



To: Min Pravin Gordhan Solidarity's budget tips: 2012

1. **Education: Pupils fleeing public schools – limit the education budget and rely on civil initiatives.**

The education problem in South Africa is not a problem of a shortage of funds; rather, the education model is at fault. These structural problems should be attended to urgently, but greater funding will not solve them.

In the 2003 budget R69 billion was budgeted for education, and in 2008 it was R121 billion – almost double the amount. This exercise was a waste because, among other facts, only a third as many pupils as had been in grade 10 in 2008 passed matric in 2010. In 2011 an amount of R190 billion was budgeted for education, and it was projected that the education budget this year would be close to three times as much as it was in 2003.

Between 2003 and 2008 the number of black and coloured pupils in private schools had increased by some 60%. In the Eastern Cape, where state education is in a serious predicament, the number of pupils in private schools has increased by 480% over the past ten years. Improvement in educational outcomes in South Africa depend on government spending less on education and leaving well-functioning state schools well alone.

Private education institutions such as the Solidarity-related initiatives Sol-Tech and Akademia as well as the approximately 1400 private schools already replacing the state education system nation-wide should be given more leeway. Further government interference in well-functioning state schools should stop, leaving them in the hands of school governing bodies.

2. **Public debt: Limit public debt**

Public debt is currently the most rapidly growing category in the consolidated state budget. Already in last year's budget, provision for the increase in interest payments came to an average of 16% a year up to 2013/14, although a drop in the growth rate of interest payments to an average of 14,4% over the period to 2014/15 was provided for in last year's medium-term budget.

However, this proposed drop is not reassuring as the state budget has a record of underestimating spending.. So far this greater than expected spending has been offset by greater than expected tax revenue, but the prospect of this being kept up appears dim.

Fiscal responsibility is important to ensure that South Africa does not attract further negative credit ratings, thus incurring even greater debt costs.

3. Infrastructure

Although President Zuma mentioned major infrastructure expansions in his budget speech, Solidarity is concerned because it would appear that they are to be driven almost exclusively by the public sector, with huge implications for public debt.

Solidarity welcomes consumers' decision to save rather than spend so that private entities may channel such saved resources to infrastructure, enhancing the economy's long-term productivity. Solidarity believes that generating true infrastructure investment is best left to the private sector, and that government should urgently clear away obstacles to such investment – among others, by guaranteeing property rights.

Moreover, Solidarity is concerned that large government-driven infrastructure projects would involve risk and cost to tax payers, while resulting in disproportionate benefits to selected company owners able to utilise such infrastructure at a subsidised cost.

4. Tax: Lower tax for economic growth

Hardworking South African workers and businesspeople are tired of being drained of their hard-earned money – portions of which are constantly finding its way into the pockets of politically connected persons, and much of it misappropriated. This year the consolidated state budget is likely to break through the R1 trillion level for the first time – a nominal doubling since the 2006 budget. Not for a moment, however, can South Africans believe that they are receiving a benefit from government double that of six years ago.

Resources spent by the state are resources that the private sector cannot spend elsewhere: whether it be through personal income tax, corporate tax, fuel levies, VAT or any other levy. It prevents the private sector – the true source of growth in the economy – from undertaking new ventures and creating value.

True, sustainable growth in the economy requires a general tax reduction, and increased fiscal responsibility by government on the expenditure side.