



# PEOPLE'S COALITION

## C19 Coalition Economic Policy Working Group

### People's Assembly brief: Fiscal policy

**Fiscal Policy refers to what government spends and how it raises the money to do so.**

The government is currently facing a number of economic challenges as a result of the COVID-19 public health crisis. 370 000 jobs are expected to be lost and 1600 companies face the risk of closure. The state needs to spend more to meet the immediate challenge of the COVID-19 outbreak and mend the damage it is causing.

Currently, R41 billion has been raised from the Industrial Development Corporation, Unemployment Insurance Fund and other sources, but it is widely agreed that the R41 billion fails to meet the country's needs. [Some have](#) argued that government spending needs to be at least R260bn. Our current spending is far below what our [peers](#) in the Global South are doing. Research by the IEJ estimates that SA will need to mobilize R310 billion in an emergency package. The UN has argued that [10% of global GDP](#) will need to be mobilized to fight a crisis that will be far greater than the 2008 global financial crisis.

#### **What did the pre-COVID-19 budget say?**

In the February 2020 Budget, a number of severe cuts were proposed to essential areas like health and education over the next 3 years. Government also proposed cuts to public sector wages, threatening people's jobs and livelihoods. This is part of an ongoing series of budget cuts since 2012/13. Universal healthcare, education and social protections are important for reducing inequality, with studies showing that universal public services reduce inequality in developing countries by 13 percent. When these are cut, women and youth tend to be most affected, increasing the heavy load of care work that women carry in their households.

Before COVID-19, our public healthcare system was already overwhelmed by under-funding and mismanagement. By 2018 there were 38 127 posts unfilled. Many healthcare facilities lack necessary medical equipment and childcare facilities for workers who are also primary caregivers. 60 000 community healthcare workers, who are key for COVID-19 response, remain informally employed with low wages.

#### **What should an emergency COVID-19 budget cover?**

If government doesn't step in to support people during this crisis, research from SALDRU shows that the extreme poverty rate will [triple](#). We need urgent relief in the short term to meet people's immediate needs. There are measures put in place by government to help lessen the impact of Covid-19 on the economy, but the majority of people remain left out.

Calls have been made to increase social grants to prevent a humanitarian crisis. While this is critical, there are many vulnerable people who are currently not eligible for UIF or other grants. According to surveys, there are around 6 million South Africans who live in households where no government grant is received by any household member. There are an additional 1,6 million people who are unemployed and do not live in a household that receives a government grant.

Importantly, even before COVID-19, the economy was in a crisis. Under 'normal' circumstances, the broad unemployment rate in SA is close to 30%, far [higher](#) than any other country similar to it. Apart from the unemployed, there are about five and a half million people who [constitute the working poor](#). Under 'normal' conditions, refugees and foreign nationals face persistent xenophobia from both the government and citizens. Under 'normal' conditions, 21 percent of households reported having run out of money to buy food in the last 12 months.

### **How does the government pay for things? Are there limits to government spending?**

There are three main ways and a fourth less common way for a government to raise money to spend, each with certain limitations and difficulties:

1. **Borrowing from other people.** To do this, government issues "Treasury bonds" in return for Rands or other currencies which it then uses for its spending needs - these bonds are promises that government will pay back the money plus interest, at some later date. In times of crisis, people who lend money to government only agree to do so at higher interest rates, because of the risks that crises can cause for governments and lenders. When the interest that government needs to pay is high, less money is left for other spending needs.
2. **Borrowing from itself.** The South African Reserve Bank (SARB) has the power to create new money simply by printing it or adding it to accounts digitally. Since the SARB is a part of government, it can create and lend money to other parts of government without charging interest. Of course, the SARB can only create Rands - it can't create Dollars, Euros, or any other foreign currencies that South Africa may need.
3. **Taxation.** Government gets a large part of the money it spends from taxes on the wealth and incomes of individuals and companies. In an emergency, it has the power to raise new taxes to pay for things we need. Taxes, if not spent by the government, come at the expense of consumption and investment - things we want to encourage during an economic downturn – so it is important that new taxes are carefully designed.
4. **Prescribed Assets.** Public and private pension funds may also have a role to play to raise the resources required for the emergency and beyond. Accessing some of the reserves of the Government Employees Pension Fund to direct towards investing in key medical needs is one example. Prescribed assets are another way in which government can raise funds; government may put in place regulations requiring pension fund managers to invest in certain projects which are for the greater good of society, and not for profit alone.

So, are there limits to how much the government can spend, and what should we do about these limits in a time of crisis? In such uncertain times, there is no perfect answer; we must discuss, debate and then campaign to ensure that government does the right thing.

Some important factors to think about in this debate are:

- **Moody's downgrade of SA's sovereign debt rating.** The downgrade has made it more expensive for the government to borrow money through issuing bonds - interest rates have risen sharply. As the cost of paying back debt rises, pressure grows to reduce spending on other important things. This makes it more difficult to generate economic growth, which is needed to reduce the debt in the first place.
- **Our relationship with the rest of the world.** Lockdowns around the world have reduced demands for goods produced in SA. At the same time, SA imports a wide range of products from other countries, and it has to pay for these in foreign currencies, especially dollars. These may be more expensive now, as the Rand has weakened due to the crisis.
- **Low economic activity reduces tax revenue.** With the economy slowing down, the government will struggle to raise taxes, further decreasing its ability to spend. In light of SA's relations with the rest of the world and its foreign currency needs, what different methods can government use to find the money it needs, and what are their limits?