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**OPINIONISTA** DICK FORSLUND

The political budget crisis and alternatives to austerity, Part One

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**The national political crisis unleashed by the student rebellion last month should be seen as a call for a fundamental shift in economic policy, starting with the way in which government raises, allocates and spends resources. Now that government has agreed to the “0%” increase, the scrapping of registration fees in January should follow. The debts that poor students have amassed should go the same way. No longer should university administrations, in an attempt to force students to pay such debts, block participation in exams or withhold their degree certificates. It is critical that government sets a tight time frame to budget for and implement fully-funded, free higher education.**

In the midst of the student occupation of Parliament, last month, the Minister of Finance, Nhlanhla Nene, tabled the Medium Term Budget Policy Statement (MTBPS). The MTBPS is also known as the Mini-Budget because it provides insight into what the next year’s Budget is likely to be, as well as the spending plans of government up to 2018. The current spending priorities presented by Minister Nene will not address the ongoing downward slide in the quality of key social services, such as health, education and social protection.

For example, the National Treasury continues to speak about introduction of a national health insurance (NHI) “with full implementation in 2025/26” and repeats the promise to publish the long awaited White Paper on financing the NHI by the end of the 2015/16 financial year. Yet, there are no signs of critical changes in the Budget allocations that would be required, both in relation to the public service sector and the rest of the economy, in order to make the NHI a reality. Treasury officials continue to acknowledge, in private, that in order to implement the NHI, structural increases in the ratio of tax revenue to Gross Domestic Product (GDP) of at least three percentage points would be required. For the fifth year running, no such structural change is indicated in the Mini-Budget.

Simple delivery of the NHI would require an increase, not a cut, in “the public sector wage bill”. To get rid of so called “ghost employees” is critical, but delivery of quality primary health services requires more doctors and nurses, and the integration of 70,000 community health workers as paid employees. Delivery of quality education to thousands of public schools with more than 40 learners in a classroom requires more teachers. Also, a response to the social impact of unemployment, gender based violence, drug abuse and gansterism requires more social workers, not less.

Instead, the Mini-Budget has outlined a spending plan for 2016 to 2018 that projects tax revenue as a share of GDP at a conservative rate of just 26%, over the three-year period. Furthermore, the Treasury projects that the economy, in terms of GDP, will grow by 1.8%, in real terms, over the next financial year. Government spending will increase by just 0.9%, according to a Mini-Budget diagram. In other words, the Treasury is signalling that the government sector will shrink as a share of the whole economy. What this translates to is a government policy that does not see any increase in public services. Worse, it presents an attack on the public sector by underfunding, freezing posts that further hamper the delivery of key social services.

The student uprising demonstrates that politically and socially, the pursuit of such a policy has affected access to higher education. Not to mention the ever increasing number of service delivery protests, “xenophobic” attacks and gender-based violence, all of which suggest that there is a breakdown of social cohesion.

Such a breakdown explicitly indicates a significant problem of social and economic exclusion that is simply not sustainable, and that requires greater government intervention, not less. Whatever happens to the percentages, the absolute numbers of the unemployed and the poor will continue to increase. In the third quarter of this year there were 467,000 more unemployed people, according to an expanded definition, than in the same period in 2013, according to the latest Quarterly Labour Force Survey.

**Is this “austerity” or not?**

In March this year, a Treasury Deputy Director General, Michael Sachs, argued strongly against Gilad Isaacs, in *Daily Maverick,* that the 2015/16 budget was not an austerity budget, although it declared cuts in expenditure of R25bn over two years. This 2016 – 2018 Mini Budget continues the plans for a smaller public sector, as a share of GDP. The need for the polar opposite is obvious. We would argue that this means austerity.

A closer look at the 2015 medium term policy statement provides even further evidence that its drafters are pursuing an austerity budget. For example, Treasury’s 6% inflation forecast for the next financial year, makes us question the official 0.9% increase in government spending. The “Consolidated fiscal framework” (p 24) in 2016/17, gives an increase of 0.7% in real terms, not “0.9%”. “Expenditure by public service sector function” (p.5) grows by 0.6%, not “0.9%” in the next fiscal year.

The Consolidated fiscal framework, when seen from a third perspective (p.48) reveals a decrease of -1.2%, after inflation, in non-interest public spending. From a fourth perspective, the fall in real non-interest spending is as much as -1.5%, or R18 billion in real terms from this budget year to the coming 2016/17 (p.35). This is also austerity, in a narrow technical sense, in the sense that it amounts to actual cuts in non-interest public expenditure. As for the function “Post-school education and training” there can be no discussion about that.

Post-school education suffers a cut in real terms for two years in a row, even when using the Treasury’s three-year forecast of 5.8-6% inflation per year. The Minister of Higher Education, Blade Nzimande, has not been able to defend his turf against the Treasury’s knife. For the general secretary of a communist party this should be embarrassing; it contradicts the South African Communist Party strategy of reform from within the state.

In the third year, 2018/19, the budget allocation to post-school education will be back to the level it was this year, in other words, the level that triggered the plus 10% fee increases and unleashed the long overdue national political crisis of fiscal policy. The numbers are revealing. As many of us have been made aware by the student rebellion, there is something called the “Tertiary education inflation index” published by Statistics SA. This index provides a much more accurate measure of real inflation in post-school education than the Consumer Price Index or the GDP deflator (nominal GDP in a given year, divided by real GDP in the same year, and then multiplied by 100)

In March 2015, “education inflation” stood at 9.3% per annum when official inflation stood at just 4%. Let us, for argument’s sake, assume that education inflation will be only 9.5% annually in the coming three years, despite official inflation rate expected to be unusually high. We can then make the following diagram and see that the Mini-Budget presents an impossible three year financial plan for the Department of Higher Education.



*Diagram 1: The future of post-school education (Treasury MTBPS & own calculations)*

This plan for higher education is scattered for the time being, thanks to the most amazing student upsurge. What can come in its place?

Save for Economic Freedom Fighters, Members of Parliament, who fought a lonely battle for radical alternatives in the 27 October Parliamentary debate on the fees crisis, all other parties share the Treasury’s conservative spending framework. The poverty of thinking is revealed when we consider how opposition parties, together with the Treasury, the credit ratings agencies, investor think-tanks, and the mainstream business media all share the same view. They all believe that more resources to higher education can only be financed by reallocations, re-prioritisation and greater spending efficiencies, and not an increase in the overall size of the public purse. Strictly the want no additional taxes, and especially none directed at the wealthy. It is especially strange to watch the contortions of Democratic Alliance MPs, who passionately, although opportunistically, stand in support of the student rebellion, while being firmly opposed to any increase in taxation.

Nevertheless, long lasting and game changing increases in the tax revenue are needed. This is what “structural change” means. This change must take place, no matter to what extent, and in what timeframe, corruption can be curbed. Of course, as long as the public sector isn’t strong enough to provide basic services, but relies on “partnerships” and tenders, corruption will remain rampant.

In fact, the Treasury gives a lead in the Mid-Term Budget policy statement to one such game changing move. It says that there was “a strong growth in the PIT [personal income tax] as a result of less-than-full fiscal drag relief and fairly high wage growth, particularly for high income earners” (p.44).

The present financial year (2015/16) must be the first fiscal year in a decade when tax brackets, due to an error of forecasting, have been revised upwards, a little less than the inflation rate. Since 2000, when the top tax rate was also revised downwards in two steps from 45 to 40%, the opposite has been the case. Under the slogan of “compensating for fiscal creep”, the same life style – to the extent that CPI reflects this – has been taxed less and less for more than a decade. In 2005, when inflation stood a 4%, the top tax bracket was raised from R300, 000 to R400, 000, or by 33%.



*Diagram 2: The changing politics of the personal income tax (Source: The Treasury, Stats SA and own calculations)*

It is thus a complete myth that tax pressure on the small middle class and the rich has increased. The exact opposite is the case. Even the increase of the four highest tax rates by one percentage point (so that the income above the top tax bracket placed at R701, 300 today is now taxed at 41%), was, in aggregate, neutralised in the 2015/16 Budget. The tax brackets were lifted by 4.2% (minus R8.5bn in revenue), and the tax rebates for private medical insurances were increased (minus R920m). The combined result of these two measures, and one percentage point increase in tax rates (+R9.42bn), was budgeted to produce nothing, exactly zero Rand.

When asked about this in February, Treasury officials claimed it was a mere coincidence. The R8.3bn net addition to revenue 2015/16 was budgeted to come from increased taxes on petrol, cigarettes and alcohol. This is no exception. Unless they are speaking about a chain-smoking, alcoholic millionaire, driving a 3 ton car, MPs should be interrupted with “a point of order” if they complain again about the increasing tax pressure on high income earners. Indeed, the so called “sin taxes”, and the taxes that affect transport, hit the low income worker harder than the average millionaire. They are “flat taxes”, just like VAT.

If the government had kept the personal income tax stable since 2005/06 – only raising tax brackets strictly at the rate of inflation – personal income tax would have added more than R150 billion to the present budget. As we write this, the discussion is about the 0% increase in fees that is projected to cost the social sector R2.6 billion. Higher education fees amount to R26-R28 billion per year.

**Freeze tax brackets to pay for free education**

The single most important measure to be taken in the coming fiscal year should therefore be a tax bracket freeze. The Treasury should refrain from adjusting brackets upwards by 6% (the forecast rate of inflation). Depending on wage agreements, this would yield more than R10bn in the coming fiscal year. Every year that this “bracket freeze” stayed in place, gains in revenue would be added at a growing rate. The second year of bracket freeze would yield more than R20 billion. By the third year, the addition would be well over R30 billion. It would definitely pay all student fees. This measure should stay in place for as many years, as it is needed and politically possible.

In politics it is of course easier to cut a tax than to increase it again to its previous level, if you wait too long. The emergency situation in higher education, and in public health, to name only two areas of crisis, should at least make it politically possible to tax a certain standard of living at the same rate as it was taxed some years ago.

In part two of this article, we shall outline some other sources of financing, including a suggestion for a change in the free market borrowing policy of the Treasury, which is a main reason for the austerity policy most clearly visible in the cuts of higher education funding. **DM**

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