BUDGETING FOR PEOPLE'S NEEDS

COSATU SANGOCO SACC

Issued by the People's Budget Campaign

an educational guide to budget

Economy S A box

Budgeting for People's Needs:

An Educational Guide to Budgets

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COSATU • SACC • SANGOCO

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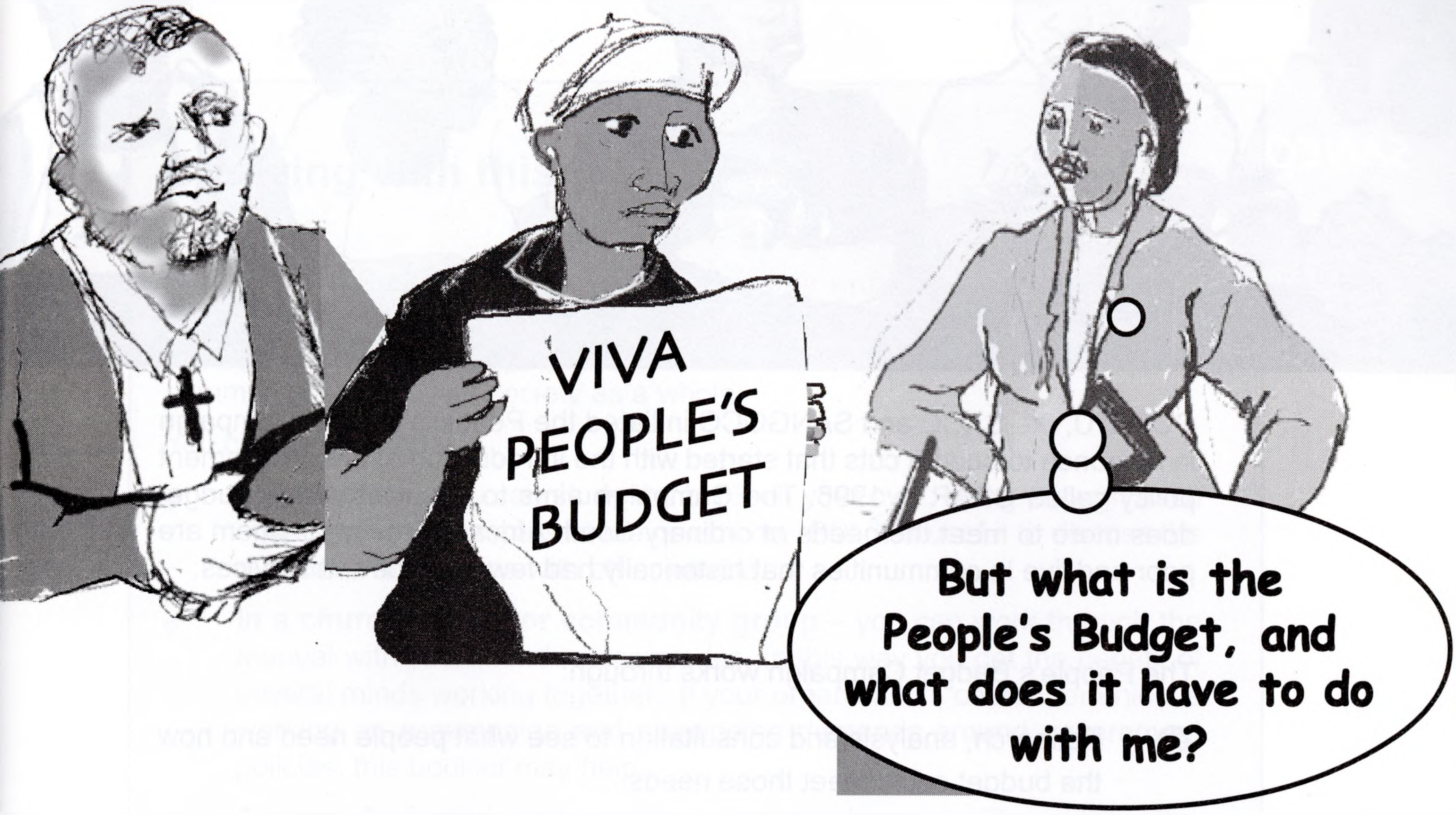


Chapter 1.

Introduction

We hear a lot about the budget as an important expression of government policy. But what is the budget, what does it tell us about government programmes, and how can we influence it? This booklet aims:

1. To support broader understanding and debate on budgets and fiscal policy as the basis for improving the public's ability to hold government accountable;
2. To explain debates on and key concepts in fiscal policy, budget reform and government expenditure on major programmes; and
3. In that context, to explain the proposals in the People's Budget and how the People's Budget Campaign works.

The People's Budget Campaign is supported by a coalition of COSATU, the South African Council of Churches (SACC) and the South African NGO Coalition (SANGOCO). The People's Budget Campaign seeks to help people understand the budget better. Based on broad discussions and hearings, it works to develop proposals to improve government spending programmes.

COSATU, the SACC and SANGOCO initiated the People's Budget Campaign in response to budget cuts that started with the introduction of the government policy called GEAR in 1996. The Campaign aims to ensure that the budget does more to meet the needs of ordinary South Africans – most of whom are poor and live in communities that historically had few government services.

The People's Budget Campaign works through:

- Research, analysis and consultation to see what people need and how the budget could meet those needs
- Providing consistent responses to government budgets
- Educating ordinary people so that they can understand the budget and make demands for themselves
- Mobilising people to find ways to influence budget decisions.

The People's Budget Campaign has published *A People's Budget* just before the government publishes its national budget. This document includes the main proposals made by the Campaign, which this booklet summarises. They relate both to major new policy initiatives and to the overall framework for government spending, borrowing and taxation.

1.1 How to use this book

This book helps you to understand government budgets and some of the main proposals for improving them.

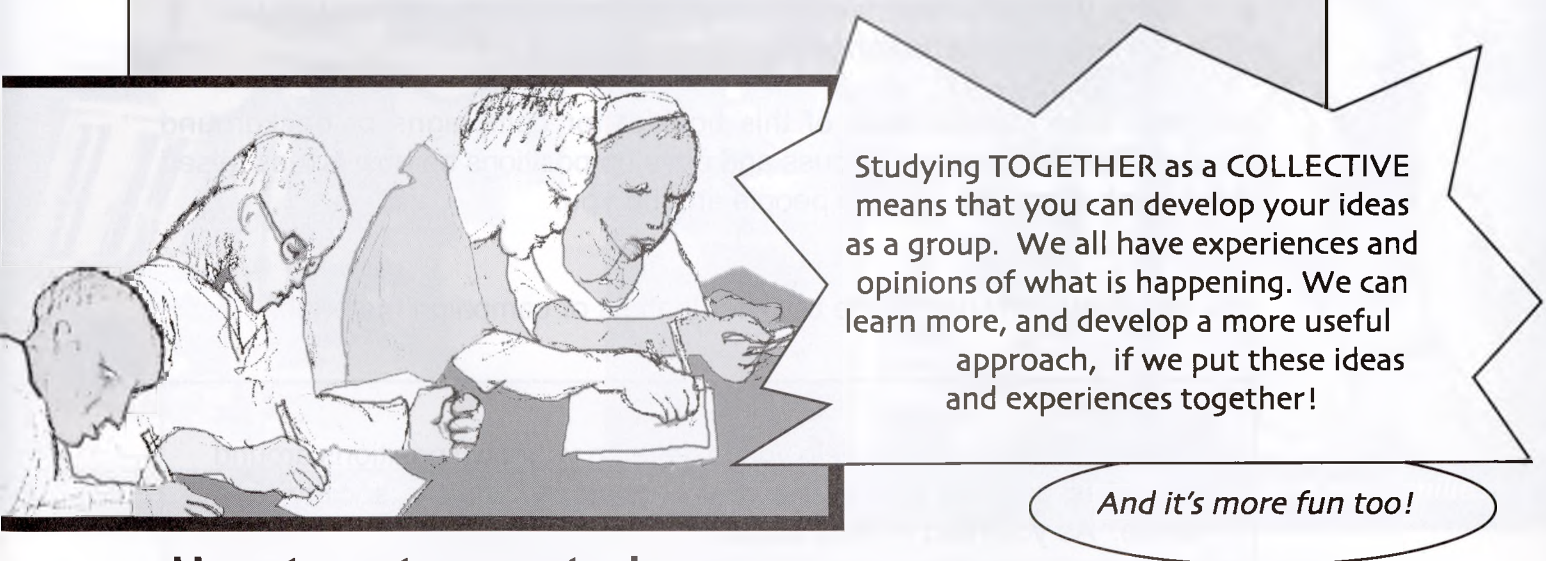
But it is not just for study. It should help you make inputs into the budget process, and lobby and campaign for improvements in the budget.

Studying with this book:

The People's Budget Campaign Handbook was written so that workers and community members can understand government budgets and make demands to ensure that these budgets help build the well-being both of people in our communities and of our society as a whole.

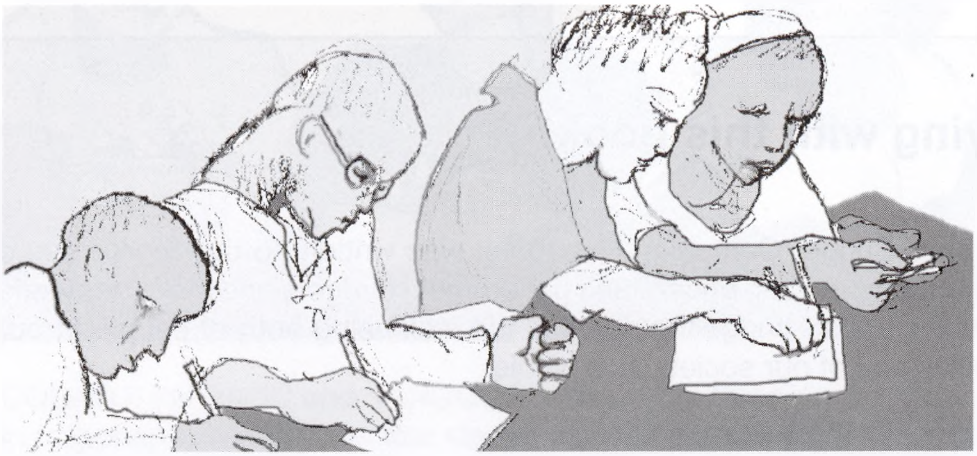
You can use this book:

- **By yourself** – you can study the book on your own, going through each chapter and thinking about the questions. Still, it is useful to discuss the questions and issues with other people.
- **In a church, union, or community group** – you can work through the manual with your friends or comrades. In this way you get the benefit of several minds working together. If your organisation, church, or union is working on a campaign and developing demands around government policies, this booklet may help.
- **As part of a formal study group** – where you have a facilitator or teacher guiding you through a study programme, using this manual for basic information.



How to set up a study group:

To set up a study group, you first have to get together with friends who also want to find out more about the People's Budget Campaign. Or you can work with an organisation (a union, a community or church group you are involved with). Then you have to set up regular meetings – one evening a week, for instance, or some time on the weekends – to discuss issues around the People's Budget. At each meeting, you could discuss part of this booklet and the issues raised about the budget. That way, you can learn from each other and develop a collective point of view.



It may help if someone *facilitates* the discussion. While everyone in the group should read each chapter, the facilitator could agree to study the chapter being discussed in depth.

In preparing to facilitate the discussion, you could:

- Try to work out which arguments and concepts will be most difficult, and think of questions and ideas to make these issues easier to understand
- Find additional material – for instance, from civics, unions, churches or government structures – that would throw light on the discussion in the book
- Think through answers to questions raised in the booklet so that you can help the discussion along.

You may also use sections of this booklet for campaigns or background programmes, to help you discuss and develop positions on how issues raised in the book affect you and the people around you.

You can photocopy part of the book for leaflets or campaign material.

Material in this book can help you to develop your own positions around budget issues that affect you, your community, and the society as a whole. As you read it, think about:

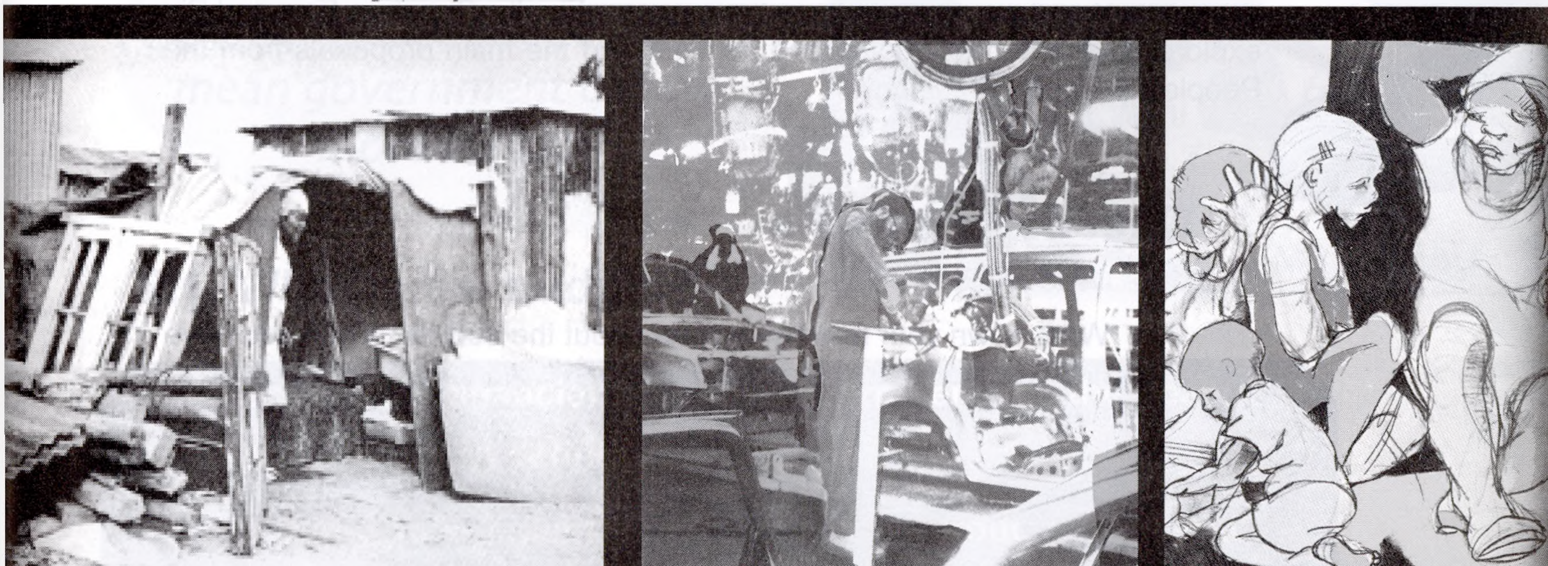
- Do the points and issues raised in this book affect you personally, your community or society as a whole?
- What would you add from your own experience?

DEFINITION: Government's budget is its financial plan for a year. It says

- *how government* **PLANS TO GET FUNDS** ***during the year, from taxes, borrowing and fees, and***
- *how government* **EXPECTS TO SPEND THE MONEY** ***on different programmes, like health, education, police and welfare.***

1.2 Ways to Study the Budget

Most studies of the budget are carried out by economists who work for business and newspapers that support business. They are mostly interested in how government spending affects big companies and people with high incomes.



how does the budget affect how we live? how does it affect our work? how does it affect our families?

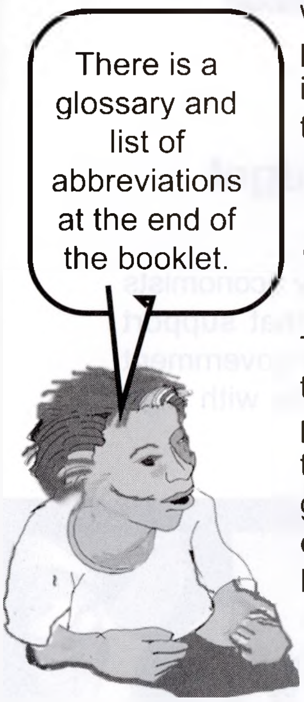
In contrast, the People's Budget analyses how government budgets affect the majority of our people, who are poor, working and unemployed, in rural and urban areas. This means we have to think differently about the budget.

1. ***We need to ask if government budgets will help poor and working people.***
   - Is government spending money mostly on services for the poor or for the rich?
   - Is it concentrating on meeting real needs, or on programmes that are not so important for most of our people?
   - Are taxes higher for the rich or for the poor?

- Is the fiscal policy, which says how much government will spend overall, letting us spend enough on key programmes for poor people?

2. We need to think about how we can influence the budget process to ensure that it reflects the needs of our communities.

That means identifying who in government has power over the budget, and at what times during the year we can make inputs. We discuss this question of power in Chapter Four on the budget process. When we understand how to intervene, we must find ways to work with our organisations and communities to campaign effectively to make the budget meet our needs.

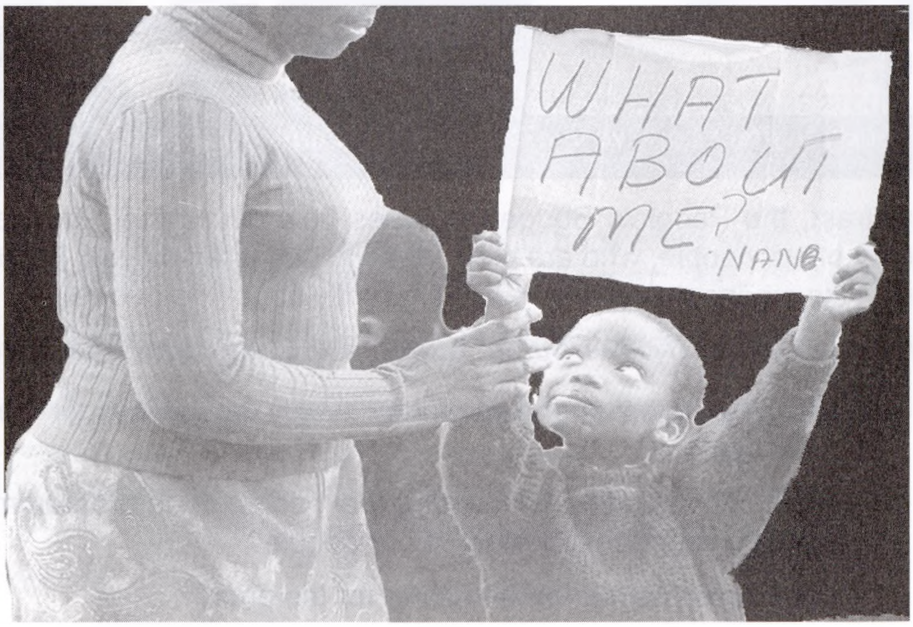


1.3 Overview

The next chapter in this book explains why the budget is important and describes trends in the budget since 1990. Chapter Three looks at debates about fiscal policy – that is, the government's overall policy on how much to spend and how to raise funds. Chapter Four looks at how budgets are drawn up by the government and ways to influence the process. Finally, Chapters Five and Six explore government spending and taxation and the main proposals from the People's Budget Campaign.

Questions/Actions

1. Who could you study this book with?
2. Write down your main questions about the budget. When you have finished the book, see if you have answered them. If you haven't, how can you find the answers?



Chapter 2.
Why study the budget?

To understand why we should study the budget, we first look more closely at what the budget is.

Above all, the budget is government's plan for how it will use its resources during the year. That means it presents government's priorities.

If we feel government is not meeting our expectations, one reason may be that it is not using its resources to provide the goods and services we need and expect.

If that is true, then changing the budget may mean government can do more for us.

2.1 What is the budget?

The budget is a financial plan for government for the year starting in March. It defines:

1. **how government will raise money, through taxes and borrowing, and**
2. **how it will spend the money it gets, dividing the funds between each major programme of government.**

Because the budget starts in March and runs to the following year, we say government's "financial year" starts in March. For this reason, the budget falls between two calendar years. We call the budget starting in March 2002 the 2002/3 budget, and the one that starts in March 2003 the 2003/4 budget, and so on.

As part of the federal system established by the Constitution, the national government has to have a budget, and so does each province. In addition, each local government has a budget.

The Medium Term Expenditure Framework (MTEF)

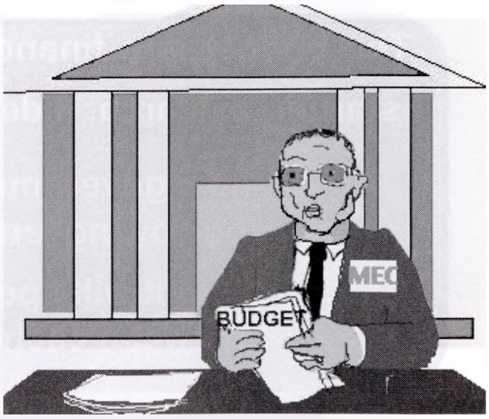
In addition to the annual budget, the national and provincial governments develop a ***Medium-Term Expenditure Framework (MTEF).*** The MTEF is a plan for government spending over the next three years. It does not have as much detail as the annual budget. The national government publishes the MTEF in the ***Medium-Term Budget Policy Statement, or MTBPS***, around October every year.

The MTEF is a rolling plan. That means that, every year, government revises and extends the MTEF for a further third year. So in the MTEF published in October 2002, government changed some of the proposals it had published in October 2001, and added figures for 2005/6.

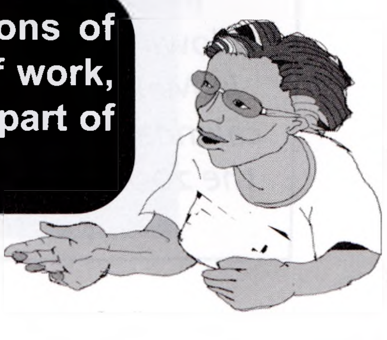
2.2 What does the budget do?

According to the Constitution, the budget is supposed to ensure that ***government departments account to parliament for the money they spend***. They cannot just spend the money of the democratic government without parliament's approval.

But the budget is still just a plan for the future. Because government needs cannot be predicted completely accurately a year ahead, government may not use its money or raise funds exactly the way the budget expects. If government makes big changes, however, it must come back to parliament for approval, even if it is after the fact. To do this, it brings an "adjustment budget" to parliament in order to amend the main budget.



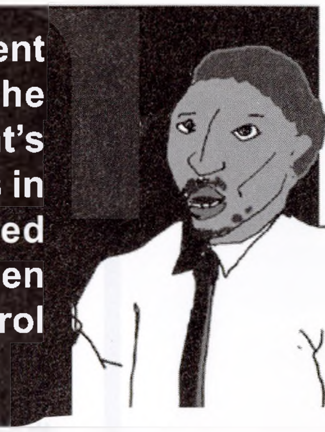
DEFINITION: Government departments are the divisions of government that are responsible for particular areas of work, like health or education. Each department has its own part of the budget, called a "vote."



The budget has six key functions.

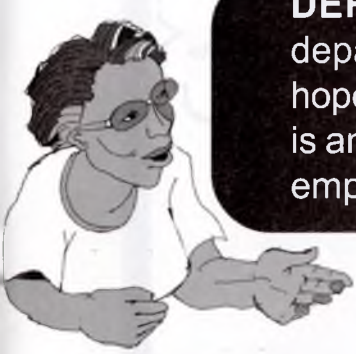
1. **In theory, the budget lets parliament control spending by the Executive.** As discussed in Chapter Four, however, restrictions now make it impossible for parliament to change the budget. It is unconstitutional for the Executive to spend money very differently from the budget without submitting amendments to parliament. If a department spends more than the budget permits for no good reason, the officials in charge may be disciplined.

DEFINITION: The Executive is the bureaucracy of government – the departments. It is headed by the Cabinet under the President. The Executive is supposed to carry out parliament's decisions, including on the budget, so that government acts in the interests of the people as expressed by their elected representatives. One of the questions we need to ask when analysing the budget is whether it really lets parliament control the Executive on behalf of the voters.



2. As a planning process, the budget makes government **define its priority aims and how to achieve those aims**. The process of drawing up the budget should make government evaluate what it wants to do, and how it can best use its resources to that end.

3. The budget **sets targets** for government departments during the year. Traditionally, targets are set for how much government will get in taxes and borrowing and how much each department will spend on major programmes. More recently, government has been trying to include targets for what its programmes should achieve, for instance in terms of the number of learners in school or the number of clinics. It calls these targets the "outputs" it expects from its programmes.



DEFINITION: Outputs means the goods and services that a department produces; **outcomes** are the broader social effects it hopes to achieve. Thus, the number of learners graduating with matric is an **output**. Higher educational levels, more productivity and rising employment are possible **outcomes** of having more matric passes.

4. The budget **communicates to the public** what the government plans to do in the course of the year. That should help improve people's understanding of government plans and priorities.

5. The budget **guides the provision of resources** by the finance departments at national, provincial and local level. The finance department in national and provincial government is called the Treasury.

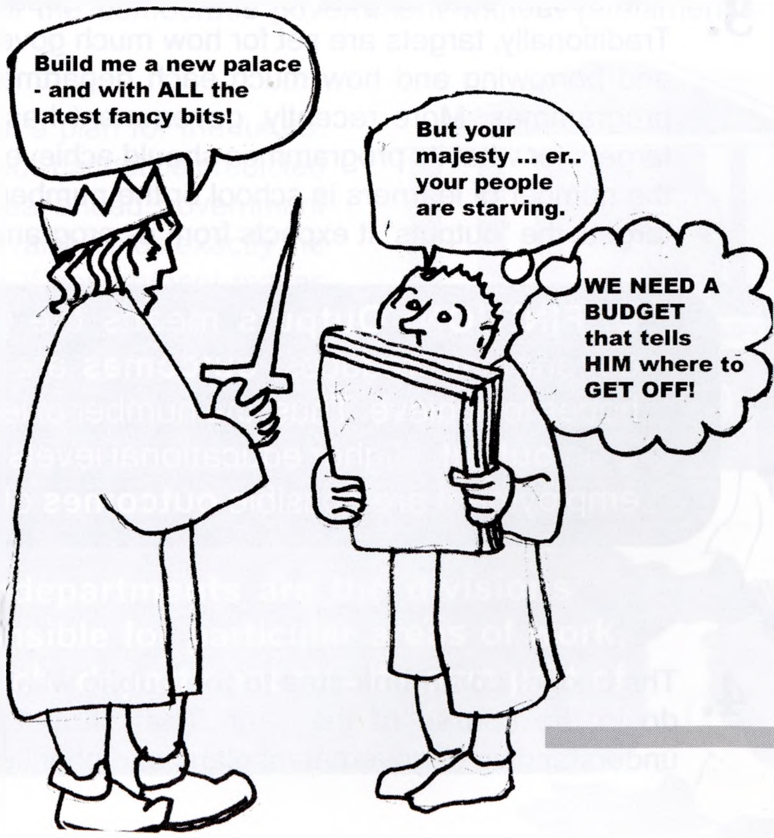
6. We can also use the budget as a way to **analyse trends in government spending.** That means it can help us assess whether government is meeting the needs of the people as far as possible.

Budgets started out as a control mechanism

Budgets evolved in Europe in the 17th to 18th Century, as part of the struggle to ensure parliamentary control over the government, which had been controlled by kings. The king could only spend money with the approval of Parliament. In very autocratic countries, like Tsarist Russia, budgets were introduced only as late as the early 20th century.

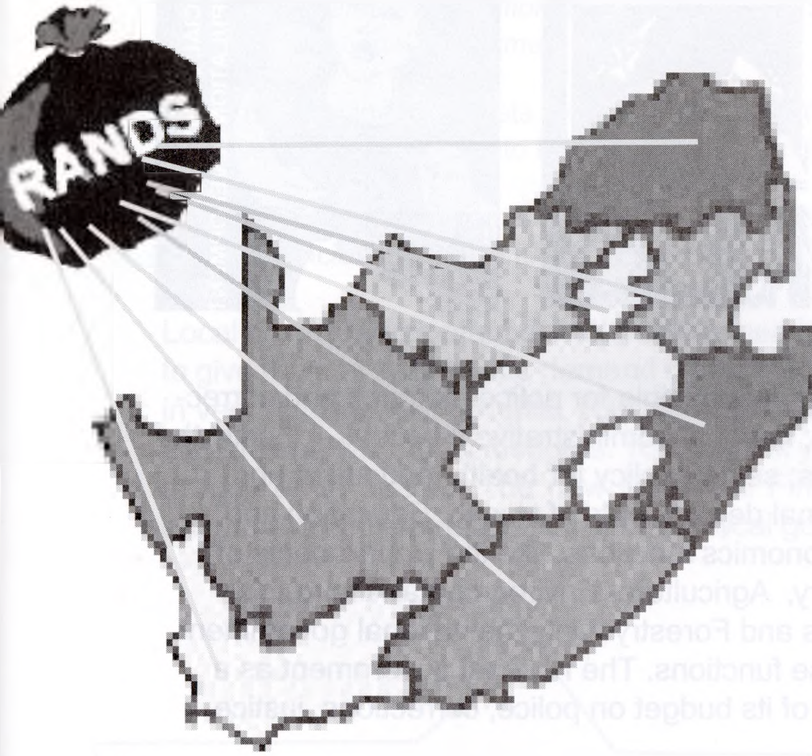
Big landowners and businessmen controlled European parliaments until the 20th Century. They forced the kings to agree to spend money only when their parliament agreed. If the king wanted to spend the money very differently from that plan, he would need to go back to get parliament's approval of the change.

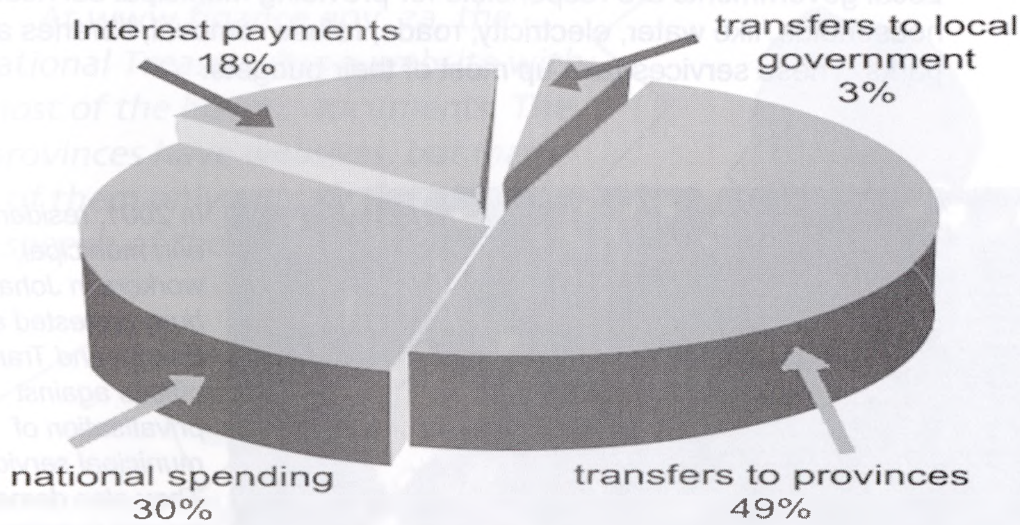
This system has evolved as parliaments became more representative and elected Executives replaced kings in running government. Still, even today in South Africa, if the Executive wants to move funds between departments' programmes, it has to ask parliamentary approval.



2.3 Different kinds of budgets

The national, provincial and local governments all have their own budgets. Every year, the national government gives about half of its income from taxes and borrowing to the provincial governments, a bit less to the national departments, and about 3% to local government. Local governments raise most of their money from rates and fees for services.

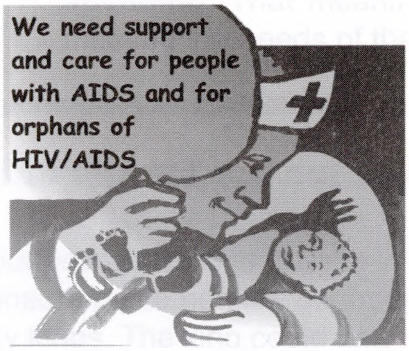




Division of National Government Expenditure, 2002

The Constitution gives responsibility for different functions to different spheres of government. They can budget for these functions only.

- The provinces are responsible for education, health and welfare, public works and some administrative functions. They spend about four fifths of their budgets on education, health and welfare.



- The national government is responsible for police, defence and corrections (the prisons service); national administrative functions – mostly the Treasury and Home Affairs; setting policy for health, education and welfare, through the national departments of Health, Education and Welfare; and the main economics functions, like the Departments of Labour, Trade and Industry, Agriculture, Environmental Affairs and Tourism, and Water Affairs and Forestry. Only the national government can spend money on these functions. The national government as a whole spends about 45% of its budget on police, corrections, justice, intelligence and defence.
- Local governments are responsible for providing municipal services to households, like water, electricity, roads, refuse removal, libraries and parks. These services take up most of their budgets.

In 2001, residents and municipal workers in Johannesburg protested at Eskom and Transnet offices against privatisation of municipal services. They also demanded an end to water and electricity cut-offs, scrapping municipal arears, and an end to housing evictions.

All of these fall under the municipal budget.

Information about national and provincial spending and the MTEF is published in four main documents:

- *The Budget Review*, in which the government explains its policies and how they inform the budget each year. The *Budget Review* gives a lot of statistical information on the budget and the MTEF. This is the best source for information on government spending by function.

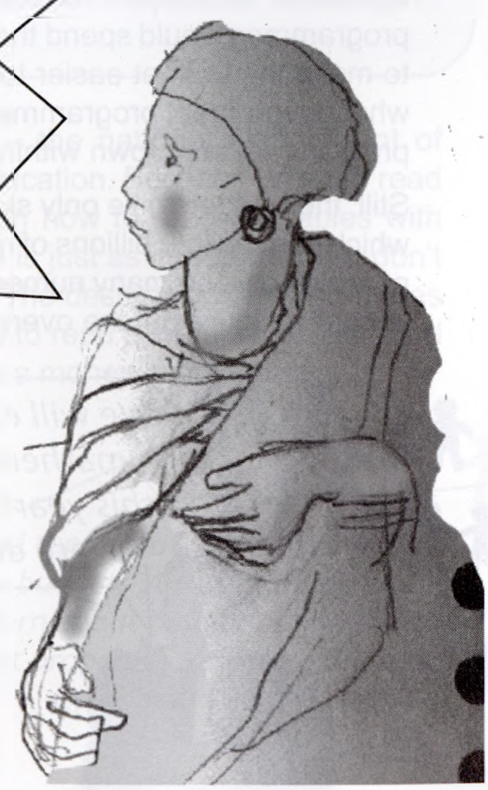
- *The Estimates of National Expenditure*, which gives the detailed budget for each national department every year.

- The provincial budgets, which are tabled in the provincial parliaments every year. It is often hard to find copies of provincial budgets.

- *The Intergovernmental Fiscal Review*, which gives information on all the provincial budgets. It is supposed to appear every year.

Local governments often do not publish their budgets widely, but they do have to give them to people who demand them. Still, many publish their budgets only in very hard-to-read formats. This makes it harder for the public to understand and engage with these budgets. You can ask your local government council for a copy of its budget. The new Municipal Finance Management Bill aims to ensure more systematic and readable local government budgets.

At www.finance.gov. za, the National Treasury has a website with most of the budget documents. The provinces have websites, but many of them only publish the budget speech of their MEC for Finance.



DEFINITION: Fiscal policy is government's policy on how much money to raise for the budget through taxes and borrowing.

2.4 Reading budgets

We analyse budgets to figure out different things.

1. ***Whether government is using its resources to take forward our priorities.*** Does most of the money allocated go to the programmes we think are important, or does it go to things we think are not so critical? Are the budgets for important programmes growing fast enough?

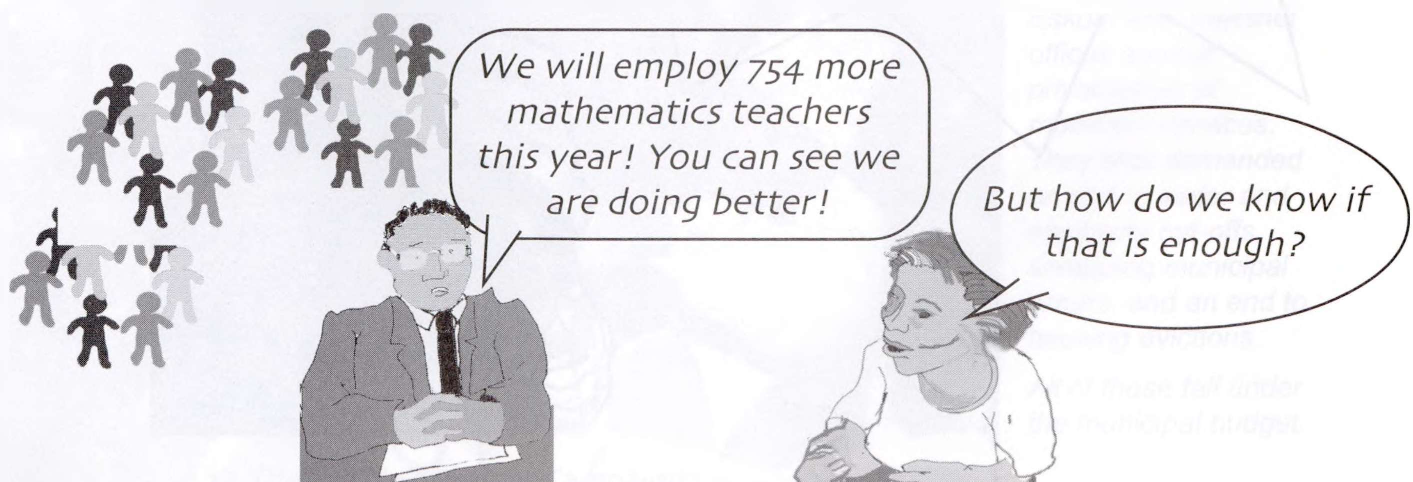
   Overall, the budget is important because it helps government plan how to use its money to ensure that its priority programmes – like schools, hospitals and police - have enough resources. Where government policies have failed, it may be because they do not have enough resources. That could be because fiscal policy did not permit enough money, or because government allocated resources to other programmes that it thought were more important.

2. ***Analysing the budget can help us decide whether government programmes, as described and funded in the budget, need improvements.*** Studying a budget can give us a better idea of how programmes are supposed to work.

3. ***Reading budgets can also tell us whether departments or provinces are actually spending the money in accordance with the budget.*** Usually, to do this you have to find the figures for actual spending. Often, however, the budget document does not include both actual figures and budgets for a particular year.

Before 1994, it was very hard to read the budget. The government printed the figures for allocations for programmes, but not much information on how the programmes would spend the money. Since 1994, the government has worked to make the budget easier to understand. It has added a lot of information on what government programmes are trying to achieve. It also analyses how each programme has grown within the budget as a whole.

Still, the budgets give only sketchy information about the programmes funded, which can run into billions of rand, and so they can be confusing. Some budgets now also give so many numerical targets, like figures for maths teachers, that it is hard to figure out the overall strategy.



Some things in budgets may confuse us

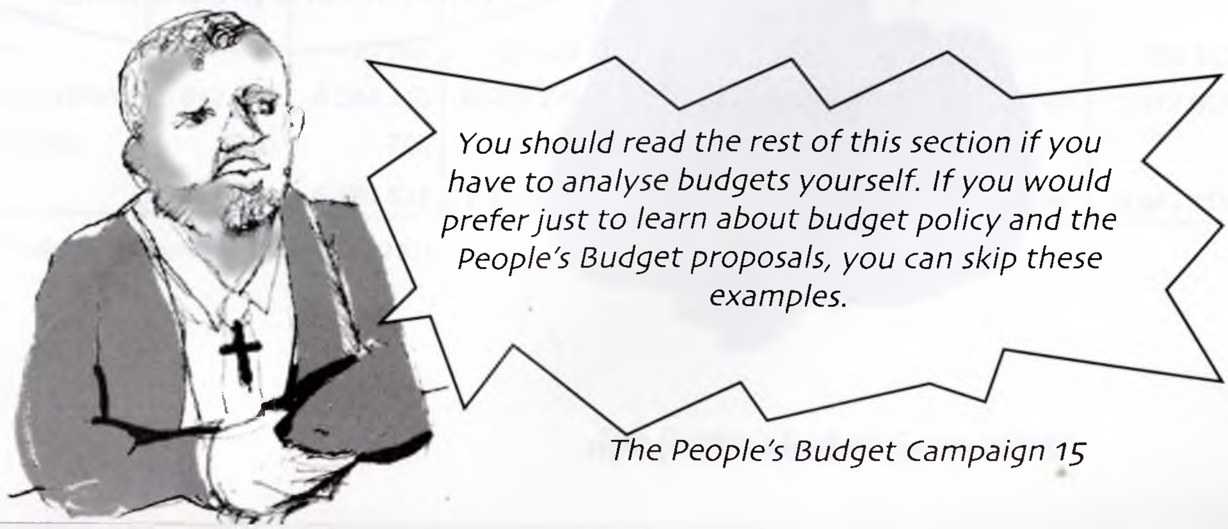
The published budget does not indicate how budgets have changed in real terms (that is, taking inflation into account), or how much is spent “per person” (that is, on average for each person).

DEFINITION: The nominal value of the budget is the amount allocated in rand every year. But because of inflation – the increase in prices every year - the amount the department can buy for each rand goes down every year. Unless the budget rises *more* than inflation, the department will be able to buy less than in the year before, even if the “nominal” amount on the budget goes up. In 2002/3, for instance, if the budget did not rise by at least 6,8% - the rate of inflation - the department could actually buy less, and provide LESS services, than it had in 2001/2002. We call the increase after inflation the real increase, because it shows how much more goods and services the department can actually buy.

Population growth means that every year, the government has to serve more people. Even if the budget grows, spending per person may fall. Sometimes people call the amount of spending provided for each person “spending per capita,” which means “per head” in Latin.

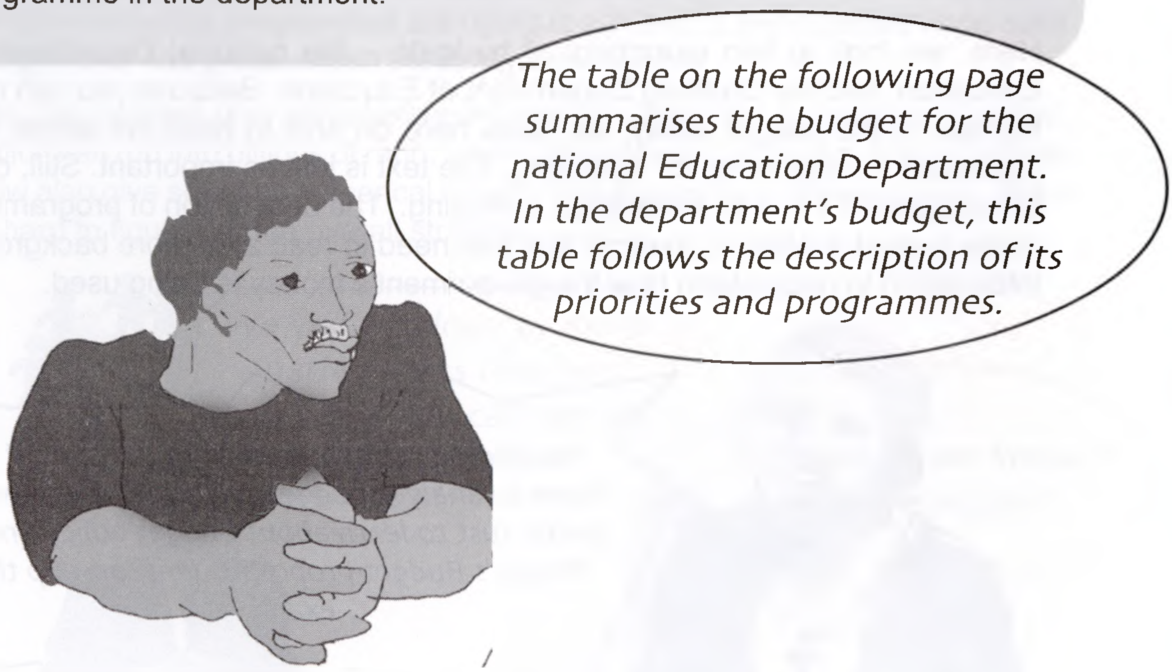
The Census estimates that the population is growing about 2,3% a year. Different government services serve different parts of the population, so they may find that the need for their services grows faster or slower than the population as a whole. For instance, old-age pensions only serve old people; schools only serve learners. Still, the overall population growth rate is a good indication of how spending is developing.

Here, we look at two examples of budgets – the national Department of Education, and the Gauteng Department of Education. Because you can read the text in the budget easily, we focus here on how to read the tables with figures on the departments’ spending. The text is just as important. Still, don’t be surprised if it is also sometimes confusing. The description of programmes in the budget is often so sketchy that you need to read a lot more background information to understand how the government’s money is being used.



Example 1: The budget for the national Department of Education.

The budget for the national Department of Education looks like the other budget "votes" for a national department. It starts with a table showing the total amount the department can spend in the financial year, and which minister and department are responsible. Then it summarises the priorities set by the department. After that, it analyses expenditure trends, but it does not look at the effects of inflation. That means it exaggerates the growth rate of its programmes. After that, it gives figures on the budget for the past three years, the current year, and the MTEF period. Finally, it provides more detail on each programme in the department.



National Department of Education: Budget for 2001/2, thousands of Rand

1	2	3	4	5	6	7	8
	Audited	*Audited*	*Preliminary audited*	*Revised estimates*	*Medium-Term Expenditure estimates*		
	1997/98	*1998/99*	*1999/00*	*2000/01*	*2001/02*	*2002/03*	*2003/04*
Programmes							
Administration	37 756	40 089	45 217	47 635	50 204	56 464	60 953
Planning and monitoring	6 149	9 318	8 616	12 939	64 426	51 709	82 571
General education	22 762	13 914	13 691	62 315	174 857	159 239	204 058
Further education	39 987	17 315	65 591	75 088	86 234	90 473	95 684
Higher education	5 439 540	6 055 005	6 619 641	7 113 122	7 549 375	7 909 932	8 298 727
Auxiliary and associated services	428 667	333 894	358 846	324 295	283 765	288 221	301 126
Total	**5 974 861**	**6 469 535**	**7 111 602**	**7 635 394**	**8 208 861**	**8 556 038**	**9 043 119**
Economic classification							
Current	**5 370 766**	**6 212 855**	**6 871 495**	**7 415 218**	**7 966 907**	**8 335 733**	**8 808 735**
Personnel	44 643	54 974	91 540	104 104	128 880	138 680	146 804
Transfer payments	5 243 054	6 090 921	6 685 340	7 159 000	7 649 125	7 989 353	8 433 942
Other current	83 069	66 960	94 615	152 114	188 902	207 700	227 989
Capital	**604 095**	**256 680**	**240 107**	**220 176**	**241 954**	**220 305**	**234 384**
Transfer payments	599 913	253 389	236 660	217 088	200 905	189 437	178 666
Acquisition of capital assets	4 182	3 291	3 447	3 088	41 049	30 868	55 718
Total	**5 974 861**	**6 469 535**	**7 111 602**	**7 635 394**	**8 208 861**	**8 556 038**	**9 043 119**
Standard items of expenditure							
Personnel	44 643	54 974	91 540	104 104	128 880	138 680	146 804
Administrative	29 698	27 727	36 217	46 340	64 361	70 999	78 670
Inventories	12 149	14 443	15 228	9 019	14 785	14 235	16 340
Equipment	7 082	7 227	7 895	10 303	18 081	21 857	29 415
Land and buildings	-	-	-	-	-	-	-
Professional and special services	37 692	20 064	37 628	88 083	132 724	131 477	159 282
Transfer payments	5 842 967	6 344 310	6 922 000	7 376 088	7 850 030	8 178 790	8 612 608
Miscellaneous	630	790	1 094	1 457	-	-	-
Total	**5 974 861**	**6 469 535**	**7 111 602**	**7 635 394**	**8 208 861**	**8 556 038**	**9 043 119**

Source: National Estimates of Expenditure 2001

Basic Budget Literacy: How to read this kind of chart

ROWS read across the columns

COLUMNS read down the rows

row a	column 1	column 2	column 3	column 4	column 5	column 6
row b						
row c						

What do these budget figures tell us about the National Department of Education's plans and activities?

First, like almost all national and provincial budget figures, this table is in thousands of rands. (Another way budgets show this is by writing "000s" at the top of the columns.) That means that all the figures should be multiplied by R1000.

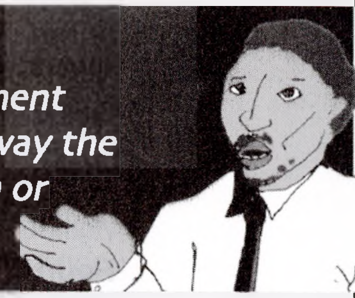
Second, the **first column** lists different types of spending done by the department. Thus, in the first column, the first row reads "Administration." It gives the cost of the core administration of the department. The rest of the row gives the budget for this purpose over the years from 1997/8 to 2003/4. The first three columns of figures (columns 2,3 and 4) give **audited** spending for

column 1 column 2 column 3 column 4 .....and so on

		1997/8	*1998/9*	*1099/2000*	*2000/1*
row a	*Administration*				
row b	*Planning & Monitoring*				
row c	*General Education*				

each year from 1997/8 to 1999/2000. The fifth column gives expenditure figures for 2000/1 that are not yet audited. Column 6 gives the figures for the budget for 2001/2. The last two columns for this chart are MTEF projections for 2002/3 and 2003/4.

DEFINITION: "Audited" figures mean that the government auditor has checked that the money was really spent the way the department says it was, and that none of it was stolen or misused.



The headings show how reliable the figures are, depending on whether they were fully audited or not.

- Audited – **reviewed by the government auditor.**
- Preliminary audited – **audited by the department's internal audit, but not yet by the government auditor.**
- Revised estimate – **the budget was revised to take into account the adjustment budget.**
- Medium-term expenditure estimates – **estimates from the MTEF, which may still change a lot.**

1	2	3	4	5	6	7	8
	Audited	*Audited*	*Preliminary audited*	*Revised estimates*	*Medium-term expenditure estimates*		
	1997/98	*1998/99*	*1999/00*	*2000/01*	*2001/02*	*2002/03*	*2003/04*
Programmes							

In other words, in this budget:

- The figures up to 2000/1 are **actual figures showing what government has already spent.** The first two years (1997/8 and 1998/9) are **audited**, while the figures for the third year (1999/2000) have not yet been finally audited.
- The figures for the following years are **plans** - that is, they show how government expects to spend the money. Only the figures for 2001/2 are fixed as part of the annual budget. The other figures are likely to be changed in the next year's MTEF. Thus, although the figures for 2002/3 and 2003/4 look precise, they are only projections, which may still change significantly.

Third, all the figures given in government budgets are in **nominal amounts.** A "nominal amount" looks only at the amount of money for the year, and does not take inflation into account.

The nominal figures in the budget tend to exaggerate the growth in programmes spending. The box on page 21 talks about how to work out the nominal and real growth in the budget.

Fourth, the table on page 17 describes spending by the department in three ways. In each case, the figures for total spending are the same; but in each case, as the box below describes, the department's spending is allocated between different categories - for instance, personnel under economic categories, and administration under programmes.

Categories of spending in the budget

1. **The first block of figures, headed "Programmes,"** breaks down the budget in terms of the main programmes of the budget. It tells us how the department has spent and plans to spend its funds according to its own organisational structures.

2. **The second block of figures, headed "Economic classification,"** breaks the budget down according to the type of goods or services that the department is buying. The budget distinguishes two economic categories – current and capital spending. "Current" spending buys goods and services that will be used up during the year. It includes salaries. "Capital" spending buys goods and services – mostly equipment and buildings - that will be available for more than a year.

   For both current and capital spending, "transfers" mean money that is given to another agency to use. In the case of the national Department of Education, this is a very big item, since most of its budget is transferred to universities and technikons. In contrast, for the provincial Departments of Education, the biggest cost is salaries, mostly for teachers.

   The *Estimates of National Expenditure*, which publishes the national Department of Education's budget, also has tables showing how each programme in each national department spent its budget according to economic categories.

3. **The final block, headed "Standard Items of Expenditure,"** classifies spending by a different set of economic categories. This gives a more precise definition than the broader "economic categories."

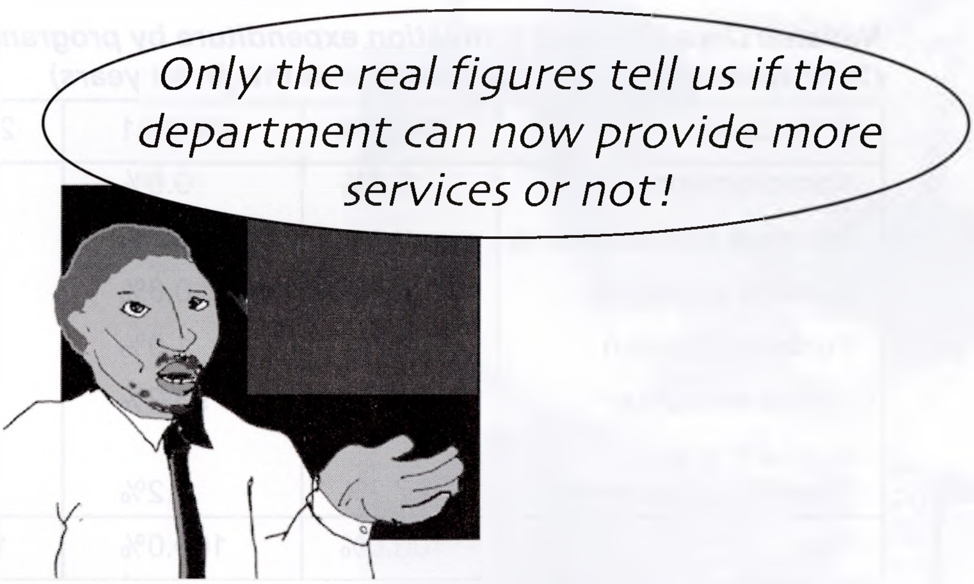
Calculating the growth in the budget

To figure out the real meaning of the change in the budget, you have to see how it has changed in real terms - after inflation - and per person.

1. You first have to find out how much the budget changed **in nominal terms** - including inflation. To do that, you subtract the amount for last year from this year's. For instance, to figure out the nominal change in the national Department of Education budget between 2000/1 and 2001/2, you subtract the figure in column 5 on one of the "total" rows from the figure in column 6 in the same row. The result is 573 467. Because the figures are in thousands, you have to multiply your initial result by 1000, so you know the budget changed by R573 467 000.

2. To find out the **percentage growth** in nominal terms, which is also called the **rate of growth**, you divide the change in the budget by the budget for the first year. In our example, you divide 573 467 by the budget for 2000/1, which is the amount in column 5 - that is, 7 635 394. The result is 0,075. To get a percentage, we multiply by 100, and find that the budget grew 7.5% in nominal terms.

3. What does this mean in **real terms**, taking inflation into account? To figure this out, you subtract the rate of inflation from the nominal rate of growth. Inflation in 2000/1 to 2001/2 was 6%. So in real terms, the budget grew only 1,5%. That means the department could buy about 1,5% more goods and services in 2001/2 than in the previous year.



4. Finally, how is spending by the department doing **per person**? To figure this out, you subtract the rate of growth in the population from the real rate of growth in the budget. For the national Department of Education, the rate of growth in real terms was less than the growth in the population. Because of this, the department is spending less per person, by about one half of a per cent. This is not a big fall for one year, but if this trend continued, it would add up over time. As Chapter 3 shows, between 1996 and 1999, government spending on important services fell by up to 10% per person in real terms.

The fall in spending per person might be justified if the department were serving fewer people. In this case, the number of university students has been dropping, largely because people can't afford to stay in school. Is this a good thing? Should government be spending more on universities and technikons? If it should, where can it get the money from?

Calculating the share of different types of spending

Besides looking at the growth in the budget, we can look at the relative amounts government spends on different programmes and types of goods and services.

To do this, we look at the percentage spent on each programme or input. That means we divide the amount spent on each area or category of spending by the total amount spent, and multiply by 100.

The following table shows the allocation of resources by the department in 1997/8, 2001/2 and 2003/4. This is mostly what the department talks about in its presentation on spending trends in the budget. The table shows that spending on higher education is consistently over 90% of the department's budget. If you make the same calculations for spending by economic category, you will see that transfers use up most of the department's spending. This is because the department's programme for "higher education" mostly involves transferring funds to universities and technikons. Only provincial departments pay for the primary and secondary schools.

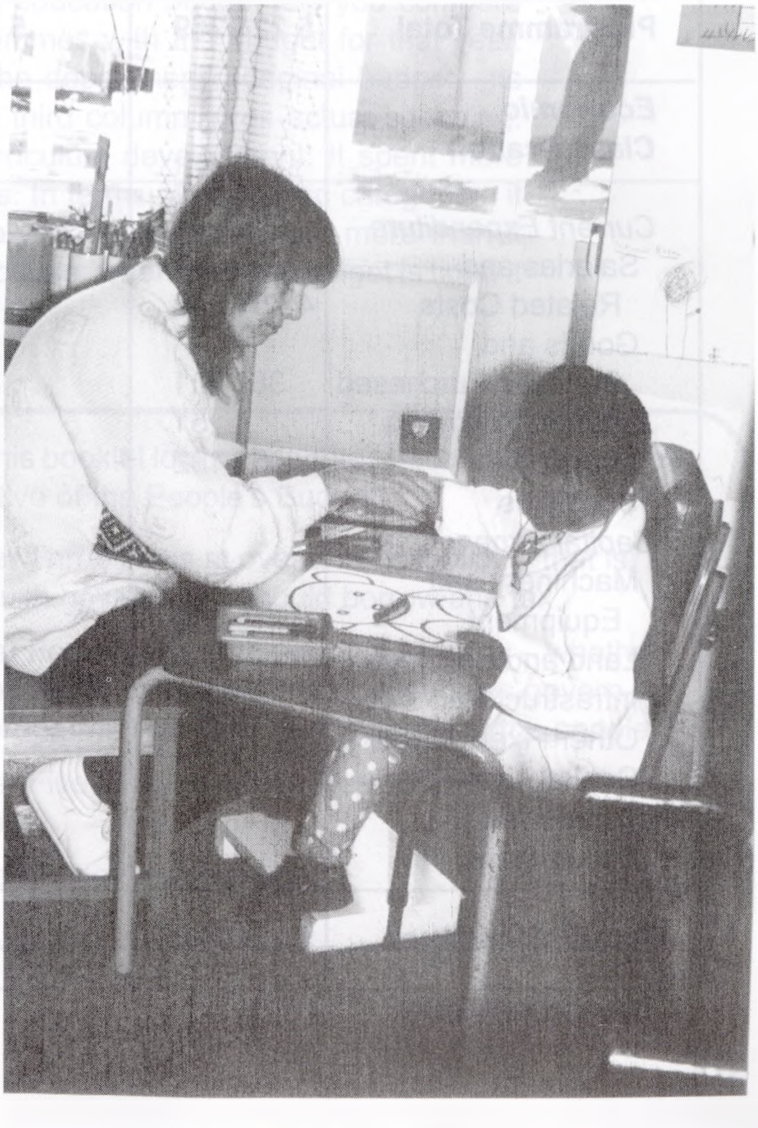
National Department of Education expenditure by programme (% of spending on each programme in the given years)

R thousand	1997/98	2000/01	2003/04
Administration	0.6%	0.6%	0.7%
Planning and monitoring	0.1%	0.2%	0.9%
General education	0.4%	0.8%	2.3%
Further education	0.7%	1.0%	1.1%
Higher education	91.0%	93.2%	91.8%
Auxiliary and associated services	7.2%	4.2%	3.3%
Total	100.0%	100.0%	100.0%

Example 2:
The Gauteng Department of Education

The budget for the Gauteng Department of Education is published in the Gauteng Budget. The Gauteng budget has quite a different format from the national budget. It is also more complex and detailed than most provincial budgets. It tries to link spending closely to specific aims and targets. This approach is supposed to improve accountability. It can, however, be confusing, because the budget does not clearly define priorities amongst the many targets listed.

The Gauteng education budget for 2000/1 lists a number of objectives. For instance, its programme on general education, which absorbs most of the budget, lists 15 objectives. They include providing “education and instruction of pupils in public .. schools,” getting “financial assistance to ordinary .. schools,” and promoting “the development of the subject expertise methodology [and] performance of educator[s].”



The Gauteng Department of Education Budget for General Education

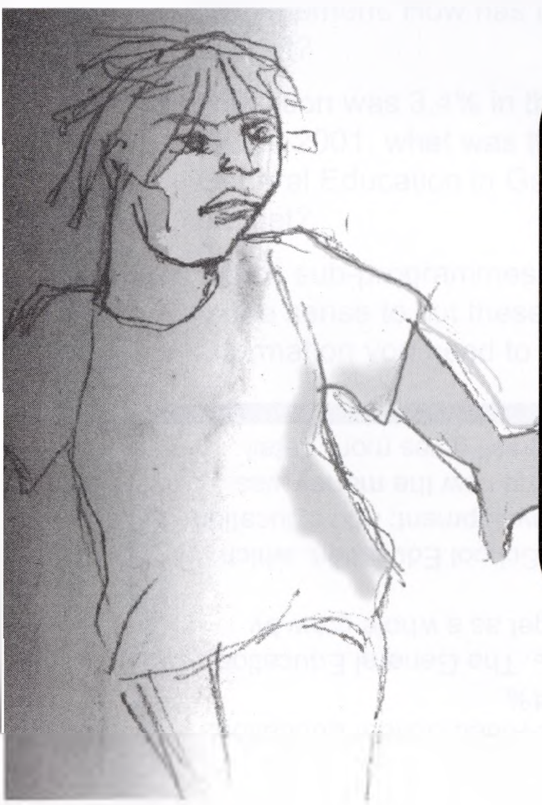
Sub-programme	*1999-2000 Budget R'000*	*1999-2000 Estimated actual spending, R'000*	*2000 -01 Budget R'000*	*% Change in budget R'000*
Public School Education	3 121 574	3 427 212	3 497 260	10.7%
State-aided School Education	1 793 304	1 724 418	1 783 455	-0.6%
Education Advisory Service	--	5 292	5 009	100.0%
Education Auxiliary Service	60 528	61 660	62 584	3.3%
Youth and Culture Affairs	6 228	6 865	7 004	11.1%
Broad Curriculum Development	33 883	25 455	34 831	2.7%
Subject Curriculum Development	3 704	27	15 326	75.8%
Management	205 048	207 898	257 178	20.3%
Programme Total	**5 224 269**	**5 458 827**	**5 662 647**	**7.7%**
Economic Classification				
Current Expenditure				
Salaries and Related Costs	4 758 349	4 921 677	5 068 650	6.1%
Goods and Services Purchased	389 711	458 066	473 255	17.7%
Interest Payments	51	102	8	-562.1%
Transfers	51 132	59 168	71 971	29.0%
Subsidies	-	-	-	-
Capital Expenditure				
Machinery and Equipment	19 612	11 963	23 209	15.5%
Land and Buildings	-	-	18 000	100.0%
Infrastructure	5 415	7 847	-	-
Other Fixed Capital	-	-	-	-
Capital Transfers	-	-	-	-
Unclassified Expenditure	-	-	7 555	100.0%
Total Expenditure	**5 224 270**	**5 458 827**	**5 662 647**	**7.7%**

Source: Gauteng Budget, 2001

Can you figure out the nominal, real and real per-person growth in the budget of the Gauteng Department of Education, using the ideas from the previous example? You can see the Gauteng budget only gives two years. Also:

- The R'000 at the top of each table means that, as in the national budget, the amounts are rounded to the nearest R1000.
- The growth rates given in the final column are only for nominal growth – in real terms, the overall growth is about 3,3%. Since that is higher than the population growth, it means the spending per person is rising.
- The bulk of spending goes for state schools, and private schools that get state funding. You can work out the percentage spent on each of these programmes. This is where you can see the big difference between the national and provincial departments in education: the national department does not spend directly on general education. That is left to the provincial departments.
- Because most of the cost of schooling comes from teachers' salaries, personnel costs make up most of the spending in this programme. What percentage is it? How much is spent on buildings? You can see that the department is trying to set aside more money for buildings this year.

Unlike the national budget, the Gauteng education budget lets you compare actual spending in 1999/2000 by programmes with the budget for that year. The second column in the table gives the department's original budget - its spending plans - for that year, while the third column gives actual spending. The department underspent only on curriculum development. It spent more than it expected on all other programmes. In terms of economic categories, it spent less than it expected on machinery and equipment, but more than it expected on salaries. This is probably because, whenever the budget is tight, it is easiest to cut capital spending.



The rest of this booklet looks at debates about the budget and the perspective of the People's Budget.

- Chapter Three looks at overall fiscal policy – that is, how much government should borrow and tax.
- Chapter Four analyses the budget process – whether the process of developing the budget helps government programmes reflect the demands of the people.
- Chapter Five looks at expenditure on key programmes.
- Chapter Six reviews taxation.

Questions/Actions

1. Do you have a budget for your household? Can you draw one up for the year? The month? How do you decide what to spend on? Does the budget help you make better decisions? Are they realistic?
2. Has your income changed **in real terms** in the past year? How did that affect your spending?
3. Does your employer, union or other organisation have a budget? Analyse it. Does it meet the needs of people in the organisation? How is it drawn up?
4. Get copies of the provincial budget and your local government budget. What has happened to the budget in your province in the past five years? To your local government budget? Analyse spending in real terms by different categories. What has risen or fallen? Do you agree with these trends?

Here are some exercises to practice analysing budget figures. They use the Gauteng Department of Education Budget on page 24.

Sub-programme	*1999-2000 Budget R'000*	*1999-2000 Estimated actual spending, R'000*	*2000 -01 Budget R'000*	*% Change in budget R'000*
Public School Education	3 121 574	3 427 212	3 497 260	10.7%
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Management	205 048	207 898	257 178	20.3%
Programme Total	**5 224 269**	**5 458 827**	**5 662 647**	**7.7%**

Using the table above, calculate:

a. The percentage of the department's total spending that goes for Public School Education, State-Aided School Education (that is, the former Model C schools – but the budget does not give a definition), and Management. How has the percentage changed since the 1999/2000 budget?

b. If inflation was 3,4% in the year to March 2000 and 7,4% in the year to March 2001, what was the real change, more or less, in spending on General Education in Gauteng from the 1999/2000 budget to the 2000/1 budget?

c. Which sub-programmes faced cuts in real terms? Do you think that it made sense to cut these sub-programmes? Does the table give you the information you need to figure out what the funding was actually used for?

ANSWERS

a. Public School Education: 62%, up from 60%; State-Aided School Education: 31%, down from 34%; Management: 5%, up from 4%.

b. Inflation from March 1999 to March 2000 was 3,4%. The General Education budget grew by 7,7% overall. That means the budget as a whole grew by about 4,3% in real terms.

c. The biggest cuts in real terms were in State-Aided School Education, which fell in nominal terms by 0,6%; Broad Curriculum Development; and Education Auxiliary Service. The table does not help understand how the money was used within each programme, although the budget itself gives more detail.

Fight HIV and AIDS with treatment and prevention - an interfaith service on World AIDS Day organised by the Treatment Action Campaign in memory of those who died in the struggle for medical care against the HIV epidemic.

Chapter 3. Fiscal policy

Government has to decide how much money it should raise through taxes and borrowing. This decision, which determines how much government can spend, is called fiscal policy. Here, we first look at changes in government spending, and then at the main debates about fiscal policy.

3.1 The apartheid legacy

Under apartheid, government spending was very unequal. Until 1994, government spent much more on schools and health care for whites. It spent more on roads, electricity, water and policing in white communities than in black ones. By analysing the budget, we can see whether all South Africans now have more equal access to government services, and whether the apartheid backlog is being overcome.

As a result of apartheid, South Africa had much worse government services and infrastructure than other middle-income developing countries. The backlogs appeared in various ways. For instance,

- In 1996, 60% of schools had no electricity, 40% had no running water, and 59% had no telephone. Even in 2000, 47% of schools lacked electricity, 34% had no running water, and 34% had no phones.
- In 1999, the average South African could expect to live 54 years, compared to 69 years for people in countries at a similar level of development.

- In 1998, of every thousand children under age five, four times as many African children as white children died. As a result, overall in South Africa 54 children per 1000 died before age five, compared to 32 per 1000 in other middle-income developing countries.

Addressing these backlogs proved particularly difficult because total government spending declined between 1996 and 1999, and rose only slightly thereafter.

The legacy of apartheid in the provinces

Big inequalities remain between the provinces. Under apartheid, the budgets for the "homelands" were very low compared to those of the white areas. Before 1994, in contrast, areas with a relatively large white and Coloured population, like the Cape and the Gauteng area, had much bigger budgets.

Since 1994, the government has been trying to ensure that funding between provinces does more to bring about equality. That means there should ultimately be a higher budget per person in the poorest provinces, like the Eastern Cape and the Northern Province, because they have bigger needs.

The following table shows differences in income and government services by province. It shows that in 1999, almost two thirds of people in the Northern Province lived in poverty, compared to a fifth in the Western Cape and a quarter in Gauteng. The monthly spending by households was under R2000 in the Northern Province, Eastern Cape and Free State, but over R4000 in Gauteng. The table also shows that people in the poorer provinces were much less likely to have basic electricity, water and sanitation, with the Eastern Cape by far the worst off.

Government services and poverty by province

Province	*% of people in 1996 without basic:*			*% of people in poverty, 1999*	*Average monthly household expenditure 1996*	*Average yearly income per person, 2001*
	electricity	*water*	*sanitation*			
Northern Province	63%	25%	22%	64%	R1860	R7 600
Eastern Cape	68%	47%	36%	63%	R1700	R8 800
Mpumalanga	43%	18%	13%	54%	R2390	R10 300
KwaZulu-Natal	46%	34%	17%	53%	R2580	R11 100
North West	56%	19%	13%	53%	R2140	R9 400
Free State	43%	6%	30%	48%	R1820	R10 900
Northern Cape	29%	9%	29%	40%	R2400	R12 800
Gauteng	20%	4%	6%	28%	R4270	R23 600
Western Cape	15%	3%	10%	19%	R3820	R21 600
Total South Africa	42%	20%	18%	47%	n.a.	R13 500

Source: National Treasury, *Intergovernmental Fiscal Review 2001*, Annexure E.

The rest of this chapter will look at how total national and provincial government spending changed after 1994. The next chapter will explore the debates about why these changes happened.

As the table opposite shows, between 1997 and 1999 national and provincial government spending rose in nominal terms – but it dropped in real terms. It fell even more per person.

This trend began to change in 2000/1. In that year, the budget stabilised, and in 2001/2 it grew around 3% in real terms. MTBPS projections for spending suggest rapid growth in 2002/3, but a slowdown in 2003/4 and 2004/5. That means that **in 2004/5, real spending per person will still be about the same as in 1997.** Of course, the MTBPS projections do not reflect actual spending or even annual budgets, and may change substantially.

Chapter Five looks at the impact of these trends on spending by different types of government service.

Total government spending in real terms per person, 1997/8 budget compared to 2004/5 MTBPS projections

Spending in nominal rand	
1997/8	R 165,6 bns
1999/2000	R 178,4 bns
2001/2	R 224,8 bns
2004/5	R 280,4 bns
Change in Real spending	
1997-1999	-5%
1999-2001	13%
2001-2004	8%
1997-2004	16%
Change in Real spending per person	
1997-1999	-9%
1999-2001	8%
2001-2004	1%
1997-2004	-1%

1. Calculated using CPI for 1997 to 2001, and MTBPS projections for CPI for 2002 to 2004.

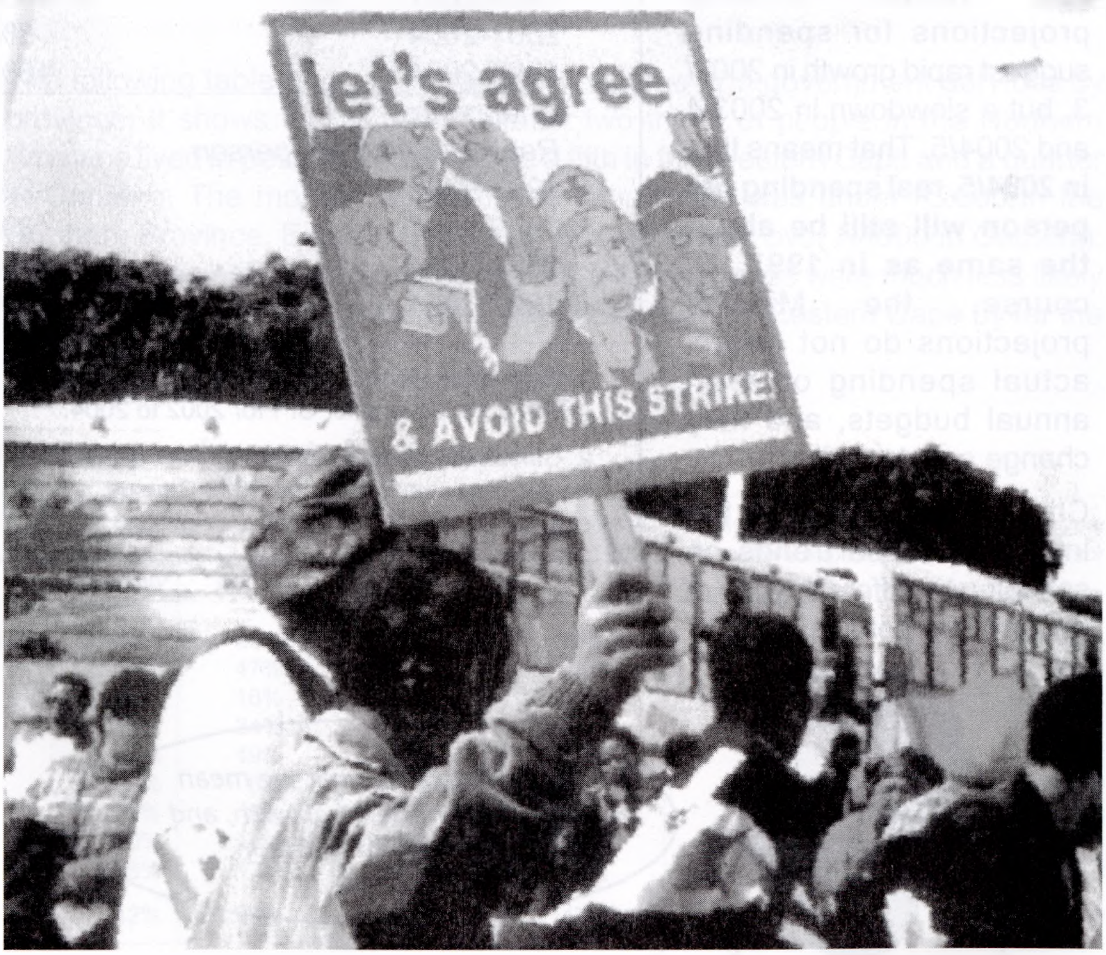
2. Calculated using population growth at 2,3% a year, as estimated by the 1996 Census.

Page 15 explains what we mean by real and nominal growth, and by spending per person.

The cuts in the budget between 1996 and 1999 made equalising budgets between provinces very difficult. As a whole, provincial budgets remained virtually unchanged in real terms. That means they declined per person. In the coming years, however, they are supposed to grow in real terms by 4% a year.

3.2 Spending on personnel and investment

In terms of economic categories (which are described on page 17), the government has a policy of cutting spending on personnel while increasing its spending on investment. The budget defines as investment any spending on equipment, infrastructure or buildings that will last for more than a year.



Public service unions joined together in 1999 to protest wage increases that would not keep up with inflation and steps to cut the number of people in government services.

Until 1998/9, spending on personnel increased while spending on investment declined. The biggest rise was between 1994 and 1996. In these two years, personnel spending climbed from under a third of the budget to around 39%. This was largely because of the inclusion of African workers in benefit schemes – especially the pension and medical funds – and the introduction of a less discriminatory salary system.

After 1998/9, the share of spending on personnel dropped, reaching 37% in 2001/2. This trend means that, in real terms, spending on personnel remained virtually unchanged in this period. Public servants' salaries stagnated, and the public service lost jobs.

Meanwhile spending on investment grew from 5% to 8% of the budget. Figures from the MTEF suggest that this trend should continue for the coming three years.

But the increase in investment relative to the budget occurred in part because budgets were declining or growing only slowly. As a result, even though government investment rose, it has fallen as a percentage of the GDP. So has investment by state-owned enterprise. That, in turn, was one reason overall investment relative to the GDP has fallen since 1998. Investment as a percentage of GDP was around 15% in the first half of 2001 – far too low to bring about rapid economic development.

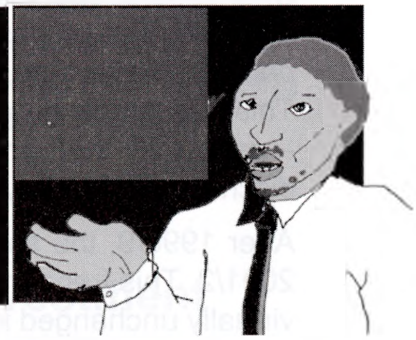
DEFINITION: GDP means Gross Domestic Product, which is the total value of all goods and services produced in the country in one year. That means it measures the value of goods and services available to the country as a whole in that year. In 2000, the GDP was around R850 billion.

3.3 Debates about fiscal policy

The figures in the table on page 31 show that government cut the budget by about 5% in real terms between 1996 and 1999. One of the main debates about the budget is whether these spending cuts could have been avoided or not. The main disagreements are about how borrowing and taxes affect the economy and on the role of the state in developing countries.

People who favour *a small state in a free-market setting* tend to argue for lower taxes and government borrowing. This position is favoured by the International Monetary Fund (IMF) as well as organised business. In contrast to this view, people who support *a strong developmental state* generally argue that it must have enough resources to affect society and the economy.

DEFINITION: Developing countries are countries that, like South Africa, have high levels of poverty. Most former colonies are developing countries.



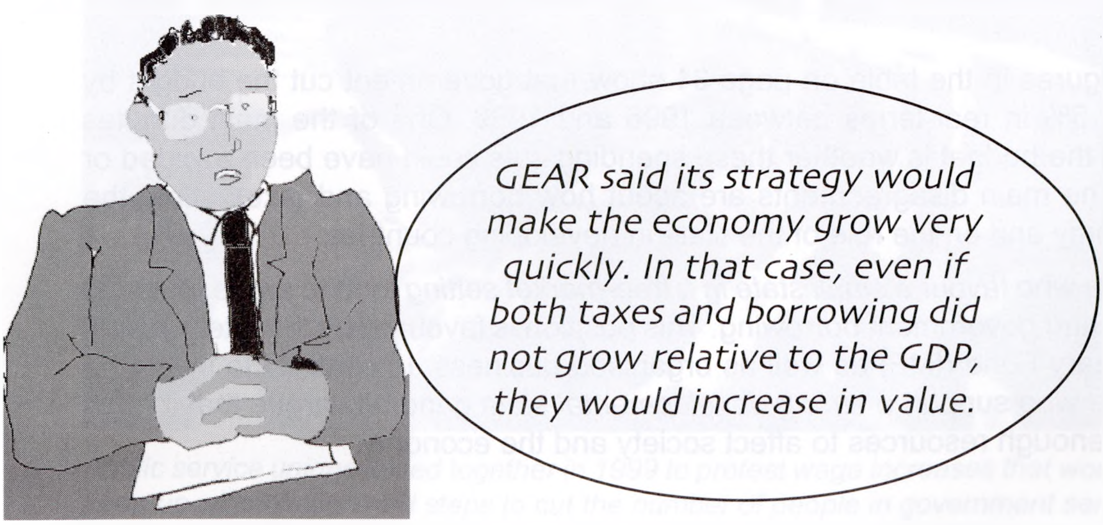
We can illustrate these two points of view by looking at the government's *Growth, Employment and Redistribution* (GEAR) strategy, which was published in 1996, and at the People's Budget.

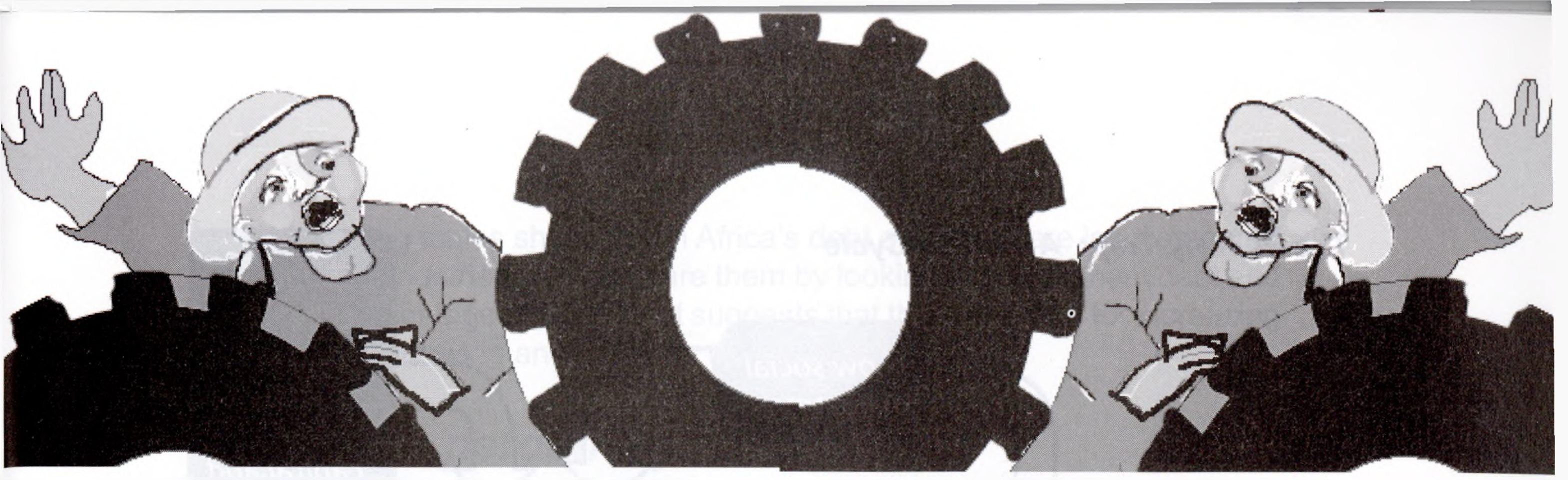
a. GEAR's proposals

GEAR essentially argued that high taxes and borrowing will hurt the economy. It argued that when government taxes the rich and companies, they will have less money to invest. If government borrows money, it will reduce the amount available for the private sector to borrow. The result will be higher interest rates. In both cases, investment will fall. This is called the "crowding out" argument – that government spending will "crowd out" private investment.

GEAR also argued that government already spent too much on interest payments on earlier borrowing. It said that government had to cut the deficit so that it could, in future, pay less interest and have more money left for services.

GEAR argued that to avoid "crowding out," government must restrain taxation and borrowing. For this reason, it said taxes should not rise above 25% of the GDP. It also said the deficit – the amount government borrows every year – should fall as a percentage of the GDP, from around 5% in 1996 to around 2% in 2001.





In fact, the economy has not grown much since 1996. As a result, GEAR's tax and deficit targets have meant that tax income for government has not changed much, while government borrowing decreased. Since the GDP is now around R800 billion, the 3% decline in the deficit means we are spending, in real terms, R24 billion less because of the shrinking deficit targets.

GEAR's fiscal policy is called "restrictive" because it wants to restrict government spending. This approach is linked to an argument that South Africa must "get the fundamentals right" – that is, cut government spending, ensure low inflation and support free trade. It holds that if we get these parameters right, the economy will grow and create jobs. Government does not need to take other measures to restructure the economy.

After 2000, the government began to relax the fiscal policy slightly, so that the budget grew faster. In 2002, it will let the deficit rise to 2,9% of GDP, and taxes to 24,1%. This means that the budget as a whole will rise over 3,5% in real terms, faster than any year since 1996.

b. What the People's Budget says

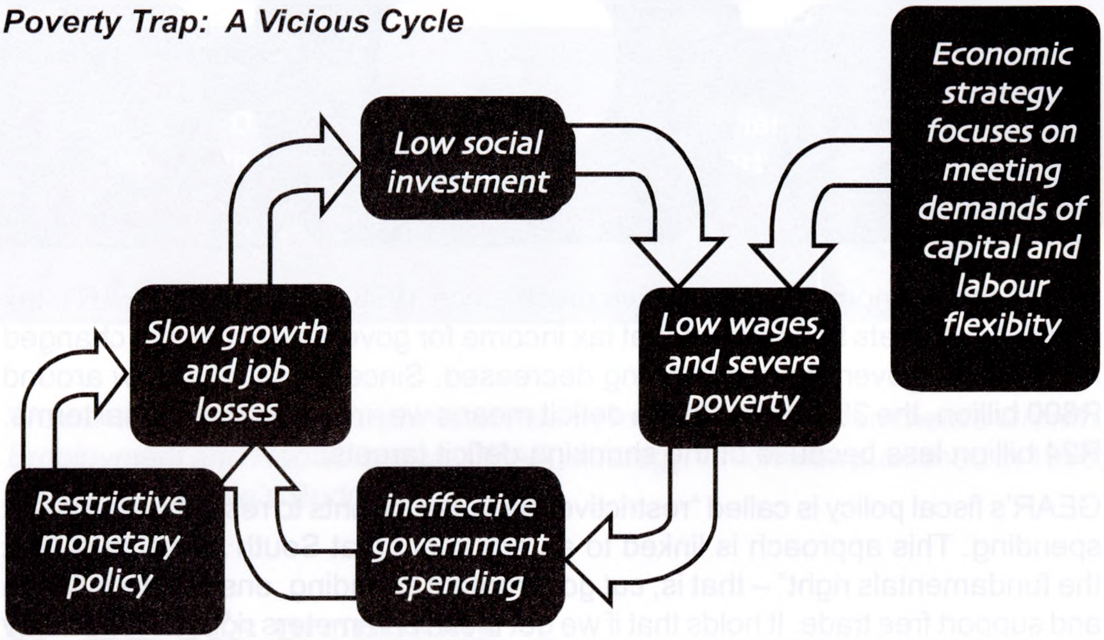
The People's Budget takes a very different approach from GEAR. It argues that government can use funds from taxes and borrowing to stimulate the economy and social progress. From this standpoint, the government provides the conditions for investment by private business. That is, government actually "crowds in" private investment. Also, when government buys goods and services, it provides a bigger market for private business.

The People's Budget argues that because we inherited huge inequalities, government must intervene to restructure the economy. We inherited very high levels of poverty and the third most unequal economy in the world. Moreover, unemployment has risen from 16% in 1994 to around 30% today. To deal with these problems, government must have enough resources.

The People's Budget says that South Africa is in a vicious cycle. Many people do not have adequate government services, like education, health care, clean water and electricity. As a result, they cannot get good jobs or set up their own enterprises. The economy then grows more slowly, and government has less revenue – so it can provide only poor services. GEAR policies mean government does not have the funds to break out of this vicious cycle.

DEFINITION: Revenue is the income government gets from taxes or payments for services

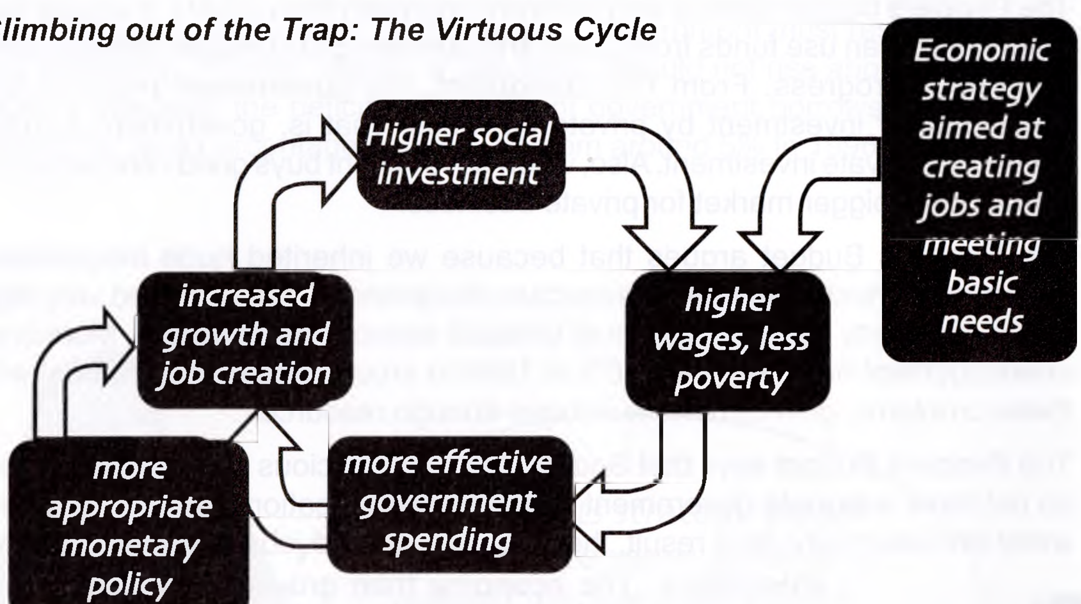
The Poverty Trap: A Vicious Cycle



The People's Budget argues that higher government spending, combined with a targeted industrial strategy to restructure the economy, can break the vicious cycle of poverty. By improving services and infrastructure, government can raise productivity and encourage private investment. In its economic strategy, meanwhile, government must encourage more job-creating activities, like construction, services, agriculture and food processing, and other light industry.

As the economy grows, it will generate more resources. Over time, the share of taxes and borrowing in the GDP will start to fall again.

Climbing out of the Trap: The Virtuous Cycle

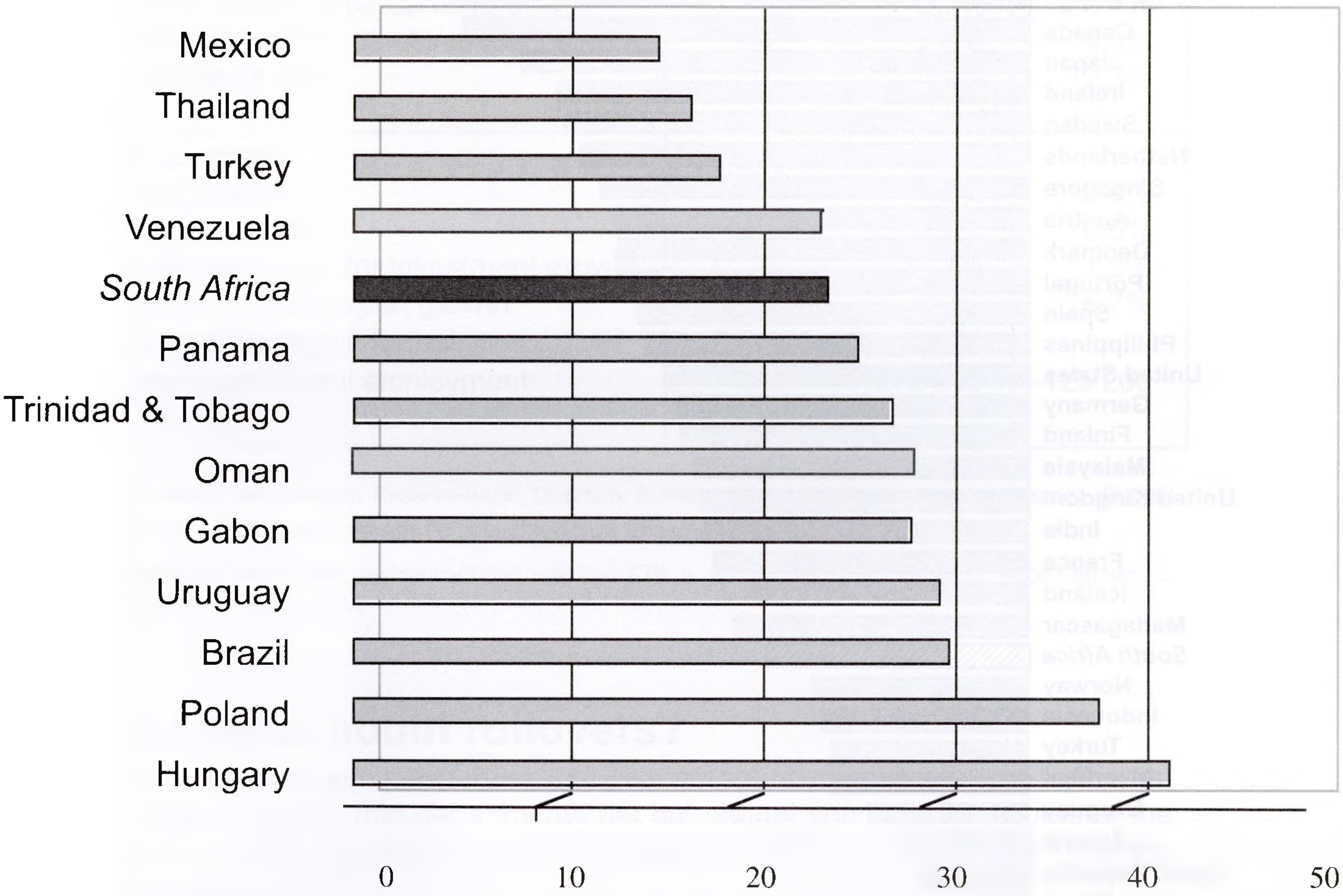


c. The evidence

The evidence on the South African economy shows that the government could spend more without hurting the economy. Moreover, GEAR has failed to bring about job creation or economic growth.

As the following tables show, South Africa's debt and taxes are low compared to most other countries. We compare them by looking at government debt and taxes as a percentage of GDP. That suggests that there is scope for increasing government borrowing and taxes on the rich.

Taxes as a percentage of GDP



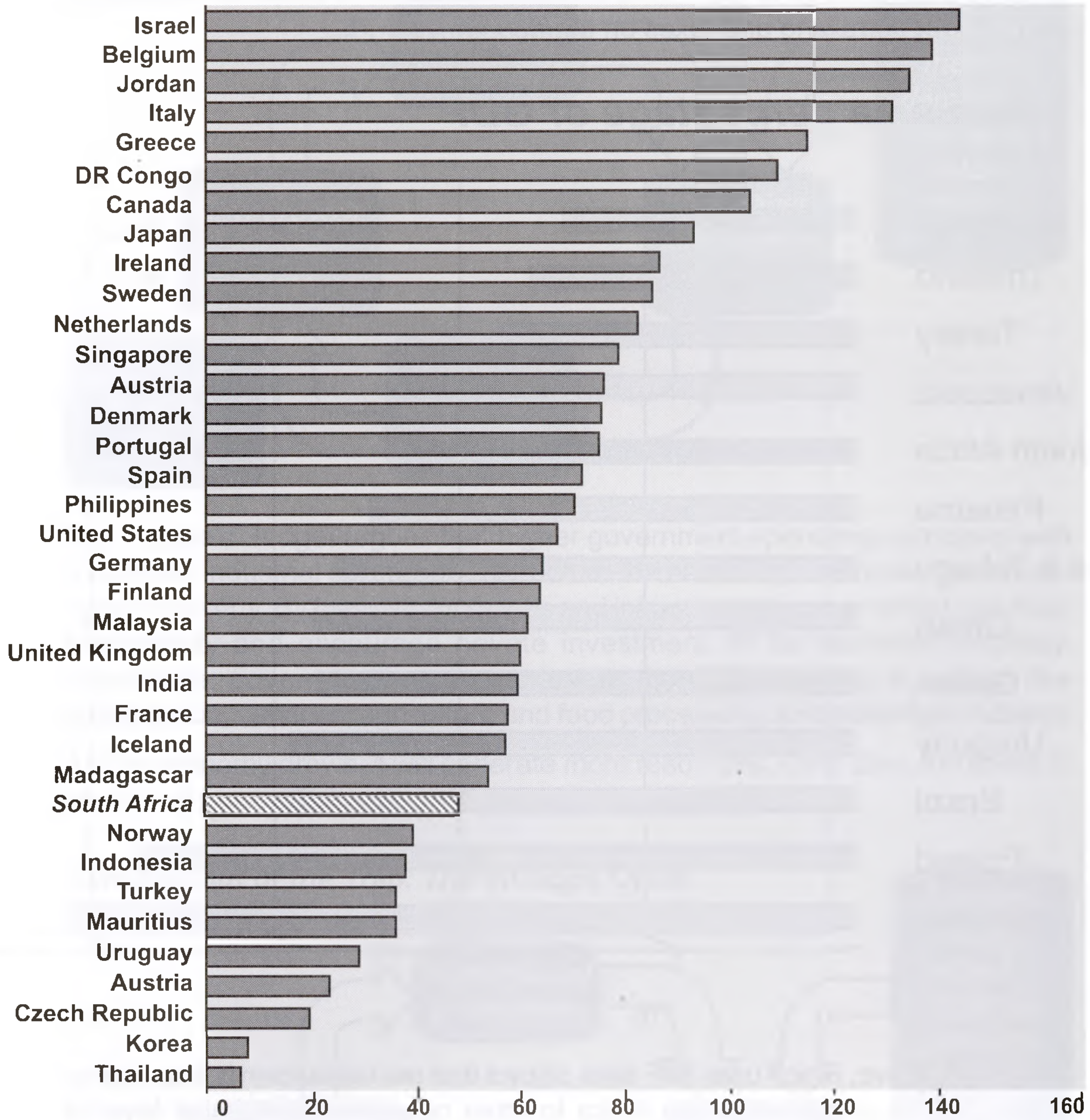
The graph above, which uses IMF data, shows that our tax burden is low relative to the GDP. It compares South Africa to other countries at a similar level of economic development. If we look at a more diverse group of countries, South Africa's tax burden is still comparatively low.

The graph on the next page shows that South Africa's debt compared to its GDP is also relatively low. In the past, we paid quite high interest on this debt, because real interest rates in South Africa were higher than in most other countries. But the debt itself was not very high.

Research for the People's Budget suggested that the deficit could increase to about 4% of GDP and taxes could grow to 27% of GDP, and the economy would grow faster. That would mean government would spend about R25 billion more a year than it now has. Over time, since the economy would grow faster, government would get more resources from taxes and could pay off its debt.

The People's Budget Campaign

Government debt as a percentage of GDP



The GEAR strategy has not met its promises of more rapid growth and employment creation. As the following table shows, the government has kept to GEAR's targets for taxes and deficits and has even been more restrictive than GEAR required.

The table calls the factors the government can influence "policy targets." Thus, the fiscal deficit in 1999 was even lower relative to GDP than GEAR foresaw. So were tariffs. The real bank rate – the interest rate – was higher, however. But the economy has grown only very slowly, investment is lower than at any time since 1993, and we have lost around 125 000 formal jobs every year. Thus, all the outcomes are worse than GEAR predicted, except for inflation, which was lower than expected.

GEAR projections and actual achievements, 1996-'99

	Annual averages, 1996-'99	
	Projected in GEAR	Actual
Policy targets		
Fiscal deficit as percentage of GDP	3.7%	3.1%
Average tariff as % of imports	7.6%	4.4%
Real bank rate[a]	4.4%	12.3%
Outcomes		
GDP growth	4.2%	2.4%
Inflation (CPI)	8.2%	6.6%
Real private sector investment growth	11.7%	1.2%
Real non-gold export growth[b]	8.4%	6.7%
Annual change in formal, non-agricultural employment[c]	270 000	-125 200

Sources*:* South African Reserve Bank, *Quarterly Bulletin*, June 2000; Department of Finance, *Budget Review 2000*; Department of Trade and Industry, Economics Database.

Notes: a. for actuals, residential bond rate less CPI; b. for actuals, real non-mining export growth. c. figures for 1996 to 2000.

3.4 What about rollovers?

Sometimes government argues that it cannot spend more. It points to "rollovers" - that is, money that departments get but cannot spend in the course of the year. In 2001, government expected rollovers of R2 billion, or about 1% of the budget.

These rollovers, however, do not mean that government has too much money. Rather, they mean that excessively tight controls and the shift to spending through private agencies prevents spending, despite need.

At the national level, the vast majority of rollovers occur in two or three departments. Usually these departments have introduced new programmes that require closer work with the private sector or NGOs.

In 2000, the rollovers came primarily from:

- Welfare – social welfare projects provided by NGOs
- Health – delayed payments for the feeding schemes and other conditional grants to provinces
- Trade and Industry – incentives to business for investment and exports
- Public Works – the Community Based Public Works Programme.

Expenditure and underspending by selected national departments, 1999/2000

National Departments	*In millions of rand:* adjustments estimate	projected spending	under-spending	*% of budget not spent*	*% of underspending by national departments*
SAPS	14 495	14 495	-	0%	0%
Transport	4 116	4 116	-	0%	0%
Water Affairs & Forestry	2 815	2 815	-	0%	0%
Justice	2 556	2 549	7	0%	0%
Education	7 224	7 174	50	1%	2%
Housing	3 629	3 527	102	3%	5%
Welfare	527	367	160	3%	8%
Health	6 447	6 082	365	6%	17%
Trade & Industry	2 345	1 795	550	23%	26%
Public Works	4 812	4 215	598	12%	28%
National departments – total(a)	*86 175*	*84 048*	*2 127*	*2.5%*	*100%*

Source: People's Budget 2001-2. a. The national departments not listed here together account for 16% of underspending by all national departments.

In most provinces, underspending is trivial in the main social services – health, education and welfare – which account for over 80% of their spending. As the following table shows, Mpumalanga, Free State and Gauteng accounted for most of the underspending in these sectors. Gauteng alone accounted for over half of underspending on provincial health, education and welfare.

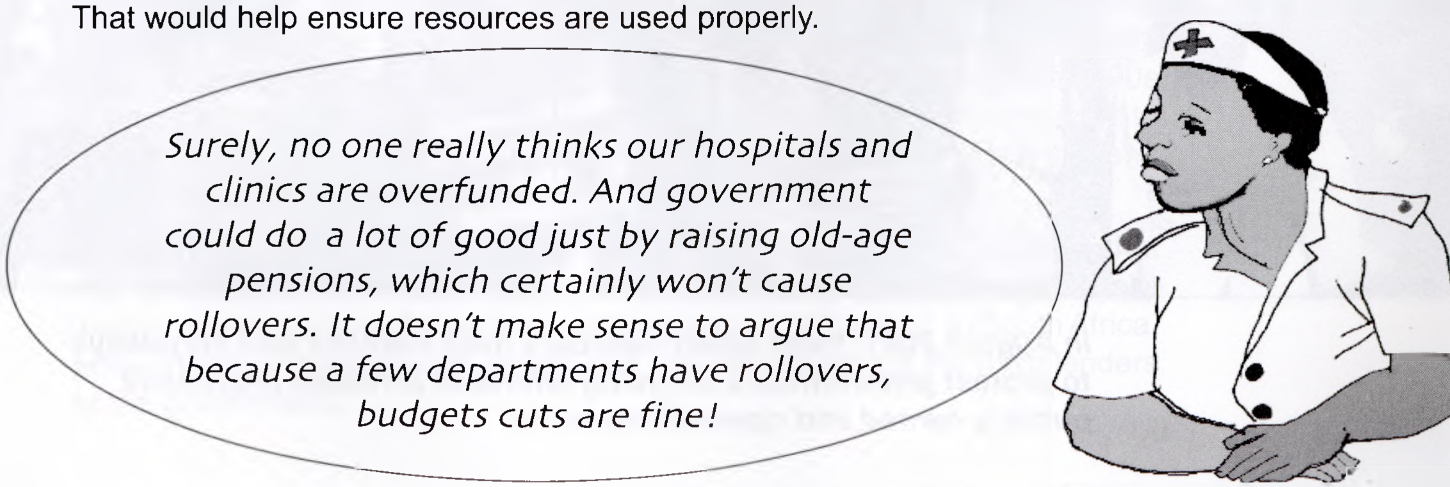
Underspending by province, 2000/1

	Actual spending in health, education, welfare		*Actual spending on South African Housing Fund*	
	R mns.	*% of adjusted budget*	*R mns.*	*% of adjusted budget*
Northern Province	11 578	101%	272	106%
Northern Cape	2 062	100%	58	100%
Western Cape	9 684	100%	341	100%
Eastern Cape	15 051	99%	470	94%
North West	7 039	99%	262	94%
KwaZulu-Natal	18 296	99%	560	80%
Free State	6 028	96%	218	60%
Mpumalanga	5 435	96%	153	61%
Gauteng	15 432	91%	610	85%
Total	90 605	97%	2,945	85%

Source: Calculated from National Treasury, *Intergovernmental Fiscal Review 2001*

Another factor behind rollovers is that the heavy cuts of 1996-'99 have left many public servants feeling that spending less is always better. They try to avoid using even the money that they are allocated. Many provinces say proudly that they have a surplus on their budgets, which means they did not spend all the money they were allocated.

In addition, rollovers reflect the way that bureaucratic procedures isolate public service decision-makers. It is hard for people to oversee their work and their allocation of resources, lodge complaints and generally communicate their needs. Public servants are generally not trained that their job is to serve the people, although the *Batho Pele* programme is supposed to help. The government tender process, through which departments buy goods and services, is still very slow and hard to use, causing big delays in many programmes. More open and democratic procedures throughout government would give communities more opportunities to influence decisions and policies. That would help ensure resources are used properly.



Meanwhile, the big social services – education, health, welfare, police and corrections – desperately need more money. We have clinics with no nurses, police stations without police, schools without electricity, telephones or clerks, and in Soweto, one welfare worker for every 6000 households. These departments have the systems in place to use the money. For instance, a 10% increase in the old-age pension would cost about R1 billion, and the money would certainly be used. But in 1996-'99, the big social services suffered big budget cuts. Government has only promised meaningful growth in their budgets for 2002.

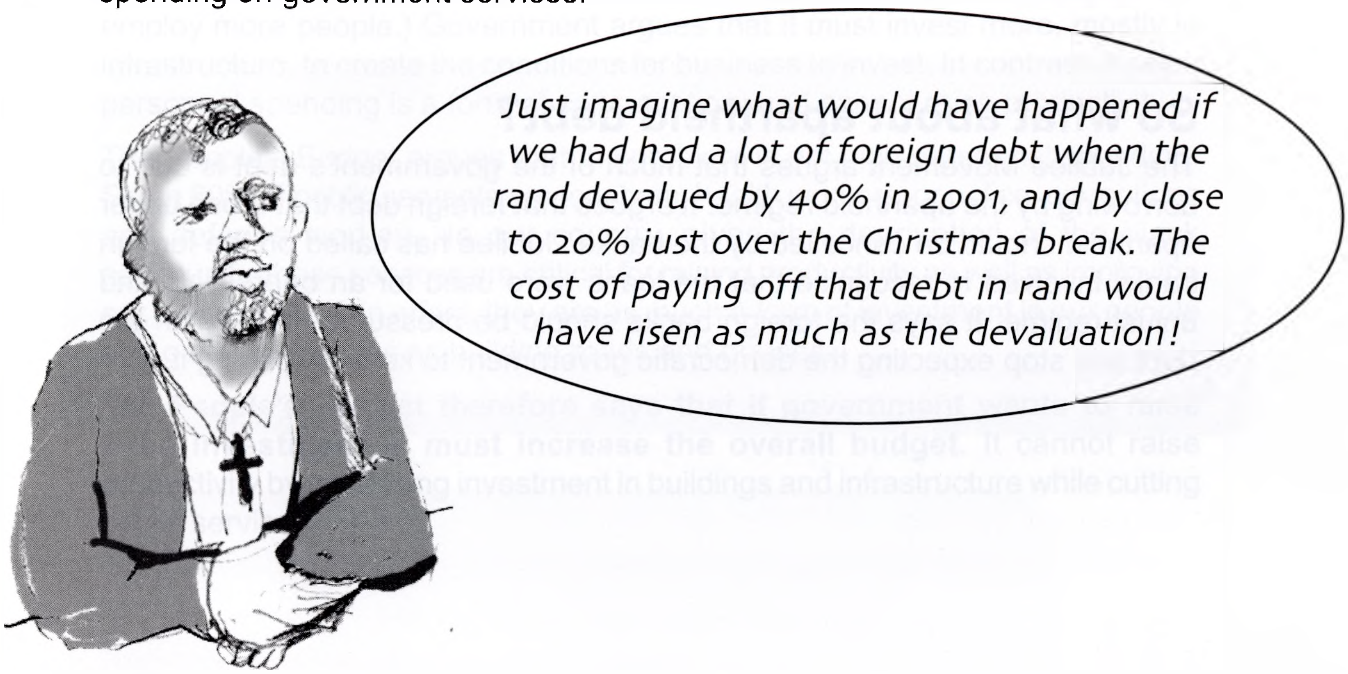
3.5 Should South Africa borrow more?

The People's Budget argues that South Africa can afford to borrow more without getting into a "debt trap". This happens when a government has to cut back on social spending in order to pay back heavy debts. In contrast, the People's Budget argues that higher borrowing will pay for itself by letting government grow the economy.

Still, while government could borrow more than it now does, that does not mean it can borrow endlessly. There are two reasons for this.

In August 2001, trade union members held marches and stayaways to protest government's on-going efforts to privatise previously publicly owned and operated services.

First, if government borrows too much, it may find it difficult to repay the debt later. Interest rates could go up, adding to the burden on the budget. Debt is more likely to become a problem if we borrow too much overseas. If we borrow in a foreign currency and the rand devalues, we have to pay more rand in exchange for every dollar, yen or pound that we borrowed. That will squeeze spending on government services.



This situation happened in many African countries. Governments borrowed to improve basic services, which had not been developed under colonialism. Then the world price of their exports – cocoa in Ghana, sisal in Tanzania, copper in Zambia – dropped. They could not export enough to earn the foreign exchange they needed to pay their debts. The governments had to cut back heavily on their social programmes, causing great suffering. Moreover, in these circumstances the foreign lenders – especially the International Monetary Fund, donor countries and private banks – can start dictating economic policies.

South Africa is different from other developing countries because it has very low foreign debt. Only 5% of government's total debt is borrowed overseas. That means foreign governments and banks do not have as much power to tell the South African government what to do.

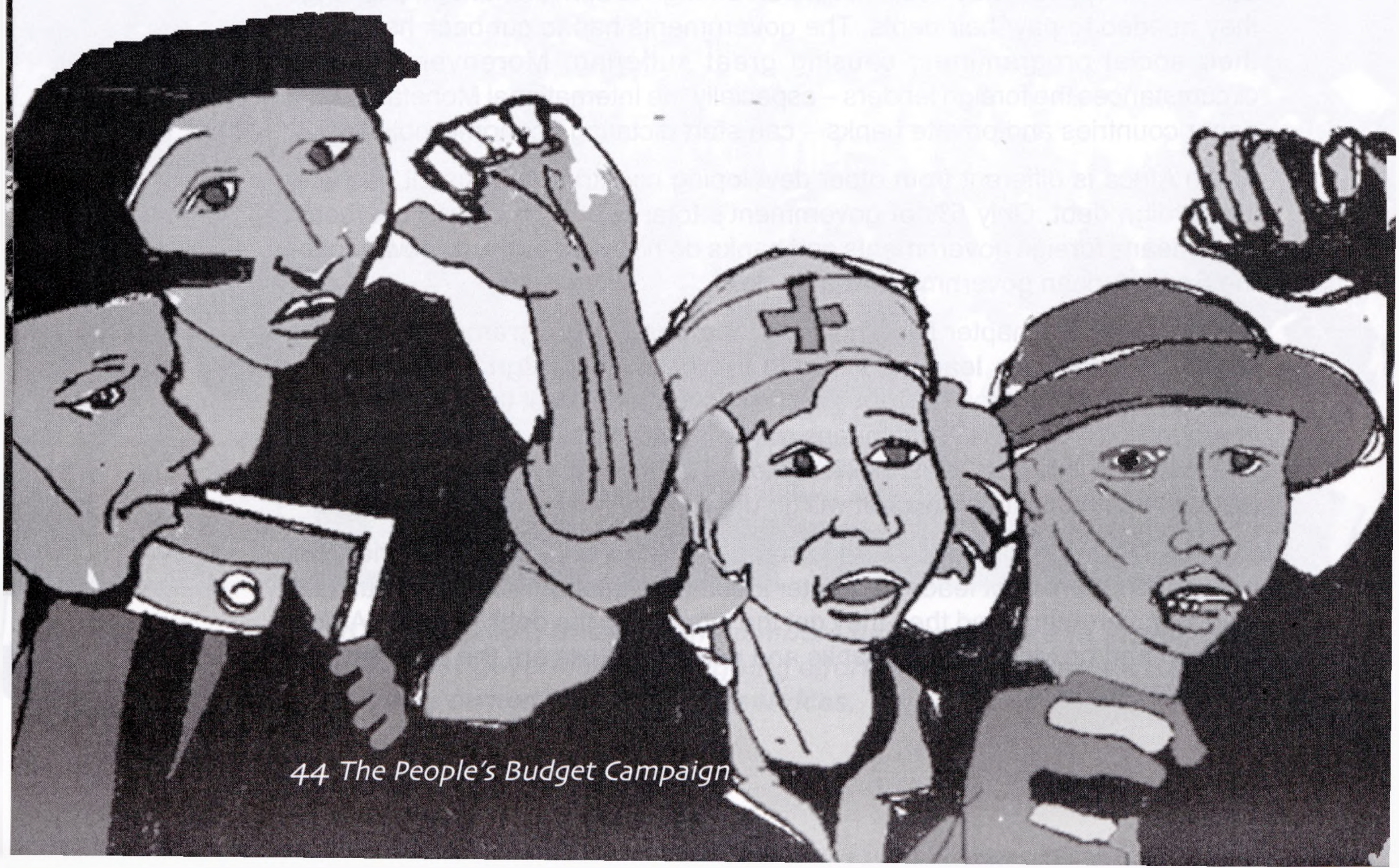
As discussed in Chapter Five, however, **the current programme of buying weapons abroad is leading to a big increase in foreign debt.** Treasury expects foreign debt to rise from 5% of all government debt through the 1990s to around 16% by 2004. That means government's foreign debt is expected to rise from R16 billion in 1999 to R72 billion in 2004. Again, every time the rand goes down, the cost of this debt will go up.

Even with low foreign debt, there is some evidence from other countries that high government debt leads to greater income inequality. Rich people usually lend to government, and then they get the interest on the debt. In South Africa, pension and provident funds, banks and rich individuals are the main lenders to the government.

Despite these problems, research for the People's Budget shows that South Africa would benefit if the government borrowed a bit more and used the funds productively. That would mean borrowing domestically, not abroad, in most cases; and using the funds in ways that will expand the economy – and not for arms programmes.

So what about apartheid debt?

The Jubilee Movement argues that much of the government's debt is due to borrowing by the apartheid regime. It argues that foreign debt that arose under apartheid should be cancelled by the banks. Jubilee has called on the foreign banks involved to recognise that the loans were used for an oppressive and unjust regime. It says the foreign banks should be pressured to "forgive" the debt and stop expecting the democratic government to keep on paying it.

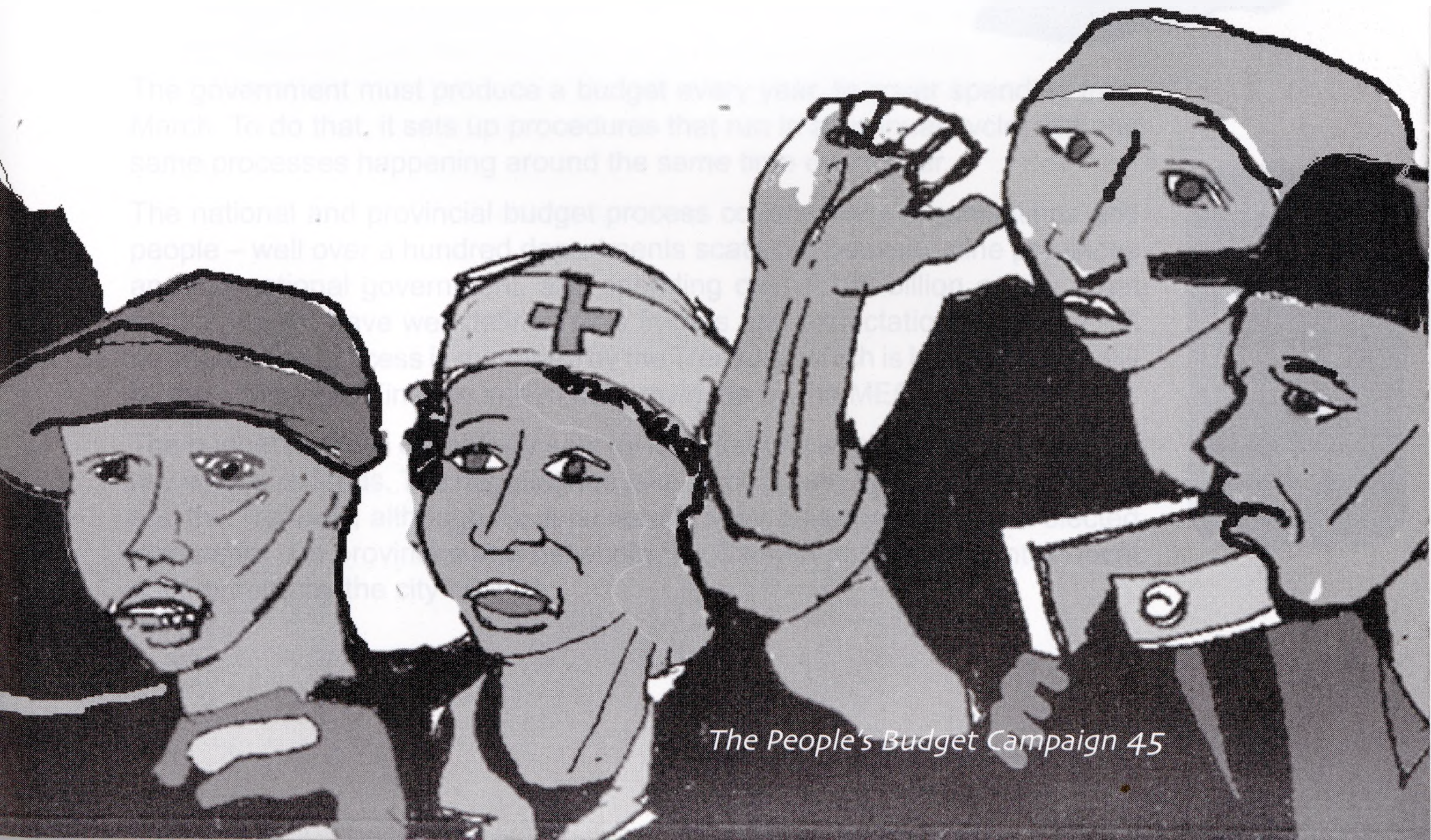


3.6 Personnel spending

Another major part of the government's fiscal policy is that personnel spending – spending on salaries and benefits for public servants – should be cut. (This does not come from GEAR, which actually argued that government should employ more people.) Government argues that it must invest more, mostly in infrastructure, to create the conditions for business to invest. In contrast, it says, personnel spending is a form of consumption, and cannot raise productivity.

The People's Budget argues that the problem is not high personnel spending. Some 80% of public servants are teachers, health workers, or police, corrections and defence workers. In our country, given the deprivation of the black community, these services are critical for raising productivity as well as improving our people's lives. In effect, they are as much a form of investment in our people and our communities as building roads and houses.

The People's Budget therefore says that if government wants to raise fixed investment, it must increase the overall budget. It cannot raise productivity by increasing investment in buildings and infrastructure while cutting social services.



Questions/Actions

1. Act out a debate between supporters of GEAR and the People's Budget. Think about the arguments on each side, and what kind of information would support them.
2. Do you have debts? Do you think it was worth going into debt? What kinds of spending justify going into debt, and why? Think about the difference between borrowing by households to buy consumer goods like a house or car, and by companies to expand. How do you know when you have too much or too little debt? Can you make similar arguments about government debt?
3. Do you think investment in infrastructure is more important for the economy that hiring more teachers, nurses and police? Why or why not?

Chapter 4.
The budget process

The budget process means the procedures that guide the development of the budget. These procedures must ensure that the available funds are matched to the needs of government. Invariably, the departments want more funds than the fiscal policy permits. The process therefore largely involves going back and forth between different demands and fiscal policy, deciding what to cut and whether to increase taxes or borrowing.

To evaluate this process, we have to ask whether it ensures a final budget that will

- **meet the needs of the people,**
- **permit oversight by parliament and the public, and**
- **be realistic and practical.**

The government must produce a budget every year, to cover spending from March. To do that, it sets up procedures that run in an annual cycle, with the same processes happening around the same time every year.

The national and provincial budget process covers many organisations and people – well over a hundred departments scattered between nine provinces and the national government, and spending over R200 billion a year. That means it must have well-defined time frames and expectations, or there will be chaos. The process is managed by the Treasury, which is headed nationally by the Minister of Finance and in the provinces by the MECs for Finance.

DEFINITION: MEC means Member of the Executive Council - the provincial cabinet.

The budget process essentially sets up negotiations within government about how to use its funds. The negotiations take place mostly between departments and the Treasury, although the final results must be approved by the elected leadership – in provinces and nationally, by Cabinet and Parliament; in local government, by the city council.

The national and provincial budget process is governed by the Constitution, which sets basic parameters, and the Public Finance Management Act (PFMA), which was passed in 1999. The PFMA makes all national and provincial government institutions, including the parastatals, follow the same budget cycle. It also sets basic requirements for the contents of the budget and requires quarterly financial reports on actual spending and revenue. The PFMA makes the government employee in charge of a department responsible for budgets and expenditure, rather than the Minister.

Local governments are not covered by the PFMA. Their budget processes are not uniform and are often poorly organised. Moreover, many local governments do not publish their budgets, or publish them in a form that is hard to understand.

To ensure more uniform, open and responsible budgeting by local governments, the national Treasury has begun to work on a bill to regulate local government budgets. It is called the Municipal Finance Management Bill. A draft of the bill was published in August 2001 for comment. As it now stands, it would

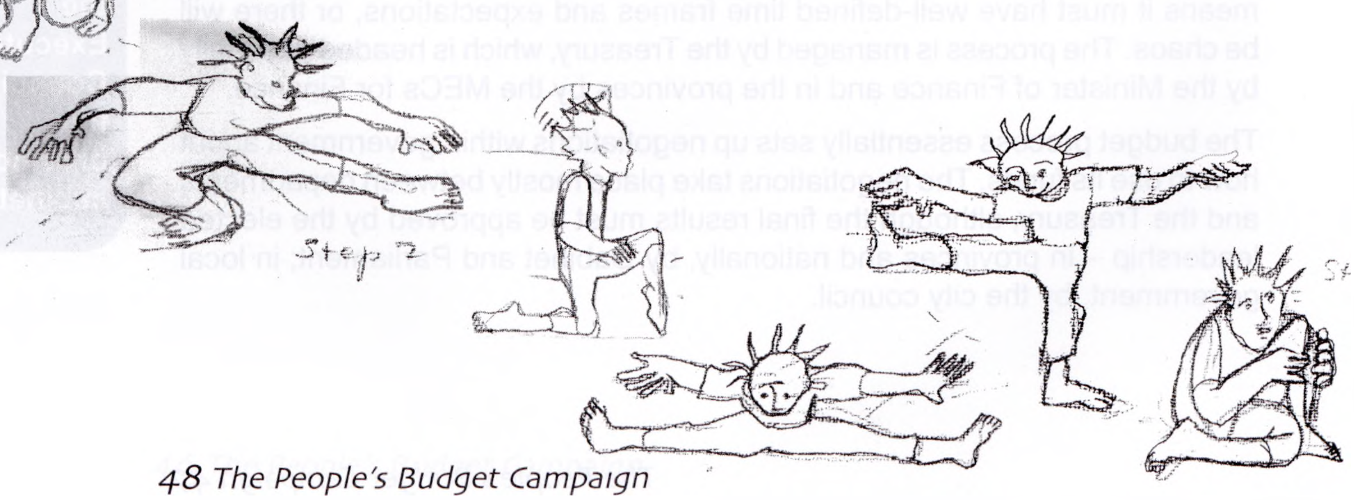
- set timeframes for the local government budget process, requiring consultation with the public, and
- let the national government limit the growth in local government spending.

The Bill will not take effect for at least two years.

4.1 The national and provincial budget process

The PFMA gives the national Treasury the biggest role in managing the budget process and finalising the allocations between departments. The national Treasury develops a detailed proposal for the budget based on negotiations with national departments and provinces. The proposal must be approved first by the Budget Council, which includes the MECs for Finance for all the provinces, and then by Cabinet. The Treasury finally presents the budget to Parliament in February.

What are the main steps in the budget process?



STEP 1.

In the first half of the year before the budget is due, the Treasury and the Budget Council decide how much government will tax and borrow, and therefore how much it will be able to spend. They make this decision in the context of the Medium-Term Expenditure Framework – the three-year budget described on page 8. This decision is approved by Cabinet.

Step 2.

The Treasury and the Budget Council divide the amount available between the central government, provinces and local government. Cabinet also approves this decision.

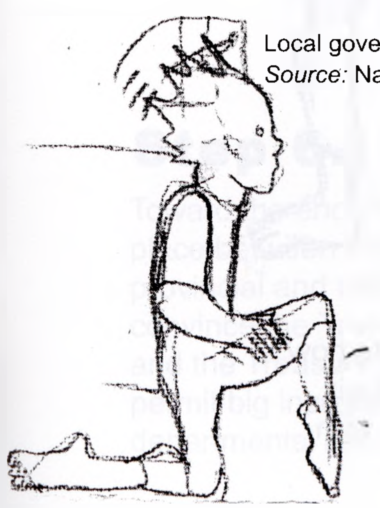
In 2001, parliament passed a new Division of Revenue Act to regulate the transfer of funds from the national to provincial and local governments. To do that, it sets time frames for transfers, and requires regular publication of information about them.

As the following table shows, the share of revenue going to provincial and national government has remained fairly stable since 1995/6. In contrast, the share going to local government, which is small in any case, has fluctuated considerably, peaking at 4% in 1997/8, the dropping to 2,8% two years later.

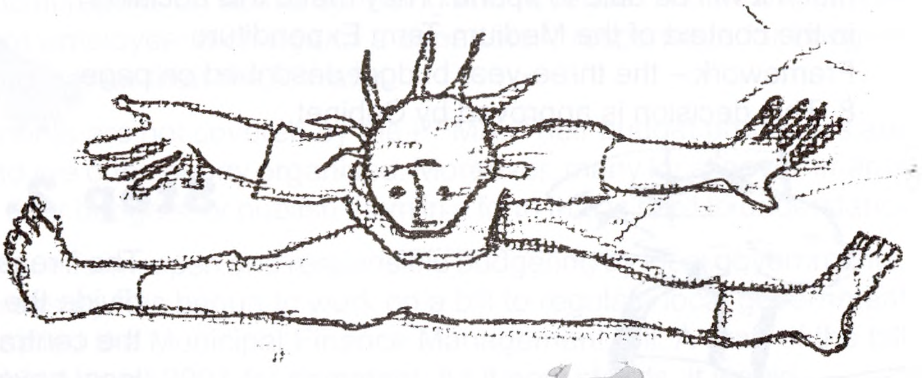
The division of revenue between spheres of government

	1995/96 Actual	*1997/98 Actual*	*1999/0 Actual*	*2001/02 Budget*	*2003/04 Projection*
Total revenue – millions of rand	*122 494*	*151 128*	*169 605*	*208 180*	*238 502*
Of which: % by sphere of government					
National government	38.5%	38.5%	38.9%	40.5%	40.0%
Provincial government	58.3%	57.5%	58.3%	56.4%	56.7%
Local government	3.2%	4.0%	2.8%	3.1%	3.3%

Source: National Treasury, *Intergovernmental Fiscal Review 2001*, Table 10.1, p. 165



In deciding how to split the money between national, provincial and local government, the Treasury gets advice from the **Financial and Fiscal Commission**. The Constitution set up the Commission. It requires that the Commission aim gradually to overcome the inequalities left from apartheid, when the former homelands got less money per person than the white areas. The Treasury does not have to accept the Commission's recommendations, and sometimes rejects them.



Step 3.

The national Treasury and provincial treasuries decide how to split their money between departments. This is an important decision – it determines the shares of education, defence, policing, health and so on within the overall amount. National and provincial cabinets approve the proposed division.

Step 4.

Around June, the national Treasury tells national departments how much money they will likely have, and asks them to submit their plans for spending it. The provincial Treasuries do the same with provincial departments.

Between June and the end of the year, the departments develop proposals for using their money. They usually draft their budgets as an internal process. Thus, within each department, the management makes decisions about which programmes to fund and which ones to leave out. There are virtually no forums in which draft budgets can be discussed with the departments' stakeholders, and the departments do not publish their draft budgets for public comment during the year. The national and provincial Departments of Education are an exception, since they have agreed to discuss their draft budgets with the teacher unions in the national bargaining council every November.

Step 5.

Around October, the national Treasury presents the Medium-Term Budget Policy Statement, or MTBPS, to parliament. The MTBPS outlines the Medium-Term Expenditure Framework. It gives government's overall fiscal policy for the next three years, with targets for the deficit and taxation. It also discusses the central aims of government spending in terms of its main functions, and how the budget will reflect that. The MTBPS is therefore an important policy statement on the budget. Still, it does not provide final allocations to departments, and the proposals often change substantially in the second and third year. Although parliament holds hearings on the MTBPS, it does not vote on or amend it.

Step 6.

Toward the end of the year, a process of negotiations takes place between the departments and their treasuries at provincial and national level. Most departments try to convince the Treasury that they should get more money, and the Treasury argues that the fiscal policy does not permit big increases. The Treasury then aligns all the departments' needs with the total available money.

Step 7. In the beginning of the budget year, the national Treasury takes the draft budget for approval to Cabinet, and the provincial treasuries take their draft budgets to their Provincial Executive Councils.

Step 8. The Minister of Finance presents the national budget to Parliament. Soon after that, the provincial MECs for Finance present their budgets to their provincial parliaments. Parliamentary committees then hold hearings on the budget and approve it. As discussed on page 54, Parliament does not amend the budget, but may only vote it up or down as a complete package.

The cycle then starts again, with the Treasury beginning to develop targets for the following year's taxation and deficits.

National and provincial budgets

In a federal system, the different provinces or states draw up their own budgets, without much national interference. In a unitary state, the national authorities approve budgets for all levels of government. The provinces or states only administer the budget.

The South African Constitution sets up a compromise between the national and provincial governments. It requires the national government to divide the budget between national and provincial governments, and then let the provincial governments decide on their own budgets. But it also gives the national government considerable scope to make the provinces adhere to national policy. National government can make some of the budget dependent on specific projects, and can set national norms and policies for government services. Moreover, the Constitution entrenches "co-operative governance," which means all the levels of government must work together.

In interpreting the Constitution, the national Treasury decided that it must give the provinces almost all their funds in one lump sum, which the provinces must allocate. National government has not exercised much control over provincial spending. It does give just over 10% of provincial revenue in various "conditional grants," for which the provinces must meet specific requirements. Some of the grants are dedicated to infrastructure, aspects of health and education, and poverty relief.

It has been very difficult for the provinces to set up structures and systems to develop and manage the budget. Some provinces have developed much more efficient and accurate systems than others. As a result, the provinces' published budgets vary a lot. Some are hard to understand and not very realistic.

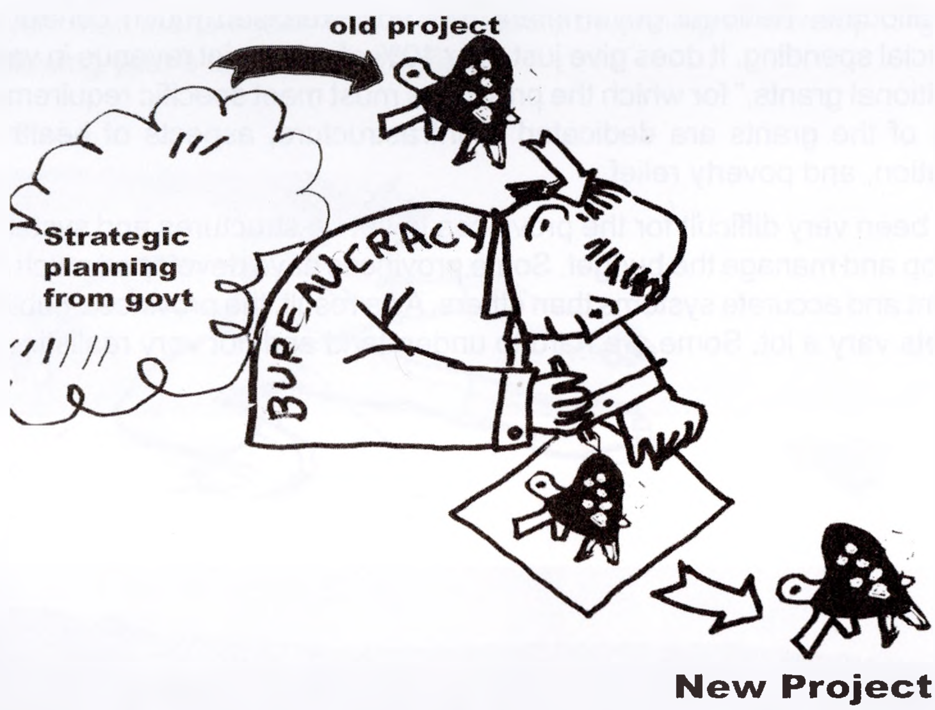
4.2 Criticisms of the current national and provincial process

As the description of the budget cycle shows, the budget process takes place mostly within government. Until the budget has been approved by Cabinet and presented to parliament, there is virtually no scope for public comment or involvement.

The main criticisms of the current budget process include:

a. The bureaucracy has too much power

The process means that most decisions on the budget are taken within the bureaucracy. This is embedded in the PFMA, which makes appointed officials responsible for budgets and expenditure, although they do need to get approval from the elected leaders. By the time Cabinet and parliament approve officials' decisions, they are already quite detailed and hard to change. There are no procedures to ensure public discussion of the fiscal policy, the allocation of funds between departments, or departmental budgets.



The process of developing expenditure by department is particularly closed. The departments work almost exclusively with Treasury to decide on expenditure. The departmental budgets are not discussed at NEDLAC, and there is no other formal channel for public participation. The only partial exception is education, which has an agreement to discuss the budget with teacher unions every November. In many departments, the corporate services directorate – the part of the department responsible just for administration, and not policy – makes the key budget decisions. Most do not hold inclusive discussions or planning exercises to ensure that budgets align with long-term aims.

The decisions about taxation and borrowing are made almost exclusively by the Treasury, with Cabinet approval, with virtually no scope for debate in parliament or NEDLAC. Since GEAR, there has been no comprehensive statement on national fiscal policy, although the original GEAR document only set targets up to 1999. The Medium-Term Budget Policy Statement presented to parliament every October does open the door to some public discussion. But the Statement is not tabled at NEDLAC, voted on by parliament, or publicly amended by the Treasury after discussion. At the same time, the three-year programme it presents for the budget is changed every year, often quite significantly, so it does not provide a stable indicator of government policy.

Although the Constitution requires that parliament be able to amend budgets, this has not happened. Under the apartheid regime, the requirement that parliament be only allowed to vote budgets up or down was designed to centralise power. In our new democracy, the limits on parliament's role are unnecessary and undemocratic, as well as unconstitutional.

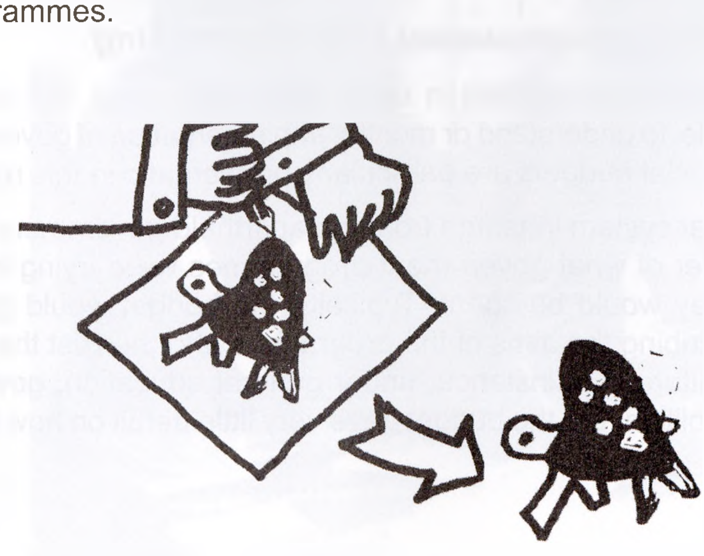
b. The division of revenue is not discussed or open to review

The division of revenue has a critical impact on local and provincial government. It has a major influence on funding for health, education and welfare – the main functions of provincial government. But there is no formal parliamentary discussion of the division of funds between the spheres of government. Nor does any agency of government hold hearings on it.

c. The budget process drives government plans

There is no clearly defined development strategy to guide budget decisions. As a result, the Treasury effectively makes key choices about what government will do. This has led to an over-emphasis on cutting costs, rather than achieving social aims.

Government departments are required to develop strategic plans. But these have remained largely bureaucratic processes. As a result, they have not done enough to guide budgeting or mobilise public servants and the people around government programmes.



d. The process does not support national development strategies

The division of budgets between local government, provinces and national departments makes it hard to implement coherent national development strategies around basic government services. It is difficult to ensure national norms and standards for services, and to analyse or oversee total government expenditure.

The education budget, for instance, is split between nine provinces. Some provinces underbudget consistently, as the following table shows, and schools in those provinces are under-resourced. As a result, it becomes very difficult to ensure a coherent national strategy on education. Yet, as the following table shows, there is a close and negative correlation between the number of learners in the classroom, spending per learner, and matric pass rates.

Provincial Education Budgets and Standards

provinces	*thousands of learners in 2000*	*actual spending per learner, 2000*	*learner:classroom ratio*		*matric pass rate in 2000*
			1996	*2000*	
Eastern Cape	2 106	R 3415	55	43	50%
Northern Prov.	1 845	R 3453	50	40	51%
Free State	743	R 4024	38	33	53%
Mpumalanga	894	R 3352	45	48	53%
KwaZulu-Natal	2 669	R 3067	45	40	57%
North West	909	R 4069	40	34	58%
Gauteng	1 554	R 4398	34	32	68%
Northern Cape	201	R 4801	32	27	71%
Western Cape	916	R 4392	33	31	81%
Total	10 257	R 3654	43	38	58%

Source: National Treasury, *Intergovernmental Fiscal Review*, Chapter 3

e. The budget document is still confusing

The information presented in the budget documents still does not always help people to understand or monitor implementation of government policies. The provincial budgets are particularly problematic in this regard.

The budget system inherited from the apartheid government gave very little detail either of what government programmes were trying to achieve or of how money would be spent. Typically, the budget would give one or two lines describing the aims of the programme and then list the main amounts of expenditure. For instance, under general education, government spent over R15 billion, but the budget gave very little detail on how the money was spent.

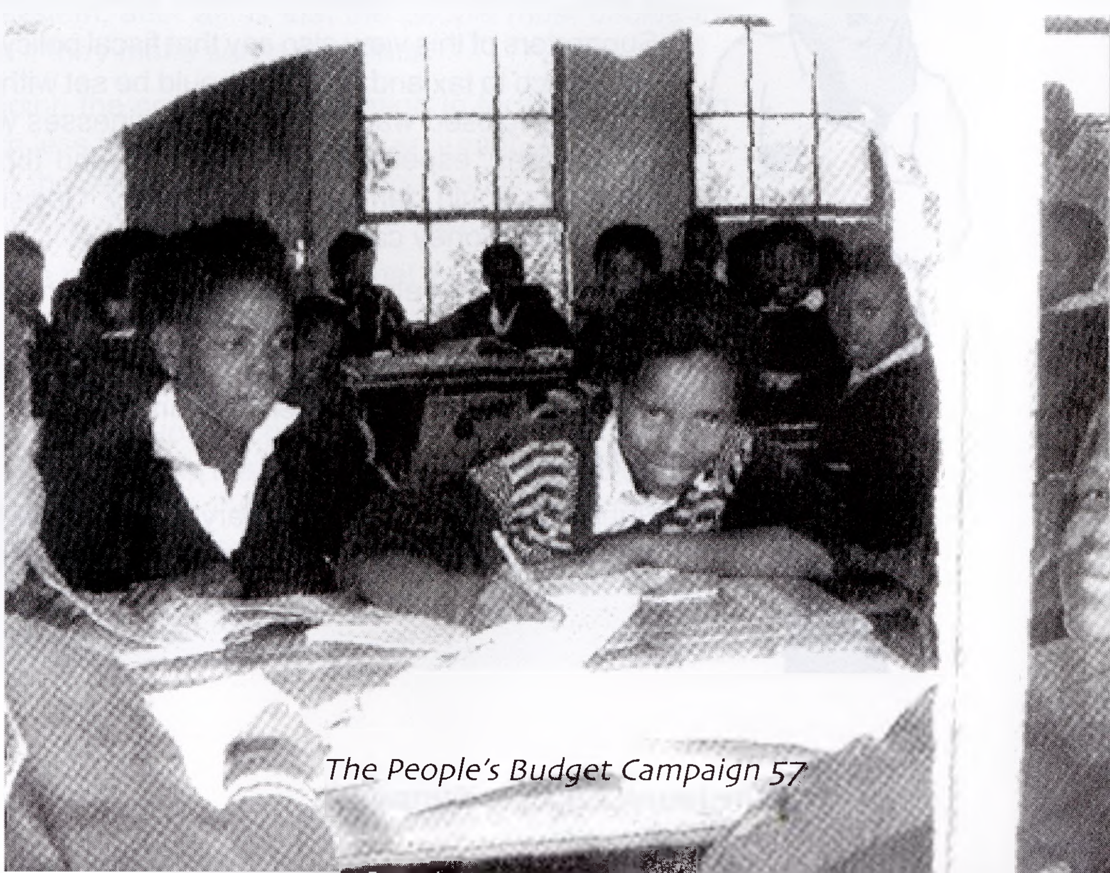
Both the national and provincial Treasuries have tried to change this presentation to permit better oversight. But the system as a whole remains very hard to use.

For one thing, spending on education, health and welfare, which accounts for half the budget, is spread across provincial departments. Their budgets are hard to obtain and do not share a standard format, making it hard to get a sense of national spending trends. The *Budget Review*, which the national Treasury publishes with the annual budget, does give consolidated figures by function. But it does not give detail within the functions, so one can only analyse overall figures. The *Intergovernmental Fiscal Review*, which the national Treasury also publishes more or less annually, only began in 2001 to give some detail on smaller functions like public works and agriculture.

In addition, as the example of the Gauteng Education Department discusses on page 23, an attempt has been made to link spending to specific targets, such as matric pass rates. Unfortunately, these can become very confusing. If too many numerical targets are included, it is hard for the public to understand the overall strategy and priorities.

f. The legal status of the budget is used to prevent change

The budget is passed as a law by parliament. When officials do not want to spend money on new programmes during the year - or to increase the employer offer in negotiations with public-service unions - they overemphasise this legal status. They talk about the budget as if it set government spending in stone. Yet Treasury can modify the budget fairly easily by submitting a supplementary budget to parliament.



School children struggle to work in winter, despite overcrowding and broken windows in their classroom.

Should the budget process be more open?

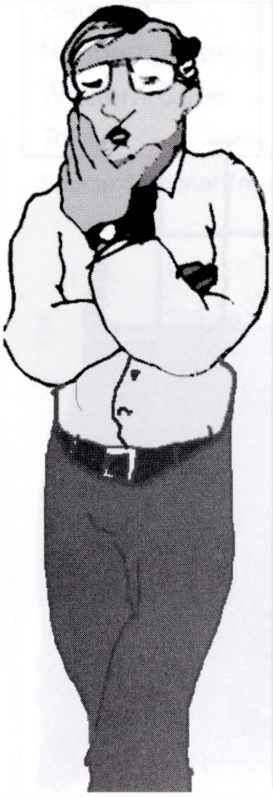
One of the main questions about the budget process is whether it should stay inside government or be open to the public. If the budget process is very secret, the public will not be able to affect it much.

In some countries, especially the U.S., the tradition is that all aspects of the budget are debated in public, through Congress – their parliament. In others, like the U.K. (and South Africa before 1994), the budget process is very secret. People only get to hear what will be in the budget when it is submitted formally to Parliament. By then, it is too late to make major changes.

In this context, the main debate is about how open and inclusive the budget process should be. ***Should decisions be made by bureaucrats, or should stakeholders have the possibility of participating directly? Should the process be secret, or open to the public***?

1. Keep it inside government

Supporters of restrictive fiscal policies typically worry that the direct involvement of stakeholders will lead to unsustainable increases in spending. Democratic processes, they argue, lead to lobbying for specific projects by beneficiaries. The result, they say, will be "macro-populism," where government tries to buy constituencies and in the process goes too far into debt. Also, if the parliament were evenly balanced between parties, it could deadlock over the budget and not pass it at all. That could bring government spending to a halt. This has happened in some local authorities.



Supporters of this view also say that fiscal policy, which decides how much to tax and borrow, should be set within government, in a fairly closed way. Otherwise businesses will find ways to avoid taxes, especially excise duty – and those speculative decisions could damage the economy. Decisions on how to spend the money can be more open.

Officials at all levels often oppose broad consultation because it will take time and energy. They say a closed process is more efficient and ensures that the budget is ready for approval at the beginning of government's financial year.

2. Make it open

Supporters of more expansionary fiscal policies generally argue that all aspects should be democratic. They say that

government will be able to convince people of the need for some restrictions and compromise. If it is left to bureaucrats, the budget may not adequately meet the needs of the people. The basic principle of a democratic system, after all, is that the people must decide for themselves, even if they make some mistakes.

From this standpoint, the costs of consultation in terms of time and capacity are much less than the benefits. To ensure that government spending benefits the people requires that the people know what is being decided and can make their opinions known.

But an open process must be designed so that it really empowers the majority. Usually, poor people do not have the money to hire lobbyists or experts. If people's participation is not carefully designed, interest groups will use the budget process to fight for changes that are only in their own interest. Rich groups will get projects added just to benefit themselves. This is a problem in the U.S., where the Congress decides on the budget. There, individual Congresspeoplel fight to get more projects for their constituencies, even if they are not national priorities.

4.3 Local government budgets

The processes around local government budgets are much less regular than the national and provincial budgets. Each local government can set up its own process. The only requirement is that the budget must be approved by the local council. In many local governments, the budget runs from July, not March.

The Municipal Finance Management Bill should help standardise local government budgets. It will not take effect for a few more years, however.

At the moment, every local government has a different budget process and publishes the budget in its own format. Small towns often have budgets that are very hard to understand. Sometimes they just do a computer print out. This obviously makes it harder to understand what the local government is planning and implementing. Sometimes not even councillors understand the local budget. In addition, because local governments use different formats, it is hard to compare how well different towns are meeting community needs.

4.4 The People's Budget proposals on the budget process

The People's Budget Campaign wants a much more open budget process. It should give all constituencies a chance to comment. It should empower the representatives of the majority, in particular, to make strong inputs about their needs. The People's Budget argues that the benefits of ensuring that the budget responds to the needs of the majority outweigh the risk of delays in the process.

Specific steps to permit more political oversight and public participation include:

1. As the Constitution requires, parliament should be able to amend the budget, not just vote it up or down. This would make the process of passage through parliament much more drawn out. It could require that debates be phased, for instance with a more robust discussion of fiscal policy taking place well in advance of the actual budget. Whatever the details, letting parliament amend the budget would put pressure on Treasury to consult on the issues long before February. It would also mean parliament has to develop the capacity to analyse and monitor departments' spending.
2. Provincial and local governments must publish their budgets in more coherent and understandable ways and make them easily available. This will require agreement on standards and, for smaller towns, substantial support. The basic format for local government budgets would have to be relatively simple, so that even smaller municipalities can comply fairly easily.

3. To involve the public more, Treasury should be more open about its proposals for both expenditure and revenues. It should publish drafts of both the MTBPS and the budget for comment, so that the public can see which ideas have been taken into account in the final documents.

4. Government departments should develop their strategic plans, as required by law, through an open and participatory process. As a minimum, they should publish the plans for comment before finalising them.

The People's Budget itself is a process to expand discussion about the budget. It tries to ensure that more people know what is in the budget, and what the main debates are about the budget and government programmes. The next two chapters look in more detail at specific debates and proposals on government expenditure and taxation.

A march and interfaith rally demanding that the state provide drugs to counter HIV in new-born babies. Each cross carried the name of a child who died of HIV in South Africa.

Questions/Actions

1. Do you think the budget process should be more open? Why or why not? Could parliament ever vote against Cabinet on something as important as the budget?
2. Call the Treasury, the parliamentary committee on finance in your province, or your local government, and ask how you and your organisation can participate in the development of the budget.
3. Develop inputs on an existing government budget at any level, and either submit them directly to the relevant office with a request for a response, or ask your organisation to submit them to the People's Budget.

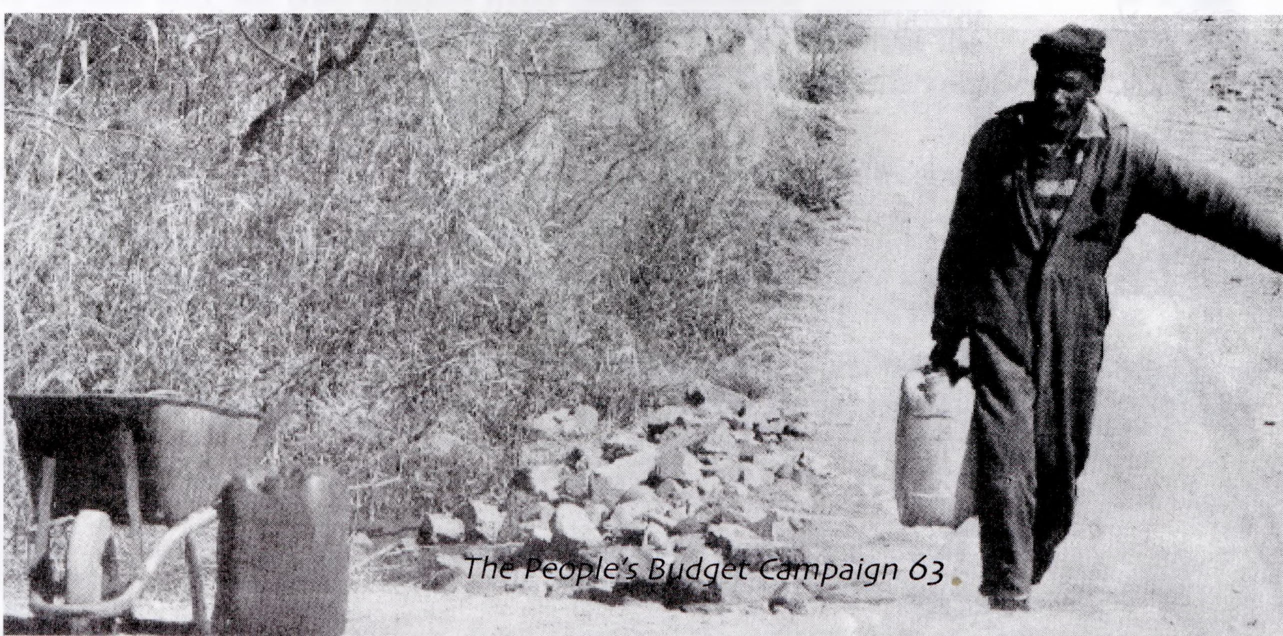
Chapter 5.
The structure of expenditure

Chapter Three discussed debates about fiscal policy – how much government should spend. This chapter looks at how government divides its spending between different functions, such as health, welfare and police. First, we look at the allocations between these activities, and how they have changed in the past five years. Then we look at debates about government spending. In that context, we review the People's Budget's main proposals for changing the structure of government spending.

5.1 The structure of government spending

The structure of government spending between major functions does not change much over time. After 1994, there was some increase in some large social functions, especially police, corrections and welfare, at the cost of defence, health and education, and infrastructure. (Infrastructure is largely included under "economic services," which includes water, transport and spending on the national and provincial economics departments, such as the Departments of Trade and Industry, Labour, Finance, Agriculture, and so on.) Since the government agreed to buy a huge amount of armaments starting in 1999/2000, the military has increased as a percentage of the budget.

The following table shows the shift in spending between functions from 1997/8 to 2000/1, and according to the MTEF projections to 2003/4. The biggest change is the fall in interest payments. This decline has freed up funds for an expansion in the budget for government services. It results partly because of the reduction in government debt, and partly because of falling interest rates.



Expenditure by function, 1996/7 – 2003/4

Function	*In billions of rand*			*% of expenditure*		
	1997/8 outcome	*2000/1 budget*	*2003/4 budget*	*1997/8 outcome*	*2000/1 budget*	*2003/4 budget*
General government and unallocable expenditure	**17.0**	**22.2**	**28.7**	**8.3%**	**9.0%**	**9.2%**
Protection services	**31.2**	**41.0**	**52.0**	**15.3%**	**16.7%**	**16.8%**
• Defence	12.0	15.2	19.6	5.9%	6.2%	6.3%
• Criminal justice system	19.2	25.7	32.4	9.4%	10.5%	10.5%
Social services	**99.2**	**116.6**	**143.8**	**48.5%**	**47.5%**	**46.4%**
• Education	45.0	52.8	66.2	22.0%	21.5%	21.3%
• Health	23.0	27.2	33.5	11.3%	11.1%	10.8%
• Social security and welfare	23.6	30.4	35.9	11.6%	12.4%	11.6%
Economic services	**18.1**	**1 9.6**	**25.6**	**8.9%**	**8.0%**	**8.2%**
Interest	**38.8**	**46.2**	**51.0**	**19.0%**	**18.8%**	**16.4%**
Subtotal: Government Services	204.4	245.5	301.2	100.0%	100.0%	97.1%
Plus: Contingency reserve	0.0	0.0	8.0	0.0%	0.0 %	2.6%
Total consolidated expenditure	**204.4**	**245.6**	**310.3**	**100.0%**	**100.0%**	**100.0%**

As the following table shows, the cuts in government spending in 1997 to 1999 hit hardest at defence, education, health and infrastructure. The growth in 1999 to 2001 also focused on these sectors. Defence in particular grew very rapidly.

Nonetheless, according to the 2001 MTBPS projections, by 2004 spending per person in education and health will still be lower than it was in 1997.

Changes in spending in real terms per person, by function

Function	% real growth in spending				% real growth per person			
	1997-1999	1999-2001	2001-2004	1997-2004	1997-1999	1999-2001	2001-2004	1997-2004
General government and unallocable expenditure	0%	9%	8%	17%	-4%	4%	1%	0%
Protection services	0%	17%	6%	24%	-4%	12%	-1%	6%
• Defence	-12%	30%	4%	19%	-16%	25%	-3%	2%
• Integrated justice system	8%	10%	7%	28%	3%	6%	0%	9%
Social services	6%	11%	8%	13%	-11%	6%	1%	-4%
• Education	-7%	11%	5%	9%	-11%	6%	-2%	-7%
• Health	-5%	8%	10%	13%	-9%	3%	2%	-4%
• Social security and welfare	1%	13%	11%	26%	-3%	8%	4%	8%
Economic services	-14%	25%	11%	19%	-18%	19%	3%	2%
Total functions	-5%	13%	8%	16%	-9%	8%	1%	-1

1. Calculated using CPI for 1997 to 2001, and MTBPS projections for CPI for 2002 to 2004. 2. Calculated using population growth at 2,3% a year, as estimated by the 1996 Census.

5.2 Debates about the structure of government spending

How people assess government's allocation of spending depends on their view of the role of the state in development.

One view argues that the **free market** must drive economic growth and development. This view is sometimes called **"neo-liberal."** In this view, the state should focus on administration and security. That is because markets can't function unless the state protects private property.

In this view, the state should provide other services only where the private sector won't supply them. There are various reasons for this, including:

- Private producers may not be able to control use of a good so that they can sell it. This is true for local roads, for instance.
- Users may not be able to pay enough for services for private producers to make a profit. Thus, many people cannot afford to pay the full cost of

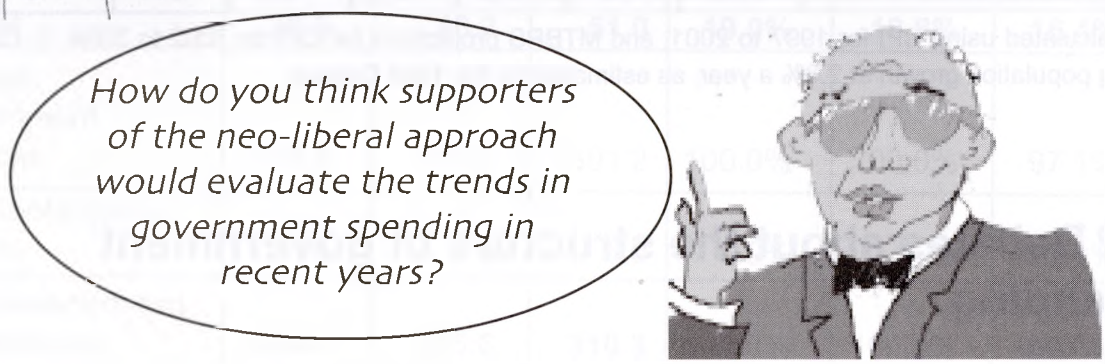
Definition: A monopoly is when one producer controls the market for a good or service. It may limit the production of that good or service in order to keep the price up.

education, health care, water, electricity or telephones. To ensure these basic needs are met, government may provide them.

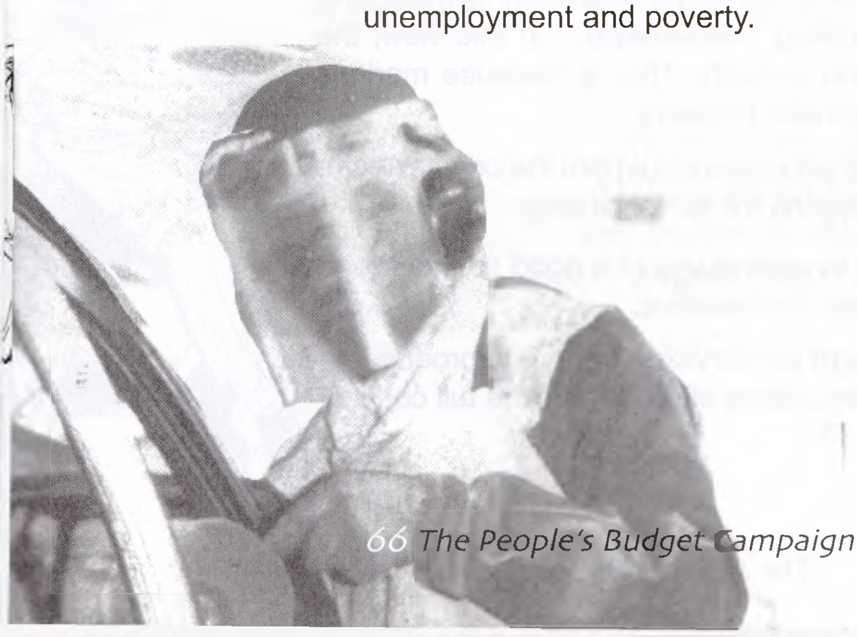
- For some types of infrastructure, like electricity and telephones, it is more efficient to have only one supplier. Then the state may step in to avoid having a private monopoly.

Supporters of the free-market approach often argue that even in these cases, the state should try to set up markets or make government agencies act as if they were private companies. Thus, they argue that it is important that people have to pay for government services; that government institutions should have to make profits; and that they should have to compete with the private sector where it is possible. This is the approach that leads to the full or partial privatisation of government services.

For instance, from this standpoint, it is important that schools and clinics charge fees. Then people won't take education or health care for granted. Moreover, the better schools and clinics will be able to charge higher fees – and that will provide an incentive to teachers and nurses to provide a better service.



The People's Budget takes a more **developmental view.** It argues the developmental state does have to carry out administrative and security roles. But it also has four other important functions, which aim to overcome unemployment and poverty.



First, the state must drive an economic strategy that focuses on providing strong policy support for sectors to protect and create quality jobs, meet basic needs for the poor and expand exports. This strategy has to be worked out in consultation with the main constituencies of civil society, through sector job summits, consultation at NEDLAC, and so on.

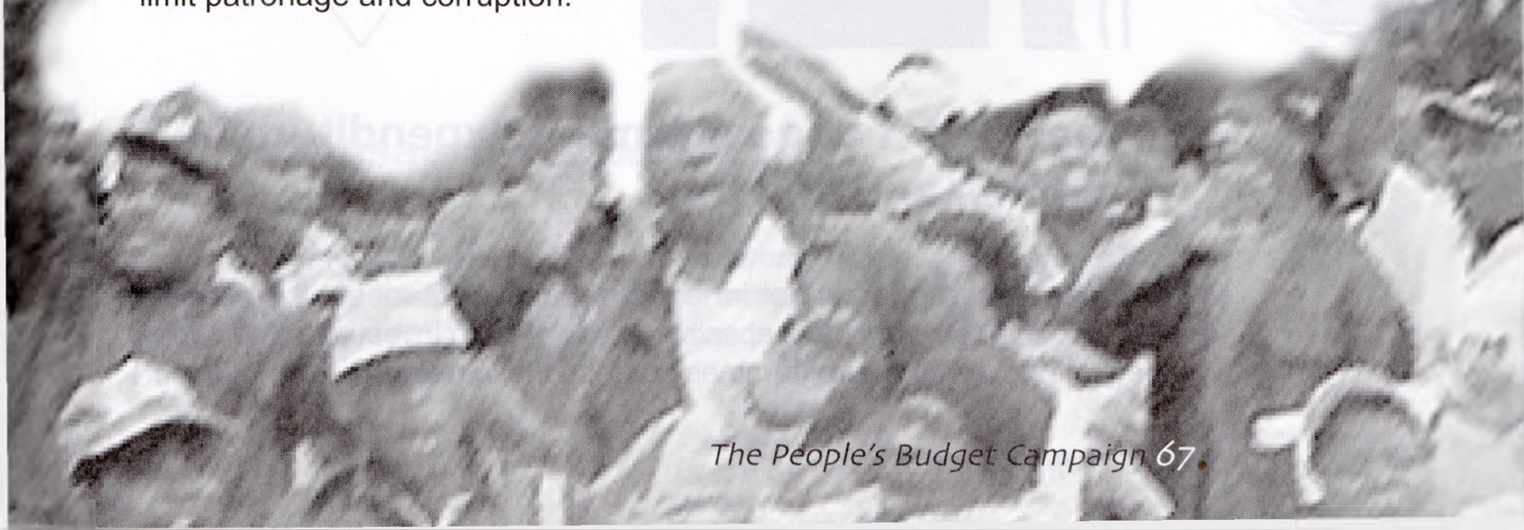
Second, the state must provide social protection that sets a floor under living standards for all South Africans. Social protection means government services and grants provided to households to ensure that no one faces absolute poverty.

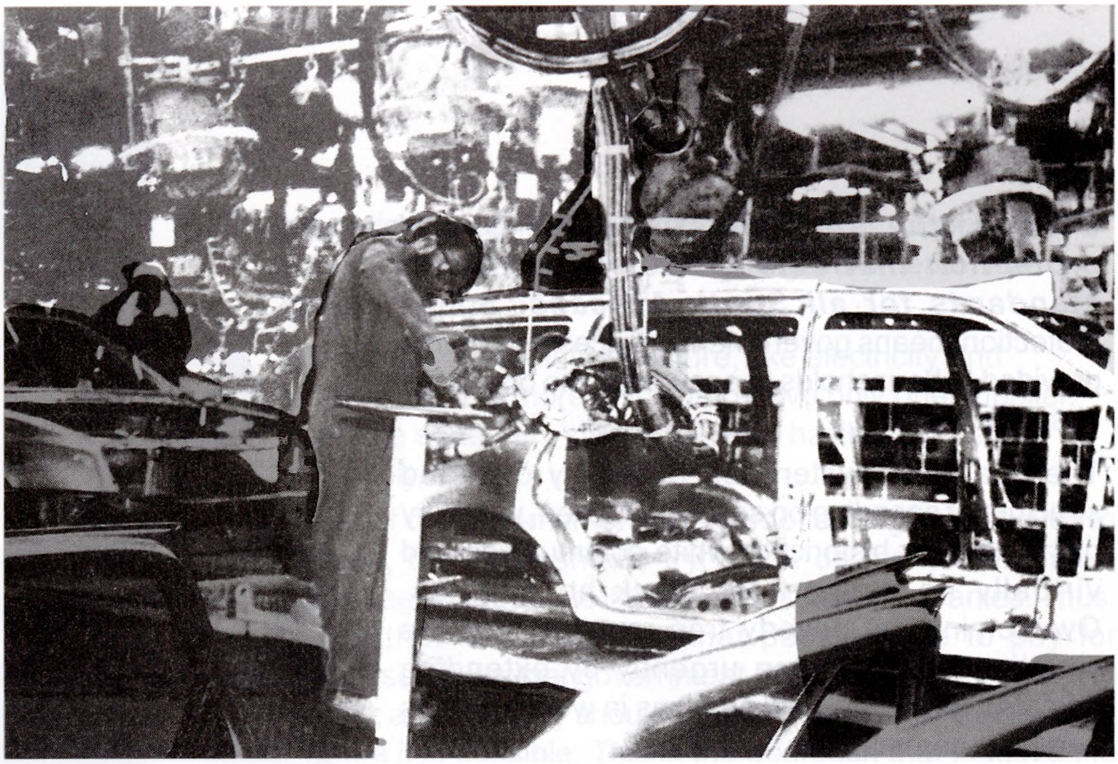
The apartheid system left a heavily distorted structure of spending on social protection, with very high levels for historically white communities and virtually no support for black households. Overcoming the poverty trap requires that this situation be overcome urgently by extending infrastructure and social services in working-class and poor communities.

In particular, government must:

- **Supply welfare grants, education, health care, policing and housing at a level sufficient to support community development;**
- **accelerate skills development and improve education on a mass scale;**
- **develop more efficient public systems to meet retirement, transport and health needs for working people, which effectively enhances the efficiency of the economy as a whole; and**
- **be designed to support economic growth and employment creation.**

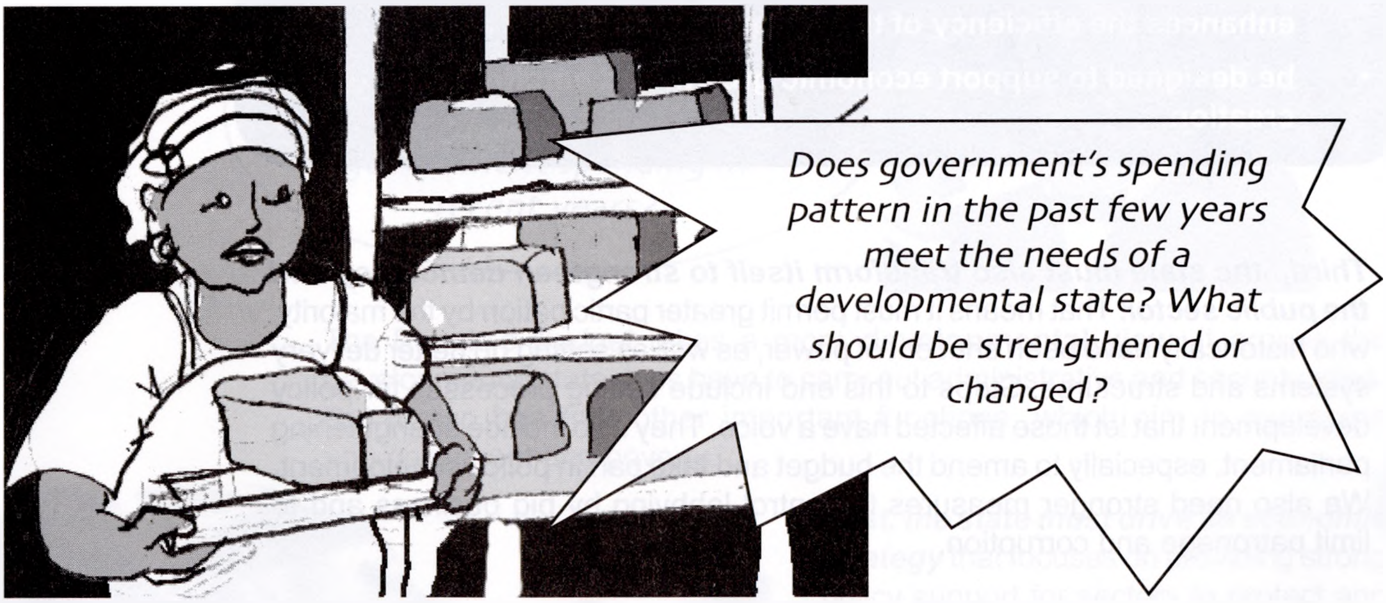
Third, the state must also transform itself to strengthen democracy and the public sector. That means it must permit greater participation by the majority, who historically have been shut out of power, as well as setting up better delivery systems and structures. Steps to this end include setting processes for policy development that let those affected have a voice. They also include strengthening parliament, especially to amend the budget and take part in policy development. We also need stronger measures to control lobbying by big business and to limit patronage and corruption.





Finally, the developmental state must support new centres of economic power. All the other strategies can contribute to this aim. They can change the nature of wealth by supporting a stronger state sector, co-operatives and small and micro enterprise. This can be linked to land reform, improved housing and investment in skills development.

This developmental approach requires a very different pattern of spending from that proposed by free-market supporters. It would require that government have enough resources to provide social protection and intervene decisively to restructure the economy.



5.3 The impact of government expenditure on women and children

We can also assess the budget in terms of how well it meets the needs of women and children, who have special needs. We can investigate the budget to determine how well its programmes address these needs.

Government programmes affect women differently from men because:

* More women are poor and unemployed. Programmes to benefit the poor are therefore particularly important for women.

* Poor women in particular are more likely to live in the former homeland areas, where government programmes are typically poorly funded.

* Most women end up doing the housework and childcare. Where there is no piped water, electricity, sewage, refuse removal or adequate housing, and where schools, pre-schools and health care are inadequate, this imposes a particularly heavy burden. For instance, if government introduces homecare for people with AIDS in order to reduce the costs to the health system, women often end up providing the care as unpaid household labour.

* Women need government support to redress and overcome discrimination. It is thus critical for women that public works, education and training and employment equity programmes, amongst others, are designed with women's needs in mind.

* Health care, education and cleaning in the public service are amongst the largest employers of women. Measures that affect these sectors - and the public service in general - thus have a particularly large impact on women.

* Women need government programmes to address their special requirements around health and security, including reproductive health, childcare and family violence.

For several years, a group called IDASA has published a Women's Budget for South Africa. The Women's Budget analyses how the budget affects women. You can find more about it on the IDASA website (www.idasa.org.za).

Like women, children need targeted government programmes. These include appropriate health, education, transport, welfare and security programmes. These needs are particularly acute for the growing number of AIDS orphans. Like women, a disproportionate number of children live in the former homelands.

5.3 Proposals on expenditure

In line with its overall vision of a developmental state, the People's Budget proposes some basic changes in government expenditure. These changes are possible only with a substantial increase in the total budget, as discussed in Chapter Three.

The main proposals for specific projects in the People's Budget are:

1. Improved spending on overall social protection

The People's Budget argues that the budget for all major social functions must rise by at least 2% over the population growth for the next three years. That means it must grow 4,3% a year in real terms.

In this context, the People's Budget makes three proposals that would radically change current systems:

- the establishment of a Basic Income Grant,
- National Health Insurance, and
- a comprehensive programme on HIV/AIDS.

The **Basic Income Grant** would give every South African a relatively small sum – between R100 and R200 – a month. That means a family of four would get a grant of around R400 a month. Together with part-time jobs, hawking and similar activities, it would be enough to ensure that the family would not face absolute poverty. For rich people, the amount of money is small; but for very poor families, it would make a huge difference. It would prove an important step toward getting South Africa out of the poverty trap. To help pay for the Basic Income Grant, the People's Budget proposes a higher tax on the rich.

The advantage of the Basic Income Grant compared to other welfare grants is that it would reach everyone, and not just the old, disabled or children, like current grants. That would make it easy to administer and effective.

National Health Insurance would establish a system where all health care is paid for by the state. There would be no more private provision of health care. This would dramatically increase the resources available to the public-sector health system, and therefore improve poor people's access to decent

health care. Right now, two thirds of health resources are in the private sector, but only about 20% of the population uses private health care.

In addition, by setting up a single, unified health system, National Health Insurance should save a lot of administrative and procurement costs. That should make health care cheaper and more efficient overall.

Under the proposed National Health Insurance system, the state would set rates for health care. It would reimburse all health providers according to those rates. The money would come from taxes that would be set at the same amount that people now spend on private health care, through medical aids and direct payment to doctors.

A comprehensive programme for HIV/AIDS would involve education and counselling, prevention and treatment. This is important because up to 25% of the population is now infected with the AIDS virus. The People's Budget argues that to deal with the epidemic requires:

- A **massive educational campaign, in schools, workplaces and communities**. This must include measures to empower women so that they can refuse unsafe sex.
- **Programmes to prevent the spread of the disease,** including making safer sex more accessible to the poor by providing condoms, and giving pregnant women with HIV a medicine, called Nevirapine, so that their children are less likely to become infected.
- **A treatment strategy.** The treatment strategy must provide for the diseases that come with AIDS, which are called "opportunistic" diseases, like T.B. and thrush. It must also ensure comprehensive treatment for STDs. Finally, it must give poor people access to anti-retroviral treatment – a medication that does not cure the HIV infection, but does stop it for years, even decades, from progressing. With anti-retroviral treatment, a person with HIV can stay healthy for much longer.

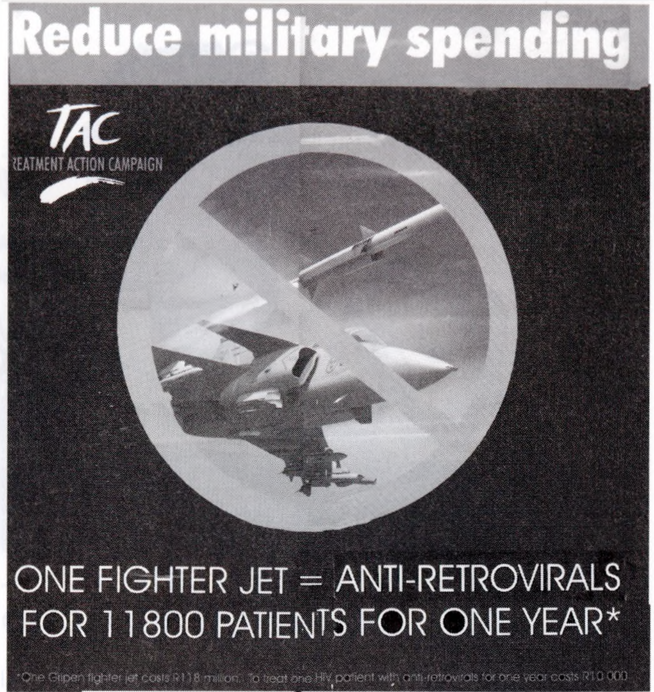
These programmes require a major increase in the health budget. But the costs are far outweighed by the benefits to society, in terms of people living longer lives and being able to work longer, and by reducing the number of orphans as a result of AIDS.

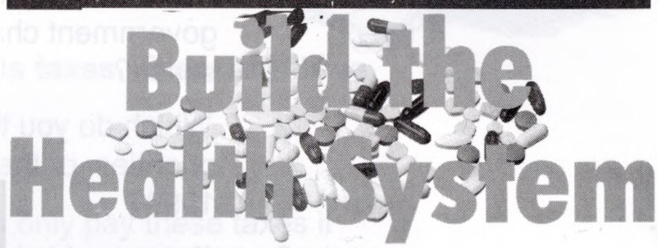
The most expensive part of the proposal is the provision of anti-retroviral drugs. This is because the big companies that produce these medicines charge very high prices. Government has passed a law that would let South African companies produce these medicines much more cheaply. Government should urgently use this law to give South Africans with HIV access to affordable treatment.

2. Increased and improved spending on household infrastructure

Household infrastructure means electricity, water, roads, and so on, which are mostly part of municipal services. To help break out of the vicious cycle of poverty we need more infrastructure, but we also need to expand the budget for maintaining infrastructure that already exists.

- In particular, housing has to be built closer to employment opportunities in industrial areas and city centres. We need to design it better.
- We need to link infrastructure development to a proper economic strategy that will restructure the economy to create jobs. Specifically, housing must be closer to job opportunities in industrial areas and city centres. Otherwise poor people have to pay too much in transport costs, if they can find a job at all.
- The commitment to providing free basic services for all is a critical part of social protection. We need a well-defined strategy to implement this strategy. The current push to privatise services through public-private partnerships and restructuring the big parastatals, especially Eskom and Telkom, undermines services for the poor. It makes a mockery of the promise of free basic services, since it pushes up the cost of basic infrastructure tremendously.





3. Areas where government spends too much

Finally, the People's Budget calls for a cut in military procurement as well as more efficient ways to finance public servants' pensions.

The programme of buying new weaponry – including submarines and airplanes - pushed up the share of the military in total government spending. Defence spending rose 30% in real terms between 1999 and 2001. In the same two years, welfare rose 8%, education 6%, and health by 3%.

The final cost of the arms package is hard to tell, because the weapons are almost entirely imports from Europe. That means that every time the rand is devalued, their cost goes up. The package started at R30 billion, but is now estimated at R60 billion.

The People's Budget also argues that government can free up some funds for social programmes by funding public servants' pensions more efficiently. The Government Employees' Pension Fund (GEPF) is a defined-benefit fund – that is, employees' benefits are guaranteed. If the GEPF's investments do not return enough to cover retirement costs, they must be met out of the budget. Government bonds held by the GEPF account for about a third of all government debt. It would be cheaper to reduce the funding level of the GEPF and turn the funds to developmental uses, meeting the cost of public servants' pensions where necessary from the budget.

The People's Budget proposes:

- Reducing the employer contribution to the GEPF to 12% of salaries. That will save a total of R1,5 billion a year.
- Reducing the GEPF's funding level by 2%, or R3 billion a year, for the next three years, and using the funds for once-off investments in infrastructure and housing.

Questions/Actions

1. How has the structure of spending by your province or local government changed in the past five years? Do the changes make sense?
2. Which do you think is a bigger problem – changes in spending priorities, or the overall decline in government spending in 1996 to 1999?
3. If you could change the pattern of government spending, what would you do? Write a letter to the Minister of Finance explaining your proposals.

Chapter 6. Taxation

This section first reviews the main kinds of taxes. We then explore the main debates about taxes. The final part looks at what the People's Budget proposes on taxes.

6.1 Different types of taxes

The main source of income for the government is taxes. There are three main kinds of taxes:

1. **Income taxes on personal income.** You only pay these taxes if you are earning above about R2500 a month. The more you earn, the higher the percentage of your income you have to pay in tax – but you will still take home more money than people who earn less. If you are an employee, your employer should take out the tax before paying you. If you are self-employed or own a company, you report your income to the SARS – the South African Revenue Services, the government's tax collection agency – and then pay tax on it.
2. **Income taxes on companies.** Companies pay a fixed percentage of their profits, no matter how big or small they are. They determine their income by subtracting expenses allowed by law, such as salaries and inputs, and then pay tax on what is left over – their profit.
3. **Sales taxes, like the VAT (Value Added Tax).** The VAT is 14% of the cost of almost any good you buy. It is included in the price of goods when you buy them. That means that everyone, rich or poor, ends up paying this tax.

One of the main ways we evaluate taxes is to ask if they are progressive or not. A progressive tax makes the rich pay a higher share of their income. A flat tax means everyone pays about the same percent of their income. A regressive tax makes poor people pay a higher percentage of their income than rich people.

To improve the distribution of income, it is important that the overall tax system should be progressive. That means rich people, who can afford to pay, contribute more to government services. They will still be better off than poor people, however.

Ensuring a progressive tax system is particularly important in South Africa, because our income distribution is so unequal. But the effect of the budget on redistribution also depends on how government spends the money it raises.

Government programmes must also favour the poor, or having progressive taxes won't do much to improve equity and accelerate development.

The personal income tax is a progressive tax. People earning less than R2500 a month – about 80% of all South Africans – do not pay any income tax. For people earning over R2500 a month, the higher their income, the higher the percentage they pay in tax, up to around R200 000 a year. At that level, you pay 42% of your salary in tax.

Company income tax is also progressive, because company profits mostly go to the rich. But companies can evade tax more easily than individuals, by claiming their costs are higher than they really are. For instance, if companies pay their managers very high salaries, give them fancy cars or vacations, they can count these as costs. That means they report lower profits to SARS, and pay less tax.

Unlike the income tax, **the VAT is a regressive tax.** Poor people pay a higher share of their income in VAT than rich people. That is because you don't pay VAT on savings, and rich people can save more. Government did "zero rate" – eliminate VAT – on some basic goods, but only on very few. The main zero-rated goods include brown bread, tripe and paraffin. Because so few necessities are zero-rated, studies show the VAT is still regressive. The following table indicates that poor people pay 10% of their income in VAT, while rich people pay only 7% of their income.

VAT burden on households, by income level

Annual household income	*Total VAT paid*	*VAT as % of household income*
R18 000	R1 799	10%
R 30 000	R2 910	10%
R 75 000	R 6 141	8%
R 140 000	R10 241	7%

Source: *Department of Finance*

Overall, the tax structure in South Africa is progressive. This is because most of the government's income comes from income taxes. Still, over time, there has been a shift from company tax to individual tax, and from income tax to VAT. The following table shows the changes.

Changes in tax revenue since 1994

	1997/8 Actual	*1999/2000 Actual*	*2001/2 Budget*	*2003/4 Projection*
Taxes on income and profits in millions of rand	R 95 mn	R117 mn	R132 mn	R158 mn.
of which: % from				
• personal income tax and skills levy	41%	43%	39%	40%
• VAT	24%	24%	25%	25%
• company income tax	12%	11%	13%	13%
• excise and levies	12%	12%	11%	10%
• other company taxes	4%	5%	5%	5%
• tariffs and stamp tax	4%	4%	5%	5%
• taxes on property (mostly transfer duties)	2%	2%	2%	2%

Source: Calculated from, National Treasury, *Fiscal Review 2001*, Table 2, pp. 188-9

In addition, in recent years government has cut tax rates in ways that make the overall tax system less progressive. It has improved tax collection, so that people and companies pay more of the taxes that they owe the state. But because of the fiscal policy, which means government wants to keep tax revenue to 24% of GDP, it has cut income tax rates. In the past three years, it has cut the income tax for the rich faster than for the poor, and it has cut the rate of company tax.

6.2 Debates on taxation

The main debates on taxation reflect the divisions between neo-liberal and developmental views discussed above.

In the neo-liberal perspective, when government taxes the rich and business, it takes away money that would otherwise be used for investment.

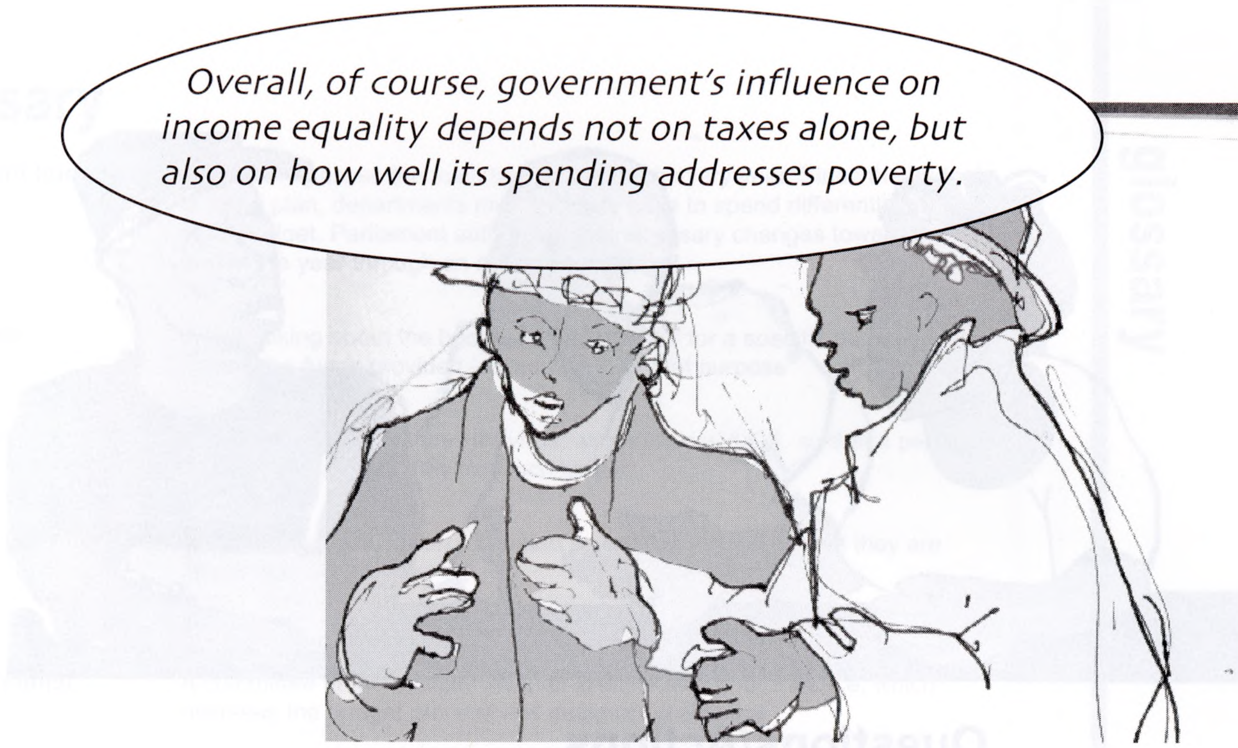
Neo-liberal supporters claim that company taxes will not help the economy to expand or create jobs. Business has made this argument strongly in NEDLAC. It claims that South African taxes are relatively high, and that is why investment is very low. As the graph on page 37 shows, the facts do not support this argument. South African taxes are not high by international standards.

Supporters of the neo-liberal view argue that government should raise more money through the VAT. It could then reduce taxes on the rich and on business. In addition, they argue that:

- The VAT affects everybody. That makes it more stable. In contrast, because so many people are poor and unemployed, relatively few pay income tax. That means that the tax revenues may be unstable.
- The VAT is very easy to collect and hard to avoid. But businesspeople can easily reduce their income tax by saying they are earning less than they are, or that their costs are higher.

From a developmental perspective, these arguments do not work. Above all, given the vicious cycle of poverty, the rich and business have little incentive to invest. The developmental state must create the conditions that will make investment attractive. To that end, it needs substantial resources to address poverty, improve infrastructure and back up measures to restructure the economy.

In these circumstances, if government taxes are regressive, they will contribute to inequality and poverty, which are among the main obstacles to private-sector investment. That far outweighs the advantages of a tax system that is easy to enforce.



6.3 The People's Budget proposals on taxation

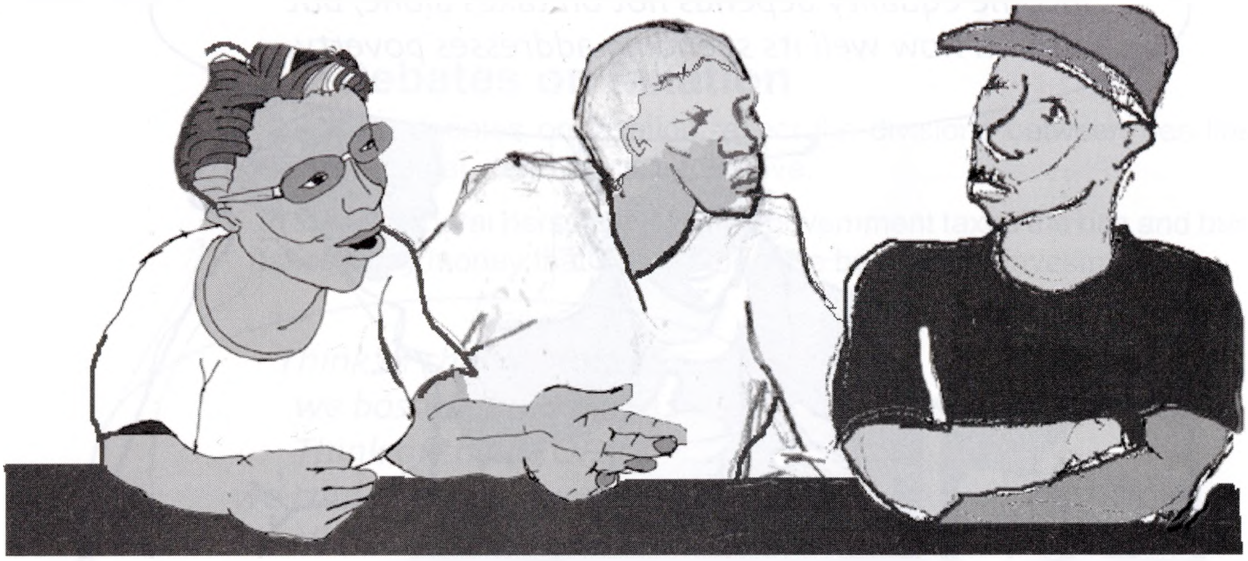
The People's Budget proposes changes to the VAT to make it progressive. To that end, it calls for:

- Zero-rating of more goods, including bread flour, white sugar, matches, candles, coal, coal stoves, white bread and most medicines. These are goods on which poor people spend a large share of their income. But they are not very important for the rich.
- A higher VAT rate on luxuries – good that only relatively rich people can afford. These include luxury cars, video cameras and recorders, decoders, satellite dishes, furs, air conditioners, caravans and yachts. The higher rate on these goods would help offset the cost to government of zero-rating more necessities.

Critics argue that this system would be too difficult to implement. But in fact, most countries have multiple VAT rates like the People's Budget proposes. Worldwide, less than 20 countries have a single VAT rate.

In addition to restructuring the VAT, the People's Budget calls for two changes in income tax.

1. A surcharge on the income tax to pay for the Basic Income Grant. This surcharge would be a solidarity tax, so that the rich could contribute to alleviating poverty.
2. An increase for health funding under the National Health Insurance equivalent to the current cost of private medical care. This would seem to increase tax rates, but in fact would only equal costs that the rich already have to meet. Moreover, as the National Health Insurance leads to more efficient health provision, the overall cost should decline over time.



Questions/Actions

1. Can you calculate how much tax you spent last year in income tax and in VAT? Do you think this amount is fair? How much tax would someone pay who received R350 000 a year? Is it more or less than what you pay as a percentage of income?
2. Do you think government should try to increase or reduce taxes on companies? Why or why not?
3. What goods do you think should be considered necessities under the VAT, and what goods should be luxuries?

glossary

Adjustment budget	Parliament passes the main budget in March every year. Since the budget is just a plan, departments may find they have to spend differently from the main budget. Parliament authorises the necessary changes toward the end of the year through an *adjustment budget.*
Allocations	When talking about the budget, an "allocation" for a specific purpose means the funds provided – allocated – for that purpose
Anti-retroviral drugs	Medication that fights the HIV virus, which causes AIDS, so that a person with HIV remains healthy for much longer
Audited	Accounts that have been evaluated by auditors to ensure that they are reasonably accurate.
Budget	*a financial plan that says how much will be spent and how it will be spent*
Budget Council	A committee of the national Minister and the MECs for Finance, which oversees the budget process and designs fiscal policy
Budget vote	*See vote*
Contingency reserve	Funds set aside by the government since 2003 to deal with emergencies and unanticipated needs
CPI	Consumer Price Index, a measure of the inflation experienced by consumer.
Crowding in	The argument that government spending helps to increase private-sector investment.
Crowding out	The argument that if government spending is too high, it will lead to a decline in private-sector investment.
Deficit	Government borrowing to fund the budget
Department	*Government departments are the divisions of government that are responsible for particular areas of work, like health or education.*
Developing country	Countries that, like South Africa, have high levels of poverty. Most former colonies are developing countries.
Excise duty	Taxes on specific goods and services, such as liquor and cigarettes
Executive	*The state departments, which are ultimately run by Cabinet*
Expansionary policy	A fiscal policy that calls for an increase in government borrowing and taxation
Fiscal policy	*Fiscal policy is government's policy on how much money to raise for the budget through taxes and borrowing*
Fiscal year	The year from the date the budget is passed. In South Africa, the fiscal year starts in March

GDP	Gross Domestic Product, the total value of all goods and services produced in the country in one year.
GEAR	*Growth, Employment and Redistribution strategy – government's overall economic strategy, initiated in 1996*
GEPF	Government Employees Pension Fund – the pension fund for national and provincial public servants
Income tax	A tax on income. Company tax is the income tax for companies; personal tax is the income tax on individuals.
Inflation	Prices tend to increase every year. The overall price increase is called *inflation.* To calculate inflation, government assesses what good and services the average household buys, then calculates the weighted average of the increase in prices on these purchase.
Infrastructure	Roads, electricity, water and similar systems
MEC	Provincial Member of the Executive Council - that is, a provincial Cabinet member.
Monopoly	When one producer controls the market for a good or service
MTBPS	Medium Term Budget Policy Statement. Toward the end of the year, government announces its medium-term spending plans by presenting the MTBPS to Parliament.
MTEF	*Medium Term Expenditure Framework – government's budget for the coming three years. The three-year projections in the MTEF are updated every year.*
NEDLAC	National Economic Development and Labour Forum – a statutory body established to facilitate consultation on policy between government, organised labour, organised business and, on some issues, other sectors of civil society.
Neo-liberal	Supportive of a free-market approach
Nominal value	The price or cost of something without taking inflation into account – that is, what is actually paid for a good or service. The nominal value of spending under the budget is what is allocated in rand every year.
Outcomes	*The overall impact of a programme, as opposed to its immediate outputs. For instance, the* outputs *of the Housing Department are houses; the* outcomes *should include reduced homelessness and better public health*
Outputs	*Products*
PFMA	Public Finance Management Act, which regulates financial management by national and provincial government agencies
Progressive tax	A tax where the rich pay a higher percentage of their income than the poor, like the income tax

Provincial Executive Council	Provincial Cabinet
Real value	The price or cost of something taking into account inflation – the general increase in prices. To figure out the real value, you have to reduce the price by inflation. The real value of spending under the budget is the amount allocated less the amount of inflation.
Regressive tax	A tax where the poor pay a higher percentage of their income than the rich, like the VAT
Restrictive fiscal policy	A fiscal policy that tries to reduce government borrowing and taxation
Revenue	The income government gets from taxes or payments for services
Rollovers	Funds that are budgeted but not spent by the end of the fiscal year
Social protection	Government services and grants to combat poverty
Sphere of government	The level of government – national, provincial or local
Stakeholders	Groups affected by a decision or policy
STDs	Sexually transmitted diseases, such as syphilis and HIV
Treasury	The government department that draws up the budget
Unallocable expenditure	Funds that are not easily classified according to specific functions
VAT	Value Added Tax – a tax on all sales of goods and services
Vote	*A budget "vote" is the allocation to a department under the budget.*
Zero-rating	Charging no VAT on specific goods such as brown bread and paraffin

BUDGETING FOR PEOPLE'S NEEDS

an educational guide to budget

COSATU SANGOCO SACC

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