

REVIEW OF THE NATIONAL ACCOUNTS FOR THE YEAR 1963

by

B. P. GROENEWALD

The purpose of this review is to discuss the recent trends in the national accounts of South Africa.¹ The figures to which the discussion relates, appear in Table XXXI of this bulletin, while more particulars of gross domestic capital formation are contained in Table XXX.

Gross National Product

Gross national product, as the most comprehensive measure of economic activity during any specific period, increased from R6,067 million in 1962 to R6,667 million in 1963, i.e. by R600 million or 9.9 per cent compared with an increase of R483 million or 8.6 per cent in 1962. This increase, which is remarkable considering the already substantial increase registered in the previous year, consists of substantial increases in the value added by all industries with the exception of agriculture. The contribution by private manufacturing to the net domestic product rose by no less than 17 per cent during 1963, followed by increases of 13 per cent in commerce, 11 per cent in transport, 10 per cent by public authorities and 7 per cent in mining. The contribution of agriculture to the net

the wholesale price indices remained relatively stable during 1963, these prices relate to a part only of the total product. Prices of the other components of national product, such as the salaries of civil servants and building costs, increased substantially while the terms of trade also deteriorated during the year. After allowing for the above price increases, it appears from Table I that real gross national product increased by about 7.5 per cent in 1963 compared with an increase of 7.2 per cent in 1962. If allowance is further made for the increase of approximately 2.3 per cent per annum in the population, real gross national product per capita increased by 5.2 per cent during 1963 compared with 4.9 per cent the previous year.

This high rate of increase in the real gross national product in 1962 and 1963 could be achieved only because unemployed labour and other idle resources could still be drawn into the productive process on a substantial scale. During 1963, however, the economy began to approach the full employment "ceiling" so that future growth of the real national product would, to a large extent, depend on the expan-

Table 1. Expenditure on Gross Domestic Product at 1960 prices

	1960 R m	1961 R m	1962 R m	1963 R m
1. Personal Consumption Expenditure	3,604	3,559	3,762	4,089
2. Purchase of Goods and Services by Public Authorities	590	632	733	804
3. Gross Domestic Capital Formation	1,135	1,111	1,107	1,332
4. Exports of Goods and Non-Factor Services	1,532	1,649	1,746	1,835
5. Less Imports of Goods and Non-Factor Services	1,312	1,220	1,241	1,464
6. Expenditure on Gross Domestic Product	5,549	5,731	6,107	6,596
7. Net Factor Income from Abroad	-194	-219	-194	-196
8. Terms of Trade Adjustment	—	25	24	-15
9. Real Gross National Product or Expenditure	5,355	5,537	5,937	6,385

domestic product, however, declined by 3 per cent mainly as the result of drought conditions experienced in large areas of the Republic.

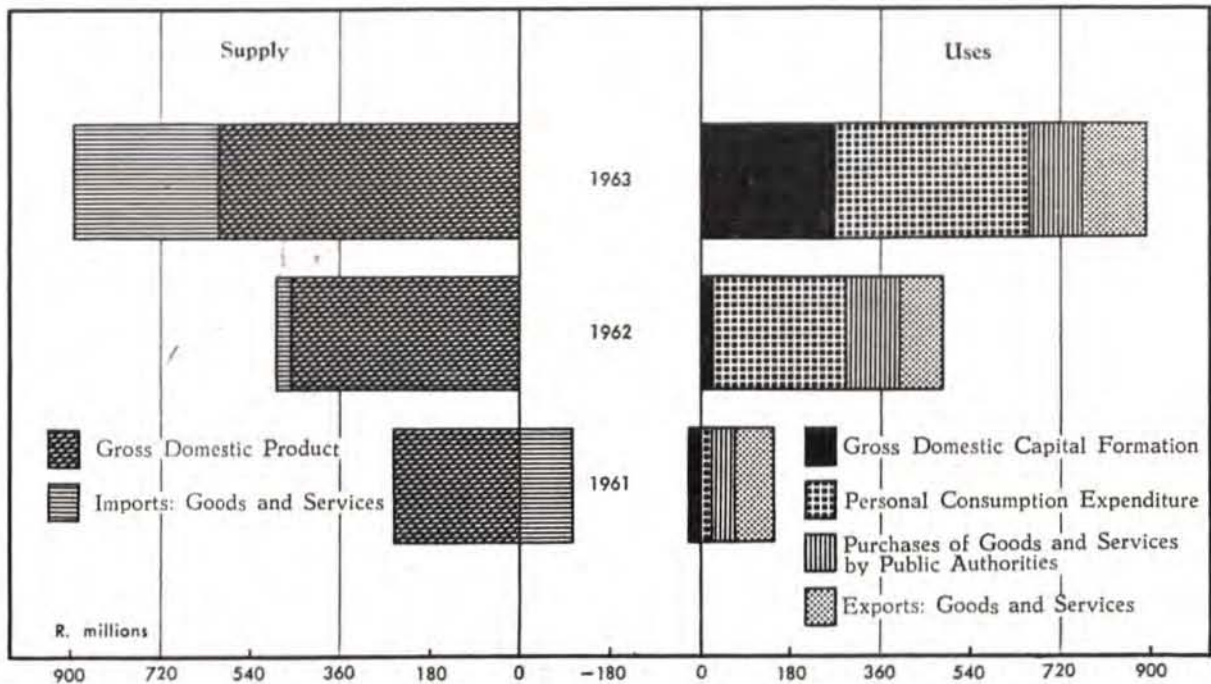
The gross national product figures mentioned above are valued at current prices. Data valued at current prices cannot, however, be used to measure actual or real economic progress, as substantial price changes may occur from year to year. Although the consumer and

sion of the existing production capacity and the more efficient employment of production factors.

Total Supply and Uses of Goods and Services

In addition to the output of goods and services comprising the gross national product, goods and services imported from other countries were also available for purchase in the Republic. Of the total available supply of goods and services, a part is purchased by foreign buyers and the balance by South African residents.

1. For national accounts purposes, South Africa is defined to include South West Africa and the British Protectorates.



Graph 1. Changes in the Total Supply and Uses of Goods and Services

Changes in the total supply of goods and services during the last three years, are shown in Graph 1. During this period, the total supply of goods and services increased sharply, viz. by R147 million in 1961, R485 million in 1962 and by no less than R894 million in 1963. While the increase in the gross national product during the first two years was sufficient to meet the higher demand, a substantial part of the increase in 1963 had to be met by additional imports.

As can be deduced from the graph, a major change occurred during the three years in the factors responsible for these increases. During 1961 the increase in exports was largely responsible for the expansion, in 1962 the role was taken over by private consumption expenditure and to a lesser extent by government expenditure on goods and services, while the increase during 1963 can be ascribed to a further rise in private consumption expenditure and a substantial increase in gross domestic capital formation. The increase in the latter occurred mainly in the second half of the year.

Distribution of the National Income

As can be seen from Table 2, net national income rose by R512 million in 1963 compared with R426 million in 1962. Of the increase in 1963, R333 million accrued to persons, consisting of additional salaries and wages to the extent of R262 million and R71 million in the form of higher profits of non-corporate enterprises and interest and dividend receipts of persons.

The corresponding increase in income accruing to persons in 1962 was R396 million, so that the increase in the national income accruing to persons in 1962, was in fact higher than the corresponding increase in 1963.

Corporate saving, which increased by R20 million in 1962, increased further by R29 million in 1963, while income of public authorities from their own enterprises and interest and dividend receipts on government investments, rose slightly more in 1963 than in 1962 mainly as a result of an increase in the surplus of the S.A.R. & H.

A notable feature in the distribution of the national income was the substantial increase in direct tax payments of companies, owing to the introduction of the pay-as-you-earn system of tax collection during 1963. If account is further taken of the fact that an additional R81 million of the increase in personal income also went into additional direct tax payments, it appears that no less than R209 million of the increase of R512 million in the net national income during 1963 accrued to public authorities in the form of direct tax collections, while no increase occurred in the direct tax collections in 1962.

Personal Income

As indicated above, personal income in the form of salaries and wages, profits of non-corporate enterprises and interest and dividend receipts, increased by R333 million in 1963 compared with R396 million in 1962. During the

Table 2. *Distribution of the National Income*

	1962	1963	Change during 1963
	R m	R m	R m
1. Persons: Salaries and Wages	3,025	3,287	+262
Income from Property*	1,502	1,573	+ 71
2. Corporate Saving	209	238	+ 29
3. Direct Taxes on Corporations	255	383	+128
4. Public Authorities:			
Income from Property	137	159	+ 22
5. Net National Income at Factor Cost	5,128	5,640	+512

* Income from property consists of profits of non-corporate enterprises and interest and dividend receipts of persons.

year R4 million less was received in the form of current transfers from public authorities, while current transfers from the rest of the world increased by R8 million, the result being that total personal income rose by R337 million in 1963 compared with R399 million in 1962. Total disposable income, i.e. total personal income less direct tax payments, increased by only R256 million in 1963 compared with R396 million in 1962, so that, as far as the personal sector is concerned, 1962 was a far better year than 1963.

Notwithstanding the appreciably smaller increase in disposable income, private consumption expenditure increased by R391 million in 1963 compared with only R265 million in 1962. The net result was that while personal saving increased by R149 million in 1962, it declined by R137 million in 1963.

Income and Expenditure by Public Authorities

The most important feature in the consolidated current account of the central government, provincial administrations and local authorities, was the substantial increase of R211 million, or nearly 50 per cent, in direct tax collections. This increase can be attributed to the introduction of the pay-as-you-earn system of tax collection during 1963 as, in view of this fact, a major portion of the tax for the fiscal year 1961/62 as well as current deductions for nine months, were collected during 1963. Indirect tax collections also increased noticeably during 1963, mainly as the result of a substantial increase in imports, while the income of government enterprises and interest and dividend receipts on government investments also showed a significant increase owing to a sharp increase in the current surplus of the S.A.R. & H. The net result of these increases was that the total income of public authorities rose by R282 million or 28 per cent during the year.

Purchases of goods and services by public authorities increased by R105 million or 14 per cent during the year. This increase in government expenditure can be attributed to a further

increase in defence expenditure, a substantial increase in salaries granted to most civil and provincial servants during 1963 and to normal expansion of governmental activities. Since small decreases occurred in current transfers to households and in subsidies paid, the current surplus of public authorities increased by no less than R181 million during 1963, viz. from R100 million in 1962 to R281 million in 1963.

Gross Capital Formation

After increasing by only R274 million in the ten years from 1953 to 1962, total gross domestic capital formation rose by no less than R270 million or 24 per cent during 1963, i.e. from R1,140 million in 1962 to R1,410 million in 1963. This increase consisted of a rise of R198 million in fixed capital formation and an addition of R72 million to investment in all types of inventories compared with the previous year. Of the increase in total capital formation, R70 million was accounted for by public authorities, R35 million by public corporations and R165 million by private enterprises.

The dominant role that capital expenditure of the S.A.R. & H. plays in the fluctuation of total capital expenditure by public authorities, is once more illustrated by the 1963 figures. In 1962, when the capital expenditure by the S.A.R. & H. declined by R19 million, total capital expenditure by public authorities rose by R3 million only, compared with an increase of R70 million in 1963 when the capital expenditure by the S.A.R. & H. rose by R42 million. While capital expenditure by the S.A.R. & H. is subject to substantial fluctuations from year to year, the expenditure by all other public authorities show a more gradually rising tendency.

Capital expenditure by public corporations rose sharply during 1963. The increase of R35 million was accounted for by an increase of R43 million in fixed capital formation and a decrease of R8 million in the net addition to inventories. As the implementation of the large capital projects by most of the public corporations is still in its initial stage, a further increase in capital

expenditure can be expected in the immediate future.

After reaching its lowest point in eleven years in 1962, expenditure on residential buildings increased sharply during 1963 to a level surpassed only in 1955 and 1960. If the strong upward tendency apparent since the beginning of 1962 is taken into account, indications are that expenditure on residential buildings will achieve a new peak during 1964.

Capital expenditure in agriculture, which remained on approximately the same level during the past twelve years, again showed little change during 1963. Fixed capital expenditure rose by only R3 million while a decline was registered in the net addition to inventories. Owing to prolonged drought conditions in major agricultural regions of the Republic, and the resultant smaller harvests of most agricultural crops, an increase in capital expenditure by agriculture in the immediate future seems unlikely.

Fixed capital expenditure by mining showed a further small decline in 1963. The decrease in the expenditure by developing mines was to a large extent offset by higher capital expenditure by producing mines in order to increase their production. The noticeable decline in investment in inventories was mainly the result of an increase in diamond sales causing a decline in diamond stocks.

Following a sharp increase in production from about the middle of 1961, it became apparent during 1963 that the situation of full employment of existing production resources especially in manufacturing, was being approached and that production capacity should be expanded faster to meet the expanding demand. From about the middle of 1963, the rate of fixed capital expenditure by manufacturing did in fact increase faster and, for the year as a whole, amounted to R223 million compared with R180 million in 1962. Judging by the large number of new enterprises announced as well as by the expansion programmes of existing enterprises, a further expansion in fixed investment by this sector can be expected. The increase in net investment in inventories, viz. R76 million, consisting of raw materials and finished goods, is the largest recorded in the post-war period and largely reflects the expansion in industrial production and higher imports during 1963.

As the result of the general expansion in economic activity in the economy, fixed capital expenditure by commerce, private transport and finance, etc., also increased substantially from R133 million in 1962 to R145 million in 1963. A significant development in this category is the substantial increase in net investment in inventories, i.e., R46 million compared with R14

million in 1962. This is most probably the result of higher imports during 1963 and an increase in turnover due to the expansion of economic activity.

On the whole, gross domestic capital formation in 1963 showed a welcome and timely increase. The result of this increase, which became evident mainly during the latter half of the year, was that the ratio of gross domestic capital formation to gross national product increased from 18.8 per cent in 1962 to 21.2 per cent in 1963.

Gross Domestic Saving

Gross domestic saving increased from R1,447 million in 1962 to R1,558 million in 1963, i.e. by R111 million or 8 per cent. Of the saving of R1,558 million in 1963, R1,410 million was used for the financing of gross domestic capital formation while the balance, viz. R148 million, was reflected in an addition of R87 million to the country's gold and foreign exchange reserves, a decline of R85 million in South Africa's net foreign liabilities and an unappropriated balance of R24 million.

The R111 million increase in gross domestic saving was the net result of an increase of no less than R181 million in the current surplus of public authorities, R38 million in provision for depreciation and R29 million in corporate saving, and a decline of R137 million in personal saving.

Summary

1. The gross national product rose sharply in 1963, which is particularly gratifying as a substantial increase was already shown in 1962. The increase in 1963 was mainly the result of substantial increases in gross domestic capital formation and in private consumption expenditure.
2. The real gross national product per capita increased by 5.2 per cent in 1963 compared with 4.9 per cent in 1962. These increases are high by any standard.
3. Although the net national income rose appreciably faster in 1963 than in 1962, the increase in the portion accruing to persons was significantly smaller than in 1962. No less than 41 per cent of the increase in net national income accrued to the government in the form of direct taxes.
4. The increase in total personal disposable income was considerably smaller in 1963 than in 1962. Nevertheless, private consumption increased appreciably faster than during the previous year resulting in a substantial decline in personal saving.

5. Due to the introduction of the pay-as-you-earn system of income tax collection in 1963, direct tax collections of public authorities increased by no less than R211 million or by nearly 50 per cent. Although, owing to higher defence expenditure, salary increases and normal expansion of governmental activities, the current expenditure by public authorities increased substantially, the current surplus nevertheless increased by R181 million in 1963.
6. Gross capital formation rose sharply during 1963. Although the upward tendency was apparent throughout the year, the increase was particularly in evidence during the latter half of the year.
7. During 1963 gross domestic saving exceeded gross domestic capital formation by R148 million. The balance was applied to reducing South Africa's net foreign liabilities and adding to the country's gold and foreign exchange reserves.