loaded on to the trucks,and the people being carted off to Madadeni, 30 miles away, there to be housed in tents and wooden-slatted shacks. All over Northern Natal there were relatively independent Black communities which ended up in Madadeni. Having been sent to live where they didn't want to be, there to do work they probably don't like, is it surprising that higher bus fares should finally have broken these people's patience? Between Newcastle and Madadeni, separated by the Group Areas Act, tension has never been higher.

What of the Terrorism Act, latest and worst of a series of laws whose unsavoury ancestry stretches back through the 180-days Act to the 90-days Act to the Public Safety Act of over 20 years ago. Presumably the Public Safety Act and its successors were designed to ensure the safety of the public. When that Act was passed I doubt if there were a couple of dozen people in South Africa who believed that change would come by violence. Now I would hate to estimate the number.

Apartheid is a total failure. If it is not to end in total disaster then an alternative must be put which can win the support of all our people. This must be a society in which there is complete political, economic and social equality for all. Anything else will leave those who do not enjoy full rights frustrated and resentful, and rightly so. The attainment of this ideal society may seem a long way off but it is vital that those of us who believe in it should stand up now and proclaim it, not sanctimoniously, but without reservation.

This is the kind of society in which the Mahatma believed. Our admiration for him, our warm regard and affection for Manilal, our knowledge that Mrs Gandhi and her family still stand fast here by what those two great men stood for, compels us to work on for that ideal, however distant its realisation may seem to be.□

DEVALUATION

by Trevor Bell

The basic reason for the recent South African devaluation was the sharp decrease in the price of gold which has occurred this year. After reaching a record level of nearly $200 per fine ounce at the end of 1974, it fell dramatically to $159 by the end of August, and then, following the International Monetary Fund's gold agreement, it declined at an accelerating pace to about $134 at the time of the devaluation. Until this fall in the price of gold the South African economy had remained in an exceptionally healthy state. The depressed state of many other countries was due largely to the higher price of oil. South Africa however was much less affected, not only because of her lesser dependence on oil for fuel, but also because the higher price of oil, by intensifying inflation and creating great uncertainty in the minds of investors throughout the world, increased the demand for and hence the price of gold. The rising gold price more than offset the impact of the higher price of oil so that for a while South Africa was in effect a net beneficiary of the oil crisis. This happy phase however, has come to an end due largely to renewed confidence in the U.S. dollar, which has produced a relative decrease in the demand for gold and hence in its price.

The immediate and most obvious manifestation of the lower gold price was a substantial deficit in the balance of payments, which clearly called for some fairly drastic action if the country's gold and foreign exchange reserves were not to fall below their already dangerous level. In the event the authorities chose to devalue the Rand. The objective of a devaluation is to remove or reduce a deficit in the balance of payments. It is meant to do this by raising the price of imported goods and lowering the price to foreigners of South African produced goods. For instance, before devaluation the rate of exchange with the U.S.$ was $1,40 to the Rand and afterwards $1,15 to the Rand so that the Rand was worth 17,9% fewer dollars, that is, was devalued by 17,9%. It is hoped that as a result of this the volume of exports and hence our earnings of foreign currencies will increase and that the volume of our imports will decrease; and also that any outflow of capital which had been taking place in anticipation of devaluation would be reversed.

There are of course alternative methods of dealing with a balance of payments deficit. The appropriate choice of policy measures depends largely on what one believes about the causes of the problem and how long they are likely to persist. If it was expected to be short-lived then one would want to avoid a devaluation since this measure is not easily reversible once the need for corrective action is past. Instead, it might then be best for the country to tide over the difficulties partly by using direct controls on imports and foreign exchange, partly by applying a more restrictive monetary and fiscal policy, and partly by using some of its previously accumulated gold and foreign exchange reserves to finance the deficit. Import controls have certain advantages in that their effect in reducing imports is certain, they work quickly, and they may be applied selectively, with the decrease in imports being concentrated on those goods least necessary for the maintenance of a high level of production and employment.

Where the forces causing the balance of payments problems are of a fundamental, long-term kind, as I believe they are in the present case, then devaluation and restrictive monetary and fiscal policies, either as alternatives or as complements, are more appropriate. Restrictive monetary and fiscal policies work by dampening the level of economic activity and income, and hence the volume of imports. The trouble however, is that if they are used on their own it may be necessary to make the economy very depressed before they eliminate the balance of payments deficit. It would clearly be preferable if the balance of payments problem could be overcome without causing the economy to lapse into a wasteful state of excess productive capacity and unemployment. Devaluation is in principle capable of doing just this, and this is one of its attractions.

This does not mean that by devaluing one can escape all adverse effects on living standards and the rate of economic growth. Indeed any measure which successfully reduces imports and increases exports, thus in both ways reducing the volume of commodities available to the domestic population, must tend to reduce the standard of living compared to the situation when there was a deficit in the balance of payments, when in effect the country was living beyond its means. However, devaluation can in principle avoid the need for the depressive effects of restrictive monetary and fiscal policies.

As noted above, devaluation is meant to work largely by raising the Rand price of foreign produced goods. Indeed, by and large, devaluation achieves its purpose by effectively reducing the foreign value of the domestic money supply and of the volume of domestic spending. This however, must obviously lead to an increase in the general price level. This poses a problem for policymakers. Devaluation does its job by raising the general price level; but the price level must not be allowed to rise so far that the hoped for price advantage of South African produced goods in both home and foreign markets is lost. What is needed then is a once-for-all increase in the general price level to curb expenditure in general and expenditure on imports in particular. What clearly must be avoided is allowing devaluation to have the effect of triggering off an inflationary process or of accelerating such a process if one existed already.

This is a major reason why today some doubt the efficacy of devaluation as a means of dealing with a balance of payments deficit. With people very conscious of inflation they will be quick to demand higher rates of pay to compensate them for the price increases caused by devaluation. That is, they may not be prepared to accept the required decrease in living standards and the prices of South African produced goods, expressed in terms of foreign currencies, may therefore return fairly quickly to their pre-devaluation levels.

It is for this reason that if the purpose of devaluing the currency is to remove or reduce a deficit in the balance of payments, consistency implies a policy of monetary and fiscal restraint. Thus the problem of making devaluation work is very closely tied up with that of inflation, and the wisdom of the decision to devalue must depend to a large extent on whether the devaluation can be prevented from accelerating the process of inflation. If this cannot be done

then devaluation may be ineffective and other measures may be called for. Thus the current attempts to curb inflation, and their prospects for success are most relevar in any assessment of the South African devaluation. It is doubtless no coincidence that the anti-inflation manifest of 7th October followed so hard on the heels of the devaluation, and we must say something more about this below.

A successful policy of monetary and fiscal restraint therefore, is a necessary condition if devaluation is to serve its purpose of removing the deficit in the balance of payment But it is not a sufficient condition. Even if we are able to sustain the advantageous effect of devaluation on South African prices relative to foreign prices, imports and expor may not be sufficiently responsive to this change in relative prices to improve the balance of payments. South Africa's imports for instance consist to a very large degree of raw materials, semi-processed goods and capital goods the demand for which cannot easily be curtailed unless there is a reduction in the general level of output in the economy, something we should clearly avoid if possible. In addition, there are several South African exports, particularly primar commodities, whose dollar prices are determined in world markets and will not be affected by a Rand devaluation. Thus the demand for these commodities and hence the amount of foreign exchange earned by exporting them will be unaffected by the devaluation.

In view of this, it may be necessary to rely to a much greater extent than we should like on monetary and fiscal restraint to curb imports, by dampening the level of production and income in the South African economy. The less responsive imports and exports are to the devaluation, the greater the extent to which we will have to rely on monetary and fiscal policies. Indeed, in the South African case, because of the unresponsiveness of imports and exports to price changes, the balance of payments deficit will probably necessitate severe restraint on the level of income and employment. In short we can expect fairly depressed economic conditions for some time to come, with little increase in our real living standards over the next few years.

Despite doubts about the ability of devaluation to substantially narrow the gap between imports and exports, there were very strong pressures for devaluation related to the long-term health of the economy. Devaluation counters the adverse effect on mining profits of the declining dollar price of gold. This was particularly important for the gold mines since they had planned their capital investment and future production on the assumption that the price of gold would continue at a high level. Without devaluation the decreased dollar price of gold might have had serious and perhaps irreparable adverse effects on the mining industry and hence, in view of its importance, on the whole of the South African economy.

Devaluation may thus have been unavoidable for this reason and also because without it intolerably severe monetary and fiscal controls might have been necessary. Thus, in the present circumstances devaluation was probably an essential component of policy measures to correct the balance of payments disequilibrium. But the main contribution must come from an effective deflationary policy, and this brings us back to the subject of the anti-inflation manifesto.

In my view, monetary and fiscal measures must still play the major role in checking inflation, though a scheme for placing direct controls on prices and incomes is a major alternative or supplement in the somewhat longer term. Thus the two sections of the anti-inflation manifesto dealing with these measures are the most relevant. In so far as the Government adopts the restrictive monetary and fiscal policies called for by the manifesto the campaign obviously can be effective; and there are signs of attempts to make drastic cuts in Government expenditure. However, restrictive monetary and fiscal measures are the essence of the traditional approach to combatting inflation and they need no grand public declaration for their adoption or success. So far as these measures are concerned therefore, the anti-inflation manifesto is superfluous.

The only major alternative to monetary and fiscal policy for controlling inflation is direct control of prices and wages. The scheme contained in the manifesto however, has certain basic weaknesses. Firstly, the limitations accepted by business and labour on price and pay increases are too ambiguous to represent a real restriction. Secondly, the scheme suffers all the defects of a programme of voluntary restraint. It is becoming increasingly clear to people in Europe that so far as direct controls are concerned only a fully fledged policy of statutory controls on prices and rates of pay, accepted as a permanent feature of the social and political life of the Western world can work satisfactorily.

The trouble however is that incomes policy as a permanent feature of our life would fairly radically change our social and economic order. It seems to me it is just this kind of fundamental political change which the signatories to our anti-inflation manifesto wish to rule out when they state that one of the objectives of the campaign is to place emphasis on "the value of maintaining our traditional economic system".

Except for the two sections of the Manifesto discussed above, it is largely irrelevant to the problem of inflation. This is clearly true of the lengthy section dealing with "the expansion of production and the improvement of productivity". As desirable as the objective of improving productivity undoubtedly is, both from an economic and political point of view it has very little to do with inflation. The scope for increasing productivity by the methods advocated is negligible compared with the rate at which inflation has been taking place, and furthermore, at whatever rate productivity grows, inflation will occur if the increase in aggregate demand exceeds the rate of growth of output. There is thus no effective substitute for monetary and fiscal restraint as a means of reducing the rate of inflation. In view of this, to send highly paid and potentially productive people round the country exhorting businessmen to increase productivity is a waste of resources better calculated to increase the rate of inflation than to reduce it. This is so both because it cannot affect the rate of inflation, and because the implied theory of productivity growth underlying this kind of behaviour is untenable.

If the public has sufficient confidence that the anti-inflation campaign will reduce the rate of inflation, then this will help break the expectations which have been built up that inflation will continue at a high rate indefinitely. This could help lessen the rate of inflation. However, inflation is not basically caused by such expectations, rather the expectations are formed by the experience of inflation. The fundamental causes of inflation are excessive demand, generated either by excessive credit creation or government expenditure, and autonomous increases in costs. Thus there is no substitute for a programme of monetary and fiscal restraint, supplemented perhaps by a prices and incomes policy. Indeed, the most important contribution of the campaign could simply be to make the public psychologically more receptive to tough monetary and fiscal measures and possibly even to a statutory incomes policy. This would be a not insignificant achievement since the problem of halting inflation is basically political rather than technical. Technically, we have known how it could be done, but neither the Government nor the public have been willing to accept the implications of a successful anti-inflationary policy.