European Journal of Business and Social Sciences, Vol. 3, No. 12, **March 2015.** **P.P. 113 - 149**
URL: *http://www.ejbss.com/recent.aspx-/*
ISSN: 2235 -767X

THE SOUTH AFRICAN STATE OF THE NATION IN CHAOS: THE WALK FALLS SHORT OF THE TALK. GROWTH IS IN TATTERS AND THE FINANCE MINISTER FAILED TO DELIVER A CREDIBLE 2015 BUDGET ADDING TO THE MISERY OF THE PEOPLE

Anis Mahomed Karodia (PhD)

akarodia@regent.ac.za
Professor, Senior Academic and Researcher, Regent Business School, Durban, Republic of South Africa

Dhiru Soni (D. Phil)

Director of Research and Innovation, Regent Business School, Durban, Republic of South Africa

Joseph E. David (PhD)
Former City Administrator at the Ethekwini Municipality (Durban),
Researcher and Academic, Regent Business School, Durban, Republic of South Africa

ABSTRACT

The paper looks at the chaos in the state of the nation address delivered by the South African State President on the 12th of February, 2015 in Parliament, in the city of Cape Town. There was chaos in Parliament which tarnished the image, reputation and demeanor of the country both locally, but more importantly on the international stage. This chaos is discussed very briefly, in the introduction of the paper and has a direct bearing on the South African budget which was presented by the new Finance Minister on 25 February, 2015. The paper alludes to the reality, given the lack of direction by the State President, in terms of his announcements on government policies. Thus, we find that, the Minister of Finance failed to deliver a credible budget, stave of internal and international criticism and therefore, there was a mismatch between the President's State of the Nation address and the budget presented by the Minister. In a paper published in January, 2015 by the authors in the European Journal of Business Studies, in Switzerland, Volume (7) 13, (This journal) the paper drew attention to South Africa's economic woes, outlining the problems and challenges that confront the minister and the nation. It argued that the Minister of Finance must be given a chance. However, this chance has gone awry, on the basis that the State President did not charter an acceptable understanding of the economy in his 2015, State of the Nation address, and fell short of the necessary walk that was required because, it was more talk, signifying nothing. Given the state of chaos in the South African economy, the inability of the government to deal with rising unemployment, increasing poverty, widening inequality, a lack of land distribution to the poor, overt amounts of corruption at all levels of the government and bureaucracy, increased service delivery protests, the decline of the rand as a currency on the world market, the dysfunctional municipalities, rising food prices, very slow GDP growth exacerbated by both power (electricity) and water shortages in the country, which is expected to go on for at least three to five years, puts paid to a much needed growing economy; a dysfunctional public health and education systems, slow agricultural growth, a bloated inept and inefficient bureaucracy, a unsustainable social grants policy, escalated borrowing bringing about an increased debt burden. The budget presented negates development imperatives, retards growth and, was not a pro – poor budget. In fact, South Africa as a country is injured and reeling in all sectors of the economy. Escalating crime rates has a negative impact on the economy. The situation is so bad that, it is almost on the brink, reaching a rapid tilting point of no return, and these are very serious concerns. It could very easily be downgraded by rating agencies in the near future, as an economy in the category of junk status. In other words the South African government, its ruling predatory elite and the public service bureaucracy to a large extent have lost their moral compass and, failed the country.

In his mid – term budget in November of 2014, setting the tone for the actual full budget that was tabled in February, 2015, growth was adjusted from 1.6 percent to 1.4 percent. It appears that this growth will have to be further adjusted downwards by the Minister of Finance, because of a lack of direction by the President and his Cabinet. The growth is now set at 2 percent as was announced. In actual fact the 2 percent growth is wishful thinking and pie in the sky, because the South African economy will most certainly contract and decline even further. The paper will only give some of these issues a brief analysis because a host of these issues are not the concern of this paper. What is of concern is to analyze successive State of the Nation addresses by the President and then subsequently to analyze the South African Finance Ministers 2015 budget, to determine, if South Africa can be pulled out of the economic doldrums.

Key Words: Chaos, State of the Nation, Growth, Budget, Water, Electricity, Economy, Gross Domestic Product, Inflation, Land Reform

RESEARCH MEHODOLOGY

The paper does not follow the classical research methodology that is used in research papers as a general rule. Newspaper articles in the main are used to analyze the South African budget, presented by the South African Finance Minister on the 25 February, 2015. This paper has to be read in conjunction with a paper published by two of the authors in January, 2015 (European Journal of Business Studies, Zurich, Switzerland) in relationship to the ministers Mid – Term policy statements made in November, 2014. As such therefore, analysis and observations of the authors is relied upon to articulate the discussion in this paper. This is not a shortcoming of the paper because, it is an analysis of the most recent budget presented together with the Presidents successive State of the Nation addresses over a seven year period of his tenure. Such a paper therefore, does not call for a classical research approach or design, but lends itself to critical analysis and observation over time. By the same token the discussion is enhanced by analysis made by an array of reporters in the South African press as concerns the general political situation in South Africa, budgetary and financial implications, coupled with statements and analysis of an economy in tatters, chaos and ruins, due to mismanagement of the economy and the fiscus by politicians of the governing party, the chosen elite, and the bureaucracy of the public service.

THEORETICAL FRAMEWORK

The theoretical framework is underscored by the reality that the South African economy is in a state of chaos, and that government has not walked the talk in terms of sound intervention strategy, to save South Africa's economy from ruin. In so doing the paper enunciates a host of variables that has led to this situation and, posits that the new Finance Minister had to and, must toe the line (to save his job) and cannot do much within the ambit of overt corruption that, confronts the country and, has to follow the poor economic and fiscal policies, as defined and engineered by the government, much to the peril and disaster of the country in terms of development, growth, fiscal prudence and the economic woes that confront the population of the country, as taxpayers. The theoretical framework of the paper is further underpinned by the poor body politic in the country, exacerbated by a lack of political will to address the deteriorating and declining economic woes that the country now confronts.

HYPOTHESIS

The central hypothesis is that, the budget presented by the Minister of Finance, does not assist development, is not pro – poor and does not allow for confidence in the economy. It is a budget that speaks to austerity measures because of continued mismanagement of the economy and South Africa's finances and, does not address the economic fundamentals, in order, to stimulate growth and, above all places the financial and development burden on taxpayers, to bail out the country from its economic woes.

OBJECTIVES OF THE STUDY

- To understand and project upon the South African budget presented by the Finance Minister, in order to determine the salient outcomes of the budget.
- To analyze the budget in view of the State of the Nation address by the President, in order to determine, if there is a mismatch of the announcements made by the President and the outcomes of the announcements made in the budget, in terms of the ministers projections in his mid – term policy statements made in November, 2014.
- To determine if the budget has in anyway assisted the taxpayer, in terms of the outcomes of the budget and, as to whether South Africa's economic woes have been addressed adequately by the Minister of Finance.

ETHICAL CONSIDERATIONS

There are no ethical considerations because the discussion in this paper is already of public knowledge and therefore, does not impinge upon the policies of the South African government. Criticism of political and financial strategy including leadership and governance is therefore, par for the course and can only contribute to the consolidation of democracy and enhance discussion in this direction.

FINDINGS

- There are no finite findings specific to this study.
- The findings are dispersed throughout the discussion in the paper.
- That the budget presented was an austerity budget that does not allow for economic growth and development and, is not pro – poor in nature and outcomes.
- That the burden of revenue collection has been placed on the South African taxpayer and therefore, does not really assist the taxpayer and the poor.
- That the South African economic situation is in tatters and the economic woes of South Africa have not been adequately addressed by the Minister of Finance.
- That South Africa faces twin deficits (budget and fiscal) which could lead to a sovereign downgrade of the economy, in the near future.
- Given all of this increased borrowing by the government will therefore, be inevitable.

INTRODUCTION

Pandemonium broke out amidst corruption allegations against the State President and, his State of the Nation Address was delayed for more than an hour. Police were summoned to evict opposition members of Parliament belonging to the Economic Freedom Fighters (EFF). This subsequently saw the largest opposition party, the Democratic Alliance (DA) walking out of the house, in opposition to the ruling party's (African National Congress – ANC) strong arm tactics exhibited by the two ANC speakers of the house, who muzzled opposition parliamentarians, by calling upon the police to act. There was violence and some members of parliament were injured in the ensuing fracas. The violence against Members of Parliament was well orchestrated by the ruling party because; it used plain clothes policemen to do their dirty work and performed a rehearsal of the process, a day before the State Presidents address. It was a dark day for South African parliamentary democracy as the government compromised the Constitution of the Republic by cutting the cell phone and media feed signal, to the nation and the world, long before the president could deliver his speech to the nation, and this went against the grain of the rules of the house. This is testimony to well organized 'thuggery' and must have had the blessing of senior members of the Cabinet and indeed the President of the country. This now sees a legal battle looming against the ANC by the combined opposition. Some smaller political parties also walked out in protest against the actions of the ruling party. It appears that South Africa is descending into a state of chaos, it is descending slowly but surely into a "police state," in a short period of some 21 years of freedom and, it governs by stealth and authoritarian tactics, were, all opposition must be crushed, in order to safeguard its president at all costs, in spite of his continued impropriety, indiscretions, and his desire, to remain in power as long as possible, even it means compromising and trampling upon constitutional democracy, the rule of law, side – stepping the Bill of Rights, compromising human rights and thus destroying the ethos and values crafted in the Freedom Charter of 1955 by the founding fathers of South African democracy, and the Constitution engineered in 1994 to protect and govern the country, in an orderly and acceptable manner for its citizens. The state is simply in a state of chaos.

European Journal of Business and Social Sciences, Vol. 3, No. 12, **March 2015.** **P.P. 113 - 149**
URL: *http://www.ejbss.com/recent.aspx-/*
ISSN: 2235 -767X

It is against this background that the paper will attempt to situate the subject matter as captured in the the title of the paper, by first looking at the seven successive State of the Nation Addresses of the President of South Africa, since he took office, and will allude to some indicators, such as increasing jobs and alleviating poverty, to see whether, the President has met his targets and fulfilled his pronouncements made to the people of South Africa. There is no doubt whatsoever that, more people than ever have access to basic services and social grants are helping millions, but the unemployment rate is still high at 24.3 percent (some analysts put unemployment between 36 and 45 percent) . Laura Grant in her analysis (2015: 8) states that "the expanded definition that includes people who have simply stopped looking for work, then the figure conforms to the analysis made by a number of notable economists in the country that, pitch the unemployment figure much higher than the government indicates in its analysis and, hovers above 34.6 percent, and Statistics South Africa has reported that 54 percent of citizens live below the poverty line." Research by Afri - Check (In Laura Grant, 2015: 8) shows that "social grants play a crucial role in alleviating poverty in South Africa. The country spends around 4 percent of its GDP on social grants. This is sustainable as long as the economy grows at 3 percent a year, the national treasury found in a long – term study."

However, we need to be skeptical about the research conducted by the government's national treasury because more studies in this direction are required. Such studies must be independent of government, in order to get an unbiased view. On the other hand, it must be recalled that in November, 2014 the Minister of Finance, in his mid – term budget projections, adjusted the growth rate from 1.6 percent to 1.4 percent and that, there is every possibility that the growth rate will again be adjusted in the main budget in February, 2015 and in actual fact must be adjusted realistically to as low as 1. 2 percent and not the 2 percent announced by the minister. South Africa has been in a state of recession for the last several years, in spite of government denial and, growth over the last 4 years has not exceeded the 2 percent mark. This is the reality and therefore, the government has to increase borrowing, pay high interest rates, and growing debt, increases the financial burden of the state to service a host of important other variables. It is therefore, unlikely that social grants could be maintained in its current form over the next several years, without hindering other important and necessary economic growth areas and especially much needed development with regards the revival of the electricity /energy sector, the impending water crisis, the implementation of the much needed National Health Insurance Plan (NHI), the proposed nuclear energy strategy which is secretly, a done deal with Russia and two other bidders (Exorbitant costs involved). The nation and the opposition parties were kept out of the loop with regards these nuclear discussions with Russia and President Zuma who was in Russia brokering the deal outside an official visit to that country. There is much secrecy about the proposed nuclear deal by the government, the building of new universities, the financial aid required to fund students, improved infrastructure development, including more houses for the poor at a rapid rate, the revival of transport systems including rail and road transport, and so on and tapping our marine resources.

All of this runs into billions of rands and is probably far more than the total budget of the country, as it stands today. It would be impossible to finance all of this in a sustained and coordinated manner, if the economy does not grow by a minimum of 6 / 8 percent over the next decade and around 8 / 10 percent beyond this period. What are required is consistent growth and certain austerity measures such as downsizing the excessive and bloated unproductive, inept and inefficient public service, the drastic scaling down of the public wage bill, and the creation of jobs, the sustained development of small businesses, tightening up immigration laws and regulations, dealing decisively with corruption, holding municipalities accountable in respect of service delivery, hiring the best professionals, doing away with political patronage and comrade deployment and creating a climate that instills investor confidence which is in decline, and regaining the confidence of the South African private sector, in order to contribute substantially to development and growth. A reappraisal of policies is now needed to place the country on a path of economic growth couched on accountability. Failure to do this would mean that we would be clutching at straws, a pipe dream, a mirage which will lead to untold disaster and the possibilities of the violence of the people.

AFRICAN NATIONAL CONGRESS (ANC) ADMITS THAT THE PARTY HAS FAILED TO DELIVER UNDER PRESIDENT ZUMAS ADMINISTRATION

The ANC has for the first time admitted that they have sold voters empty promises in 2014 and cannot deliver what it pledged to achieve under President Zuma. The acknowledgement that it failed to walk the talk, particularly on service delivery and infrastructure development is contained in a report by the Presidential Infrastructure Coordinating Committee (PICC) – Titled "Report on Implementation of ANC Commitments," tabled by Economic Development Minister, Ebrahim Patel and came ahead of Zuma's State of the nation address" (Hunter, Mataboge, Gqirana, 2015: 2). It damages the party substantially for the 2016 local government elections. The report states that "poor planning slow movement of projects during government transition periods, squabbling energy challenges and cost overruns are to blame in not meeting the government targets. In reality the report is scathing and leaves no developmental agenda out of its criticism. The criticism of the public was that the President resigns and pay back the money he owes the state. The Mail and Guardian editorial (2015: 26) quoting the ANC General Secretary who stated that "the ANC was losing its liberation shine and its majority could shrink further. Its hold on power is slippery and there has to be accountable and effective government. The patience is waning, even turning violent. It's simply a question of delivery" said the Secretary General (Mail and Guardian Editorial, 2015: 26). This is the state of play and it is against the background of this report, the pathetic State of the Nation Address and a host of other important non deliverable variables that the minister of finance now needed to present his 2015 budget to the nation. The hope of a credible and acceptable budget was dashed and it would now, be difficult for him to win the confidence of the public and the international investor community.

The graph / pictorial below is important from the perspective that it reflects the state of the play of politics under the ANC led government and, indicates some of the promises the ANC admits, it is failing to meet. These are important issues that require urgent and immediate attention to resolve. The graphs / pictorials display targets identified by the government in terms of meeting its obligations to the citizens of the country and, shows the progress made in these sectors and outlines the verdict on each area of promises. Overall the picture does not look good and the ANC by its own admission has now acknowledged that, it has seriously messed up in relationship to service delivery. The graphs or pictorials depict this hereunder as follows:

Graph / pictorial depicting the State of political play in South Africa and government's promises

Source: Mmanaledi Mataboge and the ANC Report, 2015. Mail and Guardian February 6 to 12, 2015: 2.

European Journal of Business and Social Sciences, Vol. 3, No. 12, **March 2015.** **P.P. 113 - 149**
URL: *http://www.ejbss.com/recent.aspx-/*
ISSN: 2235 -767X

HEALTH FACILITIES

TARGET

213 new clinics community health centres, as well as 43 new hospitals. Refurbishment of 870 health facilities in NHI districts.

PROGRESS MADE

5 community health centres are in final design stages, **8** in planning phase and **8** under construction. **7** hospitals are in planning phase and **1** in construction phase. Refurbishment work is to start by mid-2015

VERDICT

At this rate targets for new health facilities will be missed, and there's a high risk that refurbishment targets may not be met in the next four years.

ENERGY

TARGET

To generate additional energy through the completion of three large power stations: Medupi, Kusile and Ingula, and **1.3-million** homes to get solar water heaters by 2018/19

PROGRESS MADE

Technical problems have delayed full completion of Medupi's Unit 6, and only **32000** water heaters have been installed, mostly in Johannesburg

VERDICT

Delays at Medupi may affect the other **11 units** at the two coal power stations. The shortfall of more than a million solar heaters is a serious challenge

WATER: DAMS

TARGET

To supply water to communities from the **R3-billion** De Hoop dam launched in March 2014

PROGRESS MADE

Pipeline 1: Work underway to connect the pipeline to the Steelpoort River. Construction was **68%** complete 2014 and should be finished by April 2015. **Pipeline 2:** Work will start in 2015

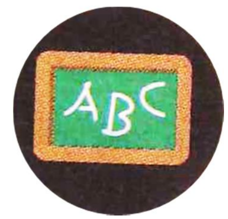
VERDICT

Lack of planning and weak execution is delaying the supply of water communities.

EDUCATION: SCHOOLS

TARGET

1 000 new schools promised



PROGRESS MADE

89 schools built between April and December 2014

VERDICT

We may still meet the target if department of basic education picks up the pace

INDUSTRIALISATION: JOBS

TARGET

3 200 provided by new factories

PROGRESS MADE

Currently, **605** jobs created

VERDICT

Looking for opportunities in Eskom and Transnet to increase the number.

Some of the promises the ANC admits it is failing to meet

Five targets for infrastructure development projects from 2014 to 2019, and how they are falling short

THE HISTORY OF THE STATE OF THE NATION ADDRESSES UNDER PRESIDENT ZUMA

When President Zuma presented his first State of the Nation address in June 2009, 14.5 million South Africans were employed. By the end of last year 15.3 million people had jobs. But the unemployment rate had increased from 23 percent in June 2009 to 24.3 percent at the end of 2014. Stuart Wilson (2015) the Director the Socio – Economic Rights Institute states that "There is a crisis in South Africa, because while absolute poverty has decreased, inequality has risen steadily over the last 20 years. This manifests itself in all aspects of society, including access to health care, education, housing and basic services. Despite the significant expansion of social grants, basic services provision, and other opportunities, South African cities are still conditioned by apartheid's racialised system of oppression and disadvantage. This is not being adequately addressed."

Zuma said in 2009 that " decent Jobs were at the core of his government's economic policies, but the recession was biting and his speech was more about preventing job losses than about job creation and that social grants remain the most effective form of poverty alleviation." In his February, 2010 speech, Zuma reported the recession had cost the economy 900 000 jobs, the previous year and declared 2010 as the year of action. The government had implemented decisive anti – recession spending (This was pie in the sky) especially on infrastructure and social grants were extended to children aged 15 to 18" (hardly measures for anti – recession and austerity but rather creating a dependency syndrome). By 2011 the indicators suggested that the economy was turning a corner, so at last jobs could be created rather than shed and the country had been buoyed by successfully hosting the 2010 World Cup tournament (soccer). The money spent on the World Cup infrastructure could have been better used and is a debt burden on the country, as most of the state of the art soccer stadiums built for the soccer world cup, stand as white elephants. The year 2011 was the "year of job creation and a jobs fund of R9 billion was established to finance new job creation initiatives, and the Industrial Development Corporation (IDC) set aside R10 billion to invest in activities with high employment potential. In terms of social grants the country was building a developmental and not a welfare state and that social grants would be linked to economic activity and community development to enable short – term beneficiaries to become self supporting in the long term" the President said in his 2011 State of the Nation address. These proposed initiatives and announcements did not materialize bar for some small incremental gains and the country was once again hoodwinked.

In the ANC's centenary year, 2012 President Zuma focused on the triple challenge of unemployment, poverty and inequality. The government he said was looking 20 years ahead with its National Development Plan (NDP), which aimed to create 11 million jobs by 2030. "Economic growth of at least 5 percent would be needed to create them," he said in 2013. The 5 percent growth did not come to fruition and the creation of a part of the 11 million jobs to date and even incrementally would not be attained in 2016. This is the state of play, rhetoric, promises and no real action. In 2014 his speech was used to tell a good story about how the lives of millions of people had changed, for the better since 1994. The President was not totally wrong with regards a number of issues but in some instances the figures quoted were out of reality and playing to the gallery. But the plan to eradicate poverty, increase employment and reduce inequality by 2030, hinged on the economy growing at 5 percent a year was out of synchronization with the realities and most unrealistic, when compared with world projections. Four months later he was singing a new tune because he said the economy had to be jump started to reach a growth rate of 5 percent by 2019. With the massive problems and real challenges facing the country, with electricity and water outages that cannot be resolved in the short term, and with GDP growth falling, Laura Grant (2015) states that "a shot of adrenaline to the heart may be more appropriate." The president said that "World economic growth was set at 3.5 percent and that South Africa's projection of a 5 percent growth was at risk."

This is the reality, this is the real situation in South Africa, a president and a Cabinet out of tune with the realities of a country bleeding and looking for sound leadership which the ANC cannot give under the current leadership. The State of the Nation address in 2015, despite the massive disruptions in Parliament before and during the President's speech, brought nothing new to the table and, did not whet the appetite of the general public and the lot of poor South Africans who were waiting for sound leadership and to hear how jobs will be created and, as to how the country will be taken out of the morass created over nearly 21 years of democracy by the ruling ANC government and its predatory elite. The 2015 speech was a rehash of all the Presidents speeches to the nation from 2009 to 2014. In reality a seven year period, including 2015 and, he identified a 9 step programme to rebuild the economy and turn around the situation. The 9 step programme outlines the following:

- ✓ Resolving the energy challenge.
- ✓ Revitalizing agriculture and the agro – processing value chain.
- ✓ Advancing beneficiation or adding value to our mineral wealth.
- ✓ More effective implementation of a high impact industrial policy action plan.
- ✓ Encouraging private sector investment.
- ✓ Moderating workplace conflict.
- ✓ Unlocking the potential of Small, Medium and Micro Enterprises (SMME's), cooperatives, township and rural enterprises.
- ✓ State reform and boosting the role of state owned companies. ICT infrastructure or broadband roll – out, water, sanitation and transport infrastructure as well as:
- ✓ Operation Phakisa aimed at growing the ocean economy and other sectors." (SONA, 2015).

It was merely the same rhetoric with no new ideas, the same old vision of lies pumped out to the nation. It was a bland effort that does not set the country into a growth path and trajectory of development, not dealing decisively with rising unemployment, widening inequality and increasing poverty. It was a rehash of past menus – nothing more and nothing less. There were no modalities of intervention in the 9 step programme and as to how the implementation of these variables will be achieved, the time frames involved, the amounts of money needed for these so – called blueprints and as to how they would be measured or evaluated. A host of other important variables that require attention by the state were conveniently left out of the equation. By the same token "the President indicated that foreigners will not be allowed to own land in the country. They will be allowed long leases" (State of the Nation address, 2015). The reality is that the ANC, with this announcement was appeasing the EFF, who want the people to own the bulk of the land. The ANC is afraid of the EFF and its volatile, rightful and populist stance on the land question. It goes against the tenets of the 1955 Freedom Charter with regards the land and agrarian questions. The downside of the Presidents statement on land underscores the point that, it will affect investment and drive investors away. On the other hand Agri Forum (2015) reports that "the government does not understand that foreigners own only 3 percent of residential property and a few farms and cannot be a threat to the country and its people. It is just downright failure by the government in terms of redistribution and restitution of land after 21 years of freedom and democracy and, its announcement was not well thought out." The EFF in debating the land question of 12 000 hectares and less for the distribution of land said that "the ANC has got its arithmetic and mathematics wrong because it would take more than 60 years to achieve and is an inconceivable plan, whilst the Inkatha Freedom Party (IFP) said that the plan for redistribution of land did not take into consideration the land size of farms, because different farms would require different interventions in terms of extension, inputs, monetary assistance and so forth" (State of the Nation Debate, 2015).

THE PRESIDENTS LAND REFORM ANNOUNCEMENT IS POPULIST AND COULD BACKFIRE

The president announced in his February, 12 State of the Nation address that the government would enact a law that would prohibit foreigners from owning land in the country. Such announcements do not help the case of investment in this country. He was striking a populist chord but the announcement will have adverse effects as concerns investment by foreigners. He also confirmed that a ceiling of 12 000ha would be set on land ownership. The editorial of The Times Newspaper (2015: 12) said that "this is a foolhardy policy and a serious threat to investment in agriculture and, ultimately, to food security. How can big agribusinesses, several of which are listed on the Johannesburg Stock Exchange (JSE), operate under such strictures? Will the proposed law be applied retrospectively?" it was also announced that that a policy proposal will force commercial farmers to cede half their land to their workers would be explored further. "How can investment in agriculture, which is designated by the state as a key driver of job creation, be secured when property rights are eroded? Instead of dabbling in outmoded socialist policies, the government must make available far more resources to revitalize the stalled land reform process, and give proper support, together with organized agriculture, to our new farmers" the editorial said (2015: 12).

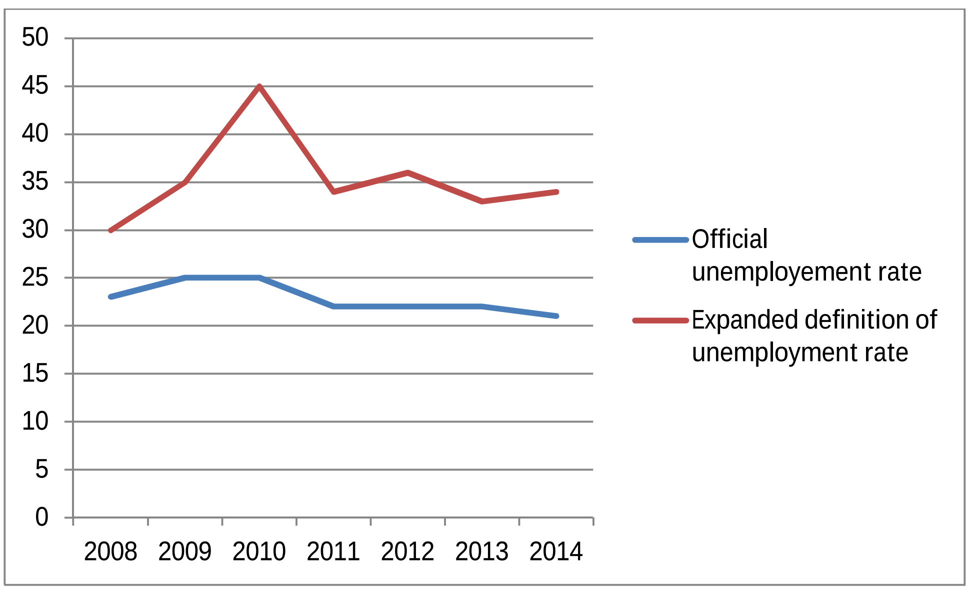
Table 1 below in 6 graphs shows the state we are in as a country. The table shows clearly that there is no good story to tell as government, the President and the Cabinet would want South Africans to believe.

The State we are in

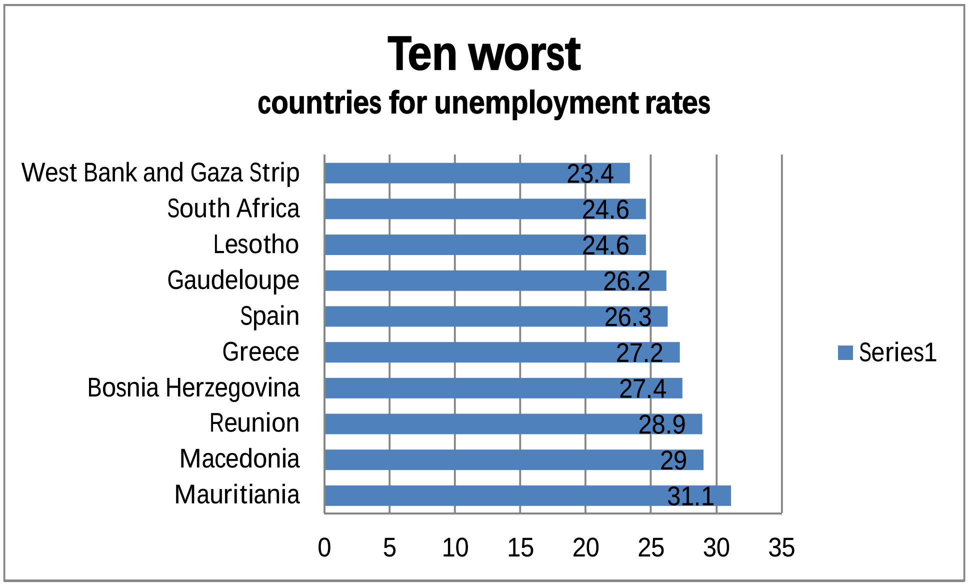
Economic growth is slowing and a quarter of working - age people are unemployed

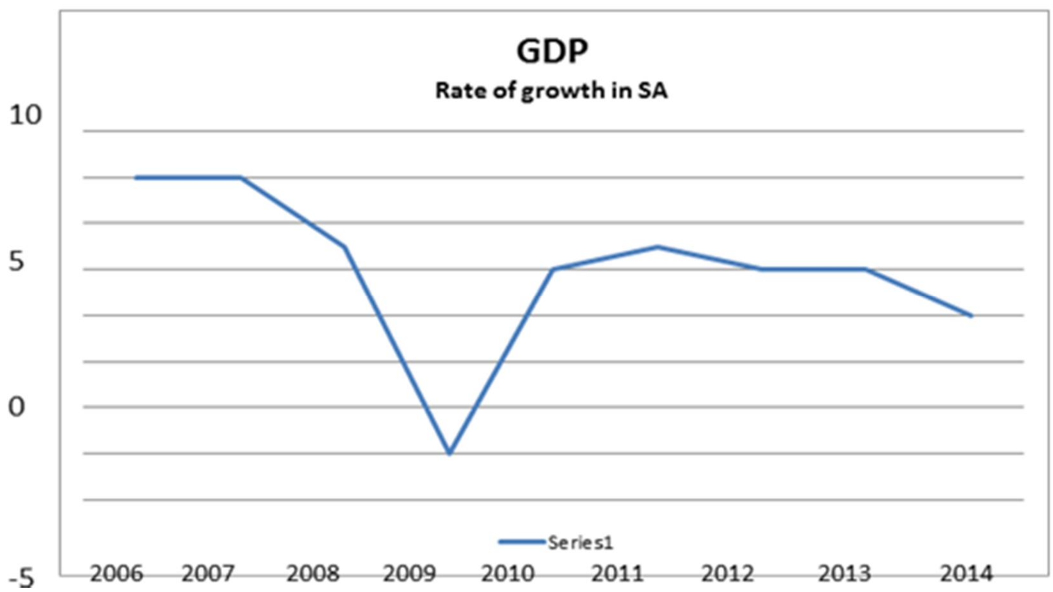
Graph 1: Jobs

Unemployment rates



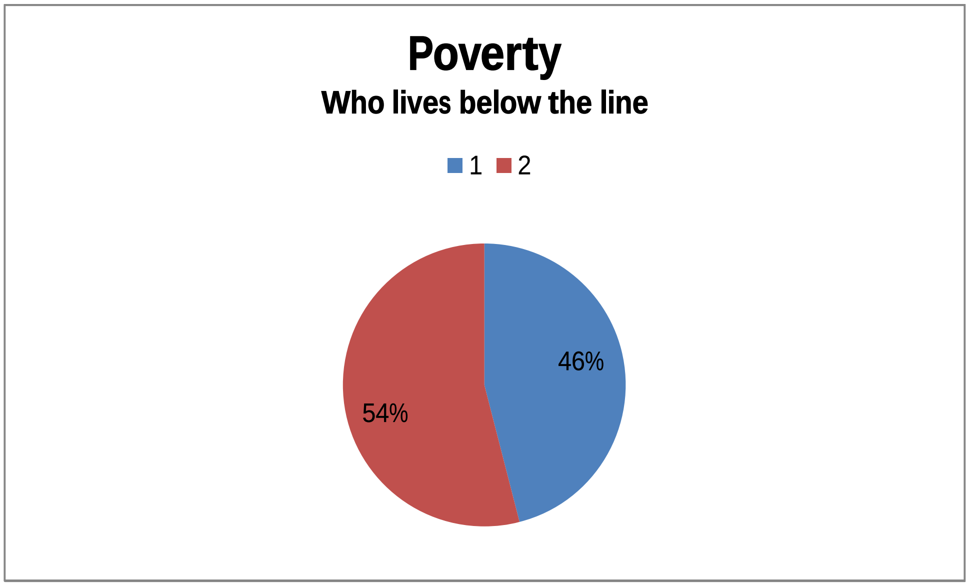
Graph 2: Ten Worst Countries for Unemployment Rates





Graph 4: Indicating Who Lives Below the Poverty Line

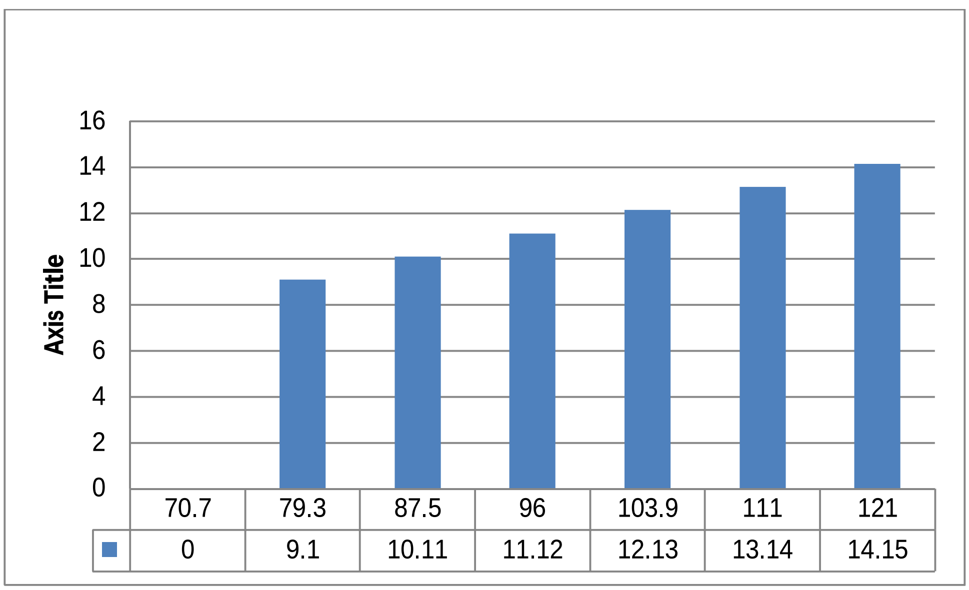
European Journal of Business and Social Sciences, Vol. 3, No. 12, **March 2015.** **P.P. 113 - 149**
URL: *http://www.ejbss.com/recent.aspx-/*
ISSN: 2235 -767X



Graph 5: Social Grants

Money spent each year

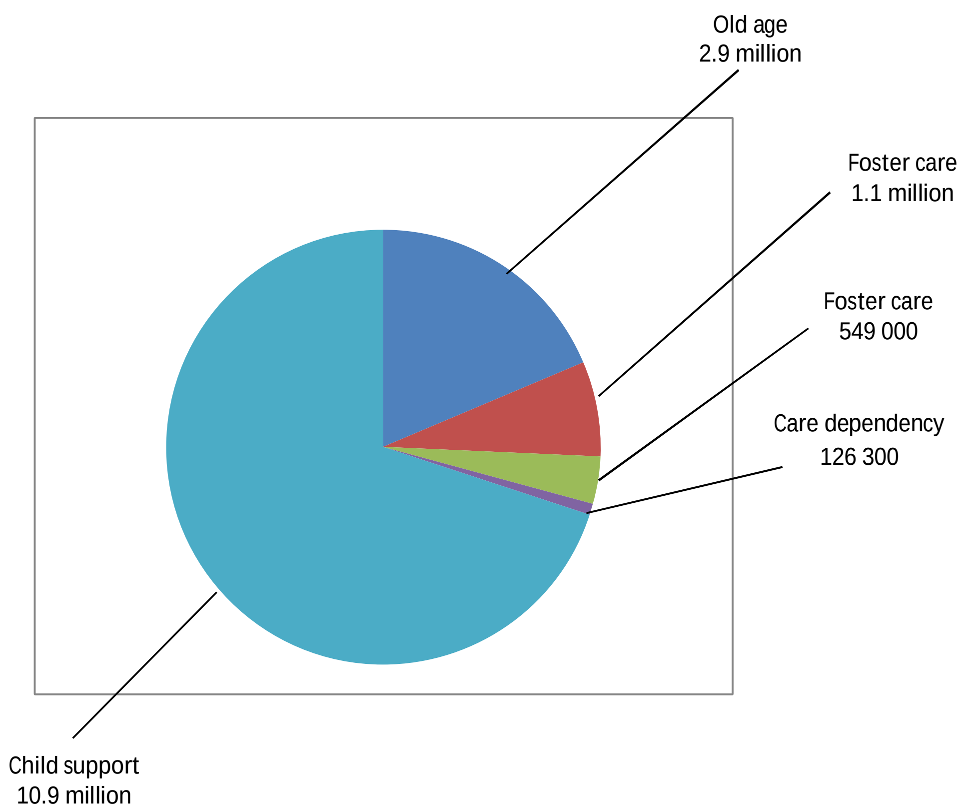
Estimated expenditure on social assistance



Graph 6: Recipients of Social Grants

… And who gets them

Recipients of social grants



Some Figures have been rounded off (All graphs).

Source: All 6 graphs: Stats South Africa, ILO, Guardian Mail, South African National Treasury, February 26, 2015.

It is against the above discussion, and critique, the Finance Ministers Mid Term budget tabled in 2014, the President of South Africa's 2015 State of the Nation address that, the paper now projects on the outcomes of the Minister of Finance's 2015 budget tabled to Parliament and to the South African nation on the 25 of February, and the budget is therefore, analyzed and discussed. Before we analyze the actual budget of the Finance Minister, it is necessary to outline a few aspects of the budget that the Minister would have seriously considered in appropriating the 2015 South African budget.

THE RICH MIGHT BE ASKED TO SHOULDER NEW BUDGET HIKES

There is no doubt that the pressure is on the new finance minister, especially after the chaotic State of the Nation Address (SONA). This was the finance minister's first budget presentation as the new Minister in charge of South Africa's finances, especially against the backdrop of the country's toughest economic conditions since the advent of democracy two decades ago in 1994. What are some of the issues that he did not address? These are as follows in the analysis of the discussions in this paper, including the work of Mariam Isa (2015: 4).

- ✓ "Taxes have to rise to reduce swollen budget deficits by means of inflicting as little pain on the rather weak economy.
- ✓ To avoid credit – rating downgrades and attempt to avoid the junk status hovering above the head of South Africa. If this happens and South Africa faces the crunch of downgrades, it will raise the cost of borrowing. This appears inevitable in the few years that lie ahead according to analysts.
- ✓ If the finance minister failed to add up the figures and the financial policy is not credible, it would probably be the beginning of South Africa's downgrade process.
- ✓ His budget had to assure investors because of a most uninspiring State of the Nation address by the State President on the 12 of February, 2015. There is uncertainty about land reform and property rights and this was not addressed by the minister.
- ✓ Investors are scrutinizing emerging markets more closely and the United States is poised to raise interest rates. Emerging markets which are seen as less attractive will suffer and bear the brunt and wrath of diminishing investment.
- ✓ What types of taxes will be inflicted on companies, business and consumers, in order to raise R44 billion that the Treasury has said is needed in the next three years.
- ✓ The most likely intervention is a rise in the fuel levy and, may assist because of the fall of global oil prices. A 60 cents rise will allow the finance minister to raise tax revenue b R13.5 billion.
- ✓ It is likely that the wealthy will be targeted as is the global trend, raising corporate taxes is out because the current 28 percent is high when compared with other world destinations, particularly emerging markets. This is also exacerbated by the rolling power cuts and load shedding which is already affecting businesses.
- ✓ The marginal rate of tax was increased from 40 percent to 41 percent for the rich, and this will only bring in about R4billion. Anything higher, say 45 percent will only bring in another R2billion from the rich earning more than a million rands per year. The problem is that the top 6 percent of taxpayers already contribute half of personnel – income tax. This is very dangerous because, it will not boost investment and could start another round of people leaving the country amongst the rich.
- ✓ Politics must not be allowed to determine completely government choices, but this the reality in South Africa with a government out of tune with the realities of development, the global situation and world markets.
- ✓ Treasury will probably raise R12billion with a mix of the fuel levy, estate duties and capital gains tax to target high income earners.
- ✓ The Treasury has to keep the budget deficit far below the 4.1 percent forecast of GDP this financial year because the economy is much larger than previously thought. The

forecast shortfalls of 3.6 percent, 2. 6 percent and 2.5 percent of GDP in the next three years must be adhered to. It is doubtful that this will be achieved because of the government's high propensity to spend and borrow.

The difficulty is that public service salaries and the wage bill is too high and has to be kept below 7 percent. This accounts for more than a third of the spending. This was not addressed by the minister.

- ✓ How will government raise more than R20 billion that it has promised the Electricity Supply Commission (ESKOM) and South African Airways a bail out of R4 billion.
- ✓ Downward revisions to growth forecasts are seen as inevitable in the budget and that the economy is locked in an expansion rate of 2 percent – 2.5 percent in the next three to four years" and the start could be as low as 1.2 percent to 1.4 percent."

The Sunday Times (2015: 4) reports that " inflation sank to a near 4.4 percent in January 2015 from 5.3 percent in December due to oil prices that plunged, but analysts believe the favourable trend will be short – lived, making an interest hike most likely before the end of the year."

THE MINISTER OF FINANCE NEEDS TO GRASP THE NETTLE

Goolam Ballim states (2015: 10) that "the budget must be crafted with a view to reigning in debt, and according to economic analysts, it is much harder to pursue conservatism when the belly is empty and, therefore, the Minister of Finance Nhlanhla Nene will present his ambitions for public finances amid tepid economic growth and sizeable, seemingly unyielding social need. It must be understood and remembered that in a market economy, public finance choices can help reconcile the divide between what private firms produce and citizens require, particularly poorer communities." The minister of finance must be very mindful therefore, about the mathematics of revenue and spending; it embodies South Africans' ideals and aspirations and must quell the fears. It is a question of improved welfare and prosperity. The challenges are gigantic and herculean in nature and form, in a country that sees rampant corruption and, an inept government, rising inequality, overt poverty and massive unemployment, together with a lack of service delivery to the masses and complicated by electricity and water outages. There has been tremendous fiscal spillage. In other words the government has consistently failed to meet planned outcomes. It must be attributed to a government that has lost its moral compass, complicated by mismanagement of the fiscus and public funds, weaker economic growth, diminished tax revenues and excessive recurring expenditure, especially wages.

Indebtedness is racing to 50 percent of GDP according to Ballim (2015) "and therefore the minister needs to be transformative. In other words the national budget needs surgery and therefore needs to consider the following measures:

- ✓ "South Africa' share of consumption taxes is less than 10 percent of GDP and is low relative to peers, for example, Brazil, Turkey and Hungary. They show consumption taxes in excess of 12 percent of GDP. The average VAT rate in OECD countries rose to about 20 percent, in order to bolster revenues." This might be true but given the very high unemployment in South Africa and the government's inability to create jobs; this will not be an option for obvious reasons.
- ✓ An increase to 14.5 (tax luxury goods and exempt basic foods from Value Added Tax (VAT) percent in VAT would have brought in about R8billion. This would have been the hallmark of a good system (Not done). This would have provided much needed relief to the poor.
- ✓ Serious consideration must be given to personnel taxes.
- ✓ The wage bill and infrastructure requires serious attention. The former is too high and the latter is too low. The public sector wage bill is about 12 percent of GDP and extremely high when compared to peer nations (No announcement was made in this regard).
- ✓ The finance minister has to wield a big stick" or fail dismally. The sword of Damocles hangs over his head and uneasy is the head that wears the crown. By any standards it was a weak and unappetizing budget that was presented with very little political support for drastic action.

There is no doubt that Nene the finance minister has an unenviable task and cannot do the juggling act, if he is not supported by the Cabinet and the politicians that have been elected and appointed to run South Africa. His budget was a failure. "There is no doubt that local growth is at risk due to slowing global growth and many local constraints. There is no doubt that South Africa's growth is looking dimmer. Given these scenarios debt is the biggest concern and this will constrain the economy and the minister was not in a real position to balance the South African 2015 budget. He tinkered with the budget to achieve a balance budget, and this will bring great hardship on the predominantly poor of the country" (Karodia, Soni, and Thomas, 2015).

PROJECTIONS AND ANALYSIS OF THE FINANCE MINISTERS ACTUAL BUDGET PRESENTED TO THE SOUTH AFRICAN NATION ON THE 25 FFEBRUARY 2015.

The discussion thus far indicated the state of the chaos and the state of play within the South African body politic and now turns to discussing the actual budget presented by the Minister of Finance and draws attention to the implications and impact upon the country. The South African budget can be characterized as follows: A Mixed Bag Budget (New Age, 2015: 1); mixed reaction over budget speech (New Age, 2015: 15); Tax Blow, The Star,(2015: 1); Slow Growth, Faltering tax base, (Business Report, 2015: 6 – 7); Balanced Budget with some blows, The Mercury (2015: 1); Nene targets the fiscal gap, Business Day, (2015: 1); Treasury needs to put plans in place, Business Day, (2015: 1); Living on a beggar's budget, Mail and Guardian, (2015: 12); Novice Nene in political frying pan, Mail and Guardian, Business, (2015: 1 – 2; In for a

European Journal of Business and Social Sciences, Vol. 3, No. 12, **March 2015.** **P.P. 113 - 149**
URL: *http://www.ejbss.com/recent.aspx-/*
ISSN: 2235 -767X

penny, in for a pounding, Mail and Guardian, Budget, (2015: 5); Power crisis will curtail economy. Mail and Guardian, Budget, (2015: 7); DA says budget nothing to brag about, New Age, (2015: 4). The media is and was replete with headlines of this nature and economists and political analysists are of the overwhelming opinion that, the South African budget does not make good reading and spells disaster in the short, medium, and long term. Government protagonists as usual have hailed the budget as a tremendous benefit for South Africa, but this does not do justice to the actual budget presented and, does the country more harm than good. The budget is not developmental in nature and is not pro – poor. In other words South Africa's economic situation is in tatters and, this is reflected in the all embracing reality that the South African Treasury has trimmed down forecasts to 2 percent from 2.5 percent and, this can go down further to about anything between 1.2 percent to 1.6 percent. The budget has not spoken in comprehensive terms about how to deal with poverty, the widening inequality, and increasing poverty. It has also not spoken to a number of fundamental issues that require attention and was quiet on the implementation of the National Development Plan (NDP) and a host of other crucial issues.

The graphs and tables hereunder reflect the 2015 budget highlights:

Table1:

Consolidated Govt. Exp.

Table 2:

Total Tax Revenue

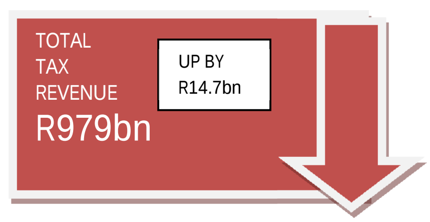


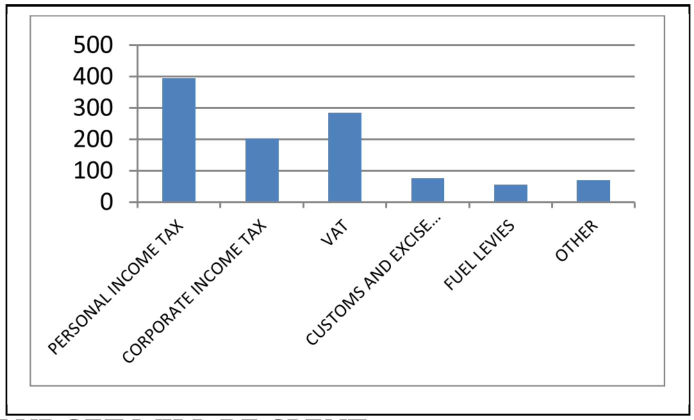
Table 3: Taxes on Vices

TAXES ON YOUR VICES	
	INCREASES BY:
Malt beer per 340ml can	7c
Unfortified wine per 750ml	15c
Fortified wine per 750ml bottle	19c
Sparkling wine per 750ml bottle	48c
Ciders & alcoholic fruit beverages per 330ml bottle	7c
Spirits per 750ml bottle	R3.77
Cigarettes per packet of 20	82c
Cigarette tobacco per 50g	91c
Pipe tobacco per 25g	26c
Cigars	R3.09

Table 4:

WHERE THE MONEY COMES FROM

TAX REVENUE	2015 - 16	%
PERSONAL INCOME TAX	393.9	36.4
CORPORATE INCOME TAX	202	18.7
VAT	283.8	26.2
CUSTOMS AND EXCISE DUTIES	76.1	7
FUEL LEVIES	55.7	5.1
OTHER	69.8	6.5
TOTAL	**1081.3**	**100**



PIE CHART SHOWING HOW THE BUDGET WILL BE SPENT

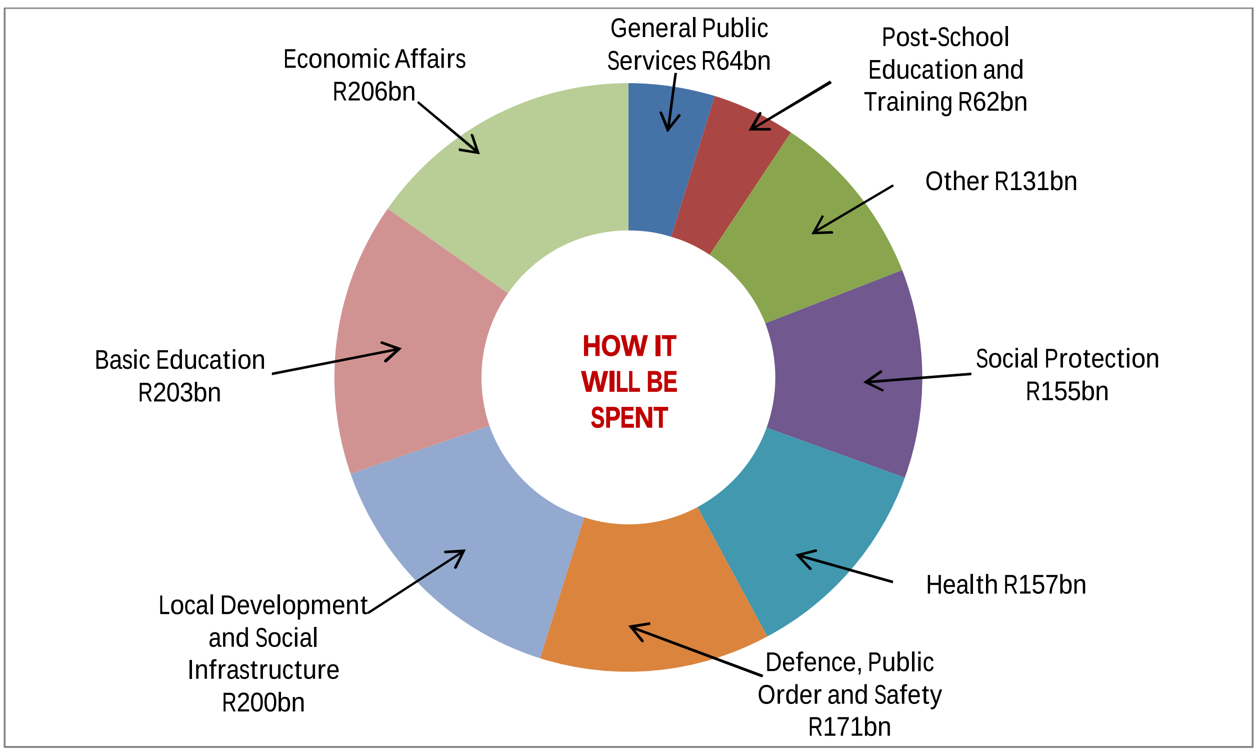


Table 5: Social Grants

SOCIAL GRANTS	
2014-15	2015-16
STATE OLD AGE GRANT	
R 1 350	R 1 410
STATE OLD AGE, OVER 75s	
R 1 370	R 1 430
WAR VETERANS GRANT	
R 1 370	R 1 430
DISABILITY GRANT	
R 1 350	R 1 410
FOSTER CARE GRANT	
R 830	R 860
CARE DEPENDENCY GRANT	
R 1 350	R 1 410
CHILD SUPPORT GRANT	
R 315	R 330

Source of All Tables and Charts: The New Age, Thursday 26, 2015. Johannesburg, South Africa. Page 1. Ministry of Finance, Pretoria. South Africa.

This section of the paper and discussion does not concentrate on the few positives of the budget but, concentrates on the negatives. It is obvious that the country has to grasp the nettle of the structural and competitiveness challenges that are constraining production and investment. These aspects were not chartered by the Minister of Finance. In addition the government has to deal with endemic corruption. Electricity load shedding must be seen as a major challenge, together with the soon to erupt water crisis that has already begun. The public servant salary bill must be trimmed because it is a burden to the state and, is too high when compared with other "Third World" countries of a similar profile and, when matched with most first world countries. "The best short – term prospects for faster growth were in less energy – intensive sectors such as tourism, agriculture, light manufacturing and housing infrastructure" according to Sathekge and Molefe (2015:1). The tax regime for small businesses generating less than R1million a year was generous, but does not speak to how small businesses will be assisted in terms of viable business options. Throwing money into small businesses without a plan will not assist. Eighty cents per litre for fuel was added to the consumer and, this will have a negative ripple effect on various economic sectors and will drastically affect the poor. It will also affect inflation. Personnel taxes were raised and some relief was afforded to middle and low income earners. This was slight relief only, and the one percent rise in taxes for the rich is a pittance and, does not make a dent on their living standards. The downside was that corporate taxes were unchanged. TNA Reporters (New Age, 2015: 1) states that "the state of the country's economy is worrying. The government is taking from almost everyone who is already battling and added that, it was not a people's budget because the government needs to cut down on its expenditure."

In addition Bernard Sathekge (2015: 15) reports that "many were disappointed at the lack of tangible plans for the privatization of state – owned entities and there were no specifics surrounding privatization because, partial privatization will have released funds for the Electricity Supply Commission which has become a great burden to the people of South Africa." It is an austerity budget which cannot help development of the country. Against the background of challenging domestic economic and sociopolitical challenges, subdued economic growth, endemic corruption, the looming local government elections in 2016, the energy and water crisis, an uncertain global economic outlook and, the pressure on fiscal resources, the minister has failed in his fiscal and fiduciary duties and played to the gallery of the ruling ANC, which does not assist the country to come out of the morass that it is experiencing. The rise in personnel taxes must be seen against the background that 61 percent of the total personnel income tax is generated by these payers, who will not be in a position to endure this for any longer.

BUDGET NOTHING TO BRAG ABOUT SAYS THE OPPOSITION

Shaun Mpshe writes (2015: 4) on the 2015 Budget as follows:

- "Opposition parties were pessimistic about South Africa's future.
- They said that the only way out of the energy crisis was through privatization and for the Minister of Finance to place, the woes of electricity on citizens is disingenuous.
- The monopoly of Eskom should be broken down by giving new opportunities to the private sector.
- The announcement on the controversial e –tolls was not sufficient for giving economic relief and for strengthening the economy.
- Leaving the corporate tax untouched was criticized while increasing personnel taxes was not welcomed.
- The increase in social grant spending cannot be celebrated as this was mediocrity because there is no real increase. It caters for new recipients to grants and when compared to the Consumer Price Index (CPI), there is no real increase to grant recipients.
- There is no plan to create jobs to deal with the very high unemployment rates. And there should have been a clear plan to reduce spending on social grants.
- There was no mention of the Freedom Charter which is the corner stone of the politics of growth and development, and this was mentioned in the State of the Nation address.
- The announcements in the State of the Nation address do not match the outcomes of the budget speech because the budget is supposed to finance what the President spoke about.

- There is nothing we can look forward to opposition parties said.
- Taxing individuals is inappropriate to bail out state – owned enterprises.
- There is no plan to really consolidate high debt ratios which is increasing continuously. Debt is sitting at R1.8 trillion, more than the appropriated budget and is moving very rapidly to nearly 50 percent or more."

Finance Minister Nhlanhla Nene's first full budget plans according to Louise Flanagan (2015: 1) "is one of the spending of R1.351 trillion of predicted revenue of R1.189 trillion that leaves a deficit, which shortfall must be borrowed, that is R162 billion, which brings the total government debt to R1.781 trillion. The cost for the year of servicing that debt will be R126 billion and that plans are afoot to trim R25 billion of the main budget expenditure ceiling over the next two years." Various announcements previously to cut government expenditure with regard travel and subsistence and catering is pie in the sky because it has never been actioned or implemented and there is no political will to do so. Flanagan (2015: 1) further states that "the Presidency is exempt from the travel and subsistence reductions, with this jumping from R55 million for 2014 / 2015 to R82 million in 2015 / 2016. Nene's budget trims from the baselines include sectors such as basic education, health, local economic development and social infrastructure, defense and public order and safety (A total of more than R20 billion)." It would be most difficult to curb the public service bill and keep it to a minimum of a 6.6 percent increase because labour unions are now demanding 15 percent salary increases. Compensation makes up 55 percent of allocated expenditure. This spells disaster for the country and these levels cannot be maintained. Public servant salaries must be cut drastically, but there is no political will to do so.

Teaching practitioners hoped for huge pay rises but were disappointed when the budget was read in Parliament. Mbangeni (2015: 4) states that "teachers felt that salaries would rise and, therefore, they will be motivated given the continued crisis in basic education and poor quality. They are demotivated by low salaries, politics and the lack of infrastructure. There are no grounds to play; an overhead projector has to be shared between 22 classes." Such stories are continuous over 21 years of South African democracy and, the state is in denial that both basic and higher education is in tatters and has failed the country. The money allocated to basic education in the region of R640 billion over the next three years, which includes R7.4 billion for school infrastructure, in terms of the backlog programme, which includes unsafe and poorly constructed schools and to address water, sanitation and electricity needs. However, it does not speak to salaries for teachers. We can therefore, expect to see that basic public education will be further compromised, be ineffective in quality, and will lead to more strikes by the teacher unions.

ELECTRICITY SHORTAGE TO WEIGH ON GROWTH AND INVESTMENT

South Africa's twin challenges of stunted economic growth and slowing government revenue has brought about income tax increases for the first time in 20 years. This is also due to the mismanagement of the economy straddled with overt corruption, wasteful expenditure and wastage, in government sectors. The Ministers budget was wishful thinking that, he could rein in corruption by increasing taxes to mitigate the effects of sluggish growth and limit the need for government to borrow. There are tremendous fiscal challenges according to Khuzwayo (2015: 1) who states that "the budget had to ward off possible credit downgrades by sticking to his pledges to restrain spending and tackle wastage especially, as government debt approaches 48 percent of Gross Domestic Product (GDP). The minister has not delivered on his promises." Electricity constraints hold back growth in manufacturing and mining and also inhibit investment in housing and raise costs for businesses and households. With a growth projection of only 2 percent Kenneth Creamer (In Khuzwayo, 2015) states that "This is a very poor number and therefore, the economy will continue to splutter along in a low employment trap. He failed to say how he will deal with Eskom, besides providing them once again with a massive R23 billion bailout plan which is totally insufficient." In reality according to Hylton Cameron (2015) "The budget's focus is more on amendments and refinements while few big announcements or changes were made."

COUNTRY'S DEBT MATURITY PROFILE EXTENDED

South Africa is facing R439 billion of debt payments over the next six years and, is borrowing further into the future, at a time when costs look set to rise" states Robert Brand (2015: 5). In other words the finance minister is selling bonds for purposes of extending the maturity profile of the nation's debt, for purposes of spreading out future repayments. It is a very expensive debt. The South African government is working against itself with the fuel and electricity levies and is basically wiping out the benefit of lower oil prices and this is not good for bonds also. Reuters (2015: 13) reported that "the rand fluctuates and bonds fell after the budget announcement."

Dardagan (2015: 2) reports that farmers "have expressed concern over the announcement that there are to be changes to the diesel subsidy for agriculture. Justifying this announcement, the minister gave the lame excuse that farmers had not kept adequate records. Farmers would now pay R1 more per litre for diesel. This will affect many industries." Even if farmers were abusing records, it is due to a lack of oversight by the government and this situation should not have now been introduced. This move will cause a serious effect upon all agriculture and would contribute to higher food prices and will affect salaries of farm workers. In this regard Robin Barnsley (In Dardagan, 2015: 2) states that "Nene's allocation to agriculture and land reform was lip service and, although the government has opened up the question of land reform the minister made no allocation, money wise, to this important process." In it is a most ridiculous state of affairs. The minister of finance had the temerity to increase the child allowance by R10 per month, which is less than 80 American cents per month and, the welfare grant by R60 which translates to a mere or less than $5 US dollars per month. This is the sorry state of the finances and body politic of South Africa. It goes against the grain of human rights. The budget is simply anti – poor and a failure to close important fiscal gaps that have been created by the government of the day.

The Finance Minister according to Ensor, Paton and Joffe (2015: 1) indicate that "Nene held the line on fiscal consolidation by raising taxes to narrow the fiscal gap as the electricity crisis caused the economic climate to deteriorate. They add that, the growth forecast could dip as low as 1 percent because, of the electricity crisis and said further that while last years budget projected investment at 5.3 percent for 2015, the Treasury now estimates that gross fixed capital formation will probably rise by 2.2 percent, after shrinking by 0.8 percent last year. South Africa is therefore, in a fixed investment recession. A rate of 2.2 percent in fixed investment growth is considered 'replacement level' rather than new capital expenditure. Without capital expenditure growth, you don't get job creation." Adding to the very weak outlook, no announcement was made with regards nuclear energy and no comment on nonstrategic assets. In this regard Dawie Roodt (In Ensor et al, 2015: 1) believes that "Treasury's growth forecast was far too optimistic, as the economy is on a knife edge of load shedding all the time."

Treasury needs to put plans in place to mitigate potential future hazards and has identified several risks as follows:

- "It could undermine the government's drive to reduce debt and the budget deficit.
- The electricity constraint could prove more dire than anticipated and could affect the growth forecasts.
- Electricity unreliability is the most binding constraint on more rapid economic growth.
- Weaker growth would reduce revenue collection and widen the primary balance and raise the debt service costs.
- The public sector wage bill which is a major risk which could throw out the government's expenditure plans. Salaries could only rise by 6.6 percent over the next three years. Salaries cannot rise higher than the rate of inflation and there has to be more stringent controls on employment.
- The burden of state – owned companies is a major risk and the government cannot afford further bailouts to these dysfunctional entities and cannot also provide further direct fiscal support, equity injections or guarantees to public entities. New plans and programmes would have to be deferred."

Given the budget tabled this is only the tip of the iceberg and therefore government is in actual fact walking a tight rope and requires to implement very serious fiscal prudence measures. Leon Louw (2015: 2) states that "despite promises, first – timer Nene has missed more than a trick or two, in that, the best from the budget is that tax spending and deficits increased at slower rates than expected and the worst is that it increases the likelihood of prolonged stagnation, along with the world's highest sustained unemployment rate, extreme welfare dependency and a business unfriendly environment. This is the conclusion to be reached based on world experience." When governments grow, economies stagnate. The budget increases government revenue from 28.1 percent to 28.4 percent and spending from 32 percent to 32.2 percent of GDP. The budget signified intensification of regulation of the financial sector. In reality deficits will not fall. The minister also missed an opportunity to scrap exchange controls. The level of unemployment "is a national catastrophe according to Leon Louw (2015: 2) and yet the minister only gave a promise for a bigger budget for training and, a pittance for small business development. The minister should have addressed South Africa's failed labour policies which need to be ended by replacing existing laws. It is now becoming all the more clear that the government cannot fund its optimistic plan of the National Health Insurance (NHI) because it's too expensive and now defeats the maxim of universal health coverage for all. Overall the minister lacked experience in appropriating his first budget.

LIVING ON A BEGGAR"S BUDGET

The graphs and tables below depict who is paying South Africa's taxes; what they earn; and where they live:

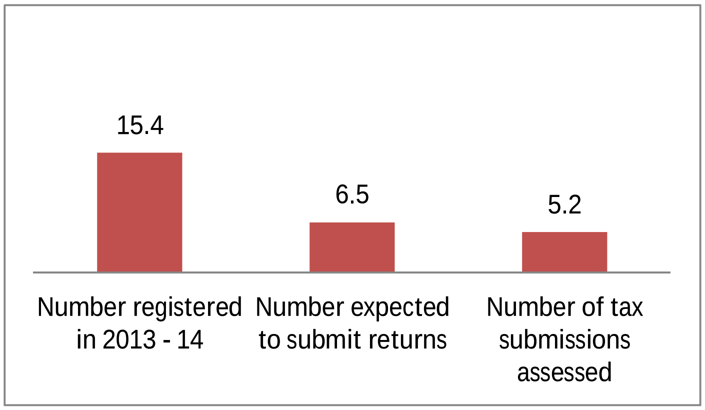
Graphs and Tables Depicting the above:

Who is paying SA's taxes?

In his budget speech on Wednesday, Finance minister Nhlanhla Nene announced an increase in personal income tax of one percentage point for salaries above R181 000 a year. The government estimates that tax revenue would reach R979 – billion in the 2014 – 15 fiscal year less than they had originally estimated, but more than the R900 – billion collected in 2013. That year, just over a third of the tax collected, R311 – billion came from personal income tax (which included PAYE). Given that around a quarter of the working-age population is unemployed and more than half the country is deemed to live below the poverty line, who are the people paying these taxes?

How many taxpayers are there?

15.4 million individuals were registered for income tax on March 31 2013 but, only 6.5 million were expected to submit returns. This is because in 2011 employers were required to register all employees for income tax regardless of what they earned. In the end 5.2 million submissions were assessed for the 2013 – 14 tax year. This is reflected and shown in tables 6 and 7 below:



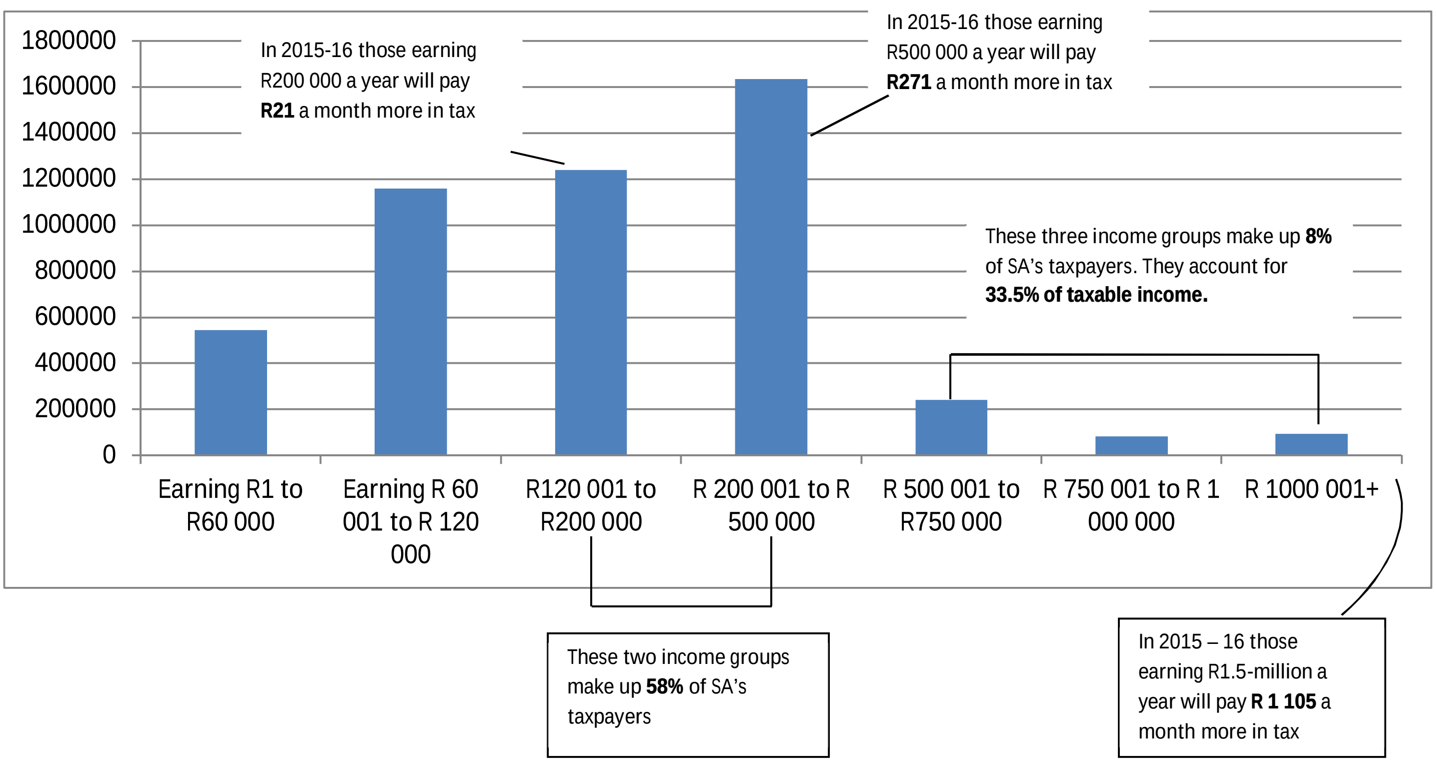
Tax Year	Expected to submit returns	Assessed returns
2010	5.5 million	5.2 million
2011	6 million	5.5 million
2012	6.3 million	5.6 million
2013	6.5 million	5.2 million

… What they earn…

Two-thirds of the people who made tax submissions in 2013 – 2014 – about three million people – were in the R 120 000 to R 500 000 income bracket, which means they earned between R10 000 and R42 000 a month. This group also earned 57% of the taxable income.

The 8%, or 420 000 people, whose incomes were more than R 500 000 a year earned 33.5% of the taxable income and were responsible for 54% of the tax. Table 8 hereunder shows the number of taxpayers grouped by annual income.

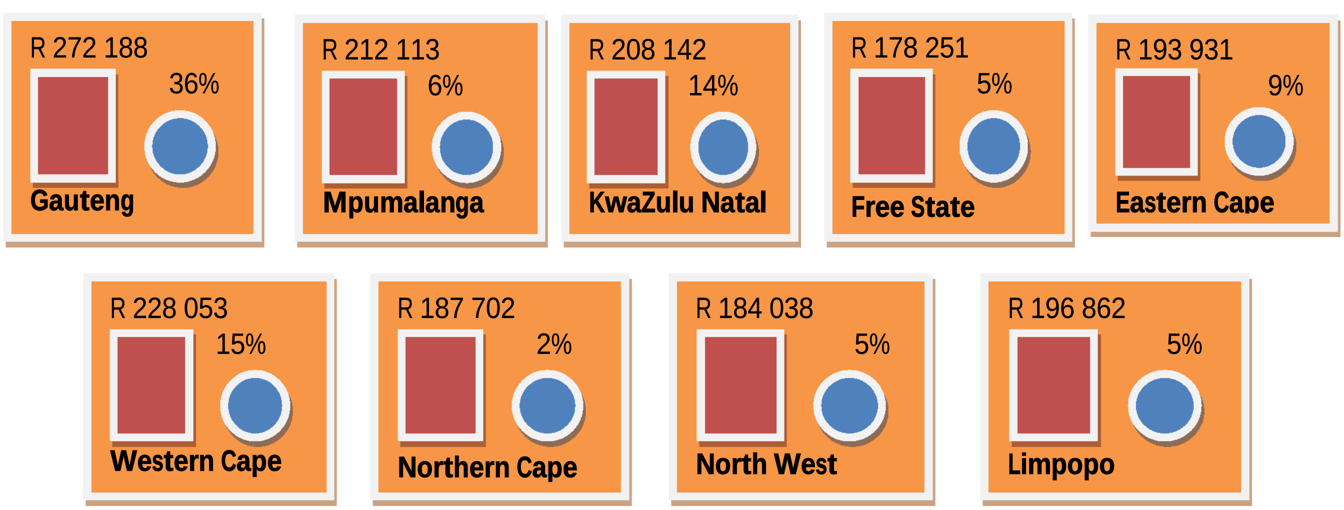
Table 8: Number of taxpayers grouped by annual income



European Journal of Business and Social Sciences, Vol. 3, No. 12, **March 2015.** **P.P. 113 - 149**
URL: *http://www.ejbss.com/recent.aspx-/*
ISSN: 2235 -767X

…and where they live

36% of the taxpayers lived in Gauteng and they earned the highest average income. The Western Cape and Mpumalanga had the next highest average incomes. Map of South Africa showing the location of the nine provinces and the earnings in each province is also reflected hereunder:

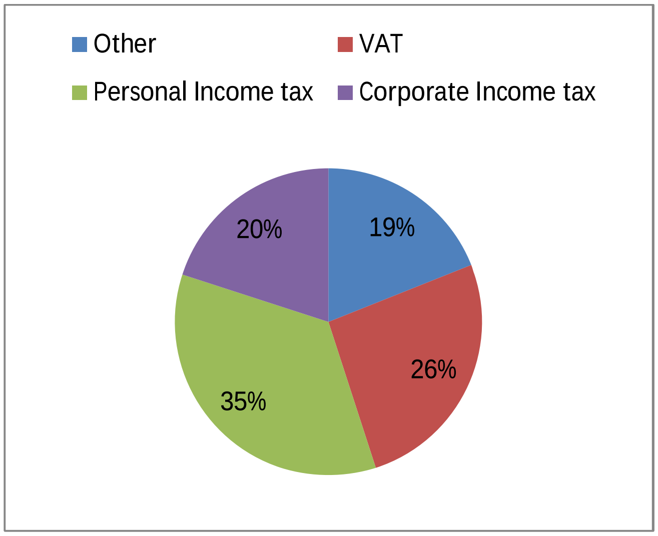


European Journal of Business and Social Sciences, Vol. 3, No. 12, **March 2015.** **P.P. 113 - 149**
URL: *http://www.ejbss.com/recent.aspx-/*
ISSN: 2235 -767X

Source: Tables 6, 7, 8, Map of South Africa, the nine provinces and earnings per province – 2015 February 27. SA National Treasury, South African Revenue Services and Statistics South Africa.

Table 9 Shows the Comparison of contributions to SA's tax and the number receiving social grants

Table 9: Income Tax – Personal and Corporate and Recipients of Social Grants



To put this taxpayer base in perspective:

In 2013 **15 723 522** people received social grants. As of March 2014, 15 million of the 35 million people of working age employed

Source: SA National Treasury, South African Revenue Services and Statistics South Africa, 27 February, 2015.

Graph and Table 10 showing exposure of state to debt

Graph Depiction of Exposure of state companies to debt

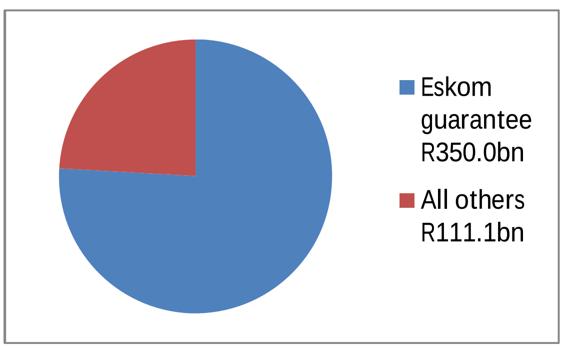
Total guarantees and exposure

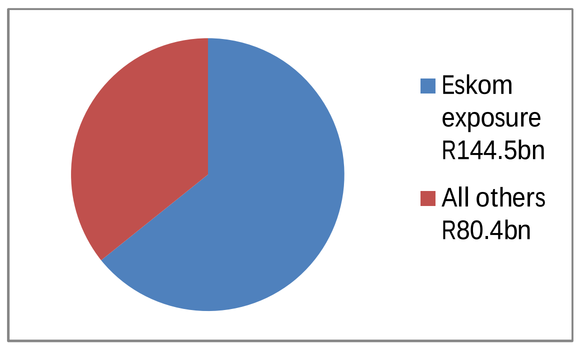
2014/15

R461.1 – billion

TABLE 10: Liabilities of major state – owned companies and development finance institutions 2014/15

Company or institution	Guarantee *R-billion*	Exposure *R-billion*
Eskom	350.0	144.5
Sanral	38.9	30.2
Denel	1.9	1.9
Development Bank of South Africa	14.4	10.1
Industrial Development Corporation	1.8	0.4
Trans-Caledon Tunnel Authority	25.7	20.7
South African Airways	14.4	8.3
Transnet	3.5	3.8
Land and Agricultural Bank of South Africa	2.6	2.1
South African Post Office	1.9	0.1
South African Express Airways	1.1	1.1
Other	4.9	1.6





Source: South African National Treasury, February 26, 2015

Unemployed people are slipping through the cracks because most of the country's money is locked up in the financial sector. We find that South Africans, especially children are on the streets begging for food, clothes and money in the heat and cold, whilst the affluent drive by in shiny expensive cars and ranking government officials, Members of Parliament, CEO'S and politicians live a life of extreme wealth and decadence (No different in the private sector and the labour unions). Often these beggars of poor people make no money on the streets. Zwane (2015: 12) reports that "on a very good day these people make R100 from which R22 goes to transport. They spend some money on maize and other small items. They are tormented and abused by some with vulgarity being the order of the day." Christopher Malikane (In Zwane, 2015) says that the "government and the treasury do not have an employment – oriented strategy. Our government owns nothing, no strategic assets other than Eskom and Transnet and they are depended on the government for bailouts and on the private sector for resources." It is thus obvious that there is truth in the above analysis because the social aspect of the policy and the budget will always be throwing money at the problem because we don't own the basic means of production. Zwane (2015: 12) indicates that according to Statistics South Africa, money allocated to welfare and social security has increased from R72.7 billion in 2005 – 2006 to R187.1 billion in 2014 – 2015, more than double in a decade. The government is not solving any poverty issues because the social and child grant increases are a joke, a contraction of the grant system." South Africa's social policy in reality is divorced from industrial policy and the government's industrial policy is a wish list because, without owning the means of production, the economy is not controlled by the government and, therefore, it is pie in the sky. This is because the money is sitting in the financial sector and, therefore, there will always be high poverty and hunger. It must be remembered that "almost 30 percent of South Africa's population lives below the poverty line and a further 5 percent in absolute poverty" (Post, 2015: 4). This is the reality and the budget failed to address this serious problem.

NOVICE NENE IN POLITICAL FRYING PAN

The finance minister had delivered a tough budget to counter the effects of ongoing maladministration (Lisa Steyn, 2015: 1). The budget comprised trade offs for the so called better times but, he could not offer many financial solutions in the face of a political leadership vacuum. Small comfort because he raised R17 billion needed for the year but, his 2015 budget was hamstrung by much graver issues, especially the debt levels that, the treasury has little power to resolve. The main concern is that, it is not a budget but is a wish list. The minister just does not have the political backing to dish out the bad medicine. He is a "lame duck" Finance Minister, who has to appease his political masters or perish.

INDIA'S BUDGET RADICALLY DIFFERENT TO NENE'S SOUTH AFRICAN BUDGET

South Africa and India are both part of the Brics nations (Brazil, Russia, China, India, and South Africa) and therefore, now have countries that they can benchmark policies and outcomes. "Last week, Indian Finance Minister Arun Jaitley and his South African counterpart, Nhlanhla Nene, tabled thir 2015 / 2016 budgets. The differences in focus and direction were quite astonishing," according to Lesiba Mothata (2015: 15). In this regard Jaitley (In Lesiba Mothata, 2015) said:

- "That although world economic growth had had been downgraded India's growth had remained the same or had increased. India is about to take off.
- The credibility of India's economy had been reestablished and that investment sentiment had turned positive.

- In the past year, India's consumer price index (CPI) and current account deficit fell drastically. Growth in gross domestic product (GDP) accelerated 7.4 percent, making it one of the fastest – growing large economies in the world (China's growth was 7.3 percent last year).
- India attracted about $55 billion in foreign direct investment (FDI) last year, while its foreign exchange reserves increased to the 2008 pre – crisis level of $340 billion dollars.
- He afforded tax benefits to middle – income earners and reduced corporate taxes from 30 percent to 25 percent.
- Tax procedures were simplified and support for young entrepreneurs was improved.
- Its budget is aimed at boosting growth and removing red tape and this will be achieved by lowering corporate and household taxes, and simplifying tax laws. Although the wealth tax was abolished, it was replaced by a surcharge of 2 percent for the super – rich.

In addition the Indian budget centred on encouraging savings for purposes of economic growth. Over the past 20 years India's savings rate which was 29 percent of GDP has almost matched that of investment at 30 percent and, this has allowed for sustaining faster rates of economic growth of more than 6 percent, according to Lesiba Mothata (2015: 15). Unfortunately this could not be said about South Africa's economy and Mothata (2015) opines as follows:

- "There is a large and increasing mismatch between investment and savings which has created huge challenges about how the R3 – trillion Presidential Infrastructure Coordinating Commission will be funded.
- Although some strides were made in Nene's budget in relationship to the savings gap; the tax free account is welcomed, there is a greater need and much more is required to actively increase the savings rate, which has averaged only 15 percent of GDP for the past 20 years.
- Due to this chronic lack of savings, the sustainability of the lofty expenditure plans in the budget remains a very serious concern and, question." Simply put where will the money come from to fund the proposed plans in an environment of low and structurally weak domestic economic growth?

A closer look at Jaitley's budget leads to the conclusion that South Africa has gone in a different and, in a real sense, opposite direction from that of India. In India's budget, GDP growth was the focal point through stimulatory tax cuts and the simplification of tax procedures. In contrast, South Africa's middle – income earners have been taxed more, together with increased indirect taxes, which will hit companies and households. Government expenditure growth is now faster than economic growth and inflation, with minimal effect on GDP growth. Accelerated government expenditure through increasing taxes does not equate to an increase in the pace of economic growth. The comparison of both budgets leads us to conclude that South Africa is likely to remain with sub – par growth and continue to be a baby and novice as a Brics brother.

In addition, the economic position will remain static or even decline further leading to increased crime levels, lack of service delivery, become a poor investment destination; and that corruption will be on the rise. There will be increasing political turmoil, essential services such as education and health will be further eroded, the public service will remain inept and unproductive because, there will be no accountability. The public service salary bill will rise even higher, welfare grants will become unsustainable, government will be forced to borrow more, poverty will increase, unemployment will most certainly rise, and inequality will be cemented, while the elite become richer and the plight of the poor will deepen. All of this will lead to the rating agencies downgrading the South African economy.

THE SOUTH AFRICAN ECONOMIC SITUATION WILL WORSEN AS RATE RISES LOOM

Inflation will edge higher in the coming months and steep increases in administered prices such as petrol, raising the reality of an interest rate hike before the end of 2015, is a reality, warned the Reserve Bank of South Africa. This will also be due to the rising oil prices and a weak rand which will usher in higher inflation. In this regard Maswanganyi (2015: 1) says that "the 96 cents per litre increase in the petrol price this month alone may add approximately 0.6 percentage points to headline inflation. There are tremendous inflationary pressures on South Africa's economy and, government will not be in a position to stave off this disaster." Oil prices have risen from lows of $45 dollars a barrel to about $60 a barrel, ending months of petrol price decreases and inflation deceleration. Inflation slowed gradually from highs of 6.6 percent in June last year to 4.4 percent year on year in January. In other words authorities needed to be vigilant in such an environment of uncertainty over movements in oil prices.

It must therefore be added that "inflation would accelerate not only due to higher petrol prices but also because, of steep fuel levies that come into effect next month and increases in electricity tariffs in the middle of the year and, that, banks could raise rates towards the end of the year and, this will be dependent on two factors: whether inflation rose to the top end of the 3 percent – 6 percent target band; and if expected higher interest rates in the United States led to significant rand weakness (this has already begun as the rand reached R12. 32, to the US dollar this month (March)" said Stanlibs chief economist Kevin Lings (In Maswanganyi, 2012: 2). It must be remembered and appreciated that that monetary policy does not cure all ills, and therefore, South Africa needs to be alive to the structural reforms, although painful in order to attain a balanced and sustainable growth path. This does not seem to be near, as the economic growth path looks weak and, this has not been aided by a budget that allows for confidence. It is obvious therefore, that, achieving a higher rate of economic growth will have to be an effort by the whole government. In other words and simply put, if we see increases that are significantly above inflation we will definitely see the budget deficit in trouble.

SOUTH AFRICA IN TOP FIVE OF WORLD'S MOST MISERABLE COUNTRIES

The above heading more than adequately describes some of the issues raised in this paper and, supports the proposition that, South Africa is in dire straits and, as a government does not meet the aspirations of the ordinary citizen, in terms of governance and financial stability. "Inflation is a disease that can wreck a society, Milton Friedman, the late Nobel laureate economist said (In Jamrisko, SaraIva and Tartar (2015: 4). Add rising unemployment to that disease according to Jamrisko et al (2015) and his profession ascribes a rather nontechnical term to the debilitating effect on people – misery. This year the affliction will be most acute in Venezuela, Argentina, South Africa, Ukraine and Greece – the five most painful economies in which to live and work, according to Bloomberg survey data that make up the misery index for 2015. It's a simple equation: unemployment rate plus change in the consumer price index equals misery" (Bloomberg in Jamrisko et al, 2015). According to the authors Jamrisko et al (2015) "The three countries that will probably see the most economic misery in 2015 – South Africa, Argentina and Venezuela; have not budged much from their 2014 rankings, when they occupied three of the top four spots, the data shows. The rankings were also determined by the average per capita income and to this end South Africa scored very low. This is all testimony of the fact that South Africa's body politic, its finances, governance, the negation of the rule of law, runaway corruption, inflation and other salient issues speaks of a country that is in chaos, decline, and technically speaking in ruins. All of this supports the assertions made in this paper.

IN THE FINAL ANALYSIS THE SOUTH AFRICAN FINANCE MINISTER FALLS IN WITH BIG BUSINESS

In summing up this article, it is important to place on record how Finance Minister Nene fell in with big business, compromised the poor and with additional pressures being exerted on the poor by an economy that has no direction, judgment day could be approaching faster than anticipated. In this regard, it is prudent and necessary to summarize the work of Patrick Bond that appeared in the Guardian Mail (2015: 5) as follows:

- "The Finance Minister bent backwards to accommodate the demands of big business, bank economists, and the ultra rich and did not address the anguished calls of the poor and working class people.
- Iraj Abedien (economist) said that "the Finance Minister could only be taken seriously if he cut back on public sector salaries and granted higher than nominal social grant increases, above inflation" (In Patrick Bond, 2015). He made substantial cuts to the real social wage.
- The bloated bureaucracy, Nene is cutting or chopping the wrong part and this will undermine service delivery of water, sanitation and electricity because public service frozen posts are being done away with.
- An austerity mood was created by the minister and this is not good for the country as the

country walks a fiscal tightrope, as it cuts spending in important sectors and inequality will increase.

- National wealth is being moved rapidly abroad because of the treasury's steady exchange control liberalization. There is capital leakage and tax evasion which was not addressed. Tightened exchange controls and nationalization are the only durable solutions but they are not and were not on the finance minister's agenda.
- Tax on big corporations remained the same at 28 percent and South Africa's vulnerability is reflected in our foreign debt, which has doubled to $140 billion since 2009 in order to pay for profit outflows (40 percent or more since the time of PW Botha's apartheid Rubicon speech some 30 years ago.
- There was no clear direction in respect of infrastructure development projects.
- There is no serious road – to rail planning and no announcement was made on the importing of coal.
- The minister was diplomatically quiet in respect to the power problems in respect to Medupi, Kusile and Ingula and, reflects the government's expensive obeisance to the minerals – energy complex. Repaying the World Bank its $3. 75 billion for its largest ever loan.
- There are too many "white Elephant" infrastructure projects.

The issues raised cannot escape asking the question is the finance minister setting the stage for a more profound political crash and therefore, the pressure is upon the predatory elite and an unaccountable ruling clique and their crony – capitalist and un - reformable IMF allies, who have bolstered their neoliberal agenda against the poor and the working class of South Africa. All of this is further exemplified by the reality that, the South African Broadcasting Corporation on the 11 March, 2015 and, the Business day (2015: 1) reported that "the South African Rand slid dramatically against the United States dollar to reach R12. 32 cents on the international market. This makes the South African rand one of the five weakest currencies when compared to 25 other emerging markets." The rand hit a 14 year low and thus an interest hike can now only protect the rand. This will have a dramatic effect on the economy which is on an onward, downward, slippery trajectory and slide, and both imports and exports will be drastically affected. By the same token Bernard Sathekge (2015: 15) states that "South Africa is a candidate for an IMF bailout because of a range of economic factors, including twin deficits, thus putting GDP growth at risk, as warning lights have already started flashing and that the Minister of Finance's 2015 budget did not assist in staving off, a further downgrade of the economy, which is now looming." Downgrades imply higher borrowing costs for the government and private sector businesses such as banks. A current account deficit is when the country imports more than it exports and fiscal deficit is the difference between the government's expenditure and revenue. The revenue base in South Africa has been shrinking. South Africa requires making necessary policy adjustments immediately for there is not much time left for a possible downgrade of the economy and, the possibility of being reduced to junk status. Government debt is set to increase by about R550 billion in the next three years to R2.3 trillion by 2017 / 2018. Therefore, the country's current account deficit which is 5.7 percent of GDP, poses risks to sovereign credit ratings. The current growth trajectory leaves South Africa among the most vulnerable of emerging economies to global volatility, given the twin deficits (fiscal and budget).

CONCLUSION

It was not possible to deal with every subtle nuance of the Minister of Finance's budget. He tried as a novice and, if one has to grade him, his presentation was below par. We All hope that his budget will keep the credit rating agencies at bay. But his budget speaks of tough times, limited choices and a growing interest bill which is no cause for optimism. South Africa's state – owned enterprises are a collective basket case and require R460 billion in guarantees from the state to keep them alive and afloat. A burden on the country. A president that is embroiled in very serious corruption which does not allow for confidence in the economy; and a president who secretly engineered a nuclear deal with Russia at trillions of rand, which was not even mentioned by the finance minister, which will commit the country to pay Russia for decades. All of this will mean borrowing more money, probably on onerous terms, and the likelihood of an increasing financial mess. Unfortunately, such a glaring policy disjuncture according the Mail and Guardian editorial (2015: 28) "creates discomforting uncertainty for investors and leaves no room for maneuvering by the finance minister. This makes South Africa less attractive as an investment destination and, increases political risk more than substantially. The already battling and sinking taxpayer will have to shoulder the burden and pay for bad policy decisions and the lack of leadership at a crucial time. There is something rotten in the State of South Africa and Alan Paton's word is a reminder of Cry the Beloved Country. The budget evoked no comfort and will contribute to greater unemployment, widen inequality and increase poverty all the more.

BIBLIOGRAPHY

1. Adrian Groenewald (2015). Zuma bungles chance to show real leadership. Opinion and Analysis. Business Report. Johannesburg. South Africa. February 18. Page 18. (Background reading in preparation of this article).
2. AgriForum (2015). Land Question on the State of the Nation Address by the President of South Africa. Post SONA Debate in the Press. The Times. Johannesburg. South Africa. February 17. Page 11.
3. Anis Mahomed Karodia; Dhiru Soni; and Stanton Thomas (2015). Can the New South African Finance Minister's Mid – Term and Actual Budget Save South Africa from its Economic Woes. European Journal of Business and Social Sciences. Zurich. Switzerland. Volume 7. November 13. January / February.
4. Bloomberg and Staff Reporter (2015). Zuma warns growth at risk die to global slowdown. Business Report. Johannesburg. South Africa. February 13. Page 1. (Background reading in preparation of this article).
5. Bond, P. (2015). Nene falls in with big business. Mail and Guardian. Wealth. Johannesburg. South Africa. March 6 to 12. Page 5.
6. Brendon Peacock (2015). Some positive returns despite rough economy. (Background reading). Sunday Times. Investment. Johannesburg. South Africa. February 22. Page 7.
7. Business Day (2015). International Currencies Values. Johannesburg. South Africa. March 11. Page 1.
8. Dardagan, C. (2015(). Diesel subsidy move hits farmers. The Mercury. Durban. South Africa. February 26. Page 2.
9. Ensor, L; Paton, C; and Joffe, H. (2015). Nene targets the fiscal gap. Business Day. Johannesburg. South Africa. February 26. Page 1.
10. Goolam Ballim (2015). Nene needs to grasp the nettle. Sunday Times. Business Times. Johannesburg. South Africa. Opinion. February 22. Page 10.
11. Hunter, Q; Mataboge; M; and Gqirana, T. (2015). Zuma has a bad story to tell: We messed up says ANC. Mail and Guardian. Johannesburg. South Africa. February 6 to 12. Pages 1 – 2.
12. Hylton Cameron (2015). Time has come to take foot off pedal, buy a bike. Business Report. Budget News. Johannesburg. South Africa. February 26. Page 4.
13. Jacob Zuma (2009). State of the Nation Address. Presidency of South Africa
14. Jacob Zuma (2010). State of the Nation Address. Presidency of South Africa. Parliament of South Africa. Cape Town. South Africa. February.
15. Jacob Zuma (2011). State of the Nation Address. Presidency of South Africa. Parliament of South Africa. Cape Town. South Africa. February.
16. Jacob Zuma (2012). State of the Nation Address. Presidency of South Africa. Parliament of South Africa. Cape Town. South Africa. February.
17. Jacob Zuma (2013). State of the Nation Address. Presidency of South Africa. Parliament

of South Africa. Cape Town. South Africa. Cape Town. South Africa. February.
18. Jacob Zuma (2014). State of the Nation Address. Presidency of South Africa. Parliament of South Africa. Cape Town. South Africa. February.
19. Jacob Zuma (2015). State of the Nation Address. Presidency of South Africa. Parliament of South Africa. Cape Town. South Africa. February.
20. Jamrisko, M; Saraiva, A. C; and Tartar, F. (2015). SA in top five of world's most miserable countries. Mail and Guardian. Business. Johannesburg. South Africa. March 6 to 12. Page 4.
21. Khuzwayo, W. (2015). Nene slaps SA with tax hikes to shore up government taxes. Business Report, Johannesburg. South Africa. February 26... Page 1.
22. Laura Grant (2015). An Analysis of Successive State of the Nation Addresses under President Zuma. Business Report and The Times. Johannesburg. South Africa. February 10 and 11. Page 8 and 12.
23. Leon Louw (2015). Despite promises first timer Nene has missed more than a trick or two. Business Day, Johannesburg. South Africa. February 26. Page 2.
24. Lerato Mbangeni (2015). Teachers hoped for big pay hikes. The Star. Johannesburg. South Africa. February. 27. Page 4.
25. Lesiba Mothata (2015) India's budget radically different to Nene's. Business Day. Opinion. Johannesburg. South Africa. March 5. Page 15.
26. Levine J. (2009). A Critique of the State of the Nation Address. Parliament of South Africa. Cape Town. South Africa. February.
27. Lisa Steyn (2015). Novice Nene in political frying pan. Mail and Guardian. Johannesburg. South Africa, February 27 to March 5. Page 1.
28. Louise Flanagan (2015). Tax Blow. The Star. Johannesburg. South Africa. February 26. Page 1.
29. Mail and Guardian editorial (2015). Taxpayers bear the burden. Johannesburg. South Africa. February 27 to March 5. Page 28.
30. Mail and Guardian Editorial (2015). Zuma, the people tweet and 'deliver.' Johannesburg. South Africa. Page 26.
31. Mariam Isa (2015). Rich to shoulder new budget hikes. Sunday Times. Business Times. Johannesburg. South Africa. February 22. Page 4.
32. Maswanganyi, N. (2015). Prospect of rate rise looms ever nearer. Business Day. Johannesburg. South Africa. March 5. Page 1 – 2.
33. Reuters (2015). Rand fluctuates, bonds fall after budget. Business Report. Johannesburg. South Africa. February 26. Page 13.
34. Robert Brand (2015). Country's debt maturity profile extended. Business Report. Opinion and Analysis. Johannesburg. South Africa. February 26. Page 5.
35. SABC (2015). Discussion on the slide of the rand to R12.32 against the dollar. Johannesburg. South Africa. 11 March.

36. Sathekge, B. (2015). Mixed reaction over budget speech. The New Age. Johannesburg. South Africa. February 26. Page 15.
37. Sathekge, B. (2015). SA "candidate for IMF bailout. The New Age. Johannesburg. South Africa. March 10. Page 15.
38. Sathekge, B; and Molefe, R. (2015). Mixed bag Budget. The New Age. Johannesburg. South Africa. February 26. Page 1.
39. Shaun Mpshe (2015). DA says budget nothing to brag about. The New Age. Johannesburg. South Africa. February 26. Page 4.
40. Stuart Wilson (2015). Poverty. Director of Socio – Economic Rights Institute. Unpublished Manuscript. University of Johannesburg. South Africa. January.
41. Sunday Times (2015). Inflation dips merely a blip. Business Times. Johannesburg. South Africa. February 22. Page 4.
42. The Post (2015). 30 percent are living below the poverty level. Durban. South Africa February 25 to March 1. Page 4.
43. The Times Editorial (2015). Zuma's populist land reform plans likely to backfire. The Times. Johannesburg. South Africa. February 19. Page 12.
44. TNA Reporters (2015). Nene's was 'not a people's budget.' The New Age. Johannesburg, South Africa. February 26. Page 1.
45. Zwane, T. (2015). Living on a beggar's budget. Mail and Guardian. Johannesburg. South Africa, February 27 to March 5. Page 12.