

NEWSLETTER

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**ECONOMIC COMMENTARY - By Francois Stofberg****An attack on Efficiency**

In local news, the governor of the South Africa Reserve Bank (SARB), Lesetja Kganyago, is fighting back against the public protectors unjust and unqualified comments against the Bank's mandate. In his appeal to the high court, against the protector's binding arguments, he once again attempted to explain the basic working of monetary economics. That is, that the Bank's mandate to protect our currency, i.e. keep prices stable, is what creates the environment that allows sustainable, balanced, economic growth.

Her suggestion to change the SARB's mandate, to focus solely on economic growth, will most likely lead to unstable, volatile prices which prevent sustained, balanced growth. She should rather stick to her tasks and realm of expertise; cracking down on corruption, state-capture, and the misuse of government finances (Nkandla, Eskom, SAA). This will do a lot more to grow our economy than attempting to "fix" those few mandates that are working.

The governor also explained that the damage to our economy, caused by the protector's comments, will continue until her suggestions are recalled. On the day of her announcement alone, the rand lost 2% of its value and R1.3 bn of short-term capital flowed out of South Africa.

In international news, Google is facing the largest antitrust fine issued by the European Union (EU), to date. The \$2.7 bn fine is roughly 9% of the operating profit Google declared in 2016, just shy of the EU's 10% benchmark. As an economist and supporter of free markets (with a bit of regulation to keep the crooks out), these types of fines make no sense. In our view, this fine is simply an attack on Google's efficiency, productivity, and business savvy that has allowed them to captivate 90% of Europe's internet searches. The EU, however, believe that they are protecting the interest of everyone against Google's unfair advantage. The funny thing is, however, that the services everyone receives from Google, like Google Search, Google Scholar, and Youtube, are free. So, what are we being protected against?

What makes the EU even more unhappy is that Google gives favour to their own shopping services when searches are made on their software. This is also quite silly if you walk into a BMW dealership, does the salesman not promote BMWs? Why then can't Google promote their businesses if you use their software?

Unfortunately, this isn't where it will stop for Google. The EU's next bizarre target is against Android, Google's mobile operating system. The EU feels that Android's software is too superior, and therefore prevents sufficient competition, which in certain instances lead to lower prices for consumers. But, everyone knows it isn't the operating system that makes your phone, or using it, expensive - it's the often-absurd costs of mobile operators (like MTN, Vodacom and Cell-C in SA's).

Although being good at something is usually rewarded, being too good, it seems, is penalised.