Response
February 21st, 2019

2019 Budget

Last year's Budget speech recognized that government had dug the economy into a large hole as a result of years of mismanagement, corruption and free-spending; and that it was time to stop digging. Not long after delivering the speech the then Finance Minister, Malusi Gigaba, was transferred to the Home Affairs portfolio and replaced by Nhlanhla Nene – a safe pair of hands from the Trevor Manuel/Pravin Gordhan school of finance ministers.

Unfortunately, last October Mr Nene admitted to the Zondo Commission of Enquiry into State Capture that he had had a rather closer relationship with the Gupta brothers than he had previously claimed, and – honourably – he resigned. This led to the appointment of Tito Mboweni as the third finance minister in the space of eight months – hardly a recipe for the kind of steady consolidation needed to start us climbing out of the hole.

And yet, despite this difficult background, Mr Mboweni's speech yesterday actually showed that there has been significant progress. Certainly, the numbers are still quite horrific: our national debt is now approaching 60% of our GDP, as opposed to the very manageable 26% of GDP that it was in 2008. This year we will pay 209 billion Rands in interest on this debt, roughly one billion Rands every working day. This is more than we spend on any other budget item. Economic growth remains negligibly low, and indeed the latest projections are lower than they were in October when Mr Mboweni delivered the Medium Term Budget Policy Statement. Unemployment remains, for practical purposes, at 40%. And government will still spend *a quarter of a trillion rands more* than it earns from tax this year.

But, perhaps paradoxically, the numbers are not the most crucial thing when assessing this Budget. They tend to change anyway, and no one seriously believes that 25 000 new jobs will be created in this or that industry, or that the tax collection and state expenditure targets will be met to within a few billion Rands either way.

What is much more important for a country in economic crisis, as we are, is the attitude and approach displayed by the finance minister and the government s/he represents. And this is where the speech set a new and encouraging tone. In a similar vein to the SONA of two weeks ago, it gave the impression that the government is getting ready to take the hard, and potentially unpopular, decisions without which we will not emerge from the hole.

Six points in particular underpin this impression:

- Firstly, there was a tougher line than before on State Owned Enterprises. Those that need bail-outs may still get them, but government will impose 'chief restructuring officers' on them. Significantly, Mr Mboweni compared this to what happens in the private sector when a

company is mismanaged into helplessness – the banks “send in their own people”. To the SOEs, government is the bank, and it is good that Mr Mboweni and the Minister of Public Enterprises, Mr Gordhan, are planning to take them more firmly in hand. Much will depend, though, on who these restructuring officers are, and what powers they are given.
It was also very significant to hear Mr Moboweni ask the question: “Do we need all these SOEs?” Even more so to hear him say, almost as an aside, that strategic equity partners would be sought for some of them. That is another way of saying that they need an injection of private capital; and that, in turn, is an admission that partial privatisations, or public/private partnerships, are on the cards.

- Secondly, he stated bluntly that the state’s wage bill is unsustainable. For many years only the government sector has consistently employed more and more people; and it has done so while awarding generally high annual pay increases. This is by no means a wholly bad thing – it aids social stability and allows people to start climbing the economic ladder – but it can end up costing too much; taking more out of the economy than it puts in. That is where we are now, and it is good that it is being recognised. The planned remedy, largely a matter of offering early retirement packages, seems a little timid, but it is a start.

- Thirdly, Mr Mboweni announced various measures within SARS aimed at improving tax collection. The last thing that Mr Zuma’s crooked cronies wanted was a tough, efficient, probing revenue service, and we know from the Nugent Commission of Enquiry how SARS was eviscerated during his administration. Heaven knows how much revenue was lost to the fiscus in those years, but now its key Large Business Unit is to be resurrected, and a new unit focusing on the illicit economy – read cigarettes – is being set up. A new Commissioner will be announced within weeks – as important an appointment as that of the new head of the National Prosecuting Authority. If SARS and the NPA can learn to work together again, the crooks will have a much more difficult task hiding their loot.

- Fourthly, he attacked the culture of non-payment. This is a problem at community level, where people feel entitled to consume water and electricity without paying, but it is far more serious within government itself. The biggest debtors to municipalities are provincial and national government departments; and municipalities are the biggest defaulters when it comes to paying Eskom and the water boards. A change of attitude towards a culture of payment efficiency in government would go a long way to easing the cash-flow problems that bedevil the service-delivery sector.

- Fifthly, Mr Mboweni spoke – albeit very briefly – about some important corrections of policy mistakes. Noting that “narrow nationalism leads to stagnation” he announced an intention to attract scarce skills and talents from abroad. He also recognised the need to cut red tape so as to free up entrepreneurship. He acknowledged the harm done to tourism by an overly restrictive visa regime. And he even mentioned the need to “build up” rather than continuing to build horizontally in response to urbanisation. If this implies the need for urban densification, with associated public transport infrastructure and development of amenities – as opposed to the endless horizontal proliferation of ranks of identical RDP houses – it will be a welcome development.

- Finally, he announced that there will be no pay increases this year for ministers, MPs and members of provincial legislatures. A symbolic gesture, to be sure, but an important one, especially when the season for public sector wage talks rolls around. The next opportunity in this regard will come after the election, when President Ramaphosa appoints his cabinet – a marked reduction in the number of ministers and deputy-ministers will reinforce Mr Mboweni’s message.

We are still in the hole, and getting out if it will still be an immense challenge. But it seems the government is no longer in denial about it; it is beginning to come up with sensible, goal-directed and coherent approaches to the problems. If it perseveres, and if it ignores the various vested interests that will object to the strictures and innovations in this Budget, we ought to be in a more fiscally confident and economically secure position this time next year.

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