MEDIA RELEASE

To: All media
Date: 21 February 2018
Subject: **Budget 2018 does not respond to the economic crisis as experienced by millions of Black South Africans.**

The Minister of Finance described the budget as a way out of economic stagnation. However our assessment of Budget 2018 is that it does not respond adequately to the economic crisis as experienced by millions of Black South Africans. The low baseline wage regime coupled with poverty-level grants in a context of massive levels of unemployment mean that the majority of households do not have enough money in their pockets to absorb the now prolonged economic crisis, let alone spend to support the economic activity that remains, invest in alternative livelihoods, or save for retirement. Millions of households cannot afford to buy even a basic basket of food.

Budgets are political; it is a statement of values and an indicator of the vision of the society that the state is working towards. In times of economic crisis it is incumbent on the state to invest in its people and to prioritize spending towards building a social base from which greater economic activity can later be realized. ***This budget fails to do this because it has not substantially increased the value of social grants and has increased VAT to 15% and introduce an additional 52 cents per litre on the fuel levy.*** *The increase in VAT takes the total VAT on the February PACSA Food Basket to R221.59 per month vs. a staggered R30 on the Child Support Grant and a staggered R100 on the Old Age Grant. The incremental increase in social grants has not compensated households living on low incomes for VAT nor the 52 cents per litre increase in the levies on fuel which will reverberate throughout the economy and make all goods and services, especially food more expensive and increasingly unaffordable.*

We expected the budget, if it is framed in terms of a society which values human dignity, to have responded directly to the economic crisis by finding ways to put more money into more people's pockets through increased social spending and higher wages thereby responding to the immediate affordability crisis faced by millions of households whilst stimulating demand at the local level and drawing more people into economic activities where they are located so that millions of excluded citizens can create their own paths to a livelihood outside of the currently stultifying jobs framework which relies on big corporates. This budget has failed in this respect. This becomes clear when we review the budget from the reality in which the majority of South Africans find themselves in.

National statistics from Statistics South Africa show that:

- Over the past 4 years there has been little change in the racial structure of unemployment; little change in the rate of unemployment; and that levels of unemployment for Black South African workers has stagnated at extremely high levels (see Fig 1).
- 9.2 million South Africans are unemployed, of which 8.3 million Black South Africans are unemployed.
- The expanded unemployment rate for Black South African workers is 40.7%.

Our unemployment rates are so high that they have lost their value in helping us to understand how households are getting by. For this we have to look at the numbers of people who are actually employed. For this we have to look at the proportion of the working age population that is employed. The labour absorption rate shows that out of 10 Black South Africans of working age, only 4 have a job (labour absorption rate is 40.1%). See Fig 2.

- 12.1 million Black South African workers support 45.7 million persons who live in 13.5 million households. Black South African households typically rely on just one wage earner and this wage must support a reductive average of 3.8 persons. For lower income households the wage must spread further.
- In this context the level of the wage paid to the employed worker becomes extremely important. South Africa's low baseline wage regime has not been transformed. See Fig 3. The median wage for Black South Africans is R2 900 a month, dispersed through a family of 3.8 the wage is R763.16 per capita per month (the upper bound poverty line is currently R1 138 per capita per month). Baseline wages for the majority of Black South African workers, when dispersed through a family is a poverty wage.

The very low and stagnating employment rates suggest Black South Africans have been under severe financial pressure for a prolonged period of time and that the buffers needed to absorb shocks have already been eroded or are close to being eroded. It suggests that South Africa is struggling to create jobs and this trajectory is unlikely to change anytime soon.

The economic crisis is seen in rising levels of poverty and child stunting. Poverty levels have undergone a marked reversal upward since 2015.

- In 2015, nearly two thirds (64.2%) of Black South Africans lived in poverty. In 2015, more than a quarter (25.2%) of South Africans lived below the food poverty line.
- Nearly a third (30%) of boy children under the age of five years are stunted and a quarter of girl children are stunted (25%). Stunting has immediate and long term health and developmental consequences.

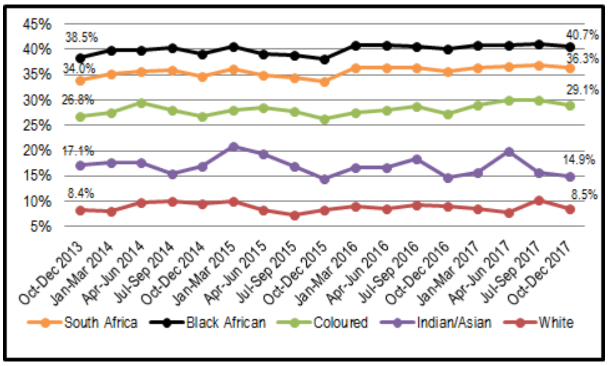

Fig 1: Expanded unemployment rate by population group (2013 to 2017).

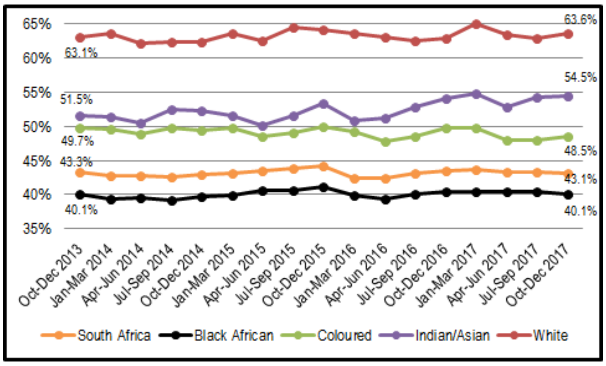

Fig 2: Absorption rate by population group (2013 to 2017).

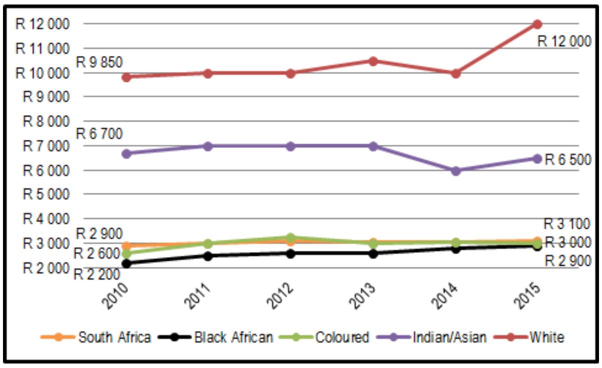

Fig 3: Median monthly earnings by population group (2010 to 2015).

PACSA's latest food price data show that:

- Over the past six months the PACSA food basket which women living on low incomes with households of seven members say they try and buy each month increased by R229.34 or 8% to R3 115.07 in February 2018 (See Fig 4).
- PACSA's February 2018 food basket of R3 115.07 for a family of seven is broken down as R445.01 per capita per month. It means that households are spending below the food poverty line (R541 per capita per month)
- Women have told us that they are struggling to put food on the table. The food budget is low and households underspend on food. Food runs short before the end of the month. Women absorb these food shortfalls in their bodies and by taking on debt. Women are getting sick.

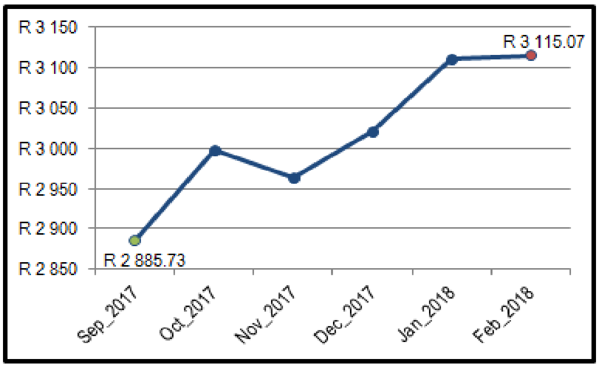

Fig 4: The cost of the PACSA Food Basket (Sep 2017 to Feb 2018).

In light of Budget 2018, in our current reality, we make the following comments:

Child support grants.

- In August 2017 12.1 million children received a Child Support Grant (CSG). For the majority of mothers accessing the grant, the CSG is their only reliable source of monthly income. Mothers spend most of the CSG on food.
- The CSG was increased by R20 to R400 per month in April and will be increased by a further R10 in October taking the total to R410 (the first increase is 5.3% and the second takes the total to 7.9%). The increase for the first six months of R20 equates to an extra 66 cents per day, in October this will equate to an extra R1 per day.
- Statistics South Africa's inflation adjusted Food Poverty line is R531 per capita per month (latest April 2017).
- The total Child Support Grant of R410 in October 2018 is set below the food poverty line.
- The value of the CSG is even further below the actual cost which allows mothers to feed their children a basic but proper monthly nutritious diet (see Tab 1).
- Over the past six months the cost of feeding children aged between 10-13 years a basic but nutritional diet increased by R47.41 or 8.8% to R583.35 per month in February 2018. The total increase of the full CSG in October of R30 or 7.9% is less than the last 6-months inflation on food.
- This data shows that the CSG of R410 is **23%** below the food poverty line (R531), and **30%** below the actual cost of a basic but nutritionally complete diet for a child aged 10-13 years of R583.35 (this percentage deficit increases for older children).

Tab 1: The cost of feeding a child a basic but minimum nutritious monthly diet from PACSA Minimum Nutritional Food Basket (Sep 2017 to Feb 2018).

Variables	Child aged 3-9 years	Child aged 10-13 years	Girl child aged 14-18 years	Boy child aged 14-18 years
Sep_2017	R 494.46	R 535.94	R 568.31	R 636.32
Feb_2018	**R 540.58**	**R 583.35**	**R 615.58**	**R 682.01**
Difference ZAR	**R 46.12**	**R 47.41**	**R 47.27**	**R 45.69**
Difference %	9.3%	8.8%	8.3%	7.2%

Setting the CSG below the food poverty line means that the state is not ensuring that children are able to eat enough nutritious food. This will directly undermine our education and health outcomes and our long-term economic outcomes.

Old-age grants.

- In August 2017 3.4 million pensioners received an old-age grant. More than half of whom live in households without an employed adult.
- The old-age grant is a critical income to support families: it is not just for the pensioner. Pensions must contribute to securing many of the critical expenses required to keep households functioning including to teach, clothe and feed children. Pensioners spend most of the grant on food.
- The majority of Black South African workers work their entire lives only to retire into poverty. This is because baseline wages are too low. Workers cannot buy the goods and services they need whilst saving for retirement. On reaching retirement age, workers are forced onto the old-age grant. The hegemonic narrative around grants has been purposively disconnected from the economy that has created the need for them and continues to reproduce them.
- The old-age grant was increased by R90 (5.6%) in April and R10 in October taking the total to R1700 month (a total increase of 6.3%). This equates to an extra R3.33 a day from October. The increase on the old-age grant is below the actual inflation as measured by the PACSA Food Price Barometer over the past 6 months, which showed an R229.34 or 8% increase in the cost of a basic basket of food.
- The R1700 equates to R56.66 per day. Pensions are dispersed in families.
- Setting the old-age grant at a poverty level means that on reaching retirement age pensioners and their families are thrust into even deeper levels of poverty.

Value Added Tax.

- Of the 38 foods tracked in the PACSA Food Basket; 20 foods are Vatable and 18 are zero-rated. A 15% VAT rate on the February 2018 PACSA Food Basket takes the total basket to R3 129.84 per month (and increase of R14.77 from R3 115.07). Of the total, VAT at 15% comes to R221.59. At a 15% VAT rate, the total VAT contribution to the overall PACSA Food Basket is 7.08%. See Tab 2.
- Vatable foods in the PACSA Food Basket include: Cake Flour, White Sugar, Frozen Chicken Portions, Chicken Feet, Gizzards, Beef, Wors, Inyama yangapakhathi, salt, stock, soup, curry powder, tea, cremora, canned beans, margarine, peanut butter, polony, apricot jam and white bread.

Tab 2: The implications of increasing VAT to 15% on the PACSA Food Basket.

Variables	Feb_2018 @14% VAT	Feb_2018 at 15% VAT
Total cost of zero-rated food stuffs in PACSA Food Basket	R 1 430.97	R 1 430.97
Total cost of vatable food stuffs (excl. VAT)	R 1 477.28	R 1 477.28
VAT on vatable food stuffs	**R 206.82**	**R 221.59**
Total cost of vatable foods (incl. VAT)	**R 1 684.10**	**R 1 698.87**
Total PACSA Food Basket (incl. VAT)	**R 3 115.07**	**R 3 129.84**
VAT as a % of total PACSA Food Basket	**6.64%**	**7.08%**

- VAT is highly regressive and hurts low-income households. Increasing the VAT wipes out much of the value of the grants as VAT on food is substantial, as is VAT on water and electricity. Increasing the VAT rate will hurt low-income households directly.
- It is not true that *"The current zero-rating of basic food items such as maize meal, brown bread, dried beans and rice will limit the impact on the poorest households."* The food baskets of low-income households, as shown by our data, include more Vatable foods than zero-rated foods. VAT at R221.59 has a substantial impact on the monies available for households to put food on the table.

It is not correct to say that "vulnerable households will also be compensated through an above average increase in social grants." Grants were not increased above the real food inflation rate as experienced by low-income households. The social grant increases are similarly not enough to absorb the impact of a 15% VAT rate, and an additional 52 cents per liter increase in the levies on fuel (which will make all goods and services especially food more expensive).

On analysis of why the trollies of low-income households include proportionally more foods which are subject to VAT, our research suggests that this is because zero-rated foods have not kept track with the actual food consumption patterns of low-income households; because of the deepening affordability crisis facing households and the high levels of food price inflation on the core starches. As zero-rated basic core starches increase in price (e.g. maize meal); households reduce or drop nutrient-rich foods off the plate (e.g. milk, animal proteins and vegetables) as a strategy to secure energy, and keep hunger at bay. In order to make the increasingly limited variety of foods palatable and cling to some semblance of a 'proper' meal – households buy more of the relatively cheaper processed starches, fats, salts and sugars. Meat (e.g. chicken portions) is Vatable, so too are the children's lunch box foods like polony, margarine and peanut butter. These findings suggest that the exposure of low-income households to VAT on foodstuffs is greater than imagined and that the deepening affordability crisis is driving households to purchase more foods subject to VAT.

The current reality of household purchasing patterns and the projected trends make households more vulnerable to raising VAT rates. VAT should not have been increased as it directly hurts low-income households.

Company Income Tax was left untouched.

Since 2012, Company Income Tax has been cut from 34.55% to 28%. The CIT rate has been at 28% since 2013.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, and to prevent an increase in the VAT rate.

National Minimum Wage.

- The National Minimum Wage due to come into effect on the 1st of May 2018, whilst an important initiative, has as its value of R20 an hour set too low. Many of our most vulnerable workers will be excluded and certain sectors will receive lower that the R20 maximum hourly rate. The NMW Bill also does not guarantee a national monthly minimum wage or a guaranteed number of working hours.
- At its maximum value of R20 an hour however and given the unlikelihood of reaching a maximum of R3 500 a month; the NMW dispersed through a family of 3.8 will be R921.05 per person. This amount is below the April 2017 upper bound poverty line figure of R1 138. It shows that even at its maximum, R3 500 is below the poverty line, hence a poverty wage.
- It seems to us that setting the NMW at such low levels will trap working families in ever deeper cycles of poverty; ill-health and debt. We expect that the NMW Bill together with the amendments to the Labour Relations Act and the Basic Conditions of Employment Act will also have the effect of making it ever more difficult for workers to fight to increase the NMW to that of a living wage, allowing the massive racial wage inequalities and scandalous levels of wealth to continue. On such a low NMW workers will retire into poverty and like low-paid workers before them, will retire into poverty with their only option being to go on to the old-age grant.

We need to find ways to increase the baseline wages of workers to that of a living wage.

This budget continues the approach which led to our current economic crisis. Budget 2018 does not respond to the real context of economic crisis as experienced by millions of Black South African workers and their families. Even if we are able to create a few million low-paid jobs we are still not going to be able to do it quickly enough to avoid a massive societal breakdown. 9.2 million people are currently unemployed. We have to use the instruments we have at hand and urgently to increase the wages of workers who are employed and substantially increase social grants so that people can better absorb the affordability crisis now, whilst further enabling people to start building alternative pathways to a livelihood. This short-term measure must be accompanied by the hard work of reimagining a different type of economic framework, which provides the possibility to move beyond the constraints we have placed upon ourselves.

This project will be located in the political choices about the type of society we want to live in. We are still thinking far too narrowly and this parochialism informs our policy choices. We appear to be locked into an austerity budget, paralyzed by the big budgetary deficit instead of facing *the reality on the ground and making the best possible decisions through a reallocation of resources to move towards the type of society we want to live in: a society where we all matter, where we all belong, where we all are able to live in dignity and where decisions are based on principles of universality, where politics starts from the principle that "it is better for all of us if all of us have food, water, transport, good quality public health care, education, housing, work, a decent pension etc." We are currently locking ourselves into a type of economic framework that is leading us deeper and deeper into more horrendous cycles of poverty and inequality. We need to get out of this cycle and we need to do it now. Budget 2018 is not an adequate response to our deepening economic crisis.*

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