

Government nails its colours to the mast

TREVOR MANUEL's budget this year, his sixth, is politically remarkable.

At the end of 2001, per capita income in SA was about R22'000 per annum – roughly R1' 800 per month. Because this is an average, a large number of people are earning less. In fact, most South Africans earn very little.

To look at it from a different perspective, if the average is R22' 000 and we consider what many BoE clients are earning, it is easy to imagine how poor some South Africans must be!

While this is so, we have a budget in which the governing political party chooses not to spend the available R15 billion on social services for the poor, but rather on tax cuts. As the threshold for paying income tax is R23'000 (from 1 March it is R27'000), the full R15 billion in tax cuts go towards South Africans earning more than that average of R22'000 per annum.

What is going on?

Others are also asking that question. In parliament, Manual has had to defend himself against allegations that he should have given the money to the poor, rather than to the "rich" by way of tax cuts. In a more sophisticated approach, a Sunday newspaper attacked Manual for spending R900 million on tax relief for people earning more than R300'000 per annum. The R900 million, argued the newspaper, should rather have gone towards poverty relief. Indeed, from a R22'000 molehill, an income of R300'000 must look like Mount Everest.

If any evidence is needed on the government's commitment to an "open economy", this is it. Cut taxes, reduce the deficit – it is now at 2,1% of GDP, down from 10% in 1994 – and stimulate growth via the private sector.

In a very forceful way, this confirms the pledge Pres Thabo Mbeki made in his address at the opening of parliament: the government remains committed to an open economy. His speech was the words; the budget was the action.

The contrast with our neighbours in Zimbabwe cannot be starker. In fact, in the week after the budget speech Pres Mbeki, writing in his weekly column on the ANC website, attacked leftwing critics of the budget. He referred to the “live-now-and-pay-later” policies of Zimbabwe and stated clearly that SA would not follow that route.

One cannot ask for a clearer rebuff of Zimbabwe and the left in SA, and at the same time for a stronger indication of his support for Manual.

In fact, one of the issues continuing to amaze me is that the investment community lauds government for its fiscal and economic policies – but then fails to give credit to Pres Mbeki. They focus on his stance on HIV/Aids and on Zimbabwe as if those were the only positions he had taken in public life.

Do people really think that a government can pursue the painful and difficult path of creating an open economy, and the leader of the governing party has nothing to do with it? That a minister of finance can give tax cuts to the richest section of a population, and the president is not providing the political space for it?

Likewise privatisation. Manual provided R12 billion in receipts for this year (mainly Telkom’s IPO) and R5 billion a year for the next two years. Again, this is a done by a political party with a very broad base in society. And this is a society where opinion polls indicate that 76% of voters are opposed to any form of privatisation.

And yet, as a previous analysis published on BoE’s website and in this newsletter has shown, privatisation is moving ahead.

If the pace of privatisation is judged by the amount of cash flowing into the treasury, not much is happening. If it is judged by evidence of the emergence of a new social and economic order, a different picture emerges.

Last year literally thousands of South Africans benefited from the privatisation of state property and forestry interests.

Can you imagine how a community in the deep rural areas, now partners with Mondi in forests and a local saw mill, will react to attempts to damage those forest or efforts to organise a strike at the sawmill? Or how they will now lobby the provincial government to repair the local roads so that heavy trucks may move “their” logs and sawmill products? Or the influence of newly established Black entrepreneurs who have bought government land for commercial purposes and now have to deal with local authorities to get that land developed?

In a way this kind of progress is more important than the once-off capital to be raised by the initial listing of Telkom.

It is not just the money flowing into the treasury. It is also the creation of a new economic and social order. And clearly, more and more that order takes on the characteristics of an open economy – not Africa-style socialism, be it the Mugabe variety or the Nyerere model.

In that sense, Thabo Mbeki already represents renaissance thinking and, more importantly, action.

With this budget, government has (again!) clearly nailed its colours to the mast. Will investors react and give them the benefit of the doubt? We shall have to wait and see.

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