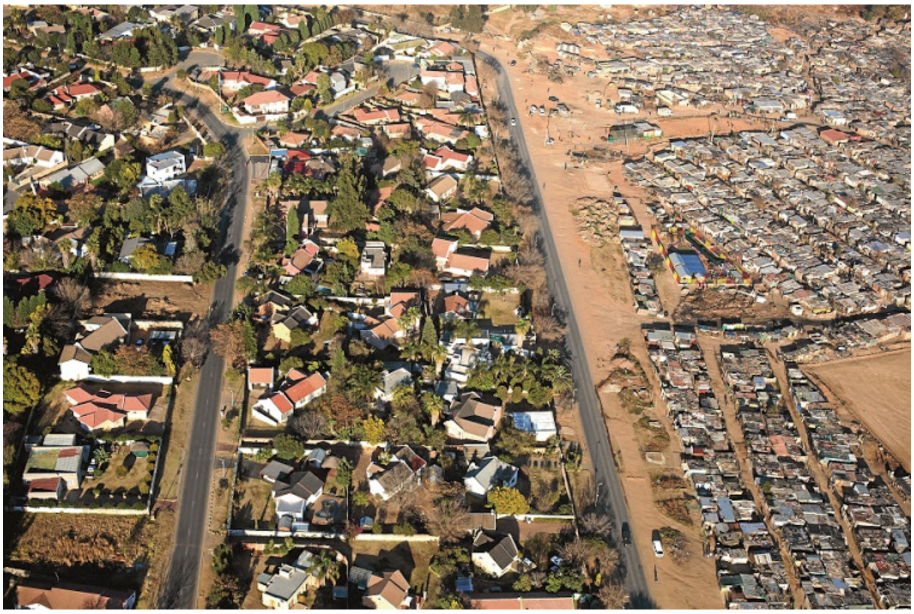
OPINION / COLUMNISTS

NEVA MAKGETLA: Treasury can do much more to analyse inequalities

Economic policy proposals all too often derive from general theories rather than systematic scrutiny of the country's own real-world challenges

BL PREMIUM

11 NOVEMBER 2019 - 14:18 *by* NEVA MAKGETLA



Picture: Getty Images/Per-Anders Pettersson

If you go to the emergency room with pneumonia and they diagnose a broken arm, don't expect useful treatment. Effective cures must emanate from sound, evidence-based diagnoses. That holds for economic policy too, but all too often proposals derive from general theories rather than systematic analysis of our own real-world challenges.

The Treasury's latest medium-term budget policy statement (MTBPS), like its revised discussion document on growth, illustrates this problem. It does not provide a consistent analysis of the factors behind SA's economic ills and, as a result, its remedies are inadequate and patchy. Mostly it takes the easy route of blaming slow growth on poor governance. That ignores SA's unique economic realities, especially unusually heavy dependence on mining exports combined with deep inequalities in income, ownership and education.

In practice, growth in both the economy and government spending largely correlates with the export price of metals and coal, which make up about half of SA's total foreign sales. From 2002-2011, a trade-weighted index of dollar export prices for these commodities climbed 13% a year; the GDP rose 4% a year; and government spending expanded about 7% a year above the consumer price index (CPI). From 2011-2018, in contrast, the index of commodity export prices plummeted 8% a year. Economic growth fell to 1.5% a year, while the real increase in government spending slowed to 2.4%. In current dollar terms SA's exports are still more than 10% below their 2011 peak.

Poor economic policy in SA aggravated slow growth, but was not in itself the prime cause. In these circumstances, a strategy focused narrowly on limiting government capacity to reshape the economy would be counterproductive.

Getting policy right is particularly important because SA has limited fiscal space. Despite huge pressure from business and the ratings agencies the Treasury has avoided a draconian approach to the budget deficit. That's a relief, because the extraordinary cuts needed to reduce the deficit would make it impossible to solve the Eskom crisis and would deepen both the slowdown and socioeconomic inequalities and conflict. Nonetheless, in 2020/2021 health, basic education, social protection and policing will grow less than 1% per person after CPI. Expenditure on economic development will fall behind population growth.

In his MTBPS speech, the finance minister said revived growth requires disruption. That's particularly true when we can't just throw money at our problems. Yet the Treasury's compendium of policy reforms doesn't include stronger measures to diversify the economy or to step up equality in public services.

Consider, for instance, the MTBPS proposals on general education, which "focus on eradicating pit latrines and unsafe school structures, providing learner and teacher support materials, and improving early-grade reading and mathematics," as well as introducing courses on coding and robotics. That doesn't deal with the profound inequalities that cripple education for most young people from low-income households.

Schools in the rich suburbs — still disproportionately white — compare to the best in the world. In townships and historic labour-sending regions, however, they lag far behind in terms of learner-educator ratios, access to learning materials, computers, libraries and support programmes, as well as basic infrastructure. These inequalities largely result from the way government funding systems allocate resources among schools. Yet the Treasury has not provided any analysis of how these processes ultimately maintain rather than disrupt deep-rooted inequalities in public services.

The Treasury cannot tell departments how to spend their money. But it can and should do more to analyse how systemic inequalities in resourcing reproduce inequitable government services. Funding among different communities remains opaque.

Similarly, the Treasury could provide analyses of how government systems, especially for electricity, transport and taxation, in effect promote mining investment across other sectors. This kind of diagnosis would lay the basis for using our limited resources more effectively to bring about equitable growth — which would be a real, and critically necessary, disruption.

• Makgetla is a senior researcher with Trade & Industrial Policy Strategies