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Recent scaremongering utterances that the country could 'run out of cash' are absurd and misleading, writes **Seán Mfundza Muller**

BOLD DECISIONS: Finance minister Enoch Godongwana delivers his medium-term budget policy statement in Cape Town, on Wednesday. The writer says this year's statement is important because SA's fiscal situation is arguably at its worst in the post-apartheid era. Picture: REUTERS/ ESA ALEXANDER

SA's medium-term budget reflects difficult and contested decisions

The medium-term budget policy statement presented by finance minister Enoch Godongwana, to parliament on November 1 2023 is intended to provide a preview of government's public finance plans over the next three years.

It does not actually commit government to anything, either in law or in practice. Nevertheless, it is a crucial document because it presents what the National Treasury intends to be the broad, financial foundation for the functioning of national, provincial and local governments in the near future.

This year's statement is particularly important for two reasons. The first is that SA's fiscal situation is arguably at its worst in the post-apartheid era.

The second is that any decisions taken, especially about the 2024/25 fiscal year, could affect how South Africans view the current government when voting in next year's elections.

The crucial background to this year's statement is that SA national debt levels relative to the size of the economy have increased substantially since 2008. The statement emphasises that the increase was approximately 47 percentage points from 2008.

The three main reasons are the global financial crisis that started in 2007, continued slow economic growth partly as a result of state capture and power outages, and the Covid-19 pandemic.

Additional reasons include lower tax collection, other major expenditure increases such as the "free higher education" policy announced unexpectedly at the end of 2017, and large transfers to the state-owned power utility Eskom in response to its worsening financial position.

As things stand, national debt is expected to reach almost 75% of GDP by next year. Before the Covid-19 pandemic such levels would have been considered unsustainable by many economists and international financial institutions.

The sustainability of national debt – how much a country can borrow without leading to a crisis later – drives a lot of thinking about country's public finances.

But it's not a science. What was almost unthinkable about debt levels before the Covid-19 pandemic has now become almost normal. Many countries have experienced large increases in their overall debt levels and the resultant debt service costs.

Some so-called radical economists claim that there are few limits on government expenditure.

But this is, unfortunately, a luxury that may only be true for much wealthier countries with greater economic and political power – like the US.

On the other side of the spectrum, recent scaremongering statements that the country could "run out of cash" are absurd and misleading.

The question for SA is what to do about high and growing levels of debt. A sustainable debt path isn't just about reducing debt to a particular level. The process of how it's done is also crucial.

Cutting spending in a way that creates social harm and reduces economic growth is self-defeating. Raising taxes too much can also be counter-productive.

But letting debt rise indefinitely will mean borrowing costs become impossible to meet without dramatic spending or taxation measures.

The result inevitably involves difficult trade-offs. But because these are contested, within government and by different interest groups, the consequences and details are often concealed or given a misleading spin.

The devil is in the detail. A few examples from this year's statement illustrate this – and the divisions within government itself.

The first is the issue of government spending on salaries.

In the past the National Treasury and some economists have sought to suggest that this kind of spending is inherently "unproductive". In reality, even from a narrow economic perspective, that is incorrect.

Such spending funds the work of teachers who are responsible for educating future generations, nurses whose job includes keeping people in the labour market healthy and alive, and police officers whose presence should contribute to keeping crime in check.

For many years there has been an arm-wrestling match between the treasury and other parts of government responsible for determining public sector wage agreements.

The way this has been "resolved" is by the treasury budgeting for the wage increases it believes are appropriate, the other parts of government agreeing to higher wage agreements, and the treasury then forcing departments to cut the total number of employees in order to keep total wage costs down.

Although the treasury accompanies its stance by promising that "essential" or "labour intensive" departments and sectors will be protected, it has never provided any detailed information to actually show that is happening.

The consequence is a form of "austerity by stealth" in relation to staff available to provide public services.

The much better solution would have been for a social compact on wage increases and public sector employment.

That would require compromise from the treasury but also public sector trade unions.

Unable to reach that kind of mature solution, the arm-wrestling continues every year with the general public being the losers.

This year the treasury budgeted for an increase of less than 2% but the actual outcome was 7.5%. Some of this will be covered by funds taken from other important expenditure items, while the rest will come from cutting public sector posts.

A seemingly positive development is that the statement now makes provision for a continuation of the Social Relief of Distress Grant that was introduced during Covid-19.

This is one of the only sources of support to millions of South Africans who are unable to find employment.

The 2023 budget made no provision for the continuation of the grant: the treasury planned to end it in March 2024, immediately before the 2024 elections. Earlier this year I argued to parliament that such a decision would be inequitable and could also unduly influence electoral outcomes.

While it seems sense has prevailed with treasury now planning more than R50bn for such spending over the next two years, it remains to be seen what is proposed in the 2024 budget.

Another example relates to crucial public employment programmes. In a recent speech the president cited his Presidential Employment Initiative as a major success – although without providing any detailed evidence.

The treasury proposes to extend this to 2024/25, which seems like a good thing. But it plans to do so by cannibalising funds for other public employment schemes like the Expanded Public Works Programme and Community Works Programme: arguably a case of "robbing Peter to pay Paul". And it seems intent on continuing the costly and ineffective Employment Tax Incentive.

Lastly, there is the thorny issue of taxes. The major cause of an increase in national debt levels this year is a shortfall in taxation revenue of almost R60bn.

Only if you read the detail in the medium term budget statement does it turn out that a large part of this is due to private sector investment in decentralised renewable energy generation capacity.

This isn't fully explained, but is likely to be due to value added tax refunds linked to tax incentives introduced in the 2023 budget. In other words: it is the result of a policy proposed by the treasury itself.

While the minister and the treasury have provided an indication of current thinking, the crucial details and commitments of government's fiscal plans will only be clear when the budget itself is tabled next year. And those will only be cemented when approved by Parliament.

Some political parties have suggested that the 2024 election may be the most important one since 1994: the same is arguably true of the 2024 budget. — *This article was originally published by The Conversation*

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