

THE SOUTH AFRICAN 2014 – 2015 BUDGET: MINISTER DANGLES CARROTS BEFORE ELECTIONS AND ATTEMPTS TO KEEP SPENDING ON TARGET DESPITE PRESSURES: BUT GAMBLES ON CIVIL SALARIES AND OTHER VARIABLES: SOME REFLECTIONS

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ABSTRACT

This paper looks at the South African 2014 – 2015 budget, as presented by the Finance Minister in the month of February, 2014. The budget assumes great significance on the basis that South Africa has been plagued by massive corruption, wasteful expenditure, the ineptitude of the government in respect to financial controls, excessive spending and therefore, escalation of borrowing, from financial institutions, the massive proliferation of doling out grants to citizens, devastating salary rises owing to civil unrest, tax relief for small businesses, citizens and other fiscal variables. Its projected growth of 2.5 percent did not materialize in the last budget year and the economy grew only by 1.8 percent. It's projection for the 2014 – 2015 budget year, has been set at an unrealistic 3.5 to 5 percent growth target. Analysts believe and project that economic growth will not exceed 2 to 2.5 percent. The paper amidst these issues also analyses the Finance Minister's misrepresentation of the true state of the country's health system within the ambit of his budget announcements. It also assumes significance on the basis that the country goes to national elections on the 7th of May, 2014 and, therefore, the Minister had to tread cautiously, in order to appease the country as a whole and not politicians alone. He was forced to project a forced conservative balancing act, on the basis that a new government will take office in June of 2014 and possibly, this budget was the last budget of the current Finance Minister. The paper therefore attempts to give a balanced view on the 2014 / 2015 budget, as presented by the Minister and discusses some consequences for the country, in the overall narrative of the paper.

Key Words: Budget, Finance, Wasteful Expenditure, Fiscal Prudence, Borrowing, Deficit, Global Pressures, Spending

INTRODUCTION

The minister walked a tightrope between electioneering and a market friendly budget to appease business and citizens alike. The budget outlines that spending has and will be kept on target, despite global pressures, and the inability of the government to create a meaningful climate for employment generation, poverty alleviation and dealing with increasing inequality. One therefore, has to be skeptical about the projections made because; it escapes from the realities that the country is experiencing. On the other hand, it appears that the health services of the country, is too sick and therefore was not mentioned in any detail. Activists have indicated that, the finance minister misrepresented the true state of the country's health in his budget. In respect to civil servant salaries that are escalating drastically, the issue arises; can the minister and the government

contain the public sector wage bill without sparking more devastating strikes? However, high and low earners found some relief in a budget focused on wanting to stimulate growth and therefore, this measure is an attempt to stimulate tax relief which favours small business. In terms of bringing about fiscal control, the perennial problem of unspent budgeted funds will in future be allocated elsewhere, if budgeted projects are not implemented. The minister did not mention the grandiose nuclear plan and preferred to keep it under wraps. The minister however, sees the value in opening the door to Africa and offers new incentives for a programme for youth, as a key to youth employment. It is against this background that the budget analysis will be discussed and constructed in this paper.

A GENERAL OVERVIEW OF THE BUDGET

Will all of the above have an impact on the May 7th polls? The minister made some attempts to appease voters. According to the media in general Mataboge (2014: 6) provides figures and an analysis on the budget that is provided hereunder, together with the observation and analysis of the author, throughout the paper. A R9.3 billion income tax relief was provided to households and personal income tax relief of R2.5 billion. About 40 percent of the tax relief goes to South Africans earning below R250 000 a year. The author points out that the African National Congress (ANC) as the ruling party receives most of its votes from the rural poor and most of them fall in the bracket of R250 000 or less and, this package according to Mathekga (in Mataboge, 2014) “would include some of the middle class.” The ANC also does not want to upset the middle class because the middle class are opinion – makers and usually described as the ‘intelligent’ group of voters. The minister also offered an increase in the tax – free lump sum amount to be paid out of retirement funds from R315 000 to R500 000. This will especially benefit lower income members who did not benefit from deductible contributions. It was announced that talks will be held with the National Economic and Development Labour Council on measures to cover the six million employed South Africans who do not enjoy access to employer - sponsored retirement plans. To encourage household savings, the state promised to introduce legislation to allow for tax exempt savings accounts.

Helping the highly indebted Mataboge (2014: 6) states that “this could be one of the most welcome announcements in the budget, because the country is struggling to manage reckless lending that has left many unable to afford their lifestyles.” The minister added that “the Cabinet has approved measures to help households to reduce their debt burden and to stamp out abusive and fraudulent activities of reckless lenders and unscrupulous debt collectors (Budget Speech, 2014 /2015). This measure, if actioned will bring hope to millions of highly indebted citizens across all class brackets who, according to Mathekga (in Mataboge, 2014) “could make up around half of all employed South Africans. He further adds that “out of every rand earned in the country, 60 cents go to servicing debt, which means there is less disposable income. Others borrow more to service an original debt.” This is truly exemplified as a reality in the case of the Marikana mineworkers who are so indebted that some of them took almost nothing home in wages, thereby incurring debts that create social instability. It is obvious in terms of simple accounting and economics that, a nation that does not have disposable income will listen to other opposition parties during the build – up to the elections on May 7th 2014; that the whole system is flawed because that gives them hope of things changing for the better. The ANC is most worried that voters will listen to populist rhetoric and announcements by the opposition, particularly the Economic Freedom Fighters (EFF) led by expelled ANC Youth League leader, Julius Malema, and even more worried that its own constituency of youth voters and the unemployed listens and could be swayed. For example the EFF has promised in its vitriolic announcement within its manifesto that it would nationalize private banks and create a 100 percent state – owned bank. Increase grants and wages for the downtrodden including domestic ‘servants.’ Salary adjustments for these categories will range from R4000 to R12 500, a month. Given the governments poor performance with regards a host of issues that are controversial and the endemic corruption, the large numbers of overtly indebted

citizens creates a political nightmare for the ruling party, particularly because it has failed to create jobs and has not dealt with poverty decisively, and because of the widening gap of inequality between the rich and poor. Analysts have said and in this regard Mataboge (2014) states that “the minister has managed to walk a tightrope between electioneering and delivering a realistic budget that would please the markets as well.

If the ANC did not care about the markets they would have gone all out because it is an election year, but the party has been much more careful about upsetting the markets. It is obvious therefore that, the government is in a difficult situation politically, regarding government spending. The problem is that, it has been ruling for 20 years and therefore, the challenges in an unfriendly economic climate, and faced with populist rhetoric from the opposition is what it has to deal with in an election year that is only two months away. Political analyst Tinyiko Maluleke (in Mataboge, 2014) said that “the budget “was extremely cautious, even by the ministers standards it’s a very muted budget that is neither to sharp nor to blunt. The budget was safe because the poor, middle class and investors all received something. They might not be elated, but they won’t be upset. In an election year you don’t want the economy to become an even more contested issue it already is.” The economy was central to almost all party manifestos that have been launched prior to the announced elections by the president. It appears in terms of a purposeful reading of the budget that, it was a typical end – of - term budget. The minister has sent a message that he is the finance minister for an administration whose term is coming to an end and that, he does not want to be setting too many targets for whoever might be coming in after the elections. It’s a budget of an outgoing minister by virtue of the term ending.

GOVERNMENTS VIEW THAT DESPITE GLOBAL PRESSURES SPENDING IS ON TARGET

Lynley Donnelly (2014: 6) points out that “the finance minister proved once again that he is a past master at walking the finest of lines and that he delivered a budget that did everything and, some would argue, more than was expected of it. He and his team at the treasury stuck resolutely to the government’s spending ceiling, keeping noninterest spending growth to an average of 1.8 percent over the next three years. This has to be seen and realized because given government’s appetite and propensity for both borrowing and spending coupled, with wasteful expenditure and overt corruption, it may be an objective, aim and goal that would not probably be realized, in the short, medium and, long term. He did this while attempting to maintain social support by spending on grants and education and, found money to help small businesses to grow. The former objective although praiseworthy because it creates a safety network for the most vulnerable, is not a policy imperative that needs to be pursued in both the medium and long term because it is unsustainable and, more importantly creates a dependency syndrome which will become impossible to break in the future. The idea should be as a policy imperative to create sustainable employment, and deal with poverty and inequality in terms of other economic imperatives. The deficit was reduced slightly to 4 percent of gross domestic product (GDP) and government debt levels will stabilize at slightly more than 44 percent of GDP in 2016. This passion has to be commended but, will it be realized is another question. According to Donnelly (2014: 6) “Overall interest payments on government debt are the fastest growing spending item, coming in at R5 billion higher than forecast in the October medium – term budget, thanks to the volatile rand, rising inflation and the rising interest rates.” Experts and analysts have lauded the minister for “prudence and sustainability, given the current economic conditions.” They further said that “it is not possible to take serious issue with today’s budget, and those who do not understand the constraints and challenges South Africa faces, according to Bishop” (in Donnelly, 2014). Such analysts and experts may be pandering to the ruling party and therefore, this analysis could be treated with some reservation because the budget document seethes with the word capital. There is therefore, a disconnection between the budget and the apparent dearth of social capital currently in the country. Social capital, as economist Landman indicates (in Donnelly, 2014) “is founded on the networks

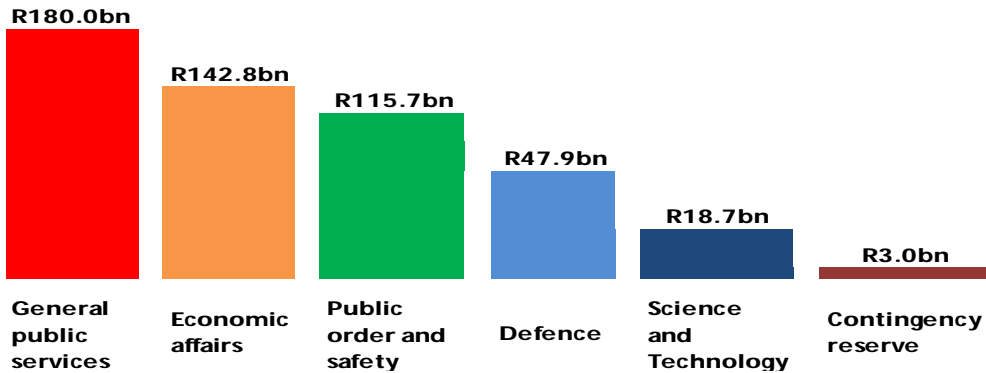
between economic and social actors, notably private and public sector players, and the levels of trust and cooperation among them” (very low cooperation between them in South Africa currently). One just has to listen to the political – economic debate currently in South Africa and one will hear how little trust there is between various roles – players.

Protracted wage battles between platinum miners and trade unions, violent service delivery protests and stark divisions within the tripartite alliance of the ANC, over economic policies such as the national development plan arguably speak to vanishing social capital. The minister said in this regard that “social capital is something we need to build, it’s not something we have had and we’re losing. We built some capital in the early 1990’s because we all agreed on a common purpose to set up a new Constitution, a new democracy; now you need another doze of social capital to be developed, which will enable us to take on the tough economic challenges that we face” (Donnelley, 2014: 6). In the face of perennial criticism over government misspending, the minister drove home the state’s work in trying to rebuild public trust. This included beefing up the cost – cutting measures, efficiency and better oversight of public money. Spending reviews are under way throughout the government to ensure value for money exacerbated by non competitive procurement procedures and other variables. This scenario and rhetoric has been played out by the government for far too long with very little remedial action and a lack of political will to do so. It does not appear that anything tangible will come out of the Finance Minister’s announcements, in this regard. The minister said, according to Donnelley (2014) that “cutting costs of items such as travel, catering and consultants, instituted from January, is expected to result in declines in spending of 2.9 percent, 5.7 percent and 5.5 percent respectively over the next three years.” Such predictions have been made in the past and nothing came of it and, on the contrary there was opposition from ruling party politicians, with regards to these measures. These are light and small issues that do not require much debate or announcement on the basis that the government flouts the very rules and regulations it puts into place.

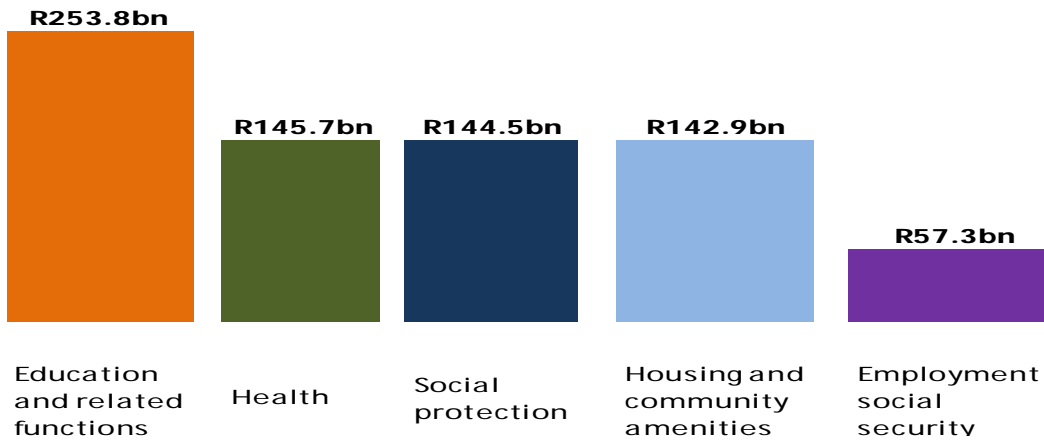
Donnelley (2014) further reports that “the minister said that labour tensions are as much about the ‘noisy’ nature of South Africa’s public discourse than, reality and has become a proxy for other issues.” This is poor analysis by the minister and does not augur well for the consolidation of democracy because the minister is skirting important policy issues that proved in a tangible manner that, there is nothing wrong with our so – called democracy, in terms of legitimate demands that it makes, and that, the current government does not have the answers to deal with these tangible demands in many sectors of the economy. This may be the all embracing reality that the government is playing the game of neoliberals and capitalists, including the predator elite. Indeed, labour issues have to resolved, but they cannot be resolved on government terms alone. This requires bold leadership from all parties, particularly the government that must be charged in creating an environment for negotiations and tangible resolutions with itself, the trade unions, the tripartite alliance, corporate and the captains of industry. The minister played down the implementation of the national development plan. He further said “that there will be consistency and continuity in policy, over the next three years and could not give any assurances on behalf of the next Cabinet.” (Donnelley, 2014).

A GRAPHIC PRESENTATION OF THE 2014 – 2015 BUDGET GIVING A BIRD’S EYE VIEW OF PROGRAMMES AND THE ACTUAL SPEND

How the money will be spent

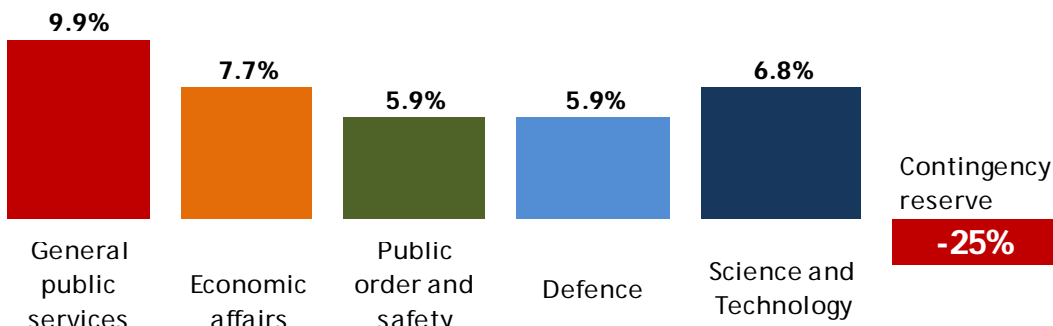


Education takes the biggest slice...

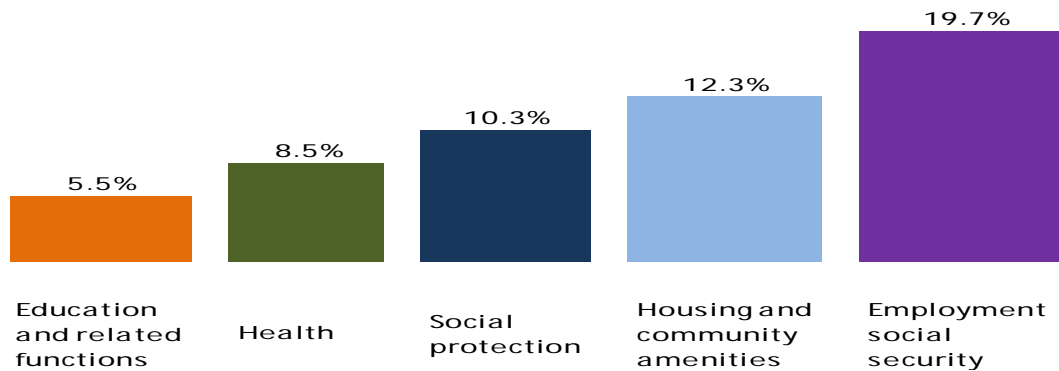


...But employment gets the strongest boost

increase or decrease in money allocated compared with last year



As a percentage education therefore takes the biggest slice



Source: Mail and Guardian – South African Treasury, Budget 2014 /2015 – February 28 to March 6

THE SOUTH AFRICAN BUDGET MISREPRESENTS A HOST OF OTHER ISSUES

The paper will now look at other issues not covered adequately within the South African 2014 – 2015 budget announced by the minister in February 2014. Each issue, in this regard will be discussed separately, for purposes of convenience and for adequate discussion. These issues are as follows:

MISREPRESENTATION OF THE COUNTRY’S HEALTH SERVICES

South Africa’s health services crisis was ignored in the budget. In this regard, Green and Skosana (2014: 9) quote Section 27 (NGO) Chief Executive Mark Heywood, who said that “the Finance Minister’s budget sounded more like an election manifesto, which focused on what had been achieved in health over the past five years instead of looking “honestly” at challenges in the sector.” The minister had said that improvement in that period “was best in our rising life expectancy, the reduction of infant mortality, child and maternal mortality, and the changed lives of 2.5 million people who now have access to antiretrovirals (ARV’s)” (February, 2014 Budget). It must be recognized that South Africa has the largest state funded HIV treatment programme in the world and that minister said that “it would increase by 500 000 people every year” (2014 Budget). The NGO Chief Executive (IN Green and Skosana, 2014) said that “this misrepresented the state of health. The reason for improvement in life expectancy and other areas is purely due to the roll out of the ARV programme, about which we are extremely happy, but it does not tell you anything about the quality of healthcare services, neither does it tell you what is really going on in our country.” The minister announced that the white paper on the National Health Insurance (NHI) and the financing paper on the NHI were complete and would be tabled and published this year. “The country still does not know actually what’s in the white paper or what’s in the financing paper. NHI pilot districts were established in every province three years ago, and we know that most of them are in a very poor state and are disasters, with few successes to talk about” (Karodia, 2013). Academics and civil society according to Green and Skosana (2014: 9) “say that that the public health sector’s troubles run much deeper than budget allocations.” “The government spends more than 8 percent of its gross domestic product on health, more than 5 percent recommended by the World Health Organization (WHO). A total of R145.7 billion was allocated to health in the 2014 – 2015 financial years, up from R134.3 billion in the previous year. But the amount of money that is spent on health services, the performance of the health system is suboptimal” (Rispel in Green and Skosana, (2014). Wim de Villiers (in Green and Skosana (2014) said that “the real problem, which was not addressed in the budget, was the quality of the services being delivered. The health services should be looking at scaling up the healthcare leadership and management training.” Civil society organizations, such as Section 27, the Rural Health Advocacy Project and the Public Service Accountability Monitor said in their combined report on the Minister’s budget that, the Minister did not highlight” the following: (in Green and Skosana, 2014):

- “Mismanagement of the health system.
- Rampant corruption meant that budgets are no longer sufficient to support the full range of healthcare services that provinces should provide.
- That the Eastern Cape and Gauteng provinces, were failing to deliver on their constitutional obligations.
- Last year the Auditor General reported that Gauteng could not account for R12 billion, almost half of the health budget, and was unable to pay service providers timeously.
- In September 2013, the Eastern Cape Province’s inability to manage its finances to buy essential medical equipment resulted in a bail – out by the national health department for R15.3 million worth of supplies.”

MINISTER GAMBLES ON CIVIL SALARIES

The issue is simple to ask – Can the minister contain the public sector wage bill without sparking devastating strikes? Not much was said about the public sector wage bill. This is the largest single expenditure item that the government has to meet and a key concern for the treasury” (Holmes, 2014: 1). In South Africa public sector salaries made up 39.5 percent of the governments consolidated non – interest expenditure last year. This will fall to 36 percent of its gross expenditures in 2014 – 2015 according to Kamp (in Holmes, 2014) and, of the R1.25 trillion total budget, public sector workers will cost R450 billion.” The government in attempting to justify its stance has stated continuously that, it will strive to shift the composition of spending away from consumption and towards productive investment. It is also necessary to point out that the wage bill is also affected by inflation. “The current government has little to show in recent times in respect of public sector reform” (Karodia, 2013). It is obvious and absolutely necessary and critical that the government wage bill is a critical aspect of expenditure restraint. If the public wage bill is that big a component of government expenditure, it is key that both the government and the minister of finance, makes every effort to bring it down. Holmes (2014: 1) reports that “this year, there will be an increase of R21.9 billion for compensation of employees as a result of higher inflation projections and salary adjustments. More than half about R11.7 billion of this is allocated to provinces and R10.2 billion to the national government.” According to the national treasury 2014 budget review, compensation budgets have increased by R2 billion in each year between 2010, 2011 and currently. The wage bill will grow by an average of 6.4 percent over the next three years. Kamp (in Holmes, 2014) points out that “the social grant increases announced by the minister did not actually equate to an increase in real terms for the recipients in the categories of old age pensions, the foster care grant and the child support grant. In the light of the fact that the minister cannot increase spending any more to the poor and unemployed, it is an incentive to hold his ground with the public wage bill as well. Research conducted according to Holmes (2014) by the Reserve Bank, average wages in the public sector were significantly higher than those in the private sector between 2000 and 2010.” Public sector wages were 12 percent higher than those in the private sector in 2000; by 2005 the differential was 42 percent.

According to Holmes (2014: 1) differentials fluctuated between a minimum of 27.4 percent in 2007 and a high of 43.6 percent in 2010.” It is therefore safe to say from these projections based on reality that the trend will continue over the three years of the announcement made in the current budget the problem arises because there were very high wage increases just after the recession from 2008 onwards. In actual fact there should have been a jump in capital spending, but instead there were very high government consumption levels. The decision to create a fiscal space was not a policy mistake; that what’s a country needs during time and period of recession. The problem was the treasury did not intend to go into wages that high. Their projections did not go into those kinds of increases. They set budgets at lower than that, but the wage negotiations were settled at much higher prices and, therefore, had to find the money. The minister has stuck closely to his public wage bill forecasts over the past few years, but he has had help of multiyear wage agreements, struck in 2010, to assist him. The real test of his mettle will come this year when the

deals are renegotiated and he will be pulled in both directions. The need to drive down spending is a real one, with government debt hovering at around 48 percent of GDP in gross terms.

“On the other side of the wage coin, is the real threat of devastating strike action. In 2010 civil servants work stoppages contributed to a crippling 20 674 737 working days lost. This was more than 10 times the number of days forfeited in the years in which public wages were not negotiated. With the bitter taste of this year’s platinum strikes still fresh the minister may be tempted to allow for a sweeter deal.” (Holmes, 2014: 1) Time will only tell.

SMALL BUSINESS RELIEF

High and low earners found some relief in a budget focused on stimulating growth. Benjamin (2014: 4) states that “based on early recommendations by the judge Dennis Davis commission looking into the present tax regime, efforts have been made to reduce the tax burden on micro enterprises and to reduce the complexity of compliance.” A fantastic move by the Minister of Finance’s budget is about encouraging much needed growth, and this is seen in the government’s 2014 tax policy. The tax proposals for 2014 are expected to reduce total tax revenue by R5.6 billion. Existing personal income tax brackets are reducing purchasing power, and therefore, the minister wants to avoid this at all costs. Thus the government has adjusted tax thresholds and rebates to provide R9.3 billion in personal income tax relief. Tax relief will be extended to everyone earning up to R670 000 per year. Those earning above one million rands will however, still pay 30.7 percent of personal income tax. This is because tax revenue collection was revised to R899 billion. In reality corporate tax, customs duty, together with mineral resources, has also been adjusted positively. It is a known fact that South Africa relies heavily on corporate taxes and this has to be reviewed seriously by government. Benjamin (2014: 4) points out that “Though South Africa has reduced its company tax rate significantly over the past 20 years, it has not kept up with global trends in this regard and its tax rate is still relatively high compared to its main trade partners.”

For a cash – strapped and increasingly militant public, the budget offered a number of tax breaks that might prevent a drop in consumer spending, predicted on the basis of existing government tax and policy. In this regard the minister of finance offered a number of incentives to encourage small business development. Sin taxes for alcohol and cigarettes were increased as expected. All of this was undertaken to accommodate fiscal drag. The idea is not to go into every variable where relief was provided, but to underscore the point that the budget did offer some relief to consumers and citizens. For purposes of promoting small businesses the minister alluded to breaking down red tape and bureaucracy as hindrances to businesses, especially small and medium sized firms. Government hopes to streamline the regulatory regimen, by reducing compliance costs and to facilitate access to equity finance. The minister however said that, the nature of these concessions will be considered while preventing abuse in order to avoid inconsistencies in the tax system. Other suggestions are to get rid of biannual tax returns in favour of annual returns and, the simplification of tax regimens. A rebate is being offered to encourage equity investment in small, medium and micro enterprises. By claiming tax reduction on investment in venture capital. In addition, entities that provide assistance to micro enterprises can also obtain rebates.

Grants to small and medium – sized businesses will be exempt from tax, and there will be proposals to encourage investment in small businesses and junior mining companies... the latter includes waiving capital gains tax on disposal of assets and increasing the total asset limit for companies requesting investment assistance from R20 million to R50 million and in the case of junior miners, from R300 million to R500 million. A host of other minor concessions are under consideration.

THE NUCLEAR PLAN SLIPS THE BUDGET RADAR

If the nuclear plan goes ahead, it will be South Africa’s largest contract ever, but the minister failed to mention it in the budget. Faull (2014 : 4) reports that “indications of policy confusion at the highest levels of the government were reinforced, when the budget failed to build on President

Jacob Zuma's State of the Nation pronouncement that the country expected to conclude the procurement of 9 600 MW of nuclear energy. Faull adds that the cost of this nuclear power has been estimated at anything between R400 billion and more than R1 trillion, and would dwarf any other tender in South African history." In contrast to Zuma's definitive announcement, the minister failed to mention the nuclear plan in the budget and, even the energy department did not commit to any looming procurement decisions. It has been explained by certain government officials that it goes beyond the current budgets three year proposals. However, the National Planning Commission and the treasury have reservations about the high costs of nuclear energy and the huge costs involved resulted in clashes between the planning commission and the energy department. The issue is whether South Africa can afford this nuclear plan? As things stand now and given budgetary constraints, Faull (2014) indicates given world experiences in respect of high costs, it will not be feasible to consider the implementation of the nuclear plan in the medium term. The money could be well spent on other more important social issues that require urgent attention. The other issue is – Who will fund it? Given the massive sums of money that would be required or guaranteed up front, much rests the ownership model of the proposed nuclear plant.

Options include the build, own, operate and transfer model, by which ownership of a plant is transferred to the procuring country or utility at a specified time or ownership by a national utility such as Eskom. A public – private partnership with vendor – assisted financing is another possible option. Many of these options will rely on government guarantees of some form and, would ultimately be repaid by electricity tariffs." (Faull, 2014: 4). This is a controversial issue in South Africa because of the high prices that tax payers are paying for electricity currently. There will be resistance from the public if the taxpayer has to carry the bulk of the costs. How the country will procure it? This is also a controversial issue, given the past fiasco of the arms deal. It appears that politicians within the government are pushing the idea because great fortunes can be made in allocation and procurement. To these end politicians, their families and friends, including the ruling party would and can make large sums of money. The arms deal had taught South Africa that, it cannot get away with a country – to country deals because, such deals carry the potential for grand corruption. South Africa has to therefore, tread cautiously.

UNSPENT FUNDS

The minister warned that unspent funds allocated to provincial and national departments would be allocated elsewhere. This has been a perennial problem in South Africa, since the dawn of democracy in 1994. The state plans to spend over a trillion rands, in the next five years on infrastructure, specifically R847 billion over the next three years. Benjamin (2014: 3) states that the "concern is whether this money can be spent by government. Spending on general public services was relatively low. Mainly as a result of low capital spending by the Department of Public Works. Poor performance in addressing school infrastructure backlogs resulted in significant under spending on education, while institutional instability in the community works programme affected spending in employment and social security." The minister said that the government has relocated resources which were not being spent and that reprioritization, rather than new funds would be a defining feature of budgeting over the medium – term expenditure framework period. This is wishful thinking by the minister, based on observations over twenty years of democracy on the basis that ministers within departments are not held accountable for under spending, year after year. Community complaints are not taken seriously by government. The paper will not deal with the amounts of money allocated within the budget for various programmes. Benjamin (2014) states that "although concern has been expressed about the bulk of the infrastructure work in local or provincial government, in provincial public works departments there are concerns about corruption, abuse and charging inflated prices for infrastructure projects," including tenders that are allocated to unproven service providers, relatives, friends and the predatory elite, which include politicians, high ranking bureaucrats, and abused to dole out patronage. The minister said

that “to address this the treasury may (Note the use of the word may) amend regulations to ensure that procurement plans are completed and submitted to national departments for assessment and approval before funds are made available, and that provinces must review contracts and reduce manipulation of the supply chain.” (Benjamin, 2014). Overall the minister believes that relocation of funds would lead to improved delivery of basic infrastructure and services. This is easier said and done, because politicians will not allow it, because it is a vehicle in many cases to line the pockets of politicians and, their bureaucrats and, would resist any move in this direction. The researcher is aware of this because “he submitted a 43 page report to the government and the National Council of Provinces, during the period that he was the administrator appointed by the Ministers of Finance and of Education, to root out corruption in the Limpopo province, in terms of Section 100 (1) b of the Constitution of the Republic of South Africa. The report clearly showed how abuse of over R2.6 billion within the Limpopo Department of Education in 2012 was undertaken by wholesale looting by the politicians, senior officials, friends and family of the ruling party. The report alluded to the existence of a “kleptocracy” within the department. After nearly 18 months, the administrators appointed by government are still in the Limpopo Province and, no corrective action or for that matter no one has been brought to book. The politicians have been deployed to other positions.” This is how South Africa is run, more talk than action. NEW INCE

INCENTIVES OFFERED BY FINANCE MINISTER

The minister of finance has offered new incentives for a programme that he sees as a key to youth employment. Steyn (2014: 5) reports that the budget presented by the minister provides for “meaningful incentives such as tax breaks and labour reform are on the cards for the special economic zones, but they face continued delays, and a budget cut. And in spite of delays, there seems to be a renewed drive and determination to get the manufacturing hubs off the ground. This would be actioned to promote economic growth and therefore special economic zones are provided R3.6 billion to promote value added exports and generate jobs in economically disadvantaged areas of the country. This allocation accounts for almost 11 percent of the trade and industry departments R33 billion budget for the next three years.” The industrial development zones programme was introduced in 1999 but the zones were widely criticized for their inability to make manufacturing in South Africa globally competitive and for not attracting investment. The programme will now consist of special economic zones as well as industrial development zones.

Industrial policy experts (in Steyn, 2014) have argued that “in order for the special economic zones to succeed, meaningful tax breaks and labour reforms are needed. It appears that government intends doing this. The minister indicated that incentives for industry will be increased and the zones will play a part in the national strategy for youth development and employment. This will be achieved by the following interventions:

- The employment tax incentive that lowers the cost of hiring, young workers can be expanded to special economic zones and specific sectors.
- Tax and other incentives to support special economic zones are being finalized.
- These zones will promote value added exports and generate jobs in economically disadvantaged areas of the country.”

All of the above does not make sense because according to the minister’s announcements in the budget, this year spending on the zones will drop from R888 million in the 2013 /14 financial year to R650 million in 2014 ‘ 2015, and then be increased to R1.2 billion and R1.73 billion in the two years that follow. Over the medium – term, the special economic zone investment incentive has a revised allocation of R3.6 billion, reduced by R553 million. This is a very slow process to get projects off the ground and, therefore there needs to be a greater sense of urgency by the government. It is a move in the correct direction. Its successes will have to be awaited.

MINISTER SEES VALUE IN OPENING AND WARMING TO AFRICA

Benjamin (2014: 4). States that “the government expects to grow its tax base substantially by allowing companies to increase the amount that they can transfer out of South Africa in foreign

capital.” The minister said that investment into Africa had reached R36 billion a year, making South Africa the second largest developing country investor on the continent of Africa. This announcement is significant because it only applied to listed companies on the Johannesburg Stock Exchange (JSE), but it will now apply to non – listed companies also, but it is subject to approval from the Reserve Bank. This would mean, if it works as anticipated that there will be profits and dividends from these companies, which will flow back to South Africa. It is obvious that South Africa has to be opened to Africa for purposes of counter – penetrating African economies. It is important that African countries be allowed to trade with and in South Africa without any let or hindrance. The other aspect is that business need not be conducted in the South African currency. This is a move in the right direction. The continent of Africa must be opened to South Africa and vice versa.

ARE THE GROWTH FORECASTS “TOO HIGH OR TOO LOW”

Ethel Hazelhurst (2014 :1) reports that “economists are divided on the credibility of the growth forecasts made by the minister in the 2014 – 2015 budget. The Finance Minister projected a 2.7 percent growth this year followed by 3.2 percent and 3.5 percent in subsequent years; based on these estimates he calculated that the budget deficit – the gap between revenue and spending would fall below 3 percent of GDP by 2016 – 2017.” The forecast for this year is somewhat higher than consensus, but lower than Moody’s forecast for growth of just below 3 percent. The treasury has assumed no boost from the depreciation of the rand but South Africa is already seeing come through in company profits, so the minister may be over cautious. If the external is even less buoyant than already conservative budget forecast and, if there is another steep depreciation of the rand that unsettles foreign investors or if inflation and interest rates rise significantly more than anticipated, we could expect the fiscal outcome to be less favourably than projected.

Hazelhurst (2014) warns “if the election results lead to a more populist strategy, we would see more reticence from foreign investors to participate as actively in the local government bond market, which would have negative consequences for the cost of the availability of funding.” On the other hand Azar Jammie (in Hazelhurst said that “ the finance ministers forecast was achievable and estimated that the economy will expand beyond 3 percent this year” But some economists and analysts have their doubts. Peter Worthington (in Hazelhurst “described the forecast as a little optimistic and further said that, it was vulnerable to setbacks. Rate hikes, supply constraints and labour market unrest mean that growth is unlikely to hit 2.7 percent.” Jac Laubscher Sanlam’s Chief Economist had the same reservations, as reported by Hazelhurst (2014), who predicted a 2 percent growth. The growth momentum going forward will also be weaker and the forecasts for future years may also turn out to have been unrealistic.” The budget and its treasury official understate the impact of external volatility on South Africa. Another factor is that debt costs, would affect the size of future deficits. Alter the interest rate assumptions and debt levels would still rise much faster. According to Hazelhurst (2014) “global interest rates are on a rising trend as the US tightens its approach and therefore deficit could be higher than projected by the minister in his budget. If the deficit remains above 3 percent of GDP (currently at 4 percent) the interest bill becomes a burden on the economy.” These are consequences that require urgent attention.

STIGLITZ OFFERS “DISMAL PROGNOSIS FOR WORLD ECONOMIC RECOVERY

It is important to project on what the renowned international economist Joseph Stiglitz of Columbia University in New York provides, in terms of the world economy and the 2014/ 2015, South African budget according to Creamer (2014: 1). It is pertinent to project on these issues, in light of the South African Finance Ministers 2014 /15 budget projections, keeping in mind that the world is in an economic recession since 2008 and the situation remains bleak in respect to recovery. Even today in 2014, nearly six years later the situation looks bleak for both the

developing and developed world. These statements were made in Johannesburg, South Africa on the 5th of March, 2014, by providing a sobering picture of the state of the world economy, describing the outlook as “dismal.” “Stiglitz slammed many of the policy choices being taken, particularly in the United States and Europe which were failing to address the macroeconomic and social risks associated with rising unemployment and inequality. He further added that central banks that continued to focus primarily on inflation targeting, describing it not only as a ‘discredited’ instrument, but also the wrong priority for the current phase of the economic recovery. It appears that the South African Minister has not factored some of the issues that Stiglitz raises and that, he announced a budget of neutrality in an election year without considering the realities of the South African condition in respect of finance, debt and recovery. This was possibly done to please politicians. Creamer (2014: 1) further reports Stiglitz as analyzing the world economy and the recovery process as follows:

- That the remedies lie in improving overall aggregate demand by governments stimulating growth, rather than austerity programmes in order to recycle surplus financial resources into small businesses, infrastructure, technology, healthcare and to find mitigation and adaptation solutions to climate change.
- That the possible creation of the Brics bank (Brazil, Russia, India, China, and South Africa) was a positive development because resources could be redirected to areas of unmet needs.
- New employment strategies were also required to secure jobs for those displaced by strong productivity gains and that companies and wealthy individuals were taxed fairly and in a way that guaranteed sufficient resources to support investments into education and into other growth supporting activities and services.
- There was an urgent need to tackle inequality, not only on the basis of its potential to destabilize societies and undermine democracy, but because it was also undermining aggregate demand.”

Stiglitz (in Creamer, 2014) indicates that he was “happy by the work of the South African government in supporting structural transformation through industrial policy. The Minister did not mention the industrial policy as a vehicle for economic growth and that the current policy is neither here or there in most emerging markets. Stiglitz further added (in Creamer. 2014) that “the regional integration agenda must become a most important tool and vehicle for the continent’s current growth gains. He was not optimistic that countries would pursue the policies required to lift the global economy out of its worst recession since the Great Depression, noting that there were still many weaknesses “half a decade after the collapse of Lehman Brothers.” The future looks bleak and South Africa therefore has to tighten its belt, stimulate economic growth and development with the urgency it requires. At the current moment as things stand, citizens of the world live on hope, but hope alone cannot solve deep rooted issues that confront the world economy and indeed South Africa and the continent.

CONCLUSION

The budget is nothing but the reflection of government policies of the South African government over the three years of the Medium Term Expenditure Framework. Given the variables discussed in this paper, the situation seems bleak for the present government, exacerbated by overt corruption, poor policies and the lack of overall political will. It is hoped that the government can turn around the situation very rapidly, particularly that experts predict that the ANC will win the elections, but with a reduced majority. If this happens in a big way then the future of the revolutionary party will be drastically reduced. On the other hand lower commodity prices are weighing heavily on South Africa and dampening economic growth, according to the finance minister and better days are not in sight. A mixed outlook has been predicted for South African commodities amid warnings that labour disputes remain a cause for concern. The deterioration in the terms of trade is largely driven by commodity price movements and, has been a significant factor in widening the current account deficit, according to the budget review. Growth in the

mining sector remains volatile and together with corruption, industrial action, has affected production. South Africa is on the precipice of disaster and the Minister's budget was basically a budget for the elections and some sweeteners for a population that remains very unhappy with government performance. Only time will tell after the May 7th elections if the ruling party can turn things around, if it is returned to power with a sizeable majority. This sizeable majority, it appears will not happen, placing pressure upon the fragile democracy of South Africa. It appears that the "honey moon" period of the first two decades is over, for the African National Congress and, the government, unless it takes remedial action to redress the wrongs, turn the economy around drastically and deal decisively with unemployment, rising inequality, and, deals with poverty in a sustainable manner, in order to promote the general welfare for the majority of the population.

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