INSTITUTE FOR ECONOMIC JUSTICE
RESEARCH POLICY ADVOCACY

SUBMISSION

Fiscal Framework and Revenue Proposals

26 February 2024

Attention:

- **Standing Committee on Finance:**
  Chairperson: Mr MJ Maswanganyi (ANC)
  Members: Ms PN Abraham (ANC), Ms W Alexander (DA), Mr EM Buthelezi (IFP), Mr JN De Villiers (DA), Dr DT George (DA), Mr NL Kwankwa (UDM), Mr RA Lees (DA), Ms MD Mabiletsa (ANC), Mr M Manyi (EFF), Mr PG Masualle (ANC), Ms MR Mohlala (EFF), Ms Z Nkomo (ANC), Mr AN Sarupen (DA), Mr F Shivambu (EFF), Mr GJ Skosana (ANC), Mr SN Swart (ACDP), and Mr W Wessels (FF+).
  Secretaries: Mr Allen Wicomb and Ms Teboho Sepanya.
- **Select Committee on Finance:**
  Chairperson: Mr YI Carrim (ANC).
  Members: Mr S Aucamp (DA), Ms LC Bebee (ANC), Mr SF Du Toit (FF+), Mr J Londt (DA), Ms DG Mahlangu (ANC), Ms ML Mamaregane (ANC), Mr Z Mkiva (ANC), Mr S Mohai (ANC), Ms MO Mokause (EFF), Mr MS Moletsane (EFF), Ms LN Moss (ANC), Mr ME Nchabeleng (ANC), Ms ZV Ncitha (ANC), Mr EJ Njadu (ANC), Ms NE Nkosi (ANC), and Mr D Ryder (DA).
  Secretary: Mr Nkululeko Mangweni.

Dear Members of the Standing Committee on Finance, Select Committee on Finance, and Committee Secretaries,

On behalf of the Institute for Economic Justice (IEJ) thank you for the opportunity to make both the following written submission and the opportunity to participate in the public hearings on 28 February, in response to the 2024 Budget and the Fiscal Framework and Revenue Proposals.

Given the centrality afforded to public participation in our constitutional democracy, we trust that you will give meaningful consideration to our substantiated submission.

Kindly contact Zimbali Mncube at zimbali.mncube@iej.org.za and Liso Mdutynana at Liso.mdutyana@iej.org.za for any questions on the submission.

INTRODUCTION

Honourable members, with the 2024 Budget National Treasury continues on the unsustainable path of budget cuts, and hoped-for private sector spending, that it has pursued for over a decade. The IEJ has presented to this committee a few times before, highlighting the negative impact budget cuts have on the economy, public services and the protection and advancement of socio-economic rights.

We are disappointed that once again, National Treasury has decided to sacrifice public services and long-term economic growth in the pursuit of a primary budget surplus and 'stabilising debt'. These budget cuts, the Minister has repeatedly claimed, are necessary because the government is running out of money, making it impossible to adequately fund government programmes. As we will show in this submission there is money and there are alternatives to austerity which can ensure that government raises the maximum available resources as enshrined in the International Covenant on Economic, Cultural and Social Rights (ICECSR) and as mandated by the Constitution.

EXPENDITURE

The 2024 budget guarantees that the deterioration of public services – which has worsened the quality of life for the entire population – will continue unhalted. An overview of expenditure cuts is provided in Table 1.

Between 2019/20 and 2026/27, when adjusted for inflation, National Treasury will have cut a whopping R270 billion in main budget non-interest expenditure. This comes on top of budget cuts made between 2014 and 2019.

Had non-interest expenditure simply kept pace with inflation from 2019/20 onwards, it would have reached R2.04 trillion in 2024/25. Instead, it is budgeted at R1.95 trillion.

The fall in spending is particularly alarming when you consider population growth, which implies that more people will need to use public services. Per capita, main budget non-interest expenditure will fall from R34,607 in 2019/20 to R27,283 in 2024/25 and further to R26,405 by 2026/27. Over the eight years from 2019/2020 to 2026/27, the government will spend 23% less per person.

Table 1: Key non-interest expenditure trends

	2019/20	2024/25	2026/27
Nominal non-interest expenditure	1,593,095	1,753,784	1,932,982
If 2019 non-interest expenditure had kept pace with inflation	1,593,095	2,043,987	2,234,221

Real non-interest expenditure (in 2024/25 rands)	2,034,226	1,782,614	1,765,019
Real non-interest expenditure per capita (in 2024/25 rands)	34,607	27,283	26,496

In this respect, the IEJ recommends a halt on all budget cuts. We call for a comprehensive assessment of the impact that real spending cuts have had on the quality of public services and the achievement of socioeconomic rights. All fiscal policy decisions must be subject to a human-rights based assessment with the oversight of parliament and civil society.

Social grants including the Social Relief of Distress grant

The picture for social grants is grim. Social grants see an increase of 4.8-5% from last year, compared with an inflation rate of 5.5% in 2023/24 and 4.7% in 2024/25. This comes on top of an erosion in their value over previous years.

As we can see in Table 2, all grants would have been higher today had their 2019/20 values kept pace with CPI inflation. We see also how the Child Support Grant sits below the food poverty line while the foster care grant is below the (inflation-adjusted) upper-bound poverty line.

Table 2: Social Grants

	Budget 2024/25 values	The value of social grants today if the 2019/20 social grant values had kept pace with inflation.
Benchmarks		
Upper Bound Poverty Line (2024 estimate)		1631
Food poverty line (2024 estimate)		796
Grants		
Child support grant	530	545
Old age grant	2185	2284
Disability grant	2185	2284
Foster care grant	1180	1283
Care dependency grant	2185	2284
SRD Grant	350	440*

**estimate May 2024*

The value of any grant is inextricably tied to its purchasing power and to the number of vulnerable people it can reach. For the SRD grant in particular, National Treasury has actively undermined both aspects. First, with the grant's value not keeping pace with inflation, compared to 2020, a beneficiary has – in effect – R65 less to buy basic necessities. Second, the exclusionary bureaucratic hurdles that have been put in place to accommodate National

Treasury's underfunding has reduced the number of beneficiaries. Since the number of potential beneficiaries (effectively large portions of the adult unemployed) has changed very little since the grant's introduction, while the allocation has declined evermore, the Department of Social Development has put up irrationally stringent eligibility criteria to try and keep within the budget. IEJ and #PaytheGrants have contested the legality of these criteria in a pending court case.

In these respects, the IEJ recommends:

1. All grants are increased above inflation to account for previous below-inflation increases and the increased cost of living.
2. The CSG be increased to the FPL to ensure that carers can purchase nutritional meals for their children.
3. That the SRD be increased to the FPL and be inserted in the budget for the ongoing provision into the MTEF, while working with stakeholders for pathways towards a UBIG and pursuing additional sources of finance and tax revenue for UBIG.
4. The current challenges with the SRD are addressed immediately. These include, but are not limited to, unlawful questions in the online application form, the exclusionary online-only application process, flawed bank and database verification processes, a reduction in the grant's value over time, an irrational and retrogressive income threshold, and widespread and systemic non-payment of approved beneficiaries.

Public Employment

Public employment programmes have so far offered a critical platform to alleviate unemployment. The President rightly touted the success of the Presidential Employment Stimulus (PES) in the recent SONA, noting that it has given employment opportunities to 1.7 million people. However, over 6.8 million young people remain unemployed. The budding successes of PES and other public employment programmes are not rewarded with a greater budget allocation. The first phase of the PES had a budget of R12.9 billion, while the latest phase has only R7.4 billion, with no further allocations after 2024/25. Similarly, spending on employment such as the EPWP grows by a pitiful annual average of 0.262% in real terms between 2024/25 and 2026/27.

In these respects, the IEJ recommends:

1. The expansion of the PES and allocation of funds in the medium term to alleviate unemployment.
2. A progressive scaling up of all public employment programmes with deliberate steps taken to ensure that they give recipients opportunities for longer-term work.

Critical social and care services

Expenditure on critical social services has once again been cut. Despite the vacant posts in the public healthcare system and the high number of unemployed doctors, the government will spend R518 less per public healthcare user over the medium term.

In 2023/24, R5,381 was allocated per user, by 2026/27 this will have fallen to R4,864.

Basic education spending will decrease per learner and will also fall from R25,130 in 2023/24 to R24,493 in 2026/27. This is in the context of overcrowded classrooms in schools in rural areas and the township.

We wish to highlight to the Committee the gendered impact and the long-term effects of these cuts in the budget. When public services fail, women will disproportionately shoulder the burden of care, more will be unemployed given their overrepresentation in the public sector, and in the long run, fewer people will be able to contribute meaningfully to the economy due to a lack of human capital development. Thus, the budget overall is at odds with the objectives of advancing gender-responsive budgeting which is currently being piloted.

We are pleased that the overall subsidy component of the Early Childhood Development (ECD) Grant increases but are concerned that it does so much less than National Treasury previously planned. As noted by Ilifa Labantwana in their recent budget statement, the value of the ECD subsidy remains stuck at R17 per child per day for the sixth year in a row. If the government's priority is expanding access to early childhood care as stated by the President in the SONA, more resources need to be devoted to these efforts to make a meaningful impact on the lives of children in South Africa.

In these respects, the IEJ recommends:

1. A thorough review of budget cuts and their impact on the state's obligation to advance and protect human rights.
2. A needs assessment be undertaken for public services to understand the resourcing gaps, the population of users and the human resources required to support the delivery of public services. This assessment should be used by National Treasury to draft a long-term plan for how the budget will be used to fill in the identified needs.
3. All budget cuts are reversed and allocations are made based on need and in line with CPI and population growth.
4. The ECD subsidy is increased to ensure that it can be at least R49 per day by 2029.

Job Creation, Climate Change, and Economic Development

The government's quest to rapidly reduce the unemployment rate is completely undermined by Treasury's allocations towards economic development. Over the medium term, the economy is expected to grow by no more than 1.8% annually. Meanwhile, key government planning documents such as the National Development Plan, Medium Term Strategic Framework, and the Economic Recovery and Reconstruction Plan, projected annual growth of 2-3% by 2024. These are still low projections. Thus, our growth trajectory will stray far below the path the government has considered necessary to make a substantial reduction in unemployment. The budget cuts to key aspects of economic development ensure that low growth and high unemployment will remain entrenched.

Average real spending growth on the drivers of economic growth tumble over the medium term, including in agriculture and rural development (-2.9%), industrialisation and exports (-1.8%), and innovation, science and technology (-5.09%).

Alongside decreasing allocations to public employment, spending on job creation and labour affairs in 2024/25 declines by 4.8% in real terms compared to 2023/24.

The improved focus on infrastructure is welcome, but the sustainability of its overall spending model remains questionable. Over 2024/25 - 2026/27, spending on economic regulation and infrastructure – which is mostly made up of water resources, road, and bulk infrastructure – grows by an average of 4.11% (in 2024/25 rands). This is a step in the right direction. However, this leaves South Africa's pitiful levels of public sector investment well below where it needs to be for meaningful economic development.

Government has also muted the development of the climate tagging framework, climate budgeting and the development of the Climate Change Response Fund to be financed to the tune of US$3.3.bn through multilateral development and financial institutions. The funds will be channelled towards climate resilience including for the just energy transition. Whilst there is some glimmer of hope in principle, these efforts are watered-down by the centrality of PPPs in the provision of electricity with large fiscal risks for the state and a potential increase in tariffs for consumers and businesses. PPPs are premised on the state taking much greater risks than the private sector in what is called de-risking to attract private finance. This can be done through guarantees or blended finance for instance. This model depends on user fees for revenue. Therefore to generate revenue, electricity prices may be hiked putting pressure on households and small businesses. The IEJ is of the view that, where IPPs are part of a renewable energy provision intervention, the State must ensure that a lifecycle cost-benefit analysis between PPPs and public provision is undertaken to inform on the appropriate risk-sharing structure. This will aid the State in not assuming a disproportionate amount of risk that may translate to financial obligations that constrain the fiscus.

In these respects, the IEJ recommends:

1. A long-term needs assessment be undertaken to identify the resources required and this assessment must be gradually financed over time for job creation and economic development to support the implementation of masterplans and structural transformation.
2. Public investment be increased to 25% to support infrastructure development. Government spending will help support and crowd in private investment in the long term, not the other way around.

REVENUE

The budget fails to raise the revenue needed to support government programmes. We note that tax collection is R56 billion below 2023 Budget expectations. This stems from a failure to consider an effective range of revenue proposals as recommended by this Committee in 2023.

In 2023, following hearings on Revised Framework and Revenue Proposals, this Committee emphasises that:

> *While the MTBPS does not deal with revenue proposals, the Committee recommends NT seriously consider, beyond their initial response, various revenue proposals proposed by stakeholders during the Committee's public hearings. NT and SARS are encouraged to explore measures that will enhance revenue diversification, reducing dependence on specific sectors vulnerable to global economic fluctuations*

The IEJ welcomes the freezing of tax brackets and the medical aid tax benefit, and the increase in sin taxes. However, these measures fall far short of meeting the challenges faced.

We also welcome the drawing down of a portion of the GFECRA. Despite its use, we note that that the decision to utilise GFECRA does not, however, signal a rethink of Treasury's path of fiscal arson. Rather, it is utilising just enough of these idle resources to make the existing path a little more palatable. Rather than be used to just reduce debt, the funds should have been channeled towards o bold and strategic investment plans in critical infrastructure; state-owned enterprise (SOE) support; a basic income grant; capitalising development finance institutions or a sovereign wealth fund. The lack of use of the GFECRA in the first place reflects the National Treasury's reluctance to raise the maximum available resources.

As identified in a newly published IEJ Policy Brief, over the last three decades, corporate income tax rates have fallen and sit below the median level of peer countries, wealth has remained undertaxed, large tax handouts have been given to high-income taxpayers and corporations, and illicit financial flows have accelerated.

Figure 1 below shows the effective PIT rate paid on three different levels of income—those earning R500 000, R1 000 000 and R1 500 000 per year (2018 rands). One can see that in 1996 someone earning R1 000 000 per year paid an effective rate of 40%, compared with 32% in 2023. Similarly, a person earning R500 000 paid an effective tax rate of 31% in 1996 compared to 23% in 2023. The effective tax rate for someone earning R1 500 000 is only 35% in 2024.

Figure 1: Effective tax rate for a single person at three different annual incomes (in 2018 rands)

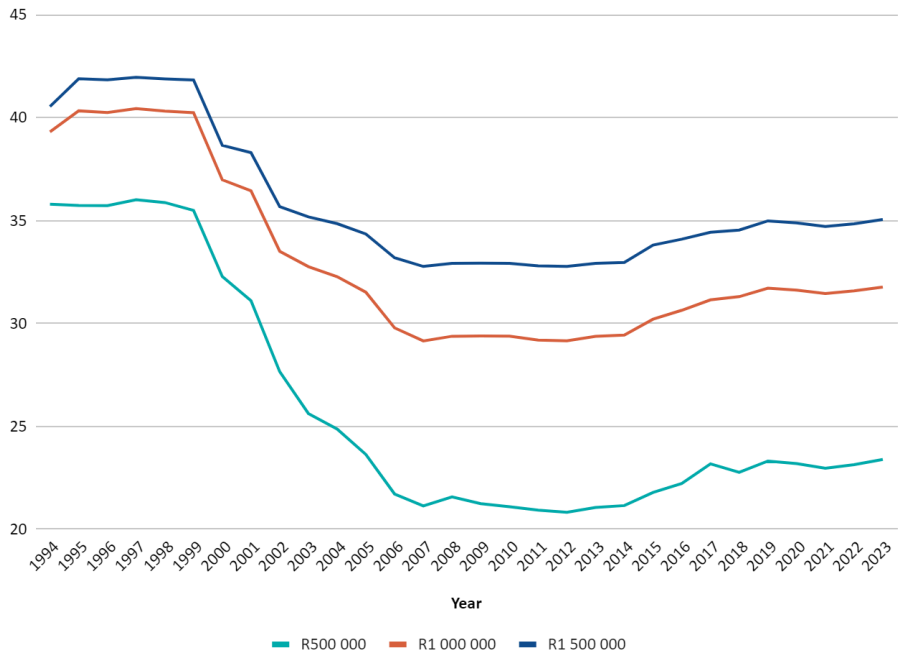


Table 1: Tax breaks (R 000s thousands)

	2021 tax year	2023 equivalent estimate	2023 equivalent estimate > R500,000	2023 equivalent estimate > R750,000
Donations	1,356	1,534		
Travel expenses - fixed cost - business cost claimed against allowance	18,753	21,216	14,462	8,592
Travel expenses - actual business cost	1,164	1,317	524	329
Other	2,540	2,874	1,807	1,336
Subsistence allowance - local	41	46		
Depreciation	137	155		
Home office expense	869	983		
Retirement fund contributions	205,698	232,713	113,620	65,859
Employer provided vehicle expenses	3,888	4,399	2,480	1,431
Employer provided vehicle expenses (operating lease)	179	203		
Other	6,980	7,897		
Medical Tax Credits Rebate	20,633	23,343	8,104	3,927
Medical Tax Credits Rebate - additional expense	7,521	8,509	3,159	1,596
	269,759	305,188	144,155	83,072

Given the abovementioned tax breaks, the IEJ wishes to once again recommend a series of concrete proposals from which funds could be raised:

- R65 billion in retirement fund benefits given to those earning above R750 000;
- R12 billion in medical aid tax benefits given to those earning above R500 000;
- R7 billion wasted on the ineffective Employment Tax Incentive;
- R70 - R160 billion in a potential wealth tax;
- Over R40 billion from taxing financial transactions;
- R12 billion wasted on the ineffective Corporate Income Tax cut;
- R64 billion from a sliding-scale Social Security Tax;
- R38 billion in resource rents; and
- R9 billion to be raised from a luxury VAT rate.

It is encouraging that the government has taken steps to limit the loopholes that multinationals use to shift profits through the OECD-driven global minimum tax. We note, however, that the 15% rate is lower than the global average corporate income tax rate of 25% and the statutory rates in most developing countries and thus will not significantly boost revenue.

The estimated revenue of R8 billion to be raised from the minimum tax is a drop in the ocean in comparison to Illicit Financial Flows. For instance, in 2019 the Davis Tax Committee estimated tax losses from IFFs and Base Erosion Profit Shifting (BEPS) to be R50 billion a year while in 2020 SARS stated that at least R100 billion is lost in tax avoidance. Updated figures may be much higher.

The 15% tax rate is, in fact, close to the 12% proposed by tax havens and low-tax jurisdictions, underscoring concerns with this plan having been developed outside of United Nations (UN) intergovernmental processes and without transparency and participation.

In these respects, the IEJ recommends:

1. Restoreing the CIT rate to 28%.
2. Reducing tax breaks for higher-income taxpayers by at least R50 billion.
3. Aligning estate duty on large estates with the upper Personal Income Tax brackets.
4. Discontinuing the Employment Tax Incentive.
5. South Africa should use its upcoming Presidency of the G20 to advance a more robust and progressive UN tax convention agenda.

DEBT AND THE FOCUS OF FISCAL POLICY

The overriding fiscal strategy remains one of stabilising debt by cutting expenditure.

We note that the National Treasury has drawn on funds from the Gold and Foreign Exchange Contingency Reserve Account (GFECRA) to support the payment of debt. The IEJ welcomes the use of GFECRA which we put to this committee as one of the ways to close the budget

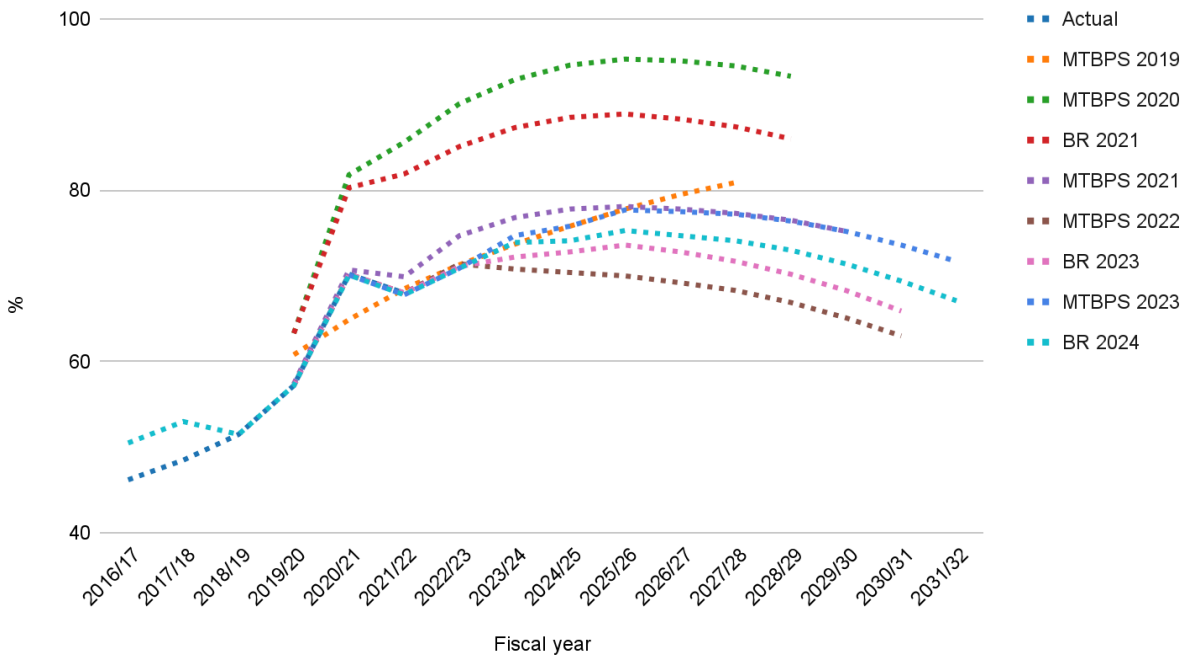
mismatch. We would have hoped that some of the funds would be directed to boosting essential expenditure rather than only accelerating the debt reduction strategy.

The Budget promises a primary budget surplus in 2023/24. However, it is not clear how this pursuit of a primary budget surplus will alleviate poverty, unemployment and inequality. The current fiscal strategy indicates that the priorities of financial markets have been put before those of vulnerable and hungry people.

Debt targets are more severe than in both the 2023 Medium-Term Budget Policy Statement and previous National Budgets - this is seen in Figure 1 which shows the projected path of debt-to-GDP in successive budgets.

Whereas the 2021 National Budget considered the stabilisation of debt at 88.9% in 2025/26 as "a sound platform for sustainable growth," National Treasury now aims for just 75.3% in that year. However, such forceful debt stabilisation is unnecessary. South African debt levels are in line with our peers, with emerging and market and middle-income countries averaging 69% in 2023.

Figure 2: National Treasury medium-term debt-to-GDP projections (across various publications)



Previous failures to achieve lower debt through budget cuts call this fiscal strategy into question. Evidence indicates that austerity leads to a decrease in GDP, and therefore will result in a higher debt-to-GDP ratio. An important question we think Committee members should reflect on and

pose to National Treasury is why higher debt levels were considered a sound platform for growth previously but not now.

It is important to note that South Africa's fiscal deficit is similar to other comparable countries. The Budget Review estimates a budget deficit of that 4.5% in 2024/25. For the current fiscal year, emerging economies are on average set to have a deficit of -5.87%.

Similarly, our debt levels are in line with our peers, with emerging and market and middle-income countries averaging 69% in 2023.

The problem is not debt levels but the cost of South Africa's debt. For instance, on average, upper-middle income countries paid 2% of GDP in interest payments, compared with South Africa's 5%.

The current fiscal strategy is self-defeating.

In respect to this, the IEJ recommends:

1. National Treasury should prioritise reducing the *cost* of borrowing – which it rightly identifies as high. The cost of borrowing can be reduced through (1) Reserve Bank intervention, (2) targeted capital controls, (3) capital management techniques, and (4) credit allocation policies. This would allow fiscal policy to prioritise growth and employment generation, support industrial policy and expand social spending.
2. Use debt debt for productive purposes. Borrowing and spending should be done alongside a credible plan for development and economic expansion. This will generate economic growth in the long term and reduce the debt-to-GDP ratio.

A PRIVATE SECTOR TO THE RESCUE?

Amidst a grim picture for public investment the National Treasury is counting on private sector investment to ride to the rescue.

National Treasury has doubled down on the use of Private-Public Partnerships and leveraging private finance for infrastructure development, and in rescuing key network industries and State-Owned Entities (SOEs).

We wish to bring to the Committee's attention that evidence shows that private financial investment in infrastructure has slowed and failed to meet development targets *anywhere*.

When investment does occur, (1) the state assumes disproportionate risks and the private sector is guaranteed profit often at the expense of equitable access; (2) such schemes have had negative impacts on the environment and local communities; and (3) private sector investment is not itself a solution to government incapacity as it requires significant capacity (of

a different sort) to ensure proper regulatory oversight and the harnessing of such private investment for developmental gains.

In respect to these, the IEJ recommends:

1. Publicly-owned development finance institutions (DFIs) should be leveraged to invest more in critical economic infrastructure that could relieve pressure on the fiscus.
2. South African DFIs are recapitalised with public funds and granted access to a stable, low-cost, long-term funding line, either directly as a budgetary allocation to the relevant ministry, through tax sources, or SARB.
3. The central bank issues subsidised credit to targeted sectors or other institutions like state-owned enterprises. This could allow for increased public investment without fiscal implications.

RECOMMENDATIONS

It is unconscionable that many South Africans, especially women and children are hungry daily, that productive age groups are unemployed and that critical social services still need to be improved. The Budget and fiscal policy must centre development and human rights realisation. Within a coherent plan to grow the economy, additional resources can, and must, be leveraged for critical social and economic investment.

A developmental-based budgetary framework requires National Treasury to:

1. Use fiscal policy to address unemployment, poverty, and inequality as part of a pro-employment macroeconomic framework as opposed to narrow debt stabilisation.
2. Reverse austerity. Budget allocations must be in line with population growth and CPI growth and based on identified needs.
3. Fully absorb the public sector wage bill into additional spending (not just partially) to not suck up funds that should be spent elsewhere.
4. Expand spending and target it where immediate economic and social gains can be made.
5. Conduct a thorough review of fiscal spending, especially its impact on growth and employment.
6. Undertake a transparent, consultative and evidence-based state reconfiguration. 13.7. Increase the SRD to the FPL and insert the budget for the ongoing provision into the MTEF, while working with stakeholders for pathways towards a UBIG and pursuing additional sources of finance and tax revenue for UBIG.
7. Increase the ECD subsidy to ensure that it can at least R49 per day by 2029.
8. CSG be increased to the FPL to ensure that carers can purchase nutritional meals for their children.
9. Promote a more equitable tax structure by implementing a wealth tax and ending tax breaks for higher-income earners.
10. Produce evidence that shows the human rights impacts of its policy of austerity as well as its impact on the economy.

11. Put on record how its implementation of austerity measures is in line with principles of Gender Responsive Budgeting, given its impact on gender inequality.
12. Expand the PES and allocation of funds in the medium term to alleviate unemployment. Publicly-owned development finance institutions (DFIs) should be leveraged to invest more in critical economic infrastructure that could relieve pressure on the fiscus.
13. Recapitlise DFIs with public funds and grant access to a stable, low-cost, long-term funding line, either directly as a budgetary allocation to the relevant ministry, through tax sources, or SARB.
14. The central bank issues subsidised credit to targeted sectors or other institutions like state-owned enterprises. This could allow for increased public investment without fiscal implications.
15. Increase public investment to 25% to support infrastructure development. Government spending will help support and crowd in private investment in the long term, not the other way around.

INSTITUTE FOR ECONOMIC JUSTICE RESEARCH POLICY ADVOCACY

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