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THE SEMANTIC DEMARCATION OF TERMS — ELEGANT VARIATION OR CHIC PERVERSION

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Phrases such as *interest rate* and *rate of interest*, or *tax rate* and *rate of taxation* seem to be variations on elegant themes. Actually they're not - not just variations in the sense of presenting the same theme in different ways to draw attention. They certainly draw attention, if merely for the fact that they seem to shift emphasis, and shifting emphasis constitutes a sure way of concentrating the mind wonderfully; but a more meaningful distinction appears if the development in language giving rise to the possibilities of *interest rate* and *rate of interest* is examined.

Being a Germanic language in syntax, and a Germanic but also overwhelmingly a Romance language in lexicon or vocabulary - to put it somewhat loosely - English naturally does display, and to a very great extent, the Germanic and Romance ways of forming phrases or echoing concepts through terms. In short, it is more the French way to speak of a *way of iron* or a *road of rail*, than a *railroad* or an *iron way*. The French therefore say *rate of interest* only and not *interest rate*, while the Germans use *interest rate* solely and not *rate of interest*. To switch would entail unidiomatic speech in either language. In English we can be idiomatic in both

ways, which does sound a little more free, but of course presents the problem of choice.

To my mind what is needed to distinguish meaningfully between *The interest rate is too high* and *The rate of interest is too high* is a workable semantic theory, the rudiments of which I propose to examine here. In *interest rate* I contend we have one term only, while in *rate of interest* I find two. (The Latin for *interest* and *interest rate* is the same, no matter whether it's looked at from the borrower or the lender's side.) *The interest rate is too high* means *The interest is too high*, and *The rate of interest is too high* means *The particular rate bearing on the receiving* or *paying of interest is too high*. In the first case there is no doubt: whether you a borrower or a lender be, the interest rate is too high; while in the second lenders especially may find it too low, with borrowers finding it too high. In the first case interest is too high, by implication harming both borrowers and lenders and hence the whole economy. In the second case the *interest* could be fine to at least one party, while the *rate* at which it is charged could be at fault to at least one party. In other words, in the first case *interest* seems to be at fault, and in the second, although *interest* seems fine, the *rate* at which it is being charged is put in question.

This should become clearer from a passage from an existing economic text where first case instances are turned, by me, into second case ones and second ones into first, and the subtle though important shifts in meaning then examined.

Such a text is to be found on page 7 of the *Nedbank Economic Roundup* for February 1985. I first give the text as is, discussing its general tenor before highlighting the first and second case instances. Then the instances are reversed, to be followed by a further discussion as to the altered tenor.

RATES CONTINUE TO RISE

> Between October and January money market rates moved still higher. The Treasury bill rate increased from 21,77 to 21,79 per cent, the three-month NCD rate from 23,75 to 24,55 per cent, and the three-month BA rate from 22,25 to

> 22,70 per cent. After remaining firm during October, there was an easing in rates during early November in response to an expected relaxation in monetary policy. As a result, the prime lending rate was dropped from 25 to 23 - 23,50 per cent. A lower than expected reduction in the rediscount rates, poor money supply figures, as well as the weakness of the rand and the gold price quickly reversed this sentiment. From its lows of 21,75 per cent in mid-November the BA rate had moved up to 22,80 per cent by the year-end, while the prime lending rate was raised in two stages back to 25 per cent. However, after an extremely tight December month-end conditions stabilised in January. Technical changes to the operation of the financial markets caused a drop in the market shortage and rates towards the month-end.

Now, the money market is a very abstract market, having no fixed abode such as a commodity market or a stock exchange. In the money market financial institutions trade, mostly by telephone, in certain instruments, of which the most important are mentioned in the article: Treasury bills; NCDs or negotiable certificates of deposit; and BAs or bankers' acceptances. The tenor of the article is that the underlying trend of the rates on these instruments is upwards and will probably remain so. While this represents a composite opinion, it does not try to represent or even suggest a universal truth, but is concerned with the underlying trend in rates within a time horizon of one quarter, from October 1984 to December 1984, plus one month, January 1985, with implications for the month of publication, February 1985. This is why a horizon is always shifting. As 'continue' in the heading suggests, the process has not stopped and may go on. That then is the tenor, which I shall now highlight by re-reading the article, and emphasising the first and second case instances.

RATES CONTINUE TO RISE

> Between October and January *money market rates* moved still higher. The *Treasury bill rate* increased from 21,77 to 21,79 per cent, the *three-month NCD rate* from 23,75 to

24,55 per cent, and the three-month BA rate from 22,25 to 22,70 per cent. After remaining firm during October, there was an *easing in rates* during early November in response to an expected *relaxation in monetary* policy. As a result, the *prime lending rate* was dropped from 25 to 23 - 23,50 per cent. A lower than expected reduction in the *rediscount rates*, poor *money supply figures*, as well as the *weakness of the rand and the gold price* quickly reversed this sentiment. From its lows of 21,75 per cent in mid-November the *BA rate* had moved up to 22,80 per cent by the year-end, while the *prime lending rate* was raised in two stages back to 25 per cent. However, after an extremely tight December month-end conditions stabilised in January. Technical changes to the *operation of the financial markets* caused a drop in the *market shortage* and rates towards the month-end.

On the one hand, the rates on the money market instruments are here given in the format of *interest rate* and not *rate of interest* throughout: *Treasury bill rate*; *three-month NCD rate*; *three-month BA rate*; and then again *BA rate*. Therefore they are presented as facts or *faits accompli* or *fait accomplis*. The format of *money market rates* also indicates that all *money market* rates moved higher, as a matter of fact, and not only some, as could be implied by *rates of the money market* or *rates in the money market moved still higher*. This then on the one hand: a general rising of *money market rates*, which could be measured and seen to be so as a fact, as is clearly attested to by the figures given.

On the other hand, the article is not only trying to give the rising of the rates, it is also trying to suggest or indicate some causes of this. These causes are twofold: first and second case instances. The first of course consists of the *prime lending rate*, and not for example the *prime rate of lending*, and *rediscount rates*, as opposed to *rates of rediscounting*. The article implies that *money market rates* move up and down with the *prime lending rate*, and the *rediscount rates*. This is factually sound, as the prime lending rate is what clients (prime clients only though) pay banks for their money, and *rediscount rates* represent what banks pay the Reserve Bank for their money. Banks have to make a profit - thus, if the

prime lending rate goes up, the rates at which banks are prepared to discount money market instruments (or the rates they are prepared to pay money market depositors) also go up, but of course not higher than prime. Conversely, if the banks have to pay more for the money they have to borrow owing to a rediscount rate rise, they are not prepared to pay more for the money placed with them.

To make it simple, if the banks get paid 25 per cent for their money lent to borrowers, they are not prepared to pay more than that to depositors, whose money they lend. Therefore depositors get about 23 per cent (only theoretically of course). If they can, however, borrow money at 22 per cent from the Reserve Bank, they are not going to pay depositors 23 per cent. It is clear then that movements of the prime lending rate and the discount rates are reflected by movements of the Treasury bill rate, the three-month NCD rate, and the three-month BA rate. This is a factual relation that can, in fact, be quite easily represented in accounting terms.

However, markets operate not only on facts and figures, but also, some would say mainly, on expectations, which in the article under consideration are given as second case instances in *relaxation in monetary policy*, *weakness of the rand*, and *weakness of ... the gold price*. *Expected* in *an expected relaxation in monetary policy*, and *sentiment* in the *weakness of the rand and thegold price quickly reversed this sentiment* enhance the opinionated, as opposed to factual, qualities of the second case instances adduced.

So, first there is the factual situation of rising rates between October and January. Then there is the *easing in rates*, not even the *easing of rates* or, heaven forbid, the *rate easing* of early November only in response to so unfactual a thing as *an expected relaxation in monetary policy*, which certainly could not last by flying in the face of the facts. Now rates rise again but not on as factually firm grounds as before, since the opinionated *lower than expected reduction in the rediscount rates* and *the weakness of the rand and the gold price* are also causes, apart from the very factual *poor money supply figures*, which means *large money supply growth*, giving rise to expectations that monetary policy would be

tightened by raising rates to curb money supply growth. Then suddenly the facts are there once more - the *BA rate* and the *prime rate* both up. After this tightness conditions again stabilise but, as it is the opinionated *operation of the financial markets* undergoing technical changes that caused a drop in the factual *market shortage*, chances are this is only temporary. Therefore the hard underlying factual trend is up, with some softening by opinionated factors being allowed on a temporary basis only. That, then, is the tenor of the article as written: rates have only one way to go in the foreseeable future - up.

I am now going to reverse the case instances discussed and then judge the tenor once more. This time I read the article once only, highlighting the changes as I go along.

RATES CONTINUE TO RISE

> Between October and January *rates in the money market* moved still higher. The *rate on Treasury bills* increased from 21,77 to 21,79 per cent, the *rate on three-month NCDs* from 23,75 to 24,55 per cent, and *that on three-month BAs* from 22,25 to 22,70 per cent. After remaining firm during October, there was a *rate easing* during early November in response to an expected *monetary policy relaxation*. As a result, the *rate on prime lending* was dropped from 25 to 23 - 23,50 per cent. A lower than expected reduction in the *rates for rediscounting*, poor *figures for the money supply*, as well as *the rand and the gold price weakness* quickly reversed this sentiment. From its lows of 21,75 per cent in mid-November the *rate on BAs* had moved up to 22,80 per cent by the Year-end, while the *rate on prime lending* was raised in two stages back to 25 per cent. However, after an extremely tight December month-end conditions stabilised in January. Technical changes to *financial market operations* caused a drop in the *shortage in the market* and rates towards the month-end.

Let us now re-examine the by now notorious bit of writing. *Rates in the money market*, not all money market rates, moved still higher between October and January. *The rate on Treasury bills*

during this period, and not the one or ones applying later, increased. Likewise only some rates on NCDs and BAs increased - all institutions trading in these instruments did not lift their rates or at least not all of the time. The *rate easing* during early November bears this out - factually there seems to be an underlying downtrend. This is emphasised by the quite certain *monetary policy relaxation.* As the rate applying to prime lending was dropped, surely those applicable to mere mortals will follow suit, further suggesting a downward rather than an upward trend.

Also the *lower than expected reduction in the rates for rediscounting* is not too serious, as it does not seem to apply to all rediscount rates, with the result that the underlying trend could still very well be downwards. This is borne out by the *poor figures for the money supply* probably being limited only to one or two of the measures of the money supply and more than likely also only to November. In addition, it is well-known or should be by now that any rand or gold price weaknesses are temporary and, when they turn into strengths, down will go the rates. Since only the *rate on BAs* and *the rate on prime lending* had gone up, the underlying trend probably remains down. What about all the other money market rates, and the numerous ones for the majority of borrowers not qualifying for prime lending?

Added to all this, conditions *stabilised* in January and *technical changes to financial market operations* certainly suggest a permanent drop in the *shortage* almost accidentally still remaining *in the market*. The underlying interest rate trend therefore is down, giving the lie to the poor sub-editor who interpreted the article to mean that rates are on the rise. They're not.

The difference between a rate downtrend and a rate uptrend being awfully serious (depending on whether you a borrower or a lender be), these elegant variations have certainly made for chic perversion. The overall meanings they impart to the perverted article are in fact diametrically opposed to the tenor of the original one.

Makes you think, doesn't it?