

Address by Herman Mashaba at the Inaugural **Herman Mashaba Lecture on Entrepreneurship** at Central University of Technology, Bloemfontein on Wednesday 5 November 2014

TRUE ENTREPRENEURSHIP HAPPENS IN FREE MARKET ECONOMIES

Just over two years ago I received a surprise call from this university with the notice to award me with an Honorary Doctorate in Business Administration by the Faculty of Management Sciences. Now two years later, another total surprise to start an annual Herman Mashaba Lecture on Entrepreneurship.

I feel particularly honoured and humbled by this recognition. This annual lecture dedicated to the promotion and development of entrepreneurship could not have come at the better time in the short history of our new country. Entrepreneurship, in particular the promotion of small business development, is something I have dedicated the latter part of my life to.

Something I hope my country South Africa will accept and embrace, is the fact that true entrepreneurship happens in free market economies. These true entrepreneurs are the potential engines to propel and steer our economy to arrest the three major challenges of high unemployment, poverty and inequality being faced by our country.

Entrepreneurs are innovators and they cannot function in a constricted, highly regulated environment. They need the freedom to try new things, to experiment, and to challenge

entrenched methods of doing business. In order to function properly, they need a free market economy.

Personal choice is one of the most important characteristics of a free market economy. To anyone living in a free economy, choice is taken for granted. Under an authoritarian regime, such as apartheid, choice is one of the main casualties. Such important matters as where to work, what school to attend, what work to do, who to socialise with, who to marry, who to employ, were all taken away! The limitations on choice were endless. The increase in choices since the transition to democracy are also endless. We must protect those choices, not only for ourselves but for all South Africans. We must not allow bureaucracy and unnecessary laws and regulations to chip away at our freedom of choice.

Voluntary exchanges with others are a vital aspect of a free market economy. Buying, selling, exchanging in many different ways. There again our exchanges were limited under apartheid. Some had more exchange rights than others but if everyone is not free to exchange, then none are really free to exchange. Our exchanges can be with local or foreign parties, in respect of goods, services, labour and an infinite variety of other interactions. In every case we must protect our rights to freely exchange with others.

Freedom to enter and compete in markets is an important factor in a free market economy. When I started my business career as a door to door salesman in the 1980's, I was restricted by apartheid legislation, in particular the pass laws and group areas acts, where I could sell. These limitations were severe. I was fortunate that I found my way around these limitations, but it taught me that such rules impact severely on the people, and are not part of a free economy. Whatever the nature of the market, whether local or foreign, there must be freedom of entry.

Protection of people and their property from aggression by others is a crucial aspect of a free market economy. This means a well-trained and dedicated police force that carries out its functions efficiently and correctly. It also means that there must be efficient and well-functioning law courts to dispense justice and adjudicate on disputes. The rule of law must be applied, which means that the law must be applied equally to everyone, including government.

You will realise that what I am describing as a free market economy is a well-structured environment in which individuals can function fully and freely, enjoy maximum personal choice, without unnecessary limitations, as long as they respect the right of others to enjoy the same rights.

I think you will agree that the free market environment that I have described to you will provide the best circumstances for entrepreneurship to flourish. No unnecessary limitations on choice, exchanges or the freedom to enter into and compete in markets, and with individuals and their property fully protected. Sadly, in South Africa today, this is a business environment that we dream about. But we must not just dream about it. Every one of us must take a decision that we will not rest until we have that desirable environment in which to spend our working days.

In order for young people to be prepared to become the entrepreneurs of the future they must have access to a good education. More especially, they must have a wide choice of education options. In a free market economy choice in education allows the natural talents of young people to be developed to their full potential. Taxpayer-funded schools in South Africa are performing very badly and reform is essential. Government should give consideration to introducing competition into the schooling system. If the money followed the student, schools would have to compete for students and their performance would improve. This can be done by the use of instruments such as education vouchers or in funding schools in any other way on a

per pupil basis. Schools that offer the best education would thrive while those that underperform would be forced to improve or face closure.

Whatever the problems in the country might be, they will not be solved if the citizens regard voting in elections every few years as their only responsibility. The country needs active citizenship, such as parents getting involved in sorting out schooling problems, or holding government officials to account who are not properly performing their functions. Whichever political party might be in power in any jurisdiction, citizens should demand that at all levels appointments should be made on merit, so that the country has the benefit of a professional civil service. If citizens allow government to make appointments on a “jobs for pals” or cadre deployment basis, service quality declines and citizens bear the cost. A strong political opposition is important in holding government officials and government itself to account.

There are some specific issues that I see as most detrimental to entrepreneurial development in South Africa. There is too much political interference in the economy. “Policy bombs” are constantly being released on the economy, creating great uncertainty and making it difficult for business people to do proper forward planning. The granting to politicians and government officials of discretionary powers that allow them to transfer huge amounts of taxpayer’s money in the form of tenders and other privileges to people who are reliant on government business, licences or concessions, is the source of large-scale corruption.

Apartheid left behind many problems that had to be dealt with by the new democratic government in 1994. Initially, the policies that were adopted were aimed at helping people to help themselves. Had this policy carried on we would today see many more entrepreneurs active in this economy.

Unfortunately government policies were changed, which increased people's expectations of government hand-outs and led to a mentality of dependency and entitlement. At the same time labour laws were introduced that increased the job security of employed workers and at the same time increased the cost and risks of taking on new employees. Taken together with the decline in the quality of schooling, this has led to the mass unemployment we have today, with 8.3 million unemployed, and tragically most of them being young black people.

In radio and TV debates labour union representatives constantly warn against exploitation. They sit with big business on Bargaining Councils and agree on wages and conditions of employment, which they instruct the Minister of Labour to extend to the rest of their industry, including non-participants. The Bargaining Councils, as implementing agents, then impose these high wage levels and conditions of employment on the entire industry, including the smallest businesses, imposing penalties on those that are late in complying. In this process many small businesses are forced to close down because they cannot afford to meet the higher wages or conditions, and their workers become unemployed.

When I was Chairman of the Free Market Foundation, we instituted a constitutional challenge against section 32 of the Labour Relations Act, which requires the Minister of Labour, on receiving a notice of a new Bargaining Council agreement, to extend that agreement to all members of the industry, including non-participants. The FMF challenge is against the constitutionality of Bargaining Councils having the power to instruct a Minister to impose an agreement on non-participating parties. At the request of the FMF I continue to lead that challenge, which should be heard by the court early next year. My motivation is simple. I cannot stand by and watch small businesses and jobs being destroyed by the collusion of big business and big labour.

Minimum wage law is another mechanism that is proposed by labour unions, and implemented by government, which destroys jobs and small businesses. Their motivation is given as reducing “exploitation” and ensuring that people have “decent jobs”. Whatever their motivation might be, there can be no doubt that a minimum wage makes it illegal to employ anyone for a lower wage. The result is that many people are denied the right to decide for themselves about job opportunities.

I regard myself as a living example of what I am referring to. I started my working career as a dispatch clerk earning a pittance of R175 a month. I did not have and did not need legislation to decide for me what job or salary to accept. I took it as a stepping stone to allow me to get the necessary experience. The job allowed me that necessary first step in climbing the ladder, moving from a dispatch clerk to finally taking the decision to start my own business, at the tender age of 22. Just imagine what would have happened to my life had the politicians had a say in my future.

In all the debates that I have had on these issues the labour unions and government representatives never talk about the unemployed. They never put forward proposals as to how 8.3 million unemployed people will be absorbed into the labour force as rapidly as possible doing productive jobs. It is clear that in the end it is the private sector that has to provide these jobs. It is entrepreneurs, especially small businesses, who have to find ways and means of employing them. Government’s role is to create the right environment and there is no better way for them to do that than to move towards a more free market economy as rapidly as possible.

We need as a country to urgently revisit all race-based policies, in particular economic ones. We have had twenty years of our democracy to test their impact on the country’s economy and majority of our citizens. The negative results are there for anyone to see. These policies are totally against the spirit of our

constitution, and unfortunately preclude certain members of society to participate without interference. I know some people will be against this proposal, but I would like to warn them, if we insist on pursuing such policies, the results will never be different to what we are currently experiencing. I do not believe that South Africa fought and defeated the evil system of apartheid to replace it with another form of discrimination. Yes, we need to address the ills of the past, but let us be creative about how we do it. Encourage South Africans to work together as South Africans. Let us allow them to grow our economy and use government proceeds to benefit overall society.

I believe myself to be another living example of getting South Africans to work together. In 1984, right in the middle of the apartheid regime, at the tender age of 25, I realised the strategic opportunity to invite my fellow white South African, to join me in business to take advantage of the booming haircare industry. This move was against the racist policy of the National Party at the time, but as entrepreneurs, we just decided to ignore it. We were fortunate that we did not attract the attention of the politicians. Our new country, the “Rainbow Nation” that Nelson Mandela and Desmond Tutu so wished to create, should not allow racist policies to be part of our society.

The role of the entrepreneur is crucial in all economies. They are the ones who come up with new ideas and ways of doing things more efficiently. Economist Israel Kirzner described the typical entrepreneur as displaying “vision, boldness, determination and creativity” and alertness to available opportunities for profit. Economist Joseph Schumpeter wrote of the “creative destruction” that resulted from the activities of entrepreneurs. Both regarded these roles as important for economic growth, the innovations that make positive changes to the lives of consumers

on the one side, and on the other side pushing out the old and making them redundant. On the one side creating the motor car and on the other destroying the horse and cart business.

There are two major South African problems that could benefit from the attention of entrepreneurs.

The first is our schooling system. Entrepreneurs could do an excellent job of gathering up valuable knowledge and transferring it to young people in a way that is not possible with conventional teaching. They could do that by assisting teachers rather than by displacing them. The most important people in this equation are the young people. The benefits to the country of substantial improvements in the quality of education of young people would be massive. Government would need to make space for entrepreneurs to perform this vital function.

The second major task that entrepreneurs could perform is to get the unemployed into doing productive work in ways that none of us could even begin to imagine. Instead of seeing 8.3 million unemployed people as a problem, they would see the jobless as a resource that can be used productively and profitably. Government would need to create the necessary environment to allow the entrepreneurs to operate outside the restrictions of the laws and regulations that currently prevent the unemployed from getting jobs but not outside the bounds of safety and the common law.

What I am saying is that the entrepreneurs should be set free to solve the problems we have in our economy. Given greater freedom of action there is no problem that cannot be solved by entrepreneurs looking to make profits from finding solutions. I am sure the graduates of this university could make a great contribution in this regard. I urge all of you to see the massive opportunities presented by our current challenges. But, these opportunities can only be fully exploited when the country adopts free market economic policies. The power is in your hands, as

members of civil society, responsible enough to act appropriately, to create such an environment.

I thank you.