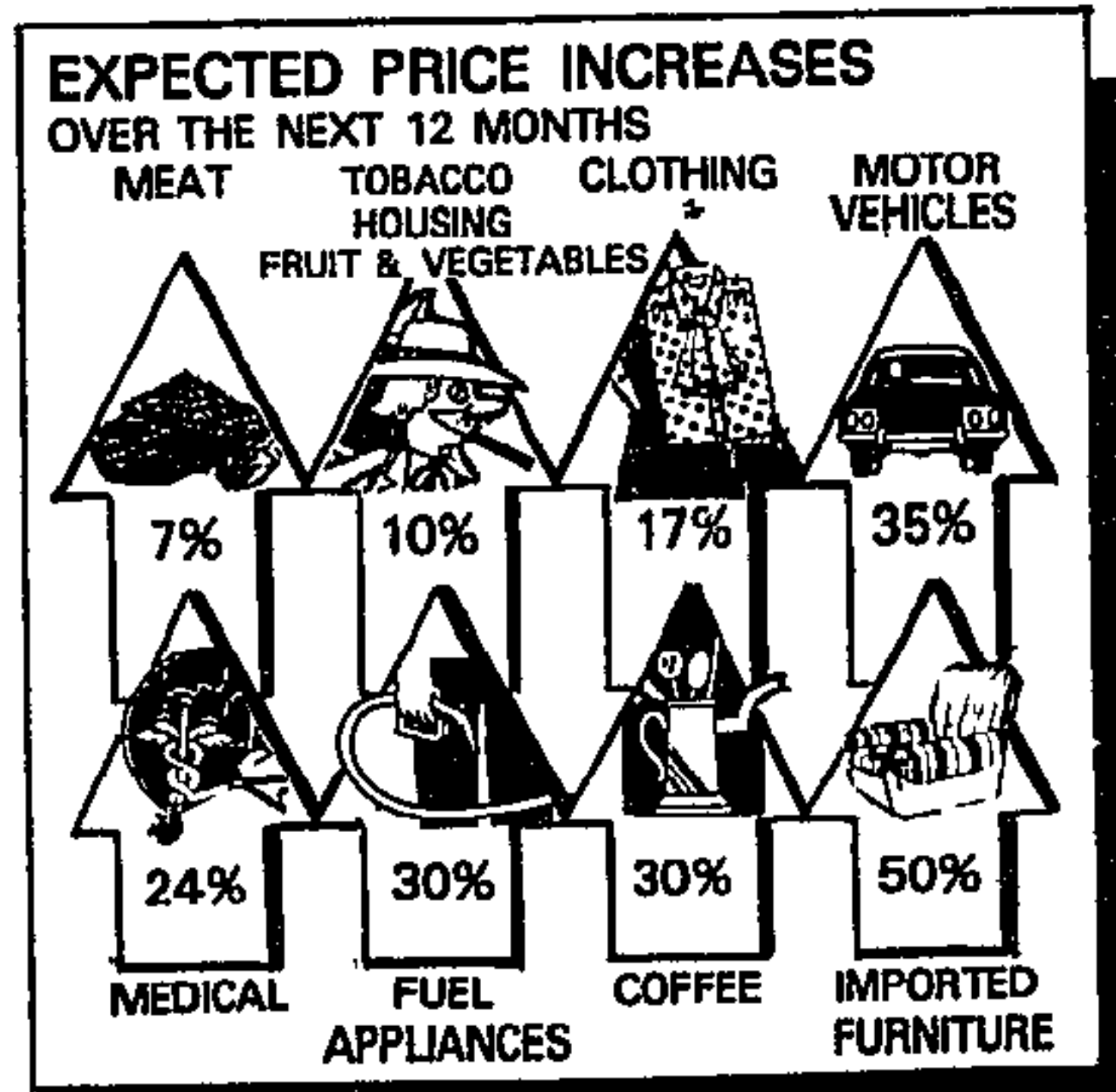
The increasing cost of textiles is bound to work its way through to clothing, and prices should increase by about 17%.

Sapa reports that at least 3 000 basic food lines are expected to increase in price before Christmas, after the announcement of an increase in the price of petrol.

Martin Rosen, general manager of Pick 'n Pay hypermarket in Durban North, says suppliers will not absorb the increase.

"The latest rise in the price of petrol is bound to push up hundreds of food lines," he says.

"Already suppliers are talking about increasing prices and by Christmas I expect at least 98% of food items on the shelves to increase between 5% and 10%."



Cape Times 14/11/85 (153)

Barclays says long-term inflation outlook bleak

JOHANNESBURG — The short-term outlook for inflation remains encouraging but the long-term outlook may not be so favourable, Barclays National Bank said in its monthly report.

It said the end of over-funding will reduce the supply of government

bonds, but in the longer-term scope for a further limited fall in yields is unlikely to re-emerge until short rates provide a lead.

The report also said South Africa may have to accept a worrying lag in gold price performance for the time being, "unless and until a new inflationary trend gets underway in the world economy".

The best means of achieving a successful stimulation of the domestic economy is to lower interest rates to encourage stock accumulation by local companies.

Stock levels have been greatly reduced since 1981, in part due to poor sales but especially on account of high interest rates and fifo/lifo changes.

"For companies to disregard their fiscal prudence of recent times by commencing a new stocking up process, there need to be profit opportunities," says the bank.

"As the outlook for final sales is likely to remain unattractive for some time to come, short-term interest rates may have to fall to considerably lower levels before the reduced opportunity cost of holding stock could become sufficiently interesting for a new stock cycle to get under way.

"This in time could then spread to other interest-sensitive sectors such as consumer durables, and eventually fixed investment."

Barclays forecasts that inflation over the next business cycle is likely to set a new post-war record, with an anticipated further decline in the commercial rand being a strong contributory factor.

Contributors

Other likely short-term contributors to inflation were increased administered prices reflective of higher internal financing, domestic shortages, improving profit margins and in time increasing wage and salary pressures.

If domestic growth was about to be encouraged in spite of the existing balance of payments constraint, the situation was likely to resolve itself by way of a growing shortage of foreign exchange and a consequent rationing of imports.

"At first sight this approach could provide the same results as direct controls, but it could in fact be a second-best approach as the commercial rand is

likely to be marked down further over the coming business cycle, feeding the inflation momentum even more strongly than ordinary controls would do.

"The growth cycle is likely to be encouraged from two directions at once.

"It remains a choice for government to stimulate the economy in the year ahead by way of increased spending and/or tax cuts.

"It is a choice that has already been partly activated in recent months with the decision to spend more on socio-economic issues.

"However, the government's true priorities in this respect may only surface in the course of next year, along with political developments that remain difficult to foretell at this stage.

"Real fixed investment can be expected to continue its decline of recent years, reflective of existing under-utilized capacity, particularly in the manufacturing sector, further expected cuts in infrastructural expenditure by parastatals, and expectations that final sales are not likely to recover robustly in the period ahead."

"In spite of well-entrenched inflationary expectations, consumers appear unwilling to maintain their real level of spending, preferring instead to reduce their real financial commitments.

"Such reticence to buy, particularly in the durable and semi-durable areas, is likely to enhance future replacement demand, in addition to inflation-induced purchases," says Barclays — Sapa.

South
Africans
victims of
ideology
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Fears on rising
inflation quelled

From WINNIE GRAHAM
JOHANNESBURG —
Fears that South Africa's rate of inflation might rise to between 20 percent and 30 percent

in 1986 have been dismissed as "totally unfounded" by the Governor of the Reserve Bank, Dr Gerhard de Kock.

Addressing the Financial Mail Investment Conference yesterday, Dr De Kock said curbing inflation remained high on the priority list and the Reserve Bank would do everything in its power to maintain effective control over money creation and spending.

Dr De Kock said indications were that the South African economy was at, or near, a lower turning point of the business cycle.

In the third quarter of 1985 the decline in real gross domestic product had begun to rise again. With exports buoyant and short-term interest rates showing a persistent downward tendency, the next cyclical upswing was probably not far away.

A positive real rate of growth of gross domestic product of three percent was predicted for 1986, he said. This had to be compared with a negative growth rate of about 0,5 percent for 1985.

Real gross domestic expenditure was expected to rise by about four percent in 1986.

Increases in both private and government consumption expenditure were expected to contribute to this increase.

"There are solid grounds for expecting improved economic conditions in South Africa in 1986," he said.

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Curbing inflation still a priority — De Kock

Although the monetary authorities have shifted their priorities in favour of promoting growth and employment in South Africa, they have not thrown in the towel in the fight against inflation, the Governor of the Reserve Bank, Dr Gerhard de Kock, said in Johannesburg today.

Addressing the Financial Mail's annual investment conference, Dr De Kock expressed cautious optimism about the prospects for the economy in the near-term.

"Despite the unique trials and tribulations experienced by South Africa since July this year, the anticipated scenario for 1986 is one of economic upswing, moderate growth and increased employment, with a sustained, though smaller, surplus on the current account of the balance of payments and no significant demand pressure on prices," he said.

Present indications were that the economy was at or near the lower turning point of the business cycle.

"During the third quarter of 1985 the decline in real gross domestic expenditure came to an end, while real gross domestic product began to rise again. With exports buoyant and short-term interest rates showing a persistent downward tendency, the next cyclical upswing is probably not far away. In-

deed, it may already have begun."

Regarding South Africa's debt negotiations, Dr De Kock emphasised that these should not be seen as a "winding down" exercise.

"On the contrary, their ultimate objective is to normalise South Africa's relations with foreign financial institutions and markets," he said.

Discussing inflation, he said that the present level of the rand at about 37 US cents would exert some pressure on the Consumer Price Index for a while.

"The recent increase in the price of fuel is an example of this. But the latest money supply and expenditure statistics provide convincing proof that no inflationary pressure is emanating from excess demand."

"Although a temporary acceleration of the rate of increase of the Consumer Price Index cannot therefore be ruled out, the fears expressed in certain quarters that the rate of inflation might rise to between 20 and 30 percent in 1986 appear to be totally unfounded," Dr De Kock said.

"Curbing inflation remains high on the priority list. To this end, the Reserve Bank will do everything in its power to maintain effective control over money creation and spending."

The decline in short-term interest rates since the beginning

of May had thus far proved fully reconcilable with effective money supply control.

Fiscal policy had also been eased moderately in accordance with the more expansionary policy stance adopted since July.

Government spending had been stepped up and will now clearly exceed the budgetary estimate of R30,9 billion, representing an increase of 13,6 percent.

"This is partly the result of the recent allocation of additional funds to special job creation and training schemes, the encouragement of small business enterprises and unemployment relief," Dr De Kock said.

"On the other hand, tax revenue will probably also exceed the estimated amounts, partly as a result of the expansionary effects the depreciation of the rand has had on mining and other export incomes."

"On balance the deficit before borrowing in the Budget might turn out larger than the Budget estimate of R2,5 billion, but should not amount to much more than 3 percent of Gross Domestic Product."

Regarding next year's Budget, he said the Minister of Finance, Mr Barend du Plessis, had on several occasions indicated his desire to encourage saving, investment and sound growth by downward adjustments in direct tax rates "to the extent permitted by circumstances" — Sapa.

Economists warn inflation will soar

21/11/81
Star 153

By Michael Chester

Economists warned today that Government moves to stimulate an economic revival will run into the worst bout of inflation on record.

The chances of salaries and wages being increased in year-end pay reviews to keep pace with the spiral of prices were rated at zero.

Professor Brian Kantor, of the Economics Department at the University of Cape Town, predicted that inflation — already about 16,5 percent — would climb to 18 percent.

P-E Corporate Services, which monitors pay and price movements, warned that forecasts of even 18 percent could prove to be highly conservative.

Researchers at Econometrix, which has a track record of uncanny accuracy with economic scenarios, forecast that inflation as measured by the Consumer Price Index would bounce between 20 and 25 percent and average out for 1986 as a whole at 21 percent.

Worse, Mr Tony Twine, one of its top economists, fears the purchasing power of the rand will be eroded at an even faster pace.

"The CPI covers only a limited range of consumer prices", he said. "If one takes account of all of the elements — such as exchange rates and interest rates — overall inflation next year may well shoot above 30 percent."

Tax brackets

"Let's not spoil the fun, but all the tax concessions announced with such fanfare a couple of days ago will simply be swallowed again by the taxman as inflation forces everyone into higher and higher tax brackets."

Volkskas adds a warning in a current economic review that any economic upswing expected during 1986 will coincide with an inflation rate at its highest in 60 years — since the 1920s.

Still in the pipeline are the price shocks stemming from the impact of the weak rand exchange rate on imported goods, plus the 10 percent surcharge on many items.

The root of the problem was the risk of creating "a politically intolerable situation" if action to force inflation downward caused a big fall in economic growth and consequently tens of thousands more people lost their jobs.

Bank outlines five 'problem areas'

Volkskas voices inflation fears

VOLKSKAS economists express grave concern about the course of inflation in their latest *Economic Spotlight*.

They point to five problem areas:

- The consumer price index is accelerating despite one of the most serious recessions in decades,
- The expected economic upswing next year will coincide with an inflation rate at its highest level in 60 years,
- The rate of inflation rose to a record high at a time when increases in food prices had, for a number of years, been relatively smaller than cost increases in agriculture,
- The full effect of price increases in imported goods have yet to be felt by the consumer, and
- Institutions such as Escom, the SA Transport Services and the Post and Telecommunications Corporation will

Business Day Reporter

be forced into relatively sharp tariff increases.

The *Spotlight* notes some positive factors — declining interest rates and controlled money supply growth — but these are not sufficient for one to be too positive about the future course of inflation.

The bank calls for effective medium-term strategies to deal with the problem.

"In a strategy of this nature the fundamentals of economics must be properly pursued and promoted," it says.

Conservative fiscal and monetary policies must be maintained, productivity promoted, savings encouraged and a wages and salary policy modelled to a larger degree on performance.

Real humdinger

Optimism on the inflation front has waned with the October cpi figures released last week. The index reached a high of 16,8% a level not breached since 1920.

Most economists were predicting a drop — if slight — in the inflation rate over the next few months. The depth of the recession and the degree of spare capacity, they said, provided scope for boosting output without fuelling inflation.

Cost-push pressures, however, have begun to filter through. Absence of demand-pull, contrary to what many believed and hoped, has provided little relief. In fact, says one economist, it has led to nothing but a process of impoverishment.

The key in the short and medium-term outlook for inflation is the exchange rate. Says Volkskas chief economist, Adam Jacobs: "If we can extend the repayment period of our foreign debt through negotiations, and get the rand up to US\$0,45, infla-

tion could be brought down between 1% and 2%."

He adds, however, that for every favourable influence there is a negative one. And on the question of the debt standstill, there is little reason for hope. Even Fritz Leutwiler, has now done a *volte face*, insisting on some political headway before negotiations can proceed.

Inflationary expectations are also dangerously high. With daily reports of massive price hikes to be expected in the new year, there is growing despondency about what money will buy in the future. According to economists, people are anticipating an inflation rate over 25%.

Also, with inventories having declined for the past three years — they are now particularly low — the stage has been set for massive restocking once growth begins. Last year inventories dropped by R141m. For the first two quarters of this year they were run down by a further R945m.

Inventory cycle

The fear of sanctions has prompted some firms to begin restocking earlier than they might have and lower short-term rates have given this impetus.

A turn in the inventory cycle will remove what little downward pressure there is on the rate of inflation. Most economists expect a drop in inventories next year of roughly R100m. Against this year's expected decline of R900m, that is a net input of R800m, or roughly 2% of gdp.

Inventories of manufacturing, agriculture, wholesale and retail trade and construction have taken the biggest knocks.

This means that much of the increase in inflation over the next few months will stem from the depreciation of the rand which, up to now, has not been fully felt because firms have been selling old stock.

"To the extent the economy gets moving and inventories contribute to this, inflation can only rise," says one economist. There is

now consensus on what lies ahead nothing less than a real humdinger of an inflationary boom.

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Cape Times, Friday, November 29, 1985 19

Wage freeze would be disastrous — Kantor

Financial Reporter

CALLS for a wage or price freeze to bring down the inflation rate should be ignored, Professor Brian Kantor of the University of Cape Town said yesterday.

He told guests at a cocktail party given by Investec Bank "The siren call of wage and price freezes will be sung, but it would be totally foolish to try to hold down salaries and wages now in the interests of holding down the inflation rate."

"Poor economic growth and high unemployment are a lot more damaging than a 20 percent rate of infla-

tion."

Professor Kantor pointed out that there was a need for increased consumer demand to bring about a recovery but inflation and the lack of tax relief had eaten dramatically into purchasing power.

"It would be quite wrong to think that we can have a recovery of the economy without rises in wages and salaries."

Forecasting that inflation would rise by between 18 percent and 20 percent in the coming year, he said this would make it much more sensible to buy goods, property or shares than to hold on to money.

Business Report

THURSDAY, NOVEMBER 28, 1985

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Recovery must mean higher inflation — Kantor

By AUDREY D'ANGELO

THE strong recovery of prices on the Johannesburg Stock Exchange and of the financial rand are signs that confidence in the long-term future of the economy is returning, Professor Brian Kantor of the University of Cape Town said yesterday.

Speaking to the Cape Town South African-German Chamber of Commerce and Industry, he said that although the economy was very weak it was unlikely to weaken further.

"It is very important to understand that the higher rates of inflation to which the economy will be subject over the next two years will be the effect of the weak rand."

"The economy will recover as wages and salaries catch up with prices."

"It will be quite wrong to regard

the increases in wages and salaries that will accompany recovery as the cause of inflation.

"Over the next two years they will be the effect of the recovery of the economy, which is to be welcomed and encouraged."

Professor Kantor said the problem in South Africa now was "too little spending rather than too much, too much saving rather than too much investment."

"What needs to be done for the economy right now is to get spending up, without permanently increasing government's share of the economy."

He said the authorities had correctly decided to give priority to the recovery of the economy rather than "attempt to squeeze any more of an export surplus."

"Any such attempts would have

been surely counter-productive in that they would have meant a still weaker economy and one more vulnerable to unrest and withdrawals of capital and skills."

But in order to keep South Africa's trade and financial links with the outside world there must also be "a process of political reform that removes, in the first instance, racial discrimination and secondly, that allows blacks to participate much more closely in the process of government."

"This means a lot less than one man, one vote but a lot more participation and a lot more sympathetic government."

The South African Government was clearly seeking black participation but finding it difficult to achieve on its own terms.

"In encouraging effective partici-

pation, perhaps something can be learnt from recent developments in labour relations."

The emergent black trade unions had been regarded as a threat because they were highly radical. But this radicalism had been disciplined by economic self-interest.

"Economic realities have imposed themselves, while at the same time channels of communication between workers and firms have been kept open."

Pointing out that the participation of blacks in local and regional government could bring great benefits to the governed — particularly if the powers of local authorities were extended to education — Professor Kantor said "The problem, of course, is to encourage credible black participation."

Prof Brian Kantor

Cape Town 28/11/85

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Inflation rate of over 20% predicted

Prices of household goods are set to soar

By CHERILYN IRETON and
GERALD REILLY

MASSIVE price increases in household goods early in the new year will push the official inflation rate — as measured by the Consumer Price Index — above 20% much sooner than expected.

Most food items will rise by between 10% and 33%. Pick 'n Pay chief buyer Richard Cohen told *Business Day* he did not know of any product which would not have a price increase within that margin.

Prices of toiletries will increase by at least 10%. Some items, such as paper tissues and disposable nappies are set for two 15% price increases next year. Razor blades will cost 30% more and detergents 21% more.

A bread price increase is certain by the end of March, according to Pretoria sources, while the Dairy Board announced at the weekend that milk, butter and cheese prices would be raised early next year.

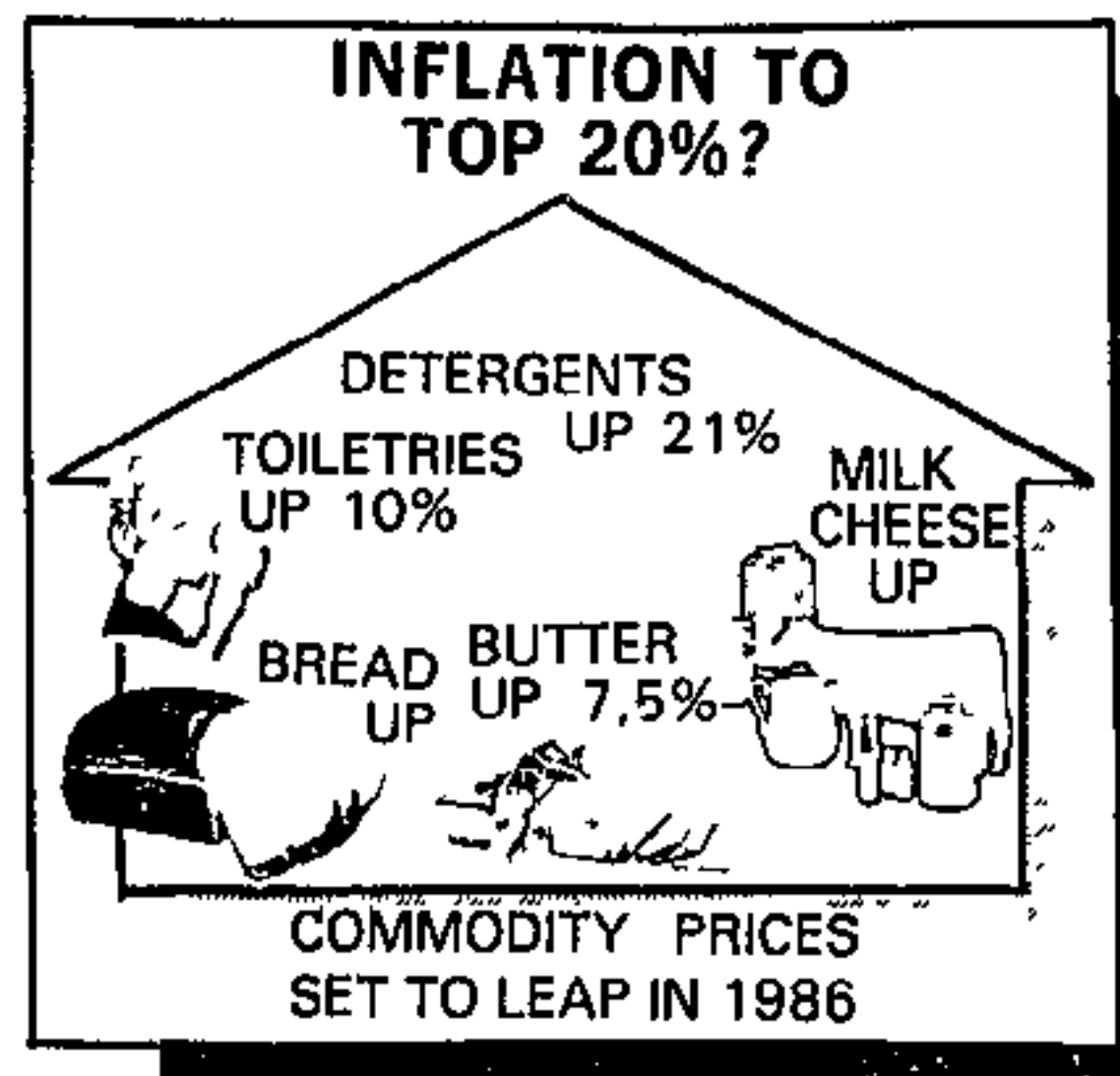
Distributors are expected to raise margins and force up the price of fresh milk within the next few weeks.

The Dairy Board also announced an industrial milk price increase of about 4% from today — up by 142c to R34,50 per 100kg.

This means that wholesale and retail prices of cheddar and gouda cheese will rise by 11c/kg, or 2,1%, and the price of butter by 38c/kg or 7,5%, from February.

The board will subsidise to maintain prices at current levels until then.

Other basic foodstuffs earmarked for increases include sugar and maize, coffee, fruit, vegetables and meat.



fee, fruit, vegetables and meat

The price tags of other groceries set to change include: canned fish, spices, oats, breakfast cereals, biscuits and sweets.

And, of course, the petrol price is likely to be increased again early in the new year, unless the rand stages a spectacular recovery.

Checkers' grocery manager Brian

Sachs expects most increases to be phased in over the first two to three months of 1986.

"We are attempting to delay increases as long as possible and are buying in stocks to try and cushion the blow," he said.

"But 1986 is going to be a bleak year. We are going to be affected by the increased rail tariffs and are expecting the ramifications of increasing inflation."

Cohen blames rising food prices on the rand-dollar exchange rate, the 10% import surcharge and the 15% increase in rail rates. "All this paints a poor picture. I don't think anyone is exercising control over inflation. Either they don't care or they have lost touch with reality."

There is a strong suspicion among buyers that suppliers "talk to each other" before price increases are announced. But there is little that can be done about it.

It now seems highly improbable that

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Massive price increases

the CPI will stay below 20%.

Prices in October this year were 16,8% higher than a year before. Food accounts for just less than 25% of the CPI.

At the end of October, food prices were 12,8% higher than a year previously, lagging behind price increases for all other items measured in the CPI which were 18,3% up.

The big increases over the last 12 months have been in coffee and tea, up by 23,5%, fish (up 24,3%), fruit (19,1%) and grain products (17,6%).

Apart from vegetables (1,8%), no other category of food increased by less than meat's 11,5%.

With salary increases well below the inflation rate, disposable incomes will be under further pressure. Consumers are likely to dig into their savings, which had

picked up earlier this year.

By the second quarter of this year, the personal savings ratio (savings to disposable income) had reached 7,4%. By most estimates, it will have dipped to 5% by year-end. Next year it will be lower still.

Discussions on rising costs have been taking place throughout the country.

On Thursday the SA Milk Distributors' Union met to study escalating costs, and the "thin" margins on which the dairies are operating.

The National Marketing Council met Agriculture Minister Greyling Wentzel to discuss milk producer costs, the losses being suffered on surplus dairy exports and the need for bigger producer levies.

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Stagflation biggest danger — Assocom

JOHANNESBURG — South Africa's major economic danger in 1986 is stagflation, "a stagnant, viscous economy with prices constantly on the rise", the Association of Chambers of Commerce (Assocom) says in its quarterly review.

The review explained the problem was not high demand but high input costs, and called for the privatization of state bodies and a cutting back of regulations.

"We have to take a calculated risk on inflation," it said. "Most manufacturing enterprises are working below full productive capacity. We can withstand a considerable increase in demand before buying power forces up prices."

The review said it was important to restore the

world's faith in South Africa and get the economy rolling again, to increase employment and make the rand appreciate. "Then let us have a fresh look at our inflation problems."

It was clear that the root of South Africa's problems was its political philosophies, the review continued, calling for black participation at all levels of government and an end to apartheid restrictions on the movement of labour.

Meanwhile, Assocom's business confidence index (1983-100) rose to 80.6 points in November from 78.0 in October. No figure is available for November last year.

Assocom attributed the rise to the Government's plans to develop offshore gas near Mossel Bay, recent tax conces-

sions, the reduction of prime rate to its current 16.5 percent, and the sharp upswing of the all market index on the Johannesburg Stock Exchange.

Assocom added however that business confidence remained at relatively low levels with the numbers of insolvencies still on the increase, unemployment high and inflation at nearly 17 percent.

"In addition to this the real purchasing power of the consumer is still declining and, in the present situation of low rates of utilization of production capacity in manufacturing industry, expenditure on capital investment is remaining low."

The BCI reached its lowest level in April when it was 76.1 points — Sapa-Reuter

Regular adjustments needed

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Short-term insurance feels the bite of GST

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INFLATION and general sales tax have had a big impact on the short-term insurance industry, says Santam Insurance MD C J Oosthuizen.

And he expects premiums to be adjusted in March or April in an effort to counteract these factors.

Oosthuizen says Santam paid out R277m in claims, or about R1,1m every working day, with the average claim having increased by 20% during the year to September 30.

"We think the inflation rate is about 16% a year, but the inflation rate in the motor industry, which accounts for 50% or 60% of all claims, has been about 32% over the past year.

"The other big area for claims is burglary and theft of high-cost tradable items such as video machines and hi-fi equipment.

"In these instances there have been substantial cost increases and, as a result, a measure of under-insurance.

"Then there is the GST factor, the real

ANDRE VAN ZYL

impact of which is not yet fully appreciated.

"The bulk of our claims for 1985 were not in the form of cash paid to the people concerned, but cash paid for the replacement of stolen items or repairs to motor vehicles — both attracting 12% GST.

"Thus the R277m paid out included about R33m which went to the Receiver of Revenue.

"The Revenue authorities naturally expect to collect any additional GST from the moment it is introduced, but insurance companies have contracts which were established with the lower tax rate in mind, and therefore just have to carry the additional expense," says Oosthuizen.

He says premiums should be revised regularly — at least every six months — in order to overcome the effects of inflation and GST changes.

Santam increased its premiums in May last year, but Oosthuizen says the increases have not been sufficient because of costlier claims this year.

Inflation could rise to 24%, says Unisa professor

By Peter Farley

The inflation rate could reach as high as 24 percent next year, but as long as employers resist indexing wage contracts South Africa should avoid entering the realms of hyper-inflation

Unisa's Professor Colin Rogers, writing for stockbrokers Frankel Kruger, says that two conflicting factors currently dominate perceptions about the future for inflation

"Those of a monetarist persuasion are looking to the slower growth in the monetary aggregates as an indication that the rate of inflation will decline. Those of a more eclectic nature point to the weak rand and its cost-push inflationary expectations"

But, though all monetary aggregates are currently growing at negative real rates on an annualised basis (M-1 has even registered a nominal decline of 2.6 percent in September), Professor Rogers says that inflation is now predominantly under the influence of the exchange rate and the cost-push factors that result from a collapse in the rand

He adds that it would be a mistake to attempt to predict the rate of inflation on the basis of the current behaviour of the monetary aggregates

Employers warned not to index wages

He notes that it should also be mentioned that the Reserve Bank can hardly claim to have brought the money supply under control "To make such a claim under the present depressed circumstances is to add a new dimension to the meaning of the word control"

Weak rand

But, accepting that the rand will dominate the immediate inflationary pressures, Professor Rogers stresses that the response of wages and salaries to the initial cost-push inflation of a weaker rand will determine the momentum gained by inflation over the next two years

He notes that taking a longer-term inflation rate of 13 percent and, assuming no response on the part of wages/salaries and no reduction in profit margins or changes in taxes, the weak rand will add a further eight percent to the Consumer Price

Index (CPI) over the next two years

This scenario implies an 18 percent inflation rate next year and 16 percent in 1987. But, assuming that wages/salaries attempt to keep pace with inflation secondary cost effects are introduced which add a potential 17 percent on to the CPI over the next two years

Applying the same assumptions, this would mean an inflation rate next year of 24 percent and 21 percent the year after

He emphasises that the factor of wage restraint has unfortunately been one element neglected by the recent monetarist dominated debate on inflation

"The ball game has changed, however, and it is somewhat ironic that monetary targets are likely to be introduced just at the moment when they are not required"

What should be introduced, argues Professor Rogers, is

some machinery for moderating wage increases "The least the authorities could do is set a good example by restraining wage and salary increases in the public sector"

But, he notes, with profits buoyant in the export sector those companies are likely to be sympathetic to wage demands, and though other sectors' wages are likely to increase initially at a much slower rate the pressure to catch up will build over time

Therefore he concludes, the upper estimates of the inflationary impact of the weak rand are the most likely

But, he warns, "if the authorities react to an abnormally high inflation by indexing wage contracts, then the ball game against inflation is effectively lost and the scene set for hyper-inflation"

"South Africa is not yet in that position, but as the rate of inflation rises the demand for such indexation will increase — it should be resisted at all costs"

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Freehold not tied to urban rights

FREEHOLD rights for blacks will not be tied to urban residence rights. Any black South African able to buy a house in a proclaimed black urban area may do so — and live there.

In other words, blacks who can afford it will be able to acquire immediate urban rights simply through the purchase of a house, once enabling legislation has been enacted by Parliament next year.

They will be able to circumvent the provisions of Sections 10 (i) A, B and C of the Black (Urban Areas) Consolidation Act. These sections define black eligibility for urban residence rights in terms of birth, period of residence or employment, and familial relationships.

Constitutional Development and Planning Minister Chris Heunis issued an explanatory statement yesterday, after 24 hours of confusion caused by his

PAUL BELL
Political Correspondent

statement on Wednesday, when he said blacks would get freehold rights in leasehold areas.

The entitlement to leasehold had been dependent on an applicant's possession of Section 10 rights — a linkage which government has now dropped. Leasehold has applied to all black townships since November and government will now grant freehold in these areas.

Heunis gave three examples of the implications.

□ "A person who at presents finds himself in Soweto and who is able to buy a house, will be able to occupy that house legally."

□ "An inhabitant of Lebowa, who is able

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Air fares set to rise 20%

FRED STIGLINGH

INTERNATIONAL air fares will increase by up to 20% between January and April next year on all airlines operating out of SA.

An SAA spokesman said yesterday the weakening rand will necessitate a currency adjustment of 15% to all international areas except Israel with effect from January 1.

In addition, the International Air Transport Association (Iata) has announced increases of between 3% and 5% on regional and international destinations from April 1.

is Aircraft in the new
6 edition, published

EXCLUSIVE

There will be a 5% increase to and from all regional destinations with the exception of Malawi, Tanzania and Zambia, where incoming fares remain the same.

Fares to and from Australia, Japan and Korea will increase by 5%, and the Middle East, Far East and South America by 3%.

European and Canadian fares remain the same until new agreements are reached.

15,5% increase in two stages

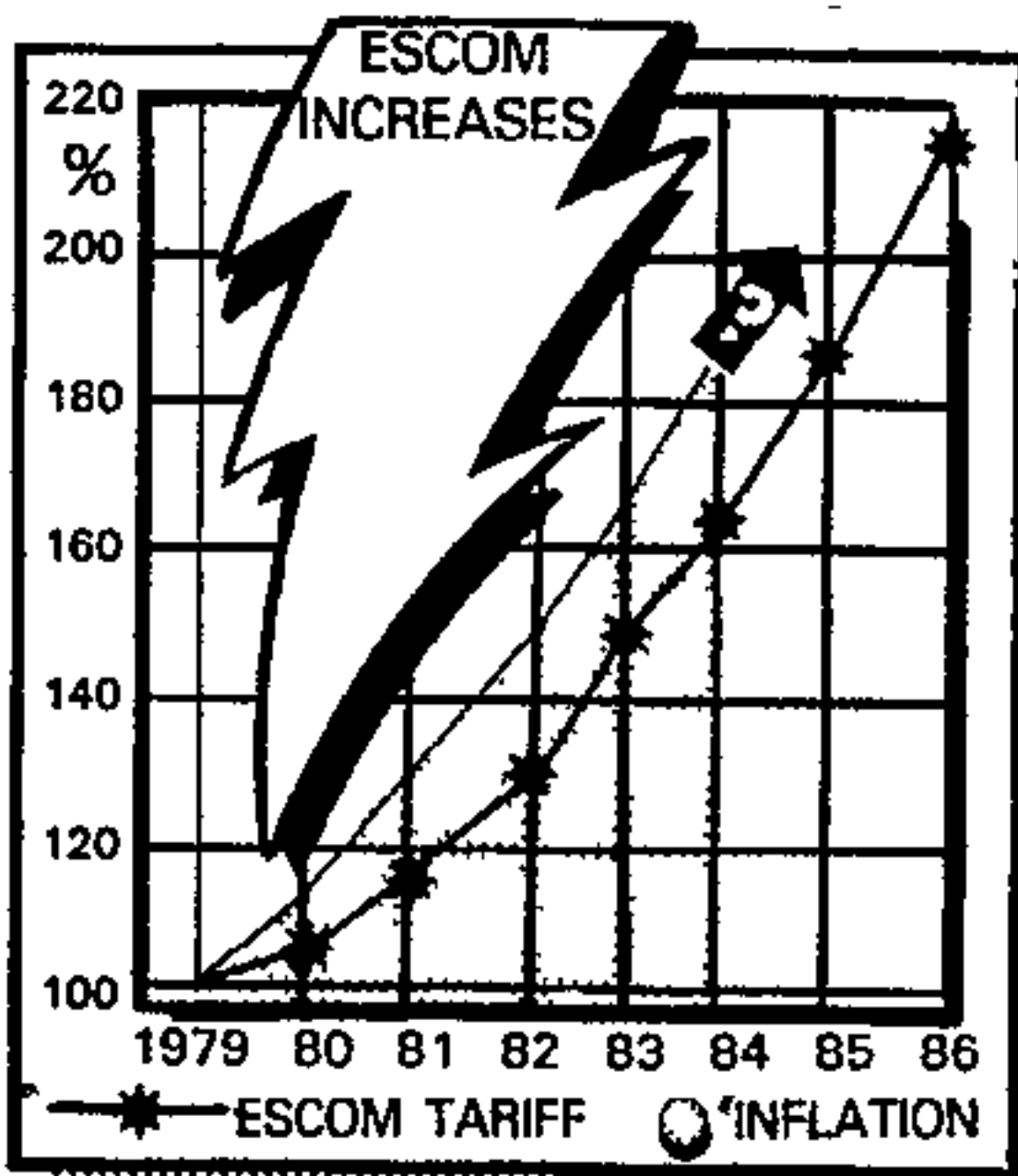
Escom rise 'a setback to recovery'

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THE 15,5% electricity tariff increase next year will aggravate Escom's financial position and delay economic upturn, said Federated Chamber of Industries (FCI) president John Wilson.

"A tariff increase of this magnitude at this time will undoubtedly further curb electricity demand," Wilson said.



FRED STIGLINGH, GERALD REILLY
and SABA

Escom chairman John Maree yesterday announced the increases would be implemented in two stages, on January 1 and July 1, amounting to a cumulative 15,5% for the year.

This year saw similar increases, on January 1 and September 1.

Maree said major cost reduction had to be implemented to keep the increase below the 16% inflation rate.

Cost factors include:

- ☐ Higher interest rates on the local capital market due to difficulties in getting foreign loans
- ☐ Lower income from electricity sales resulting from lower economic growth.
- ☐ The decrease in the rand value boosting cost of imported equipment
- ☐ The import surcharge.
- ☐ Higher transport costs

The increases would raise basic power tariffs by 21% by the end of 1986, FCI's Wilson said, adding "This occurs alongside substantial increases which have already taken place, resulting from

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Escom hike 'a setback'

changes in the basic rate structure."

He said decline in electricity demand was partly due to a history of tariff increases which averaged 18% over the past 10 years.

This was more, than 5% above the average inflation rate.

An Assocom spokesman said the increases came at an inopportune moment when "business viability is under pressure"

"Not only will these increases impact upon the cost of living but will have an

● From Page 1

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adverse effect upon the production costs of most industries," the spokesman said.

Volkas economist Adam Jacobs said the combined impact of the power tariff hikes, the 15% hike in railway rates from January and the expected increase in the petrol price — also in January — would send the inflation rate above 17%.

The current CPI level is 16,6 — the highest since 1922.

Inflation rate could top 20% 9/12/85

Spate of price hikes expected in the new year

THE new year will begin with an explosion of price increases in key services and products which could send the inflation rate over the 20% hump by mid-year, according to some economists.

Government policy to relegate inflation to second place behind job-creation, by moderately stimulating the economy, would add to inflationary pressures, they pointed out.

Last week Escom announced a 10% tariff hike from January.

Transport Affairs Minister Hendrik Schoeman has also announced a 15% rise in freight charges from January 1, and another fuel price hike of at least 6c/l is likely at the end of next month.

Mineral and Energy Affairs Director-General Louw Alberts told *Business Day* that if there were no great improvement in the dollar value of the rand, the problem would have to be looked at in January.

Losses were large when considering the break-even point was \$0,42.

"We can't carry a negative slate for too long. We have to recoup, and we want to avoid delaying adjustments for too long and the imposition of shock increases," Alberts said.

GERALD REILLY

Wheat Board GM Dennis van Aarde has indicated the possibility of another bread price rise early in the new year to compensate the baking industry for higher costs — mainly fuel costs.

Last month the SA Milk Distributors Union met to discuss rising costs and increases of 2c/l to 3c/l were imminent.

This again is mainly because of the 5,9% petrol price hike in November, and the increased costs of imported carton materials because of the crippled rand.

Meat prices are also expected to remain at record levels over the holiday period and into January.

Economists warn of increased postal tariffs from April.

Schoeman will also have to adjust some tariffs in his budget in March.

Not only have SATS costs risen because of general inflation, but the higher fuel prices and electricity increases of 10% in January and 10% in July would add greatly to rail, road and air operating costs.

Schoeman will probably also have to find about R300m for staff increases.

Doctors' fees will rise in January by an average of 12,5% and private hospital charges are set to rise by 12%.

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State pay rise 'crucial'

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ECONOMISTS see the higher government wage bill as the crucial inflation factor in the immediate future.

One said it would be unfair to expect people to absorb 15% inflation. A wage increase was justified but must be seen in an overall context.

"One can't blame inflation on a salary increase," he added

The economist said the additional R1bn to the wage bill would not sustain a spending spree.

"One can't create wealth out of thin air."

Another said the country was already attempting to restimulate through lower interest rates and tax concessions but these had not been enough to increase

BUS DAY
Business Day Reporter

demand. Therefore, one must realise the added consequences of too-high a wage bill increase.

He added that government should be able to support a slightly higher deficit without turning to the market next year.

A bank economist said: "Effectively, civil service spending power will rise by 20%, which will enable manufacturers who have been absorbing their costs to raise prices. This in turn should prompt a recovery."

The biggest concern to all three was tax concessions. Because of wage increases government would not be able to make more concessions next year.

Money supply is static

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JOHN TILSTON

THERE was no growth in money supply in October, further evidence that SA's rampant inflation is being fuelled by cost-push factors, the chief of which is the collapse of the rand.

Figures released by the Reserve Bank show that, measured on a month-on-month basis, the narrowly-defined M1 declined by 8,2% while the M2 and M3 measures were essentially unchanged.

M2 — which includes M1 (notes, coins and demand deposits) plus short- and medium-term deposits — is the measure the Reserve Bank considers the most important. It grew by R40,71bn (Sept R40,51bn) for a year-on-year increase of 12% (14,6%).

The M3 measure — M2 plus all other

deposits of the non-bank private sector — grew to R46,13bn (R45,89bn) for a year-on-year growth rate of 13,2% (15,4%).

M1 declined to R22,29bn, 5,9% lower than in October 1984, after increasing by 5,5% in September. The decline indicates that investors are switching from cash to medium-term deposits in anticipation of further declines in interest rates.

The static nature of the money supply is also a reflection of the depth of the recession. The demand for cash with which to do business is at a low ebb.

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GERALD REILLY

GOVERNMENT was the prime beneficiary of inflation, PFP finance spokesman Harry Schwarz said in Pretoria yesterday

This was clear, he said, from the huge increase in income tax collections in the first eight months of the financial year compared with the same period last year

According to the Department of Finance, collections for the eight months to October amounted to R9,147bn. This was R2,533bn greater than for the same period last year.

Finance Minister Barend du Plessis estimated total collections for the 1985-86 financial year at

PFP slams tax bite

R15,531bn

GST collections also showed a sharp rise compared with last year, from R3,255bn to R4,599bn. Estimated collections for the whole of the financial year amount to R8,32bn.

Schwarz said that, because of inflation and bracket creep, the State was taking ever larger amounts of pre-tax incomes.

That inflation was "government's best friend" was also borne out by the fact that "good" money borrowed by government was being paid back in inflation-eroded "Barend du Plessis money".

Shoppers stockpiling foodstuffs

WITH price increases of almost all commodities reaching unprecedented proportions, shoppers have started stockpiling foodstuffs in an attempt to beat a new wave of inflation-related rises predicted for the early new year.

And foremost among the stockpilers are whisky drinkers, who learnt yesterday that the wholesale price of their favourite drink — up by 45% since July — is to rise yet again when existing stocks are depleted.

The SA Consumer Council has called on the public to beat inflation by shopping wisely and eliminating waste.

WINNIE GRAHAM

Supermarket spokesmen say shoppers are spending whatever money they can spare on stocking their larders with foodstuffs.

Checkers MD Clive Weil said yesterday there was no doubt housewives were buying groceries — mostly with an imported content — which they knew would increase in price sharply next year.

He said there had been predictions that the price of coffee would double in 1986, and that detergents, dishwashing

fluids and soaps would rise sharply.

Housewives were also buying meat and chickens in bulk when stores offered these on special promotions, he added.

"We have adopted a policy of warning housewives when we know in advance of price increases," Weil added.

The OK's GM (food division) Ralph Horwitz described the continuing wave of price increases as "mind-boggling".

"We are conducting a continuing battle with manufacturers to keep price increases down or, at least, to stagger them," he said "But increases keep coming fast and furiously."

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Policies aren't working — Stuart

Govt blamed for low business confidence

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GOVERNMENT behaviour on both the political and economic fronts must be blamed for much of the uncertainty and deterioration of business confidence in SA, says Ockie Stuart, of Stellenbosch University's Bureau for Economic Research.

And he criticises claims by fiscal and monetary authorities that the balance of payment surplus is proof of the success of their August 1984 policy package

"This is, in my opinion, an extremely one-sided evaluation," he says

Reviewing the confidence factor and its impact on economic growth, Stuart notes that the severe economic recession first impacted on import volumes.

At the same time, a lack of foreign confidence and other factors led to a substantial decline in the value of the rand, thus pushing up the rand-price of exports.

"Surely the authorities cannot regard the fall in the rand's value as a success story?" says Stuart. He notes that South Africans,

Business Day Reporter

while being told by government officials that policies are working, have experienced.

- ☐ Rising inflation and unemployment,
- ☐ More firms dissolving;
- ☐ Soaring prices of imported goods, and
- ☐ Over-spending by the State.

What people are perceiving is a very different message from that being put out by some government and quasi-government officials, he says

"This must have led to distrust, confused expectations and a deterioration in confidence"

Stuart also blames obfuscation by politicians for adding to the confusion, unrest and irritation he says usually characterise periods of reform

"By not spelling out the path of reform clearly, the scene was set for speculation and rising expectations — the one feeding the other.

"When expectations were shattered a part of the population lost

their patience and organised violence became a way of life"

Stuart says he believes it is not too late to put matters to rights

"All that is needed is clear guidance as to what the ultimate goals are, and how they are to be reached

"By doing this, confidence will probably improve — overseas in particular — and the economy will get a fair chance to recover"

Stuart says economic ills can be traced to low confidence levels and shattered expectations.

"Clear signs exist of dissatisfaction with the government's political and economic performance"

One need look no further than to the extent of overseas dissatisfaction, as reflected by the low exchange rate of the rand, he says

Internally, the fact that most South Africans live in a partial state of emergency speaks for itself.

"It is up to the politicians and economic policy-makers to rectify matters, in particular to boost confidence both here and abroad"

94 Main Street, Johannesburg
2001

Date: 12 December 1985

Sana-Reuters

Whites fear unemployment

CAPE TOWN 19/12/85 Staff Reporter (153)

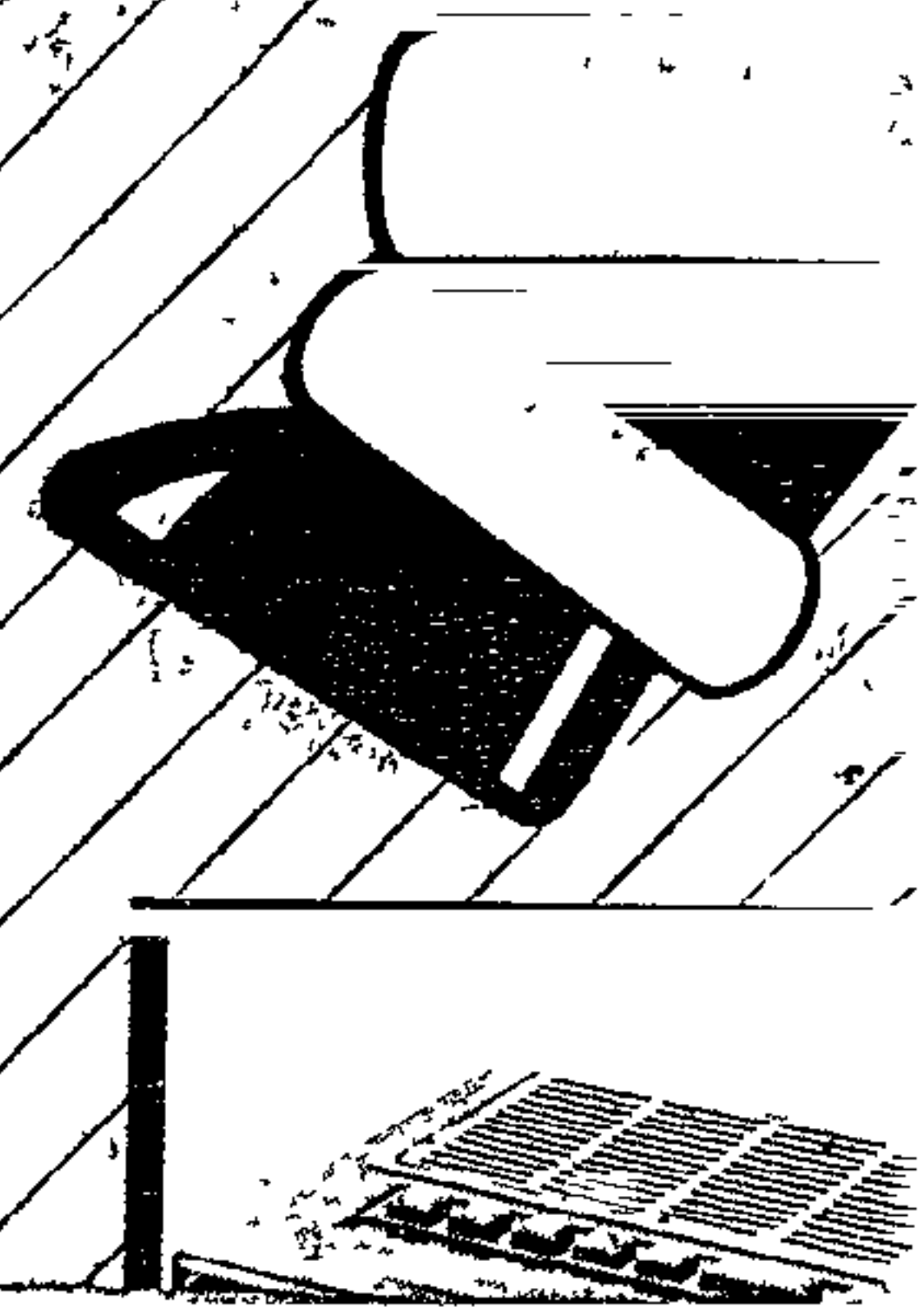
TWO out of three urban whites find unemployment a more serious threat to South African society than inflation, according to a recent Markinor Gallup poll

Asked whether the government should concentrate on reducing the rate of inflation or the level of unemployment — since there is often a trade-off between the two — 69 percent said unemployment was the more urgent priority

This view was widely held and was little affected by the age, sex and income of the 1 000 respondents

Afrikaners (71 percent) are slightly more concerned about unemployment than English speakers (67 percent)

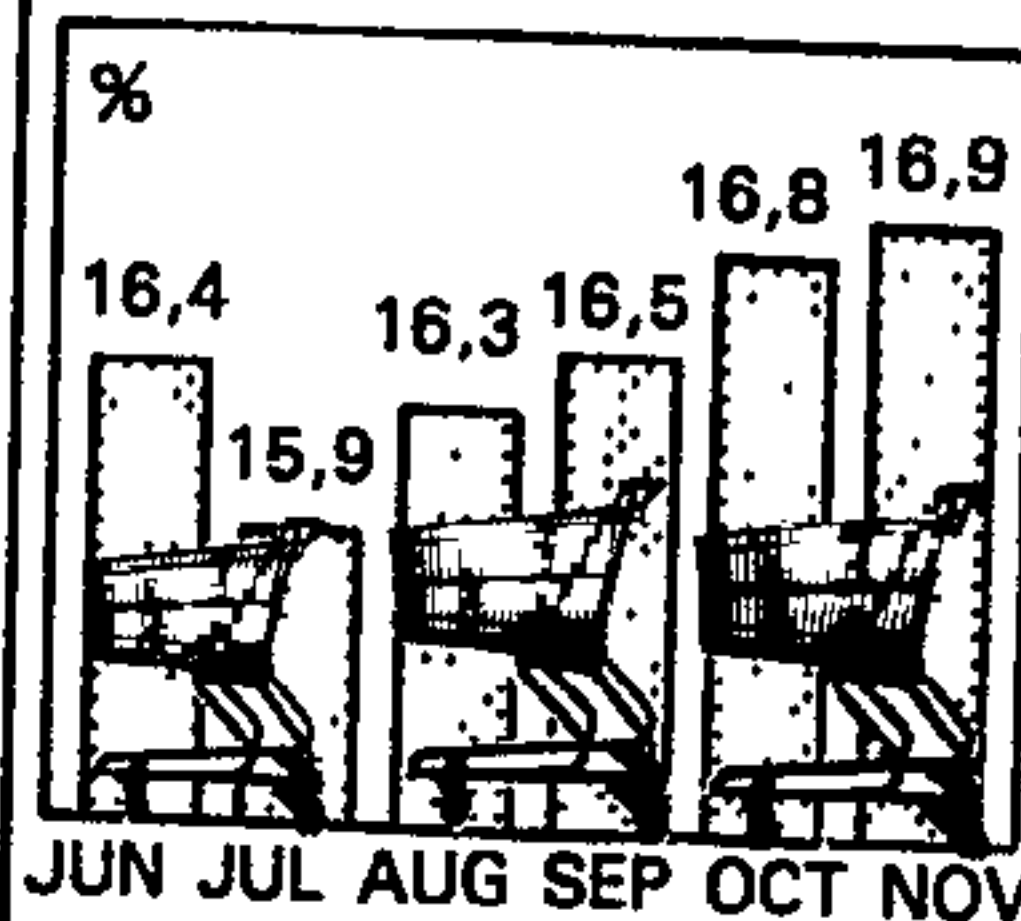
Residents of Cape Town (72 percent) are more concerned than those in Durban and the PWV area (both 68 percent)



Inflation rises again

JOHN TILSTON

C.P.I.
1985



THE rate of inflation hit a post-war record level for the third successive month in November. The year-on-year increase in consumer prices reached 16,9%. The October figure was 16,8%.

It seems certain that the record will be breached in December before there is some downward movement.

In the five years since 1980, prices in SA have doubled. They are three and a half times higher than 10 years ago.

Inflation remains stubbornly high as prices are battered by the weak rand and hikes in administered prices.

However, the figures released by Central Statistical Services (CSS) yesterday offer some hope for inflation prospects over the next few months. The all-items consumer price index (CPI) moved up 1,29% in November (an annualised rate of 15,48%), compared with previous monthly gain of 1,52% (18,24%).

But December is likely to be the fourth consecutive record month because the increase in December 1984 compared with November was an annualised 7,8%. An annualised increase of more than that next month will ensure an all-time high is reached.

As the CSS collects figures for its CPI calculations in the first week of each month, the November 12 increase in the petrol price has yet to be reflected. There will also be further pressures from the weak rand, the effects of which have not yet worked their way fully

through the economy.

Thereafter, economists believe, there should be some moderation in inflation.

Old Mutual economist Rob Lee says that for statistical reasons the year-on-year rate of inflation is likely to decline from February next year until mid-year. He points out that there were some large jumps in inflation earlier this year which will have a moderating influence on the CPI early next year.

In February, for example, the monthly increase in prices was an annualised

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Inflation hits record level

as the effect of the 45% increase in the price of fuel filtered through to the economy.

Lee forecasts that the year-on-year rate could drop to 15% before turning upwards again.

He argues that the upward spiral will return in the second half of 1986 as currently dormant domestic inflationary pressures reassert themselves. The savage recession has stopped any hint of demand inflation, but the stimulatory action taken by government now and in the future will begin to affect the rate of

inflation in the second half of next year.

Other economists believe that spare capacity in the economy has reached such a level that pressure on prices from excess demand will not materialise next year.

Reuter reports, meanwhile, that the lower-income group CPI rose by a year-on-year 14,44%. The middle-income group CPI rose by 16,96%.

The higher-income group CPI rose by 17,67%.

● From Page 1

'Peak has been reached . . . at least for the time being'

Lower inflation rate forecast for next year

STAR 20/12/85 7 153

Inflation has reached its peak for the time being and is unlikely to get close to — or above — the November 1985 level until the end of next year, says an economist with one of the country's top banks.

The inflation rate reached a new high of 16,9 percent in November — 0,1 percent above October's figure which was also a record high.

A combination of technical factors, together with real reductions in living costs — notably housing — would reduce the year-on-year inflation rate in the coming months, the economist said.

With housing being a major cost element in the Consumer Price Index, the reduction of the mortgage bond rate by the United Building Society this month and by other building societies in January would bring the CPI down from its November level of 203,4.

The main technical factors which would have a similar effect were the high level of the CPI in December 1984 which would have the effect of reducing the percentage increase for this December, and the 40 percent increase in the price of fuel at the beginning of this year which pushed up the CPI for February. This would have the effect of lowering the percentage increase for February 1986 on the customary year-on-year basis.

'Less pessimistic'

"The more important question is what inflation levels will be in the second half of next year. We are less pessimistic than some who believe the inflation rate will reach 20 percent, we do not expect it to go above 17 percent in 1986," the economist said.

"And, even more important — what will happen in 1987 and 1988 when the effects of higher costs of new imported machinery will be felt by manufacturers?"

This would push up the general cost structure. But much would also depend on what economic policy the authorities adopted.

"Presumably between now and the end of next year they will move from the present policy of employment creation back to an inflation-fighting stance," the economist said — Sapa.

Inflation rate¹⁵³ reaches 16,9%^{CPI Tink 20/12/84}

JOHANNESBURG. — Inflation has reached its peak for the time being and is only likely to rise close to — or above — the November 1985 level towards the end of next year.

This is the view of an economist for one of the leading banks when commenting yesterday on the inflation rate, which reached an all-time high of 16,9 percent in November — 0,1 percent above October's figure, which was also a record high.

A combination of technical factors together with real reductions in living costs — notably housing — would reduce the year-on-year inflation rate in the coming months, the economist said.

With housing being a major cost element in the Consumer Price Index (CPI), the reduction

of the mortgage bond rate by United Building Society this month and by other building societies in January would bring the CPI down from its November level of 203,4.

The main technical factors which would have a similar effect were the fact that the CPI in December 1984 was high, which would have the effect of reducing the percentage increase for this December

Fuel price

Similarly, the 40 percent increase in the price of fuel at the beginning of this year pushed up the CPI for February, which will have the effect of lowering the percentage increase for February 1986 on the customary year-on-year basis.

"The more important question is what inflation levels will be in the second half of next year

"We are less pessimistic than some who believe the inflation rate will reach 20 percent, we do not expect it to go above 17 percent in 1986," the economist said.

"And even more important, what will happen in 1987 and 1988, when the effects of

higher costs of new imported machinery will be felt by manufacturers?"

This would push up the general cost structure. But much would also depend on what economic policy the authorities adopt.

"Presumably between now and the end of next year they will shift away from the present policy of employment creation back to an inflation-fighting stance," he said.

A statement released by Central Statistical Services (CSS) said the increase in the price of food and transport contributed largely to the increase in the CPI for November.

The CPI for all income groups in November stood at 203,4 (base 1980 100), the CSS said, compared with 200,8 the previous month and 174 a year ago.

The index for food reached 198,8, up from 195,1 in October and 175,3 in November last year, while the commodities index rose to 198, compared with 194,9 in October and 167,9 last November.

The year-on-year inflation rates by income group for November are

● **Lower income group:** Inflation rate of 14,4 percent (CPI November 197,3, October 194,8, November 1984, 172,5).

● **Middle income group:** 17 percent (CPI November 204,8, October 202,2, November 1984, 175,1).

● **Higher income group:** 17,7 percent (CPI November 204,4, October 201,7, November 1984, 173,7) — Sapa

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for the J H Isaacs group, notes projects, brought about largely building market and still ex-

Parliament is keenly awaited

20% clothing price increase forecast

ROCKETING clothing prices predicted for next year are expected to leave many of us threadbare

Increases of from 20% to 40% are forecast, depending on imported content of the garment

"If they're totally local, the increase will be nearer 20%," says Frank Wells, chairman of the Textile & Clothing Advisory Council (TCAC)

Wells, MD of Edgars Stores' retail services division, adds "Manufacturers have to realise sales will drop if prices increase" Increases apart, shop boycotts this month will dictate the face of the sector in 1986

While effective boycotts spell

LAWRENCE BEDFORD

bargains galore in January, for the retailer they add up to unprofitable sales Wells says retailers have ordered only 80% of their requirements for Winter 1986 (April to June)

Reduced imports apart, the other difference for 1986 is that the amount of new retail space coming on stream is negligible

Textile Federation executive director Stan Shlagman expects import replacement to continue up to a point, but fears inflation will narrow the gap between domestic production costs and imports

National Clothing Federation

(NCF) president Mike Getz says SA is paying a full price for ignoring the basic rules that determine meaningful growth in a developing society

Getz says it is to be hoped that the present preoccupation with urbanisation and deregulation is not another retreat from the harsh reality SA has brought upon itself He says government appears unable to impose necessary disciplines, but chooses rather to tax more and more jobs out of existence

Prospects for 1986 depend on confidence and demand, linked to a return of more stable political and economic conditions, adds Getz

Of his own industry, he says "Exports must receive priority. There is considerable unused capacity now that could well be kept busy with exports However, intending exporters will need a more meaningful signal from government that its intentions are to encourage exports"

He says the best way it could do this is to announce that immediate and urgent consideration is to be given to the problems of raw material costs to SA manufacturers

Getz says manufacturers in pursuit of foreign business can become both effective ambassadors as well as messengers of reality from abroad

Red suppression on riots have claimed many victims

IRETON

Spending still depressed

CONSUMER spending at the year-end has been lower than ever, according to early indications from major retailers.

The picture from groups like Grand Bazaars, OK Bazaars, Woolworths and Garlicks suggests that December turnovers are going to barely match 1984 levels.

Taking inflation into account, this means real returns for the retail sector as a whole are going to continue reflecting dramatically the recession's impact.

This is, however, in line with most company forecasts, which generally held out little hope a Christmas spending spree would materialise.

In a recent survey of traders' expectations the Association of Chambers of

CHRIS CAIRNCROSS and Sapa

Commerce reckoned that year-end sales nationally would total about R6,4bn — a real decline of around 7% on the comparable period last year.

It was expected that the hardest hit sectors would be clothing and those items placed in the luxury category.

Many shops in the Cape Peninsula fared much better over the Christmas period than they had expected and those selling food and toys seem to have done exceptionally well.

Although no accurate figures are available, the turnover at some shops was up to 12% higher than it was for the same period last year.

Mexican art theft 'biggest' in history

MEXICO CITY — Mexico's Christmas Day robbery, in which were stolen 173 Indian art objects, dating from before Columbus discovered the Americas, could turn out to be the biggest art robbery in history.

Judicial sources told reporters yesterday that the Mayan and Aztec Indian artefacts in the National Anthropology Museum were unique and priceless. Estimates by foreign collectors suggested they could have fetched up to \$200m (about R540m) had they been sold legally — Sapa-Reuter

BER survey sees improvement

BUSINESS conditions in the manufacturing sector are expected to be slightly up in the first quarter of 1986.

A Bureau for Economic Research (BER) survey of conditions and prospects says some manufacturers expect improvements to occur in sales and production volumes.

Neither the manufacturer, wholesaler, retailer nor consumer is now in a position to absorb higher costs, it says.

Both the availability and cost of working capital have negative effects on activity in the manufacturing sector. Participants in the survey confirmed this by regarding these as major bottlenecks.

However, interest rates have eased

LAWRENCE BEDFORD

significantly recently and further reductions seem likely.

This could improve the level of production by increased demand because the cost and availability of finance usually go hand in hand.

The majority of manufacturers questioned judged their stocks of finished goods as too high, they also indicated their delivery periods of orders were shorter, when compared to the fourth quarter of 1984.

On exports, the survey says manufacturers can overcome the slack domestic demand through sales overseas. It ac-

knowledges that discrimination against SA products renders problems to conventional trading and that other methods will lead to higher costs.

As far as the high level of production costs are concerned, the survey says the underlying factors responsible for this — shortage of entrepreneurial talent, high costs of capitalisation and raw materials, and diversity of skills in the labour supply — are not expected to change substantially.

In the short to medium term, the outlook for a significant slowdown is bleak. In the long run improvements may occur if underlying detrimental structural problems are overcome.

PRICE MOVES AT A GLANCE

REUTERS

MARKET MOVEMENTS — DECEMBER 26 to DECEMBER 27

Johannesburg Stock Exchange

TO WILDNESS

Potato prices rocket but could fall soon

Humble spud joins caviar clique

31/12/82

BUS DAY

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POTATOES have hurtled into the luxury bracket in the past couple of weeks as a shortage has forced up prices sharply.

The happy days of the record crop at the beginning of 1984 benefited buyers then as prices dropped as low as R2 per 15kg pocket.

But, while the glut continued until September, prices started to rise rapidly since then. The national average is now between R16 and R18 a pocket for large potatoes.

The reasons, the Potato Board told *Business Day*, were a combination of market conditions and climatic factors.

"As prices dropped and continued

to hold down, some farmers started to change to alternative crops," said a board spokesman.

"Also, unfortunate weather conditions have reduced the most recent market supplies from the Northern Transvaal and the Sandveld area in the Western Cape."

The total plantings in the Northern Transvaal for this season dropped from last season's 7 030 ha to 5 200 ha. In the Sandveld it went from 3 300 ha to 2 300 ha.

The crops from each area were 9.6 million tons and 3.2 million tons respectively for this season, down from

12.1 million and 5.1 million for last year.

These two areas have been the country's main suppliers until now, with the eastern Transvaal due to start shortly on a comparable scale.

"But the recent heavy rain has hindered the start of their early harvest," said Director of Johannesburg Markets Peter Venter. "We shall have to wait until the eastern OFS starts to supply at the start of February till things improve."

The Potato Board added that the eastern Transvaal — the an important supply area from December to May — had also had a 10% drop in area planted and the early crop was damaged by the drought.

"But," said the spokesman, "with the eastern OFS and the western Cape round about Ceres starting to supply we should see the benefit of a better supply/demand position from February."

Supermarkets have been struggling to maintain quality in their offerings, according to Pick 'n Pay's Richard Cohen.

"There has just been no quality produce on the markets," he said. "And even seconds have been priced at as much as R15-R16 a pocket. But prices should drop early in the new year."

The recent shock of R20 price tags in the Durban market was, according to the potato experts, only a one-off hiccup.

Peak year for JSE as share prices beat inflation

By Michael Chester

Investors on the Johannesburg Stock Exchange shared in a boost worth R35 000 million as share prices soared to new peaks in 1985.

As stockbrokers closed the 1985 session today, share prices — on average — had spiralled at almost twice the inflation rate

The JSE overall index, which keeps track of the movements of all 500 companies quoted on

the exchange, showed gains of 33 percent.

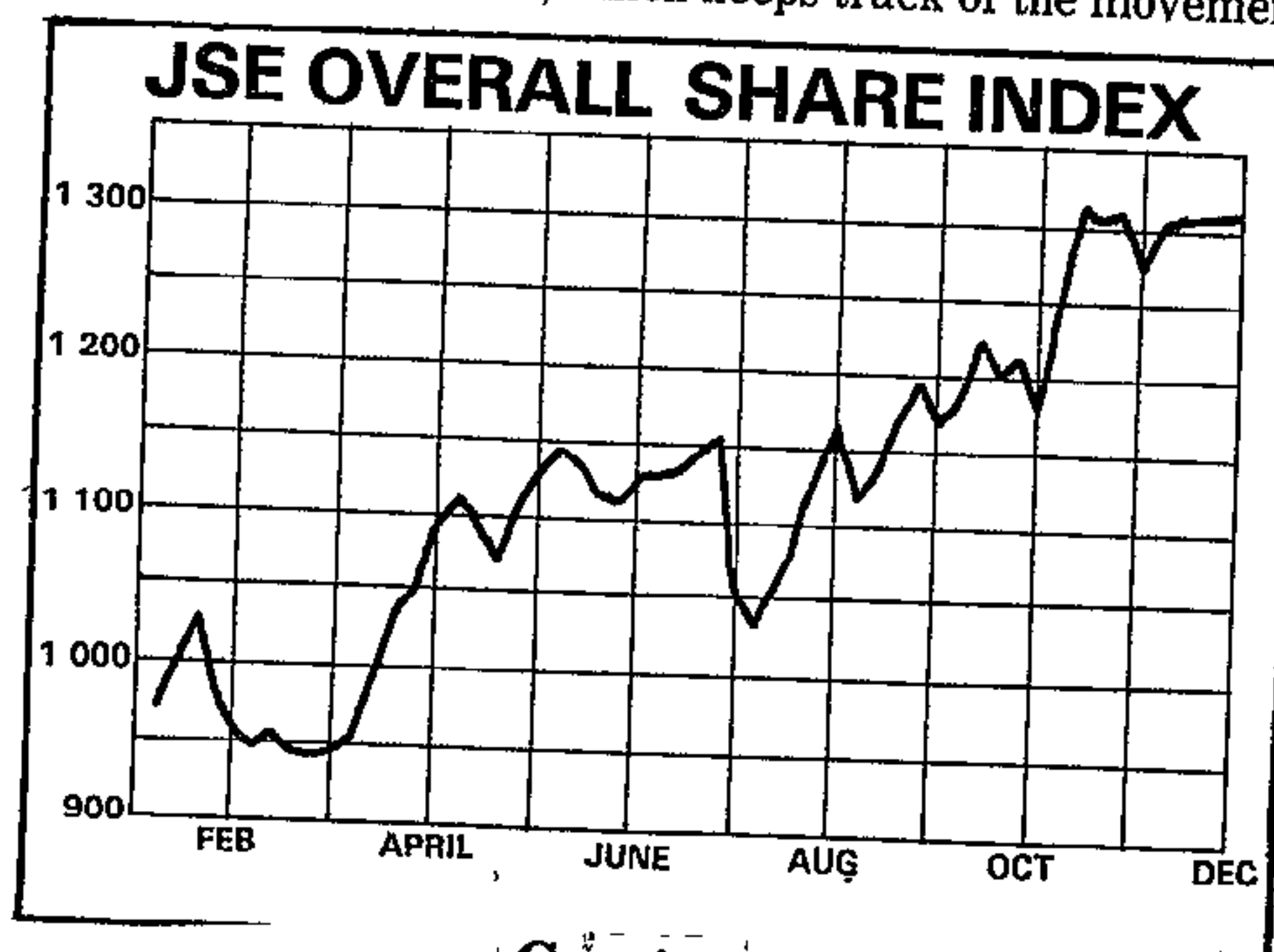
Even the state of emergency caused no more than a pause in the investor rush to find a refuge from worsening inflation.

"Records were skittled like bowling pins," said JSE President Mr Tony Norton

"The big institutions such as insurance companies and pension funds had more cash than ever to invest — and the small investors came in droves, primarily trying to beat inflation with their savings," he said

Many share prices also benefited from the weakness of the rand exchange rate, which served to boost the rand income of the gold mines and export companies

Mr Peter Polson, president of the Association of Unit Trusts, said the 13 trusts had had their most successful year in more than a decade.



Caution

Most brokers were cautious about predicting the outcome for 1986. Many were fearful that the market had become overheated and was perhaps over-optimistic about the prospects of an economic recovery that could be sustained.

As 1985 trading drew to a close today, the picture showed:

- The JSE overall index had climbed since the start of the year from under 1 000 to more than 1 300, boosting the aggregate value of equities from below R112 000 million to above R147 000 million

- Gold shares were standing 22 percent higher.

- Shares in the giant mining houses were up 57 percent.

- Industrial shares were 25 percent higher.

- Diamond shares, repolished to their old glory, showed an average advance of 100 percent

Consumer Price Index leaps 16,9 p c in a year

Mercury
Correspondent

JOHANNESBURG—
The Consumer Price Index for all income groups leaped by 16,9 percent from November, 1984, to November this year

Even in the month from October to November, 1985, the index increased by 1,3 percent

Figures released by Central Statistical Services indicate the increase in the past month was due mainly to rises in the price of meat, fats and oils, fruit, vegetables, furniture and household appliances.

Meat went up by 3,4 percent, fruit by 2,5 percent, furniture by 3,5 percent and motor vehicles by 4,7 percent

Statistics show that over the past year the

higher income group was hardest hit by CPI increases. The figure for that group rose by 17,7 percent. In the middle income group this figure stood at 17 percent and in the lower income group 14,4 percent

Indices for urban areas show that the biggest annual increases occurred in Kimberley (18,5 percent), Pietermaritzburg (18,9 percent), Pretoria (18,0 percent) and the Vaal Tri-

angle (18,1 percent)

The statistical news release emphasises that the CPIs for the different urban areas do not permit inter-urban comparisons of price levels. They do not indicate whether it is more expensive to live in one city or another

The release says they indicate for each urban area, independently of any of the other urban areas, the price changes which have taken place from time to time.

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