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# South Africa – Do we have a good story to tell?

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# Background

## Our fiscal squeeze

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ANC came into power in 1994

Inherited massive social responsibility:

Inequality (Gini around 0.6), poverty and unemployment (20%)

Black majority population lacked:

Housing, education, health services, piped water, electricity and sanitation, and in fact often also basic food security

Clear from the outset that it would require sizeable redistribution effort and resources

# Background

## Our fiscal squeeze

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### Policy attempts to do that:

- The *Reconstruction and Development Plan (RDP)*, 1994, failed to deliver
- Replaced by *The Growth, Employment and Redistribution (GEAR)* strategy in 1996
- In 2005, replaced by *The Accelerated and Shared Growth Initiative for South Africa (ASGISA)*
- In 2010 President Zuma announced *The New Growth Path (NGP)* and conceded that inequalities ran deeper than ever before
- The *National Development Plan (NDP)* replaced the NGP in 2013, emphasising implementation; policy predecessors all failed on implementation and the NDP followed

# Background

## Our fiscal squeeze

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- *Employment Equity Act 55 of 1998*; transformation towards a non-discriminatory and socially equitable labour market
  - BUT...* Labour market rigidities
- *Broad-Based Black Economic Empowerment Act 53 of 2003*; three core components of transformation:
  - Direct empowerment through ownership and management control
  - Human resource development by enforcing employment equity and skills development
  - Indirect empowerment through preferential procurement, enterprise development and socio-economic development

# Background

## Our fiscal squeeze

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### *BUT...*

- Intellidex Research Report (June 2015):
  - Black Economic Empowerment transactions of the 100 largest companies listed on the Johannesburg Stock Exchange had created net value of R317bn
  - Covers the value of all agricultural land *and* equipment by a factor of 1.1
  - Also not broad based; created a very wealthy new elite while masses remain poor
- Policy uncertainty
  - Interpretation of the Mining Charter that regulates transformation of the extractive industries *sub judice*
  - Roger Baxter, CEO of SA Chamber of Mines: “New mining rules make mining sector uninvestable.”

# Background

## Our fiscal squeeze

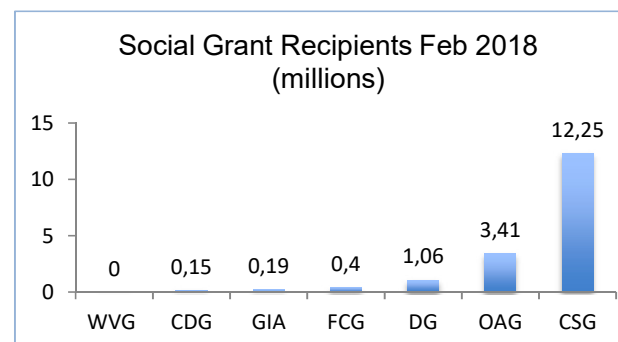


### Social wage:

#### 1. Social (Cash) Grants:

- Most widespread poverty alleviation mechanism
- Conditional; means test; only for those too young, too old or too disabled to participate in labour market
- 2 million grant recipients in 1994; 17.45 million in 2018

Old Age Grant	\$137 pm
War Veteran Grant	\$138 pm
Disability Grant	\$137 pm
Grant in Aid	\$32 pm
Foster Child Grant	\$78 pm
Care Dependency Grant	\$137 pm
Child Support Grant (18 and younger, up to 6 children)	\$32 pm



Source: South African Social Security Agency

# Background

## Our fiscal squeeze

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### 2. Education

- Schooling compulsory for children aged 7 to 15
- 96% of learners attend public schools that receive state grants towards operational costs, supplemented by parent fees
- Higher state subsidies for no-fee schools in poorer neighbourhoods
- Learners in fee-paying schools can apply for exemption and no school may refuse them
- CSG recipients automatically receive exemption
- Tertiary education was subsidised, with loan assistance for poorer students in the past. From 2018, students who pass means test receive free tertiary education.



# Background

## Our fiscal squeeze

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### *BUT...*

- Lowest global outcome on *literacy*:

Research by the University of Pretoria, 80% of Grade 4 pupils “still cannot read at an appropriate level”. South Africa placed last out of 50 countries in the *Progress in International Reading Literacy Study* (PIRLS).

The survey also found that reading scores have not improved since 2011.

- Lowest globally on *mathematics and science*:

The World Economic Forum’s *Global Information Technology Report 2016* ranked South Africa last in mathematics and science education quality for third year in a row.

South Africa also finished close to last – 137 out of 139 countries – when looking at the overall quality of its education system.

# Background

## Our fiscal squeeze

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### 3. Health services

- Public health care serves more than 80% of the population; *private* health care prohibitively expensive
- *Primary* health care free for all
- *All* health care free for poor households, children under 6, pregnant mothers and social grant beneficiaries
- ***BUT...***

South Africa ranked last among 19 nations in global survey measuring healthcare system efficiency – *The Future Health Index*.

South Africa's efficiency ratio the lowest of the 19 countries in the study, which included countries such as France, the US, Argentina, United Arab Emirates, China and Brazil.

South Africa scored 4.4 compared to the group average of 10.5.

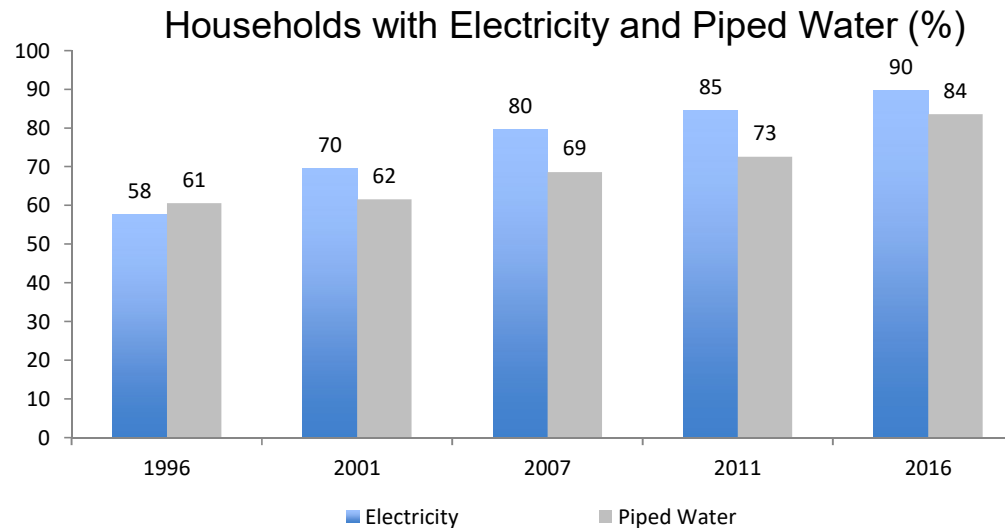
# Background

## Our fiscal squeeze



### 4. Free basic services

- Free electricity and water for the poor
- Cross subsidisation through the way in which municipalities charge for property tax, water, electricity, sanitation and refuse removal



# Background

## Our fiscal squeeze

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Much-needed changeover in administration in February.

Cyril Ramaphosa was sworn in as President, replacing his controversial predecessor Jacob Zuma.

Jacob Zuma: “South Africa has a good story to tell.”

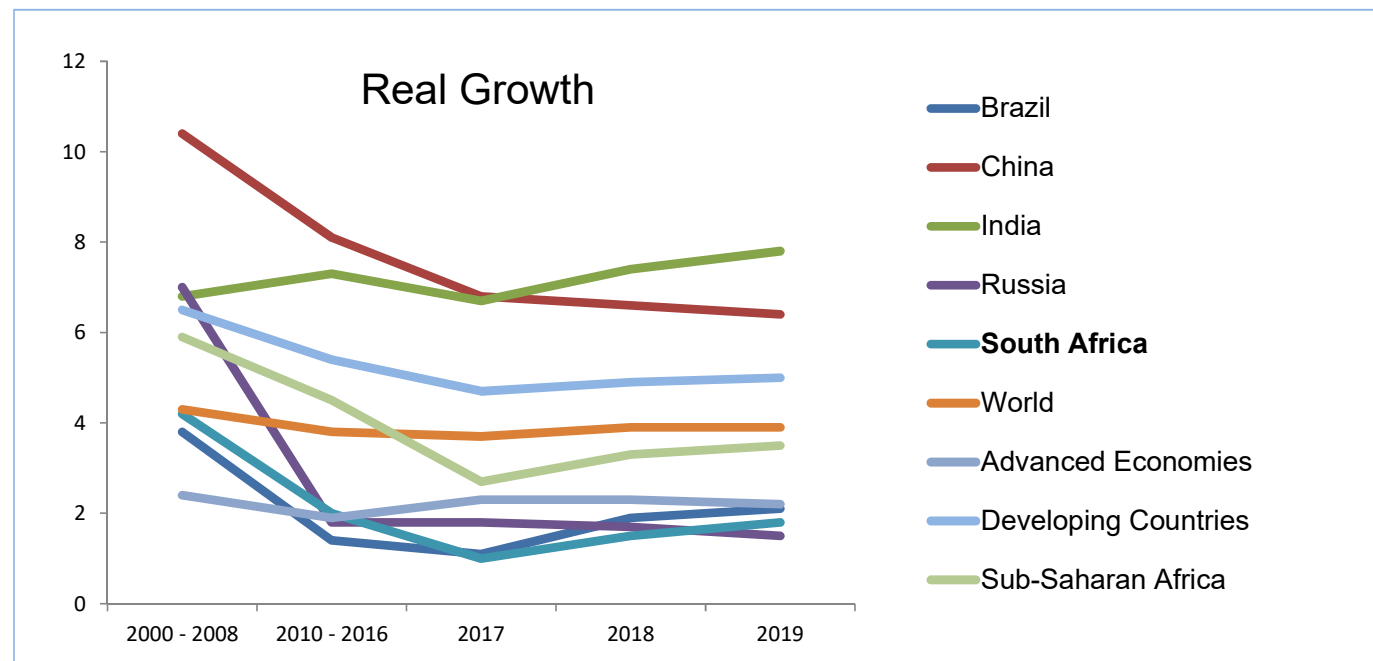
Evacuated office in infamy and under pressure; now calculating cost of disastrous Zuma years.

# Macro metrics after 1994

## Stagnation



Growth lagging in global, regional and peer terms



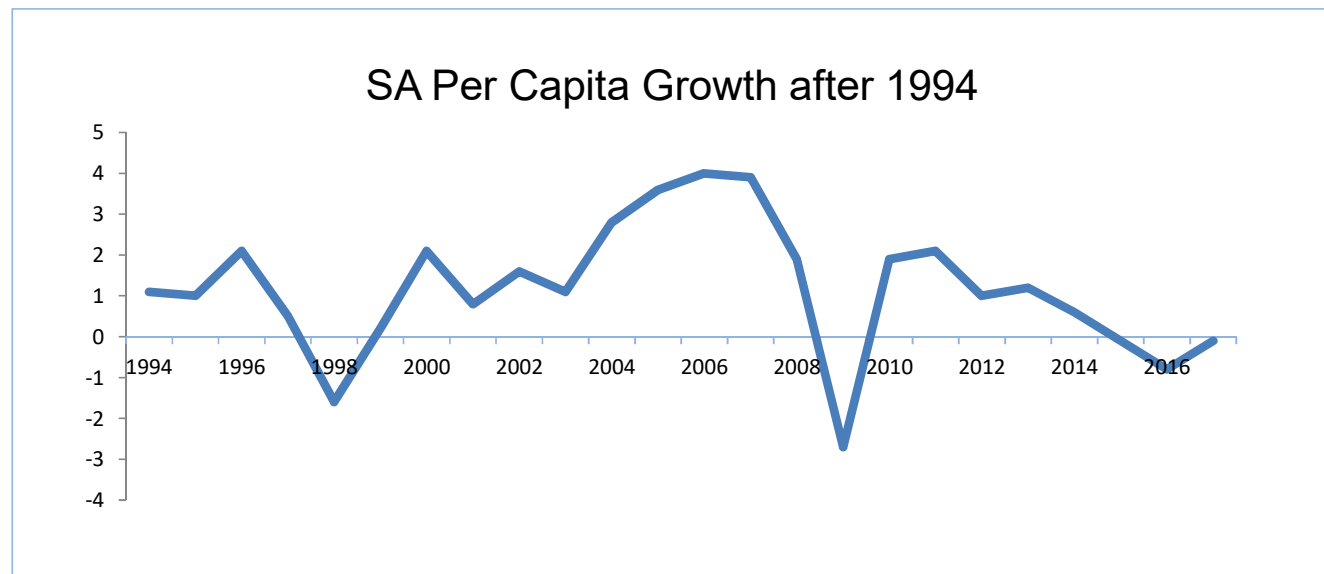
Source: World Development Indicators

# Macro metrics after 1994

## Stagnation



Especially bleak in per-capita terms



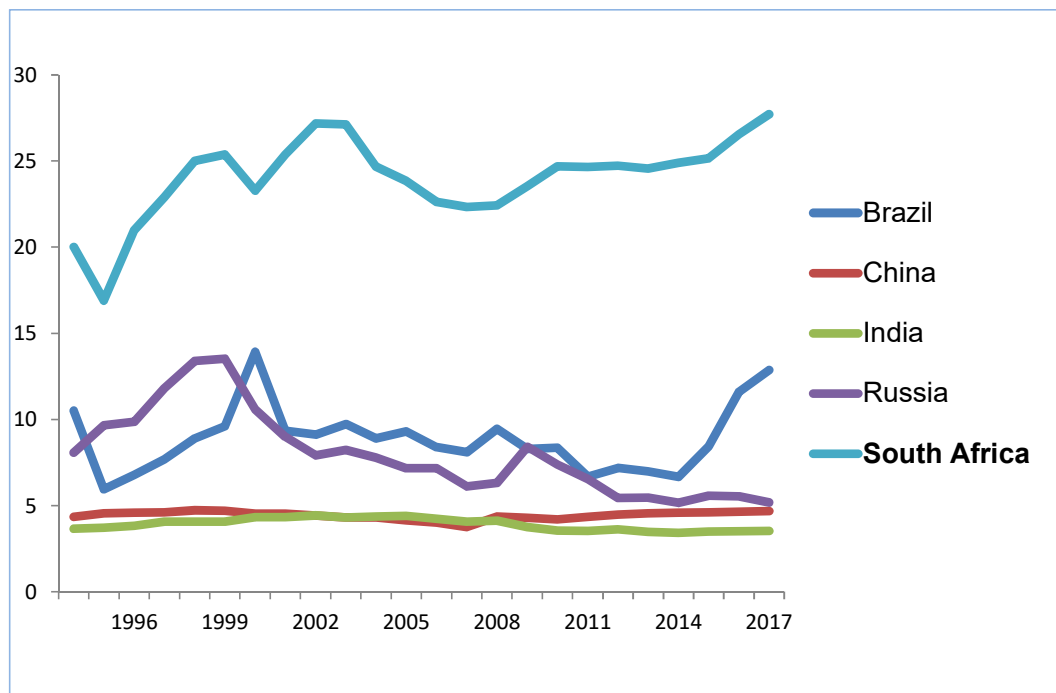
Source: South African Reserve Bank

# Macro metrics after 1994

## Unemployment



Official unemployment nearing 28%, up from 20% in 1994



Source: World Development Indicators; Statistics South Africa

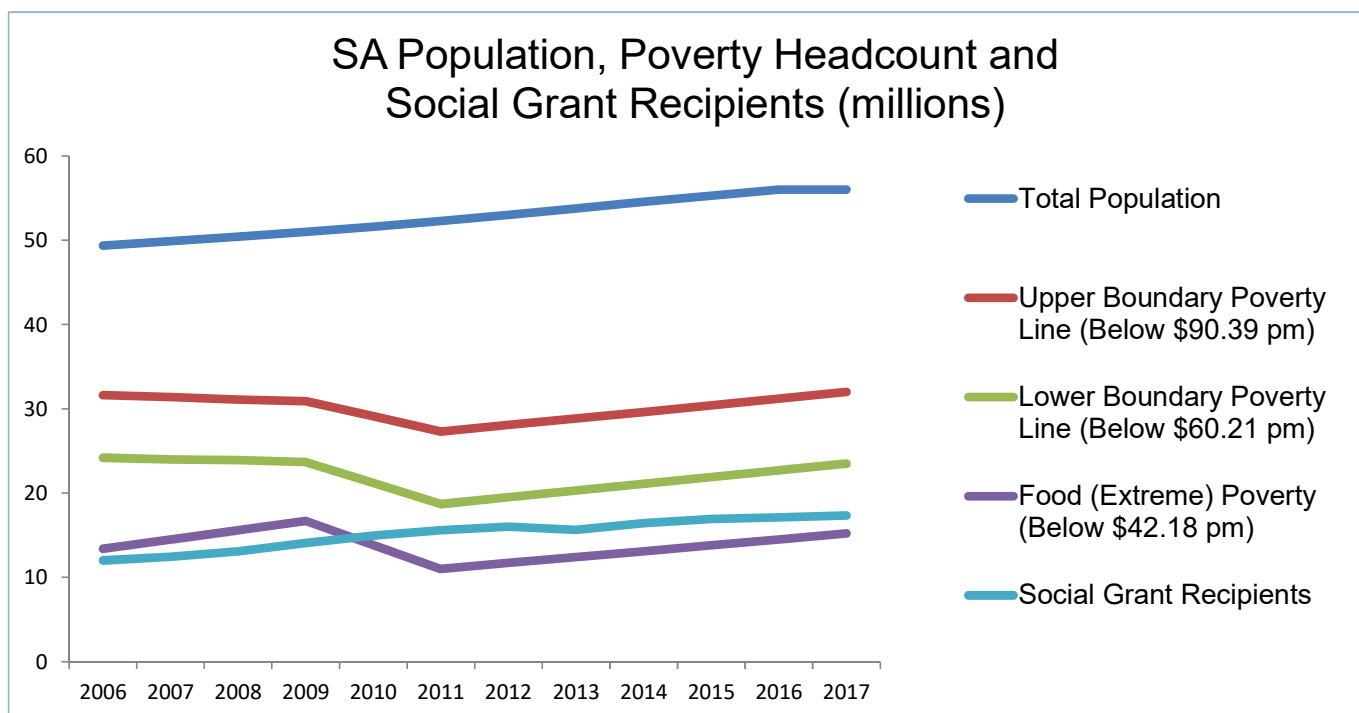
Expanded definition adds almost 10 percentage points

# Macro metrics after 1994

## Poverty



### Poverty headcount rising



Source: Statistics South Africa

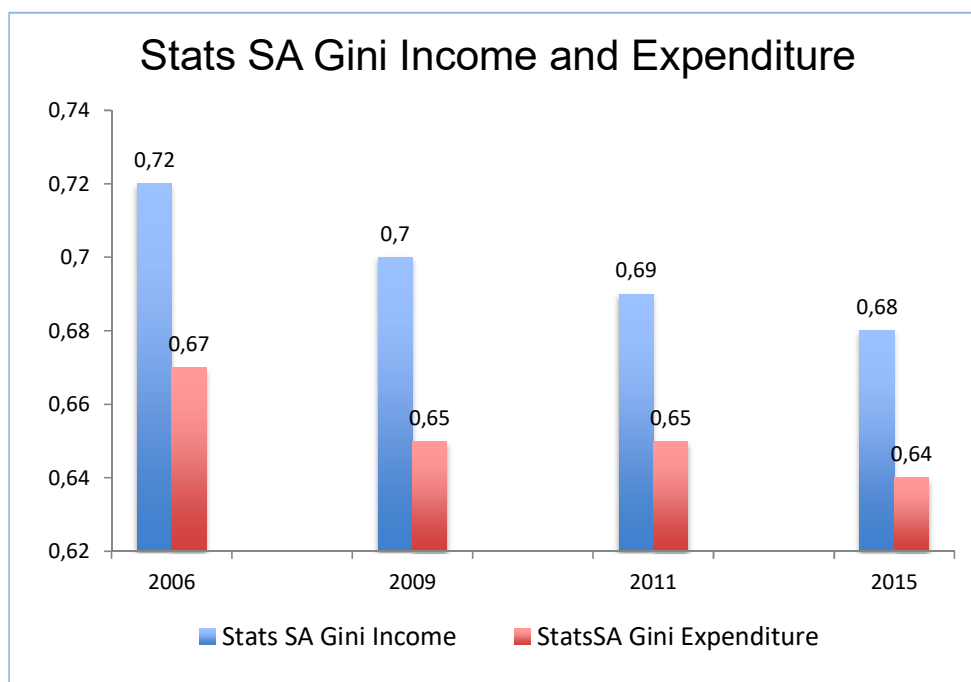


# Macro metrics after 1994

## Inequality



### Market inequality remains high



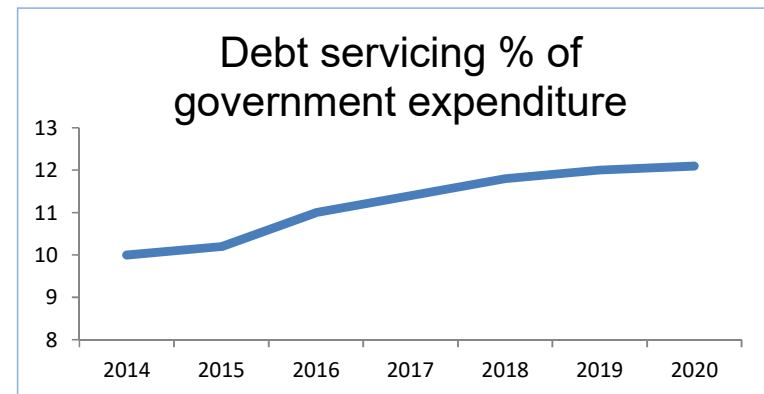
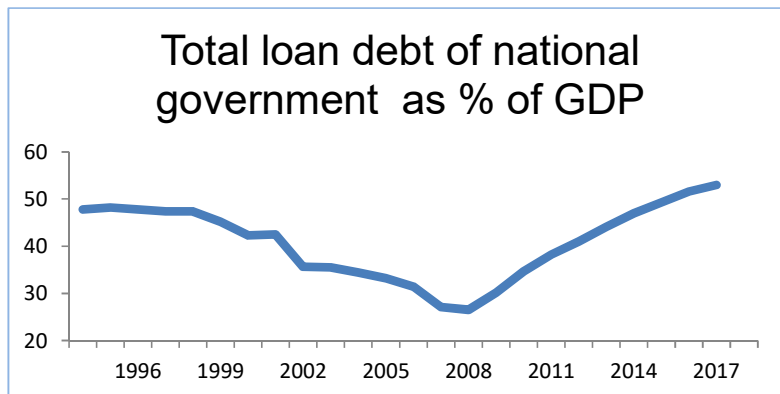
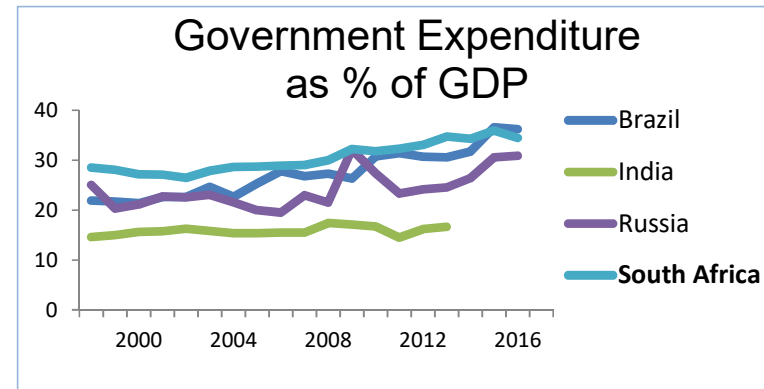
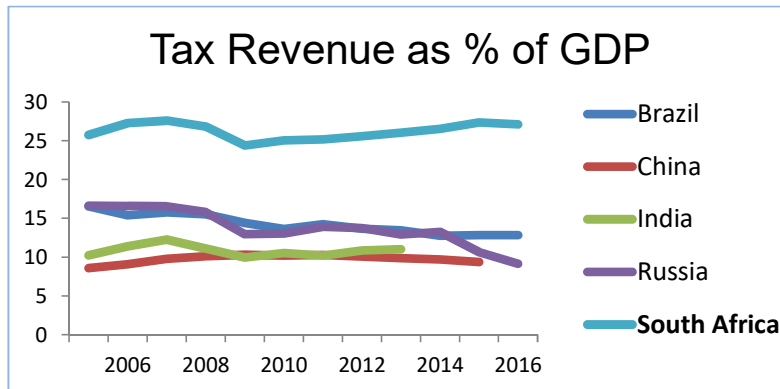
Source: Statistics South Africa

World Bank (2015) fiscal incidence study of the impact of taxation and transfers confirms high progressivity

*The Commitment to Reducing Inequality Index 2017 (Oxfam):*  
SA first out of 152 countries on Progressive Structure and Incidence of Tax

# Fiscal indicators

## An overview



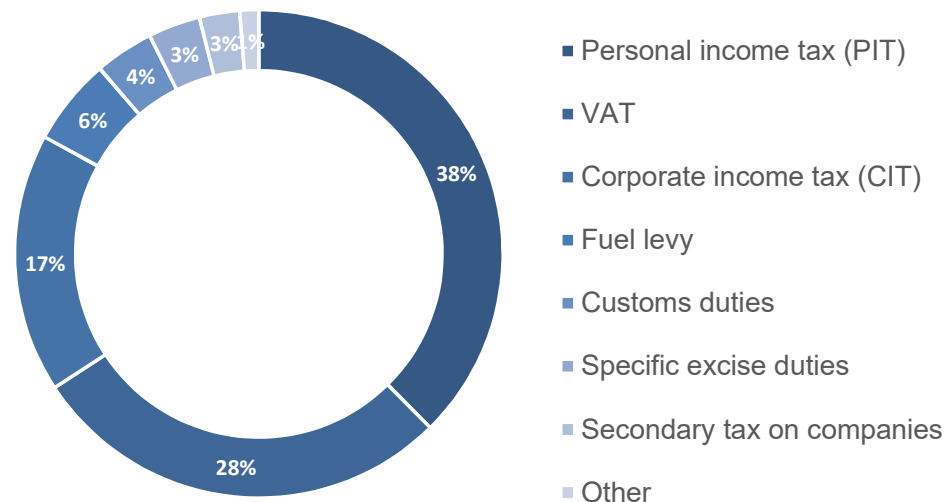
Source: Treasury

# Fiscal indicators

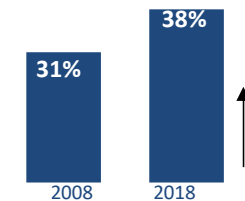
## Revenue



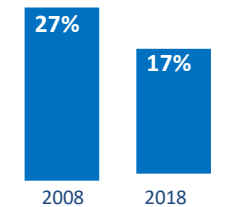
Contributions to Total Revenue



Source: Treasury



PIT contributed 31% in 2008, now contributes 38%



CIT contributed 27% in 2008, now contributes 17%

- PIT, CIT and VAT contribute around 83% of total tax revenue.
- Fuel levy, specific excise and customs duties account for 13% and other taxes make up the remainder.
- Ratio of Total Revenue / GDP currently 27%.

# Fiscal indicators

## Revenue



### Revenue realities:

- Tax/GDP high and rising (approaching 28%)
- Revenue growth 8.3% p.a. since 2008 while GDP stagnated (declined on per-capita basis)
- App 13% (7 mill) of population pay PIT; thus 87% of population pay no income taxes (in the US 47% pay no PIT).
- Compare 7 mill taxpayers with grant recipients of 17.5 mill (or 16.8 mill formally employed)
- Top 1% (app 500 000) pay 61% of PIT (in the US 37%)
- Direct taxes account for around 50% of revenue, while indirect taxes account for 40%
- Increase in VAT in 2018, first in 25 years (price of Zuma years)

### Some conclusions:

- *The Commitment to Reducing Inequality Index 2017 (Oxfam): SA first out of 152 countries on Progressive Structure and Incidence of Tax (but 29<sup>th</sup> on Public Spending's Effect on Health, Education and Social Protection)*
- *World Bank Fiscal Incidence Study (2015): high progressivity*
- Problem is with pre-incidence (market) income and quality of public spending
- Tax base the issue, not the tax rate
- Already very progressive; high tax burden
- No fiscal maneuverability on the revenue side except for improved collection

# Fiscal indicators

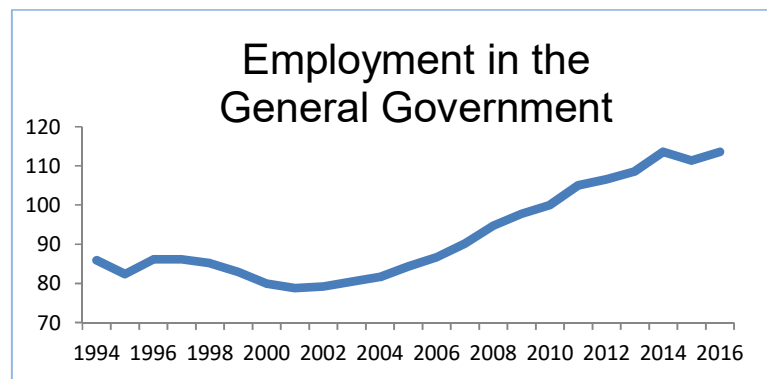
## Expenditure



The biggest single item of the budget goes to the public wage bill:

- 34 to 35% of government expenditure in 2017/8, rising to over 35% in 2020/21
- wage bill for 2.7m public servants is 2.6 x larger than social protection for 17.5m poor citizens; no plans to reduce wage bill or size of government
- 18% of total formal employment

Cost of living adjustments exceeded inflation for past decade or so, resulting in a premium: the average civil servant earns over three times the income of the average South African.



Source: Treasury

# Fiscal indicators

## Expenditure

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### Public Order and Safety: just under 10%, dropping to 9.3%

- Note crime levels; cost of crime
- 2016 study: Cost of violence amounts to 19% of South Africa's GDP

### Economic Affairs: 11.2%; dropping to 10.3%

- Spending cuts from planned capital expenditure, not current expenditure
- Mining and Agriculture only two sectors growing; both compromised
- Mining: Commodity prices but also policy uncertainty (Mining Charter)
- Agriculture: Drought but also EWC (“expropriation without compensation”)
- No technocratic commitment to growth

# Fiscal indicators

## Expenditure

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### Social wage – mostly for the poor; means tested:

- Housing, community development and water supply: 9.3% of expenditure
- Health: 12.9% of expenditure - outcomes and quality compromised:  
*The Future Health Index: South Africa's healthcare efficiency lowest out of the 19 countries*
- Education: 21.6% of expenditure - outcomes and quality compromised:  
Higher education getting R57bn more over next 3 years, fastest growing component of budget  
Lowest global outcome on literacy test  
Last globally in quality of mathematics and science education
- Social grants (31% of population on state welfare); 12.7% of expenditure, rising to 16.2% in 2020/21

# Fiscal indicators

## Expenditure



### State-Owned Enterprises

- New Public Enterprises Minister Pravin Ghordan facing SOEs in ruin
- Estimated amount of R100bn been bled out through capture of SOEs; prioritised elite over poor majority
- Okun's leaking bucket; rating agencies warning
- Ratings agencies downgraded SA because of SOEs

**BB+**

**Standard & Poor's**  
Rating: BB+  
Outlook: Stable  
Sun-investment grade

**BB+**

**Fitch Ratings**  
Rating: BB+  
Outlook: Stable  
Sub-investment grade

**Baa3**

**Moody's Ratings**  
Rating: Baa3  
Outlook: Negative  
1 notch from 'junk'



# Fiscal indicators

To summarise

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## On the revenue side:

- Tax base is the issue, no room for tax increase
- Growth needs to balance social responsibilities

## On the expenditure side:

- Ballooning public wage bill
- Quality of services; educational attainment dropping
- Mismanaged and failing state-owned enterprises
- Municipalities failing
- Wasteful and irregular spending; governance



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# Thank you

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