Southern African Catholic Bishops' Conference
PARLIAMENTARY LIAISON OFFICE

Briefing Paper 152

February 2006

'All South Africans will reap the fruit of Economic Growth

2006 BUDGET

1. Introduction

The 2006 Budget was presented by the Minister of Finance, Trevor Manuel, to Parliament on 15th February. As always, the budget speech was the nation's main opportunity to learn what the State's detailed plan is for acquiring and using financial and other resources over the next three years, but more specifically for the 2006/07 financial year. As far as the government's priorities for this period are concerned, the 2006 Budget did not bring any real surprises. Once again, there was substantial tax-relief for middle- and high-income earners and a modest increase in social spending for the poor. Mr Manuel said that this budget spreads to benefit everyone; it has a higher public spending aspect as it aims at giving life and meaning to the 'Age of Hope' that President Thabo Mbeki mentioned in his State of the Nation speech. According to the Minister, the 2006 budget prioritises the needs of the poor.

This briefing paper summarises the main points of the 2006 Budget and tries to see it through the eyes of the poor and the marginalised, such as Mr Nxumalo of Khayelitsha. Mr Nxumalo[1] is 50 years old, unemployed and poor. Furthermore, he is taking care of two orphans who are 15 and 17 years old. Mr Nxumalo's family clearly heard the Minister of Finance saying in their mother tongue "*Umnotho wakuleli ukhulile, ngakhoke asivuneni, inala ifikile!*" ("This is the year of plenty, when all South Africans will reap the fruits of economic growth"). The truth of that statement is the ultimate test of the Budget.

2. The 2006 Budget

A decade after the introduction of the controversial macro-economic policy known as GEAR, most civil society organisations, labour unions, opposition parties and economists have applauded the 2006 budget. South Africa's economic outlook is exceedingly favourable and, according to the Minister, the economic outlook is more promising than it has been for forty

[1] 'Mr Nxumalo' represents anyone who is poor, unemployed and marginalised, and who may gain or lose depending on government's revenue and expenditure policies.

years. What is different compared to forty years ago is that currently South Africa emphasises development opportunities for *all citizens*, built on a foundation of social solidarity and a shared economic destiny, a partnership in which citizens and the state face shared challenges, to achieve shared joys. This vision is encapsulated in the Accelerated Shared Growth Initiative for South Africa (ASGISA), the government's new initiative to improve service delivery, promote human development and create jobs.

3. Guiding Principles for Assessment of the 2006 Budget

Our assessment of the 2006 Budget, as in past years, proceeds from the principles of Catholic Social Teaching. These principles offer important directions and insights when it comes to prioritising the allocation of resources. These include:

- The national budget must serve the people's needs[2]
- People have a right to a sufficient share of earthly goods for themselves and their families[3]
- The distribution of goods must accord with norms of justice[4]
- The government should safeguard the rights of all citizens, and assist them to find opportunities for employment[5]

4. Highlights

4.1 Revenue and Expenditure

In the 2005 Budget, the government estimated revenue of R369.9 billion for the 2005/6 financial year; in fact, due largely to good economic growth and increased efficiency in the collection of taxes, R411.1 billion came into the fiscus, some R41.2 billion more than had been estimated. The estimated revenue for 2006/07 is R446.4 billion, while expenditure is R472.7 billion. The budget deficit is thus R26.4 billion[6], by international standards a very low percentage of gross domestic product. The net borrowing requirement for 2006/07 is expected to be R24, 6 billion, while R52 billion[7] will go towards serving state debt. A contingency reserve of R2.5 billion will be set aside. This leaves R418.2 billion to be divided among the three spheres of government: national departments have been allocated R214.9 billion, provinces R176.6 billion and local government R26.5 billion.

4.2 Pro-poor Aspects

- **Welfare and social security** has been allocated R80.6 billion, the bulk of which is destined for social welfare and assistance grants. These grants contribute more than half of the income of the poorest 20% of households, and are crucial in meeting their nutritional and other basic needs. In order to contribute to social grants' socio-economic impact on households, the government has allocated R70 billion for 2006/07.

  Increases to social grants
  - Old-age, disability and care-dependency from R780 to R820
  - Foster-care grant from R560 to R590

[2] Vatican II, *The Church in the Modern World*, 64: John XXIII, Mater *et Magistra*, 38-39.
[3] Vatican II, *The Church in the Modern World*, 69.
[4] John XIII, *Mater et Magistra*, 73.
[5] John XIII, *Mater et Magistra*, 132.
[6] National Treasury. *Budget Review*, page 13.
[7] National treasury. *Budget Review*, page 17.

- Child-support grant from R180 to R190

- Families earning **less than R40 000** a year will no longer have to **pay tax** and **pensioners** are exempt up to **R65 000**

- **Retirement tax** has been slashed from **18% to 9%** from 1 March 2006 in an attempt to encourage South Africans to make provision for their retirement. Lowering the tax will, however, make retirement products more attractive to investors and thereby boost the business of the industry.

4.3. Tax Relief

- People buying **houses of less than R500 000** will not pay **transfer duty**. Houses of up to R1 million will attract 5% duty, and above this 8%. It is to be hoped that this will contribute to the affordability of housing, rather than giving owners and estate agents an excuse to increase prices equivalent to reductions in transfer duty.

- **Personal tax relief** of R13.5 billion, up from R7.1 billion in the 2005 budget. This tax relief will support greater investment and consumption by households and small business. Some civil society organisations have argued that this money should have been spent directly on the poor, rather than given back to those who already earn an income. Others argue that this 'extra' money will not be available every year, and that it is better to find more sustainable ways of assisting the poor and the unemployed.

- **Small businesses** receive a tax break with the annual turnover threshold for qualification as a small business being raised from **R6 million to R14 million**, and exemption for those with turnovers under R40 000. Such businesses enjoy a more favourable tax status than does big business.

4.4. State Spending

- To ensure that economic growth and development takes place in a peaceful environment, **Safety and Security** receives a significant increase to R7 billion, with 30 000 new permanent police officers promised by 2009. In addition, there will be a 30 000-strong police reserve. Justice receives an additional R1.3 billion.

- **Health**: a total of R54.5 billion[8] has been allocated to health. This includes R1.2 billion for the hospital revitalisation programme; R2 billion for Strategic Health Programmes (this includes the comprehensive HIV/AIDS grant of R1.5 billion); R40 million for support and monitoring of the HIV/AIDS plan during 2006/07; expansion of community-based care services, Early Childhood Development, and the integrated nutrition grant.

- **Housing and related social services** have been allocated R34, 8 billion. The housing budget jumps from about R7 billion to over R9 billion in the next three years. This money will include a housing subsidy grant that provides subsidies for low income housing and funds for informal settlement upgrading.

- **Job creation in line with ASGISA**: the Budget earmarks R33 billion for infrastructure

---

[8] National Treasury. *Budget Review,* page 18.

spending. (In addition another R123 billion is due to be spent by state-owned enterprises over the next three years, which may be expected to boost job-creation). Local government receives more than R30 billion over three years for municipal infrastructure and services. R5 billion has been dedicated to infrastructure for the 2010 Soccer World Cup. All of this expenditure is expected to contribute to the creation of new jobs.

- **Education** remains the largest category of spending, with an allocation of R92, 1 billion[9]. Education will also enjoy an additional R30, 9 billion over the next three years, allocated through the provincial equitable share. This will be used to increase resources for schools, expand pre-school learning opportunities, implement the new curriculum for grades 10-12, step up school building and equipment programmes.

  The 2006 Budget adds a further R2 billion in funding for **higher education institutions**. Further, the budget allocates R3.2 billion over the next three years to the **National Student Financial Aid Scheme** (NSFAS) that deals with student loans. Approximately 7% of this R3.2 billion has been earmarked for teacher education programmes. **Support for further education and training colleges**: education will receive R1.9 billion over the next three years for the recapitalization of further education and training (FET) colleges. For students who finish their school studies without adequate or appropriate skills for the labour market, funding for 'skills injection' is made available, and R7 billion is earmarked for the **Labour Department's** sector education and training authorities (SETAs).

5. Assessment

5.1 Government's Performance

Government must be commended for the successes attained so far through its prudent and careful management of fiscal policy. Particularly outstanding are the following areas:

- the broad-based economic growth that has contributed to rapid growth in tax revenue, supporting a sound fiscal position and enabling progressive increases in expenditure;
- the set-aside budget for technical support to boost planning and financial capacity in provincial and local government in order to improve service delivery;
- the expanding public works and employment programmes;
- the continued decline in government debt;
- relatively low inflation;
- a sustainable budget deficit;
- personal tax relief for income earners.

5.2 Challenges and Concerns

From the point of view of Mr Nxumalo the budget offers very little of immediate benefit. It is true that a fiscal package that stimulates small business and that encourages saving and consumer-spending will ultimately result in more job-opportunities. However, despite marked economic growth over the last few years our rates of poverty and unemployment show little sign of significant improvement. The undeniable progress that has been made in the economy as a whole does not seem to have penetrated yet to those on the margins.

---

[9] National Treasury. *Budget Review*, page 18.

Against this background, the increases in social welfare grants are paltry, especially when for so many people they are all that stands between them and destitution. There is still no grant for men such as Mr Nxumalo who are between 14-64 or for women between 14-59. The only hope for such people, if they cannot find employment in the private sector, lies in the Expanded Public Works Programme, but this remains available to only a very small number.

Once again, HIV/AIDS has not received the attention it needs. The money allocated to fighting the pandemic is still far too little to make a real impact on halting its spread, while the most vulnerable victims – old people and children who have lost their breadwinners – continue to be overlooked. It seems as if civil society is expected to deal with this problem, but is not being given the necessary resources to do so.

One thing the Budget makes abundantly clear (as it has done for some years now) is that South Africa is not short of money. Taken as a whole, our economy is doing well, and for this much credit must go to the government for creating the conditions for economic stability and progress. However, the old bug-bear of lack of capacity is still with us and threatens to undo much of what has been achieved. It is disturbing to note, time and again, that government departments at national, provincial and local levels fail to spend their budgets in such vital areas as housing, education, social welfare and the like. Not only does this deprive the needy of vital assistance, it is also economically damaging, as funds that should be flowing through the economy, creating jobs and stimulating private enterprise, remain locked away, benefiting no-one. Perhaps, after twelve years, it is time for government to reassess its employment policies, and to find a new balance between the need to advance the previously-disadvantaged and the need to retain existing skills. In this respect it is encouraging to note that there have been hints in this direction from such luminaries as Mr Mosiuoa Lekota, Minister of Defence and (perhaps more importantly) national chairperson of the ANC.

6. Conclusion

On the one hand the 2006 Budget has to be commended for what it says about economic growth, and for aspects of its expenditure side. The prudent approach to fiscal issues remains the correct one. However, even within the bounds of such an approach much more could be done for those in whose lives the overall economic 'good news' of recent years has made little difference. The 'widows and orphans' of biblical times are still with us and, it seems, are still getting the short end of the stick. And as long as they do, the Church will hold back from an unqualified endorsement of the Budget.

Chance Chagunda
Researcher