BUDGET JUSTICE COALITION

Presentation by Daniel McLaren to SPII-UNICEF Webinar reviewing the 2021 MTBPS

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“The Budget Justice Coalition includes the following civil society organisations: the Alternative 1Information and Development Centre (AIDC), the Children’s Institute at UCT (CI), Corruption Watch (CW), Equal Education (EE), Equal Education Law Centre (EELC), the Institute for Economic Justice (IEJ), OxfamSA, Pietermaritzburg Economic Justice and Dignity (PMEJD), the Public Service Accountability Monitor (PSAM), the Rural Health Advocacy Project (RHAP), SECTION27 and the Treatment Action Campaign (TAC) and the Women and Democracy Initiative of the Dullah Omar Institute at UWC (DOI)”

THE BUDGET JUSTICE COALITION

The purpose of the Budget Justice Coalition is to collaboratively build people's understanding of and participation in South Africa's planning and budgeting processes,.

Twenty members drawn from civil society and grass roots organisations across SA.

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Introduction

Who was the budget for?

Minister and NT: the budget is “pro-poor” because 60% of spending goes to the “social wage”.

- If government wasn’t spending 60% on public goods and services, *what would it be spending money on?*
- Are there any countries that do not spend 60% of public resources on public services?
- Are there any countries which spend the bulk of their budget on the rich?
- Even if we divided the budget perfectly equally among every person in SA it would still be “pro-poor” by the Ministers definition because the majority of people in SA are poor

Introduction

Who was the budget for?

Budget Justice Coalition:

- SA is the most unequal country in the world. More than half the population live below the upper-bound poverty line while the top 10% hold on to 90% of wealth and 60% of income. Therefore, we should have the most progressive budget in the world, do we?

- The Constitution requires the government to raise resources progressively and to allocate resources to the protection and fulfilment of fundamental human rights, including socio-economic rights, in order to achieve substantive equality

- Cuts to spending on socio-economic rights and rises in regressive taxes such as VAT, fuel and excise duties represent regressive budget measures which have resulted in the budget becoming less "pro-poor" in recent years

- A fiscal consolidation strategy which is premised entirely on spending cuts rather than revenue raising measures in inherently anti-poor

Introduction

Who was the budget for?

Budget Justice Coalition:

- Both the rhetoric and the black and white ink of the budget were designed to appeal to foreign and domestic bond holders and investors, not the poor

- Better than expected economic and revenue performance did not translate into a softer stance on austerity for the 2022 MTEF

- The MTBPS was completely silent on inequality, including gender inequality

- The impact of austerity measures on the poor was not adequately considered

Fiscal Policy

- It is an extremely difficult moment for fiscal policy planning and execution

Budget 2021: debt service costs and debt-to-GDP have increased too rapidly and reversing this trend is the ultimate priority of government

- R260 billion of expenditure cuts. These, rather than tax increases, will be the means to reduce the deficit until a primary budget surplus is achieved in 2024/25
- Budget 2021 was an austerity budget

MTBPS 2021: despite revenue gains, reducing debt remains the priority

- Revenue up by R120 billion in 2021/22, R70 billion in 2022/23, R60 billion in 2023/24
- Economic growth, the sovereign credit risk and debt ratios improved
  - Debt to GDP 2% lower than projected last year, 4.5% lower this year, and 2.5% lower next year
  - Debt to GDP no longer expected to reach 80% mark

Spending policy revisions for 2021/22

- Half the tax windfall went to crisis management and half went to paying down debt. None went to reversing or minimising austerity measures planned for 2022/23

  - COVID-19 Social Relief of Distress Grant (R26.7 billion)
  - 2021 wage settlement with public sector unions (R20.5 billion)
  - President's temporary employment initiative (R11.0 billion)
  - July public violence (combined R7.2 billion to SASRIA, businesses, SANDF and SAPS)
  - Denel (R3 billion) – <u>but no other new SOE bailouts</u>

- Real consolidated non-interest expenditure grows by 2.0% in 2021/22
  - Per capita non-interest expenditure grows slightly
  - Main budget non-interest expenditure is stagnant

- BUT overall growth this year does not mean many areas of the budget are cut back:
  - Transfers to non-profit institutions down by R4.2 billion
  - Transfers to higher education institutions reduced in real terms
  - Conditional grants to provinces and municipalities

Spending policy for MTEF: 2022/23 – 2024/25

Many contradictions and unknowns

- Nominal cut in non-interest expenditure of about -R100 billion in 2022/23 and a further real terms cut in 2023/24. Per capita expenditure will reduce from about R30 000 to R25 000. How will this impact on growth?
- Assumes that COVID-SRD R350 grant ends in March 2022
  - But 40% of the population will still be unemployed, hungry and restless
- Assumes Constitutional court does not require government to implement the 2018 wage agreement
- Includes a -10% cut in health care expenditure per user
  - But the pandemic will be ongoing and backlogs created the past two years will remain
- Includes a -6.5% cut to basic education spending per learner
  - Rising class sizes and deteriorating learning conditions in public schools

Spending policy for MTEF: 2022/23 – 2024/25

Implications for Budget 2022

- Government's "reality check" and "tough love" on fiscal policy and the absolute prioritisation of fiscal consolidation and debt reduction above all other goals is likely to continue.
- How can civil society provide government with the reality check it needs about the impacts of austerity, and provide alternative pathways in which debt sustainability and socio-economic sustainability are seen as mutually reinforcing rather than in opposition?

Spending policy for MTEF: 2022/23 – 2024/25

Are the government's fiscal consolidation plans unconstitutional?

- Organisations representing 1.5 million people said yes in March 2021
  - 2021 budget made anti-poor expenditure cuts rather than anti-rich tax increases the foundation of austerity
  - The distributional impacts of this approach to fiscal consolidation not considered
  - Alternative debt management strategies to austerity not adequately considered
  - No indication of when budget cuts will end

- 2021 MTBPS arguably makes this claim stronger:
  - Cuts to socio-economic rights continue or even worsen despite improved macro-economic indicators and higher than anticipated availability of resources
  - Negative consequences of budget cuts on socio-economic rights once again not adequately considered
  - MTBPS says that cuts will only end once a primary budget surplus is achieved

Spending policy for MTEF: 2022/23 – 2024/25

What is missing?

- Ayabonga Cawe: priority should be building <u>state capabilities</u>. The over-focus on debt reduction undermines these further.
- BJC: zero-based budgeting is being done for the wrong reasons. Approach needs to shift from cost-cutting to optimising capacity, systems of delivery and performance.
- Provincial government continues to receive too little attention
- Intergovernmental fiscal reform for local government
- Recognition of peoples' rights
  - Enhanced transparency and <u>meaningful pubic participation</u> in budget processes
  - Human rights impact assessments of retrogressive budget measures

Spending policy for MTEF: 2022/23 – 2024/25

BJC view

- Austerity measures of the kind proposed in Budget 2021 and MTBPS 2021 are not viable in the context of SA's mass unemployment and poverty, and may be unconstitutional

- Needs to be a recognition that "spending pressures" alone are not the cause of our socio-economic distress: inequality, state capture, state capacity, corruption, as well as financialisation, illicit financial flows and tax evasion are all major factors holding us back

- A combination of <u>revenue raising measures</u> from wealth and high incomes should be used to close the deficit and reduce public borrowing, accompanied by a coordinated long-term "growth pact" for inclusive and sustainable development

- Socio-economic rights to social security (universal basic income), quality health care, education and access to housing <u>must be at the centre</u> of long term strategy

Spending policy for MTEF: 2022/23 – 2024/25

BJC view

- Spending reviews and budget policy need to move beyond cost-cutting to a holistic review of what improvements to service delivery models and funding mechanism are needed to allow the state to deliver better services with greater value for money.
- Gender responsive budgeting must be more seriously explored and established in the budget process so that the transformative potential of spending can be realised.
- A more public debate on tax policy is needed and Treasury should be more open to public consultations and submissions on tax policy.

Thank you