Opinion&Analysis

QUOTE OF THE DAY
Vision without action is daydream. Action without vision is nightmare. – Japanese proverb

SMME ministry is the real deal for jobs dilemma

READERS' FORUM

I READ the opinion piece by Pierre Heistein (Business Report, April 24) with utter disbelief. I thought as the convener of UCT's Applied Economics for Smart Decision Making course, he should know better. He has no clue what he is talking about.

That's the biggest challenge with South Africa's armchair critics from the ivory towers of our education system. Their solutions to economic problems are bereft of reality and wisdom from the streets.

One of the advantages of a business organisation such as Nafcoc [the National African Federated Chamber of Commerce and Industry] is that we are in touch with the challenges of entrepreneurs at grassroots level. From the farmers of Malamulele in Limpopo to the spaza shop owners of Soweto, they share with us the challenges of running businesses on the fringes of the economic mainstream and we are able to advise the authorities about appropriate strategies in addressing the challenges of the SMME sector.

And one such intervention is the ministry for small, medium and micro enterprises, which will focus solely, in an activist role, on developing this important sector of our economy, which employs almost 67 percent of our workforce.

Nafcoc first called for the establishment of an SMME ministry at the dawn of our democracy. The fact that the ruling party has seen the light 20 years later is immaterial. The important fact is that we have all the empirical evidence we need and experience to make a compelling case for such a ministry.

Big business, despite sitting on a R500 billion cash pile, has not moved a finger in terms of investing in the economy, nor has it created sufficient jobs over the past 20 years to make a dent on the unemployment figure of 26 percent.

Economists such as Dawie Roodt and many of his ilk have argued passionately that businesses are not created to create jobs but to make a profit. Big business the world over is shedding rather than creating jobs as they mechanise to maximise profits to shareholders.

In the next 50 years, studies are indicating that formal employment will be a thing of the past in favour of self-employment and a bulging informal economy. This should be supported rather than discouraged. An SMME ministry is one intervention we need to make such a future possible for South Africa.

Nafcoc recently sent a delegation to South Korea and was amazed at how a country that was once ravaged by civil war is a shining example of what government could achieve when it puts SMMEs at the centre of its economic development strategy.

Aside from the advanced infrastructure of Seoul, where there is free internet connectivity in major centres, it has been able to transform itself from an agrarian economy in 1960 to a knowledge-based economy today – all in one generation.

At the dinner hosted by our ambassador, Hilton Dennis, for the SMME delegation, he told us that the South Korean economy was smaller than that of Ghana in the 1960s. Their gross domestic product (GDP) is now 10 times that of Ghana at more than $1 trillion (R10.66 trillion). With a GDP per capita of $22 500, it is ranked among the top world countries.

Importantly, this phenomenal economic growth was state led, with clear instructions as to what was expected of the private sector and its role in supporting SMMEs. As early as 1965, the government made it mandatory for commercial banks to extend at least 30 percent of their loans to SMEs; this ratio was increased to 45 percent in 1992, significantly improving the financing environment for SMMEs.

In 1982, the government set up protectionist measures, which blocked large multinationals from entering designated industries, including barring big corporations from tendering for big contracts in the public sector. As we all know today, in South Africa we have gone in the opposite direction and almost all major contracts have been awarded to the big companies, with some even colluding to steal taxpayers' money during the 2010 World Cup build programme.

However, there is a silver lining in this storm. The recently announced Transnet R50 billion locomotives build programme, where clear instructions have been given to multinationals such as General Electric to localise certain components by using local black manufacturers, is a good example of transferring skills and expertise and boosting the local industrial base. This will go a long way towards broadening South Africa's industrial capacity and developing black industrialists.

Instead of the current approach, where SMME-related institutions are strewn all over the government bureaucracy, with the SMME ministry entrepreneurs will be able to knock on [its door] one day and access all the assistance they need, from access to capital, business advice and support to other services.

For instance, the Small Enterprise Finance Agency (finance support) is under the Ministry of Economic Development while the Small Enterprise Development Agency (non-financial support) falls under the Department of Trade and Industry. This does not make sense and the SMME ministry will help clarify this confusion and unnecessary duplication.

KHAYA BUTHELEZI
NAFCOC HEAD OF COMMUNICATION

Don't reverse globalisation – refine it

Uwe Bott

DOES globalisation mean corporations should be permitted to indiscriminately ship jobs to lower-income countries? Anyone who believes in global integration and the lifting of living standards everywhere is truly challenged now.

Advanced countries are awakening to an unsavoury truth. There has been a paradigm shift in the world economy, trending towards sluggish or shrinking global demand. It depresses their economic growth and keeps unemployment and underemployment structurally high.

There are several reasons for this. First, most advanced countries are rapidly ageing. Older people consume less. Hence, this depresses demand for goods and services.

This is even true for China, which has the fastest-ageing population. By 2030, the number of Chinese aged 65 and older will be 300 million, or three times the current size of this cohort. Compared with advanced countries, China will be old before it will be rich. All of this puts a floor under global demand.

The second reason is that key countries have succeeded in union busting. After Ronald Reagan in the US and Margaret Thatcher in the UK, the collective bargaining power of labour unions all but collapsed in their countries. Reining in overreach is one thing, achieving an outright collapse quite another.

Other advanced countries have modelled their approach to labour issues in response to these examples. As a result, even the pay for formerly well-paying jobs has fallen in real terms. Those who earn less consume less, further depressing demand.

Third, taxation policies in most advanced countries have become less progressive, either because of lower effective income tax rates or higher consumption taxes. This has eliminated the beneficial effects of income redistribution. In today's advanced economies, the rich have become richer and the poor poorer. The result is less demand. But more progressive tax rates alone do not boost demand.

This leads us to the fourth reason: globalisation. For more than 30 years, world economies have opened their current and capital accounts, allowing for the free flow of goods, services and capital.

the Globalist

There are undoubtedly benefits from operating such an open world economy. However, for many advanced countries, this meant many well-paying jobs were shipped overseas to allow for greater corporate profits. That is a key cause why income inequality has deepened in advanced countries.

Losing well-paying jobs in advanced countries has depressed wages, exacerbating the decline in global demand, while prolonging stagnation.

All of this has been masked by such phenomena as the IT revolution, first fiscal and then monetary stimulus as well as sustained high economic growth in China.

Suddenly, the props are crumbling. Innovation has created huge productivity gains, but its incremental contribution to economic growth is slowing down.

Fiscal and monetary stimulus are effective tools in a cyclical downturn, but unsustainable in addressing structural problems. The Chinese economic slowdown is a cause and effect of sluggish global demand.

And so advanced nations are faced with the fact that structurally depressed global demand has caused high youth and long-term unemployment, growing numbers of part-time employed and those with jobs that do not pay a living wage. While official unemployment rates may be falling, these underlying imbalances are eroding the social fabric of advanced nations.

Social development and greater educational attainment have a permanent effect on birth rates in advanced countries and are the cause for ageing populations. It is not likely – and largely undesirable – for that to change.

Wages can be boosted and taxes on the rich can be redistributed more effectively to those in need, assuming broad-based political consensus. But even then can one prevent the loss of good jobs to lower-income countries without implementing beggar thy neighbour policies and reversing globalisation?

Or is it really that binary? Does globalisation really mean that corporations should be permitted to indiscriminately ship jobs to lower-income countries? Would "on-shoring" boost demand in economies with the greatest consumption potential (advanced countries)? And would such a boost in global demand trickle down to emerging countries because their excess labour could meet newly recovered demand growth?

The world is made up of nation states. While we live in a global and interconnected economy, there is no global, elected government. The citizens of many advanced nations look to their politicians to stop what looks like an inevitable slide into broad-based poverty.

Those national policymakers must consider all options – lest they are willing to enter a period of social and political instability. This is the uncomfortable truth.

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Kriegler also contributed to freedom of women

TRADING AGENDA

Ethel Hazelhurst

THE BALANCE of financial power between husbands and wives shifted dramatically in South Africa in the mid-1980s with a decision by Judge Johann Kriegler, who went on to oversee the country's first democratic election as head of the Independent Electoral Commission, in 1994.

Kriegler also made history in August 1985, when he handed down the first definitive judgment under the Matrimonial Property Act introduced in November of the previous year. Awarding a wife in a divorce case one-third of her husband's net assets and one-third of his monthly income as maintenance, he mused: "Like Solomon, I can but wonder how to measure the worth of a good wife."

His decision on how much the wife was worth in this case was ground-breaking and was described as courageous by an attorney at the time.

Certainly, it caused consternation among the country's wealthy businessmen involved in or considering divorce proceedings. Though some women's rights activists thought an equal split of the assets and no maintenance could have been preferable, the wife was undoubtedly better off than she would have been had she divorced a year earlier.

As an eminent law professor pointed out after the judgment: "Before the introduction of the Matrimonial Property Act last year, she would have left the marriage with a maintenance order and a R1 000 settlement in terms of her antenuptial contract."

Kriegler's judgment was later confirmed in substance by the then Appellate Division. Before the introduction of the new matrimonial dispensation, wives were faced with two basic choices: marriage in community of property, or entering into an antenuptial contract. If she chose the first, she would be entitled to a share of her husband's estate but she would have to be content with the status of a minor for the duration of her marriage, unable even to open a bank account without her husband's signature.

If she chose the second, she was not automatically entitled to anything from her husband's estate. What she would get out of the estate had to be provided for in the contract – no matter how much she contributed to the household. The big catch in this case was that inflation and changing circumstances, both personal and in the economy, could erode the value of the settlement.

The new law extended the options by introducing the accrual system for those couples wanting to marry out of community of property. It took into account the extent of the increase in the couple's wealth during the marriage so a woman's contribution both in terms of income and her role in the household acquired financial value.

To extend the benefits to people already married at the time, the Act gave courts the discretion to transfer the assets of one spouse to another, in the absence of an agreement between parties married out of community of property.

The judge explained that the amount he had decided on was based on the facts of the case – including that the wife had not worked independently but had contributed to the estate by rearing the children and working in her husband's business.

Those were the days when successful businesswomen and well-paid professional women were few and far between and women's earning power was weak. Hearing of the settlement, wealthy husbands were heard grumbling that librarians and nurses managed to come out on far less than the amount Kriegler awarded the wife in the case. Though these particular men were earning a hefty sum themselves, they considered the income of librarians and nurses as a suitable yardstick for measuring any wife's income.

Other provisions in the Act remedied some of the inequities contained in community of property, ensuring these wives also got a better deal. This is particularly important in the case of women who are unaware that community of property is the default system and that there are alternatives.

While the Act provided a new point of departure, divorce settlements can be influenced by many factors, including the length of the marriage, extra marital affairs and abusive treatment by one of the partners. But, essentially, it levelled the playing field, removing some of the obstacles women face when rebuilding their lives after a divorce – particularly when the split is not of their choosing.

Let business, not more bureaucrats, grow SA business

ALL ABOUT BUSINESS

Christo Owen van der Rheede

THE ANNOUNCEMENT by ANC secretary-general Gwede Mantashe that a ministry for small, medium and micro enterprises (SMMEs) might be established is not a good idea.

Why does the government want to create an additional bureaucracy while the Department of Trade and Industry (dti) has a dedicated unit that focuses on enterprise development and that seeks to create and enabling environment conducive to the development and growth of SMMEs?

It also funds the Small Enterprise Development Agency, which provides non-financial business development and support services for small enterprises.

The growth of South Africa's SMME sector depends on a holistic and integrated approach, something that the dti is ideally structured for. It plays a huge role in terms of the development of legislative and regulatory frameworks. It is active in the fields of trade, exports and investments and has a dedicated mandate to broaden economic participation and empowerment.

Furthermore, it has the in-depth understanding, the expertise and experience to optimise the linkages between trade policies, sectoral interventions, industrial action plans, support grants and other measures to broaden participation in the small business sector. These enablers of industrial development and trade provide a perfect nurturing environment for small businesses as well. The last thing to do is to fragment the golden thread that runs through all the activities of the dti.

Different state entities have one common mandate and that is to provide quality basic services to all South Africans. This noble mandate is often undermined by egos, turf wars and state departments' habit of operating in silos.

Our appeal to the government is to shelve this idea of a separate ministry and rather to focus on strengthening the unit in the dti responsible for small business development and to get rid of all the obstacles – especially at policy and regulatory level – that undermine entrepreneurship.

Such a unit must interact with business chambers throughout the country to provide a localised incubation network for start-ups. Such a network can make experienced business people available to coach and mentor young entrepreneurs.

For this to happen, South Africa needs a unified business chamber movement that is, in part, funded by the state and that will act as an extension of the dti to roll out some of the programmes currently implemented by the department.

Sadly though, a unified and independent national chamber movement that consists of a strong network of chambers at district and local level remains a dream deferred due to organised business's inability to see the bigger picture and to cross the racial and language divide.

To continue along this route is in nobody's interests. Not only can a highly functional business chamber movement consisting play an instrumental role in growing the SMME sector, but it can strengthen the dti's programmes that seek to grow this zone. This will require an official working relationship between the chamber movement and the dti and a collaborative framework aimed at broadening economic participation and empowerment.

Let business grow business. Not another government department with officials who have little or no exposure of what it takes for business to thrive.

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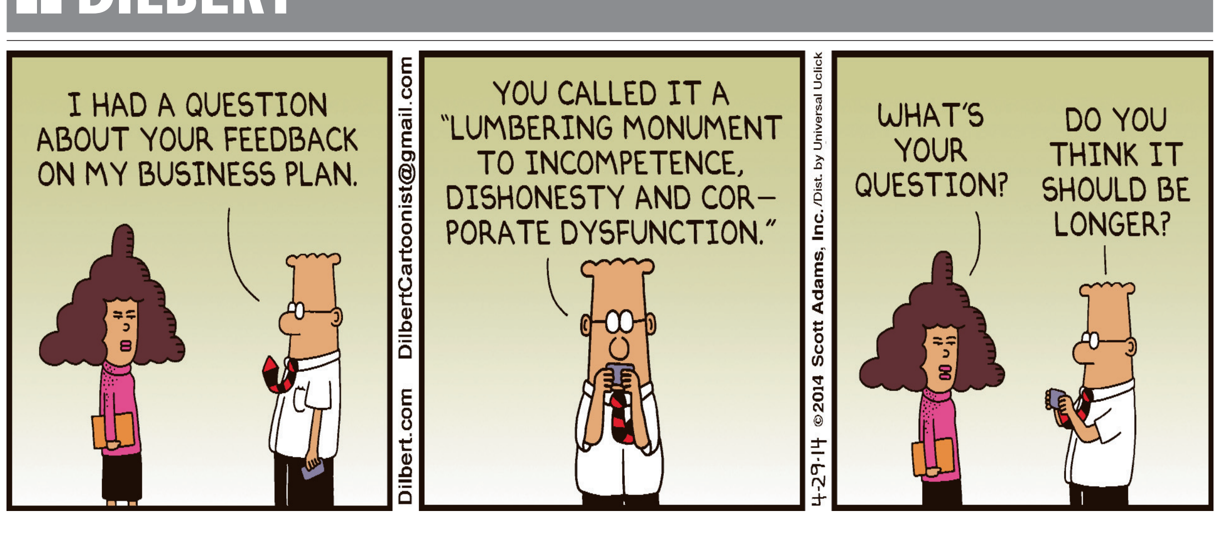

DIARY

Living in Hong Kong raises chances of being super rich

THE SECRETS to becoming a billionaire have been laid bare by a new report, and the bad news is it is not easy.

Living in Hong Kong helps, and so does being well-educated and working in a country where the lawyers speak English.

But a study into the 1 000 people who have earned more than $1 billion (R10.6bn) warns budding entrepreneurs making your fortune is "hard, risky and tough" and almost certain to fail. The guide to becoming a SuperEntrepreneur gives seven tips on turning an idea into a billion dollars.

It draws on the experiences of Larry Page and Sergey Brin who founded Google, Virgin boss Sir Richard Branson and retail tycoon Sir Philip Green.

Analysis by the Centre for Policy Studies found the UK does not even rank among the top 10 countries for producing billionaire entrepreneurs. The study looked at nearly 1 000 self-made men and women who, according to business magazine Forbes, have earned at least $1bn.

The report by Nima Sanandaji, a doctor, found that personality was one of the most important attributes to becoming a successful SuperEntrepreneuer.

These include creativity, work ethic, ambition, optimism, self confidence, leadership qualities, adaptiveness, drive to achieve, tolerance of ambiguity, resilience, tolerance of stress, decisiveness, ability to deal with failure, a high energy level and good social skills. – Daily Mail