PRESS STATEMENT
BUDGET 2022 - A lost opportunity

25 February 2022

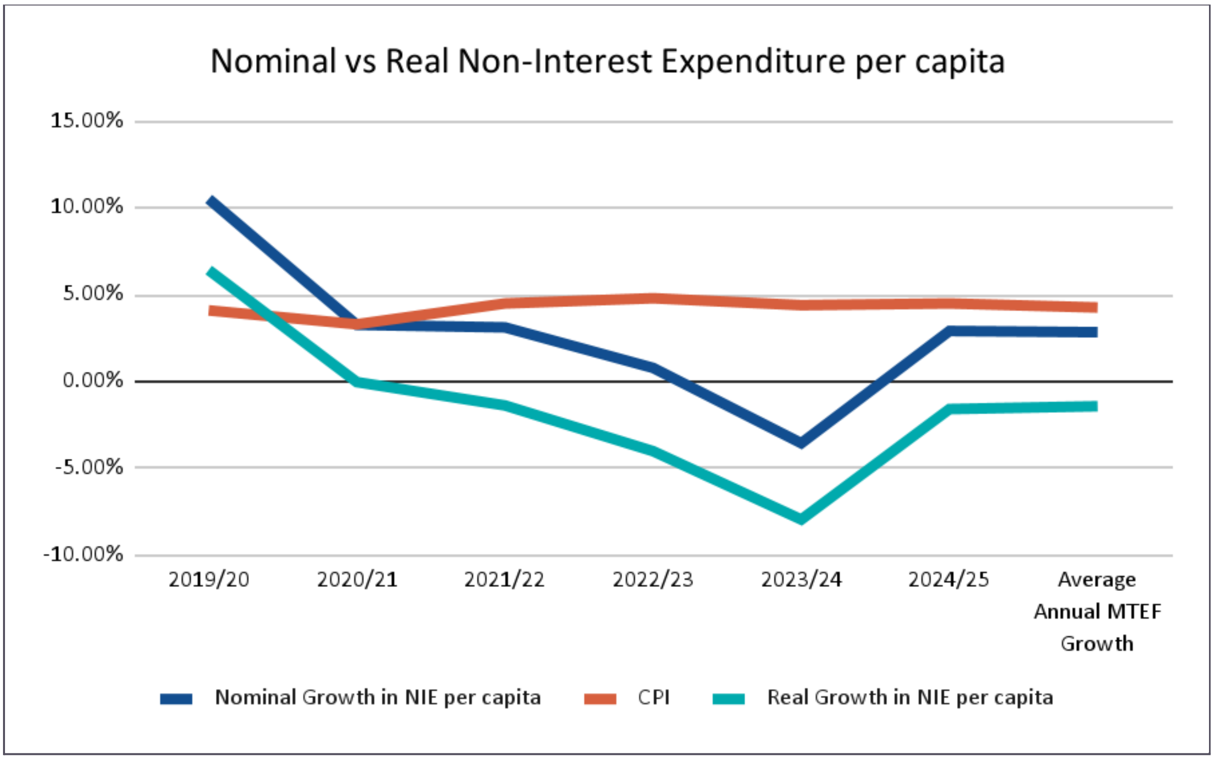
The Institute for Economic Justice expresses its disappointment in the policy direction laid out by Finance Minister Enoch Godongwana in his budget speech on the 23rd of February. The Minister has decided to continue on an unsustainable path of 'fiscal consolidation', using austerity measures rather than pro-growth macroeconomics, which comes at the expense of the immediate wellbeing of people in South Africa. This is despite the fact that the government has more revenue to work with than predicted, driven by greater demand for commodities. This budget is a lost opportunity to take meaningful action on our crisis of poverty and exclusion, and to restore people's confidence in government. Instead, Treasury has decided to prioritise the interests of the bankers.

With over 12 million unemployed people by the expanded definition and 2.1 million jobs lost since 2020, the policy direction taken by the government reneges on its obligation to ensure that people live a dignified life, with access to income support. In our pre-budget statement, we underscored the fundamental interdependence of job creation and retention, grants, and public services. However, Treasury is playing these provisions off against each other, falsely presenting them as a trade-off. This is not the basis for a sound macroeconomic policy response to recession and crisis.

Debt stabilisation at the expense of public services

The Government had doggedly set its sights on achieving a budget surplus by 2024/25. Now, the forecast date has been brought forward a year to 2023/4. There can be no rationale for such unseemly speed towards this target, when it comes at the expense of protecting and assisting people who are vulnerable, or investing in the economy and public services. What good is reducing deficits and debt ratios, when the process pushes more people into poverty, and drives further economic stagnation? Deprivation and unemployment have compounded since the 2021 Budget and addressing them cannot be divorced from the country's fiscal strategy. Expenditure and revenue ought to be aimed at advancing socio-economic rights as stated in the Constitution. Withholding spending of revenue at this time of economic and social crisis is tantamount to preventing the state from playing its developmental economic role.

To achieve their goal of fiscal consolidation, Treasury is throttling spending and choking public services at the worst possible time. Despite the increase in the population and inflation of 4.8%, overall non-interest expenditure (spending by government excluding debt service costs) remains stagnant at 0% annually over the medium-term (2022/23 -2024/25). This entails a fall in real spending per person as shown in the graph below. The impact of this decline will play out in worsened health and education outcomes, particularly hurting indigent households and women. This can only deepen our cycle of inequality.



Health

The extent of cuts in health care is shocking, coming as it does in the wake of a pandemic, and the huge stress on our public health services, and health care workers. Real consolidated healthcare expenditure declines by R12.6 billion between 2021/22 and 2024/25 or -4.3% over the medium term, and when increases in healthcare users are factored in, declines reach a projected -5.8% by 2024/25.

Education

Between 2021/22 and 2024/25 learning and culture expenditure decreases by R13.5 billion or -2.5% over the medium term and clearly doesn't even account for an increase in learners. Our education system is struggling to get back on its feet following the chaos of the pandemic, and funding cuts can only further disadvantage learners from rural and township schools. The Budget Review blithely acknowledges that it is failing, stating that, "shortfalls in compensation budgets in education will result in fewer teachers and increased class sizes in some provinces". Given this statement, we can only conclude that the government has simply decided that a fundamental right, which the Constitution identifies as immediately realisable, is not as important as arbitrary macro economic targets which offer no benefits to people.

Women and Social Spending

Spending cuts to public services will disproportionately affect women. Already one of the most underemployed population groups, cuts to public services, including social grants, will increase unpaid care work (as women are forced to pick up the government's slack) and will erect even higher barriers to womens' labour-market participation. This budget essentially increases gender inequality and unemployment for the most vulnerable, particularly Black women.

Free Basic Services

In real terms, indigent households will have access to less free electricity, water, sanitation and refuse removal services than they did in 2019/20 and 2020/21, meanwhile the number of poor households is projected to increase by a million, to 11.2 million households in 2023/24.

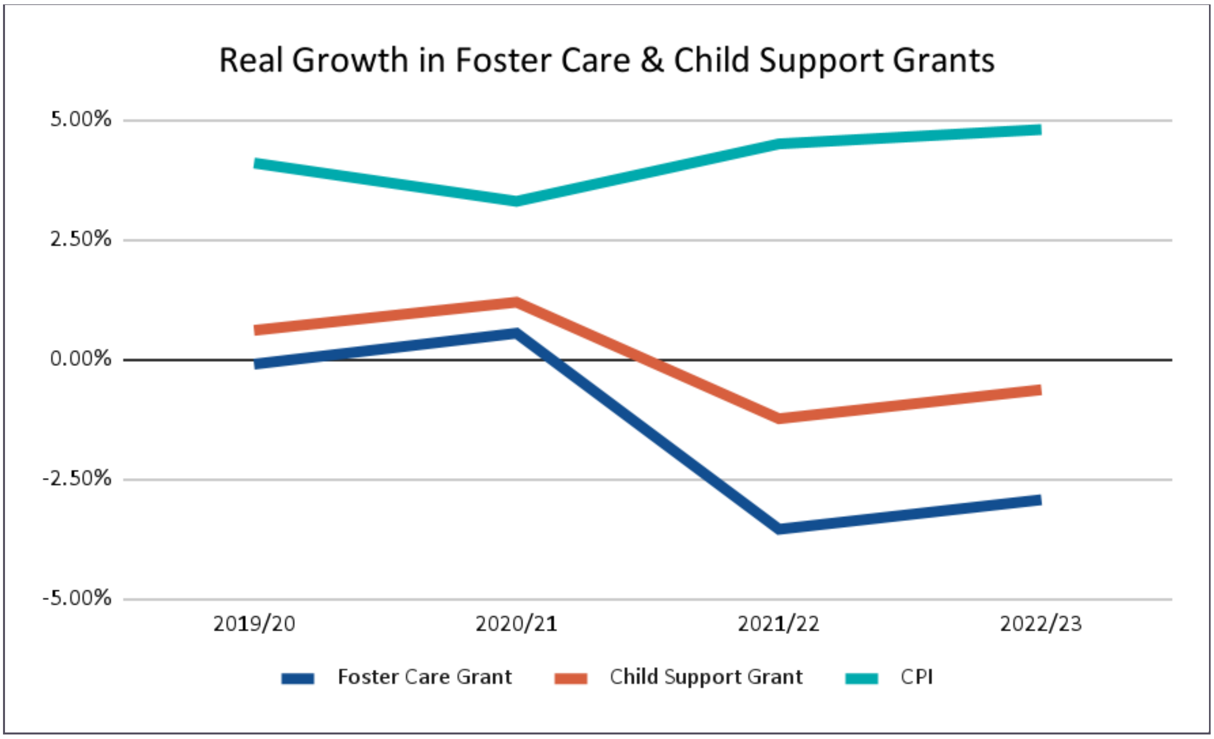
Grants

The Social Relief of Distress Grant (SRD) is extended for another year at a cost of R44 billion but remains far below the Food Poverty Line of R624 and has not increased in line with inflation. Furthermore, it has not been inserted into the MTEF. It remains capped at the woefully inadequate R350 per month, and at the current number of beneficiaries (10.5 million). This means those eligible people who have already been arbitrarily excluded from the grant due, inter alia, to faulty systems and databases, as well as those who might still require support in the next 12 months will have no hope of assistance from their government. This is despite a revenue windfall of R181 billion and a projected estimate of revenue over R400 billion over the medium term.

While the government claims that the commodities revenue windfall is temporary, some commentators have argued that it will be sustained over the medium term, inter alia because of structural changes in the global economy, following supply-side disruptions, and deep transformations being driven by the green transition. The SRD grant extension at the FPL could have been easily absorbed by this revenue. For all the Minister's fantasising about private-sector led job growth, the reality is that it costs R938 to look for a job in South Africa. Capping and discontinuing the SRD is condemning people to chronic unemployment.

It is worrying that despite commitments to engage further with stakeholders on the Universal Basic Income Guarantee (UBIG), a UBIG is not mentioned in this budget. However, we see in the Budget Review a caution that any consideration of a grant similar to the SRD will have to come from spending cuts and tax increases, be limited to a narrowly targeted pool of beneficiaries, and attached to job seeking (or 'labour market activation'). Research and experience has shown that targeting basic income support will result in those that need the grant the most being excluded due to systemic issues. It is also not clear what form of targeting will be used, given the administrative capabilities or lack thereof of SASSA. The Finance Minister has effectively, unilaterally, ruled out universal basic income support in the medium term. This is not a decision the Minister or Treasury can make alone and by fiat, they need to be removed from determining social security policy as they lack the necessary expertise, and their record in this domain has been a disaster.

As recommended by the Standing and Select Committee on Finance, some of the social grants increase in line with inflation. A thorough review of the grants however shows that the Child Support Grant (CSG) and the Foster Care Grant are below inflation as shown in the graph. This is unacceptable.



Industrial policy support

In his SONA, the President mentioned the masterplan process, and a focus on revitalising the manufacturing sector. However, in the budget we see industrial policy being reduced to a regulatory tool rather than a strategy for interventions for building capacity and capability in the manufacturing sector. The budget allocations in this space are both inadequate, and premised on an outdated neoliberal PPP model that has consistently failed to deliver development outcomes. R227 billion is allocated to economic development with half of that, R117 billion, allocated towards economic regulation and infrastructure and R39 billion, about 25 per cent going to industrialisation and exports. While infrastructure development is critical to revitalising the manufacturing sector and stimulating the economy, it is largely premised on public-private partnerships (PPPs), despite the fact that their value has declined from an estimated R10.7 billion in 2011/12 to R5.6 billion in 2019/20 according to the Budget Review. Indeed, there has not been a substantial project delivered through the PPP model in a decade. To the contrary, PPPs have been shown to erode the capacity of the state, contribute to sovereign debt crises, as well as contribute little to poverty reduction and development outcomes.

Job creation and retention

There is no clear job creation strategy. The third phase of the Presidential Employment Scheme (PES) has been announced, with R9.2 billion allocated per year for the next two years. This is a decline from the first phase of the PES in which R12.9 billion was allocated. Yet, while the PES plays an important role in mitigating the crisis, the PES only creates short-term opportunities, on an inadequate scale, and may not allow for sufficient skills transfer. For government to realise its key role in job creation and retention, the PES must be scaled up, and gaps filled, together with a broader public sector jobs strategy. Decisions on the future of the PES however, have been deferred pending more policy discussions, as Treasury kicks the can down the road.

The new format of the Loan Guarantee Scheme is being worked out by National Treasury, the Reserve Bank, and industry stakeholders. Indications do not seem to point to the inclusion of business grants, instead of loans, which we believe to be the most appropriate recovery tool for SMMEs already fighting for survival. This was evidenced by the markedly higher uptake of Temporary Employer-Employee Relief Scheme grants. We would like to see a targeted TERS made available for industries such as Tourism and Agriculture that are well-positioned for job creation.

It is worth noting that 85% of the revenue windfall came from the mining sector, yet the QLFS Q3 data identifies a haemorrhaging of jobs in the mining and manufacturing sectors. Some of the windfall should have also been allocated to supporting recovery in these sectors including reversing job losses and protecting the incomes of those who will not get their jobs back.

Tax

The 1% reduction in corporate income tax is bewildering in the midst of a revenue windfall from a commodity boom that is likely to be sustained, which reflects the high profits being made by corporations. With little clear rationale for this decision, it stands as a symbol of the Finance Minister's priorities. Corporate Income Tax was slashed from 50% to 28% between 1990 and 2018, without significant impact on job creation or investment, and this further decrease is a regressive measure that will not contribute to employment. Government cannot simultaneously put a freeze on the hiring of frontline healthcare workers or limit the employment of the extra teachers we need while reducing its ability to raise revenues - doing so directly, negatively, impacts job creation.

The success of the Youth Employment Tax Incentive (ETI) is not borne out by evidence, yet additional funds are being channelled to this scheme. As we outlined in our pre-budget statement, the ETI has not led to any substantial alleviation of unemployment. Its expansion then is purely a subsidy to business and a waste of resources which could be allocated towards job creation and income support.

The IEJ has made repeated submissions demonstrating that expenditure cuts are not necessary and progressive tax proposals can finance a UBIG, and other desperately needed measures. New forms of tax would redistribute income from the wealthiest households to the poorest. A luxury VAT of 25% on luxury goods, a Social Security Tax of 1.5-3% progressively levied on the highest income earners and a Wealth Tax of 1% for the top 1% and 3% tax rate for the top 0.1% wealthiest South Africans, would fund a UBIG.

Investment of this revenue, currently trapped in the wealth of high income earners and corporations, into the hands of the poor majority and struggling local economies, could get the wheels of the South African economy turning, and lay the basis for a more sustained recovery. When the President says that there needs to be engagement on a new social compact, this is the type of creative thinking which is needed, if we are to emerge from our economic and social morass. Not continued blind implementation of economic dogma which has been shown to fail, not only in South Africa, but around the world.