

#### **FEBRUARY ECONOMICS - THE BUDGET AND ITS IMPLICATIONS FOR TRANSFORMATIONAL CHANGE**

Before I start this month's newsletter, it is important to first explain a little about economics. Economics is about people. It is a social science, not a physical science. Many wrongfully use mathematics and statistics to declare economics an exact science (left side equals right side of the equation) and are then left wondering about basic things like why inflation still has not returned to the developed world? They get stuck on equations like Milton Friedman's  $M*V$  equals  $P*Q$  or some extended version thereof. Economics, being about people, has a lot more to do with the decisions people make, individually (their world views) and collectively (their ideologies), in turn, determined by their values. To accurately interpret economic numbers, it is far more important to consider the social and political influences, rather than just equations or trends. If you understand this, then the 2020/21 budget, delivered by Finance Minister Tito Mboweni, becomes a beast of another nature. Then you start to realise that President Ramaphosa and his inner circle are no longer nudging towards change but have now pushed their party's ideology into a new direction. This new direction is causing transformational change, which can lead to sustainable economic growth and job creation.

"Nudge, nudge, push" is probably an accurate description of what we have seen happening in the ruling party over the last couple of years, especially in the way they manage state finances. Tito started a couple of years ago with a nudge, pushing for a smaller role of the state, and only mentioning that the government wage bill is too big, that civil servants are paid too much, and so forth. But now we have seen a big push. No more talk, but action; limiting wage bill growth to 1.2% over the next couple of years. In his latest budget speech, he was so bold as to proclaim that: "We will not rest until we have fundamentally altered the structure of this economy." It did not end with a smaller wage bill. In fact, the Minister pushed many pro-market changes. No mention of a national health insurance, no wealth taxes or higher personal income taxes, corporate taxes will be lowered from 2022, and those taxes that will be increased, will be increased relative to their usage. Something has shifted, and dramatically so. Of course, there are concerns about how the budget will be executed, but there can be no doubt that we have seen a shift in ideology.

Similarly, President Ramaphosa has been "nudge, nudge, pushing" his way towards transformational change since his inauguration in 2018. We explained that his priority was to nudge his way towards more power, or put differently, more executive authority. Not an easy task since he has been in many people's crosshairs. Changing the culture of such a large institution is almost impossible. Even in the fast-paced, flexible, and more willing to change world of the private sector, where creative destruction is the norm, transformational change of this nature is very seldomly seen. Nevertheless, more executive authority would allow the President to push for change in the ANC, for an ideological shift, that by implication would transform this economy. Changes that could lead to sustainable economic growth and job creation. We thought this process was still many years away and then COVID-19 hit, and with two waves dramatically accelerated the process. While all this was happening, independent inquiries into corruption and state capture nudged a clear path for change, especially among state finances, providing room for the budget's big push.

