JOINT MTBPS STATEMENT
CIVIL SOCIETY ORGANISATIONS & LABOUR

Budget cuts won't save South Africa—It will be the most vulnerable ultimately paying the price

31 October 2023

On Wednesday 1 November, Minister Enoch Godongwana will deliver the Medium-Term Budget Policy Statement (MTBPS) to Parliament. Fiscal policy can play a crucial role in fostering growth and development by ensuring the sustainable delivery of essential public services. Previous MTBPSs, as well as the latest National Budget, have shown National Treasury's continued commitment to curbing spending on services, grants, and infrastructure. In anticipation of the MTBPS, over 100 Economists, CSOs, and researchers have rejected this austerity philosophy that cutting government spending will resolve the longstanding growth and social crises as well as the debt trajectory of our country. Instead, the fiscal framework needs to be used to advance inclusive development.

We are calling on the Minister of Finance to intentionally put the constitutional rights and well-being of communities and workers first over narrow and often unjustifiable budget deficit targets, that will do little to alleviate the crisis of unemployment, poverty, and inequality and build a more inclusive economy. In fact, failing to fund social provision can erode the credibility, performance, and quality of the medium-term fiscal framework. Over time, this can weaken effective public administration, and negatively impact clear oversight, participation, and control over the budget. Over the longer term, it is not clear how much further and how much longer government spending can be cut without aggravating South Africa's deep political fissures, leading to social unrest.

The most pressing crises confronting us include the increased cost of living, joblessness and low income, and increased hunger. These are the result of fundamental structural problems. These include an economy characterised by monopolisation, capital intensity, deindustrialisation, the dominance of finance and services, and the reluctance of the state to play a more proactive role in driving economic development. The urgent challenges we face can only be addressed through a clear job creation strategy including through public employment programmes, expanding social protection including through permanent basic income support, tabling supportive economic and industrial policies that stimulate job creation, and the provision of quality basic services.

Our fiscal challenges in large part stem from the mass exclusion of an enormous segment of our society from participating meaningfully in our economy. This exclusion is an outrage from both a humanitarian and economic perspective, as it also puts a drag on growth, erodes the tax base, and dampens government revenue. Our fiscal challenges are a reflection of the fact that successive budgets have failed to prioritise solving the issue of economic exclusion. Continued fiscal consolidation without public consultation is simply putting the cart before the horse—addressing the symptoms, but making the underlying disease worse.

As hunger and unemployment soar, the existing absence in public discourse surrounding the MTBPS of prioritising these crises will amount to the government disinvesting from the majority and a negation of the Constitutional obligations to the state. Those living in South Africa need a government that actively and effectively addresses the economic and social crisis as and when required.

Contrary to the current narrative, there are alternatives and these should be taken up by the Minister of Finance before resorting to ill-considered, detrimental budget cuts. Renewed growth requires action to fix the electricity supply constraint, restore critical export infrastructure, and most importantly a clear and consistent programme of structural reform and transformation to create the conditions for a sustainable economy in a common society.

In light of this, we demand the following from the Minister of Finance:

1. **Adopt a developmental and rights-based approach to budgeting**: The government must adopt a human rights and gender-responsive approach to budgeting. Fiscal policy should explicitly be framed as furthering developmental objectives. Human rights impact assessments, in collaboration with civil society and members of the public, can be used on an ongoing basis to assess the impact of current fiscal policy. The findings should guide future fiscal policy decisions.
2. **Immediately close the budget mismatch**: This can be done by drawing on the R459 billion owed to the South African government in the SARB's Gold and Foreign Exchange Contingency Reserve Account and through increasing shorter-term, less expensive borrowing. Even if the entire mismatch were closed through borrowing it would only increase debt levels by 1-2 percentage points and keep them well below recent estimates.
3. **Protect public services and public employment**: Reverse the decision to freeze hiring in the public sector. Protect both the pay and employment of public sector workers, especially frontline service providers, such as teachers, nurses, and social workers.
4. **Increase and expand the Social Relief of Distress (SRD) grant and the Child Support Grant to the food poverty line**: Increase the SRD and CSG to the level of the food poverty line. The SRD grant must be budgeted for in MTEF, while working with stakeholders for pathways towards basic income support.
5. **Take concrete measures to address hunger and malnutrition**: Undertake concrete interventions to address the crisis of hunger and malnutrition stalking the 60% of families living below the upper-bound poverty line, resulting in one in four children becoming stunted, with lifelong consequences.
6. **Extend the Public Employment Stimulus (PES)**: The PES has played an important role in supporting over 1 million people between 2020 and 2023. National Treasury must extend PES and make provisions for it in the MTEF in order to promote skills development and youth participation in the economy to curb youth unemployment.
7. **Enhance transparency and public participation**: Conduct deliberate and active engagement with members of the public and civil society post the MTBPS for short and long-term engagements in the lead-up to the 2024 budget cycle.

8. **Greater accountability, especially consequence management:** It's high-time that Department's and State-Owned entities with inadequate consequence management are better held to account, including through disciplinary action against staff implicated in serious and often recurrent breaches of public finance management laws that erode public services and promote corruption. Enhancing accountability for public services also requires more meaningful oversight by elected public representatives.
9. **Raise additional revenue in the next budget cycle**: To do this, the Treasury must:
    - **Remove tax breaks for high-income earners**: The Budget allocates R305 billion in income support to the highest earning 30%. Eliminating or reducing tax breaks for those earning above R750,000 per year could raise up to R83 billion.
    - **Reverse the reduction of the Corporate Income Tax:** The reduction of the corporate income tax rate from 28% to 27% has cost R11 – R13 billion a year.
    - **Remove ineffective corporate tax subsidies:** This includes the Employment Tax Incentive from which the government is losing about R6.6 billion a year with little evidence that it has supported youth employment.
10. **Do not increase VAT**: Raising VAT would make the tax mix more regressive. It has previously failed to raise the sums needed and disproportionately burdens the poor and low-income earners.
11. **Reduce the cost of borrowing**: This entails moving to shorter-term loans that are cheaper, renegotiating the terms of a particular debt, instating prescribed assets, undertaking interest rate management through capital management techniques.
12. **Implement a Wealth Tax:** In the medium term explore implementing a wealth tax. A wealth tax can raise about 3% of the GDP in revenue. If National Treasury really believes this is a crisis then this is an opportune time to consider and implement a wealth tax.

Issued by:

[ENDS]
For further comment:

Dominic Brown | Alternative Information Development Center | 081 309 4973
Tlou Seopa | amandla.mobi | 067 654 6027
Motlatsi Komote | Budget Justice Coalition | 072 872 2200
Rachel Bukasa | Black Sash **|** 071 435 3737
Dalli Weyers | Institute for Economic Justice | 082 460 2093
Nathan Taylor | #PAYTHEGRANTS | 082 406 1208
Mervyn Abrahams | Pietermaritzburg Economic Justice & Dignity Group **|** 079 398 9384
Lindokuhle Vellem | Public Service Accountability Monitor | 0736017512
Karen Jooste | RightfulShare | 073 546 8663
Alex Mashilo | South African Communist Party | 082 920 0308
Trevor Shaku | South African Federation of Trade Unions | 073 378 7049
Kristal Duncan-Williams | Youth Capital | 072 904 0673