Pre-election
budget statement?

Finance Minister Trevor Manuel released his Medium Term Budget Policy Statement (MTBPS) on 12 November. The People s Budget Campaign (PBC) comprised of South African NGO Coalition (Sangoco), Cosatu and the South African Council of Churches (SACC) present their response.

The PBC was launched in 2000 to present alternative Budget proposals for development priorities. At that time, an overly restrictive fiscal framework seriously limited the revenue available to eradicate poverty and support employment-creating growth. Although government appears to have shifted away from this economic management model, the PBC remains committed to ensuring that recent gains are broadened in a sustainable manner.

What is the MTBPS

The 2003 MTBPS was published after the Growth and Development Summit (GDS) Agreements in June 2003 and the release of the 2001 Census Survey results earlier this year, as well as the publication of government's preliminary 'Towards a Ten-Year Review' document.

The 2003 MTBPS is a policy framework that, according to the National Treasury, 'promotes growth and development through investment in infrastructure, reinforcing education and skills development, support for targeted poverty reduction programmes and continuing improvements in public service delivery'. While PBC may agree with most elements of this claim, and welcome the significant shift in policy thinking towards government being centrally involved in driving investment in infrastructure and increased social spending, the precarious and critical social and economic situation in South Africa underscores the need for drastic action by government.

Macro-economic strategy – the broad policies, including monetary and fiscal policy, government employs to ensure economic stability and growth – can either assist or constrain development. From 1996 to 2001, the emphasis on fiscal austerity, led to what we previously called a 'perverse planning paradigm' where 'developmental objectives have been supplanted' by efforts to reduce the deficit.

We are therefore cautiously optimistic to see that government has moved away from its previously flawed assumption that a tight fiscal and monetary policy would attract private investment that in turn would drive economic growth, create jobs, and lead to a more equitable income distribution. In reality, the role that private capital played within this context, leading to job shedding and

capital disinvestments, should not be forgotten.

For the first time, government appears to have taken a long and hard look at its accomplishments and, equally, its shortcomings. 'Towards a Ten-Year Review' appears to acknowledge, if only tacitly, that government should be more directly involved in addressing such critical challenges as rising unemployment, rapid urbanisation and HIV/AIDS.

The recovery of lost ground requires massive mobilisation of resources by government and the development of incentives for business to assist government in this regard.

The PBC remains convinced however, that more could be done to release government resources so as to ensure economic growth, address poverty, and create much-needed employment.

Response to MTBPS

Several macro-economic parameters were significantly revised in this year's MTBPS. GDP growth is forecast to be 2.2%, down from the 3.3% expected at the time of the Budget. Despite this, gross domestic expenditure is set to remain constant in 2003, with growth in subsequent years forecast to be 4.7%, up from the 3.8% projected at the time of the Budget. This, according to the Treasury is attributable to 'a steady growth in consumption expenditure (up by 2.8%), continued exceptional growth in investment spending (up 7.7%); and an expansionary fiscal stance (government expenditure up 3.6%).' We welcome this commitment to much-needed spending, especially within the context of lower than anticipated GDP growth.

The specific macro-economic parameters reflected in this year's MTBPS, demonstrate a significant shift in mobilising resources for government expenditure. We welcome the break from chasing tight deficit targets, such as the 1.2% of GDP in 2002/3, to an average of around 3.0% of GDP over the MTEF period. The upward revision of next year's target, effectively doubling the deficit, frees up over R18bn for additional spending in 2004/5.

The PBC believes that the decision to allow the budget deficit to rise above 3% of GDP in 2004/05 and 2005/06 reflects government's view that fiscal policy can be used more aggressively and effectively to meet social needs and build growth enhancing economic infrastructure. Indeed, the expansion of the deficit:GDP ratio by 2% in two years allows an increase in government spending capacity of just over R26bn. We have consistently called for a shift in this direction.

During this period when growth and revenue projections are not being realised, government is able to infuse significant resources into the economy, thereby providing a counter-cyclical boost. However, in order to address the huge backlogs in service delivery, as well as the persistent inequalities that still plague South Africa, the PBC hopes that this pattern will be sustained in the long term and not be abandoned or compromised in response to global economic trends.

By relaxing the tight fiscal framework of the late 1990s and allowing modest increases in deficit spending, the MTBPS provides for substantially more spending in the key social sectors of health, education and welfare than was anticipated in the 2003 budget. These changes are vital. However, we believe that ample fiscal space remains to increase social investment still further. The PBC believes that there is a need to further investigate the appropriateness of the growth path and a need to track real per capita growth and per capita GDP. For example, the increase in population growth between 1996 and 2001 by just over 4 million South Africans does significantly impact on the GDP per capita, a factor that was not seriously taken into consideration. Rough calculations reveal that GDP per capita for 2003 amounts to R26 495 p.a., compared to R24 514 p.a. for 2001, a nominal increase of just over 8.0%, not even taking inflation or annual population growth into account.

The PBC therefore welcomes the commitment to expanding real growth in public spending. The growth of 5.7% in non-interest government spending in real terms over the next three years continues the moderately expansionary trend of recent years. Other than a slowdown in the global economy, to which government attributes this development, there are also significant domestic factors that contributed to a decline in growth.

A substantial part of the Minister of Finance's MTBPS speech was devoted to inflation targeting.

The PBC remains concerned however, that keeping inflation under control is an important element of a stable macro-economic framework. Slavishly chasing inflation targets in a way that hinders development is not acceptable. As with the previous preoccupation with chasing deficit targets, inflation targeting, if not appropriately balanced with other priorities, could also detract from the real crisis in South Africa, namely high unemployment and poverty.

The PBC is relieved that the proceeds from privatisation/restructuring of state-owned assets is no longer reported as revenue. In fact, we are pleased to note that instead, government expects the parastatals to increase their investment substantially. It is hoped that this points to a more sensible approach to restructuring state assets in the future.

Two further developments were welcomed – the Expanded Public Works Programme, as per the agreements of the Growth and Development Summit and the extension of the child support grant.

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This is an edited version of the PBC's response to the MTBPS submitted to the joint budget committee of parliament on 18 November.