Lifting the growth gradient

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In recent years, the SA economy has decoupled from an accelerating global growth trajectory. Indeed, the most synchronised global growth recovery since 2010 has, on its own, been unable to boost local growth rates, which have fallen as global rates have risen.

Consumer and business confidence are at their lowest since 1994 due to an uncertain political and policy environment, coupled with revelations that corruption is rife and corporate governance largely absent in sections of society. This has had a negative effect on consumer spending and business investment.

The onus is now on SA's politicians and policy makers to address the trust deficit in society and improve confidence so the journey to a more prosperous future for all can commence.

The 2018 budget builds on the positive political seeds sown in December with the election of a new ANC leadership and this leadership's subsequent encouraging policy pronouncements. These have enhanced the prospects for structural policy reforms.

This year's budget needed to credibly and tangibly demonstrate government's commitment to fiscal consolidation while at the same time limiting the potentially negative temporary impact on growth.

Far higher local growth levels are required to induce even a short-term cyclical improvement in unemployment, poverty and inequality. More importantly though, to put the economy on a structurally higher growth plane, SA's uncompetitive product and labour markets and the deficiencies in the education system need to be eradicated through macro policy reforms.

Fiscal policy can help by reprioritising spending towards the right strategic areas while altering corporate behaviour through appropriate tax measures.

SA's fiscus collects too little revenue for its bloated expenditure base. Not only did the budget demonstrate a commitment to fiscal consolidation — it also provided tangible evidence of how this will be achieved.

To put the economy on a more sustainable path, government must be ruthless on wasteful expenditure, show prudence in terms of the public sector wage bill and procurement policy, and prioritise infrastructure spending to boost longer-term growth potential.

Progress on these issues will probably impress ratings agencies. This will cut debt service costs and help redirect spending to sustainable, growth-enhancing projects and probably improve tax morality and compliance.

While additional revenue-generating measures were unavoidable to address the revenue shortfall and the unsustainable debt path, the emphasis had to be on tax increases that do not discourage capital expansion or job creation.

With policy uncertainty a major constraint on private sector expansion plans, investors would welcome transparency on progress with the mining charter and land reform policy. In addition, the budget needed to offer credible funding plans for state-owned enterprises and free higher education, and provide clarity on the cost of dealing with the Western Cape water crisis.

Only a small elite of the previously disadvantaged population has benefited meaningfully in a financial sense from the democratic transition of 1994.

The 2018 budget can support the mantra of inclusive growth by redirecting spending and revenue towards priorities that sustainably lift the growth gradient of the economy.

Only by substantially enlarging the economic rewards available in SA can we make a broader cross-section of the population financial beneficiaries of the political dividend that democracy provided almost 25 years ago. In the interest of social cohesion and relative fairness, this is long overdue. x

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