MEDIA RELEASE

To: All media
Date: 22 February 2017
Subject: **Budget 2017 is not transformative**

This budget does not respond to the real context and crisis on what is happening on the ground. It is not transformative.

The Minister indicated that the budget is "highly redistributive to poor and working families." He asks, "Can we, in this spirit, say: we have built a better South Africa, with a more inclusive economy, and all citizens living in dignity, advancing economically, over generations to come."

We judge this question from the perspective of low-income South African households – through the value and increases of the grants; and in relation to company income tax.

Old-age grants
The Minister announced that the old-age pension will be increased by R90 (5.96%) to R1 600.

- *Headline inflation in the Consumer Price Index was 6.6% y/y and on Food and Non-Alcoholic Beverages was 11.4% y/y (January 2017).*
- *Between December 2016 and January 2017 the cost of the PACSA Food Basket, a basket of food which women in low-income households have told us they try and buy each month increased by R112.77 or 5.7% (from R1 980.18 to R2 092.95).*
- *Inflation on the PACSA Food Basket increased by 16.5% year-on-year (an increase of R295.91 from R1797.04 in January 2016 to R2092.95 in January 2017).*
- *A 25kg bag of maize meal – the staple food in most low-income households increased by 36% year-on year (an increase of R65.18 from R179.14 to R244.32).*

An increase of R90 (5.96%) on the old-age pension is below current headline inflation and further below inflation on CPI Food and Non-Alcoholic Beverages. It is further below inflation measured in the PACSA Food Price Barometer – an index which specifically measures inflation for low-income households. Pensions are used primarily to secure food for low-income families. The R90 increase will mean that households will be worse off in 2017 than they were in 2016. Not ensuring that people are able to afford good quality nutritious food directly undermines investments in education and health.

For the majority of workers in South Africa, high unemployment and a low-wage regime mean that workers are not paid enough to secure the goods and services required for their families to live at a basic level of dignity let alone to invest in their own retirement. Not paying workers a decent wage means that on reaching retirement age, the majority of South African workers are solely dependent on the state old-age pension, often the only source of income in homes. On retirement age, the financial obligations of a pensioner do not decrease.

Child Support Grants
The Minister announced that the Child Support Grant will be increased by R20 (5.56%) to R380. This equates to R12.67 per child per day.

- *In comparison, inflation on the cost of food to provide for the basic monthly nutritional and health needs of children aged between 10-13 years increased by R66.48 (11.6%) y/y (from R573.71 to R640.19).*
- *Statistics South Africa's food poverty line is R498 for one person per month (R16.60 per day).*
- *The January 2017 cost of feeding a small child aged between 10-13 years old a basic but nutritionally complete monthly diet is R640.19 (R21.34 per day).*
- *As children grow older their nutritional and educational needs and the cost of these needs increase: in January 2017 it cost R680.23 a month to feed a girl child aged between 14-18 years (R22.67 per day); and R758.49 to feed a boy child aged between 14-18 years (R25.28 per day).*

The CSG's rand value of R380 is below the food poverty line. It not enough to meet the nutritional requirements of a small child aged between 10-13 years. It will mean an underspend of 40.6% on the plates of children. A R20 or 5.56% increase on the CSG will mean that children will be worse off than they were in 2016. Not ensuring that children are able to eat enough nutritious food will directly undermine our education and health outcomes and our long-term economic outcomes.

Company Income Tax

In contrast to the below inflation increase on social grants, company income tax was left untouched.

Since 2012, Company Income Tax has been cut from 34.55% to 28%. The hope was that this would lead to increased employment and a lowering of poverty but these breaks do not appear to have yielded any significant returns in employment, raised wages or increased investment. Tax breaks to companies could have been better spent if they were used to increase wages and social grants. The 2015/16 term, for example, collected revenues via a 28% CIT which amounted to R193.4bn.[i] *If the CIT had remained at pre-2012 levels (34.55%); revenues collected via CIT (at the 2015/16 level) would have yielded around R238.6bn – this is R45.2bn more than what was collected.*[ii] *The CIT rate has been at 28% since 2013.*

We need to think differently about our economy

For the past decades we have used the same fiscal and economic framework to try to create employment and eradicate poverty. In this framework we have primarily focussed on investments in the supply-side of our economy, in the hope that big corporates will lead us out of the economic crisis we face. But these investments have not had the desired effect. Our fiscal and economic policies have directly contributed to prolonged periods of high unemployment and low baseline wages which have starved our pockets and our local economy. Unemployment has increased. Inequality has increased. Inflation on goods and services for low-income households has far exceeded annual increment increases on wages and grants. The affordability crisis has deepened for low-income households and is now affecting the middle class. This budget continues this trajectory.

Putting more money into the pockets of citizens directly, through increased social spending and higher wages, would have stimulated demand at the local level and drawn more people into economic activities where they are located. This kind of investment would decentralise economic activity, create more jobs and stronger growth. It would be more inclusive, broad-based, more resilient and under local control. It is the type of growth that would have been good for all of us and responded to our current economic crisis.

We required something different from the Minister. Something that was bold, new and with a future-orientated focus that builds up the social base and builds the local economy from below.

This budget does not respond to the real context and crisis on what is happening on the ground by ensuring that people have money in their pockets so that they can take greater control of the local economy and find a way out of the crisis of unemployment, poverty and inequality. We do not believe that this budget builds a better South Africa, with a more inclusive economy, and all citizens living in dignity, advancing economically, over generations to come.

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[i] 2016 Tax Statistics. **National Treasury and South African Revenue Service**. November 2016. See link: http://www.sars.gov.za/AllDocs/Documents/Tax%20Stats/Tax%20Stats%202016/Tax%20Stats%202016%20Full%20document%20web.pdf

[ii] Own calculations using 2016 CIT Tax Statistics (see reference above).