6 November 2023

To: Mr MJ Maswanganyi and Mr YI Carrim
Standing Committee on Finance (National Assembly) and Select Committee on Finance (National Council of Provinces).

For attention: Mr Allen Wicomb
Per email: awicomb@parliament.gov.za

ALTERNATIVE INFORMATION AND DEVELOPMENT CENTRE (AIDC) WRITTEN SUBMISSION TO THE SELECT AND STANDING COMMITTEES ON FINANCE ON THE 2023 MEDIUM-TERM BUDGET POLICY STATEMENT

1. The Alternative Information & Development Centre (AIDC) is a grassroots-based non-governmental organisation based in Cape Town, South Africa. AIDC was established in 1996 to contribute to supporting social movements and trade unions to advance campaigns for a just transition to a wage-led, low-carbon development path.

2. The AIDC, in making this submission on the Revised Fiscal Framework and Revenue Proposals, wishes to speak to a number of wide-ranging points regarding South Africa's economic trajectory, a critique of the rationale underlying the 2023 Medium Term Budget Policy Statement, as well as outlining policy alternatives which ought to have been explored in the MTBPS and beyond.

3. This submission is structured as follows: (i.) An analysis of the impact that the fiscal framework and expenditure priorities of the 2023 MTBPS will have in the context of South Africa's social-economic crisis. (ii.) A critique of the assumption of a 'debt-crisis' which underlies the decisions in this MTBPS. (iii.) The austerity-trajectory of the 2023 MTBPS will constrain economic growth and therefore be self-defeating in its attempt to contain the debt-to-GDP ratio. (iv.) Revenue raising proposals to avoid austerity and establish a progressive fiscal framework. (v.) The need to fund policy proposals which deal with South Africa's social crisis and economic stagnation together.

Austerity in the 2023 MTBPS

4. The 2023 Medium Term Budget Policy Statement continues the harsh austerity trajectory that the government has committed to from 2019. The National Treasury aims to reduce spending as a percentage of GDP by 1.5% by 2025/26. R21,7 billion is cut from the budget announced in February, when excluding the ‘additions’ to the public sector wage bill which ought to have reasonably been budgeted for in the main budget. Compared to this financial year 2023/24, the MTBPS has a plan to make real cuts over three years of another R42 billion from Education (‘Learning and Culture’), R30 billion from Public Health and R31.5 billion from the police and the Courts.

5. The MTBPS attempts to hold two objectives: to “promote economic growth and support the most vulnerable members of society” while “stabilising the public finances and reducing fiscal and economic risks” through containing expenditure. However, it outlines cuts in real terms to expenditure for critical areas of the public sector, acknowledging that “baseline budgets for basic education, health and the police are projected to grow in nominal annual average terms, **although below consumer price index (CPI) inflation**, over the 2024 medium-term expenditure framework (MTEF) period.”

6. The 2023 public sector wage agreement was based on inflation-linked “wage increases for 2024/25”. The MTBPS envisages this for the coming three years. Yet, the MTBPS has budgeted next year for just an increase of the total public wage bill of 2 percent (page 53), whilst forecasting an inflation rate of 4.7% (page 59).

7. The only way to square this circle is for the government to further cut the number of jobs in the public sector. Indeed, a key concept in the MTBPS is “reconfiguration”. To achieve this, the National Treasury assumes (and hopes) that people will take early retirement packages, and to freeze the appointment of new public servants so as to “manage headcounts”. There is no chance, therefore, of filling the more than 200 000 vacancies in the public sector. Once again, the Treasury indicates that this will negatively impact learning outcomes and increase, again, the number of learners in the classrooms.

Is South Africa Facing a Debt Crisis?

8. The rationale underlying the fiscal framework is that South Africa is facing an imminent debt crisis. However, we contend that South Africa is in fact facing a growth crisis coupled with a devastating social crisis - but not a debt crisis.

9. There is no scientifically agreed ceiling that debt-to-GDP should not exceed to ensure debt sustainability and to not be an impediment to economic growth. Nevertheless, South Africa's debt levels remain in-line with OECD average government debt-to-GDP ratio of 89% and is marginally above the average, which was 69%, in emerging market and middle-income countries in 2022/23. This is why the finance company PSG's chief investment officer, like many others, has pointed out that South Africa's debt-to-GDP ratio right now is relatively low. Nevertheless, the levels of public debt have grown significantly over the past decade. This is congruent with global trends.

10. The growth in government debt has been driven by the "'phasing out and liberalisation of exchange rate controls" by the post-apartheid government as early as 1995 has resulted in a surge in financial inflows, driving the non-resident ownership of South African bonds. Coupled with debts that have been incurred during the "state capture" years, during which corruption at SOE's was extremely prevalent.

11. For this reason, it is essential that these debts are audited on the basis that they may be illegitimate debts. One extreme example is the World Bank's loan to Eskom in 2010, which was mainly for the building of the giant Medupi coal-fired power station, a project haunted by delays, steep cost increases and corruption.

12. Notwithstanding the growth in government debt - the level of foreign debt is a small share of total debt. This means that the majority of South Africa's government debt can be paid back in rands as opposed to needing to be paid back in foreign exchange. This is a favourable position as it reduces risks associated with high levels of borrowing in foreign exchange.

13. Austerity and privatisation pumps the brakes on the economy, crippling the country's infrastructure and worsening inequality and instability. In this regard, we argue that

austerity might in fact lead to a full-blown debt crisis by locking South Africa into a no-growth trajectory for years to come.

14. Underpinning the implementation of austerity policies, evident in the case of European countries after the global financial crisis, are a set of core assumptions. First, the level of public debt is unsustainable. Second, fiscal consolidation to reduce and eliminate any fiscal deficit is a priority. Third, that the fiscal deficit should be addressed directly through expenditure cuts, even if the effect on macroeconomic variables like GDP growth and employment is negative in the short term. Fourth, that fiscal consolidation is better achieved through expenditure cuts rather than tax hikes (Himmelweit, 2017). Institutions like the World Bank and the International Monetary Foundation have constructed a view that such assumptions comprise sound macroeconomic policy (Elson & Cagatay, 2000). And liberalised financial markets have placed greater pressure on governments to institute those policies that ensure "credibility" in financial markets (Elson & Cagatay, 2000: 1354).

15. Fiscal austerity includes budget cuts as well as regressive taxes like cuts to corporate taxes and higher income brackets. Cuts to welfare spending enable the transfer of resources away from the majority to the wealthy saving-investing class and in so doing reproduces the conditions for capital accumulation. Reducing expenditure increases the surplus available for private investment or paying off government debt, demonstrating financial stability and creditworthiness, and boosting the confidence of savers in the conditions required for capital accumulation (Mattei, 2022: 145).

16. The same is true of regressive taxes. Fiscal austerity goes hand-in-hand with monetary austerity, usually referring to increases in interest rates to curb inflation to once again produce conditions favourable to capital accumulation. Higher interest rates make it more expensive to fund livelihoods with credit and push up the unemployment rate which serves to lower the bargaining power of workers to demand higher wages. Meanwhile, those with financial assets benefit. As borrowing becomes more costly to governments, social expenditure is lowered. Placing monetary policy authority under independent central banks, outside of the direct control of the State, is a means of de-politicising a decision that runs counter to the interests of the majority, favouring wealthy savers while the rest of society is made to consume less (Mattei, 2022: 151).

17. The alleged dangers of debt and deficits are used to justify cuts to social spending and roll back social protections or basic services funded by the state. Furthermore, austerity is used to deregulate labour markets, advance private sector participation and privatisation of basic service provision, and reconfigure capital interests, especially in the financial sector (Sibeko, 2019: 3).

18. There is little evidence to suggest that austerity works. A growing body of evidence suggests the opposite is true. Keynseian, heterodox and feminist economists have criticised austerity practices for failing to achieve either economic growth or deficit and debt reductions, and for causing harm to the most vulnerable people in society (Perrons, 2017: 10). In contrast, evidence shows how austerity has led to increased unemployment, lower incomes and higher levels of inequality (Sibeko, 2019). In 2013, the IMF acknowledged that it had hugely understated the harm that spending cuts bring to a weak economy (Krugman, 2015).

19. The economic motivation for austerity is questionable. Cutting government spending can lead to an increase in the deficit and debt-to-GDP ratio because tax revenues are depressed. In times of economic recession, when private sector expenditure is falling, and GDP is shrinking, the size of debt relative to the economy rises. Austerity is therefore 'self-defeating during recessionary times, as it multiplies the effect of shrinking private-sector expenditure' (Sibeko, 2019: 3).

20. Public expenditure cuts in times of economic recession or stagnation directly harm those who rely on the provision of public services, when affordable or free services are rolled back. There are longer-term implications, as well, for human capital development

21. While the MTBPS complains about the increasing interest rates on government borrowing, it nonetheless sticks to a pro-financial-industry approach to the government's growing debt, and dismisses the possibility of utilizing large levels of domestic resources for so-called "concessionary lending". There is a lot to be done. But the Treasury must be prepared to abandon its free market orthodoxy and stop repeating what has failed, both here and in other parts of the world.

22. For close to a decade, the Government Employee Pension Fund has run with annual surpluses of R50 billion after paying pensions and benefits to its members. The GEPF, valued at R2.3 trillion, holds 14% of the Treasury's and 18% of Eskom's debt. This public entity is by far the largest single creditor of both Eskom and the government, but it is charging the same interest rates as the financial industry on its lending, now reaching over 12% for long-term borrowing.

23. Instead of taking even more loans from the World Bank and the IMF (another US$ billion was again borrowed two weeks ago), and promising to continue with austerity and the privatisation plans, the government should turn to its own public sector partners for the "concessionary lending" that the MTBPS is speaking about. In fact, even a one-year moratorium on the government's contribution to the Government Employees Pension Fund (GEPF) would raise an additional R50 billion without putting payments of the pensions at risk.

24. A number of tax measures can be implemented immediately and over the medium term to raise more revenue.

25. **Immediate measures should incorporate** reviewing the tax incentives benefiting the affluent minority and major corporations. This includes (a) the medical aid tax deductions cost the fiscus R28 billion per year; (b) the 1%-point cut in the corporate income tax rate from 2022 must be reversed. The 'inflationary relief' provided every year even to high-income earners should be scrapped. Together these measures could raise in excess of R50 billion in forgone revenue for this financial year.

26. Over the medium-term, additional revenue-raising options should be explored to enhance the progressivity of the South African tax framework toward a 32% tax-to-GDP ratio. The 25% Tax-to-GDP ratio would stay the same as it was under apartheid 1989-1994. This is a policy choice. Economic modeler, Ashgar Adelzadeh, argues that "government's decision to avoid permanent tax increases in the overall tax burden has significantly benefited the country's well-off class at the expense of the majority."

27. It is critical that we move to combat illicit financial flows, base erosion and profit shifting through strengthening capital and exchange controls. Further it is essential to clamp

down on tax evasion by high-net-worth individuals. Each year transnational corporations shift between $15 billion and $25 billion to tax havens. Stopping profit shifting could help to raise additional tax revenue of up to R100bn each year.

28. Given the massive and continued concentration of wealth, it is essential to establish a progressive net wealth tax. Research shows that a graduated and small wealth tax of between 3% and 7% could raise R140 billion annually.

29. All of these revenue-raising options highlight how there is in fact no need for these harsh austerity measures. The National Treasury's proposals are therefore unconstitutional given that it fails to explore revenue-raising alternatives before implementing budget cuts, which will lead to people's Constitutional Rights not being progressively.

30. Furthermore, more austerity will not deal with growing debt levels precisely because it leads to a contraction of the economy and in turn a growing debt-to-GDP ratio, higher levels of mass unemployment, deeper inequality and social despair.

31. Of course, the National Treasury refuses to engage with such policy options as it would open the door for a discussion on the nature of economic policy and it would bring into question the assumptions upon which economic policy has rested until now.

WE ARE REQUESTING TO MAKE AN ORAL SUBMISSION

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