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#WhatSACanBe

*100 DAYS TO UNLEASH ECONOMIC GROWTH
AND GET SA BACK ON TRACK*



PUBLIC FINANCE: REVITALISE INVESTMENT, CREATE JOBS

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Introduction

For the first time in three quarters of a century, South Africa has ceased being a one-party-dominant state. The era of predictable and inflexible government power is over. In its stead, South Africans now find themselves in a new era of politics – one that must be defined by pragmatic, pro-growth policy. It is in this spirit that the South African Institute of Race Relations (IRR) has decided to publish *#WhatSACanBe: 100 days to get SA back on track*, a series of nine short papers each focusing on a different key policy area. Taken together, these papers offer a dynamic programme of action for the Government of National Unity (GNU) as it sets out its aims and gets to work earning the trust of South Africans.

The 2024 elections drew a fundamental dividing line in our politics between the country's pro-growth coalition – in the main represented in the GNU – and the pro-poverty parties, which have been denied access to the levers of government power.

But this arrangement is precarious. For democratic consolidation to succeed, the GNU must record notable governance wins in the short term. The policy proposals in this publication series show how a GNU can initiate crucial reform, quickly.

Embarking on a 100-day period of catalysing reform will make maximum political capital available to the GNU and its members. Public sentiment tracks upwards in the slipstream of economic improvements. A period of one hundred days following the first full meeting of the new GNU forms a natural timeframe within which pragmatic, constructive and meaningful government action will ensure an environment of good faith towards the GNU.

The responsibility to make the most of this moment by adopting a proactive, pragmatic plan of government lies heaviest on the leaders of political parties that find common cause in constitutional democracy, the rule of law, and good faith to remedy past failures and build on past successes. If the GNU is willing to do more together to rescue South Africa, this historic moment will be the rebirth of a hopeful rainbow nation.

Parties that occupy the pro-growth mainstream of South African politics based on the common ground of an economic system built on thriving businesses and job creators of all sizes able to operate in a fair, free and responsibly regulated economy; that believe in the ability of individuals and communities to find solutions; that acknowledge the fundamental role and dignity of secure ownership of property and the repudiation of historical crimes against South African property owners; that seek to protect and promote the rule of law; and that hold true to the non-racialism of our Constitution – these parties, as a single constellation, hold between them the capacity to give South Africans hope again. At the core of these convictions lies the critical matter of economic growth – the catalyst for upward social mobility through jobs and a reliable welfare system. Achieving economic growth is the primary challenge and opportunity for the GNU.

Five tests for any reform proposal

The GNU needs a set of policy solutions that satisfies at least five key criteria:

1. Multiple GNU partners will have to support the proposed policies;
2. Labour interests, workers, entrepreneurs, businesses, markets, and investors should be left in no doubt that fundamental and positive changes are being made in the policy environment;
3. External stakeholders will have to be brought on board, or ways will have to be found to address their opposition;
4. The policy solutions will have to make a substantive, tangible change in the lives of ordinary South Africans in the short, medium, and long term; and
5. The outcomes of policy solutions have to be popular with the electorate, with the goals being clearly communicated by the GNU.

Every *#WhatSACanBe* policy reform is therefore scored on the basis of five simple questions:

1. Will voters support it?
2. Will economic stakeholders welcome it?
3. Will GNU partners buy into it?
4. Will the media support it?
5. Will opponents derail it?

Context of crises

Amidst the euphoria of taking office, the new administration must be under no illusions about the scale of the challenge. Some of the crises the GNU faces are, in no particular order:

1. An ineffective, bloated, and politicised civil service;
2. An overburdened judicial system that risks losing public trust;
3. A decline in the general standing, independence, and fairness of judicial officers;
4. An ineffective police force likely antagonistic to reform;
5. A small and shrinking tax base under immense strain;
6. Increasing water shortages across the country;
7. Violent crime, especially against the most vulnerable, running rampant in sub-middle-class areas;
8. A local currency of fluctuating reliability;
9. High levels of government debt;
10. Consistently high unemployment and youth unemployment rates;
11. Failing and unreliable road, rail, and port infrastructure;
12. Mass blackouts of power in large parts of the country due to a national power grid functioning at close to 60% capacity; and
13. Child malnutrition in rural and inner-city areas.

With the above as the context, proper consideration can be given to setting out a viable and successful path forward. Great as these challenges would be to any incoming government, a pragmatic and outcomes-focused programme of government will ensure a vigorous turnaround and the introduction of pro-growth policy consensus..

Priorities of the people

Polling by the IRR over the past decade has repeatedly emphasised the key priorities of South Africans, revealing surprising unity across demographic divisions. The most recent survey indicated the following priority problem areas:

- Unemployment and job creation
- The abuse of women or children
- Corruption
- Electricity or load-shedding
- Housing
- Water and sanitation
- Education
- Poverty
- Inequality, including gender and racial inequality
- Health care

Economic growth forms the foundation of all solutions in these priority areas. To earn maximum political capital from their initial policy actions and announcements, it is advisable that policymakers focus on economic growth as the key to meeting public demands on these priorities, ensuring that the government's agenda is unambiguously pro-growth.

From the above, it is clear that focusing on public finances is a very promising way for the new government to drive change and generate political capital. In its first 100 days in office, the GNU must begin revitalising investment and creating jobs. This paper, the fourth in the *#WhatSACanBe* series, focuses on how key commitments in the sphere of public finances can help to achieve this objective.

What should the GNU do?

The GNU should make South Africa an attractive destination for investment through primary budget surpluses that will pay down public debt

Why should the GNU make this change?

High government debt drives the worst kind of inequality by directing wealth away from the poor towards bondholders. High public debt also creates uncertainty, alienating investors. In junk terrain you either cut debt or you cut growth. The pro-poor policy and the pro-growth policy are the same policy: cut public debt.



Right now, public debt is growing. Between the 2021 municipal election and the 2024 national election roughly R1 trillion rand went to servicing public debt, a titanic redistribution towards portfolios here and abroad funded partly by fuel levies, tariffs, and VAT paid by manual labourers and the unemployed. Since public borrowing is about R2 billion a day, bondholder-redistribution is now the biggest line item in the budget, exceeding education. Debt servicing costs are double income-tax revenue, triple old-age grants, and quadruple child-support grants, and are not sustainable.

“Junk status” simply means debt is too expensive for the taxpayer and it crowds out social spending.

“Junk status” also degrades the financial services sector, which is South Africa’s biggest contributor to GDP, employment, and the fiscus, and our best competitive advantage on the continent. All SA’s major banks have been “junked” because of sovereign debt, which drives borrowing costs and dampens growth.

Private debt is roughly two-thirds of disposable income, while public debt is fast approaching three quarters of GDP. The spiral goes from higher debt to lower growth to more borrowing to make up for lost revenues and around again.

To end “junk status”, the government must pull itself towards itself. 5% per annum real growth is the first target, last achieved in the 2003-2008 period, when two million jobs were added as public debt was halved.

How should the GNU make this change in terms of laws, regulations, etc.?

Investment-grade fiscal discipline will primarily be achieved by the National Treasury, whose budget should establish a clear primary surplus in the first year of the GNU, but it requires cooperation across the board. The budget will be passed by the GNU’s majority in Parliament. Social grants must be protected from all cuts, unequivocally. One fundamental reason to cut the debt is to protect social grants, so cutting social grants to manage debt would be backward and foolish.

Revenues cannot be raised by increasing tax rates either. Therefore, the primary tool for cutting public debt is to cut government spending.

Massive spending cuts also carry the risk of inducing a temporary reduction in aggregate demand by rapidly reducing the public workforce and cancelling tenders, potentially triggering a recession. This risk can be avoided. The primary deficit is budgeted at 1.3% for 2022, so the GNU needs to cut +/-1.5% in 2024/2025 to achieve a primary surplus, which is a realistic target for the first step. If the GNU can muster a 2% increase in efficiency, better bang-for-buck, from public spending then aggregate demand effects will be net-positive even with spending cuts.



This means Treasury has to set the limits and hold to them while every other department boosts efficiency.

Will it fly?

Will voters support it?

Most voters are likely to be enthusiastic about the prospect of the new government turning off the tap on those who abused power to “eat the money”. Penny pinchers will appreciate a government that manifests the virtues of prudence too. However, those who rely on the current patronage network for their inflated lifestyles will offer fierce resistance.

Will economic stakeholders welcome it?

Investors are practically unanimous on the need for South Africa to become investment grade again, which can only happen through spending-side management since revenues are already almost maxed out.

Will GNU partners buy into it?

All GNU parties are heavily reliant on South Africa becoming investment grade again and a pragmatic GNU can ensure national spending regimes are prudently adjusted. However, cutting spending is just about the most difficult thing a government can do. This was demonstrated by the courageous skill shown by Trevor Manuel and his Treasury colleagues in cutting the debt that the ANC inherited from the apartheid regime.

Will the news media support it?

While some experts will recall that when the debt was halved the number of jobs doubled in the 2000s, there will be those in the media who will recoil at the thought of working South Africans doing more for themselves while the government does less. So, expect loud arguments that spending cuts are “right wing”, “anti-poor”, only good for “White Monopoly Capital.” Also expect some sympathetic coverage of violent strikes.

What’s the downside?

Social Tensions: In the current “junk” system, a little bit is taken from everybody to give a few concentrated rent-seekers quite a lot. To reverse this will mean cutting into the rent-seekers’ margins, and they will fight back tooth and nail. This includes those who are likely to use extensive narrative crafting across opinion platforms to misrepresent attempts to make South Africa investment grade as “anti-poor”.

Chainsaw or scalpel: If cuts are not well chosen and efficiencies are not improved in the 98% of spending that remains, then aggregate demand will decline, likely causing a recession while possibly reducing the quality of public services. If, for example, infrastructure maintenance and capital formation is cut, then public services will worsen. If wages are cut by giving golden handshakes to the most skilled public employees then services will worsen.



It is not enough just to cut; the government must cut well. Metaphorically, it would be better to cut by scalpel than chainsaw.

False Promises: If cuts are promised but not delivered, great damage will be inflicted in the early media fight by opponents, and at budget time by supporters. A plastic picnic knife cannot cut out the mould spreading through this nation's daily bread, and any such attempt will only lead to embarrassment. A scalpel and a firm grip are both needed to do the job well, and still protect grants.

Conclusion

To avoid economic collapse, the country's debt burden must be reduced and its financial health must be improved – the success of the GNU's mission to unleash economic growth depends on achieving both aims. This type of fiscal stability will free up funds for essential services, nurture innovation and growth in the economy, and expand benefits among all South Africans through higher incomes, wider consumer choice, and sustainable household finances.

This paper suggests a set of public finance reforms that the GNU must use as the basis for the upcoming National Dialogue on the issue of the state's role in exercising financial prudence and stimulating growth. These reforms must start with key financial reforms that can be implemented quickly. This will allow clear decision-making for the government and rapid delivery for South Africans.

To this end, the following five points must guide the GNU's approach:

- Ensure Treasury has a laser-like focus on value-for-money government spending;
- Ensure the fiscal viability of social grants;
- Do not raise tax rates to increase revenue;
- Ensure skills are rewarded and delivery achieved across all functions of the state; and
- Ensure government efficiency.

Should the GNU successfully achieve a primary surplus and unlock more revenue income while trimming ineffective expenditure, reliance on borrowing will fall rapidly and the country's financial stability will improve. With all Treasury's efforts focused on this, supported across the board by the whole GNU, the 100 days after the 2025 State of the Nation Address by President Ramaphosa will bring about a strong public finance foundation – the basis of a prosperous South Africa.



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