

SA Budget 2012: Urgency and partnerships in an uncertain time

On Wednesday the 22nd of February the South African Minister of Finance Pravin Gordhan tabled his second budget. He and his team have been tasked with guiding the South African economy at a particularly challenging time. There may have been more difficult times in democratic South Africa: the initial post-1994 financial consolidation, as well as the crises of 1998 and 2001 come to mind, but arguably we have not had such a sustained period of fundamental uncertainty about the health of the global economy and the attendant fortunes of the South African economy.

South Africa has successfully and admirably initiated a medium-term expenditure framework (MTEF) which guides budgetary debates and allocations over a three-year medium-term period. The latter two years (so currently 2013/14 and 2014/15) are usually referred to as ‘outer years’. The framework has served us well, adding much-needed predictability and therefore stability to government and business planning horizons and reducing speculation. It has also facilitated non-government participation in the budget. But we should not let the allure of the seeming concreteness of these outer year numbers blind us to the major risk of this system, namely that it allows us to postpone difficult reckonings too long by assuming that things will get better, and that growth will recover.

Take as an example real GDP growth for the current fiscal year, 2011/12. These are the various estimates made for this growth since a figure was first published, in the 2009 MTBPS:

Table 1: 2011/12 Real GDP Growth: Forecast Changes since the 2009 MTBPS

	2009 MTBPS	2010 Budget	2010 MTBPS	2011 Budget	2011 MTBPS	2012 Budget (Estimate)
Real GDP Growth 2011/12	4.1 %	3.4 %	3.6%	3.6%	2.8%	2.7%

In essence, what is happening is that in a very uncertain time the ‘resumption of normal growth’ assumption is being posited two or three years into the future each year, giving outer year estimates which may well turn out to be too optimistic for the period from now until the end of fiscal year 2014/15.

The pattern has become fairly familiar in South Africa’s post-recession budgets, and indeed it is fair now to speak of a pattern. In not one case since the 2009 Budget were the outer year growth forecasts less than the then current year, and Table 1 above has given a fairly representative sense of how these have had to be downgraded closer to the time.

Table 2: Real GDP Growth Initial Forecasts for Medium-Term

	Pending Year (i.e. 2009/10 for Budget 2009)	Outer Year 1	Outer Year 2
Budget 2009	1.4%	3.4%	4.1%
Budget 2010	2.9%	3.4%	3.6%
Budget 2011	3.6%	4.2%	4.4%
Budget 2012	3.0%	3.8%	4.3%

Growth resumption of course means tax revenue resumption as well, and we have seen a similar dynamic in the case of tax revenue estimates over this period. Indeed, deficit outcomes would have been larger than budgeted for in some recent instances had departmental under spending not provided an inadvertent correction to poorer than anticipated revenue performance.

This tendency is not unique to South Africa: despite the potentially very bleak scenarios sketched out in the World Bank’s Global Economic Prospects 2012, outer year growth forecasts are still premised on a return to ‘business as usual.’ It should also be noted that this is not a problem of modelling capacity: put bluntly, the mathematical-economic models which are available to the authorities and private sector economists have no really reliable means of modelling either global political risk as citizens respond in different ways to their changing social and economic circumstances, nor have they adequately integrated the economic impact of escalating natural resource depletion and the potential breaching of environmental ‘tipping points’ into their assumptions. The 2012 Budget assumes that we are still located within the logic of the familiar business cycle. It is just, in this argument, that the recovery is taking longer than had been hoped for.



Should we not get the growth which this budget assumes, and if tax revenue recovery remains poor, South Africa will face a set of difficult but not insurmountable or destructive choices. Quite simply, in such a situation, call it the ‘austerity scenario’, the following options or a combination of them must be utilised:

- Retain large deficits
- Broaden tax base and/or raise tax rates
- Cut / plateau spending in real terms

Larger deficits of course mean higher debt servicing, crowding out other spending, and would nudge us closer towards perceptions that South African debt is not ‘sustainable’. As it is, even if things go well, debt stock will plateau at around 40% of GDP. South Africa knows, from past experience, how unfair country perceptions around debt can be. Like it or not, then, much more debt escalation is not a feasible option.

New taxes, such as the carbon tax, will be used, and could be effective, in getting producers and consumers to alter their behaviour for the better, but it is doubtful that the fiscal implications will be of a needed scale. Tax rates can be raised but of course private business and consumer demand is central to recovery and to job growth and higher rates risk choking these.

Lastly, there is the option of cutting or ‘plateauing’ real spending, that is spending adjusted for inflation. Nominally, that is in money-terms, departments would receive larger allocations, but not in purchasing power terms. There is already a hint of a preference for this option: over the MTEF, real non-interest government expenditure increases by an average annual real rate of less than 3%, in other words at a slower rate than the anticipated rate of growth of the economy. Government spending as a share of GDP, in other words, is set to decline slightly over this time, and must do so whether the rest of the economy recovers or not. Counter-cyclicality cannot be sustained indefinitely.

Even if these growth assumptions and the tax, spending and debt implications which result from them turn out to be too optimistic, the South African economy, and the South African fiscus, will remain comparatively well-resourced. As the Minister pointed out, the 2011/12 budget breached the R 1 trillion Rand mark. He can perhaps be forgiven for not mentioning that the debt stock will in all likelihood also breach the R 1 trillion mark by 2015. Regardless, command of these resources makes a lot possible, and a lot more than is currently the case, if better value for money is achieved.

In this regard, one of the key requirements will be a new sense of urgency within both government and its partners in business and civil society. This urgency should emanate from a real sense that the clock is ticking if we are to



achieve the goals we have set ourselves, be these the goals set out in the New Growth Plan or the National Development Plan. Notwithstanding the net jobs created in 2011, the South African economy has not to date shown the kinds of innovation and small- and medium-scale entrepreneurship which are required if we are to eliminate poverty as the Development Plan envisages.

The budget can and must play a decisive role in redistributionary social spending and social grants, but large-scale structural change of South Africa requires jobs. We know this, we continually reaffirm it, but it is not clear that we actually know how to go about it. A single example: the costs of ICT services in South Africa remain unacceptably high for businesses and households, and yet we see little decisive progress in addressing it.

Similarly, we know that youth unemployment is a crisis, and a potential time bomb. Yet concrete proposals such as the youth wage subsidy scheme appear to be stalled in partnership debates which drag on. Urgency in the face of the coming challenges also requires pragmatism, and a willingness to be flexible in trying out options, retaining what works, discarding what doesn't.

Urgency also requires that we address the asymmetry in many government departments where we have too many high-salaried policy and managerial staff and not enough administrators and implementers, be they teachers, nurses and clerks. Asymmetric departments will overemphasise policy development and underemphasise the need to roll up one's sleeves and 'do the work' on site.

It need hardly be said that public sector wage increase restraint is essential now: we have had counter-cyclical fiscal policy, yes, and it has been and continues to be necessary. But, as the Budget Review argues, the composition of this partly debt-financed spending is not optimal: more public sector capital formation, less reports, reviews and recommendations are needed. Public salary adjustments have consistently outpaced inflation and this needs to end. Departments also need to ensure that they are outward-looking, to society and its needs, rather than inward-looking to their own processes.

Urgency requires a continued emphasis on eliminating waste and corruption, as indeed the Minister emphasised. Regrettably, there was very little emphasis on the role of Parliament and Provincial Legislatures in supporting this work. This is particularly disappointing given the three years that have elapsed now since the passing of the Money Bills Amendment Act, which formally enabled more robust oversight on the part of legislatures. On the other hand, the slow progress in establishing the Budget Office required by this Act suggest that much work needs to be done within legislatures if they are to take on this Constitutionally assigned role meaningfully.



Following on the focus of the 2012 State of the Nation address, the emphasis on infrastructure in the Finance Minister's Speech was not surprising. It is of course also not new. There are not really any new, radical solutions to old problems available to policy makers or to society for that matter: building the productive capacity of the economy, investing in people through health and education, and providing basic services and income to those who can't afford to pay for them are the key components of any modern budget.

Budgeting in a democracy means social and economic needs must be balanced, as must the needs of the present compared to those of the future. Debates need to take place about the relative priority of these factors, and speeches may emphasise one or the other in the rhetoric that derives from the numbers. But the fact is that infrastructure commitments, though needed, are not the long-awaited silver bullet for job creation. Nor are the currently emphasised infrastructural commitments 'new': they are a re-articulation of a long-standing commitment to public and private capital formation that has only partly been realised in practice. Emphasising the need for better performance on infrastructural budgets is not new either, but remains a challenge, as the Minister pointed out in mentioning capital budget underspending.

All infrastructure is not equal, either, and the additional emphasis on special economic zones will have to be watched carefully to see if they bear the needed fruit. More than ever perhaps the trick will be in getting the balance right between roads, hospitals, schools, ports and so on. Adequate support is also necessary to ensure that effective participation in infrastructural bidding processes is equitably distributed. The recent intervention in the financial management of Limpopo suggests a National Treasury that is determined to do what it takes. Establishing the position of a Procurement Officer seems to be a step in a similar direction and may be an effective one.

In a highly constrained environment, Budget 2012 presents a familiar emphasis on jobs and growth and implicitly assumes, in its outer year figures that recovery is on the horizon. It emphasises infrastructural spending as a means of job creation, recovery as well as fiscal policy counter-cyclicality. Harder adjustment may be needed if global recovery stalls significantly, as may well be the case. The Budget is of course only a plan, and more urgency and more effective partnerships and more robust oversight are probably the decisive factors in determining whether this budget has the desired developmental impact or not.

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