POLITICAL OVERVIEW

'SWEET FRUIT OF LIBERTY'

Manuel shifts focus to micro-economic reform

As the journalists filed in for a Budget briefing led by Trevor Manuel, each was handed an apple. Then, as they munched away like rabbits, the Minister of Finance pointedly remarked on the sweetness of the fruit. This sweetness, he was saying, was the essence of his speech.

"We can now spend in a way that makes a difference," he asserted. The 2001/2002 Budget "heralds the beginning of a new cycle" and public spending could now — based on the harvest of years of careful fiscal and other framework planning and restructuring — focus on micro-economic reform.

In fact, the poem by David Diop which Manuel used as the epigraph to his speech spoke of "the *bitter* taste of liberty" — but he effectively undermined that gloomy prognosis and was happily confident that he had delivered a "good story supported by fact".

Among the key elements of the "sweet fruit of liberty" he identified increased infrastructural spending; "significant" tax cuts; incentives for "strategic" investments; alleviating the national debt through privatisation; and new capital depreciation allowances. The subtext here is job creation. Business will not like the doubling of the skills levy to 1% of the payroll but will like the deferment of capital gains tax until October as well as the promise of an initial public offer of Telkom in the last quarter of the year. The removal of Vat on illuminating paraffin is more than a sop to the poor: it will save 40c/*l* for those, particularly in rural areas, dependent on this crucial fuel.

In many ways Manuel's Budget was an unpacking of Thabo Mbeki's state-of-the-nation address earlier this month. The President had spoken of "a general consensus that we have established the necessary macro-economic balance and stability, away from the precarious position we were in 1994, and despite a volatile international environment". This took a will and determination that sceptics had not believed possible. There were no quick, inflationary fixes.

Manuel noted: "Debt service costs rose during the Nineties from 15% to more than 20% of the Budget in 1998/1999, steadily eroding the resources available for delivery of services. If the trend had continued, the headlines for today's Budget would have been 'Interest on debt now R10bn more than spending on education and rising'. But we reversed that trend. Next year we will spend R10bn more on education than on debt and by 2003/2004, R15bn more. Interest on debt in three years' time will have retreated to 16,4% of consolidated spending."

So a debt trap has been avoided.

In a notable increase of transparency, the new-look *Estimates of National Expenditure* — published as part of the Budget — give a detailed breakdown of each department's spending proposals in such a way that parliament will be able to assess fidelity to specific aims and thus help enforce accountability. It is, of course, on socio-economic delivery that the focus will primarily fall; though whether Ministerial failure will be punished remains obscure.

In last year's review of the Budget, the *FM* cited HIV/Aids, regional conflict, a rising oil price, and a failure to adequately address globalisation as among the factors that could destabilise Manuel's plan.

To a large extent this remains true — but there can be no gainsaying government's acceptance of some difficult choices.

Take the issue of reparations to the designated victims who emerged from the Truth & Reconciliation process. Pressure groups such as the Black Sash have for some time accused Pretoria of dilatoriness in these constitutionally mandated payments. Now, finally, Manuel was able to announce: "Allocations to the President's Fund on the Justice & Constitutional Development vote for 2001/2002 and 2002/2003 will bring the amount available for final reparations to about R800m. These will be paid in once-off settlements and the Budget allows the programme to be concluded over the next two years."

In 1998, when it began to be felt that government might renege on its commitment, it was suggested that the excess reserves of the SA Special Risks Association (Sasria) — amounting to R10bn when it became a State-owned company — should be used for this purpose. The matter was complex but the mooted solution to reparations had emotional force. In the event, after a thorough actuarial report, "a special restructuring dividend of R7,1bn was declared from the excess reserves and applied to reduce public debt". This fact is recorded in government's printed *Budget Review 2001* and the special dividend is accounted for as the proceeds of what is normally called privatisation.

Whether the once-off payments to the designated victims will be acceptable to them is unknowable at this stage — and they have often enough been told not to place a monetary value on their contribution to the freedom struggle. Some may wonder why the reduction of public debt takes precedence over their sacrifices.

There are a few lacunae in Manuel's speech. The Minister notes the difficulties caused by capital outflows and currency weakness, but goes on: "SA has adjusted well to these pressures, partly because we have deep and well-functioning financial

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markets. Over the year ahead the exchange value of the rand is expected to stabilise." It could be asked: within what anticipated range against, for example, the US dollar? How can anyone know? On such matters Manuel must remain silent while projecting optimism. Imponderables remain.

One may prove to be an incapacity at provincial or local level to actually deliver the promised services efficiently — or at all. The Minister admits that "improving service delivery means confronting poor management". This is a truism; what is to be done? Manuel lists three essentials:

- "Getting teachers to teach with enthusiasm is partly about strengthening discipline in the classroom and diligence in the school district office";
- "Reinforcing an ethic of care and compassion in our clinics and hospital wards is also about combating theft of medicines and imposing a cost-effective laundry or building maintenance programme"; and
- "Respect for the rights of the victims and the accused means that court backlogs must be shortened and the criminal justice system modernised";

What are such woolly formulations doing in a Budget speech? Manuel should have left such ditherings to the appropriate Ministers. The most Manuel can do — and it remains a considerable achievement — is to state that government is now in a position to extend its social programmes. This is crisply put in one sentence in his speech: "The social services — education, health and welfare — take up about 58% of the consolidated national and provincial non-interest allocations and will grow steadily over the Medium-Term Expenditure Framework." The aim, of course, is what is still termed a mixed economy, *funding socialism — or a social safety net* — through capitalism, privatisation and prudent fiscal planning.

Expanding and rehabilitating infrastructure should certainly create some jobs. Greater investment — local or foreign — in productive enterprises will do more. It is mildly disconcerting therefore to find that: "A new tax incentive is proposed for companies embarking on approved strategic industrial projects." The details for such a programme are still being worked through; but at first blush the very phrase "approved strategic industrial projects" is too reminiscent of the kind of dirigiste economic planning for which the Nationalist government was notorious.

In contemporary SA, what, exactly, can such a phrase mean? The legacy of decentralisation, wage incentives, mammoth industrial white elephants like Mossgas, secret weapons programmes, huge subsidies for transport networks — the list goes on — is too fresh in memory for government to even contemplate going down that path. Yes, the comparison is odious. But even in a diluted form, such top-down industrial engineering provides short-lived benefits and long-term debt.

Though any prospective foreign investor would be delighted to accept tax breaks and subsidies in exchange for investment, the counter-argument is that a stable tax regime and world market-related wages are in themselves sufficiently attractive to do the trick. The mandarins at Finance must be exceptionally circumspect when it comes to special deals that ignore market realities. However, there are political forces at work that may compel them to cut corners.

As the low poll and results in last year's local elections show, grassroots disaffection is alienating the ANC's natural constituency — precisely those who are crying out for delivery, the basics of life, and jobs. Earlier this week an angry crowd in Pretoria burnt the central railway station. This act — blamed on a small number of arsonists — seems ominously symbolic of a self-destructive rage against circumstance. Their trains did not run on time; and that triggered the responses of the mob. Government should view the event as a warning that time is running out on its promises.

Peter Wilhelm