SUBMISSION OF THE PEOPLE'S BUDGET COALITION TO THE JOINT PUBLIC HEARINGS OF THE PORTFOLIO AND SELECT STANDING COMMITTEES ON FINANCE ON THE MEDIUM TERM BUDGET POLICY STATEMENT (MTBPS)

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PEOPLE'S BUDGET COALITION SUBMISSION TO THE BUDGET HEARINGS ON THE FISCAL FRAMEWORK AND REVENUE PROPOSALS

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1. INTRODUCTION

The People's Budget Coalition (PBC) is grateful for the opportunity to present its views on the fiscal framework and revenue proposals of the 2011 Medium Term Budget Policy Statement. The PBC is a civil society coalition comprising the Congress of South African Trade Unions (COSATU), the South African Council of Churches (SACC) and the South African Non-Governmental Organisations' Coalition (SANGOCO). This coalition has for the past eleven years tabled proposals on the budget and a participatory budget process. We have campaigned for many years for the adoption of fiscal and monetary policies that will make a decisive intervention in the battle against unemployment, poverty and inequalities and ensure meaningful redistribution of wealth to the poor.

2. CONTEXTUAL CONCERNS

We note that the MTBPS sets a forward-looking framework over the next three years and in so doing provides indications about government priorities.

Our view is that all such statements must be measured against the five priorities of the current administration, namely the:

- Creation of decent work and sustainable livelihoods;
- Improving the quality of education;
- Improving access to quality healthcare;

- Promoting rural development, food security and land reform; and
- Fighting crime and corruption

In order to achieve these, effective redistributive strategies are required to enable a context for growth to take place. Such strategies should find expression in a macro-economic policy framework that puts decent work at its centre. Fiscal and monetary policy mandates need to actively promote the creation of decent employment, economic growth, broad-based industrialisation, reduce income inequality and other developmental imperatives.

Yet the challenges are immense. The problem of high unemployment has been at the centre of all major economic policy documents[1]. Yet, there is ample evidence that policies to deal with this problem continue to fail. It is increasingly becoming clear that part of the reasons for this failure is the understanding of the reality that these policies seek to transform. This understanding has been extremely limited and distorted, leading to a limited number and inappropriate tools of intervention, many of which have been plainly wrong.

Table 1 shows the impact of the global crisis on the South African labour market at a sector level. Total job losses from 2009 to the second quarter of 2011 amounted to 1 038 000, with the largest job losses being registered by the wholesale and retail trade and manufacturing sectors. Between the fourth quarter of 2009 and the fourth quarter of 2010, the proportion of the unemployed that have been without work for more than a year rose from 59% to 68%, while discouraged work-seekers increased by 26% over the same period. These facts show that most of South Africa's unemployment is of a structural nature. They show that while the economy may experience a cyclical downswing, the resultant job losses translate not into a cyclical unemployment, but in fact that these losses assume a more or less permanent nature.

[1] See for example GEAR (1996), the Employment Strategy Framework (1998), ASGISA (2004), the New Growth Path (2010).

Table 1: Job Losses in the South African Economy (2009—2011:2)

	2009	2010	2010:4-2011:2	2009-2011:2
Total	**870**	**161**	**7**	**1038**
Agriculture	149	0	29	178
Mining	25	8	16	49
Manufacturing	202	8	48	250
Utilities	-12	7	1	-4
Construction	106	72	13	191
Trade	291	-38	31	284
Transport	35	10	-16	29
Finance	-123	218	-110	15
Community and Social Services	33	-147	-5	-119
Private Households	163	20	0	183

Negative figures reflect increases in employment, while positive figures reflect losses

The vast majority of the unemployed, an estimated 72%, are young people between 15—36 years of age, with 60% having minimal or no secondary education. These concentrated levels of youth unemployment have led many to misconstrue that the reason is that young people are considered too expensive to employers. The youth wage subsidy is premised on this belief. It then seeks to bridge the gap between young people's wage aspirations and what employers are willing to pay. However, if an inexperienced, young person who has not completed secondary education enters the labour market, it is likely that they will earn in the bottom 25% of the current pay scale. The evidence from the most recent statistics shows that people who have not completed secondary education earn R1 200 a month. People between 15—34 earn below R1 300. So it is highly likely that young, inexperienced people without secondary education would earn R1 250 a month. Deducting R20 daily transport cost to work means that R850 is left for survival, which amounts to R28 a day.

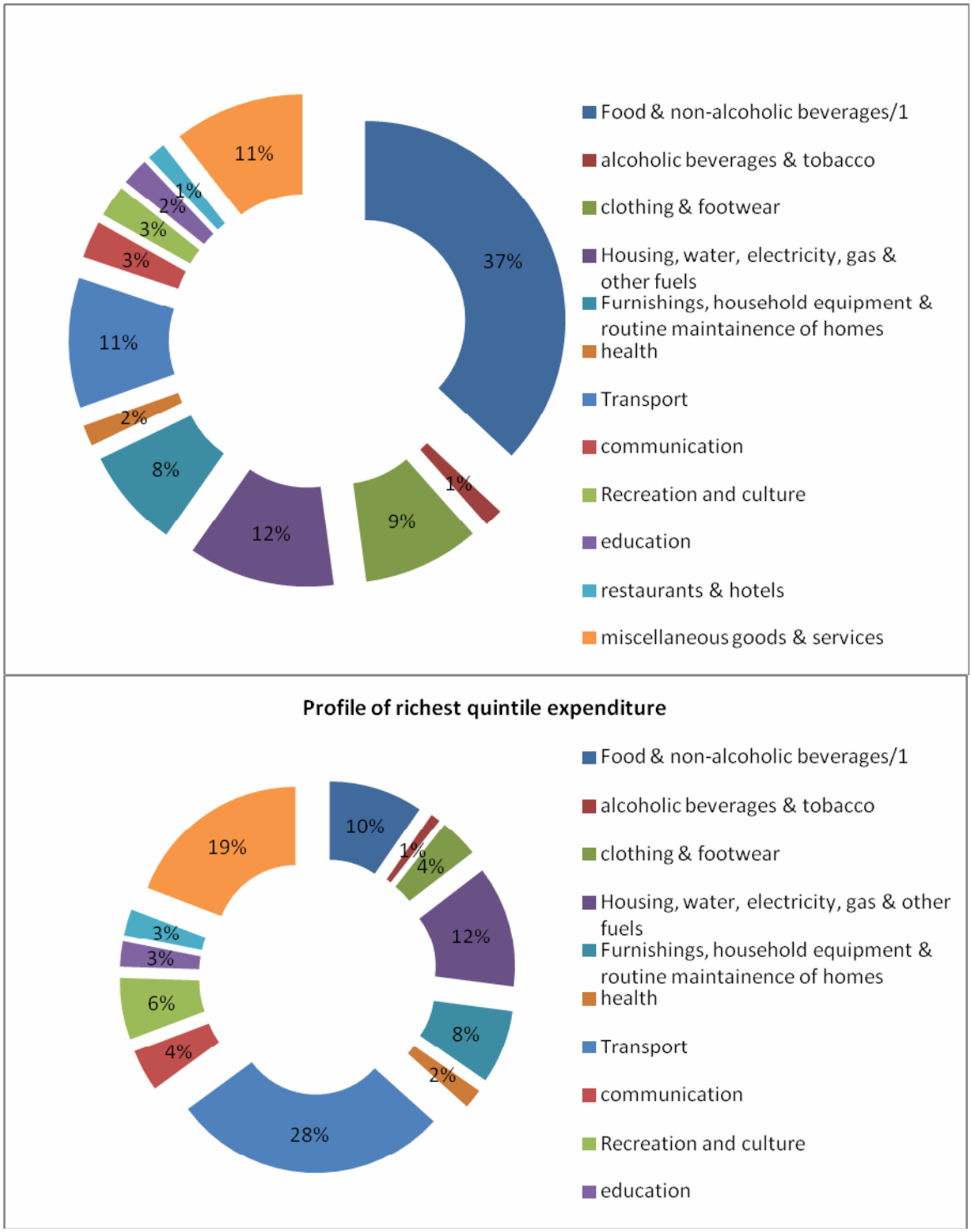
In 1995, the Gini coefficient stood at 0.64 but it increased to 0.68 in 2008[4]. The share of employees in national income was 56% in 1995 but it had declined to 51% in 2009. The top 10% of the rich accounted for 33 times the income earned by the bottom 10% in 2000[5]. This gap is likely to have worsened, given the fall in the share of employees in national income and the global economic crisis of 2008[6]. Approximately 20% of South Africans earned less than R800 a month in 2002, the situation is worse for Africans. By 2007, approximately 71% of African female-headed households earned less than R800 a month and 59% of these had no

[4] Development Indicators 2009, The Presidency, p.25. These are based on Income Expenditure Surveys.
[5] Human Development Report: Fighting Climate Change-Human Solidarity in a Divided World, 2007/08, p.283.
[6] In the Budget Speech 2010, the Minister of Finance notes that in South Africa "income inequality is among the highest in the world; and half of our population survives on 8% of national income". Nevertheless, the policy proposals that are contained in the Budget Review 2010, completely fail to address this problem.

income; 58% of African male-headed households earn less than R800 a month and 48% had no income.

Differences in consumption expenditures patterns between the richest and poorest income quintiles illustrate the stark inequalities between wealth and poor households. Food and non-alcoholic beverages accounted for the largest share of consumption amongst the poorest quintile (37%) and only 10% of the consumption share amongst the richest quintile. Although poor households spend proportionately more on food and non-alcoholic beverages, they still spent far less than the richest quintiles when measured in terms of total money value. Figure 1 below provides additional details on consumption expenditure patterns.

Figure 1: Profile of Expenditure of the poorest quarter and richest quarter



Source: Income and Expenditure Survey 2005/6

3. COMMENTS ON SPECIFIC PROPOSALS

We note with concern that the MTBPS calls for wage moderation in the public service and goes as far as to suggest that public sector wages constrain government from delivering basic services and infrastructure. This is problematic, especially since estimates from the Quarterly Employment Statistics indicate that real wages have declined by 6% over the past two and a half years. In 2010 Quarter 4 the average monthly wage was R3 336; it is now R3 175. The average inflation rate that is faced by workers is 10%, and most wage settlements in the public sector were between 6% and 8%. This attack on public sector workers is therefore unwarranted. Whatever workers have gained continues to be eroded by job losses that stem from constrained real wage growth. We cannot call for reduction of inequality on the one hand, and enforce a real wage freeze on the other hand. It also ignores the many impoverished financial dependents and families that public servants support.

3.1 The Macro-Economic Policy

The MTBPS does not represent a real shift but continues on the old path. It projects inflation to be 5.5%. Nominal tax collections are said to grow by 7.1%, which in real terms amounts to 1.5%. Government spending is expected to grow by 2.3% in real terms. This represents a 0.8% increase in spending relative to taxes.

Government spending will be less than projected GDP growth. This means that government spending relative to GDP will decline by 0.7% over the next 3 years. Furthermore, the borrowing requirement will decline from 8% to 5% over the next 3 years, driven mainly by fiscal consolidation, which will reduce the budget deficit from 5.5% to 3.3%.

This leads us to characterise this MTBPS as a conservative macroeconomic framework predicated on a neo-liberal paradigm. This is because this spending does not prioritise job creation and retention, when the country still suffers from more than 1 million job losses over the crisis period.

In addition, over the past two and a half years, workers have lost in excess of R42 billion worth of income. Yet, the MTBPS only mentions social security in passing. Relative to the depth of the South African crisis, the spending in this MTBPS is very modest, virtually stagnant in real terms. This effectively presents a surplus budget; hence it creates a “policy reserve”.

The fiscal framework does not mention anything about tax policy over the coming 3 years. For example, a key lever to help expand aggregate demand during this crisis period is a progressive tax system that encourages broad-based demand to combat the effects of the crisis on the livelihoods of the poor and support industries through demand support.

The MTBPS projects a deficit of 5.5% next year, which then declines to 3.3%. However, this conservative stance is inconsistent with the scale of job losses that the economy has experienced. We would have expected a macroeconomic policy framework that places job creation at the centre to have adopted a targeted, expansionary fiscal stance supported by other macro-policy interventions such as management of exchange rate appreciations.

While the MTBPS mentions the conundrum of the exchange rate, it does not do more than that. In the New Growth Path, it was mentioned that monetary policy will be "loose" and more will be done to ensure a competitive currency so that jobs are protected. We do not think that the current level of the real exchange rate helps to stimulate the economy in a manner that preserves jobs and enhances broad-based industrialisation.

At a macro-level, the current account deficit was 1% of GDP in 2010 Quarter 4, when the growth rate was 3.6%. However, in 2011 Quarter 2 the growth rate slowed down to 3.2% and the current account deficit widened to 3.3% of GDP. The main driver of this deficit is the sharp appreciation of the real exchange rate. The real exchange rate has strengthened by more than 40% since the beginning of 2009.

The macroeconomic policy framework, which is basically a "wait and see" approach, is not active in supporting job-creation and broad-based industrialisation. We would have expected the policy MTBPS to talk about interventions such as:

- Preventing the appreciation of the exchange rate so as to support domestic manufacturing. This will include the introduction of financial transactions taxes on short-term capital flows and on domestic financial markets.
- Ensuring that adequate and affordable credit is supplied to industries.
- A financial activities tax to redistribute resources towards industrial sectors.
- A progress report on the formation of the state bank, the consolidation of development finance institutions and their mandates.
- The introduction of a tax on luxury items and a tax on the super-rich, to expand tax collections to finance public infrastructure.
- Setting up clear local procurement guidelines and enforcement, combating import fronting and encouraging productive BEE.
- A shift in macroeconomic policy towards greater employment focus, and the use of tools to ensure that targeted sectors as outlined in IPAP 2 and the New Growth Path receive adequate support.
- The elimination of tenders and the strengthening of the public sector to deliver quality and affordable infrastructure and basic services.

Sadly, South Africa has missed yet another opportunity to change course to a new growth path.

3.2 Creation of Decent Work

The MTBPS says over the next 5 to 10 years, South Africans must focus on economic restructuring to create more jobs, spread opportunities and reduce inequalities. The MTBPS commits R25 billion over the next 6 years to boost industrial development, assist enterprises and accelerate job creation. This amounts to R4.2bn per annum.

The MTBPS provides "support for job creation, training and community works". Our understanding is that training should occur through National Skills Development Strategy 3, which the MTBPS does not mention. The MTBPS should have clarified the vehicles and mechanisms through which the training it proposes will be realised.

Overall, while the MTBPS talks about economic restructuring, and the fact that manufacturing is held back by rising domestic costs and weak external demand, it does not specify the role of macro-economic policy in supporting IPAP 2. Whilst recognising the volatility of the currency, the MTBPS says nothing about what it will do about it. Furthermore, whilst it is true that common ground is required to revitalise manufacturing, it is also true that the current macro-economic policy is not supportive.

It allows for the unbridled operation of market forces in determining the exchange rate; it fails to come up with measures to regulate the flow of credit to productive sectors; it does not put forward local procurement to support broad-based industrialisation. Whilst it mentions preferential procurement, it does not mention the need to combat import-fronting, etc. In short the MTBPS does not provide concrete support for IPAP 2 and the NGP.

In relation to infrastructure, spending is 7.8% of GDP in the current year, and is estimated to be R802bn over the next 3 years. This will increase by 4% per annum in real terms. This is a promising figure, because it means that infrastructure investment will grow above the growth rate of the economy in the very short term. This is better than other expenditure items, and reflects the bias of the MTBPS.

However, the challenge that the MTBPS fails to address is infrastructure delivery mechanisms. Over the years, we have experienced chronic under-spending by departments. With the Public Works Department in a shambles, we are sceptical about the effectiveness of this spending. The MTBPS should have put forward ways to build internal capacity to directly deliver basic services and public infrastructure; Due to worrying levels of corruption and abuse and the need to capacitate the state to deliver key services and infrastructure, we believe there is a need to cut tenders out.

Whilst the MTBPS mentions the need to increase investment in mining, it does not mention beneficiation as the cornerstone to building downstream industries. In addition the infrastructure spending that is mentioned in the document is not linked to local industrial development through interventions such as local procurement.

3.3 Education

The MTBPS seeks to increase education funding from R191bn to R232bn over the next 3 years, a 14% increase, which per annum amounts to 4.7%. In real terms education spending will increase by 1.6% per year over the next 3 years.

The Department of Basic Education has a 10-Point Plan. Amongst other issues, it seeks to address backlogs in school infrastructure, curriculum development, and improving the quality of teaching and learning.

Backlogs in Basic Education include the fact that 93% of schools have no libraries or libraries are not stocked, 42% of schools depend on boreholes or rainwater or have no access to water. 61% of schools have no arrangement for disposal of sewage, 21% of schools have no toilets on site or have more than 50 learners per toilet; 62% of schools have a learner educator ratio that exceeds 30; 81% of schools have no computers or more than 100 learners share a computer, etc.

If class sizes are to be equated to those in Brazil and if we are to reduce the learner-educator ratio to 20, from the average of 30, at least 210 000 more educators would have to be trained. This does not include the need to build more schools, address equipment and furniture shortages, expand and re-capacitate colleges and their associated support staff.

The extension of computer laboratories and libraries will create in excess of 80 000 direct permanent jobs for librarians and computer teachers. This does not take into account jobs created for maintenance of computers, and the fact that many schools need to be wired on the internet and be provided with TVs.

The MTBPS should have laid the foundation to address these backlogs. It should have ensured that teacher colleges are re-opened and new ones built, not through tenders, but through internal state capacity. It should have ensured that it allocates resources so that these are directed where they are needed most, in schools. Teacher training institutes needs to be set up across the country to re-train teachers so as to improve the quality of teaching.

The Department of Higher Education and Training aims to expand the Further Education and Training sector so that its intake per annum is 1 million by 2014. If this programme is to be a reality, it is estimated that we need 20 000 more lecturers.

This means that the sector must increase its intake by 150 000 per annum, from its current 400 000. The number of lecturers must increase by 5000 per annum.

The MTBPS should have addressed these demands through its resource allocation. The re-opening of teacher colleges, nursing colleges, technical colleges, and the building of new institutions, including the two universities in the Northern Cape and Mpumalanga, needs to be expedited.

This is important if we are to stem the tide of ill-equipped young people entering the labour market. Furthermore, and encouraged by the turnaround of the National Student Financial Aid Scheme, more allocations will have to be made to ensure that no deserving young person is denied an opportunity to further their studies.

A 1.6% real increase will make a dent in expanding the FET sector by 150%, for example. Such inconsistencies in budget allocations and demands make us sceptical about the connection between the Budget Statements and the ANC led government's 2009 election Manifesto commitments. At this rate, we are concerned that the Manifesto commitments will remain a far-fetched deferred dream.

3.4 Health

The MTBPS mentions that health spending will increase by 7.4%, in real terms a 1.9% increase. This is worrying given the massive crisis we face in this area. There are staff shortages and non-availability of medicines; we need improved efficiency in the link between warehouses, hospitals and clinics. There are infrastructure backlogs, a need to extend physical infrastructure, including beds and linen, and inadequate systems: ICT, management and administrative support, availability of equipment: some provinces do not have equipment to treat certain conditions.

These challenges have generated the following negative outcomes: maternal mortality has increased from 81 to 600 (per 100,000) between 1997 and 2005. The Millenium Development Goal target is 38. Child mortality has been on the decline, but remains high at 68 (per 1000 live births), yet a comparable country, Brazil, has reduced this figure from 58 in 1990 to 22 in 2007. Under-regulation of the private health sector and over-concentration of resources in the health system remains a major problem, though even the private healthcare sector is facing serious challenges of efficiency.

The MTBPS was supposed to ensure that the Department of Health's 10-Point Plan, which was outlined in the 2010 Budget Review, is adequately resourced. The heart of this Plan is to transform the South African healthcare system, the centre-piece of which is the implementation of the National Health Insurance (NHI). The MTBPS was supposed to clarify the financing mechanism of the NHI and make the

necessary budgetary allocations to phase in the system. The MTBPS should have begun to indicate how the health system will be transformed.

The role of community care workers as part of the public health system cannot be minimised. They need to be integrated into the public service. In order to decisively address the chronic problem of staff shortages, the state should lead the process of training of nurses and doctors and resist the incursion of the profit motive in the process. The nurse/ patient ratio remains low; it must be increased from 4 per 1000 people to 8 per 1000 and the ratio of physicians to 1000 people to 1 over the short to medium term from the current 0.69. This will require at least 200 000 additional nurses and at least 15 500 additional physicians. This excludes the need to build additional clinics and hospitals.

The MTBPS should therefore have indicated how many nursing colleges have been re-opened, or will be re-opened. How will the increase in the number of physicians and associated professionals be funded? There needs to be an indication on the scale of infrastructure expansion in the public health system as a basis for phasing in the NHI. Lastly, a critical ingredient in the health system is the availability of medicines. A brief report on progress on the setting up of a state-pharmaceutical company to bring down the costs of medicines should have been provided. We do not believe that a 1.9% increase in healthcare spending puts us on a path to meet our promise contained in the Manifesto.

3.5 Rural Development, Food Security and Land Reform

The MTBPS mentions the strengthening of local government in rural communities. This is to be welcomed, as it signals the prioritisation in line with the Manifesto commitment. We also welcome the prioritisation of water infrastructure, and to upgrade waste water treatment works in rural areas. The MTBPS further mentions the role of the Land Bank in supporting agriculture, thereby increasing the production of food. The intention to support small scale farmers is also a welcome move. The alignment of programmes between the Department of Rural Development and Land Reform, Agriculture, Water Affairs and Forestry is also a welcome move that begins to build institutional coherence when it comes to rural development and agriculture.

The MTBPS makes an important observation about the need to address backlogs in public service delivery in rural municipalities. This is important because it addresses the question of the rural-urban divide. In addition, the focus on rural development should go some way in easing in-migration into cities.

However the MTBPS decries the rise in food prices, without providing an indication of what government is going to do about this. The MTBPS should have proposed measures to limit speculation on essential food items in financial markets. Another

factor that should have been factored into the MTBPS are cost drivers faced by farmers, such as fertilizer, electricity, transport and water tariffs. In this context the re-nationalisation of SASOL becomes important.

Furthermore, the MTBPS does not make mention of land redistribution, which lags far behind target.

3.6 Crime and Corruption

The MTBPS must address the resourcing of the police service, ensure adequate resources for institutions, especially community policing forums, provide conditions for the Criminal Justice Cluster to attract and retain highly skilled personnel in its departments to deal with, for example, fast-tracking of cases, sentencing of offenders, and adequate resourcing to minimise repeat offences.

Among interventions to deal with corruption is to impose stricter penalties to deter public servants from using state resources for their own interests. The creation of a naming and shaming list that is easily accessible to the public should be expedited. Dealing with corruption in the criminal justice system demands improving the capacity of the Independent Complaints Directorate, listing companies and individuals that have been found guilty of corruption, and instituting targeted lifestyle audits.

But the most powerful way to deal with most of the corruption is to eliminate the use of tenders to deliver basic goods and services and to build the capacity of the state to directly deliver these and create jobs.

4. PARLIAMENTARY CAPACITY TO AMEND MONEY BILLS

Prior to the enactment of the Money Bills Amendment Procedure and Related Matters Act, the PBC boycotted parliamentary hearings on the budget as Parliament did not have the power to amend money bills. Public participation therefore would have had no impact on the process.

Notwithstanding the lifting of our boycott of the process we have continued to emphasise the need to strengthen the technical capacity of Parliament, and in particular the establishment of a Parliamentary Budget Office. We note that the Estimates of National Expenditure published in February 2011 indicated that "Parliament will fund the establishment of the Parliamentary Budget from its retained earnings in the first two years of the MTEF period". As indicated in our earlier submission on the February Budget of 2011/12, we again seek clarity regarding the details and progress made in the setting up of this office.