

# THE RHODESIAN JOURNAL

of

## ECONOMICS

*The Journal of the Rhodesian Economic Society*

Editorial Board:

A. M. Hawkins (Editor), M. S. Brooks, M. L. Rule and P. Staub.

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**Sterling Devaluation: Its Implications  
for Rhodesia and neighbouring countries**

**J. F. Handford**  
Mr. Handford is a Salisbury economist.

# DEVALUATION: NOTES ON THE POSITION IN RHODESIA AND NEIGHBOURING COUNTRIES

JOHN HANDFORD

It is interesting to recall the different circumstances surrounding the successive devaluations of the pound sterling. In 1931 the severe unemployment brought on by the great depression was reason enough for the 30 per cent British devaluation. It was hoped that the unemployment centred in the export industries but which had spread throughout the economy, would be eliminated by boosting exports through devaluation. In the event, this hope was not entirely realised and it took the preparation for a world war to completely solve the problem in the U.K.

South Africa, initially attempting to maintain the value of her currency in the face of the British action, was forced to follow suit fifteen months later. The serious outflow of speculative funds on capital account, the pressure on agricultural exports and the harmful effects on the gold mining industry made this inevitable.

Rhodesia's devaluation in concert with Britain was virtually automatic. The circumstances of the time were summed up by Woodruffe and Thompson as follows: "The value of the Gross Output of European agriculture in the Colony, which had reached a peak of £3.4 million in 1927, declined steadily to £3.0 million in 1930, fell sharply to £2.1 million in 1931, and remained at £2.4 million in 1932, and £2.3 million in 1933. Mining also suffered, although not to the same degree. The higher price for gold consequent upon the devaluation of sterling in September 1931 gave a fillip to production, but even the golden flywheel could not counterbalance altogether the very serious falls in the output and value of asbestos, coal and chrome. It took eight years for the tonnage of coal and chrome to recover to the levels of 1929, and six years in the case of asbestos. The total value of all mineral production dipped in the years 1931-32, but went up rapidly thereafter, thanks to the increased value of gold production".

The 1949 devaluation which reduced the pound from \$4.03 to \$2.80 was a direct outcome of the war. The U.S.A. alone had emerged in 1946 with an economy stronger than it had been before the war. The dollar was undervalued in terms of most other currencies and Britain particularly was finding it increasingly difficult to earn dollars to pay for vital imports from the dollar area.

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*I. H. W. Woodruffe and C. H. Thompson. "Economic Development in Rhodesia and Nyasaland". Page 14.*

The British devaluation was immediately followed by similar action on the part of twenty-three other countries, including the entire Commonwealth. South Africa and Rhodesia had little option but to follow Britain's lead. Switzerland was one of the few developed countries that did not devalue. In Rhodesia devaluation caused prices for our metal and mineral exports to rise; the sterling price for gold was increased immediately, because the dollar price for gold had remained unchanged. The Rhodesian prices of other exports did not increase by the full amount of the devaluation and in 1950 their average unit value was only 11% higher than in 1949. The average unit value of imports rose by 7% between 1949 and 1950. This relatively small immediate impact on imports was a result of their composition; in the main they consisted of manufactured goods with Britain as the main supplier. Because exports rose more in unit value than imports, there was a significantly favourable movement in our terms of trade between 1949 and 1950.

### **The 1967 Devaluation**

In 1967 the devaluation of sterling was as much a European as a British problem. The 'Times' was of the opinion (just prior to devaluation) that "... the pound is not under any particular pressure in its bilateral relationship with the dollar. . . If the pound and the dollar were the only currencies in a bilateral system, then the \$2.80 parity would not seriously be in question". The same newspaper also took the view that as the two major European currencies, the franc and the mark, had followed the 1949 devaluation, the European exchange rates were still ultimately related to the immediate post-war situation. The successive sterling crises of recent years were seen as fundamentally due to the fact that the continental economies, which were in a state of collapse immediately after the war, had now recovered, whilst Britain's economy had lagged behind.

Time magazine summed up Britain's problem when it wrote, "For most of the post-war years Britain's productivity has failed to keep pace with that of its competitors. Among the major industrial nations, Britain since 1951 has had the slowest rise in productivity, the lowest rate of investment in private enterprise and the largest rise in export prices". The 'Times' of London went to the heart of the matter when it stated that "... any national currency is backed by the productive capacity and cost levels of its national economy".

The unpalatable economic facts of life are being continually brought to the attention of the British public. It remains to be seen if the recent devaluation is a strong enough warning to Britain that the world does not owe her a living at a standard higher than she is prepared to earn. Again quoting from the 'Times', "Benefit flows only from devaluations which are accompanied

by effective anti-inflationary measures and it is essential to prevent a domestic consumer boom during the period in which export industries expand as a result of devaluation. It is also necessary, of course, to prevent a major increase in wages". The conditions of the recent IMF loan to Britain spelt this out in no uncertain terms and in so doing implied a lack of confidence in the management of the British economy to do what is required—regardless of party political interests. The British devaluation of November 1967 was followed by several other countries. Ireland, Israel, Spain and Malawi devalued to roughly the same extent as Britain; Hong Kong and Denmark devalued less, and New Zealand and Ceylon more. It remains to be seen, of course, how much of the percentage advantage gained will be retained when trade settles down after all the adjustments, internal and external.

### **Rhodesia's Position**

In the pre-UDI era when Rhodesia's reserves were almost entirely in the form of sterling balances and Britain was our most important trading partner (buying 25 per cent of our exports and supplying 30 per cent of our imports), it would have been inconceivable for Rhodesia not to have devalued together with Britain. Now, however, two years after UDI, our reserves, apart from the funds blocked in London, are no longer in sterling and South Africa is overwhelmingly the most important trading partner.

As the dust settles on devaluation some of the effects on Rhodesia—minor though most of them are—are becoming clear. For example, 3,000 local residents in receipt of British-paid pensions now find that their payments have been cut by the full amount of the devaluation. On the other hand, persons in Britain receiving Rhodesian pensions have benefited. Air fares payable in countries which have devalued have risen by approximately 16.7%. The effect of this is that a return passage from Rhodesia to Britain will be unchanged if paid for in Rhodesia, but will increase if paid in Britain. British shipping lines now must pay more for the services they receive in countries which have not altered their exchange rate with the dollar.

The small volume of Rhodesia's imports still originating from Britain should be cheaper than before, and Rhodesians visiting countries which have devalued should find their money stretching further. Local residents drawing from any of the Trustee blocked funds in Salisbury, against income which accrues to them in blocked accounts in Britain, will now suffer to the extent of the devaluation. Similarly residents of Rhodesia and South Africa who hold Rhodesian stocks registered in London have, since UDI, been receiving their interest from Salisbury; as this interest is due in sterling the payments will now be reduced by 2/10d. in the pound. (The position of Malawi residents remains unaltered.)

It is generally thought that when the bill for the money cost of the British Government's action in blocking Rhodesia's London securities is

finally presented, it will include a new element; the Rhodesian Government is obliged to make up the difference to the Reserve Bank between an agreed market valuation of the blocked London securities and their new reduced value in Rhodesian currency. This loss must be paid by someone and will need to be considered in any Anglo-Rhodesian settlement.

Shortly after devaluation Mr. Wilson claimed that the Rhodesian £ was being traded on a limited black-market for between 8/- and 11/-. Mr. Wrathall, the Rhodesian Finance Minister, replied that the Rhodesian £ was being regularly traded on the basis of \$2.80 parity. Within a few days of Mr. Wilson's statement, HMG confirmed to the IMF that the Rhodesian £ had not been devalued and retained its same dollar parity. For Rhodesia, the effects of not devaluing must inevitably be considered in two aspects—the immediate position and the position when a normal trade pattern is once again possible, perhaps following a settlement with Britain.

### **Malawi's Decision**

In all East, Central and Southern Africa, Malawi has been the only country to follow the British devaluation. An important consideration in reaching the decision was, in the words of an official statement “. . . to ensure that bulk of aid receipts maintain their value in terms of the Malawi pound”. Additionally, it was hoped this would “. . . preserve and perhaps increase the competitive ability of Malawi's exports”. It is estimated that if Malawi had not devalued she would have lost £1.5 million a year in British aid. buy as much as possible from Britain.

Malawi's principal exports consist of tobacco, tea, maize, rice and groundnuts. However, other countries in this part of Africa grow these products as well, and it is often the case that when one country has a crop surplus, neighbouring countries are in a similar position. In being the only country in the area to devalue, Malawi stands to gain an advantage over her neighbours in times of such simultaneous surplus. Another favourable outcome for Malawi is that the invisible earnings, in the form of remittances home, of the 250,000 or so Malawians working in South Africa, Rhodesia and Mocambique, should rise in value by about 16% in terms of the Malawi pound. Since only about 28% of Malawi's imports come from countries which have devalued, the bulk of her imports will now cost more unless the present trading pattern is altered. Importers have already been instructed to buy as much as possible from Britain. The extent to which Rhodesia's exports to Malawi will be affected is doubtful, but a minor loss must be envisaged.

Zambia, having decided not to devalue, is unlikely to be affected much either way. The copper companies, however, are at the time of writing waiting

anxiously for the Zambian government to rule on whether the royalties and export tax payments are to be paid in Zambian or British pounds. The Copper Export Tax Act provides for tax at the rate of 40% of the amount by which the average three-monthly London Metal Exchange price exceeds £300 a ton; the Act does not specify whether the pounds are to be Zambian or British. Royalties are also calculated on the L.M.E. price which is now significantly higher than before devaluation. Imports from Britain should, of course, be less expensive and this should help in curbing the inflation which has been accelerating in Zambia during the past two years.

### **South Africa**

South Africa's decision not to alter the dollar value of the rand was by no means a foregone conclusion. Many people are of the opinion that the inflation problem has already been brought under control by the succession of measures taken by the Treasury. They further believe that devaluation need not necessarily have upset this. The reasons for not devaluing were set down clearly in a statement by Dr. Diederichs on 19th November. The principal consideration was undoubtedly the desire to safeguard the anti-inflationary measures which have recently started to take effect. Also, South Africa has a healthy balance of payments position and is not in need of export assistance such as would come from devaluation.

The South African Government has indicated its willingness to provide some form of aid for those export industries which may be substantially affected by Britain's devaluation. The cost of this assistance would be far less, according to Dr. Diederichs, than the cost to the country of a rand devaluation. Today South Africa depends less upon agricultural and gold exports than she did in 1931, and the growth strategy of gradually replacing the gold mines by secondary industry is in itself a strong argument against devaluation so long as the import content of local industrial processes remains as high as it is.

Professor J. A. Lombard writing in the South African 'Financial Gazette' believes that devaluation would "not only inject some temporary life into the gold mines but increase the import cost of raw materials and capital goods". About 80% of South Africa's imports consist of such materials entering into the cost structure of industry. Unless there is a further devaluation by Britain, which would probably involve a general round of exchange rate adjustments, it is difficult to imagine the Republic devaluing.

A factor which the South Africans must have borne in mind is that at some time Britain will join the European Common Market. This will force South Africa to find alternative markets for part of her exports currently going to Britain. Acceptance of this fact means that any devaluation by the Republic would be of temporary benefit at best.



In the unlikely event, however, of such action by South Africa, could Rhodesia elect to do other than follow her lead in the present economic circumstances? There are two considerations which dominate government economic policy in Rhodesia at the present time. First, employment must be maintained at as high a level as possible, and secondly, exports must earn sufficient foreign currency to finance essential imports. At the present time both employment and the external trade position are giving no cause for alarm. Would the position change if South Africa devalued?

In the absence of detailed direction of trade data, one can only guess at the changed pattern. It is believed that Rhodesia is currently exporting very little to countries which have devalued. It may be the case that about a fifth of our present exports are destined for Zambia and Malawi; and of the remainder, perhaps fifty per cent find their way to overseas markets via ports in Mocambique (with possibly some £2 million worth of goods remaining in Mocambique). The other fifty per cent may well go to the Republic split evenly between genuine exports and 'in transit' trade. A South African devaluation might not disturb this pattern, except for the Rhodesian exports which are competitive with local South African industries, as for example, furniture, footwear and textiles. It must also be remembered that certain South African exports compete in world markets with those of Rhodesia, particularly pig iron, hides and skins, timber, citrus fruits and sugar. The combined effects of these two limitations which would undoubtedly hit our exports if we failed to follow a South African devaluation, might be intolerable. Much would depend on how successfully Rhodesian mineral exports could continue to be marketed.

Salisbury.

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