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Op-ed

Economic resilience through strategic interventions

By Jan van Heerden and Daryl Swanepoel

The recent impasse surrounding the National Budget presented an ideal opportunity to explore alternative approaches beyond conventional fiscal reasoning.

A report from the Inclusive Society Institute highlights a number of macroeconomic interventions that are worthy of consideration. These proposals have the potential to stimulate economic growth but at the same time it mitigates the impacts of economic shocks.

The report considers three macroeconomic interventions: an alternative debt-reduction roadmap, the introduction of a youth solidarity tax and limiting the increases in the public salaries. The measures make use of a holistic approach to stimulate the economy, but also considers the country's socio-economic realities, and the need for fiscal discipline.

The analysis uses Computable General Equilibrium (CGE) models developed by the University of Pretoria, which comprises a comprehensive set of equations tailored for particular economic interventions.

Three models were utilized: a national model to assess an initial intervention that temporarily raised the debt-to-GDP ratio, an older provincial TERM model for later interventions due to the lack of integrated income taxes in the national model, and the latest provincial TERM model for targeted sectoral analysis. CGE models consist of intricate equations reflecting economic relationships based on data from Statistics South Africa's Supply and Use tables. They demonstrate equilibrium states, allowing for the adjustment of variables such as tax rates or spending to calculate new equilibria.

The models effectively differentiate between twelve income groups, which enhances analyses of income distribution and poverty. They assume fixed proportions for inputs, whereas variations in transportation costs and wages influence sourcing and labour demand.

Alternative Debt-Reduction Roadmap

The first intervention comprises an alternative approach to debt by advocating for an increase in the debt-to-GDP ratio to 100% over the next five years. The increased revenue must however be specifically earmarked for economic infrastructure development. It considers the use of national debt as a potential tool for financing vital investments that yield economic returns.

Some analysts will undoubtedly express concerns about the increased debt, arguing that it could lead to long-term financial instability. But the intervention is, however, structured with clear conditions, namely, that the additional debt must be strictly used to fund economic infrastructure, and not consumption.

This is essential, because it is not about irresponsible borrowing but about making investments to facilitate economic growth. Economic infrastructure development generates jobs. And it enhances the productivity necessary to ensure more efficient business operations. Investments in roads, railways, and communication infrastructure are essential for a modern economy; and create an environment conducive to growth.

By committing to investments in economic infrastructure whilst at the same time managing consumption debt prudently, the potential for future prosperity is harnessed. Besides, these economic infrastructure initiatives can stimulate private sector investments, and encourage public and private sector collaboration, which will drive further economic activity. A crucial auxiliary condition to these enhancements, is to develop robust monitoring frameworks that will ensure the effective allocation of resources, thereby safeguarding funds for their intended purpose.

Youth Solidarity Tax

The second intervention is the introduction of a youth solidarity tax, comprising a one percent increase in personal tax for high earners. It is suggested as a five-year transitional tax with the single purpose of funding youth enterprise development. The measure has two goals, that is to generate revenue and to address youth unemployment.

It recognises that the youth are the drivers of tomorrow's economy. Economic growth is propelled by investing in their ventures and in developing their skills, thereby fostering a generation of entrepreneurs and job creators. The youth solidarity tax is actually a small sacrifice for high-income earners considering the significant economic and social benefits that it holds for the country.

By postponing inflationary bracket adjustments, we minimize the impact on lower and middle-income groups. Moreover, the solidarity tax embodies a commitment to building a more inclusive economy, emphasizing the necessity of engaging and uplifting young people. In a climate of rising inequality, this intervention stands out as a symbol of hope and progress. It supports the argument that an investment in the youth is not just an expenditure but an investment in the nation's future. It creates an environment that empowers the youth by enabling access to resources, mentorship, and networks. It nurtures transformative businesses that benefit communities at large.

Limiting Public Salary Bill Increases

The third intervention centres on fiscal prudence by limiting increases in the public salary bill to inflation. As public sector wage growth often surpasses productivity, this proposal seeks a necessary recalibration. By aligning salary increases with inflation rates, the government can significantly reduce budgetary pressures while reinforcing the necessity of maintaining government services and employment levels. It encourages a sustainable fiscal environment, since it balances workforce compensation with productivity improvements.

The measure will also allow for greater flexibility in reallocating resources to critical public services in areas such as education, healthcare, and infrastructure, thereby ensuring the government can effectively meet the diverse needs of its citizens.

Balanced Fiscal Policies for Sustained Growth

True implementation success of these interventions hinges on striking a balance in fiscal policy.

The government must ensure that while austerity measures are in place to limit salary growth,

necessary investments in health care, education, and social welfare do not suffer. An economy that neglects its social dimensions can create divisions that inhibit overall growth and well-being.

Therefore, these interventions must be approached holistically, where economic growth does not come at the expense of social harmony. Addressing injustices through such policies can lead to social stability, which is a vital for sustainable growth.

Conclusion

A wage subsidy on youth labourers showed very positive results. The subsidies on investment and construction services, and decreasing government expenditure through lower real wages, also have positive GDP results, but these two recycling schemes would only benefit households in the longer run, and would therefore be unpopular for the government to implement in the short run. They will however yield positive economic infrastructure development to enable future production expansion and GDP growth.

The proposed measures serve to address the multiple challenges faced by our economy in a very practical way. By recognizing debt as a potential investment avenue, we can pursue economic infrastructure expansion, thereby creating a pathway to economic recovery and growth. By implementing measures like a youth solidarity tax not only targets urgent issues like youth unemployment but also fosters an inclusive future. And by limiting the salary increases of the civil servants further fiscal prudence is promoted. In so doing a balance is struck, which is essential for sustainable economic prosperity.

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