INSTITUTE FOR ECONOMIC JUSTICE
RESEARCH POLICY ADVOCACY

POLICY STATEMENT – OCTOBER 2022

TEN PRIORITIES FOR THE 2022 MEDIUM TERM BUDGET POLICY STATEMENT

1. Shift the fiscal framework to tackle unemployment, poverty, and inequality
2. Protect public services
3. Improve the SRD grant as a step towards the implementation of a UBIG
4. Ensure that other grants are not hollowed out by inflation
5. Utilise recent windfall taxes and promote an equitable tax structure to mobilise the maximum available resources
6. Invest in social infrastructure and the care economy
7. Invest in economic infrastructure
8. Address the energy and climate crisis through a just energy transition
9. Increase funding to industrial policy sector-specific master plans
10. Increase and improve processes for meaningful budget participation and transparency

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1

Shift the fiscal framework to tackle unemployment, poverty, and inequality

Budget cuts have a negative impact on the provision of public services and on long-term economic growth. Treasury needs to rethink its extreme approach to fiscal consolidation and debt stabilisation in the upcoming MTBPS. Instead the focus must be on:

- Adopting a macroeconomic policy framework that explicitly aims to reduce unemployment, poverty, and inequality.
- Ensure that strategic investments through counter-cyclical fiscal policy frame the Medium-Term Expenditure Framework (MTEF) while additional resources are mobilised through taxation, untapped pools of public funds, and credit allocation policies to deal with debt.
- Increasing investment and consumption expenditure, including investing in labour-intensive sectors, public services, and social infrastructure, as well as expanding social security and public sector employment.

2

Protect public services

The IEJ and broader civil society have emphasised the overall importance of well-resourced public services. There can be no dignity and improvement in the standard of living without access to quality public services. Through austerity measures, Government continues to contribute to worsening conditions for poor and working class people, and women in particular, who depend on public services. Instead, government must:

- Invest more in public services, particularly in education and healthcare.
- Make allocations to public services inline with population growth, the number of users, and the rise in inflation.
- Fill all vacant posts needed to address overcrowding in classrooms and to improve the quality of healthcare services.
- Implement salary cuts for high-paid public sector officials and raise wages for lower-paid frontline workers in line with inflation, at the minimum, to alleviate the wage gap within the public sector.
- Access the impact of the fiscal strategy on socio-economic rights realisation and make necessary changes to prevent any regression in the realisation of these rights.

3

Improve the SRD grant as a step towards the implementation of a UBIG

The SRD grant provides an opportunity and a stepping-stone towards a Universal Basic Income Guarantee (UBIG). A UBIG will close the gap that the labour market has not filled in the context of rising vulnerability to poverty, particularly for those between the ages of 18 and 59 years. As such the following measures need to put in place to strengthen the SRD and lay the basis for its transition into a permanent UBIG:

- The SRD must be increased to the Food Poverty Line of R624 per month under an expanded means-test threshold set at the Upper-Bound Poverty Line, currently R1 335. Over time the grant amount should be increased to the Upper-Bound Poverty Line.
- This should be done with the plan to move the value of the grant to the Lower-Bound Poverty Line (currently R890) and then the Upper-Bound Poverty Line in 2-5 years. At the same time, a corresponding increase in the means-test threshold and then its removal within two years to introduce universal basic income support should be implemented.
- Progressive taxation must be structured to finance the expansion of social support. The IEJ has presented different financing options that must be considered in expanding social protection.
- Government must consult with stakeholders for pathways towards a UBIG and pursue additional sources of finance.

4

Ensure that other grants are not hollowed out by inflation

The cost of living continues to increase for South Africans with a consumer inflation rate reaching 7.6%. The main drivers include food and non-alcoholic beverages, housing, utilities, and transport. Poorer South Africans carry more inflationary burden. As a result, the money people access through social grants buy fewer and fewer necessities each day. To remedy this, the MTBPS must:

- Protect the real value of grants
- Ensure that no grant is below the Food Poverty Line.
- Adjust budget allocations to the Department of Social Development upwards to support delivery of social grants that are in line with inflation and population growth.

5

Utilise recent windfall taxes and promote an equitable tax structure to mobilise the maximum available resources

The South African Government is obliged to mobilise resources for the realisation of human rights. This obligation involves raising, allocating and spending money in a manner that prioritises socio-economic rights. In order to do this, the following tax measures need to be prioritised:

- Higher than anticipated revenue collections must be used to support critical areas of public expenditure that are identified here.
- The reduction of Corporate Income Tax (CIT) from 27% to 28% must be reversed. There is no proof that reducing CIT leads to higher growth. Infact, where CIT has been reduced, income inequality has increased.
- Progressive taxation - higher tax rates for those with high income and wealth - must be used to create more fiscal space and finance development needs.
- Particular tax rebates to corporate and wealthy individuals should be removed. Subsidies on pension fund contributions and retirement fund assets should be removed to mobilise additional resources.
- Wasteful and irregular expenditure must be addressed and reduced as this will create more fiscal space to support development priorities.

6

Invest in social infrastructure and the care economy

As the population grows and ages, so does the demand for care. The responsibility for care work sits mainly on the shoulders of women and girls. This reduces women's time for paid employment and leisure, and puts more pressure on their health and on girls' access to education that sees their own opportunities severely hampered as a result. This emphasises the importance and complementarity of grants and well-supported social infrastructure. To this end, the MTBPS must:

- Increase allocations for care infrastructure to enable access to quality, affordable childcare, education, elderly care, and healthcare facilities.
- Prioritise the training and hiring of new teachers and healthcare workers in the medium term to support improved education and healthcare.
- Ensure caregivers have a voice and are represented in decision making, including in budgeting processes.

7

Invest in economic infrastructure

National Treasury's austerity approach undermines Government's ability to transform the economy through much needed infrastructure investments and development aimed at service provision and structural transformation. To rectify this the MTBPS must:

- Ensure Government plays a leading role in public infrastructure investment as opposed to playing a facilitative role to the private sector through Public Private Partnerships.
- Increase public investment to R900 billion over the medium term to stimulate demand, support social infrastructure development, and increase employment in the construction sector.
- Adopt progressive taxation and seek favourable financial assistance from Development Financial Institutions (including via the South African Reserve Bank) to support public investment.
- Gear public works programmes towards improving rail and road infrastructure, as well as social infrastructure, to support long-term inclusive economic growth.

8

Address the energy and climate crisis through a just energy transition

A vital step to resuscitating Eskom is to address its R400 billion debt. This will ensure that the utility has enough fiscal space to implement its capex and maintenance programme to restore operational efficiency and be a catalyst for a just energy transition through direct investment in renewable generation.

The roll out of IPPs, instead of direct investment by Eskom in renewables, will make it more difficult for Eskom to use industrial policy levers such as public procurement to industrialise the local renewable energy value chain and to generate decent work in the process.

In order to empower the national power utility to deliver on a just transition, the MTBPS must commit to either one of these options:

The first option:

- Use the Government Employment Pension Fund (GEPF), which is managed by the Public Investment Corporation (PIC), to refinance Eskom's debt and to ensure that Eskom is not privatised.

The second option:

- Ensure Global North countries commit to the USD8.5 billion Just Energy Transition Transaction Partnership (JETTP) climate financing deal on favourable terms.
- Swap 75% of Eskom's legacy debt into a separate state-owned financial entity that is managed by National Treasury. This will circumvent the conundrum of many debt holders having veto rights over restructuring plans.
- Use the JETTP financing, fiscus and power of National Treasury to decisively restructure Eskom's financial liabilities in order for it to play a developmental role in the economy.

9

Increase funding to industrial policy sector-specific master plans

Sector-specific industrial policies, including master plans, focused on promoting localisation, and protecting and creating jobs are an essential means towards achieving structural transformation.
In order to succeed in reversing deindustrialisation, and absorbing labour at scale, the MTBPS and Budget 2023 must:

- Make a radical commitment to redouble efforts to finance an industrial policy programme that bolsters and rapidly grows the manufacturing base for both domestic consumption and export.
- Increase the budget allocation to the Industrial Financing Programme to R10 billion over the medium term to support the programme's different sub-programmes - Manufacturing Incentive, Infrastructure Investment Support, and Clothing and Competitiveness.
- Allocate sufficient resources to the implementation of all master plans.
- Employ revenues from increased corporate taxes and commodities windfalls to match the required investment scale identified in the current master plans.

10

Increase and improve processes for meaningful budget participation and transparency

The state must encourage and facilitate public participation by providing complete budget information in a manner that is easily accessible and understandable. In addition, public platforms for public participation need to be improved. Parliamentary committees are a useful platform to foster participation, however pre-emptive forums are also required. To improve meaningful Budget participation Government must:

- Release calls for proposals by Parliamentary Committees at least 4 months in advance so that proposals can influence fiscal decisions.
- Train and capacitate Committee members with skills to engage the content presented to them by the public and the National Treasury.
- Actively engage citizens to understand their challenges and shape the Budget in a manner that channels resources where there is a need.
- Ensure all budget decisions are taken in consultation with the public and civil society, and not behind closed doors.
- Foster engagement and meaningful relationships with civil society, on appropriate platforms, where feedback on the Budget can be shared.
- Use the implementation of the Gender Responsive Budgeting Framework (GRBF) roadmap and guidelines to improve colaborationa and consultation with civil society and women from grassroots organisations.