EFFICIENT GROUP
Weekly Economic Newsletter

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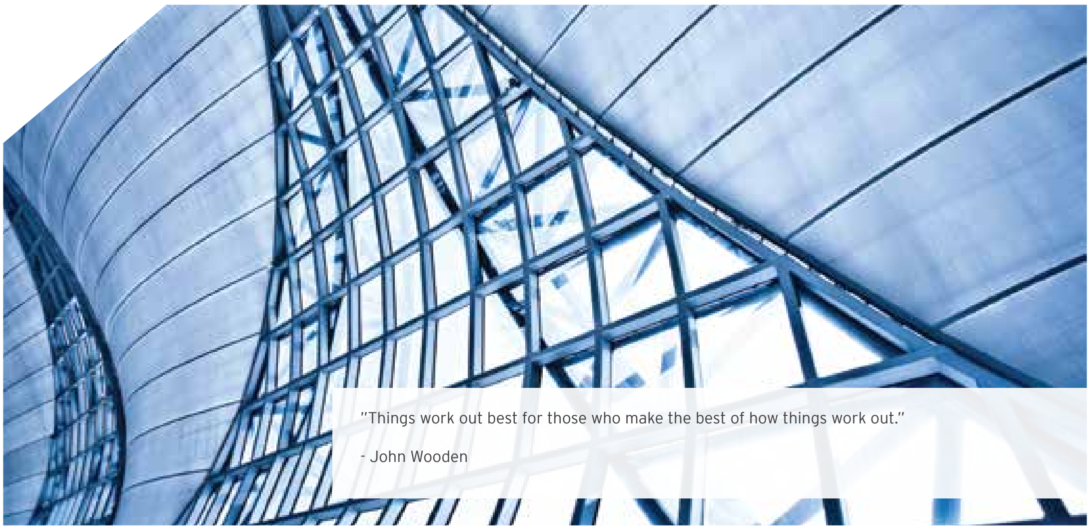

ECONOMIC COMMENTARY - By Francois Stofberg

Last week a rumour spread that bread prices might increase by as much as 10% as a result of a 34% tariff increase on wheat imports. After some research and talking to the right people we have concluded that bread prices will most likely only increase by 1%. The 10% that was mentioned was based on a reporter's misinterpretation of facts.

Wheat, used to produce the flower that we all know makes the bread we eat, only constitutes about 18% of the input costs to produce a bread. Further, since December international wheat prices have been falling, which implies two things. First, wheat farmers have been earning less for each bundle of wheat sold. Secondly, someone else along the production line has been making fat profits. The government's delay in implementing the increased tariff therefore, only shifted "revenue" away from farmers into the pockets of the other's (millers, retailers, etc.) in the bread-production industry.

Therefore, the new tariff will most likely have a muted impact on bread prices, unless those who were earning fat profits until now have gotten used to the profits and want to continue earning these types of profits. They can then decide to shift the entire burden of the tariff increase onto consumers. This is not a likely outcome.

The real question that arose from this debate, was whether or not tariffs are a solution? In an open, free market economy, they are not. Ideally, we want to import cheap products, and close down uncompetitive local markets. This frees up scarce resources that were not optimally used and drives down prices for consumers. Also, tariffs focus on the income-side of business; we should actually focus on the expenditure side. This includes addressing the structural changes that are needed in SA to bring down the cost of labour (direct and indirect), the cost of electricity, improving the country's infrastructure, to name but a few.

In certain instances, however, tariffs (and more so subsidies) are optimal. What GrainSA are attempting, is to use tariffs to protect local wheat producers, whilst using the extra "profits" to invest in technologies and infrastructure that would boost production and bring down prices. The end goal is to make local wheat producers more competitive internationally; and that, is how you use tariffs to boost long term potential growth and employment! #welldoneGrainSA