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2017 South African Budget Speech

No Pravin, it was not progressive nor redistributive

Shawn Hattingh

February 23, 2017

The 2017 South Africa budget is not redistributive towards the working class nor is it progressive. Rather it is a standard neoliberal budget, delivered by a state that benefits the ruling class – white and black capitalists and top state officials – and that is controlled by that very same class.

On Wednesday, the Minister of Finance of South Africa stood up in the circus that passes itself off as a National Parliament and without any sense of irony what-so- ever declared that the South African state's budget for 2017 was redistributive and progressive. If the Minister was to be believed, therefore, the budget was aimed at making a dent in the substantial class and racial inequalities that exist in the country. To back this up, supporters pointed out that the tax rate on top earners was raised marginally in the budget and people receiving dividends from shares would have to pay 5% more on these in tax. Despite this, one word could sum up the idea that the budget presented was redistributive and progressive: bullshit.

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Retrieved on 4th August 2021 from www.pambazuka.org

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Rather the budget presented by Minister Pravin Gordhan was yet again another attack on the working class. What the budget did was to favour corporations at the expense of the poor. In doing so, it remained based on the neoliberal dogma that has defined South Africa's post-apartheid politics. In other words, the budget was a vivid demonstration of how the state is an instrument and weapon of the ruling class that functions to benefit that class. This can be seen throughout the budget, including how the state plans to raise money and how it plans to spend it.

In terms of raising revenue, the 2017 budget was in line with all of the state's neoliberal budgets that have been presented for more than two decades. The main class that will be taxed in 2017, despite a 4% increase in the tax rate of high income earners, is the working class. Through Value Added Tax (VAT), fuel levies, personal tax and sin taxes it is the working class that will be the main source of revenue for the state – in fact, through VAT even the unemployed pay tax. Corporate tax, Gordhan outlined, will remain at a lowly 28%, down from the highs of 30 years ago when the tax on companies was 49%. This translates into a situation where the working class pays far higher taxes than corporate giants – when these giants are not trying to avoid tax altogether. In fact, VAT on its own contributes a far higher sum of money to the 2017 budget than company tax. So much for the budget being progressive.

The manner in which the state plans to spend its R 1.5 trillion odd budget also reveals the class nature of the state. Much was made about two thirds of the budget supposedly going towards supporting workers and the unemployed. In fact, Gordhan crowed about social grants being raised in line with inflation. The reality, though, is that two thirds of the budget does not go to the poor, whether workers or the unemployed – Gordhan himself inadvertently said so.

What Gordhan, rather, revealed was that at least R 500 billion of the budget in 2017 will be spent by the state on procuring services and goods. In other words, the budget showed that the state

planned to spend vast amounts of its funds on tenders and outsourcing. As such, it demonstrated precisely how neoliberalism is at the core of the state, with the state essentially paying private companies massive amounts to “deliver” services. As such, the state is a cash cow for private corporations receiving contracts and tenders – not forgetting the state still pays bureaucrats their salaries too over and above this. Of course, it is both black and white capital that will be benefiting from this outsourcing and tendering. It is little wonder, therefore, that factions are fighting in the ANC to control the state – literally the control of R 500 billion in contracts and tenders can lead to a great deal of self-enrichment for the winning faction and their cronies in the private sector.

To understand the scale of outsourcing in the state, it should be noted that even the disbursement of social grants is outsourced, currently to a private company called Net 1 (The Constitutional Court ruled this contract to be illegal, but the Department of Social Development could clearly care less). The profits of Net 1 in 2017, or its successor, will come out of the portion that the state has allocated to social grants in the budget. Naturally, the contract Net 1 has from the state is extremely lucrative: being in the region of R 10 billion. Nonetheless, Net 1 not only makes money from this contract from the state, it also fosters loans onto grant recipients and deducts the repayments directly from their social grants. Life is great for the private company that gets the contract to disburse the state’s social grants; which is clearly why Net 1 is fighting tooth and nail to hold onto it. Of course, Net 1 is only one of the corporate parasites that will benefit from the R 500 billion in tenders and contracts the state will

hand out in 2017; there are plenty of others and they are just as vile as Net 1. It is, however, not only through the R 500 billion that the state will spend on outsourcing and tenders that capital will benefit from in 2017 budget. The state will also be assisting corporations in other ways, for example, by spending R 4.2 billion on corporations through supporting Special Economic Zones. Like-

wise the state said it will spend R 240 billion of its budget on what it terms economic affairs and agriculture. No doubt large chunks of this will go to assisting corporations, including through improving infrastructure for them in terms of rail and roads – to lower the costs of exports, and hence, create more profit.

The finance sector too will get a nice big slice of the budget pie in 2017; lest anyone thought it would be left out. Gordhan revealed that the state would spend R 169 billion on paying interest on its overall debt of R 2.2 trillion in 2017. The main holders of this debt – often through bonds – are local and international financial corporations. This means a substantial chunk of the state's budget will be funnelled to the finance sector.

Crucially in class terms, it was also outlined during the budget speech that the state would only be transferring 9% of the budget to local governments. Yet it is local governments that are responsible for delivering basic services, including water and sanitation, to the working class. Under neoliberalism, national governments have reduced the transfers of funds to local governments. The aim of this has been to ensure that national governments are attractive to speculators (i.e. financial corporations) that buy government bonds. By decreasing the amount of funds transferred to local governments, national governments on paper reduce their debt ratios and deficits. One thing that corporations like are states that have low debt ratios and small deficits, it tells them any default is unlikely and therefore buying such states' bonds are a good investment. So national governments under neoliberalism have shifted the cost burden of funding the delivery of basic services onto local governments to lower national government debt ratios and budget deficits. In turn local governments have to themselves borrow in order to supply basic services – also usually through private outsourced companies – and implement cost recovery mechanisms. Added to this, they often skimp on maintenance and indeed delivery where they can to save money. For the working class this has massive negative consequences – it drives up the costs of basic services and it

leads to the quality of those basic services declining. This is part of the reason why municipal services are in a shocking state in South Africa and why working class communities are erupting in protest. In the 2017 budget, the transfer of only 9% to local governments means that only crumbs are filtering down to working class townships because speculators need to be pleased. It, therefore, means too that the working class people in the townships can continue to expect poor quality and expensive basic services, despite paying the bulk of the taxes.

The reality, therefore, is that the 2017 budget is not redistributive towards the working class nor is it progressive. Rather it is a standard neoliberal budget, delivered by a state that benefits the ruling class – white and black capitalists and top state officials – and that is controlled by that very same class. Far from addressing the plight of the working class (and the black section of working class in particular), the budget is rather attempting to entrench their pauperisation so corporations' profit margins can grow even fatter.