RESPONSE

February 26, 2014

The Budget

Mr Gordhan has had a difficult time overseeing the budget process. He has been at the helm of the economy during the worst economic storm in recent memory. The closely interconnected nature of the modern world economy has meant that the effects of the massive US housing meltdown and the EU crisis have been felt very directly by the local economy. This is exacerbated by South Africa's dependence on foreign currency to support local spending – the infamous current account deficit.

The budget did not contain any significant surprises, but surprises are neither expected, nor particularly wanted from budget speeches. Given Mr Gordhan's extremely constrained position following the 'Great Recession', and the demands from investors, business and the government's social agenda, there was no room for surprises. Pre-budget speculation about 'triangulating' with the populist agenda of the Economic Freedom Fighters or putting in place an 'election budget' was firmly squashed by the predictable and steady nature of the budget speech, which kept its conservative, balanced approach of reassuring investors, supporting business, and maintaining spending on social agendas.

Mr Gordhan made it very clear that the budget directly supports the National Development Plan, and that it is squarely situated within the context of delivery and implementation. Infrastructure, a cornerstone of the NDP, has received funding to the tune of R825 billion over the next 3 years – a clear signal that the government intends on forging ahead with this plan.

On taxes, Mr Gordhan did not go into great detail. He promised some R9 billion in tax relief among the lower brackets. One valuable initiative on the tax front is the emphasis on hunting down tax evaders, and stemming the flight of currency to tax havens. This trend of the wealthy gaming the system in order to evade their responsibilities is unacceptable, and vigorous action in this problem is to be commended.

In terms of direct social assistance, Mr Gordhan promised minor increases in social grants. It is worth noting that none of these increases are significantly above inflation – state pensioners and people drawing child support grants will be receiving the same or even less in purchasing power. When it comes to direct poverty alleviation via social grants the budget does no more than maintain the status quo.

National Health Insurance has not received significant funds, although it was mentioned, and spending has been allocated to refurbishing hospitals. Pilot NHI programmes continue to be rolled out, but a fully fledged NHI will require significant funding, which was not forthcoming. The Minister did indicate that Treasury will be tabling a funding model soon, but until such a document appears, one cannot expect significant developments on this front.

Indirect support to the unemployed came in the shape of the long awaited and much anticipated youth wage subsidy which has been funded for the first time this year, over much opposition from COSATU. Given the severity of the youth unemployment crisis, Mr Gordhan's statement that the wage subsidy has already been taken up by businesses to the tune of 56 000 posts is splendid news, and extremely encouraging.

Mr Gordhan spoke about 'deep audits' of sectors such as education, which are intended to interrogate whether South Africa is receiving value for money in these areas. This should be watched closely. One of the most fundamental constraints on the South African economy is the lack of an educated populace. Unemployment in South Africa is structural – it is a case of people not having the skills that the economy demands. As a result, the continued failures of our education system shackle our economy and prevent the kind of growth that is needed to reduce poverty in the long term.

Government economic plans generally anticipate or hope for a significant increase in GDP growth. In days gone by, the general figure used was 6% GDP growth. This was seen as the number needed to create significant employment. During the speech, Mr Gordhan spoke of a figure of 5%. It has been a long time since South Africa has generated economic growth at this rate, and without a significant improvement in our economy, we will not see this.

The policymakers at Treasury are clearly aware of this, and have placed emphasis in this budget on the notion of supporting small business, and promoting economic expansion, both within the country, and through improved trade with the rest of Africa. These measures are important, and it must be hoped that they are effective. If they are not, we will never see the hopes of millions of impoverished South Africans realized. There will simply not be enough money. As before, the plan is sound and the map is in place. It is in implementation that we will be tested, and it is past time that South Africa rises to the challenge.

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