People's Budget Response to the 2005 Medium Term Budget Policy Statement

Presented to the Joint Budget Committee

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Introduction

Honourable Members of the Joint Budget Committee, the People's Budget Campaign (PBC) appreciates the opportunity to share its perspective and recommendations on the 2005 Medium Term Budget Policy Statement (MTBPS). The PBC comprises three mass based organisations, which are the South African NGO Coalition (SANGOCO), the Congress of South African Trade Unions (COSATU) and the South African Council of Churches (SACC). It represents the three key pillars of civil society, namely the church community, non-governmental organisations, and trade unions. To date, this is our sixth submission on the Medium Term Budget Policy Statement, since 2000. Our organisations have worked together to develop common perspectives on national budget issues of concern to our respective constituencies, and we remain committed to expressing these perspectives jointly.

Accompanying the Submission, is a detailed 59 page document entitled "People's Budget 2006-2007 – Proposals from COSATU, SANGOCO and SACC," published by the National Labour and Economic Development Institute (NALEDI) in February 2005, just before the tabling of the 2005 National Budget by the National Treasury. It contained detailed motivations, summaries of commissioned research regarding our proposals. It may therefore be useful to Members of the Committee to examine this publication as a reference, if further motivations for our proposals are necessary. In any event, we would be keen to answer these after our oral presentation.

The People's Budget Campaign evaluates the budget above all in terms of its impact on poverty and unemployment. Moreover, we have tabled our proposals for a more effective fiscal policy earlier in the year for the consideration of government, business and other stakeholders. We assert again that growth and equity are complimentary and inextricably linked, and we demand that emphasis on objectives in both areas be provided. We once again table our proposals for the 2006/7 financial year with your Committee, and have again forwarded a copy to the National Treasury.

Our response is divided into six sections. These are:

- Building a developmental partnership
- Shared economic growth
- Revenue trends
- Expenditure trends
- Claims on employment gains
- Reclaiming redistribution

Building a Developmental Partnership

South Africa requires a development partnership to ensure that we meet the aims of poverty eradiation within one generation. During the 2005 MTBPS speech, Minister Manuel called for a development partnership, which we fully support. We are willing to engage government around achieving accelerated and shared growth. At the centre of such a partnership must be the recognition that improving equity and accelerating growth are complimentary, not competing objectives.

Whilst we are encouraged that government is calling for a developmental partnership, an important starting point to realising this partnership is through making the budget process participatory. The PBC has as a matter of principle continually called for a budget reform process to ensure that parliament and civil society have a meaningful impact on the budget. We also urged greater participation in contributing to the formulation of budget priorities and interacting with drafting of budgets at a local level. Our proposals are contained in our budget proposals for 2006/7, which we have tabled, and which again accompanies this Submission.

Nonetheless, we remain committed to working with government to share ideas, discuss differences and influence thinking. In this regard we invite Minister Manuel and senior Treasury officials, to our 5th National Consultative Conference, to be held on the 28th -29th of November 2005 in Johannesburg.

Shared economic growth

The theme of shared economic growth is an important one, and one that has the full support of the PBC. We cannot overestimate that we need a development strategy that builds the linkages between economic growth and equity. Or, as the Reconstruction and Development Programme reminds us 'link growth and development'. Growth must thus link to efforts to restructure the economy and society toward more equitable, job-creating growth, with a supportive monetary policy regime. In this light we welcome the focus on shared growth in the MTBPS. Moreover, we remain committed to discussing policy proposals to realise a growth path that breaks the structural features of poverty, and thus sees us enjoying shared growth. However, if indeed proposals for shared growth are to be seriously considered by government, the analysis of the PBC on the current challenges, points to the need for more drastic interventions by the State. The combination of short-term relief measures with long-run restructuring of the economy will succeed only if the state is mobilised more systematically around employment and equity.

The PBC has for a long time called for a developmental state, one which is directly involved, along with business, labour and civil society to bring about the necessary changes in production structure and ownership. Specifically, the developmental state must:

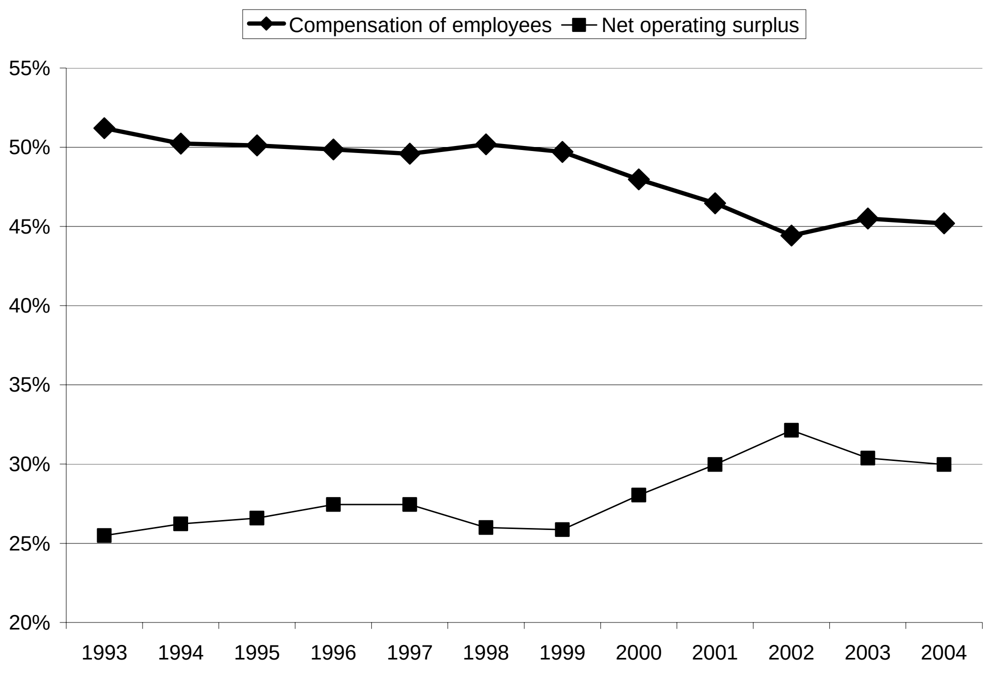
1. Mobilise stakeholders behind a transformative strategy through a combination of incentives and sanctions; and
2. Align all government programmes (including those of parastatals and public entities) around its strategy. Currently, however, it appears that government departments and public entities frequently:
   - do not prioritise sustainable employment with growth in their programmes
   - do not analyse the implications of their policies on sustainable employment.

Practical steps to remedy this situation include:

- Requiring that any Cabinet memorandum proposing a new policy or a change in policy include a discussion of the likely implications for sustainable employment and growth and inequality.
- Requiring each department (including social and administrative functions as well as economic policy departments), each province and municipality initiates a process of evaluating the effects of their current programmes on sustainable employment and growth, and on that basis to propose reforms to enhance the impact.

The graph below highlights the current, unacceptable trend, whereby economic growth has negatively impacted on the compensation of workers. Growth has therefore not been shared, in fact, the opposite has happened.

Increasing surplus with falling compensation of employees



These trends mean that the bulk of the benefits from growth have been captured by business, rather than workers and the poor. As the table shows, the share of wages and salaries in the national income has generally declined over the past ten years, while the share of profits, reflected as net operating surplus, has risen.

Underlying the data are the harsh realities faced by working-class families. Two thirds of young people are unemployed, and most have never had a job since they left school. Older people who have decent jobs in manufacturing and services feel perpetually threatened by retrenchment. In these circumstances, government's roll out of services and grants in poor communities improves the quality of life, but cannot fully offset rising numbers living off a few incomes. In this light, the targets of halving poverty and unemployment within the next decade inform the attempts at accelerated and shared growth. Yet, there are few details contained in the MTBPS on attaining broader social targets. Government must provide more information on how, for example, the objectives of halving poverty and unemployment by 2014 and the attainment of Millennium Development Goals (MDG) will be realised.

Revenue trends and implications

Improvements in tax administration have been a significant contributor to substantial upward adjustments to expected revenue. This coupled with economic growth are important in ensuring that sufficient resources are available to realise many development goals.

The main reasons given for the higher than estimated audited main budget revenue (by R20.9 billion) include:

- Higher than expected profits in the finance, insurance, real estate and business services sectors → corporate income tax collections **R 5.3 billion higher**
- Changes in deferment rules in VAT collections led to early payments in March 2005. This resulted collections **R2.7 billion higher** than estimated.
- Higher import volumes led to higher international trade tax receipts that were **R1.6 billion higher** than estimated; and
- Interest, dividends and other non-tax receipts exceeded income projections by **R 175 million**.

Yet this increased revenue accounts for less than half of this higher income. *No reasons are given to explain the additional R 11.1 billion collected by SARS*. Clearly, the past few years have had consistently higher than estimated revenue projections. It is necessary and increasingly possible therefore, for SARS to estimate the revenue with increasing accuracy.

This would enable a better allocation of resources, particularly to address backlogs and service delivery challenges in government.

National Budget Revenue 2004/5 – 2008/9

R billion	2004/5 Audited outcome	2005/6 Revised Estimate	2006/7	2007/8	2008/9	MTEF Ave % of main budget revenue
			Medium Term Estimates			
Taxes on income and profits	**199.7**	**225.4**	**250.7**	**272.5**	**297.6**	**55.68%**
Persons and individuals	111.0	125.2	138.6	152.0	166.5	31.01%
Companies	70.8	79.1	87.0	94.0	102.6	19.2%
Secondary tax on companies	7.5	10.2	13.0	13.5	14.2	2.76%
Other	10.4	10.9	12.1	13.1	14.3	2.68%
Taxes on property	**9.0**	**11.0**	**12.4**	**13.6**	**15.1**	**2.79%**
Domestic taxes on goods and services	**131.9**	**152.4**	**166.8**	**182.1**	**199.9**	**37.23%**
Value-added tax	98.2	115.0	127.0	139.5	154.0	28.53%
Specific excise duties	13.1	14.7	15.9	17.1	18.5	3.49%
Levies on fuel	19.2	20.6	21.7	23.0	24.7	4.71%
Other	1.4	2.1	2.3	2.5	2.7	0.51%
Taxes on international trade and transactions	**13.3**	**16.3**	**18.4**	**19.8**	**22.1**	**4.09%**
Stamp duties and fees	**1.2**	**1.0**	**1.0**	**1.1**	**1.1**	**0.22%**
Total tax revenue	**355.0**	**405.9**	**449.3**	**489.0**	**535.8**	**-**
Main budget revenue	**347.9**	**400.1**	**437.0**	**479.0**	**527.2**	**100%**
Percentage of GDP	**24.7%**	**25.9%**	**25.8%**	**25.8%**	**25.9%**	**-**
Changes from 2005 Budget						**-**
Total tax revenue		33.2	35.1	35.3		-
Main budget revenue		30.2	31.6	34.4		-

Source: calculated from Table 4.2 p.41, 2005 MTBPS – National Treasury

The table above points to the policy choices with regards to the tax regime over the MTEF period, ending 2008/9. Clearly, PAYE will remain the tax type generating the largest percentage of revenue (31%), followed closely by VAT (28.53%). The contribution by the business sector, paying company and secondary company tax, averages around 22% of total revenue.

Yet, this sector of South Africa's community benefited most from economic growth, and recorded huge profits (some unprecedented), particularly in the finance and economic services sector. In our 2006/7 People's Budget Campaign proposals, as part of an integrated developmental fiscal package to fund our proposals, we suggested raising additional resources through increased taxation, whilst lessening the tax burden on the poor. Whilst government has performed well on the income side, it remains problematic that the tax burden has not shifted away from the poor.

With regards to the structure of tax rates, we hold that "most taxes can be made more progressive by shifting a greater share of the tax burden onto wealthier taxpayers. Income tax, for example, can be applied to everyone at a flat rate, but typically income tax is progressive because top earners are expected to pay a much higher percentage of their income in tax than middle-income households, while poor households are not expected to pay at all."[1]

As explained in our PBC 2006/7 proposals, the structure of taxation changed significantly since 1981. The last 10 years saw significant and repeated cuts in

[1] Ibid p.44-46

personal income tax rates, though this has stabilised in the past 2-3 years, the companies share of the total tax burden during the apartheid era was around 40% (now around 20%), whilst personal income tax and taxes on goods and services (GST/VAT) now became increasingly important sources of revenue (from about 30% in 1981 to around 60% today).

In short, tax relief accrued to middle-income households, yet less than half of all formal workers earn enough to be liable for income tax. Furthermore, the unemployed realised no direct benefit from income tax cuts – and may even suffer if tax cuts reduce government's capacity to deliver basic services. Yet, those in the top income bracket have enjoyed a substantial reduction in their tax rate from 45% to 40% over the past few years.

Simultaneously, corporate taxes were reduced. Thus, though companies contributed a larger proportion of total tax revenue than they did in 2000 mainly because they have efficient collection, their contribution is relatively small and the effective rate of taxation on companies remains relatively low.

VAT

Clearly, the table on page 6 demonstrates the decision of government to largely maintain the status quo with regards to tax policy, with a few amendments. It remains unclear, how the existing tax regime is directly able to aid, poverty reduction. We continue to assert that the tax that imposes the greatest burden on poor households is VAT.

The People's Budget Campaign believes that two factors, viz. the composition of revenue, and the structure of tax rates are critical in bringing about a more progressive tax regime. For a long time we have maintained that "some taxes, such as taxes on consumption (e.g.VAT), tend to be regressive because poorer households inevitably spend a larger share of their income on purchasing goods and services. Other taxes, such as those on wealth and income, are more likely to be progressive."

For years the People's Budget Campaign has called for several policy interventions that include:

- *Raising the tax:GDP ratio* – our research has shown that our current average tax rate of around 24.6% is well below the country's estimated tax capacity of 29.7% [2] We therefore called for a 3% increase in the tax:GDP ratio.
- *Reforming VAT* from a regressive to a progressive tax due to it weighing more heavily on the poor than the rich. We called for a 1% reduction in VAT and a variable VAT rate to exempt more basic commodities and impose a higher rate on luxury goods. The rationale for Introducing a 1% decrease in the basic VAT rate, was that a 'people's tax cut' would cost the State between R9 billion and R10,4 billion in 2006/07" depending on the impact of the reduction on the demand for goods and services. This would promote savings for many families, particularly in poorer households, and stimulate marginal increases in consumption (van Niekerk, 2004);

[2] p.45 People's Budget Campaign Proposals – published by NALEDI, Feb 2005

- *Deficit financing to support economic growth*, while managing the recurrent cost associated with debt;
- *Reallocating resources* from spending on the military and the Pebble Bed Modular Reactor (PBMR)

The response of government to these proposals has been disappointing. Whilst there has been some, but limited shifts in this regard, the tax regime continues to disproportionately favour higher income earners. We therefore continue to motivate for the above demands. This is based on the principle that economic growth cannot be redistributive, let alone equitable, unless these interventions are implemented.

Examples of slight shifts and lacklustre interventions, include changes to VAT. The only significant adjustment to VAT in the past decade (that in our view directly benefits all poor households), has been the zero-rating of illuminating paraffin in 2001 – an effective tax cut of R400 million for poor households.

More recently however, several tax policy proposals include:

- VAT 'relief' for SMME's,
- Tax relief related to home ownership,
- tax relief associated with broader medical scheme coverage,
- tax incentives for inner city development projects,
- tonnage tax,
- reforms related to retirement funds
- tax deductibility for certain public benefit activities
- mechanisms to replace revenue lost due to scrapping of RSC levies, and
- consideration of provincial fuel levy proposals

These provisions largely benefit formally employed workers and business. However the MTBPS is silent about the much needed fundamental restructuring of a key tax instrument, namely VAT which can provide major relief for the poor. We find this unacceptable and demand that more progressive tax policy mechanism be introduced, including those of the PBC, in order to contribute significantly to the narrowing of income gaps, maximisation of using disposable income and much-needed relief for lower income households.

Tax:GDP Ratio

The People's Budget Campaign welcomes the increase in the tax: GDP ratio from over the MTEF period, although this is too moderate. Planned expenditure also increases to 28% in 2008/9. The overall increase in expenditure (i.e. financed through both taxes and deficit) is welcomed, and will provide the stimulatory impacts for shared economic growth, if utilised properly.

Taxation as a percentage of GDP increases moderately by about 1%, from 24,7% in 2004/5 to 25.9% in 2008/9. The People's Budget Campaign welcomes the increase in taxes as a % of GDP, but has proposed even more robust increases.

Similarly, the deficit is increased moderately to just over 2% of GDP, while we believe that a quicker, but prudent increase in the deficit is possible, responsible and consistent with our goals of accelerated growth and poverty eradication. Instead of cutting taxes when revenues go up, the government should use the money to stimulate the economy, fund new investment thereby crowding in private investment, and increase human capital investment through improving services and social grants for the poor. A 1% increase in taxes relative to the GDP would provide an additional R30 billion to improve services for the poor over the MTBPS period.

This increase in the Tax:GDP ration, though slight, indicates a shift away from the rigid ceiling set by GEAR. We feel this ratio could be increased still further given the social deficits left by apartheid and the massive inequalities in income that remain.

Deficit

The downward revision of the deficit for 2004/5, from an estimated 3.1% of GDP to the preliminary figure of 1.5% is a completely unacceptable. Many countries in the EU complain that they struggle to maintain their 3% deficit target because of pressing social expenditure needs. For government to claim that downward revision of the deficit is a feasible strategy to accelerate transformation within the current context of backlogs and inequalities is completely unacceptable.

The PBC is pleased that government, international financial institutions and some private sector analysts today no longer see moderate increases in the deficit as 'economic populism' but rather part of a strategy of reducing the social deficit. Government has to invest resources in the public sector to address the capacity bottlenecks.

Another factor for reduced deficits is that SARS has consistently outperformed in terms of tax estimates. This year alone, the overrun is around R 30 billion. Whilst we fully support SARS efforts at tax compliance and tax morality, we believe that a more accurate system of estimating tax revenues is needed. Better estimates mean better planning within the Treasury and other government departments. We believe that through increasing capacity as well as better estimates the possibilities of effective deficit spending would increase.

The table below indicates the projected figures of the main budget framework. Whilst the "stabilisation" of the tax:GDP-; expenditure:GDP- ; debt service cost:GDP- and deficit figures would impress even the most conservative economists, we believe there is sufficient space to accommodate our recommendations in order to accelerate the development agenda, with an emphasis on redistribution and narrowing of inequalities. In particular, it is not clear how these projections will realise the Millenium Development Goals.

Main budget framework 2004/5 – 2008/9

R billion	2004/5 Outcome	2005/6 Estimate	Medium-term estimates		
			2006/7	2007/8	2008/9
Total Revenue [3]	**347.9**	**400.1**	**437.0**	**479.0**	**527.2**
% of GDP	24.7%	25.9%	25.8%	25.8%	25.9%
Deficit	**-20.6**	**-15.7**	**-37.0**	**-39.3**	**-41.5**
% of GDP	***-1.5%***	***-1.0%***	***-2.2***	***-2.1***	***-2.0***
Total Expenditure	**368.5**	**415.8**	**474.0**	**518.3**	**568.7**
% of GDP	26.2%	27.0%	28.0%	27.9%	28.0%
Debt service cost	48.9	51.8	53.9	54.8	56.6
% of GDP	3.5%	3.4%	3.2%	3.0%	2.8%
Non-interest expenditure	319.6	363.9	420.0	463.5	512.1
% of GDP	22.7%	23.6%	24.8%	25.0%	25.2%
Real growth (non-interest expenditure)	8.8%	8.8%	9.9%	5.3%	5.7%
Contingency Reserve	-	-	2.0	4.0	7.0
Gross domestic product	**1 405.5**	**1542.2**	**1693.7**	**1856.7**	**2033.3**

Source; p. 32,Table 3.3 – 2005 MTBPS, National Treasury

The measurement of real social and economic progress, must take into account social and development indicators, not merely the pursuit of economic targets. *The development agenda should drive fiscal, economic and trade policy, not the other way around.*

Expenditure trends

The PBC welcomes the increase in total expenditure as a key aspect (but not condition) for addressing the challenges of poverty and inequality in our society. The increased levels of expenditure are consistent with the proposals from PBC, although we still believe that there is significant space for increased spending by government, and that such spending can be spent effectively.

Since 2000, we have seen a welcomed shift from the deflationary impact of budget cuts in the late 1990s, the more relaxed fiscal strategy of recent years has been associated with relatively robust economic growth. Regarding expenditure, we note the 9% growth in overall government spending, with the highest growth rate of 15% in the economic infrastructure and services sector. However, we await details of the Accelerated Shared Growth Initiative (ASGI-SA) to see the extent to which increased economic spending will translate into benefits for the majority of South Africans.

Education

The PBC Proposals made three proposals on education spending. These were:

[3] Includes provision for RSC Levies of R7 billion in 2006/07; R 8 billion in 2007/08 and R 9 billion in 2008/9

- increasing education spending as a percentage of total spending, without cuts to other forms of social spending;
- Increasing spending on Early Childhood Development (ECD) and Adult Basic Education (ABET)
- Adopting a policy of scrapping school fees in line with government's commitment to provide free and universal access to children.

The table below highlights the proportions of service shares and growth.

Service shares and growth 2004/5 – 2008/9

Per cent	2004/5 Outcome	2005/6 Revised	Medium Term Estimates			Average Annual growth
			2006/7	2007/8	2008/9	
Social services	**59.1%**	**58.9%**	**57.6%**	**57.9%**	**57.9%**	**10.7%**
Education	22.3%	21.5%	20.8%	21.2%	21.4%	11.2%
Health	12.4%	12.6%	12.2%	12.2%	12.2%	10.3%
Welfare and social security	18.7%	19.1%	18.8%	18.7%	18.4%	10.1%
Housing and community development	5.7%	5.7%	5.7%	5.8%	5.8%	12.2%
Protection Services	**18.8%**	**18.8%**	**17.6%**	**17.2%**	**17.1%**	**7.7%**
Economic services + infrastructure	**14.6%**	**14.9%**	**15.9%**	**15.9%**	**15.9%**	**13.7%**
Administration	**7.5%**	**7.4%**	**8.9%**	**8.9%**	**9.1%**	**19.7%**
TOTAL	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**11.4%**

The consolidated national and provincial expenditure for education in 2005/6 amounts to R 82.1 billion, rising to R91.2 billion (2006/7); R101.7 billion (2007/8) and R122.8 (2008/9) respectively. This is the largest expenditure for any government department. Along with other social services, the share of total allocation has remained constant over the MTEF period. Significantly, the share of protection services has dropped for the first time in years.

The PBC would argue however that the challenges facing learners in historically black schools are huge. Learners still lag far behind the expected achievements, largely because their teachers lack skills, challenges with the language of learning, and because of lack of resources, including decent buildings and educational materials. Some observers argue that education already absorbs too much of the budget. But South Africa does not spend a particularly large share of its GDP on education. According to the UNDP Human Development Report, South Africa spent 5,7% of its GDP on education, ranking it 32nd amongst the 137 reporting countries.

The PBC is of the view that funds for education remains skewed. It is largely allocated to Further Education and Training (FET) and Higher Education and Training (HET). While Early Childhood Development (ECD) is slowly receiving more attention, much greater support is needed to address the needs in this sector of education. Adult Basic Education and Training (ABET), remains largely neglected with national expenditure being less than 2% of the national education budget.

This despite the fact that South Africa has10 million adults that do not have general education (4.5 million of these are illiterate), and remain trapped in the "second economy". Despite the Minister of Finance expounding on "policies and programmes that contribute to building bridges between the first and second economies" being "many and varied", it fails to include ABET. There appears to be no guarantee on short-; medium or long term spending on this urgent need. SETAs have failed to address this crisis in any meaningful way. Furthermore, critical areas for interventions include:

- Addressing the large infrastructure backlogs – requiring an extra R3 billion per year over the next 10 years[4]
- Reducing overall and inter-provincial inequality in schools – these include effective programmes to speed up access to maths, science, and computers black learners
- Improving teacher qualifications and reducing class sizes – as an immediate intervention, there is a great need for in-house teacher training targeted at the worst performing primary and secondary schools
- More effective programmes to ensure the worst performing schools have adequate texts and other materials
- Ensuring that all (birth – 9 year old) children have access to ECD, and adults to ABET through adequate resourcing of these sectors.
- Scrapping of school fees and the development of alternate publicly funded resources. This would build on the commitment of government that no child should be excluded from schooling on the basis of fees. The negative impacts regarding school fees are elucidated in our 2006/7 Proposals in detail on p.30. This should extend beyond merely providing exemptions for low-income schools.

Health

The R 67 million not spent on antiretrovirals (rolled over) in the Health Budget is scandalous. Whilst there may be some constraints regarding the readiness of provinces and financial compliance, this effectively meant that only 10% of people living with HIV/AIDS have access to ARV's. Government must seriously address this problem, intervene and respond the HIV/AIDS pandemic with the urgency it deserves.

We maintain that the public health sector is probably the most under-funded. Yet it has faced rising demands, both due to the HIV/AIDS pandemic and the improved access of poor black communities. As per the table on p11, the allocation, as a percentage of total expenditure remains constant at 12.2% over the MTEF period, amounting to R48.2 billion for 2005/6. This is approximately half of the education budget. We therefore believe that the health budget is inadequate.

We also note that details regarding government funding for the GEMS has not been expanded upon, other than the allocation of R4.8 billion set aside to enable provinces to *absorb the costs associated with the phased implementation* of the Government Employee Medical Scheme (GEMS).

[4] School Register of Needs Survey 2001 – Department of Education

In this regard, we reiterate our rejection of a Social Health Insurance (SHI) since it would impose huge costs on working people, raise the overall cost of healthcare, with potentially serious consequences for the economy and unemployment; and effectively constitute the privatization of healthcare for at least a substantial minority. SHI, at least for some workers, would compel them to use private health care or pay private rates for public facilities. This would, in effect, mean that health would become a commodity rationed by the market, rather than a basic need and, as the Constitution requires, a fundamental socio-economic right.

Free Basic Services

No mention has been made in the MTBPS on the rollout of free basic services, critical for indigent households in municipalities. However, additional funds to replace the loss of income to district municipalities as a result of the scrapping of RSC levies have been provided for over the MTEF period.

The additional R311 million proposed on the Provincial and Local Government vote to contribute to water supplies in municipalities affected by drought and R40.7 million is for emergency infrastructure repairs in the Western Cape and Eastern Cape. Whilst we welcome these allocations, they do not come near the resources required to assist municipalities that are cash-strapped as a result of poor households being unable to pay for services.

The indebtedness of certain municipalities cannot be blamed for poor management or revenue collection, although this has merit in some cases. Recent briefings to the PC Provincial and Local Government revealed the extent of indigency and poor capacity and performance of some municipalities (especially rural) to provide essential services. Project Consolidate has had some impact in empowering selected municipalities.

However, as per the findings by Dr. David Hemson of the HSRC, for rural municipalities "considerable additional resources are needed to make these services [free basic] available to the rural poor". The existing horizontal and vertical division of revenue allocations will simply not ensure that free basic services are delivered to all South Africans. We therefore proposed, as a mechanism to extend free basic services:

- Increasing funding and subsidies (from equitable shares and conditional grants)
- Improving the capacity of local government
- Improving accountability

These interventions are crucial in addressing capability and asset poverty challenges facing our country.

Extending Social Security

The PBC welcomes the publication of the Provincial Budgets and Expenditure Review for 2001/02 to 2007/08 which gives details regarding the progress and identification of challenges in meeting education, health and social development needs, which together account for nearly 60 per cent of consolidated non-interest expenditure.

However, in welcoming this review, it is imperative that the needs of South Africa, particularly those of the poor informs the resources necessary to address backlogs, realising Constitutional socio-economic rights and fulfil political promises, not the other way around. In measuring progress, economic and social, human development data should together inform programmes, strategies and timeframes to roll out services and projects.

We note that the administration of grants will in future fall under a national Social Security Agency. It must ensure that information systems and management reforms will yield significant returns in future. We find the information too scanty regarding increased allocations for provinces to expand on social welfare services. Therefore, the following statement is vague and deserves clarification:

"expansion of income support for the vulnerable has been the priority of the past five years. These programmes will continue to be responsibly financed and managed. But for the decade ahead, we *need to give particular priority to strengthening and improving public health care and education.*"

The PBC welcomes commitments by government to:

- Upgrade and revitalise hospitals, additional funding for medical equipment and information systems;
- Consolidation of primary health care services under provincial administration;
- Increase funding for school buildings, facilities and curriculum Materials,
- Progressive expansion of early childhood education opportunities
- Introduction of a new national subsidy programme for community Libraries (long overdue and strongly welcomed)
- Investment in facilities and equipment at further education colleges, modernisation of curricula and improved linkages with skills development programmes
- Increased funding for school sport and community sport participation

We are however concerned, in the absence of detail, and a clear elucidation of the future role of the State (particularly national government) by statements such as:

" Health care, education, retirement provision and welfare services are not exclusively the responsibility of the state – we will continue to encourage private sector development and to seek partnerships that contribute to improved service delivery and more efficient management and use of resources. Changes in the tax environment and regulatory reform also play their part in promoting fairness, transparency, equity and long-term development." [5]

[5] p.8, MTBPS 2005 Budget Speech, Minister of Finance

It clearly points to “partnerships” with and emphasis on the public-private type. However, several countries have shown that public-public partnerships and public-CBO/NGO partnerships, particularly in the arena of social services are choice options, rather than the private sector, which would exclude the unemployed and indigent from their services.

We reassert our call to government to have more serious consideration of the initiatives of ACCES and the BIG Coalition. Specifically these include the extension of child support grants to 18 years of age and the rollout of a Basic Income Grant must have serious consideration. We still await a serious response to the detailed research presented to government on the financing of a Basic Income Grant.

Other expenditure

There are limited funds budgeted for personnel, at 4.1% a year, in real terms. This remains below the rate of inflation and cannot provide for the higher skilled, more professional, and larger public service promised. Expansionary budgets should balance the weighting in infrastructure with investment in personnel.

Already many teachers and nurses are working in very trying circumstances. There is little incentive for staff of public institutions to take pride in work, when increases in salaries (at least to keep up with inflation and the cost of living) have been frozen in many government departments. This is a major failure in the MTBPS allocation of resources.

We welcome the reversal of recent trends and decline in expenditure on defence in real terms, something we have been calling for over several years.

We also commend the increased expenditure on housing, with an additional R3.5 billion over baseline over the next three years, in order to deliver on its comprehensive housing strategy.

Over the MTEF period ahead, additional allocations of R31,5 billion are proposed for infrastructure projects, including significant increases in spending on national and provincial roads and refurbishment of passenger rail services. Hospitals, schools, water resources, industrial development zones, scientific research capacity, courts and police stations and public administration will also benefit from further growth in capital spending and allocations.

We note the progress made in identifying municipal transport improvement projects, several of which relate to the requirements for the 2010 World Cup, totalling and infrastructure transfer to municipalities and the Department of Sport and Recreation of R483 million.

However, we are disappointed in the infrastructure allocation of R580 million for further work on the demonstration plant of the Pebble Bed Modular Reactor Project. We think this is an expensive and unwise expenditure. We proposed in February that these resources could better be used to extend the electrification programme.

Our rationale was that:

- The project involves high risks and unpredictably high costs with the prospect of limited returns;
- Subsidises private participation in industries that create few jobs;
- The reactor is not critical to plans to build generation capacity

Further objections include concerns regarding the storage of nuclear waste, health concerns and that there has been a lack of attention to safe, renewable technologies.

Contesting claims on employment gains

We believe that the MTBPS statement exaggerates progress in ameliorating unemployment in recent years. Claims that "the official unemployment rate has declined from nearly 30 per cent in 2001 to 26,5 per cent in March this year," whilst acknowledging that "government does not yet know enough about the dynamics of employment" understates the extent of the unemployment crisis in South Africa.

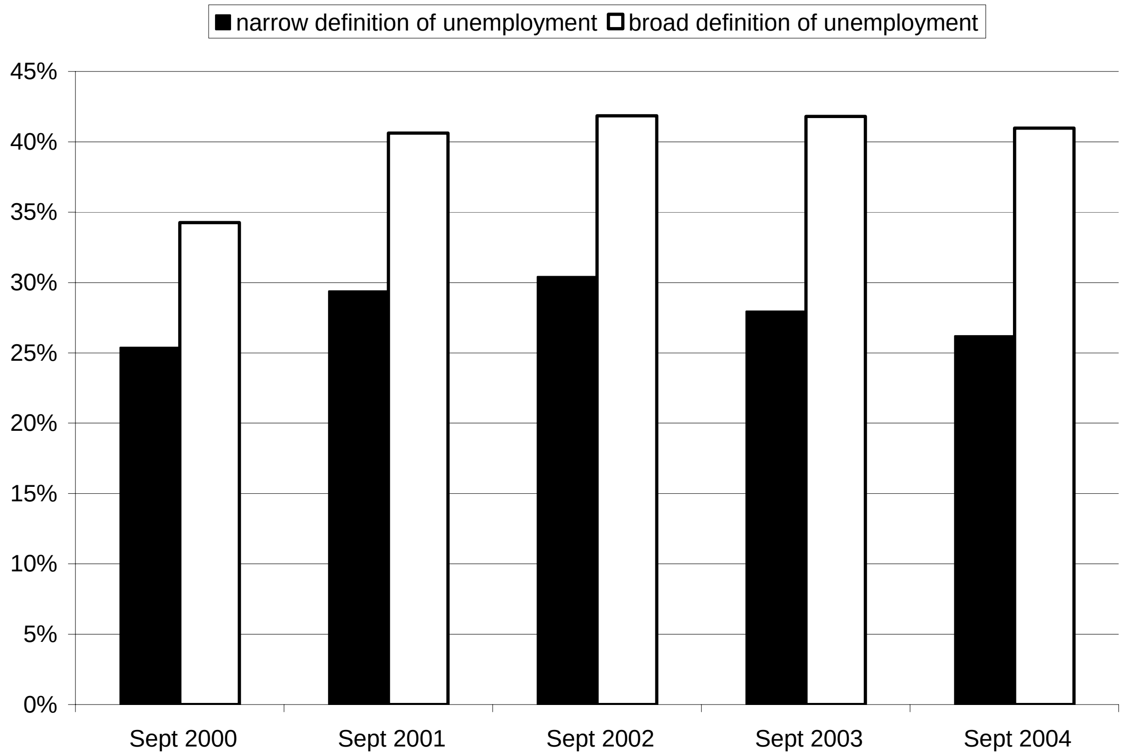
The decision by StatsSA to drop the expanded definition of unemployment shifts emphasis away from the need to take into account the unique structural unemployment challenges, particularly of youth, and must, as a matter of urgency establish the reasons why people are too "discouraged" to find work.

High unemployment remains the main reason that growth has not been shared. The main reason remains slow employment growth in the past four years. The reweighting of the Labour Force Survey data indicates that earlier estimates of job creation were probably exaggerated. As a result, it now seems that employment growth was slower than hoped even in 2003 and 2004, and that formal employment declined in first half of 2005.

Unemployment in South Africa is qualitatively higher than in equivalent middle-income countries. Using the narrow definition, which counts as unemployed only those actively seeking work, the unemployment rate was 26% in March this year.
The broader definition, which includes as unemployed any adult who would immediately take a job, gives an unemployment rate of about 41%. In contrast, according to the World Bank's *World Development Indicators,* the unemployment rate in middle-income countries, on average, was between 5% and 10% in the early 2000s.

The narrow rate of unemployment has declined somewhat in the past three years, after increasing in the early 2000s. But the main reason was that workers stopped looking for jobs. Thus, there been no significant drop in the broad rate of unemployment. But the narrow unemployment rate dropped from two thirds of all the unemployed in 2000 to half in 2004.

Table 1. Unemployment rates, 2000 to 2004



Source: Calculated from, Statistics South Africa, *Labour Force Survey September 2000 to March 2005, Historical Series of Revised Estimates.* Pretoria. September 2005. Downloaded from www.statssa.gov.za in October 2005.

For reasons explained earlier, the moderate growth of the past five years has not been associated with substantial improvements in most working class communities. Instead, we have seen persistent high unemployment and poverty.

The failure to ensure shared growth has led to deepening frustration in communities. It is therefore important that policy changes under ASGI-SA translate urgently into improvements on the ground.

Conclusion

The People's Budget Campaign has commented extensively on a range of issues that extends beyond the theme of today's hearings. We trust that the Joint Budget Committee will continue to consider our proposals that are both substantive and procedural.

The Committee would notice that, as before, our submission contains both support and criticism of government's decisions and direction. Whilst the allocations made in the MTEF to realise the Constitutional obligations of government, and slight relaxation of macroeconomic targets to enhance government's capacity to meet these challenges are a step in the right direction, much more could and should have been done. We are increasingly concerned about current trends that tend to focus on investment in infrastructure, but neglects personnel and remuneration and working conditions of public servants.

The vagueness around social services is unacceptable. Measurement of progress and the attainment of our goals require both economic and human development data – we demand that both be reported in with equal weight and importance. Now more than ever, economic growth must be linked to job creation and promotion of economic equity. Details regarding ASGI-SA proposals are therefore very important.

We assert again that, whilst some progress has been made, the role of Parliament in amending budget allocations must be strengthened even further, we therefore urge the Committee to exercise its influence in providing a way forward on the matter. We remain supportive and committed to the role of the Joint Budget Committee and hope that your influence would be expanded and consolidated to further empower members of Parliament.

Appendix

Press Statement on the MTBPS – 25 October 2005

The People's Budget Campaign, comprising COSATU, Sangoco and the SA Council of Churches, have long argued that the budget should be evaluated in terms of its overall impact on jobs and poverty. From this standpoint, the MTBPS continues the expansionary fiscal policy of the past few years, which has contributed to stronger growth

As the Treasury noted, however, this macro-economic policy must be linked to efforts to restructure the economy and society toward more equitable, job-creating growth. Moreover, monetary policy must continue to support growth. The recent threat to raise interest rates could both undermine economic expansion and increase the cost of interest on the budget, squeezing social and economic programmes.

This MTBPS is thin on details regarding broader social targets, such as halving poverty and unemployment by 2014. Growth and equity are complimentary and inextricably linked, and we must emphasise objectives in both areas.

Since it was founded, the People's Budget Campaign has responded to the MTBPS. Key issues we would like to comment on are contained in this initial response, with a more detailed response to be released within the week.

In real terms, the MTBPS foresees growth of about 9% in overall government spending, with about 5% real growth in social services, 7% for housing, and 15% on economic infrastructure and services. Expenditure on defence should decline in real terms, which is a welcome reversal of recent trends. We await the promised Accelerated Shared Growth Initiative to see the extent to which increased economic spending will translate into benefits for the majority of South Africans.

While we welcome the relatively high expenditure on housing, we are concerned that current housing programmes are highly inefficient. In particular, they tend to replicate apartheid settlement patterns by building new working class communities far from job opportunities. This aggravates the unemployment problem and cuts into living standards for working people.

In light of the relatively high roll overs in health, at R430 million for 2004/5, the People's Budget Campaign is concerned that the Treasury does not provide a review of spending on anti-retroviral roll out. Only about 10% of those who need anti-retrovirals currently have access, and half of them are in private schemes. It is critical that this process be accelerated, and that prevention, education and support programmes around HIV and AIDS also be fully implemented.

A concern remains the limited funds budgeted for personnel, at 4,1% a year, apparently in nominal terms. This is below the rate of inflation, and cannot provide for the higher skilled, more professional, and larger public service promised in recent years. Moreover, we are concerned that there does not appear to be funding for the GEMS.

The People's Budget Campaign welcomes the decision to increase the tax:GDP ratio, although only by a modest 0,8% over the MTBPS period. This is a welcome move away from the rigid ceiling set by GEAR, which has led to undesirable and regressive tax cuts in some recent budgets. Given the social deficits left by apartheid and the massive inequalities in income that remain, we feel this ratio could be increased still further. For every 1% increase in the tax/GDP ratio, government has R15 billion more to spend on economic and social reconstruction.

The People's Budget Campaign is concerned that the MTBPS statement exaggerates progress in ameliorating unemployment in recent years. As the MTBPS data show, the main cause of the fall in the unemployment rate is, not job creation, but the withdrawal of discouraged workers from the labour force, leading to a decline in the participation rate.

We maintain that initiatives of ACCES and the BIG Coalition, to extend child support grants to 18 years of age and the rollout of a Basic Income Grant must have serious consideration. If indeed participation with civil society is to be taken seriously, the re-establishment of viable public – public partnerships must be addressed.