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NEVA MAKGETLA: SA's delicate balancing act — managing rising public debt while tackling inequality

SA's gross government debt compares quite favourably with other emerging-market countries, but our fragile social pact demands extra vigilance

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Social and policy cohesion, and ultimately economic growth, depend largely on the government spending to redress the extraordinary inequalities that arise out of the economy. Threats loom on either side of this balancing act, says the writer. Picture: ISTOCK

A lot has been made recently about the risks of rising public debt. Yet as a percentage of the GDP SA's public debt is essentially equivalent to peer economies, and far below the 90% level that usually sets off alarms.

For 2017, IMF data puts gross government debt in SA at 56% of the GDP. That compares to a weighted average of 52% for other upper-middle-income economies, excluding China. Among the Brics countries, China came in at 58%, India at 66% and Brazil at 93%. Only Russia was lower, with debt at only 20% of GDP.

In SA, fiscal policy must always balance the risks of excessive debt against the equally devastating risks of undermining the fragile social pact. Social and policy cohesion, and ultimately economic growth, depend largely on the government spending to redress the extraordinary inequalities that arise out of the economy. Threats loom on either side of this balancing act. On the debt side, concerns centre on rising public borrowing after 2008.

In SA, as in virtually every other country, trends in the budget deficit and public debt switchbacked that year during the worst international economic crisis since the Great Depression in the 1930s. Again using IMF data, SA's gross public debt fell from 42% of the GDP in 2000 to 27% in 2008. Then it began to climb again, and hasn't looked back. Still, the rate of increase in the debt-to-GDP ratio slowed markedly, despite reasonably robust spending. Gross debt relative to the GDP climbed about four percentage points a year from 2008-2011, but just over two points a year after 2015.

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Public debt tracks the budget deficit. In 2007 and 2008 the budget reached a surplus, although state spending was growing rapidly. For the next two years, while the economy and tax revenues contracted, the government pursued a moderate fiscal stimulus, and the surplus turned into a 5% deficit. From 2013, the Treasury managed the deficit down, dropping below 4% in 2016/2017. But in 2017/2018, the government revenues levelled out in real terms — and the deficit climbed back over 4%, where it is expected to stay for the next three to four years. That was red meat for fiscal conservatives.

However, compared to peer economies, fairly low debt levels mean SA still has fiscal space — and that's important, because we also have unusually daunting challenges around inequality. International comparisons show that countries with deep inequalities, like SA, also have slower and more uncertain growth. In large part that arises because inequality breeds political polarisation and conflict over property rights and economic policies.

In SA, as in most highly unequal economies (think petro-states), an effective social pact has emerged, where the government uses taxes on the rich to provide a modest safety net for the poor majority. Without the government spending on social grants, housing, health and education — which together account for half the budget — inequality in SA would be even worse, and so would social and political conflict.

Managing down the deficit too quickly, then, would come at the cost of deepening economic, political and social divisions and conflict. The medium-term budget policy statement provides reassurance that the government is taking a realistic approach to these trade-offs.

Total spending is expected to climb 3.6% after CPI inflation this year, an expenditure on major social services and housing by 5.1%. That is a significant improvement over the past two years, which saw much slower growth in these functions.

The bigger challenge, however, is to find more effective ways to transform the economy, rather than just redistributing its benefits after the fact. The lion's share of economic spending still supports relatively small, capital-intensive industries, rather than promoting more labour-intensive growth while expanding economic opportunities in townships and rural areas.

Meanwhile, poor households still have very little access to quality education, and formal pay scales remain deeply inequitable by global standards.

Until the roots of inequality in the economy are addressed, the budget will always remain under pressure.

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