

'This book is a masterclass of economic erudition and a crucial contribution to solving South Africa's plight.' – Tim Cohen, Editor, Business Day

South Africans are failing tragically to seize the economic opportunity open to them. The opportunity wasted is the power to eliminate poverty and the misery that accompanies it ... Other countries have achieved economic miracles and we could do the same ...

In *Get South Africa Growing* Brian Kantor advances spirited economic arguments for freer markets and less government intervention in the economy. Kantor adds significantly to an understanding of how our economy works and offers a succinct review of all the drivers that determine a modern economy's performance as well as the key institutions of a modern economy.

Kantor's sound economic insights, enriched by his familiarity with current affairs and developments in the local political milieu and financial markets, make this a key and important contribution to the continuing debate which rages around our failing economy.

Get South Africa Growing presents solutions which policy makers ignore at their – and our – peril.

BRIAN KANTOR is a pre-eminent economist. He was the Head of the School of Economics of the University of Cape Town from 1986 to 1990 and Dean of the Faculty of Commerce from 1997 to 2001. He is Investment Strategist and Economist at Investec Wealth and Investment and Professor Emeritus at UCT and he regularly writes on the South African and global economy.

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GET SOUTH AFRICA
GROWING

BRIAN KANTOR



'Brian Kantor remains my favourite economist, and here clearly articulates his positive approach to South Africa's challenges and opportunities.' – Christo Wiese

GET SOUTH AFRICA GROWING

BRIAN KANTOR



A plan of immediate action

Aiming for 5% sustainable growth

- Fully deregulate the labour market
 - No minimum wages
 - Avoid National Bargaining Agreements
 - Require a secret strike ballot
 - Eliminate the CCMA
- Break up and privatise all State Owned Companies
- Privatise schools, hospitals and issue vouchers
- Introduce a dual mandate for the SA Reserve Bank
- Eliminate the corporate income tax
 - Introduce a meaningful payroll tax and comprehensive wealth tax
- Open up the markets for credit and financial services and advice
- Full title for all subsidised houses and expropriated land

SA – dependent on the global economy

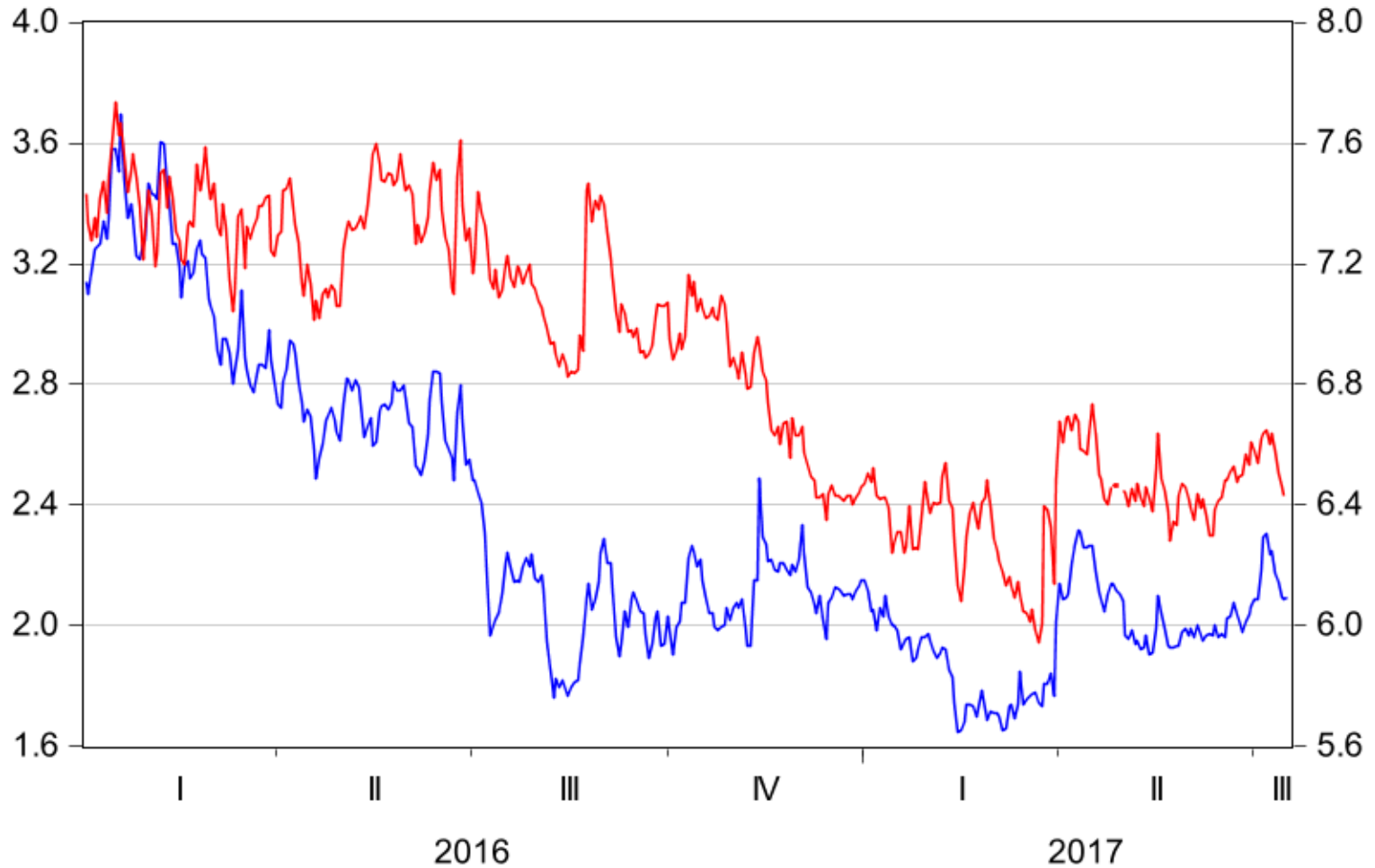
Figure 1.2: Comparison of GDP growth rates, 1995-2015



SA risks have declined since Nenegate

Sovereign Spread

Carry 10 year

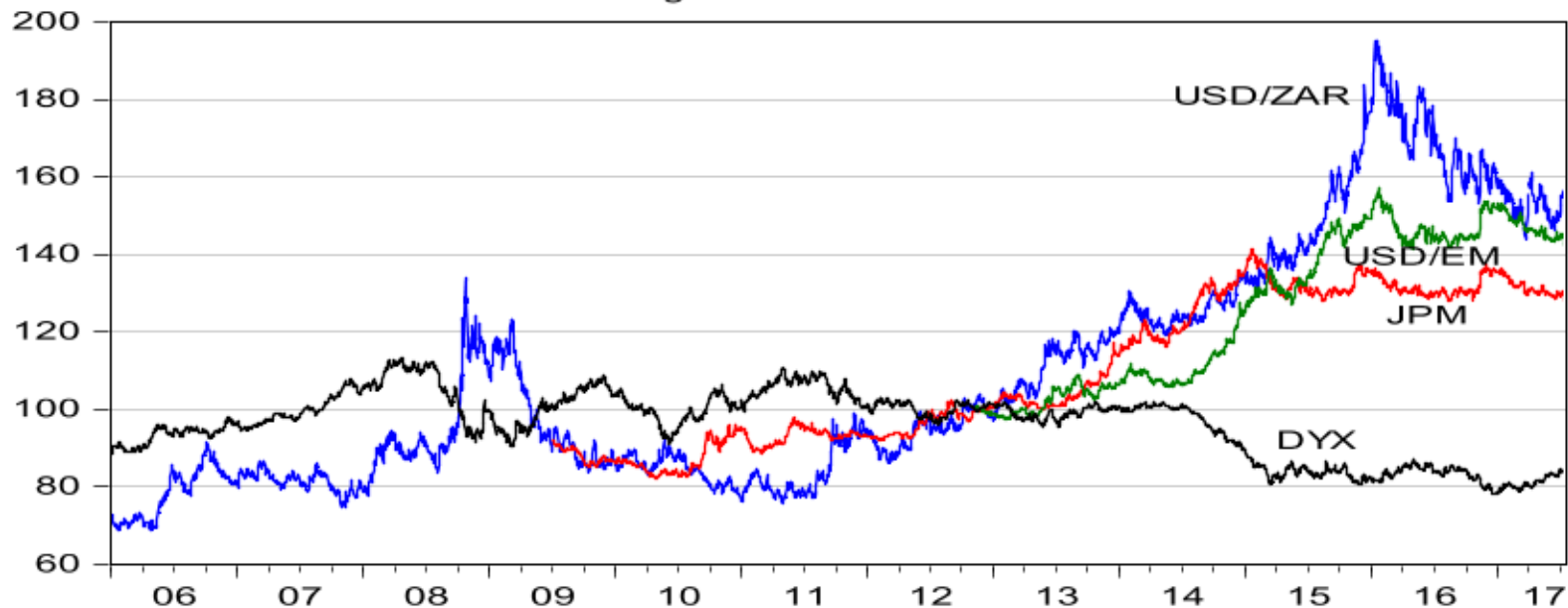


— RSA Yankee Bond Spread
— RSA-USA 10 year Carry

The rand is almost all explained by the dollar

	USD Index	EM Index	EM Basket	USD/ZAR
USD Index	1.0	-0.78	-0.96	0.85
EM Index		1.0	-0.82	-0.78
EM Basket			1.0	0.95
USD/ZAR				1.0

Exchange Rates 2012=100



- USD/ZAR
- JP Morgan USD/EM Index (JPM)
- USD/EM CURRENCY BASKET 9 EQUAL WEIGHTED
- TRADE WEIGHTED USD (BLOOMBERG DYX) INVERTED

The facts about income and its redistribution

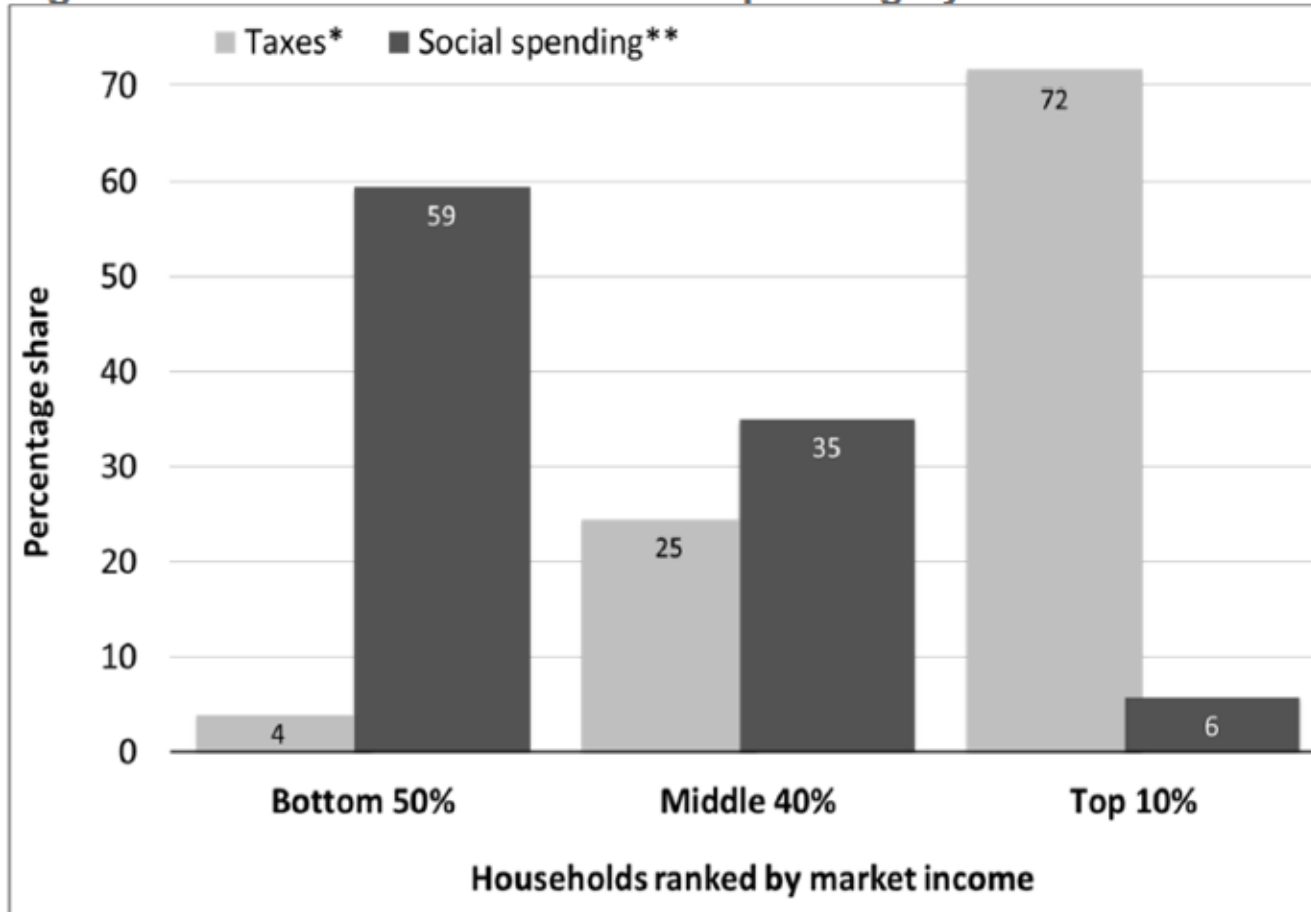
Table 4.5 Estimates of individual taxpayers and taxable income, 2017/18

Taxable bracket	Registered individuals		Taxable income		Income tax payable before relief		Income tax relief		Income tax from new top rate		Income tax payable after proposals	
	Number	%	R billion	%	R billion	%	R billion	%	R billion	%	R billion	%
R0 - R70 000 ¹	6 582 884	-	159.8	0.0	-	0.0	0.0	0.0	-	0.0	-	0.0
R70 001 - R150 000	2 602 653	35.1	274.4	11.9	12.5	2.6	-0.3	13.5	0.0	0.0	12.1	2.5
R150 001 - R250 000	1 813 517	24.5	355.6	15.4	35.6	7.4	-0.4	16.6	0.0	0.0	35.2	7.3
R250 001 - R350 000	1 077 915	14.5	315.1	13.7	46.9	9.8	-0.4	15.9	0.0	0.0	46.5	9.6
R350 001 - R500 000	906 151	12.2	365.1	15.8	70.6	14.7	-0.5	19.5	0.0	0.0	70.1	14.5
R500 001 - R750 000	527 288	7.1	310.4	13.5	77.3	16.1	-0.4	16.1	0.0	0.0	76.9	16.0
R750 001 - R1 000 000	227 561	3.1	189.6	8.2	56.0	11.7	-0.2	8.7	0.0	0.0	55.8	11.6
R1 000 001 - R1 500 000	152 604	2.1	178.4	7.7	58.9	12.3	-0.1	5.8	0.0	0.0	58.7	12.2
R1 500 001+	103 353	1.4	319.0	13.8	122.6	25.5	-0.1	3.9	4.4	100.0	126.9	26.3
Total	7 411 042	100.0	2 308	100.0	480.2	100.0	-2.5	100.0	4.4	100.0	482.1	100.0
Grand total	13 993 926		2 467		480.2		-2.5		4.4		482.1	

1. Registered individuals with taxable income below the income-tax threshold

A highly redistributive system

Figure 1.3 Distribution of taxes and spending by household income¹



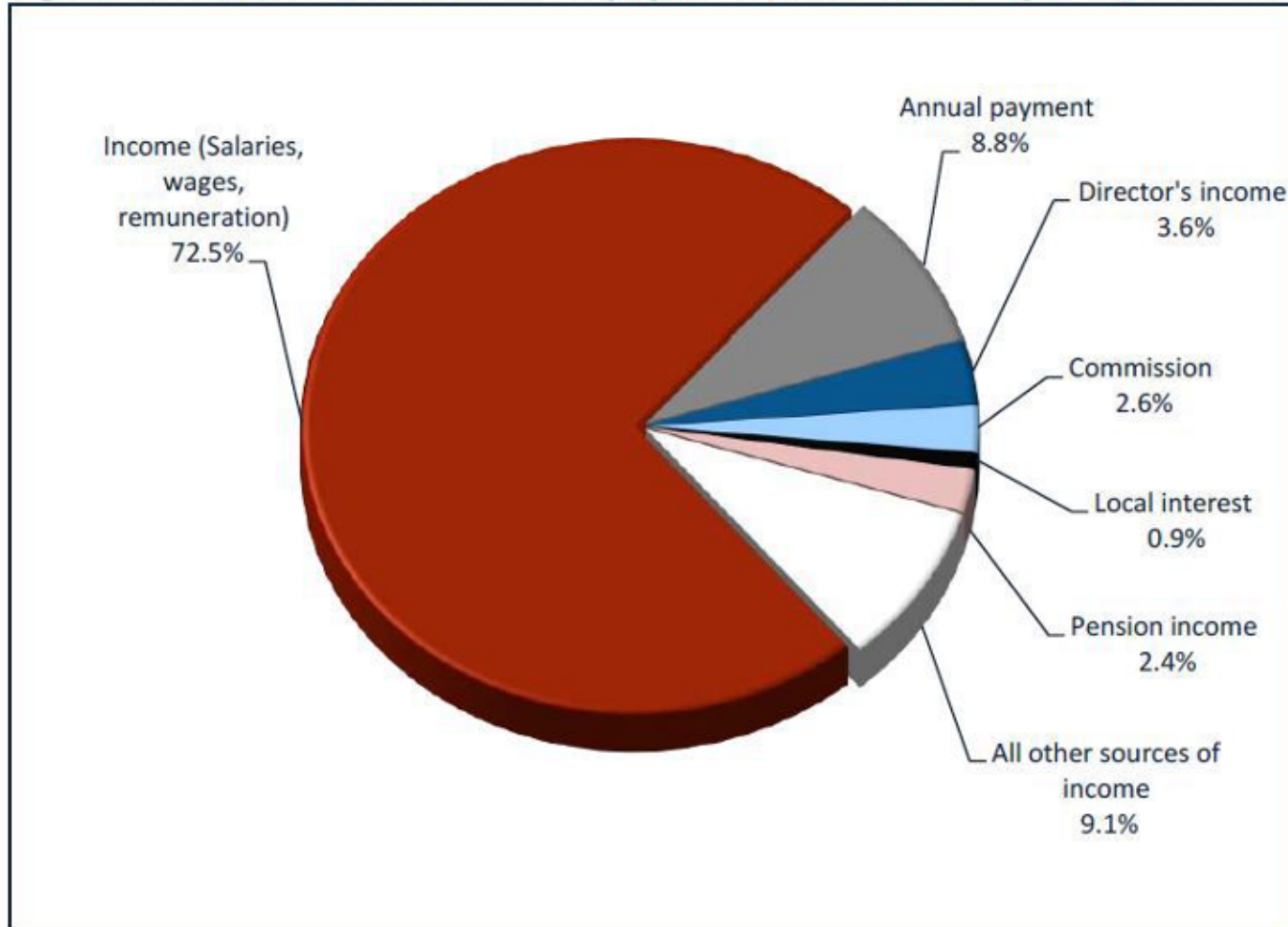
¹Based on Statistics South Africa's income and expenditure survey, 2010/11

*Includes personal income tax, value-added tax, fuel levies and excise

**Includes social grants, free basic electricity and water, health and education budgets

Income is earned mostly as salaries and wages

Figure 2.10: Assessed individual taxpayers' taxable income by source of income, 2013



Some final thoughts

- Foreign capital can fund faster growth
- Poverty and inequality – what is the nature of the relationship
- BEE – pros and cons
- Why we should let markets work – Uber; a case study of innovation and its benefits and how regulation frustrates these advances
- Competition policy – extracting benefits for the public interest

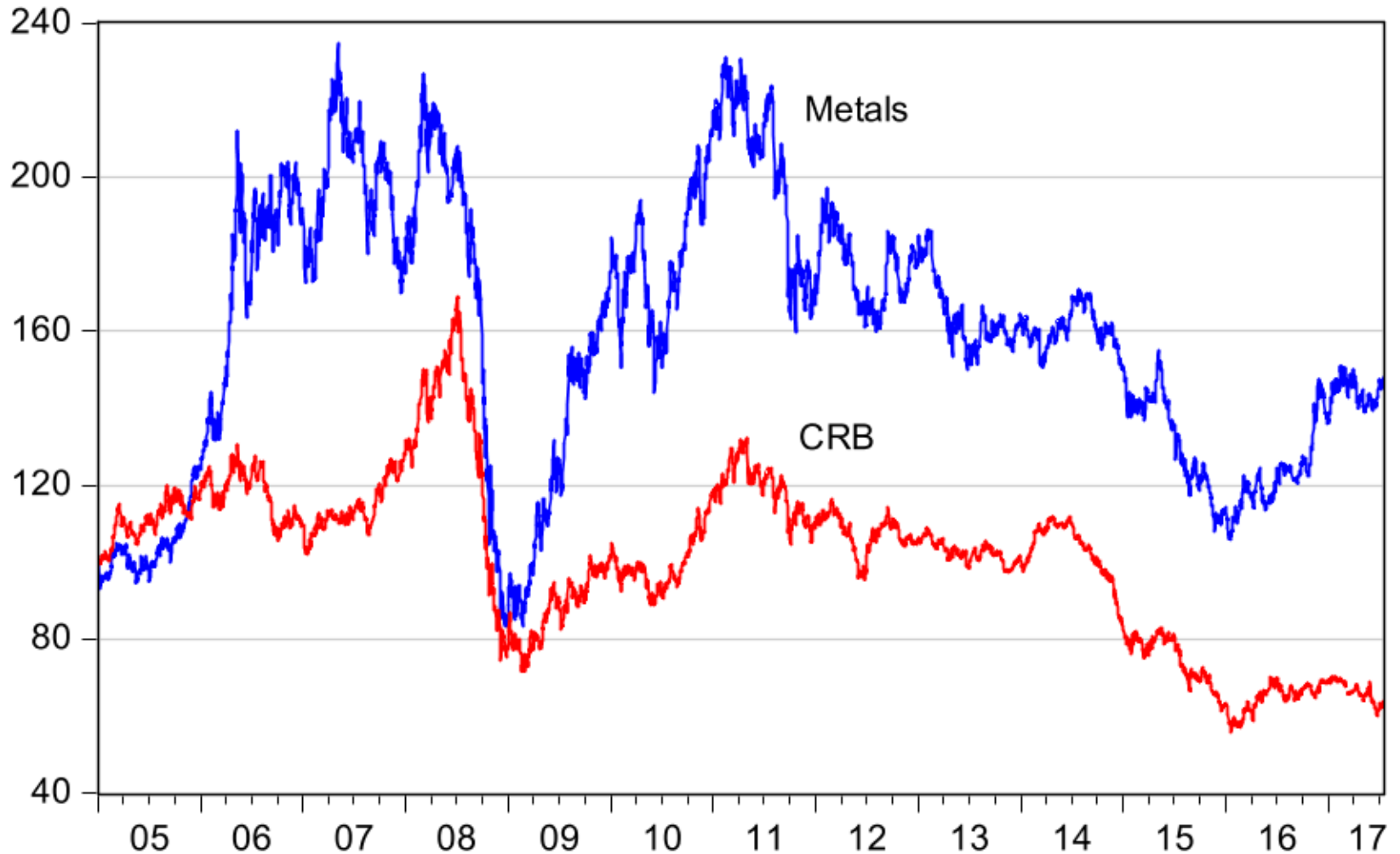
Appendix



The structure and the cycle

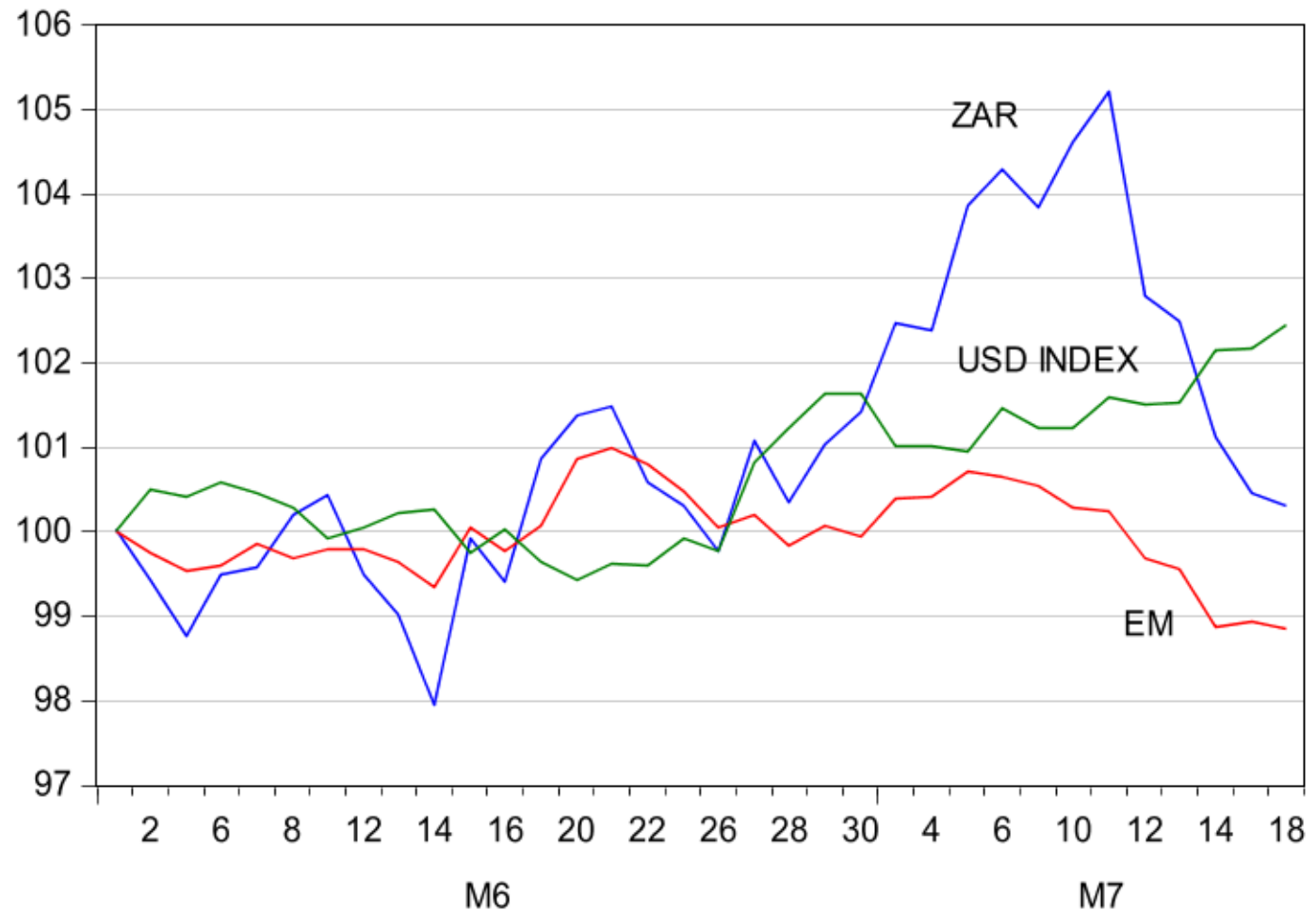
The global business cycle has not been helpful, but have we helped ourselves by managing it?

Metal and commodity prices

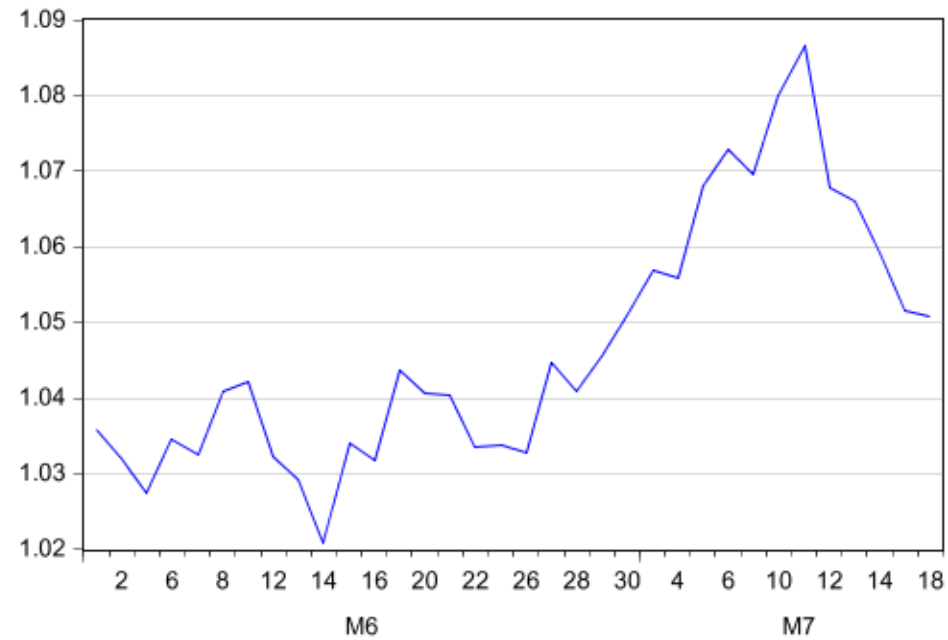


— London Industrial Metals (Lmex)
— Commodity Research Bureau (CRB)

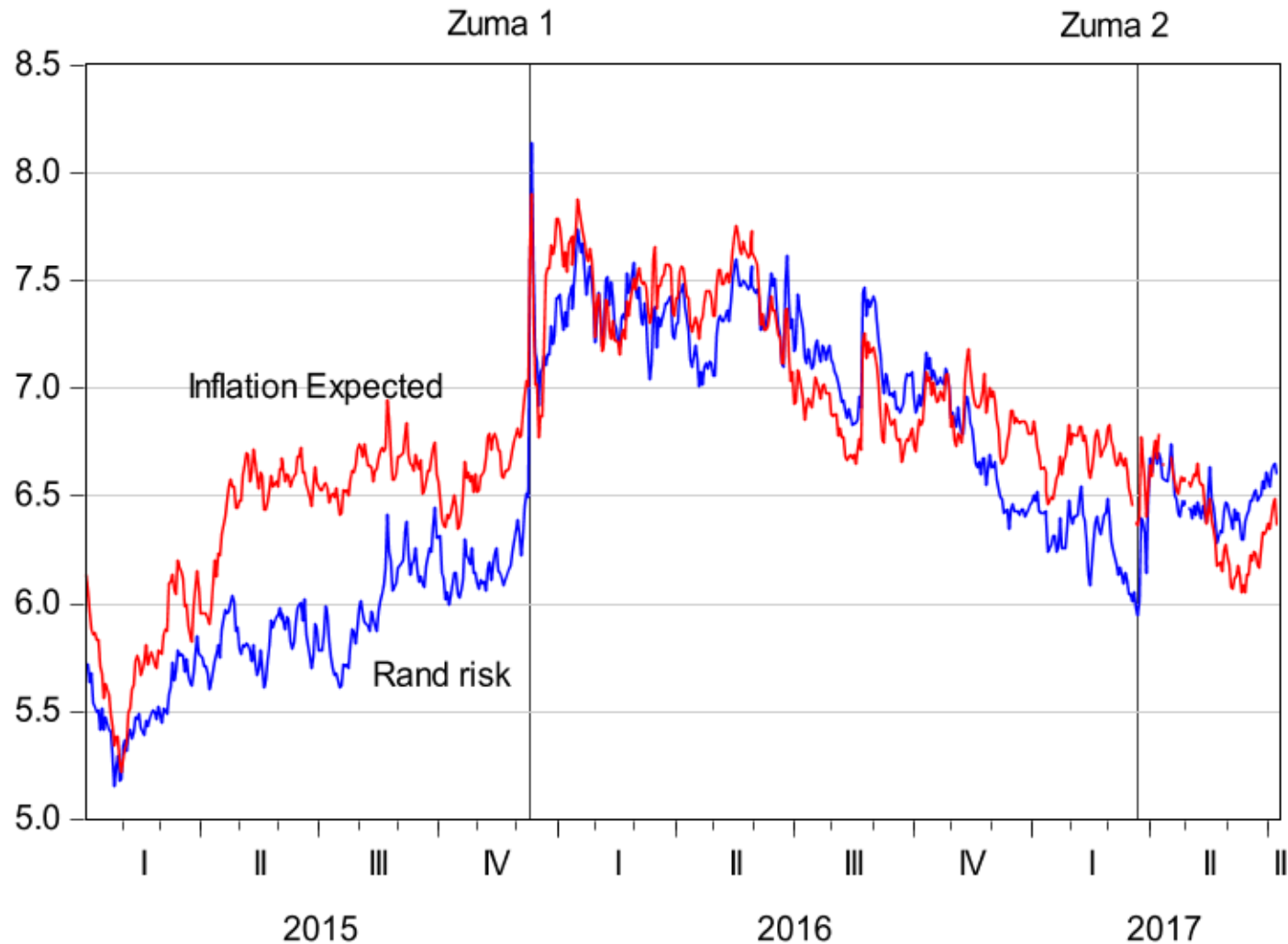
The weaker dollar the stronger the rand



The SA effect on the exchange rate identified



SA exchange rate and inflation risk – monetary policy fails to convince



— RSA 10 year Yield (rands) less US 10 year T Bond yield (USD)
— RSA 10 year yield- RSA long dated inflation linker yield(R202)

Some macro points

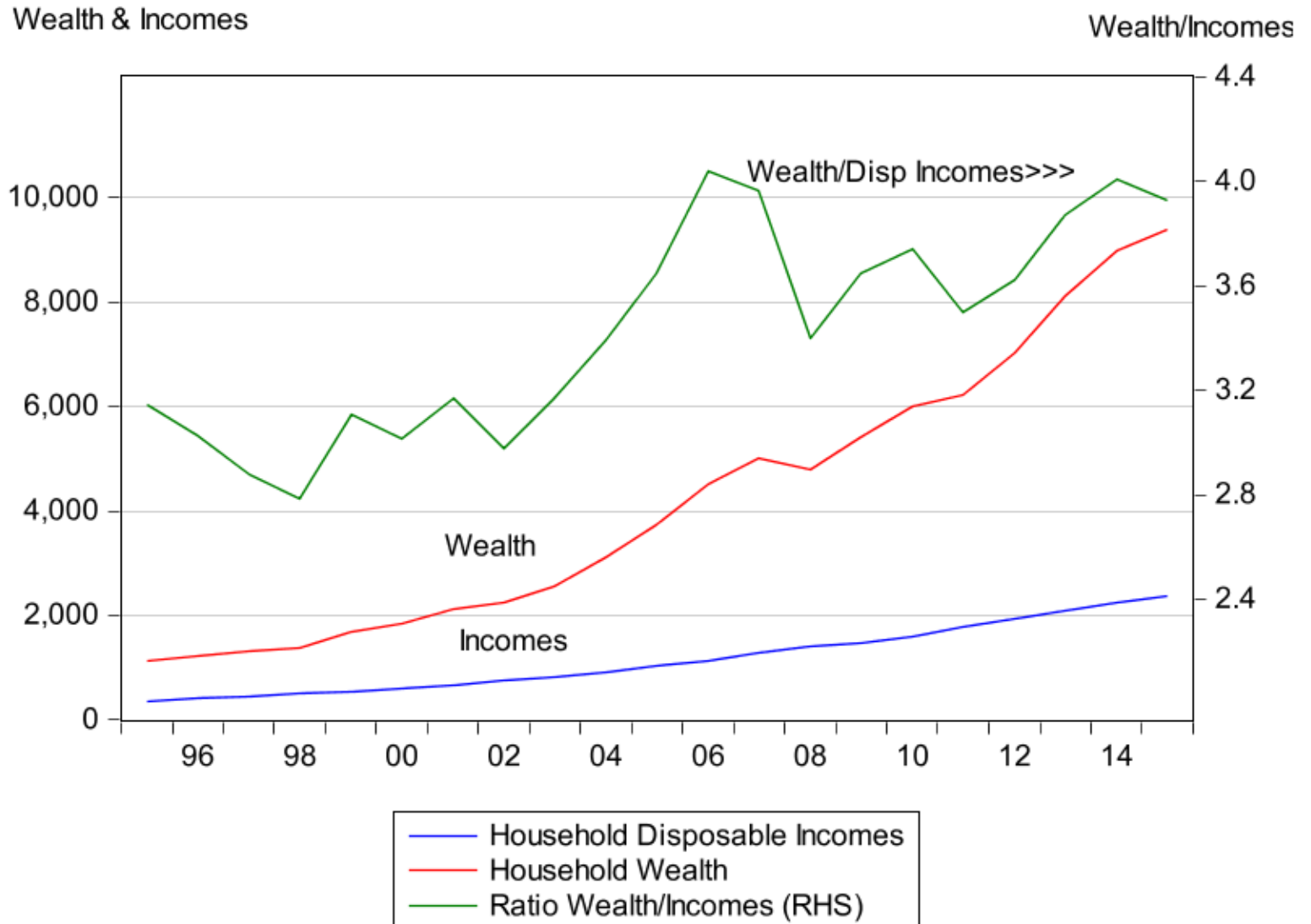
Foreign capital has funded faster growth (as it has done before) with the right encouragement.

But, we have failed to impress global capital markets. What is needed is a strong dose of realism about South Africa's status in the global market.

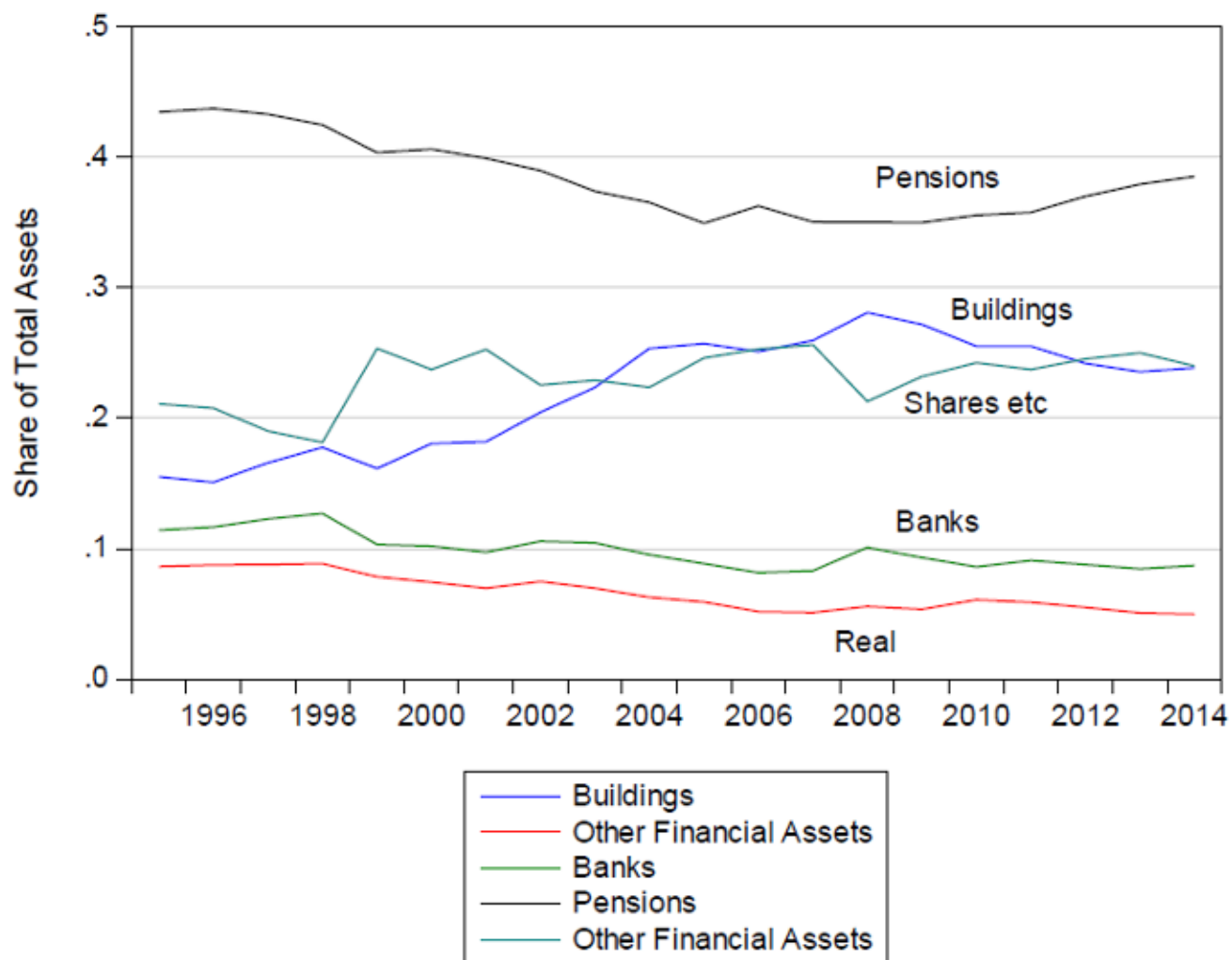
Poverty and Inequality

What is the nature of the relationship in SA? Does inequality cause poverty or help to alleviate it? Address poverty and let inequality look after itself

South Africa – household wealth and disposable income



Share of household assets by category



The pros and cons of BEE

Clearly, there is a strong political interest in forcefully promoting empowerment goals in South Africa.

The pros and cons of BEE

One of the benefits of empowered shareholders has been to help legitimate the role business plays in South Africa. Without empowerment, outcomes might well have been worse for shareholders and wealth owners

It seems especially opportunistic, when it comes to measuring who owns businesses, that the empowerment targets ignore the beneficial ownership of most shares in South Africa-listed businesses via pension and retirement plans and collective investment schemes, which are increasingly representative of the workforce. Ignoring the interests of the racially diverse true owners widens the scope for 'empowerment-preneurs' to add empowerment credentials that can be of huge financial benefit to them – at the expense of owners with pension plans.

Pros and cons of BEE... continued

Differential rewards earned in the market place produce material benefits not only for those earning the rewards but also for society at large, and especially for the less advantaged members of society. This calls for more appreciation and less resentment. It also calls for much more appreciation and encouragement of what the successful members of a society and economy contribute to it – rather than resentment aggravated by the colour of their skin.

The most important market

Political power rests with the employed – not with the poor or the unemployed

The most dysfunctional (and most important) market

How do we explain the employment of large numbers of foreign workers?

Explaining the actions of trade unions. Why it is not irrational to go on strike for higher wages even when employment declines. What are the policy implications?

How can an NMW help the poor, who are now mostly not employed?

The current regulatory barriers to employment

There are, in fact, 124 separate such sectoral minimum-wage determinations. They cover approximately 5 million workers and 33 per cent of those employed, leaving only 35 per cent of workers uncovered, including presumably many of the better-paid also without union representation. The lowest such monthly determinations in 2015 ranged from R1 813 for domestic workers to R2 844 per month the lowest grades of contract cleaner. The highest sectoral minimum determinations – for more skilled work – were R6 155 for workers in private security and R6 506 per month for workers in retail and wholesale businesses.

The panel protects insiders

The case for best leaving the determination of an employment contract to willing buyers and sellers of labour does not get any hearing from the panel. While the collective bargaining process in South Africa can easily be shown to protect the established interests of employees and their employers – the insiders – at the expense of the employment opportunities of the outsiders, this receives nothing but uncritical approval from the panel, with an appeal for the wider application of collective bargaining arrangements.

The case for the market

Economic freedom – the right to choose

The case for the market – economic freedom

Quality control is the business of business – governments can leave decisions about how much quality to offer to businesses and their customers.

Not all costs are internal to the firm and covered by their customers. But solutions are seldom obvious and without complications.

Trade-offs rather than absolute no-no's have to be made. Interests may get in the way of full cost-bearing prices. Therefore, keep politics local for local solutions to the cost-benefit trade-offs.

With higher incomes, pollution becomes less acceptable and cleaning up becomes more affordable – a price the community may be willing to pay

How markets work and why they should be encouraged

Wild about Uber: a case study of innovation and its benefits, and how these might be frustrated by regulation

The case of the supermarket trolley and its implications for credit.

Many businesses offer a bundle of benefits and charge accordingly to cover the full costs of the bundle. They should be left alone to do so.

Leave prices and charges to be determined by the seller – not the regulator.

The truth about the costs as well as the benefits of regulation may be hard to bear.

Competition policy

Why we would do much better with less

The case against competition policy

Extracting benefits from InBev's takeover of SAB

The problem with public-interest arguments: what sector of the public should we defend or protect?

Competition policy and the lack of competition for jobs

The case for a vibrant labour market – where jobs gained exceed jobs lost

Competition cannot be regulated. Broaden the definition of the marketplace and you undermine the case for competition policies.

A conclusion

I can, however, confidently assert that in countries where most people are poor the path to higher incomes and, perhaps inevitably, bigger government in the long run is by allowing economic actors more freedom of opportunity and better protection of their gains in income and wealth from rulers and their narrow courts of supporters and beneficiaries, who are essentially destructive of economic progress. I make the case for economic freedom for South Africans as the path to higher incomes.

More specifically, I make the case for redistribution with growth, rather than what has become the case – redistribution to politically favoured individuals at the expense of growth. Crony rather than competitive capitalism and patronage, rather than merit, as the source of employment by government has become the source of South Africa's failure to grab the economic opportunities available to it