Our Weekly Paid Newsletter

Richard Cluver Predicts

In our 36th year of service to the investing public of South Africa

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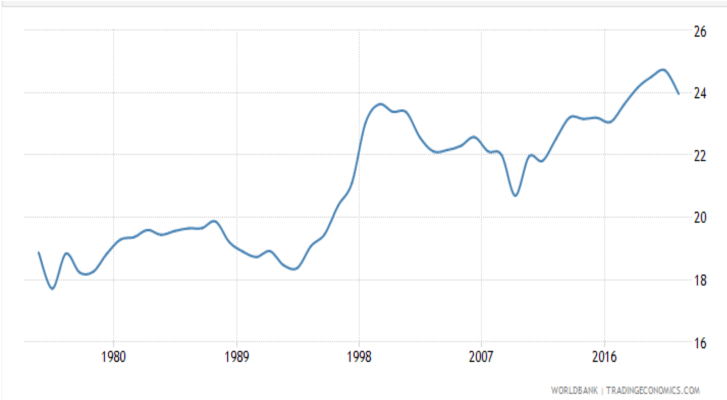
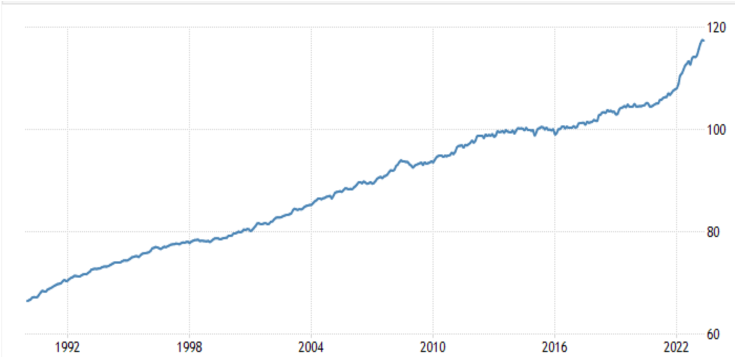
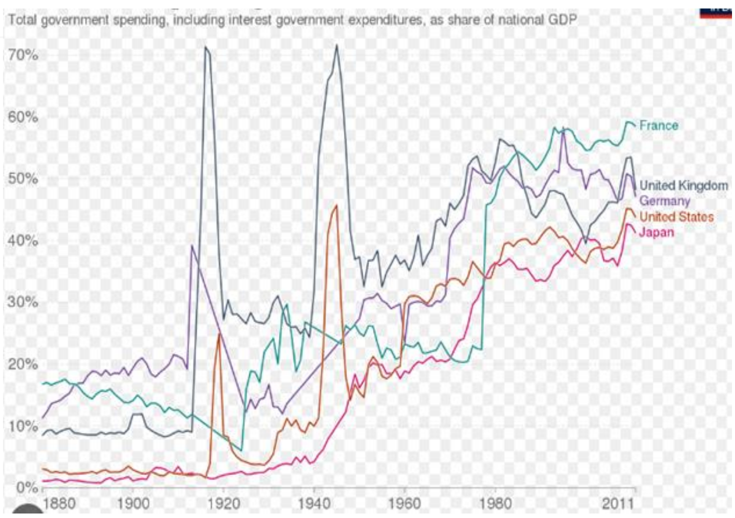
Paris erupted in flames last weekend as angry citizens took out their indignation at Emmanuel Macron's government, supposedly provoked by the police shooting of a teenager at a road block.







But in fact the tension has been building for years and the after-effects of the Ukraine war, which has sent energy and food prices soaring, is arguably the real cause of rioting.....other nations take note, particularly South Africa where citizens have been marching for years and where a similar incident of police brutality is this week playing out in our media concerning the Vice President's Blue Light team putting in the boot to a hapless young motorist!

If you want the real reason for the French crisis, you need look little further than the first graph on the right which depicts how much tax Macron's government collects as a percentage of French GDP. The latest figure, according to the World Bank, was reported at 23.97 percent in 2021: an increase of nearly a third over the past 40 years which has drained spending money out of the average French citizen's pockets.

Next consider my second graph which illustrates what has happened to inflation in France over the past 30 years. In the circumstances, it is not difficult to remember that popular revolutions began in France, signalling the end of the reign of the aristocracy the whole world over. What is being played out in France, in line with steadily-rising global tax rates, is a growing public frustration with Big Government.

My third graph illustrates how government spending soared everywhere over the past century and a half as democracy took over from monarchy. Note too that France has led the way until, arguably, the French people are back where they were when King Louis the 16th was pressing his starving people for even more tax and as a result he precipitated the French Revolution.

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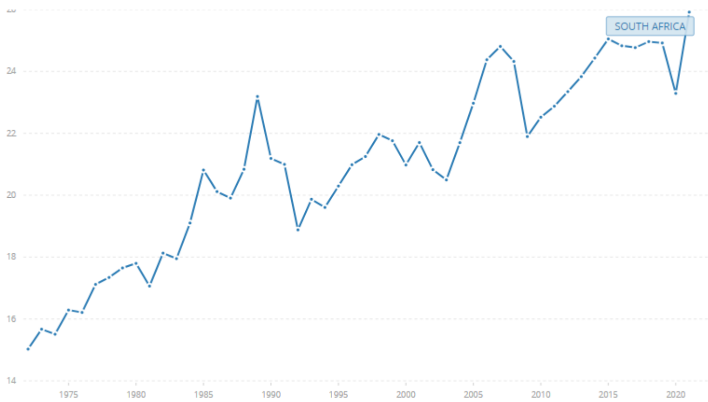
Now, context is everything. If France has a tax problem, South Africa has it in spades. Out of 115 countries with substantial tax data, South Africa ranks as the 8th-most-taxed country in the world, just behind New Zealand and Sweden. And, courtesy of the International Monetary Fund, consider the graph on the right which shows what has happened to taxes in South Africa as a percentage of GDP ... now a far worse 25.9 percent and drawn from an infinitely smaller percentage of the population. Only 5.5-million South Africans make up the tax base and just 17.9 percent of them – or around 980 000 - contribute 52 percent of all taxable income in the country.

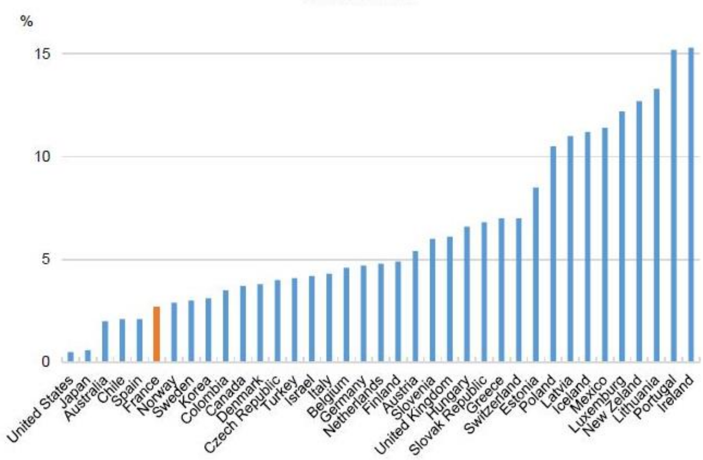


The world average for tax, according to the IMF, is 15.4% in and South African residents pay more taxes than the United Kingdom (25.7%), Australia (22.2%), Brazil (12.7%) and the United States (11.9%).

In numbers that everyone can understand, just 1.6 percent of South Africans sustain the fiscus and, as is regularly reported in the Press, they are fleeing the country in droves. Henley & Partners in its latest Wealth Migration Report for 2023 published last month said SA saw about 400 high-net-worth individuals with assets worth at least US $1m, emigrate in 2022 with a further 500 expected to leave this year. The latest African Wealth Report for 2023 shows that South Africa was home to 37,800 US dollar millionaires at the end of 2022, down from 39,300 recorded at the end of 2021 **– a loss of 1,500 HNWIs**.

To understand how South African emigration has speeded up, note that as recently as 2020, according to the UN Department of Economic and Social Affairs' International Migrant Stock report, a total of 914 901 South Africans were living in other countries and territories, up from 786 554 in 2015. Three times as many people emigrated from South Africa between 2015 and 2020 – over 128,000 people – than between 2010 and 2015 (43,000 people). Tax statistics provided by SARS show that over 32,000 people ended their tax residency in South Africa between 2017 and 2021.

The comparative percentage of French people contributing tax in France is 44 – compared to our 1.6 percent - and they too are emigrating though, relatively, in quite small numbers. Of all OECD countries, France has the sixth lowest emigration rate while South Africa is the world's seventh highest. The graph on the right puts French emigration into perspective:



But back to France and the stability of that government: Before entering politics, former investment banker Macron worked for Rothschild & Cie Banque, the French division of the international Rothschild financial group where he sprang to fame for brokering Nestlé's 2012 blockbuster $12 billion acquisition of Pfizer's baby food division. Macron reportedly earned €2.9 million for his role in the deal. Arguably then, Macron knows a little about economics and, notably, he was the first person in the history of the Fifth Republic to win the presidency without the backing of either the Socialists or the Gaullists, and he was France's youngest head of state since Napoleon I.

Presumably though, he is a socialist at heart because, according to Britannica.com, while still at Rothschild, Macron began working with then president Francois Hollande as the latter campaigned for the Socialist Party's nomination for president ahead of the 2012 election. After Hollande won the presidency, Macron joined his administration as a deputy chief of staff and economic adviser where he became the face of France at international summits, and in 2014 he was elevated to Finance Minister where he promoted a

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package of reforms known as the *loi Macron* ("Macron law") in an effort to spark the moribund French economy, but the legislation triggered a revolt from the left wing of the Socialist Party. As a result, restrictions on conducting business on Sundays were loosened and some professions were deregulated, but the labour market was largely untouched, and France's 35-hour work week remained intact. The *loi Macron* in fact amounted to a relatively modest reform package for a country grappling with persistently high unemployment and slow growth, but it nevertheless sparked a fierce backlash from both the left and the right.

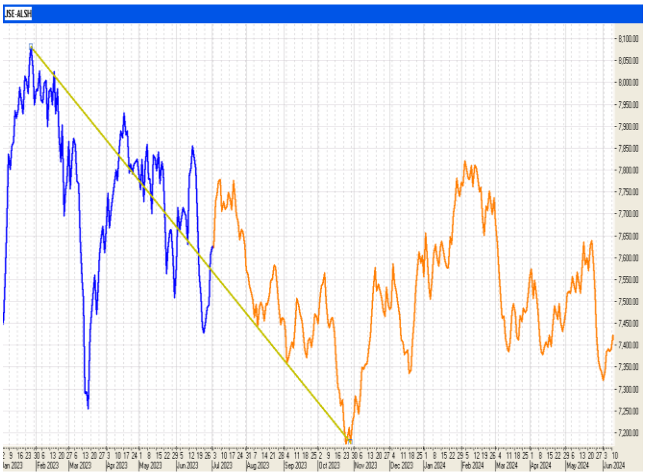
Initially regarded as a political centrist when, in May 2017 he won a convincing two-thirds of the vote to become, at age 39, France's youngest president, but his popularity did not last long. His introduction of a tax plan which benefited France's wealthiest citizens earned him the nickname *président des riches* ("president of the rich"). Next, a proposed fuel tax increase brought about a wave of demonstrations. The protesters, dubbed *gilets jaunes* ("yellow vests") after the bright traffic safety vests they wore, had broad support among the French public, and Macron was forced to withdraw the fuel tax.

Then in June 2022, his centrist coalition lost its majority in the National Assembly and, unable to bring any opposition parties into his coalition, he ultimately found himself presiding over a minority government. Thus, last October Macron was forced to trigger Article 49.3 of the French constitution to pass a budget bill without the approval of the National Assembly.

His popularity took a further dive when, in March, after months of popular protests and strikes, he pushed through a controversial pension reform package that will raise the retirement age from 62 to 64 by 2030.

But perhaps one might gain a better insight into his personality by also noting that he is also under fire this week for partying with Elton John as riots raged across France. Macron was pictured dancing along at the singer's farewell tour performance the day after a 17-year-old of North African descent was killed by French police. An Instagram picture posted by Elton John's husband, David Furnish, of the couple arm-in-arm with a smiling Macron and his wife, Brigitte Marie-Claude Macron, was later taken down — but not before people had made a slew of negative comments.

Nevertheless, despite its shaky political stability, the French economy has enjoyed respectable growth judging by the behaviour of its stock exchange. My next graph traces the performance of the Cac 40 index during Macron's presidency, rising at compound a 7.7 percent throughout. Like the rest of the world's share markets it turned negative in April. Unlike other major markets, however, ShareFinder's projection in red on the right of the graph suggests that it is likely to continue falling at a scary 13.5 percent compound until the end of the year.



In contrast, South Africa is actually doing worse than that. Our JSE All Share Index has been falling since late January at compound a 14.5 percent but at least here ShareFinder predicts a turnaround in late October as my final graph illustrates:

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So what does this week still offer investors? Markets today will turn their attention to the US Federal Reserve minutes of the last monetary policy meeting which, along with statistics about jobs, numbers will provide guidance about the likelihood of further interest rate hikes. According to The Wall Street Journal, markets are expecting nonfarm payrolls to have risen by 240,000 in June, from a rise of 339,000 in May: a positive trend which is likely to ripple throughout a cash-strapped world and have a material effect upon issues like the social tension in France......and South Africa!

But, out in the developed world generally the issues are somewhat removed from bread and butter. Thus it was interesting to pick this quote in Fortune Magazine from Brando Benifei, an Italian social-democrat, member of the European Parliament, and co-Rapporteur" of the bloc's A.I. regulation and growing public concerns that it poses a risk of human extinction.

"The real problems of today of people are other than eradication of civilization. We don't appreciate this debate [on A.I.'s existential threat] if it distracts from the real debate of what consumers are facing in real life. Reality is about what happens today, not apocalyptic scenarios."

The month ahead:

New York's SP500: I correctly predicted continued gains and now thereafter expect losses until early September.

Nasdaq: The retraction I expected was delayed and, though I expect increased volatility now, could continue to the 14th after which I expect modest declines until the first week of September.

London's Footsie: I correctly predicted of declines which should begin now and last amid considerable volatility until late July when a fortnight of gains should precede another sharp loss. From September I expect gains.

France's Cac 40: I correctly predicted a short recovery which I hoped would last until the end of July within a longer-term declining trend set to last well into the New Year.

Hong Kong's Hangsen: I correctly predicted the start of a recovery which appears likely to last until late November.

Japan's Nikkei: I correctly predicted a very volatile upward trend until the end of August followed by a volatile sideways stance so that year-end is likely to barely surpass the coming August peak.

Australia's All Ordinaries: I correctly predicted a brief recovery within an overall declining trend likely to last until the end of October with a sharp decline from July 26 to the first week of August and then a fortnight of gains before the next plunge to the end of October.

JSE Top 40 Index: I correctly called a continuation of the volatile down trend likely to continue until the end of October.

ShareFinder JSE Blue Chip Index: I correctly predicted a brief bounce lasting until the end of this month followed by a volatile slightly declining trend to the second week of September ahead of protracted gains until late February.

Rand/Dollar: I correctly warned of short-term weakness until the end of July. But I still see a long-term recovery until mid-November.

Rand/Euro: I correctly predicted a gain within an overall weakening trend until the end of July before a long-term recovery gets under way lasting until March.

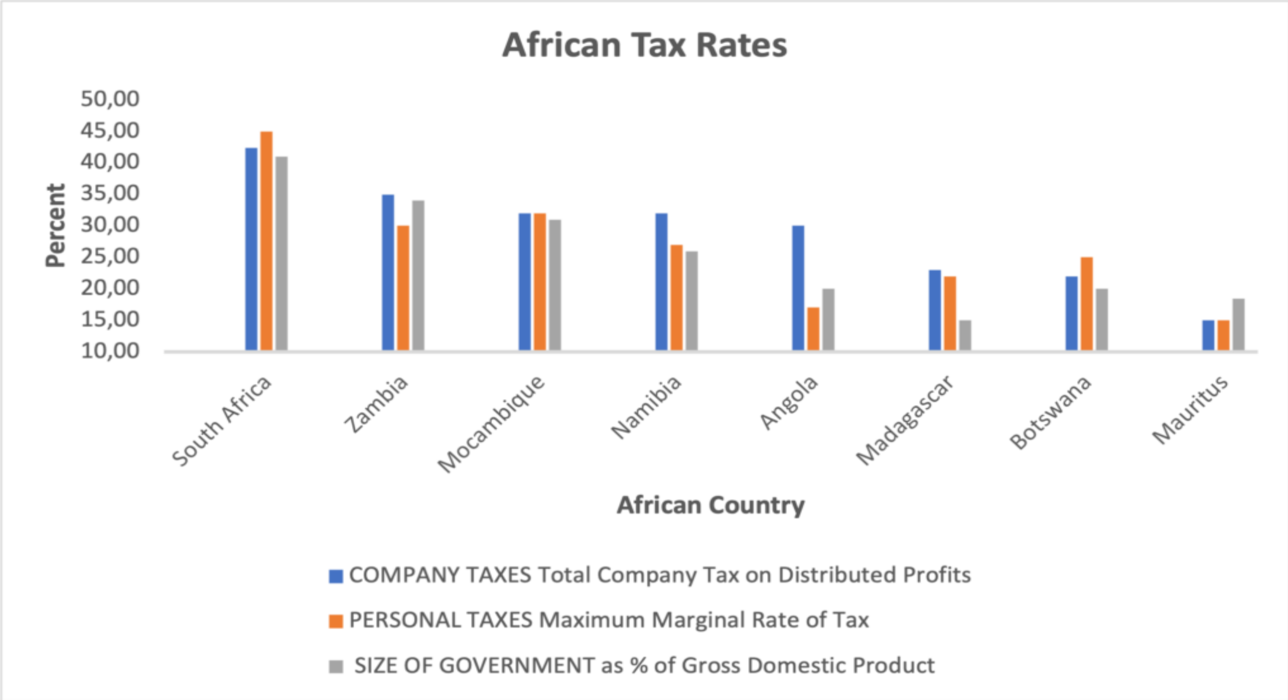
The Predicts accuracy rate on a running average basis since January 2001 has been 86.94 percent. For the past 12 months it has been 92.21 percent.

Are South Africans the highest taxed in Africa?

By Dr BC Benfield*

If the ANC government wishes to retain the last few remaining local and foreign employers left in South Africa, let alone attract new ones, it is going to have to bring corporate and personal taxation in line with the rest of Africa, if not with the world.

African Rates of Tax:



Source: IMF & World Bank 2021: Approximates

Additional Taxes Paid by South Africans:

In addition to the above, South Africans pay many further direct and indirect taxes. Examples include excise duties on the purchase of everyday items like:

- Wine: 11%
- Beer: 23%
- Whiskey: 36%
- Cigarettes: 52%
- Petrol: 68% (i.e. R68 of every R100 spent on fuel goes to tax!)
-

Over and above these charges, South Africans pay a further 15% VAT on most of the above items.

Then there are taxes on wealth and assets, including:

- Buying Property: Taxes slide up to 13% on purchases from R10m
- Municipal Property Rates: R822,00 per R100,000 value in Johannesburg
- Capital Gains: Applied at punitive rates to sales of assets by Individuals (18%) and Companies (22,4%)
- Double taxation on basic services: In many instances there is effectively another 100% tax for persons to establish and maintain or to supplement the provision of services that the state and

municipalities are expected to supply from taxes already paid. These include electricity, water, refuse removal, sewerage services, healthcare, security and education, either not provided at all, or provided at unacceptably low standards.

- Estate duty: On death, a further 20% of your assets above R3,5m goes to government.

Driving away Business:

One cannot seriously expect to attract and build desperately needed employment opportunities when South Africa has one of the highest company tax rates in Africa at 42,4% (28% + 20% on dividends). What hope do we have when our neighbours like Botswana levy only 20% and Mauritius just 15%?

There are at least seven countries in the world where company taxation is zero. How do we possibly compete with them? There are another 15 countries where total company taxation is less than 15%. Many more have corporate tax rates of less than 30%. The overall global company tax rate average is less than 24%.

Is South Africa where foreign or even local businesses would want their company to be an employer?

Driving away Skills:

Apart from one of the highest rates of company taxation, South Africa also boasts one of the highest rates of personal income tax in the world. At a maximum marginal rate of 45% (payable on earnings from a paltry US$115,000 pa.) it is the second highest in Africa after Cote d'Ivoire. Every other African country has a lower rate of personal tax. How do we intend to compete with African tax rates that average two thirds of ours, and with several very much lower than ours?

As mentioned, one should not forget that a further 15% VAT is paid almost every time a South African employee spends hard-earned, after-tax income.

Having to pay twice for the same basic services of security, policing, schooling, health care, stable water and electricity supplies and the like, makes South Africa an ever less attractive jurisdiction.

This distinct lack of appeal as a place of residence, employment or investment, is made yet more unattractive through crime and the incessant threats of further state confiscation of assets without compensation, property already paid for with declining after-tax earnings.

Burgeoning Size of South African Government:

The South Africa government has been repeatedly warned by leading economists, including those at the International Monetary Fund (IMF) and World Bank, that as a percentage of the national economy the size of its government is far too big. In the current 2020/21 tax year, National Treasury has estimated total government expenditure could rocket up to 41% of Gross Domestic Product (GDP). This is almost 60% bigger than it was in the year 2000 when it was just 25,9% of GDP.

The World Bank and IMF statistics show that our neighbouring countries have much smaller governments than ours, thus placing far less burden on the productive sectors of their economies.

Compared to South Africa's 41% of GDP, the chart above shows that the relative size of our neighbouring governments is positively minor.

We are grossly out of line with our fellow African neighbours, let alone the rest of the world.

To overcome the triple scourge of poverty, unemployment and inequality in South Africa, the ANC government might begin by eliminating the excessive rates at which it taxes its private and corporate citizens. At the very least it might seek to match some of the highest tax rates in the world with the provision of equivalent world-class state services. The latter is impossible given the absence of state capacity; the former is possible but demands commitment and discipline from a government whose people have apparently long abandoned any genuine desire to uplift and care for their people.

- **Dr B C Benfield, Retired Professor, Department of Economics, University of the Witwatersrand.**

