

Statement regarding further measures against inflation

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7th December, 1966

The Government is determined to combat the causes of the persistent price increases in the country with all the powers at its disposal.

The latest developments in the South African economy show clearly that the battle against inflation, i.e. the position which arises when too much money chases too few goods and prices consequently rise, has not yet been won. On the contrary, all the available information indicates that a new upward movement in the economy has already been in progress for some months, after the previous one showed signs of levelling off during the second half of 1965. Total capital and consumption expenditure is still increasing faster than the available goods and services. Costs and prices therefore continue to rise.

The four-point attack on inflation which the authorities announced on the 8th July of this year, has already done much to restrain the inflation. Without these measures, the inflation would undoubtedly have been much worse. Moreover, the full effect of the measures, particularly the fiscal measures, still has to be felt. Nevertheless, the Government considers that it is now desirable to tighten some of the existing measures against inflation and to take certain complementary steps.

Restriction on expenditure

In the first place, the Government will do everything within its power to keep its expenditures as low as possible, even in the case of services which are essential for the expansion of the economy, but with due regard to the overriding requirements of national security. The Government further makes an urgent appeal to Provincial Administrations, municipalities, public corporations and also to private enterprises to restrict their expenditures to the absolute minimum, in the national interest. Further restrictive fiscal measures will, if necessary, be announced in the Budget.

Sterilisation of excessive short-term funds

With a view to removing a part of the excessive money in the economy from the spending stream and rendering it harmless, the Treasury intends to issue more Treasury bills to banks as well as ordinary business concerns and to sterilise the proceeds with the Reserve Bank, thereby withdrawing it from circulation. In addition, tax redemption certificates will be offered to companies and other taxpayers on favourable terms. Companies with surplus funds are cordially requested to make use of these investment outlets in preference to offering the funds on the so-called "grey market", i.e. for inter-company loans. They will thereby help to strengthen the credit measures and to combat inflation.

Restrictions on bank credit

It is important to prevent bank credit to the private sector from increasing to any significant extent. At the end of September this credit was R177 million or nearly 10 per cent below the permissible level, i.e. the figure for March, 1965, plus 2½ per cent for agricultural purposes, and considerable scope thus exists at present for expansion which, if it were to occur, would to some extent neutralise the favourable effect of the other measures. To avoid this danger, the Reserve Bank will request all monetary banks to ensure that their discounts, loans and advances to the private sector, excluding the Land Bank, will be at least 7½ per cent lower at the end of September, 1967, than at the end of March, 1965, with the qualification that this limit may be raised by 2½ per cent in respect of credit extended by them for agricultural purposes.

Earlier repayment of foreign loans

As a further means of reducing the excessive amount of money in the economy, the authorities will, in applying exchange control, favourably consider applications to repay foreign loans or credits before

maturity, provided that such repayments are not financed by means of bank credit.

Relaxation of import control

In order to increase the stock of goods in the country and to meet the increased demand more fully, the Government has decided to relax import control further. This step, which the country can afford in view of the favourable level of its foreign exchange reserves, will have the beneficial effect of reducing the money in circulation, sharpening competition and exercising a greater restraining effect on prices in general.

The relaxation of import control will to a greater or lesser extent be applied to virtually all groups of commodities, including consumption goods. The so-called "Restricted List" will also be revised with a view to omitting some of the goods which appear on it.

Details of the relaxation are still being worked out by the Department of Commerce and Industries and will be published shortly in the Government Gazette.

Price control

The prices of a number of basic necessities are already controlled. *General* price control would not, however, remove the underlying causes of the current price increases but could, on the contrary, bring about serious economic disturbances. Moreover, extended price control would by itself raise costs, since it would require a substantial amount of manpower and State expenditure, and would place an additional burden of work on commerce and industry.

The Government is nevertheless prepared to extend price control on a *selective* basis and to intervene in cases where any merchant or manufacturer increases his prices without very convincing reasons.

In the application of this policy the public are now commissioned to stand guard and to report any unfair price increases to the Price Controller immediately. The Price Controller will investigate all such cases and take drastic steps under the Price Control Act if it should be found that the relevant price

increases were not justified.

Substantial differences exist in many cases between prices for the same article. In purchasing from one another, the public, commerce and industries should pay closer attention to the prices they are paying and buy from those suppliers which quote the most favourable prices. In so doing they will create a spirit of competition which will contribute towards winning the battle against inflation.

Unsound trade practices

Furthermore, the Government is absolutely opposed to certain trade practices which maintain prices at an unjustified level, such as, for example, collective price maintenance, conditional selling and the withholding of supplies from dealers who sell goods at less than agreed prices. The Government will combat with all the means at its disposal any practice which keeps prices artificially high.

Speculation

The Government wishes to warn against the spirit of unsound speculation which is becoming increasingly perceptible. Business men should view short-term economic prospects soberly and realistically and take into full consideration the Government's determination to persevere with the battle against inflation until victory is won.

Conclusion

The Government is taking these steps without hesitation because it is convinced that temporary inconvenience is preferable to the protracted calamity which would result from unrestrained inflation. Moreover, it will not hesitate to apply even more far-reaching measures if necessary. It is in the country's interest, and particularly in the interest of the workers, that inflation should be halted as soon as possible, and therefore the Government relies on the co-operation of all sections of the population in carrying this battle to a successful conclusion and so assuring economic stability and prosperity in South Africa.