



# OUTA

ORGANISATION UNDOING TAX ABUSE

**October 2018**

## **A Budgetary Strategy for South Africa**

**Motivation to curb taxation and proposals for reduced  
Government expenditure and demand on tax revenue**

**Compiled by OUTA**

**Input and support from Econometrix**

**ORGANISATION UNDOING TAX ABUSE NPC**

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# **Combined Report:**

**A Budgetary Strategy for South Africa**

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## **INTRODUCTION**

### **Background**

The South African Government has reached the limits of its ability to fund its expenditures via taxes, excise duties and user charges. It has also reached the limit of the amounts that it can safely borrow.

Here we present the conclusions of the research reports entitled “Taxation ceiling for South Africa and the implications of the Laffer curve” and “Theory of Fiscal Policy”; both were concluded in September 2018. Founding quantitative research was conducted for OUTA by Econometrix, South Africa’s most experienced independent economic consultancy.

The situation is further complicated by the fact that much of the existing infrastructure is beginning to reach the end of its expected service life and, in any case, was designed for a population that was much smaller than the real number of inhabitants of the country today.

Growth ambitions, as expressed in Government plans, will not be realised unless taxation is reduced to internationally competitive levels and expenditure on infrastructure is increased to make good backlogs and to provide for the requirements of an expanding economy.

Failure to correct the situation now will inevitably result in irreversible economic decline.

Measures to do this involve:

- Adoption of a logically coherent fiscal policy;
- Identification of the limit to the proportion of GDP that the Government can extract through taxation without excessively damaging economic output; and,
- Undertaking a program to confine Government expenditures only to those necessary for the maintenance of social stability and economic growth.

These measures constitute a fiscal strategy for South Africa. At this point the country does not have a Fiscal Strategy, nor is there any apparent recognition of the fact that limits to taxation have already been reached. The purpose of this document is to outline such a fiscal strategy for South Africa that covers these measures.

### **Approach**

The approach begins with a summary of work done on the development of a Fiscal Policy and a Fiscal Rule for the country. This is based on a realistic rather than idealistic theory of government fiscal liabilities and is, arguably, more appropriate than the currently prevailing theories that have failed in most developed and developing economies around the world. It also considers the content of the Medium-Term Budget Policy Statement – which was introduced on the 24<sup>th</sup> of October 2018.

A separate study was undertaken to establish the limits to taxation. The outcome of that study was also incorporated into this final report, and it corroborates the findings of similar research that were recently conducted on the South African economy.

Finally, within the framework of relatively safe limits to both borrowings and taxation provided by these studies, a high-level outline of what can be done to bring Government expenditures in line with the resources available was developed. In alignment with the political intentions stated in the MTBPS, OUTA considers this to be essential for the fiscal sustainability and economic growth of the South African economy in the near future.

## **FISCAL POLICY AND POLICY RULE**

Desirable features of any fiscal policy are:

1. Debt should be used only to fund assets and activities that would increase or, at least, maintain levels of future tax revenues. This means that current expenditures should never be financed by borrowings;
2. Current taxpayers should neither subsidise nor be subsidised by future taxpayers;
3. The political process should be such that changing a chosen fiscal policy and policy rule should be considerably more difficult than reducing the level of current net expenditure in any particular year. That is, simply ignoring the policy and rule should not be the easiest expedient at the time of budget formulation;
4. Government access to capital markets should be preserved at all times.

Financing of government expenditures is achieved through a combination of taxation and borrowings. Where these fail to close the funding gap governments can resort to asset sales, privatisation and public-private-partnerships.

Since there is no inherent upper limit to government expenditures these can only be limited by the money that can be raised through taxation and borrowing. The former is limited by the ability (and willingness) of taxpayers to provide funding; and the latter is limited by lenders' concerns with regard to the solvency of the state.

Ultimately, therefore, the willingness of lenders to make further funds available is the only limitation on government expenditure<sup>1</sup>.

### **The purpose of a Fiscal Policy Rule and its objective**

"Insolvency" is a condition in which the net amount of funds invested in an enterprise (including governments) exceeds the depreciated value of its assets in service at that time.

Under favourable circumstances governments can operate (and, indeed, have operated) for many decades in the region of insolvency. The more serious state of bankruptcy occurs when the degree of insolvency reaches levels that are a cause for alarm among debt providers. At this point they refuse to provide further funds and take steps to recover whatever they can of funds previously made available. It is at this point that a government loses control over its finances.

A fiscal policy rule is a set of limitations, expressed either in the form of ratios between financial quantities (such as the debt to GDP ratio) or as absolute amounts, under which a government limits both its expenditure and the amount it allows itself to borrow in any year.

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<sup>1</sup> This neglects the issue of deficit financing by central banks and monetary authorities. In this case the result is a partial default in the form of inflation, and/or more subtly, an appropriation of some of the earnings on interest bearing investment instruments.

The purpose of a fiscal policy rule is to provide the fiscal authorities with an argument to resist the pleadings of those who would wish to benefit from government largesse in any particular year by placing a limit on the amount of additional debt that may be added to the taxpayers' burden.

The primary objective of this submission is to help avoid conditions likely to place government in a bankruptcy situation.

### **A Fiscal Policy for South Africa**

Fiscal policy rules in leading economies (USA, Euro area etc.) provide little (if any) guidance in this respect. A summary of fiscal policy rules is given in the IMF publication: "Fiscal Rules at a Glance" (March 2017). This covers 96 countries but not South Africa because South Africa does not have a stated statutory fiscal policy nor a fiscal policy rule. A notable feature of this summary is the similarity of rules across countries and the frequency with which policies and policy rules have been changed.

This suggests that the types of rule that have been applied are either dysfunctional or ineffective. The reason for this could well be that currently there has been (until now) no logically coherent theory of fiscal policy covering realistic rather than idealised circumstances.

Expenditures by any economic agent, including a government, can usefully be divided into two classes: those needed to pay for the immediate necessities and wants of the entity in question; and, those needed to pay for assets and activities that can reasonably be expected to produce an income in the future. The first are "Current Expenditures" and the second are "Capital Expenditures".

Within a national budget all expenditures associated with the expansion of infrastructure and the renewal of infrastructure would qualify as capital expenditures on the grounds that they are necessary to support future levels of economic output and hence tax revenues. A similar case can be made for including government expenditures on the education and training of the future workforce<sup>2</sup>. The same, however, cannot be said for expenditures on recreational facilities or items such as monuments, unless measures have been found for the beneficiaries of these assets to pay user charges that would, in due course, defray the costs of construction.

Current expenditures include all other costs of operation of a government, including interest and loan redemption charges associated with all outstanding debt owed by a government as well as the normal costs of maintenance on infrastructure.

A further concept needed in the development of this theory is that of "Assets in Service". In the case of physical infrastructure, this means all those items that have been constructed at any time in the past and remain in use (i.e. that have not yet been demolished, sold, scrapped or abandoned). In the case of the workforce, this means all the inhabitants of the country who have entered and remain in gainful employment (however defined).

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<sup>2</sup> This refers to post-schooling education and training for vocational skills development. Expenditure on schooling is a function of population numbers and the age structure and is not, in itself, caused by the requirements that an economy places on its workforce.

Development of a theory of fiscal policy, leading to the development of a fiscal policy rule suitable for a country such as South Africa was undertaken by Econometrix and is contained in the report written for OUTA, entitled "A Fiscal Policy and Fiscal Policy Rule for South Africa".

Elements of the theory comprise:

1. The quantities of infrastructure brought into service during each year. These would be items such as kilometres of roads, bridges, capacity of wastewater treatment plants, etc., together with the weighted average unit costs for each class of infrastructure. These elements allow the amounts to be spent in each year to be calculated.
2. The numbers of people in each occupational category entering the workforce in each year, plus the weighted average costs of education and training given to people in each category. This enables the total cost of education and training of new entrants to be estimated. The theory does not take account of ongoing training of the existing workforce.
3. The weighted average service life of infrastructure installed and, similarly, the weighted average working life of people in the labour force. These, together with the annual expenditures associated with infrastructure and the workforce enable the total asset value of the country to be estimated. (This neglects natural resource endowments and assumes that the value is equal to the total historical cost of the infrastructure in service and the total historical cost of education and training of those still in the workforce).
4. Three macro-economic parameters: the real rate of growth in output; the rate of inflation; and, the interest rate.

The theory unites these variables to produce relationships that provide firm guidance on the amounts that can safely be borrowed to cover expenditures on infrastructure and on the education and training of the labour force. It also provides measures to assess the solvency of the government under any combination of major macro-economic conditions.

### **A fiscal policy rule**

The fiscal policy rule, based on this theory, recommended for South Africa is a system in which all interest arising on outstanding debt is charged directly to the state revenue account and therefore financed directly by taxpayers in the year in which it arises. Capital expenditures are, in principle, financed by borrowings. But amounts in borrowings outstanding are reduced by depreciation charges for the use of assets and human capital. These are charged directly to the taxpayer on a straight-line basis over the service or working lives of the infrastructure and the labour force respectively.

## Application of this rule to South Africa

Forecasts of macro-economic parameters used to test the rule were: a growth rate of 2%, an inflation rate of 5.5% and an interest rate of 6.5%.

It was assumed that the weighted average service life of infrastructure and the weighted average working life of the labour force in the country are 40 years and 30 years respectively.

Budget information used to assess the rule was extracted from the “Budget Review 2018” issued by the National Treasury (21 February 2018). Figures used in all cases refer to the medium-term estimates for the 2019/2020 fiscal year.

Budget data is summarised in the table below.

Data item	Amount (R billion)	Source table
Revenue	1609.7	Table 1.2 Consolidated fiscal framework
Expenditure	1803.0	Table 1.2 Consolidated fiscal framework
Budget balance	-193.3	Table 1.2 Consolidated fiscal framework
Capital financing requirement	170.9	Table 3.4 Consolidated operating and capital accounts
Post school education and training	119.3	Table 5.5 Consolidated expenditure by function
Borrowings for the year	204.8	Table 7.3 Financing of gross borrowing requirement
Net loan debt	2768.0	Table 7.8 Total national government debt
Debt servicing costs	197.7	Table 7.10 National government debt-service costs
GDP	5390.1	Table 4.2 Budget revenue

Item	Amount (R billion)	Remarks
Capital expenditure: On infrastructure On education and training Total	171 <u>119</u> 290	As for the National Treasury projection
Depreciation: On infrastructure On education and training Total	57 <u>50</u> 107	
Allowable fiscal deficit	183	The corresponding Treasury projection is 193.3



Net borrowings for the year	206	The corresponding Treasury projection is 204.8
Net loan debt	2494	The corresponding Treasury projection is 2768
Loan servicing costs	162	The corresponding Treasury projection is 198

Applying the Depreciation Charge rule to the expenditure projections on infrastructure and on education and training for the 2019/2020 fiscal year gives the

There are three technical measures that are commonly used to assess the viability of a funding scheme. These are:

1. The solvency ratio.
2. The loan to value ratio
3. The capital charge to capital cost ratio

What constitutes a safe solvency ratio depends on the variability and predictability of tax revenues and the scope which a government has to increase rates of taxation or reduce discretionary expenditures, as and when necessary. Normally, a lender would regard a solvency ratio of around 0.70 as an upper limit. A ratio exceeding 0.85 would be cause for concern.

A loan to value ratio (related to the solvency ratio, but applied to each item of expenditure) is usually also limited to 0.70 to be acceptable. Values exceeding 1.00 are regarded as reckless lending.

If the capital charge to capital cost ratio, which includes interest and loan redemption charges, is greater than 1.00, the borrower would have been better off financing purchases with cash only.

The customary measures of the government deficit to GDP ratio and total borrowings to GDP ratio have very little information content. This is because no government has access to the entire GDP of a country and the ability of a government to raise further revenues via taxation at any time depends on the level of existing taxation at that time (e.g. a government appropriating 15% of the GDP in the form of taxation is in a very different position to one attempting to increase taxes in a country already paying 30% of its GDP over to the fiscus).

The key solvency parameters, together with the deficit and debt to GDP ratios (as a matter of interest), that would result from the application of this rule are given below:

Item	Ratio
Solvency ratio	0.658
Loan to value ratio	0.710
Capital charge to capital cost	0.902
Deficit to GDP	0.036
Debt to GDP	0.463

There is thus a close correspondence between the results produced by this fiscal policy rule and the projected state of Government finances for the next fiscal year. This makes it

possible to easily adopt such a rule without encountering a difficult series of adjustments to do so. The basis of current concern of the credit rating agencies with respect to Government finances is, therefore, not the absolute level of accumulated debt (although this is some R275 billion in excess of an ideal level<sup>3</sup>), but rather the limited scope that is available for raising further revenues in the form of taxes, excise duties and user charges.

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<sup>3</sup> The difference between the projected amount in outstanding debt (R2768 billion) and the net loan debt that would have resulted from following the rule (R2494 billion).

## TAX LEVELS AND TAX REVENUES

A theoretical, non-linear, relationship in the shape of an inverted U exists between rates of taxation and amounts in government revenues that can be extracted from an economy. This is known as the Laffer curve. The intuition behind the Laffer curve is that any given percentage increase in tax rates will cause either a reduction in the inputs and outputs on which the tax is levied or result in an increase in activities designed to minimise the amounts payable. The magnitude of these effects increases with the level of taxation until a point is reached where no further revenues can be produced by increasing the tax rate. Thereafter, tax revenues actually decline.

According to Laffer (2004)<sup>4</sup>, changes in tax rates affect government revenues in two ways. One is immediate where tax cuts translates directly to less government revenue (the 'arithmetic effect'), and the other is a longer-term effect (described as the 'economic effect') that works in the opposite direction. Lower tax rates put more money into the hands of taxpayers, who spend it. This creates more business activity to meet consumer demand. Companies could hire more workers that result in additional spending and taxes being paid. This potential boost in economic growth generates a larger tax base and eventually replaces any revenue lost from the tax cuts.

Practical applications of this theory are complicated by the fact that tax rates are only one of the factors that influence government revenues. Other important determinants include:

- Tax competition between countries;
- Commodity prices, international trade flows, exchange rates and random occurrences such as droughts, strikes, and so forth;
- Changes in unrelated government policies; and,
- Population and employment growth.

In addition, each type of tax has its own tax rate and, therefore, Laffer curve. All of these are interrelated in complicated ways, frustrating a direct calculation of the curve in practice.

However, it is possible to make econometric calculations that relate government revenue from all sources to the average tax burden on the economy. This was done for South Africa. The results are reported in the OUTA report titled "Taxation ceiling for South Africa and the implications of the Laffer curve", September 2018.

Data used covered the period 1969/1970 through to the 2017/2018 fiscal year. The SARB was the source of the data. This is used to provide a proxy for the overall tax rate in the economy.

A notable feature of this dataset is that it records a progressive increase in taxation, expressed as a percentage, over the whole period.

The analysis shows, with a high degree of confidence, that South Africa has effectively reached the point where any increase in taxes will produce no further increase in long term real tax revenues.

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<sup>4</sup> Laffer, A.B. 2004. The Laffer Curve: Past, Present and Future. Published by the Heritage Foundation. June 1, No 1765.

At tax levels prevailing between 2014 and 2017, a one percent increase in taxation produced only 0.05% in additional real tax revenue. The recent increase for the 2018/2019 year will probably produce no statistically significant increase in real revenues.

Also, any increase in taxes will cause a reduction of around 0.3% of GDP for each one percent increase in the real tax burden on the economy.

Further, the optimal level of taxation for South Africa should lie somewhere between 20% and 24% of economic output. This is at least 5% and possibly as much as 9% below the 28.9% level of the 2017/1018 fiscal year. This finding is corroborated by Schoeman N J and van Heerden Y (2009)<sup>5</sup>.

Thus, the South African economy is well beyond the limit of the amount that the Government should attempt to appropriate through increases in tax rates, excise duties and user charges.

Clearly a significant reduction in State expenditure is needed. The reduction required in recurring current Government expenditures lie between R270 billion as a minimum and, ideally, R485 billion. The alternative is a probable loss of control of State finances within the next decade.

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<sup>5</sup> "Finding an optimum level of taxes in South Africa: a balanced budget approach", *South African Journal of Industrial Engineering*, November 2009 Vol 20(2): 15-31.

## **STRATEGY TO REDUCE GOVERNMENT EXPENDITURES**

### **The structure of State expenditures**

Expenditures can be classified into:

1. Responses to constituency demands, such as housing and services for indigent families, subsidies and supports for special interests, etc.;
2. Ideological programs, such as income transfers, land restitution, environmental protection, etc.;
3. Bureaucratic projects which would include all state-owned enterprises, regulatory bodies and most government agencies;
4. Support for the essential functions of government, such as law & order, and public health;
5. Essential economic supports in the form of capital expenditures that would not otherwise be undertaken, such as public infrastructure and vocational education and training.

This is not the way in which Government classifies its expenditure, but it is a useful way to consider the matter in devising a strategy to reduce the burden on taxpayers and regular consumers alike.

The expenditure priorities of most governments are in the order given in the list above. The first two are those that motivate voters to cast their ballots in favour of one party rather than another. Reductions in these two categories of expenditure are, therefore, usually politically difficult to achieve.

Those in the third category are almost always motivated internally by government bureaucracies on some (usually specious) allegation of “market failure” or “the national interest” and are a type of entrepreneurial activity within the public sector. They are, in principle, the most amenable to curtailment, although determined opposition from the managements involved can invariably be anticipated.

Those in the fourth category are quite often underfunded in government budgets to make money available for purposes with higher political/internal priorities.

The fifth category, particularly expenditure on the construction of infrastructure, is often used as a balancing item in a government budget in an attempt to achieve a particular borrowing target. However, it is precisely these expenditures that enable the maintenance and growth of future tax revenues.

### **Cost reduction strategy**

All cost reduction strategies are based on two main principles: the first is the elimination of activities that are unnecessary; and, the second is the reduction in the resources needed to achieve essential outputs. The first is called “Allocative efficiency” and the second is called

“Productive efficiency”. Priority should be given to the first on the basis that doing the wrong thing, even if done well, is always inferior to doing the right thing, even if done badly. Also, substantive results can sooner and more easily be achieved through the elimination of entire activities than they can through efficiency improvement initiatives that are often slow and arduous exercises.

In terms of allocative efficiency, the main recommendations made below speak to potential activities and/or entities that can be eliminated entirely, sold to the private sector, or operationally restructured. This would not be an expression of government’s inability to preserve potentially profitable and effective organs of state. Rather, it would be a strategic removal of major liabilities that are unlikely to become profitable, and thus beneficial to the public at large, any time soon.

In terms of productive efficiency, we may refer to the recent MTBPS. In it, it was stated that the extra-budgetary demands of ordinary workers in the form of wage increases, for example, should be absorbed by government departments that host gross financial inefficiencies and waste. This time of financial strain in the public sector should be used to deal with serious governance issues in all organs of state. Examples range from procurement fraud and financial incompetence of municipal managers to poor service delivery resulting from an underperforming workforce.

In managing the implementation of this strategy, it is also useful to keep in mind that failure to successfully complete any activity occurs for one or more of these reasons:

1. Those responsible did not have the know-how to do whatever is necessary to perform the task;
2. The information they used in to do the task was either wrong or incomplete;
3. The objective and constraints set for the task were inappropriate.
4. Ulterior motives as in the pursuit of personal monetary gain was prioritised over performing the task at hand.

The first two causes of failure can be corrected by making sure that those responsible for executing the strategy know how to do it and ensuring that they have all the necessary information. The third is the most insidious cause of failure. A single objective with a very few (if any) constraints is more likely to result in success than many objectives with multiple constraints. The final cause is one that can be dealt with by enhancing accountability and integrity among government officials. Serious punishments and personal financial liability can now be enforced by the Auditor General of SA.

Therefore, the single objective in the case of the elimination of activities should be to bring about a reduction in Government expenditure or in the accumulation of Government contingent liabilities with no specific constraints.

In the case of improvements to productive efficiencies within Government departments, the objective should be the same; the only constraint being that the essential effectiveness of each activity in question should be preserved however.

## Implementing the strategy

Based on these results, an immediate cost reduction program could begin with:

1. The removal of several state-owned enterprises from Government ownership and/or the consolidation of entities with overlapping functions (particularly those that constitute significant financial liabilities to the state);
2. The phasing out of all Government agencies (central, regional and local) that do not confer a useful, direct and immediate benefit on the public at large;
3. Winding-up Government departments and activities within Government departments that provide little or no benefit to the public at large and/or, in fact, constitute obstacles to economic progress within the country.

The primary motivation for the first is the observation that the objectives, processes and procedures used to manage government activities are inappropriate for the management of successful business enterprises – particularly those exposed to local or foreign competition. This is confirmed by the number of times that many of these organisations have had to be rescued from bankruptcy by the taxpayer in the recent past.

Considering this, taxpayers have no reason to expect a financial benefit associated with the ownership of these enterprises to materialise at any time in the future. The only financial benefit that can be expected would be the proceeds of privatisation and the elimination of further expenditures to maintain these organisations in existence.

Some state owned enterprises can simply be privatised and either be listed on the stock exchange or sold privately to existing corporates in the private sector. Examples are the Denel, SAA and the remainder of Telkom. Also, some entities with overlapping functions can be consolidated, as is the case with SAA and SAX. Many smaller entities should also be reviewed.

Some cannot be privatised from strategic reasons and have to be dealt with by “reconfiguring” them, in whole or in part, with strictly limited & conditional recourse to the Government for their debts. This was stated in the MTBPS, but OUTA eagerly anticipates real actions toward improvement of key SOEs. Examples are Eskom, the various parts of the Transnet group, water supply and water treatment authorities. These require special consideration and the establishment of special and, even unique, governance structures in each particular case.

For example, the establishment of an independent regulating authority in the water sector that can perform impartial oversight of water boards. This can eliminate the deficit in accountability and problematic conflicts of interest. Ultimately, such interventions can ensure that expenditure is efficient, transparent and effective.

All in all, a simple announcement by the Government of a policy to undertake this program would probably result in an immediate improvement in the economic outlook and, therefore, the South African credit rating.

Improving the efficiency within Government departments will be more difficult to achieve. Here, the essential problem is the discouragement of dysfunctional behaviour. This means the appointment and retention of managements that meet at least the minimum standards of competence required to successfully perform their functions, use of procedures to counter fruitless and wasteful expenditure, and the abolition of policies that provide the means and opportunity for fraud and embezzlement. This is not a situation that is unique to South Africa, but is a problem encountered by governments throughout the world.

The importance of various financial oversight bodies cannot be understated – including the function of parliamentary committees which has improved exponentially in recent months and years. If key institutions like the Hawks, AGSA, OCPO, AFU etc. were not unduly influenced or inhibited from performing their functions – oversight would be much more effective.

With regards to public-private partnerships, the Minister of Finance referred to the success of tolling concessionaires operating under contractual agreements with SANRAL. However, there is a deficit of accountability. In our agreement with government's newfound commitment to 'breaking down the walls between the private and public sectors', there is a need to ensure that rates and financial statements of private entities working with organs of state are subjected to oversight. For example, in the service agreement between Eskom and Regiments capital, immediate oversight of the contractual relationship would have avoided corruption and wasteful expenditure.

Consequence management is key. An obvious solution to the persistently worsening financial performance of government entities is the remediation of corruption, elimination of wasteful practices through effective and consequential oversight. For this to happen, popular political will to enforce top-down, horizontal and bottom-up accountability is indispensable.



## SUMMARY AND CONCLUSIONS

South Africa should adopt a fiscal policy that allows the State to borrow only for the purpose of funding the renewal and expansion of infrastructure and for the purpose of providing vocational education and training for its workforce. No loans should be issued to provide for any excess of current expenditures over tax revenues in any fiscal year. Inter-generational fairness requires that the use of infrastructures and the benefits of a trained workforce should be paid for via appropriate charges to the state revenue account and these charges, together with all interest loan and redemption charges, should be included in current expenditures.

The rule supporting this policy would be to plan for a budget deficit equal to the amounts needed for expenditure on infrastructure and on vocational education and training, reduced by an appropriate user charge on all previous expenditures on infrastructure still in service and all members of the workforce still in employment.

Calculations made on this basis show that, under reasonable assumptions made for the outlook of the 2019/2020 fiscal year that the budget deficit for this year should be around R183 billion and that the net Government loan debt should be around R2500 billion. The current Treasury forecast places these amounts at R193 billion and R2768 billion respectively. There is therefore an immediate need to reduce Government debt by about R275 billion. We have provided recommendations for your consideration on how this can be achieved.

Tax levels are already above the limit that Government should attempt to appropriate through tax rates, excise duties and user charges. The current level is around 30% of GDP. This is damaging to growth in employment and in incomes and, in any case, has reached the point where any increase in tax rates cannot reasonably be expected to yield any further increase in tax revenues.

Correcting this over the short term requires a significant reduction in recurring current Government expenditures. Annual savings needed lie between R270 billion as a minimum and, ideally, R485 billion. If this is not seriously pursued, there is a real risk of government losing control of public finances within the next decade.

It is imperative for the South African government to adopt a fiscal policy that is sensitive to uncomfortable domestic and international realities now. Current policy must be reflexive to recent governance shortfalls and serious financial mismanagement in the public sector – which has ultimately exacerbated the budgetary deficit year-on-year without yielding satisfactory improvements in the lives of ordinary South Africans.

Fiscal consolidation can be implemented without sacrificing the quality of life of taxpayers and ordinary consumers if the public sector is willing to abandon status quo configurations that have evidently failed. Also, more financial oversight is needed to ensure that ratepayers of all sorts are not exploited by unaccountable public-private business relations.