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People's Budget Campaign response to the 2005/2006 budget speech

Congress of South African Trade Unions; South African Council of Churches; South African NGO Coalition

Wednesday, 23 February 2005

South Africa has committed itself to cut poverty in half by 2014 in terms of the Millennium Development Goals, and halving unemployment in terms of the Growth and Development Summit Agreements. The national budget is thus a crucial weapon to realising these goals. This year's national budget continues the moderately expansionary trend evident since 2000, but the increase is significantly lower than last year.

Our expectation was that the pace of expansion would have matched the previous year's increase of 10%. However, we see a slow down in the expansion of the budget to around 7,2% real increase. In the context of reaching the goals of halving unemployment and poverty, continued and robust expansion of the budget is needed.

Specifically, we are disappointed in the 0.1% increase in the tax: GDP ratio, from 24.1% last year to 24.2% this year. This is significantly lower than the People's Budget Campaigns call for 29% Tax: GDP ratio for the 2005/2006 financial year. Once again government has cut taxes – despite an indication in the MTBPS that tax cuts would be smaller – and these tax cuts disproportionately benefit the rich in our society. Government could have chosen not to provide tax relief in this year, providing substantial resources available to fund programmes of redistribution.

The reduction in company taxes from 30% to 29% is another example of an increasingly regressive tax regime. The People's Budget Campaign has instead have called for a reduction in the VAT rate, as well a stop to tax concessions that benefit the rich.

Similarly, the downward revision of the deficit for the 2004/2005 financial years from 3,5% (MTBPS,2004) to 2,3% indicates that government has not grabbed the opportunity to adequately increase spending on poverty eradication. The deficit is once again projected to be 3.1% in the 2005/2006 financial year, and we will monitor government progress of spending these resources in an effective manner. However, the People's Budget Campaign believes that a larger deficit is required to meet commitments in the Growth and Development Summit Agreements and Millennium Development Goals, and could be implemented in a sustainable and responsible manner.

The impact of missing opportunities to expand the budget on both taxes and the deficit means that we are likely to miss the targets of halving poverty and unemployment by 2015.

The People's Budget Campaign welcomes the renewed policy direction in the housing department. This new direction would see the creation of sustainable communities, instead of perpetuating dormitory townships of the apartheid era. However, to implement this vision we believe that housing, as a percentage of budget needs to be allocated 5%. Instead, we see housing's share of consolidated spending fall from 2.1% last year to 1.9% this year.

Last year our proposals for the 2005/2006 budgets were for a rapid increase in the budget allocated to land reform. In terms of land restitution, we applaud government for allocating additional resources. Redistribution also sees a significant increase in the outer two years of medium-term expenditure framework. However, for the increased resources to be spending well, it will require government to shift from the 'willing buyer, willing seller' system.

At a time when HIV/AIDS represent a major challenge to us meeting our goals, we are surprised by the lack of attention to this in the budget speech. In previous budget speeches, there has been an explicit commitment to spending on HIV/AIDS, which provided a basis to assess the extent of government commitments. At the same time, there are issues of capacity as reflected in the Minister of Health not spending funds allocated to the AIDS Trust. This requires improvements in the functioning of the South African AIDS Council.

Tackling HIV/AIDS on a comprehensive basis will require an extensive intervention in the health system. This year health grows in real terms, estimated at around 10%. Improving working conditions for health workers is an important starting point in transforming the health sector. Once again, no improvements in conditions for health workers have been put into effect.

More worrying, is that changes in conditions of services are announced through the budget and not negotiated in the collective bargaining systems. Further these agreements include some public sector workers, but inexplicably exclude health and other public sector workers.

Education increases as well in real terms. The PBC welcomes the increasing of resources to the National Student Financial Aid System and improvements to the information management system in education. However, there are no clear provision for much needed increases in Adult Basic Education and Training and Early Childhood Development.

The review of the equitable share for local government is an important step towards ensuring access to free basic services. The PBC calls for a transparent process of reviewing the equitable share, and commits itself to participating in this review. We however remain concerned about the increased funding for Public Private Partnerships for rolling out basic services in local governments, in so far as it impacts on the affordability of services in communities.

Social grants increases are largely in line with inflation. Whilst the increases are welcomed, we believe that higher increases would have been possible and desirable. More particularly, a comprehensives grant, i.e. Basic Income Grant, could have been partially funded by not introducing a new set of tax cuts.

A point of concern relates to supporting small business development. The President in the State of the Nation indicated that measures to support small business would be discussed with social partners. However, the increase in the threshold for exemption of small businesses from the skills levy is a source of concern and a contradiction. The increase in the exemption threshold by 100% cuts deeply into the commitment to ensure skills development for workers employed in SMME's. Yet, skills development is crucial to the success of the small business sector, and capacitating of workers. The failure to consult on this issue is unacceptable.

The Minister of Finance appears to buy the myth that exempting small enterprises from the labour laws will lead to their miraculously growth. Yet the sectors with the lowest productivity, slowest growth and highest job losses remain sectors characterised by inadequate labour relations – farming, domestic work and the informal sector.

As civil society organisations we are however disappointed that the Minister has not yet tabled legalisation that enables parliament to amend money bills. This inhibits parliament from playing its role as the people's voice, and ignores an important constitutional obligation. Moreover, as civil society organisations our own voice on budgetary issues cannot be expressed through parliament.

BASIC INCOME GRANT COALITION REACTS TO MANUEL'S BUDGET

23 February 2005

CAPE TOWN - As South Africa enters its 12th year of democracy in April, the Basic Income Grant (BIG) Coalition is calling on government to live up to its constitutional obligation to ensure that everyone has access to social security.

"We are pleased to see an increase in the amounts of social grants in line with inflation" said Rev. Edwin Arrison, National Coordinator of the BIG Coalition. "This shows a growing commitment to addressing the immediate needs of the 50% of the population living in poverty. But we remain concerned that the current system of grants does not alleviate the suffering of millions of poor people who have no access to grants, including the poorest of the poor," he continued.

"However, the BIG Coalition is also outraged at the government's continued reduction in Company Tax. The 1% cut in Company Tax announced today amounts to R2 billion, while a further R6,8 billion will be put back into the pockets of the rich through tax cuts," according to Rev. Arrison. "Such tax cuts are regressive, benefiting the rich more than the poor and are widening the rich-poor gaps even further. They also starve government of the resources needed to lay the foundations for sustainable growth."

At 2,3 %, the 2005/06 projected budget deficit is substantially lower than originally expected (3,5%) in terms of the 2004 Medium Term Policy Statement. "This leaves room for extending the coverage of social assistance. The fact that the budget deficit is expected to drop to 2,7% by 2007/08 suggests that government could sustainably extend the child support grant to children 14 years and older," said Rev. Arrison.

2004 figures by the Human Sciences Research Council (HSRC) indicate that 25.7 million people are living in poverty. Total social grants beneficiaries as at April 2004 were nearly 8 million, leaving 17.7 million poor people without access to any grants.

The Taylor Committee Report in 2001 showed that the poorest 10% of the population, in particular those living in destitution, are completely excluded because of barriers to grants such as means testing, complicated application procedures, uncertainty regarding eligibility and lack of funds for transport to visit social services offices.

"We recognise that the number of social grant beneficiaries has doubled in the past three years, but many desperately poor people between the ages of 14 and 60 years still do not qualify for the current grants. The BIG Coalition therefore reiterates the Taylor Committee's call for a non-means tested Basic Income Grant of not less than R100 to be given to everyone in South Africa," Rev. Arrison said.

Pumi Yeni, National Organiser for the BIG Coalition, further pointed out that, "in the context of the HIV/AIDS pandemic, a national treatment plan without a BIG will be severely compromised. The current, rapid rise in the number of applications for disability grants and foster child grants is due to the HIV/AIDS pandemic, and this is creating perverse incentives. There are already reports of patients stopping their ARV treatment so as not to lose their disability grants and research suggests that the foster child grant is commodifying orphaned children."

It appears that government is not rejecting the idea of a universal BIG grant outright, but instead is claiming that it cannot afford to finance such a grant to all South Africans. In November last year, Minister Manuel reportedly claimed that a Basic Income Grant would "bankrupt the country". However, four leading economists commissioned by the BIG

Coalition to calculate the net cost of the grant concluded that it would require between R15 and R32 billion, depending on how funding for the grant is recovered from wealthier households through the tax system.

The BIG Coalition regards concerns about the sustainability of a BIG as unfounded. "Extensive research has demonstrated not only that social grants are highly effective in enabling families to meet their basic needs, but also that they are developmental. A recent study commissioned by the Department of Social Development found that children in households that receive grants are more likely to attend school, while adults in such households are more likely to find work. Grants have positive effects on income distribution, productivity, social stability and economic growth," Ms. Yeni noted. "Extending the child support grant to *every* child under the age of 18 would be a practical first step toward phasing in a BIG."

Rev. Arrison stressed that the BIG Coalition "will continue to mobilise citizens and seek to constructively engage with government, until we have achieved our goal of seeing the BIG introduced." More than 10 000 South Africans sent postcards to the Finance Minister in support of the campaign for a BIG in preparation for the budget delivered today. More mass action is planned for the future.

"South Africa belongs to all who live in it. We want this sense of belonging to be extended even to the poorest South Africans. It is possible - if we can find the collective will to do it," said Rev. Arrison.

GET YOUR FACTS AND FIGURES STRAIGHT, MINISTER!

Press statement by the BIG Coalition; 25 February 2005

CAPE TOWN - The Basic Income Grant Coalition has responded to the Minister of Finance's remarks week that it will cost the country an estimated R90 billion per year to provide a Basic Income Grant (BIG) to all South Africans as a means of poverty alleviation.

"Minister Manuel has once again thrown a figure of R90 billion as the cost of a Basic Income Grant into the public domain. We would like to *again* point out that four leading economists commissioned by the BIG Coalition to calculate the net cost of a BIG, concluded that a such a grant would require **between R15 and R32 billion** per year, depending on how funding for the grant is recovered from wealthier households through the tax system," said Rev. Edwin Arrison, National Coordinator of the BIG Coalition.

Based on the research conducted by the economists, the BIG Coalition insists that Minister Manuel is ignoring certain facts about the cost of a BIG. These are that:

a. A BIG is foundational to other grants. In other words, people currently receiving grants would *not* receive a BIG on top of that. This already cuts a significant amount off the estimated R90 billion.

b. If a BIG is implemented incrementally - firstly to all children up to the age of 18 years - this will make the cost to the state less on an annual basis, but would still include the cost of administration because of means-testing. Such means-testing costs would fall away if the BIG is introduced to all South Africans.

c. There is a difference between the gross cost and the nett cost of a BIG. According to the BIG Coalition, the minister speaks only about the gross cost but refuses to acknowledge that those on the tax system would be expected to pay back towards the BIG. This again will make the estimated R90 billion much less.

d. There *are* possibilities for financing a BIG within the current macro-economic and fiscal framework. One option is to increase the GDP: tax ratio by 1-2%, instead of giving back to those who already earn a good income. Raising VAT on certain luxury items is another option.

"It is urgent that we seriously address poverty in South Africa. A BIG is affordable and Minister Manuel is simply being alarmist, while restricting creative debate on the financing and sustainability of a BIG. We again urge the minister to listen and engage more constructively with the facts and to refrain from making irresponsible public statements that have very little basis in fact," said Rev. Arrison.