

The Investment Analysts Journal

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Die Beleggings- Navorsers Tydskrif

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This issue in brief

Money, inflation and economic growth

One of the most troubling economic problems of the nineteen-seventies has been the coincidence of high rates of unemployment and high rates of increase in the general level of prices. Because this coincidence has served as an empirical contradiction of established Keynesian theory it has led to a complete re-examination of such theory, particularly by exponents of the monetarist school. In his article Mr Lewin not only identifies the key propositions of monetarism in language that can be understood by non-specialists, he also discusses how changes in the money supply become translated into changes in economic activity and prices, placing particular emphasis on the link between the money supply and the balance of payments. His conclusions regarding exchange rate policy ought to be of special interest to South African readers at the present time because this is being given special consideration by the De Kock Commission.

Some aspects of an asset replacement/protection model under conditions of inflation

The effects of inflation on corporate accounting and management have been well documented in recent years by various commissions of enquiry and economic and financial text books. Few, however, have been the attempts to explain to businessmen and others how particular problems relating to asset replacement and cash flow may be guarded against. In Messrs Remenyi and Zucchini's article a model is presented which shows just how a firm may plan its cash availability in order to ensure that it does not get into liquidity difficulties.

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On calculating average rates of return

Prof Ivan Woods is a well-known contributor to the Investment Analysts Journal. In this short article on the calculation of rates of return he brings to the attention of readers some of the problems that are generally ignored by businessmen but which cannot be disregarded if planning is to be thorough and realistic. He concludes that of the different concepts of ROR that are common, the widely used arithmetic mean ROR is probably the least useful and the most likely to mislead.

Some further comments on The Johannesburg Stock Exchange as an efficient market

The efficient market hypothesis (EMH) has been discussed at length in two previous issues of the Journal. The article which appears on this occasion is Messrs Gilbertson and Roux's reply to the criticism that was levelled at their first article (which appeared in Issue No. 9) by Dr P. J. Strelbel, former Senior Lecturer in Finance at the Wits Business School. G and R argue strongly against Dr Strelbel's assertion that the EMH is at best a half-truth bringing to the attention of readers new evidence which supports their original contention. Their article is technical but it contains enough general comment to make it both interesting and provocative for those not fully versed in mathematical and statistical method. For practitioners who regard the controversy over the EMH as of vital importance to both technical and fundamental analysis, the article is one they should not miss.

Redemption yields and valuations of South African gilts

This is the second article in our series Investment Basics. It deals with the valuation of fixed interest securities and is written by John Rogers, well-known for his knowledge of the subject.

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Die Beleggingsnavorsers Tydskrif

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In a recent address to the Economic Society of South Africa, Prof F. von Hayek put forward the suggestion that government monopoly in the issue of money should be scrapped and that we should revert to a system, albeit with important differences from that which prevailed during the nineteenth century, based on monetary issues by private banks. This sounded radical and, indeed, was intended as such by Prof Hayek who is well known not only for his defence of free markets and free enterprise but also for his willingness to examine old problems with a mind uncompromised by a commitment to old prejudices. Prof Hayek's thesis is that only by the scrapping of such government monopoly can we stand a chance of returning to a form of money that serves as a standard of deferred payments and a store of value and, hence, as a guardian of thrift, as well as means, purely, of exchange. Because of the inflation that began in the late 1960's and which still continues today, the money of our time has ceased, adequately, to encourage savings. On the contrary it has come to pose a major threat to the purchasing power of those financial assets that have been accumulated by our older citizens and has, thereby, actively served to discourage further accumulation by younger members of society. What point, after all, is there in making real sacrifices of living standard in the present, for that is what deferred consumption implies, if the resources one puts aside, will not meet the needs of the future consumption one anticipates, not because one's saving has been inadequate but because of a defect in the system?

Although investment analysts might regard Prof Hayek's suggestion with a measure of justified scepticism (imagine the difficulties of making comparisons of inter-company performance when the companies themselves report their results in the monetary units of different banks!) they can hardly claim that the situation the suggestion is designed to correct is ideal for their purposes. Inflation has given rise to all sorts of accounting problems making it extremely difficult to judge the achievements of past profits or even sales growth, or the ability of a firm to withstand the adverse effects of a credit squeeze or a trade recession.

But it is not only at the level of the individual firm that inflation is of concern to investment analysts. It is of concern to them also because it affects the workings of the whole economy, a truth forcibly demonstrated in the case of South Africa in recent years. Yet short of adopting as radical a suggestion as that of Prof Hayek, what can be done about the problem? There are limits to the benefits to be gained by recourse to old-time policies of conservative monetary and fiscal management. In South Africa, as in the United States, we have reached the point where to increase the level of idle resources has become an exercise in national masochism. As Lester Thurow, Professor of Economics at the Massachusetts Institute of Technology has argued in an

Elfde uitgawe

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In 'n onlangse rede wat aan die Ekonomiesevereniging van Suid-Afrika gerig is het prof F. von Hayek aan die hand gedoen dat die alleenreg van die staat om geld uit te gee, afgeskaf moet word en dat ons moet terugkeer na 'n stelsel, sy dit met belangrike verskille van die een wat gedurende die eeu in swang was, gegrond op uitgifte van geld deur privaatbanke. Dit het radikaal geklink, maar dié reaksie was inderdaad waarop prof Hayek afgestuur het, want hy is nie net goed bekend vir sy verdediging van vrye markte en bedryfsvryheid nie, maar ook vir sy bereidwilligheid om ou probleme te ondersoek met 'n gesindheid wat nie deur ou vooroordele beïnvloed is nie. Prof Hayek voer aan dat ons enigste kans op 'n terugkeer na 'n geldvorm wat as standaard van agterskotte en 'n waardedraer dien en, gevolglik, as bewaker van spaarsaamheid asook van 'n suiwer ruilmiddel, slegs langs die weg van uitskakeling van dié alleenreg van die staat lê. As gevolg van die inflasie wat in die laat 1960's begin het en wat vandag nog voortduur, het die geld van ons tyd op afdoende wyse die aanmoediging van besparing gestuit. Dit het, intendeel, uiteindelik 'n ernstige bedreiging daargestel vir die koopkrag van dié finansiële bates wat deur ons ouer burgers byeengebring is, en het sodoende daadwerklik bygedra tot die verdere ontmoediging van die geldspaarbeginsel by jonger lede van die gemeenskap. Watter doel dien dit per slot van sake om teenswoordig werklike opofferings ten opsigte van lewenstandaard te maak (want dit is wat uitgestelde verbruik impliseer), as die geldmiddele wat 'n mens opsy sit nie in die behoeftes van toekomstige verbruik wat in die vooruitsig gestel word, sal voorsien nie – nie omdat jou spaargeld ontoereikend is nie, maar as gevolg van 'n tekortkoming in die stelsel.

Al beskou beleggingsnavorsers prof Hayek se voorstel met 'n mate van geregverdigde skeptisisme (dink aan die probleme wat kan ontstaan by vergelykings van tussenmaatskappyprestasie wanneer die maatskappye self hulle resultate in die geldeenheid van verskillende banke aangee!), kan hulle beswaarlik beweer dat die situasie wat die voorstel beoog om reg te stel, ideaal geskik is vir hulle doeleindes. Inflasie het aanleiding gegee tot allerlei boekhouprobleme, wat dit uiters moeilik maak om die prestasies van vorige winste, of selfs omsetgroei, of die vermoë van 'n firma om die nadelige uitwerkings van 'n kredietbeperking of 'n ekonomiese slapte die hoof te bied, te beoordeel.

Maar dit is nie net op die vlak van die afsonderlike firma dat inflasie die beleggingsnavorsers se aandag verg nie. Hulle gemoeidheid daarmee spruit ook uit die feit dat dit die werking van die hele ekonomie beïnvloed – 'n waarheid wat in die afgelope jare in Suid-Afrika op treffende wyse aan die lig gekom het. En tog, as ons nie 'n radikale voorstel soos dié van prof Hayek aanvaar nie, wat anders kan ons omtrent die probleem doen? Die voordele wat verkry kan word deur die toevlug te neem

excellent paper, it is all costs and no benefits, and most of those costs are, in fact, being suffered by economically deprived groups.*

Inflation affects, too, the policies a country adopts in the exchange management of its currency. So urgent has this issue become for us that the Government has asked the De Kock Commission to give prior consideration to it before reporting on other matters. There can be little doubt that the decline of the dollar, to which the rand remains linked, has suited South Africa in present circumstances, for it has helped to protect its still too low gold and foreign exchange reserves and it has helped to provide some stimulation for its major export industries, but can we rely on the dollar remaining weak while our reserve problems remain unsolved? Will the time not come when the rand-dollar link at its present rate of exchange will have to be reconsidered? Would it not be better even now to let the rand float and find its own level and, like Israel, to remove our current controls on the use of foreign exchange? The suggestion, made by Mr Lewin in his paper, that a removing of such controls is a necessary precondition for the emergence of a well developed foreign exchange market, which many appear to consider necessary for the future monetary development of the country, may well have much to commend it.

*Thurrow, Lester, "Inequality, Inflation and Growth in the American Economy". The Economist, December 24, 1977.

THE EDITOR

tot die konserwatiewe monetêre- en fiskalebeheerbeleid van die verlede het hulle perke. In Suid-Afrika, net soos in die Verenigde State, het ons die punt bereik waar die verhoging van die peil van ongebruikte middele 'n oefening in nasionale masogisme geword het. Soos Lester Thurrow, professor in die Ekonomie by die Massachusetts Institute of Technology, in 'n uitstekende referaat aangevoer het, bring dit net skade mee en geen voordele nie, en die meeste van dié skade word inderdaad deur ekonomiese minderbevoorregte groepe gely.*

Inflasie beïnvloed ook die beleid wat 'n land ten opsigte van die deviesebeheer van sy geldmiddele aanvaar. Dié kwessie het vir ons só belangrik geword, dat die Regering die De Kock-kommissie gevra het om voorkeuroorweging daaraan te skenk bo verslaggewing oor ander aangeleenthede. Daar kan min twyfel bestaan oor die feit dat die daling van die dollar, waaraan die rand steeds gekoppel is, Suid-Afrika in die huidige omstandighede goed te pas gekom het, want dit het gehelp om sy nog te lae goud- en deviesereserwe te beskerm en om 'n mate van stimulasie aan sy belangrikste uitvoernywerhede te bied, maar kan ons daarop staatmaak dat die dollar swak sal bly terwyl ons reserweprobleme onopgelos bly? Sal die tyd nie aanbreek wanneer ons die rand-dollar-koppeling teen sy heersende wisselkoers in herooring sal moet neem nie? Sou dit nie beter wees om selfs nou al die rand te laat sweef en sy eie waarde te leer ken en, soos Israel, ons huidige beheer oor die gebruik van deviese op te hef nie? Hierdie voorstel, wat mnr Lewin in sy referaat gedoen het, naamlik dat die opheffing van sodanige beheer 'n noodsaaklike voorvereiste vir die totstandkoming van 'n goed ontwikkelde deviesemark is wat klaarblyklik deur baie as nodig beskou word vir die toekomstige monetêre ontwikkeling van die land, is heel moontlik sterk aan te beveel.

*Thurrow, Lester. "Inequality, Inflation and Growth in the American Economy". The Economist, 24 Desember 1977.

DIE REDAKTEUR