The declining rand's impact on workers

Flippant remarks made at the beginning of December that the declining rand would not affect the average South African, have proved incorrect. Reneé Grawitzky examines the potential positive and negative effects of the declining rand on workers as well as the subsequent rise in interest rates.

The rand fell by close to 40% against the dollar by December 2001.This dramatic decline on its own could both positively and negatively affect workers and generally consumers, not only those buying foreign goods. However, the recent decision by the Reserve Bank to increase interest rates by one percentage point could further aggravate the situation, economists have warned.

A range of economists were interviewed in order to get a very broad perspective on the impact of the declining rand on workers.All warned that recent developments could impact negatively on the bargaining round in the year ahead as the economy could see a massive redistribution of wealth away from workers.This could sharpen worker struggles around wages.

Positives and negatives

Vincent Malunga, senior economist at Sanlam Investment Management said the recent decline in the value of the rand could have both positive and negative consequences for workers. On the positive side, this development could be good for exports and companies that are more export oriented. If companies are able to export more in the current climate (based on the demand for their goods and their ability to supply) then there could be a positive spin-off in terms of possible job creation. However, exporters too need to import capital goods (like machinery) and this could be more expensive for them. The increased costs could have a ripple effect.

On the negative side, the costs of imported goods will go up in price, but the same will apply to locally made goods where their price is dollar linked such as maize and wheat.This coupled with the petrol price will increase the cost of food generally.

A sharp rise in the costs of imports could lead to import substitution where some goods can be made locally at a cheaper price. If it is possible to produce certain products locally and consumers begin to buy local, then there is a future potential for creating jobs. However, where the country still needs to import, then consumers will have to pay a price penalty.

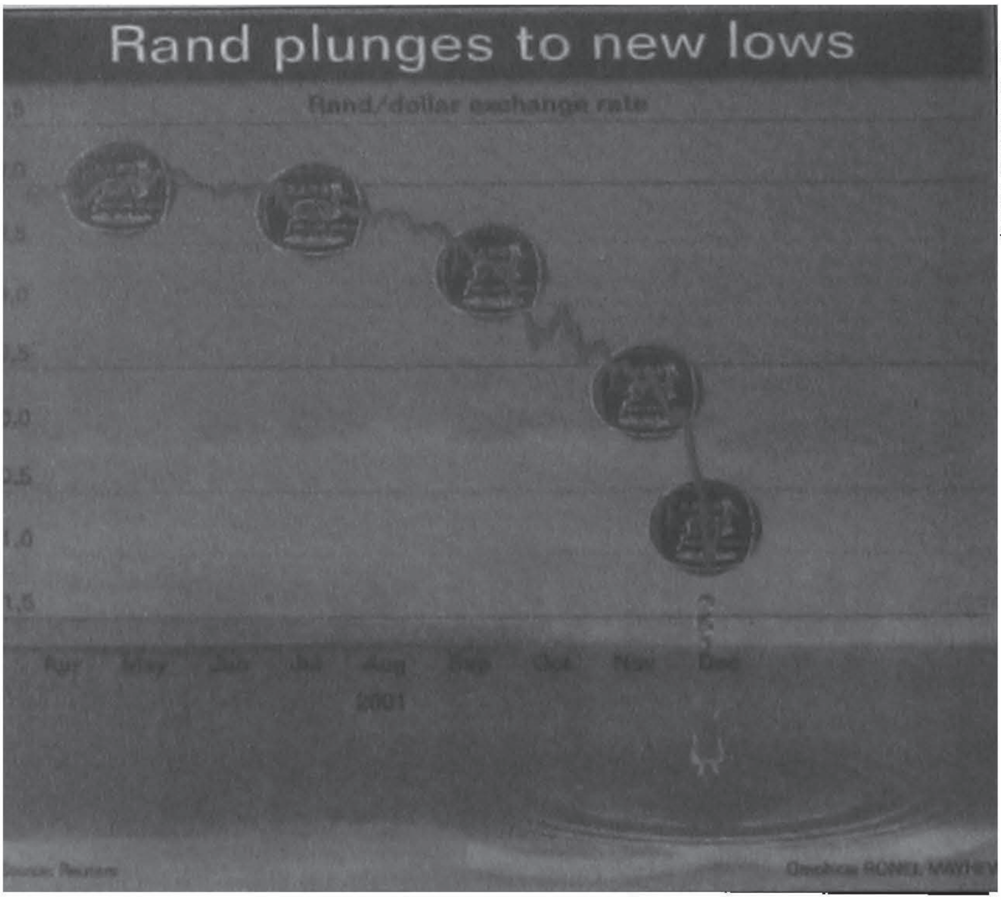
The lower end of the market will suffer more than the rich, Malunga warns. This is because a higher proportion of the wages of low income earners goes towards food. The potential increases in food prices will reduce the purchasing power of workers' salaries. Ultimately, there will be an indirect redistribution from workers to high income earners especially if wages do not keep up with inflation. The demand around food security is increasingly featuring in Cosatu position statements.

Cosatu's reaction to interest rate hike

Cosatu expressed concern over the Reserve Bank's decision to up the interest rate by a full percentage point. 'This decision will impose new hardships on working people, at a time when they already face unaffordable increases in food prices and job losses. It is especially hard to accept because it comes on a relatively high base of 9,5%,' the federation said.

The interest rate hike suggests that the Reserve Bank has once again decided to place low inflation above growth and employment creation. When inflation targeting was introduced, Cosatu said: 'inflation must be fought by restructuring the economy to create jobs and ensure dynamic growth, not by contradictory measures that cause hardship and unemployment'.

The federation went on to say that the main inflationary pressure clearly lay in the economically unjustified devaluation of the rand. In the circumstances, raising interest rates seemed inappropriate, unnecessary, and misguided. Cosatu went on to say that the Reserve Bank argued that the interest hike will help hold down inflation without harming the economy, because of stimulation from the depreciation of the rand. That ignores the shaky state of the world economy, which is counteracting the stimulation from an undervalued currency. Thus, throughout the world, governments with much more prosperous and stable economies have been steadily cutting interest rates. The high interest rate policy raises the cost of business transactions and investment. That in turn makes job creation, home ownership and black economic empowerment all the more difficult.



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