MACROECONOMIC AND GLOBAL ECONOMIC INFLUENCES ON FISCAL POLICY & IGFR SYSTEMS

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MACRO-ECONOMIC BACKGROUND

“ An example of the limited success with the mainstream approach to economic stabilisation, is provided by South Africa, where, following the implementation of orthodox stabilisation, output grew by 2-3 percent, income per capita stagnated, and income inequality rose. One reason for this substandard performance was contagion from emerging market financial crises. But the main factor was policy followed. For example, a rapid deficit reduction penalised rather than stimulated private investment owing to the sharp contraction of aggregate demand it brought about. Likewise, the tight monetary stance adopted helped reduce inflation but severely retarded growth and employment creation.”

MACRO-ECONOMIC BACKGROUND (cont.)

- Quotation is from a book called - "Inequality, Growth and Poverty in an Era of Liberalisation and Globalisation." G A Cornia (editor) - March 2004. Published by WIDER.
- Never mind the correctness or otherwise of the statement, the relevance is in the theme addressed.
- Emphasises the fact that the conduct of macro-economic policy in general, and fiscal policy in particular, has been the subject of intense debate and dispute over the past decade of democratic freedom in South Africa.

BACKGROUND (cont.)

- Also – the proliferation of UN conferences, indicates the global nature of the challenges posed by poverty, inequality, unemployment and underdevelopment.
- Closer to home another study - Human Development Report - UNDP (South Africa) also arrived at similar conclusions as the Cornia study.
- Of course, there are many other studies on SA's macro-economic performance - that reach positive conclusions. IMF, WB, IIF.
- The aim is to highlight the intense and global nature of the debate.

BACKGROUND (contd)

Country-specific case studies include India, Peru, Venezuela, Turkey, SA and Thailand.

Topics covered include:

- Globalisation and Inequality
- Labour Market Institutions and Income Inequality. What are new insights after the ‘Washington Consensus’?
- Increased Income Inequality and the Redistributive Impact of the Government Budget.
- Income Distribution and Tax and Government Social Spending Policies in Developing Countries

BACKGROUND (contd)

- A word or two on SA Macro-Economic Policies:
- - Fiscal Policy.
- - Monetary Policy.
- - Trade and Industrial Policies.
- - Investment Policies.
- - Labour Policies.

FISCAL POLICY

- Fiscal Policy is the deliberate manipulation of government purchases, transfer payments, taxes, and borrowing - in order to influence macro-economic variables such as employment, the price level (inflation) and the level of GDP.
- It is also the most effective and direct of all government policies that have an effect on human development indexes e.g. education, health, welfare, etc.
- Also the most recognizable mainly because of the advent of the MTEF, govt social expenditure is transparent.

FISCAL POLICY (cont.)

- Deficit as % of GDP down to around 3 percent.
- Primary balance now in positive territory.
- Efficiency gains in revenue collection have allowed social expenditure to increase.
- Prudent fiscal policy has led to falling public debt as % of GDP, from 49.5% in 97/98 to around 40% currently.
- Falling public debt releasing more funds for social spending. Debt service costs as a % govt revenue down from 22% in 94/95 to around 15% currently. Debt service as a % of govt expenditure down from 21% in 98/99 to around 13.7%, currently.
- Prudent debt management leads to lower debt service cost as a % GDP. Down to 3.8% from 5.7% in 98/99.

THE DELINEATION OF FISCAL AND FINANCIAL AUTHORITY

- This is an area of economics that seeks to examine the optimal assignment of expenditure responsibilities and taxation powers amongst levels of govt, and the structure of intergovt transfers and grants.
- “Fiscal federalism”. Not to confuse the economic meaning with the narrow political and constitutional meaning.

- Table listing Economic and Social Indicators by Province (1990-2000)
- - Sources – StasSA, DBSA, ABSA.
- Provinces are characterized by wide economic disparities. Therefore, the structure of IGFR between levels of govt has important implications for economic development.
- In market-driven economies – govt intervention to correct market failures is universally accepted.

IMPLICATIONS FOR IGFR

- Govts intervene to resolve stabilisation and distribution problems, and to ensure efficient allocation of ‘public goods’.
- The stabilisation function refers to the use of monetary and fiscal policies to pursue macro goals – price stability, econ growth & high employment

IMPLICATIONS (cont.)

- The economic disparities that exist amongst provinces poses major challenges to questions of equity, autonomy, accountability and other institutional and capacity-building needs.
- These are issues that the FFC has had to grapple with in the past ten years, and will continue to do so into the next decade.

CONCLUSION

- Back-track to opening quotation.
- *" Economics is about people and their lives. We need to step back and strip out the economic numbers and statistics, and look at the quality of lives of the people."* – Trevor Manuel, WEF Conference, Maputo – 3 June 2004.

- It takes more than counting the poor, to make the poor count. – Anonymous.