EFFICIENT GROUP

ECONOMIC COMMENTARY

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YOUR WEEKLY ECONOMIC UPDATE

9 November 2021

LOAD SHEDDING, PILLS, AND JOBS

A few years back we set out to estimate the economic cost of load shedding in South Africa (SA). Because our focus was purely on the economic side, we excluded the social costs associated with load shedding, which would, of course, have inflated our findings. Nevertheless, our conservative back-of-the-envelope estimates showed that SA's economy was between 8% and 10% smaller than it could have been if we were not plagued by Eskom's inefficiencies and inadequacies. In today's terms, after Statistics South Africa adjusted our gross domestic product (GDP) figures, the economy would, therefore, have been between R360 billion and R450 billion larger, after adjusting for things such as inflation. What is even worse is if we consider the one million lost job opportunities resulting from having a smaller economy.

The problem, however, is that the issue is still with us, and that the cost of load shedding is growing at an exponential rate. The reason for this is because of the compounding nature of economic growth; it is growth on growth. Put differently, more growth leads to even more growth, or less growth leads to even less growth. So, if one measures the cost of load shedding from an initial point, and load shedding persists, then the 8% to 10% reduction in the size of the economy can quickly become 10% to 12%, 15% to 17%, and so on. News about persistent load shedding is, therefore, very worrying. Especially if we are made aware of key contractors who have stopped work on our newest power stations because of payment disputes. Each day of delay adds up.

What worries us even more is that the cause of our ongoing predicament is still the same, mismanagement and a lack of accountability, amongst others. These reasons can, however, be summarised as a lack of effective leadership. In isolated instances, such as the current one, Eskom cannot import electricity because of incidents in Zambia. But even then, the question remains: Why is it necessary to import electricity when, not too long ago, Eskom was considered the best utility in the world? Unfortunately, the issue of effective leadership is not an easy one to remedy. Changing a Chief Executive Officer or a Chief Operations Officer sounds good and, in many ways, does help, but transformational leaders need to be able to do what they do, and that is transform, a painful process that upsets the status quo. But, in Eskom's case, being a state-owned enterprise that is subject to silly policies, such as our labour laws, this is near impossible and will take a lot longer and cost us a lot more.

On another note, the tourism industry received some welcome news from Pfizer. Tourism sectors across the globe, albeit more so in the case of SA, have been struggling to catch up, owing to COVID-19-related constraints, such as travel restrictions, virus variants, and fearful travellers, to name but a few. Pfizer, however, announced on Friday that the clinical trials of the pill that they developed to treat COVID-19 showed that it was 89% effective against the virus. Pfizer has developed only the second anti-COVID-19 pill after the pill that was introduced by Merck. Treatments like these are a huge stride towards finally emerging from the pandemic and will do a lot to boost the tourism industry worldwide.

Better economic results were released from the United States (US) shortly after the Federal Reserve announced their tapering plans, which removed much of the pent-up market uncertainty. Not only were the initial job creation figures for August and September revised upwards by 235 000, but more than 531 000 jobs were created in October, much higher than analysts' expectations. This reduced unemployment in the US to 4.6%.