The aim of this briefing is to look at the implications of the recent increase in general sales tax(GST) and the new uniform taxation system. At the same time the article provides an outline of developments in economic policy which have led to recent changes in the tax system.

At the present time South Africa is facing a serious economic crisis. The indicators of this crisis are a slowdown in real domestic product, high unemployment, low productivity, still unacceptably high rates of inflation, crippling drought and a generally low gold price. The implications of this situation are that personal incomes and corporate profits have not risen to anticipated levels and thus government revenue (collected through the tax system) is not going to be sufficient to meet government expenditure (defence, civil service education, etc). This means the country is faced with an increasing budget deficit (i.e. government expenditure is greater than government revenue).This can be characterised as a fiscal crisis of the apartheid state. Deficits are experienced by most western countries today, but as will be seen later the nature of apartheid expenditure, poses a peculiar problem for South Africa.

This raises two questions. First, what are the policies used to deal with the crisis? Secondly what are the effects for the large majority of workers?

The racial burden of taxation

The question of taxation in South Africa is a political one. The issue is not merely one of whether the tax system is progressive or regressive, but that it is blatantly unfair and unrepresentative. Though many commentators may see the new uniform system of taxation as "harmonising", it is inherently conflict-ridden. As more and more black people become part of the urban matrix, black taxpayers are paying not only for their own inequality but are subsidising the higher living standards of the white population.

The new tax scheme, on the surface, appears to reduce inequality since people will be taxed at the same level irrespective of colour. But government spending continues on a racial basis. The attempt to make black local authorities autonomous and self-financing will reduce state provision of housing, education and other local facilities. Thus, the only option left open to local authorities will be to raise rents and service charges. This directly affects all sections of the black population. In addition to this local burden, black taxpayers will be paying for the administration of homelands, resettlement, and the enforcement of influx control. Thus:

Black Tax = Costs of Apartheid + Ghetto Projects.

At one level harmonisation of income tax is in line with attempts to divide and co-opt sections of the population. But this new dispensation still ultimately rests upon state repression and a disproportionate share of all taxation still goes to maintain the apartheid bureaucracy and the bloated military machine.It will be suggested below that the increasing centralisation of politico-military power is matched by a concentration of economic power.

Economic Policy

There are three related elements which characterize current economic policy. Firstly, the attempt to control the amount and rate of growth of money in the economy. Secondly, the attemptto cut state spending for social and welfare needs, particularly where expenditure has to be financed by borrowing. Thirdly, a policy of promoting competition and the free operation of market forces is being pursued.

This policy package is known as "monetarism". Within South Africa monetarism has been widely accepted not only by government but also by the major financial institutions, bankers and many academic economists. Monetarist policies have also been adopted by conservative leaders such as Prime Minister Thatcher and President Reagan in Britain and the U.S.A.

To many, monetarism appears to be concerned only with technical economic matters such as the control of money supply to bring down inflation. This is not all there is to monetarism. It has serious political and ideological consequences as well. Monetarists oppose state intervention to provide for public health, education and other social services. According to monetarists state interference in the economy prevents the market from working efficiently.

In line with monetarism, the South African government's belief in the free market is a serious source of concern for the disadvantaged. This shift represents a "privatisation" of the economy, resulting in individuals having to bear a greater burden. The South African state has never undertaken any serious programme for welfare maintenance for blacks. What little expenditure there has been in this area is now likely to be cut back.

As suggested earlier, monetarism is not only concerned with the technicalities of controlling the supply of money, it also shifts the balance of forces in society. As the state withdraws money by curtailing credit, small and medium firms are likely to face more difficulty and bankruptcies. Big business will benefit because of a greater ability to finance themselves through internal finance, whilst multinationals in particular can lend and borrow on an international level.

The long-term objective of this strategy is to restructure the economy, phasing out weaker companies and allowing big business to emerge more powerful. The unemployment which inevitably occurs during this restructuring (i.e. the re-organisation of industry that enables capital to flourish) is seen to be temporary. But this has the effect of weakening and dividing organised workers through lay-offs, redundancies and retrenchments. As the surplus pool of unemployed workers grows in size, unemployed workers compete against other and push down wages. So if workers demand higher wages, and price themselves out of jobs, the blame shifts to them. Monetarist theory assumes that state interference prevents the market from working efficiently. But in practice state intervention under monetarism has taken a different form. The state does not actually withdraw from the economy. Monetarism replaces direct state intervention by intervention through the financial system. This is done by restricting credit and the supply of money. It "is the financial system which determines precisely on whom the axe will fall".*

The control of money supply by the Reserve Bank will impose tighter cash controls on all agencies of the state: central government departments, nationalised industries, provincial and local government which previously had more autonomy in their spending and financial plans. The effect of this is to further centralize economic control.

Though the strategy of monetarism is coherent it does not mean that it is working smoothly in practice. The obstacles to implementing it are formidable. The attempt by the Reserve Bank and Treasury to restrain the expansion of money supply has been highly erratic. Moreover, a recession has highly contradictory effects, hitting profits, sales and costs.

While the theoretical aim of monetarist policy is to reduce state expenditure, in South Africa it is only expenditure on certain welfare items that has been reduced. At the same time the state has dramatically increased expenditure on the police,

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* S. Clarke, "Monetarism and Unemployment as forms of social regulation", unpublished paper, 1982.

military and bureaucracy. This kind of expenditure has greatly accentuated the fiscal crisis of the apartheid state.

It is against this background that we should view recent economic measures designed to widen the tax base: the increase in GST, reduced food subsidies and the Income Tax Act of 1983.

Taxation

On the 1st February 1984, GST went up from 6% to 7% and on the 1st March the Uniform Tax System came into force. Before examining the effects of these two taxes, let us briefly examine the nature of taxes themselves.

To finance government expenditure, taxes have to be imposed. To do so means income must be taken away from someone. But whose income? The answer to this question directly involves the equality and inequality of income, that is to say, the burden of taxation is related to the distribution of income. So the imposition of taxes is a powerful policy instrument in the hands of government to affect the distribution of income.

Conventionally, a distinction is made between direct taxation (i.e. income tax, corporation tax) and indirect taxation (mainly import tax and sales tax).

In so far as the distribution of income is concerned, we can classify the wide range of taxes as follows: A progressive tax is one which takes an increasing proportion of income as income rises (i.e. the richer members of the society pay more). A proportional tax takes a constant proportion of income. A regressive tax takes a declining proportion of income as income rises (i.e. the poor pay more, the exact opposite of a progressive tax). However, progressive and regressive taxes can co-exist.

General Sales Tax (GST)

GST is an indirect tax because it is levied on consumer goods and not on income, whereas income tax is levied directly on income. A general sales tax is one of the most regressive forms of taxation because it cannot be avoided by consumers. Income taxes on the other hand have a measure of progressiveness built into them, i.e. they increase with one's income. But indirect taxes, like GST, affect workers and low income groups most, as they will pay a higher proportion of their income. That is to say that most necessary commodities like milk, bread, sugar, etc form a larger proportion of the spending decisions of most wage-labourers. So a progressive tax reduces inequality but a regressive tax like, GST increases inequality.

Since 1975/6 the government has moved towards an increased use of indirect taxation as a source of revenue. In 1978 a general sales tax was introduced, and at the same time personal income and company taxation were lowered, as the table below indicates.

(R millions)

	1975	1976	1977	1978	1979	1980	1981	1982
Indirect Taxes	1896	2315	2811	3416	4028	4807	5828	7617
Direct Taxes	3421	3872	4204	4659	5495	7887	8418	9570

Source: Reserve Bank Bulletin

Over a period of seven years, the figures from the table show that indirect taxes increased by 22% per annum and direct taxes by 16% per annum.

Hence, this change in the structure of taxation can only increase the racial burden of taxation bacause of the unequal racial distribution of income.

With a large outstanding deficit, the government is determined to boost revenue. The increase in GST from 6% to 7% will increase revenue by an extra R700 million.

The Income Tax Act 1983

With the introduction of the new Income Tax Act 1983, the old discriminatory system of separate taxation for blacks will no longer apply. Under the new system everybody will be taxed in the same way. At first sight, this may appear as a positive step, particularly for those earning lower incomes. However, over time, with inflation, numbers of workers will cross the tax threshold and move steadily into higher tax brackets even though their real incomes remain constant. In very broad terms, some of the changes are as follows, when compared to the Black Tax Act:

- Single persons with no children will now be paying no tax if they earn less than R300, the same tax if they earn R350 and more thereafter.
- Single persons with children will be paying less all up the scale if they have three children; less with two children, if they earn below R1250 per month. More tax is paid thereafter.
- Most married men will be paying less tax.
- Most married women will now be paying more tax, except those earning R19000 per year, who will then pay less tax.

Let us look at how the tax burden will shift to married women. A married man will now for the first time pay no tax at all if he earns R350 per month or less. His wife on the other hand, earning R350 per month will pay R22,83 a month in tax. With the old Black Taxation Act each of them would have paid R7.20 per month, hence total family tax was R14.40 a month. Now it will be R22.83, all paid by the wife. Though in many cases the total family tax may be less than before, the wife will still be paying more.

Conclusion

The contradiction in the present situation lies in the fact that whilst the government would like to control the money supply and reduce its spending, it is actually being forced to increase expenditure.The net result is that to compensate for the increasing deficit, the government has had to increase taxes and to cut spending in particular areas.

The current scenario appears bleak. In the forthcoming budget, further tax increases are most likely. If government expenditure increases during the next three months at the monthly average of R1915 million, total government expenditure for the year could reach R22981 million. This is 14.8% higher than the previous year.*

The problems faced by the South African government are shared by monetarists governments elsewhere. In South Africa however, the crisis is intensified by the particular pattern of its expenditure, required to sustain the apartheid state.

(Fuad Cassim, Johannesburg, March 1984)

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*Barclays Bank Report: February 1984.