

EFFICIENT + GROUP

DAWIE'S NOTES



IT'S POLITICS, STUPID

The phrase “(t)he economy, stupid” was allegedly coined by James Carville, a strategist in Bill Clinton’s presidential campaign. And whilst the economy is the proximate cause of the current wave of destruction and looting in the country and its first line casualty, the real cause is politics – the politics of the ruling party.

Nothing justifies the looting, destruction, and plunder that we have seen in the past few days. Behaviour like this is exacerbated by deteriorating economic conditions, and we have had these conditions for many years: an economy that is in freefall, not because of the pandemic, nor the financial crisis, nor any other reason, but because of a destructive political force that goes by the name of the ANC-coalition government.

Politics is the reason for our woes, and it is our politics that we must remedy if we are ever able to transform these woes into wealth.

For many decades, the ANC-coalition government has used its position as the dominant political party in South Africa (SA) to establish its own patronage network, and to facilitate the wholesale industrial-scale looting of the state. Today:

- + the state’s finances are unsustainable,
- + most local authorities (especially ANC-ruled ones) have collapsed, and
- + the SOEs have been operationally and financially run into the ground.

All of this happened because the ANC allowed it to happen. Little consequence or sanctions were suffered by those who participated in the looting. It was not just Zuma. It was the ANC.

Additionally, those institutions that were created to protect us from a destructive government - the judiciary, the public protector, the prosecution authorities - have been undermined. And the list of the ANC’s destruction goes on.

It’s only luck that a few of these institutions have survived to do their jobs. It was the relentless pressure from a free press and the judiciary that eventually forced Zuma to appoint the Zondo commission. It was the same press that piled so much pressure on Ramaphosa that he had very little alternative but to send Mkize on “leave”. It was the Zondo commission that started the process to ensure Zuma went to jail, which was originally initiated by the public protector (when we still had a competent one) and her reports. It was a trade union that forced Gordhan to put SAA under business rescue. And the list goes on.

Point is, the few good things that happened in SA happened not because of the good quality of our political leaders, but it happened because a few remaining institutions did their jobs.

Inevitably the ANC’s mismanagement led us to where we are today. We are quickly running out of taxpayers, out of capital, out of savings, out of jobs, and out of an economy. On a per-capita basis, we have lost a decade of wealth creation, and our wealth continues to decline. Unemployment is the highest it has ever been, and the rate keeps on increasing. The consequence of this is that people are going to bed hungry.

Since last year, the economy has been hit by another catastrophe: the lockdown. The impact of the lockdown was exacerbated by an incompetent government and the flagrant violation of the human rights to trade and to earn a living. The result: even more misery.

Inevitably things will get worse before there is any chance of them getting better. Mboweni (the best finance minister the ANC has to offer and an enthusiastic cook) had no choice but to present a fiscal framework that will cut state spending. Either that or there would be a total collapse of the fiscal accounts.

Unavoidably, this means spending less on people, particularly the 21 million who receive an income from the state every month (grant recipients and civil “servants”).

When Mboweni presented his framework, I warned that it would have the unavoidable effect of cutting in real terms the income of 21 million people over several years, and I warned that they would get angry, and I warned we could expect heightened unrest. And I was right.

Fixing the fiscal accounts must lead to more pain and conflict, and it will inevitably continue to do so. Many other “fixes” need to happen:

- + fixing Eskom and the other SOEs,
- + fixing the local governments,
- + fixing education,
- + fixing health, and
- + fixing everything the ANC has touched in the past.

Why could the police not see what is so obvious to see? Why weren’t they ready for this? The scene was thus set for the conflagration of the past few days, Zuma was only the spark that lit the fire.

People are hungry, unemployed, and without hope. Obviously, this is also an opportunity to score some political points by a few. Unfortunately, what we see today is the economic consequences of a destructive government. People see, people do. What people see is a political elite that plunders with impunity. They are the leading looters and the destitute opportunists on the streets are the followers.

Our only hope now is politics. And I believe the only person that can do what is needed to be done is President Ramaphosa. So far, he has been a president of consensus, we now need a president with conviction.

First thing is to lead by example. He must reshuffle those around him and only keep those that are squeaky clean. No more "innocent until proven guilty". No more special leave. Only by proving that he himself will not tolerate any form of lawlessness, or even a hint of lawlessness, will he be able to regain the moral high ground that the country needs to rebuild the economy.

I am not holding my breath.

In the meantime, the effect of the turmoil will affect the livelihoods of all of us, and most tragically the poor. Massive destruction in infrastructure and property, as well as the loss of lives, will continue to undermine the economy. It will add to unemployment, hunger, and poverty. But by far the most damage to the economy will be our tainted image as a country. This damage is incalculable.

For now, the rand is set for further weakness, and capital will continue to flee. We maintain that a prudent approach to investing is to have a significant portion of a portfolio abroad. Certain local stocks like mining may offer excellent value and speculative portfolio flows may find our very high yields attractive for a short while. However, if this anarchy remains, SA will mostly be a no-go zone.

My view is that the current wave of unrest will mostly calm down over the next couple of days and a degree of normality may return. But we will all know that the volcano of poverty and dissatisfaction is bubbling just underneath the surface, and next time it will be worse.

Either Ramaphosa uses his political capital now, at the risk of alienating many others within the patronage, or this country could politically disintegrate.

DAWIE ROODT

Chief Economist of the Efficient Group
dawieroodt@efgroup.co.za