EDITOR'S VIEW

Tough battle ahead for South Africans

VICTORY comes at a price. Just ask Lood de Jager, the Springbok lock who dislocated his left shoulder in the final of the Rugby World Cup.

He was not the only Bok casualty in the final. Mbongeni Mbonambi, the hooker, suffered a knock to his head while attempting a tackle and had to be substituted just after the 20th minute.

Despite the casualties, the team kept their focus. They had trained hard and everyone stuck to the game plan.

"We can achieve anything if we work together as one," said captain Siya Kolisi in his victory speech.

These are words we should remember as we work toward saving our country from being downgraded to junk status.

Hours before the Rugby World Cup final, Moody's, changed our credit rating from stable to negative. But they kept us one level above junk status.

Of the top three credit ratings agencies, Moody's is the only one that still believes it is worth investing in South Africa. The other two, Fitch and Standard & Poors, have given up promoting us as an investment destination and have us on junk status.

If Moody's follows suit, foreign investors will be forced to sell South African shares and bonds. It would cause the rand to weaken and push up prices. And that would make all of us poorer.

If we were honest, we would have to admit that, currently, there is no reason for an investor to have their money in South Africa.

The state of our economy was laid bare by Tito Mboweni, our Finance Minster, in last week's Medium Term Budget Policy Statement.

It showed:

- Our economy is barely growing so there is no hope of creating more jobs.
- With so many people unemployed, we are not collecting enough taxes to meet all our expenses.
- We are borrowing money to make ends meet but this is not sustainable.
- In the not too distant future, we will be bankrupt.

The government has tried to boost the economy but has had little success. It now has no choice but to slash expenses.

As a result, schools, hospitals and the police will have to make do with less money.

Workers in government and state-owned enterprises will be most affected. Some will either see their salaries frozen or cut. Others will lose their jobs.

The unions will fight back. Expect intimidation and violence. Expect disruptions to services like electricity, water and other municipal services.

It will be a tough battle. One that will determine the future of our country. It is a choice between prosperity and bankruptcy. Life in South Africa is set to get a lot more tough in the coming weeks.

But remember: victory comes at a price.

The *Quote*

Take the first step in faith. You don't have to see the whole staircase, just take the first step.

MARTIN LUTHER KING JR
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Spend our way to prosperity

Slash the taxes on middle-class taxpayers and trigger the multiplier effect

JUGGERNAUT

KANTHAN PILLAY

MINISTER of Finance Tito Mboweni delivered the Medium Term Budget Policy Statement last week. | PHANDO JIKELO African News Agency (ANA)

"HOPE is good but it is not a strategy," Finance Minister Tito Mboweni said when he delivered the Medium Term Budget Policy Statement in Parliament last week.

He was quite right. The markets reacted with brutal forthrightness as the rand immediately lost more than 50c against the US dollar.

On Friday, Moody's – last of the ratings agencies to maintain an investment grade rating for this country – downgraded the economic outlook from "stable" to "negative".

To understand why this is a bad thing, think of our country as a person who has maxed out his overdraft.

He then begins spending money on his credit card to survive. That's pretty much where we are at the moment.

The fearful part is what happens if the credit card gets cancelled? The only way one can get credit in that scenario is to go to a loan shark.

Our current interest payments in our national Budget sit at around R202 billion per year. When one combines that figure with interest payments for Eskom and South African Airways, we are paying about R1 billion per day in interest.

I'm going to repeat that: we are paying about R1 billion, every single day, in interest.

Immediately after the minister delivered his speech, my fellow media pundits were quick to proffer a solution: "We need to cut costs," they chanted, pointing to a bloated public sector wage bill which swallows about a third of our national Budget.

They are partly correct. Yes, our public sector wage bill is too high and cutting back on that will free up money to pay off debt.

But cost-cutting alone is not going to get us out of our hole.

Once inefficiencies have been curtailed, further cost-cutting actually hurts us. As a late friend of mine was fond of saying, it's like cutting off your arm and saying: "Look! I've lost weight!"

In other words, we need economic growth.

Early in September, Treasury released a paper titled "Economic Transformation, Inclusive Growth, and Competitiveness: Towards an Economic Strategy for South Africa". (I referred to this paper at the time as Project Tito.)

The Finance Minister referred directly to this paper in his speech last week.

He highlighted reforms required to raise growth. This time around, I was drawn to focus on what he referred to as "reforms which do not require significant state resources".

Some of these were:

- Supporting tourism by reducing the cost of travelling to South Africa, and cutting red tape for small businesses in the tourism sector;
- Diversifying power generation by granting licences for small-scale power generation projects approved by the Minister of Energy;
- Expanding telecommunications services by allowing for the rapid expansion of fibre infrastructure; and
- Lowering the cost of doing business by automating various registration and filing processes.

Now each of these measures might not seem significant, but taken together, these can make a massive difference.

Let's use telecommunications as an example: World Bank studies have shown that a 10% increase in broadband penetration adds between 0.9-1.5 percentage points to GDP.

A businessman of my acquaintance, who too had studied economics at Princeton, pointed out that each of these four steps, if implemented immediately, could each contribute 1% of GDP in four to five years time.

So assuming the government has no appetite for cutting government jobs, but is happy to freeze the wage bill at its current levels, that gives us a path to make serious inroads into paying off our debt in the near future.

But we still need to get through the next five years. How do we do that?

The answer, I believe, is to spend our way to prosperity.

In 1936, John Maynard Keynes wrote a significant book, which disagreed with prevailing wisdom that markets self correct in the long term.

The General Theory of Employment, Interest, and Money suggested that when consumer spending falls, government should stimulate the economy by injecting money into the economy.

Keynesian economics was put into practice by Bill Clinton during his tenure as US president from 1993–2001. He raised taxes on the wealthiest 1.2% of citizens, but slashed taxes for 15 million lower-income families. The result was putting $21 billion directly into the pockets of these families, and they promptly spent it.

Keynes' model says that this action causes what he referred to as a multiplier effect. Middle-class people with disposable income spend money at businesses. These businesses then have more money and they can hire more people to meet the increased demand, which in turn increases spending.

We have 7.5 million people in our country who pay income tax and they bring in R500 billion to the national Budget. But out of that 7.5 million taxpayers, 7 million taxpayers contribute R250 billion. The other R254 billion is contributed by 504 449 taxpayers.

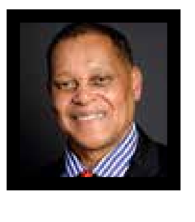
So my advice to Tito Mboweni is simple: when the February Budget comes along, leave the half-million wealthiest taxpayers at their current bracket, but slash taxes on the 7 million middle-class taxpayers by R100 billion.

The middle class will spend the money, triggering the multiplier effect. Economic growth will ensue, bringing in more tax revenue.

And Moody's will be happy.

Srikanthan is one of the names of Vishnu. Another name for Vishnu is Jagannath, "the unstoppable force", which gives us the modern word juggernaut. Pillay writes about understanding the unstoppable forces which shape our lives in technology, commerce, science and society.

What SA needs is an economic revolution



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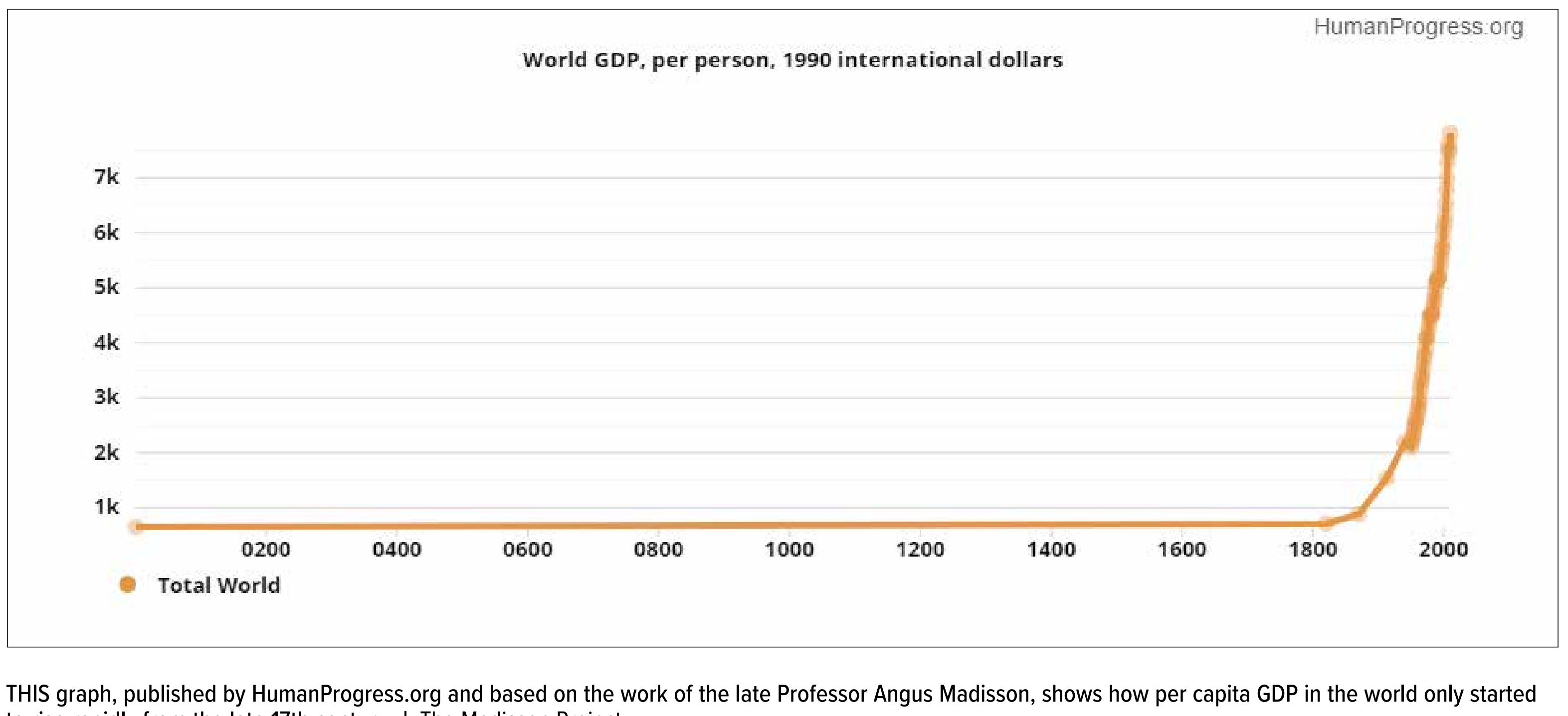

THIS graph, published by HumanProgress.org and based on the work of the late Professor Angus Madisson, shows how per capita GDP in the world only started to rise rapidly from the late 17th century. | The Madisson Project

THE country's economic junk status is a direct result of policy intransigence. Current government decisions appear to be based on a lack of consideration for the lessons of history. Economies are fragile. Persistent adverse policy-making breaks down an economy, reduces productive investment and economic activity, and causes untold harm to citizens.

It is time for a policy about-turn. One that places the interests of the people above the narrow interests of politicians at the helm of the government and their rent-seeking bedfellows.

Policies to bring about dramatic positive changes would include:

- Abandon all race-based legislation and regulations that cause racial tensions, slow economic growth, and increase – not reduce – the poverty of the poor.
- Give the poor people of the country, on a means-tested basis, ownership shares in all state-owned enterprises inherited from the apartheid government. This was done successfully in the Czech Republic. Also give full and unrestricted ownership of the municipal houses they rightfully live in to the occupants. And give traditional communities (as communities) title, with full ownership and management control, over the land that is rightfully theirs. This double-edged measure alone would be a catalyst for economic self-empowerment on an unprecedented scale.
- Adapt labour legislation to allow the unemployed, who have been unemployed for six months or more, to voluntarily enter into any contracts they wish with employers, especially owners of micro enterprises.
- Remove all red tape that imposes unnecessary costs on entrepreneurs and prevents them from providing goods and services to consumers in the most efficient and effective manner. When this is done, the consequence will be a proliferation of businesses, especially in the labour-intensive SME sector.

These proposals would directly target the poor, free them from poverty in a manner that enhances economic growth and allows the economy to function optimally.

In considering the proposed changes, it would be useful if government were to take note of world economic history. The Industrial Revolution that changed the world forever was set in motion by specific policy changes.

The above graph by HumanProgress.org and based on the work of the late Professor Angus Madisson, shows how per capita GDP in the world only started to rise rapidly from the late 17th century.

Until just over two centuries ago, most people on Earth lived in poverty and misery.

During the last decades of the 18th and the first of the 19th century, England underwent a major transformation, which came to be known as the Industrial Revolution.

These changes were to positively influence events in the rest of the world, including South Africa, and result in higher incomes and improved living conditions for the average person that would have been inconceivable in previous centuries.

It is generally understood that one of the most important changes that occurred during the Industrial Revolution was mass production made possible by the introduction of machinery.

The education revolution that accompanied the Industrial Revolution, which made the English highly literate and numerate and enhanced their technical skills, is less well-known.

Technical developments made some jobs redundant but many more were created, in the same way that telephones replaced speaking tubes and computers replaced hand-written books of account.

In 1951, 37% of England's economically active population, more than 6 million people, were classified as skilled artisans.

A further 30% were white-collar workers, a substantial increase on earlier times.

The Industrial Revolution is often misrepresented as an era of increased hardship for workers.

The truth is that the people who left farms and domestic employment to work in the factories did so to improve their incomes as well as their working and living conditions.

Similarly, the ongoing urbanisation in South Africa is motivated by a search for better long-term opportunities for families than are to be found on farms and in rural areas.

Change in South Africa has to consist of transforming conditions for people who have missed out on becoming literate and numerate; to make it possible for them to learn skills that will enable them to earn a living for themselves and their families and not be reliant on others for their well-being.

If the proposals described in this article were adopted, South Africa would experience its own economic revolution, a positive transformation that has everyone in the country working towards higher economic growth and a better life for themselves and everyone else.

To live and let live, with equality before the law for everyone, is the way to foster co-operation across-the-board and improve the lives of all in the country.

Nolutshungu is a director of the Free Market Foundation