Comment & Analysis

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A seven-pillar plan to rid SA of debt, unemployment and austerity

DUMA GQUBULE

In a 1933 radio interview, John Maynard Keynes, the father of macroeconomics, said: "You will never balance the budget through measures which reduce national income. The chancellor would simply be chasing his own tail — or cloven hoof! It is the burden of unemployment and the decline in the national income which are upsetting the budget. Look after unemployment and the budget [looks] after itself."

After a decade of disastrous austerity policies, the National Treasury has failed to understand the great economist's insight — that it must target national income and employment and forget about debt. When the government invests in its people and infrastructure the economy grows and creates jobs, and the debt ratio declines. From 2003 to 2008, government consumption spending rose 5% a year. Public investment soared 14% a year. As a result, the economy grew 4.5% a year. It created 3.1-million jobs and the unemployment rate fell to 28.7%. The debt ratio fell to 23.6% of GDP in 2008.

From 2009 to 2022, the growth of government consumption spending fell to 1.5% a year. And public investment plunged 38% from 2015 to 2022. As a result, GDP growth collapsed to 1.2% a year. By comparison, 155 emerging market economies grew 4.2% a year over the same period. In South Africa there are now 11.7-million people without work and the unemployment rate is 41.2%. Since austerity reduces national income, it is the cause of the rising debt ratio, which has soared to 73.9% of GDP. The driver of the rising debt burden is that the cost of capital is way above the miserable GDP growth rate.

Every budget since 2012, when the austerity policies started, has been the same. Sometimes I wonder if the ministers are puppets of Treasury officials or if we can dispense with them and install an artificial intelligence tool that has a neoclassical calculation engine to deliver the budget. The result has been an annual GDP growth rate of 0.8% since 2012. Finance minister Enoch Godongwana's budget this week will continue to suffocate the economy and result in low GDP growth and soaring unemployment.

We must stop this insanity now. Recently I have been presenting a plan that has seven pillars to achieve full employment by 2035. South Africans must understand the scale of the jobs crisis and that getting 11.7-million unemployed people and almost 800,000 people who will enter the labour market every year until 2035 to work will be the equivalent of a war effort. We must create 1.6-million jobs a year until 2035 to achieve full employment — an unemployment rate of 5% or less. The policy tools to achieve this target must be very large and have an effect throughout the economy.

Unemployment is a macroeconomic policy issue. Therefore, South Africa must have a mobilising vision and plan for the economy that binds 6% GDP growth on the Treasury and the Reserve Bank. Second, we must phase in a universal basic income (UBI) over three years at the three national poverty lines. A UBI for adults (18-59) and children (under 18) who receive a child support grant will cost R659bn over three years, according to a new Social Policy Initiative report. Since "expenditure creates its own income", as Keynes said, the bazooka stimulus effect will generate 96% of the income to pay for itself.

Finance minister Enoch Godongwana is flanked by Sars Commissioner Edward Kieswetter, left, and deputy minister David Masondo as he arrives at the Cape Town City Hall to deliver his Budget 2024 speech. Picture: Ruvan Boshoff

Third, we must amalgamate the three public employment programmes — the presidential employment stimulus (PES), the expanded public works programme (EPWP) and the community works programme (CWP) — to create a quasi-public institution with professional management and civil society oversight. It must develop the capacity to create up to 5-million jobs a year and a job guarantee. The budget this week slashed R2bn from PES spending for 2024/25 and R7.4bn from the EPWP and CWP over the three-year medium-term expenditure framework (MTEF) period.

South Africa must increase spending on industrial policies from an insignificant 0.3% of GDP and develop new policy tools to boost the labour intensity of GDP growth. The budget announced public sector infrastructure spending of R943.8bn over the MTEF period. But such spending will decline to 3.8% of GDP from 4%. The shortfall to achieve the National Development Plan target of 10% of GDP is R447.7bn for 2024/25. We must mobilise the resources to achieve this target.

We must deliver universal public services, such as free education and health care and subsidised public electricity, housing and transport.

Finally, international migration is a function of unbalanced economic development in a region. We must accelerate integration and lead the process of developing a strong and balanced regional economy. As Prof Siphamandla Zondi told me: "South Africa will benefit the most from regional integration and suffer the most from the lack of it."

The 2024 budget was the first step towards ending the artificial separation of monetary, fiscal and industrial policies. The Treasury and the Reserve Bank showed that taxes and issuing government bonds are not the only ways to raise revenues and that it is possible with co-ordination to manipulate the consolidated SA Inc balance sheet to mobilise resources for economic development. Bank governor Lesetja Kganyago explained to me the steps that were involved in transferring R150bn — part of a surplus on the gold and foreign exchange contingency reserve account — to the Treasury. But if we strip out the accounting details and conventions that are required to recognise such transactions on the central bank balance sheet, the Bank has effectively created monopoly money at the stroke of a pen. It did not sell any foreign exchange reserves and simply shifted book entries from one part of the balance sheet to another. The transaction was the equivalent of a family that has a cash crunch realising that the value of its house has doubled. A discussion with the bank manager can release some liquidity. But the R150bn transfer accounts for less than 3% of government debt and does not address any of the drivers of the rising debt burden.

The reality is that the Bank can always finance economic development and cannot run out of the currency it issues. There is no reason for the government to always pay exorbitant prices on the bond market to borrow the currency it issues from financial institutions. It can bypass the bond market and borrow directly from the family — the Bank and the Public Investment Corporation (PIC) — on more favourable terms, thus reducing the average cost of capital.

The Treasury and the Bank can co-ordinate monetary and fiscal policies to increase GDP growth and reduce the cost of government borrowing by taking over (or nationalising) the bond market for an extended period, as has happened in some countries. SA Inc can also have a one-off restructuring of its public sector balance sheet that has assets worth almost R4-trillion to finance economic development. This includes PIC assets of R2.6-trillion and foreign exchange reserves of R1.2-trillion. South Africa can mobilise trillions of rands to completely transform its economy and achieve full employment by 2035.

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Government needs to tackle the real causes of SA's fiscal ills

WILLIAM GUMEDE

As South Africa's budget shrinks — thanks to corruption, irrational policies and incompetence — the National Treasury in its efforts at rightsizing runs the risk of cutting the wrong items, slashing the budgets of developmentally critical departments and services that are well-run, and using money for emergencies to cover the costs of current operations, as well as to pay salaries and debts.

Trimming budgets must be done strategically so that this does not add to state failure, lead to underdevelopment or choke economic growth. It must also not reward failing, mismanaged and corrupt departments and entities.

In fact, reducing the budgets of developmentally critical departments and agencies will undermine public service delivery, development and growth. However, the funds available to departments and agencies that are managed well were heavily reduced in the current budget.

The government continues to bail out failing state-owned enterprises (SOEs) without any requirement for better management, cleaner procurement systems or more credible turnaround strategies. Runaway SOE debt is merely transferred to the national balance sheet, while the government continues to guarantee new SOE liabilities. In this budget, the South African Post Office, Denel and Eskom were given state financial guarantees.

Since 2020, the government has given R325bn in bailouts to failing SOEs . However, none of these bailed-out entities have noticeably improved their services, become sustainable or convincingly tackled governance failures, incompetence or corruption.

For example, the education infrastructure grant has been reduced compared with last year, when inflation is taken into account. So too has the school infrastructure backlog grant. Health facility infrastructure grants have also been nominally cut.

The budget has not increased spending on growth-generation initiatives. Instead, it has used savings to finance continued spending, such as paying public sector salaries and bailing out failing SOEs. This means income will continue to decline and debt levels will rise.

Spending on nonfinancial assets, including infrastructure, has also been reduced. So too has the budget for public goods and services, such as policing, healthcare and economic development. Instead, money forked out for social welfare grants, interest payments on debts and public sector wages has been increased.

Gross debt in November last year was 77.7%, debt servicing costs are at 21.1% of revenue, and GDP growth is forecast to be a mere 1.3% this year.

Finance minister Enoch Godongwana has used R150bn from the Reserve Bank's gold and foreign exchange contingency reserve account to reduce government borrowing. This is risky, because the reasons for high debt, low growth and low tax income are populist policies, incompetence-driven state failure and corruption — and there appears to be very little genuine appetite to tackle these.

The government must protect the country's fiscal defences and take care not to use reserves meant for emergencies for public consumption. Departments and agencies that are run cleanly, efficiently and competently must not be penalised by having their budgets cut. Furthermore, money available for growth-enhancing initiatives must be safeguarded. If this is not done, South Africa will continue on a trajectory characterised by low growth, declining physical and social infrastructure, high debt, an onerous public sector wage bill and ballooning social welfare costs.

South Africa is in real danger of falling into the debt trap of many postcolonial African countries who borrow for consumption rather than put the money into investments that can stimulate growth. This means these countries accumulate debt but acquire no physical infrastructure and only limited social infrastructure, such as better education. These states also have no new industries or better levels of economic growth. At the same time, such governments do not tackle constraints on growth such as corruption, incompetence and nonsensical populist policies.

Finally, the real causes of low growth, low revenue, high debts and therefore budget shrinkage — corruption, irrational populist policies and incompetence — must be tackled head-on.

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PETER BRUCE

Economics standing on its head

The rand has taken a steep dive against the dollar, the pound and the euro since finance minister Enoch Godongwana presented his budget on Wednesday. At close of business on Friday, our currency was worth R19.30 to the dollar, R20.80 to the euro and R24.45 against the pound — levels last seen in 2015 when then president Jacob Zuma and the Gupta family tried to install Des van Rooyen as finance minister.

This time it's harder to say why, though the standout feature of the budget saw the government access the Reserve Bank's foreign currency savings for the first time since 1994. It will take R150bn from an obscure account called the Gold and Foreign Exchange Contingency Reserve Account (GFECRA) which houses the unrealised profits (or losses) on South Africa's gold and foreign exchange reserves.

The account makes money only when the rand falls in value, which it has been doing since Jacob Zuma became president in 2009. And it means that the further falls in the rand since the budget will further bolster the account.

This is economics standing on its head. The "profit" of the GFECRA doesn't exist. The only way to make money out of this failure of the rand is by either selling the foreign currencies we have themselves or by printing money to the value of the account. The "profit" stood at about R507bn on Wednesday. It will be sizeably bigger today as the rand has since weakened significantly.

Had the decline in the rand been planned it would have been one thing. Governments around the world often try to manage down the value of their currencies to make their exports more competitive. That hasn't happened here and our export performance has remained poor despite the rand weakness. We are simply being judged as an investment destination — if you're a British business thinking about investing here for export you would have to plan on fabulously low South African production costs to make your investment look good in pounds back home.

> **Sadly, I fear, the ANC will get the majority it needs in May to drive a stake deeper through our economic heart for another five years**

The best way to measure investment performance is to track President Cyril Ramaphosa's investment target of R1.2-trillion from 2019 to last year — he made the target easily but, in fact, it represented only about 13% of fixed capital formation against the 25% or more of GDP targeted by more ambitious economies. The latest figures from 2022 would be 30% in Algeria, 29% in Indonesia, 26% in Japan, 24% in Botswana and 24% in France. We languish alongside the 13% in Eritrea and 14% in Greece.

We simply do not seem to get it right, and our huge unemployment numbers, the highest in the world, are testament to a ferocious mix of poor policy, poor management across the board, rampant corruption and excessive crime. The poor policy is the ANC's choosing — it is fixated on trying to emulate the old Afrikaner nationalist siege economy policies of industrialisation and import substitution. But the Nats lived in a world which had rightly spurned them for their apartheid policy. We live in a world that was once open to us to an almost impossible degree and we have simply squandered the opportunities we once had.

People don't invest much here anymore because they are not welcome. Our big investors are from the West. Just this past week ANC secretary-general Fikile Mbalula was in Russia swearing eternal fealty to President Vladimir Putin as his most feared critic, Alexei Navalny, died mysteriously (or not) in prison. "We, South Africa, stand with Russia as our friend and we make no apologies for that ... We will never abandon you," Mbalula told an audience in Moscow.

Daily Maverick reported he said South Africa was ready to sacrifice its relationships with other friends for the sake of its friendship with Russia. When questioned about Mbalula, Ramaphosa responded that South Africans should "relax". Thanks but no thanks. Swiping nonexistent money from the GFECRA allowed Godongwana to fully fund an unbudgeted pay rise given to the unions in 2023 and to keep up politically vital welfare payments to millions of the poor. When that money is spent the next pot of gold will be a wealth tax.

The ANC is simply incapable of running a modern economy, let alone a business and sadly, I fear, it will get the majority it needs in May to drive a stake deeper through our economic heart for another five years.