“South Africa: “ at the beginning

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On Tuesday, President Cyril Ramaphosa offered fine words: “The most important people in this country are not those who walk the red carpet in Parliament, but those who spend their nights on the benches outside its gates.”

On Wednesday, in spite of claims to the contrary, Finance Minister Malusi Gigaba’s tax strategy disproportionately hurt the nearly two-thirds of South Africans who survive below the poverty line (not the 55% claimed by Statistics South Africa, because the agency uses a poverty line at least a fifth lower than it should be, according to the University of Cape Town’s Southern Africa Labour and Development Research Unit).

And, for those above the poverty line with savings, an additional R500-billion of the country’s R9.7-trillion in institutional investor funds could soon move abroad as a result of looser exchange controls.

Value-added tax (VAT) replaced a general sales tax in 1991 at the behest of the International Monetary Fund, in spite of vigorous protests by labour federation Cosatu. At least Cosatu demanded — successfully — that a few basic foodstuffs be zero-rated. And thanks mainly to labour’s subsequent lobbying, the last VAT increase was in 1993.

Cosatu president Sdumo Dlamini recalled: “The apartheid government succumbed because they were under pressure as the country was in a transition to democracy. Now, 25 years later, we are increasing VAT. It’s not good at all for the poor. It’s not good for those workers who are toiling every day.”

Moreover, observed Business Day’s Carol Paton, “on the spending side it was poor communities that were the biggest losers, with cuts made to public entities such as the Passenger Rail Service of South Africa and infrastructure grants to provinces and municipalities savaged”.

The South African Communist Party added: “It is simply untrue to argue, as the minister of finance did, that the 20% poorest will be unaffected by the VAT hike. What is more, other indirect taxes, like the increase in the fuel levy, will further impact on the cost of living, especially for the poor.”

One of the country’s most respected anti-poverty nongovernmental organisations, the Pietermaritzburg Agency for Community Social Action (Pacsa), surveys a monthly low-income consumer’s food basket. It has found that because fewer than half its 38 items are zero-rated, monthly food-related VAT alone will now cost R221.59 (the 1% VAT increase translates to R15).

The monthly child support grant rises from R360 to R400 a month in April and R410 in October, a 6.6% rise as against an expected 5.4% inflation rate.

But Pacsa argues that for more than 12-million children who rely on the grant, inflation has been rising much faster: “Over the past six months, the cost of feeding children aged between 10 and 13 years a basic but nutritional diet increased by R47.41, or 8.8%, to R583.”

The old-age grant given to 3.4-million pensioners also rises above the official inflation rate, to R1 700 a month by October, but that is still below the current food inflation rate.

As for winners, several years of fierce student protests were rewarded with an average R19-billion annual increase until 2020, so that at least the beginning of free tertiary education is budgeted for.

But, revealing where the real power lies in the world's most unequal major country, Gigaba imposed no substantive wealth tax. Obviously pleased, John Campbell of Chartered Wealth Solutions remarked: "There were no changes to the marginal rates of individual income tax, the rate of tax on trusts (45%) or the rate of tax on companies (28%). Transfer duties on the sale of properties remained unchanged too, with a 13% tax on the portion of the transaction exceeding R10-million. The feared removal of medical-schemes tax credits did not materialise either."

To be sure, those in higher income brackets will suffer because inflation drag on personal income tax will result in a further R7-billion take, but that's less than a third of the R22-billion raised from the regressive VAT increase. A few other tax hikes, including the 52c levy on a litre of petrol, will raise an additional R7-billion.

As a result, Gigaba has shifted the total debt-to-GDP ratio from a trajectory rising from today's 53% to just 55% in seven years' time, instead of the 63% he had projected in October. That alone is expected to appease the Moody's credit rating agency so that it does not deliver the final junk rating on South African bonds that was threatened within a month.

The leader of the South African Federation of Trade Unions, Zwelinzima Vavi, criticised Gigaba for leaving the main business tax at half its 1994 level: "Corporate taxes are not being touched and it's a full-blown neoliberal assault on the poor. This is being done in the mistaken belief that, if the rich are spared, they would then invest their money and that the poor will eventually benefit. It's the whole notion of a trickle-down economy, which has proven to be a disaster."

Gigaba's trickle-out permission for insurance and pension funds to remove another 5% of their assets offshore also requires examination. Last October, the JSE's ratio of market capitalisation to gross domestic product hit an all-time high, at more than R16.2-trillion in share values against 2017's R4.6-trillion GDP, a 350% ratio (more than three times higher than the world level). Therefore, diversification would be welcome.

But to let the investors search abroad for higher returns than the 8.1% that South Africa's own state bonds pay — still among the world's highest, equivalent to Russia and Venezuela — is to invite yet another financial tragedy.

With part of the Old Mutual insurance company now returning to the JSE for a primary listing in the wake of its messy ordeals on the London Stock Exchange, and immediately following the multitrillion-dollar meltdown on the world bourses earlier this month, should such international financial volatility not be met with exchange control tightening, instead of liberalisation?

Gigaba admits that "high foreign debt redemptions" will hit hard within a year, but at close to \$160-billion (48% of GDP), as measured by the Reserve Bank, South Africa's total foreign debt is now way beyond any historical precedent, including when PW Botha defaulted (at a debt rate of just 42% of GDP).

Given that Ramaphosa says he is committed to fighting illicit financial flows — and his own record of promoting tax havens at Lonmin, MTN and Shanduka suggests a certain familiarity with tax dodging — it would have been more logical for Pretoria to follow Beijing's lead: sharpening and not blunting the state's residual capital controls. But that reversal is consistent with Ramaphosa's stated

commitment to the poor, also sabotaged by Gigaba’s budget.

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P.S.

Mail & Guardian
https://mg.co.za/article/2018-02-23-00-a-case-of-talk-left-budget-right