OPINION / COLUMNISTS

NICK VAN RENSBURG: We need to work together to grow SA's economic pie

A post-election jump to the left is likely to harm all South Africans, especially the poorest

BL PREMIUM

10 MAY 2024 - 05:00

by NICK VAN RENSBURG

Picture: GALLO IMAGES/LISA HNATOWICZ

SA is celebrating 30 years of democracy and our coming general election is likely to be a world class example of democracy in action.

But, while our democratic system remains robust, economic divisions are significant. South Africans face high unemployment, crime, mismanagement leading to poor service delivery and failing infrastructure, low business confidence, little foreign direct investment, foreign selling of SA bonds and equities, illegal immigration, and taxpayer emigration.

For SA to grow quickly enough to create jobs, we need to examine some key policy alternatives and outcomes if selected.

Policies that divide the existing pie have significant risks, including capital flight, taxpayer emigration and a collapse of the state and the currency. Venezuela and Zimbabwe have taught us that the pie can shrink surprisingly fast, the currency can collapse faster and further than anyone can imagine, while hyperinflation from severe currency depreciation and eventual money printing erode purchasing power and cause people to flee to neighbouring countries. Ask any Zimbabwean living in SA.

It is said that socialism ends when other people's money runs out. Or worse, in the case of communism, that it promises equality of opportunity but achieves only equality in poverty. The clearest examples of these failures are the differences in prosperity between North and South Korea, and between East and West Germany.

Some believe China to be a successful example of communism, but that view ignores the actual developmental path of China. Chinese people were deeply impoverished in the 1970s after Maoism. Deng Xiaoping who assumed control in 1978 allowed a version of capitalism to flourish in the private sector, and this initiative brought more people out of poverty than any other initiative in human history. Deng's reforms resulted in GDP per capita increasing from $200 in 1977 to $12,700 in 2022.

What policy initiatives could catalyse economic growth and job creation? For a start, business and the government need to work together. The government should enable business, as the private sector is the dominant job creator in any successful economy. And business needs to be more supportive of sensible government initiatives.

SA has slipped from 37th in the IMD Global Competitiveness ranking in 2005, to 61st in 2023. To stop falling and start rising, we need to improve infrastructure, government efficiency, and thus GDP growth. Our once profitable state-owned entities (SOEs) are now almost all losing money. Returning them to profitability will require public-private partnerships, or privatisation. This could turn unprofitable SOEs into revenue generators for the government. This process has started in Eskom and Transnet and should be expanded after the election. Eskom, Portnet and Transnet should be enablers of

Our high debt-to-GDP ratio is a function of both growing debt, and low growth. The government interest bill is consuming a fifth of the budget, which is unsustainable. Higher GDP growth can help lower the debt-to-GDP ratio by growing the denominator, and greater economic activity would boost tax income.

Corruption has to be dealt with as tax receipts are needed to uplift the poor. Only 3-million taxpayers pay 90% of all personal income tax. This cohort can clearly not be squeezed further and growing the tax base is essential. SA has four times more grant recipients than taxpayers. We need to offer people meaningful jobs rather than creating a dependency on the state.

SA is rich in mining resources and mining contributes more than 8% of GDP. Yet, SA has become one of the least attractive mining destinations in the world, ranking 57th out of 62 countries and only 11th in Africa, in the Fraser Institute Mining Study. If mining grows, jobs will grow as it is a people intensive industry.

Foreigners have been sellers of SA equities and bonds over the past decade, which contributed to weakening the rand from R11 to R19 to the dollar. We have worsened these outflows by a series of own goals, including the poorly thought-through and ill-advised changes to Regulation 28. To grow jobs, SA needs to be attracting capital, not exporting it.

Foreign investors still own R2.3-trillion in SA bonds and equities, equating to about 35% of the country's annual GDP. Should the elections see a move to the left politically and economically, it is likely to result in a further exodus of foreign capital, leading to lower domestic bond and equity prices, lower pension values, a significantly weaker rand, higher debt financing costs for all South Africans and higher inflation. The effects of this will be felt most acutely by the poorest in our society.

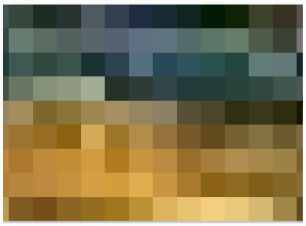
The best solution is to implement policies that grow the economic pie. We can achieve this by working together. The inspiring documentary *Chasing the Sun* is a real-life example of the remarkable things our country can achieve if we all work together with a common purpose.

READ MORE BY NICK VAN RENSBURG

NICK VAN RENSBURG: IS PASSIVE INVESTING A TREND, OR A CYCLE?

Most assume it will go on in perpetuity, but I believe it is finite and will probably end with a bang, not a whimper

OPINION *3 months ago*



NICK VAN RENSBURG: MANY MARKET ASSUMPTIONS ARE NO LONGER VALID

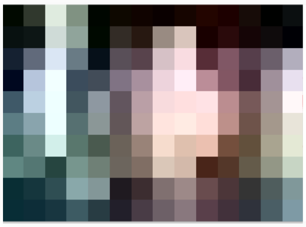
Geopolitics matter, fiscal policy is more powerful and risk-free US assets may not be risk-free in future

OPINION *5 months ago*

NICK VAN RENSBURG: THE FUTURE OF PGMS IS TIED TO THE FATE OF ELECTRIC VEHICLES

EVs have a market share of 11% but now they have to enter the mass market and hybrids are also in the race

OPINION *7 months ago*



NICK VAN RENSBURG: TIME TO RETHINK THE REGULATION 28 LIMIT

Raising offshore investment allowance of retirement funds from 30% to 45% led to negative outcomes

OPINION *9 months ago*

NICK VAN RENSBURG: IF AI IS THE REAL DEAL, PRODUCTIVITY SHOULD GET A BIG BOOST

The jury is still out on artificial intelligence being just a bubble or bringing meaningful benefits over time

OPINION *10 months ago*