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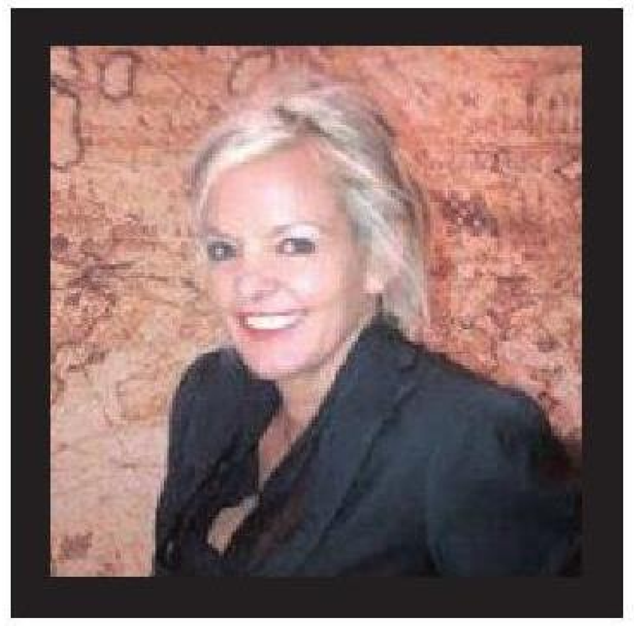
Let's all focus on the challenge of the Budget

EDITOR'S NOTE



ADRI SENEKAL DE WET

THE REAL for challenge for Ramaphosa-phobia is to structurally change government finance towards investment growth and job creation.

Public finance should always aim to create an environment for investment and growth.

Public finance cannot create growth and promote job creation. In this sense, the state cannot be the only job creator.

My late professor in economics at the University of Pretoria, Professor Geert de Wet, always emphasised that economic growth, employment and redistribution of income can only be achieved through direct investment in production capacity, especially through small- and medium-size enterprises.

The right to own a property was always seen by him as a cornerstone for economic acceleration and poverty alleviation.

The role of the state should always be to create and uphold the institutional framework. That should be the purpose of any country's budget.

What do I mean by this?

The South African government, under the leadership of President Cyril Ramaphosa and the newly appointed Minister of Finance, Tito Mboweni, should assure that the institutions of the government are properly financed, capacitated and deliver the required services.

Questions I ask myself: Did the SA Revenue Service delivered as per their mandate? Did Public Works build the schools and infrastructure for proper education? Did the spending on infrastructure contribute towards creating a sustainable business environment?

The fact of the matter is that many departments did not receive a clean audit. In the process of non-approved expenditure, millions of rand could either be used to address the above or to keep the budget deficit intact.

The message for a true budget is clear:

1. Increase investment expenditure, lower current expenditure, a lean and mean civil service

2. The budget deficit and government debt must simply decrease.

The rand

South Africa's share price is reflected in the performance of the rand. The exchange rate reflects the state of the economy, and the R168 bond rate reflects the state of the government's finances.

Both of them weakened noticeably since the budget speech. Why?

The performance of the economy (technical recession) and government finance (increasing debt) simply did not impress foreign investors and rating agencies.

The challenge of this and future budgets and implementation is to change this sentiment.

Dr Chris Harmse, the chief economist of Rebalance Fund Managers, raised his concerns over the weekend, saying: "This budget, and future budgets, must be valuated and measured against their outcomes in terms of the president's rescue plan to ensure measurable delivery."

If not, foreign investors and rating agencies will not change their stance.

Mboweni should report back at each budget speech in terms of deliverables.

The reality is that long-term investors in the South African economy don't care about political jargon.

They want to invest in an economy that grows, that delivers a return on investments, and with a smaller role of the state.

My take on this is as follows: If the local economy had grown at 5 percent per annum, then a government debt of 60 percent of gross domestic product (GDP) would not be an issue.

Most developed economies, like the US, that are growing far beyond the population growth rate have a debt-to- GDP ratio of close to 100 percent. The point is, it doesn't help that the government year-by-year increases spending and debt.

The Presidential Investment Summit

I salute Ramaphosa for hosting thousands of potential investors last week to achieve his \$100bn (R1.46 trillion) foreign investment goal.

Even if he succeeds, the question remains: How much of these investments will flow to townships and rural areas as the basis to create economic growth and equal distribution of income?

Investments should be skewed toward, among others, the poor communities across the country, such as the rural areas of KwaZulu-Natal, the Cape Flats, Limpopo (Giyani), the rural areas of North West and the Northern Cape, etc. Alexandra should be the new Sandton.

The next rich and successful industrialists, entrepreneurs and asset managers should not be found in Stellenbosch but in Botshabelo Mogale City, Soweto and Butterworth, to name but a few. The majority of listed companies on the JSE should become black owned.

This is where jobs are the most needed. It will create hope that will unite all South Africans with the aim of alleviating poverty.