POLICY ISSUES

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Missed opportunity

Government has missed an opportunity to go for a fiscal policy that will contribute to growth and job creation. It announced last week that it plans to keep the Budget deficit at between 2.7% and 2.4% of GDP over the next three years. It should rather have aimed at achieving a balanced Budget by the end of Parliament's term.

Government deserves praise for its remarkable progress in reducing the deficit, now 2.8% of GDP, down from 7.3% in 1993. It is also below the target of 3% set in 1996; a record of which it can be proud.

But the deficit should be reduced further for four reasons.

Firstly, Budget deficits consume the nation's savings, leaving less money for investment and economic growth. Current savings are 14% - 15% of GDP, far short of the 25% of GDP needed for unemployment-beating growth.

Government dissaving, as a result of deficit spending, amounts to more than 3% of GDP. Eliminate that and savings would be 3% closer to the desired 25%. Higher savings would make room for lower interest rates, which would in turn boost growth.

SA does not have an economic crisis, but it certainly has a jobs crisis. Social spending (the main argument for deficit spending) will not create jobs. Only sustainable growth will do so. And growth depends on savings and investment. More savings as a result of a balanced Budget support a scenario of higher growth and more jobs.

Secondly, the missed opportunity is all the more disappointing because several factors are combining to make deficit cuts easier. Growth is poised to average 3% over the next few years. It is better than the 2% we had to live with since the mid-Seventies. Part of that extra growth can be used to further reduce the deficit.

Also, more that 55% of total State expenditure is spent on interest and salaries. On both counts, the Mbeki Government has taken action to improve matters. Privatisation is ready to accelerate. The proceeds from this will repay debt and reduce interest payments. The civil service is also primed for re-structing - which could keep a lid on the salary bill. Curtailing those two items will create space for deficit cutting.

Consequently, there's an opportunity to reduce the deficit. We should do so.

Thirdly, there is the bigger picture. Developing countries like SA are reducing deficits. Argentina has just passed legislation to have a balanced budget by 2003. Brazil's government is striving mightily to reduce that country's deficit, though a rebellious parliament is not really co-operating (SA does not have this problem!) Social democrats in the UK are running Budget surpluses and efforts are under way to reduce Germany's deficit. The world is moving towards balanced budgets. So should SA.

Fourthly, a balanced Budget will provide Government with spare ammunition. Deficit spending can be used to stimulate growth when the economic cycle turns negative.

However, it is difficult to do that if the deficit is already at 2.4%. Once can do it by moving from a balanced Budget to say a 2% deficit. Staying at 2.4% means we have no ammunition with which to fight an economic downturn.

A balanced Budget will help launch SA on a virtuous cycle of lower interest rates, more capital formation, higher growth and more jobs. Carpe diem.

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