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The budget is not a growth plan

The Minister of Finance recently tabled the budget that was rightly anticipated to be the most important given the protracted contraction of the economy and the looming prospects of sovereign credit rate downgrade. On the balance, the budget painstakingly went at great length to address some of the disquiets raised by the business sector and rating agencies relating to restoration of business confidence and tightening fiscal consolidation, while at the same time protecting core expenditure and providing partial financial cushion to drought stricken communities. Remarkably, the Minister was able to balance the budget without having to increase the debt requirement or impose far-reaching tax increments although it can be argued that the extent of available fiscal options were constrained by the prevailing economic headwinds. Notwithstanding the relatively balanced budget, pundits alike, including rating agencies continue to bemoan the dearth of policy levers to stimulate economic growth in the budget. In their view, the budget is silent about measures to accelerate economic growth from the currently projected near zero percent growth rate and creating jobs for the five million jobless South Africans. To the extent that the budget speech make reference to the word 'economic growth' only three times, one may be inclined to agree with these views. However, there are a number of salient propositions, albeit without details, to boost the economy ranging from investment in infrastructure and the ocean economy, cutting the cost of doing business and creating work opportunities through the Jobs fund and the Community Works Program. Whether such measures, would be sufficient to lift the economy out of the woods remains to be seen. A rather perplexing question to those with higher growth expectation from the budget, is whether the budget is an appropriate a tool to reverse the slowdown or support growth. From the perspective of expansionary fiscal policy stance, indeed the budget hold opportunities for boosting aggregate demand through lower taxes and increased spending. These opportunities are unfortunately more amenable to bigger economies rather than the small ones. The growth dividend of discretionary fiscal expansion in small economies, like that of South Africa, is not only small, but at the same time, these economics lacks the wherewithal to access external capital markets – to finance expansion during slump. Too often fiscal expansions are ill-timed taking place during upswing rather than bad times when they are needed. It was evident in the current budget that South Africa cannot smooth output declines, through increased borrowing, as there were fears of runaway budget deficit. The Minister of Finance instead adopted a neutral fiscal policy stance, only tinkering with revenue and expenditure proposals on the margins to protect social commitments and to fund critical priorities. On the whole, the budget appears to have prioritised the first order economic policy fundamentals of long-term macroeconomic stability relative to mitigating the short-run severity of growth slowdown. Whereas the option for fiscal expansion to enhance growth in South Africa is understandably unreachable, there are many other structural fiscal instruments available to policy makers that could be used to support medium to long-term growth. Fiscal tools can be used to influence labour market outcomes (employability, better living wages and productivity) and growth through reduction of labour taxes and employer

social security contributions and provision of employment incentive schemes. The 2016 budget makes a tax relief provision for low income earners, only to address the fiscal drag – while the effective tax rate remain the same. Similarly, no mention is made of the employment tax incentive that was once lauded as an answer to the perennial problem of youth unemployment or at least its extension thereof to cover people who are being laid-off and due to become unemployment insurance claimants. Many countries make unemployment benefits conditional upon participation in re-training and public employment programmes to increase job search efficiency and increase labour demand of the lay-off workers. Other growth enhancing fiscal tools, can take the shape of increasing public R&D spend, increasing cost recovery on paid services and enhancing the productivity of the public investment amongst other things. These interventions requires long term commitment and sustained increments in allocations in order to have maximum impact. Beyond rhetoric, there is no identifiable financial commitment to R&D in the budget. Cost recovery is a subject of continuous policy contestation having been recently compromised in 2015 by the decision to freeze high education fees. Public infrastructure investment continues to enjoy health budget allocations but it’s unlikely to translate into growth due to the inefficient investment management processes. Available evidence and anecdotes indicate that public infrastructure projects are beset with time delays, cost overruns and maintenance weaknesses. Yet the fiscal proposals to improve institutional arrangements and processes for managing infrastructure investment are scant. Admittedly, the role of promoting economic growth is not only limited to fiscal interventions and the budget can never be a plan to grow the economy. The significance of the budget in respect of medium to long term growth is rightly to maintain stability and most importantly to make the requisite funding allocations to implement specific economic growth and development plans. Without these specific plans, no amount of fiscal expansion or structural fiscal reforms can reignite growth. In 2015, government introduced the Nine Point Plan to boost the economy through promoting agriculture, agro-processing and mining beneficiation, implementing the Industrial Policy Action Plan, encouraging private investment and supporting small business and rural enterprises in particular. Given the protracted global sluggish economic recovery and the small growth divided of public budget the Nine Point Plan could be the only hope for South Africa’s economic recovery. Regrettably, many of the programmes in the plan have been part of government growth agenda for a considerable period and their impact on growth is uncertain. Bigger and bolder structural economic reforms may be required to set the economy on course for stronger and stable growth.

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