ECONOMIC COMMENTARY - By Francois Stofberg

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SONA AND A GREAT AMERICA

President Ramaphosa delivered his State of the Nation Address (SONA) last week. Contrary to the comments of many analysts and political observers, the SONA is NOT designed to provide exact solutions for the challenges we are currently facing. The aim of SONA is to give the head of state a platform to give feedback about where we are as a nation. Ideally SONA forces society to be aware of the current political and economic environment and should elicit a sense of responsibility about the goals we want to achieve as a country. Here are four highlights from this year's SONA:

Eskom: The bottomless pit of inefficiency

The President admitted that "we" (read, the taxpayers) will be paying the bulk of the money Eskom believe they will need during the following decade. Eskom conservatively estimated that they will need about R230 billion to keep South Africa's lights on. However, should we not see substantial changes to the structure, direction, and operational ability of Eskom they will demand even more pounds of taxpayers' flesh.

Corruption and poor governance

The second highlight was the President's focus on corruption and poor governance at public corporations and state-owned enterprises (SOEs). In the Director General's report, he estimates that corruption and poor governance have cost South Africans upwards of R178 billion over the last couple of years. To put this into perspective: This wastefulness could have financed roughly 1.6 million homes in the government's Reconstruction and Development Programme and provided homes to almost 6.8 million South Africans. There is an opportunity here to implement a massive redistribution of wealth through capital formation, unlike the misery of current redistributive policies. This can really boost our economic growth. Further on SOEs, the president also mentioned that Finance Minister Tito Mboweni will be appointing the next CEO of Eskom, and not the Minister of Public Enterprises Minister Pravin Gordhan. Interestingly, the president didn't mention the bailouts that the SABC and SAA will need in the upcoming years, or how any of these will be restructured into profitable companies that can contribute and not detract from economic growth.

The National Development Plan

As expected the President didn't say anything about land restitution. Additionally, the president once again referred to the National Development Plan (NDP) however, this time he made it clear that the government will no longer be targeting 11 million jobs by 2030, but rather a miserable 2 million jobs. This implies that the government will not be implementing any of the NDP's suggested policies. The targeted 2 million jobs are not nearly enough to offset the increase in the size of the labour force and this means that the unemployment rate will continue to increase. The government will place R100 billion aside for infrastructure development and this further emphasises the assumption that they will in fact not be implementing the NDP, because this plan will require substantial investments closer to R1 trillion. On a positive note, the President is committed to improving the "ease of doing business" in South Africa by supporting industries and special economic zones. If the government creates an environment that is conducive for businesses to thrive, this will help Businesses to do what they do: Create wealth and employ people!

Education and healthcare

It was sad that no real reference was made to the dire state of education and healthcare in South Africa. Policies like these boost productivity and employability, and can lead to long-term prosperity. Until the government doesn't prioritise supply-side policies like these, no real change will be affected.

Is America great again?

Last week also marked an important point in the United States economy and president Trump's pursuit of "Making America Great Again"! Expecting lower inflation in the medium-term, fuelled by uncertainty, the US Federal Reserve (Fed) started guiding markets towards interest rate decreases in the United States. Markets are now expecting the Fed to decrease interest rates within the next couple of months; the first decrease in more than a decade. As a result, the S&P 500, investment-grade corporate bonds, high-yield debt, and government debt all simultaneously reached all-time highs. The Fed, and I, believe that it is better to extend the current cycle and use the momentum to foster an exponential growth. This will put America in a much better position for an inevitable recession. It's important to note: recessions aren't bad, but how countries go through them is bad. Recessions are a necessity that allows for the recycling and redeployment of capital and labour to more productive uses.

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