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We need a different approach - TIPS response to the 2021 budget

South Africa faces extraordinary new challenges as a result of the impacts of the COVID-19 pandemic on the economy both at home and globally. Unfortunately, the new budget instead falls back on business as usual. It does far too little to mobilise the resources on the scale required to accelerate the recovery, and even less to promote reconstruction toward a more dynamic, equitable and inclusive economy. The only radical new measure is the welcome funding for vaccines on a large scale. Beyond that, the budget falls back on austerity, paid for mostly by the poorest citizens.

In real terms, the budget cuts programmes that are critical for the poor, notably social grants and education across the spheres. But it does not initiate the fundamental shifts in spending needed to accelerate economic recovery from the pandemic and promote inclusive industrialisation. True, public investment increases in real terms, but that won't help if we pay for it by reducing investment in human capital and other programmes that are prerequisites for broad and dynamic economic development.

The problems emerge in the treatment of industrial-policy financing. The dtic's funding remains 10% below 2018 levels in real terms, although it recovers a bit from the even harsher cuts imposed in the 2019/20 adjustment budget. Incentives are reduced by almost 20% after inflation, with the sharpest cuts going to the allocation to the IDC and some enterprises. The Department has reallocated funds within the smaller envelop to promote innovation and diversification which is a positive development, but the cuts will make progress far more difficult.

At the macro-economic level, the budget cuts spending by 5% after inflation, which will inevitably reduce aggregate demand. That could be offset by innovative measures to mobilise additional resources on and off the budget. In similar crises, for instance during wartime, governments ask better-off citizens to sacrifice by investing in dedicated bonds, accepting a temporary increase in taxes, and directing social security reserves to meet national needs. These approaches are obviously risky, but less risky than accepting economic stagnation combined with persistent and profound inequalities in economic opportunities and income. Lowering the tax rate has never broadened the tax base – it just lowers the revenue to an already stretched fiscus. Moreover, instead of mobilising more resources, this budget reduces the progressivity of the income tax by raising brackets above inflation. As a result, personal income-tax revenues are expected to decline by over R10 billion. That in itself means the budget will contribute less to redistribution and equality. Indeed, the budget for social grants is being cut by a fifth in real terms. In part, this is because of below-inflation increases in the old-age pension. The child support grant will rise with inflation, but it is currently just enough to lift half of a person above the poverty line. In part, the cuts reflect the elimination of the COVID-19 Special Grant, even though employment is still 1,4 million or over 8% lower than it was before the pandemic, with the informal sector losing one job in seven.

Lower government spending could be offset through robust measures to mobilise complementary resources while making the tough choices required to redirect government spending toward the top priorities of accelerating growth and rebuilding the middle class. This budget is however far too timid in both fiscal and policy terms to help achieve that goal.

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