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Inflation in South Africa

With Inflation becoming a growing concern to economies all across the African continent, an insert of a concrete Fiscal Policy can steer each individual economy out of the abyss and into the light, and thrown into a healthy and flourishing environment that would be able to sustain such an economy, provided the government can withstand and enforce with little to no chance of further decay of the economy. The insert of this new Fiscal Policy, either Expansionary or Contractionary, can fix and reestablish the errors of the previous policy, or lack there-of, which could be the prime factor and the correlation to the inflation of South Africa.

Inflation is a monetary phenomenon, which is usually measured by changes in Consumer Price Index (CPI) (economywatch.com). CPI is a program that produces monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services (bls.gov). Every economy across the world manages a CPI, with the production of monthly data changes in prices, economists can see what changes need to be made in an effort to lower prices and reduce the rate of inflation. Upon Classical Economics they incorporate a concept known as Say's Law, and is stated thus, "According to Say’s law, supply creates its own demand. Excess income (savings) should be matched by an equal amount of investment by business. Interest rates, wages and prices should be flexible. The classical economists believe that the market is always clear because price would adjust through the interactions of supply and demand. Since the market is self-regulating, there is no need to intervene. Economists who advocate this approach to macroeconomic policy are said to advocate a laissez-faire approach. The market will reach full employment by itself." (staffwww.fullcoll.edu) A lassez-faire economy means that the economy has no government intervention at all, so therefore, the economy does not provide services that can help citizens, and is only regulated by the supply and demand, as stated. This is not beneficial to the CPI of economy in any means, for the government regulates prices, and in a lassez-faire economy, people can set the price for a good at any rate they deem fit, which leads to economic failure. An economy of prime example for failure would be Zimbabwe's. Zimbabwe's inflation rate increased to 50% in February of 2007, and is the first country in the 21st century to reach hyperinflation, (reaching 50% rate of inflation per month, adding up to 12,875% annually) this could be a lack of monitoring or a lack of managing the economies CPI, leading to exponential price growth and a lack of a monetary supply throughout the country leading to growing inflation rates.

This knowledge of what has happened to Zimbabwe's economy brings great concern to countries all over the African continent. To be able to reach the hyperinflation rate in a month shows that the understanding of economic strategies is underdeveloped, causing for intervention in educating officials and organizations to be better able in controlling the economy.

A Fiscal Policy is what an economy or government can incorporate to influence the amount of money and credit which is circulated throughout the economy (Federal

Reserve Education). Errors in a Fiscal Policy can spark and influence a High Inflation Regime (HIR). A High Inflation Regime is caused through the errors which were implemented and carried-out by the original Fiscal Policy. This Regime can cripple the economy in a significant manner, and cause detrimental difficulties which would inhibit the repair of these damages.

A stoic form of a Fiscal Policy could be an Expansionary Fiscal Policy. An Expansionary Fiscal Policy is an isocline way to enforce "decreases in the discount rate, purchases of government securities, and reductions in the reserve ratio." (Investopedia). All of this is in effort to implant a catalyst into the countries money supply to transform it into a raging and thriving beast, in lieu of a derelict reserve in which nothing can be sustained.

An inverse of an Expansionary Fiscal Policy is a Contractionary Fiscal Policy. A Contractionary Fiscal Policy "slows the rate of growth in the money supply or outright decreases the money supply in order to control inflation; while sometimes necessary, Contractionary Fiscal Policy can slow economic growth, increase unemployment and depress borrowing and spending by consumers and businesses." (Investopedia). This may also be a stupendous Policy to insert into South Africa, although its results are sluggish to come into play, it can ultimately solve inflation by the various factors it implements. By reducing or removing the money supply completely it can increase the worth of the currency substantially over time. With such inhibiting factors, like increasing unemployment or depressing the borrowing and spending by consumers and businesses, the Contractionary Fiscal Policy may not be as appealing as the

Expansionary Fiscal Policy, but, as stated before, can yield larger and more beneficial results to the economy.

By examining what has been written before, one could come to a conclusion which would best suit the people of South Africa, the geographical surroundings of South Africa and Africa as a whole, and the monetary gain that would come to those who seek to further enhance an economy for the better. Although the journey may be arduous and many tribulations will be encountered, it is better to try and renew something dilapidated than something archaic, which has crumbled to the ground completely.

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