EFFICIENT GROUP

ECONOMIC COMMENTARY

- Dr. Francois Stofberg

YOUR WEEKLY ECONOMIC UPDATE

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HOW SOUTH AFRICA CAN GET OUT OF THE POVERTY TRAP

Last week, Statistics South Africa (Stats SA) reported on South Africa's (SA's) second quarter gross domestic product (GDP). We were glad to see that GDP growth came in better than expected. Consensus believed that growth in the second quarter would be somewhere around 0.9%, when measured against the previous quarter, but was, in fact, 1.2%.

Remember that the GDP can be measured in one of three ways. The most common way is to add up everything that we produce in a specific period. Another is to add up all of our spending, and yet another considers all the income that we earn, from the factory-floor worker all the way up to the executive's office. When we consider SA's second quarter GDP from an output perspective, it was good to see that growth in the second quarter was more broad-based, and not isolated to the few shining stars similar to the previous quarters. However, when viewing GDP growth from an expenditure perspective, it becomes clear why we are not too happy about the second quarter's figures, and why we are concerned about future growth potential.

Export expenditure, once again, stole the show, contributing 1% of the 1.2% growth that we saw during the second quarter. Households contributed 0.3%. Important areas of expenditure, such as investment expenditure, once again, contracted, reducing the final size of growth in the second quarter by 0.2%. Other expenditure categories made up the balance, growing or contracting to finally get us to 1.2%. Export growth has been a definite boon to our GDP and tax coffers but, as we saw during the commodity supercycle of the 2000s, is that that is all it is, a short-term boom. Without the necessary investments, policy alignment, and support to transform commodities into manufactured or service goods, the effect will be short-lived. Social redistribution, taxing a certain (rich) portion of your economy, and handing it out to another, often poorer portion, cannot create jobs in the long-term. In the end, SA will, once again, be left in the slumps of lower growth and growing unemployment. Our predicament becomes a bit of a nightmare if we consider that gross fixed capital formation, a broad term we can use to refer to investments (as well as a few other things), has been contracting for more than five years and will, most likely, contract again in 2021.

Government cannot save our economy by spending more on current expenditure, such as wages and grants. They also cannot save our economy by redistributing more. We must start to effectively invest in productivity-enhancing items, such as education, healthcare, infrastructure, as well as in physical and other forms of capital. We must get investor and business sentiment up by improving the ease of doing business in SA. We must fix our labour laws that protect incompetent employees from the masses of unemployed individuals who cannot find jobs. If we do not, government will keep us in the poverty trap, where a lack of effective investment in productivity-enhancing items leads to more poverty, and more poverty, and more poverty.