

TOPIC 4

Allocation

Public Provision for Economic Efficiency

(a) Public Expenditure and the budget in South Africa

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Part 1

- Government spending in South Africa
 - The budget and the public sector
 - Allocation: economic, functional and intergovernmental
- Private property, collective goods and market failure
 - Externalities
 - Public goods
- Critical perspectives
 - Foley: A Marxist counterpoint
 - Ostrom: Public economies

Part 2 (next week)

- Thinking about public provision
- The welfare state as piggy bank
- Asymmetric information
- Social insurance, social risk and the public sector

Readings and topic question

Readings

- *** Barr, N.A., 2012. 'Chapter 3: State Intervention' in 'Economics of the Welfare State', 5th ed. ed. Oxford University Press, Oxford; New York.
- *** Ostrom, Vincent, and Elinor Ostrom. 1977. 'Public Goods and Public Choices'. In Alternatives for Delivering Public Services: Toward Improved Performance, edited by Emanuel S. Savas. Westview Press.
- Varian, Hal R. 2014. 'Chapter 35: Externalities' and 'Chapter 36: Public Goods' In Intermediate Microeconomics: A Modern Approach, Ninth edition. New York London: W.W. Norton & Company.
- Foley, Duncan K. 1978. 'State Expenditure from a Marxist Perspective'. Journal of Public Economics 9 (2): 221–238.

Topic commentary

- ***Discuss the following statement: "The best solution to market failure is to assign property rights and create markets. This will allow free individuals to gain from trade until an efficient allocation is achieved."***
- The deadline is Friday 4 September 2020 at 9am.
- 1000 words, typed in Microsoft Word, emailed to michael.sachs@wits.ac.za

Government spending in South Africa

Musgrave (1959)

Distribution (equity)

Design of tax and transfer policies based on values decided in a political process

Stabilization (full employment)

Maintain appropriate level of aggregate demand based on a determination of an inflationary or deflationary gap

Allocation (efficiency)

Deciding what types and quantities of social goods (i.e. public and merit) to provide, and how to allocate the costs of provision

Schick (1966)

Control

Binding operating officials to the policies and plans set by their superiors

Planning

Systematically relating the expenditure of funds to the accomplishment of policy objectives

Management

Programming of approved goals into specific activities

Campos & Pradhan (1996)

Aggregate fiscal discipline

Overcoming the tragedy of the commons by defining the size of the fiscal envelope and ensuring compliance

Resource allocation

Prioritise competing claims and ensure most effective use of scarce resources

Operational Efficiency

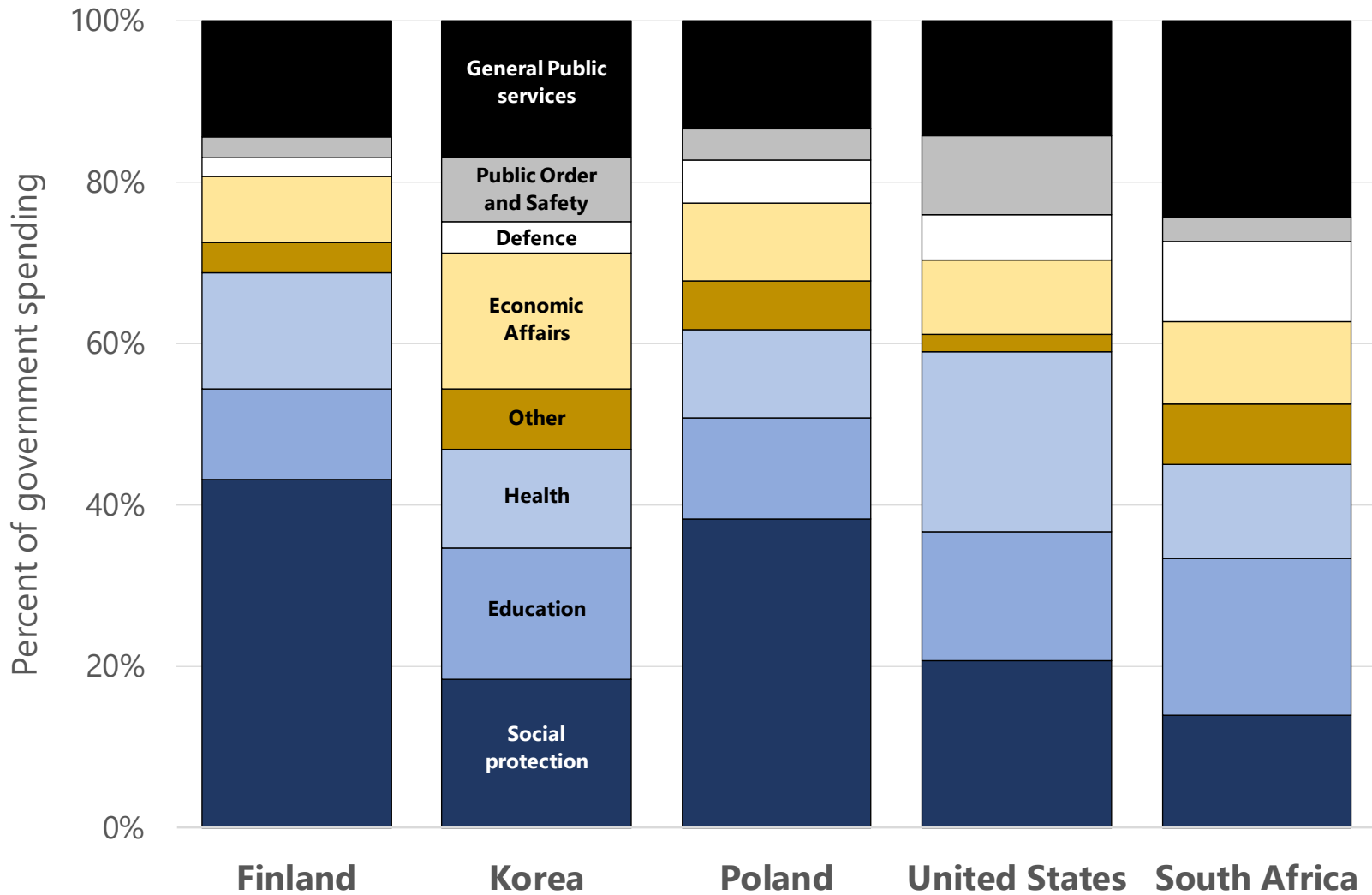
Ensure technical efficiency in the use of inputs to produce outputs

A simultaneous system of separate objectives solved as a budget plan

Competing orientations/
Historical phases

Levels/Hierarchy

Choice of resource allocation



The budget and the public sector in South Africa

Consolidated Budget

National Revenue Fund ("Main Budget")

National Departments

National Public Entities
(e.g. PRASA, SANRAL)

Social Security Funds
(UIF, RAF)

Universities

Provincial Government

Provincial Equitable Share

Provincial Conditional Grants

Provincial own revenue

Provincial public entities and DFIs

Local Equitable share

Local Conditional Grants

Local Government

Local own revenue

Local government entities

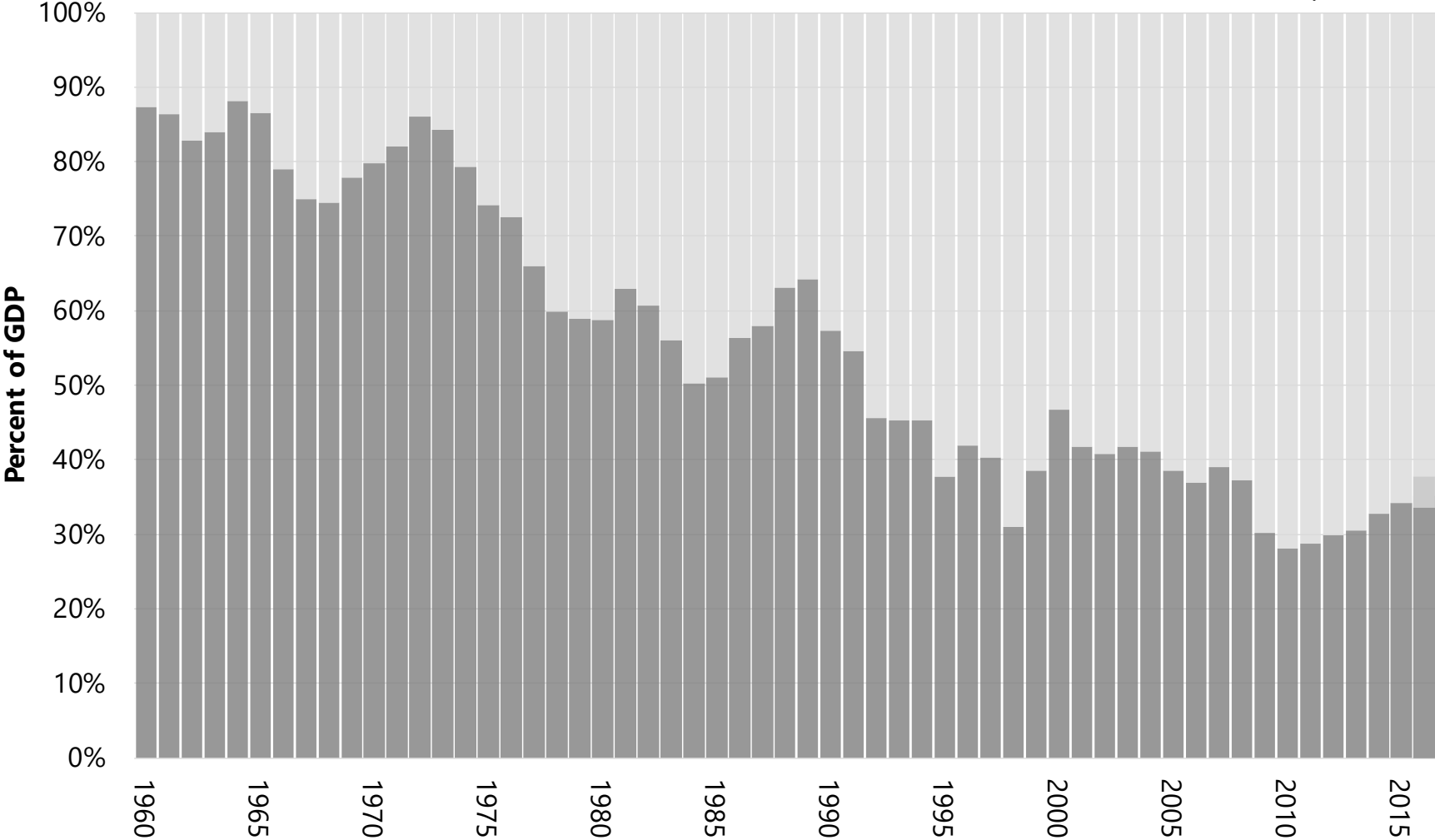
General Government

State-owned companies
Eskom, Transnet, SAA

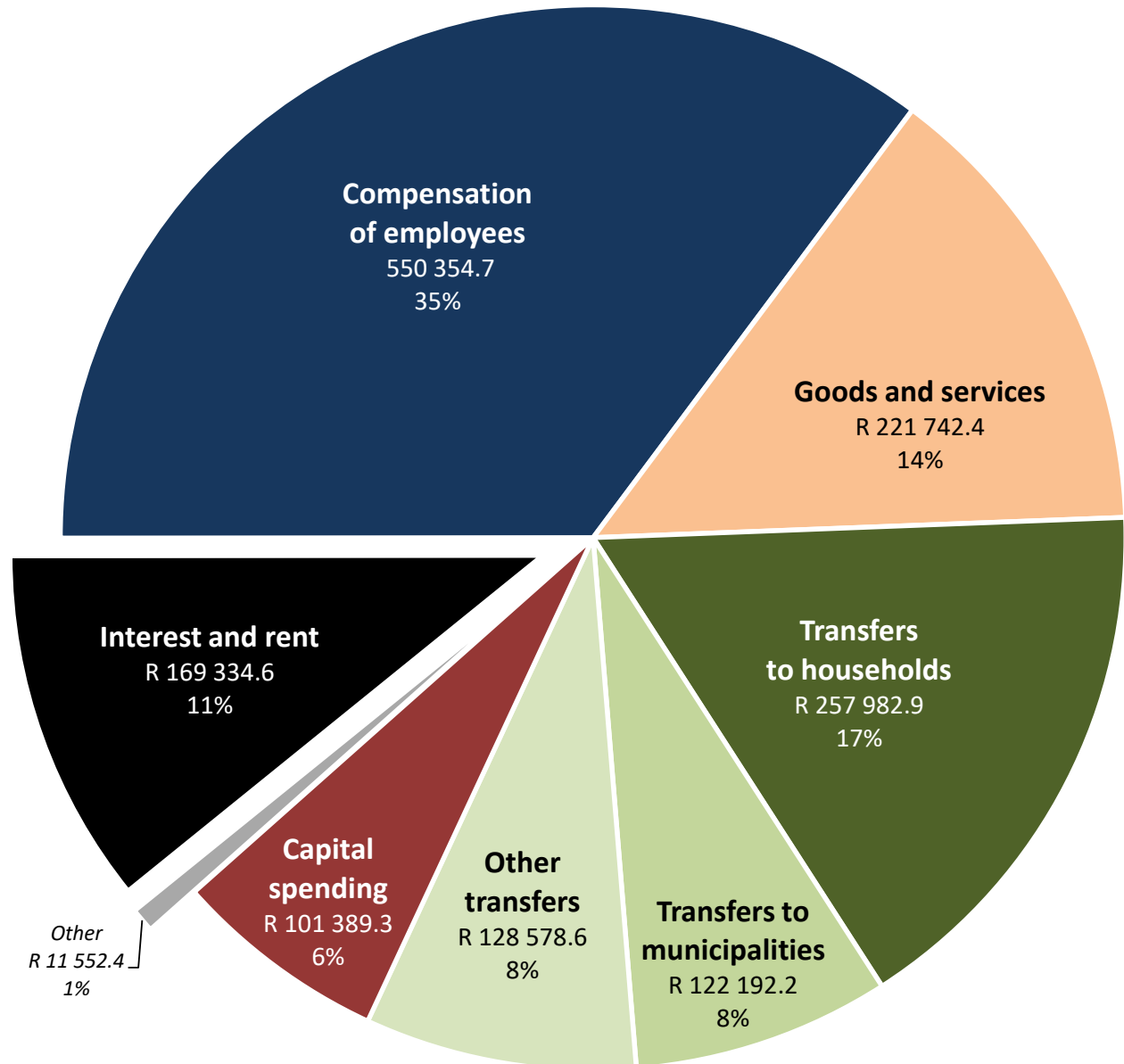
Government Financial Institutions
DFIs, SARB

Gross fixed capital formation - Economic infrastructure

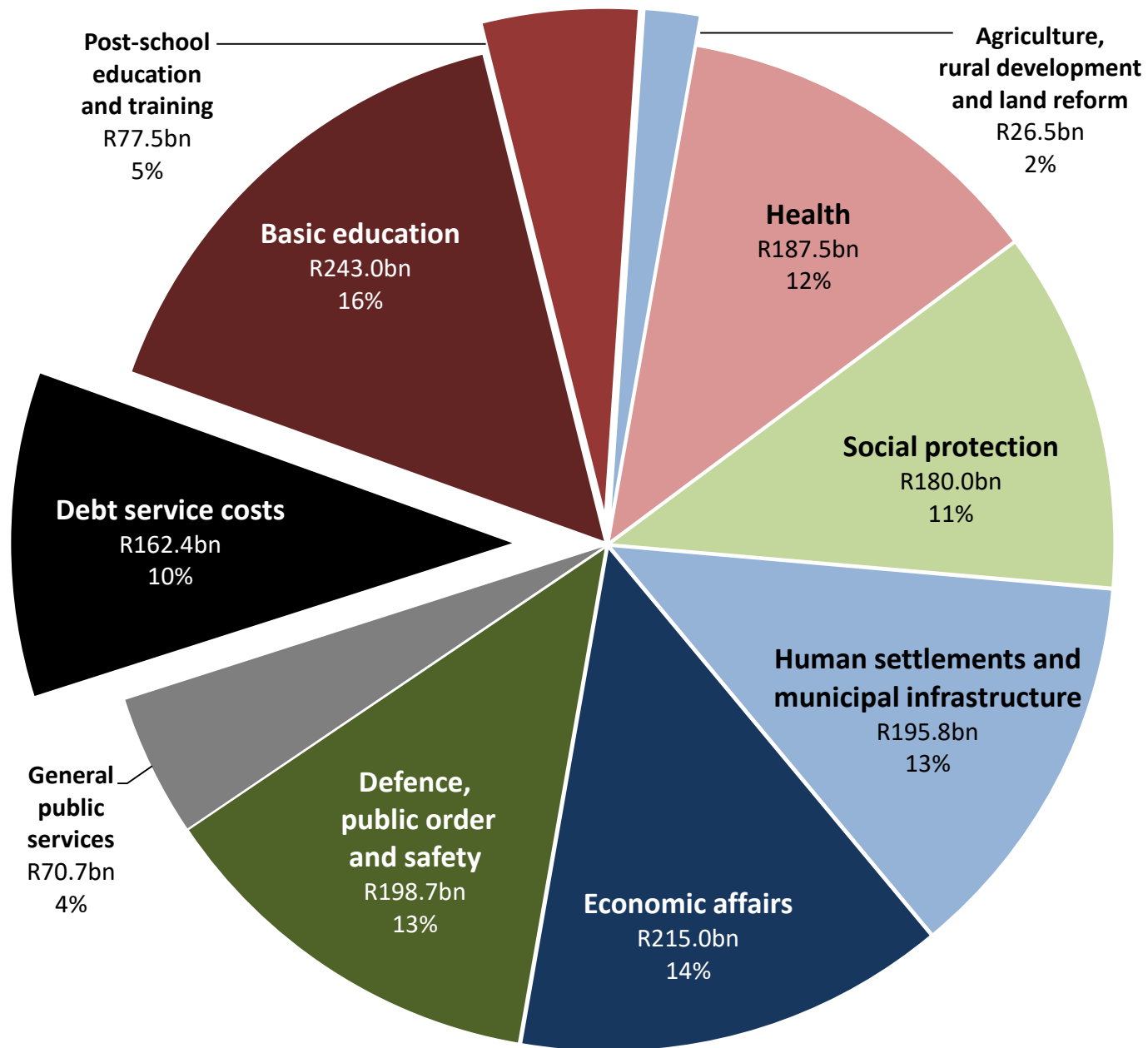
■ General Government
■ Public corporations



Consolidated budget: Economic classification

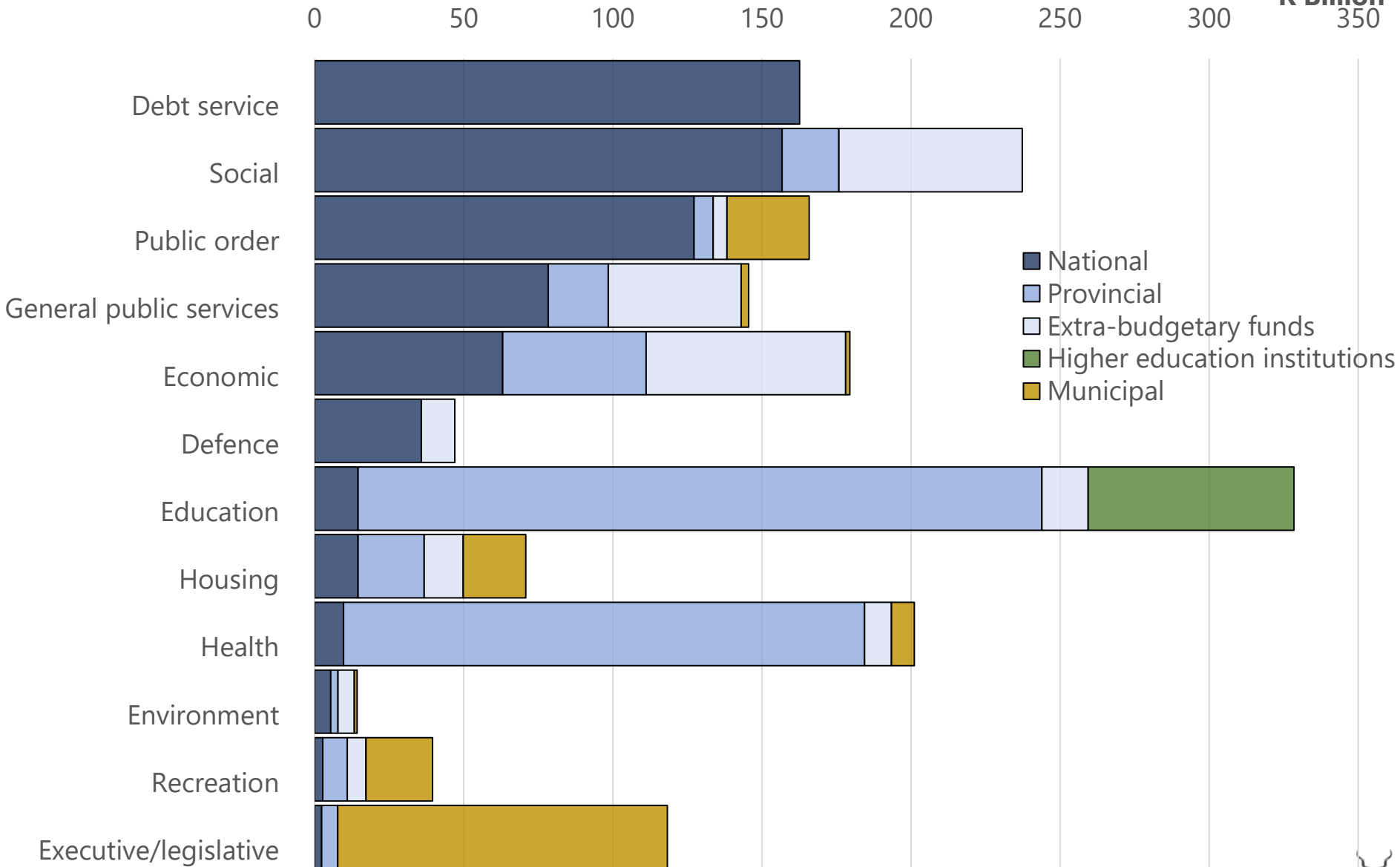


Consolidated Budget: Functional Classification



General government expenditure (R billion)

11
R Billion
350

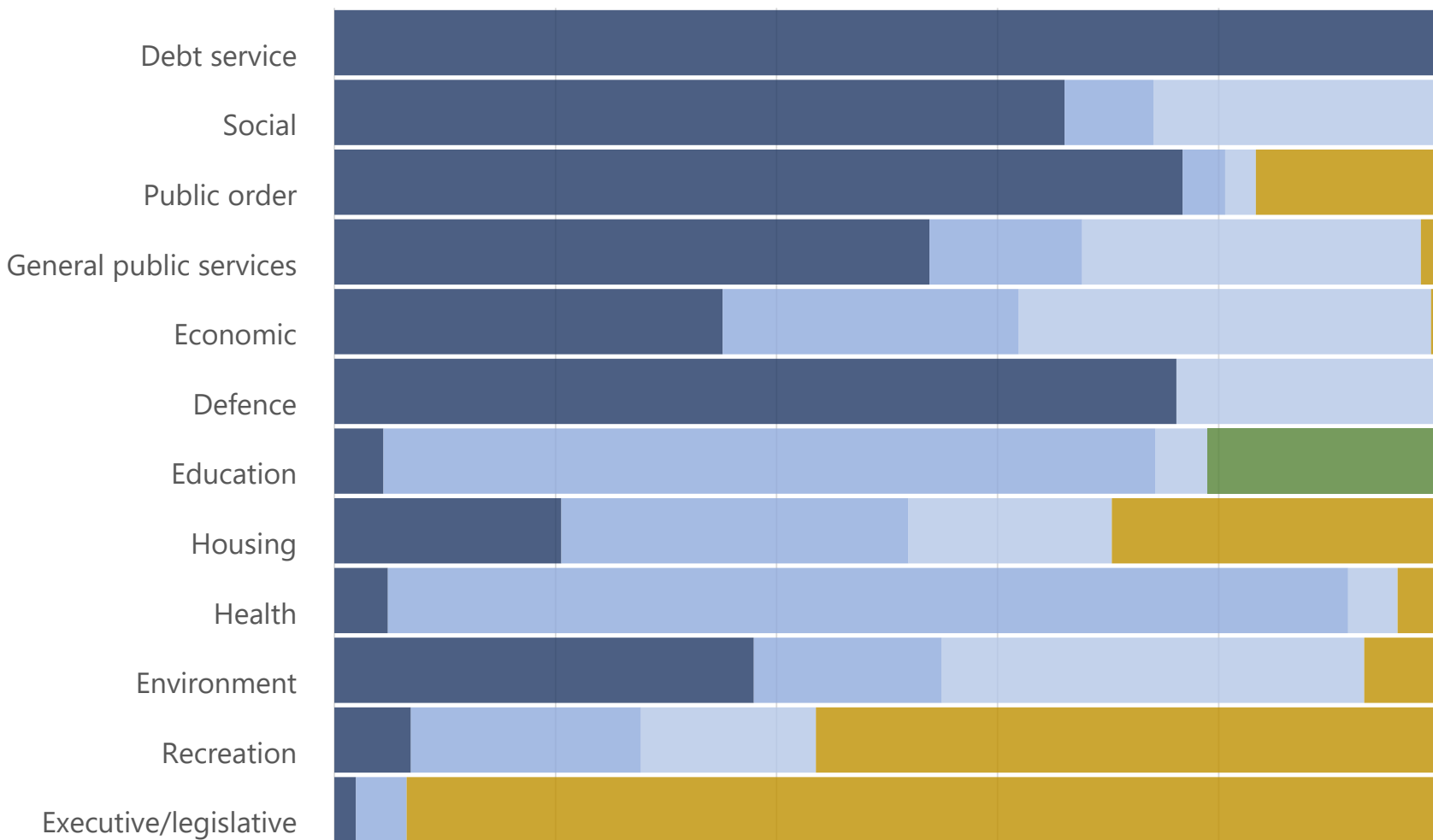


Source: StatsSA – Financial Statistics of Consolidated General Government (Table 10 – Functional classification of expenditure cash flows for operating activities and purchases of non-financial assets according to the different levels of general government for the 2017/2018 fiscal year)

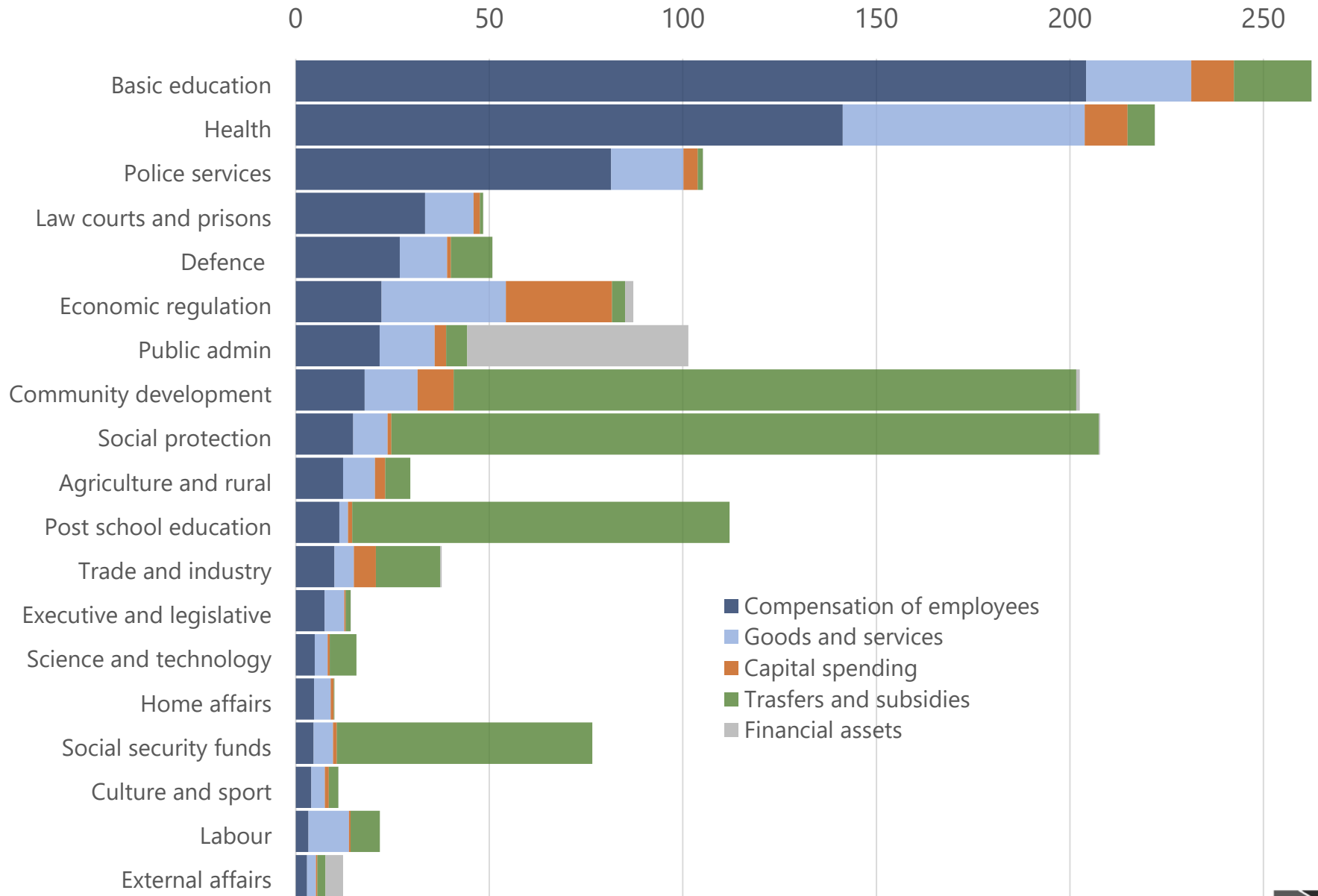
General government expenditure (%)

■ National ■ Provincial ■ Extra-budgetary funds ■ Municipal ■ Higher education institutions

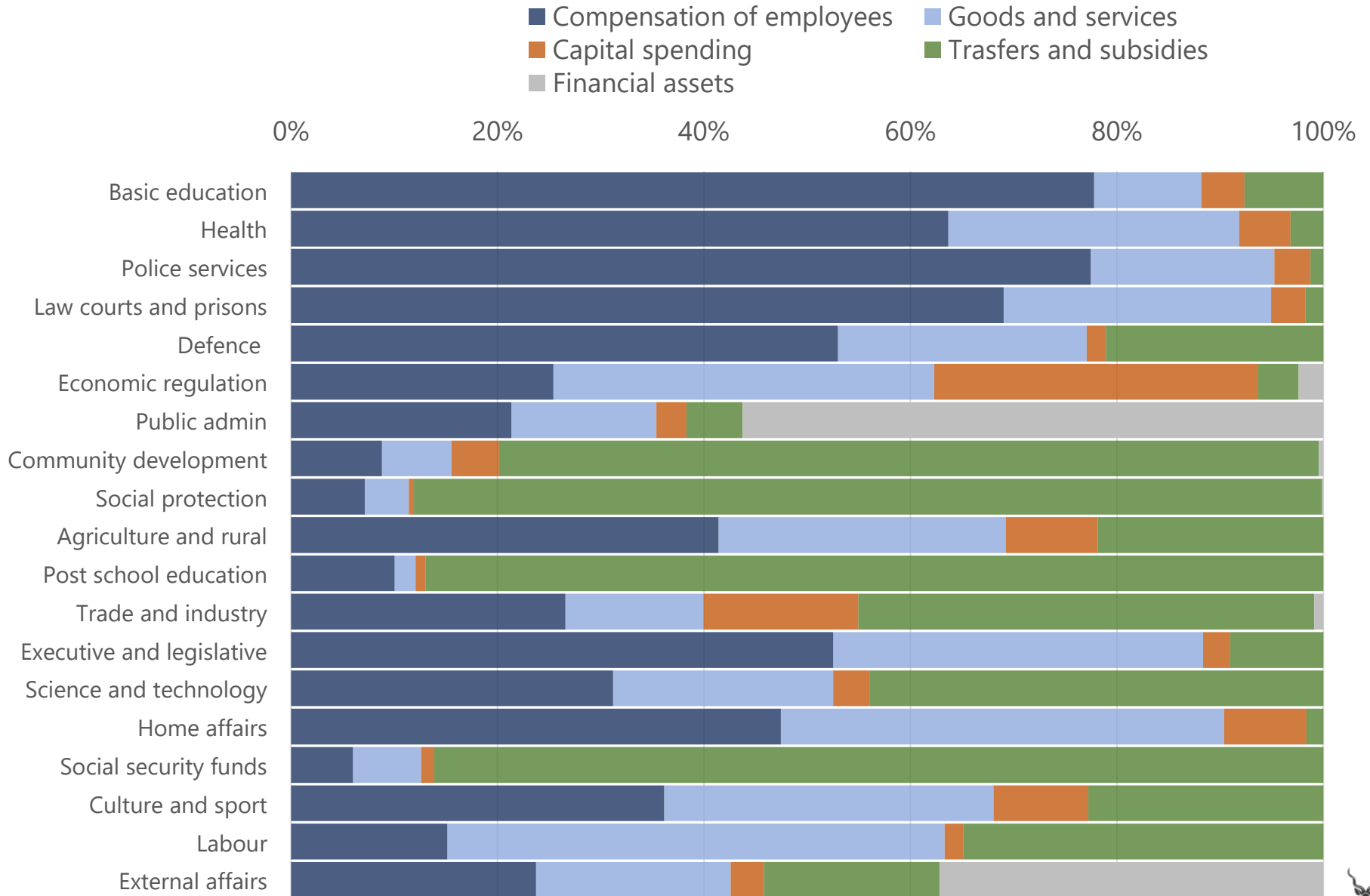
0% 20% 40% 60% 80% 100%



Consolidated government: Functional and economic (R billion)

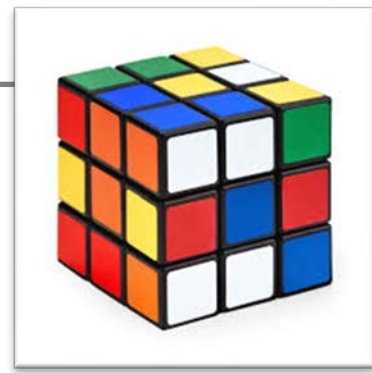


Consolidated government: Functional and economic (%)



Three dimensions of budget allocation

“Classification is the most important decision rule”



ECONOMIC [INPUTS]

Resources allocated to purchase inputs that complement one another in the production of outputs

- Compensation of employees
- Interest payments
- Capital spending
- Goods and services
- Transfers and subsidies

FUNCTIONAL [OUTPUTS]

Resources classified according to its purpose or the policy objective it seeks to achieve

- Education
- Health
- Social development
- Community development
- Economic development
- Peace and security
- General public services

INTER- GOVERNMENTAL [SPHERES]

The constitution requires that resources are shared equitably between the three spheres of government, and defines exclusive and concurrent functions

- National
- Provincial
- Local

Division of nationally raised revenue

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	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	Average annual MTEF
R billion	Outcome			Revised estimate	Medium-term estimates			
Division of available funds								
National departments	546.1	555.7	592.7	638.2	684.7	733.1	777.7	6.8%
<i>Indirect transfers to provinces</i>	3.5	3.6	3.8	4.7	4.6	5.0	5.7	6.3%
<i>Indirect transfers to local government</i>	10.4	8.1	7.8	7.9	7.2	7.1	8.2	1.2%
Provinces	471.4	500.4	538.6	572.2	612.3	657.1	701.0	7.0%
Equitable share	386.5	410.7	441.3	470.3	505.6	542.9	578.6	7.2%
Conditional grants	84.9	89.7	97.2	101.9	106.7	114.2	122.4	6.3%
Local government	98.3	102.9	111.1	117.3	127.3	137.9	149.5	8.4%
Equitable share	49.4	50.7	55.6	60.5	69.0	75.7	82.2	10.7%
Conditional grants	38.3	40.9	43.7	44.3	45.1	48.2	52.2	5.6%
General fuel levy sharing with metros	10.7	11.2	11.8	12.5	13.2	14.0	15.2	6.8%
Provisional allocation not assigned to votes	–	–	–	–	19.2	11.4	18.9	
Non-interest allocations	1 115.8	1 159.0	1 242.3	1 327.6	1 443.5	1 539.5	1 647.1	7.5%
<i>Percentage increase</i>	9.7%	3.9%	7.2%	6.9%	8.7%	6.7%	7.0%	
Debt-service costs	128.8	146.5	162.6	182.2	202.2	224.1	247.4	10.7%
Contingency reserve	–	–	–	–	13.0	6.0	6.0	
Main budget expenditure	1 244.6	1 305.5	1 405.0	1 509.9	1 658.7	1 769.6	1 900.5	8.0%
<i>Percentage increase</i>	10.0%	4.9%	7.6%	7.5%	9.9%	6.7%	7.4%	
<i>Percentage shares</i>								
<i>National departments</i>	48.9%	48.0%	47.7%	48.1%	48.1%	48.0%	47.8%	
<i>Provinces</i>	42.2%	43.2%	43.3%	43.1%	43.0%	43.0%	43.1%	
<i>Local government</i>	8.8%	8.9%	8.9%	8.8%	8.9%	9.0%	9.2%	

Source: National Treasury



Conditional grants to provinces

	2018/19	2019/20	2020/21	2021/22	MTEF total
R million	Adjusted budget	Medium-term estimates			
Direct conditional grants					
Comprehensive agricultural support programme	2 019	1 538	1 676	1 814	5 028
Ilima/Letsema projects	552	583	615	653	1 852
Community library services	1 424	1 501	1 584	1 679	4 764
Education infrastructure	10 094	10 514	11 467	12 327	34 308
Maths, science and technology	370	391	413	436	1 241
National school nutrition programme	6 802	7 186	7 696	8 165	23 047
HIV, TB, malaria and community outreach	19 922	22 039	24 408	27 753	74 200
Health facility revitalisation	6 057	6 007	6 360	6 858	19 225
Health professions training and development	2 784	2 940	3 102	3 273	9 315
National tertiary services	12 401	13 186	14 069	14 843	42 097
Human settlements development	18 267	18 780	15 937	15 397	50 114
Informal settlements upgrading partnership	–	–	3 015	4 322	7 337
Provincial roads maintenance	11 036	11 382	12 093	13 021	36 496
Public transport operations	5 990	6 326	6 750	7 121	20 196
Other direct grants	4 215	4 339	5 021	4 694	14 054
Total direct conditional grants	101 932	106 712	114 206	122 355	343 274
Indirect transfers	4 730	4 561	4 980	5 675	15 216
School infrastructure backlogs	2 272	2 027	1 769	2 339	6 135
National health insurance indirect	2 458	2 534	3 211	3 336	9 081

Source: National Treasury



	2018/19	2019/20	2020/21	2021/22	Average annual MTEF growth
R million	Medium-term estimates				
Eastern Cape	65 500	68 824	72 744	76 293	5.2%
Free State	26 178	28 187	30 338	32 411	7.4%
Gauteng	93 384	102 448	111 636	120 700	8.9%
KwaZulu-Natal	99 264	106 014	113 370	120 324	6.6%
Limpopo	55 179	58 965	62 986	66 779	6.6%
Mpumalanga	38 468	41 428	44 475	47 389	7.2%
Northern Cape	12 475	13 424	14 388	15 309	7.1%
North West	32 392	34 973	37 694	40 325	7.6%
Western Cape	47 447	51 291	55 278	59 115	7.6%
Total	470 287	505 554	542 909	578 645	7.2%

Source: National Treasury

- The Constitution (s214) sets out the principles and process through which the equitable share is determined. It also establishes the Finance and Fiscal Commission as an independent advisory body.
- The equitable share is allocated by a formula with six components that captures the relative demand for services across provinces and takes into account specific provincial circumstances
- The formulas components are neither indicative budgets nor guidelines as to how much should be spent on functions.

Table W1.9 Distributing the equitable shares by province, 2018 MTEF

	Education	Health	Basic share	Poverty	Economic activity	Institutional	Weighted average
	48.0%	27.0%	16.0%	3.0%	1.0%	5.0%	100.0%
Eastern Cape	14.9%	13.1%	12.1%	15.6%	7.8%	11.1%	13.7%
Free State	5.3%	5.2%	5.1%	5.2%	5.1%	11.1%	5.6%
Gauteng	18.1%	22.4%	24.7%	17.7%	34.1%	11.1%	20.1%
KwaZulu-Natal	22.3%	21.5%	19.7%	22.2%	16.0%	11.1%	21.0%
Limpopo	13.1%	10.2%	10.3%	13.5%	7.2%	11.1%	11.7%
Mpumalanga	8.4%	7.4%	7.8%	9.2%	7.5%	11.1%	8.2%
Northern Cape	2.3%	2.1%	2.1%	2.2%	2.1%	11.1%	2.7%
North West	6.5%	6.7%	6.8%	8.1%	6.5%	11.1%	6.9%
Western Cape	9.1%	11.4%	11.4%	6.2%	13.6%	11.1%	10.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: National Treasury

