

Budget Watch

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FROM IDASA'S BUDGET INFORMATION SERVICE (PIC) AND THE BUDGET PROJECT (UCT)



Police Budget

Increased spending doesn't mean better policing

The police budget has exceeded the defence budget in recent years. Yet higher spending has not resulted in less crime. PETER BATCHELOR examines the ongoing obstacles to improved police services.



Peter Batchelor

THE rising levels of crime and violence have led to increased pressures from all quarters for government to allocate more resources to the police. But will allocating more money to the police budget solve the problem which represents one of the greatest threats to our new democracy?

The police budget has grown more than twice as fast as the rest of the national budget since 1984, and in 1995 accounted for 7.5% of the national budget and 2.3% of GDP. During the same period the South African police increased from 47 000 in 1984 to 115 000 before the elections in April 1994. The new South African Police Service (SAPS), which incorporates 30 000 officials from the former homeland police forces, has 145 500 members.

Table 1 (page 2) provides data on the shares of the police and defence budgets in the national budget between 1990 and

1995. What is evident is that the cuts in the defence budget have been used to re-allocate resources to the police budget, and that the police budget now accounts for a larger share of the national budget than the defence budget. This seems appropriate given the absence of a clearly identifiable external military threat and the increasing levels of crime and domestic violence since 1990.

Last year the SAPS, in a submission to the parliamentary committee on safety and security, suggested that they could operate with less money by improving the management of police services and by the more creative use of available resources. The 1995/96 allocation of R8,851 billion represented a nominal increase of 3.4% over the 1994/95 allocation.

In the past few years the police has been one of the few government departments which has regularly underspent on its budgetary allocation. This was related to prob-

lems in recruiting personnel to fill authorised posts, and an inability to use resources efficiently and effectively.

The structure of the police budget for 1995/96 is dominated by personnel expenditure, which accounts for 74% of the total, with 7% allocated for capital spending, and 19% for operating expenses (See table 2, page 2). In terms of the various programmes of the budget, the visible policing programme accounted for the largest share of the budget (47%), followed by auxiliary and associated services (21%) and crime combating and investigation (20%) (See table 3, page 2).

Despite the increases in the police budget and the size of the SAPS, crime levels have continued to rise, pointing to the fact that throwing more money at the police will not necessarily solve South Africa's crime problems.

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Budget preview: the 1996/7 budget

THIS and the next issue of *Budget Watch* (Budget Watch 6 and 7) will focus on the 1996/7 budget which is to be presented by the Minister of Finance in parliament on Wednesday, March 13.

In this issue we present a critical preview of the budget. In each article we have asked the author to highlight the current major policy issues as well as policy options for addressing these in

the budget. We concentrate on four important expenditure votes (education, health, police and housing), revenue and an assessment of reprioritisation. Our Behind the Facts column is devoted to the deficit and its impact on the economy. In the next issue of *Budget Watch*, the same authors will critically review the budget in the light of their budget previews presented in this issue.

Housing Budget

Ability to deliver holds the key

One of the major lesson of 1995/96 for the Housing Ministry has been that delivery in this sector is a slow business and even when large sums of money are available they cannot be quickly spent. In view of the sizeable amount of its budget allocation that remains unspent for 1995/96 housing will probably attract a smaller slice of the budget for 1996/97. MARY TOMLINSON considers the position of housing in the national budget.

WATCHING the Housing Ministry's budget proceedings this year will be a bit like rereading Cinderella. Last year the minister arrived in a gold coach; the next time she will be transported in a pumpkin – a very real measure of the sector's success in tackling the housing backlog.

For years, the housing budget has consistently received one of the lowest budget allocations. However, in recent years the overall allocation has begun to grow, reaching a peak of R2,8 billion in 1995/96. Knowing that within the South African budgetary system the cabinet makes the broad, and possibly the most important, decisions on how much money will go where, one can imagine the rather uncomfortable situation the Minister of Housing is currently finding herself in by having to explain why so little of last year's housing budget has been spent.

We can't go into a long explanation as to why there has been so little housing delivery – suffice it to say that the policy has taken longer to formulate and logjams have been harder to remove than expected. The environment has radically altered from a year ago when the sector was rewarded with a substantial boost, from 1.3% to 2.3% of the budget, towards its overall demand for a 5% slice of the budget. In trying to predict what will happen this year, one may assume that at best the housing sector will keep the same level of allocation as last year. More likely, the housing budget will be scaled back to

reflect the slower-than-expected pace at which the ministry has performed.

This is not to say that large-scale homelessness is no longer a national priority. But, besides the usual debates around tradeoffs – should we put more money into housing and less into education – an important criterion in this year's negotiations will be the ability to actually spend the money. What we have seen, at least with respect to housing, is that it is far more difficult to spend large sums of money than to attract large sums of money. The lesson being that housing products take, at minimum, 18 months (and often even longer) to deliver, resulting in enormous amounts of unspent cash at the end of the budget year.

The resultant tying up of large amounts of capital waiting to be spent is therefore proving to be extremely uneconomic over the long term, particularly with the myriad of RDP needs. Moreover, this view was reflected in the actions of the RDP ministry during October 1995 when Minister without Portfolio Jay Naidoo stated that the R700 million that had been allocated from the RDP fund for housing subsidies last year had not been spent and was being re-allocated for infrastructural provision.

It therefore seems appropriate that government generally, and housing in particular, will move towards a cash flow budgetary approach in 1996/97, shifting

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Government faces
tough choices.

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spending: Broader
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Reprioritisation

As the big day approaches budget predictions abound. Unfortunately most budget watching focuses on new revenue measures that have an immediate impact on people's lives. What draws less attention but is probably equally significant for the long-term future of the economy is the overall level of borrowing and changes in the composition of expenditure.

The big challenge for the government in the 1996/97 budget is to maintain its reputation for fiscal discipline which means a further reduction in the deficit, while demonstrating that it will be able to deliver on pre-election promises. Paradoxically it is the latter more than the former that will provide an indication of the government's ability to maintain fiscal discipline over the long term. If the government is unable to deliver within the current fiscal constraints then the pressure to bust the budget constraint may rise inexorably.

Herein lies the crucial difference between the operation of fiscal policy in the new versus the old South Africa: controlling popular demands for higher spending will be considerably more difficult under a fully democratic and decentralised system of government. Not only can the complaints of those who suffer from cuts in government expenditure be heard more clearly, but the cost of providing even basic services are markedly higher when the country is considered as a whole.

Thus affordable delivery will require stronger institutions, better management and a clearly defined sense of what government can do best and what should be left to the private sector.

The evolution of expenditure during 1995/96 has indicated just how difficult it is to control spending under the new dis-

Controlling spending in an era of popular demand

The government faces tough choices in maintaining fiscal discipline while delivering on its election promises.

RICHARD KETLEY believes pressure to break budget constraints will rise inexorably unless government is able to meet the demands of a population whose voice is more audible than ever before.

pensation. Although it is likely that the final deficit will be in the order of 6% of GDP compared to an original target of 5.8%, this has only been possible because of the strong revenue performance in the face of considerable expenditure over-runs.

The new provincial administrations have floundered in trying to match newly established entitlements around welfare and education within their budget allocations – not to mention the difficulties of trying to forge new unitary structures out of the old apartheid bureaucracies.

The expenditure pressures that emerged during 1995/96 also throw light on what the government can expect to achieve from reprioritisation. Monies allocated to the RDP fund, which is intended to accelerate reprioritisation, trickled out slowly (unintentionally aiding the government in its efforts to control overall spending). Money set aside for the government's flagship plan to build one million houses also remains largely unspent.

At the same time provinces found that their social spending spiralled dramatically. Part of the problem was the over-ambitious application of equity-based formulas which reallocated money away from the metropolitan provinces. These provinces found that cutting back expenditure is a slow and difficult process. All these developments reflect reprioritisation of a sort – but not of

the sort that the government intended.

In the RDP White Paper the GNU set out what has been subsequently viewed as its fiscal and expenditure strategy. The main features of that document were that government would freeze recurrent spending at current levels and increase capital spending, within the bounds of an overall fiscal package, while expenditure would be refocused on infrastructural spending, and integrated rural and urban development strategies. This has largely failed to materialise.

Increased social spending pressures unless carefully managed will breach the constraint on recurrent spending, and at the same time crowd out the more ambitious infrastructural and rural development plans. There is clearly a need for the government to replace the RDP White Paper with a more focused strategy that takes full cognisance of the cost of delivering on many of the new policies and national standards that are emerging in the white papers produced by spending departments.

Such vision would need to make use of some system of medium-term expenditure estimates to ensure that policies are aligned with available resources over the duration of the programme. But a vision or growth strategy that aims for horizontal reallocation between departments cannot succeed unless accompanied by vertical institutional reform.

Vertical institutional reform has several components, all of which change the relationship between the spending departments, the planning/finance department and the legislature. Budgets almost everywhere are complex and opaque documents and trying to push the budget in one direction or another inevitably requires considerable information that is very difficult and costly to collect and assess.

There is invariably an asymmetry between the information available to those meant to approve budgets and those that draw them up. Hence the frustration of planning agencies and budget committees which try to trim expenditure. The solution to this problem that is emerging in reforming OECD countries is to try to judge departments on what they deliver and to allow them considerable freedom in choosing what inputs they require in order to deliver.

This simplifies the policy management problem by focusing attention on policy and delivery issues where planning agents and politicians have the informational advantage and away from unit costs. However changing the focus of the budget from inputs to outputs implies a radical change in the way that government is organised.

Optimising the use of inputs means allowing departmental managers considerable flexibility over employment and asset

management. In South Africa the average director-general currently has no control over the staff establishment of his or her department nor the salaries paid. In such an environment there are few incentives to deliver, and an infinite range of excuses.

In many departments there are a growing number of vacancies as salaries have failed to keep up with the private sector and director-generals are unable to alter the pay and conditions to attract suitably qualified applicants, with delivery suffering as a result.

However before director-generals can be given this level of autonomy over their budgets, appropriate financial systems need to be in place to ensure that autonomy is matched by responsibility.

The systems of financial controls and management in many government departments have fallen way behind the standards demanded by shareholders in the private sector. A corollary of this is that in many departments budgeting is a sub-function of accounting and has little or no relationship to policy formulation.

Implementing these vertical reform measures will require vision and leadership at both the political and technical level. However economic management and expertise is currently dispersed between a

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Increased spending doesn't mean better policing

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Crime in South Africa is primarily a socio-economic problem, which has been exacerbated by the legacy of apartheid and the changes and instability brought about by the political transition to democracy. Therefore the alleviation of poverty, job creation, and improved social and economic justice are important prerequisites for combating crime.

Given the government's commitment to fiscal discipline, and the stated goal of reducing the budget deficit, as well as the fact that the police have not demonstrated an ability to use their resources effectively, it is unlikely that the police budget will see a real increase in the 1996/97 budgetary allocations.

There is evidence to suggest that the SAPS needs to concentrate on internal reform, service delivery and the effective utilisation of existing resources before it can contemplate expanding its establishment. Thus, what is required is more effective policing rather than simply more policing.

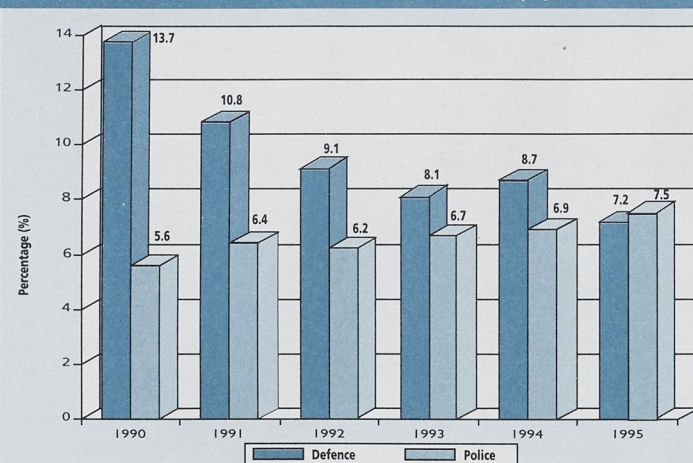
There are a number of internal problems

Mission statement

BUDGET Watch is a joint publication of The Budget Project, based at the University of Cape Town, and the Budget Information Service, based at the Idasa Public Information Centre.

The national budget is the foremost economic policy instrument in the country. It is prepared, during an 18-month cycle, largely by the civil service and ratified by the cabinet. There is virtually no scope for formal civil society input, and public debate is usually limited to the six-week period immediately surrounding the Finance Minister's budget speech in March. Clearly, there is a need for ongoing public engagement over the entire budget process. Critical options have to be

TABLE 1: GOVERNMENT BUDGET: 1990 – 1995
DEFENCE AND POLICE BUDGETS (%)



Source: Budget Review, Dept. of Finance (1995)

which continue to limit the ability of the SAPS to become a more effective police service. The amalgamation of 11 police agencies with different rank structures, procedures and resources has been particularly problematic, and has resulted in an uneven distribution of resources through-

out the SAPS and between the nine-provinces.

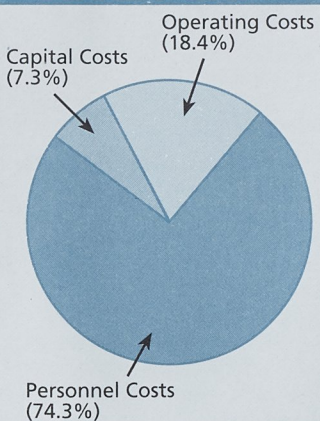
The distribution of police resources still reflects the legacy of apartheid in that almost 87% of all police stations are located in traditionally white areas, with the result that the SAPS is unable to deliver an effective police service in the townships and former homelands.

The fact that nearly 75% of the police budget is spent on personnel costs gives the police little flexibility with respect to capital spending (more police stations) and reallocating resources within the SAPS. Systems for the collection and management of crime information are still totally inadequate, and severely limit the ability of the police to deliver an effective service.

The fact that most of the police resources are tied to personnel costs, and that all resources are allocated from Pretoria means that the provinces, and the provincial police commissioners and MECs, have little control over the allocation of resources at a provincial or local level.

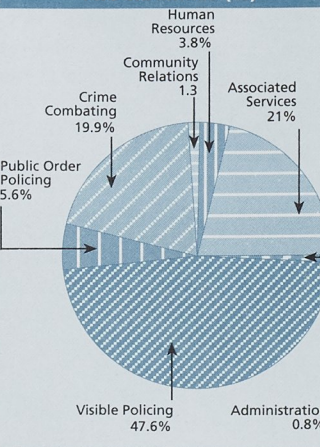
The low levels of pay and the difficult and sometimes dangerous working conditions, have led to significant personnel losses and contributed to the demoralisation of large sections of the SAPS, thereby

TABLE 2: POLICE BUDGET 1995/96
STRUCTURE OF BUDGET (%)



Source: Estimates of expenditures, Dept. of Finance (1995)

TABLE 3: POLICE BUDGET 1995/96
PROGRAMMES (%)



Source: Estimates of expenditures, Dept. of Finance (1995)

undermining its effectiveness. The inefficient use of resources is evidenced by the fact that certain "civilian" functions, such as the management of logistics, continue to be performed by police personnel rather than by civilians, who are cheaper because they don't need uniforms, equipment and police training.

The military culture of the old South African Police continues to hamper the development of a service-oriented, professional culture within the SAPS. The fact that the defence force continues to act in support of the SAPS with respect to border control and the maintenance of law and order, particularly in KwaZulu/Natal, symbolises the inability of the SAPS to effectively carry out its primary functions.

How can the police become a more effective and accessible institution and thereby begin to deal with the problems of rising crime and violence?

Internally there are a number of ways in which the SAPS can begin to improve the management and delivery of its services without requiring additional resources. The concept of community policing, which involves the establishment of Community Police Forums (CPFs) at all police stations throughout the country, is seen as the most appropriate and cost effective method for combating crime. Within the framework of community policing it has been suggested that allowing the CPFs to become involved in the allocation of resources at station level, in consultation with station commanders, could improve the effectiveness of community policing.

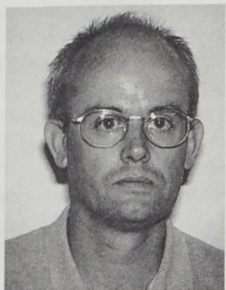
Another issue which must be urgently addressed is the redistribution of police resources from traditionally white areas to the townships and the former homelands, and also the redistribution of national police resources to those provinces (eg Eastern Cape) which are chronically underfunded in terms of their geographic area, size of population and levels of crime.

Ultimately, the ability to provide an effective, accessible, professional and cost-efficient police service does not depend on increasing police numbers or increasing the size of the police budget, but rather on the more effective use and distribution of existing resources and on strengthening the relationship between the police and the communities they serve.

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Behind the facts

'Now is the time to reduce the deficit'



Richard Simpson

The government's position as regards the budget deficit can have major implications for the macroeconomy. But fiscal policy alone is not a sufficient yardstick for evaluating the road ahead for the economy; it needs to be considered alongside monetary policy. RICHARD SIMPSON considers some issues around the question of the national debt.

ANY country's budget must be open to careful scrutiny and vigorous debate. This is especially true of South Africa. In the past, the budget has been a tool of political oppression rather than the means by which the government can allow the macroeconomy to grow so as to benefit present and future generations of South Africans.

Many economists feel that benefits are highest when budget deficits are low. Higher budget deficits occur when the government is unable or unwilling to control spending. This situation is often described as loose fiscal policy. But any analysis of the budget must take into consideration the likely monetary policy position of the South African Reserve Bank concerning exchange rates, exchange controls and the money supply.

Given that the present governor of the Reserve Bank nurtures an independent and anti-inflation image, monetary policy can be described as restrictive. With South Africa making greater links to the world economy, lax fiscal policy coupled with tight monetary policy would cause our exchange rates to appreciate. As a result South African firms would sell fewer goods abroad.

One obvious trade-off that arises is that there would be increased employment by government and firms with government contracts as the government spends more, but these gains would be lost as employment fell elsewhere in the economy as exporters cut production. Thus the government's position as regards the size of budget deficit, or fiscal policy, can have very important implications for major macroeconomic variables. Fiscal policy and monetary policy must be looked at together. And many economists favour low budget deficits together with restrictive monetary policy.

A higher budget deficit lowers national savings available for private investment in the macroeconomy. One can think of the supply of savings as being smaller at any interest rate. The result, as in any market supply, is a higher interest rate. A higher interest rate, as any businessperson will tell you, means less investment. And with less investment comes fewer jobs.

Further, investment includes investment in housing and higher interest rates will mean fewer houses are built or bought. Another trade-off arises. The government is spending more on housing but as interest rates rise the private sector cuts back on investment in housing. Greater government involvement in the economy means less private sector involvement. An honest budget from the government must attempt to quantify these effects.

A budget deficit has effects beyond the year in which it is implemented. Investment, like a deficit, is what economists call a flow. Investment adds to the capital stock of the nation. This capital stock is

important, as it is the means by which goods are produced. This process generates incomes for people. Lower investment means a lower capital stock. A lower capital stock will mean less output. As the economy's output is lower so too are incomes and thus, in aggregate, less is consumed. Individuals in the macroeconomy will be worse off than before.

And not just this year but in all future years. And we have not even considered the higher taxes that future generations are going to pay to retire the debt we accumulate this year.

The budget deficit has implications for the trade deficit. If the next budget deficit is going to be higher, then aggregate demand will rise. Part of this demand will spill over into international markets as a portion of the rise in demand is spent on imports. The result: the current account of the balance of payments will worsen. But higher domestic interest rates will encourage capital inflows. These can be used to finance the higher imports

One would expect higher budget deficits relative to domestic output in lean years. But when the macroeconomy improves, deficits should be cut back significantly.

Now if the capital flows are large, and immediate, and a country has a floating exchange rate, then the exchange rate should appreciate which would further depress net exports. And it can be the case that the change in net exports is as large as the stimulus from the higher government spending. Accepting for the moment that the exchange rate is determined by market forces, it all depends on the degree of capital mobility. Fiscal policy, expressed via a higher deficit, has a greater positive impact on the economy the less there is capital movement.

In the South African context, the effects of the budget deficit on exchange rates are made more complicated as residents are subject to foreign exchange controls. However, the higher borrowing from abroad associated with a higher budget deficit will increase the supply of foreign exchange and this will result in an appreciation of the Rand. Domestic goods will be relatively dearer and foreign goods cheaper. Imports will rise and exports will fall, although the strength of this effect is open to debate. If it is substantial, it would reduce any expansionary effects associated with higher government expenditures.

However capital mobility is likely to increase as exchange controls are relaxed. Thus, given the above reasoning, higher deficits are not going to stimulate the economy. In fact, given the good performance of the economy in the past year and the high forecasted rate of growth in GDP for the coming year, now is the time to decrease the deficit and reduce South

Africa's massive debt accumulated in more profligate years.

One has to be careful when evaluating the size of the budget deficit. The size of government purchases is a political decision. However, government revenues depend in large part on the state of the economy. If incomes are rising and interest rates are low, coupled with high consumer confidence, then government revenue from all taxes is higher. So a budget deficit could be smaller when the economy is doing well due to this revenue effect, even if the government spends exactly the same amount of money as it did in the previous year. Likewise the budget deficit can be larger, with no change in government expenditure, if the macroeconomy is in recession. The reason: a recession means lower income and thus lower tax receipts.

As the budget deficit depends on the state of the economy or the business cycle, it will be overstated in recessions and understated in booms. The budgetary process needs to be reformed to reflect the true budget deficit, adjusting for the cyclical variation in national income around its secular or long-term trend. In a recession, the appropriate budget deficit would be the difference between the actual budget deficit and the cyclically adjusted deficit. This assumes that the only role of the government is to ease the hardships associated with cyclical changes in income. It may have other goals and this would raise the deficit over and above the amount associated with alleviating the recession. A transparent budget must make an attempt to deal with these separate goals of fiscal policy.

Monetary policy and financing the budget deficit

Crudely, the government has three options open to it when financing the deficit. It can raise taxes, or it can channel public savings to the government by selling government bonds, or if there is a compliant monetary authority, the money supply can be increased. Most budgets have some increases in taxes coupled with the selling of government bonds. This year (1996/7 budget) is unlikely to be any different, although borrowing from abroad is likely to show substantial growth. Another way to finance a government deficit is to increase the money supply.

This is also known as printing money. However, this can be difficult especially if the country has an independent central bank. The government needs the co-operation of the Reserve Bank in order to finance the deficit in this manner. The technical aspects of increasing the money supply can be complicated, but one method is to have the Reserve Bank hold government debt in exchange for increasing the stock of money.

There is one immediate problem. The deficit is a flow. But it is being financed by



changing the stock of money. Thus the change in the money stock must continue to rise if the deficit is maintained in future years. However if income does rise with the increased government expenditure, then as government revenues are directly related to income, the deficit can be financed from these extra revenues, and the money stock increases are no longer required. Economists are divided on exactly how long it takes for revenues to catch up. Many think revenues never catch up.

Also of concern, under the printing money option, is the effect on interest rates. Some would argue that, as there is more money in the macroeconomy, interest rates would fall.

However, government expenditure is also rising and this will put upward pressure on interest rates. So, at least initially, it may be that interest rates are fairly constant. But as the money stock increases get smaller and smaller as government revenue rises, interest rates should fall. This effect on interest rates is by no means a settled question amongst economists. But this is not the only, or the most important, effect. If the stock of money changes so that the rate of growth of the money supply increases, then inflation will result. Inflation imposes more costs on the economy than benefits.

Also, one can be sure that the rate of inflation will be higher than the rate of increase of the money supply. Any nominal interest rate has two components: the real interest rate, which need not concern us and the expected rate of inflation, which always does. Thus if the budget deficit is financed by printing money, and inflation is expected to rise, which will be the case, then interest rates will rise. So even though the government can print money to finance the deficit it should not. If the Reserve Bank can maintain its constitutional independence, this and future budgets will not be financed in this way. But we still need to be vigilant to ensure that it does not happen.

Even if the government does not finance the deficit by printing money, a deficit can still have major implications for monetary policy. If the deficit is financed through borrowing domestically there will be upward pressure on interest rates. Thus the Reserve Bank would have to tailor any monetary policy action to the new level of interest rates implied by the borrowing activities of government. This may hinder the ability of the Reserve Bank to adapt to ever-changing international and domestic circumstances. Financing the deficit by money creation need not be the only link of the deficit to monetary policy.

Some policy options

A proper budgetary process must be put in place at the provincial level. The provinces budgets should have the same scrutiny and debate as devoted to the

national budget. Mention will most likely be made of this in the upcoming budget, but the issue will not be dealt with in any substantive way this year. Which is a pity, as this could be one means of bringing the deficit down.

The budget should provide a much better picture of the nature of expenditure. We have heard a great deal about changing the priorities of government. Budget expenditure patterns should begin to reflect these changes. There is always the danger that instead of redirecting expenditure, new priorities could just add to the existing level of expenditure. This must not happen. An open, honest and democratic budget would add to the credibility of government.

The government should encourage private savings. In order to do this, interest earned on any saving should receive a low or no rate of tax. This allows savings to accumulate at a faster rate because of the effect of compound interest. There have been some indications that the present system is going to be changed so as to tax investment income as it accumulates. In the South African context, such a change cannot be analysed in isolation from the distribution of income and wealth.

Crudely we can think of those households with high savings and those with low savings: richer and poorer. Typically, if one reduces the return to savings, those with high incomes will respond by increasing savings. Those with low incomes and facing lower return do two things. First, they substitute away from saving: current consumption is now relatively cheaper. However, with lower returns, the poor are even poorer and attempt to restore savings to higher levels. So for these households the total effect is ambiguous. Taxing the return to savings as it accumulates will hurt the relatively disadvantaged in South Africa.

The past year has been one of growth in real domestic output. And all indications are that higher rates of growth are expected in the coming year. It is a mistake to focus on the deficit in one year. Economies are dynamic. One would expect higher budget deficits relative to domestic output in lean years. But when the macroeconomy improves, deficits should be cut back significantly.

In other words, the government borrows in bad years and should attempt to reduce debt in good years. All indications suggest that the outcome of last year's budget is a deficit above 6% of GDP. This is not prudent fiscal policy. Especially as all the past accumulated deficits, the debt, amounts to nearly 60% of GDP. If the March budget has a projected deficit of 5% or lower next year, we must see that this is indeed brought to fruition. Budgets are promises and must be kept.

Dr Richard Simpson is a lecturer in economics at the University of Natal, Pietermaritzburg.

Health Budget

Looking back and looking ahead

The government's stated aim is the improvement of access to health care services for all. BUPENDRA MAKAN, NICOLE VALENTINE and JOSES KIRIGIA consider the health budget for 1995/96 and highlight challenges for the 1996/97 allocation of resources.



Bupendra Makan



Nicole Valentine



Joses Kirigia

THE mission of the Department of Health is to promote and maintain optimal health for all South Africans through a balanced health system and through the integration of the health system within the broad context of social reconstruction and development. The key objective of the department is to develop a comprehensive primary health care approach, guided by the principles of equity, affordability, accessibility, effectiveness, efficiency and appropriateness.

The main challenges the 1996/97 budget addressed are considered below:

Government budgetary constraints: Prior to 1994/95, there was a progressive decline in the health budget as a percentage of the total budget from 11% in 1991/92 to 10.2% in 1994/95 (Table 1). However, there was a slight increase in the 1995/96 budget. The government budget for the 1995/96 financial year was R153,1 billion while the total health budget was R15,4 billion (equivalent to 12.4% of total non-interest expenditure).

TABLE 1: THE 1995/96 HEALTH BUDGET AS A PROPORTION OF TOTAL NON-INTEREST BEARING GOVERNMENT BUDGET

Financial Year	Percentage of Total Government Budget
1991/92	11.0
1992/93	10.8
1993/94	10.6
1994/95	10.2
1995/96	12.4

*Source: South Africa (1995), Budget Review: 15 March 1995, Cape Town:Department of Finance.

It is unlikely that increases of this nature will continue given the increasing rate of population growth, limited tax base and obligations to service the government debt.

Health sector cost escalation: The South African health sector, like other countries, is experiencing cost escalation due to increases in the price of inputs. This problem is magnified in South Africa by the legacy of salary disparities within the public health sector which need to be addressed.

Policy of increasing accountability: In order to maximize the efficient use of resources, the department stresses the need for the decentralisation of resource allocation to the provinces. An indicator of the government's commitment to this policy is the observed reduction in the budget for the national health department. The budget allocated to the national health department decreased from R1,6 billion to R1,2 billion between the 1994/95 and the 1995/96 financial years. This represents a nominal decrease of 24%.

Geographical maldistribution of health care resources: Historically, per capita public sector health care expenditure has been significantly higher in the former provincial administrations than in the former homelands. Even with the reincorporation of the homelands into the nine provinces, significant provincial disparities in the distribution of health care resources remain.

The per capita health care expenditure in Table 2 illustrates the large disparity between provincial budgets. The Western Cape (R513 per capita) and Gauteng (R458 per capita) have a disproportionately higher per capita expenditure than Mpumalanga (Eastern Transvaal). Unfortunately,

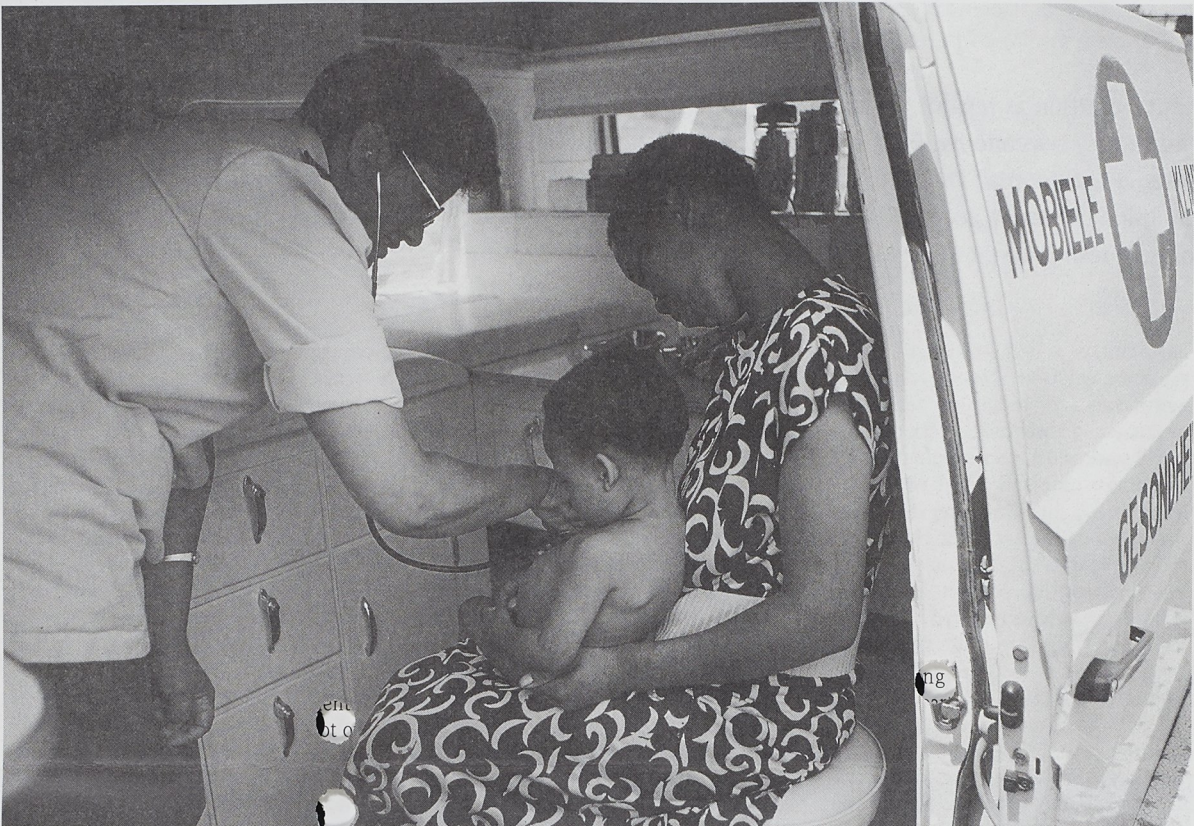


PHOTO: ERIC MILLER

Who benefits? ... A key budgetary principle should be to promote primary health care services.

nately, historical data is not available as the 1995/96 budget was the first to be structured around the new provinces.

Resource allocation formula: The geographical reallocation of resources will be affected through the use of a new resource allocation formula that will change the way in which budgets are allocated to provinces.

Distribution between levels of care: Table 3 is based on estimates from the revised provincial and national budgets. This table reflects a dual imbalance: firstly, between levels of hospital care, and secondly, between hospital and primary level care. The total amount allocated to general hospital care represents 62% of the total revised health care budget compared with approximately 19% allocated to primary health care. The remaining 19% is allocated to specialist psychiatric hospitals, TB hospitals, emergency services and administration.

In spite of the fact that only 19% of the budget is allocated to primary level care, it represents an improvement over allocations made in previous years and has

increased from 11% made in the 1992/93 financial year.

The cost of salary equalisation in the public health sector: It is estimated that the cost of equalisation of health personnel remuneration, by adjusting to the highest current salary levels within the public service, will exceed R1,3 billion. This will have a significant impact on the health budget.

Major policy options

Strengthening of primary level health care (PHC) services: The primary health care approach encompasses making available a comprehensive package of PHC services, including district hospital services, environmental health services, and other preventive, promotive and monitoring services, and comprehensive personal ambulatory services, including access to essential medicines for PHC. Given departmental objectives there should be a clear increase in the amount allocated to PHC over time.

Redistribution of resources from the

hospital sector to the PHC sector: Departmental objectives should also require a clear shift of resources from the tertiary hospital sector to the primary health care sector. The current primary allocation of only 19% of the total health care budget is not consistent with the stated objective of the department.

Redistribution of resources from over-resourced to under-resourced provinces: The budget should reflect an increase in the allocation of resources to address the geographical resource maldistribution. For example, the current budget to the Eastern Cape of R2 billion is similar to the R1,9 billion allocated to the Western Cape in spite of the Eastern Cape's larger population and historical neglect in the provision of health services.

Alternative sources of finance to expand the revenue base: In the light of the increasing public sector health care responsibilities, there is a need to broaden the revenue base of the health sector.

In addition to general tax revenue, other potential sources of revenue include: user fees and other cost recovery measures, ded-

icated payroll taxes, private provider licensing fees, user fees/levies on medical insurance contributions, restructuring of tax concessions/subsidies on medical scheme contributions and dedicated tobacco and alcohol excise taxes.

A point to consider is that the increase in taxes without them being dedicated to the health sector does not ameliorate the financing constraints.

Reviewing the public/private mix: There is potential for the government to play an active role in co-ordinating the provision of health services between the public and private health sectors. The reorganisation of the public health sector should consider the private health care providers' role in health care provision and financing.

Strengthening of management capacity and efficiency in the health system: The implementation of user fee systems and other cost recovery programmes, rationalisation (of specialists units and between levels of care) and improved management in lieu of administration of public health services will also improve the public health system.

Looking forward

The 1996/97 health budget

In order to reflect the government's stated commitment to improving the access of the majority of the population to health care services, we would expect the 1996/97 health budget to reflect:

- an increase in the allocation to primary health care services;
- a relative redistribution of resources from the hospital sector to the primary health care sector;
- redistribution from over-resourced to under-resourced provinces;
- rationalisation of certain specialist units;
- the consideration of alternative sources of health care financing;
- a review of the role of the private sector in health care provision and financing; and
- the implementation of efficiency improvement mechanisms.

A review of the 1996/97 budget will provide an indication of the extent of the government's commitment to addressing the inadequate access to health care services which affects the majority of the population.

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TABLE 2: PROVINCIAL BUDGET AS PERCENTAGE OF THE OVERALL HEALTH BUDGET			
Province	1995/96 (R'000)	Percentage of Total	1995/96 Per Capita Public Sector Health Care Expenditure (Rands)
Eastern Cape	1,974,219	12.79	301
Northern Cape	262,306	1.70	366
Western Cape	1,893,317	12.26	513
KwaZulu/Natal	2,907,739	18.84	334
Free State	1,060,189	6.87	383
Mpumalanga	604,707	3.92	203
Northern Province	1,144,376	9.36	271
North West	917,737	5.94	271
Gauteng	3,241,925	21.00	458
Subtotal	14,306,569	92.67	
National	1,131,103	7.33	
Total	15,437,672	100.00	347

*Source: South Africa (1995), Budget Review: 15 March 1995, Cape Town:Department of Finance.

TABLE 3: CONSOLIDATED REVISED PROVINCIAL AND NATIONAL BUDGET		
Institutional Categories	Total R'000	Percentage of Total %
Nurse Training	170,459	1.06
Academic/Tertiary Hospitals	4,437,883	27.52
Regional Hospitals	1,970,013	12.22
Community Hospitals	3,598,082	22.32
Primary Health Care (personal)	2,428,560	15.06
Primary Health Care (non-personal)	599,744	3.72
Specialist Psychiatric Hospitals	598,417	3.71
TB Hospitals	417,696	2.59
Emergency Services	475,689	2.95
Administration	1,427,322	8.85
Total	16,123,865	100.00

Van den Heever, A (1996): Work-in-Progress on resource utilisation formula for South Africa, Johannesburg: Centre for Health Policy.

Education Budget

Higher funding: A knee-jerk response?



Servaas van der Berg

The budget allocation for education will show whether the Minister of Finance and the cabinet share the view of Minister of Education Sibusiso Bengu that poor pupil performances must be addressed by greater funding for schools. SERVAAS VAN DER BERG argues that this may be just a knee-jerk response and other issues must be addressed before inordinate increases in spending are approved.

LIKE all ministers, Education Minister Sibusiso Bengu wants more money for his portfolio. He uses 1995's abysmal matriculation results as evidence that educational funding is inadequate. As the pass rate was particularly low in more poorly funded provinces, he jumped to the conclusion that poor provinces require more money to improve results and indicated that he would request much more funding for school education.

But is it desirable that more funds be voted for education? Was the minister's response to ask for more money not just a knee-jerk one? Many observers do not believe education should receive much more funding in the present circumstances. Although there was a slight decline in educational spending as a percentage of GDP last year, the general trend in the past decade has been upwards, and this cannot continue indefinitely.

South Africa already spends a greater proportion of her national product on education than most countries in the world: seven cents in every Rand that South Africans produce go to education, by far the most costly social programme. In fact, the state spends more money on education than on health, housing and welfare together. The more poorly funded provinces with the lowest pass rates also have the largest homeland legacy, and in these provinces there is a great deal wrong with education. Underfunding is just one of the problems.

Until the funds spent on education are better distributed and utilised, additional funds may contribute little to improving the quality of education. As Andrew Donaldson once observed: "Good primary school teachers cannot be conjured up by new Estimates of Expenditure."

The budget will tell how the Minister of Finance and the cabinet responded to the pleas for more funds for education. Let us hope that the budget does not increase funding for education inordinately. The first priority should be to get the structures, administration and teachers working. Only thereafter could additional funds be usefully deployed.

In the light of the financial costs of education and the expressed need for greater funding to appoint more teachers and build

more schools, we should also be wary of large teacher salary rises. Almost three-quarters of the budget for school education goes to paying teacher salaries. Salary increases raise the cost of providing education without improving the quality of teaching in any major way. In the present situation, where there is an oversupply of teachers at schools, it makes little economic sense to increase their salaries much more than inflation. So salary increases of 10% or more would be excessive and would seriously erode the real purchasing power (in terms of teachers) of public money and the future capacity to deliver education within a given budget.

Education is a provincial responsibility, at least at school level. The provisional allocation of educational transfers from central to provincial government is shown in the central budget, although provinces have some scope to reallocate such transferred funds. In education – as in the other major social spending categories, health and welfare – provincial inequalities largely derive from apartheid-based racial inequalities. Redistribution across provinces is essential for greater educational equity. Presently the intention seems to be to fund all provinces equally within five years.

As the graph below shows, the provinces with above-average financial resources per pupil are mainly those where the voters of the three-chamber parliament were numerically important (especially the Western and Northern Cape). These provinces have to scale down the cost of education per pupil considerably. This cannot but require that some teachers lose their jobs, despite the assurances to the contrary of President Mandela.

The Financial and Fiscal Commission has put forward proposals on the allocation of funds between the provinces, but this commission may be a toothless tiger: its recommendations have thus far been largely ignored and the formulas for redistribution between provinces determined by ministers and MECs. So only the budget will tell how much inter-provincial redistribution there will be.

Based on the Financial and Fiscal Commission's pupil numbers, the table below sets out transfers required for immediate parity in per pupil spending levels between provinces. The Western Cape would have

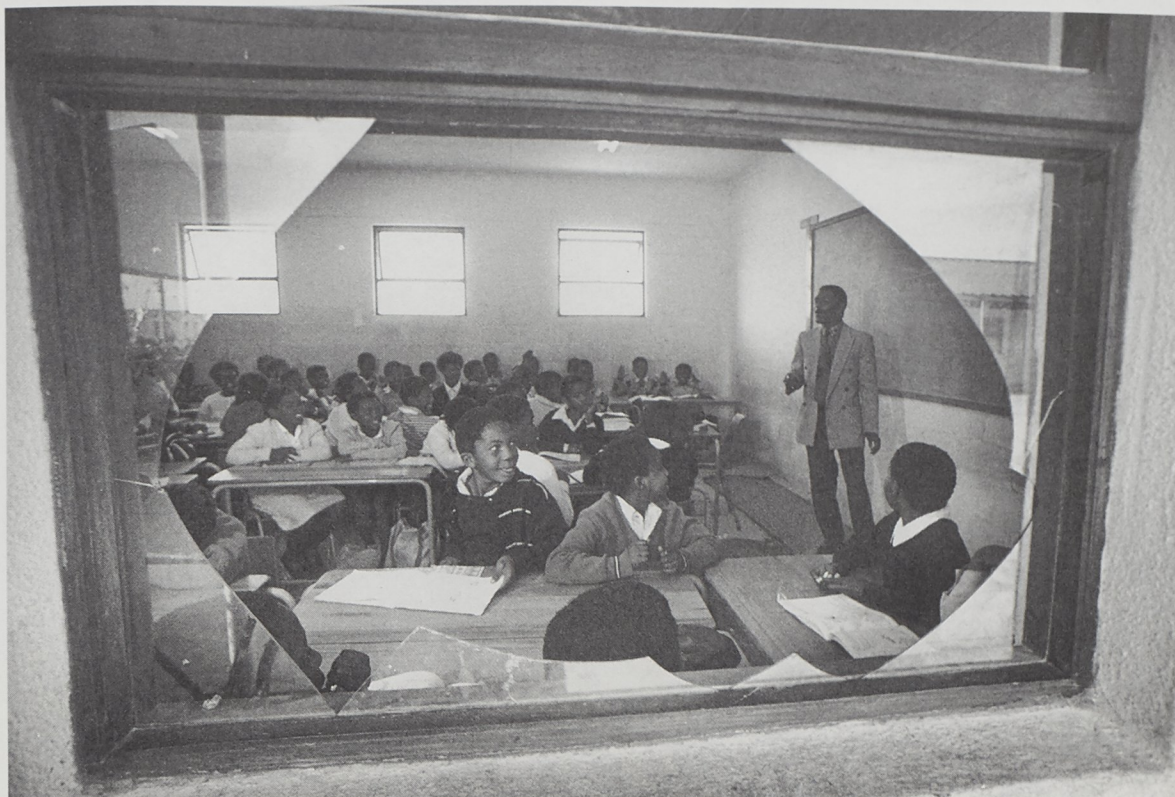


PHOTO: ERIC MILLER

Hold back funds? ... Improved education needs a shift in priorities.

to make by far the biggest absolute cutback: it would receive R1 billion less under parity than budgeted this year, implying a reduction of one-third in its educational resources. To reach per capita parity in five years would require that the Western Cape receive significantly less funding this year than last, implying a sharp real decline. If fiscal cutbacks in the Western and the Northern Cape are substantial, expect major cutbacks in teachers also to occur there. This should be reflected in a similar decline in teacher numbers (figures of up to 6 000 have been mentioned for the Western Cape by June this year). But the Western Cape response to fiscal crisis appears to be similar to the brinkmanship Transkei made famous.

This year the Western Cape will massively overspend on education through postponing restructuring and the dismissal of teachers, which places pressure on the central government to make financial resources available to it. But despite all the posturing, the provinces would be relieved just to have greater certainty on future provincial allocations. The absence of clear policy on resource allocation at central government level has made provincial educational planning very difficult. The budget, unfortunately, will not yet bring that clarity.

In the poorer provinces that Mr Bengu wants to help, on the other hand, additional funds may contribute very little. There the issue is availability of real resources of teachers, schools and books,

and the administrative capacity to ensure that these resources are effectively deployed. Too rapid increases in spending may not be desirable, for the absorptive capacity of educational institutions of additional funds is limited. Steady but incremental change needs to be the motto.

In Northwest, for instance, about one-sixth more resources would become available per pupil in the next five years, but while pupil numbers are still rapidly expanding, there is no guarantee that the additional teachers will be available to increase capacity so rapidly. A 6% plus growth rate in the number of teachers seems unachievable.

Rumour has it that the shifts away from funding universities will slow this year. The universities, to be sure, are financially troubled, largely because state funding cutbacks are occurring at the same time as the intake of students from poorer communities has risen sharply, increasing opposition to higher fees. For the universities the important trade-offs between considerations of quality versus access are still not treated systematically in a coherent government funding policy. In the absence of such a policy, financial planning has largely made way for crystal ball gazing and short-termism at the universities.

Important decisions also need to be made on the allocation of funds amongst tertiary institutions. The role of educational colleges needs to be reconsidered now that universities provide more future teachers and the demand for teachers is no longer

everywhere expanding as much as in the past. Though it has become conventional wisdom to argue that we require more technical education, it is not clear that the technikons and technical colleges are adequately meeting needs and providing quality education.

Last year, budgeted central government funding of technikons went up by a massive 25%, while universities received only 10% more (approximately the inflation rate). This year's budget may show whether that shift is part of a longer-term pattern and in the debates around the budget it may also become clearer what, if any, long-term direction has been decided upon.

Servaas van der Berg is a professor in the economics department at Stellenbosch University.

Controlling spending in era of popular demand

Continued from page 2

wide range of institutions and departments. It must be a matter of top priority for the political leadership to develop a technical capacity to oversee both the horizontal and vertical transformation of the budget. But this will again involve hard choices and placing a commitment to delivery and technical expertise above institutional and past political rivalry.

Where does this leave the government? As usual, facing hard decisions. The government needs to decide on its expenditure priorities and empower those charged to deliver while guaranteeing them adequate funds.

This involves careful planning, single-track budgeting, strong financial management and civil service reform.

In the next budget, serious budget watchers should keep an eye less on whether VAT is increased than on searching to see if the budget shows any evidence that the government is facing up to the challenges ahead.

Richard Ketley is Mission Economist for the World Bank, based in Johannesburg.

GRAPH: PROVINCIAL EDUCATION ALLOCATIONS PER PUPIL, 1995/6

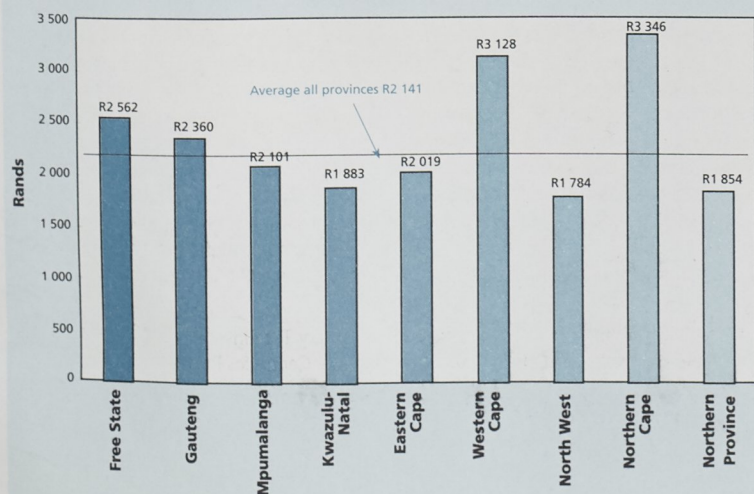


TABLE 1: CENTRAL-PROVINCIAL TRANSFERS AND PARITY REQUIREMENTS

Province	Budgeted transfers 1995/96	National standards grant* 1995/96	Additional requirement
Free State	R1 961m	R1 589m	- R372m
Gauteng	R4 524m	R3 979m	- R545m
Mpumalanga	R1 772m	R1 752m	- R21m
KwaZulu/Natal	R5 372m	R5 921m	R549m
Eastern Cape	R4 497m	R4 622m	R125m
Western Cape	R3 115m	R2 068m	-R1 048m
Northwest	R1 896m	R2 207m	R310m
Northern Cape	R691m	R428m	- R262m
Northern Province	R3 613m	R4 045m	R432m
Total Provinces	R27 440m	R26 608m	- R833m

* The Financial and Fiscal Commission's national standards grant is approximately equal to the national average expenditure per pupil multiplied by the number of pupils in a province, i.e. the expenditure if expenditure parity were to apply.

Raking in revenue

BUDGETS, like political parties' policies, tend to be a reflection of what is possible, both politically and economically. Dealing from a position of strength, bold and imaginative steps may be possible but dealing from a position of weakness, or at least uncertainty, limits the choice of possibilities.

In South Africa, the GNU is clearly dealing from a position of political strength but economically there is a great degree of fragility and uncertainty. Proponents of simple flat-rate taxes such as are currently receiving a surge of attention in the United States, are therefore extremely unlikely to be seriously listened to in South Africa.

Quite apart from their regressive nature (and VAT faces enough difficulty from that) such systems are untried and their true revenue-gathering power is a matter of great uncertainty if, apart from uncertainty about the rate to be applied, there is a significant simplification as regards the income to which the single rate is applied.

So incremental change which avoids throwing the baby out with the bathwater is undoubtedly the path that South African budgets will follow for the foreseeable future. This, too, is the route recommended by the Katz Commission.

Goals & constraints

What, then, are the fiscal or structural issues pushing the March 1996 budget one way or the other, and what are the factors constraining or encouraging government in following these courses? In this, of course, I am looking only at the revenue side of the budget and assuming firstly that total government expenditure does not exceed last year's proportion of GDP (30,6%) and, furthermore, that the deficit before borrowing will be reduced below last year's target of 5,8% of GDP.

Corporate tax

The last two budget speeches have made it clear that government recognises that South Africa's corporate tax rate does not encourage foreign investment. It is true that other factors – particularly political stability and labour productivity – are more important than tax rates to a foreign investor but taxation remains an important criterion and is one of the earliest factors taken into account in considering an investment decision. It seems likely that a reduction in corporate rates will take the form of a reduction in secondary tax on companies (STC) to around 10%, leaving a combined rate of company tax and STC amounting to about 40%.

The Katz Commission's recommendation of a reduction in STC to 15% is not sufficiently bold. Interestingly, when the rate of the STC was increased from its original 15% to its current 25%, collections of STC apparently reduced from a forecast of R1,8 billion to about R1 billion in the current year, primarily as a result of the consequent inclination of companies to declare dividends by way of the issue of capitalisation shares, which avoids the STC liability.

It seems reasonable to suggest, therefore, that if the rate is now reduced – to say 10% – collections will recover and possibly increase to, say, R2 billion in current terms.

As an aside, it needs to be remembered that STC has been singularly successful in achieving one of its stated aims at the time of its introduction, namely the encouragement of companies not to declare dividends but rather to reinvest.

The outcry in some quarters against tax avoidance (of STC) through the issue of capitalisation shares, completely misses the point that government's aim has been achieved – companies have retained their cash and will, presumably, put it to good productive use.

A reduction of the rate of STC would

Options and limitations

The government is faced with the dual challenge of generating revenue through taxation and building a culture of tax morality. This, argues DAVID CLEGG, can only be done if changes are incremental.



David Clegg

therefore reduce that effect (there seems to be sufficient push from the investing public in favour of cash dividends to make at least a fair number of listed companies reconvert from capitalisation issues to cash) but would produce greater revenues.

If a reduction in the rate of STC does reinstate revenue collections on the basis of a combined company tax rate of 40%, while still leaving the possibility of reducing the rate to the underlying 35% company rate by not declaring a dividend (or doing so by way of a capitalisation issue) then it seems to me that this is the best of all possible worlds.

Government will have somewhere in the region of R1 billion more to help rearrange other parts of the revenue side of the budget and at the same time will have reduced South Africa's tax rates to an internationally acceptable 40% on distributed profit. It needs to be remembered that corporate tax rates vary immensely around the world; developing economies (our competitors) have rates by and large between 35% and 45% whereas mature socialist-inclined economies have rates between 45% and 55% (and a similar trend is apparent in individual rates).

What is important for us to remember is that we are a developing country which must encourage investment. If that means giving the investor a higher after-tax return to compensate him for other uncertainties in the investment decision (and South Africa, particularly, the perceived question marks over political stability and labour productivity) then that is what must be done.

We cannot expect hard-nosed international investors to put their money where our mouth is! In that context, my belief is that government must simply tough it out with Cosatu.

Personal tax

Alleviating the middle-income bulge in personal tax (which, depending upon one's point of view, starts and finishes somewhere in the range of R35 000 to R100 000 per annum) is clearly overdue. A review is needed at all income levels. In real terms, South Africans are far more heavily taxed today than they were 5, 10, or even 15 years ago and my own recommendation would be to look for an adjustment which moves the top income tax rate of, say, 45% out to the R140 000 per annum level.

This would bring us back to somewhere around the same real position as that which existed in about 1980. But that, I think, would be too indigestible a political decision immediately and a move out to R100 000 would seem to me to be appropriate and achievable and would be recognition of the fact that far too high a proportion of South Africa's individuals of all races currently fall into the top marginal bracket at R80 000. Without access to the department of revenue's own statistics and an appropriate computer program, it is difficult to judge what the elimination of fiscal drag for all individuals and a claw back of prior years fiscal drag for the middle income group will cost, but as much needs to be spent on this as is reasonably available.

It needs to be remembered, too, that moving top rates and brackets need not cost much in lost revenues if one fiddles the rates appropriately at lower levels (not that I would condone such fiddling). But the perception of a more friendly tax regime is almost as important as the actual numbers and some adjustment is crucial. This is critical for tax morality which has

recently left a lot to be desired in the South African tax system.

Tax deficit

Reducing the deficit is at least as important – and probably more so – than the other goals. If the budgeted deficit is to be reduced from 5.8% to 5.3% (which would be a satisfactory achievement), an additional R2,5 billion in 1995 Rands will be required. VAT produces roughly R2 billion in revenues for every percentage point and is an obvious potential source of revenues.

As so often pointed out by the Katz Commission and others, VAT is an effective and instantaneous revenue-gathering mechanism, and is reasonable proof against tax avoidance and evasion (it is possible to evade any tax but VAT is more likely to reach into the grey economy than most).

The real question here is how a 1% increase can be sold to Cosatu and other justifiably concerned interest groups who can see the effect of such a tax upon their constituency or themselves. Both the Margo Commission and the more recent Third Interim Report of the Katz Commission strongly advised that poverty relief mechanisms be put in place and the parliamentary joint committee on finance has also emphasised this need during January this year. An investigation into such mechanisms was announced in the 1991 budget, but nothing happened.

Ability to deliver

Continued from page 1

away from the lump-sum allocations it has used in the past. For example, in the upcoming budget, one should expect to see a commitment for, say, 100 000 capital subsidies to be paid out over two to three years rather than the enormous lump-sum allocations that have characterized the housing budget to date.

Besides the ability of the housing department to spend its budget in a timely manner, there will be other key considerations that will affect the size of this year's allocation. Of particular note in this will be its commitment to the goal set out in the urban development strategy document produced by the RDP Ministry and the Department of Housing to deliver one million houses over five years, and the standard of housing the government will provide.

With respect to the first issue, in an interview with *RSA Review* (Nov-Dec 1995) the minister reconfirmed the government's aim to deliver a million houses. However, despite this continued commitment to the overall goal, it may be necessary for government to extend the length of time within which it is able to carry out this goal, say from five years to six or seven. The impact on the budget would therefore be felt according to the number of subsidies government believes it will be paying out over the next budget year and those immediately following.

As for the second issue, South Africans may recall that in recent years the housing debate has centred around what the standard of housing should be and how much it will cost to deliver it – should there be site and service or should there be four-roomed houses. This debate was supposed to be settled by the adoption of the capital subsidy (R5 000 – R15 000) for households earning less than R3 500 per month. And while the debate does not seem to

It is true that most poverty relief delivery programmes are prone to corruption, requiring as they do the distribution of vast amounts in cash. Poverty relief must not, however, be allowed to take the form of further zero ratings or exemptions in the VAT system and this principle has, it seems, been properly accepted by government.

Poverty relief should likewise not take the form of price control and it should, likewise, not take the form of subsidies to producers of basic requirements (bread, maize, milk etc) – for subsidies without price control are simply an invitation to inefficiency or profiteering. A concentrated effort must therefore be made to find an appropriate mechanism.

Other issues

Other significant possibilities which would affect the revenue side of the budget are the proposed changes to retirement fund and retirement lump-sum taxation and the proposed abolition of marketable securities tax (the charge of 1% on all transactions on the Johannesburg Stock Exchange).

Despite the broad acceptance of the Katz Commission proposals on retirement taxation by the joint parliamentary committee on finance, I consider it unlikely that these changes will be announced or factored into this year's budget. Although the Katz Commission investigation has

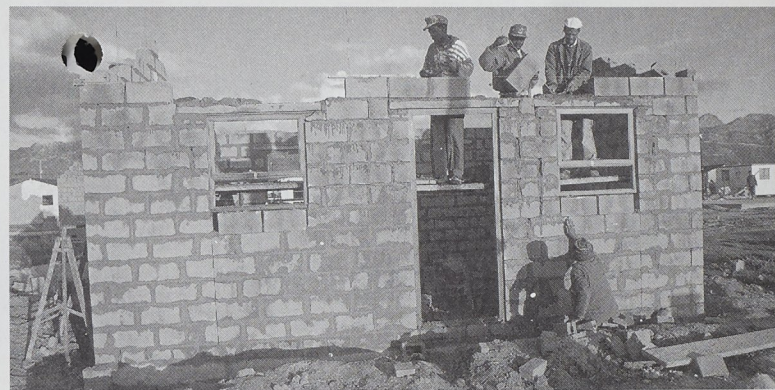


PHOTO: ERIC MILLER

Too little too late ... no end in sight to housing backlog.

have entirely ended over the standard of housing to be provided, nevertheless the message has been filtering down from the housing ministry that, at least in the near future, the amount of the capital subsidy will not be increased. The signal is one of commitment to seeing this new policy through rather than going back and starting over. Budgetary implications are thus fairly straightforward.

In addition to the housing department's ability to spend its allocation and its continued stated commitment to providing a particular housing standard within a specified time frame there will be other issues that will be considered in determining the size of the allocation. One issue to note is the stabilisation of the housing environment.

In last year's budget speech in parliament, the minister noted that the stabilisation of the housing environment is an essential prerequisite to the success of the overall housing programme. But, in the recently released ministerial task team's report on housing delivery, it is explicitly stated that the Masakhane campaign, which seeks to normalise the housing environment, has failed.

Lastly, the 1995/96 housing budget reflected the need to phase out certain inequitable categories of state assistance that had been available under the previous

been open and transparent, it will doubtless be necessary to sell the ideas to trade unions both on the private and public sector side.

Moreover, it needs to be considered whether the proposed preservation of accrued public sector tax-free status would not be unconstitutional if similar protection was not granted to private sector employees who have similarly-accrued future benefits at hypothetical future rates of tax more beneficial than those proposed.

The abolition of Marketable Security Tax has been on government's to-do list for some years but has not previously enjoyed such emphatic support as it has received this year from the Katz Commission. The cost of abolition would be approximately R330 million per annum which seems a small price to pay if the knock-on effect of consequent foreign investment into the economy (albeit into the stock market which produces no taxable revenues for government) is to increase the general level of economic activity.

My own view is that abolition this year is unlikely but that a further 0.5% reduction will send the right signals to the international community without constituting another perceived slap in the face for those who view the markets as one of the many unacceptable faces of capitalism.

In summary, then, ultimately all tax is payable by the individual so it should not really matter too much which extraction mechanism is used to pluck the feathers. But the perception that the tax burden is a fair one is critical in building a culture of tax morality. Current negative perceptions need to be addressed this year through some meaningful personal tax relief and through a poverty relief programme.

David Clegg is a partner of Ernst & Young Tax Consulting Division.