PRESS STATEMENT:

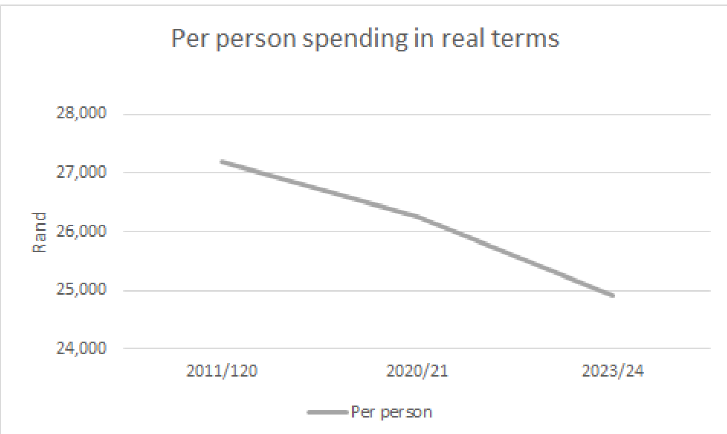
The Budget 2021: Slashing public expenditure places the economy at risk

25 February 2021

Despite Minister Mboweni's misleading statements, we are once again being told that 'there is no alternative' to austerity – the cutting of expenditure to address debt during economic downturns. The 2021 Budget reinforces Treasury's extreme approach to fiscal consolidation.

Expenditure cuts

The Budget proposes R1.74 trillion in consolidated non-interest expenditure in 2021/22, R1.73 in 2022/23, and R1.75 trillion in 2023/24. Considering expected inflation, as Treasury notes "consolidated non-interest spending will contract at an annual real average rate of 5.2 per cent". This entails a fall in spending per person and leads to real reductions in health, learning and culture, and general public services. Giving the pressing social needs, enormously exacerbated by COVID-19, this is deeply irresponsible.



Considering the impact of government spending, which constitutes a large part of the economy, this will lead to a reduction in growth and tax revenue.

Emergency rescue measures

The R500 billion COVID-19 rescue package announced by the President last year - which government continues to tout as one of the largest fiscal responses among developing countries - did not receive a mention. Considering the continuation of the crisis, this is criminal neglect.

Unfortunately, there was no R500 billion to begin with. The 2020 Supplementary Budget presented a net increase to non-interest spending of just R36-billion, or less than 1% of GDP. Most of the rescue package therefore came from existing funds. Further, approximately only one third of this has materialised. Prior to this budget, a little over 10% of the two largest components – the R100-billion job protection and creation fund, and the R200-billion loan guarantee scheme – had been used. Undertakings to roll out the balance of the R100bn jobs allocation in the next two years have not been taken forward in this budget.

Relief areas	Promised	Used*
Social security	R50 billion	R43.6 billion
Job creation and protection	R100 billion	R12.6 billion
Wage relief (TERS)	R40 billion	R55.6 billion

Credit guarantee scheme	R200 billion	R18 billion
Tax relief	R70 billion	R15.3 billion
Municipalities	R20 billion	R0.2 billion
Health	R20 billion	R12.5 billion
Total	R500 billion	R158 billion

Data compiled from publicly available information as of 11 February 2021 as outlined in the IEJ Updated R500 billion Rescue Package Scorecard

While we welcome the vaccine rollout and agree that vaccines will play a pivotal role in saving lives and supporting economic recovery, by themselves vaccines are not a panacea for the socio-economic crisis we face. There can be no recovery without rescue.

Job creation

The deep unemployment crisis which existed before the pandemic has worsened. Unemployment now stands at 42.6% or 11.1 million people (expanded definition). No 'jobs bounceback' has occurred, and the pandemic has caused a net loss of around 1.4 million. This Budget exacerbates that in three ways.

First, the highly contractionary macroeconomic stance will retard job creation through a shrinking economy. Deep expenditure cuts during a downturn result in fiscal policy being "procyclical", thereby worsening the downturn. While this may be moderately offset by monetary policy, through reduced interest rates, South Africa has lagged behind global monetary policy practices, particularly regarding tools beyond interest rates. The macroeconomic stance reflected in the budget can only be described as employment destroying.

Second, the state has reduced funding for industrial policy interventions that are crucial to expanding labour intensive sectors in the economy. Employment creation programmes, including public works, are allocated a small amount of R33.4 billion in 2021/22, declining significantly to R24 billion in 2023/4. Industrialisation and exports is allocated around R36 billion this year. This is less than 5% of the budget! Small allocations are made to support production in particular sectors, but this will not stop ongoing deindustrialisation, seen by 400 000 manufacturing and construction job losses in 2020, nor grow these sectors. This undermines the President's emphasis on industrial policy tools - such as, local procurement and infrastructure build - to promote employment and economic diversification.

Third, the promised public employment stimulus has failed to materialise. Initially the R500 billion relief package allocated R100 billion to job creation. Only R12.6 billion of this was used in 2020/21 for the Presidential Employment Stimulus, with a commitment to allocate the remainder over the next two years. However, the Budget allocates the employment stimulus a paltry R11 billion in 2021/2, and nothing in the following two years. The Minister disingenuously claimed that the R100 billion was almost all allocated in 2021. However, this allocation is over the three-year period, and it is suspected that much of this is for existing public works programmes, rather than a new allocation to address the current crisis. This is a serious reneging on Government's previous commitments.

Sacrificing the poorest

The Minister's disregard for the poorest and most vulnerable is evident when he says that there is "no reason to be apologetic" regarding the loss in value of social grants.

In real terms, social grants will decline by 2.4%. The Child Support Grant, which decreases least, sees a nominal rise of 3.4% - from R445 to R460 - below the 2021/22 expected inflation of 4.2%, resulting in a real decrease of 0.8%. This grant remains below the food poverty line of R585. At the same time, the special COVID-19 Social Relief Distress Grant has not been increased and will end in April 2021. Disturbingly, caregivers continue to be excluded from this grant, thereby discriminating against women. No reference is made to the President's previous commitments to move towards a Universal Basic Income Guarantee.

This budget will, therefore, increase South Africa's already disturbingly high rates of poverty and inequality. Contrary to Treasury's assertion, this will also worsen intergenerational equity, undermine productive efficiency and suppress the development of our human capabilities.

Treasury - although not the Minister - admits it is making anti-poor choices. They acknowledge that budget cuts in education, for example, will reduce the number of available teachers, which, coupled with a rising number of learners, implies larger class sizes, especially in no-fee schools. This, they project, will negatively affect learning outcomes. This negative impact is equally true in other critical areas, including health, where real spending is being cut in the middle of a pandemic!

Tax breaks for business, high income earners and the wealthy

The proposed tax changes are bizarrely out of touch with economic evidence and will benefit corporations and the wealthy while limiting revenue available to the state.

Treasury's decision to lower the corporate income tax rate over the medium term will compromise revenue generation. Research by UNCTAD has shown that tax cuts are less effective at stimulating the economy and spurring productive investment than tax and spending increases. They also confirmed this to be the case in South Africa. These cuts will lead to a rise in inequality, as was the case in the United States. South Africa is entering the corporate tax race to the bottom.

While we welcome the decision for SARS to focus on consolidating wealth data to assist in broadening the tax base, improving tax compliance and assessing the feasibility of a wealth tax, Treasury has actively decided not to use existing tax instruments to increase taxation on the wealthy. Increasing Dividend Tax to 25% would, for example, lead to a R7.5 billion increase in revenue. Eliminating retirement fund contribution deductions for those earning above R1m (2018/19) would raise revenue by R28 billion.

"Double-speak" on recovery

The Budget mentions a number of contradictory 'structural reforms to promote economic recovery'. We question how it is possible to facilitate an infrastructure-led recovery in tandem with an ongoing underspend in infrastructure. In 2020, Government reported that the total underspend in infrastructure between 2016 and 2020 was over R140 billion. In addition, despite the Ministers' narrative of a R791 billion Infrastructure Fund, only R18 billion (in total) has been allocated in the budget to this Fund in the medium-term (2021 - 2024).

The Treasury's continued focus on microeconomic "structural reforms", most outside of its portfolio, is notable. It is correct that a failure to resolve these blockages, in critical areas such as electricity, pose serious macroeconomic risks, to growth, employment, inflation, revenue, and debt. What is astounding is its refusal to acknowledge that the reverse is also true - that contractionary macroeconomic policy will undermine sectoral policies and retard structural transformation.

Debt and deficits

The Budget prioritises debt reduction above all else. It does so, almost exclusively through expenditure cuts. These are likely to reduce GDP and place upward pressure on the debt to GDP ratio. While reducing the share of the budget spent on debt servicing costs is a valid objective, other avenues are available.

The government could reduce gross debt through making better use of quasi-state funds, such as those in the Government Employees Pension Fund. It could reduce borrowing costs through prescribed assets and interest rates for local private institutional investors, managing capital flows, and reserve bank invention in bond markets. It could also shift certain expenses to public development finance institutions - such as, the Development Bank of Southern Africa - by capitalising those, including through the Reserve Bank.

Ultimately, the only way to ensure debt reduction is through raising economic growth, and a well-targeted government-led stimulus plan is essential to that. Fiscal consolidation of the sort proposed in the Budget is economic suicide, as the international experience, most famously of Greece, has conclusively shown.

Austerity denialism

The austerity denialism must end. There is no such thing as “pro-growth fiscal consolidation”. Austerity, by definition, is contractionary fiscal policy implemented by a state aimed at solving debt and growth problems during a period of economic stagnation. These are the exact measures taken in this budget.

The IEJ calls for Parliament to reject the 2021 National Budget as an unrealistic and irresponsible plan that will wreak havoc on the economy and the lives of millions.

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