

## **ANC Today commentary:**

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### **BUDGET 2008!**

#### **We are all, in this together!**

The presentation of this year's annual budget gives all South Africans and members of the ANC in particular, an opportunity to do two things. The first is to interrogate how government is spending its money. By examining 'where the money goes' we are able to see how our political commitments and programmes are translated into the allocation of resources. Second, the budget gives us an opportunity to debate the economic policies that we pursue in the course of realising the objectives of the National Democratic Revolution (NDR).

At our 52nd National Conference in Polokwane we re-affirmed that the basic economic tasks of the NDR are to fight poverty, defeat mass unemployment and create a more equal society. The Polokwane resolution on economic transformation states that:

"Answering the challenges of unemployment, poverty and inequality means that we must simultaneously accelerate economic growth and transform the quality of that growth. Our most effective weapon in the campaign against poverty is the creation of decent work, and creating work requires faster economic growth. Moreover, the challenges of poverty and inequality require that accelerated growth take place in the context of an effective strategy of redistribution that builds a new and more equitable growth path."

The resolution outlines the pillars of our economic programme which constitute our strategic approach to achieving these goals. One of those pillars is expanding the social wage, which is a critical part of 'an effective strategy of redistribution'. Conference called for an expanding social wage, and made education our clear priorities.

The 2008/09 budget takes us forward in achieving these objectives. In particular:

- There are significant real increases in social expenditure, especially for health and education. It is worth noting the additional allocations to early childhood development, higher education (including the National Student Financial Aid Scheme), the school Nutrition Programme, the hospital revitalisation programme and in support of the fight against TB and HIV and AIDS.
- The allocation to social security has increased by R12 billion, which follows on from the significant increases over the last five years. The Child Support Grant is extended from 14 up to 15 years and a

programme to equalise the pensionable age for men and women has been outlined.

- There are significant increases in support of free basic services, including through municipal infrastructure grant and equitable share. These will promote further infrastructure roll out and provision of free services respectively.
- The income floor below, where earners pay no income tax, has been further increased to R46 000, which means that anyone earning less than R3,800 a month is exempt from paying income tax.
- Further allocations are made to support public works programmes, including those that contribute to infrastructure development and social development.

Tax and transfer is a critical element of our approach to economic growth and development and will remain so as long as mass unemployment, poverty and inequality remain such huge challenges. But our programme of economic transformation cannot be confined to these policies, because our aim is to change the economy to ensure that the people share more equitably in the country's wealth. The 52nd National Conference also called for action to transform the structures of production and patterns of ownership in the economy.

On this score, the budget also makes a critical contribution:

- The ANC-led government continues to lead a massive public infrastructure investment programme. Taking into account further private sector investment, the programme will transform the nature of the South African economy. Of particular importance to this are investments in our public transport infrastructure, building our electricity generation capacity, and improving municipal infrastructure.
- An additional R2.3 billion is allocated for industrial policy spending, whilst tax incentives amounting to R5 billion are given in support of industrial incentives and employment creation.
- The amount allocated to land redistribution and support agriculture is substantially increased.
- The tax and administrative burden on small business is reduced by raising the threshold below which they must register for VAT from R300 000 to R1 million.  
In other words, companies that have an annual turnover of less than R1million no longer have to register for VAT.

- The budget continues to invest heavily in our human capabilities, including through education and skills development, tasks which are critical to transform our economy in the long run.

As we mentioned at the outset, the budget is also an opportunity for members of the ANC to critically engage with the economic policies pursued by our government.

Of particular concern in public debate has been the question of a fiscal surplus. This means that the government's income is more than it spends. Put differently a fiscal surplus means that the government is saving money. Some have argued that it is wrong to save money when people are unemployed and poor.

The ANC has no particular principle or position that says whether the government should save or borrow money. Our resolution at Polokwane simply says that macro-economic policies must support and sustain growth, job creation and poverty eradication on a sustainable basis.

As the Minister of Finance, Trevor Manuel correctly pointed out in his speech, there are storm clouds gathering in the international economy which will have an effect on South Africa. He also urged us to confront these storm clouds collective, since 'we are all in this together'.

This means that all of us have the responsibility to understand and engage in discussion on the appropriate macro-economic policies that will enable our country to sustain growth and embark on job creation and poverty eradication programmes on a sustainable basis. Since we are all in this together, we must all take this debate seriously, and improve our understanding of the issues involved.

As we conduct this debate we should all keep in mind the following facts:

- Poverty, unemployment and inequality remain the most serious economic, political and social problems that face South Africa. Growing the economy and sustaining that growth is the best way to address these challenges.
- Over the last few years public spending has grown by 9% in real terms, whilst the economy has grown at about 5%. This means that, even though we have a fiscal surplus, government has been spending more and more each year. Whilst the economy is now expected to slow down, the budget continues to see real increases in public spending faster than economic growth over the next few years.
- The main reason we have a surplus is not that government is spending less, but that it is receiving more income. This is partly because SARS has performed so well and brought more tax-payers on board. It is also because of the high price of gold, platinum and other commodities that

South Africa produces. Were the prices of these commodities to fall on international markets, our income would decline.

- As a whole, South Africans save very little. This means that in order for our economy to grow it must draw on the savings of people from outside South Africa. The more we depend on foreign savings, the more foreigners will determine the kind of policies we have to pursue. It is no accident that those developing countries that are able to pursue an independent growth path are those who save much more than they consume (for example China and Venezuela).

Our Polokwane resolution calls on the ANC to take the lead in mobilising and uniting all South Africans around our common vision of economic transformation. Our national budget continues to be developmental and pro-poor. This does not mean there is no room for improvement. It does not mean that there is no room for debate.

But, as we conduct these critical national discussions we must never forget that we are all in this together. As members of the ANC we must never forget our responsibility to empower our people and unite them around a common vision of economic transformation.