

People's Budget Campaign

Press Release on People's Budget Document
February 21, 2005

The People's Budget Campaign, a coalition of COSATU, the SACC and SANGOCO, is today releasing its recommendations for the 2006/7 Budget. The aims of this document are:

- To locate fiscal policy within a programme of rapid poverty eradication and employment creation;
- To motivate for the adoption of specific spending proposals;
- To provide revenue and expenditure proposals that translate our vision into practice; and
- To outline strategies to improve the capacity of the public service to deliver services more effectively and efficaciously.

The People's Budget does not seek to replicate the comprehensive proposals in the national budget. Instead, it points to areas of concern for civil society. It seeks to ensure a more informed discourse on the budget, and in particular on how it can be directed more rigorously to overcome poverty and support employment creation.

This year, the People's Budget Campaign reflected on trends in the budget in the first ten years of democracy. Its analysis shows that:

- The adoption of a more expansionary fiscal policy since 2000, replacing the fiscal strategy initiated with GEAR, has supported more rapid economic growth.
- The government has successfully shifted resources from the security forces to social services. But it has permitted spending on investment and economic services to decline. This trend must be reversed in order to restructure the economy toward more sustainable growth, equity and employment creation.

Every year, the People's Budget commissions research and, based on discussions amongst the members of the Coalition, develops proposals in selected areas of expenditure. This year, it focuses on social security; land; enforcement of the law against domestic violence; free basic services; education; and health.

Key findings include:

- While government has improved social grant coverage, many poor people still do not benefit. Evidence demonstrates that access to even fairly small grants improves the ability of poor households to obtain employment and earn additional incomes. For this reason, the People's Budget has renewed its call for the removal of means testing and the introduction of a Basic Income Grant.
- Government's budget for land remains far below the level required to achieve the official target of redistributing 30% of land by 2015. Moreover, recent developments in land-reform policy make it harder for very poor landless people to benefit. Achieving the national target for land redistribution and restitution will require an increase of several billion in the budget for these purposes.

- Research for the People's Budget demonstrates that inadequate funding is preventing the full implementation of the Domestic Violence Act, which was introduced in 1998. The report proposes a study to identify funding needs, a ring-fenced budget for the Act with separate reporting by the Department of Justice, and stronger Parliamentary oversight.
- The People's Budget continues to call for much more rigorous and consistent implementation of the policy on free basic services. Many municipalities still lag behind on this programme. A critical response is for communities to mobilise to demand and support improved implementation.
- Education is critical for development and employment creation. Yet it still suffers from inadequate infrastructure and staffing, especially in historically black schools. Despite this, government has cut the share of education funding in the budget over the past ten years. The People's Budget calls for increasing spending combined with an end to school fees, which place a heavy burden on poor families and effectively exclude poor children from better schools.
- While spending on public health has remained essentially constant and inadequate, private health spending has soared. As a result, health now accounts for 8% of South Africa's GDP, compared to between 5% and 6% in most comparable countries. Government's proposals for Social Health Insurance will just raise the cost of health and, by raising the cost of employment, could lead to substantial job losses. This is as opposed to the call of the People's Budget for a National Health Insurance, which would not place an undue burden on working people.

The People's Budget provides an overview of financing for the budget. Through a macro-economic model developed by the Economic Policy Research Institute (EPRI), it tested different combinations of taxation and deficits in terms of the impact on economic growth and the deficit in the medium term. It concludes that there is still substantial scope for increasing both taxation and the deficit relative to the GDP. A more expansionary fiscal policy would stimulate sustainable growth and, as a consequence, over the next five years the deficit would decline relative to the GDP.

On taxes, the People's budget proposes

1. Government stops cutting the personal and company income tax rate. This type of tax cut has a regressive impact, benefiting the rich more than the poor. At the same time, it starves government of the resources needed to lay the foundations for sustainable growth.
2. The VAT should be cut by 1%, and a variable rate introduced to reduce the tax rate on necessities and increase it on luxuries. A flat VAT is a regressive tax, where the poor pay a higher share of their incomes than the rich. For this reason, most other countries have adopted a variable-rate VAT.

The People's Budget also proposes mechanisms for reducing the cost of government borrowing. These include ring-fencing, restructuring the Government Employees' Pension Fund in the direction of the pay-as-you-go-system, and renegotiating the apartheid debt, which did little to benefit the majority of our people. This approach would not end repayment on these liabilities, which are held mostly by South African individuals and institutions. Rather, it would seek to reduce the cost of debt service. The People's Budget also continues to support the issuance of development bonds with relatively low interest rates to fund key developmental projects.

The People's Budget Coalition opposed the high-cost arms procurement initiated in the late 1990s. The main threat to security in South Africa remains high unemployment and social and economic inequalities, which can only be addressed by improvements in social and economic spending. It is, however, probably too late to reduce spending on armaments

Additional funds could be freed up by redirecting government spending away from the military and by ending the Pebble Bed Modular Reactor (PBMR).

The PBMR absorbed just over R1 billion in the 2004 budget year – about the same as the allocation for land restitution, and four times the budget for land redistribution. Even if the PBMR succeeds, it won't come on stream for close to ten years, pointing to very high development costs. This programme effectively diverts funding and expertise from research into more desirable, renewable energy sources.

To utilise government resources adequately requires improvements in the capacity of all spheres of the state for financial and personnel management. The People's Budget points to key measures in these areas.

Finally, Parliament still does not have the power to amend the budget, despite the requirements of section 77 of the Constitution. As a result, Parliament can only vote the budget up or down. This situation dramatically limits the scope for opening up the budget process to broader consultation and engagement in a democratic setting. Parliament must act decisively to ensure that it is able to play effectively its constitutionally-mandated consensus-building and oversight roles.

The People's Budget proposes a carefully designed system that would permit Parliament to amend the budget. Parliament itself should contribute towards the process of reaching agreement on macro-economic parameters within the MTEF. In the light of these macro-economic parameters, Parliament would then amend specific proposals.

The People's Budget Campaign expects these proposals will stimulate a constructive debate around the budget.

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