

ECONOMIC COMMENTARY

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IT ALL STARTS, AND ENDS, WITH GOVERNMENT

There are many rumours going around again about how bad our economy will perform this year, and possibly in the years to come. Many South Africans blame a variety of aspects for this poor performance. If your political convictions lean to the right in South Africa (SA), you have the more erroneous view that government can do a better job than the market when it comes to allocating scarce resources. Your answer to the current low economic growth environment is, therefore, to nationalise resources. However, history shows that, when countries force their populations into this direction, they seldomly put their citizens in a better position. Even in those isolated cases where resource nationalisation leads to the widespread improvement of livelihoods, it does so at the cost of individual freedom, something that South Africans cannot stomach. If, on the other hand, your political convictions lean to the left, you have the less erroneous view that we are underperforming because government has ruined the economy: A free-market approach is not always better but, in this case, it is the lesser of two evils. It is true that government ruined our economy through their unhealthy direct involvement (such as Eskom, state capture, and corruption), which stems from unhealthy policy (wealth redistribution rather than wealth creation), which stems from not having accountable leaders (we all know their names). For this reason, we tend to focus on government when we consider economic performance. Because it all starts, and ends, with government. And, to a large extent, the private sector is only a price-taker in SA.

Government is by far the largest player in SA and, just based on its sheer size, its voice carries the most weight. If you consider government in its totality, including state-owned enterprises, government can represent anywhere between 35% and 40% of the South African economy. But what makes the influence of government so much greater is its ability to dictate policy; it sets the rules that everyone must play by. In this way, government not only influences the economy as its largest participator, but it also impacts everything and everyone else by regulating what the rest are allowed to do, and how they are allowed to do it, or not. So, if policy is unhealthy, everything else will be unhealthy too.

Unfortunately, the South African government has, over time, started to believe the lie that they can create a larger economy by redistributing more. But how is it possible to create more pies by slicing the same pie into smaller pieces? Redistributive policies, such as broad-based black economic empowerment (B-BBEE), can, therefore, at best, lead to social development, but not to economic development. Social development is like handing out fish (or grants): It can only feed someone for a day (or a month), but it creates dependency and places an unrealistic burden on the economic fibre of a country. This is because, over time, more people become more dependent and hungrier, that is, more demanding, and we go from wanting grants to wanting free tertiary education too. Economic development, on the other hand, teaches people how to fish, that is, it creates jobs by increasing the size of the pie or by creating more pies. Economic development thus forces society to become more accountable, not more dependent.

Redistribution cannot create jobs, otherwise unemployment in SA would have improved from the 1994 low of around 22%, and not have deteriorated to 34% where it is currently. Redistribution kept out of check eventually drives a country into the poverty trap. The reason for this is because redistributive policies, such as B-BBEE and policies that protect employees at the cost of employers, cause resources to be allocated sub-optimally. And wherever resources are not optimally allocated, inefficiencies arise, and if inefficiencies compound over three decades, a country falls into the kind of lower-for-longer economic growth trap that SA is currently in.

So, what do we need? We need more accountable leaders in the private and the public sectors. Leaders who can implement policies that create wealth. Leaders who can be held accountable. Leaders who are chosen based on merit. Because of their size and influence, it all starts, and ends, with government.

