‘We need less, not more government intervention in the economy’ Fin24 (2 February 2020)

Government intervention in the economy simply does not work. It is a mystery, then, why so many otherwise intelligent people keep calling for more of the same. After years of low growth (12 years now) concurrent with government fiscal deficits and various stimulus packages, we are now faced with retrenchments across the economy. The latest of which is Massmart announcing that it is considering retrenching 1 400 people.

That is not all, unfortunately. After that news from Massmart, Telkom announced it had informed trade unions that it will be cutting 20% of its 15 000 strong workforce (3 000 employees). These are only the latest blows for South Africa’s economy, especially the workers, as various organisation have also made similar announcements.

Despite the concurrence of all this bad news with an already high level of government intervention and further proposals for even greater intervention through EWC (Expropriation Without Compensation), NHI (National Health Insurance) etc. the Chairperson of Parliament's Select Committee on Trade and Industry, Economic Development, Tourism Employment and Labour, Mandla Rayi, is proposing even greater government intervention in order to stop the job losses.

It seems clear that the political leaders of this country have yet to learn the lesson that while government intervention may feel good in the short-term, eventually someone always has to pay the piper. If the legislature tries to legislate away retrenchments, companies that need to cut costs to survive will simply go out of business. And more workers will become jobless.

The only other option, if we are talking about greater government involvement in the economy, is yet another bailout. This is with bailouts to SOEs amounting to hundreds of billions already. Moreover, the PIC (Public Investment Corporation) and the UIF (Unemployment Insurance Fund), both state entities, were responsible for supplying the lion’s share of a previous R2.7 billion bailout to EDCON, a private company.

If another bailout is on the cards, it will only make South Africa’s lamentable fiscal situation worse. The country’s debt-to-GDP rocketed to more than 60% sooner than Treasury provided for in the 2019 February budget, the increase from 56% to 60% mainly caused by the bailout to Eskom. As we speak, the government is desperately trying to find the necessary funds to keep its commitment of a further R2 billion capitalisation of SAA as part of the business rescue process.

If politicians truly understood the magnitude of the fiscal crisis facing the country, there would be no proposals for additional spending but rather how to cut government expenditure. The risks to the present and the future are great. Economist Mike Schussler wrote recently in Moneyweb about how the bond yield premium on South African long-term bonds relative to our emerging market peers has increased from 1.6% to 3.7% since the end of President Thabo Mbeki’s term of office.

Remember, interest on government debt can only be funded through revenue and not debt. This means bond yields are increasing in an environment where tax revenue, as a percentage of GDP, has been stagnant at 26% since 2008. The wider the fiscal deficit, the more revenue the state needs to raise through taxes. Given the aforementioned (increasing bond yields and stagnant tax revenue growth), this is simply not possible, bringing forward the possibility of a technical default, where the government cannot service its debt.

There are some actions the government could take to help the economy recover, but they are not quick and easy. These include deregulating the economy, especially the labour market. There should also be significant cuts in government spending as well as reductions in taxes, especially payroll and corporate income taxes.

This would also mean letting companies that are in trouble fail. Every job saved via a government bailout diverts capital from productive investment in another area of the economy. This misallocation of resources eventually adds up and results in even bigger net job losses in the future. Given the raft of retrenchment stories making the news, we are now paying for years of loose fiscal policy.

In the interest of all South Africans, it is time the government started listening to the rational voices in society. The policies of onerous regulation, bailouts and loose fiscal policy have led us to where we are. Albert Einstein is rumoured to have said, “The definition of insanity is doing the same thing over and over again and expecting a different result”. Let us hope that sanity returns for the sake of the future of every South African child.

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