



Response

February 23rd, 2018

The 2018 Budget

The first law of holes states that, if you find yourself in one, stop digging. Wednesday's budget speech seems to have been a fairly sincere attempt to do just that.

For years, government has been digging us deeper into a fiscal pit. It has avoided unpopular taxes while maintaining high levels of expenditure, especially on the state itself by way of its vast wage bill and its bloated executive. Mr Zuma's firing of respected finance ministers and his evisceration of SARS and the Treasury weakened the currency, thereby increasing the cost of borrowing; his political irresponsibility, allied to his enabling of corruption, led to one downgrade after another by the ratings agencies. Under him, the ANC looked on while massive state owned enterprises (SOEs) like Eskom and SAA were run into the ground by a succession of incompetent and/or corrupt placemen and women, putting further strain on our public finances and heightening worries about the consequences of having to bail them out with yet more borrowed money.

And up until days before his departure, Mr Zuma was happily digging away: by desperately clinging to the idea of unneeded nuclear power stations; by continuing to appoint ministers whose only qualification was their acceptability to the Guptas; by refusing, until forced by the Courts, to authorise an enquiry into state capture; and by his rash and unilateral promise of free higher education on the eve of the ANC conference last December.

The signals given by Mr Gigaba point to a number of significant changes. He put it as clearly as possible that nuclear power is no longer being contemplated. He reiterated Mr Ramaphosa's promise of an enquiry into governance concerns at SARS. He mentioned the previously taboo subject of private sector participation in SOEs.

And he increased VAT. This is something that has been on the cards for some years, but was regarded as politically too costly. Now, however, with the positive mood that has greeted Cyril Ramaphosa's elevation to the Presidency, it was clearly considered to be a 'now or never' moment. And the party will be hoping that by the time next year's election rolls around, people will have gotten used to paying more for virtually everything they buy.

These initiatives all suggest a turn-around; and the message is strengthened if we take into account some of Mr Ramaphosa's own hints. For example, his commitment to reconsider the size of the executive and his promise to remove procurement decisions from the purview of SOE board members.

Naturally, there is a cost to all these measures, and unsurprisingly it will be felt, if not borne, mostly by poorer people. It may be true that middle-class and wealthy individuals actually pay most VAT, but that is simply because they buy more stuff, and more expensive stuff. They can mostly cope with the extra percentage point. But people who have to choose between buying a cheap pair of children's shoes and putting supper on the table will feel it deeply. Far more could and should be done to make VAT a less regressive tax by exempting more of the necessities that poor and struggling families buy – inexpensive clothing, school supplies, and basic toiletries, for instance.

The poor will also end up feeling the increase in the fuel levy more than the rich will, as taxi fares go up and the cost of food rises due to increased transport costs. And then there is the matter of the R85 billion that is to be saved by cutting government expenditure over the next three years. A good deal of this will flow from decreased allocations to provinces and municipalities for infrastructure projects. Which projects exactly will suffer we don't know, but clearly there will be negative knock-on effects for employment in industries like construction and transport, where many lower-earning workers are employed. And no doubt some projects aimed at improving living conditions, public transport links, electrification of informal settlements, and so on, will be shelved or postponed.

The good news is that there is nothing inherently difficult about turning our public finances around. Just as Mr Zuma helped to dig the hole we're in by his irresponsible governance decisions, his indifference to fiscal and monetary realities, and his wholehearted association with a range of crooks and looters, so Mr Ramaphosa can make much progress out of the hole by doing just the opposite: appointing honest and competent ministers and heeding their advice; setting the example by running a tight executive ship; and seeing to it that the crooks and looters are exposed and sent to jail.

The next few weeks and months will tell us if and how he intends to go about these tasks. In the meantime, at least we seem to have stopped digging.

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