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ECONOMIC DEVELOPMENT INSTITUTE, WORLD BANK
DEPARTMENT OF ECONOMICS, UNIVERSITY OF WESTERN CAPE
DEPARTMENT OF ECONOMICS, UNIVERSITY OF FORT HARE
SCHOOL OF ECONOMICS, UNIVERSITY OF CAPE TOWN
COURSE ON MACROECONOMICS AND REDISTRIBUTION
FOR PROSPECTIVE GOVERNMENT OFFICIALS
IN SOUTH AFRICA
CAPE TOWN, SOUTH AFRICA
FEBRUARY, 1994

SUMMARY

Title: Macroeconomics and Social Development

Language: English

Duration: Two weeks, from January 31 to February 11, 1994

Region: South Africa

EDI Division: National Economic Management Division

Participants: 25 prospective government officials

Institutions: The University of the Western Cape

Staffing: Andre Roux (UWC) Lieb Loots (UWC)

Brian Craig (UWC) Patrick Ncube (UCT)

Brian Kahn (UCT) Other SA Academics

Alfredo Behrens (EDI)

I. INTRODUCTION

1. A democratic government in South Africa will have to address the legacies of the apartheid period. A priority in this regard will be the provision of basic services such as primary health care, education, affordable housing and infrastructure. This needs to be done within the framework of sustainable economic growth, which implies that due consideration be given to macroeconomic balance.

2. One implication of the transition to democratic rule is that people who are experienced at giving leadership and organizational direction, but may have had limited experience in government, could become officials in the departments of health, education, housing, social welfare and rural development. The primary objective of this activity is to enhance the public management skills of the participants by strengthening their understanding of the relevance of macroeconomic management to redistributive public expenditure strategies.

II. BACKGROUND

3. In December 1991 Mr Nelson Mandela, President of the African National Congress (ANC), met Mr Lewis Preston, President of the World Bank, in Washington D.C. They agreed that the World Bank would, inter alia, support training in South Africa in the area of macroeconomic management. Subsequent contacts between the Bank and the ANC reaffirmed this decision.

4. Over the past two years various capacity building activities were introduced by South African organisations like the ANC and the Congress of South African Trade Unions, as well as, international agencies such as the International Development Research Centre of Canada and the Friederich-Ebert Stiftung of Germany. An important initiative was the formation of the Macroeconomic Research Group (MERG) to promote macroeconomic research and training of black economists. These initiatives will be strengthened by the training program outlined below.

5. The relevance of the proposed activity in facilitating the transition in South Africa is further underscored by the decision taken at the May 1992 Policy Conference of the ANC that there is a need to broaden and deepen the understanding of economic issues.

III. OBJECTIVES

6. The course is designed to introduce participants to general aspects of macroeconomics. The scope and implications of fiscal redistribution, which is likely to feature prominently in South Africa and is assumed to be one of the primary concerns of the participants, will be evaluated within a macroeconomic framework.

IV . CONTENT

7. The course is divided into four modules, each giving attention to both conceptual understanding and practical application.

Module I Introduction

8. Day 1 begins with a review of the social expenditure proposals which are typically advanced in the South African debate on economic policy and concludes by familiarising participants with South African and international social indicators.

Module II Macroeconomic Framework

9. Day 2 develops a profile of South Africa's macroeconomic aggregates, exposes the participants to national and public sector data sources and reviews the fundamental macroeconomic identities.

10. Day 3 lays the foundations for an understanding of macroeconomics in an open economy. The discussion will focus on the main relationships among macroeconomic aggregates.

11. Day 4 further develops the open-economy macroeconomic framework by exploring the interdependence between fiscal, monetary and exchange rate policy. Case studies are used to indicate the importance of macroeconomic balance.

Module III Fiscal Policy and Redistribution

12. Day 5 places the South African system of taxation in an international perspective and addresses the main sources of revenue. Some attention will be given to the relevance of equity and efficiency criteria for tax reform options.

13. Day 6 opens with a description of existing budgetary procedures in South Africa and briefly reviews alternative procedures. Criteria to be used in prioritising expenditure are then discussed.

14. Day 7 is devoted to a structured group activity that allows the participants the opportunity to design a budget for redistribution and growth.

15. Day 8 draws on comparative experience to illustrate the benefits of efficient public resource utilisation. This is followed by a case study involving performance auditing.

Module IV: Growth and Fiscal Policy

16. Day 9 places fiscal redistribution within a growth context. Case studies are used to highlight the inter-temporal choices involved in drawing up a budget.

17. Day 10 is aimed at consolidating the work covered in the course.

V. APPROACH

18. The course consists of a mix of lectures, presentations and small group discussions. Case studies are interspersed throughout to draw on international experience. Extensive use will be made of microcomputers under the guidance of post-graduate tutors to familiarise participants with actual data and to facilitate an understanding of economic relationships.

VI. PARTICIPANTS

19. The participants will be prospective government officials who are expected to be engaged in policy analysis in ministries of health, education, housing, social welfare and rural development. Few, if any, of the participants will have had any systematic exposure to economics.

VII. LOCAL INSTITUTIONS

20. The Department of Economics of the University of the Western ' Cape, with assistance from the School of Economics of the University of Cape Town.

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CURRICULUM

APPENDIX A

MACROECONOMICS AND SOCIAL DEVELOPMENT IN SOUTH AFRICA

MODULE I INTRODUCTION

The Social Context

- Existing policy proposals
- Comparative social indicators

MODULE II MACROECONOMIC FRAMEWORK

South Africa's National Accounts

- Aggregate trends and comparisons
- Public sector statistics
- National accounting identities

Macroeconomic Relationships

- Guide to macroeconomics

Open-Economy Policy Framework

- Fiscal, monetary and exchange rate policy
- Macroeconomic balance

MODULE III FISCAL POLICY AND REDISTRIBUTION

Taxation

- Taxation in comparative perspective
- Economic effects of taxation
- Tax reform issues

Budgetary Procedure and Priorities

- Existing budgetary procedures
- Ordering of spending priorities

Budget for Redistribution and Growth

- Structured group activity to design a budget

Public Expenditure Management

- Efficiency of public spending
- Performance evaluation

MODULE IV GROWTH AND FISCAL POLICY

Case Studies

- Malaysian case study
- Zimbabwean case study

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Cape Town
Jan 31 - Feb 11 1994
A COURSE PRESENTED IN COLLABORATION BY
ECONOMIC DEVELOPMENT INSTITUTE OF THE WORLD BANK
AND
DEPARTMENTS OF ECONOMICS
UNIVERSITIES OF WESTERN CAPE, FORT HARE AND CAPE TOWN

MONDAY, JANUARY 31

09:00 - 10:30 INTRODUCTION

The first part of the introduction session is reserved for housekeeping issues. The objectives and content of the course will then be motivated. Some Of the questions that come to mind are:

Why are the first days devoted to macroeconomics?

Where does the theme of redistribution fit in?

Why does the budget feature so prominently?

What are the limitations of the course?

11:00 - 13:00 EXISTING POLICY PROPOSALS

The participants will be asked to make a brief presentations (max 10 mins) outlining some of the policy proposals which are under discussion within the democratic movement. This should provide a reference point for subsequent discussions of the budget. Policies that have budgetary implications ought to be emphasised.

14:00 - 15:30 SOCIAL INDICATORS

The World Bank's data bank of comparative social indications of development will be introduced. Dr. Alfredo Behrens will discuss the indicators and demonstrate the programme (which is very user friendly), after which the participants should be able to browse through the data file on their own.

15:45 - 17:00 SOUTH AFRICAN SOCIAL INDICATORS

In this session South Africa's social indicators of development will be compared to those of similar middle income countries. In view of the shortage of adequate data for South Africa, inputs from participants in their respective areas of expertise would be greatly appreciated.

TUESDAY, FEBRUARY 1

08:30 - 10:30 NATIONAL AGGREGATES

The concept of Gross Domestic Product will be introduced in this section and the three ways of measuring the GDP will be analyzed. The participants will then work through spreadsheet exercises based on these concepts. The session concludes with a look at comparative growth trends.

11:00 - 13:00 NATIONAL ACCOUNTS

This period begins with a presentation of the circular flow of income diagram. This will be followed by spreadsheet exercises illustrating the household, corporate, government and

capital market accounts.

14:00 - 15:30 BALANCE OF PAYMENTS

The aim of this session is to acquaint the participants with the balance of payments account,

focusing on the components of the capital and current accounts. Definitions will be illustrated by means of computer exercises.

15:45 - 17:00 ACCOUNTING IDENTITIES

The final session will integrate the national income and balance of payments concepts to illustrate the macroeconomic constraints on the economy. The basic three gap identity will

be developed to demonstrate the interdependence between the balance of payments, the government deficit and the saving-investment gap.

19:00 - 21:00 COMPUTER PRACTICE

The evening has been set aside for participants to complete whatever exercises were handed

out during the day. The objective is that by the end of the day each participant should have mastered the basic spreadsheet commands and operations.

WEDNESDAY, FEBRUARY 2

08:30 - 10:00 MACROECONOMIC FRAMEWORK

The aim of this day's lectures is to provide an overview of the basic macroeconomic framework and to lay the foundations for subsequent discussions of economic policy. In this introductory section the concepts of aggregate demand and aggregate supply will be developed and their determinants analyzed.

11:00 - 13:00 MACROECONOMIC FRAMEWORK

This is a continuation of the previous session. The emphasis will switch to the open economy context and the interaction between the domestic and external sectors. The implications of the balance of payments constraint will be explored.

14:00 - 15:30 MACROECONOMIC BALANCE

At this stage a country case study highlighting the importance of macroeconomic balance and the detrimental consequences of domestic imbalances will be presented by Prof. Ademola Oyejide.

15:45 - 17:00 MACROECONOMIC MODEL

The concepts introduced in the morning session will be illustrated by means of a dynamic time-series macroeconomic model of the South African economy designed by the EPRP modelling team, lead by Gavan Duffy, at U.W.C.

T HURSDAY, FEBRUARY 3

08:30 - 10:30 FISCAL POLICY

After briefly characterising the scope of fiscal policy, the session will concentrate on the deficit and the public debt. Participants will use a spreadsheet to calculate and plot trends

in the conventional and primary deficit for South Africa. A model showing how the debt to GDP ratio is determined will be used to forecast debt and debt servicing ratios for South Africa. The session concludes with a survey of the economic impact of deficit financing.

11:00 - 13:00 MONETARY AND EXCHANGE RATE POLICY

This session will briefly look at monetary policy, with particular emphasis on interest rate

policy. The relationship between monetary policy, inflation and the balance of payments will then be analyzed. The session concludes with an overview of exchange rate policy.

14:00 - 15:30 EXTERNAL BALANCE

Here the focus will be on exchange rate policy, and the constraints which external imbalance places on growth.

15:45 - 17:00 INFLATION AND FISCAL POLICY

Hyper-inflation is the main danger of severe fiscal imbalance. A simple spreadsheet model will be used to demonstrate the inflationary effects of monetising the deficit.

19:00 - 21:00 POLICY SCENARIOS

The macroeconomic model introduced during the previous day will be used to simulate the impact of alternative fiscal, monetary and exchange rate policies. This should provide

one with a practical feel for the effects of different macroeconomic policies. The participants will then use the macroeconomic model to develop policy scenarios for incorporation in the budget plans which will be drawn up by the small groups.

FRIDAY, FEBRUARY 4

08:30 - 10:30 COMPARATIVE TRENDS IN TAXATION

The aim of this component is to familiarize the participants with tax trends in South Africa and to place these in international comparative perspective. The session begins with a brief presentation on the importance of public sector financing. The participants will do computer exercises to plot South African and comparative tax trends, and then proceed with small group discussions of these trends and their relevance to the future of fiscal policy in South Africa.

11:30 - 13:00 TAX POLICY AND TAX REFORM

This topic is devoted to tax policy and reform, and begins with a sketch of the theoretical

foundations of tax reform. The major tax policy issues to be addressed by developing countries during the 1990's are then reviewed. Attention will be given to the use of VAT, the broadening of the tax base, the limiting of tax preferences, the declining importance of

tax as a redistribution mechanism, and optimality of the tax system. Participants will then

discuss in small groups, after having studied the salient features of the South African tax

system, the desired direction that tax reform in South Africa should take. Consideration will have to be given to the interaction between tax policy and economic growth.

14:00 - 15:30 MACROECONOMIC STABILITY AND FISCAL REFORM

15:45 - 17:00 MACROECONOMIC STABILITY AND FISCAL REFORM

MONDAY, FEBRUARY 7

08:30 - 10:30 COMPARATIVE TRENDS IN PUBLIC SPENDING

The objective here is to familiarize the participants with spending trends in South Africa and to place these trends in an international comparative perspective. The session will begin with a short introduction to the main economic functions of government: stabilisation, allocation, redistribution and growth. Participants will then extract data series from the computer and plot South African and comparative trends. This provides the background for group discussions of these trends and their relevance to the future of fiscal policy in South Africa.

11:00 - 13:00 EXPENDITURE PRIORITIES

A discussion on the issues which need to be taken into account in identifying spending priorities for a democratic South Africa.

14:00 - 15:30 BUDGETARY PROCEDURES

A critical lecture on current budgetary procedures in South Africa, followed by a discussion of alternative procedures which emphasise greater transparency and accountability.

15:45 - 17:00 EXPENDITURE PRIORITIES

Before a budget can be drawn up it is necessary to derive a list of expenditure priorities.

In this session small groups will be asked to identify what they regard as the priorities for

a democratic South Africa. Brief report backs will follow.

19:00 - 21:00 BUDGET MANAGEMENT

This is a structured reading session. The members from the various small groups should divide up the reference material on the budget among themselves. In this way the groups

can ensure that they are acquainted with all the relevant readings.

TUESDAY, FEBRUARY 8

08:30 - 10:30 DEMOCRATISATION AND REFORM

The morning sessions are devoted to an in-depth analysis of the fiscal and macroeconomic challenges accompanying a process of democratisation and reform.

11:00 - 13:00 DEMOCRATISATION AND REFORM

In this slot the participants will have the opportunity to consider the relevance of the Brazilian experience of hyper-inflation and fiscal imbalance for the transition in South Africa.

14:00 - 15:30 SAFETY NETS

Recent experience in developing countries point to the need for adequate safety nets during periods of macroeconomic reform and structural adjustment. Dr. Alfredo Behrens will provide a brief description of the circumstances in which safety nets become necessary

and analyze different approaches and mechanisms for protecting the poor. The relevance of safety nets for South Africa will then be explored.

15:45 - 17:00 ECONOMIC SCENARIOS FOR S.A. BUDGET

The primary objective of this discussion is to derive a limited number of realistic economic

scenarios. Through small groups and plenary discussions the participants will be encouraged to reach consensus on a few alternative economic scenarios for the future, especially with respect to economic growth, size of government and tax reform. These will provide the context within which budget plans for South Africa will be drawn up during the rest of the week.

WEDNESDAY, FEBRUARY 9

08:30 - 10:30 EXPENDITURE PLANNING, CONTROL AND EVALUATION

In this session the aim is to develop an appreciation of the need for expenditure planning, control and performance evaluation. The interrelationship between development strategy, fiscal planning and budgeting systems will be explored with the aid of a case study. The discussion will conclude with a treatment of monitoring and evaluation procedures which are necessary to ensure efficient and effective public spending. Performance auditing is a leading example of the type of mechanisms which are available for this task.

11:00 - 13:00 BUDGETING IN ZAMBIA

Dr. Patrick Ncube will discuss his experience as budget officer for the Zambian government. This will give participants some exposure to the actual budgeting process and problems experienced in a third world countries.

14:00 - 15:30 SPENDING TARGETS FOR SOUTH AFRICA

Small groups will decide on their own political programmes to be implemented after an assumed early 1994 election, and will then translate these into five-year spending targets broken down by function and objective.

15:45 - 17:00 A BUDGET FOR SOUTH AFRICA

Small groups will at this point begin to develop their own five-year budget plans for South Africa. They will have to take into account the foregoing discussions, including different economic scenarios, tax reform options, and expenditure priorities.

19:00 - 21:00 A BUDGET FOR SOUTH AFRICA

This evening is reserved to give the small groups sufficient time to develop detailed and realistic budget proposals.

THURSDAY, FEBRUARY 10

08:30 - 10:00 GROWTH AND REDISTRIBUTION

At this stage of the course it is appropriate to return to the theme of redistribution from

a wider perspective. In this section we look at the prospects for income redistribution through growth and market processes, the scope and limits of fiscal redistribution and the

problems of growth through redistribution.

11:00 - 13:00 FISCAL POLICY AND GROWTH

There is a two-way interaction between growth and fiscal policy. This section will concentrate on one side of this relationship, and analyze the impact of fiscal policy on growth, and in particular the effects of different types of expenditure on growth.

14:00 - 15:30 MACROECONOMIC SCENARIOS

The macroeconomic model will be placed at the disposal of the small groups to enable them to assess and review the possible macroeconomic consequences of their budget proposals.

15:45 - 17:00 A BUDGET FOR SOUTH AFRICA

In this time-table slot the small groups will have to finalise their budget proposals.

FRIDAY, FEBRUARY 11

08:30 - 10:30 PROJECT PROPOSALS

Each small group will be allocated 30 minutes to present their budget proposals.

11:00 - 13:00 PROJECT PROPOSALS

A plenary discussion of the budget proposals.