

South Africa's reaction to sterling devaluation –

Statement by the Honourable the Minister of Finance, Dr. N. Diederichs

20th November 1967

As announced yesterday, the Government has decided, following upon the devaluation of Sterling, not to devalue the South African Rand.

In considering this matter the Government had to arrive at a decision that would best serve the long-term interests of the country as a whole.

In the first place I should like to point out that our economy and particularly our balance of payments are sound, and that there is no pressure on our foreign reserves which would make a devaluation of the Rand desirable or unavoidable. In this respect circumstances in South Africa are today completely different from those which existed in 1932 and 1949 when we followed the previous devaluations of sterling – devaluations which were much greater than the present one and were followed by a greater number of countries.

The problems of inflation, especially the shortage of skilled labour and the rising cost of living, are still very real problems in South Africa. These problems would be greatly aggravated were we to devalue at present, partly because of the increased cost of imports from countries not devaluing, and partly because of the increasing demand for goods and services which would result from the higher Rand price for gold, increased export earnings and higher general business optimism. It would be very regrettable if such a situation were to arise, particularly at this juncture when the Government's measures against inflation and the rising cost of living are starting to bear fruit. Were we to devalue it would undoubtedly be necessary to intensify these measures even more; credit restrictions would, for example, have to be made stricter, a further increase in rates of interest might possibly be necessary – to the detriment of, among others, the farmer, the home owner and the small businessman – and an appreciable rise in taxes would perhaps have to be considered.

Even with such measures it is doubtful whether more rapid price rises could be avoided, which would seriously affect the salary and wage earner, the pensioner, and other individuals with fixed incomes. Price increases such as these would have the additional disadvantage of discouraging savings, particularly in the form of fixed interest-bearing investments such as, for example, deposits with building societies and other savings institutions, Treasury Bonds, etc.

If, in contrast, South Africa does not devalue, this

will have an immediate disinflationary effect which will give rise to reduced pressure on the labour market and a reduction in the upward pressure on prices, for the following reasons. Firstly, imports from devaluing countries will become cheaper – which may force non-devaluing countries also to reduce their export prices in order to retain their market in the Republic. Secondly, the slower rise in export earnings and possibly a temporary contraction in capital inflow, coupled with slower growth of capital expenditure, will restrain the total monetary demand for goods and services. This means that the tendency for prices to rise will be curbed, which will benefit all levels of the population and hasten the day when the existing anti-inflationary measures can be eased.

Devaluation of the Rand would indeed have benefited the gold mining industry and certain export industries, but this advantage would probably have been of a temporary nature only until such time as it would have been swallowed up by rising costs. On the other hand, by not devaluing we avoid a permanent rise in our cost structure, which will benefit these industries too.

Nevertheless, certain of our agricultural export industries may find it difficult initially to retain their markets in devaluing countries without reducing their prices appreciably. The Government is aware of this possibility and will consider suitable ways and means, in deserving cases, to assist in solving the problems of these industries.

Furthermore, certain South African industries may be threatened with disruptive competition due to the cheaper imports from countries which have devalued. In such cases the Government will be prepared to consider protective measures on their merits.

The harmful effects of the Government's decision, however, affect only a limited number of industries and can also be wiped out within a few years should we succeed in containing inflation. If, on the other hand, we were to devalue, the advantages would most probably be short-lived while the disadvantages, namely, the intensification of the inflationary pressure, would hit the whole community and in particular the man in the street and cause permanent damage to our economy. The Government is convinced that it is in the national interest not to devalue – in fact, that this decision will strengthen our economy and ensure healthy growth coupled with financial stability.

Suid-Afrika se reaksie op sterlingdevaluasie –

Verklaring deur Sy Edele die Minister van Finansies, dr. N. Diederichs

20 November 1967

Soos gister aangekondig is, het die Regering, na aanleiding van die devaluasie van sterling, besluit om die Suid-Afrikaanse Rand nie te devalueer nie.

By oorweging van hierdie aangeleentheid moes die Regering besluit wat in die beste uiteindelijke belang van die land as geheel sal wees.

Ten eerste wil ek daarop wys dat ons ekonomie en in besonder ons betalingsbalans gezond is, en dat daar geen druk op ons buitelandse reserwes is wat 'n devaluasie van die Rand wenslik of onvermydelik maak nie. In hierdie opsig is die toestand in Suid-Afrika geheel anders as in 1932 en 1949 toe ons die vorige devaluasies van sterling gevolg het – devaluasies wat ook veel groter was as die huidige en deur 'n groter aantal lande nagevolg is.

Die probleme van inflasie, veral die tekort aan geskoolde arbeid en die stygende lewensduurte, is egter nog aktueel in Suid-Afrika. Hierdie probleme sal grootliks vererger word as ons nou devalueer, gedeeltelik as gevolg van die hoër koste van ons invoere vanuit die lande wat nie devalueer nie, en gedeeltelik weens die toenemende vraag na goedere en dienste wat uit die hoër Randprys vir goud, hoër uitvoerverdienste en verhoogde algemene besigheidsoptimisme sal voortspuit. Dit sal uiters jammer wees as so 'n toestand ontstaan juis op hierdie tydstip wanneer die Regering se maatreëls teen inflasie en teen die stygende lewensduurte vrugte begin afwerp. As ons devalueer, sal dit ongetwyfeld noodsaaklik wees om hierdie maatreëls nog te verskerp; so byvoorbeeld sal kredietbeheer nog strenger gemaak moet word, sal 'n verdere verhoging van rentekoerse moontlik nodig wees – tot nadeel o.a. van die boer, die huiseienaar en die klein sakeman, en sal 'n aansienlike verhoging van belastings miskien oorweeg moet word.

Selfs met sulke maatreëls is dit twyfelagtig of versnelde prysstygings vermy kan word, wat die salaris- en loontrekker, die pensionaris, en ander persone met vaste inkomes swaar kan tref. Sodanige prysstygings sal die verdere nadeel inhou dat dit besparings sal ontmoedig, veral in die vorm van vaste rente-draende beleggings soos bv. deposito's by bouverenigings en ander spaarinstellings, Tesourie-obligasies, ens.

As Suid-Afrika intendeel nie devalueer nie, sal dit om die volgende redes 'n onmiddellike disinflasionistiese uitwerking hê wat tot minder druk op die arbeids-

mark en 'n afname in die opwaartse druk op pryse sal lei. Eerstens sal hierdie neiging ontstaan omdat invoere vanuit devaluerende lande goedkoper sal word – wat nie-devaluerende lande ook kan verplig om hulle uitvoerpryse te verlaag ten einde hulle mark in die Republiek te behou. Tweedens sal die stadiger toename in uitvoerverdienste en moontlik 'n tydelike afname in kapitaaltoevloei, tesame met die ontmoediging van kapitaalbesteding, die totale monetêre vraag na goedere en dienste beteuel. Dit beteken dat die neiging tot hoër pryse gedemp sal word waarby alle lae van die bevolking sal baat, en wat die dag sal verhaas dat die huidige anti-inflasionistiese maatreëls verslap kan word.

Devaluasie van die Rand sou wel die goudmynbedryf en sekere uitvoernywerhede bevoordeel, maar hierdie voordeel sal waarskynlik slegs tydelik wees tot tyd en wyl dit deur stygende koste verswelg word. Daarenteen, deur nie te devalueer nie, vermy ons 'n permanente verhoging van ons kostestruktuur, en dit sal ook hierdie bedrywe bevoordeel.

Nietemin mag sekere van ons landbou-uitvoerbedrywe dit aanvanklik moeilik vind om hulle markte in die devaluerende lande te behou sonder om hulle pryse aansienlik te verlaag. Die Regering is bewus van hierdie moontlikheid en sal paslike maatreëls oorweeg om in verdienstelike gevalle die probleme van hierdie bedrywe te help oplos.

Verder kan sekere Suid-Afrikaanse nywerhede met ontwrigtende konkurrensie bedreig word as gevolg van goedkoper invoere vanuit lande wat devalueer. Die Regering sal in sulke gevalle bereid wees om beskermende stappe op meriete te oorweeg.

Die nadelige gevolge van die Regering se besluit raak egter slegs 'n beperkte aantal bedrywe, en kan ook binne 'n paar jaar uitgewis word indien ons daarin slaag om inflasie te beteuel. Daarenteen, indien ons sou devalueer, sal die voordele waarskynlik kortstondig wees terwyl die nadele, nl. die verskerping van inflasionistiese druk, die hele gemeenskap en veral die gewone man sal tref en blywende skade aan ons ekonomie berokken. Die Regering is oortuig dat dit in die volksbelang is om nie te devalueer nie – trouens, dat hierdie besluit ons ekonomie sal versterk en gesonde groei met finansiële stabiliteit sal verseker.