PIETERMARITZBURG
ECONOMIC JUSTICE & DIGNITY
Economic justice through the lens of human dignity

MEDIA ALERT
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To all media for immediate release
Upcoming Medium-Term Budget Policy Statement 2018

What we will be looking out for in the upcoming Medium-Term Budget Policy Statement 2018.

For the past several years we have been locked into an economic framework that focuses on creating jobs through expenditures prioritising the supply-side of our economy and securing greater levels of foreign investment. These have not had the desired effect and South Africa is now facing an economic crisis. We have to think of new ways to stimulate economic activity, even ideas that we would not normally have considered. The one area that has not been part of our economic discussions is that of using the welfare system as a potential economic stimulus.

It seems to us that the most urgent political priority for South Africa is dealing with our economic crisis in a manner that reduces inequality and eradicates poverty. Deliberations around the MTBPS should by necessity be guided by and respond to this political priority. ***In assessing the MTBPS, we would be looking at (1) measures proposed to protect South Africans from the economic crisis; and (2) measures proposed to get South Africa out of the economic crisis without increasing levels of inequality.***

Our research suggests that instead of targeting the supply-side of the economy; we should consider investing in the demand-side of the economy. That is, economic recovery lies with the millions of South Africans thus far excluded from the economy through lack of money to spend due to the continuation of our low-baseline wage regime, poverty-level grants and no jobs. Here we think that the welfare system could be used as an economic stimulus to drive a broad-based consumer-driven recovery in the economy whilst also providing immediate relief to the millions of households struggling to put food on the table. *Increasing the level of grants could thus simultaneously help South Africa out of our economic crisis whilst protecting millions of South Africans from the deepening affordability crisis.*

The socio-economic context which the MTBPS is required to respond

Over the past year 519 000 workers joined the labour force.[i] 9,6 million South Africans are currently unemployed, of whom 8,6 million Black South Africans are currently unemployed.[ii] Unemployment levels have stagnated at extremely high levels. Five years ago (2013) the expanded unemployment rate for Black South Africans was 41%, it is currently sitting at 41,5%.[iii] Statistics South Africa's Quarterly Labour Force Survey data trends do not suggest that unemployment levels will improve.

Poverty levels are accelerating. The latest poverty statistics showed a marked reversal upward from 2015. More than two-thirds of Black South Africans lived below the poverty line in 2015 (64,2% or ±30 million people).[iv] These statistics do not reflect the massive food price spikes which hit supermarket shelves from November 2015 through 2017 due to the drought, or the recent hikes in fuel prices, or the hikes in electricity prices or the hike in VAT.

Wage levels are extremely low. Of 10 Black South Africans of working age – only 4 have a job.[v] Most Black South African households rely on just one wage earner. The historical racialised low-baseline wage regime is exacerbating this situation as most Black South African workers who do have a job, and whose wage is now coming under greater pressure, due to a myriad of shocks not least of which high transport costs and electricity prices, are paid at extremely low wages. The median wage for Black South African workers is R3 000 a month;[vi] dispersed through households this becomes a poverty wage.[vii] The National Minimum Wage, not yet implemented, set at an hourly rate of R20, when dispersed through households also becomes a poverty wage. The Old-Age Grant set at R1 700 a month and, like wages shared within families, also becomes a poverty wage.

At the most basic level an economy should provide for the needs of a household. In October 2018, the cost of foods in the Household Food Basket, a basket designed with women living on low incomes in Pietermaritzburg, was R3 038,50. In October 2018 households underspent on basic but proper nutritious food by 26%. 30% of boy children and 25% of girl children under the age of 5 years are stunted.[viii] Stunting in many cases is not reversable.

The following are interventions that are typically addressed in the MTBPS but have not had the intended results:

1. **Increased job creation.**

With the current high levels of unemployment, the core pathway to get money for the majority of South Africans to participate in the economy – via a job – has become obstructed. Emerging from the Jobs Summit was the proposal to

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create a possible 275 000 jobs a year. While this is to be welcomed we must bear in mind that 519 000 workers joined the labour force over this past year and with 9,6 million people currently unemployed; this intervention is unlikely to shift our current economic trajectory. The current proposals on the table are not going to create enough jobs, these jobs will likely pay workers low wages, and the jobs will not come fast enough to get us out of our crisis.

2. Cutting Personal Income Tax and Corporate Income Tax to stimulate economic activity.

The traditional go-to of cutting taxes is not viable as the millions of families that need relief and from whom a recovery in the economy is mostly likely to emerge do not pay Personal Income Tax. Cutting taxes for the small tax base of private employed individuals who do pay taxes, and many of whom are already spending at their maximum is unlikely to provide any substantial recovery in the economy; instead it will lead to less revenue and higher levels of inequality. Similarly providing more tax cuts to Corporates who have been shown not to respond to tax cuts by employing more people or paying workers higher wages will just lead to less revenue. It seems to us that shifting focus to the demand-side by supporting corporates to expand their local markets by ensuring more people have money to spend and buy their products is more likely to drive an economic recovery.

3. Increasing VAT to provide greater revenue.

The 1% increase in VAT has meant that people have less money in their pockets to spend. It has hurt millions of households at a time when they required help. Any action that removes money out of people's pockets instead of trying to keep money in people's pockets, so they can spend and drive an economic recovery should be avoided. The 1% VAT hike of April 2018 should be reversed and VAT on municipal services and food should be removed. Increasing VAT further whilst it could provide greater revenue, might have the unintended consequence of deepening the household affordability crisis.

We would be looking for the MTBPS to:

1 Provide guidance on how to fix SARS.
2 Stop illicit financial flows.
3 Ensure Corporate compliance with the full CIT rate.
4 Ensure Corporates compliance with agreed wage levels. That the state uses its procurements and tenders as a tool to enforce decent wages for the workers involved, similarly that BEE compliance targets privilege the workers rather than the select group of shareholders who continually benefit from these deals.
5 Reverse the 1% VAT hike and remove all VAT on municipal services and food.
6 Shift a large proportion of the monies allocated for the economic stimulus to the demand-side of the economy.

With no likely solution to the jobs crisis in the short-term; and with corporates showing little appetite to increase wage levels to that of a living wage; and with no surplus money in the pockets of the majority of South Africans, it seems to us that South Africa's social security system could be used as an instrument to provide an immediate, direct and cost-effective intervention to deal with the crisis. That is, if we reimagine the welfare system as an economic stimulus to drive a consumer-led economic recovery by injecting more money directly into the pockets of the millions of people who are currently excluded from the economy. This intervention could immediately catalyse broad-based spending which has the potential not only to ignite economic activity in our core economic hubs but ensure that money is spent locally where people live. Money directed to local economies could enable work to be created at a far faster rate, a fairer rate, and a more cost-effective rate than current government jobs proposals.

The welfare system could get us out of our economic crisis.

We have an instrument in the form of welfare that government thus far has not used to its optimal level. Grant levels have not been increased to a level which would assist millions of South Africans to better absorb job losses, low wages and price spikes caused by the deepening economic crisis. Nor have they been increased to act as a stimulus to drive a consumer-led recovery in the economy. Currently 17,5 million people receive a monthly grant.

The level of grants is set too low. Pensioners receive R1 700 a month and mothers caring for children receive R410 a month. For many households, social grants are the only form of reliable income coming into the home. The low grant levels only cover basic survival consumption expenses, albeit very inadequately *viz*. transport, scholar transport, education, electricity, burial insurance, food and servicing debt. Families cannot eat properly on the grant and this is contributing to major nutritional problems which rebound in our poor education, health, social and economic outcomes. Instead of the grant providing benefits to government via savings and improvements in education, health, social and economic outcomes; the low-level grant undermines these outcomes.

Spending on consumption goods and services, whilst critical expenses, are not enough to grow the economy. Although much of the grant money reverts back to government either via VAT (on food: VAT on the October Food Basket amounted to R219,38, and municipal services and insurances), fuel levies via kombis and omalume (scholar transport), municipal service payments (on electricity, water, sewage and refuse), corporate taxes from food and domestic and personal hygiene product retailers, and ensuring children are fed and in school; at its current level, *government cannot maximise this social assistance expenditure investment as an economic outcome.*

The low grant levels offer no surplus monies after consumption expenses have been paid. The value of the grant is too low for the millions of persons who receive the grant to use it to spend in the local economy beyond consumption goods nor to take that money and invest productively or create wealth in local economic activities. The grant money is spent within a few hours. All grant money is left in town. No money comes home to spend locally or support economic activities where people live. There is no money to spend.

South Africans are remarkably creative – we produce and create products and services; but the potential of these activities is mostly dormant or oppressed because local people cannot sell these goods and services locally because their closest market cannot buy these goods and services; and importantly neither can local communities support, invest or grow these small local economic initiatives. Increasing the value of the grant would immediately create a market of millions of buyers as well as creating millions of producers who are able to create work and support one another to expand and grow this work. Surplus money can be used productively – it has the potential to unlock the jobs crisis, restructure the economy from the ground-up; and create wealth.

Increasing the value of the social grants to a higher level will allow government to maximise its social assistance expenditure as an investment delivering substantial education, health, social and economic outcomes; whilst also responding to the current socio-economic context in which millions of South African families find themselves in.

We believe that putting money into people's pockets directly would lead to much broader economic activity and a more sustained growth trajectory. We acknowledge that government revenue is under strain and that to increase the welfare system to the level at which it would become an economic stimulus would require a big investment. This would require a reprioritisation of the entire budget. To do this would require a political conversation beyond parliament and treasury to identify how this reprioritisation could occur to free up the money which will be required to invest in higher levels of welfare.

We would be looking for the MTBPS to:

1. Increase the grant so that it adequately covers consumption expenses so that government can see returns in investment in improved health, education, social and economic outcomes.
2. Increase the grant beyond consumption expenses so that surplus monies can drive a broad-based, consumer-led recovery in the economy.
3. We recommend that the Minister of Finance urgently initiates such a process where the conversations on the budget reprioritisations can take place.

As a country we have come to a point of no return. We no longer have the luxury to continue repeating failed policies. In our current trajectory our low economic growth is becoming institutionalised. Poverty levels are accelerating. Inequality is deepening. Our economic crisis is causing a downward spiral in all our developmental outcomes. With no substantial resolution to our economic crisis we are now seeing a multitude of crises all feeding on and driving our crises deeper. We are seeing a deterioration in our education, health, social and economic outcomes. We are now in a situation where the majority of South Africans cannot even afford to eat properly. Social disorder and violence appear to be escalating at an alarming rate. The proliferation of protests and labour strikes will escalate.

The MTBPS deliberations provide an indication on how government intends to deal with our economic crisis. In the face of the depth of our crisis the mini-budget must provide new thinking which leads to a shift in the way government has previously been handling the crisis. Using the welfare system to drive a broad-based economic stimulus to drive a recovery in the economy whilst substantively dealing with the effects of the crisis for millions of South Africans will provide South Africa with a much greater chance to move forward into a more positive and stable economic trajectory.

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[ii] STATSSA (2018). **Quarterly Labour Force Survey, Quarter 2, 2018.** Statistical release P0211. Statistics South Africa. Pretoria. P21-22, 39-40 & 69. See Link: http://www.statssa.gov.za/publications/P0211/P02112ndQuarter2018.pdf

[iii] STATSSA (2018). **Quarterly Labour Force Survey, Quarter 2, 2018.** Statistical release P0211. Statistics South Africa. Pretoria. P21-22, 39-40 & 69. See Link: http://www.statssa.gov.za/publications/P0211/P02112ndQuarter2018.pdf

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[v] STATSSA (2018). **Quarterly Labour Force Survey, Quarter 2, 2018.** Statistical release P0211. Statistics South Africa. Pretoria. P21-22, 39-40 & 69. See Link: http://www.statssa.gov.za/publications/P0211/P02112ndQuarter2018.pdf

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