

## NEWSLETTER

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**ECONOMIC COMMENTARY - By Francois Stofberg****How Ramaphosa's plans will destroy jobs**

Unemployment is the result, not the cause. The government's persistent focus on the result speaks to their inability to understand the problems facing our economy. It also points to a problem with their fundamental understanding of economics. Creating jobs does not cause the economy to grow, as the president suggests. A growing economy creates jobs. Creating jobs is part of the virtuous cycle that increases consumption, and consumption in turn can help grow the economy. However, if these jobs, and the consumption that follows as a result, are created from the distribution of wealth and not the creation of wealth, it ends up costing the economy more than the output it generates. The result is where South Africa is at now – an unhealthy economy that lacks the fundamental inputs required to grow sustainably.

Somehow the ANC got confused, they still believe you can split the same pie in smaller pieces (by using taxes and forcing job creation) to create wealth. The only way to create wealth is to increase the size of the pie. So, if you really want to create jobs, do everything you can (which often includes doing nothing) to grow the economy. How do you grow the economy (the size of the pie)? You increase investments in economic infrastructure (education, capital, and other productivity enhancing items). You do as little as possible to intervene in the everyday process of business. Also, you make it as easy as possible for entrepreneurs to do business, which includes making it as easy as possible for them to fire people. Plans that go against these basic principles will destroy, rather than create, jobs.

President Ramaphosa's call to avoid retrenchments at all cost goes against the very fabric of a healthy, virtuous economy. A healthy, virtuous economy goes through a continual process of creative destruction, where non-competitive businesses (measured against international peers) are forced to close their doors and/or lose employees to more competitive ones. In doing so, scarce resources (capital and labour) can find more productive employment, which increases overall output, which, once again, leads to job creation.

Data from the International Monetary Fund (IMF) shows that South African civil servants are the third most unproductive civil service in the world. However, based on cost per output, our civil servants are the costliest in the world. Although everyone else would look at these figures and conclude that the size of government should be reduced to loosen up scarce resources that can be more effectively applied elsewhere, the president is pertinent that there will be no retrenchments. So, instead of using money to spend on economic infrastructure that can increase the size of the pie (grow the economy), government continues to fuel their misguided, ineffective consumption policies that simply split the pie into smaller pieces and cause the low-growth environment we are stuck in.

Considering the very socialist system we have forced ourselves into (distributing rather than creating wealth), I'd agree that executive salaries can be cut. This is a nice tag-line that the ANC can use to win back votes from the EFF, which is a lot better than the alternative. It would be very unwise to use this money to keep less productive employees employed at all cost, which is exactly what the president intends. Use the extra money to invest in the productivity of employees! A decision to forego dividends is another one of the job-destructive decisions that was implemented by the president. Why would anyone invest other than to earn dividends? All this really silly decision does, is disincentivise investment – one of the few things that could have grown the economy and created jobs.

Another silly concept is the president's plan to expand the area of land under cultivation through land reform and increasing the amount of people who are "productively" working the land. David Ricardo already showed in the 18th century how increasing agricultural output by farming less productive land increases the prices of those commodities. Price increases which usually end up falling harder on the poor. Also, increasing the amount of people working the land will not increase the output more than it would using capital, it might deliver similar output but at a much higher price. Higher prices that would once again fall harder on the poor. In the end, policies like these might create a couple of jobs but everyone would be paying more for basic foodstuffs. Following this concept, introducing a tax on scrap metal exports will have the same effect. This basic principle of economics has stood for centuries but the current government seem incapable of understanding it.

The only good thing to come from this summit was the public declaration to fight corruption, by both government and businesses. Also, the brief mention of training young people. However, these types of declarations are nothing new. If the president really wanted to remove obstacles to economic growth and job creation, his plan needed to focus on increasing economic infrastructure. That is investments, infrastructure and education. All of which can increase long-term productivity and output, which eventually will increase employment.