TEN YEARS OF DEMOCRACY … A better life for all? Fair Share response to the 2004/05 Budget

Background: 10 years of Democracy

Through the first ten years of democracy, South Africa's budgetary framework has gone through three distinct phases.
Firstly, an initial Reconstruction and Development Phase during which a wide range of progressive policy frameworks were put into place, but which could not be fully implemented due to the inheritance of fiscal imbalances and significant debt incurred by the apartheid government.
Secondly, a period of intensive fiscal restraint exemplified by the Growth Employment and Redistribution framework which effectively prioritized fiscal stabilization over economic and social transformation.
Thirdly, the current phase, of fiscal expansion, which aims in particular, to put in place programmes to begin to address the needs of the structurally unemployed and to expand infrastructure and social services.

Through most of this ten year period Fair Share, a unit of the School of Government at the University of the Western Cape, has engaged critically with government's budget decisions with the objective of improving the budget's effectiveness as a tool of social and economic policy with the aim of improving the lives of poor South Africans.

A better life for all has not been achieved during South Africa's first ten years of democracy as massive unemployment, inequitable access to social services and low levels of growth and investment continue to be significant features of the South African economy.

Much of the slow rate of social delivery has been as a result of deliberate government policy aimed at stabilizing the country's finances, but it must be remembered that such stabilization policies have come at enormous social cost. In this year's budget speech, Finance Minister Trevor Manual reminded South Africans that since 1994 over R72-billion in tax cuts have been implemented. Such tax cuts have constituted a significant reduction in the state's capacity to deliver social and economic transformation. For example, the R72-billion in tax cuts could have been used to fund about 3,6 million additional housing subsidies. South Africa's current urban housing backlog is around 2,4 million. Thus, instead of cutting taxes, South Africa could have chosen to end homelessness.

Nonetheless, despite some questionable and overly conservative policy direction, the past ten years have yielded some specific gains for the majority of South Africans, including:

Electrification: Increased from 32% of households in 1996 to 70% in 2004.
Access to clean running water: Increased from 60% of households in 1996 to 85% in 2001.
Social Security: In 1994 2,6 million people received R10bn in social grants (old aged pension, child support and disability). In 2004 7 million people receive R34bn in social grants
Schooling: Secondary School enrollment increased from 70% in 1994 to 85% in 2002
Health Care: Free health care is provided to mothers, children less than 6 years of age and people with disabilities.
Tax Policy: The resistance by government to conservative calls to increase VAT, a regressive form of taxation which falls disproportionately on the poor, and in some cases the rolling back of VAT on basic goods, such as, paraffin and food. As well as the introduction of capital gains tax to further entrench the progressive structure of the tax system and to close a loophole readily abused by wealthy South Africans to avoid and evade tax.
Free basic services: the policy of providing an amount of free basic services, such as water and electricity, to poor households (even through studies indicate that municipalities lack the capacity to properly implement this policy).
Labour rights: the putting in place of a progressive labour law framework which provides for fairness in the relationship between employers and employees, improved skills training, workplace safety and employment equity aimed at addressing historical discrimination.

The state of South Africa’s economy after 10 years of democracy

The 2004/05 budget provides for a significant degree of fiscal expansion as government intends increasing the deficit from 2,6% of GDP to 3,1% of GDP. It is important that government uses fiscal policy to stimulate the economy in this period as economic growth has been disappointing at only 1,9% during 2003, significantly lower than the projected growth figure of 3,3% during last year’s budget.

It would be important that there be greater co-ordination between fiscal and monetary policy and that economic growth and development be stimulated by further interest rate cuts early in 2004. Currently, given low inflation rates, real interest rates in South Africa remain at high levels both in terms of our own history and in comparison with other countries.

Lower interest rates, together with the projected fiscal expansion, including R100-billion on infrastructure development, could play an important role in creating an environment in which investment levels continue to rise to the level of 25% of GDP which Minister Trevor Manual sets as a target in this year's budget. As Fair Share has stated in previous years, an investment to GDP ratio of around 25% is necessary to create sufficient employment opportunities for South Africa to begin conquering the scourge of unemployment.

Job Creation

The current budget proposals reaffirm government's commitment towards creating jobs through the Expanded Public Works Programme. This pledge provides R1.7bn towards municipal infrastructure is a positive step towards dealing with the high levels of unemployment. However, government priority should shift towards capacitating municipal delivery instruments on the Expanded Public Works Programme.

We further welcome the move by government to encourage current level of investment from 16% to 25% of GDP. Labour Intensive and infrastructure investment at a 25% level should significantly contribute towards reducing unemployment. However, the budget fails to elaborate on the how this increased level of investment will be achieved.

The budget further fails to expand on other sections of the agreement emerging from the Growth and Development Summit held last year. This is in light of the substantial level of jobs shed since 1994. The Peoples Budget Campaign point out that job losses within the formal economy has risen from 16% in 1995 to just over 30% today using a narrow definition (excluding those who have given up looking for work).

Disappointingly, the budget fails to elaborate on the role of public utilities and parastatals in reducing unemployment.

Social Security

Government's increase of the existing social grant will offset inflation. The 5.7% nominal increase of the pension and disability grants to R 740 per month brings welcome relieve to these benefactors. The increase in extending the age of the child support grant as well as the 6.7% nominal increase in the social benefit is further welcomed.

Fair Share embraces the continued reinforcement of the existing social security programmes through the introduction of a new Social Security programme. We believe this will improve efficiency in the delivery of social benefits and reduce corruption.

However, the failure of government to agree to the demand of a basic income grant (BIG) is disappointing, since this will bring immediate relief to the most vulnerable sections of our population. Government' argument against BIG remain unconvincing.

Capacity of local government to deliver free basic services

In this year's budget, it is stated that nationally raised revenue will contribute 14% of all local government revenue. This disguises the fact that many poor local municipalities are almost completely dependent on revenue transfers and is not in a position to raise sufficient own revenue.

Studies by Fair Share have indicated that due to resource constraints poor local municipalities are not in a position to implement government's state policy of free basic water and electricity services.

A total transfer of R47.3bn over a three-year period is proposed for municipalities. Whether a significant portion of this transfer will target under resourced municipalities is questionable. Many poor local municipalities have insufficient resources to provide for the delivery of free basic services and have limited potential for cross subsidization as may exist in certain metropolitan areas, but even in these more well off metros free basic services are not being rolled out as prescribed in government policy.

The Municipal Financial Management Act makes provisions for borrowing, though it does not take into account that many municipalities are not credit worthy. Borrowing currently favours the Metro municipalities and other big local municipalities. Government will have to carefully develop a process of enabling municipalities to access borrowing to assist in the rollout of services and infrastructure development.

Housing, infrastructure and land

The provision of housing, infrastructure and the redistribution of land are key challenges facing South Africa.

The allocation for housing for 2004/2005 is R4.85bn, a real increase of 2.5% from the estimated expenditure of R4.52bn in 2003/2004. The estimated delivery rate for 2004/2005 will still be less than 180 000 housing units (taking into account the amount of subsidies), however, compared to the estimated annual growth of 200 000 units in the housing backlog. The housing budget now forms only 1.3% of proposed total government expenditure, down from 1.4% in 2003/2004 (the National Housing Goal in the Housing Act is to increase government expenditure on housing to 5% of total government expenditure). In order to eradicate the urban housing backlog (which is currently approximately 2.4 million housing units) and ensure adequate housing for all by 2014, the housing budget should be about 3-4 times greater than it is at present.

In line with the emphasis on the Urban Renewal Programme, expenditure on the provision of infrastructure is to increase significantly: the budget for the Municipal Infrastructure Grant in 2004/2005 is R4.45bn, a real increase of over 90% from R2.25bn for its predecessor, the Consolidated Municipal Infrastructure Programme (CMIP) in 2003/2004.

The land restitution budget increases to R933 million (a real increase of 6.4%), as the land restitution programme continues to be rolled out, while the land reform programme though, continues to lag behind. The allocation for rural land reform for 2004/2005 is R474 million, a 3% decrease in real terms from the estimated expenditure of R465 million in 2003/2004. It is estimated that the budgetary amount for land reform would need to be increased by approximately 5 times in order to reach the important target of redistributing 30% of commercial farmland by 2014. On the positive side, however, there is a new grant to provide agricultural support to beneficiaries of the land reform programme.

Health

The health department is allocated R41bn of which the bulk, of an additional R26.3bn allocated to social spending for the provinces, will be spent on HIV/Aids. In addition, R2.bn conditional grant is provided for anti-retroviral treatment by provinces. Fair Share welcomes this development. Over all this is a substantial increase and is a move in the right direction for the treatment of HIV/Aids, but needs to be seen against the low base expenditure of the previous years.

The introduction of the new rural scarce skills allowances aimed at improving services to remote areas are to be welcomed. This would contribute to attracting qualified personnel to the rural areas. The same goes for the upgrading and or replacement of 27 hospitals as part of the Hospital revitalization programme.

Education

The increase in the provincial educational share of the budget is expected to set aside more funds for curriculum development and learner support materials.

National Department of Education will take responsibility for the Primary School Nutrition Feeding Programme. Based on the policy prescription they would be required to target the poorest 20% of primary learners in 2004.

In Further Education and Training (FET), particularly public technical colleges, continued support for curriculum development is promised. It is noted that no additional funding for restructuring is allocated to the FET sector.

Budget Process

Fair Share regrets the fact that Finance Minister Trevor Manual did not use the opportunity of the tenth-year-of-democracy budget to announce progress with regard to the democratization of South Africa’s budget process.

Parliament’s role in the budget process has been limited to rubber-stamping the budget as presented by the Minister of Finance during the annual budget speech. This limited role of Parliament has persisted despite a constitutional provision that legislation should be passed empowering the institution to play a more meaningful role in the budget process, including the ability to amend the Budget as proposed by the executive through the Minister of Finance’s budget speech.