

SURVEYING THE PROBLEMS CONFRONTING COMMERCE.

Paper read by Mr. W. Jacobson, Past President, Chamber of Commerce, Pretoria at the Symposium on "Financing under circumstances of high interest rates and monetary restrictions", held in Pretoria under the combined auspices of the South African Association of Business Management and the National Development and Management Foundation of S.A.

In surveying the problems confronting commerce, and the promises of future growth and prosperity that undoubtedly exist, we must start by looking at the South African economy in general, of which commerce is inseparably a part — and an important part at that, for wholesale and retail trade are, after manufacturing, the biggest contributor to the gross domestic product, representing 14% of the total domestic product. If we add financial services, which are closely related to commerce, we find that trade and finance between them contribute no less than 18% of the total production of goods and services of our country.

In looking at the South African economy in general, the first thing to say, of course, is that we have experienced rapid and great economic growth. For a considerable number of years, our total production of goods and services has been growing at more than 6% in real or physical terms per year — certainly one of the really high economic growth rates of the world as a whole. However, this satisfactory growth rate has been accompanied by a considerable degree of inflation — less than in most other countries of the world, but still a quite substantial degree of inflationary pressure. The consumer price index rose by about 5.8% from June 1969 to June 1970. Incidentally, the price index

for commodities over this period rose at a considerably lower rate — 3.2% — while the price index for services rose by virtually 8%. The price index for commodities was only relatively minutely influenced by the sales duty imposed the year before last, while the index for services was virtually unaffected by the sales duty.

Inflation is usually due to a more rapid rate of growth in monetary demand for the total domestic product than in the physical availability of total goods and services (that is, the domestic production plus imports of goods and services). Inflation is somewhat like a pair of scissors, in that there are two distinct parts or sides to the question, neither of which can be usefully viewed in isolation. In our inflation, there are two main factors — demand in money terms has risen, and supply in physical terms has not fully kept pace with the demand.

On the demand side, as the Minister of Finance pointed out in his last Budget speech, private consumption expenditure rose by about 11% in the year to June, 1970, while current expenditure by public authorities increased by 14%. Total fixed investment had increased by 10%, part of which rise was caused by an increase of no less than 31% in fixed investment by public corporations. Private fixed investment rose by 7%.

But, the supply side has not been keeping pace with the demand side. Industrial production, in physical terms, has probably been growing at something like 6, 7 or 8 per cent per year, in the last 12 months approximately, and the production of some services has also not kept pace with monetary demand. Thus, it is not surprising that we have had price increases; demand and supply could be equated only at rising price levels.

An important reason for the failure of supply to keep pace with demand has been the shortage of manpower. This labour shortage has become so widely discussed that we need not elaborate much on it here except to say that it is being universally experienced, and is a major reason why the production of goods by industry and of services by commerce and finance has not been capable of increases to keep pace with demand.

The other major cause of inadequate supply has been the relatively low rate of increase in

fixed investment for expansion in the private sector. In the past year, much of the private sector investment has been in buildings and construction, while investment in plant, machinery and equipment has been relatively sluggish. With this rather unsatisfactory rate of growth in production capacity, and with the added problem of labour shortages, it has obviously been very difficult indeed to keep production rising at rates to equal demand. The falling-off in private investment and the shortage of labour are, of course, inter-connected. Where there is a severe labour shortage, this acts as a deterrent to expansion in industry and commerce, because businessmen naturally worry about whether they will be able to find sufficient employees to keep an expanded enterprise running at economic levels.

The existence of inflation also tends to operate somewhat as a vicious circle and still further causes a falling-off in fixed investment; because when inflation exists, and prices are rising, many people who have capital to invest tend to prefer to put it into avenues which, in their view will offer a satisfactory hedge or protection against the declining purchasing power of money. Land and fixed property are regarded as hedges for this purpose, so money tends to be diverted into those forms of investment rather than into expansion in industry and commerce.

These conditions affect our external trade badly. The relative shortage of goods, and high level of domestic demand inside South Africa, make it difficult to expand exports of manufactured goods. The rising prices resulting from the inflationary inequalities between demand and supply also reduce, relatively, the competitiveness of some of our exports, and so discourage export growth. At the same time, the relatively high level of local demand tends to encourage imports, so that imports rise while exports are relatively static, and we experience a marked current account balance of payments deficit.

The inflationary excess of demand over supply has had the other usual effects that inflation always has as well. They include:-

1. A diminution in the actual value of our personal or corporate savings.
2. The discouragement for this reason of savings and a consequent scarcity of capital.
3. High interest rates resulting from the fact that people who save want an allowance in interest rates for the fall in currency purchasing power.
4. High land prices and high building costs because the demand for fixed property is increased as a result of people wanting to hedge against inflation by such investment.
5. A static position in industrial investment because property investment is a more attractive hedge.

Some of the measures taken in an effort to restrain consumption expenditure were made in the 1970 Budget such as an increase in the loan levy and higher sales duties on certain articles. However, salary and wage increases have been widespread in both the public and private sectors and total consumer spending power has continued to rise. Another measure was introduced in terms of Government Notice R.2113 of the 27th November, 1970, namely Hire Purchase Conditions of Sale under Price Control, and this is what I have been asked to deal with.

Stringent control of hire-purchase conditions is in itself not a bad thing for it is essentially a control of credit. Any abuse of the credit system is bad for the economy, anyway, and can as many people have learnt to their cost, be disastrous for the individual. Commerce did not welcome these restrictions with regard to durable consumer goods on the eve of the traditional Christmas shopping spree. This did have a dampening effect since dealers had already committed themselves to high inventories. Dealers would find it difficult to pass on the full effect of their cost increases to the consumer in the form of higher prices. This could have an adverse effect on profit margins. Thus the expected lower rate of increase in private consumption expenditure will contribute to a lower rate of expansion in the turnover of this sector, which could reduce the rate of increase in overall profits.

The over-trading factor, particularly in inventories must be financed and the Banks have

already clamped down heavily on private overdrafts and overdraft facilities in the so called non-productive field. Nevertheless, commerce expects consumer spending to continue at a high level in the coming months though rising costs and the cut back on credit facilities will affect the merchandiser.

Inflationary conditions caused by rising prices have had a snowballing effect on consumer spending because people are tending to buy earlier than they would have done because they think that prices will only rise more against them if they wait. The new credit restrictions were, as has been mentioned, a restraining influence on expenditure of certain consumer durables such as furniture and electrical appliances but signs were that spending was being diverted from these items to non-durable goods and services. The future outlook for commerce was delicately raised between the dampening factors such as hire-purchase restrictions, a possible increase in the sales taxes or higher loan levies in the coming budget and the fuelling factors including salary increases and the inflationary expectations of the consumer.

Commerce also recognises the effect that hire-purchase controls could have on consumer

durable spending, but regards them as ill-qualified for use as a major instrument of policy because they concentrate their attack on the consumer durable industries — which are to a notable extent a spearhead of economic progress. These are industries in which forward planning of production, steady runs, maximum use of plant and equipment and expanding volume are all of the greatest importance for efficient development; and hire-purchase controls, used spasmodically for anti-inflationary purposes, may thwart all these influences on the organisation of production and distribution. Hire-purchase controls affect a relatively small proportion of total spending on goods, let alone services. Even in the field they do affect, they tend to curtail spending only in certain income groups.

In conclusion I would like to say that Commerce holds the view that rigid monetary and other control measures aimed at combating inflation is not the remedy. The fundamental necessity was to increase production to meet demand rather than to attempt to hold monetary demand down to the level of production. This could only be done by the full utilisation of all our resources including manpower.

Mr. H.S. van Eeden, Hoofbestuurder, Nywerhede en Eiendomme, General Mining en Finance Korporasie Beperk, het 'n referaat vanuit die oogpunt van die Mynwese-sektor gelewer, wat hy soos volg afgesluit het:-

“Die boodskap aan finansiële bestuur in die mynbousektor is dus om hoë rentekoerse die hoof te bied deur produktiwiteit, ten spyte van die inflasie verwagtings, steeds te verhoog. Stygende produktiwiteit, dus stygende opbrengste, sal sorg dat die vertroue van die aandeelhouers behou word en die produsent in staat stel om die gevare wat hoë rentekoerse vir die mynbedryf inhou groot-

liks te vermy. Uitbreidings wat nie gevaard gaan met stygende produktiwiteit en rendement na inagneming van die hoër koste van skuldfinansiering en daarmee gevaardgaande risiko oor die termyn van die skuld las moet liewers dus vertrap of vermy word. Ek wil my nie met die stelling skaar aan die kant van die dempers teenoor die groeiers nie maar as volume groei lei tot 'n moontlike inkrimping van rendement op aandeelhouersfondse, gevaardgaande skuld lasrisiko en laer mededingingsvermoë internasionaal moet die saak ernstig onder oë gesien word. Na alles moet onthou word dat in die mynbou 'n mens die rou materiaal net eenmaal kan myn en verkoop”.

Mnr. H.P. de Villiers, Besturende Direkteur van Sentrale Aksepbank Beperk, het die finansieringstaak vanuit die oogpunt van die Bank- en Finansiewese soos volg opgesom:-

“Teen die agtergrond van die huidige en verwagte ekonomiese posisie sowel as die kapitaalbehoefte en -bronne en finansieringsvraagstukke ontstaan die vraag wat die finansieringstaak sal behels.

Kortliks kom dit daarop neer dat ongeag die grootte van die onderneming of die bedryfstak waarin opgetree word, sal die onderneming sy bestaande kapitaal- en balansstaatstruktuur deeglik in oënskou moet neem en sy behoefte aan fondse — hetsy eie of vreemde kapitaal of fondse van ’n korttermyn of langtermyn aard — uiters omsigtig en oordeelkundig moet probeer bekom van die geskikste bronne, in die korrekte hoeveelhede en teen die voordeligste voorwaardes of koste.

Goeie bedryfsleiding is sine quo non vir

goeie finansiële administrasie, met ander woorde dit waarborg gesonde finansieringspraktyke en ’n gesonde balansstaatstruktuur. Die hoeveelheid kapitaal wat aangetrek moet word, die aard daarvan asook die bron vereis deurentyd dog by uitstek in tye van hoë rentekoerse en monetêre beperkings, wat gepaard gaan met ’n tydelike afplating in ekonomiese aktiwiteite, nougesette studie en oorweging deur die bedryfsleier.

’n Bepaalde oplossing van ’n spesifieke finansiële vraagstuk geld egter nie vir alle fases van die konjunktursiklus nie. Daar moet ingeboude buigzaamheid in die finansiële struktuur van ’n onderneming wees sodat dit aangepas kan word by verskillende ekonomiese toestande.

U behoort dus in oorleg met professionele adviseurs soos die aksepbanke, wat kennis het van beide finansiering en die ekonomiese toestand, te werk aan ’n oplossing vir u spesifieke finansieringsvraagstukke.”



ERRATUM

Die Redaksie betreur dit dat ’n paar drukfoute in ons Februarie 71 uitgawe ingesluit het.

Geliewe die volgende wysigings aan te bring in die artikel „Die Beheerfunksie van die Bestuurder”, van mnr. H. F. B. Nel:

bl. 5, kol. 1 lyn 12 en 13: laat weg:

.... self in logiese onderdele opbreek nie kan aaneenlopende aktiwiteite feitlik

bl. 6, kol. 1 lyn 7 moet lees:

moontlik is sonder geoutomatiseerde inlingtingstelsels vir onmiddellike opname van inligting by die punt van oorsprong

bl. 7, kol. 1 lyn 11 moet lees:

optredes nie, maar ook oor die uitwerking daarvan op kort termyn- en lang termyn doelwitte, en die noodsaaklikheid