ANALYSIS OF THE 2020 REVISED FISCAL FRAMEWORK AND REVENUE PROPOSALS, TABLED ON 24 JUNE 2020, WITH A FOCUS ON THE IMPACT ON PEOPLE'S LIVES

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Standing Committee on Finance

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INTRODUCTION

We write this submission as the Cash Transfers subgroup, an autonomous subgrouping under the C-19 People's Coalition Economic Working Group. This submission forms part of our #PayTheGrants campaign which is focused on the just implementation of the promised COVID-19 Social Relief of Distress (SRD) Grant and the building of a broad alliance towards a Basic Income Guarantee for all. The C19 People's Coalition was formed in response to the COVID-19 pandemic. It is an emerging collective which includes community structures, trade unions, informal workers' organisations, civics, social movements, rural groups, national and provincial NGOs across all social sectors, frontline responders such as community health workers and shelters, migrants' and refugees' organisations, public interest law firms and faith based organisations. Over 310 organisations have endorsed the Coalition's Programme of Action, which commits us to ensuring that South Africa meets the coronavirus crisis in ways that prioritise those who are most vulnerable, who face the pandemic with hunger, weakened immune systems and poor access to housing, health care and social safety nets.

Government's supplementary budget fails this test of human solidarity. On these grounds, we oppose it. The coronavirus pandemic, together with a range of domestic and international policy interventions to prevent transmission, has had severe fiscal and economic consequences. Initially we welcomed the South African government's wide-ranging reprioritisation of expenditure to meet the socio-economic effects of the crisis. However our worst fears around the details of the stimulus package, the adjustment of the budget and failure to implement changes have become a reality. A fiscal stimulus consists of an increase in spending or a reduction in taxation. Government's actual, combined fiscal stimulus of R62 billion makes a mockery of its announced R500 billion "fiscal stimulus package", which consists largely in reprioritisation, off-budget expenditure, and loan guarantees. We agree with the Budget Justice Coalition that the presentation of the stimulus package is in this sense dishonest, and we stress that such misrepresentation has no place in a constitutional democracy that is open and based on the will of the people. President Ramaphosa's stimulus package promised R50 billion for grants but according to the Adjusted Budget the amount has been decreased to R41 billion. To put this into context: the adjusted amount is only R26 billion more than what the state would already spend on grants. In a once-in-a-lifetime humanitarian crisis, a time when the whole world has been encouraged to commit to social relief efforts, these cuts prove the state's failure to coordinate basic and urgent provisions to the most marginalised.

In a joint C19 People's Coalition Cash Transfers subgroup statement with the West Coast Food Sovereignty and Solidarity Forum, South African Domestic Service and Allied Workers Union, Assembly of Unemployed, Westside Park Community Crisis Committee, Black Sash and Organizing for Work, demands were made to the government on the slow and troubling implementation of the COVID-19 Social Relief of Distress (SRD) grant. These issues are still outstanding, and what is most concerning is that the cuts in the budget have been justified by a 'low COVID-19 SRD grant uptake', implying that there is less of a need than the government initially anticipated. This is clearly not the case, the slow uptake has been engineered as such, it is a result of: application criteria that exclude some of the most precarious, poor communication, reliance on technologies to which many do not have access, exclusionary verification conditions, and slow payment systems on the part of SASSA. It is prudent to note that 90% of those who were promised the grant have instead had no income for a second month running.

Post-apartheid there were high hopes for liberation, including redistribution and increased access to opportunities and services, but these expectations were dampened by anti-poor interests justified by a macroeconomic orientation based on 'fiscal discipline.' This acted to de-emphasise the government's obligations towards the poor and the unemployed, perpetually subjected to structural and intergenerational unemployment far beyond their control.

As the Department of Social Development noted in 2002 when investigating a basic income guarantee, "In developing countries, where stable full-time waged formal sector labour was never the norm, it is increasingly unlikely that it will become the norm." Two decades later, unemployment and precarious work have only increased, with 54% of full-time employees below the working-poor line of R5 180 per month (in 2020 Rands). One in every two people remains below the official poverty line. In the context of massive unemployment- further worsened by precarious employment at poverty wages- an exclusive reliance on market activation for the upliftment of the people reproduces inequality and deprivation. The trend for formal labour to define hierarchies of citizenship and rights needs to be challenged in a context where only a shrinking minority have access to stable wage jobs of a decent standard. The poverty and inequality in our society is directly related to the dispossessions inflicted by colonialism and Apartheid, which persists today through the continued exploitation of black people. Black womxn[1], in particular, have faced some of the heaviest burdens of structural inequality.

The current social grant system completely excludes all South Africans between the ages of 18 and 59. The Child Support Grant covers those below 18, and the Old Age Pension covers those above 60. While these grants are important in directly and indirectly enabling many to survive, they leave out about 10 million people who have no formal job due to South Africa's extraordinarily high levels of unemployment. This system is founded on a misleading judgement that social grants should go only to the 'the deserving poor,' with unemployed people of working age being seen as undeserving. People of working age in South Africa are not unemployed because they do not want to work, but because of deep, structural socio-economic problems. To treat these working aged adults as 'undeserving' is a massive injustice! The myth of a 'deserving poor' must be dismantled. Nobody should have to prove that they deserve a basic income! No one is disposable to the whims of economic models that do not serve the people.

[1] We use the spelling 'womxn' in recognition of gender diversity.

The amounts of the current grants are also incredibly insufficient, for example; the child support is only R445 – despite it being the most effective grant available to reduce food poverty. With severe levels of nutritional stunting in South African children, the child support grant should, at the very least, be raised to the food poverty line of R580.

The current amount of R350 for the COVID-19 Social Relief of Distress (SRD) Grant is also far too low and ensured for a much too limited period of only 6 months (this is especially true in the context of how long we will still have to navigate the difficulties of COVID-19).

Both in South Africa and globally, this moment is being taken up as an important opportunity for the realisation of a basic income guarantee. The COVID-19 Grant should be the first step towards a permanent basic income guarantee for those previously ignored by the grant system. The choices made now must reflect an intersectional gender responsiveness budgeting process rather than regressive budgeting which violates constitutional and international obligations of non-regression and Maximum Available Resources in relation to the realisation of socio-economic rights (as per the UN's International Covenant on Economic, Social and Cultural Rights, ICESCR, which South Africa is signatory to).

REGRESSIVE BUDGETING IS NOT A NECESSITY, IT IS A CHOICE

Despite the fact that we are facing a global pandemic, government has stuck to its original script in framing the policy of aggressive, anti-poor cuts, contractions and reprioritisations, articulated in this budget as a necessity. The Minister of Finance has said that we are now "much, much poorer and therefore all of us have to adjust our expectations," and that we must set expenditure "according to our revenue base" and "live within our means." In this context, the supplementary budget, reprioritises expenditure away from pressing social services and commits South Africa to sweeping budget cuts over the medium term. While these measures are couched in the homespun wisdoms of household financial management, they are not an appropriate remedy for a large, national economy, which functions very differently from a household. International experience has shown that reductions in public expenditure have led to rising unemployment, falling incomes and increased inequality. The reality for most countries that have implemented measures similar to South Africa at this time has been a “downward spiral of shrinking GDP and continued increases in sovereign debt”.[2]

Cuts to social security programmes, social care services, job quality, and wages are a matter of life and death for the many, and as such the price of such policies must be measured in human lives. In the midst of a national economic and social crisis, we know from hard experience that a sharp contraction of public expenditure will intensify distributive tensions, destabilise politics, and reduce aggregate demand, all resulting in a widening of already unsustainable levels of inequality and in a deep and protracted depression.

The very meager South African ‘stimulus’ hides a drive towards austerity in a range of public functions. Reprioritisation, as will be considered later, already involves deep cuts in urgent social spending which will primarily affect the poor. Moreover, the R36 billion increase in expenditure registered in 2020/21, will in terms of the budget be followed by a sharp fiscal contraction over the medium term. The supplementary budget confirms February’s R160.2 billion reduction in the public service wage bill. It adds to this further budget cuts of R230 billion between 2021 and 2023, and promises more by 2024.

There is reason to believe that reducing public spending won’t achieve its narrow objective of reducing the debt burden. In the recent experience of other countries that

[2] Engler, P. & Klein,M. 2017. "Austerity Measures Amplified Crisis in Spain, Portugal, and Italy," DIW Economic Bulletin, DIW Berlin, German Institute for Economic Research, vol. 7(8), pages 89-93.

have implemented these policies, such as Spain, Portugal, and Italy, they have instead provoked recession and failed to improve debt ratios. The implication is clear: South Africa will face its deepest recession in a century, the greatest crisis of our post-apartheid democracy, by withdrawing demand from the economy and by denying solidarity to our people. This is a lose-lose situation.

REVISED FISCAL FRAMEWORK

The revised fiscal framework occurs in the context of a once-in-a-century social catastrophe as a result of the COVID-19 pandemic and the lockdown. National Treasury projects that the South African economy will contract by 7.2%. Government, in support of business, has provided tax relief amounting to R26 billion. It has provided an emergency increase in expenditure of R36 billion. Since the country's tax base has also diminished with the recession, revenue collection is expected to fall R304.1 billion below the estimate established in the initial 2020/21 budget.

Economists have argued that there are strong moral and, importantly, economic grounds for expanding personal income taxes on high-income earners[3] during the current moment, to finance the necessary state expenditure for low-income households. In the current context, where we are facing severe and unforgivable unemployment figures and levels of inequality, the poor are disproportionately burdened and removed from opportunities to feed themselves while the rich simply have the option of working from home and earning their income as they usually would.

It must also be noted that the ability of high income earners to consume is reduced significantly by lockdown regulations. This will undoubtedly have a negative impact on

[3] Bassier, I. & Aboobaker, A. (2020) "Three ways to finance the Covid-19 policy response", Mail & Guardian

GDP. Using data from the Income and Expenditure Survey (IES) of 2011 and assuming the consumption patterns by top percentiles are stable, it is estimated that the top 4% of salaried workers annually spend about R40-billion on alcohol and restaurants, R100-billion on transport, and R40-billion on durables such as clothing and furniture. Under level-five lockdown regulations, all of these items are severely restricted and even under level one, restrictions on consumption are still substantial.

THE NEED FOR COUNTER-CYCLICAL FISCAL POLICY

South Africa entered the pandemic in a relatively weak fiscal position, with a declining economy. Even before the pandemic, the debt-to-GDP ratio was rising. It was to reach 65.6% by 2021. The country's per capita GDP had returned to the levels of 2008. Still, the government's pre-pandemic introduction of cuts to public expenditure didn't improve things. Declining public expenditure per person since 2016, coincided with debilitating economic stagnation and a partly consequent deepening fiscal crisis.

Despite injunctions to "live within our means," a national economy is not a household. In a national economy, when the government spends, that money circulates and recirculates around the economy, and investments and jobs that are created directly serve to create demand for more investments and jobs. Government spending, in other words, involves a fiscal multiplier which grows the economy beyond the initial sum spent, thereby increasing revenue, and reducing demands for social expenditure such as unemployment insurance. In South Africa, before the current crisis, the Institute for Economic Justice conducted research in this area. The South African economy was already not operating at full potential, with under-utilised productive capacity. The research shows that for every R1 billion in expenditure, the government stood to increase incomes by an average of R1.68 billion. The study argued that a well-targeted and capacitated fiscal expansion would lift South Africa onto a higher growth path, with positive consequences for revenue and for debt reduction.

Recessions create under-utilised productive capacity. Recessionary conditions are therefore primed for an expansionary fiscal policy which aims to infuse demand into the economy and attain full capacity utilisation. Prolonged recessions, associated with long unemployment and business failure, progressively destroy productive capacity, resulting in deeper, more protracted economic downturns. In line with this reality, governments across the world have responded to the current, COVID-induced recession, not with exhortations for their people to live within their means, but with record-breaking fiscal stimuli. South Africa, which prides itself as a progressive country, is now at odds with this global, progressive consensus.

It is important to recognise that South Africa's fiscal and economic crisis has broader, political and social roots. The problem is complex, but there is wide agreement that the South African state's capacity has deteriorated. It has failed to overcome massive, structural barriers to economic progress in infrastructure, education, and a range of other sectors. These barriers can be overcome, but the choices we are making now will further erode state capacity, intensify distributive conflicts, and undercut the concerted political effort and negotiation needed to unblock bottlenecks on growth. These broader political considerations are especially relevant in a country like South Africa, the most unequal society in the world. The IMF itself has argued that "excessive inequality can erode social cohesion, lead to political polarization, and ultimately lower economic growth." Implementing regressive economic policies in South Africa, at this time, when maximum solidarity is called for, will undermine crucial mechanisms for addressing inequality, with predictable social, political and economic consequences.

SUPPLEMENTARY BUDGET NOT PRO-PEOPLE

Government's budget fails to show solidarity with South Africa's poor and working class. Instead, the supplementary budget made dramatic cuts in budget areas most crucial for poor and working class people. These include R2bn cut from Basic Education, R9.9bn from Higher Education and Training, R2.3bn from Human Settlements, R2.4bn in Agriculture, R2,9bn in Land Reform and Rural Development.[4]

The budget indicates no movement towards inclusive growth or progressive taxation needed to reduce our high levels of inequality and what raises alarm bells is that health, the primary concern in a pandemic, has only R2.9 billion of net additional funding for the entire health sector. This is less than half of the new funding allocated to the SANDF and SAPS, at a time when police brutality has been put in the spotlight globally through the #BlackLivesMatter movement, and nationally through the outcry surrounding the deaths of Collins Khosa, Elma Robyn Montsumi, Adane Emmanuel, Sibusiso Amos, Petrus Miggels, Ntando Elias Sigasa, and others. With increased unrest expected as people struggle to survive, this blatant choice to repress rather than to serve is abhorrent in a constitutional democracy.

At this time, there is an increase in unemployment and, therefore, in the number of people who should qualify for the COVID-19 SRD Grant and yet the government has now cut the budget allocation by R9 billion: how will this even see us through the meager promise of a 6-month timeframe? This moment requires increased spending on life and livelihood saving measures. It is callous – at the least – to obsess about 'balancing budgets' when people are starving to death.

[4] AIDC (2020) "With Friends like Tito Mboweni, Who Needs the IMF?" "http://aidc.org.za/announcing-eskom-transformed-the-case-for-a-big-eskom-in-the-age-of-austerity/

RECOMMENDATIONS

1. Clear and urgent communication on the state of relief measures in general and in particular on the COVID-19 SRD Grant

In explaining the discrepancy in almost R10 billion less towards social grants, National Treasury director general Dondo Mogajane said that “what we have picked up is that the intake of the [new Covid-19 social relief of distress grant] is slow. What we’re then doing is provide best estimates. And that’s why we then reduced the allocation.” Celebrating the low take-up of grants as fiscal savings ignores the structural barriers to accessing the grant – exacerbated by the conditionalities for application.

According to their latest report, SASSA has only accepted 3.2 million applicants, out of at least 10 million (but up to 15 million) eligible. Worse, it has only paid out a third of those accepted. Some who applied in April have still not received any feedback on the status of their applications. Even when applications are approved, sometimes the applicant does not receive a verification code. Furthermore, details around back-pay remain unclear: will SASSA ensure that all those eligible and verified will receive the full six months worth of grant payments?

A new appeals process has been created but this process is ironically still an online one, which presents serious limitations in our context. Millions have been relying on (the promise of) this grant for survival and with such high numbers of rejection, if one were to appeal and get the grant, would one be eligible for back pay? These questions remain unanswered as communication with applicants has been dismally poor.

2. Drop the unethical exclusion criteria

In a move that further excludes people, SASSA has stated that if they detect a recipient is receiving money into their bank account, regardless of the context – perhaps someone has taken out a loan or is receiving a small donation from a family member, the said recipient will no longer receive the grant. Given that the R350 is an inadequate amount on its own, excluding recipients on these petty grounds cannot be justified. The exclusion of caregivers and migrants from the grant has also long been questioned. The Pretoria High Court has ordered that the COVID-19 SRD Grant be extended to asylum seekers as well as to special permit holders. Sadly, this progress means little when we look at the sheer failure of SASSA to implement the payment of these grants and the lack of funds allocated to meet the now increased demands.

3. Address the massive shortfall in funding to #PayTheGrants

It is unacceptable that the promised R17 billion for the COVID-19 SRD Grant is not being distributed when we know that people are suffering and unemployment has increased to 39.7%. SASSA claims that they currently only have R3.5 billion for the COVID-19 SRD Grant payments, only 20% of what was initially promised by President Cyril Ramaphosa. This means that even when people meet all of the restrictive criteria, there is still a massive shortfall in the number of people who SASSA can pay.

4. Back payment of all those who applied for the COVID-19 SRD Grant, regardless of when the application was made

There are discrepancies around the decisions SASSA has taken in its disbursement process, which are highlighted in the arbitrariness of back payments. According to SASSA, those who applied in April, when the grant was made available, were expected to receive back pay, which they have not, to date, received. Given that the initial communication of the grant’s existence was poor, this criteria for back payments is extremely dubious. Despite when the application was made, if someone can prove that they are eligible for the grant, they should receive back pay.

The neoliberal economic thinking that has failed the majority of people for the past two decades cannot dictate our reaction to this global crisis. Access to this special grant has been so stringently individualised that we have lost sight of what its purpose is; the difference between life and death for the majority. Apartheid was a gendered project and black womxn are still the most excluded economic group, having to fight the crisis of inequality on the one hand and Gender Based Violence and Femicide on the other. In this context, grants are a lifeline on many levels, and the lack of urgency by SASSA, the Department of Social Development, and National Treasury to adequately verify, implement and get the grants where they are needed is nothing short of criminal.

5. Commitment to a Basic Income Guarantee for all

The COVID-19 pandemic has devastated most of the world. In South Africa this devastation is acute because we remain one of the most unequal societies. This imbalance is due, in large part, to the extreme inequality inherited from our colonial and Apartheid past, which have still not been adequately addressed. While a few families hoard wealth comparable to the world's richest, today, half of the country remains under the poverty line, with no opportunities for employment.

The struggle for a basic income guarantee in South Africa has been a protracted one but the calls are only getting louder; with groups such as Black Sash, Studies in Poverty and Inequality Institute (SPII), Alternative Information and Development Centre (AIDC), Co-operative and Policy Alternative Centre (COPAC), Assembly of the Unemployed, Cry of the Xcluded, and Concerned Africans Forum (CAF) all championing a basic income guarantee as essential for restoring respect and dignity to a people who have been systemically debilitated and impoverished for far too long.

We demand the immediate implementation of a basic income guarantee! The need is so strikingly clear, and the practical options for implementation are so varied, its nonimplementation is now unacceptable. The people of South Africa are hungry for change, and we have *long* had the tools to create it!

6. Fix the Patent Laws

Two years ago, Cabinet adopted the South African Policy on Intellectual Property, Phase 1, that contained important commitments to reform the country's patent laws to prioritise people's constitutionally guaranteed right of access to healthcare services. It paves the way for a new, progressive intellectual property regime in South Africa, almost two decades after the signing of the Doha Declaration on Public Health—a critical international agreement confirming countries' ability to amend their laws to incorporate pro-public health safeguards.

Many countries have, long ago, incorporatedpublic health safeguards into national law. Some countries like Brazil, Spain, Israel, Germany and Canada are now taking steps to override patents and other exclusive rights in anticipation of ensuring the accessibility of future COVID-19-related health products—including diagnostics, vaccines, treatments, medical devices, and personal protective equipment. Not only will these steps allow countries to avoid high prices, they will also allow countries to expand sources of supply, including through domestic manufacturing to help overcome preferential access and hoarding by rich countries to lifesaving COVID-19 health products.

"The time is now to finalise the patent law reform process—we cannot wait any longer. The draft legislation, primarily the amendments to the Patents Act, should be released for public comment immediately and quickly promulgated into law. The IP Policy recommended multiple reforms to the law aimed at protecting public health. This is needed now more than ever to address the COVID- 19 pandemic and to ensure that everyone has equal access to diagnostics, treatments and vaccines, when they become available," [5] Importantly, if we Fix The Patent Laws (FTPL) we free up money in the budget to pay for things like social grants.

While pharmaceutical companies are set to profit from this crisis, our collective responsibility must be to ensure that we can afford vaccines for all. Without heeding to the FTPL's call from 40 patient groups and civil society organisations, we do not stand a strong chance of saving lives and livelihoods.

7. Immediately audit all public debt

Where debts in parastatals are found to be the result of state capture and corruption they should be annulled. This includes the 2010 World Bank loan to Medupi which, based on the current pace of re-payments, will only be repaid by the end of the century.

Finally, leading economists, including a former director of the SA Reserve Bank, have argued that we can monetise part of the debt by forcing the Bank to play its role as a bank to the government and not to private banks. All of these measures stand to confront the power of financial capital. Embarking on a path that redistributes wealth presupposes the implementation of more stringent capital controls.

8. Meaningful redistribution of wealth and income to support social welfare

We agree with the Alternative Information and Development Center (AIDC) that redistribution could have started by reversing the R14bn in "bracket creep" compensation from February. All citizens must start to understand and embrace that there is no way out from this crisis without drastically reducing inequality in the country.

[5] Umunyana Rugege (2020) Fix The Patent Laws, https://www.fixthepatentlaws.org/south-africas-patent-laws-threaten-access-to-future-covid-19-medicines/

The preparation of a graduated wealth tax on the wealthiest 1% should be fast-tracked and introduced as soon as possible, starting with the disclosure of individual financial wealth in the personal income tax declarations in this fiscal year.

An annual progressive wealth tax between 3 and 7 percent could raise R143 billion. A 10% increase in personal income tax on the top 2% of earners could raise up to R40 billion. Anti-tax avoidance measures need to be substantially reinforced. A guaranteed basic income could also be financed through a new or increased corporate tax and/or a natural resource or carbon tax that redistribute money that would otherwise ultimately be profits that go to shareholders or executives. Apart from direct redistribution, the central bank buying bonds directly from the government at 0% interest could free up large amounts currently devoted to interest payments.

The financing of grants has benefits not reflected in the costing above. Studies show, for example, that even a small but stable minimum income may motivate and enable people to look for employment, encourage better schooling and improve health outcomes (both in crises-preventative and health constitutive ways), including mental health (an essential aspect when considering that the marginalised majority have been persistently subjected to the immense and ongoing traumas of poverty and inequality in South Africa).

CONCLUSION

South Africa's experience with fiscal consolidation is lower economic growth, more unemployment and poverty and rising inequality. Redistributive measures are a positive way to support inclusive economic growth while repairing the social fabric.

For now, when millions of vulnerable people have been put severely at risk through the poor disbursement of grants by SASSA, the immediate necessity for the delivery of income security cannot be overstated.

Guaranteed Income Security must be complemented by strong, accessible public services, affordable housing and universal healthcare. It is not separate from the critical need for a framework for the creation of value that is underpinned by human development, radical and targeted industrial policy, service delivery, and functioning state-owned enterprises.

We desperately need a fuller social justice conception of redistribution, rooted in collective decision making, sharing in all natural resources in a way that holds climate justice as central, sharing the labour of care, and economic redistribution. It needs to include migrants, those living with disabilities, queer and gender non-conforming people and all those who are currently excluded in multiple ways.

Social spending is often dismissed as unsustainable or wasteful expenditure, being provided to an 'unproductive' poor at the expense of some other 'more important' investment. We have run out of patience for this unimaginably harmful and ongoing mischaracterisation! While the economic benefits that income security creates are, by now, well documented (including, for example, increasing local demand, which expands local production and markets; generating growth to small and medium enterprises and; acting as an enabler for people to access credit), we do not think that these economic arguments should be centered: it is about time that the logic of the market be deprioritised in favour of the moral imperative to provide urgent and necessary social assistance!