

Treasury Proposal towards an Economic Strategy

A Qualified Comment

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Summary

I agree with most of the proposals (unless stated to the contrary), I then extend the suggested proposals suggesting ways to put them into practice with immediate effect and to be more effective in the medium term and I show that a proposal to create one million jobs over the medium term is dynamically destined for failure and I extend the scope of the proposal to create three million jobs, act immediately, do this in the medium term and do it with a balanced budget.

What is lacking for the proposal is a vision. While well-meaning, the proposal is more a tick list of good economic governance and lacks urgency. I propose that the focus industries should be small scale agri processing, service tourism, and electricity.

I show where there are errors in the SAGE model.

Treasury's proposal lacks "Missions" to rally around– I suggest some.

Introduction

The current state of the South African economy is unsustainable. Low economic growth entrenches poverty and inequality.

Treasury Proposal, Page 13, Para 1

The goal of the proposal is inherently contradictory. We should make absolutely clear what our aims are.

Low economic growth does NOT entrench inequality. High economic growth intrenches inequality! This has been the experience in South Africa (Fig 4) under both Apartheid and ANC regimes. When capital is making a high return (high investment - growth) rate of return on capital exceeds economic growth and inequality increases. Ironically the poor are better off under high growth, but high growth benefits the rich more. This inconvenient fact screws out thinking and causes us to make bad decisions on growth.

The current situation IS sustainable. We can continue on a path of low growth indefinitely until per capita GDP falls to as low as the poorest country in the world, The DRC. This is, in fact, the likely scenario if we do not act. It is urgent to act as every year that passes makes recovery harder.

Proposals that will generate higher economic growth, will increase inequality. ([Piketti 2013](#)). To maximise growth, do not make equality a part of this proposal. (Copeman 2015) The poor benefit from higher growth, even if inequality grows. ([Kahn 2013](#)).

I submit, that ANY attempt to curb capital, the growth driver, will diminish growth. Intervention must be kept to a minimum and focus on breaking up monopolies. High economic growth means high capital growth.

The world's top economies are specialized and focused. They are world leaders. United States in IT Defense and Agriculture; China and Japan in Manufacture, Germany in Capital Goods. What is our specialty? What makes us world leaders? ([Focus Economics 2018](#))

I propose that the areas where we can excel are small scale agriprocessing, service tourism, and electricity.

Small scale farming and agriprocessing enable – low capital businesses to absorb labor in micro-enterprises. The thrust of my ideas here are to scrap zero-rated VAT to provide a margin advantage to small sale producers.

Our population is young and willing to work at competitive rates. South Africa has land plenty for developing tourist facilities. We are world leaders in conservation. We need to open up immigration from target countries. Expats make the best sellers of tourist packages.

[Eskom Holdings](#) generates, transports and distributes approximately 95% of South Africa's electricity, making up 60% of the total electricity consumed on the African continent. We have a good base of an advantage here from which to start. Cheaper electricity is the best boost we can give our manufacturing sector. The fastest way to do this is to deregulate and allow citizens to propagate and sell electricity to each other.

South Africa GDP is Unsustainable

Sustainable GDP growth cannot be debt fueled.

Our current Deficit borrowing (including SOEs and private sector consumption) gives us "Artificial GDP) As be exact debt instruments start to dry up this will have a major dampening effect on our GDP figures. It takes an analysis beyond the scope of this document to I am going to make the following assumption:

South African GDP is overstated by 3%.

Our current GDP growth is therefore around minus 3%. To get to a 5% growth rate we are going to have to increase GDP growth by 8%.

Further, we must add the constraint that our growth strategy must be accompanied by fiscal discipline. Further increase in debt will choke our medium-term efforts.

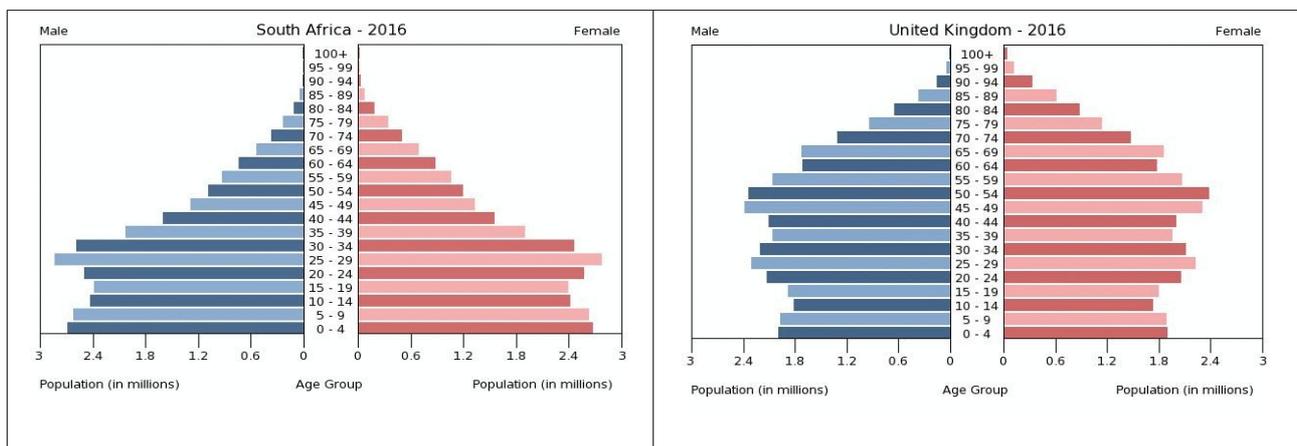
South African demographics

The pyramid of South African demographics explains much about the challenge facing us. It takes one really powerful entrepreneur for 100 employed, 1 really competent accountant per 100 employed and around 10 managers per 100 employed. For example, to employ 10 Million people we will need 1 Million accountants. We suffer from a lack of number and of quantitative skills in our older population. We need to address this:

1. Radically relax the incoming visas of skilled middle-aged workers;
2. Upskill middle-aged managers
3. Promote young people prematurely to middle management positions
4. Stop any impediments to this process - in particular, BEE.
5. Transfer management skills out of Government and into the private sector

We cannot sustainably employ young workers without the capital and management structure to accommodate this.

We have to "bend" our demographics as fast as possible from a country with high youth unemployment to a country with full youth employment.



We understand the need for racial equalization, but only until it starts to choke growth. Our aim is to help black people - that is the primary aim of growth strategies. When forcing racial equalization actually harms black people, that is the time to let it go.

My suggestions here are going to "grind" against current government policies. The current employment equity act is massively destructive. There are only 200,000 unemployed whites in South Africa. Building a complicated, employment-destructive policy around a minority serves no value. If all 200,000 white unemployed took up all the available jobs it would make no significant difference to employment.

GIVE ME ACCESS TO YOUR SAGE CGE MODEL AND I WILL SHOW YOU THAT THIS IS NORTH OF 1 MILLION JOBS LOST.

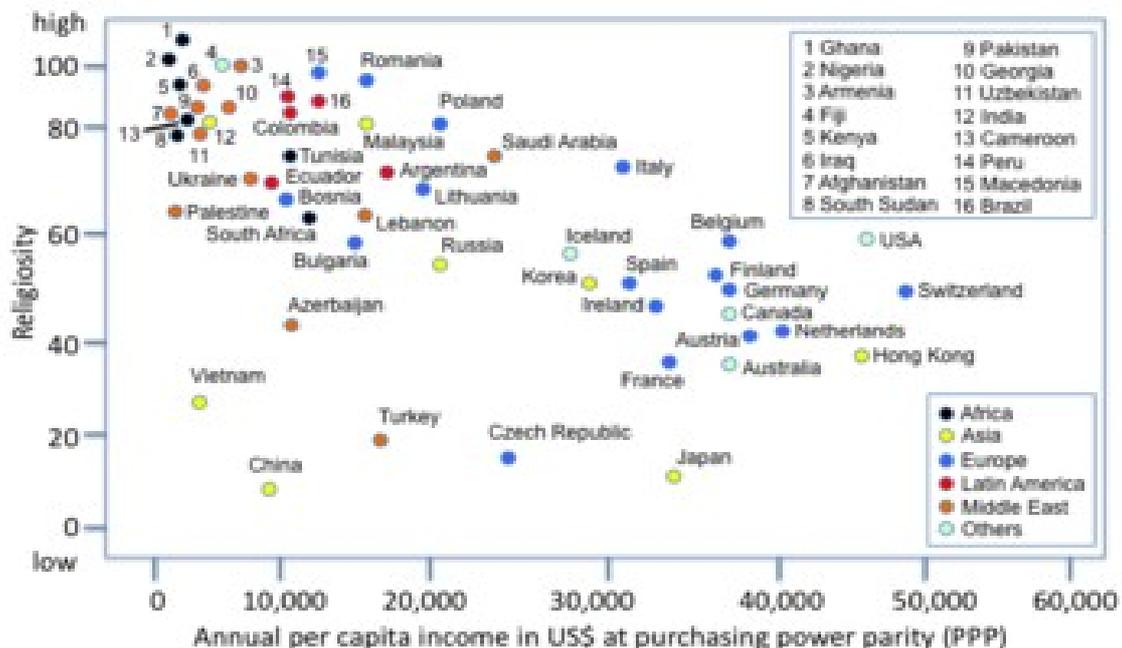
Religiosity destroys GDP

Much has been written and said about the racial causes of inequality, this is, however, a misinterpreted statistic. It is in fact religiosity that destroys GDP. This paragraph is going to be most unpopular if read in Pretoria, one of the most religious cities in the world.

Atheist-Religious differences are far more pertinent in explaining inequality than race.

Fixing religiosity is a long run correction. Once educated in religiosity, even the strongest of adult minds are unable to shake mythology. In the long run, we will not be able to overcome low GDP per capita without using education to create a secular – nonreligious society.

As the scope of this document is on short term measures, I will leave this thought here. It has relevant because the other policies that I will propose are also counter to what we are doing. This should not be surprising. If we continue with our current policies, we will simply get more of the same.



Skills shortages

The clearest evidence of a skills constraint can be found in wage trends that show the demand for skilled labour has exceeded supply for some time now, causing the wages of high-skilled workers (i.e. those with a tertiary qualification) to rise dramatically.

Tresury Page14 Para 3

This is factually incorrect. When viewed in a global as opposed to a local context, the incomes of skilled workers and entrepreneurs have fallen relative to world incomes. The higher up the income scale, the more mobile skilled workers and entrepreneurs are. Our emigration rates for high earners show this.

In the short scope of the proposal I was not able to find income/emigration data, but taking race as a proxy, we are exporting inequality by exporting skills. We need to reverse this, BY IMPORTING INEQUALITY.

This is going to scrape the scabs off our current policies! We need to pay our young mobile professionals, our future managers and owners more – not less. It tares our ideologies apart, but we cannot compare the key levers of our working force against other workers, we have to compare them against managers in other countries who are our competitors and lap up our professionals.

In summary, I agree with the proposals that make it easier for skilled immigrants to get here, but we should also try harder to keep the ones we have. That means paying them more.

Table 3: International net-migration assumptions for the period 1985–2021

	Black African	Indian/Asian	White	Net international Migration
1985–2000	516 886	33 166	-184 430	365 622
2001–2006	481 842	22 719	-97 113	407 448
2006–2011	773 946	39 406	-105 964	707 388
2011–2016	940 352	53 444	-110 434	883 362
2016–2021	1 072 557	59 432	-114 995	1 016 994

The Land Issue

Much has been written about the Land Issue, but little public acknowledgment of the dramatic effect that announcing Expropriation Without Compensation has had on depressing GDP. Land prices fell by as much as 32% in 2018. ([Deeds Office 2018](#))

At under 10,000 a hectare, this represents a perfect opportunity to transfer land to small scale agriculture. This will take Fiscal will, to move the resources away from Government salaries and onto real land purchases. There seem little better ways to "purchase" small scale agricultural jobs a than to provide land.

Purchasing and transferring Land is a very different prospect to snatching (or even threatening to snatch) land.

It will take a deeper analysis to prove this Qualified statement: The noise around EWC caused Property values to drop by R1,5 Trillion, caused GDP implosion of 3% and job losses of 500,000.

The perception, rightly or wrongly is that future assets are in jeopardy and subject to expropriation. If the Government will take Land, why no other asset classes.

A politically unpopular repudiation of EWC, with a clear intention to fiscally pay for Land Restitution, will undo this damage and restore investment confidence. **THIS IS THE FASTEST WAY TO ADD 500,000 JOBS BACK TO THE ECONOMY.** On its own. This stroke of a pen, will do more than the entire proposal by Treasury.

A further clear indication to protect Land Rights, particularly business Land rights, will have a positive effect in the areas where GDP is dominant.



Break Monopolies

The South African economy is dominated by Monopolies, namely the Government SOE's (including politics), Banking, Retail and Telecoms. In defense of these of monopolies the incumbent's abuse "race" as a defense. These us and them dislocations disrupt GDP. The underlying problem is not race buy narrow accumulation. We have to have the will to take on the strongest and most successful of our citizens. Beating them back is crucial for our expansion.

VAT reforms can go a long way to fixing this. Raise the threshold from R 1 Million to 10 Million, Raise the VAT Rate, drop all X Zero-rated Vat. This is the fastest and fairest way to transfer advantage to startups and developing businesses.

Modernising Network Industries

It is hard to fault the emphasis on electricity, technology, transport, and water. It is hard to see a way forward here, dominated by Government policy that is either unable or unwilling to direct resources toward these industries.

Under the current proposal, this means redirecting resources away from current expenditures (Public servants salaries) . Unless there is a clear policy of reducing public servants' salaries, all these ideas are reducing to dreams or debt wishes.

Electricity

Treasury correctly points out the reliance of municipalities on Electricity revenue, but avoid dealing with the issues. (page 22, para 2), but then dismisses it with "Municipalities should consider alternate sources of revenue "

These are substantial revenues and cannot be wished away. PUBLIC SERVICE JOBS INCREASE PRIVATE UNEMPLOYMENT. Detail of this will require further analysis, but a quick estimate is that every public service job – comes at the cost of 3 private-sector jobs.

To lower the cost of electricity and increase supply means deregulation and allowing citizens to propagate and distribute for their own account with an innovative solution like microgrids. This is the complete opposite of what is being suggested by Treasury, where the monopoly is extended to include connected suppliers.

Deregulation does not incur further expenditures by the State. They have simply nothing to do except stay out of the way.

With the stroke of a pen, allowing private manufacture sales will open up the opportunity for a million SME microgrids to supply to 20 Million customers.

With the stroke of a pen – forcing Municipalities to supply inwards at a fixed markup, GDP will immediately respond. By providing nighttime electricity on a cost-plus basis, Agri processing opportunity and manufacturing p facilities suddenly become available. Currently, some cities markup night-time electricity by 10 times!

The SAGE CGE model should show this as potentially 1 Million Jobs.

Telecoms (and software)

Treasurys proposal works inside the narrow foundations of current infrastructure. We have allowed the mobile voice industry to evolve into a duopoly over the data industry. We have to move away from the the idea of using telecoms as a tax. Taxing the economy's ability to think is not productive.

Treasury's proposal works inside the narrow foundations of current infrastructure. We have allowed the mobile voice industry to evolve into a duopoly over the data industry. We have to move away from the the idea of using telecoms as a tax. Taxing the economy's ability to think is not productive.

The proposal completely ignores the software sector, something that is even more important than physical connections. No successful economy can have outsiders controlling its IP. We can build a strong IP base by focusing on an open-source. Government spending on software is the core of building this. The use of open-source should be mandatory. This will immediately create a demand for fro local engineers. We would do better the import these engineers even at exorbitant prices and pay them to work here in South Africa, rather than pay offshore companies to do our development.

No more licenced software for offshore vendors. No matter how difficult the short term challenges, the long term multipliers will offset this.

With the strke of a pen we can initiate this. (Section 11D) makes provision for tax deductions for software Research.) This legislation is hamstrung by red tape. Red tape is a really bad thing. In the case of IT is is truly destructive. It is simply not possible for public servants to move at the same pace as researchers. Having them approve Research expenditures is the same as killing all incenctives. Stay back out of the way and simply buy the products that local pproducers make. And let them use the incentives to grow our IP capital.

Transport

All successful economies have well-developed rail systems. Built it and they will come. Decrease public salaries and increase Rail infrastructure expenditure. Define doable projects and implement them:

High-speed rail between Durban and Gauteng

High-Speed rail between Cape Town and the Boland.(long term to Gauteng)

High-Speed rail between Gauteng and Zimbabwe

Water

Define definite projects Dam our two biggest assets, Orange and Limpopo. Start working on a plan to get access and use of the Zambezi.

Here is a simple, doable project to redirect the Orange into Namaqualand. Estimate creation of 1 Million Jobs. This is a medium-term project that can be financed by Northern Hemisphere carbon credits.

It takes only a stroke of a pen and a few million Rand to create a start-up team, This project can be accelerated with urgency and use offshore funding.

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[The Sobukwe Canal](#)



Lowering Barriers to Entry

There IS a silver bullet to lower barriers to entry – stop taxing (t trying to tax) SMEs.

Focus on VAT. Raize the rate. Raize the threshold. Cut Zero rates items.

Giving the SME a good margin start is all that is required. Then step back, stand out of the way and let the Entrepreneurs use the advantage.

Distorted patterns of ownership

By encouraging the large plyers, who already have a profit base, to become global players, you give them an export opportunity and curb them from dominating the local economy.

Promote the growth of SMEs

The ideas you put forward here are sound, but it si simply a regurgitation of what you have been saying fro 20 years. Just do it.

SMEs don't need investment they need customers. Buy from them.

Cut out all the racist legislation. Make it easier to fire SME workers, build the models of the businesses and find the people to fiance. Don't be analyzing SME ideas. This will make financing faster.

Stop retailers using suppliers as sources of finance, this keeps out SE suppliers.

Prioritise labour-intensive growth

Yes greed, Follow the Germans with "Centres of Excellence" If we are able to build momentum in chosen industries, then workers are mobile adn can enhance firms and productivity by changing jobs.

Agriculture

Agree on all the points. Just do it.

On the Land issue. Focus on serr curing tenure for the those that do have ownership and encourage them to develop the properties. Put resources into transferring Land to those in need. This will tae lowerign expenditure in other areas. Force it through even if it unpopular.

Enabling environment

The Agricultural sector should be double what it currently is. This takes the will to move resources from elsewhere.

Services

Ensure that whatever products are used for the service industry can largely be sourced locally.

Tourism is a key area. Tourism will be greatly enhanced if you encourage employment and immigration from the target markets.

"They are going to steal our jobs". No they are not they are going to create jobs, however, they are going to pick the choicest ones for themselves. That is how it works. See the top tourist destinations (Paris, Disneyland) They actively recruit and employ foreigners.

None of the ideas you put forward "Jump out of the page". We need the Tourist industry to employ an additional Million people. This is going to take really "BIG IDEAS".

I have one – **Import a million Aging Europeans** and settle them in the West coast and South Coast. Use the NHS facilities. This plays particularly to correct our demographics and improves value chains in multiples. UK is an ideal target. This will require very little in Government funding, simply start a task team.

IN THE MEDIUM TERM THIS WILL CREATE 1 MILLION JOBS

[Southern Sunset](#)

Flexible Industrial Policy

Agreed – just do it.

Export Support

Agreed – just do it.

Quantifying the impact of proposed reforms

Finally, we get to the rub of the problem. It is here by your own admission that the proposal as it stands is doomed to failure. (Assuming all of your proposal work) This gets much worse if some of the ideas fail.

Make the SAGE model publically available. It would be best for us all if this was a transparent open system that we all work on.

You are missing two vital inputs :

1. Job seekers increase by nearly 500,000 per year. That means in the medium term, three years, there will be 1,5 Million NEW job seekers. By your own numbers, your proposals will fail us and UNEMPLOYMENT WILL INCREASE.
2. Currently, around 3% of GDP is direct as a result of debt increases. This arguably, is not sustainable and is likely to run out or be curbed in the medium term. That means any forecast of success must first be tempered by 3% growth.

Short term scenarios

We agree that the SME sector is important – think like an SME - what can we do now – today – that will fix us – now?

This proposal will struggle to gain muster in the ANC. The broad church approach is going to keep us talking until the money runs out. There are so many competing interests, so much entrenched patronage, that every innovation will take too long to finalize.

Focus first on the proposals that require zero or near zero in Government funding. The argument otherwise will simply take too long.

Repeal any talk of EWC. Get into parliament, close the doors and withhold members' salaries until this is completed and the LAND owners understand that it is safe to go back to the water. This will inject R 1.5 Trn and immediately effect 500,00 jobs.

Repeal BEE. I understand that this is an emotional issue, but we are now past having the room to indulge economic destruction.

Drop zero-rated VAT. Do whatever has to be done to increase grants to supplement the increased prices from the indigent, but put the SME sector into the production and distribution of basic commodities now.

Put the teams for Southern Sunset and Sobuwe Canal into place. The cash can come sooner than you think.

Without delay, deregulate electricity and allow micro grids to start. Employment will begin instantly. Electricity supplied at 50cents a kW will light up the night economy within weeks.

Medium term scenarios

We have next year to worry about these. Before the end of the year we should be able to see results of the short term measures and have a wider view of the road to success.

The key proposal is to transfer public sector workers off the payroll and into their own businesses to become private sector leaders. This will get push back and we should start now.

Long Term Scenarios

If we don't get the short term scenario right, this won't even matter. The key element in the long run is to get an economy that functions on a far lower tax to GDP ratio and a society that relies less on religiosity and more on ingenuity to produce goods and services locally and for export.

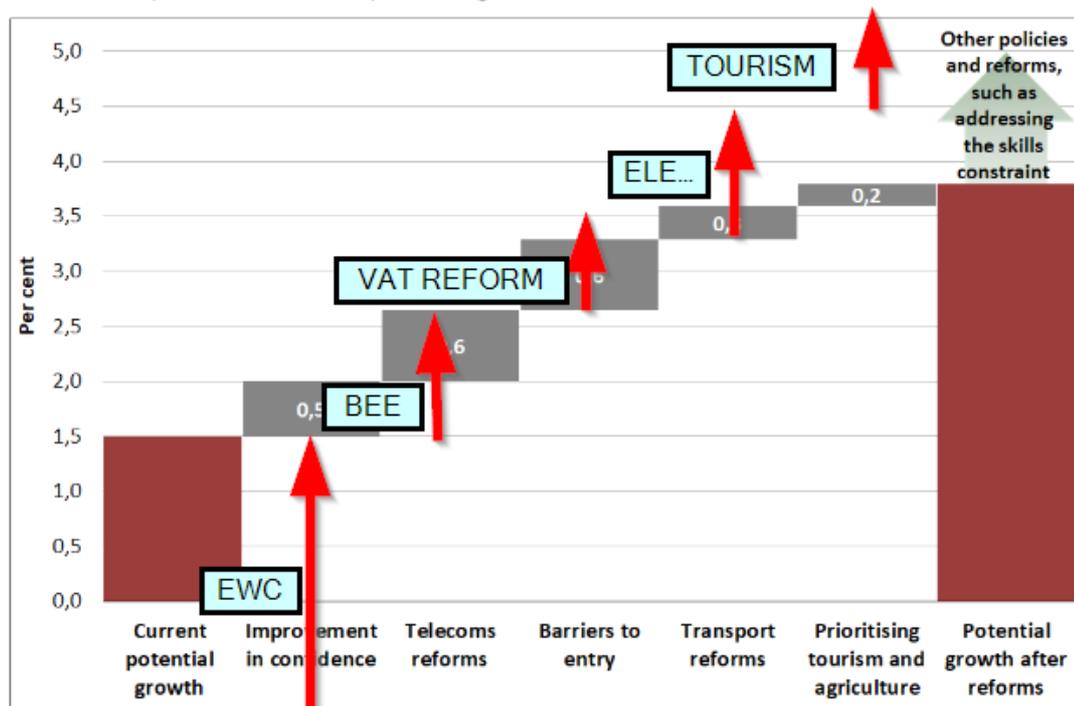
Scenario Results

I have taken your key diagram and super imposed my proposals and the introduction of urgency. I start from a much lower a base and in the shorter term aim to create 3 Million Jobs and get growth in front of the incoming new jobseekers.

Note, importantly, that I start from minus 3% - an honest reference point, not a debt produced one.

Repeal EWB; Repeal BEE; VAT Reform; Electricity deregulation; Increased Immigration for Tourism. Result is we move from minus 3 % to 5% and we do it inside a balanced budget

Figure 2: Estimated impact of reforms on potential growth



Source: Based on estimates from the Modelling and Forecasting Unit's SAGE model.

Figures

Fig 1

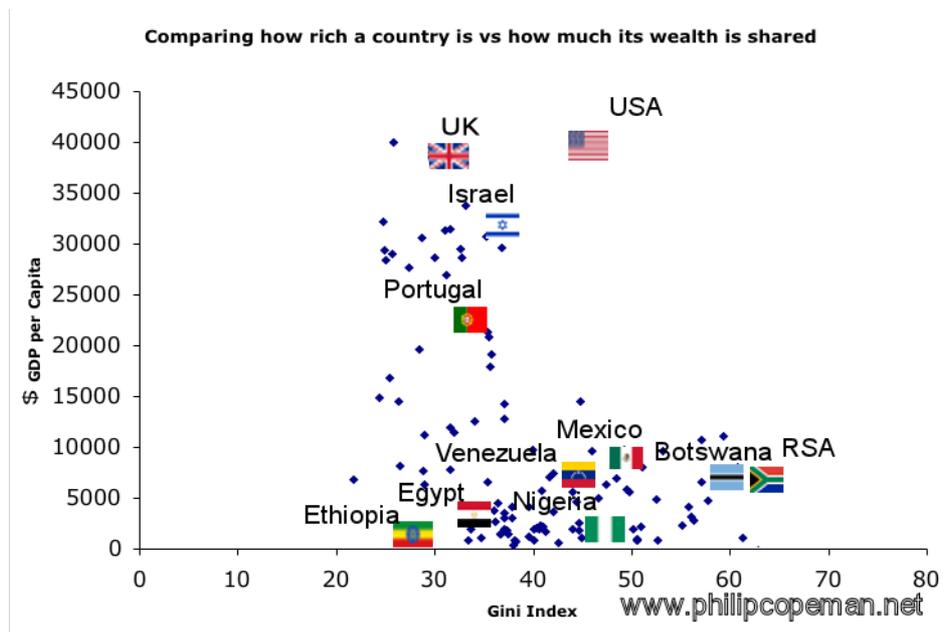


Fig 2

South Africa's Population distribution

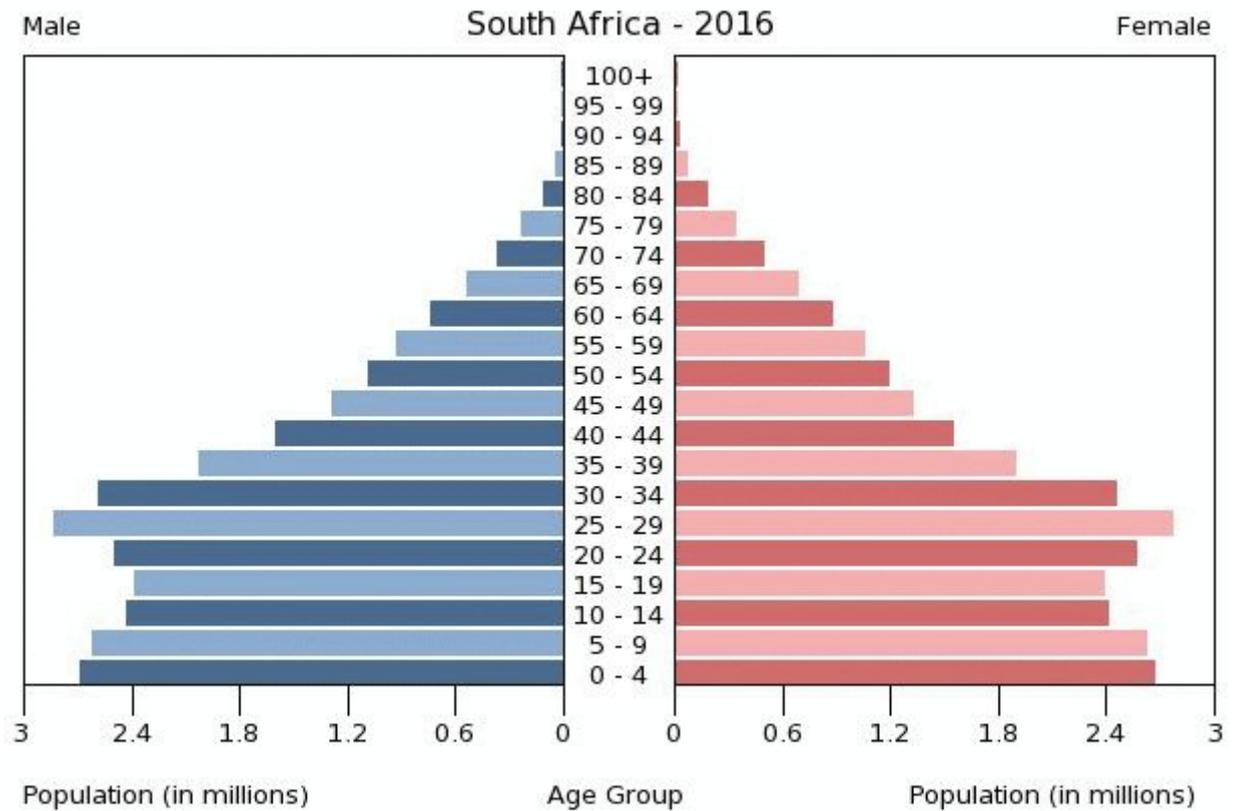
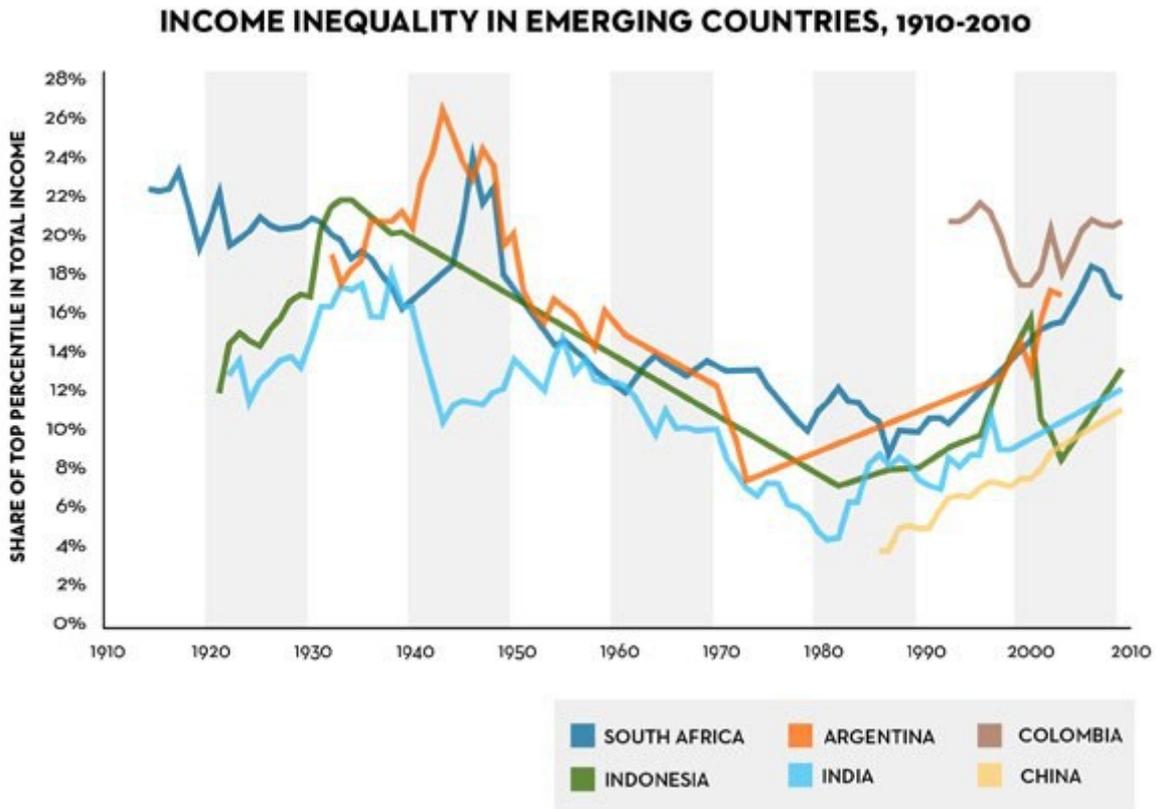


Fig 3

Land is abundant in Africa

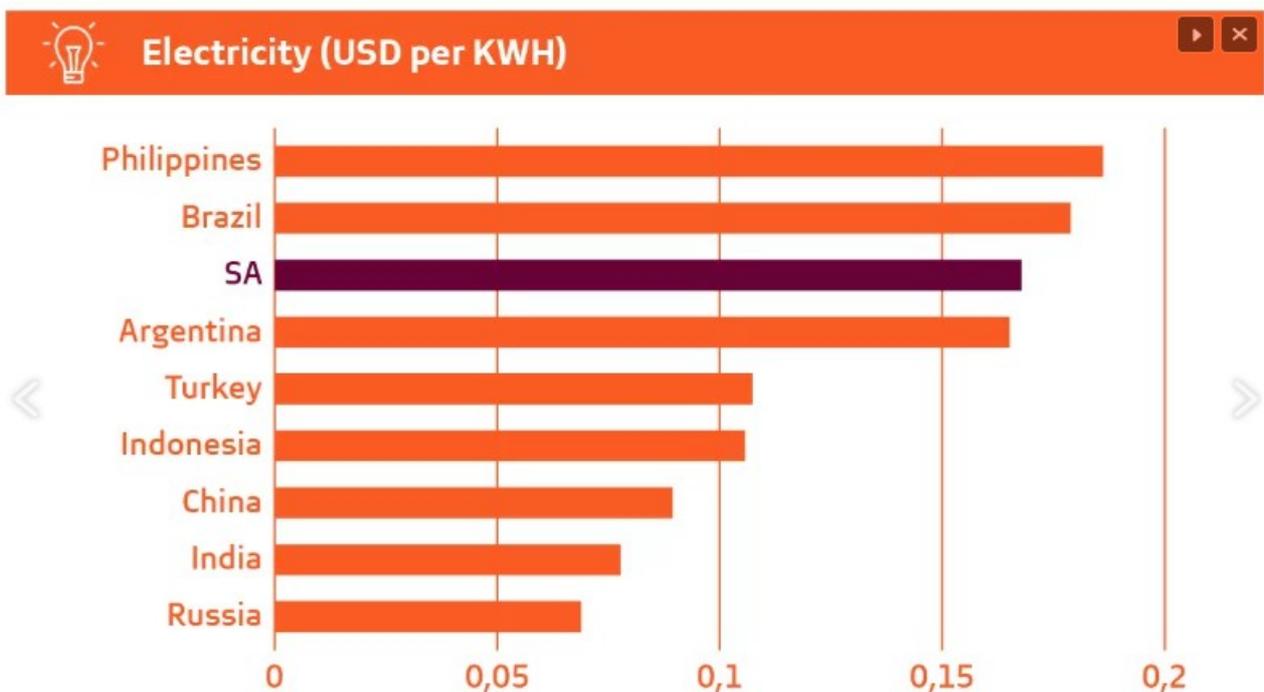


Fig 4



Source : Piketti

Fig 5



Source : <https://businesstech.co.za/news/energy/306592/south-africas-petrol-and-electricity-prices-vs-the-world>