

Better Budgeting For The Needs Of The Poor: A View into the 2005

National Budget

by Ebrahim Khalil-Hassen

This year's national budget continues the moderately expansionary stance adopted by government in 2000. Expenditure (excluding interest payments) increases by 7,2% after accounting for the impact of inflation. However, government has missed several opportunities for more robust expansion in spending.

The argument for robust expansion in social spending is necessary if government is to reach its goals of halving poverty and unemployment by 2014. This task is daunting as unemployment has increased to 27, 8% in 2004, according to the official definition of unemployment. At the same time the number of people living in poverty has remained the same, or risen slightly according to several studies by government and international agencies. Thus if government is to reach its goals it will require more resources on social and economic services, which could kick start economic growth that results in jobs.

This view of increasing social spending to boost job creation and poverty eradication is however marginal in the commentaries of most analysts. Private sector analysts have praised the budget as being good for growth and for reducing the tax burden even further. This view however fails to locate the budget within the development goals that we aspire to in the country.

An alternative to the mainstream analysis of the budget, has been developed by the People's Budget Campaign. The campaign consists of the Congress of South African Trade Unions, South African Council of Churches and the South African NGO Coalition. The campaign proposes a fiscal package that would increase taxes to 29% of the total economy, and moderately raise the deficit. This would mean increased revenues at the disposal of government to meet poverty and jobs targets.

Moreover, the campaign calls for an end to tax cuts. Government this year provided approximately R 7 billion in tax cuts. These tax cuts benefit higher earners who have jobs, and companies. A different policy orientation from government would be to retain these funds, and allocate it to development projects or increases in social grants.

Critics of the People's Budget Campaign argue that government does not have the capacity to spend additional resources. In response, the People's Budget Campaign have argued that current social grant systems could accommodate larger increases, and that improved government capacity is possible in the short term. The People's Budget Campaign has a series of proposals aimed at eradicating poverty.

Whilst the budget is moderately expansionary, there are several features of the budget that limit its impact on poverty eradication and job creation. First, people between the

ages of 18 and 65 have many South Africans excluded from social assistance. Research commissioned by government, shows that even small grants improve the ability of the poor to seek employment and earn additional income. For this reason, the campaign argues for the introduction of a Basic Income Grant.

Second, structural changes in the economy are needed for the poor to reap the benefits of economic growth. Land redistribution, if managed in a sustainable manner, is an area that offers good prospects for the poor to participate in economic growth. Government has in the current financial year prioritised land restitution. However, funding for redistribution of land is still small in comparison to government's target. Achieving the national target of redistributing 30% of agricultural land requires an increase of several billion in the budget for these purposes.

Third, health and education spending offer the best long term prospects for development. Education is at the centre of a long term development and employment creation strategy. However, schools in poor areas still suffer from inadequate infrastructure and lack of maths and science teachers. Government has however cut the share of education funding in terms of overall spending. The People's Budget Campaign has called for an increase in the education spending, particularly in poorer areas, and for the scrapping of school fees.

Health spending in South Africa is high by comparison to comparable countries. South Africa spends 8% of GDP on health, compared to 5%-6% in other countries. However, spending on health is dominated by the private health care sector. This means that people not able to afford a medical aid are excluded from private clinics. The People's Budget Campaign argues that to rectify this situation through establishing a National Health Insurance.

There are many praiseworthy aspects of the budget presented by Minister Manual. These include greater focus on free basic services and increased spending on electricity and transport. However, if government is to meet its development goals it will need a more ambitious programme, with increased social spending at its heart. Such a programme would accelerate the realisation of goals contained in the Freedom Charter.

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