

# **Peoples Budget Coalition Comments on the 2008/9 Budget**

## ***Introduction***

The Peoples Budget Coalition (PBC) believes that today's budget defers the dreams and aspirations of the poor until the storm has subsided. Measured against our expectation that the budget would invest substantial resources towards reduction of poverty, inequality and unemployment, it does not live up to the challenges facing our society.

In contrast, the rich will benefit from the budget, especially the reduction in company tax and revision of exchange controls. When it comes to allocations to the poor, for example on social grants, the scale of the increase is miniscule. While the overall budget growth is 4% in real terms, this is slower than in previous periods and reduces the level of total expenditure.

The budget cannot be faulted on identifying key priorities facing our society but falls flat on the challenge of scaling up resources to address these pressing challenges. Further, the budget does not live up to the President's message of 'business unusual' or the ANC's call for an intensified war against poverty.

The PBC supports the Minister when he says that we are collectively in this together. However, given the inequalities in our society, some of us can escape economic shocks. The rich can opt out while the poor and the working class only have this economy and the role of the state is to buffet the poor against the vicissitudes of economic turmoil.

### **Social Grants and Social Services**

The PBC believes that social grants play an important social and economic development role in cushioning the poor against economic shocks and drawing them into economic activity. We are however disappointed by the small increases in the state old age pension and child support grants. If we use recent CPIX figures of 8.6% released by Statistics South Africa, this turns into a decline in real terms.

There were signs that government would increase the age of qualifying for the child support grant to 18 years, but the Minister announced that the eligibility age will increase only to 15 years in January 2009. Again we are going to live with the reality that those children above 15 years and adults above 18 years do not have income support. It is for this reason, that we reiterate our proposal for a Basic Income Grant.

While the PBC supports the adoption of a poverty line we have serious reservations about the introduction without effective and meaningful participation. The poverty line is not a technical exercise but a political process to make choices about what is the minimum breadline or standard of life below which no human being should fall.

We welcome the increased allocation to provinces to provide free basic services.

### **Job Creation and Industrial Policy**

For the first time in many years the Minister has spent some time discussing job creation and industrial policy measures. Job creation measures identified by the Minister include increased employment in the public service and a raft of industrial policy interventions amounting to R2.3 billion for DTI and R5 billion for industrial investment. The PBC welcomes this infusion of resources but believes it falls short of the scale required to support structural change of the economy.

We welcome the increase of internship allowances as a step to incentive skill formation among the youth. We do not support the wage subsidy proposal because, firstly, it creates a dual labour market and displaces

existing workers and, secondly, it is open to abuse if the beneficiaries are exempted from the protection of labour legislation.

### **Budget Process Reform**

We reiterate our call for the introduction of a Money Bill Amendment to give Parliament the right and power to amend the budget. In addition, the budget process must be open to people's participation prior to the minister tabling this in Parliament.

### **Energy**

Eskom's corporatisation and structure is a major problem to basic service delivery. This business model of delivery will impact on the poor significantly. We criticise the fact that the R60 billion injection is not considered as a grant and thus will have to be paid back by Eskom. This is a severe shortfall in the total amount required by Eskom, which requires R340 billion for infrastructure investment to expand electricity supply and roll-out plans to communities who remain without basic services. We are certain that these costs will be passed on to the consumers and thus hit the poor. Does this mean that the consumer will have to continue to foot the bill? Investment in renewable energy is insufficient measured against the urgent need to diversify our energy sources.

The "new" levy raises serious concerns regarding the additional costs this is going to place on households at the expense of prioritizing universal access. This should be viewed in conjunction with the fact that electricity tariffs are already set to rise by a minimum of 14% (likely to be higher in many municipalities).

### **Education**

Government has indicated that it will increase education expenditure to provinces by R18 billion over the next 3 years. This will primarily go towards building, maintaining and improving equipment for schools. The PBC hoped that in line with some of the more recent indications to increase the number of no-fee schools, a pronouncement would have been made of education allocations going towards increasing the number of no-fee schools. The PBC in its previous publication on the budget indicated that school fees remain the largest obstacle towards learners either dropping out of schools or simply failing to attend schools - with just under 40% of learners not being able to attend school because of school fees (2003, GHS).

One of the few positives is the increased emphasis on ECD and grade R learners, especially the expansion to

600 000 more children, as this has received insufficient attention in previous budgets.

The PBC welcomes the increased allocation to school feeding schemes to keep more children at school and provide meals for a longer time. The main limitation is that the scheme is still limited to primary schools.

When it comes to higher education there is a significant increase, around R2 billion, to support students and financial support for higher education institutions. However this increase comes from a period of consistent decline in allocations to higher education and it is questionable whether this is adequate. The pressure on universities to be self-reliant has resulted in fee increases that have led to protests on campus and continues to place high education beyond the reach of many poor and working class families.

### **Land**

For government to accelerate the land redistribution programme to meet the target of transferring 30% of land, will require substantial investment of resources. Although this matter was not dealt with in the budget speech, the Estimate of Expenditure projects that government will allocate R10 billion in the next three years. The question is whether this is adequate.

**Public Services**

The PBC welcomes steps to improve the capacity of the state to meet citizens' needs. In that vein, we welcome government's commitment to increase the number of health professionals and other public servants. Further, the proposed remuneration increase is at face value to be welcomed but further interrogation is required to understand its impact on the overall human resource strategy in the public service.

Government plans to move towards a single public service but the Minister did not allocate funding for this process, including harmonisation of salaries and conditions of service.

**Revenue**

The Minister proposed a raft of changes to revenue. We are however disappointed by the reduction of company tax by 1% to 28%, ostensibly to stimulate investment. The decrease in company tax will mean that the government will forgo R5 billion in revenue. The PBC questions the wisdom of this decision in the light of government's claim of lack of resources. Moreover, it is questionable whether business will use the additional resources to invest or divert it into dividend payments. In addition, the tax rebates for

individuals and reduction in company tax is money that could have been used in other areas of economic and social development.

We welcome the increase in the income threshold of those exempted from tax. This will provide a relief for the working poor by increasing their disposable income.

While of the one hand the Minister talks about the volatility of international markets, he then introduced policies that will exacerbate such vulnerability. The removal of exchange controls will encourage capital flight while it also exposes South Africa to volatile speculative capital inflows.

The additional fuel levy is of concern, especially when combined with high inflation and its impact on poorer households. Treasury's opening of the way for provinces to implement their own additional fuel levies, something which the Western Cape has already moved to take advantage of, is also of concern to the PBC.

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