Response
February 27th, 2020

The 2020 Budget

The fact that Tito Mboweni came up with a small amount of personal tax relief in yesterday's budget speech took almost everyone by surprise. In such tough times, with SARS collecting less revenue than needed, and with government going deeper into debt, the last thing anyone expected was that some money would be "put back into taxpayers' pockets", to use that inaccurate and rather patronising phrase, beloved of finance ministers all over the world.

Yes, it may help to give the economy a bit of a boost, as indicated by the immediate jump in the value of retail shares on the Stock Exchange. But that will be temporary. And, in any event, the tax concession will be funded by more borrowing, a fact that will not escape the attention of long-term investors, ratings agencies and currency speculators.

The real reason for the tax cuts, and for the minster's airy dismissal of talk about a VAT increase or a 'once-off' tax, is that they are a *quid pro quo* to be used in the upcoming wage negotiations with the public sector unions. It was not a coincidence that the minister took "a teacher who earns on average R460 000 a year" as his first example of how the tax relief will benefit people – this is precisely the kind of senior, long-serving public sector employee who has become used to receiving annual increments above inflation. And who – through his or her union – is most likely to object strenuously to the end of this entitlement.

For that is really what Mr Mboweni, unlike any of his predecessors, has now committed government to do. The public sector wage bill is to be cut by R160 billion over the next three years. In this sense, the 2020 Budget is as much a political statement as it is a fiscal one. Just as government has finally, albeit years too late, begun to deal seriously with the terminal declines in Eskom and other SOEs, so it has now also found the courage to face the fact that we cannot continue to spend 40 cents out of every tax Rand on civil servant's salaries; especially when we have to borrow more money every year to keep up the payments.

The unions have already, quite predictably, reacted with threats of strikes, shut-downs, and ungovernability. There is much truth in their argument that workers are being made to pay for the government's corruption and mismanagement of the economy. But there is equal truth in the point made by economists that the public sector wage bill has grown in real terms by 40% over 12 years without any concomitant increase in productivity.

Certainly, it was high-ranking ANC leaders, government ministers, heads of SOEs, and the like who oversaw the era of state capture, and who benefited from it, not the average nurse, teacher or police officer. But at the same time, it is not the high and mighty who fail to turn up to teach on a Monday morning; or who leave patients unattended in labour wards; or who refuse to allow victims of domestic violence to lay charges; or, as happened just last week, who close a SARS branch office unannounced because “our colleague died last night and we are too upset to work.”

So far, the response from COSATU has been relatively mild, despite rhetoric about “collapsing the public service.” It is far from clear that the mass of its members have the appetite for prolonged industrial action, especially in a climate of high unemployment and almost zero prospect of finding a job outside the public sector. The other union federations have relatively low representation in the civil service, and the biggest individual union, the Public Servants Association, has little reputation for militancy.

It must be noted that the R160 billion cut is something that has still to be negotiated; it was indeed, as the DA pointed out, a little irresponsible of the minister to state it as a fact. But the intention is clear enough, and even if the eventual figure is a lower one, it seems that this budget has marked the beginning of the end of ever-increasing consumption expenditure by the government.

For the rest, there was the usual mixture of good and bad news. There will be less money for education, health and public transport, and the allocations to provinces and municipalities will be reduced, leaving these two tiers of government to deal with problems largely not of their own making. The debt to GDP ratio continues to climb, reaching 65.6% this year – meaning that 15 cents in every tax Rand go to paying interest. That is as unsustainable as the public sector wage bill. There was also the usual increase in the fuel levy, which will end up hurting poor commuters disproportionately.

Another R16 billion will be made available to SAA to help settle its debts and meet interest payments. Against this figure, the R2.4 billion promised to the National Prosecuting Authority and the Hawks to enable them to employ more investigators and prosecutors in the fight against corruption, seems rather parsimonious. Mr Mboweni confirmed that municipalities will be allowed to source their own electricity, and that third party operators will be given access to the national rail network. Both of these moves, which will no doubt take quite some time to come to fruition, are concessions that the days of the great state monopolies like Eskom and Transnet, which go back to the beginning of the last century, are coming to an end. Many commuters will hope that the PRASA monopoly over passenger rail will also come to an end soon.

The remuneration and incentives of executives at state institutions and enterprises will be reined in, and the salaries and benefits of the top ranks in the civil service – where about 29 000 people earn more than R1 million per year – are to be frozen; as too, are the packages of cabinet ministers. These moves should also help strengthen government’s position at the wage negotiation table.

Lastly, there was almost complete silence about the National Health Insurance scheme, other than a vague statement that “taking forward consultation on the NHI is important”. Mr Mboweni is acutely aware that, even as government presses ahead with legislative preparations for the NHI, he simply has no money to pay for it. If and when he wins the battle over the public sector wage bill, and if and when he finds himself able to stop giving away billions to SAA, Denel, PRASA and other failing state enterprises, this will be his next big fight. On the strength of his performance so far, South Africans should pray that he sticks around for it.

Mike Pothier
Programme Manager