Idasa's Response to the 2011 Budget

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Both the 2009 and 2010 Budgets can rightly be called crisis budgets .They were released during a recession and its is immediate aftermath, amidst large-scale job-losses in the South African economy and a great deal of uncertainty around the pace of global and domestic recovery. Though we are not yet out of the woods, the economic backdrop to the 2011 Budget does look more favourable, and a note of cautious optimism seems appropriate now. The latest numbers suggest that the South African economy grew by slightly under 3% in 2010, and the forecasts of growth rates between 3% and 4% for the next two years seem realistic.

However, the continued slow recovery of tax revenue does mean that deficit-financing remains necessary, with a deficit outcome of 5.3% of GDP now estimated for 2010/11, and deficits declining from around 5.3% in 2011/12 to around 3.8% in 2013/14. These deficits are necessary not to fund a huge increase in spending, but simply to maintain government spending increases at a very moderate rate over the medium-term. Indeed, notwithstanding deficit-financing, consolidated expenditure in fact *declines* as a share of GDP from 33.6% in 2010/11 to about 32.6% in 2013/14. This is not a decline in absolute resources available to

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the government budget, but rather reflects the fact that government spending will increase at a slower rate than GDP as the economy recovers from recession.

Essentially, the underlying narrative of the budget has not changed over the last two years: we need to do more with less, and the era of large annual real increases to departments has come to an end. The proposed deficits over the medium-term generate a debt stock of around 40% of GDP by 2014. This is, within the current global paradigm on fiscal prudence, a sustainable debt burden, and could not have been avoided without worsening the contraction of the economy. The trajectory of deficit reduction over the medium-term is also balanced in our view. Nevertheless, in nominal terms the cost of debt-servicing will double from its 2007/08 value to 2013/14, and debt service costs will increase by an annual average of around 16% from 2010/11 to 2013/14, or at more than double the proposed rate of increase of allocated expenditure of 7.2%. Debt servicing, in other words, is by far the fastest increasing budget item over the medium-term. In such a context efficiency and effective reprioritisation become even more important than usual, particularly if the objectives of the New Growth Path regarding higher and more inclusive growth are to be realised.

Though economic recovery in the narrower sense appears to be moderately underway, job-creation as well as tax revenue will continue to lag significantly. As the *Budget Review* notes, the South African economy lost a particularly large number of jobs for the degree of output contraction that occurred during the recession. This also implies that the social impact of the recession was particularly pronounced in South Africa, and intensified the pre-existing structural unemployment. It is therefore essential that job creation initiatives succeed. Whilst some jobs will be created simply by virtue of the recovery of the global and domestic economy, the targeted interventions are particularly crucial in addressing youth unemployment. It will also be necessary to learn from the failures of past policy and implementation. To date support for small business, for example, has not been adequate, despite their potentially key contribution in creating jobs. Similarly, the training layoff scheme, which allocated more than R 2 billion to provide training allowances as an alternative to retrenchment for workers during the recession, has fallen significantly short in its aims.

These and similar experiences suggest that better partnership-building between government and other stakeholders is needed if we are to address the jobs crisis. They also point to the informational and administrative challenges of effective labour market intervention. The proposed R 9 Billion Jobs Fund is certainly a necessary intervention, but it is imperative that no undue delays hamper the requests for proposals from implementing organisations, that appropriate organisations be selected quickly, and that adequate oversight ensures achievement of the desired impact.

In addition to the continued emphasis on familiar budgetary priorities, the Budget also introduced new sectoral measures and, in the case of some sectors, signals of policy shifts. These measures are all intended to give effect to the objectives articulated in the New Growth Path.

Regarding health reform there was a further commitment to the gradual introduction of a system of National Health Insurance for South Africa. As with the potential youth wage subsidy measure, however, the Minister emphasised that further consultation would be embarked on in assessing the best financing options for such a measure. The Budget also allocated funds directly to specific aspects of the Ten Point Plan for Health Reform. A continued move towards a Primary Health Care approach will be further supported by fund allocations for the introduction of family health care teams. The upgrading of hospitals with specific focus on infant and maternal health will help to attain the Millennium Development Goal target, and expanding training of doctors and nurses together with management reform within hospitals could go a long way towards improving the efficiency and access of health care throughout the country and eliminating the inequality of the current two-tiered system.

Of the total revenue to be equitably split among the three spheres over the MTEF period municipalities are to receive 9% compared to 57% and 44% for national and provincial departments respectively. These proportions are not surprising given past trends and the own-revenue powers assigned to local government. National transfers to local government are set to amount to over R70 billion in budgetary assistance and infrastructure grants in 2011/12. It is hoped that such budgetary assistance will help enhance municipality's capacity to efficiently and effectively spend their capital grants given the extent to which they struggle in this regards. This is of particular importance given the extent to which slow delivery of capital projects hinders infrastructure investment and consequently both job-creation capacity and economic growth nation-wide.

Budget 2011 reaffirms the government's commitment to promoting innovation through "green economy" initiatives as a key strategy for fostering growth and job creation. As a first step, the question boils down to whether budget allocations are in fact aligned with these desired policy outcomes. Notable is that South Africa will be hosting the 17th United Nations Conference of the Parties on Climate Change, where South Africa will be under particular scrutiny regarding mitigation initiatives and ways of reducing the dangers associated with a hotter future. Whilst funding is allocated for renewable energy, environmental protection and "green" economy initiatives, it is disappointing that funding amounting to R800 million that has been set aside over the next three years for "green economy" initiatives will only be allocated in the Adjustments Budget. This tends to reinforce the current thinking that there is no urgency in tackling the imminent danger poised by climate change.

Over the medium term, there is a steady growth in transport sector funding with a real annual growth rate of 4.3% between the 2010/11 to 2013/14 fiscal years. This is in line with the New Growth Plan's identification of investment in infrastructure as a key driver of job creation. There has in the past been substantial growth in the transport sector in the form of public transport investment, especially leading up to the 2010 Soccer World Cup. However, the challenge has been that these jobs have been short to medium term jobs. A key challenge for the national government is to ensure that infrastructure investment in the transport sector translates into long term job creation and contributes to overall growth.

The Department of Human Settlements is one of the key departments in South Africa and receives a large share of the national budget after education and social development. The housing budget is projected to increase from R102 billion to R116.3 billion between the 2010/11 and the 2011/12 fiscal years. Allocations to the sector will experience a real growth of 5.4% in the period between 2010/11 t0 2013/14. While the increase is welcomed, the department will need to continue to look at the quality of housing delivery, capacity of municipalities and local government to deliver and to ensure that there is value for money in housing delivery.

In his Budget speech, the Minister of Finance indicated that spending on housing remains a priority, and that R3,6 billion will be allocated to water and sanitation, and R21,8 for the new urban settlements development over three years. It is clear that government is honouring its commitment to increasing the allocations to this sector. However, it is also clear that the idea should not only be about increasing the share allocations but rather to assess the capacity of the department, the provinces and municipalities to provide services and spend the allocated resources.

As a key contribution to enhancing the skills base of the South African economy, Government is intent on increasing its investment in the further education and training colleges sector by setting additional funds over the medium-term. R9.5 billion is provided for expanding further education and training colleges and skills development. This follows a three-year recapitalisation programme intended to address infrastructure, human resources and IT facilities at these institutions. Such spending was intended to boost the effectiveness, efficiency and relevance of these institutions in an attempt to produce high-quality medium-level skills for the economy. Given the incentives to foster small businesses, the additional spending on FET colleges should be able to contribute directly to the production of medium-level skills and the tantalising possibility of establishing a stronger base of small businesses in the manufacturing and service industries.

In conclusion, Budget 2011 gives effect, across a range of sectors, to the objectives of the New Growth Path, and does so within a fiscal framework which finds an appropriate balance between medium- and long-term sustainability and the urgency of present challenges. However, in the wake of the recession many more South Africans have become poor, unemployed and vulnerable, and this challenge requires both short-term measures and fundamental structural change. Strong leadership, responsive institutions, and effective partnerships will be necessary to decisively move towards a transformed society.

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