BUDGET – BORING, SO CALMING DOWN FROM HYSTERIA 28 FEBRUARY 2013

Every year it is the same story. As budget day approaches scary predictions flow thick and fast: taxes will rise, the rich will be soaked, company taxes must go up, infrastructure spending will be cut to help the budget numbers... In general, doom and gloom awaits us.

Then comes budget day ... and none of the horrors materialise.

This year was even more so than usual. Two predictions in particular dominated: taxes MUST go up, and the rating agencies are waiting to downgrade SA. As is now well known, tax rates did not go up; and with a budget deficit of 5% and total debt to GDP peaking at just over 40% the rating agencies cannot credibly downgrade SA. Which does not mean they will not do it, but if they do the capital markets will probably shrug them off. That has happened quite a lot in respect of a number of countries. The consensus seems that the budget was boring – nothing really happened. That's good.

Perhaps the biggest event around this budget that we can reflect on is the lack of context and perspective in the pre-budget public discourse. It just confirms the old rule: those who talk before the budget do not know, and the ones who know do not talk!

LIMIT EXPENDITURE GROWTH

How did the minister keep the terrible dangers predicted for this budget at bay? By simply doing what he told us last October at the time of the mini-budget he was going to do: curtail the growth in government spending.

At the time, he promised to slow growth in expenditure to 2.9% in real terms (after inflation). In this budget he set the target at 2.3% growth. That means expenditure is still growing, we are not looking at austerity. But the growth is slow enough to avoid a debt crisis à la Greece and others.

Are these lower numbers achievable? A strong card the minster holds is the multi-year wage agreement with civil service unions signed last year. It brings reasonable certainty on a big expenditure item. After last year's chaos in the mining industry, it is unlikely that unions would walk away from a collective bargaining agreement. Also, government has more of a record of under-spending than over-spending. Between those two factors, chances are he will make his numbers.

INFRASTRUCTURE

Government's single most important economic policy initiative is the infrastructure programme. It survived the limits imposed on expenditure growth largely unscathed.

Last year the minister budgeted R845 billion over 3 years, or more helpfully, 7.9% of GDP over the period. Yesterday he lowered it to R827 billion or 7% of GDP over the 3 years. This is hardly a train smash.

But there is a deeper story.

Although 7.9% of GDP was budgeted last year, only 6.5% of GDP was actually spent. Thus the 7% target for the next 3 years, if reached, would represent an increase on the actual 6.5% spent this past year.

Overall, 81% of infrastructure budgets were spent. This is an increase from the 68% spent in the previous year. President Zuma candidly admitted in his State of the Nation address that infrastructure spending was a learning curve for everybody. Looking at these numbers, it seems that we are getting better at spending. Learning by doing.

Digging deeper, it is surprising to see where the problem of under-spending lies. It is the public-private-partnerships, national departments and public corporations (largely Transnet and Eskom) that underspent most. The provincial governments spent most of their monies, an astonishing 99%; local governments spent a surprising 86%; public corporations 76%; national departments 61% and public-private partnerships 59%. Overall 81%.

Warren Buffet said one can put all one's eggs in one basket, but then watch the basket! Government has put all its eggs in the infrastructure basket. As the higher spending from 68% to 81% of budgets show, it will push hard to spend more than 81% of budgets.

THE SA BUDGET IN A GLOBAL CONTEXT

In the UK the coalition government has opted for austerity. The price they are paying is forgone growth, ironically making their debt positions worse ... as their downgrade this past week confirm.

In India, which also had a budget this week, a special income tax has been levied on top earners to help balance the numbers.

In the US high levels of debt ignited a political fight about the speed at which austerity must be implemented. Gridlock caused by that fight is threatening economic recovery.

In Europe much-needed austerity is causing recessions, tax increases and huge political backlashes.

SA is successfully avoiding all these pitfalls, which is a testimony to decisions taken not just for this budget, but indeed over the last decade and a half.

SA has its own problems, like corruption and getting value for money, poverty, inequality and a muddle-through growth rate, but we have avoided the big budget-political traps other more developed nations have fallen into.

FUTURE DEVELOPMENTS (OR A FACTUAL BASIS TO COUNTER PARANOIA)

The minister made it clear that the introduction of National Health Insurance will necessitate a tax increase in future years. A large portion of that expense will be covered by economic growth, but there will still be a shortfall. Precisely which taxes will go up will be addressed in a joint Treasury/Health discussion document to be released later this year. The big issue is whether we will see a raise in VAT, income or company tax, or some combination.

This decision fits neatly into a review of tax policy and fiscal sustainability already announced. These reviews will be undertaken by the Treasury itself and that gives comfort. Treasury is known for their balanced and rational approach (something critics usually admit to, but then forget in the run-up to Budget day).

The tax review includes an investigation into mining taxation. It is reassuring that this thorny issue has been taken off the political agenda and given to technocrats.

This long-term approach should clarify where we are heading and can help alleviate anxiety attacks over future fiscal policy and extent of tax increases.

Another future development will be the alignment of budgets and spending programmes with the National Development Plan. The NDP certainly provides a context for the tax and fiscal reviews - a most welcome context. We may be on our way to a bigger consensus on matters not just fiscal and economic, but indeed on the kind of society we want to become...the first since we agreed the constitution.

SO WHAT?

- The two big pre-budget fears, tax increases and a budget that will lead to a downgrade have been avoided.
- Infrastructure remains a cornerstone of government's economic plans, is fully funded for the next 3 years, enjoys the highest political oversight on implementation and should continue to increase steadily.
- SA is successfully steering between the budget-political mistakes other governments are making, maintaining steady growth recovery. Truth is, there is nothing dramatic, just a steady plodding along using the power of incrementalism to slowly improve society. Slap bang in our muddle-through-scenario.