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ECONOMIC COMMENTARY

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YOUR WEEKLY ECONOMIC UPDATE

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SOUTH AFRICA'S FISCAL MULTIPLIER

During the past week or so, there has been considerable talk about South Africa's (SA's) fiscal multiplier, a ratio that illustrates by how much output rises for each level of government spending. As an example, if the fiscal multiplier is 1.5 and government spent R1 million, output in the South African economy is expected to grow by R1.5 million. This is a very important question because, if the multiplier is greater than one, government should not spend less, but more! But, if the multiplier is less than one, then the forthcoming austerity measures will be very welcome. Like with all things in economics, there are too many ways to measure the same thing, as well as too many assumptions to simplify all the complexities, and too many opinions. So, let us try to cut through all the noise.

In a recent working paper published by the South African Reserve Bank (SARB), which will likely become a seminal piece in this field, the author compared all the different techniques used to estimate SA's fiscal multiplier and added financial dynamics to provide some real objective conclusions. The research shows that, since 1994, the average fiscal multiplier in SA is only 0.5, but usually increases during recessions. This is probably the same answer one would get if you asked average working South Africans if they believe that they are getting good value for their tax money. I doubt that you would even get a positive response from those 19 million individuals living off of state grants. South Africans understand that government has failed in prudently stewarding the scarce capital that they have been entrusted with; research only helps to prove it.

What does this mean? Well, practically, for every R1 million that government spends, we are only getting R500 000 worth of value: that is shocking. The remainder is mostly lost owing to inefficiencies and unproductiveness in areas such as poor labour policy and supply-side constraints (most notably our Eskom problem). Then there are also administration costs, such as the overburdened size of the civil service. And, of course, corruption, state capture, etc. It also means that the correct policy route is, in fact, for government to reduce expenditure, which can help to reduce the cost of their inefficiencies, and to reduce the almost unsustainably high national debt levels. Government's old notion of growing through redistribution has absolutely no place here.

But is it all bad news? Definitely not. In fact, we have seen a clear crackdown on corruption since President Ramaphosa took office. We have also heard about Eskom paying off its debt, South African Airways (SAA) being privatised, as well as a reduction in the civil service wage bill, to name but a few.

What we need now is an accountable government that partners with the private sector through policy that will improve the productive capacity of South Africans. This means a couple of things: your cosy government job is performance-based, and the quality of state-funded schooling and healthcare is of the utmost importance. It also means getting rid of the current labour policies that exclude and make it impossible to hire-and-fire as is necessary in a competitive environment with mass unemployment. But, more importantly, it means that partnerships are not concluded in the old fashion of tenderpreneurs; they have outcomes that are tied to reaching export quotas. Being funded, supported, and often even protected, by government does not lead to long-term growth and job creation. Sooner or later, you must compete against the best, and win.

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