2011 Budget – Boring (bar the odd surprise)

Finance minister Gordhan has submitted his (and the Zuma administration's) second budget. What can we learn about the politics of this government from the budget?

Wage subsidy

The biggest surprise of the budget was a wage subsidy for young people amounting to R5 billion over 3 years. (Not to be confused with the R9 billion Job Fund announced by pres Zuma when he opened Parliament – between the two initiatives R14 billion is set aside over 3 years for job creation amongst the youth.)

The wage subsidy is an old proposal. The idea is to help first timers to get into the labour market. Once you have had a job, it is easier to get another one and keep working. It has been floated before, but disappeared due to very strong resistance from Cosatu. Now it is back with a vengeance. Cosatu will fight this tooth and nail, but it is unlikely that the minister would have put R5 billion in the budget without the consent of the president and cabinet.

Youth unemployment is such a strong pressure point on SA society, and consequently on the ANC and government, that government may just push this one through in spite of Cosatu's opposition. Watch this space for a real fight between the ANC and Cosatu.

Inflation targeting

The minister was quite unequivocal: "Our monetary policy, designed to target inflation, has been conducted successfully by the SA Reserve Bank...". After this endorsement he cautioned: "...and so we expect the Governor of the Reserve Bank to be vigilant in monitoring inflationary pressures and ensuring that monetary policy is effective in meeting our inflation targets."

Clearly, higher inflation (and its corollary of higher interest rates)will not be tolerated for the sake of jobs only. Inflation is the priority.

Swing to the left or populism

With this second budget of the Zuma administration we can finally bury the notion of a swing to the left or a victory of populism. This was already apparent last year, but it has now been confirmed. The three building blocks of macro policy developed since the 1990s, namely

- inflation targeting (discussed above),
- a floating currency with deminishing forex control and
- fiscal discipline

remain firmly in place.

Recently the govt and the Bank are leaning against the wind to weaken the currency by buying dollars, but this is more to ameliorate currency movements, than to reverse them. The exchange rate of the

Rand is not fixed nor have we seen stronger forex control as propagated by some. On the contrary, in Oct last year during the mini-budget we saw a considerable relaxation of forex controls.

Fiscal discipline is illustrated by the fact that the deficit remains at 5,3% of GDP (same as 2010), down from 6,8% in 2009. However, it is still 0.74% of GDP more than what the minister budgeted for last October in his mini-budget. The minister is clearly judging that one more year of a bigger deficit well help sustain growth, which will in turn help reduce the deficit in future years.

It seems that he has the space to do so: last year debt to GDP was budgeted to peak at 44% in 2014/15. It is now expected to peak at 40%. In the past year interest was R4,8 billion lower than originally expected. Also, in Rand terms the deficit comes to R155 billion – compare that to the R250 billion earmarked for capital expenditure.

For now the deficit is not a train smash but a 5% deficit is not sustainable and it is, appropriately, set to decline to less than 4% over 3 years.

Political - economy trends

A few trends that emerged over the last few years continued in this budget.

The most important is investment. Public sector investment will amount to R252 billion in the coming year, and R808 billion over 3 years. The Rand numbers increase by 6,5% p.a. but as % of GDP investment declines from 9,8% in 2010 to 8,1% in 2013 – this is of course partly the result of a bigger GDP as growth accelerates. It is still double the 4% of GDP invested by the public sector ten years ago. Increased public sector investment has become a significant feature of our political-economy.

Three new power stations, new railway lines and rolling stock, a new fuel pipeline from Durban to Gauteng, roads and highways, water projects and hospitals are some examples of where the investment is taking place. Energy and transport investments take about two thirds of the money.

The other big feature of our fiscal and social landscape is social grants. The trend here has been relentlessly upward – 15,7 million beneficiaries (nearly 1/3 of the population) will receive a grant every month, 27% more than in 2007/08. That was when the ANC conference at Polokwane decided to extend the grant to children up to the age of 18 (from age 15) and to equalise the pension commencement date for men and women at age 60 (down from age 65 for men). The remarkable achievement is that the cost of the grants have remained constant at 3,5% of GDP. Essentially the extension of the grants and annual increases to the amounts thereof, have been paid for from (modest) economic growth.

11 million of the nearly 16 million grant recipients are children under the age of 18. The second biggest category is old-age pensioners, totalling about 2,7 million. These grants have made the biggest single contribution to the decline in poverty seen from 2000.

The comparison between investment and social grant spendingis interesting: for every R1 spent on grants R2,30 is invested. It strikes me as the right balance between short term poverty relief and investment for the future.

Then there is the balance between direct and indirect taxes. During the last few years both the minister and his predecessor announced personal tax relief (in 2008 even a 1% reduction in the company tax rate), which is largely paid for by raising indirect taxes. Total tax relief this year amounts to R9,6 billion which is partly offset by nearly R5 billion of increases in indirect taxes (fuel levy, sin taxes and an electricity levy – the latter already in the price we pay).

This year personal taxpayers will pay about 34,6% of all taxes, companies 23,6% (incl STC & skills levy) whilst indirect taxes, of which VAT is the main component, will contribute 41,8%.

Could this trend be given a whole new impetus by the way the planned National Health Insurance (NHI) will be financed? At the ANC conference in Durban Sept last year the door was opened to the possibility of using VAT to pay (or partly pay) for the NHI. The minister seems to have creaked the door open a bit further when he specifically raised the issue, stressing that it is merely one option to be considered along with a surcharge on income tax and a payroll tax. But why raise it if you do not want to go that way? It will be fascinating to watch this policy debate over the next year.

Unemployment

Unemployment, by far the country's biggest problem, has clearly moved to the top of the political agenda, which does not mean all departments treat it consistently, look at Labour for example. What does the budget contribute to this priority?

Apart from the R9 billion jobs fund there is also the wage subsidy of R5 billion. However, the budget brings much more than this R14 billion to the party.

The most important contribution the budget can make to job creation is to create economic and social infrastructure – and that is done in a consistent way with ever increasing allocations. Examples are the R250 billion infrastructure spending this year (R808 billion over 3 years) which will help improve physical infrastructure like roads, electricity, railways, water and the like. There is also the increased spending on social infrastructure like health, schools and colleges, housing, an increase in the police force from 190 000 officers to more than 202 000, more money for border protection and poverty relief and so on.

There are no magic bullets – just the determined and consistent slog to improve conditions in a country that is still under-developed in so many areas. The budget contributes generously to this ongoing endeavour.

So What?

All in all it was a stay-the-course budget. For all the talk of a swing to the left, and more recently talk of the Treasury's declining influence, this budget is so much in line with the pattern of the last few years that it has become boring (except for the odd surprise Cosatu will go livid about).

After the recession of 2009 and the modest growth of 2010 the country will probably grow 3% to 4% over the next three years (global events willing). That is comfortably more than population growth of 1% - a sufficient margin to continue the process of social and economic progress SA has experienced the last decade and a half.