48 hours in SA's political-economy

A toast to Open Society forces

It is seldom that we have such a good 48 hours in SA's public life. It is a useful counter-point to the planned ANC Youth League marches on Thursday and Friday.

On Tuesday the President fired two minister, suspended the Police Commissioner pending an investigation and announced the high-powered members of a judicial commission of inquiry into the arms deal. The only piece still missing is the terms of reference of this commission, but so far certainly so good.

Mr Zuma also announced the members of the Board who will investigate the Police Commissioner, and it is an experienced panel.

Although the President made the announcements, and should get credit for it, they were really testimony to the open society forces we have in SA. The Public Protector, courts, media, public opinion, opposition parties, pressure from inside the ANC and the ruling Alliance … all played a role in getting a rather satisfactory set of announcements.

Part of an open society is of course to organise protests marches for or against all kinds of ideas, including nationalisation. This is due to take place tomorrow and Friday. At a time when many people see the Youth League and Julius Malema as the only players on our political scene it is good to be reminded that there are indeed many other forces at work as well. The SA political terrain is not traversed by one group alone.

The Mini-Budget Game Plan

On Wednesday Finance Minister Pravin Gordhan delivered his medium term budget policy statement (or MTBPS – the Treasury does not like the term "mini budget"!).

The key number is is 2.3%.

That is the rate at which the minister plans to increase public expenditure, after inflation, over the next three years. Sine the minister also budgets for growth of 3.1% rising to 4% over the same period, it implies that state expenditure will rise slower than the economy expands, thus the budget deficit can decline and the growth in state debt can be curbed. That is the game plan till 2014.

Achieving this game plan is critically dependent on getting the minister's colleagues in cabinet and the burocracy to sign off on the slower growth in expenditure. It also implies a strong stance against the public sector unions on wage increases, stronger than we have seen in the first two years of the Zuma administration. How to do that?

Scaring them

Well, one way is the old time-honoured trick – scare them! Tell them how bad things are, how tough, how adversely the markets will react, how everything can go wrong ... and that a change in behaviour is therefore imperative. The minister did a very good job of that yesterday.

This morning virtually every newspaper uses the word "tough" to describe his budget statement yesterday. Part of the task of politics is to shape public opinion and the minister did that yesterday.

It is of course easier to scare people when the world is indeed scary ... Greece, sovereign debt crisis in Euroland, downgrade of US debt, austerity budgets forced on many people, the havoc that can be caused by the vigilantes of the bond market ... . The minister's warnings are not empty; but neither can anybody argue with credibility that SA is near any of these examples at all.

Key numbers

- Eight months ago in February, **growth** of 3.4% was expected for this year, now the minister expects 3.1%. That lower growth translates into R13 billion less being collected in taxes.
- In Feb he expected growth over the next few years to be 4% to 4.4%, now he expects about 1/2 % less – 3.4% next year and 4% in 2013 and 2014.
- In February the minister budgeted for a **deficit** of 5.3% of GDP for this year. Now the number is slightly higher at 5.5% for the year. For the following 3 years the deficit will be about 0,5% of GDP bigger than he envisaged in February.
- In Feb the public sector **borrowing requirement** (i.e. the minister's budget plus all public sector entities and social security funds) was budgeted to be 9.5% of GDP, it is now sharply lower at 8.1%. In Feb it was envisaged to drop to 6.3% of GDP over the next few years, it is now set to fall to 5% in 2014/15. The bond market will like this.
- In February **infrastructure** expenditure by the public sector was expected to be R252,85 bil for the year or 8.7% of GDP; it is now expected to be R233 bil or 7.8% of GDP . Bad for construction and material suppliers. It should be noted, however, that this is till an increase form last year's 6.7% of GDP or R185.3 bil spending. (Of course, the dispute about toll road charges, suspension of more toll roads and the N1/N2 dispute between the Western Cape government and national government can influence these spending numbers very negatively.)

So What?

- The key variable then to watch over the next few budgets is whether growth in expenditure is indeed kept to that 2.3% after inflation number.
- Its not money, its getting the money out. The special cabinet committee formed under the President himself to clear hurdles to infrastructure spending clearly has its work cut out.
- This factor also militates against the thinking that higher deficits should be run for the sake of growth – if the higher deficits cannot be spend on infrastructure, one is just locking oneself into higher consumption spending financed by borrowing – which is what got the Greeks and other developed countries in the fix they are now in. Better to avoid it and this budget statement does exactly that.

- The budget forms part of the broader dynamic of open society forces and institutions that we have in SA. It bodes well for longer term political and policy stability.