OPINION

NEVA MAKGETLA: Robbing Peter to pay Paul is not an effective funding strategy for SOEs

Innovative thinking is needed as cutting social services to rescue SAA is not a viable option

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The 2020 budget has brought home the cost of rescuing Eskom and SAA through fiscal transfers. To pay for them, the government plans below-inflation increases in funding for education, health care and the police. The Treasury has in effect bet that it can impose a wage freeze on public sector workers to save services despite the real cuts in budgets.

Nonetheless, the planned payments to Eskom and SAA come at the cost of crucial investments in citizens and communities. That points to the need for much more rigour and innovation in designing support for the state-owned enterprises (SOEs).

For the coming year the budget provides R56bn for Eskom and R10bn for SAA. That sum equals just 3.4% of non-interest expenditure, but it will absorb almost two-thirds of the total planned increase in nominal rand. It's wishful thinking to believe we can avoid paying for Eskom's bad decisions and incompetence around new electricity investments over the past decade. The question is whether fiscal transfers are the best available option. It would make more sense to use the savings in the Unemployment Insurance Fund (UIF), which now has a surplus of more than R150bn, and public servants' pension funds, to avoid real cuts in health, education and community safety.

The case for putting billions into SAA is less compelling. The planned R10bn allocated for the coming year equals only 0.5% of non-interest spending. But it will absorb 9% of the total nominal increase in budgets for government services. And it comes on top of R20bn in fiscal transfers to SAA over the past three years. The R10bn set aside for SAA this year equals the real cuts planned for education and health care. If the money went to these two functions instead of SAA they would be able to provide the same level of services as in 2019 (though population growth would still mean a fall of about 1.6% for each pupil and patient).

In effect, the budget downsizes core national functions to save an airline that demonstrably cannot compete with private suppliers in commercial or developmental terms.

In 2020, in constant rand, education spending will decline by 1.9%, health care by 1.2%, the police 2.8% and defence 3.4%. In per person terms, education drops by about 3.4% and health care by 2.7%. To stay within these budgets, the Treasury hopes to freeze public servants' pay rather than shrinking services to the public. The provision of annual seniority notches offsets the freeze to some extent, so public servants would see their real incomes fall about 3%.

Strategic restraint on public servants' pay is unavoidable in the circumstances. But it must reflect the realities of the SA public service. First, public servants are paid more than private workers largely because so many have professional degrees. The public service employs about 350,000 teachers and 150,000 doctors and nurses. Labour force surveys find that 45% of public sector workers across all three spheres of government have a postsecondary diploma or degree, compared with 15% in the private sector.

Second, the main public services are still understaffed, especially in poor communities. Certainly there are pockets of patronage and nepotism at the top of the administration, but the vast majority of public servants provide crucial services. And to this day the pupil-teacher ratio in historically African schools is twice as high as in historically white institutions.

These are tough economic times, and likely to get much tougher with the coronavirus outbreak. In these circumstances we need far more innovative and realistic about the SOEs. In particular, we have to ask whether it is worth cutting key social services to rescue SAA, and think out of the box about how to finance the unavoidable investments in the electricity system.

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