

# **FISCAL POLICY**

## Austerity without consolidation

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- ▶ Gauteng health: feels like austerity
- ▶ Fiscal policy: no consolidation
- ▶ Policy dilemmas: both directions at once
- ▶ Conclusion: Real compromises required



# Gauteng health

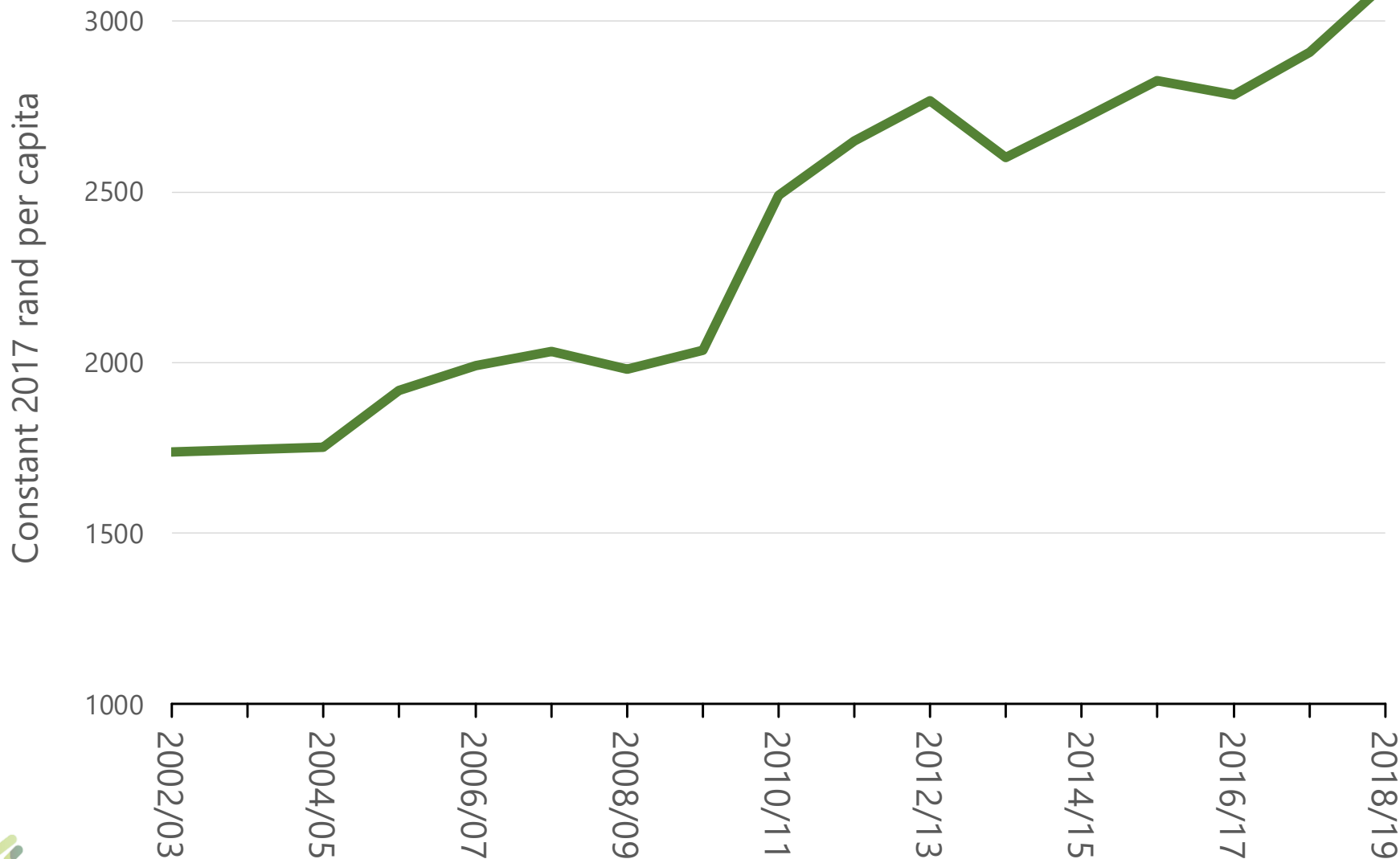
Feels like austerity



# Real resources per capita have grown substantially

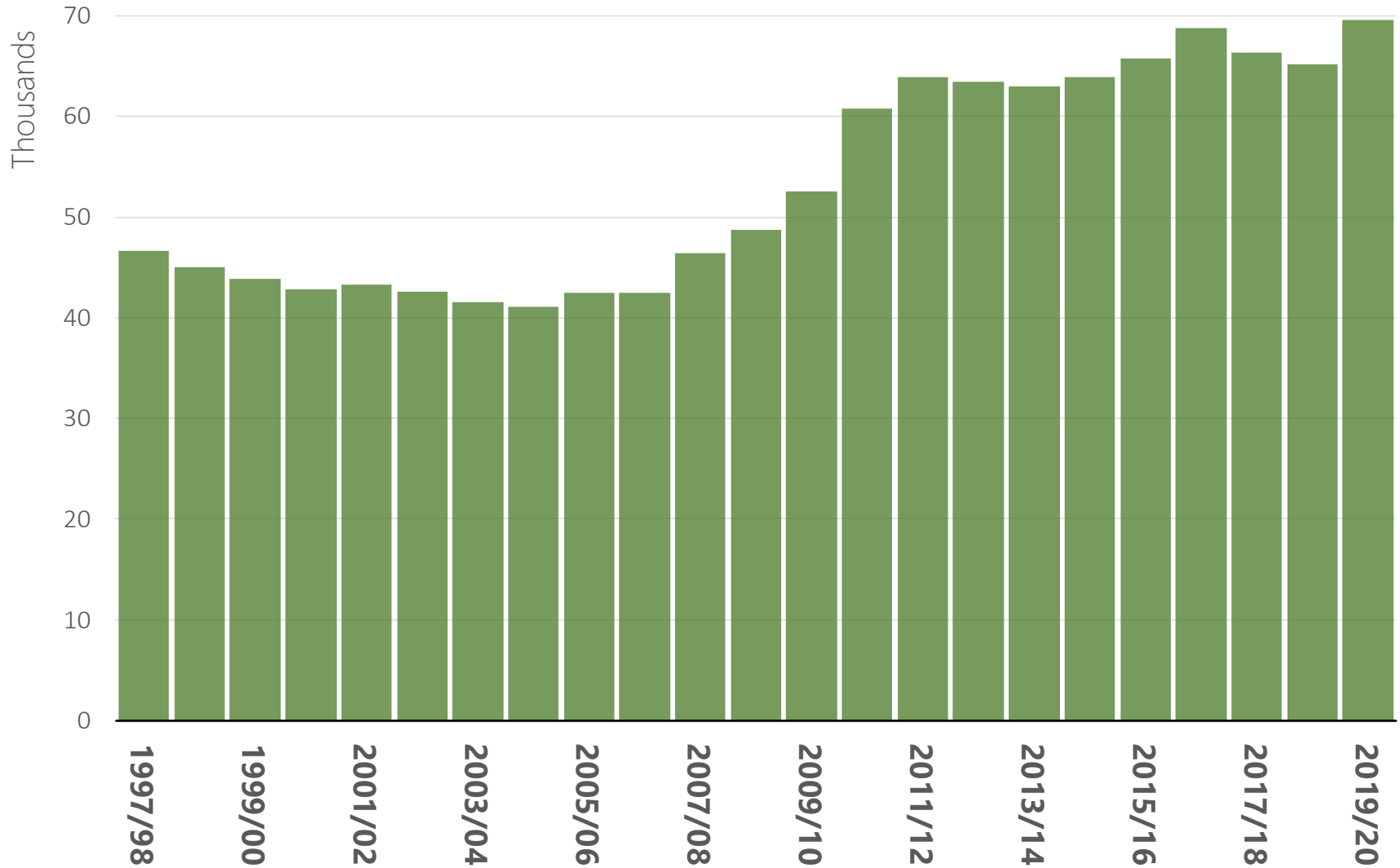
## Gauteng department of health

Expenditure per capita in constant 2017 rand



## Gauteng department of health

Total headcount



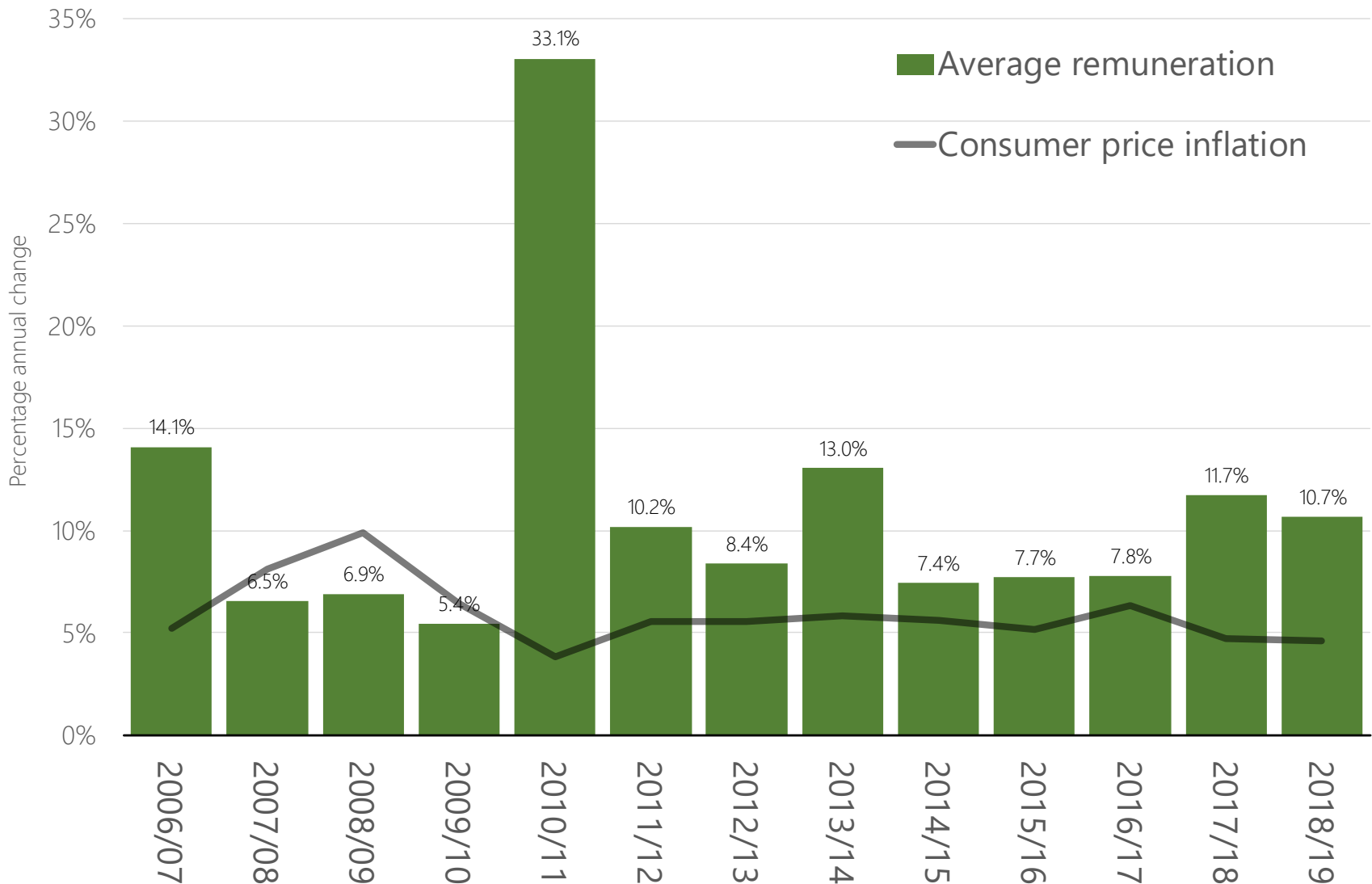
Sources: National Treasury, Persal, Gauteng Provincial Treasury (EPRE 2019/20)



# Wage shock: rapid remuneration growth

## Gauteng department of health

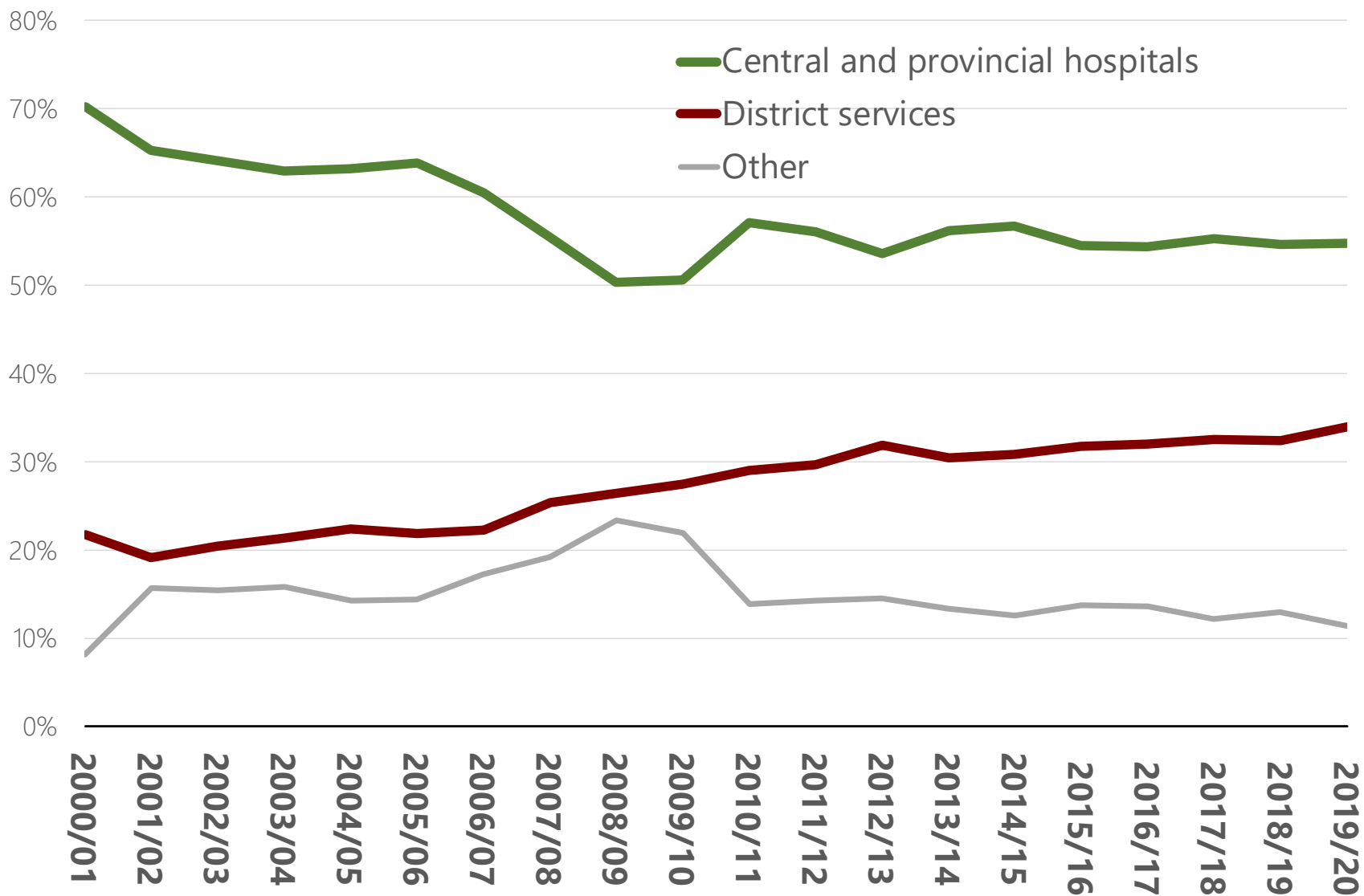
Annual percentage change in average remuneration



Sources: National Treasury, Persal, Gauteng Provincial Treasury (EPRE 2019/20)



# Policy shift: From hospitals to primary care



Sources: Gauteng Provincial Treasury (EPRE various years)



# Trends in Gauteng health budgets

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- ▶ Over the last fifteen years there has been a large increase in resources available to the health department in Gauteng
- ▶ This has been absorbed by a wage shock, a surge in employee headcounts and new allocations for HIV/AIDs
- ▶ Within the resource envelope there have been shifts:
  - Away from goods and services towards compensation
  - Away from hospitals towards district and primary services
  - Away from conditional grants towards funding from the equitable share
- ▶ Also, the last five years has seen a sharp increase in pay-outs for medicolegal claims.
- ▶ This has resulted in a financial crisis, located largely on the central hospitals, manifest the accrued liabilities of the department
- ▶ For the average hospital in-patient, this feels like austerity





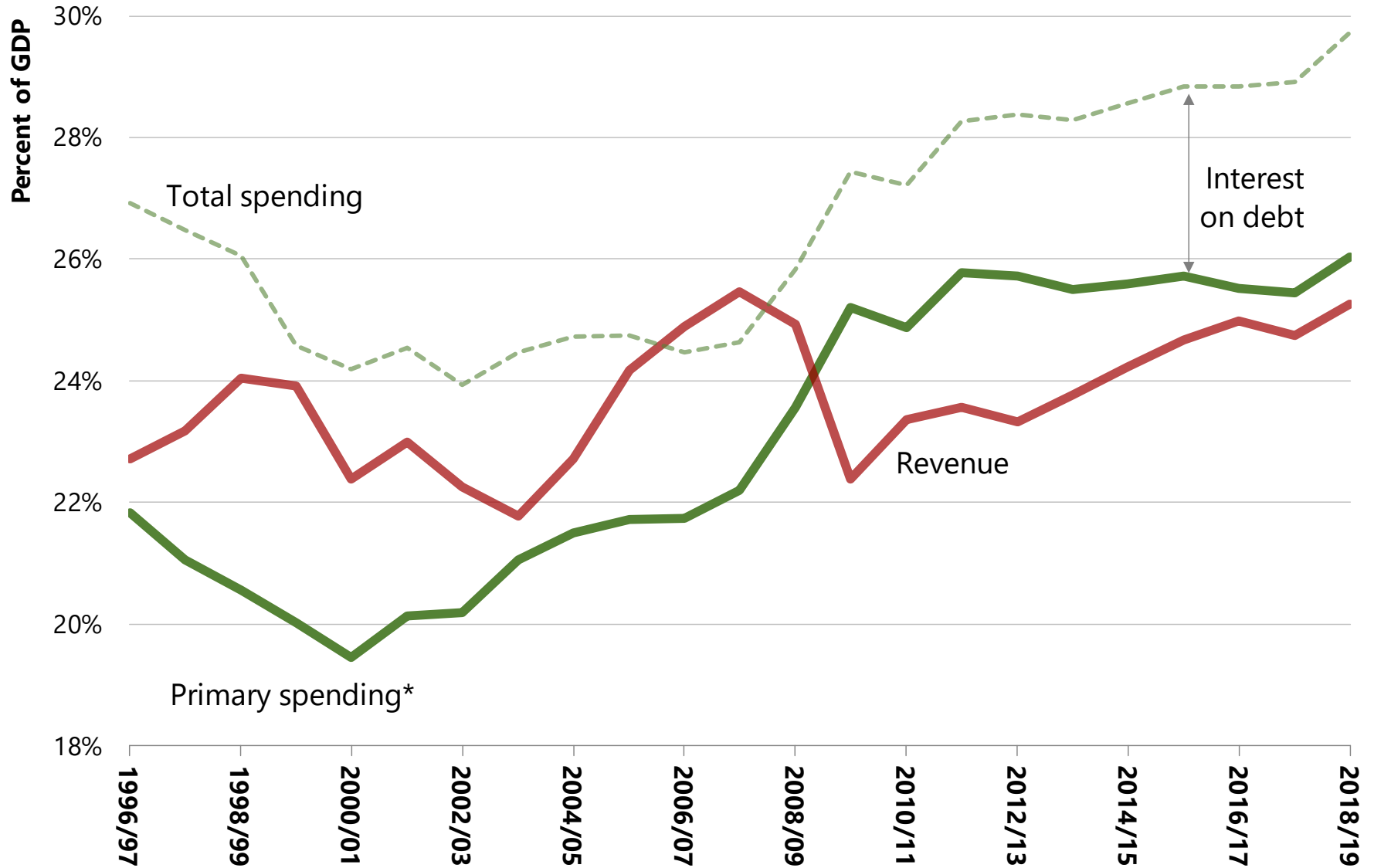
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# Fiscal policy

## No consolidation



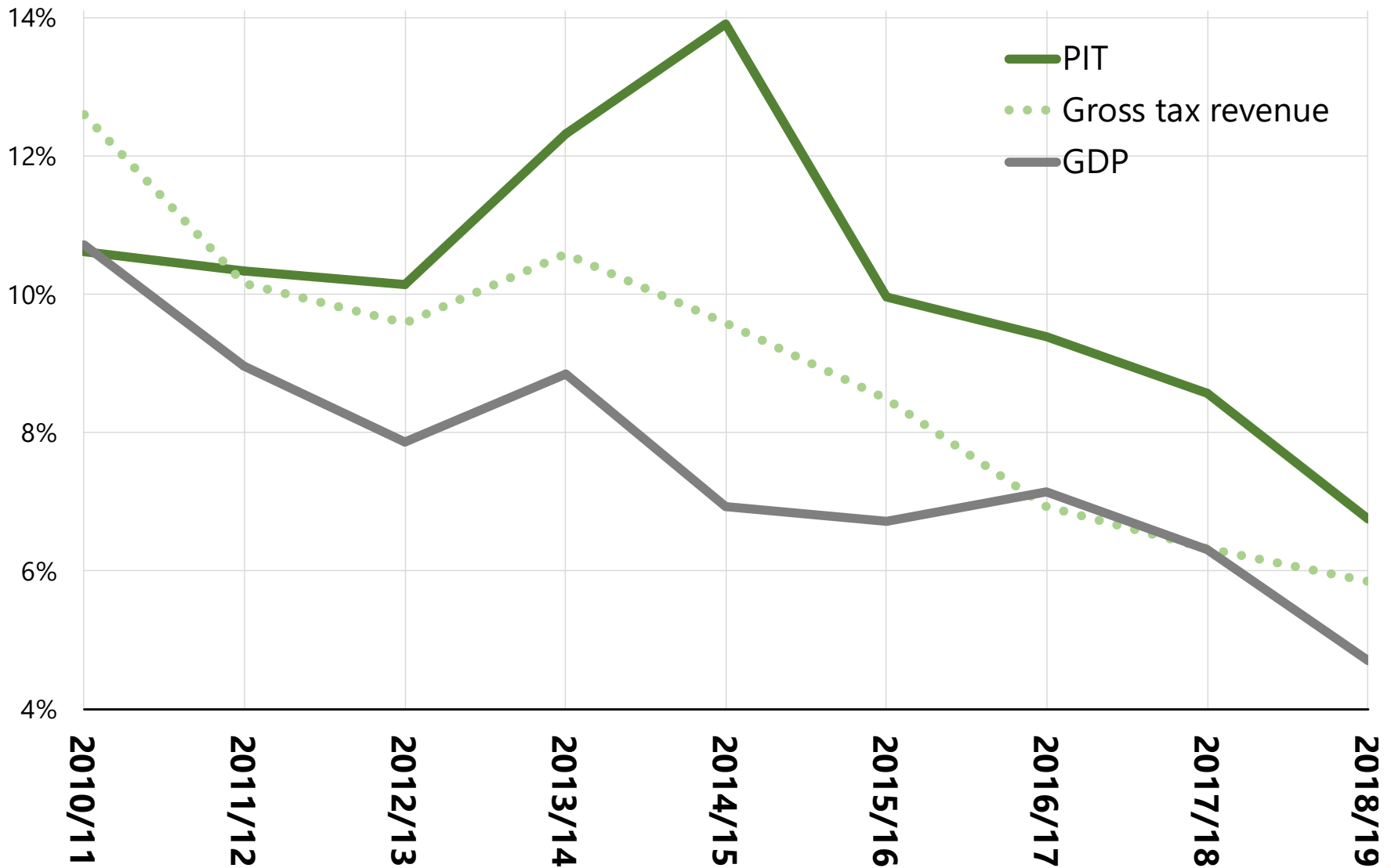
# Twenty-five years of fiscal policy



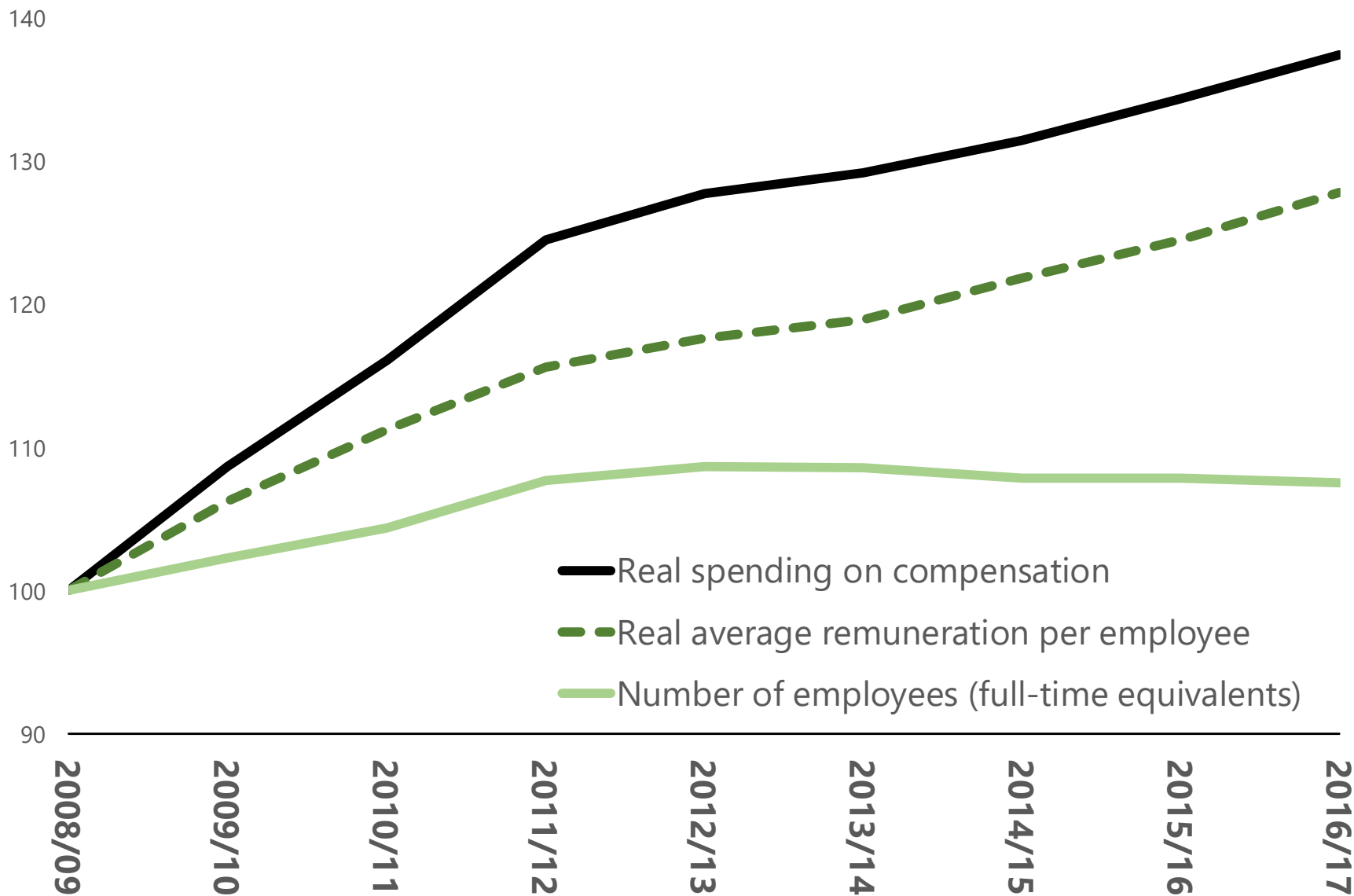
\*Main budget payments excluding debt service costs, payments for financial assets, and self-funding transfers



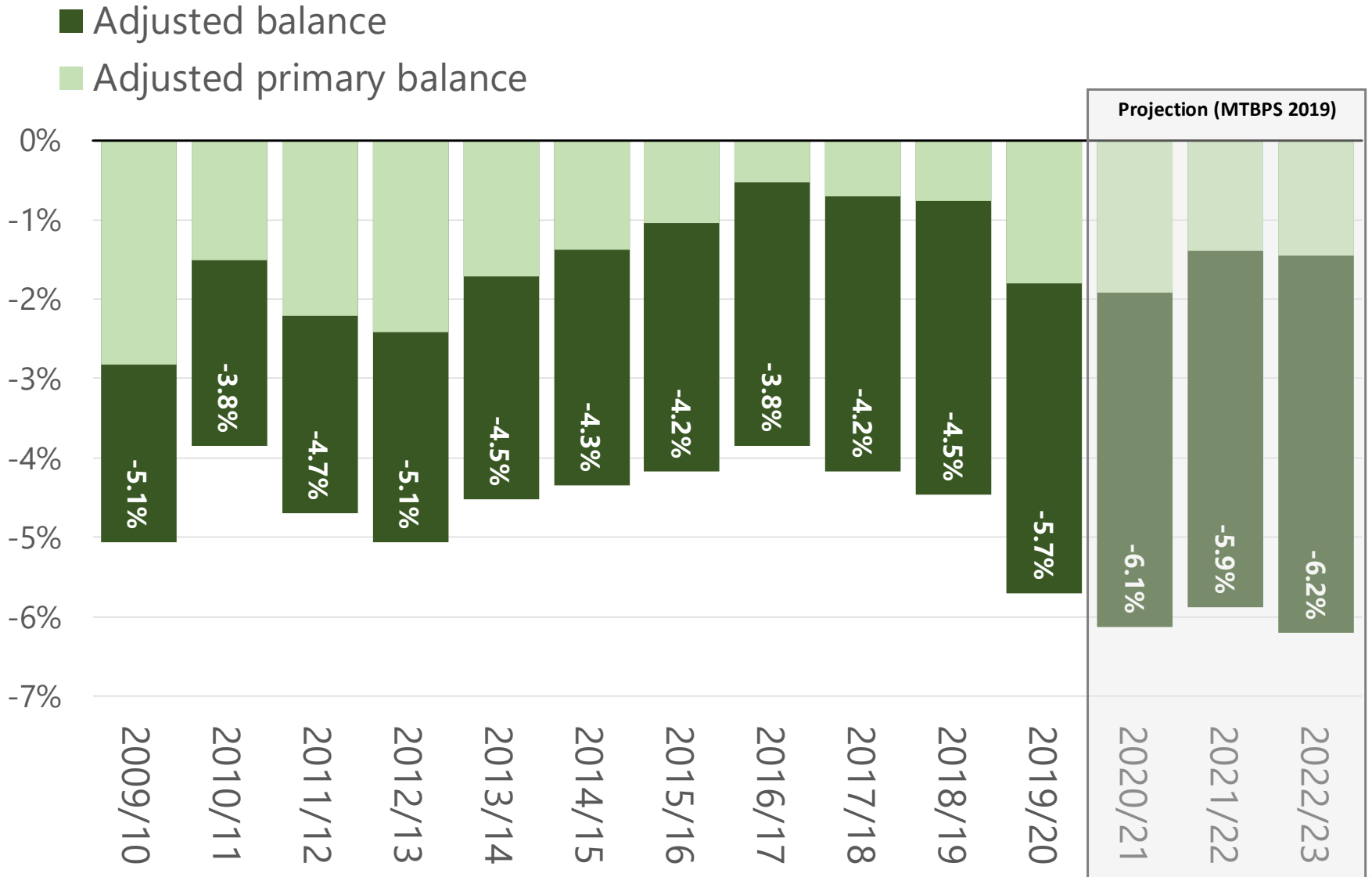
# Slowing growth, falling buoyancy



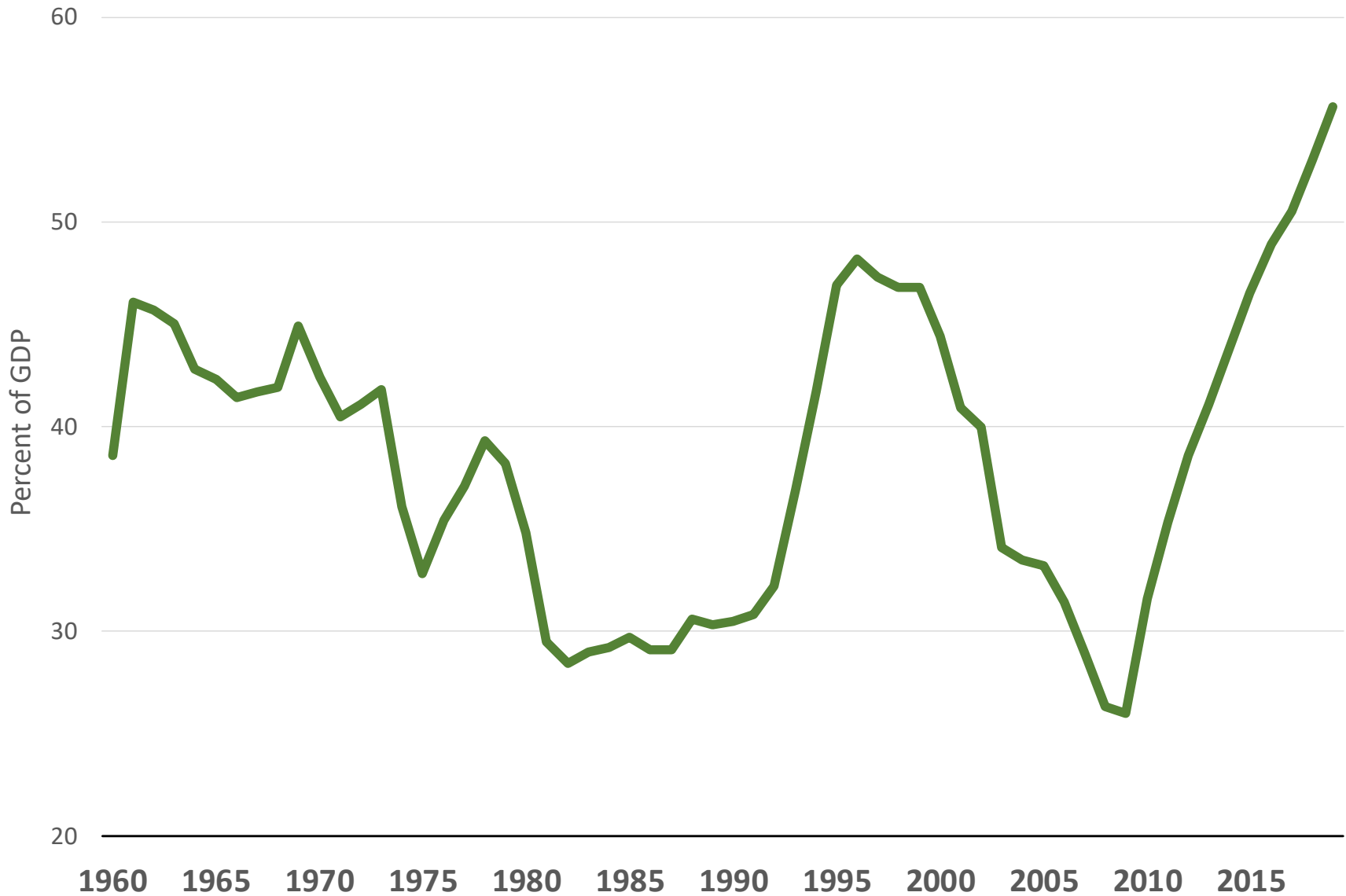
# Wages trump employment



# No consolidation planned



# Debt trajectory is a problem



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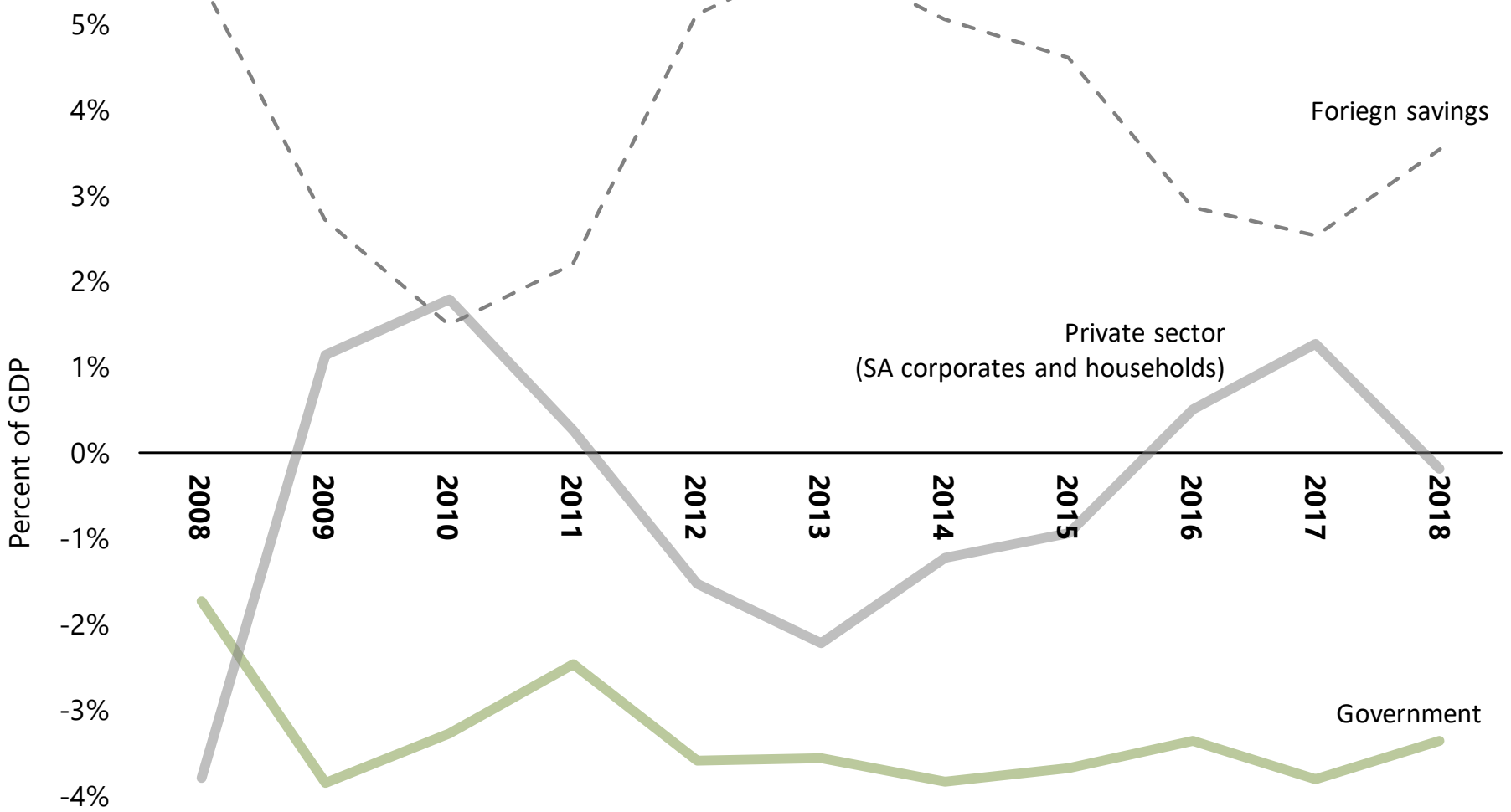
# Policy dilemmas

Both directions at once



# Permanent public dissaving

Lending (savings)



Borrowing (dissavings)





- ▶ Issue bonds
  - Rand denominated
  - Foreign-currency denominated
  
- ▶ Run down assets
  - Privatisation receipts
  - Publicly-controlled funds (e.g. GEPP)
  
- ▶ Shift liabilities and risks “below the line” and “off-budget”



# Both directions at once

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- ▶ At the heart of the current fiscal challenge is an inconsistent policy stance
- ▶ Government maintains a firm lid on primary spending from above, reducing baseline allocations in every budget (e.g. StatsSA).
- ▶ But from below
  - Agrees to large wage escalations in central bargaining
  - Raises procurement costs to support localisation and empowerment
  - Announces stream of new, uncostered policy initiatives
  - Top-slices resources for new projects
  - Shifts budgets from “consumption” to “capital”
- ▶ The core problem is that fiscal policy is inconsistent with the rest of government policy.



- ▶ Departmental finance managers are left to square the circle.
  - Shift the problem onto other public agencies (build up of public sector financial imbalances)
  - Accrued liabilities to suppliers and service providers (hidden deficits)
  - Degrade non-financial asset base (Maintenance budgets, resources for capital, research, systems improvement or workforce skills development are consumed)
  - The real pay of senior managers eroded (brain drain to the private sector)
  - Reduce headcounts through attrition (Slow the intake of new recruits, stop filling vacancies)
- ▶ Instead of accumulating debt liabilities, risks are being shifted below the line, eroding public capabilities



# Fiscal interventions to change our fortunes?

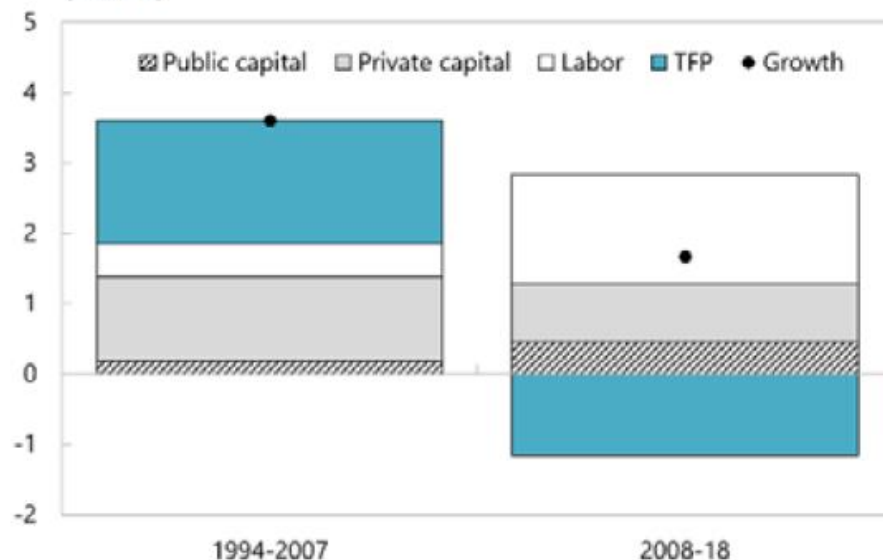
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- ▶ Does a large consolidation make sense?
  - Negative fiscal impulse and “walking down the escalator”
  - Expansionary contraction leading to new growth path?
  - To be effective and credible, fiscal consolidation must be backed by policy action
  - Political risk premium?
  - Structural reform (network industries) or fiscal consolidation or both?
- ▶ ... on the other hand, does a large fiscal expansion make sense?
  - Debt trajectory
  - Savings constraints
  - Supply constraints (electricity)
  - Public infrastructure investment for a new path of growth? (next slide)
- ▶ Fiscal policy is not the source of the problem, neither is it the solution



- ▶ In an attempt to revive growth, government has focused on infrastructure financing
- ▶ The binding constraint on public infrastructure investment is NOT finance; it is institutional collapse and policy failure:
  - Electricity (Eskom)
  - Water (the TCTA and the water trading account)
  - Public housing resources misdirected)
  - Roads (Etolls and Sanral)
  - Passenger rail (PRASA)
  - Digital migration (still pending)
- ▶ After 2007 has public infrastructure spending increased substantially, but productivity began to fall , underscoring the futility of “capital fundamentalism”

South Africa: Contributions to Real GDP Growth (Percent)



# Conclusion: Real compromises required

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- ▶ Commit to a controlled but moderately less contractionary fiscal stance, allowing debt to increase in the medium-term
- ▶ In return, make real decisions on SOC restructuring and reforms to network infrastructure industries that mobilise private investment
- ▶ Public sector compact on incomes and fiscal policy
  - Limit public sector wage growth over the medium term
  - Targeted retirements (e.g. in defence) in return for increased public sector employment levels in key social sectors (health, education, policing and justice).
  - Negotiate the decumulation of quasi-public financial assets (e.g. UIF surplus) to boost to public capital spending and maintenance executed through credible public agencies (Sanral, TCTA, Metros, IDC, DBSA)
- ▶ The burden of adjustment cannot be placed solely on the black poor
  - Accord with business
  - Mobilisation of resources through taxes and savings
  - Deployment of resources through effective partnerships



# Thank you

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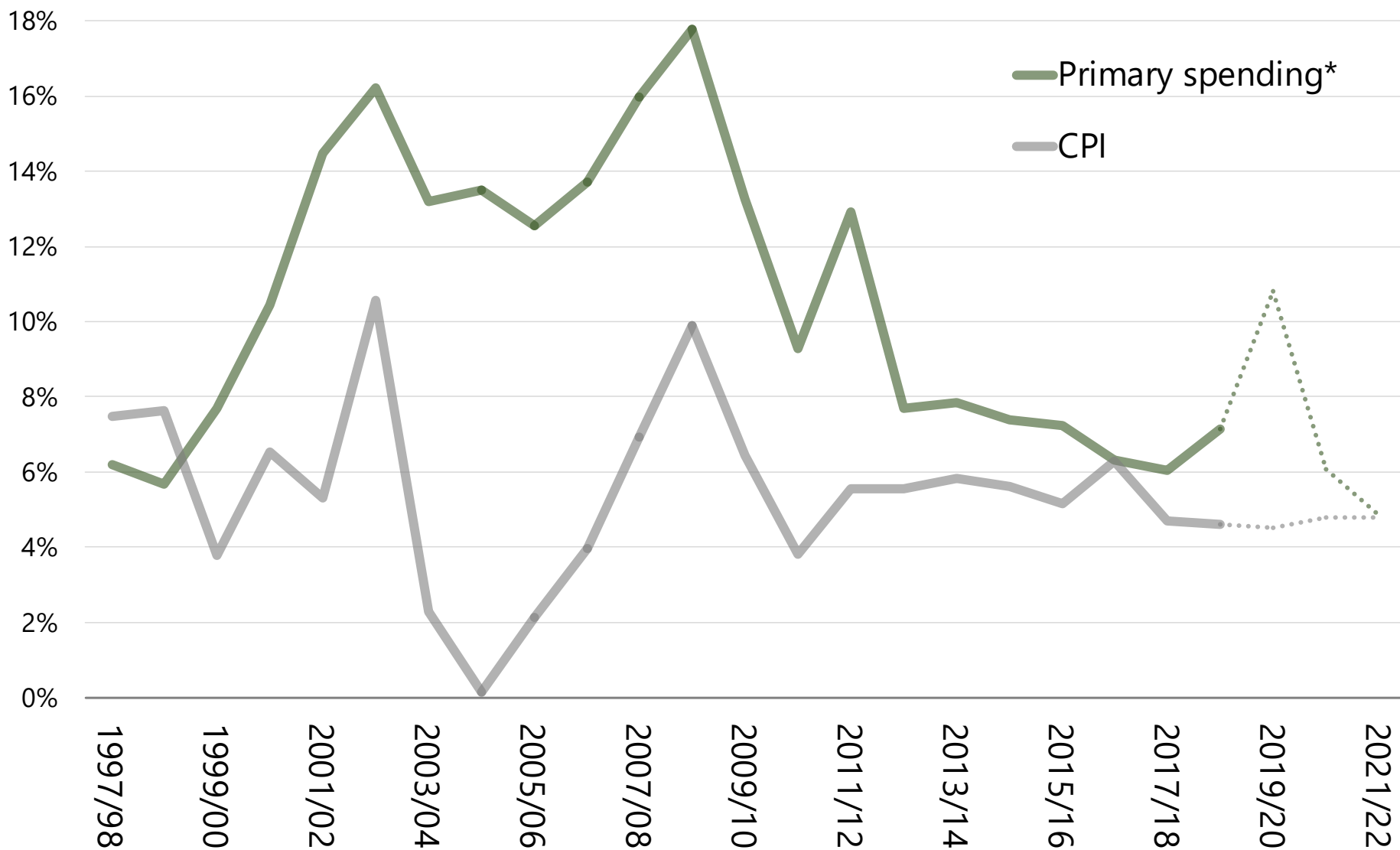


# EXTRA SLIDES





# Spending containment began to ease last year

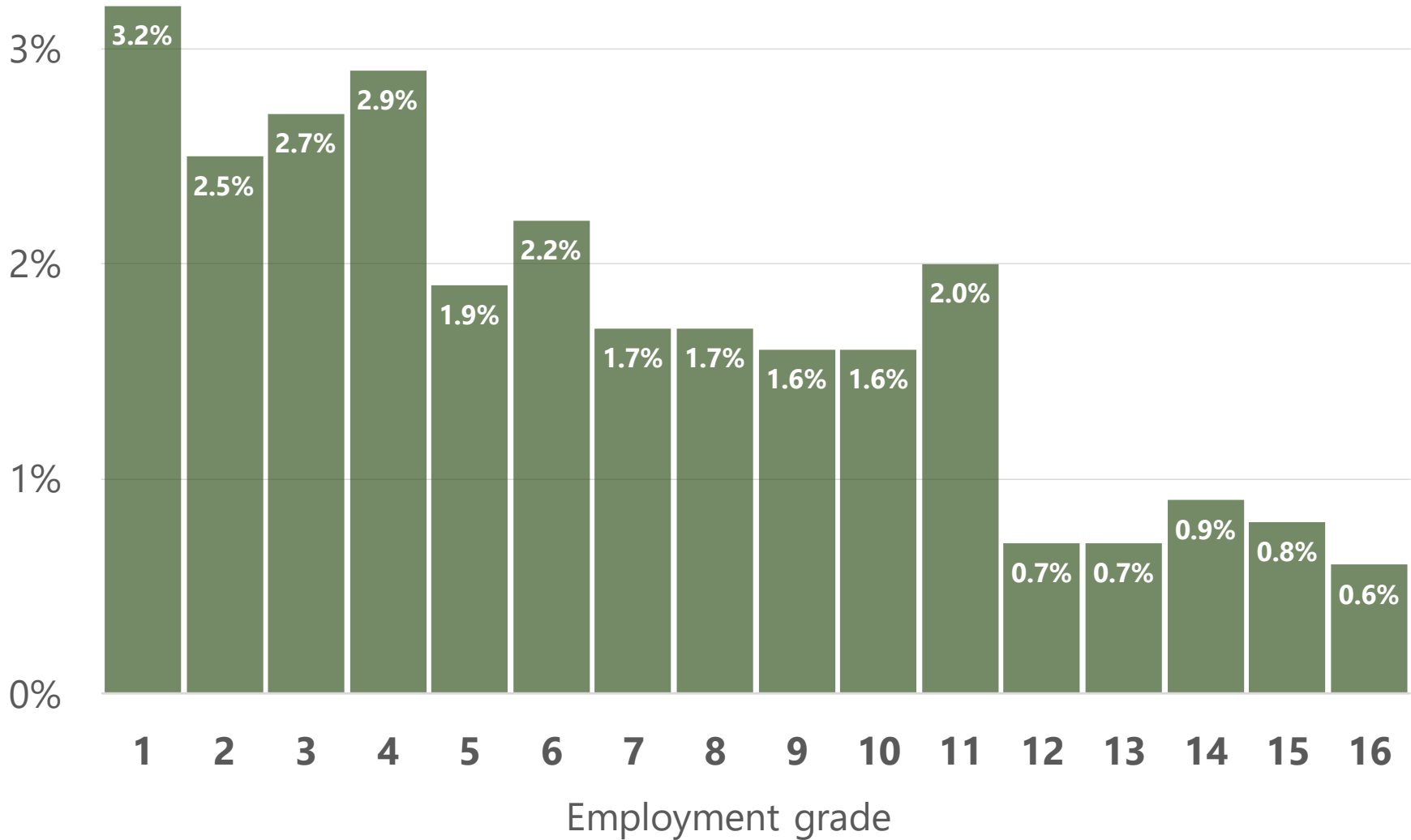


\* Payments excluding debt service costs, payments for financial assets, provision for Eskom and self-funding transfers



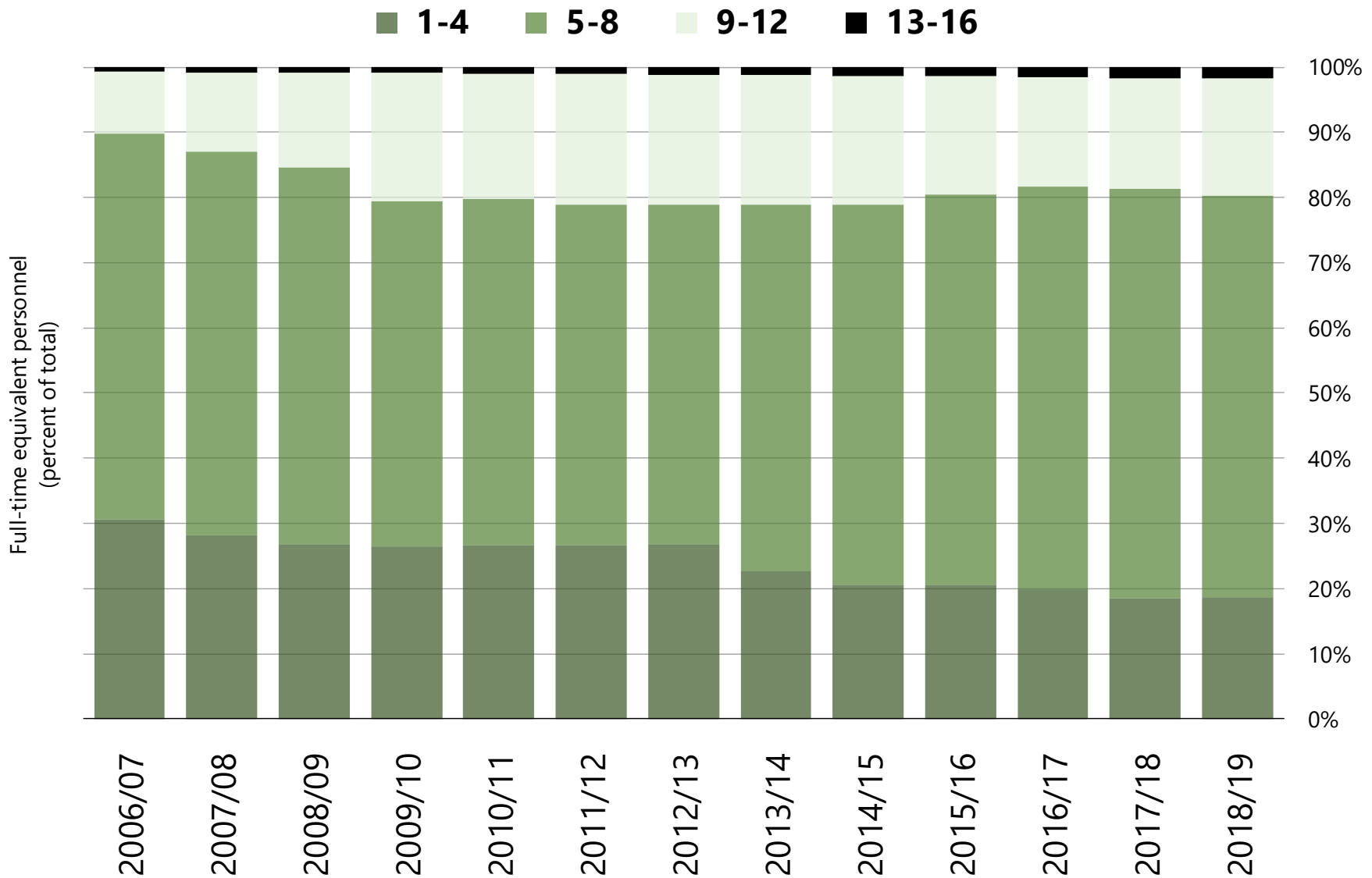
# Change in average salary by grade

Annual average real growth (2006/07 – 2018/19)

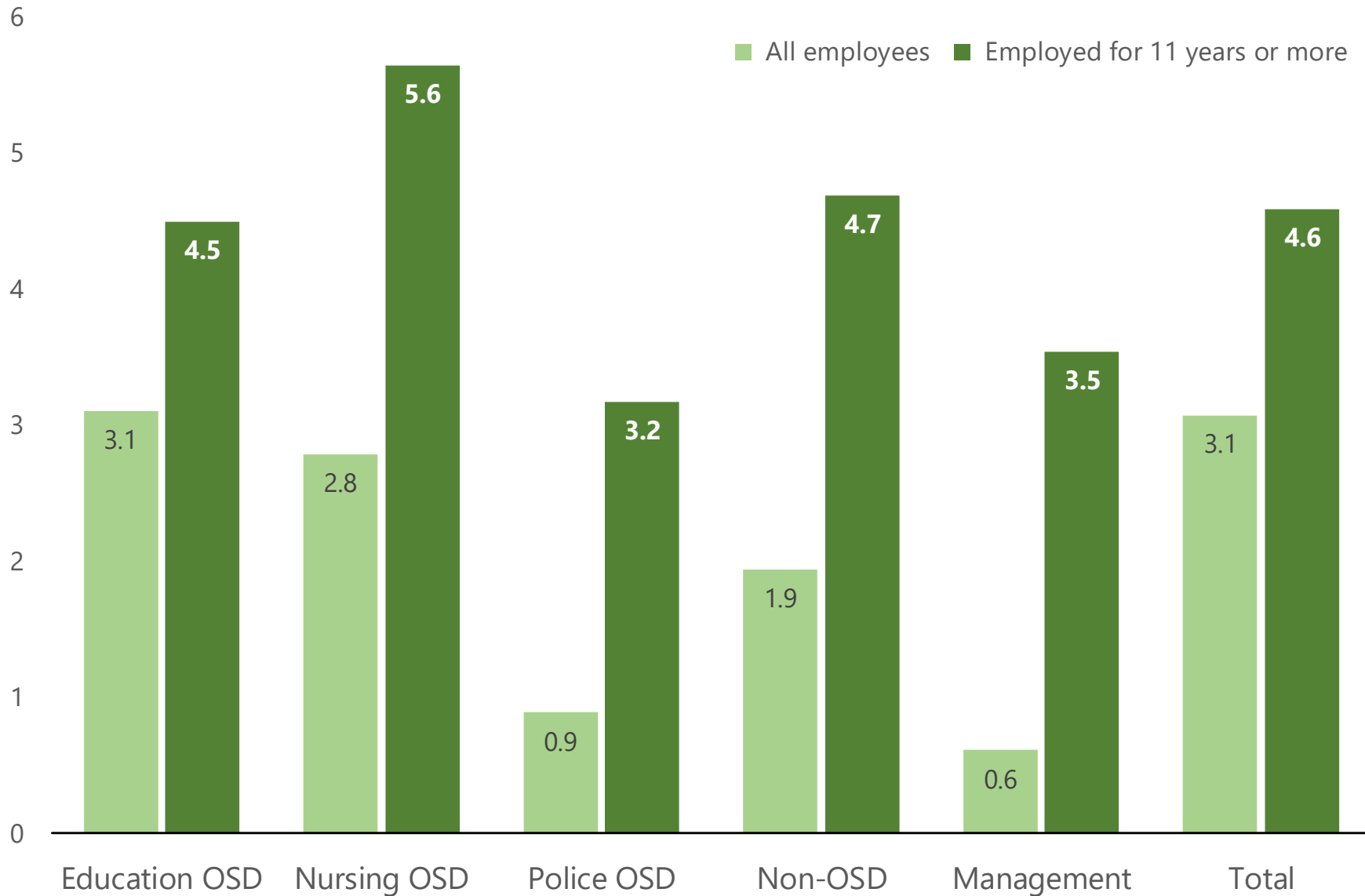


# Distribution of personnel by salary grade

Excluding SANDF



# Annual pay increases: Real average, 2006/07-2017/18



# Inter-temporal public sector balance sheet

	Assets/Inflows	Liabilities/Outflows
Past	Financial assets	Debt
	Non-financial assets	Non-debt liabilities
	Public corporation assets	Public corporation liabilities
Future	Future Revenues	Future spending



## Gross fixed capital formation - Economic infrastructure

- General Government
- Public corporations

