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## Deep Cuts? Social Spending Under GEAR

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# **DEEP CUTS? SOCIAL SERVICE DELIVERY UNDER GEAR**

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**TIPS Conference  
July 2003**

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## **ABSTRACT**

Under Government's GEAR policy, high levels of expenditure on social services (i.e. Social Development, Health, Education and Housing), failed to bring about a reduction in poverty and unemployment. The Government, in particular the National Treasury, blamed this outcome on the inefficiency in the delivery of social services. The "Left", especially COSATU and its civil society partners, however, claimed that Government's commitment to conservative deficit targets under GEAR resulted in deep cuts in spending on social services.

In this paper we examine the claim from the "Left" that social spending was cut under GEAR and that this reduction led to a decrease in the quantity and quality of social services. We first analyse budgeted as well as actual spending on social services during the GEAR period (1996/7 to 2000/01). Figures were adjusted for the effects of inflation and population growth. We also examine social spending's share of total expenditure and of Gross Domestic Product (GDP). We find that while budgeted and actual social spending and social spending as share of the budget increased, actual per capital social spending and social spending as share of GDP decreased over the period. We also find that social spending as share of GDP declined by less than total expenditure's share of GDP. The evidence is therefore not conclusive enough to substantiate the claim that social spending was drastically cut under GEAR.

Next we examine the trends in social service delivery during the period to form some preliminary impression of whether the quality and quantity of service delivery did decline over the GEAR period. Again, the data does not show clear evidence of a decline in the quality and quantity of services provided over the period.

Our analyses do not provide conclusive evidence for either Government's or COSATU's claims and this debate continues to influence other debates around issues like the introduction of a basic income grant, a minimum package of education services, the realisation of basic socio-economic rights and the redesign of the equitable share formula which directs funding to the provinces.

## 1. INTRODUCTION

The key social policy issue confronting South Africa is how to reduce persistent poverty and unemployment. One of the instruments to do so is the government budget and social spending in particular. The contribution of the effective delivery of especially Health, Education and Housing to growth and participation in the economy has been widely documented.<sup>3</sup>

The conundrum in South Africa is that relatively high levels of spending in these areas have not produced the expected returns (see Woolard, 2001; Seekings & Nattrass, 2001; and Taylor, 2002). Two hypotheses have been advanced to explain this phenomenon. Government, and the National Treasury in particular, claims that it is largely the result of inefficiency in the delivery of these services. They point to teacher absenteeism, persistent underspending and the theft of medical supplies as examples of such inefficiency. As a result the Treasury has focussed its efforts on enhancing efficiency through the Budget Reform project, which gave rise to key efficiency instruments such the PFMA and departmental Strategic Plans.

Another explanation that has been advanced by the 'Left' broadly and COSATU and its civil society allies in particular, is that government has in fact reduced spending on social services under GEAR in order to reach its budget deficit targets. This reduction in spending would have reduced the quantity and quality of social services that could be provided. They argue further that even inefficiency problems could be addressed by spending more on personnel and human resource development.

The debate continues unabated and has resurfaced in the recent debates around the introduction of a basic income grant as well as the introduction of a minimum package of expenditure on poor learners. This debate is also very closely aligned to the debate about

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<sup>3</sup> For a recent example, see Fryer D. and Vencatachellum D. 'Returns to Education in South Africa: Evidence from the Machibisa Township' Working Paper 03/76 Development Policy Research Unit May 2003

the realisation of the socio-economic rights listed in the Bill of Rights. Even while the above positions are not mutually exclusive, the debate is broadly between those who claim that we can do more with what we have and those that say we need to spend more.

In this paper we endeavour to examine one claim in this debate, namely that budget allocations to social services were reduced under the GEAR policy and that this reduction had a negative impact on the quality and quantity of services. The importance of this issue is that it will have an influence on how we proceed in addressing social issues in South Africa. If the problem is predominantly low levels of spending, the solution is straightforward. If the problem is inadequate translation of spending into service delivery outputs, the solution may be more complex, but would not hinge on increased spending.

We start by analysing the GEAR document from a social policy perspective in order to outline the stated intention for the levels of social expenditure. Subsequently we examine budgetary trends from 1996/7 to 2000/1 for the social sector departments of Health, Education, Welfare and Housing in order to test the claims of reduced social spending. After this analysis we undertake a brief examination of trends in social service provision under GEAR in order to form a preliminary impression of whether the levels and quality of service provision did in fact decline.

In this paper we take GEAR's 'lifespan' as running from the 1997/8 to the 2000/01 financial years. The reasons for this assumption are firstly that GEAR set targets from 1997-2000. Secondly the 2001/02 budget was clearly marked by a more expansionary approach with the deficit being relaxed and large new commitments to infrastructure spending being made – a clear departure from the logic of GEAR. In the analysis we include 1996/7 as a comparative base.

## **1.1 What GEAR proposed for social spending**

In 1996 the South African government introduced GEAR (Growth, Employment and Redistribution) as its macroeconomic strategy to rebuild and restructure the country's

economy. The GEAR framework set specific targets for economic growth (6 % per year by 2000) and job creation (400 000 per year by 2000) (Department of Finance, 1996: 1). GEAR was an integrated strategy with its core elements including the acceleration of the budget reform process, the reduction of the budget deficit, tax reform, as well as the relaxation of exchange controls. Microeconomic strategies included trade and industrial policy reforms (Department of Finance, 1996: 4).

GEAR called for budget restructuring to contain costs, the strengthening of the redistributive efforts of government spending and improved service delivery. (Department of Finance, 1996; 4,7). The strategy did not provide much information on proposed levels of social spending, but did call for:

- the restraint of expenditure on *Education* through the reprioritisation of spending to historically disadvantaged communities;
- the redirection of *Health* expenditure to primary health care, especially in poor and rural communities;
- the focussing of *Welfare* spending on assistance to the poor, with less spending on institutionally based services and
- increased expenditure on *Housing* aimed at accelerating the provision of housing and related services (Department of Finance, 1996: 15,16).

## **1.2 The Left's interpretation GEAR**

Since the adoption of GEAR in 1996, the Left has criticised the strategy's commitment to deficit reduction. COSATU claimed that GEAR's commitment to "conservative deficit targets" means "real spending cuts" (Vavi, 1997: 1). COSATU also stated that the main goal of government's economic policy should be to alleviate poverty for both the employed and unemployed and that this could only be attained by redistributive policies. These policies should focus on increased productive activity, meeting the needs of all South Africans and economic democracy. According to them GEAR failed the key test for successful economic policy, namely to bring about job creation and the redistribution of wealth and income (Vavi, 1997: 3,4).

In their responses to various 'GEAR' budgets, COSATU criticised what they perceived as cuts in social expenditure (brought on by Gear's deficit targets) and restated its belief that government would be unable to address Apartheid disparities within the constraints of GEAR (COSATU, 1998: 3; Sikwebu, 1999: 1-3).

In 2000 COSATU, together with the South African Council of Churches and the South African NGO Coalition, established the 'People's Budget' in response to what they perceived as "deep budget cuts in public spending since the introduction of GEAR in 1996" (The People's Budget, 2001: 1). In their 2001 budget proposals, the People's Budget called for a "social wage" consisting of government services and grants which would ensure a minimum standard of living for all South Africans (The People's Budget, 2001:9). They also showed how expenditure on what they call "the social wage functions" (comprising education, health, welfare, police, transport and communication, housing and water) declined in real terms over the period 1996/97 to 1999/00 (The People's Budget, 2001: 11).

## **2. WERE THERE 'DEEP CUTS' TO SOCIAL SPENDING?**

The level of government spending can be measured in many ways and at many different phases of the budget cycle. In this section we examine trends in budgeted as well as actual spending on social services. For the sake of comparison, we adjust these figures for the effects of inflation and population and population growth. We also examine the implicit priority given to social spending in the budget by expressing it as a share of total spending and of Gross Domestic Product (GDP).

### **2.1 Budgeted Expenditure**

Total budgeted expenditure on social services shows a real increase of 5.7% over the whole period under consideration. It shows a steady increase from 1996/7 up to 1999/00 before decreasing markedly in 2000/01, mainly due to a decline of R5 billion in

expenditure on housing. Despite this decrease, budgeted expenditure on Housing alone increased by almost 100 % over this period, with expenditure on Health increasing by 12,5 % and Education (+1,2 %) and Social Development (-0.2%) remaining relatively stable. The large variations in Housing can largely be explained by a cycle of over and underspending brought about by the uneven nature of capital expenditure as well as often inadequate planning for such expenditure.

**Table 2.1: Budgeted Real Expenditure on Social Services: 1996/7 to 2000/01<sup>i</sup>**

<b>(R Billion)</b>	<b>1996/97</b>	<b>1997/98</b>	<b>1998/99</b>	<b>1999/00</b>	<b>2000/01</b>	<b>% change 1996/97 – 2000/01</b>
Education	39.2	37.4	40.4	40.4	39.7	1.17%
Health	18.5	18.8	21.7	20.0	20.8	12.46%
Social Development	16.4	17.1	17.1	16.5	16.4	-0.23%
Housing	1.6	3.9	3.4	8.2	3.2	99.18%
<b>Total Social Spending</b>	<b>75.7</b>	<b>77.2</b>	<b>82.6</b>	<b>85.1</b>	<b>80.0</b>	<b>5.70%</b>

## 2.2 Actual Expenditure

Over the period under review there were significant variations between budgeted and actual expenditure. The two main reasons for this are departmental over- and underspending, as well as additional allocations being made in the Adjustments Estimates<sup>4</sup>. The reason for the latter was often to adjust for large over-runs in revenue collection.<sup>5</sup>

Total actual social expenditure increased by slightly less (4,71 %) than budgeted expenditure over the GEAR period. In contrast to decreases in budgeted expenditure, actual expenditure on Social Development increased by almost 50 %. This is largely the result of the inability of provincial governments to estimate the number of grant recipients in their provinces, often resulting in unexpected increases in the take up of specifically the Child Support Grant. Actual expenditure on Housing increased by 24 %,

<sup>4</sup> The Adjustments Estimates are the proposed amendments to the appropriations voted in the main Budget for the year (Hickey & Van Zyl, 2002: 77).

<sup>5</sup> Van Zyl A. and van der Westhuizen C. 2002 “Does the national treasury underestimate the collection of Revenue?” IDASA: Budget Information Service, November 2002



while actual real expenditure on Education and Health decreased by 2 % and 14 % respectively. In 1996/97 actual expenditure on Health was more than R6 billion in excess of the budgeted amount. Over the rest of the period real actual spending was much closer to the budgeted amounts, with the result that actual expenditure in 2000/01 was less than in 1996/97. The uneven trends in Social Development expenditure is the result of the introduction of new grants as well as the controversial ‘cleaning-up’ of lists of existing grant recipients.

**Table 2.2: Actual Real Expenditure on Social Services: 1996/97 to 2000/01<sup>ii</sup>**

(R Billion)	1996/97	1997/98	1998/99	1999/00	2000/01	% change 1996/7 – 2000/01
Education	42.1	41.8	39.2	39.8	41.3	-2.08%
Health	24.8	21.4	21.3	24.9	21.3	-14.29%
Social Development	16.1	21.9	22.0	16.4	23.8	47.83%
Housing	3.3	6.5	5.7	3.6	4.1	24.33%
<b>Total Social</b>	<b>86.3</b>	<b>91.6</b>	<b>88.1</b>	<b>84.7</b>	<b>90.4</b>	<b>4.71%</b>

### 2.3 Per Capita Expenditure

Total per capita social expenditure<sup>6</sup> decreased from R 2127 per capita to R2069 over the period under consideration. The largest decreases were registered in Health (from R611 to R487 per capita), and Education (from R1038 to R945 per capita). Per capita expenditure in Social Development (from R396 to R544) and Housing (from R80 to R93) increased over the GEAR period. Of interest is that while total actual per capita spending decreased by 2.7% over this period, overall per capita expenditure decreased by 5%. This lends credence to the government’s claim that social spending was prioritized under GEAR. The main limitation of the population figures used for these calculations is that Statistics South Africa’s mid-year projections do not take account of the likely effects of HIV/AIDS. This almost certainly results in an overestimation of the population and a progressive underestimation of per capita expenditure.

<sup>6</sup> All numbers in this section refer to actual real per capita expenditure, i.e. adjusted for the effects of inflation, population and budget realisation.

**Table 2.3: Actual Real Per Capita Social Expenditure: 1996/97 to 2000/01<sup>iii</sup>**

(Rand)	1996/7	1997/9	1998/10	1999/00	2000/01	% Change
Education	1038	1015	933	929	945	-9.0%
Health	611	519	507	581	487	-20.4%
Social Development	396	533	523	382	544	37.3%
Housing	80	157	135	85	93	15.5%
<b>Total Social expenditure</b>	<b>2127</b>	<b>2224</b>	<b>2098</b>	<b>1978</b>	<b>2069</b>	<b>-2.7%</b>
<b>Total Expenditure</b>	<b>4629</b>	<b>4610</b>	<b>4345</b>	<b>4344</b>	<b>4397</b>	<b>-5.0%</b>

## 2.4 Share of the budget

Total social spending as a share of total actual expenditure was higher in 2000/1 than 1996/7. There is, however, some variation over the period, with this share decreasing in 1999/0, but growing every other year. When we look at the individual services, Education and Health have seen their 2000/1 share drop lower than their 1996/7 share. While Education's share declined gradually, spending on Health as share of total expenditure varied significantly over the period. The same variation can be seen in Social Development and Housing's share of the budget. Both these Departments, however, have a higher share of the budget in 2000/1 than in 1996/7.

**Table 2.4: Actual Social Expenditure as % Share of Total Expenditure<sup>iv</sup>**

	1996/7	1997/8	1998/9	1999/00	2000/01
Education	22.4%	22.0%	21.5%	21.4%	21.5%
Health	13.2%	11.3%	11.7%	13.4%	11.1%
Social Development	8.6%	11.6%	12.0%	8.8%	12.4%
Housing	1.7%	3.4%	3.1%	2.0%	2.1%
<b>Total social as share</b>	<b>45.9%</b>	<b>48.2%</b>	<b>48.3%</b>	<b>45.5%</b>	<b>47.1%</b>

## 2.5 Social Spending as percentage of the Gross Domestic Product (GDP)

The need for social services is closely linked to the overall level of economic growth and the distribution of the benefit from such growth. Total social spending decreased from 15,5 % of GDP to 12,7 %. With the exception of spending on Social Development, spending on all social services as percentage of GDP was less in 2000/01 than in 1996/7. Over the same period, total expenditure as percentage of GDP declined from 33.8 % to

27 %, reflecting government's commitment to deficit reduction and increasing the efficiency of spending. It should however again be noted that social expenditure as percentage of GDP declined by slightly less (18 %) than total expenditure's share of GDP (20 %).

**Table 2.5 Actual Social Expenditure as % of GDP\***

	1996/7	1997/8	1998/9	1999/00	2000/01
Education	7.58%	6.45%	6.02%	5.83%	5.80%
Health	4.46%	3.29%	3.27%	3.64%	2.99%
Social Development	2.89%	3.39%	3.37%	2.40%	3.34%
Housing	0.59%	1.00%	0.87%	0.53%	0.57%
<b>Total Social Expenditure</b>	<b>15.52%</b>	<b>14.13%</b>	<b>13.53%</b>	<b>12.40%</b>	<b>12.69%</b>
<b>Total Expenditure</b>	<b>33.79%</b>	<b>29.28%</b>	<b>28.02%</b>	<b>27.23%</b>	<b>26.97%</b>

Table 2.6 below summarises the above paragraphs on social spending under GEAR and presents a mixed picture. While budgeted and actual social spending and social spending as a share of the budget increased, actual per capita social spending and social spending as share of the GDP decreased. There is therefore very little unambiguous evidence for the claim that social spending was drastically reduced under the GEAR policy.

**Table 2.6: Summary of Social Spending over the GEAR Period**

	Real Budgeted	Real Actual	Per Capita	Share of Total Expenditure	Share of GDP
Education	Increased	Decreased	Decreased	Decreased	Decreased
Health	Increased	Decreased	Decreased	Decreased	Decreased
Social Development	Decreased	Increased	Increased	Increased	Increased
Housing	Increased	Increased	Increased	Increased	Decreased
<b>Total Social Spending</b>	<b>Increased</b>	<b>Increased</b>	<b>Decreased</b>	<b>Increased</b>	<b>Decreased</b>

The level of expenditure is not the only factor impacting on social service delivery. The efficiency with which such expenditure is translated into actual services delivered is at least as important as the level of funding allocated. Indeed the National Treasury has regularly argued that social service expenditure in South Africa is already comparatively high and that problems of inadequate service should rather be addressed by efficiency improvements. In the next paragraph we attempt to form a preliminary impression of the quantum of social services delivered under the GEAR policy.

## 2.6 Outputs of Social Spending

### *Social Development*

Expenditure on social grants makes up almost 90 % of total social development expenditure. As such it is the most important output of the social development department. The Child Support Grant, currently the second largest grant in terms of beneficiary numbers, was introduced in 1999. This grant is the main contributor to the overall growth of 42 % in the number of grant beneficiaries from April 1997 to April 2001. The number of beneficiaries for two other major grants also increased over this period. Old Age Grant (the largest grant in terms of beneficiary numbers) beneficiaries increased by 8 %, while the Foster Care Grant increased by 105 %, albeit from a much lower base. Only the beneficiaries of the War Veterans Grant (probably due to natural attrition); the Disability Grant (due to the controversial ‘clean-up’ of the system) and Grants in Aid (an additional grant awarded to recipients of Old Age, War Veterans or Disability Grants) decreased over this period.

**Table 2.7: Trends in Grant Beneficiary Numbers<sup>vi</sup>**

	Apr-97	Apr-98	Apr-99	Apr-00	Apr-01	% change '97-'01
<b>Old Age</b>	1,737,682	1,697,725	1,812,695	1,860,710	1,877,538	8%
<b>Child Support Grant</b>	0	0	34,471	352,617	974,724	
<b>Disability</b>	732,322	660,528	633,778	612,614	627,481	-14%
<b>Foster Care</b>	41,865	43,520	71,901	79,937	85,910	105%
<b>Care Dependency</b>	2,895	8,172	16,835	24,438	28,897	898%
<b>Grant in Aid</b>	10,082	9,183	8,496	8,748	9,489	-6%
<b>War Veterans</b>	12,047	10,525	9,197	7,553	6,175	-49%
<b>TOTAL</b>	<b>2,536,893</b>	<b>2,429,653</b>	<b>2,587,373</b>	<b>2,946,617</b>	<b>3,610,214</b>	<b>42%</b>

In conclusion it is clear that the overall number of beneficiaries increased dramatically over the GEAR period. This trend is echoed in the fact that although real budgeted expenditure on social development decreased slightly over the GEAR period, actual real spending increased dramatically. It therefore appears that delivery on social development has increased over the GEAR period.

## *Housing*

Budgeted and actual real spending on housing increased over the GEAR period. The Housing Subsidy Programme is the main programme through which national government assists households to access housing (National Treasury, 2003: 165). The table below shows that the total number of subsidies increased by 9 % over the period. In contrast to the trend observed in the number of subsidies approved, the number of houses build or under construction decreased from 1998/99 to 2000/01.

**Table 2.8: Number of Housing Subsidies approved and Houses Completed or Under Construction under the Housing Subsidy Programme<sup>vii</sup>**

	1998/99	1999/00	2000/01	% change 98/99-00/01
<b>Number of Housing Subsidies approved</b>	225,980	233,531	246,988	9%
<b>Houses completed or under construction</b>	227,947	263,763	204,507	-10%

Given the cyclical nature of capital projects, one should probably not read too much into the decline in the number of houses completed, especially given the growing number of subsidies approved.

## *Education*

With the exception of 1997, school enrolment decreased over the period 1996 to 2001. This was largely the result of the Admissions Policy for Ordinary Public Schools introduced in 1998 which set ‘appropriate’ ages for learners in each Grade as well as increasing the minimum school-going age to 7 (National Treasury, 2001: 34) that dramatically reduced the number of over and underage learners in the education system. Total enrolment remained largely stable until 1999. From there it dropped significantly for the next two years.

**Table 2.9: Learner Enrolment (Public Ordinary Schools & Independent Schools)<sup>viii</sup>**

	1996	1997	1998	1999	2000	2001	% change 1996-2001
<b>Eastern Cape</b>	2,325,000	2,441,177	2,292,475	2,324,684	2,138,861	2,033,832	-13%
<b>Free State</b>	780,000	798,305	806,649	780,170	764,755	716,021	-8%
<b>Gauteng</b>	1,569,000	1,514,239	1,556,755	1,569,423	1,554,495	1,561,359	0%
<b>KZN</b>	2,772,000	2,919,096	2,813,786	2,772,225	2,663,360	2,698,453	-3%
<b>Limpopo</b>	1,823,000	1,838,272	1,848,054	1,823,017	1,845,265	1,816,189	0%
<b>Mpumalanga</b>	931,000	885,856	935,878	930,624	911,779	903,997	-3%
<b>N Cape</b>	204,000	196,012	201,308	204,238	198,650	197,101	-3%
<b>North West</b>	946,000	938,780	955,306	946,160	909,906	893,144	-6%
<b>W Cape</b>	963,000	908,610	954,732	963,358	916,384	918,030	-5%
<b>TOTAL</b>	<b>12,313,000</b>	<b>12,440,347</b>	<b>12,364,943</b>	<b>12,313,899</b>	<b>11,903,455</b>	<b>11,738,126</b>	<b>-5%</b>

The table below shows the learner: educator ratio for 1996 and 2000. There was a slight decrease from 33,7 to 32,7 in the average number of learners per educator. This points to a slight improvement in the quality of this education input. The decrease is largely the result of reduction of learners brought about by the Admissions policy discussed above.

**Table 2.10: Learner: Educator ratio (public schools)<sup>ix</sup>**

	1996	2000
<b>Eastern Cape</b>	36.3	31.5
<b>Free State</b>	30.1	31.9
<b>Gauteng</b>	29.2	30.9
<b>Kwa-Zulu Natal</b>	37.1	35.7
<b>Limpopo</b>	33.9	33.5
<b>Mpumalanga</b>	36.0	34.8
<b>Northern Cape</b>	30.2	30.6
<b>North West</b>	30.2	30.3
<b>Western Cape</b>	32.9	30.7
<b>National Average</b>	<b>33.7</b>	<b>32.7</b>

The grade 12 (matric/senior certificate) pass rate is one of the key measures of success in a school system (National Treasury, 2003: 69). Table 2.11 shows that for the period 1996 to 2001 the total pass rate increased by 14 % (see below). This could again however partially be the result of the Admissions policy – with smaller numbers of learners being allowed to sit for the exams. It could also be the result of other quality enhancing inputs that were also introduced over this period, such as increased spending on learner support materials and in-service training for educators.

**Table 2.11: Senior Certificate Passes ( as % of learners that wrote senior certificate)<sup>x</sup>**

	1996	1997	1998	1999	2000	2001	% change '96-'01
Eastern Cape	49	46	45	40	50	46	-7%
Free State	51	43	43	42	53	59	16%
Gauteng	58	52	56	57	68	74	27%
Kwa-Zulu Natal	62	54	50	51	57	63	1%
Limpopo	39	32	35	38	51	60	53%
Mpumalanga	47	46	53	48	53	47	0%
Northern Cape	74	64	65	64	71	84	14%
North West	70	50	55	52	58	63	-11%
Western Cape	80	76	79	79	81	83	3%
<b>TOTAL</b>	<b>54</b>	<b>48</b>	<b>49</b>	<b>49</b>	<b>58</b>	<b>62</b>	<b>14%</b>

One could therefore conclude that while the Admissions Policy reduced the number of learners, the quality and targeting of education that was provided, improved.

### *Health*

The data on the performance of the Health sector are quite slim. Table 2.12 below shows that while fluctuating, the overall number of staff in provincial health departments remained relatively stable over the period from 1997/8 to 2000/01.

**Table 2.12: Number of Personnel in Provincial Health Departments<sup>xi</sup>**

	1997/98	1998/99	2000/01	% change 97/98-00/01
Eastern Cape	34,197	36,744	31,951	-7%
Free State	0	14,483	15,246	
Gauteng	46,604	45,005	43,097	-8%
Kwa-Zulu Natal	48,885	50,039	48,191	-1%
Limpopo	23,345	23,993	23,607	1%
Mpumalanga	11,497	11,367	11,188	-3%
Northern Cape	3,161	3,356	3,952	25%
North West	17,713	16,881	16,068	-9%
Western Cape	28,363	26,576	23,658	-17%
<b>TOTAL</b>	<b>213,765</b>	<b>228,444</b>	<b>216,958</b>	<b>1%</b>

The overall number of Public Hospitals grew between 1998 and 2001 while the total number of Public Sector Hospital beds declined.

**Table 2.13: Number of Public Sector Hospitals & Public Hospital Beds<sup>xii</sup>**

	<b>1998</b>	<b>2001</b>
<b>Public Hospitals</b>	343	375
<b>Public Sector Hospital Beds</b>	107,634	105,441

Despite the overall reductions in Health expenditure, the data (albeit limited) shows no clear trend of a decline in the quality or quantity of services provided.

### **3. CONCLUSION: WHY THIS DEBATE STILL MATTERS**

How to explain the perceived lack of delivery? Is it the result of low levels of spending or inefficiency in delivery? The answer to this question has an influence on a number of debates that are currently taking place.

The first such debate is the redesign of the equitable share formula that is used to divide funding between the nine provinces. If you think that poor provinces have poor delivery because they don't have enough money, you will redesign the formula to move more money to poor provinces than the previous formula. If you believe that inefficiency is the problem, you would keep the formula as it is and in fact not be too interested in this debate.

The second debate hinges on redistribution of education expenditure between and within provinces. If you think that the reason for poor education performance is a lack of funding, you will design a minimum package of education services and cost it and prescribe the resulting budget commitment as a minimum norm. If not you would for example be more interested in ensuring that teachers spend more time on the job. Similar debates are also unfolding in the health and local government sectors.

The third key debate is on the realization of socio-economic rights listed in the Bill of Rights. After the 'Grootboom' case and the TAC ARV victory, a number of parties are arguing that government should cost the full realisation of socio-economic rights and



provide for them in the budget<sup>7</sup>. But this argument assumes that the lack of delivery on these rights is the result of insufficient inputs, not the inefficient translation of these inputs into outputs. If the analysis points to insufficient outputs, then the emphasis would fall on the performance of delivery agents, rather than just on levels of budgeted and actual expenditure.

One could also argue that service delivery became better targeted over this period. Examples of targeting at policy level could be the introduction of the Child Support Grant, the prioritisation of Primary Health Care, free Primary Health Care for women and children, the introduction of Norms and Standards for education funding etc. In 1999 the then Department of Finance commissioned incidence analyses to measure the overall targeting of the budget. While dated, the study found that over the period 1993 to 1997, social spending was relatively well targeted to the poor, with expenditure on the poorest 20 % of the population increasing from 27,4 % to 30,7 % of total spending. The second poorest 20 % saw their share increase from 21,9 % to 25,8 %, while the richest 20 %'s share of expenditure dropped from 12,7 % to 8,7 % (National Treasury, 2000: 145). Such improvements in targeting could also mean that any social spending cuts that may have been made, did not necessarily affect the poorest of the poor.

These debates are not easy to resolve. Our analysis shows that while there is some internal and historical variation, social spending did lose some value after adjusting for inflation, population growth and budget realisation. But government's efforts to improve efficiency seem to have succeeded because government appears to be providing at least the same, if not more service, with less funding. In addition, on all measures of spending, social spending drops less dramatically than total expenditure. This lends credence to government's claims that it 'protected' social service delivery, while reducing the budget deficit.

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<sup>7</sup> For example Josie J. 'Report could get government out of hot water' *Business Day* October 11 2000

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<sup>i</sup> Sources: Budget estimates were adjusted for inflation using CPI Inflation numbers from the 2000 and 2001 budget reviews. CPIX was only introduced after the 'completion' of GEAR. Budget estimates 1996/97, 1997/98, 1998/99: 1998 Budget Review. Table 5.2. Total budget expenditure: functional breakdown: 1995/96 to 2000/01. p. 5.8. Budget estimates 1999/00: 1999 Budget Review. Table 5.8. Consolidated national and provincial spending by function: 1995/96 to 2000/01. p. 132. Budget estimated 2000/01: 2000 Budget Review. Table 6.6. Consolidated national and provincial spending by function: 1996/97 to 2003/03. p. 140.

<sup>ii</sup> Sources: Actual expenditure was adjusted for inflation using CPI Inflation numbers from the 2000 and 2001 budget reviews. CPIX was only introduced after the 'completion' of GEAR. Actual outcome 1996/97: 2000 Budget Review. Table 6.6. Consolidated national and provincial spending by function: 1996/97 to 2002/03. p. 140. Estimated outcome 1997/98 & Revised estimate 2000/01: 2001 Budget Review. Table 6.6. Consolidated national and provincial spending by function: 1997/98 to 2003/04. p.130. Estimated outcome 1998/99: 2002 Budget Review. Table 6.7. Consolidated national and provincial spending by function: 1998/99 – 2004/05. p. 148. Revised Estimate 1999/00: 2000 Budget Review. Table 6.6. Consolidated national and provincial spending by function: 1996/97 to 2003/03. p. 140.

<sup>iii</sup> Sources: Sources of original actual outcomes and revised estimates the same as for table 2.3. Real expenditure figures were adjusted for population using Stats SA's Midyear Estimates.

<sup>iv</sup> Sources of total budget expenditure (includes interest payments and policy reserve) used in calculations: Actual outcome 1996/97: 2000 Budget Review. Table 6.6. Consolidated national and provincial spending by function: 1996/97 to 2002/03. p. 140. Estimated outcome 1997/98 & Revised estimate 2000/01: 2001 Budget Review. Table 6.6. Consolidated national and provincial spending by function: 1997/98 to 2003/04. p.130. Estimated outcome 1998/99: 2002 Budget Review. Table 6.7. Consolidated national and provincial spending by function: 1998/99 – 2004/05. p. 148. Revised Estimate 1999/00: 2000 Budget Review. Table 6.6. Consolidated national and provincial spending by function: 1996/97 to 2003/03. p. 140.

<sup>v</sup> Sources of GDP used in calculations: Actual outcome 1996/97: 1998 Budget Review. Table 3.5 National Budget revenue and expenditure. p.3.11. Estimated outcome 1997/98: 2001 Budget Review. Table 3.3 Main budget framework, 1997/98-2003/04. P.45 Estimated Outcome 1998/99 & Revised Estimate 1999/00: 2002 Budget Review. Table 3.5 Main budget framework, 1998/99-2004/05. P. 53. Revised Estimate 2000/01: 2002 Budget Review. Table 2.5. Macroeconomic projections (fiscal years): 2001/02 to 2004/05. P. 44.

<sup>vi</sup> Sources: 2001 Intergovernmental Fiscal Review. Table 5.8. Trends in beneficiary numbers. P.65.; 2003 Intergovernmental Fiscal Review. Table 6.7. Trends in beneficiary numbers. P. 104.

<sup>vii</sup> Source: 2003 Intergovernmental Fiscal Review. Table 9.5 Subsidies approved 1994 to December 2002, p.166. & Table 9.8. Houses completed or under construction 1994 to December 2002, p. 169.

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<sup>viii</sup> Source: 2003 Intergovernmental Fiscal Review. Table 4.14. Learner enrolment (public ordinary schools and independent schools), p. 68.

<sup>ix</sup> Source: 2001 Intergovernmental Fiscal Review. Table 3.8. Enrolments rates and related data 1996 and 2000, p. 35.

<sup>x</sup> Sources: 2001 intergovernmental Fiscal Review. Table 3.10. Matric pass rate by province, 1997 to 2000, p. 38; 2003 Intergovernmental Fiscal Review. Table 4.16. Number of senior certificate passes: 2001 and 2002, p. 70.

<sup>xi</sup> Source: 2001 Intergovernmental Fiscal Review. Table 4.17. Number of personnel in provincial health departments, p. 56

<sup>xii</sup> Source: Day, C. & Gray, A. 2002. "Health and Related Indicators". In South African Health Review. Health Systems Trust