AVERTING SOUTH AFRICA'S LOOMING FISCAL CLIFF

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This paper considers possible responses to the danger of South Africa facing a looming fiscal cliff (Rossouw, Joubert and Breytenbach, 2014; see also Meyer, 2015) owing to substantial growth in civil service remuneration expenditure and social grants since 2008. These two expenditure items currently account for some 58 per cent of annual government revenue.

The Irish Republic is an example of a country that faced the edge of the fiscal cliff after the international financial crisis of 2008, but returned from the precipice through the adoption of a combination of drastic expenditure cuts and tax increases (Watt, 2015). Between 2009 and 2014,government expenditure was reduced by approximately R19bn (Watt, 2015). This was achieved, among other things, by means of expenditure reprioritisation and pay cuts for civil servants. The remuneration of Senior Public Sector Managers was reduced by 28 per cent per annum, while the remuneration of an "average" public sector employee was reduced by 19 per cent per annum(Watt, 2015).The Irish example holds an important lesson for South Africa: a fiscal cliff must be averted before the precipice is reached.

In reprioritising expenditure, South Africa can also learn from the example of Tanzania, where President John Magufuli has implemented a series of austerity steps since being sworn in on 5 November 2015. Among others, he ordered that " ... the sum of about US$100 000 that had been set aside for a party to mark the opening of parliament should be used instead to buy hospital beds at Tanzania's main hospital, after he found patients sleeping on the floor" (Reuters Africa, 2015: [S.a.]).

South Africa faces tough choices in its quest to avert a fiscal cliff. This implies a combination of expenditure cuts and a reprioritisation of expenditure. Civil service remuneration and social grants are two major expenditure items of the South African government and therefore obvious candidates for expenditure cuts. However, as the latter is the South African government's single most effective poverty reduction strategy, it is not a preferred choice for reduced expenditure.

This leaves civil service remuneration as an obvious area for consideration. Civil service employment grew rapidly since 2008, while annual remuneration adjustments since 2008 were well above the average rate of inflation.South Africa needs a moratorium on any further growth in civil service employment. It is also necessary for the government as employer to convince civil servants and their trade unions that generous general adjustments have to be curtailed. Owing to affordability constraints, such adjustments cannot be repeated, also in view of the cost of annual notch increases of civil servants (see Breytenbach and Rossouw, 2013 on this matter).

This paper highlights easy and obvious choices in the quest to reprioritise government expenditure. The cancellation of the order for a new

Presidential jet is an obvious choice, as it is no longer affordable. It is rumoured that the cost of this jet will amount to R4 billion (see for instance Gibson and Nhlabathi, 2015).This is only the purchase price and does not include any operational costs. In terms of reprioritisation, the cancellation of this order is quick and easy, with a substantial saving. Its cancellation will also send an important message to South Africans: that their government is indeed serious about austerity measures, as was the case when the Irish Republic and Tanzania announced their austerity measures.

Another area where the government can show that it is serious about austerity and stimulating economic activity, is in the purchase(at central and provincial government level) of vehicle fleets. These two levels of government purchase about 25 000 vehicles annually, including: passenger cars; pick-up trucks; light, medium and heavy commercial vehicles; and buses. About 25 per cent of these vehicles are imported with the balance manufactured locally (Naamsa, [S.a.]). The local automotive manufacturing sector is the largest in the South African economy and when the wider impact of the sector is taken into consideration, it contributed some 7,2 per cent to GDP in 2014 (Department of Trade and Industry, 2015, see also Automechanika, 2015:2). The average value added for all vehicles manufactured in South Africa was 35 per cent of the retail price in 2011 (Pitot, 2011). However, there are considerable exceptions to this average: The Volkswagen Polo and Volkswagen Vivo, both of which are manufactured in South Africa,have local content of 73 per cent and 72 per cent, respectively (Financial Mail, 2015:13).

The central and provincial governments annually spend some R5 billion on locally manufactured vehicles and some R3 billion on imported vehicles, measured at retail prices. This does not take into consideration any possible government discounts. If the central and provincial governments were to refrain from purchasing imported vehicles, an amount of R3 billion could be spent domestically. Even if we assume that not all this money will remain in South Africa, at least 35 per cent will be retained, given the local value-add of the industry. This will add at least R1 billion annually to domestic expenditure. Through the government expenditure multiplier, this could add some R40 billion per annum to gross domestic expenditure.

> **South Africa needs a moratorium on any further growth in civil service employment.**

It is reassuring to see that the looming danger of a fiscal cliff has received some attention at provincial government level. Unfortunately, there is as yet no sign that this is happening at central government level. In the Medium Term Budget Speech of the Western Cape Government on 20 November 2015, Dr Ivan Meyer, the Provincial Minister of Finance, stated that "(l)eading South African economists have warned that South Africa is facing a fiscal cliff if it does not change its fiscal policy" (Meyer, 2015).

With respect to making fiscal adjustments of matters within its control, central government should lead by example, rather than leave provincial governments to show the way, if we are to follow the example of Ireland. This includes a moratorium on civil service employment and reduced general adjustments for civil servants. The proposal to procure a new Presidential Jet should be shelved.

Lastly, the central and provincial governments should only procure vehicles manufactured in South Africa. This will have a positive effect on the balance of payments and stimulate domestic vehicle demand. Through the multiplier, it will increase domestic economic activity and encourage more vehicle manufacturers to invest in South Africa. NA

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