

## ECONOMIC COMMENTARY

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### YOUR MONTHLY ECONOMIC UPDATE

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#### THE ECONOMIC LEGACY OF THE ANC

It has been almost three decades since the African National Congress (ANC) came into power. Our job, as economists, is to interpret the economic results of their actions, or, in this case, the lack thereof. To do this, we try to determine how the decisions of the ruling party, in aggregate, impact on the economy and, by implication, on the livelihoods of South Africans.

But first, let us look at some context: During the ANC's time in power there have been two main policy directions. We started with many liberal, free-market policies that favoured economic development over social development; although we did not spend nearly enough on capital and labour policies never favoured economic development. These policies were most prominent between 1994 and 2008. During this time, the budget deficit, measured as a percentage of the gross domestic product (GDP), was reduced from about 4% to 0.7%. Consequently, South Africa's (SA's) debt, measured as a percentage of the GDP, reached an almost all-time low of around 26%. By the way, it was also during this time when Eskom ranked among the best-run utilities in the world! And then, a dramatic shift occurred in 2009 when President Zuma was appointed, until 2018 when President Ramaphosa took over the reins. Something had been brewing underneath the surface of liberal, free-market policies that favoured social development over economic development.

Redistributive policies were less concerned with increasing production, that is income, in the economy than they were with redistributing hard-earned income. It started with labour policies when the ANC came into power. Redistributive labour policies include those that made it near impossible to hire and fire, broad-based black economic empowerment, cadre deployment, and minimum wages, among others. But the nature of redistribution over creation was then extended throughout the entire economy. Most notably, we saw how the number of grants paid to individuals grew from a few million to almost 17 million. Now, we have almost 20 million people living off grants but only 15 million people working. The civil servant wage bill also grew exponentially. The result was that the annual budget deficit grew from 0.7% to 6%, and debt to GDP ballooned to highs around 52% (as at 2018), a complete collapse of prudent fiscal policy. All of this might have been palatable if there was still sufficient capital expenditure and if spending was effective. But government's dissaving (a variable that we create by adding the budget deficit to government's spending on capital), that is, the amount of capital they destroy each year, reached a new all-time low of roughly -1% of the GDP. So, instead of investing in capital to grow the economy in the long-term, they were net-destroyers of capital; no wonder capital-intensive institutions like Eskom, Transnet, Denel, and South African Airways failed miserably.

But there was another important contributing factor: The remarkable deterioration in the quality of leadership in government, on all levels. Amid unaccountable politicians (not only in the ranks of the ANC), corruption also ballooned and important performance measures were never reached. A lack of accountability was also seen in the large number of executive orders that we had, very little of which were ever effectively implemented. One of the results of the deterioration in effective, accountable leadership is that spending, especially spending on productivity-enhancing items, was grossly ineffective. This is one of the main reasons our public healthcare and education systems are among the worst in the world. For this reason, trying to argue that more distribution would benefit SA is an absolute fallacy.

How you interpret the facts may differ, but there is one variable that does not lie, a variable that transcends opinion. The unemployment rate is probably one of the best variables to show, in aggregate, how the decisions and actions of the ruling party impacted the economy and, by implication, the livelihoods of South Africans. And with almost three decades of data, the picture is very clear. The ruling party has failed miserably, and their economic legacy is in shambles. When the ANC came into power, unemployment was 20% and has since increased to around 35%. If the ruling party was simply able to keep unemployment at 20%, there would have been 6.5 million more jobs today. That means that South Africans would have had R515 billion more income today; roughly R8 550 more for each South African. Put differently, the economy would have been at least 11% bigger. So, how do you get there? By returning to policies that favour economic development, especially labour policies. By spending more on capital. By making it easier to do business in SA. By spending more effectively on education and healthcare. And how do you do all that? Through accountable, effective leadership.

