



Finance Minister Enoch Godongwana’s mid-term budget this week did not mince words. South Africa is in deep financial trouble.

Well we all knew that already didn’t we. But though we listened carefully for words of reassurance, that this time the ANC Government has a plan to re-ignite growth, create jobs and roll back debt, all we got was more of the same and our debt is scheduled to rise to a catastrophic 77.7 percent of GDP.

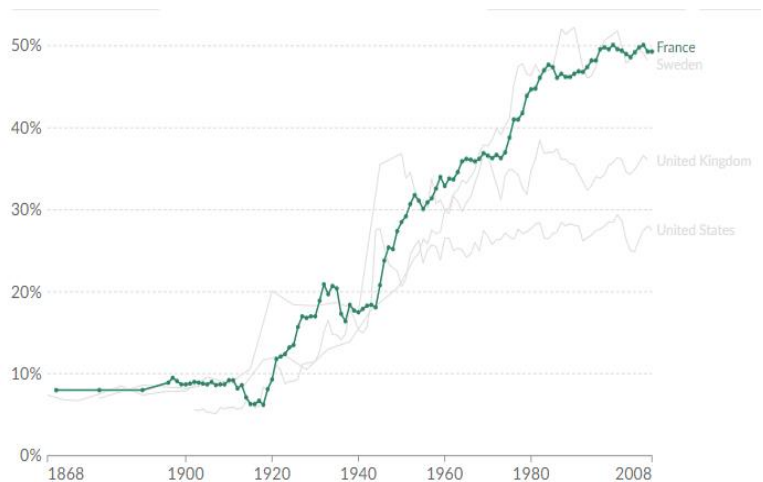
Clearly the ANC has no plan and perhaps the only comfort is that we are not alone. Governments everywhere have been spending money they don’t have and so the whole world is in trouble and voters everywhere are demanding change.

Arguably, never in history has mankind been so deeply in debt and the inescapable conclusion is that we need to change the way we govern ourselves. Right across Planet Earth governments have been sucking up an overwhelming proportion of ordinary folks’ earnings while, because of rising debt-servicing costs, simultaneously delivering less and less in return to their citizens.

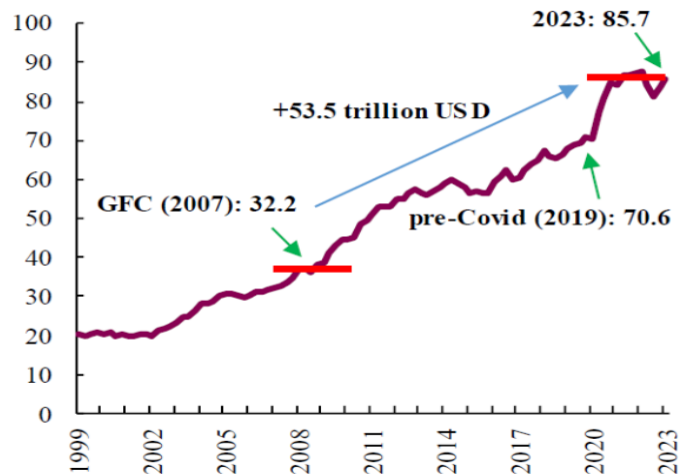
Thus, my first graph on the right, produced by the authoritative OurWorld Data, illustrates a global picture of how a centuries-old taxation norm of a less than ten percent of income, began soaring from the 1920s. Between then and the 1970s the sums extracted by governments worldwide from their citizenry rose more than four-fold until the average tax-payer was contributing close to 45 percent of his income to governments.

That was when governments began discovering that people who feel excessively taxed naturally fight back: they opt to work shorter hours, lie in their tax returns and, in the worst case scenario, emigrate taking their rare skills with them with the practical effect that further tax increases actually result in less income for the fiscus.

Governments have, however, never learned how to reduce their spending and accordingly, as my second graph illustrates, they have for the past half century instead resorted to borrowing: to such an extent that global debt levels have risen four-fold and are now completely unsustainable.

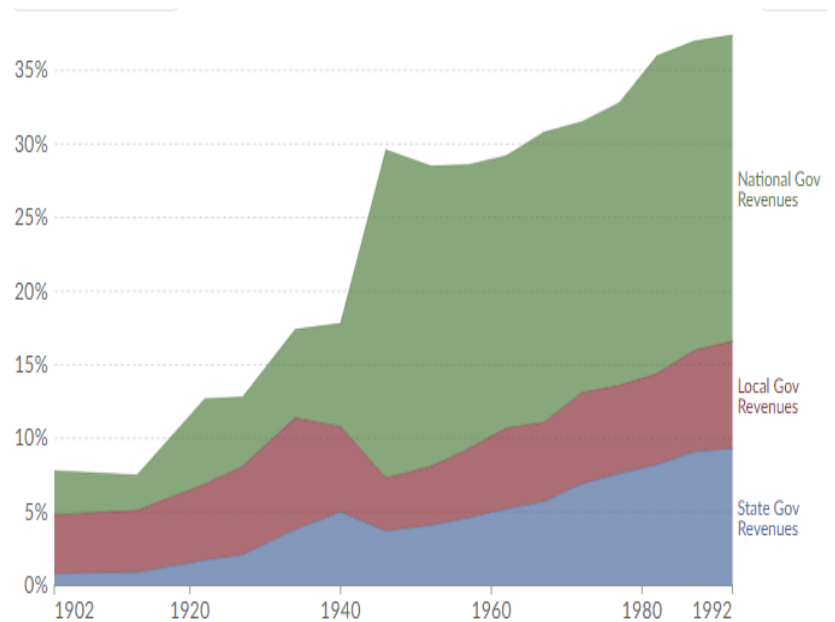


Global Total Government Debt
 (trillion USD, end of period)



Source: Institute of International Finance, QNB Economics

That is why, for example, the past 30 years has seen central banks trying to accommodate governments by printing money at a greater rate than global GDP has grown: to force down interest rates and make borrowing costs more affordable. So runaway inflation has been the inevitable consequence and interest rates are thus soaring and imposing hidden taxes on everyone. My third graph, using the USA as an example of how much governments are sucking out of the pockets of their taxpayers, indicates the resultant five-fold increase of government spending over the past 120 years.....and that is before one considers the effects on private debt: on mortgages and HP debt!



Governments are by definition the most inefficient means mankind has ever found to spend the fruits of individual labour. As governments have increasingly tried to fulfill the role of essential-service-provider to the masses, just ask yourself in which country of the world would you willingly choose to send your children to a government school if you could afford an alternative: or in which country would you choose to use the national health system?

In countries like South Africa, would you choose the post office to deliver a valuable parcel and are you confident enough in state-supplied utilities like electricity and water not to have some sort of back-up power supply and reserves of bottled water in your pantry...things you would take for granted if private sector companies were competing to offer you the same services? And that is before I even cite sewerage!

I raise all of these things because I sense that revolt is in the air everywhere. In KZN for example, twelve ratepayers' associations have gone to court demanding the right to withhold their rates in instances where the municipality is perceived to be failing in its delivery. Furthermore, the visible evidence of the state's inability to maintain a power supply system which was once rated the world's best, together with the collapse of the rail network has had the result that South Africa's biggest growth industries are currently those providing solar panels to private consumers and those trucking goods the railways no longer can.

Most people imagine that change is impossible – that you cannot fight government - so forgive me if this week I embark on a brief history lesson to illustrate the reality that throughout recorded history leadership has **ALWAYS** with time become oppressive and mankind has eventually **ALWAYS** revolted.

I will start with the intolerable labour conditions in ancient Egypt which led to the creation, forgive me for saying this, of the first ever trade-union: the Jewish religion which arguably began as nothing more than enslaved workers banding together against oppressive employers - and the consequent flight of the 'Children of Israel' in search of a new home where they could be free of their oppressors.

And if you think that Christianity in turn began as a religion, you effectively ignore the fact that those same Jewish refugees a few centuries later allowed their priesthood, in co-operation with the Roman administration, to institute a brutally oppressive rules-bound nanny state. Thus the initial popularity of a somewhat obscure prophet named Jesus ben David was reportedly less his ability to perform miracles and more the hope that he could lead the escape of ordinary folk from levels of oppression not much different from those they formerly endured in Egypt.

Rome in its turn eventually collapsed because of the growing greed of its leaders which led it to cheat its population by the hidden taxation of adulterating the silver Denarius with less noble metals: such that by 265 AD the once pure-silver Denarius had been reduced to just 0.5 percent. By then it was made of bronze with only a thin coating of silver. This was probably mankind's first experience of explosive inflation which arises from abuse of the monetary system and it, just as inevitably, led to public mistrust of the secular Caesars who by then had begun to believe God had given them the right to rule.

I will pass over the sacking of Rome by the Barbarians which soon followed....because the attackers were arguably welcomed by the ordinary Roman populace. Sufficient to note that after this Roman rule passed to the Roman Catholic church which began well with high moral principles, but as soon as it had instated effective world government - which included both policing and taxing powers over the whole of the then "Known World" - arrogance and greed inevitably overcame its leaders.

With history again repeating itself as the church grew in wealth and power, a restive public once again perceived itself being taxed out of existence and it was but a short step from there until major rebellion broke out in mediaeval England in 1381 against the imposition of yet another tax. Though the youthful King Richard 2nd was able to intercede to placate the rebel leader Will Tyler by curbing the extravagances of his court and the cripplingly-expensive almost perpetual state of war against France, the writing was already on the wall.

So, at a time when, like all the previous possessors of power, the church had begun to believe in the divinity of its priesthood – in short that the leaders of the church were better than the populace as a whole - public resistance led to the rise of oppressors clinging to power by violent means: Thomas Arundel who, in 1399, though enjoying no theological training had appointed himself Archbishop of Canterbury and Chancellor of Britain, believed the answer to rebellion was to tighten the screws (literally).

Arundel, together with the usurper king Henry 4th tried to face growing public opposition by instituting a reign of terror by, for example, making failure to pay the "Tithe" (a ten-percent tax to the church) a heresy punishable by being burnt at the stake. Ordinary citizens were similarly disciplined when they asked for the Bible to be translated into English so that they could understand it, and when they questioned Arundel's introduction of 'Holy Communion' together with the inexplicable new idea of "transubstantiation." which argued that during the institution of communion wine became Christ's blood.

Against this background it is hardly surprising that both Arundel and Henry 4th did not long remain in office. Arundel died of a heart attack in 1410 and Henry 4th went insane. It further explains why Henry 8th enjoyed wide public support when, having been excommunicated by the Pope for marrying Anne Boleyn in 1534, he pushed through the Act of Supremacy – the equivalent of the recent Brexit decision – and appointed himself supreme head of the church.....effectively ending Roman Catholic power in Britain.

Henry V¹¹¹'s daughter 'Bloody Mary' reinstated the Catholic Church in Britain and proceeded to burn Protestants on a scale never before witnessed. During her brief five-year reign, Mary had over 300 religious dissenters burned at the stake in what became known as the Marian persecutions, thereby ensuring that Catholicism never again took over the reins of power in Britain. Mary died in great pain at age 42, the result it is thought of uterine cancer.

Britain's rise to world economic power under Mary's successor Elizabeth 1st was in part explained by the reforms she understood were necessary for it was during her reign that capitalism and democracy effectively began. In return for her enlightened rule, Elizabeth was allowed to occupy the throne of England for 45 years.

And, simultaneously of course, it was the self-same issue of Rome seeking to extract further taxes from the German people which led to the rise of Martin Luther in 1517, the era of Reformation, and the Catholic church ultimately losing its grip on power over most of Europe.

Nowadays we have happily become a little more civilized – at least in the West – and public revolt now takes the less painful route of the ballot box. But the lessons have always been the same: mankind is patently incapable of governing himself and leadership almost inevitably evolves into greedy arrogance which quite soon ceases to recognize the needs of the people.

Thus, once again we stand at a turning point when ordinary folk are voting with their feet against unjust levels of taxation. If, for example, you consider that South Africa's top ten percent income group - those envied people who are believed to live in the leafy suburbs, to holiday annually in exotic overseas resorts and only drive expensive German cars – the truth is that today even they are also struggling to meet every-day living expenses while effectively contributing nearly two thirds of their income to the Government.

You can understand why they are angry, emigrating in droves..... and demanding change!

Despite one of the world's highest levels of taxation, the fact that South Africa's state-run infrastructure is crumbling everywhere is proof that once again government has failed. Furthermore, that a third of the population is unemployed, that an estimated 55 percent (30 million people) are living below the poverty line and 25 percent (almost 14 million people) are experiencing food poverty, it is clear that the ANC government no longer deserves to govern South Africa.

Just how bad that ANC failure is was made plain this week when the Treasury reported on Monday that the budget deficit had soared to R14.6bn in September from R3.3bn a year earlier, taking the gap in the first six months of the fiscal year to R253bn or a year-on-year increase of 54 percent.

We need a new system of government, arguably something like an electronic version of the Swiss system of law-making by referendum, not just here, but everywhere! As a class, politicians have once again demonstrated their inability to govern!

The month ahead:

New York's SP500: I correctly predicted a recovery to late February. But watch out for another dip from November 13 and a much deeper dip in early January.

Nasdaq: Ditto the Nasdaq where I correctly foresaw the start of an up-surge which I expect to last until the 10th of November followed by a retreat until December and then surge again to the end of January.

London's Footsie: I correctly predicted continued declines until the end of November with a brief recovery from November 27 until Christmas ahead of a cruel January.

France's Cac 40: I have so far been correct in predicting an overall decline until the middle of the New Year. Brief relief in mid-December is still the best we can expect.

Hong Kong's Hangsen: I correctly foresaw the start of what I expect to be a recovery until approximately December 8th ahead of a long decline to the end of March.

Japan's Nikkei: I continue to warn of a long-term weakening trend which I expect to last until next June. Within that I am expecting a brief recovery during December.

Australia's All Ordinaries: I have correctly identified Sydney as the one positive market in a bleak international scene with gains beginning early in November and lasting well into the future. But, as I warned last week...watch out for interim weakness from early-January to mid-March.

JSE Top 40 Index: I correctly predicted the start of gains until mid-February followed by fresh weakness until June.

ShareFinder JSE Blue Chip Index: I correctly identified the start of modest gains likely lasting until mid-November followed by declines to mid-January when fresh gains should follow until mid-March within an overall rising trend for most of the New Year.

Rand/Dollar: I correctly predicted the start of long-term gains which I saw lasting until late-November followed by weakness until year-end and then further gains for most of 2024.

Rand/Euro: Ditto the Euro. I correctly predicted the start of a long recovery until early March.

The Predicts accuracy rate on a running average basis since January 2001 has been 87.03 percent. For the past 12 months it has been 90.94 percent.

Why have we lost Trevor Manuel's stellar example of fiscal restraint?

By Tim Cohen

Every time the budget or the 'mini' budget comes around financial journalists get full of anticipation and expectations. When I worked in the newspaper industry, the circulation of the paper would explode on budget days. There were "lock-ups", as there still are.

This is the process whereby journalists get to read the budget documents in a locked room but can't report on the contents until the finance minister starts speaking. The internet is blocked, and mobile phones are held hostage. **The intention is to improve reporting on the budgets so there isn't a mad scramble as soon as the documents are released.**

But increasingly, budgets are getting to be less high-impact news events. Often the treasury hints at bad news before the budget is released because they don't want that aspect of the budget to be the main focus of the reporting.

And so it was this year. **The main bad news was that government tax collection has come up short big time,** something most economists (and financial journalists for that matter) could have guessed anyway because commodity prices have come down and SA has had more load-shedding this year than the past four years put together.

But the actual extent of the under-collection was specified before the budget, so everybody who was even vaguely interested knew there was going to be a thumping great hole in government income. And that of course, throws out all the other numbers and poses the uncomfortable question about what the government is going to do about it.

Complicating the issue are the elections next year, which, if the polls are to be believed, are going to be tough for the ANC. So Finance Minister Enoch Godongwana announced his intention to cut back on expenditure and was promptly attacked pretty viciously by the left in government and outside of it, who warned of the dire consequences of what it calls, inaccurately as it happens, **austerity.** Austerity merely means trying to live without unnecessary expenditure.

Anyway, the fight-back campaign by the left was carried into the cabinet, and Godongwana was apparently told that **he was not allowed to cross three red lines:** reduce the public sector wage increase, scrap the Social Relief of Distress grant, or increase VAT.

So if you can't increase taxes, reduce the size of the public service, or scrap the distress grant, the consequence is obvious: the deficit - the amount government spends beyond its income - goes up, and government debt increases. **The estimate for the 2023/24 budget deficit was revised from 3.9% of GDP in the budget to 4.7%.**

The debt-to-GDP ratio is still set to peak in 2025/26 but at a much higher level of 77.7% as opposed to the 73.5% projected in the budget. Theoretically, it is going to come down much more slowly than before, but I can tell you now, that it will come down in the near future is just bunk.

The problem is that there are a huge number of unfunded government programmes in the works or which have been proposed, including enormous schemes like the National Health Initiative and the Basic Income Grant. On top of that, basically all the SOEs are screaming for

cash, including Transnet, the Post Office, and road agency Sanral. Some departments are also on the brink of cracking, like the SADF.

The problem is that a finance minister's attempts to control the budget depend on support from the president; without that he, or she, can just forget it.

The great irony is that the ANC has been in this exact position before. Shortly after the advent of democracy, Trevor Manuel became Finance Minister, there was an emerging markets crisis in which SA got badly caught. Partly because the of premium on fiscal rectitude was higher then, Manuel argued in favour of consolidating the budget, even in the face of huge **social demands**.

Essentially, Manuel's strategy was one of delayed gratification: Then, as now, debt repayments were the largest single budget item. So what he did, with the support of then-President Thabo Mbeki, was pay down the debt, and with every reduction, the amount government would have to pay out to its lenders every year decreased, and with that, he increased social spending.

The system worked like a charm, until that fateful budget in 2006/07 when for the first time in modern history, there was a positive budget balance. In other words, the government spent less than it took in, and that was achieved mainly by saving on debt repayments. Then the follow year, there was another positive budget balance. Debt at that point was 25% of GDP - peanuts in today's terms. In anyones terms.

But somehow the ANC has lost that foresight and has just become an uncontrollable spending machine. **Instead of driving along in manual (or, um, Manuel), we are now in automatic.**

What became clear today is that President Cyril Ramaphosa had the choice of standing with his finance minister, or going with his spendthrift colleagues worried about losing votes in the election next year. And I am afraid he has come up a bit short on the backbone front and he chose the easy option involving fewer vertebrae.

Happy investing,

Tim Cohen