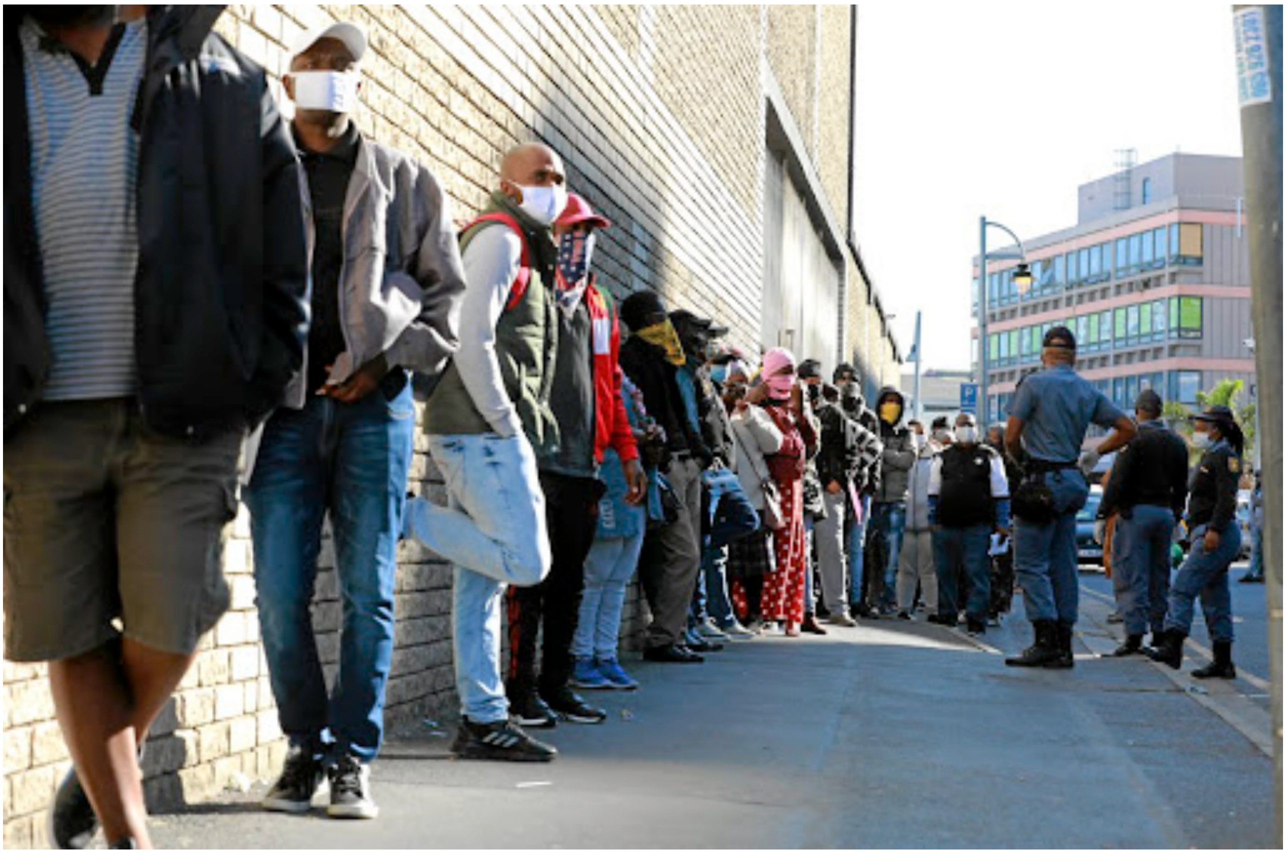
OPINION / COLUMNISTS

NEVA MAKGETLA: State has better options than harsh spending cuts

The UIF levy could be cut in half and its surplus used for infrastructure, debt or public employment

BL PREMIUM

14 NOVEMBER 2023 - 05:00



People queue to apply for unemployment insurance fund benefits. File photo: NARDUS ENGELBRECHT/GALLO IMAGES

The medium-term budget policy statement (MTBPS) plans extraordinarily harsh cuts in core public services: 6% in healthcare, 4% in policing and more than 2% in education. SA cannot afford such large cuts. They would slash investment in human capital and social cohesion in a society already riven by deep inequalities, deteriorating bulk infrastructure and slow economic growth.

More innovative solutions are possible if we prioritise national development over pacifying creditors and avoiding disruptive changes in government systems. As an example, consider the huge unused financial investments held by the Unemployment Insurance Fund (UIF) and the Compensation Fund. Each has holdings of about R100bn. These resources could be used far more effectively and sustainably to support communities and producers.

Viable options must, however, take into account the sources of the assets as well as their legal framework.

The UIF is funded by a levy on wage earnings up to about R220,000 a year, paid at 1% each by employers and employees. It generates more than R20bn annually. Yet the UIF pays out less than R7bn in normal benefits. During the pandemic downturn, it also funded temporary relief for formal workers. That cut its surplus, in constant 2022 rand, from more than R160bn in the late 2010s to R100bn in 2023. But the UIF still earns almost R8bn a year on its financial holdings, all of which it reinvests.

The UIF Act specifies three uses for levy revenue: benefits payments, administration and "reimbursement of excess contributions to employers". By extension, in the event of excess income, the intent was to reduce the levy or return the surplus to businesses and workers. It was not to build up billions in financial assets. Today, however, two-thirds of the UIF levy provides no visible benefit to formal workers and their employers, though it generates lucrative fees for the fund's financial advisers and managers. And the levy is highly regressive. A domestic worker earning R3,500 a month pays the full 1%, but a banker getting R100,000 a month effectively pays 0.3%.

If the UIF levy were halved, the fund would still earn about R3bn a year more than it pays out. The government could then increase more progressive and flexible taxes by R10bn without adding to the overall burden on producers or workers. In effect, it would reduce a dedicated and regressive tax to fund national priorities.

The potential for drawing on the accumulated surplus is murkier. As a one-off payment, excess funds could go for infrastructure, the national debt or public employment schemes. Directly or indirectly, these programmes would improve services in working communities, increase incomes for low-income households and ultimately reduce claims for UIF benefits. But the act specifies that the surplus belongs to the UIF and that the government must consult its board about its use.

In 2023, the Compensation Fund holds financial assets worth just less than R100bn. Its net surplus was only about half of that because it has long-term obligations to workers with occupational disabilities and diseases. The surplus results mostly from capital gains on long-standing assets combined with the reinvestment of about R10bn in earnings every year. Unlike the UIF, the levy for the Compensation Fund only just keeps up with its payouts, with both at about R6bn a year.

While the compensation levy cannot be reduced, the net surplus could be used to maintain public investment and services. The Compensation Fund Act of 1993 is a bureaucratic wonder that gives no guidance on the use or control of the surplus. The excess could be directed to one-off infrastructure investment or debt reduction. If drawn down in phases, it could sustain spending on core services while reprioritising the budget more fundamentally. As a minimum, the annual earnings could be used for national priorities rather than rolled over.

• Makgetla is a senior researcher with Trade & Industrial Policy Strategies.

Market Report - 17 Nov 2023 | The close

2 days ago

8:01

Next video

25:10

Stock Watch - 16 Nov 2023 | The Close

3 days ago

8:14

Market Report - 16 Nov 2023 | The Close

3 days ago

6:16

Watch: Emira's distributable earnings...

3 days ago

Watch: Invest
15% jump in I

3 days a