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1 Introduction

2007 has been called the year of debate. The People's Budget Campaign (PBC) will focus this debate squarely on the structures that perpetuate poverty in our society. In earlier publications, we have called for a developmental State. With this, we had in mind a State that was redistributive in nature and that incrementally reduced inequalities in South Africa, in a sustained and focused manner. This publication presents the central policies and means of financing redistribution. We have taken care, demanded of us by our organisations' histories of struggles, not to present silver bullets, but rather to imagine a developmental strategy that is sustainable, that links economic growth to socio-economic development, and which supports long-run economic growth.

These proposals are however only an input. The answer is in a nationwide debate that leads to a comprehensive development strategy. The coalition partners in the PBC are the Congress of South African Trade Unions (COSATU), the South African Council of Churches (SACC) and the South African Non-Governmental Coalition (SANGOCO)

Very often we are told that government has undertaken various activities, making our criticism of there being no development strategy a hollow one. Support for our view comes from the 2006 State of the Nation Address, when President Mbeki argued:

I must also take advantage of this occasion to explain that ASGISA is not intended to cover all elements of a comprehensive development plan. Rather it consists of a limited set of interventions that are intended to serve as catalysts to accelerated and shared growth and development.

Otherwise we will continue to engage the nation and all social partners to address other elements of a comprehensive development plan to improve on our current programmes, and deal with other issues, such as the comprehensive industrial policy, keeping in mind the objective to halve poverty and unemployment by 2014.

The goals President Mbeki mentioned here refer to unemployment targets that were agreed upon in the Growth and Development Summit (GDS) and the poverty targets are from the United Nations agreement on the Millennium Development Goals (MDGs). While these goals are important measures of our successes and failures, there is pessimism about them. On the one hand, even if we reach these targets, half of South Africans will still be in poverty and/or unemployed. On the other hand, our development indicators suggest that without significant improvements on historic trends we are unlikely to meet these modest goals. The People's Budget Campaign outlines a developmental path that would provide government with a significantly more redistributive stance, which we believe is needed to reach these goals, and create the sustainable foundations for eradicating poverty in South Africa. In doing this, we are under no illusions that attacking structural poverty, unemployment and inequality is not a once-off event, but rather a process. Moreover, we argue that the expansionary stance we advance in our proposals is not a panacea and will not be implemented without costs.

Our view, however, is that the set of proposals represent an important component of a wider development strategy, and a significant impact on reaching these goals. These proposals are submitted a year in advance, given that the National Budget Cycle is between 12-18 months. It therefore targets the 2008/9 financial year.

Two truths will need to underpin the debate:

- The South African economy weighs heavily on the poor, and the benefits to them have been disproportional: The euphoria from the private sector – and mostly the financial sector – argues that the fundamentals are in place, and that the South African economy is doing well. The question, however, is who has benefited? Higher unemployment, rising inequality and at best a modest reduction in poverty cannot by any stretch of the imagination constitute an economy that is working well. Traditionally, it is the left that is caricatured as 'loony', but there is euphoria in capital that is both illogical and delusional. How, for instance, can we argue that the fundamentals are in place, when South Africa has performed so poorly in terms of its development indicators? How will we reconstruct society to become more equal? Does the capitalist class have the entrepreneurial imagination that leads to mass employment?

- **We need to spend more, spend better and on the right programmes:** Another illusion is that the real challenge is not the availability of resources from the budget, but rather the capacity to spend. Posing the question in this manner suggests that our schools, hospitals, grants offices, police stations and other public sector institutions have the resources to provide services effectively. In reality these are under-staffed and under-resourced frontline delivery institutions.

  Resolving these constraints often require additional funds. The ability to spend is, however, a significant problem in certain sections of government, and our proposals address these challenges in the land sector. We must stress that to redistribute to the poor in a sustainable and efficient manner will require significantly more funds, or as President Mbeki calls it a 'capital infusion'.

  Spending more is only half of the solution; spending well is just as important. The effective use of public funds is a major concern for the PBC. We discuss why the Gautrain and the Pebble Bed Modular Reactor demonstrate that strong lobbies will fight for projects that have little impact on us reaching the development ends. So rather than a simple conceptualisation of the debate as an inability to spend, we believe that we must aspire to spending more, spending better, and spending on the right things. It is only through this conceptualisation that we will ensure that public resources are used to meet the development targets.

1.1 What has the PBC been doing?

Over the last seven years, the People's Budget Campaign has regularly produced budget proposals, engaged with government and parliament, and undertaken training. On initiating the PBC we developed a campaign platform, as shown in Box 1.

Box 1: People's Budget Campaign campaign platform

The People's Budget Campaign consists of the SACC, COSATU and SANGOCO. At the start of the campaign, the aims of the People's Budget Campaign were that the following would be achieved through effective use of the budget as a tool for reconstruction and development:

- Meeting basic needs, especially by restoring and enhancing the public sector and social spending;
- Ensuring the retention and creation of quality jobs in the context of economic growth;
- Assisting the majority of people with access to assets and skills;
- Supporting increasingly democratic and participatory governance; and
- Protecting the environment and ensuring sustainable development throughout the southern African region.

It seeks to achieve these aims through:

- Giving a voice in debates on the budget to major constituencies in civil society;
- Supporting a broader understanding of how the budget works and how it affects our communities; and
- Providing research into key programmes for transformation, and improving our understanding of development strategies and their resource needs.

During 2006, we undertook the following major projects to reach our goals:

- Research, which is summarised in this booklet;
- Hosting of our sixth national Consultative Conference, with a focus on assessing the effectiveness of our campaigns and ways to build the fight against poverty in South Africa;
- Publishing a detailed response to the South African governments MDG report;
- Developing, together with NALEDI, a training manual titled "Fighting Poverty in South Africa: A Reader for Civil Society";
- Publishing responses to Budget (2006) and MTBPS (2006), and presenting our views for the third consecutive year to the Joint Budget Committee in Parliament;
- Holding discussions with the Minister of Finance by inviting him to speak at our National Consultative Conference, and discussing the Medium Term Budget Policy Statement (MTBPS) for 2006 with a team from the National Treasury, led by the Director-General;
- We continued our boycott of the Finance Portfolio committee until parliament has the powers to amend the budget. Section Five elaborates upon this.

In this work there are two new and significant developments in our campaign. First, we have an important and emerging relationship with the National Treasury. While there are significant areas of disagreement between government and the PBC, we believe that dialogue provides an opportunity for understanding each other's positions.

More importantly, it raises the level of debate on using the budget to attack structural roots of poverty, and provides us with an opportunity to demonstrate that far from our proposals being far-fetched, they are credible and attainable.

We cannot renege on our responsibility to engage our government, especially because fiscal policy is a major instrument of redistribution in our society. In this regard, the National Treasury has surprised us with a willingness to listen, engage and to suggest continuations of processes. This is precisely what we expect government to do, and is a welcomed change.

Moreover, it is precisely because there are areas of disagreement that we must engage.

Second, attacking the roots of poverty requires a significant movement of progressive organisations to tilt power relations in our society. The PBC is under no illusions that the best-developed proposals without mobilisation are meaningless.

Over the last year, the PBC has been engaged in a process of defining how best to take its campaigning efforts to the next level.

During 2007, the PBC will be consulting with progressive organisations on how best to take up the fight against poverty, unemployment and inequality. In this light, we welcome the recent resolution of the African National Congress for a wide front that would build on the democratic and pluralistic traditions of the United Democratic Front and the Mass Democratic Movement.

Such a coalition is required to deepen mobilisation towards eradicating poverty in our society.

The PBC, representing the major mass-based organisations in civil society, is eager to engage in this process, and to present our views and discuss alternative views on how such a coalition could emerge and be nurtured.

1.2 Is government listening?

The great revolutionary Amrical Cabral reminds us: "Tell no lies, claim no easy victories." We hold this advice dear to our hearts when answering the question whether government is listening to the PBC, and whether we have an impact on policy. We believe that the PBC, as part of a wider set of actors in civil society, is having an impact on the budget and on government's policy, as summarised in Box 2.

Box 2: Impacts on policy

Major proposals from People's Budget Campaign	Progress
Expansionary fiscal policy	Since 2000, there has been a modest increase in the budget. Significantly, the results since 2000 substantiate the assumptions of our macroeconomic model developed by EPRI. We are, however, concerned that there is a projected surplus for the 2008/9 financial year.
Increasing Tax : GDP ratio	The MTBPS indicates that the Tax : GDP ratio will increase.
Infrastructure investment	The PBC called for significant resources for new infrastructure in 1999. The investments in water, electricity, transport and other infrastructure services begin to meet these objectives.
Increase in the education budget	The PBC has called for a 3% real increase in the national education budget. Government has increased the education budget in recent years.
Land	The increases for restitution are good, and broadly in line with suggested spending by the PBC. Land redistribution, however, falls significantly behind our projections for government to meet its modest goals of halving poverty and inequality.
Housing	The strategic shift in policy towards integrated human settlements is enthusiastically supported by the PBC. However, low-income housing remains under-funded in terms of realising the strategic shifts.
HIV/AIDS	The PBC has called for an integrated treatment and prevention plan and endorsed the proposals from the TAC. The recommitment of government and civil society to reaching a comprehensive treatment and prevention plan is eagerly anticipated by the PBC.
Expansion of social security	Increasing access to the child support grant and moderate expansion of the Unemployment Insurance Fund coverage are important starts in extending social security to all South Africans.

However, this does not mean that we have achieved the goals of the campaign, and in three areas we believe that there are still fundamental differences between government and us. These areas are:

1. Government has not increased deficit spending. In fact, there is a projected surplus for the 2008/9 financial years.

2. Government has continued to spend vast resources on projects that have little developmental impact. The spending on the arms deal was one such project. Today, the Gautrain and the Pebble Bed Modular Reactor are key examples of projects that will have little impact today and tomorrow on us meeting our developmental goals.

3. Government has not developed a large-scale and efficient redistributive mechanism in South Africa. In combination, we believe our proposals would increase assets for the poor, build long-term capabilities and would be supportive of shared economic growth. A key proposal in this regard is the Basic Income Grant, and we are prepared to engage those who have doubts about this intervention.

The campaign thus seeks to deepen the gains we have achieved, while recognising that much still needs to be done.

2 Development context

One of the areas where we have not yet convinced government is on a moderate and responsible increase in the budget deficit. This represents continuity with strategy advanced in the Growth, Employment and Redistribution Strategy. GEAR, however, failed to reach its developmental targets of increasing economic growth to 6%, and creating 500 000 jobs per year.

Since the 2000/1 financial year, we have witnessed a moderately expansionary stance from government that the PBC has welcomed.

The Accelerated and Shared Growth Initiative – South Africa (ASGISA) provides us with a set of strategies that are wider than GEAR, but still falls short of a comprehensive development strategy.

The Peoples Budget Campaign is of the view that ASGISA, while laudable in its intentions, falls far short of what we consider a development strategy. By its own admission, government regards ASGISA as a set of interventions targeted towards bottlenecks or addressing binding constraints, namely:

- Infrastructure programme;
- Sector investment (or industrial) strategies;
- Skills and education initiatives;
- Second economy interventions;
- Macroeconomic issues; and
- Public investment issues.

It forms part of measures to reduce the cost of conducting business, for example the cost of energy and transport, and address skills shortages. The ASGISA programme for the ‘second economy’ is a mixture of access to micro-credit for SMEs, expanded public works programmes and measures to realise the value of ‘dead assets’. In addition, it seeks to expedite interventions in priority sectors that are considered to have employment-generating capacity, such as business process outsourcing, tourism and biofuels.

Finally, ASGISA aims to improve the functioning of government institutions and to constantly monitor the impact of regulation on business.

It’s envisaged that the state will inject around R 400 billion between 2005 and 2008 as part of the public sector investment programme geared towards energy, transport and other infrastructure. About 40% of this will come from public enterprises, mostly Eskom (R84 billion) and Transnet (R47 billion).

ASGISA was introduced due to concerns of a slow rate of growth plus the inequitable distribution of the fruits of growth. As such, the strategy aims to accelerate growth to 4.5% in the first phase between 2005 and 2009; and 6% in the second phase of the programme between 2010 and 2014. It is believed that this rate of growth will spur employment creation and release resources to tackle poverty so as to meet the ASGISA targets of halving poverty and unemployment by 2014.

The Peoples Budget Campaign concurs with the ASGISA's contention that recent growth is not sustainable, is unbalanced and not equitably shared. The growth spurt has been fuelled by strong commodity prices, capital inflows and strong consumer demands. It is not sustainable as any of these factors can be reversed. Commodity prices are known to fall in the long term and ultimately weaken the revenue base and the economic momentum. This is the nub of the problem. South Africa's dependence on minerals places it in a precarious and volatile position demanding serious interventions to diversify economic activities.

Economic growth has been associated with a surge in imports in response to shortages in the local economy and has also exposed serious limitations of the country's infrastructure and energy resources.

Rising imports reflects a weak local manufacturing base to meet the needs of a growing economy. Infrastructure blockages reflect years of neglect and underinvestment in public infrastructure such as roads, railways and the ports. Energy shortages reflect both incorrect forecasts and rapid surge in demand due to the high rate of growth. This has reversed a surplus energy supply which South Africa has enjoyed for decades.

South Africa has attracted mostly speculative capital and the bulk of foreign direct investments are not directed to Greenfield projects but to mergers and acquisitions. Consumer demand is likely to taper off as the effect of recent interest rates hikes take their toll.

The benefits of growth accrue to a minority of the population as millions are trapped in unemployment and poverty due to the slow rate of employment creation. Even where employment is created, evidence suggests that the quality of these new jobs has deteriorated. Most of the new jobs are casual, low-paying and without benefits such as healthcare cover, pension and so forth.

All of these suggest that recent growth is neither durable nor sustainable in the long run unless we tackle the structure of growth. The country cannot be sanguine or complacent about the current growth as it rest on perilous foundations. A reversal in one of the factors driving growth, for example commodity prices, will undermine momentum.

It also goes without saying that without a clear redistributive and poverty eradication strategy, growth is unlikely to be equitably shared. Sadly, ASGISA does not acknowledge poverty as a major constraint on growth to the extent that it locks millions out of the economy. Rather than outlining a pro-poor growth strategy, ASIGISA is still trapped in trickle-down economics – first focus on growing the economy and then the benefits will trickle later. The Peoples Budget Campaign firmly believes that poverty eradication is a central part of, rather than a deduction from, a growth strategy.

A further area of concern is the lack of clarity on how the employment and poverty targets would be met. Other than setting these targets, ASGISA lacks a coherent employment creation or poverty eradication strategy. We believe that this task cannot be taken for granted but requires conscious strategies to absorb the large army of the unemployed. For this reason, an employment creation strategy is crucial to identify which sectors have the potential to create employment for the relatively low-skilled workforce.

Employment creation is the key tool to reduce poverty but we recognise the pivotal role played by social protection. As we argue later, the current social protection system has serious gaps and we reiterate our proposal for a review of the current social protection system. A comprehensive poverty eradication strategy is not a choice between one or another strategy but should combine measures to create employment and transfer income, skills, assets and capabilities to the poor.

The employment multipliers of a public sector investment programme are likely to be offset by serious capacity constraints in the South African manufacturing industry. In addition to the expenditure by Transnet and Eskom, the 2010 FIFA World Cup and the Gautrain constitutes substantial investment by the public sector.

Already shortages of key inputs such as steel, cement and timber have led to a surge in imports of these crucial inputs. Unless local production capacity is improved, the stimulus from the public sector may end up fuelling demand for imports, mitigating employment creation in the local economy. South Africa is playing a catch-up game as local companies looked elsewhere during the period of low public sector infrastructure investment. The employment multiplier of government infrastructure spend also depends on the extent to which labour-based construction methods are utilised.

If construction is heavily biased towards using machinery and imported inputs, employment creation will suffer.

The Peoples Budget Campaign will monitor the impact of ASGISA on poverty reduction and employment creation and remains open to discussions on how to achieve the goal of substantial reductions in poverty and unemployment.

We believe that South Africa, as a middle-income country, has the resources to exceed the MDGs and do more to substantially reduce poverty and unemployment. What we need is a development strategy that transcends the limits of the apartheid colonial mineral-based economy.

To transcend the apartheid growth path demands a developmental vision and strategy to transform the structure of production, ownership and markets. It demands a major transfer of incomes, assets and skills to the poor. In short, this demands that we go beyond strategies to ‘deracialise’ a colonial economic structure premised on the exclusion of the majority.

It also demands openness to evaluate existing policies rather than a dogged determination to defend them at all costs.

In our view, the macroeconomic strategy, which was designed to stabilise the economy requires urgent review.

Fiscal and monetary policies are now working against each other. On the one hand we have a moderately expansionary budget while at the same time monetary policy is contractionary. Government plans to reign in public expenditure to accommodate monetary policy.

This will lead to a ‘surplus’ forecast for this financial year. In the context of underdevelopment it is apparent that the current macroeconomic strategy is inappropriate and requires revision. Furthermore, if government strategy is to promote exports, there is a need to review the current strong rand.

The PBC therefore calls for the urgent finalisation of the government’s industrial policy strategy and a comprehensive strategy to combat poverty. Further, a national debate on a development strategy is long overdue and ASGISA should be located within that overall national debate.

2.1 Development indicators

Ultimately, the success of a shared developmental strategy would need to address a worrying set of development indicators. In summary our review of the development indicators shows:

- Unemployment has increased from 15.2% in 1996 to 26.5% in 2005 using the strict definition of the term. Using the broad definition, unemployment stands at approximately 39%. There has been job creation in the economy over the last three years, which is encouraging. However, we have not reached the volume or quality of job creation required to make a significant impact on unemployment. Employment has grown in the last three years, using the narrow definition, but with the broad definition this has remained constant at around 39-40%.

- Inequality measured in terms of the Gini Coefficient has risen across all major studies, indicating that South Africa has become more unequal since 1994.

- Poverty has increased between 1995 and 2000, but more positively there has been a decrease between 2000 and 2004.

Box 3: Unemployment, poverty and inequality in South Africa

Issue summary	Overall trend	Key findings and issues
Unemployment Unemployment has increased by 10% between 1995 and 2005 in South Africa.	Unemployment has risen from 15.2 % (1995) to 26.5% in2005 using the strict definition. Using the broad definition, unemployment stands at 39.2% (2005), rising from 29.2% in 1995.	• The majority of rural households in former homelands are reliant on remittances and social grants, due to high levels of unemployment. • The problem of youth unemployment is very worrying, as 76% of all unemployed people who have never worked are between 15-30 years. This means that a generation of young people has never experienced work, and we would argue that they are trapped in poverty. • Unemployment is overtly biased towards Africans and African women in particular. In addition it predominantly affects rural provinces.
Inequality Despite the best efforts of government to extend services to the poor, the rich are getting richer, and the poor are getting poorer. This is not a slogan, as very different studies reach the conclusion that between the mid 1990s and mid 2000s inequality has increased.	Across several studies inequality is shown to have increased. The most used measure is the Gini Coefficient and researchers from organisations as diverse as the South African Labour Development Research Unit (SALDRU) and the World Bank have argued that inequality has increased in South Africa.	• The growing levels of inequality within groups are attributed primarily to higher incomes at the top for highly-skilled top earners, for the African, Coloured and Indian groups. • The increase in the white group is attributed to super increases at the top, that lead to a widening of group disparity ratios.
Poverty There is an encouraging set of findings that after poverty increased between 1995 and 2000, from 2000 to 2004 there was a decrease in poverty. However, the poverty line of R250.00 used in these studies is hardly appropriate. Thus the People's Budget Campaign once again calls for a revisedpoverty line.	Two major studies have been conducted – with the authors often disagreeing – which find that poverty has decreased between 2000 and 2004. • Researchers at University of Stellenbosch indicate that 3.1 million people are no longer in poverty. • Charles Meth, a Professor at University of KwaZulu-Natal uses the same time line and indicates that the poverty headcount has been reduced by between 1.2 and 1.5.	· The major policy issue is that we need a process towards deciding on a nationally-agreed and scientifically-credible poverty line. From a resource allocation perspective, we must focus not only on the poverty headcount, but also on the spatial, gender, race and other dimensions of poverty.

3 Spending proposals

To address this worrying picture, the PBC has developed programmes that could have substantial impact on poverty in our society. Our key proposals for the 2008/9 financial year are:

- Social development measures
  - Comprehensive social security: The introduction of a Basic Income Grant
  - Health: Adequate funding for hospitals and the introduction of National Health Insurance
- Supporting economic growth and access to services
  - Improving educational outcomes through investments
  - Accelerated land reform in the context of agricultural and rural development strategy
  - Improved spending on housing and public transport.

We believe that focused attention in these areas would provide the means for a long-term and sustainable break with apartheid material conditions that still dominate our society.

This is not a wish list; it is the subject of hard choices within the PBC during its annual consultative conference. Furthermore, we believe that these programmes must be undertaken, even it means cutting back on other areas of government spending. In the next edition of our budget proposals we will discuss crime in greater detail.

3.1 Comprehensive Social Security and the BIG

The PBC endorse the view of the Taylor commission, otherwise known as the Committee of Inquiry into a Comprehensive System of Social Security, which argued that:

Comprehensive social protection for South Africa seeks to provide the basic means for all people living in the country to effectively participate and advance in social and economic life, and in turn to contribute to social and economic development.

Comprehensive social protection is broader than the traditional concept of social security, and incorporates developmental strategies and programmes designed to ensure, collectively, at least a minimum acceptable living standard for all citizens. It embraces the traditional measures of social insurance, social assistance and social services, but goes beyond that to focus on causality through an integrated policy approach including many of the developmental initiatives undertaken by the State.

The Taylor commission identified:

- Measures to address income poverty. This includes measures to ensure that people have adequate incomes throughout their lifecycle, covering childhood, working age and old age. Income poverty can be addressed through a range of measures. However, the CSP package should comprise at least one primary income transfer, which ensures that all South Africans have some income to mitigate or eradicate destitution and starvation. A basic level of income would also have other developmental spin-offs related to enabling that person to participate more effectively in the economy (for example, afford the bus fare to engage in job search).
- Measures to address capability poverty. This can be achieved through the provision of certain basic services deemed crucial to enable a person to live and function in society. This includes the provision of basic (lifeline tariff) water and electricity, free and adequate healthcare, free education, food security and affordable housing and transport.
- Measures to address asset poverty. This includes income-generating assets, such as land, and social capital such as community infrastructure. This addresses the key underlying structural basis of poverty and inequality in South Africa.
- Measures to address special needs. This includes mainly standard measures to address special needs such as disability or child support.

It is in this context that the PBC calls for a Basic Income Grant.

3.1.1 Basic Income Grant

The Basic Income Grant is a grant that should be:

- Paid on a monthly basis to every person legally resident in South Africa, regardless of age or income.
- Set initially at no less than R100 and be inflation-indexed.
- Supplement existing grants to households so that no-one would receive less social assistance than he or she does now.
- Financed primarily through the tax system.
- Delivered primarily through public institutions.

Box 4 shows estimated impacts on poverty through the introduction of a BIG, drawing on modelling conducted by the BIG Coalition. The modelled impacts are huge, and thus warrant very close attention for three related reasons:

- Employment scenarios suggest that even with improved growth rates, unemployment will remain at around 15% in 2014. Thus the first best solution of employment will meet part of the development challenge, but second best measures will be needed. (Altman, 2006)
- South Africa's growth is based on a set of investment and consumption behaviours that are much related to changes internationally. Currency volatility and commodity prices are two key areas. If an external shock occurs, the ability of the poor to withstand this shock would be assisted with the introduction of a BIG. Conversely, a downturn would make the scheme less affordable. There is no getting around the fact that a downturn means tougher choices.
- The poverty line commonly used in independent research is set at R250,00 per household per month, which is very low. An increase of R100,00 means a significant increase to poor households. It might mean the difference between receiving adequate healthcare and being able to undertake job-seeking.

Box 4: Impacts of the BIG on poverty in South Africa (BIG Coalition)

All the models predict dramatic impacts of the Basic Income Grant in terms of reducing poverty and/or inequality. Prof le Roux makes the critical point that the Basic Income Grant "would do away with extreme destitution", the most compelling motivation for the BIG.

The EPRI model focuses specifically on quantifying poverty reduction, while the other models measure inequality effects by evaluating the net benefits of the Basic Income Grant by income and/or expenditure decile of the population. While these are different approaches, they are not contradictory but rather provide a fuller assessment of the positive social impact of a Basic Income Grant. EPRI's micro-simulation model supports the quantification of the distributional impact of the Basic Income Grant, including assessments of poverty rates and poverty gaps.

The analysis discussed here is based on the poverty line used by the Taylor Committee, but seven different poverty lines were evaluated in their analysis. The Basic Income Grant, along with the government's commitment to pre-existing social grant programmes in 2005, reduces the individual headcount poverty rate by 56%. The impact of the Basic Income Grant on poverty gap measures is even greater, since much of the positive social impact of the grant is realised below the poverty line.

The Basic Income Grant, together with the government's commitment to pre-existing social grant programmes in 2005, substantially reduces the average household rand poverty gap, measured in terms of 2003 purchasing power.

The median poverty gap disappears – since the average poor household is raised out of poverty by the grant. The mean poverty gap falls by nearly 80%. A similar analysis holds for the average household percentage poverty gap – the poverty measure employed by the Taylor Committee.

The Basic Income Grant, combined with the government's commitment to pre-existing social grant programmes in 2005, reduces the mean household percentage poverty gap by 77.5%. The aggregate poverty gap measure reflects the macroeconomic magnitude of poverty nationally and provincially. Research by EPRI has found that, from a macroeconomic perspective, the aggregate rand poverty gap falls from over R32 billion to less than R7 billion – a drop of nearly 80%.

Source: BIG Coalition (2003)

Two concerns often come up in discussions of Comprehensive Social Security. First, some people worry that grants will be misused. Although a small minority of people may behave irresponsibly, this is not a rationale for punishing everyone by halting a largely effective programme. The vast majority of current grant recipients clearly spend the bulk of their income on fundamentals such as food, shelter, education and healthcare.

Second, some critics question the affordability of an expanded social security net. However, such concerns ignore the developmental aspects of social transfers. Grants give families the resources they need to be healthier, better educated and more productive. As poverty diminishes, fewer households require assistance so the cost of the programme also shrinks. In the past decade, government has cut taxes repeatedly. The cumulative revenue foregone now amounts to nearly R80 billion per year. If we can afford to put this much money back in the pockets of the wealthy, why can't we afford to invest half of this amount in poorer households?

Debates about the financing of a BIG have revolved around two key and interrelated issues: the cost of the grant and the strategy for covering these costs. The gross cost of a BIG can be fairly easily calculated for any given year by multiplying the size of the monthly grant by 12, and then by the total eligible population for that year. However, gross cost calculations do not reflect the actual amount that the State would need to raise to finance a BIG – the net cost of the grant.

The net cost of the grant would be dramatically less for two reasons. Firstly, the Taylor Committee proposed that the BIG be understood as a foundational component of all existing grants. In other words, a person already receiving a social grant larger than the value of the BIG would not be eligible to receive any additional money. The extension of the CSG to poor children under the age of 14 will further diminish the net cost of introducing a BIG.

Secondly, all proposals for a BIG envision that a certain proportion of the funds disbursed would be promptly recovered by the State through the tax system. The net cost of the grant would thus be reduced further by the amount recovered. The size of this 'clawback' will depend on the nature of the associated adjustments to the tax structure.

As our sister coalition, the BIG Coalition (to which all PBC members belong) has commissioned four economists to cost the BIG proposals. Despite some differences of opinion on details, the four economists involved in the project agreed on a number of key points:

- The Basic Income Grant is an affordable option for South Africa. Although the four economists posited slightly different net costs for the BIG, there was agreement that the grant is affordable without increased deficit spending by government.

- There are feasible financing options for a Basic Income Grant. The four economists modelled a variety of tax-based financing options for a BIG, each of which has different redistributive implications, but all of which represent feasible options.

- The optimal financing package will involve a mix of tax sources. The economists agreed that a mixed financing package, involving revenue raised from adjustments to personal income tax, introduction of a tiered VAT, excise and/or corporate tax rates, represented the most stable and sustainable financing package. A tiered VAT would raise the tax on luxuries while reducing it on a broader range of necessities, in order to avoid increasing taxes on the poor.

The evidence emerging from this project underscores the need for further, detailed consideration of the BIG in the context of a broader package of measures designed to achieve comprehensive social protection. Government is already engaged in an ongoing, internal consideration of the Taylor Committee recommendations.

In addition, it is gradually revising its fiscal framework to harness more resources for social delivery. It is critical to build broad social and political support for a comprehensive social protection strategy before government makes final decisions on any components of a social security package. This will require engagement on multiple levels, both within government and in multi-sectoral bodies, such as NEDLAC.

To lend coherence and continuity to this process, the People's Budget Campaign urges the establishment of a government/civil society forum to consider a range of practical questions related to the configuration and implementation of a comprehensive social protection package and to determine how legitimate concerns about the BIG and other components of the package can most appropriately be addressed.

Of the major social services, the public health sector is probably the most under-funded. At the same time, it has faced rising demands, both because of the improved access of poor black communities and because of the HIV/Aids pandemic. The PBC makes two proposals in terms of health spending:

1. Introduction of National Health Insurance;
2. Increased spending for public hospitals.

3.2 National Health Insurance

Government has responded to the public health crisis in part with proposals to introduce a system of social health insurance (SHI). In essence, this strategy would reduce the number of people using public healthcare by requiring the 'better-off' to pay for health insurance through private or State-run schemes.

The People's Budget Campaign rejects SHI for two basic reasons.

- SHI would effectively privatise healthcare. An individual's access to healthcare would depend increasingly on one's income, rather than on the right to healthcare guaranteed by the Constitution.
- Proposals for SHI, as published in 2004, would place an intolerable burden on lower-income workers and on the economy as a whole. This would lead to higher unemployment and slower economic growth.
- SHI would spell a qualitative change in the relations between the private and public sector. Historically, in South Africa medical schemes were an optional add-on, while the public sector remained the provider of last resort. Under SHI, at least some workers would be compelled to use private healthcare or pay private rates for public facilities. This, in effect, means that health would become a commodity rationed by the market, rather than a basic need and, as the Constitution requires, a fundamental socio-economic right.

Our proposals for a National Health Insurance are aimed at providing a mandatory contributory system that would provide health insurance. These proposals are detailed in our 2005/6 budget proposals.

3.3 Public hospitals

Moreover, hospitals currently experience significant shortfalls in staffing, equipment and medicines. Provincial departments of health manage public hospitals. The role of the National Department is to develop overall policy and channel funding to the provincial departments. The provision of health services is divided between primary health clinics; level 1 (district), level 2 (regional) and level 3 (central) hospitals. Each level provides for more specialist and intensive clinical care than the level below it. In principle, patients should enter the system at the level of the clinic for an initial examination, and should then be referred upwards to the appropriate level if necessary.

In practice both the weaknesses of the referral system and the lack of comprehensive hospital coverage means that regional and central hospitals often accommodate patients who ought to be treated in hospitals at levels above or below them.

Over the first 12 years of democracy, "there was a nett- to real growth in public health expenditure, with provinces experiencing a 30% increase. Overall, however, expenditure has not kept pace with the increase in the population and *per capita* expenditure remains below a peak established in 1996/97." This is before taking account of the "additional cost burdens imposed by HIV/AIDS." (Schneider, Barron & Fonn 2006) Overall staff numbers in the health sector declined nationally from 235 000 in 1994 to 213 000 ten years later, increasing somewhat to current levels of 225 000. (Bateman, 2006: 168)

Several studies show that:

- Between 73 and 92% of staff in four Gauteng hospitals felt that there was a shortage of nursing staff. Between 71 and 76% felt there was a shortage of doctors and between 61 and 92% felt their workload was too high. Between 35 and 60% of staff suffered from high levels of emotional burnout as a consequence.
- Under-funding has created a weak and ineffective management capability. Financial, HR and operational

management are under-resourced in virtually all institutions. Managers are constantly dealing with crises and have no capacity to implement longer-term strategic responses to problems. One manager told the NALEDI research team that every day ten new problems crop up and "you simply have to choose the two most important problems and deal with those, and just leave the rest."

- In research conducted by NALEDI, nurses and clinicians noted the following impacts:

  - Inexperienced or under-qualified staff taking responsibility beyond their scope of practice. For example, an enrolled nurse, rather than a professional nurse running a ward or monitoring patients on ventilators, and therefore missing vital signs of deterioration in the conditions of a patient;

  - Increased cases of patient complications, ensuing in more intensive nursing, greater pharmaceutical costs and greater length of stay;

  - More readmissions because patients are discharged before they have fully recovered;

  - Greater risk of infection because of poor infection control, sometimes due to workload and sometimes to management failures such as absence of proper procedures or lack of washing liquid, failure to maintain plumbing, electrical and other infrastructure, etc;

  - Poor patient recovery because of lack of essential drug stocks;

  - Lengthy delays before treatment, increasing the risk of morbidity and mortality.

In conclusion, clearly an integrated solution to our health problems is needed. Resolving the proposals in public hospitals is partly about systems and operations, but also about providing the resources to turn around the hospitals.

Turning around the decline of public hospitals will require a significant investment in management capabilities, systems and employment of additional staff. The PBC will be developing detailed proposals on this for our next budget proposals.

3.4 Education

Education continues to be the largest expenditure item for government, accounting for 20% of allocated expenditure in 2006/7. While this may be the case the PBC has always called for a substantial increase in spending towards education, largely for the following reasons:

- Thirteen years into our democracy, the disproportionate education outcomes continue to plague the overall education system, particularly in public schools. These outcomes predominantly affect those learners situated in township schools, influenced by their socio-economic status. As a result, skewed development and outcomes in education remain a major challenge for our developmental state.
- The ongoing pressure on an adequate spending ratio between personal and non-personal expenditure items continues to ravage education in public schools. Provincial education budgets over the period consistently moved towards increasing non-personal items as a percentage of expenditure, thus placing constraints of employing much-needed staff in public education in particular schools.
- Continued poverty and adverse socio-economic conditions affecting learners attending schools, especially those in predominantly rural-based provinces. This includes lack of access to books and learning materials; impact of school fees on poverty-stricken households; poor public transport; Early Childhood Development (ECD) and ABET; access of schools to basic services such as water, electricity and sanitation; poor condition of facilities; and hunger of learners at schools, among others. This continues to characterise the level of inequality on a racial, gender and geographical basis facing our country.

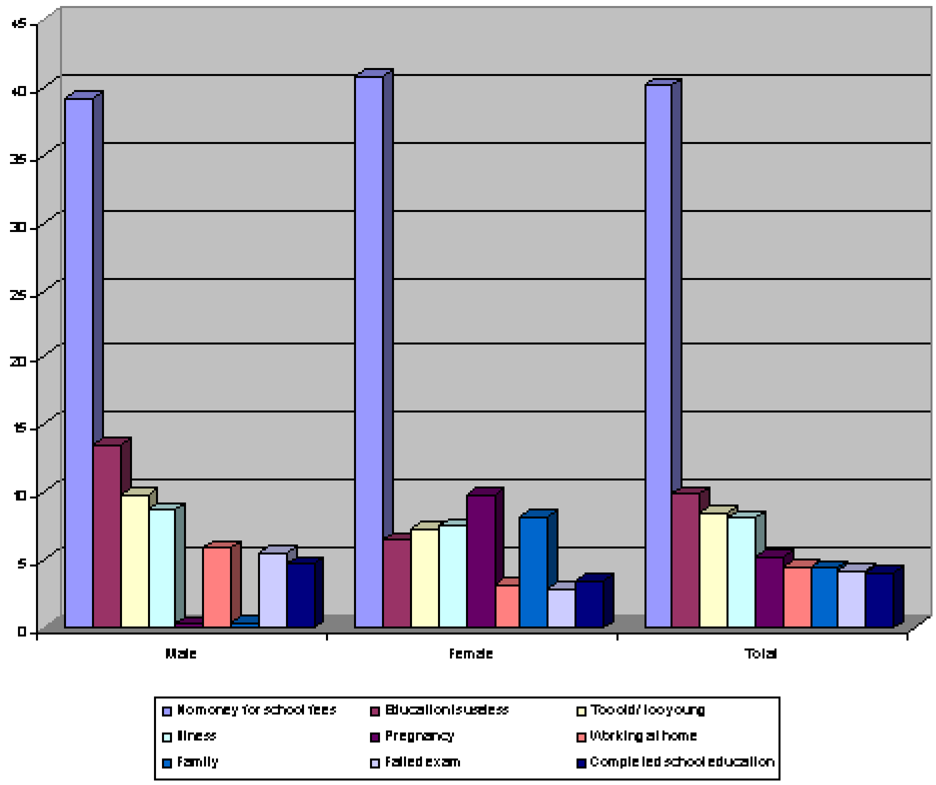
Box 5: School fees in perspective

Below is an illustration of why those aged between 7 and 18 years no longer continue schooling. Although it is taken from the 2003 GHS survey, there is still merit in arguing why participation rates are so low.

The People's Budget Campaign makes three proposals on education spending. These are:

- Increasing education spending as a percentage of total spending, without cuts to other forms of social spending.
- Increasing spending on Early Childhood Development and Adult Basic Education and Training.
- Adopting a policy of scrapping school fees in line with government's commitment to providing free and universal access to education.

Main Reasons For Not Attending an Educational Institution
Ages 7 to 18 Years, 2003



Source: GHS 2003

The graph above indicates that most learners fail to continue school or complete matric due to the cost of school fees. It is certainly the key contributing factor to the low levels of participation of learners between the ages 7 and 18 years, with more than 40% indicating that they do not attend an educational institution because they cannot afford to.

he current government strategies of identifying certain fee-exempt schools is inadequate given that poor learners often travel to more affluent areas to receive their schooling, thus not benefiting from the fee exemptions.

3.5 Housing

The PBC has consistently made recommendations on low-income housing focused on increased spending, but stresses that significant improvements in the design, location and integration of housing projects are needed.

Several factors, which we will briefly expand on, seriously constrain the advancement of these gains. These include:

- The impact and consequences of the national spatial development perspective (NSDP);
- Competing demands for commercialising land and the ever-increasing need for expanding the 'first economy to leverage gains for the second economy';
- New urban settlement patterns that favour the wealthy although they were intended to bring about transformation of city centres,
- Intergovernmental tensions and a failure to move forward to effect service delivery;
- Political tensions at provincial and local government levels;
- Poor co-operation between government departments responsible for the installation of water and sanitation services, the purchase of secure plots, provision of child support, disability grants and old age pensions;
- The persistence of high unemployment and the impact of HIV/Aids on families.

The PBC is calling for an urgent national debate on the NSDP. Our reasons are outlined in the box below:

Box 6: Why we want to debate the NSDP

The National Spatial Development Perspective (NSDP) is a 'Perspective' that was prepared for the Presidency in November 2002 and published in March 2003 by the Policy Co-ordination and Advisory Services (PCAS). Its proposals are significant and contentious from our perspective. Since its introduction, the NSDP has fallen off the policy radar, but we believe that a spatial framework will be helpful for South Africa, even though we disagree with many aspects of the NSDP.

Briefly, the NSDP:

- Provided a framework for the future development of the 'national space economy by reflecting the localities of severe deprivation and need, of resource potential, infrastructure endowment and current and potential economic activity';
- Acted as a common reference point for national, provincial and local governments to analyse and debate the 'comparative development potentials of localities in the country by providing a coarse-grained national mapping of potential';
- Identified key areas of tension and/or priority in achieving positive spatial outcomes with government infrastructure investment and development spending;
- Provided national government's strategic response to the above for a given time-frame;
- Provided an important study on 'national mapping', which identified areas of high, average or low economic potential, human need and resources per magisterial district (studies were done before 2000 municipal demarcation), thus already identifying tentatively where government will be selectively allocating its resources.

The People's Budget Campaign maintains that this paradigm has not been tested or debated. The NSDP follows market principles and compromises the role of the State insofar as it allows the private sector to lead in development. Moreover, the NSDP 'seeks to focus the bulk of fixed investment of government on those areas with the potential for sustainable economic development', since it claims that it is in these areas that government's objectives of 'both promoting economic growth and alleviating poverty will best be achieved'.

What is more controversial is that the NSDP proposes among other things, that "in areas of limited potential, it is recommended that, beyond a level of basic services to which all citizens are entitled, government should concentrate primarily on social investment such as human resource development, labour market intelligence and social transfers, so as to give people in these areas better information and *opportunities to gravitate towards areas with greater economic potential,*" quoting international trends.

This has serious implications on both current and future settlement patterns, including low-income housing plans. It claims however, 'in order to overcome the spatial distortions of apartheid, future settlement and economic development opportunities should be channelled into activity corridors and nodes that are adjacent to or link the main growth centres'.[1]

We believe that a debate on the spatial framework for South Africa is crucial to the longer-term dialogue on a national development strategy.

The People's Budget proposals for housing thus call for:

- Increase of housing budget to 5% of total expenditure.
- Government, not business, should drive the urgent implementation of low-income housing needs, as well as the implementation of access to water, sanitation, energy and transport services. This requires significant public investment, and accountable private sector and other non-governmental organisation involvement. Agreements at the Presidential Jobs Summit on rental housing would also need to be integrated into planning
- Integrated settlements where the poor enjoy close proximity to work, high levels of services and access to services. Higher density levels would be crucial to reaching this goal.
- Governments and financial institutions must play a more dynamic and innovative role in extending affordable finance for housing to low-income households, including the services of savings cooperatives. The use of micro-credit institutions lending money to low-income borrowers for incremental housing improvements must be within the ambit of the law and have low interest rates.
- The tenets and objectives of the NSDP are debated in a national forum, with inputs from regional and provincial hearings. The outcomes of these debates should inform the future of the NSDP.

The PBC recommends that alternative development indicators, beyond the number of housing stands built and numbers of households reached, inform the urgent housing debate. We recommend that the generation of a baseline poverty profile is formally adopted to provide an evolving framework for the ongoing monitoring of poverty in cities.

In particular, we proposed that the methodology of the City Development Index (CDI) be explored as a comparative, quantifiable measure of urban poverty that, along with thorough public participation and consultation, would inform appropriate and flexible tools for policy interventions.[2]

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[1] The Presidency produces the NSDP, April 2004. www.idp.org.za/content_CSIR/news/News_NSDP.html

[2] The CDI uses derivatives of infrastructure, waste, health and education, and economic product to develop a graphic representation of the 'state of the city'.

3.6 Transport

The reality of public transport is one that adversely affects working people in South Africa, as shown in a national survey by the Department of Transport. Survey results showed that:

- 47% of households in South Africa indicate that transport is either not available or is too far away.
- 27% of households express concern at the safety of minibus-taxis and the bad driver behaviour.
- 23% indicate that transport is too expensive.
- In 2003 around half of all workers spent over half an hour a day commuting to and from work and almost one in five spent an hour each way. Travel times were longest in the metropolitan areas, where almost half of commuters lived.
- Around one in five learners used taxis to get to school, although the vast majority walked – around 5% for two hours or more.
- In 2005 alone, more than 13 000 people died in accidents on our roads. In 2003, just over 10 000 people died in transport accidents – more or less the same as in the previous two years. Two thirds of taxi passengers were concerned about their safety, compared to between a quarter and a third of train and bus users. This issue caused the greatest dissatisfaction among minibus passengers.
- In 2003 three quarters of households were 15 minutes away from a taxi stop. In contrast, only half were within 15 minutes of a bus station, and 10% were near a train station.
- Most people use taxis because they have no alternative – but the costs are high. The high cost of transport imposed substantial burdens on workers. But they also raised the cost of employment and reduced the overall efficiency of the economy. That certainly had a negative impact on both overall employment and economic growth. The Department of Transport study found that a quarter of households spent over 20% of their incomes on public transport. The figure rose to almost two thirds for households earning under R500 a month, which constituted about a quarter of the total. (See table below)

Our central demand for public transport is that: No person or household using public transport should spend more than 5% of his/her or their income on transport. Implementing this demand will require significant developments in policy and financing, including:

- The development of a national public transport strategy that would provide a set of real world solutions for South Africa;
- Immediate development of a plan for the taxi industry, as current processes seem to promise much, but deliver little;
- Priority be given by local governments to the development of bus routes from townships to business areas;
- Review of all funding, subsidies and other funding by the Department of Transport;
- An engagement process with the Department of Transport on a National Transport Strategy;
- Linkages with 2010 infrastructure spending to implementation of sustainable public transport;
- Changing settlement patterns that will reverse the persistent legacy of apartheid spatial planning which has economic centres of activity far from the areas where most poor people reside.

3.7 Land

Government's stated goal is to redistribute 30% of the 82 million hectares of agricultural land owned by whites in 1994 (i.e. 24.6 million hectares) to black ownership by the end of 2014.

The programme remains well behind schedule, despite a substantial increase in the pace of land reform in the past two years. According to the Department of Land Affairs, only 3.4 million ha or 4.1% of farmland had changed hands by September 2006.

This included land delivered under all three government land reform programmes – land restitution, land redistribution and tenure reform – as well as distributions of State-owned land (which, strictly speaking, should not count towards the target).

Table 1: Land delivery since 1994

Land Delivered Since 1994	
Programme	**Area**
Redistribution	1 477 956
Restitution	1 007 247
Tenure reform	126 519
State land	761 524
Total	3 373 246

Source: DLA Presentation to Nedlac, 24 August 2006

In research conducted for the People's Budget Campaign, the budgets for land redistribution are wholly inadequate.

The estimates suggest that until the 2008/9 financial year, funding for redistribution will not meet the requirements to reach the target.

However, one cannot simply argue for an increase in spending – as noted by the People's Budget Campaign – without addressing questions of under-spending.

Coupled to the absence of adequate financing for land redistribution, there is a profound change in the agricultural sector. Firstly, there is a very high level of farm evictions.

Research demonstrates that the numbers are extremely high, coming it at just under 1 million people, more precisely, 942 303 between 1994 and 2004 (Nkuzi Development Association, 2005).

Wegerif (2006) summarises the impact of these evictions as follows:

Many of those evicted from farms had been producing for themselves, with 44% having livestock and 59% growing their own maize. Now less than 10% of the evicted households have livestock and they are left with small stock, such as chickens, whereas they previously owned cattle. Only 26% now produce maize for themselves and in smaller quantities than they did when on farms. (pg.10)

The reasons for these evictions are related to economic pressures of trade liberalisation and determinations for wages by the Department of Labour. Farmer responses could thus be viewed as a simple economic logic; they cut costs. However, the inability of government to address this problem reflects on its incapacity to intervene in a process that deepens levels of inequality, strips the poor of their already meagre assets and deepens the poverty trap.

Viewed in this light, the LRAD and CASP programmes and targets for land reform and agricultural development require a fundamental review. There are no easy answers to whether interventions aimed at subsistence agriculture will provide a type of social safety net, or whether the consequences of restructuring must simply be accepted, supported by the hope that government interventions will distribute land more equitably and thus create demand for labour.

Secondly, assessments of government's progress have also been hampered by the unreliability of DLA statistics. In late 2004, the DLA reported that nearly 1.9 million ha had been redistributed, but the discovery of inaccuracies in the records kept by certain provinces has since forced the DLA to adjust that figure downward to just under 1.5 million.

The People's Budget Campaign has consistently advocated several key policy changes to accelerate land reform and enhance its impact.

- Increase the target for black land-ownership. 30% is a completely inadequate target for land redistribution given the demographics of South Africa's population. Even if it is impractical to expect the State to achieve a higher target by 2014, there should at least be a higher target in the longer term.

- **Dramatically increase the funds allocated for land reform.** The total value of land and fixed assets on South African farms was estimated at R57 billion in 2002. Assuming an annual inflation rate of roughly 5%, the DLA will require a capital budget in excess of R2 billion per year if it is to meet even its current target.

- **Use expropriation powers more aggressively.** Officially, government has abandoned the 'willing buyer-willing seller' policy that has limited its options in the past. Although the People's Budget welcomes this move, government does not seem to be prepared to use its expropriation powers aggressively enough. The new Proactive Land Acquisition Strategy (PLAS) does not give provincial DLA offices sufficient direction on expropriation; as a result there are large variations in how the policy is being applied. The dominant model is to conclude leases with an option to purchase in the expectation that in 3-5 years successful farmers can be given an opportunity to purchase their land from the State with their LRAD grants or at a concessionary price.

- **Give priority to small and subsistence farmers.** In recent years, programmes specifically designed for poor households have been curtailed and there has been a greater emphasis on developing a new class of commercial farmers.

- **Pay more attention to the needs and interests of marginalised groups.** Targets for the inclusion of women, youth and disabled people in land reform programmes are widely ignored. Communal tenure reform, in particular, must be implemented in a manner that protects the rights of women. We need to debate the impacts of the Communal Land Rights Act, which is likely to worsen the position of women.

- **Commit adequate resources to promoting sustainability.** Land reform is not about land transfers alone. Sufficient funding must be allocated to reform support programmes that can ensure the success and sustainability of land reform beneficiaries. The Comprehensive Agricultural Support Programme launched in 2004 is inadequate to meet these needs.

- **Build employment multipliers:** One of the ironies of slow land reform is that the agricultural sector has the potential for creating jobs, according to several research studies on the employment multipliers of investments. An agricultural sector strategy would be an important start to utilising rural land to create good quality jobs, through agro-processing and other value-added products.

4 Developmental financing package

4.1 Introduction

South Africa must strive towards shared economic growth. The developmental financing package proposed here thus seeks to:

- Increase government spending as a stimulus to the economy, and as a means to increasing access to social services;

- Reallocate resources away from projects that we do not support. In this report we focus on the Pebble Bed Modular Reactor and the Gautrain;

- Propose deficit financing to encourage economic growth and redistribution, while managing the recurrent costs of debt.

To this end, we propose six strategies:

1. Increase the Tax : GDP ratio;

2. Reduce VAT to 13%, coupled with a tiered VAT system;

3. Moderate increase in the budget deficit;

4. Manage the recurrent costs of debt;

5. Redirect spending away from the Gautrain and the PBMR;

6. Mobilise pension funds to support infrastructure investments.

These strategies are aimed at implementing a more expansionary stance from government, to fund the programmes we have argued for and to provide a stimulus to the economy. We believe that the proposals presented offer a fiscal contribution towards shared economic growth.

4.2 PBC scenarios

Underlying the approach of the PBC is a social investment strategy, which is depicted in Box 7 below. Increased social investment combined with appropriate labour and industrial policies support higher wages that reduce poverty.

This bolsters the effectiveness of fiscal policy, since efficient social delivery produces a greater growth effect if the economy can break out of the poverty trap. For example, expanding access to education is not as efficient if households lack the resources to provide learners with adequate nutrition.

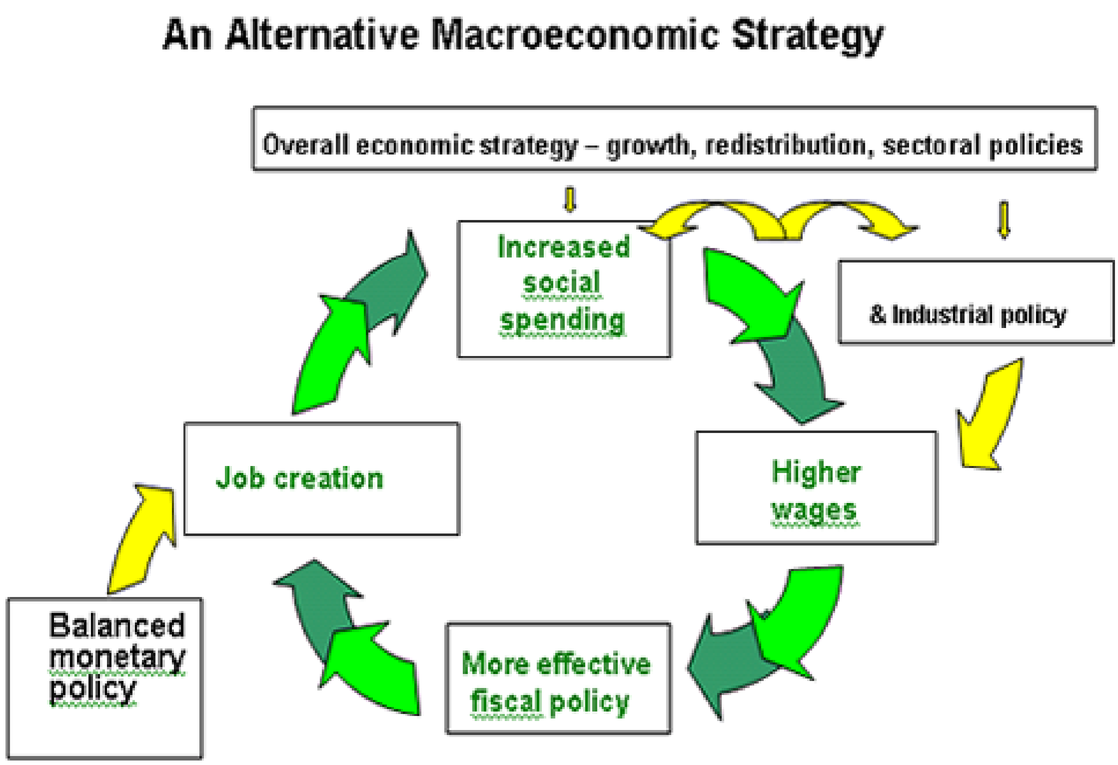
Government has finally accepted that South Africa exhibits a low-level poverty trap. The apparent acceptance of this 'poverty trap' in South Africa is an important and significant development, suggesting the possibility of such a reconfiguration of alliances and associated programmes. Explicitly, there is recognition that without significant interventions, structural poverty will continue (Mbeki, 2004).

The rhetorical stance marks a departure from the heydays of the *Growth, Employment and Redistribution: A Macroeconomic Strategy* (GEAR) (Department of Finance, 1996), which denied the existence of a 'poverty trap', and assumed that a virtuous cycle could be triggered with orthodox economic measures.

Questions of the continuity of policy between GEAR, and strategies envisaged in the *Accelerated and Shared Growth Initiative – South Africa* (ASGISA) obviously cast doubts on whether the political message of 'poverty traps' translate into a strategic shift. We believe that the proposals we present are consistent with making interventions in structures that perpetuate poverty and inequality in our country.

The PBC has debated several scenarios on how best to create a 'capital infusion', in the words of President Mbeki. These scenarios are summarised in the box below. Essentially the scenarios ask us to determine a coherent, realistic and long-term stance to poverty eradication. The shaded scenarios are those which the PBC proposes for debate.

Box 7: An alternative macroeconomic strategy



Box 8: Budget scenarios

Scenario name	Summary	Modelling assumptions
Gradual high expansion scenario	This scenario seeks to show the possibilities of a sustained increase in government spending through raising tax and deficit targets.	▪ In the first year expenditure is increased by two percentage points of GDP, and revenue by one percentage point. ▪ In the second year expenditure is further increased by 3%, while revenue is increased by 2% with an increase of 1% in the fiscal deficit. ▪ In the third year, both expenditure and revenue are raised by 3%, resulting in the same fiscal deficit level as the baseline scenario, at 2.6%.
Balanced low expansion scenario	This scenario shows the results of increase in revenue and expenditure by one percentage point, while keeping the fiscal deficit in line with the baseline scenario.	▪ For the medium-term projection period, both government revenue and expenditure are increased by one percentage point compared to the baseline scenario. ▪ The fiscal deficit is unchanged compared to the baseline scenario (hence the term 'balanced')
Balanced moderate expansion scenario	This scenario shows an increase in revenue and expenditure of 2%.	▪ For the medium-term projection period, both government revenue and expenditure are increased by two percentage points compared to the baseline scenario. ▪ The resulting fiscal deficit is the same as the figures provided in the baseline scenario for each corresponding year.
Balanced high expansion scenario	This scenario models the impact of increasing revenue and expenditure by three percentage points, and keeping the budget deficit unchanged.	▪ For the medium-term projection period, both government revenue and expenditure are increased by three percentage points compared to the baseline scenario. ▪ The resulting fiscal deficit is the same as the figures provided in the baseline scenario for each corresponding year.

Scenario name	Summary	Modelling assumptions
Low deficit expansion scenario		▪ For the medium-term projection period, only the government expenditure is increased by one percentage point compared to the baseline scenario for each fiscal year, while no change is made in the government revenue. ▪ The resulting fiscal deficit is raised by one percentage point compared to the baseline scenario for each corresponding year.
Moderate deficit expansion scenario	This model looks at increases in the deficit alone by raising the deficit to two percentage points above the baseline.	▪ For the medium-term projection period, only government expenditure is increased by two percentage points compared to the baseline scenario for each fiscal year, while no change is made in the government revenue. ▪ The resulting fiscal deficit is raised by two percentage points compared to the baseline scenario for each corresponding year.

The current budget framework guiding government as outlined in the MTBPS (2006) has some features that are supportive of our preferred options (shaded areas). These are:

- Non-interest spending increases significantly year on year over the period starting with the MTBPS (2006).
- Total expenditure increases robustly in real terms, with possible upward revisions possible over the MTBPS.
- The expenditure : GDP ratio increases to above 27% over the MTBPS. The PBC however calls for a 29% Tax : GDP ratio.
- Debt service costs are reduced as a percentage of GDP.

The outlook thus represents a continuation of the moderately expansionary stance of government. An even more expansionary stance is possible, as shown in the scenarios we are proposing for debate.

The question of proposing a fiscal surplus and then very modest deficits remains worrying. The motivation for a fiscal surplus is, however, debatable.

First, there is an argument that a fiscal surplus will have the impact of reducing the trade deficit, through government reducing its spending. While the PBC supports measures to reduce the trade deficit, the primary mechanism is through South Africa producing more goods and finished products.

This is the ambit of industrial policy. A fiscal surplus is at best a short-term fix for a longer-term structural problem in the economy. Moreover, through government investment in infrastructure and the slightly delayed recapitalisation of the construction industry, there might be support for reducing the trade deficit. Simply stated, we would support a long-term strategy to reduce the trade deficit that deals with the structural problems.

Second, there is a significant opportunity cost in having a fiscal surplus and very low deficits throughout the MTBPS.

At a time when revenue collection is outstripping projections and where there is fiscal space for major investments, we should not be constricting fiscal spending through a fiscal surplus. Economies experience downturns and the impressive revenue collection efforts are cyclical, and thus we cannot assume a continuous source of increased funds. Thus while the coffers of government are growing together with the economy, there is a unique opportunity to invest in programmes aimed at long-term structural change.

4.3 Tax : GDP ratio

One of the Campaign's key principles is that the national budget should be an engine of redistribution. Our proposals are for an increase in the Tax : GDP ratio to 29%. This would release an additional R82 billion over the MTBPS period. However, if we implement the High Balanced Expansion Scenario we would release an additional R117 billion over the medium-term.

There is unease in many quarters on further increasing the Tax : GDP ratio. Some of these concerns are justified given the capacity of certain sections of government to spend. The increased levels of taxation have a compelling case, including:

- Reducing inequality through higher initial taxes would possibly bring down the Tax : GDP ratio in the long-term.
- Reducing inequality has positive long-term consequences on economic growth, as demonstrated in several studies, including the 2006 World Development Report by the World Bank, and the 2006 Human Development Report by the United Nations Development Programme.
- South Africa must somehow provide income support to unemployed workers, especially unemployed young people. The increased levels of taxation would provide for this, and should thus be viewed as an investment in the future.

4.4 Reduction of VAT to 13%, coupled with a tiered VAT system

Value-added tax, or VAT, is a highly regressive form of taxation, which weighs more heavily on the poor than on the rich. Table 2 indicates the VAT burden on households by income level. It shows that households earning R1 500 a month pay 10% of their income on VAT, compared to 7% for those earning more than R10 000 a month.

Table 2: Estimated VAT burden on households, by income level

Annual household income	VAT paid as a % of annual income	Total VAT paid in rands
R18 000	10%	1 799
R30 000	10%	2 910
R75 000	8%	6 141
R140 000	7%	10 241

Source: National Treasury.

The People's Budget Campaign therefore continues to call for changes to VAT to diminish its regressive impact. Firstly, we reiterate our longstanding request for the introduction of a variable rate VAT that would exempt more basic commodities and impose a higher rate on luxury goods. Although theorists often argue for a single, uniform rate, only 18 countries have adopted this approach (COSATU, 1999). Belize, Canada, Ireland, Jamaica, Kenya, Poland, Romania, Trinidad and Tobago and the United Kingdom zero-rate basic goods, while a further 76 countries have special low rates for basic foodstuffs. Many countries have two or more VAT rates.

Secondly, we call for a 1% decrease in the basic VAT rate. Such a 'people's tax cut' would cost the State between R9 billion and R10.4 billion in 2006/07 depending on the impact of the reduction in the demand for goods and services. The lower figure (which assumes unitary elasticity) is the more likely as the savings for many families, particularly in poorer households, will stimulate marginal increases in consumption (van Niekerk, 2004).

The combined impact of the changes proposed by the People's Budget would be to generate R56.5 billion in additional revenue, reduce the tax burden on the poorest households and shift roughly R66 billion of the total revenue burden to upper income households and companies – substantially less than the R72 billion in tax cuts that they have enjoyed over the past decade.

4.5 Increase budget deficit

Deficits are difficult policy instruments to manage, especially if they give rise to inter-generational costs. The PBC thus takes a responsible view of deficit spending, focused on infrastructure spending. The rationale is that effective spending today will support the prospects for long-term poverty eradication and economic growth.

Government has announced an infrastructure programme that consists of three important initiatives. These are:

- **Financing State-owned enterprises to play a developmental role.** This will entail large injections of resources for capital projects, primarily in the electricity generation and transport sectors.

- **Expanded public works programme.** Rolling out of the expanded public works programme may provide short-term employment and has the potential to catalyse economic participation.

- **Human settlements in housing.** The new approach to housing development as part of building sustainable communities will require additional resources in terms of making RDP housing settlements viable.

In all three cases there is an anticipated funding gap that may arise, especially since government estimates that to meet its target of R410 billion, infrastructure spending should increase on average by 14.2% of the MTEF period. Releasing funds through increased deficit spending for these infrastructure projects is in the long-term interest of the country. Taken together these projects could lead to important multiplier impacts in the economy including:

- Providing funds to expand the delivery of services to the poor in the context of building sustainable human settlements;

- Catalysing rural economies through infrastructure investment;

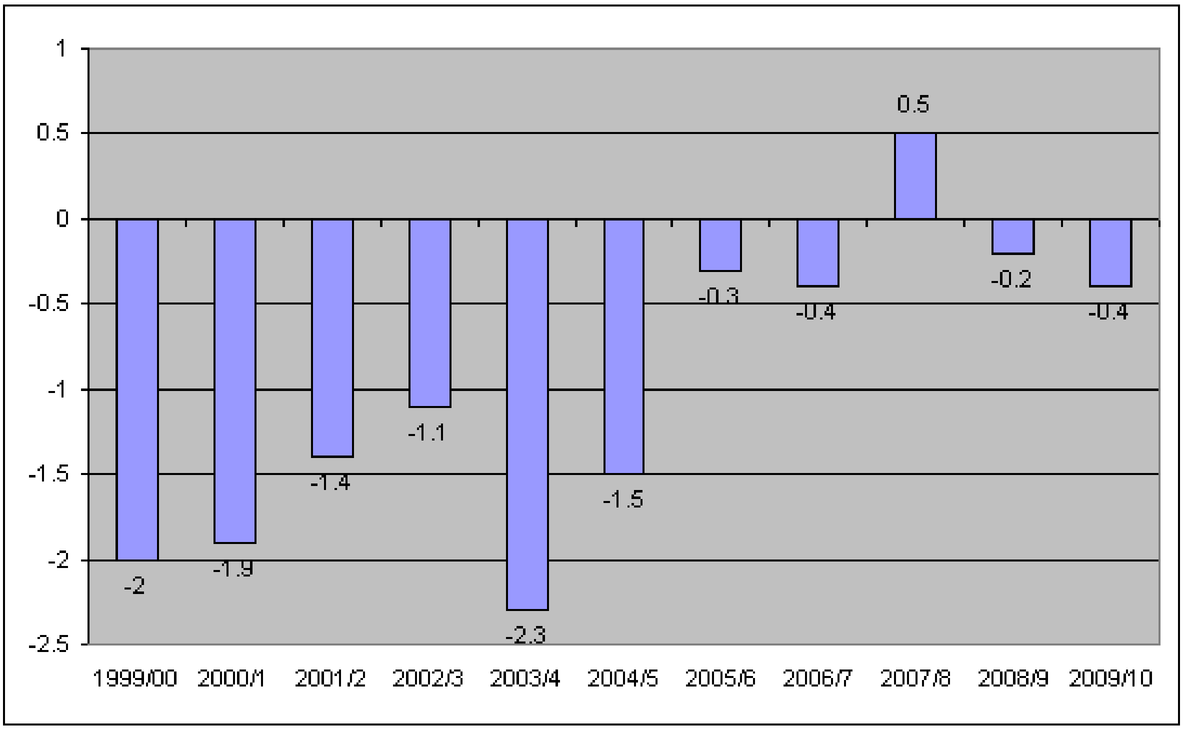
- Potentially improve household productivity by providing water and electricity at levels that allow small-scale economic activities;

- Reducing the input costs for businesses and ensuring that cross-subsidies from rich to the poor, and from rich to poor areas are maintained.

However, we are conscious of the dangers of deficit spending. We address the dangers through an economic model that outlines the potential for reaching a point where deficit is increased in the short-term and then falls over a period of time, as discussed earlier.

Government has, however, adopted an excessively cautious stance on the budget deficit. Graph 1 shows the deficit position of government from 2000 onwards.

Graph 1: Budget Deficit 1999/00 to 2009/10



Since the 1999/2000 financial year there has been a very tight deficit set. In fact, the deficit has been consistently below even the GEAR target of 3%. In a country with such high levels of poverty, inequality and unemployment, it is remarkable that deficit spending has not played a greater role in economic and social development.

There are, however, two common criticisms for increased deficit spending. These are:

- Deficit financing could lead to a debt trap; and
- Deficit financing may increase the debt burden on future generations.

These criticisms may indeed be valid in certain circumstances, but South Africa has nowhere near the debt levels of the Latin American, Asian and other African countries that have faced debt crises. Moreover, rapidly growing economies have traditionally been able to sustain higher levels of deficit spending. Thus space exists to utilise deficit spending to fund development programmes.

In particular, funding programmes for electricity generation and improving the transport system require additional once-off funding. Utilising the deficit to finance large-scale infrastructure projects presents an opportunity to lower input costs for businesses, strengthen cross-subsidy mechanisms and increase the provision of services to poor communities. The People's Budget proposes a three-pronged strategy for dealing with the debt.

4.5.1 Reducing the cost of borrowing

Two mechanisms are available to government to increase deficit spending, while reducing the debt service costs.

1. **Interest rate reductions.** The South African Reserve Bank (SARB) could implement a prudent and managed programme of interest rate reduction, leading to a reduction in the interest payment on government debt. During 2006, the SARB moved quickly to increase interest rates.

2. Issuing low interest bonds. The government could issue bonds that pay lower interest rates than those that financial markets currently offer. This would be in line with commitments of the Growth and Development Summit (GDS) to boost levels of investment by both public and private sector. The prescribed assets requirements, which existed in the 1980s and 1990s, may be a model which we can follow. Further, the People's Budget Campaign is looking at several different ways to mobilise

private sector spending to be in line with the country's development objectives.

4.5.2 Managing apartheid debt

A second proposal of the People's Budget Campaign is ring-fencing and renegotiating the debt – both domestic and foreign – that was incurred under the apartheid regime. Currently domestic debt is around 79% of the total State debt, making it easier for South Africa to negotiate this internally. These debts could then be replaced by special bonds at a reasonable interest rate.

Church, labour and NGO leaders have identified the moral case for the cancellation of South Africa's apartheid debt, as well as the crippling foreign debt of developing countries. Economic analysis of the apartheid debt supports the moral case for this initiative. However, several economic factors specific to South Africa's situation mitigate the case for repudiation (non-payment) of the debt.

First, it is likely to be met with severe hostility on the part of lenders, who will employ retaliatory defences to protect their economic interests. International financial transactions may be interrupted, foreign trade hampered, and the cost of additional borrowing will certainly increase – if it is available at all.

Second, major financial institutions, such as banks, private pension funds and insurers, own most of the privately-held debt. Cancelling this debt could lead to the collapse of South Africa's financial system, with adverse consequences across the socio-economic spectrum. Debt repudiation would not necessarily increase resources available for redressing the imbalances of the past, and those who profited from apartheid would not necessarily incur the cost. The present holders of marketable debt are not necessarily the same individuals who benefited from the apartheid debt, since this debt is frequently traded.

For this reason, instead of simply repudiating the debt, the People's Budget Campaign argues that it should be ring-fenced and as far as possible renegotiated. The process would have to analyse who ultimately benefits from government repayment of the debt and ensure that the overall impact remains progressive.

4.6 Redirecting spending

4.6.1 Pebble Bed Modular Reactor

In 2003, government approved the construction of a prototype pebble bed nuclear reactor following a decade of work on the project. The reactor is being developed by a private company, PMBR (Pty) Limited, in which the South African government is the major investor, both directly and via State-owned enterprises, Eskom and the Industrial Development Corporation. The State put R1.45 billion into the project during the feasibility stage (prior to June 2004). Since then, it has poured a further R2.4 billion into the plant's development. The total cost of the programme is likely to be in excess of R7 billion and, given that the plant is not expected to become fully operational until December 2012, there will be ample opportunity for cost-inflation. The project's supporters claim that the pebble bed design is safer and produces less radioactive waste than existing nuclear-powered electricity generating plants. They envision marketing the reactors both internationally and in South Africa. We are unconvinced by this argument.

- South Africa is blessed with abundant renewable sources of energy, in particular solar and wind. The PBC believes renewable energy is a neglected aspect of our energy mix.

- The PMBR has already been an expensive project, a veritable sinkhole of public funds. R3.85 billion has already been spent on the project and the total cost of the reference module is at least R14.84 billion (if full decommissioning of the PMBR is included the cost could be as high as R25 billion), and it is not expected to become fully operational before 2013. There are serious concerns that costs will increase over the next five years, and there are likely to be further delays.

- The PBMR will produce significant amounts of nuclear waste, some of which have a half-life (as in the case of U235) of 713 million years. There is no licensed high-level waste storage site anywhere in the world. That the human and environmental costs of such waste are, at present, incalculable (due to the timeframe of decay) does not justify ignoring them. In terms of CO^2 emissions (a major contributor to climate change), it is true that nuclear power produces less CO^2 than either goal or gas, but it produces significantly more than renewable sources of energy, such as wind, solar thermal and tidal.

- The PBMR pales in comparison to renewables in terms of job-creating potential.

The People's Budget believes that the goal of 15% of all electricity-generation come from renewable sources by 2020 is not only readily achievable, but will make significant impacts on the lives of working class people.

Abandoning the PMBR would free up billions of rands (up to R11 billion) for development and financing of renewable energy technologies over the next five years.

In addition the policy principle of cost-reflective pricing should be applied to the full costs of energy use, being phased in while interim measures are also used.

These should include financial subsidies, tax concessions and tax credits to promote the use of solar water heaters. Finally, the polluter-must-pay principle should be adopted concerning local air pollution. A large proportion of the money gained from taxing polluting industry should be used to support renewable technologies on a pro-poor basis, while allowing for some of the revenue to improve healthcare in impacted communities.

Renewable energy is about shared growth, while nuclear energy is about benefiting a few.

Graph 2: Comparison of direct job potentials

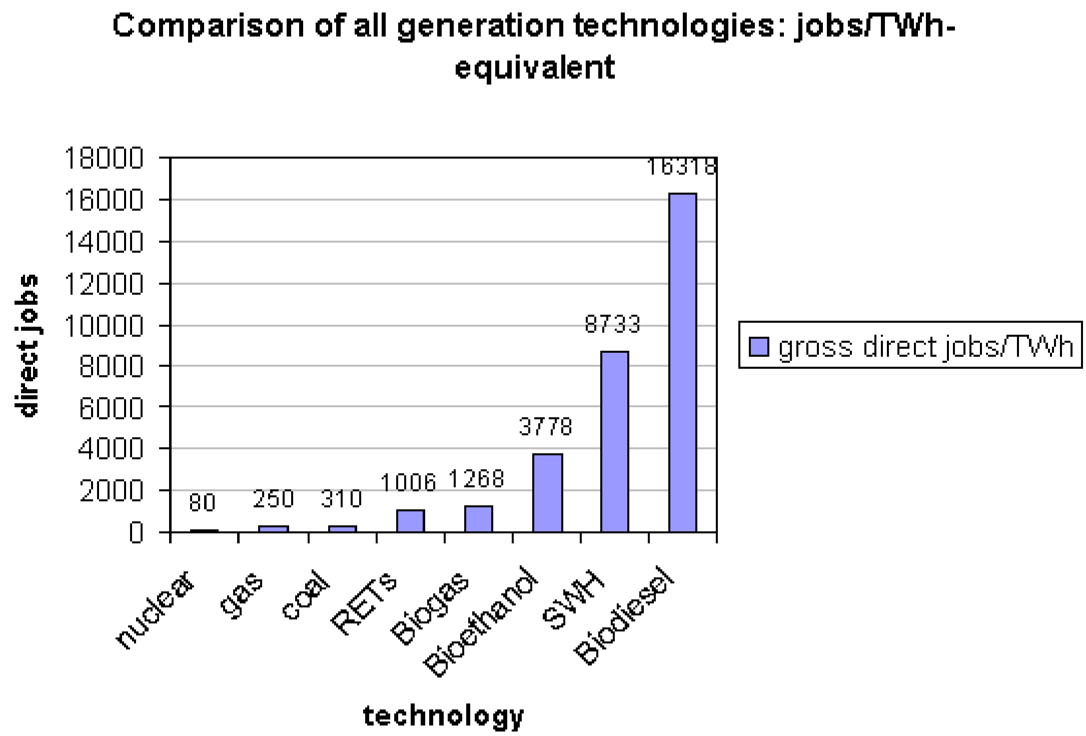


Table from Agama Energy, "Employment Potential of Renewable Energy", 14th of November 2003, pg. ix

4.6.2 Gautrain

According to the latest report by the corporation, capacity has been cut to 70% on commuter routes, despite increases in population, because old coaches have been withdrawn and not replaced due to a lack of funds. Then the government introduces Gautrain.

The prime objective of the Gautrain project is to contribute to relieving the road congestion on the N1 and Ben Schoeman freeway between Johannesburg and Tshwane. This project has been run by Gauteng province as one of several Blue IQ projects. However on the 25th October 2005 the Minister of Finance announced in parliament that the Gautrain project had a 'national' status. The Minister of Finance said that it would be costing government an estimated R20 billion.

This money would have allowed the upgrading of public transport in all major cities for the public as opposed to the 'elite', to encourage many more citizens to make use of trains and buses, thereby reducing traffic congestion. According to the project leader, the Gautrain is projected to have an initial demand of 134 000 passengers per day. Compare this with what is spent on buses, taxis and the Metro rail system, which collectively transport around 7 million people every weekday. The 2005 Budget allocates R250 million, R315 million and R320 million for the next year three years respectively for taxi recapitalisation. The same budget makes additional allocations for existing and ailing passenger rail infrastructure of R100 million for 2006/7 and R250 million for 2007/8.

The 80km high-speed railway designed to connect Johannesburg and Tshwane with OR Tambo International Airport has been a source of controversy since its announcement by Gauteng Premier, Mbhazima Shilowa, in 2000. Originally expected to cost R7 billion, the current price-tag, a few months after construction commenced, is reportedly closer to R23 billion. Although there is clearly a need for improved public transport in Gauteng, critics of the project point to the Gautrain's projected R40 fare and the areas it will serve as evidence that it is an elitist venture, designed to benefit affluent suburbs and not ordinary people. The Gautrain is scheduled for completion in 2010, just in time for the arrival of World Cup fans.

The People's Budget urges government to ensure that funds allocated for capital expenditure in preparation for the World Cup are not diverted into prestige projects that have limited or no direct benefits for the poor.

In some respects the Gautrain is a 'done deal', however we require of national government that it will not fund foreseeable cost overruns on the project, and instead direct funds towards public transport initiatives.

5 Budget reform

The People's Budget Campaign seeks to expand opportunities for individuals and organisations to play a meaningful role in debates about economic policy and spending priorities. At the national level, parliament is the primary forum in which civil society can comment on legislation and policy. However, parliament is still unable to amend money bills – those that raise or spend public funds – despite a constitutional requirement that it have this power.

The People's Budget Campaign has argued that effective reform of the budget process at a national level must:

1. **Enhance the role of parliament and build parliament's capacity to fulfil this role.**

   - Parliament must be empowered to amend the budget, as required by section 77 of the Constitution;
   - Parliament must be given substantial and meaningful amendment powers, rather than being confined to tinkering with details, so that it can exercise its democratic mandate as an instrument of popular sovereignty; and
   - Parliament must have adequate and appropriate research and analysis capacity to enable it to use its powers effectively.

2. **Improve the budget system to ensure that civil society organisations have additional opportunities to engage government on the budget.**

- NEDLAC and organs of civil society must have structured opportunities to make substantive input on the budget; and

- Formal opportunities for input, both public and parliamentary, must be introduced throughout the budget cycle. They should not be confined to the final stages when substantial changes become difficult to incorporate without causing serious disruption.

The People's Budget Campaign has also developed detailed proposals for parliamentary money bills amendment powers.

These aim to balance, on the one hand, the Executive's need for a stable and efficient budgeting process that cannot easily be held hostage to political or other special interests of the legislature, and, on the other, parliament's duty to facilitate broad public engagement on economic policy and to exercise meaningful democratic control over the deployment of public resources.

We have proposed a three-tiered model that distinguishes not only between revenue and expenditure matters, but also between different 'levels' of decision-making.

Level 1 decisions – those related to overall macroeconomic policy – would be made at the time of the annual Medium Term Budget Policy Statement (MTBPS), which is the most appropriate vehicle for debating macroeconomic policy.

The Department of Finance would need to consult extensively during the drafting of the MTBPS. Rather than simply presenting parliament with a final version, the Department would table a draft earlier in the budget cycle (June, instead of late October or November).

This would enable parliamentary committees to hold public hearings, to deliberate and to table a report proposing amendments. The Department would respond by tabling a revised MTBPS, together with a memorandum indicating which comments were accepted or rejected and why.

If parliament was satisfied that its concerns had been answered, it would approve the MTBPS and would accept certain limitations on its amendment powers in later stages of that particular budget cycle.

If not, it could signal its dissatisfaction by voting merely to 'receive' the MTBPS. (It is highly unlikely that parliament would vote to reject the MTBPS, as this would effectively be a vote of 'no confidence' in the government.)

In this case, parliament would gain access to an expanded set of amendment powers, but only with respect to the following year's budget.

These additional powers would enable parliament to make more extensive amendments, even ones that would affect the total size of the budget.

The lagged model attempts to build stability into the system by limiting parliament's overall amendment powers in a given year and promoting co-operative governance. It sets up a one-year 'cooling off' period in which differences between the Executive and legislature can be resolved politically.

The possibility of parliament having access to a set of expanded amendment powers in a subsequent year would act as an incentive for the National Treasury to take seriously parliament's views in the intervening period so that if the MTBPS of the following year is accepted, the extraordinary amendment powers would not be invoked.

Agreement at one level should establish boundaries for decisions at subordinate levels. For example, if parliament approves the macroeconomic parameters of the MTBPS, it would not be able to make changes to the budget that failed to respect those boundaries.

Decisions during the budget stage would focus on the vertical and horizontal divisions of revenue and the pattern of allocation within functions.

The People's Budget Campaign has proposed that parliament be given unlimited amendment powers at these levels (i.e. to adjust expenditure allocations within the overall expenditure envelope without any executive veto and without any ceiling on the number of amendments).

Box 9: Participating in local budgets

At a local level, there is a good enabling framework from the Constitution, and various pieces of legislation governing integrated development planning and municipal finances. However, the budget process limits public participation in the actual drafting and final approval phase.

Furthermore, the participation of CBOs and the public in the budget process will require a general level of skill and knowledge of budgets. Without municipalities enhancing their capacity to participate in the process, the community participation provisions of our legislation become futile.

It should be noted that to a large extent councillors who actually approve the budget do not really understand either the process or what is incorporated in the budget.

Active encouragement, capacity building and transparency are a critical requirement in the budget process. Most CBOs and NGOs have little experience in drafting and monitoring the implementation of municipal plans such as IDPs. Prior to 1994, many communities were engaged in the fight against apartheid.

The local focus then was to take on apartheid-based local authorities. Today, our legislation is geared to enabling community participation and transparency at a local level, especially with regard to poverty and development issues. However, participation is hindered by:

- A lack of relevant skills, capacity and resources within many CBOs and NGOs;
- The highly technical nature of much of the information associated with this process;
- The lack of clear and regular opportunities for participation – regulations do not stipulate a standard process for engaging communities;
- Existing structures for participation at a ward level, such as ward committees, are not functioning in most municipalities, since there has been a lot of politicking by local leaders and exclusion of organisations and people, contrary to the tenets of the Municipal Systems Act;
- A narrow definition of 'participation' that excludes the most vulnerable sectors in the community, such as those who cannot read or write, people with disabilities and other disadvantaged groups.

The IDP process provides considerable scope for participation, but these opportunities have not been taken up in a serious and consistent manner in many communities.

A concerted effort should be made to confront participation impediments at a municipal level. In many municipalities there is no formal mechanism to involve communities in the budget process. In some instances, the budget is merely presented to the public, usually just before it is to be adopted by council.

This approach precludes meaningful participation.

Improving community participation at the municipal level requires:

- Building community level structures, through ward committees; and
- Democratising the IDP process so that it ceases to be consultant-driven.

6 Conclusion

2007 has been called the year of debate. We are keen to have a debate on how best to eradicate poverty in our country. It is a debate that is needed for us to make some difficult policy choices on how we can imagine a future free from poverty.

The PBC has presented a set of proposals, which if implemented would:

1. Significantly increase the resources the State has at its disposal to create jobs and reduce poverty. Moreover, it would set in place the systems for a longer-term commitment to the eradication of poverty.

2. Make society more equal. This is important because we believe that we must have a more equal society. It is, however, also important because greater levels of equality are the basis for shared economic growth.

3. Provide the poor with more than hope in the fight against poverty.

To deliver on our mandate of tackling poverty and inequality and the systems that generate it, we must do the following:

- Invest in quality public services, as suggested in our proposals on housing, transport, health and education.

- Implement structural change beyond the current macroeconomic framework, as indicated in our proposals on land, and on a developmental financial package.

- Develop a process towards a national development strategy, to which process the PBC would submit these proposals.

- Encourage government to include civil society, starting with the budget reform process.

We are conscious that these proposals occur in a globalising world that perpetuates structural poverty. The PBC is debating a proposal on a transaction tax with organisations in South Africa and internationally. We will release proposals in this regard before the MTBPS 2007.

The PBC looks forward to discussing these proposals with all sections of South African society. The question we ask of all – including ourselves – is this: In imagining a future free from poverty, how do we move from a year of debate to a decade of implementation?

The PBC will mobilise and organise to shift the debate towards implementation.