ECONOMIC COMMENTARY - By Dr. Francois Stofberg

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ANC-MONOPOLY: THE CAUSE OF ECONOMIC FAILURE IN SOUTH AFRICA

Economics is not an exact science, even though the clean mathematics of marginalists might create the illusion thereof. Because it is not an exact science, those who analyze economic or market variables are forced to make certain assumptions, whether they know it to be true or not, to make sense of an otherwise, chaotic world. Central to the marginalist world on which modern economic and market theory is built, is the concept of marginal utility, which is predicated on the notion of scarcity. Utility and scarcity, in turn, are used to determine prices and the size of the market. In this way, the preferences of millions of individuals determine prices, which ultimately, determines value. In this way, observers conclude that markets are the most efficient allocators of resources. And so, the illusion goes. However, there are many shortcomings in these assumptions, and therefore, misinterpretations about economic and market variables.

One such shortcoming is that there must be no interference from governments or monopolies that can distort the efficient workings of the market. Governments should only intervene when markets fail, that is, when positive or negative externalities arise, or when monopolies interfere. Positive and negative externalities are, of course, abundant which already strain the fundamental economic and market theory. Google's search and Facebook's social network might be good examples of positive externalities, unaccounted benefits to society. You might be paying for the service with your data, but you do not know what the price of that data is. Negative externalities, things like pollution, harm society but are not included in firms' costs.

Externalities imply that markets are not efficiently allocating scarce resources. Neoclassical economists like Keynes, therefore, advised governments to intervene. As a result, many industries initially underwent deregulation in the 1900s to allow markets to allocate efficiently. Nowadays, governments believe they should intervene with more regulation to protect consumers against negative intervention by monopolies. But what should we do when governments fail? Because even in the United States, where the tech-titans reign supreme, technology only contributes 12% to the United States' GDP, whereas government spending constitutes roughly 38%! Although one can argue that the United States government succeeds, I doubt the same argument holds for the South African government.

In South Africa, government expenditure is usually between 32% and 37% of GDP. But the government's reach does not stop here. One should then add the consolidated expenditures of public corporations and state-owned enterprises, which will probably get us closer to 40% of GDP. But even this would not capture the true influence of the government. Because, government dictate policy, that is, they intervene in the "efficient allocations" of markets and determine the rules of engagement:

+ Who you are allowed to employ and who you are allowed to fire;
+ How much you pay for electricity and using the roads;
+ Who you are allowed to contract with;
+ What you need to start and operate a business;
+ What taxes you must pay; and
+ The list goes on and on.

If such a large portion of the economy fails, it is easy enough to understand why our economy is not growing, why children are not being educated, why unemployment is at record highs, and why consumer, business and investor confidence is at record lows. The solution is accountable leadership, leadership that has the best interest of those it represents. But with the ANC-monopoly, this seems unlikely.

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