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Submission to the Standing Committee on Finance and the Select Committee on Finance (regarding the 2018/2019 Budget; revenue proposals and fiscal framework)

The time frame given for submission and comments is very narrow. We will therefore submit short points for the consideration of your committees, Parliament and civil society.

1. As announced already in President Ramaphosa's "Sunrise for Mining" SONA speech, the government has relaunched "export led growth" in its 2018 budget proposal. This policy has failed dismally. Truly domestic economic development has been neglected. The policy proved especially misdirected after the global crisis 2007/2008, which still lingers on. Inequality has increased and over half of the population live in abject poverty. 25% of all children below 5 years of age have stunted growth. Economic growth is today "exclusive", mass unemployment the normal and with this violence and crime.

2. No 'social compact' or conferences can be held on the basis of this economic policy. We agree with the authors who argued that the government "must start to genuinely engage with civil society", but that "such an engagement must recognise the gravity of the economic crisis and **the urgent need to reopen discussions on macroeconomic policies and the NDP**."[1]

3. In such discussions, AIDC will argue for wage-led and sustainable development. Our people and all our children must have enough of good food to eat. The fight against unemployment can be integrated with the struggle against climate change.

4. If we acknowledge the threat from climate change, we cannot let mining and extractivism drive development and growth. There should be no more built out of coal mining; rather a moratorium for new licenses. Coal mines compete for land with agriculture. Mines take arable land from communities and destroy them. They mal-develop rural areas and worsen food insecurity. Rural communities who have been a victim of colonialism and apartheid must have The Right to Say No to Mining and to choose development that doesn't destroy.

5. **In this budget it means changes and cuts in all infrastructure plans that have to do with extraction and transport of fossils and minerals**.

6. In that context, we want to draw attention to table D1 on page 141 in the Budget Review. The infrastructure winners are Eskom and Transnet. Education, Human Settlements and Health get a real cut in infrastructure spending over three years. In the case of Education infrastructure the cut in spending is R14 billion (taking inflation into account to estimate the real cut). This is not acceptable. The "export led growth" paradigm must be challenged when the Parliament scrutinises and make changes to the 2018 Budget.

[1] D. Gqubule, T. Gqubule, P. Mnganga and B Gqubule (25/2 2018), "How to get SA working", *City Press* https://www.news24.com/SouthAfrica/News/how-to-get-sa-working-20180224 (2018-02-25)

7. Against that background and that the demand for electricity today is about one third less than anticipated in the 2010 IRP[2] we should instead consider scrapping the R40.8bn additional allocation over three years to the Medupi and Kusile giant coal power (and run-away-cost) stations (p141). This means that not all units will be completed (scheduled to be completed 2011). The Treasury can inform how large the penalties and the net savings or funds available for other infrastructure investments will be if such changes were to be made.

8. We agree with the broad opposition to the proposed increase of VAT. The arguments are known.[3] In the Budget Review (p.44), the Treasury states that "the wealthiest 30 per cent of households contribute 85 per cent of VAT revenue". This defence of the proposal is misdirected. VAT is a so called 'flat tax' and these numbers only mean that 30 percent of the households account for 85 per cent of all consumption. Instead of making an increase of VAT legitimate, the off-the-point information in the Budget review highlights the problem of inequality. If 70 percent of the population only account for only 15 percent of all consumption in the country, then it is not VAT that should be increased if more revenue is needed. A progressive government will look at the graduated personal income tax, introduce taxation of wealth and find ways to increase tax revenue from the Corporate Income Tax.

9. In his 2012 budget speech, the then Finance Minister Pravin Gordhan laid down a 25% tax to GDP ratio as "a part of the budget framework" (repeating this benchmark from the 1996 GEAR document).[4] Under pressure from growing debt service costs (R180.1bn in 2018/2019 (which comprises 3.6% of GDP) and increasing to R213.9bn in 2020/21), the Treasury has slowly abandoned the benchmark. It is now projected at 25.9% in this budget year and 27.2% in 2020/21. The tax revenue to GDP benchmark should be related to the size of the public service sector. As for now it has rather become dependent on the size of the debt service costs.

10. Insourcing of service delivery and a larger public service sector is not only important for labour rights and conditions. It will also be a part of the fight against corruption, which breeds and feeds on the procurement frenzy. We need municipally owned building companies in charge of housing programs, led by directors who are politically accountable.

11. **AIDC suggests that tax revenue of about 32% to GDP becomes a new part of the fiscal framework.**[5] It should have been changed ever since the plans for an NHI were announced in 2005, but today also because of the fee free education process or the movement to insource service delivery; or because of the costs of the water crisis and looming costs related to climate change. Provision of education, health, water, sanitation, housing and roads cannot be left to the market and for-profit services when over half of the population are officially poor or extremely poor, if we want to develop from this state of affairs.

12. If a higher tax to revenue benchmark is agreed, choices can be subject to public participation regarding how to increase tax revenue. This is the third year the Treasury also uses so called 'bracket creep' to slightly change the Personal Income Tax. Each year this has been done without taking similar tax increases into account when projecting budget deficit or debt service cost forward. To freeze the tax bracket over a number of years is a good way of changing the personal

[2] URL: https://www.dailymaverick.co.za/opinionista/2018-02-02-utterly-redundant-electricity-supply-plan-finds-favour/#.WpMZ1INubIU (2018-02-25).
[3] For example: Gilad Isaacs; URL: https://www.wits.ac.za/news/latest-news/in-their-own-words/2018/2018-02/lifting-the-lid-on-a-vat-increase.html (2018-02-25)
[4] Despite the 2012 Budget Speech, the Treasury has always denied that this is a part of the budget framework.
[5] The 'MERG' report from 1992 made a similar suggestion.

income tax policy, if corruption is curbed and reforms like NHI and fee free higher education are implemented. Over ten years from 2000/2001, the personal income tax policy was drastically changed. If wage levels are increased as usual and the tax brackets are left as they are for three years forward, this increases tax revenue by R40-50 billion in year three compared to today.

13. We repeat our suggestion after the Mid Term budget, that the Parliament establish a **debt audit commission** made up of eminent academics, trade unionists and civil society representatives that will audit the public debt including the debt of all SOEs. How much of the debt that has been created by the disease called State Capture, such as the R70 billion loan to Transnet from China in March 2013. How much of the debt involves companies like SAA and Eskom for which the government must stand as a guarantor? All such loans should be scrutinized; independently of a government that is tainted by corruption and graft. If they are the result of illegal deals and corruption they should be annulled. How much is still to be paid of the USD3.75 billion loan from the World Bank to Eskom to build the Kusile and Medupi giant coal power stations?

14. Finally, **the R1.7 trillion Government's Employee Pension Fund (GEPF) should be used in an offensive way to bring down the increasing debt service costs (R180.1bn in this budget)**.

GEPF is a *defined benefit* pension fund. It has no profit maximizing imperative as such. Its goal is to cover the retirement benefits of all present and future pensioners. It can do so if the returns on its investments are good enough and if society and the government are not hit by traumatic crisis or chaos. It is not in the interest of future pensioners that the public service sector and the economy as a whole are ruined or in bad shape. At the end of the day, it is the real production of goods and services that counts, like electricity. Money is paper that can become worthless, and so can pension claims.

GEPF has already lent the government R324bn. This is 15% of the government's total debt in so called bonds. GEPF has in fact also lent Eskom R84bn of Eskom's total debt of R350bn.[6] The loans are no doubt given at a usual interest rate.[7] For government bonds the interest rate is presently about 8%. This means a return to GEPF of about R26bn per year on the total loan of R324bn. R26bn comprises less than half of the surplus GEPF made in 2017 after all Benefits had been paid from the members' Contributions which were added to the incomes from investments.

The Budget Review shows (p.104) that GEPF makes a surplus of plus/minus R50bn per annum (in 2017 it was R54bn) after paying benefits to its pensioners and all other beneficiaries. The surplus is accumulated in Public Investment Corporation (PIC), which manages the GEPF funds. This surplus, or a reasonable part of it, should instead be put to work to stop austerity and cuts in the public service sector. That this must take priority over all other policy aims of the PIC (whether questionable or defensible) is obvious and should not even have to be argued.

Whether the GEPF gives the government an interest holiday, agrees to accept a lower interest than the market rate on loans, or buy new Bonds issued at a lower regulated interest rate, this doesn't matter. The government's debt service cost will decrease over each year; the argument for austerity cuts in public service and public infrastructure spending disappears. This happens when a sizeable part of the government's debt is lifted out from the whims of the profit-maximizing finance market, and placed with ourselves, as it were, on terms that maximize social utility and social stability.

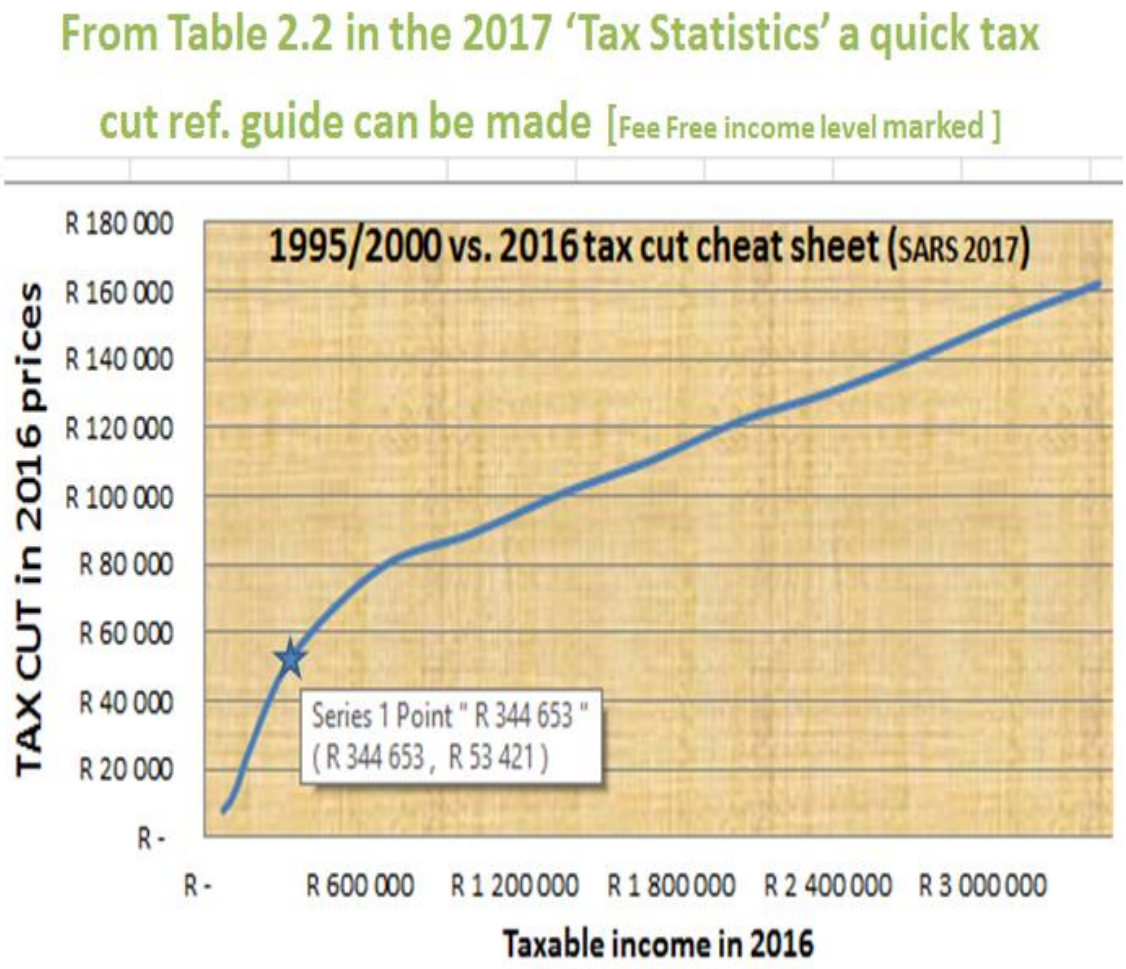
[6] GEPF's 2017 Annual Report.

[7] But we are informed that Eskom cannot any longer borrow money on the capital markets!

Annexure

Since 2000/2001 the personal income tax became more and more lenient. Starting from 2014, tax rates were increased, but we are still very far from the tax policy and tax rates that applied to a certain lifestyle some 15 years ago.

The middle class and the rich have benefitted a lot from this development. If tax policy hadn't been gradually changed but just kept as it is (mostly by exaggerated compensation for so called 'bracket creep'), a person with a taxable income of R1.2mn would pay over R90,000 more in tax.



Questions and Comments on this submission are welcome to dick@aidc.org,za
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