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| **Submission by COSATU on the 2015 Budget** |
| **02 March 2015** |
| Cosatu logo  Submitted to the  Standing Committee on Finance  Parliament |

**COSATU’s response to the Medium Term Budget Policy Statement**

1. **Introduction**

In our expectations statement last week, COSATU set out clearly how we would measure the 2015 budget, including whether it aggressively stimulated the economy and job creation, promoted economic transformation and redistribution, tackled poverty and inequality, and actively supported the agenda of industrialisation. COSATU will study the budget proposals in detail and issue a comprehensive response later, in relation to these and other objectives we set out in our statement.

Our view is that on most of these scores the budget falls far short, although we cannot claim to be surprised, given Treasury’s historical conservative fiscal stance, which has now given way to fully fledged austerity. As usual, the trade-offs made disproportionately favour business. It is a great relief that some of the more extreme proposals being floated in the business media, such as increasing VAT and rampant privatisation, have not found expression yet. Nevertheless this is small comfort for the millions of working poor and unemployed struggling to make ends meet.

Comrade Nene acknowledged that whilst government has made significant strides in providing housing, water, electricity, education and health care, a great deal still remains to be done. He correctly acknowledges the massive unemployment rate, but we fundamentally disagree that now is the time to reduce government expenditure in real terms whilst economic and employment growth rates are still woefully low.

Government’s objective of rebalancing fiscal policy to lend greater support towards investment and economic growth, in particular in such key sectors as agriculture, industry and our cities, may look good, but the devil is in the detail, including understanding what is being cut back, and who is prejudiced as a result. Further, as Comrade Nene himself says: “Having a plan and a series of activities is not enough. Intensive effort has to go into the details of implementation.” Importantly in his Medium Term Budget Statement in October, comrade Nene stated that “increased debt is not in itself a bad thing, if it finances investment in future productive capacity”.

As the Minister did, we are also fully appreciative of the fact that the global economy is not recovering at a pace that will help the South African economy to grow faster to help to address the challenges of unemployment and poverty in particular. We are however of the view that that it is of critical importance that government should stimulate economic growth and job creation. This among others requires the government to spend and invest more, particularly in infrastructure development and in capacitating the public service and state institutions. This call runs counter to the fiscal stance taken by Treasury, which is one of austerity, or cutbacks in real terms.

We remain deeply concerned at the nature and tone of the 2015 budget.  There is no radical economic transformation provided for within the budget, as mandated by the Freedom Charter, the ANC’s 2014 election manifesto and 2015 January 8th Statement. South Africa has not been able to break the massive unemployment levels of 34.6%, and woefully low levels of economic growth and unbearable levels of poverty and inequality over the past 21 years of democracy. Surely business as usual will not enable us to escape this unsustainable economic crisis.

The Minister’s silence on South Africa’s triple crisis of unemployment, poverty and inequality is deeply worrying. With all of its resources, government should focus on breaking these ticking time bombs. To ignore them and proceed with business as usual is to go the route of complacency till society reaches its breaking point.

It appears that Treasury believes mere tinkering with the budget and the economy is sufficient to eradicate an unemployment rate of 34.6%, 53% of South Africans living in poverty and being the most unequal society in the world.

**Some General Observations**

* The budget and the lowering of the budget expenditure ceiling reinforce the austerity framework of real cutbacks in spending contained in the MTEF.
* Treasury has attempted to disguise the extent of austerity by presenting increases in expenditure over the period to 2017, rather than for this fiscal year; this masks the pitiful increases in a number of areas.
* The Budget reveals a reality of massive real spending cuts, after taking population growth into account. The massive reduction in the budget deficit from 4.1% in 2014 to 2.5% by 2017 is achieved through real spending cuts, which can only cause the economy to further stagnate.
* As we said then in response to the MTBPS “The decline in ‘real growth’ of spending to 1.3% in 2015 (from 10.8% in 2009), is lower than the level of population growth, and therefore a real cut in spending, at a time when we have a desperate need to stimulate our economy, deliver services in underserviced areas, and invest in employment creation. This is a disaster! We are following European/ IMF austerity policies, which have only plunged Europe deeper into crisis, where we should be following the US stimulus approach which is leading to recovery of their economy.”
* The budget speaks in code on a number of issues, such as consolidation of personnel numbers (freezing posts etc); and privatisation - talking rather about ‘offsetting support to SOEs through asset sales’.
* The speech makes a number of good statements which are not backed up by specific plans. The concrete plans are more driven by the austerity logic. Examples of hazy commitments relate to action to combat capital flight, profit shifting etc; measures to eliminate corruption in procurement systems etc.
* A comparative analysis is required to determine how the budget’s spending commitments and priorities compare with previous commitments made. But the sense is that commitments made in certain areas which have been identified as priority policies, such as industrialisation (see below) woefully inadequate amounts have been allocated
* Treasury’s stranglehold over critical areas of policy remains a concern, having effectively blocked the rolling out of comprehensive social security, and NHI, over many years. We are now told that policies on these issues will finally be released, but we know that Treasury will continue to wield its power to impose its conservative policy perspectives in these areas
* A number of the concrete tax and spending plans will disproportionately hit workers and the poor, such as the 80c per litre fuel increase, and the electricity levy increase of over 30%. Conversely social grants fail to keep up with inflation, and in the case of the CSG, actually see a reduction
* The above more than counterbalance the slightly redistributive interventions re increased personal income tax and the decision not to raise VAT.

**Strategic Priorities for Growth and Development**

COSATU welcomes the focus on the oceans economy and the investment of R9.6 billion in Saldanha Bay. This is key to creating growth and jobs in the West Coast.

We welcome the commitment to including the mining sector in the Phakisa process and the development of a strategy towards its growth. However we remain concerned about the commitment of business. Gold and other mineral prices have enjoyed massive increases, yet mine workers have been retrenched in their thousands and continue to live in abysmal apartheid-like conditions. Business must be forced to honour commitments made in the Mining Charter.

We note the Minister’s inclusion of the public sector entities’ financial positions in the budget. However, while it is critical that these SOEs are made to account for their continuous financial crises and lack of delivery of key developmental mandates, government must also take responsible for ensuring that they are capacitated and that their funding model too is geared towards that mandate.

**Economic Context**

Comrade Nene mentions the current global economic challenges and the economic situation in the United States, the European Union and China.  However he omits to mention that the EU remains in a financial crisis due to its brutal austerity measures, whilst the US and China have seen steady healthy economic and employment growth rates as a result of their governments’ economic stimulus efforts.

We strongly welcome our increased levels of trade with other African countries.  The successes in this regard serve to highlight the need for further government support towards increasing our export capacity to Africa, but this must be based on a coherent plan for industrialisation of the continent, not on a sub-imperialist relationship which entrenches historical development patterns.

COSATU welcomes the commitment of government to intensify its support for the growth of our tourism, agriculture, manufacturing and housing construction sectors.  These are the sectors of the economy which have shown the capacity to create badly needed employment. Further support is also needed for the textile, auto-manufacturing, renewable energy, oil, gas and other industrial sectors.

This needs however to be matched by the necessary resources to make our IPAP work: e.g. R2.7 billion over 3 years to beneficiation; R10.7 billion over this period to manufacturing incentives; and R4 billion to the jobs fund are simply not interventions on a scale which are needed to drive a meaningful industrialisation drive. Even the R100 billion which government proposes will be mobilised over 5 years by the IDC, is too little when we compare the scale of the interventions, as a proportion of GDP, which countries like Brazil and China have made to support economic development.

**Budget Framework and Fiscal Policy**

We welcome the Minister’s statement that the financial health of households is important when reviewing taxation levels. However we do not believe that the package of tax reforms meets this fundamental point.

The 2015 budget provides for continued real cuts in state expenditure, increase in income and other taxes and electricity tariffs, reduction in state employment numbers and the sale of state and SOE assets.

The real cuts in state expenditure and employment levels will not assist in boosting our still extremely low and fragile economic and employment growth levels.  What is needed now is further stimulus to help the economy and employment levels grow.  The successful growing of the US and Chinese economies on the back of state-led economic stimulus and the stagnant growth levels experienced in austerity led EU economies confirm this fundamental point.

The reductions in wasteful expenditure are welcomed. However the culture of bling in government is still at outrageous levels. Just this week, it was reported in the press that Parliament intends to spend R18 million on gyms for 400 Members of Parliament.  At the same time pensions and social grants are allocated pitiful below inflation increases. There are still billions of wasteful and extravagant state expenditure that government should focus on cutting instead e.g. travel allowances for international travel, prestige executive housing, catering and consultants.

Whilst it is important for government to budget for unallocated contingency reserves, the jump from R5 billion to R45 billion in 2 years whilst critical state expenditure and employment levels are cut does not make sense.

**Medium Term Expenditure and the Division of Revenue**

The commitment to review the funding for cities is welcomed. This is needed for all municipalities, in particular the many cash-strapped rural municipalities which lack a significant tax base. The commitment to reduce the number of municipalities is further welcomed. In fact, there is no need for District Municipalities. These are powerless duplicates of local municipalities and should simply be merged with them to avoid further duplicate wasteful expenditure.

National government needs to be proactive in intervening when municipalities fail to deliver constitutionally guaranteed basic services and not simply wait for violent protests to erupt, e.g. Malamulele. In Limpopo, the situation is so dire that 3 municipalities were not even able to pay their staff salaries on time in January.

**Economic Development**

We can cautiously welcome the focus on growing the oceans’ economy but surely a mere R296 million allocation is too little?

The continuous intention to pursue shale gas and hydraulic fracturing is deeply worrying for a water-scarce country and the feared pollution consequences of shale gas and fracking. Little has been said about the impact of these upon people’s and farm’s access to clean healthy water.

The allocation of R7 billion to emerging farmers is welcomed. Concern remains with regards to the Department of Rural Development and Land Reform’s capacity to settle the more than 70 000 outstanding land restitution cases.  According to the Department’s figures, this will take more than 20 years to settle!

We expect the state to play a central role by committing sufficient resources to ensure that land distribution is radically reformed in order to meet land redistribution, restitution and reform challenges. We note the concerns expressed by the public over the Department’s of Land and Rural Development Agrarian Reforms proposals and expect to work with the state to fine tune that policy. We urge National Treasury to consider targeted support and incentives for small scale and emerging farmers as well as for those engaged in agro-processing. COSATU calls for greater resources allocation towards farm implements, irrigations and pesticides as well as support for alternative forms of ownership e.g. cooperatives and community based initiatives.

We are conscious that any rural development strategy requires significant infrastructure development e.g. roads, water and sanitation, hence our endorsement of the national integrated infrastructure plan. We believe the envisaged infrastructure programme planned for next three to five years will extend to rural economy and serve communities in the country side inasmuch as it will bolster urban development.

**Employment and Enterprise Development**

COSATU is strongly opposed to the Employment Tax Incentive. Despite promises to the contrary, Treasury cannot say how many of the subsidies are for new or existing jobs or how many older workers have been displaced by young workers. It should also be remembered that the incentive was intended for youth, Special Economic Zones and designated sectors yet to date only claims for youth have been provided.

The Department of Trade and Industry’s efforts to support manufacturing growth are welcomed, but we believe are not being supported on a large enough scale.

Whilst appreciating government’s desire to offer work to the unemployed, COSATU remains deeply distressed by how the Expanded Public and Community Works Programmes are being abused by Provincial Departments and Municipalities as a source of cheap labour in place of what should be permanent decent provincial and municipal jobs, e.g. street repairs and cleansing.

The plan for the Department of Environmental Affairs to create 107 000 full-time jobs is welcome but this shouldn’t become a source of cheap labour for municipalities.

**Health and Social Protection**

Government should be strongly applauded for the fantastic achievements made with regards to the rolling out of ARVs and the reduction in child mortality and mother to child HIV/ AIDS transmission rates. These are huge victories in a very short space of time. Other departments should learn from such decisive leadership.

However we remain deeply concerned at the continuing shortages and other crises at our public health institutions. The state of the health services in provinces leaves much to be desired. There is a crisis, including shortages of staff, equipment and medicines, which does not inspire any confidence that the promised transformation is on track. We urgently need an efficient, well-resourced, well-staffed national health system which provides the best possible service to all South Africans.

We welcome the commitment to release the National Health Insurance White Paper and its funding proposals; this is long overdue and we call on government to treat this matter as urgent. In the same breath we welcome the announcement about the release of the long awaited comprehensive social security discussion paper, but retain our concerns about Treasury’s role in these policy areas as highlighted above.

For as long as there is no comprehensive social security system, COSATU will remain opposed to any policy that seeks to prevent unemployed workers from withdrawing their pension benefits before they retire.

Government deserves praise for the 16.4 million social grants recipients.  No other African country has achieved this. These social grants cushion the majority of our people from the conditions of poverty and help create economic demand.

However the below-inflation minimal increases in the social grants are unacceptable.  Government needs to engage civil society and the public at large about a comprehensive social security system and basic income grant. Continuing with millions of unassisted unemployed impoverished persons is a ticking time bomb.

**Education, Sport and Culture**

Education remains government’s largest crisis.  South Africa will not progress until we can provide quality education for all.  Efforts to change some of the blunders by the department, e.g. centrally negotiated contracts for education construction and service delivery suppliers is welcome, to curb the intolerable levels of corruption, but there needs to be more oversight to ensure that corruption is not simply transferred from many small tenderpreneurs to a few big ones. However the crisis in education is larger than that and the department does not appear to have a plan to solve it.

**Post-School Education and Training**

The progress in establishing the three new universities is welcome but still far too slow. The massive tenfold increases over the past few years in funding tertiary students’ bursaries should be celebrated. However the chaos in NSFAS is threatening to undermine government’s achievements in this area.

**Transport, Energy and Communications**

Efforts to improve rail capacity are strongly welcomed however concern remains around the extent to which local procurement is involved.

The increased focus upon fixing the badly neglected water infrastructure is welcomed but much more needs to be done. However this must not be accompanied by massive future increases in waters tariffs which would merely serve to make water unaffordable for the poor.

The focus on resolving the electricity crisis is welcomed. However this cannot be done on the backs of the poor. The increases in peak hour electricity tariffs will merely squeeze the already struggling lower and middle incomes families.

We are concerned about the implications of the electricity levy increase. We note though that the increase is intended to help in address the problem of climate change and increase the revenue for electricity utilities. This proposed increase should have been accompanied by increase in free basic electricity to cushion the poor against possible increases in electricity prices due to the environmental levy.

There does not appear to be a clear plan to rescue the collapsing postal service. The previous subsidy was withdrawn and has not been reinstated. A classic example of how cutting back state support for public institutions can undermine them.

COSATU strongly rejects Treasury’s privatisation of Gauteng’s freeways.  Merely reducing the tariffs will not solve the problem. The people of Gauteng have clearly shown that they are opposed to the privatisation of their roads. No alternative safe and accessible public transport is available. These roads were built with public funds long before the e-toll project arrived.

The user-pays principle is deeply flawed and merely serves to enrich a few tenderpreneurs at the expense of the struggling working and middle classes.  COSATU will continue to fight it in Gauteng and any other province Sanral or government want to expand it to. Treasury must simply pay the R20 billion GFIP debt. This is less than the R30 billion it spent on consultants last year.

We supported the call for an increase in the fuel levy as an alternative to e-tolling, but cannot support the 30.5 cents a litre increase while still keeping e-tolls in place.

**Defence, Public Order and Safety**

Government’s commitments to reduce the very levels of corruption are welcome.  However judging by the very low arrest, prosecution, conviction and sentencing rates; we do not appear to be winning this war.  The Auditor General stated that R80 billion of state funds were lost to corruption yet convictions relating to only R500 million have been achieved.

**Financial Management: Ensuring Value for Money**

Commitments to centralise text book procurements and standardise school construction are welcomed.  But can the Department of Basic Education ensure that they are corruption free.  Not too long ago, a former Director-General and his family were implicated in the text book tender scandal.

The commitment to pay service providers within 30 days is welcomed but not a new promise either.

**Revenue and Tax Measures**

In our expectations statement on the budget we reiterated our call on the Minister to announce a process to introduce tax reforms which in our view should ultimately result in the following:

* Introduction of progressive tax system, with an introduction of a tax category for the super rich.
* Introduction of solidarity tax, whose aim is to cap the growth of earnings of the top 10% and to accelerate the earnings of the bottom 10%.
* Introduction of tax on both domestically produced and imported luxury items, but a higher tax on luxury items which are imported.
* Increase in the dividends tax to encourage re-investment, job-creation and to reduce the financialisation of company assets.
* Imposition of a land tax to aid the process of land redistribution.
* Zero-rating of medicines, water, domestic electricity and public education.
* Introduction of export taxes on strategic minerals, metals and other resources to support downstream industries and to promote value-addition.
* Introduction of investment tax credits to encourage local procurement of machinery and equipment.
* Increase taxes on financial transactions e.g. capital gains tax above certain levels to limit short-term capital flows and to encourage productive investment, and speed pumps on short term capital flows to discourage hot money.
* Introduction of tax on firms that resistant to closing the wage gap.
* Taxation of firms that pay below the statutory minimum wage, and the distribution of such tax proceeds back to the workers concerned.
* No increases in VAT, which will hit the poor hardest.

We welcome the small steps towards a more progressive income tax regime, with the increase of R1 105 a month for those earning over R1.5 million a year but the  flat regressive 1 percentage point increase in income tax for all those earning above R181 000 is unacceptable. Most junior public servants earn just above R181 000.  Treating lower income earners of R181 000 the same as multi-millionaires is unacceptable. Taxes should be progressive, with any increases focused on the wealthy who can afford it.

Whilst the final proposals from the Judge Davis Tax Commission are awaited, Treasury’s proposed tax increases are not helpful and in fact are regressive.  The sin tax increases are acceptable but we appreciate that the minister has not raised VAT as some right-wing economists were demanding.

The failure to act to increase company tax in the face of the massive decline in the contribution of corporate tax since 2008 is a serious problem. This is not a function of reduced profitability, but a result of massive tax avoidance and evasion by the large corporations, whose effective tax rate is extremely low. Conversely we don’t have a problem with reducing the tax burden on small enterprises, provided that the necessary conditions are put in place to ensure they are complying with their obligations in terms of minimum wages, labour law etc.

The Minister’s lack of plans to deal with the estimated R80 billion lost to tax evasion by the wealthy was disappointing.

**Further Tax Proposals**

Increases in electricity tariffs, fuel and RAF levies again merely seek to balance the budget upon the backs of the poor.

It is a scandal in a country of our levels of unemployment to give employers a UIF holiday.  The UIF Amendment Bill has been delayed at Parliament for more than a year due to Treasury’s opposition to expanding workers’ access to UIF benefits.  Increased access to UIF benefits in an economy with 34% of unemployment is what is needed not a tax holiday for employers.

**Financial Position of Public Sector Institutions and State-Owned Companies**

The commitment towards infrastructure expenditure and developmental objectives are strongly welcomed. The Deputy President’s deployment to help ESKOM, SAA and the Post Office is welcomed.  However government’s continued desire to sale off “non-strategic” state assets will merely serve to further weaken those SOEs.  Government’s refusal to say which assets it intends to sell is not acceptable.

Given the crisis at SAA, would it not make sense to merge the three state owned airlines of SAA, SAA Express and Mango?

**Development Finance Institutions**

The intention to increase the DFI’s loan portfolios by 33% in 2 years is to be applauded. The IDC’s R100 billion plans over five years to support industrial development, mineral beneficiation and agro-processing is good news, but needs to be accelerated in the light of the failure to realise previous commitments.

**Financial Sector Reforms**

Government’s willingness to negotiate retirement reforms at NEDLAC is strongly welcomed.  However this must be accompanied by negotiations for a comprehensive social security system.

**Concluding Remarks**

Our assessment of whether government interventions in the economy are radical enough to change the structure of the economy in order to address the triple challenges of unemployment, poverty and inequalities is informed by COSATU’s 11th National Congress resolutions which called for the following:

* Decisive state intervention in strategic sectors of the economy, including through strategic nationalisation and state ownership;
* Radical overhaul of our macro-economic policy to support the radical economic shift as agreed to by the Alliance;
* Nationalisation and a new mandate to the South African Reserve Bank;
* A new mandate to the National Planning Commission to realign the National Development Plan in line with the proposed radical economic shift
* Aspects of the New Growth Path to be realigned in line with the proposed new macro-economic framework;
* All state owned enterprises and state development finance institutions to be given a new mandate;
* Urgent steps to reverse the current investment strike and export of South African capital;
* Capital controls and measures aimed at prescribed investment, and penalising speculation;
* The urgent introduction of comprehensive social security;
* Measures to ensure beneficiation, such as taxes on mineral exports;
* Comprehensive land reform, and measures to ensure food security; and
* The more effective deployment of all state levers to advance industrialisation and the creation of decent work on a large scale.

Some of the aspects of the nine-point plan outlined by the State President during his SONA have a link with the framework developed by the COSATU’s 11th National Congress; but the devil is in the details and in the implementation. The current energy crisis which the plan prioritises cannot be an excuse for the privatisation of state owned assets. We expect the Minister to provide more resources to Eskom to enable it to execute its developmental mandate appropriately. The effectiveness of Eskom cannot be measured by the extent to which its balance sheet becomes more profitable but rather by the extent to which it can provide energy security to the country. We note that Eskom would be given R23bn assistance.

More resources should be channelled towards renewable sources of energy. Funding of the renewable energy sector must take into account the importance of developing social forms of ownership, localisation, job creation and enhanced energy access to the working class. We reiterate our opposition to the expansion of nuclear energy generation based on costs and safety considerations in particular. We note with concern that government is steaming ahead with shale gas extraction and our concerns in that regard include water contamination, health effects, green house gas emissions and the destruction of the political economy of the Karoo.