

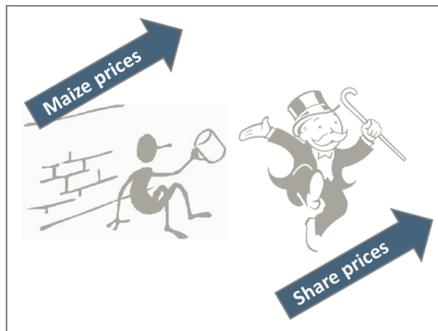


## The consequences of the currency

Not too long ago certain labour movements, political parties and even a few economists called for “a weaker currency”. Now we have one; their silence is deafening!

Obviously a weaker currency will make it easier for exporters to compete internationally. Their input prices mostly remain rand based while they receive dollars (or another “hard” currency) for their exports. Initially these exporters may be a bit better off, but rising inflation and wage demands will eventually erode this short-term benefit and it won’t be too long before there are calls for a weaker currency again.

The disadvantages of a weaker currency are much more harmful than the possible benefits. The most obvious disadvantage is that we are all poorer because of the rand’s weakness. Everything that is denominated in rands is worth less today than before the collapse of the currency. This includes wages, shares, houses, pensions, gold, everything. Some prices adjusted automatically and quickly to the fall in the rand, like share prices and the oil price, but in most instances it will take a long time for all prices to “catch up” to previous levels. Wages and salaries are good examples of prices that will take time to reach previous levels.



Since certain prices adjust faster to the new level of the rand, all sorts of distortions will take place in the economy. The international oil price is an example of a price over which we in South Africa have just about no say or impact. Oil prices, and eventually the price of petrol, will go up regardless if we buy more or less oil on the international markets. Many asset prices, especially relatively liquid assets like listed shares, usually also adjust quickly to the weaker currency. But prices that are determined mostly by local conditions, like wages, local produce and services, usually takes time to adjust.

The result of this skewed adjustment in prices is that we have to part with more of our wealth to those that use strong currencies like the US dollar, which leaves us worse off. Relative to the rest of the world South Africans are now worse off. But within the country serious distortions are also taking place.

Those that have assets, especially liquid assets, are better off than those without such assets. The JSE, for example, rallied on the weaker currency and owners of shares on the bourse were quickly compensated for their loss because of the weaker currency. Other asset prices, like house prices, will also eventually adjust to higher levels. The inevitable result is that those with assets, the wealthy, are protected to an extent against a falling rand while those without assets, the poor, do not have the luxury of such “protection”.

But even amongst the poor distortions will take place. Those with scarce skills will quickly demand higher wages, and, the more scarce their skills the more successful they will be. Those without scarce skills, and, especially those without jobs, will be particularly hard hit. Their wage increases will be last in the chain of price increases that will wash through the economy. In the case of the unemployed, they have no way of increasing any of their own prices simply because they have no income, yet their cost of living will go up like that of everybody else.

And to add to our miseries, changing prices make it difficult to plan and to do business with the result that economic growth will be negatively affected by the wave of price changes that will now affect the economy; and again it will be the poor and the unemployed who will be the hardest hit.

Expect inflation, social tension, weak economic growth, high unemployment and poverty after the collapse of the rand. Personally I think the currency will soon regain some lost ground but much damage has been done already and the consequences will be painful.

Beware of what you wish for!

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