FUNDING OF THE VACCINE AND THE GENERAL IMPLICATIONS OF BUDGET 2021 FOR INCLUSIVE GROWTH AND REDUCTION OF POVERTY: AN OUTLINE OF A PRESENTATION

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1. A Budget of national government provides a clear snapshot of the conditions of the State. It allows for a forensic analysis of economic policy, the distributional priorities preferred by government and in the specific context of South Africa, of a bridging of the race/class divide that, in turn, may unlock of the vindication of a non-racial, non-sexist society. Regrettably, too much of the pre-Budget debate was consumed with the viability of funding vaccines for some 40 million.

2. After all the brouhaha about the funding of Covid 19 Vaccines, the Minister of Finance, Tito Mboweni, announced that the government would fund the vaccination programme. In the Budget Review the following is stated:

   > '*Government allocated R1.3 billion in the current year for vaccine purchases. Given uncertainty around the final costs, an estimated R 9 billion could be drawn on from the contingency reserve and emergency allocations bringing potential funding for the vaccination program to about R 19.3 billion*.'

   It is apparent from this statement and from the Budget review 2021 that the government did not require an increase in tax rates in order to fund the procurement of vaccines. That is one the few pieces of good news which emerged from Budget 2021.
3. Compared with the 2020 budget, budgeted non interest expenditure is to be reduced by R 264.9 billion or 4.6% of GDP over the medium term expenditure framework, an indication of an austerity tendency.

4. Even so, the consolidated budget deficit increased from 5.7 % in 2019 – 2020 for 14% in 2020- 2021. This caused the gross loan debt to increase from R 3.95 trillion or 80.3% of the GDP in 2020-2021 to R 5.23 trillion or 87.3% of GDP by 2023-2024. Significantly, debt service costs will increase from R 231.9 billion in 2020-2021 to R 338.6 billion in 2023-2024. Interest costs now consume some 19.2% of tax revenue. Of course, part of this recourse to increased borrowing was caused by depleted tax revenue collection, being R 213.2 billion below the 2020 Budget estimate, although the figure came in at R99.6 billion above the 2020 medium term Budget statement.'
5. Much of the foundation of the 2021 Budget is predicated on what the Minister refers to as wage bill restraint. In 2019/2020 public service consumption absorbed 41% of government revenues and 47% in 2020-2021. Over the medium term government has forecast an average increase of its wage bill of 1.2%. This forecast depends on the outcome of a pending appeal to the Constitutional Court from a judgment of the Labour Appeal Court. The implications of this appeal are that a successful appeal will increase, insofar as the present wage is concerned, government debt by R 37 billion.
6. A key implication of the Budget is the quantum of the social grants. From April 2021, the proposed increase will be below inflation rates of between 1% to 3.4%. At the same time, the social relief of distress grant will be terminated. In general expenditure on social grants will decrease by 2.2% over the next 3 years. Put differently, the total amount allocated to social grants reduces by R 5.8 billion in 2021- 2022, 10.7 billion in 2022-2023 and R19.5 billion in 2023-2024. At the same time the Budget Review indicates that the number of beneficiaries is expected to increase by about 300 000 over the same period. Expressed in concrete terms, old age and disability grants will be increased by 1.6%, foster care will increase by 1%, care dependency by the same amount and child support grants are up by 3.4%. In monetary terms, none of these grants will exceed more than an increase of R 30 per month. This parsimony takes place in circumstances where on the basis of the Budget Review alone, more than 9 million beneficiaries are dependent upon these grants.

7. So much for the basic Budgetary framework what are the implications? The most significant number in the Budget 2021, in my view, are the projected growth figures. GDP in the current financial year, 2020-2021, declined by 7% producing, on an expanded definition of unemployment, an unemployment figure of well over 40% (depending on which figures you adopt). For the following year, that is 2021-2022, GDP growth is forecast to reach 3.3 % followed by 2.4 % in the following year.
8. Consider two facts: In the past decade, treasury in each budget year has overestimated the real GDP growth figure. Secondly, notwithstanding government's continual broadcasting of its reconstruction plan and inflow of billions of rand of foreign direct investment coupled with domestic investment, it is unlikely that the country, will in real terms, attain the GDP figure of 2019 until at the earliest 2023.
9. This holds a series of implications, the most important of which is the following: there is no viable inclusive growth programme to be implemented. On government's overly optimistic figures, unemployment must rise further or, at best, remain at the present egregious levels. Absent improved collections (to which reference will be made shortly) tax revenue is unlikely to increase to such an extent that both meaningful capital expenditure (electricity, ports, railways to name three critical areas) and the provision of social grants can take place simultaneously.
10. A further problem concerns the capability of the State. Assuming away the problem of increased debt costs so that increased borrowing is possible and accepting the idea that significant funds can be diverted from the PIC for infrastructural development, all of which on the basis of an optimistic multiplier effect can increase growth beyond the present depressed levels, the fundamental question that has to be answered is the following: how can an incapable State riddled with corruption utilise significant additional funds for the kind of infrastructural development that is required to propel the economy into a new inclusive trajectory?

11. Drilling further, growth patterns in Germany, Japan, South Korea and China over the past 50 years reflect that some measure of innovation is required in certain key sectors of the economy to develop a successful “catch-up” growth strategy. It is possible to argued that there are four possible strategies towards this required innovation being:
    (1) leave it to the market;
    (2) support the suppliers of relevant factors of production, science and skilled persons;
    (3) support key industries and technologies; or
    (4) pick specific firms, technologies and products.
12. There is considerable evidence that the government’s role should be to concentrate on the second and third of these alternatives, leaving the picking of specific firms and technologies to the market. Government should fund science and development of scientific and other skills, it should broadly promote industries and technologies, in that all of this development is for the promotion of the public good. But what happens when you have a State which is monumentally incapable of rising to this challenge? Further, where is the heterodox economic thinking in this country that provides a line of economic march? The Budget is devastatingly silent on vision, as it is no more than a book keeping exercise.
13. That leaves aside the pressing question of corruption. Simply put, absent a few highly publicised examples and exposures which have emerged from the Zondo Commission of Enquiry, there is scarcely any tangible evidence that the ruling party and the government are prepared to make a determined effort to hold rent seekers and a range of corrupt individuals, both in the public and private sector, accountable to criminal law.
14. Two significant illustrations: the conduct of the Secretary General and the Deputy Secretary General of the ANC and others within the Zuma faction, who have recourse to outdated notions of democratic centralism, indicates a profound incongruence between a significant section of the ruling party and the fundamental idea of constitutional democracy and accountable government.

Expressed differently, the ANC is not truly committed to govern via the guardrails of the Constitution. Secondly, key institutions and, in particular the NPA, are slowly emerging from the destruction suffered through the Zuma years. However the jury is certainly out on its ability to launch and sustain successful prosecutions; in particular of complex commercial fraud, much of which lies at the heart of the huge amounts of public funds that have been stolen and secreted out of the country.

15. To return to the tax gap: A further implication of the ongoing corruption is a clear decline in tax morality. There can be no doubt that there is a significant tax gap estimated by both the Commissioner of the SARS and myself as being north of R 100 million per year (which on the figures delivered in the budget 2021 would represent about 9% of the tax take). It is possible that SARS will improve audit and investigation capacities in order to collect additional tax. But, given the level of corruption which is inevitably accompanied by increasing levels of tax evasion, the diverting of funds into offshore structures, use of transfer pricing and a range of breaches of customs duty coupled with transfer pricing to vast sums of money will continue to flow under SARS's radar.

16. In summary, Budget 2021 is a fair reflection of the parlous situation in which South Africa in general and its economy finds itself. I see no tangible evidence of a viable move towards the kind of inclusive economic growth which can vindicate the social democratic promises of the Constitution. I hope I am wrong.