NUMSA Submission on the 2015 Budget to the Standing and Select Committee on Finance

04 March 2015

Introduction

It is without question that the Budget must be premised on the absolute principle that government priorities and spending must at all times be fundamentally geared towards reducing unemployment, poverty and inequality.

After 20 years of democracy we have witnessed the liberalisation of our economy and the imposition of several macro-economic policies that have continuously called for wage restraint, the deregulation of the market, labour flexibility, use of labour brokers and the erosion of collective bargaining gains.

Yet, almost everywhere in recent years, the spread of market liberalism has coincided with highly unequal patterns of income and wealth distribution. A world where its 85 wealthiest citizens own more than its bottom three and a half billion was not the one envisaged 50 years ago. (UNCTAD Report 2014)

The Contradiction

‘Doing more with less’ does little to vindicate the Minister when he says that the ‘budget will not be balanced on the backs of the poor’ (MTBPS 2014)

Fiscal Discipline and the Markets

Fiscal discipline and liberalized markets will remain the bedrock of government economic policy and will not be compromised in favour of a developmental trajectory that seeks to redistribute wealth and restore the resources of our country through common or public ownership.

Table 1 MTBPS vs. Budget Review GDP growth, CPI inflation, and Household Consumption

	2014	2015	2016	2017
MTBPS: GDP growth	1.4	2.5	2.8	3.0
Budget: GDP growth	1.4	2.0	2.4	3.0
MTBPS: CPI Inflation	6.3	5.9	5.6	5.4
Budget: CPI Inflation	6.1	4.3	5.9	5.7
MTBPS: Household consumption	1.9	2.3	2.8	3.0
Budget: Household consumption	1.2	2.0	2.6	3.0

Source: MTBPS 2014, Budget Review 2015

It seems highly unlikely that consumption growth would be that high given tax burden placed on South Africans this financial year. Apart from energy generation levy all the tax proposals are affecting the purchasing power of people and are placed on South Africans rather than companies. In 2015/16 financial year, South Africans will be bound to pay 1% more in taxes, from 15 cents to 3.77 rand more on alcohol, and at least 80 more cents for every liter of petrol. The fuel levy and Road fund levy increases will affect not only those travelling by car or taxi. These levy increases will affect the cost structure of transport and logistical companies that are delivering food, clothes, appliances and other goods. Hence, these items might also experience a spike in prices, and subsequently, South African consumers will be overpaying. Moreover, Eskom tariffs are bound to be increased during the year, which will put additional pressure on the purchasing power of the people.

Given the rising costs from all sides: taxes, goods, levies, transport, electricity and other tariffs, it is hard to understand why does the National Treasury puts so much faith in the household consumption increases and in the GDP real growth.

Table 2 Debt-service costs payments and annual growth rates

	2014/15	**2015/16**	**2016/17**	**2017/18**
Debt-service costs, R	115,016	126,440	140,971	153,376
Debt-service costs annual growth rate, %		9.9%	11.5%	8.8%

Source: Budget Review 2015

Table 2 presents annual three year growth of economic expenditures by functions compared with annual inflation rate. Based on the Budget Review 2015 projection numbers, the annual GDP inflation over the reviewed period will constitute 5.6%, and the CPI inflation is expected to be 5.3% on average. The real average growth rate over the three year period is estimated as the difference between the average annual MTEF growth and the average GDP expected inflation.

Graph 2 Expenditure allocations by functions, 2015-2017

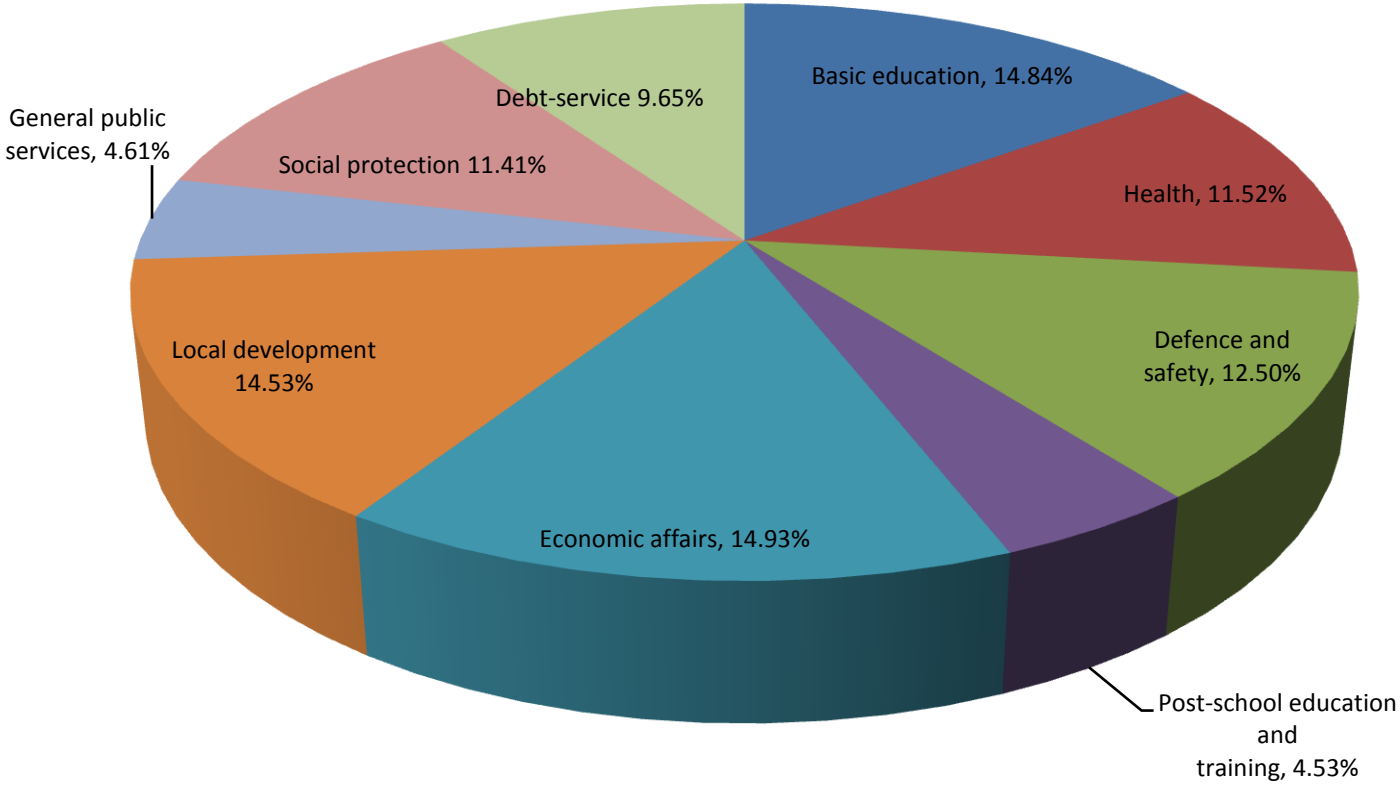

Table 3 Annual growth of economic expenditures by function

R million	Average annual MTEF growth	Real average MTEF growth
Basic education	**6.3%**	**0.7%**
Health	**7.1%**	**1.5%**
Defence, public order and safety	**5.7%**	**0.1%**
Defence and state security	**5.3%**	**-0.3%**
Police services	6.0%	0.4%
Law courts and prisons	5.7%	0.1%
Post-school education and training	**7.1%**	**1.5%**
Economic affairs	**6.0%**	**0.4%**
Industrial development, trade and innovation	**5.0%**	**-0.6%**
Employment, labour affairs and social security funds	8.9%	3.3%
Economic infrastructure and network regulation	**4.4%**	**-1.2%**
Local development and social infrastructure	**8.2%**	**2.6%**
Housing development and social infrastructure	8.5%	2.9%
Rural development and land reform	5.6%	0.0%
Arts, sport, recreation and culture	**5.3%**	**-0.3%**
General public services	**2.6%**	**-3.0%**
Executive and legislative organs	**3.0%**	**-2.6%**
General public administration and fiscal affairs	**3.5%**	**-2.1%**
Home affairs	**-2.2%**	**-7.8%**
External affairs and foreign aid	**1.7%**	**-3.9%**
Social protection	**7.0%**	**1.4%**
Allocated by function	**6.5%**	**0.9%**
Debt-service costs	10.1%	4.5%
Consolidated expenditure	**7.9%**	**2.3%**

Source: Own calculations based on the Budget Review 2015

Other Concerns

- Further, the Minister has called for ‘prudent management of the public sector wage bill’, while funding of new posts must come from existing allocations and natural attrition (MTBPS, 2014). Such a call for wage restraints are not new and have already been made by the International Monetary Fund (IMF) in its country Article IV report (2013) and appears to be well supported by Treasury.

Provision of Free Basic Services

The nine strategic priorities for the year include encouragement of private investment and unlocking the potential of small enterprises. There is hardly any reference to the provision of Free Basic Services (water, sanitation, refuse collection and electricity) for local communities. Neither do they include the provision of quality public service delivery nor increases to curb gender based violence. Since the dawn of our new democracy the interests of big corporations have taken preference over the rights of working people and the poor.

The Provision of Free Basic Services (FBS) in South Africa

Free Basic Services is a constitutional imperative and includes the provision of the following services:

Water
Sanitation
Waste removal
Electricity (including the provision of free basic alternative energy)

S27(1)b of the Constitution of the RSA, 1996 says that *everyone has the right to have access to ... sufficient water.* According to S152(1)b of the Constitution *the object of local government is to ensure the provision of services to communities in a sustainable manner.* To reinforce these provisions the Local Government Municipal Systems Act No. 32 of 2002 places a huge premium on municipal authorities to ***ensure universal access to essential service.***

S73. (1) of the Local Government Municipal Act says that a municipality must give effect to the provisions of the Constitution and —

(a) give priority to the basic needs of the local community;

(b) promote the development of the local community; and

(c) ensure that all members of the local community have access to at least the minimum level of basic municipal services.

- **Sale of non core assets (Sell–off the family silver)**

- **Capital flight / Exchange Controls**

  "A much, much larger factor is this huge dissaving, this huge export of capital of surplus produced in South Africa and disappearing into transfer pricing, dividends paid to UK shareholders, illegal capital exports..." said Cronin. (Polity 29 Oct 2014)

- **Health**

- **Job Creation and ETIA**

Business Day

Agencies to keep eye on SA budget pledges by Ntsakisi Maswanganyi , 27 October 2014

IN THE wake of Finance Minister Nhlanhla Nene's austere budget last week, rating agencies are keeping a keen watch on SA with at least one of the three major firms expected to review SA's credit rating in December.
A commitment to cut spending has been welcomed by Standard & Poor's (S&P) and Moody's though they are watching closely to see how the undertaking pans out.

RATING AGENCIES CALL THE SHOTS ...

OUR POLICY CHOICES INFLUENCED BY INTERNATIONAL MONEY LENDERS

... BLACKMAIL!

Policy Choices (UNCTAD, 2014)

According to the UNCTAD 2014 report a **balanced-growth scenario** should have the following elements (UNCTAD 2014: v-vi)

- *incomes policies to support growth of demand on a sustainable basis*

- *growth-enhancing fiscal policies*

- *industrial policies to promote investment and structural transformation*

- *regulation of systemically important financial institutions and capital controls to stabilize global financial markets*

- *development-oriented trade agreements.*

Thank You