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A PRO-BUSINESS STATE OF THE NATION ADDRESS: HOW PRESIDENT RAMAPHOSA'S ECONOMY CAN ONCE AGAIN FLOURISH

In his latest State of the Nation Address (SONA), President Ramaphosa, once again, delivered a pro-business message. He explained that: "The key task of government is to create the conditions that will enable the private sector to emerge, to grow, to access new markets, to create new products, and to hire more employees". We could not agree more but have yet to see these words materialise to the extent that would be needed for businesses to flourish. In fact, since 2016, business confidence has remained mostly unchanged.

President Ramaphosa then went on to explain that: "We all know that government does not create jobs. Business creates jobs". This is, however, in stark contrast to the policies that the ruling party have been implementing over the last couple of decades. Think about cadre deployment and that, although around 80% of jobs in South Africa (SA) are in the private sector, most new jobs have been 'created' by government. Also, from the demise of South African Airways (SAA), we know that government employs many more workers than is needed to effectively, or put differently, profitably, operate a company. We do, however, agree that the President's assessment is correct in that government should create an environment in which businesses can do what they do, and that is grow the economy and, in doing so, create jobs. This train of thought eventually brings us to a fundamental question: How does one grow an economy? And what should government do and really stop doing?

These might seem like difficult questions because an economy has many moving parts, all of which have varying degrees of influence over the direction and speed of the economy. But, in fact, economists have already solved this problem in the late 1800s. The production function is a simple formula that shows that output (economic activity) is a function of different inputs. In its simplest form, we can recognise that output is a function of technology (productivity to be a bit more precise), capital, and labour. Land is also an input but, because the total supply of land does not change, even in the long term, and because land only plays a very small part of total output in many instances, it is merely assumed as an input that must be present for output to be generated.

What this formula tells us is that, if we want to grow the economy, we should simply make people more productive. To achieve this, we should have a world-class education system. We should not have among the worst mathematics, science, and literacy ratings in the world. By failing South Africans in this way, government has been keeping the impoverished poor, and has been making the rich richer. Put differently, government is the cause of a great deal of misfortune for millions of South Africans. This is because too many South Africans are illiterate, and others are simply discouraged, therefore, many employers choose to hire harder-working, literate individuals from other African countries. Furthermore, those with jobs end up being skilled by their employers or can invest in their own education, leaving those without a job, and without adequate education from government, even worse off. In this way, unemployment and, by extension, inequality continues to increase.

Another way of increasing economic activity is to increase labour. Unfortunately, government policies like cadre deployment, broad-based black economic empowerment (B-BBEE), minimum wage, and the like, get it completely wrong. It is not enough to merely increase the number of employees, it is about increasing the number of productive employees, which includes having the best person for the job, in each job. Simply employing more individuals, or less productive individuals to fulfil a certain government mandate (read B-BBEE), leads to a crowding out of other inputs, or a less effective allocation of resources, both of which increase inefficiencies. This is an observable trend at many state-owned enterprises (SOEs). To defend themselves, many pro-government voices say that there is not enough demand for labour in SA. But, once again, this could not be further from the truth. Why else would businesses ask for a skills visa? Also, our long-term balance of payment deficit shows that demand is not the issue in SA.

A final way to increase economic activity is to increase the amount of capital in an economy. By employing more capital, we can increase output but, in many instances, only in the proportion that it can be skilfully operated by employees. Unfortunately, because government has not created the correct conditions for businesses to flourish, capital is scare in SA, and this contributes to our long-term balance of payment deficit. Issues with too much red tape, a lack of electricity coupled with sky-high prices, and inadequate labour policies, among others, have kept businesses from investing in our country. Scarcity, together with a lack of productive employees, have caused the price of capital to increase along with the share of income payable to capital. In this way, an inadequate government has been discouraging labour adoption and incentivising the rich to get richer.

Winston Churchill once said that you can always count on the Americans to do the right thing, once they have tried everything else. We believe that this is a fair assessment of where our ruling party is now. They have tried everything else and all that has happened is that unemployment, debt, and civil unrest, to name but a few, have continued to increase. However, based on the President's SONA, the recent decisions to reduce the government wage bill, and privatising SAA, Transnet, and maybe even bits of Eskom, it finally seems as though government is doing the right thing to create the environment needed for business to flourish.