

# A note on the Medium-Term Budget Policy Statement

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*The author warns that austerity measures cannot deliver a country from an economic slump, especially in South Africa where there is severe unemployment, that results in poverty and inequality. The only way to effectively address inequality is through large-scale government interventions, preferably those that generate jobs.*

In late October 2019, the South African Finance Minister, Tito Mboweni, gave his medium-term budget policy statement (MTBPS). Significant attention was paid to this particular MTBPS given the severity of the economic problems facing the country, particularly rising debt levels and the crisis at Eskom. There is little disagreement across the ideological spectrum that the situation is dire, and that major action needs to be taken. However, there are serious divergences in identifying the root of the problem and, thus, the subsequent solutions.

The MTBPS is indicative of Treasury's position which could be



summed up in one word: debt. Mboweni called our national debt “unsustainable” and predicted that without policy adjustments our debt to GDP ratio is likely to exceed 70% by 2022/23. The minister stated, “our problem is that we spend more than we earn. It is as simple as that”. His solution was clear: we need to cut our expenditure. This no doubt appears commonsense to ordinary South Africans, people used to managing their own personal or household budgets. However, the national economy is not like a household. As Joseph Stiglitz explains:

In an economy, when the government spends more and invests in the economy, that money circulates, and recirculates again and

again. So not only does it create jobs once: the investment creates jobs multiple times. The result of that is that the economy grows by a multiple of the initial spending, and public finances turn out to be stronger: as the economy grows, fiscal revenues increase, and demands for the government to pay unemployment benefits, or fund social programmes to help the poor and needy, go down. As tax revenues go up as a result of growth, and as these expenditures decrease, the government's fiscal position strengthens.<sup>1</sup> >>



Unlike in a household, austerity is almost never the way to work yourself out of an economic slump. It is an especially dangerous policy in a country like South Africa with such a severe unemployment crisis and the resultant poverty and inequality. International evidence, including by the IMF, has shown that, firstly, austerity doesn't work and secondly, that inequality is damaging and unlikely to go away without government intervention i.e. trickle-down economics is a myth.

The latter point is crucial. If we are to turn the tide on inequality, it is going to require mass government interventions in providing social services and in developing productive industries which are job-generating. Crucially, these should be understood within a broader vision and related policies that will ensure South Africa mitigates its contributions to CO<sub>2</sub> emissions and improves climate crisis resilience. This is the very opposite of the policies that the budget indicates we will be pursuing.

For example, much attention went to what is typically described as the "bloated public sector wage bill", a

phrase that is used with free abandon in the South African press. But just what is bloated about the public sector? Research by Neil Coleman of the Institute for Economic Justice, shows that our public sector is small by international standards.<sup>2</sup> He notes that, "The World Bank (2015) estimates that public sector workers in South Africa (including SOEs) only constitute 3.1% of the population, which is very low when compared to the middle income average of 6%".<sup>3</sup> We know, however, from the MTBPS, that the public sector wage bill is a major component of government expenditure. So, what is happening here?

One part of the picture is the growth at the top pay levels. Mboweni noted that a review of the wage bill revealed that 29,000 public servants and members of the national executive earned more than R1 million last year. In a country with such extreme levels of poverty, this is unacceptable. At the same time that we have this rise in highly paid, largely managerial positions, we have massive shortages in frontline service delivery workers.

In other words, it is the composition of the public sector wage bill not necessarily its absolute value that needs addressing. Investing in more frontline service workers has multiple positive effects: it improves service delivery, decreases unemployment and stimulates the local economy as those workers are now able to purchase more goods and services.

We should take the current debt situation seriously. There is no doubt that without drastic action, things will get worse. However, what that drastic action entails should be free of neoliberal dogma. Most notably it must entail a rejection of austerity. Such a rejection, however, must not be purely on the grounds of a dogmatic ideological commitment of a different kind. In developing policies, we need to advocate for two things that seem to be sorely missing. Firstly, our policy decisions must be rooted in *empirical evidence* around what is and is not successful in turning an economy around. The second is that we need to ask what we want economic policy, and the economy itself, to do for the country. Is debt reduction an end in and of itself as the current budget implies?

It is telling that the word inequality is not mentioned once in the MTBPS in spite of that being the defining issue of South Africa. It is clear that we need to impress upon government to think more clearly about the normative and moral underpinnings of economic policy.

#### ENDNOTES

- 1 Joseph Stiglitz, "Austerity has strangled Britain. Only Labour will consign it to history," *The Guardian* (7 June 2017). Available at: <https://www.theguardian.com/commentisfree/2017/jun/07/austerity-britain-labour-neoliberalism-reagan-thatcher>
- 2 Neil Coleman, "Policy Brief: Public Sector Jobs," prepared for the Labour Caucus in the Jobs Summit Public and Social Programmes, Labour Market and Anti-Corruption Interventions Stream. Available at <http://bit.ly/2CPuLS3>
- 3 *Ibid.* p. 3. **NA**