Avoid ‘junk’ by slaughtering the three sacred cows – Anthea Jeffery Biz News 7 November 2019 by Linda van Tilburg

The calls for decisive action from Ramaphosa’s government to improve the country’s public finances is sounding loud and clear. They increased in urgency after Finance Minister Tito Mboweni gave an indication in his mid-term budget how much trouble the economy is really in with a budget deficit of more than 6% of GDP and economic growth of only 0.5%. South Africa managed to dodge junk status while the outlook was downgraded to negative and the question now is; how can South Africa avoid junk status in Moody’s next review that could trigger $10bn of outflows and cause the Rand to weaken to its lowest level in four years, according to Bloomberg. Anthea Jeffery from the Institute of Race Relations has singled out “three sacred cows” – Land Expropriation, NHI and the Mining Charter – that should be slaughtered to address South Africa’s accelerating economic crisis. And she presents “pragmatic and effective policy alternatives.” It includes a new system of Economic Empowerment for the Disadvantaged or EED, a score card for miners and businesses, and a tax-funded voucher system. – Linda van Tilburg

Three sacred cows to line up for the slaughter

By Anthea Jeffery*

Finance minister Tito Mboweni expects a revenue shortfall of R250bn over the next three years, an increase in public debt from R3trn to R4.5trn, a 6.2% budget deficit on average, and a debt-to-GDP ratio of 71% in 2022, rising to 81% by 2027 if current trends continue.

In the face of these figures, as Mr Mboweni told his comrades in the African National Congress (ANC) and South African Communist Party (SACP), ‘there is no status quo option’, while ‘the consequences of not acting now will be grave’.

Which means it’s time to slaughter three sacred cows – and then develop pragmatic and effective policy alternatives instead.

First up for termination should be the pending *expropriation without compensation (EWC) amendment* to Section 25 of the Constitution. An EWC Bill to is due to be published on 10 December, for public comment over a six-week period timed largely to coincide with the December school holidays (when the country virtually shuts down). This truncated timetable is calculated to make a mockery of public consultation and is unconstitutional.

Equally disturbing is President Cyril Ramaphosa’s view that EWC will not only speed up land reform but also boost economic growth and increase food security. These assumptions make no sense when at least 70% of land reform projects have failed – and intensifying droughts pose major threats to farm production and livelihoods.

Even more important is the damage that EWC will do to property rights. As Piet Mouton, CEO of investment group PSG, told the *Sunday Times* last week: ‘The first time they take away someone’s land without compensation, it will be a phenomenal disaster’.

Any such taking will torpedo confidence, drive away investment, and hamstring all attempts to raise the growth rate. South Africa will lose its last investment grade rating (from Moody’s) and drop deeper into ‘junk’ status, making its economic crisis even more severe.

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Next up for termination should be the *National Health Insurance (NHI) Bill* – especially now that the Treasury has confirmed in the mini-budget that the NHI proposal is 'no longer affordable' (if it ever was).
It makes no sense for the ANC to keep stressing the golden promise of NHI – free quality health services for all – while failing to admit that:

- NHI pilot projects costing more than R4bn brought no measurable improvement to public healthcare;
- many health professionals will emigrate, making waiting times for treatment even longer;
- a state monopoly over healthcare will be just as inefficient and corrupt as Eskom has become; and
- the major tax increases needed to finance the ineffective NHI will drive away many in the skilled middle class, making it harder to fund state services of every kind.

Additional 'NHI' taxes will also fall heavily on the poor, who will be badly affected by new payroll taxes (sure to limit jobs) and hefty VAT increases. Worse still, the 'NHI' revenues so collected are unlikely to be ring-fenced for healthcare and may instead be used to pay the public service wage bill and bail out bankrupt Eskom yet again.
Third in line is the *2018 mining charter*, which must also go. As Mr Mouton says, 'nothing is doing more to deter investors who are spoilt for choice in other countries' than the charter's demand that 'they "give away" 30% of their investment, on top of all other taxes'.
The charter is supposed to help provide redress for apartheid injustices, but the disadvantaged gain nothing from driving mining investment away. In Mr Mouton's words, 'the people missing out on a better chance in life are local communities in mining areas', for 'if there's no mine, there's no jobs, no retail opportunities, no schools'.

This echoes what we in the IRR have long been saying. The escalating ownership requirements that have made the mining sector 'un-investable' do nothing to empower the poor. Only a mining industry that is thriving and expanding can provide more opportunities for the disadvantaged to share in the gains from the country's mineral wealth.

The mining charter should be scrapped and replaced by a new system of 'economic empowerment for the disadvantaged' or 'EED'. This would include a new 'EED' scorecard that would recognise and reward mining companies for their vital contributions to investment, employment, innovation, tax revenues, and export earnings, among other things. The EED system should also be structured so that it reaches down to the grassroots and provides the poor with tax-funded vouchers they can use to buy the schooling, healthcare, and housing of their choice. Schools, low-cost medical schemes, and a host of other entities would then have to compete for their custom – which would help to keep costs down and push quality up.

Little could be more effective than this voucher system in empowering the disadvantaged. Or in ensuring that tax revenues are better used, rather than being largely squandered on dysfunctional schools, clinics lacking medicines, and crumbling RDP houses.