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# The basis of South Africa's annual budgets needs an overhaul. Here's why, and how

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Governments in most developing countries use medium-term expenditure frameworks as fiscal policy instruments to match the imperatives of policy, planning and budgeting over the medium-term horizon.

This week South Africa's finance minister Tito Mboweni will deliver the country's budget. Photo by Jeffrey Abrahams/Gallo Images via Getty Images

South Africa adopted the framework in 1998.

Countries with strong ties to the Bretton Woods institutions – the International Monetary Fund (IMF) and the World Bank – have adopted the medium-term expenditure framework as the main driver of budget policy. Like macroeconomic management orthodoxy, the Washington consensus forms the basis of this approach. The World Bank's push for the adoption of frameworks has been subtle. For instance since 1991, they have been an integral part of the Bank's products such as technical assistance, lending operations, and analytical and advisory services.

The thrust of medium-term expenditure frameworks is budgeting and public financial management. Indeed, the planning inherent in them is financial planning. That is the problem. They facilitate multi-year budget planning. Since the framework is an expenditure planning tool, it pays little attention to comprehensive economic development.

Budgeting is an important feature of economic management, the precursor to any development plans. Just like households, the limited resources that accrue to government have to be distributed across many competing demands. The question is, budgeting to what ends? It is here that we seem to have lost the plot. We lack a cogent development plan that drives the budget process.

Medium-term expenditure frameworks can be useful only when they are based on comprehensive medium-term development plans.

## Economic transformation

No country since the Second World War has transitioned from a developing to a developed country without recourse to systematic economic development planning. Taiwan, South Korea, Singapore, and China are some of the countries that have seen an incredible transformation over the past 50 years.

Each has adopted (mostly five-year) medium-term economic development planning as an instrument of development. The budgets of these countries have always been premised on the requirements of the medium-term plans.

Over two decades, South Africa has developed its own ritual. This involves a state of the nation address by the president to mark the opening of parliament, followed – usually a week later – by the presentation of the budget by the finance minister. This involves setting out policy priorities, tax policies, and division of revenue among various tiers of government.

But the lack of progress on crucial development benchmarks over the past two decades suggests that it's time to reflect and question the effectiveness of the medium-term expenditure frameworks as an instrument of true economic development.

Since the turn of the century average incomes in South Africa have been stagnant – the average annual growth rate is 1.1%. At this rate it would take two generations for average incomes today to double. The Human Development Indicator, a broader measure of economic development, also shows that South Africa's economic development over the past two decades has been well below comparator countries in the high human development group.

Nor is pursing economic growth the panacea. Take Botswana, which has recorded impressive economic growth numbers for more than 50 years. According to the World Bank Group's database, Botswana recorded a real GDP growth rate of 8% a year over the period 1971 to 2019.

Yet one out of five people is poor and without a job.

Over the same period, South Korea, like the three other East Asian countries that underwent a phenomenal rate of industrialisation between the 1960s and the 1990s, recorded a growth rate of 7%.

So why has Botswana not achieved the same level of economic development as South Korea, Singapore or Taiwan?

The answer is: it failed to adopt an economic policy strategy that could produce real economic development. Even though Botswana has had development plans, they have not had the preeminent role in economic management as compared to those of the East Asian countries. As a result they have been ineffective: the incredibly low level of industrialisation and high level of unemployment in Botswana after decades of economic growth points to this.

The stark contrast in economic development between Botswana and South Korea is instructive. South Korea has drawn on economic development planning and the allocative strengths of markets.

The Korean economy, which was largely agrarian, has been transformed into an industrial giant over four decades. The country can also boast of global corporate giants such as Samsung, SK Holdings and the Hyundai Group, among many others.

The country's unemployment rate of 5.4% reported in January 2021 is reckoned to be the highest in two decades.

The country has used medium-term development plans since the Korean Development Board was set up in 1961. Each plan has had very clear economic development objectives. The development plans have then informed the expenditure framework. South Korea – and most of the successful Asian countries – drew on the positives of centralised planning and a price-mediated market system to drive economic development.

Even today, most of these countries continue to guide their economic development path with the aid of well thought through medium-term national development plans.

A distinctive feature of the development planning structures in the East Asian countries was the way they operated. They ensured an effective integration of planning, financial resource allocation, monitoring and evaluation.

## What's needed

The international financial institutions have often denigrated centralised planning.

In the 1960s when most newly independent countries in Africa took to planning, it was seen as anathema by neoclassical economists. Rather, the West and the international financial institutions promoted unbridled free-market ideals. Yet there has not been a single country in the global South that has developed by strict adherence to free-market ideals.

It is in this vein that South Africa's quest for economic development and improved well-being of its population has to be interrogated. The National Development Plan, which was released in 2012, only constituted a vision. It is thus not surprising that most of its objectives have eluded the country. The country has failed to distil its vision into medium-term development plans that could drive the national budget cycles.

What South Africa needs now is a comprehensive medium-term economic development plan. This would ensure that the country's intractable social and economic problems are addressed in an integrated fashion. The problems are often interrelated.

Implementation should be coordinated by a super-ministry. In the case of South Korea the "super-ministry" controlled four levers of economic management: planning, budgeting, material resource mobilisation and the statistical service. The ministry was headed by the deputy prime minister.

A poignant observation that forms a thread that runs through the diverse East Asia development models is the role of government. The acute limitation of the market in facilitating efficient allocation of resources underscores the critical role of government intervention in fostering economic development. The dominant view that countries can outsource the economic development enterprise to the private sector is a ruse.

The developed countries in the West, the chief proponents of the Washington consensus, don't even believe in the pre-eminence of markets. The massive government intervention in the wake of the pandemic and the pivoting towards the overt adoption of industrial policies by the US is ample demonstration of why South Africa has to look East for economic development lessons.



## ABOUT THE AUTHOR

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