AUSTERITY IN THE MIDST OF INEQUALITY THREATENS HUMAN RIGHTS

This factsheet examines the enjoyment of economic and social rights in South Africa, ahead of the country’s first appearance before the UN Committee on Economic, Social and Cultural Rights in October 2018. Specifically, it uses indicators based on national and international data sources to explore whether the South African government is fulfilling its obligations under Article 2(1) of the International Covenant on Economic, Social and Cultural Rights (“the Covenant”) to take steps to progressively realise these rights using the “maximum of its available resources.”

Post-apartheid South Africa provides a striking case study of the intersection between economic inequality, social exclusion and human rights deprivations. Despite the more inclusive agenda initiated in 1994, which included the adoption of some of the strongest constitutional protections for economic and social rights in the world, enjoyment of these rights remains elusive for the majority of people. Systemic inequality continues to be ingrained in the country’s economic and social structures, resulting in the world’s highest levels of income and wealth inequality. Poverty and unemployment are experienced by a large percentage of society and intersect with disparities in access to quality health care, education, housing and even food. Corruption thrives under such conditions of inequality. It diminishes available resources and erodes trust in public administration and private enterprise alike. These inequalities undermine opportunities for political participation and accountability.

Compounding these challenges is the fact that the South African government has adopted a policy of fiscal austerity in recent years. Austerity is being imposed in response to rising but moderate public debt, pressure from credit rating agencies and lower-than-expected GDP growth and revenue collection. These negative trends occur in a context of lower prices for South Africa’s mineral exports, widespread corruption and “state capture” during the Jacob Zuma administration, as well as the mismanagement of critical state-owned enterprises. Austerity has taken the form of cuts in government expenditures and regressive tax changes, which present a growing threat to the achievement of social justice that is at the heart of the South African Constitution.

This factsheet focuses particularly on inadequate and inefficient resourcing for the rights to health (Article 12) and education (Article 13). Health expenditure per uninsured person has declined in recent years. Due to limits on personnel expenditure, most provinces are suffering from chronic staff shortages. This is resulting in an overall reduction in the quality of public healthcare. Real education spending per pupil has also declined, resulting in funding cuts to much needed school infrastructure programmes and underfunding of the country’s poorest schools.

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These measures do not comply with South Africa’s obligations under the Covenant and in particular the non-retrogression criteria set out by the Committee, namely that such measures must be: temporary, legitimate, reasonable, necessary; proportionate; not directly nor indirectly discriminatory, according priority attention to disadvantaged groups; protective of the minimum core content of rights; and based on transparency and genuine participation of affected groups and subject to meaningful review and accountability procedures (Committee on Economic, Social and Cultural Rights, 2016). In order to negate the need for austerity, South Africa must take steps to maximize the resources available for the protection and fulfilment of human rights. This can be done by developing a more equitable tax policy that contributes to the redistribution of income and wealth and by taking meaningful steps to tackle rampant corruption and state capture. Redistribution, including wealth, is essential to expand fiscal space and enable a shift towards the people-centred rights-based development envisaged in the Constitution.
By a variety of yardsticks, South Africa remains the most unequal country in the world.

South Africa’s income inequality is higher than all other countries and has grown in the last decade. In 2015, South Africa’s Gini Coefficient and Palma Ratio were at 0.63 and 7.1 respectively (UNDP 2016). In 2014, two thirds of personal income was captured by the richest 10% of households. The income share of the top 1% of earners was 20%, an increase of 11 percentage points since the end of apartheid. Wealth inequality is perhaps even more staggering (Alvaredo, F et al, 2018). The wealthiest 1% of the population owns half of all assets in the country and the top decile holds 90–95% of the country’s wealth (REDI3x3, 2016). As will be shown below, quality health care and schooling remain the privilege of middle and upper classes, with poor and working class households restricted to underfunded and highly inadequate public healthcare and education.

Poverty rates have increased in recent years and are highly uneven across population groups.

In 2015, over half (55.5%) of the population lived below the official national upper bound poverty line (UBPL) of R992 per person per month (2015 prices) up from 53.2% in 2011. Approximately 2.9 million people were pushed into poverty over this period. The proportion of female-headed households living below the UBPL was 49.9% in 2015, compared to 33% for male-headed households. Racial disparities are particularly striking. For example, poverty among black African children was 73.6% in 2015, compared to 1.4% for white children. Illustrating apartheid’s legacy of spatial inequality, multi-dimensional poverty is highest in the Eastern Cape, KwaZulu-Natal, and Limpopo—provinces that had high concentrations of “homelands” (areas set aside for black Africans under the apartheid regime) where public service delivery and infrastructure were poor.

Due to slow and unequal wage growth, employment is not a guaranteed way out of poverty.

Large numbers of young people, black Africans, and women are unemployed or underemployed. In the second quarter of 2018, the expanded unemployment rate was 37%, with the youth unemployment rate at 67% (Statistics South Africa, 2018). If employed, many earn low wages that are not keeping pace with living costs. While average wages in the economy have increased, this is due to a decoupling of wage growth for higher earners from the relatively stagnant wages for the majority. South Africa’s dependency ratio (non-working age population compared to the working age population) is high, at 52% in 2015. This means low earnings must be stretched to support many household members (World Atlas, 2018). These trends result in 54% of full-time workers earning below the “working poverty line”, meaning they earn too little to keep themselves and their dependents out of poverty (Finn, 2015).
UNWARRANTED AUSTERITY POLICIES ARE BEING INTRODUCED

Since 2016/17, the growth of non-interest budget expenditure—essentially expenditure on social and economic programmes—has been lower than population and GDP growth.

Government expenditure per person has declined for three years in a row. Moreover, in the current year, 2018/19, the government plans to create a primary budget surplus by raising more revenue than it will spend on programmes, illustrating the prioritisation of debt reduction over social needs. As well as being much lower than population growth, the low average growth in non-interest expenditure of 0.3% over the past three years masks significant cuts and re-prioritisations that have taken place within the budget. This fiscal consolidation represents unnecessary self-imposed austerity that is compounding stagnant median wages and falling disposable incomes. Since a large share of public expenditure is geared towards lower-income groups, this is having retrogressive and discriminatory impacts, further widening inequality.

The increase in the VAT rate from 14 to 15% in April 2018 represents a clearly retrogressive austerity measure.

This increase is projected to raise the share of VAT in the overall tax mix from 24.6% in 2017/2018 to 26.3% in 2020/2021 (National Treasury, 2018b). And as Figure 5 demonstrates, even prior to this increase indirect taxes impacted the poorest earners the most. As expected, this VAT change increases the taxes paid by poor and low-income households, reducing their ability to afford foodstuffs and other essential goods and services necessary for rights realisation through lowering disposable incomes. Exempting certain goods from VAT (“zero-rating”) would make VAT less regressive (Budget Justice Coalition, 2018). The VAT increase has been compounded by a large increase in the fuel levy (a tax paid on petrol and diesel). Over the last nine years these levies have increased on average by 9%-10%, outstripping increases to the most important social grants. This places additional burdens on poor and low-income households, whose transport costs are particularly onerous given South Africa’s history of apartheid spatial planning.

Exaggerated concerns about debt levels are being used to justify austerity.

In the words of the National Treasury, the 2018/19 budget “accelerates government’s efforts to narrow the budget deficit and stabilise debt (National Treasury, 2018)”. However, South African debt—projected to reach 55% of GDP this fiscal year—is moderate by international standards. According to the International Monetary Fund (IMF), emerging market and middle-income country debt levels are projected to reach, on average, 57.6% in 2023, while high-income country debt averaged at 105.4% of GDP in 2017 (CSID, 2017). The idea that South Africa is facing a debt “crisis” has been fuelled by statements by international credit ratings agencies justifying their downgrades of government debt.
Spending on health is declining in real terms, overall and per uninsured person.

National and provincial spending on health care was cut by -0.1% in real terms in 2018/19 (National Treasury, 2018c). With an estimated 740,000 additional uninsured people entering the public health system (through births and migration), health expenditure per uninsured person has decreased even more sharply. Within the health budget, R820 million was cut from the Health Facility Revitalisation Grant (which pays for upgrades and maintenance of facilities such as clinics and hospitals), while extreme pressure has been placed on departmental budgets for wages and goods and services (National Treasury, 2018). These cuts are made in the context of an already overburdened public health system that is struggling to deal with a rising burden of disease and high medical price inflation.

Serious shortages of qualified health workers are debilitating the public health system.

In its 2019 Guidelines for Costing and Budgeting for Compensation of Employees, the Treasury states that despite “compensation baseline reductions of R10 billion in 2017/18 and R15 billion in 2018/19... No additional funding” will be available to directly fund the new 3-year public sector wage agreement (National Treasury, 2018d.). This policy is resulting in an exodus of skilled health professionals to the private sector due to poor working conditions and unpaid benefits. Declining budgets for compensation and training are also hampering the expansion in the number and capacity of health professionals necessary to improve levels of care and prepare the country for the transition to National Health Insurance. The capacity of departments is being compromised to save on costs, which is having deleterious consequences in many government departments, resulting in shortages of funds for medicine, emergency medical services and hospital maintenance, among others.

Underfunding of public compared to private health prolongs vastly unequal access to quality health care.

Despite serving more than five times as many people, less money is spent annually on public than on private health care in South Africa. For example, a third of the poorest 10% of South Africans live at least 20 kilometres away from a hospital, while this is only true of a tenth of the richest 10%. Health outcomes also diverge along these lines. For example, life expectancy in the Western Cape (a wealthier province) is over 10 years longer than in Free State (a poorer province). Inequities in health outcomes such as these are maintained by highly unequal expenditure per person on private and public health, and illustrate the need for increased investment to strengthen the public health system. In comparison to other countries with the same income levels, South Africa has by far the highest levels of deaths due to communicable, maternal, prenatal and nutritional conditions.
Spending per learner has declined in real terms over the last decade in all provinces.

Once factors such as an increase in school enrolments and above inflation increases to teacher salaries are accounted for, spending per learner across South Africa has declined by 10% since 2010. In KwaZulu-Natal, one of the poorest provinces in the country, the department of education has failed to fund schools at the minimum per-learner threshold for four years in a row (Province of KwaZulu-Natal, 2018). Funding for schools in the lowest-income communities in the province has been cut by 15% since 2015/16. The Department of Basic Education confirmed in a recent Parliamentary hearing that this story is repeated across the country.

Cuts to school infrastructure spending are leaving schools that are already ill-equipped in dire condition.

In the 2018 National Budget, the National Treasury announced that it was reducing the funding available for school infrastructure by a total of R7.2 billion over the next three years. (National Treasury, 2018f). The ongoing failure to comply with the Minimum Norms and Standards for School Infrastructure reinforces poor learning conditions and has resulted in numerous violations of other rights related to the right to education, including the rights to water and sanitation, to equality between girls and boys, and even the right to life. An example of the latter includes the deaths of Lumka Mthethwa and Michael Komape, children who in recent years have drowned in broken school pit latrines.

Spending cuts affect those that are already worst off the most. These cuts are discriminatory, disproportionately impacting poor schools with infrastructure backlogs.

Under apartheid, ten times more money was allocated to white schools compared to black schools (Budlender, 2016). This created inequalities throughout the education system perhaps most visible in school infrastructure. The discriminatory reduction in spending in recent years violates minimum core obligations of the Covenant as it deprives large numbers of children of essential aspects of the right to education. For example, millions of learners, particularly in rural provinces, continue to walk several kilometres to school every day. At the same time, the average Grade 4 class size increased from 40 in 2011 to 45 in 2016, with the largest increases occurring at the poorest schools (Spaull, 2018).
Corruption and mismanagement are leading to extreme levels of unauthorised, irregular and wasteful expenditure.

According to the Department of Economic Development, corruption costs South Africa no less than R27 billion per year. In 2017, South Africa was ranked 71 out of 180 countries in the Corruption Perception Index (CPI), putting it below neighbours such as Namibia and Botswana. Public procurement has been grossly abused with the government having been described as “a massive, tender-generating machine,” with its core functions almost completely outsourced. Procurement has become increasingly politicized, leading to illegal rent-seeking that undermines the ability of South Africa’s public administration to deliver the services that are essential for the realisation of Constitutional rights. Public sector corruption is impossible without corruption in the private sector. The consolidation of political power among a network of economic elites, commonly referred to as “state capture,” has allowed for the “repurposing” of state institutions to become vehicles of enrichment rather than service delivery (Public Affairs Research Institute, 2017 and Office of the Inspector General, 2016).

Total tax and contribution rates of companies in South Africa are low compared to peer countries.

South Africa has maintained a tax-to-GDP ratio of around 25% over the last decade. By international standards this is above average. But, given the scale of socioeconomic challenges and extreme levels of inequality, the tax mix must be evaluated holistically and on a more granular level. The R48.2 billion shortfall in the 2018/19 National Budget illustrates that current revenue raising approaches are unable to generate the necessary tax income (National Treasury, 2018b). Corporate tax is notably low, as indicated by the tax and contribution rate. This is defined as the taxes and mandatory contributions that a medium-size company must pay or withhold in a given year. It also measures the administrative burden in paying taxes and contributions. South Africa ranks 172 out of 213 countries, where 1 has the highest company tax and 213 the lowest. The corporate income tax rate was 50% in 1990 and is only 28% today. Further, illicit financial flows, including tax evasion, are estimated to have cost a staggering R1.6 trillion between 2005 and 2014 (Global Financial Integrity, 2017).

Failure to generate sufficient resources results from long-term regressive changes to the tax mix.

On the whole, more progressive forms of taxation, such as personal and corporate income taxes have either stayed the same or decreased as part of the overall tax mix. Personal income tax rates have plunged since 1999. This has limited revenue collections at a time when social spending is desperately needed. Capital gains tax is also comparatively low. In 2016/17 it raised only R17 billion, a mere 1.5% of tax revenue. Because not all capital gains are taxed, in 2017, individuals only paid a rate of 16% on capital gains, and companies 22% (South African Revenue Services, 2018). This is below the OECD and BRICS norm. Tax on inheritance—estate duty—is levied at only 20% and raises revenue worth 0.05% of GDP compared with the OECD average of 0.2% (SACTWU and COSATU, 2017). South Africa also has no annual “net wealth tax” that would tax the total value of wealth held in a given year. International evidence indicates that raising revenue through progressive taxation on personal and corporate income, property and wealth, while ensuring levels of social spending that universalize access to health, education and other essential public goods and services, can spur growth and reduce inequality, furthering rights enjoyment.
Viable alternatives to austerity exist.
Civil society research shows great scope to maximize available resources, improve equity and negate the need for austerity measures:

- R27 billion is estimated to be lost each year through corruption (BusinessTech, 2017).
- R52 billion was spent in tax breaks for high income earners in 2015/16 (mostly on private medical care and private pensions) (National Treasury, 2018a).
- R27 billion could be raised by increasing the top two personal income tax rates from 26% and 37% to 28% and 40% respectively (Budget Justice Coalition, 2018).
- R33 billion could be raised by increasing the corporate income tax rate to 32% (Budget Justice Coalition, 2018).
- R12 billion could be raised through a national property tax of 0.5% on residential property above R1 million (Budget Justice Coalition, 2018).
- R65 billion could be raised by an annual net wealth tax of 1% (SACTWU and COSATU, 2017).

Other potential sources of funds for a fiscal stimulus package also exist. For example, the Public Investment Corporation is over capitalised. In addition, given South Africa’s only moderate levels of debt, allowing debt-to-GDP to peak at 60% would allow for another approximately R250 billion in borrowing.

RECOMMENDATIONS

1. The State should take immediate action to end fiscal austerity measures which contravene its obligations under the Covenant, and intensify its efforts to combat poverty and address inequalities. As a part of these efforts the State should ensure real per capita annual increases in expenditure in areas of importance to economic and social rights. The State should also adopt a sustainable approach to debt financing that contributes to protecting rights. Assessments of the impact of previous and existing budget cuts, particularly on marginalised groups, must be undertaken and steps adopted to mitigate and remedy those impacts which have resulted in the deprivation of economic, social and cultural rights.

2. The State should adopt a human rights-based approach to fiscal and economic policy, and in particular, review its tax regime in order to increase revenue in the most equitable manner possible. The State should incorporate human rights impacts assessments into its budget-making processes, including the development of tax and fiscal policy. The State should consider all possible alternatives at its disposal to raise and allocate the maximum of available and potential resources for the realisation of economic, social and cultural rights.

3. The State should further increase its efforts to stamp out corruption. It should strengthen regulatory and investigative mechanisms to protect against any adverse human rights impact arising from acts of corruption involving the private sector, with a view to holding perpetrators to account and recovering illicit assets. The State should ensure adequate funding and staffing of anti-corruption institutions like the Public Protector, the SARS Special Investigating Unit, and the Directorate for Priority Crime Investigation (DPCI).

4. The State should take budgetary measures to improve the availability, accessibility and quality of public health care and address disparities between groups. The State should increase consolidated budget allocations for health in line with the funding requirements of the transition to universal health care, notably the target to double public health care expenditure by 2025. The State should replace arbitrary wage expenditure ceilings with a long-term human resources health strategy and ensure that funds are made available to educate and train the additional health personnel that are necessary to meet it.

5. The State should take budgetary measures to improve the availability, accessibility and quality of public education and address disparities between groups. The State should immediately ensure that all schools are funded at minimum per learner thresholds established by the National Norms and Standards for School Funding. The State should reverse cuts to conditional grants for school.
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About This Factsheet Series
This series is intended to contribute to the ongoing work of UN and other intergovernmental human rights mechanisms to monitor governments’ compliance with their economic, social and cultural rights obligations. It is also intended to contribute to strengthening the monitoring and advocacy capabilities of national and international civil society organizations. Drawing on the latest available socioeconomic data, the country factsheets display, analyse and interpret selected quantitative indicators in light of key dimensions of governments’ economic and social rights obligations. The factsheets are not meant to give a comprehensive picture, nor provide conclusive evidence, of a country’s compliance with these obligations. Rather, they flag some possible concerns which arise when statistics are analysed and visualized graphically in light of international human rights standards.

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