



The Purpose of the Economy is to Serve People! *CfSC May 2013 Basic Needs Basket and Press Statement*

The Centre for Social Concern (CfSC), has worryingly observed that the 2013/14 national budget, just like the preceding 2012/13 national budget, is not people centred. While acknowledging the fact that the current budget has been framed in the context of a stagnating economy that is struggling to emerge from a downturn, CfSC believes that government should have balanced the twofold equally important tasks of stabilising the country's economy by giving incentives to the private sector (as the engine of growth) and also protecting the vulnerable through adequate social spending to reduce poverty.

While acknowledging the troubling reality that Malawi is now back under the wings of the Bretton Woods Institutions (IMF and World Bank) CfSC believes that in engaging these institutions Malawi government should do so in cognisance of the lessons learnt from the recent past.

It is a well known fact that macroeconomic policies put forth under the rubric of the Washington Consensus have been at odds with the sustainable human development approach. Macroeconomic policies as prescribed by the two institutions have thus far emphasized macroeconomic stabilisation — traditionally obtained by slashing expenditures to social sectors—above all else insofar as macroeconomic policies are seen as laying the foundations for robust growth. While the Washington Consensus recipes have been successful in reducing budget deficits and inflation, they have not been successful in producing sufficient growth in a number of countries, let alone social justice or poverty reduction.

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Just recently, the IMF made a striking admission in its new ***World Economic Outlook***. The IMF chief economist, Olivier Blanchard, explained that recent efforts among wealthy countries to shrink their deficits – through tax hikes and spending cuts – have been causing far more economic damage than experts assumed. These views are collaborated by the IMF report published in the new issue of ***Finance and Development***, where it is posited that moving too rapidly to enact so-called austerity measures hurt income in the short term and worsen unemployment in the long term. With these and other lessons in mind, Malawi must, therefore, resist the neo-liberal calls for a return to the notion of a market free from political influence, and instead pursue the notion of an appropriately free political economy.

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In presenting the 2013/14 budget speech, the Minister of Finance, Dr. Ken Lipenga further reiterated government's commitment to upholding a market based economy. In his words, "...the key objective of the 2013/14 budget is to restore macro-economic balance and a market-based economy that will consolidate the bold economic reforms that the Government embarked on in 2012". CfSC believes that the government ought to have a hand in the markets. After all, left to their own devices markets serve no one but markets! On their own markets are not ideal mechanisms for resource allocation. The current recession that has firmly gripped

North America and Europe is a direct result of market failure. As Joseph Stiglitz succinctly puts it, “...recessions and depressions, accompanied by massive unemployment, are symptomatic of massive market failures” (Stiglitz, 1998). Thus, market failures and difficulties imply that governments have a role to play in the markets. Thus, “...it is in the interest of society for government to intervene in the market” (Collins O’Connor, 2008). This can be done among other things by regulation, market creation and influencing supply for goods”.

Austerity measures hurt income; make long term unemployment worse – IMF Report (Finance and Development Magazine, 2013)

Regarding the recently presented budget, CfSC thinks and proposes the following:

- 1) **Tax Reforms:** The issues of taxation is central to budget deliberations and to policy development at both macro and micro level (Healy, S. and B. Reynolds, 2004). CfSC believes that government ought to collect sufficient taxes to ensure full participation in society for all, through **a fair tax system in which those who have more, pay more, while those who have less, pay less.** Consequently, it is crucial that there is clarity with regard to both the objectives and instruments aimed at achieving these goals. To ensure the creation of a fairer and more equitable tax system, CfSC proposes adjustments in these areas.
 - ✓ **VAT:** Removal of VAT on commodities benefits both the rich and the poor alike. As a measure to protect the poor, CfSC proposes that government removes VAT on some basic needs (food and essential non-food items) such as soap, cooking oil, paraffin, sugar... etc, which are inaccessible to poor Malawians because they have tax built in them, as a way of cushioning the poor from the current high cost of living.
 - ✓ **Tax Free Threshold** (From MK15, 000 to MK20, 000): The proposed tax free band is extremely narrow to cushion the working poor in the face of the galloping cost of living and devaluation of the kwacha that government effected in 2011. The CfSC Basic Needs Basket (BNB) for May 2013 shows that the average cost of living for a low-income household of six living in urban Malawi is at K96, 940 while food costs alone amount to K57, 283. In the context of the current economic environment, CfSC thinks that the proposed K20, 000 as a tax free band is by far too narrow to make a difference in people’s lives. CfSC proposes that the tax-free band be increased up to K45, 000 to enable working families to at least meet some of their food costs. CfSC also believes that increasing the household’s income through the tax-free band will further stimulate the economy as families will have more purchasing power and in some instances disposable income. In our statements on taxation, the CfSC has also shown how the loss of income should be compensated by adding further bands of taxation of 35% and 40%. This is inline with the ‘stronger shoulders should carry the heavier burden’.
 - ✓ **Salaries and Wages:** The budget statement was silent on civil servants salaries and wages. CfSC thinks that government should make an upward adjustment of civil servants’ salaries and wages in response to inflation and devaluation of the kwacha. In this regard, as the biggest employer government sets the precedent for the private sector to follow suit.

- ✓ **FISP:** While acknowledging the challenge that FISP is prone to be abused for ends political, CfSC thinks it is a worthwhile intervention but one that needs de-politicisation, constant review and improving – with a clear exit strategy. Having said this, FISP should not replace or overshadow other sustainable interventions like the use of organic manure. CfSC also thinks that the subsidised price of K500 is too little and not realistic – it ought to be adjusted upwards but still within reach for people living in poverty.

- ✓ **Rationalising allocations and Living within our means:** The government plans to spend MK638.2 billion against revenue of MK603.4 billion. CfSC thinks that by rationalising some of its proposed allocations, sealing the hole that allows public money meant for the poor to end in private pockets, government can avoid the unnecessarily budget deficit which stands at MK34.8 billion and manage to live with its means. Reviewing the arbitrary and unprecedented payouts to officials whose contracts were unlawfully terminated could be one such a measure. Regarding meeting the budget deficits through borrowing, CfSC has sounded an alarm before concerning the rate at which the government is once again piling the debt stock from foreign and domestic borrowing to meet its recurrent costs. CfSC believes that government is only justified to have a budget deficit and by extension, to borrow, when and where it aspires to provide more essential services to its people and not to meet recurrent transactions.

By way of conclusion, through implementing its projects in partnership with the people living in poverty, CfSC has firsthand experience on how the current economic downturn is impacting poor people. Many individuals and families live in perpetual state of anxiety and even despair when income cannot match basic needs or debt repayments. Without some of the above suggested practical pro-poor spending initiatives, the 2013/14 budget will remain - for many Malawians - a carefully crafted instrument tailored to serve the interests of the rich, while pushing the poor further into poverty.

CFSC BASIC NEEDS BASKET: LILONGWE, BLANTYRE, ZOMBA & MZUZU – MAY 2013
(A) COST OF BASIC FOOD ITEMS FOR A HOUSEHOLD SIZE OF SIX PEOPLE IN

| Commodity – Quantity | Lilongwe | | Zomba | | Blantyre | | Mzuzu | |
|---|---|----------------|--------|---------------|----------|---------------|--------|---------------|
| | Kwacha | Total | Kwacha | Total | Kwacha | Total | Kwacha | Total |
| Maize (50 Kg Bag) - 2 bags | 5179 | 10,358 | 4,333 | 8,666 | 4,500 | 9,000 | 5,000 | 10,000 |
| Milling (Including Grinding) - 14 Tins | 174 | 2,436 | 185 | 2,590 | 100 | 1,400 | 150 | 2,100 |
| Beans (0.8kg/day) 8 days - 6.4 Kg | 397 | 2,541 | 380 | 2,432 | 363 | 2,323 | 578 | 3,699 |
| Usipa (250g/day) 4 days - 1 Kg | 2450 | 2,450 | 1,743 | 1,743 | 2,636 | 2,636 | 1,830 | 1,830 |
| Dry Utaka (200g/day) 4 days – 0.8 Kgs | 4,688 | 3,750 | 1,971 | 1,577 | 2,893 | 2,314 | 3,850 | 3,080 |
| Kapenta (200g/day) 4 days – 0.8 Kgs | 3,033 | 2,426 | 1,033 | 826 | 2,600 | 2,080 | 1,683 | 1,346 |
| Beef (1 kg/day) 4 days – 4 Kgs | 1,267 | 5,060 | 900 | 3,600 | 1000 | 4,000 | 1,500 | 6,000 |
| Eggs (12/day) 4 days – 48 | 61 | 2,928 | 67 | 3,216 | 65 | 3,120 | 67 | 3,216 |
| Vegetable (rape) (750g/day) 30 days - 22.5 Kgs | 176 | 3,960 | 134 | 3,015 | 138 | 3,105 | 207 | 4,658 |
| Tomato (0.5 kg/day) 30 days - 15 Kgs | 479 | 7,185 | 354 | 5,310 | 304 | 4,560 | 361 | 5,415 |
| Onion (116g/day) 30 days - 3.5 Kgs | 570 | 1,995 | 403 | 1,411 | 283 | 991 | 533 | 1,866 |
| Fresh Milk (250mls/day) 30 days - 15x500 ml pkt | 184 | 2,760 | 200 | 3,000 | 185 | 2,775 | 202 | 3,030 |
| Kazinga Cooking Oil - 3x 1 Litters | 1,421 | 4,263 | 1,550 | 4,650 | 1,354 | 4,062 | 1,233 | 3,699 |
| Bread (5 bkfts/week) 20 days - 20 Loaves | 234 | 4,680 | 248 | 4,960 | 249 | 4,980 | 243 | 4,860 |
| Sugar (2 kgs/week) - 8 Kgs | 404 | 3,232 | 420 | 3,360 | 401 | 3,208 | 438 | 3,504 |
| Kitchen Salt - 1 Kg | 141 | 141 | 180 | 180 | 166 | 166 | 222 | 222 |
| Tea (Chisangalalo) - 40 x 25g | 23 | 920 | 50 | 2,000 | 18 | 720 | 40 | 1,600 |
| Cassava (2kgsx2bkfst/wk) – 16 Kgs | 64 | 1,024 | 57 | 912 | 79 | 1,264 | 46 | 736 |
| Sub-total | | 62,118 | | 53,448 | | 52,704 | | 60,861 |
| Sub-total (Food Basket) | (B) COST OF ESSENTIAL NON-FOOD ITEMS | | | | | | | |
| Charcoal (50 Kgs) - 2 Bags | 3,714 | 7,428 | 2,500 | 5,000 | 7,500 | 15,000 | 4,333 | 8,666 |
| Protex - 10 Tablets | 281 | 2,810 | 281 | 2,810 | 282 | 2,820 | 377 | 3,770 |
| Boom – 8 Packets | 201 | 1,608 | 200 | 1,600 | 199 | 1,592 | 200 | 1,600 |
| Clere Body Lotion - 2 x 400 mls | 286 | 572 | 350 | 700 | 297 | 594 | 375 | 750 |
| Vaseline Blue Seal - 2 x 100 mls | 369 | 738 | 401 | 802 | 341 | 682 | 428 | 268 |
| Electricity (Meter) - Average/Month | 6,144 | 6,144 | 2,956 | 2,956 | 2,849 | 2,849 | 1,363 | 1,363 |
| Running Water (Meter) - Average/Month | 3,136 | 3,136 | 2,727 | 2,727 | 2,311 | 2,311 | 1,453 | 1,453 |
| Housing (3 Bed roomed) - Rent/Month | 24,392 | 24,392 | 16,646 | 16,646 | 20,906 | 20,906 | 13,932 | 13,932 |
| Sub-total | | 46,832 | | 33,241 | | 46,754 | | 31,802 |
| Total for Basic Needs Basket | | 108,950 | | 86,689 | | 99,458 | | 92,663 |

(C) SOME OTHER ADDITIONAL COSTS

| | Lilongwe | Zomba | Blantyre | Mzuzu | | |
|---|----------|-------|----------|-------|-------------------------|---------|
| Education (per year) | | | | | Fuel (cost at the pump) | |
| Secondary (fees) | 8415 | 7525 | 6000 | 7600 | Diesel (per litre) | K693.80 |
| Primary (GPF) | 900 | 950 | 700 | 1200 | Petrol (per litre) | K714.90 |
| Uniform/shoes (Primary) | 1550 | 2920 | 3200 | 2100 | Paraffin (per litre) | K700.00 |
| Uniform/shoes (Secondary) | 2280 | 5100 | 4000 | 4400 | | |
| Other (pens, books, etc.) | 1044 | 3900 | 2600 | 2700 | | |
| Minibus fare to town and back LL: MK400 – MK1000; BT: MK400; ZA: MK200 – MK240; MZ: MK200 – MK350 | | | | | | |

NB: 1 USA dollar (\$) = K338 Malawian Kwacha (MK)