120 Economists and Researchers Say The Supplementary Budget Reneges on the President's COVID-19 Rescue Package

You can sign this submission here: https://forms.gle/iUrXrnYqz2vwkw9a7

30 June 2020

ATT: Standing Committee on Finance

RE: Submission from South African economists, economic and business analysts and others on the Supplementary Budget tabled 24 June 2020

Dear Honourable Members,

We are writing as a group of economists and economic policy analysts to recommend your rejection of the Supplementary Budget tabled by the Minister of Finance on Wednesday 24 June 2020.

The Budget reneges on President Cyril Ramaphosa's R500 billion rescue package announced on 21 April 2020. The Budget undermines the constitutional obligation to progressively advance the rights of all.

As we noted in our Open Letter to the President on 30 March 2020, South Africa faces an unprecedented crisis. That crisis has become clearer. The Minister projected a fall in GDP of 7.2%, and estimates of jobs at risk vary to as high as 2 million.[1] Millions will be plunged deeper into poverty.

In this context it would be a dereliction of duty for Committee Members to vote in favour of a budget that reduces government expenditure by R230 billion over two years when the country needs a targeted injection of resources to mitigate the damage caused to households, workers and businesses by the COVID-19 crisis. This comes on top of previously announced cuts in the 2019 MTBPS and 2020 National Budget.

The rescue package

As noted by both the President and Minister of Finance the purpose of the Supplementary Budget was to give effect to the R500 billion rescue package announced on 21 April 2020.

The Budget, however, fails to do so. Instead of R500 billion, the Budget presents a net increase to non-interest spending in the current year of just R36 billion. This is because, of the R145 billion targeted at COVID-19-related expenditure, R109 billion is funded through the suspension of baseline allocations and reprioritisations.

This naturally undermines critical aspects of the rescue package:

- **Social security**: The President announced a R50 billion allocation towards social grants. The Budget allocates R41 billion of which only R25 billion is new spend. This is on top of the implementation failure of the new COVID-19 grant and the irrational restriction of the Child Support Grant "top up" to caregivers rather than per child.

[1] Predictions for GDP growth differ. The South African Reserve Bank's most recent prediction is -7% while the IMF's June predictions were at -8%. Many private forecasts suggest this may be significantly worse.

- **Job protection and creation**: Only 6% of the President's R100 billion is allocated for 2020/21. This comes largely from budget reprioritisation, including from existing funding related to small business support and unemployment reduction.
- **Health**: The Budget provides only R2.9 billion in net new funds for health spending. Although the President's R20 billion allocation is increased to R21.5 billion, this comes largely from a reprioritisation of existing health spending.
- **Municipal support**: R20 billion remains allocated to support municipalities in providing proper water and sanitation, sanitary public transport, food provision, and accommodation for the homeless. R11 billion comes through an increase to local government's allocation, and R9bn through the reprioritisation of existing municipal budget expenditure.
- **Wage support (TERS)**: The R40 billion allocated to the Temporary Employer/Employee Relief Scheme from Unemployment Insurance Fund surpluses remains in place. Thus far, less than 30% of the workforce has been supported with 60% of the budget used, highlighting the inadequacy of the allocated budget.
- **Credit guarantee scheme**: The R200 billion in off-budget credit guarantees remains in place. According to National Treasury, R10 billion has been accessed, a fraction of the need.
- **Tax relief**: R70 billion in tax deferments were expected. Thus far a tax shortfall of R26 billion is reported potentially indicating little of the R70 billion has been accessed. SMMEs have struggled to access these programmes.

The National Treasury originally lauded the rescue package as injecting spending of 10% of GDP into the economy, visually presenting South Africa in relation to other countries in its presentations of the package to position the package positively in comparison with international norms. The Budget goes nowhere near meeting this target. New spending this financial year constitutes less than 1% of GDP.

It is difficult to interpret this Budget in any other way than as a violation of both the spirit and letter of the President's announced package.

Reprioritised and medium-term expenditure

As noted the Budget reduces planned expenditure by R230 billion over two years. It also reduces a number of 2020/21 allocations so that funds are reallocated towards COVID-19 expenses. This is at a time when most governments globally are recognising the need for counter-cyclical measures to offset the economic impacts of COVID-19 and associated lockdowns. The current approach leaves the government unable to ensure service delivery and advance the socio-economic rights guaranteed in the Constitution.

Examples of particularly dangerous reductions include:

- **Basic education**: R2.1 billion has been cut from the Department of Basic Education's budget reducing funds for longer-term projects like school buildings and support for maths, science and technology. A further R4.4 billion has been reallocated from these grants to cover COVID-19 expenditure.
- **GBV**: There are no additional funds allocated towards tackling Gender Based Violence.
- **Transport**: Cuts of R4.6 billion, including to the provincial road maintenance grant, the planned transport network grant, and the embattled PRASA.
- **Higher education**: Close to R10 billion cuts to higher education and training (includes science and technology and innovation) threatening skills development; research into vaccines; retrofitting of machinery to produce ventilators; and other innovations which are needed now more than ever.

- **Human Settlements:** A reduction of R2.3 billion from human settlements weakening our ability to tackle the material circumstances that create greater vulnerability to health risk.
- **Agriculture, land reform and rural development:** A reduction of R2.4 billion limiting our ability to transform the agricultural sector and further entrenching the rural/urban divide with regard to access to services.
- **Department of Mineral Resources and Energy:** A reduction of R1.5 billion to the programme that focuses on connecting households and utilising non-grid solutions to provide energy, at a time of crisis within ESKOM, rising tariffs, and the need for a transition to renewables.

The alternatives

We appreciate that budgeting is, at the best of times, a delicate process.

We submit that in the current crisis the budget should be guided by the need to support the public health response and keep businesses afloat, workers employed and incomes in the pockets of the poorest.

The potentially catastrophic economic crisis that would result from failing to achieve these objectives, would see the economy shrink, tax revenue plummet and public debt soar. Failing to undertake the necessary expenditure now leads to worse, not better, public finance outcomes.

Alternative approaches to those taken by the Minister have been widely articulated, including by previous senior National Treasury officials, leading economists, trade unions, business formations and civil society organisations. These would involve significant *increased* expenditure in the areas identified within the rescue package and could be financed through some combination of solidarity taxation, increased borrowing, mobilising domestic quasi-public funds and reserve bank action.

Conclusion

The Budget presented betrays the rescue package announced by the President and threatens the viability of our economy and the lives of millions, in the short and medium term.

We call on the Committee Members to reject the Budget.

Yours Sincerely,

1. **Dr Gilad Isaacs** - Co-Director, Institute for Economic Justice, and Lecturer, University of the Witwatersrand
2. **Dr Pali Lehohla** - Pan African Institute for Evidence and the former Statistician-General
3. **Professor Mark Swilling** - Distinguished Professor of Sustainable Development, School of Public Leadership, Stellenbosch University, Stellenbosch University
4. **Busi Sibeko** - Researcher, Institute for Economic Justice and Steering Committee Member, Budget Justice Coalition
5. **Lumkile Mondi** - Senior Lecturer, School of Economics and Finance, University of the Witwatersrand
6. **Niki Cattaneo** - Senior Lecturer, Rhodes University
7. **Neil Coleman -** Co-Director, Institute for Economic Justice
8. **Professor Vishnu Padayachee** - Distinguished Professor and Derek Schrier and Cecily Cameron Chair in Development Economics, School of Economics and Finance, University of the Witwatersrand

9. **Lebohang Liepollo Pheko** - Senior Research Fellow, Trade Collective
10. **Dr Lorenza Monaco** - Senior Lecturer, University of Johannesburg
11. **Carilee Osborne** - Researcher, Institute for Economic Justice
12. **David Fryer** - Senior Lecturer, Rhodes University
13. **Nolithando Mkhize** - Student, North West University
14. **Dr John Reynolds** - Senior Researcher, Rhodes University
15. **Michael Nassen Smith** - Assistant Lecturer, University of Cape Town
16. **Dr Loyiso Mbabane** - Senior Research Fellow, Institute for Economic Research on Innovation (IERI)
17. **Dr John Khumalo** - Senior Lecturer, University of the Witwatersrand
18. **Professor Rasigan Maharajh** - Chief Director, Institute for Economic Research on Innovation
19. **Funzani Mtembu** - Investment Analyst, Academics in Solidarity with Free Education
20. **Dr Ilan Strauss** - Senior Research Associate, University of Johannesburg
21. **Professor Matthew Ocran** - Deputy Dean, Faculty of Economics and Management Science
22. **Dr Vishwas Satgar** - Associate Professor, University of Witwatersrand
23. **Segametse Dikolomela** - Director, Atlegang Holding Group
24. **Dr Bheki Mfeka** - Director, SE Advisory (Pty) Ltd
25. **Pregs Govender** - Author & Writer
26. **Dr Jeff Rudin** - Research Associate, Alternative Information & Development Centre
27. **Professor Christopher Malikane** - Associate Professor, University of the Witwatersrand
28. **Palesa Shipalana** - Head of the Economic Diplomacy Programme, South African Institute of International Affairs
29. **Cheryl-Lyn Selman** - School of Economics and Finance, University of the Witwatersrand
30. **Dante Mashile** - Public policy analyst, On Trend Media (Pty) Ltd
31. **Professor Pundy Pillay** - Professor of Economics, Wits School of Governance
32. **Siyaduma Biniza** - Executive Director, Political Economy Southern Africa
33. **Dr Zavareh Rustomjee** - Independent Consultant
34. **Dr Dick Forslund** - Senior Economist, Alternative Information & Development Centre
35. **Dominic Brown** - Economic Justice Programme Manager, Alternative Information & Development Centre
36. **Professor Andrew Maredza** - Associate Professor, University of Mpumalanga
37. **Professor Ben Fine** - Emeritus Professor of Economics, School of Oriental and African Studies, University of the Western Cape
38. **Laura Brooks** - Economist, Ilifa Labantwana
39. **Mandlakapheli Sishi** - Labour Research and Education Practitioner, Labour and Social Studies Group
40. **Professor Dori Posel** - Distinguished Professor & Helen Suzman Chair, University of the Witwatersrand
41. **Dr Nicolas Pons-Vignon** - Senior Researcher, University of the Witwatersrand
42. **Dr Asghar Adelzadeh** - Director and Chief Economic Modeller, Applied Development Research Solutions (ADRS)
43. **Isobel Frye** - Director, Studies in Poverty and Inequality Institute (SPII)
44. **Sacha Knox** - Senior Researcher and Budget Analyst, Studies in Poverty and Inequality Institute (SPII)
45. **Professor John Sender** - Emeritus Professor of Economics, SOAS, University of London
46. **Redge Nkosi** - Research Head & Executive Director, Firstsource Money
47. **Shaeera Kalla** - Researcher, C19 People's Coalition
48. **Professor Bill Freund** - Professor, Human Sciences Research, University of KwaZulu-Natal
49. **Nikhil Jinabhai** - Student, University of the Witwatersrand
50. **Professor Ruth Hall** - DST/NRF Chair in Poverty, Land and Agrarian Studies (PLAAS), University of the Western Cape

51. **Sibulele Nkunzi** - Lecturer, University of the Witwatersrand
52. **Joshua Budlender** - Economics PhD candidate, University of Massachusetts, Amherst
53. **Ihsaan Bassier** - PhD candidate, University of Massachusetts, Amherst and Southern African Labour and Development Research Unit
54. **Nasreen Ameen** - Lecturer, University of the Witwatersrand
55. **Dr Mulatu F. Zerihun** - Senior Lecturer, Tshwane University of Technology
56. **George Kean** - Independent
57. **Dr Basani Baloyi** - Inequality Programme Lead, Oxfam South Africa
58. **Professor Chris Callaghan** - Professor, University of the Witwatersrand
59. **Larah-Ann Davids-Green** - Student, University of Witwatersrand
60. **Professor Samantha Ashman** - Associate Professor, University of Johannesburg
61. **Hameda Deedat** - Acting Executive Director, National Labour Economic Development Institute (NALEDI)
62. **Sonia Phalatse** - Researcher, Institute for Economic Justice
63. **Lutendo Maiwashe** - Researcher, Wits University
64. **David Tinashe Nyagweta** - Researcher, Nelson Mandela University
65. **Dr Peter Jacobs** - Director, Human Sciences Research Council
66. **Professor Firoz Khan** - Professor, University of Stellenbosch
67. **Professor Wynand Grobler** - Professor, North West University
68. **Ms Noxolo Ncayo** - Managing Director, OceanEcon Consulting
69. **Mzwanele Ntshwanti** - Lecturer, University of South Africa
70. **Professor Michael Rogan** - Associate Professor, Rhodes University
71. **Ludwe Ngangelizwe** - Economic Analyst, Applied Development Research Solutions
72. **Ebrahim--Khalil Hassen** - Writer, ZApreneur
73. **Dr Bheki Mfeka** - Director, SE Advisory (Pty) Ltd

This letter reached beyond the borders of those in the field of economics and support was offered by the following:

74. **Mark Heywood** - Activist and Editor of Daily Maverick Citizen
75. **Professor Esther Ramani** - Senior Research Fellow, Rhodes University
76. **Professor Michael Joseph** - Senior Research Fellow, Rhodes University
77. **Dr Suraya Scheba** - Lecturer, University of Cape Town
78. **Professor Jill Bradbury** - Associate Professor of Psychology, University of the Witwatersrand
79. **Dr Irwin Friedman** - Public Health Physician, Sustainable Enterprise for Enabling Development (SEED) Trust
80. **Peter de Wet** - Retired CEO, MSD
81. **Professor David Everatt** - Professor, Wits School of Governance
82. **Andrew Feinstein** - Author, SWI
83. **Professor Annelize Nienaber** - Professor and Head of Department, University of Pretoria
84. **Professor Maxi Schoeman** - Professor, University of Pretoria
85. **Professor Christopher Ballantine** - Professor Emeritus, and University Fellow, University of KwaZulu-Natal
86. **William Shoki** - Staff Writer, Africa Is A Country
87. **Dena Lomofsky** - Evaluator, Southern Hemisphere
88. **Judy Favish** - Research Associate, UCT
89. **Professor Michael Neocosmos** - Emeritus Professor, Rhodes University
90. **Katishi Masemola** - Freelance Consultant, Policy and Strategy
91. **George Sekonya** - PhD Researcher, University of Cape Town
92. **Professor David Everatt** - Professor, Wits School of Governance

93. **Riaz Tayob** - Researcher, Southern and East African Trade & Negotiations Institute - South Africa
94. **Professor Jacklyn Cock** - Professor, University of the Witwatersrand
95. **Benjamin Bradlow** - Visiting Democracy Fellow / PhD Candidate, Harvard Kennedy School of Government / Brown University
96. **Wandile Zulu** - Director, MIG Capital
97. **Nkanyiso Gumede** - Researcher, University of Western Cape
98. **Dr Andrew Bowman** - Lecturer University of Edinburgh
99. **Professor Raymond Suttner** - Emeritus Professor and Visiting Professor, University of South Africa and University of Johannesburg
100. **Professor Daniel Bradlow** - Professor, University of Pretoria
101. **Ongama Mtimka** - Lecturer, SA Politics & IPE, Nelson Mandela University
102. **Glen Tyler-Davies** - South African Team Leader, 350Africa.org
103. **Ryan Brunette** - Research Associate, Public Affairs Research Institute
104. **Jane Quin** - Lecturer, University of KwaZulu-Natal
105. **Professor Tshepo Madlingozi** - Associate Professor, University of Witwatersrand
106. **Professor Robert Van Niekerk** - Professor of Public Governance, University of the Witwatersrand
107. **Professor David Everatt** - Professor, Wits School of Governance
108. **Caroline Skinner** - Senior Researcher, University of Cape Town
109. **Professor Janet Cherry** - Professor, Department of Development Studies, Nelson Mandela University
110. **Dr Asanda Benya** - Lecturer, University of Cape Town
111. **Professor Devan Pillay** - Head: Sociology, Wits University
112. **Melisizwe Tyiso** - Researcher, NALEDI
113. **Dr Precious Mncayi** - Lecturer, North-West University
114. **Professor Elena Moore** - Associate Professor, University of Cape Town
115. **Owethu Tutu** - Lecturer, University of KwaZulu-Natal
116. **Dr Saajidha Sader** - Lecturer, University of KwaZulu-Natal
117. **Cyril Masiphephethu** - Street vendor
118. **Professor Rajen Govender** - Researcher, University of Cape Town
119. **Koogan Pillay** - Governance & Human Rights Advocate, KCL Solutions
120. **Dr Desiree Manicom** - Senior Lecturer, UKZN