

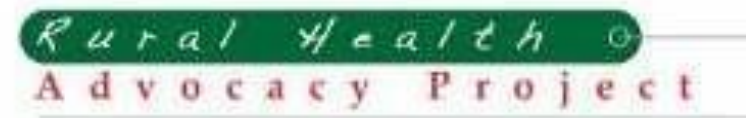


BUDGETING IN AN ERA OF AUSTERITY AND STATE CAPTURE: A FIVE-YEAR REVIEW OF BUDGET POLICIES AND OUTCOMES

*SUBMISSION BY BUDGET JUSTICE COALITION TO THE SELECT AND STANDING
COMMITTEES ON FINANCE*

26 FEBRUARY 2019

The Budget Justice Coalition



Alternative Information and Development Centre (AIDC), the Children's Institute at UCT, the DullahOmar Institute (DOI), Equal Education (EE), Equal Education Law Centre (EELC), the Institute for Economic Justice (IEJ), the National Shelter Movement, OxfamSA, Pietermaritzburg Economic Justice and Dignity (PMEJD), the Public Service Accountability Monitor (PSAM), the Rural Health Advocacy Project (RHAP), SECTION27 and the Studies in Poverty and Inequality Institute (SPII)



Three arguments:

1. Austerity has been implemented over the past five years
2. This has had regressive, discriminatory and counter-productive impacts
3. There are alternative ways of raising revenue and managing debt that need to be explored



Government has been implementing austerity since at least 2014/15

Larger pool of available resources has not translated into larger allocations to government departments, but to deficit reduction and bailouts to SOEs

Austerity is self-defeating during recessionary times

Table 1: Consolidated revenue, non-interest expenditure and population growth

	2014/15	2015/16	2016/17	2017/18	2018/19	Average growth
Revenue growth	2.70%	5.10%	0.60%	-1.00%	2.70%	2.00%
Non-interest expenditure growth	1.70%	4.60%	-0.20%	0.30%	2.60%	1.80%
Population growth	16%	16%	16%	16%	1.60%	1.60%

Source: Consolidated budget revenue, National Treasury 2017-2019 Budget Review and own calculations. StatsSA Mid-Year Population Estimates.



Per capita GDP has fallen for four years in a row

Public debt has grown as a share of total GDP

Widening socio-economic inequality

Rise of precarious work

1/3 labour force out of work

Among the most unequal countries in the world





Capacity of the state

- Worsened the performance of government
- “Austere expenditure ceilings are affecting local, provincial and national government departments across the country, and every service area from water to electricity to housing and social development”



Tax policy

- Increase in the VAT rate from 14% to 15%
- Retrogressive and discriminatory impacts



Health

- Real per capita decline in health care funding
- R700 million less will be spent on health in 2019/20*
- Critical staff shortages
- Increase in medico legal claims



Education

- Per learner spending has actually declined by 10% since 2010
- Disproportionately impacts on poor schools with infrastructure backlogs

*compared to the 2018 MTBPS estimate

- Revenue

- **Personal income tax (PIT)** effective rates have fallen since 1997.
- **Corporate income tax (CIT)** rates have also fallen dramatically, from 50% in 1990 to 28% in 2018.
- **The VAT** change from 14% to 15% Annual increases in **the fuel levy** (a tax paid on petrol and diesel that are otherwise VAT exempt)
- **Wealth tax** taxed at levels below the appropriate PIT bracket
- **Tax credit benefits** (particularly medical) which are costly and problematic



Source: National Treasury 2019 Budget data

Eskom is the only real debt crisis in the country

Increasing the debt threshold

- that debt (at moderate levels) can have substantially positive benefits.

The redrafting of the mandate of the Government Employee Pension Fund

The modification of private pension and provident funds investment obligations

The mobilisation of the Government Employee Pension Fund

Public audit of debt



Threaten the progressive realisation of constitutional rights

High costs

- South Africa no less than R27 billion per year, while 76,000 jobs which could have been created are being lost through corruption**

Rising number of adverse audits

Bailouts for mismanaged and corrupt SOEs



**Department of Economic Development , 2017

There have been six changes of Finance Minister since 2014

During the 5th term, budget proposals and policy statements have become less and less convincing – Treasury needs re-strengthening

Money Bills Amendment Procedure and Related Matters Amendment Act amendments have made it even more difficult for the public to participate



Macroeconomic Policy

- More awareness of the 'quality' of the economic growth that is aimed for
- Greater focus on employment and economic growth in monetary policy
- Better policy coherence and collaboration between the National Treasury with the Departments of Trade and Industry, Economic Development, Labour, Social Development and the Reserve Bank.

Fiscal Policy

- Adoption of UN Committee Recommendations to the Government of South Africa on fiscal policy
- Take action to end austerity by:
- Ensuring real per capita annual increases in non-interest government
- Measure the impact of previous and existing budget cuts on rights enjoyment
- Institute, where necessary, cost-containment measures that comply with the human rights standards



Revenue and Debt Management Policy

- Increase tax rates on PIT, CIT, and wealth
- Institute a permanent annual net wealth tax
- Raise the capital gains tax inclusion rate to 100%
- Significantly raise the estate duty tax and close loopholes
- Reduce the rate of increase for the fuel and road accident fund levies
- Reverse the VAT hike
- Explore heterodox strategies of public debt management
- Reduce tax breaks for higher-income households



State Capacity

Transparency on policy directive for reducing the size of the state

Undertake public service employment rationalisation (not simple headcount reductions)

Put an end to corruption and State Capture, by:

- Provide full budgetary support to the SAPS, SIU, NPA, Hawks and other crime-fighting units
- Upgrade procurement policy and publish all contracts entered into by the state

The Budget Process

Co-construction of budgets with social movements and community organisations

Strengthen capacity within the Parliamentary Budget Office (PBO)

Support the vulekamali.gov.za budget portal project





The Institute for Economic Justice (IEJ) is a progressive economic policy think tank committed to advancing economic justice, systemic change, and the equitable distribution of resources to ensure rights realisation and planetary wellbeing.



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