Trade Unions' Proposals for the National Budget:

Do they promote growth and inclusion and are they feasible?

A focus on the probable effects of proposals regarding Taxation.

(**2185 Words**, not including reference list, or headings)

1. Introduction:

Each year, The Congress of South African Trade Unions (hereafter referred to as COSATU) puts forward a proposal to government regarding the changes they would like to see implemented in the National Budget (COSATU statement on 2014 budget, 2014). These proposals, as far as COSATU are concerned, aim to promote economic inclusion, development and growth as well as equitable redistribution. A number of these proposals every year are centred on changes to - or the introduction of - taxation policy. The aim of this paper is to explore a number of these taxation proposals, taking into account the possible and probable economic effects of the proposed changes and to establish whether these changes would be to the benefit or detriment of the general population as far as economic growth and inclusion are concerned.

In analysing the repercussions and effects that would follow the introduction of new taxation legislation or the amendment of existing taxation policy, it is important to note a few vital aspects regarding the current taxation structure in South Africa. Firstly, South Africa is arguably one of the most heavily taxed countries in the world (2014 Index of Economic Freedom). While the marginal rates of income taxes alone do not put South Africa in the top ten, there are a number of other taxes imposed in South Africa such as excise taxes, fuel levies, taxes on road usage and the purchase of vehicles, Value Added Tax and capital gains tax to name a few. A culmination of the effects of all these could very well land South Africa very close to the top of the list, although the data to quantify this for the purpose of comparability is nearly impossible to produce given the vast differences in tax structures between countries (Gordon & Li, 2005).

Secondly, it is important to note that taxation goes hand in hand with public service delivery (OECD Guidance Note: Improving Taxpayer…) (Kampen, Maddens & Vermunt, 2003). While it is evident that major improvements have been made as far as service delivery is concerned over the last two decades, it is also evident that service delivery by government in recent years has been dismal when compared to promises made by the current government in their most recent election manifestos.

Finally, it is also significant to note the relationship between the level of taxation and the ability and willingness of the population to pay these taxes (Wanniski, 1978) while also considering the relationship between willingness to pay and public service delivery. It is upon this final note that the crux of this paper will be based in an attempt to discover whether COSATU's taxation proposals truly do promote economic growth and inclusion.

The analysis of the taxation proposals to be discussed in this paper is based on and limited by assumed effects and repercussions drawn primarily from economic theory and also from the somewhat limited insights available in the literature.

2. The introduction of a new high-income tax bracket

In one of the organisation's major proposals, COSATU suggests that government creates a more progressive income tax system by introducing a new tax category – a high tax bracket for high-income earners aimed at the "super-rich". While it is unclear what exactly COSATU means by "super-rich" it is certain that this portion of the population already pays a substantial amount in various kinds of taxes. It is also certain that the majority of these high-income earners do not themselves see the returns from the massive taxes they pay. That these high-income earners also pay a number of other direct and indirect taxes over and above the tax paid on personal income means that the total tax burden falls heaviest on this group as this group of the population attributes the most to personal consumption spending (Steenekamp, 2012).

World Bank data suggests that taxes on personal income in South Africa for the highest earning tax brackets are effectively among the highest in the world, based on an ordered list and taking into account the level of income and development in the included countries. In fact, taxes on personal income, profits and capital gains in South Africa are on average more than double those of its upper-middle income counterparts at around 49% compared to an average 18.4% (World Bank Data: Taxes on Income, Profits and Capital Gains)(See Annexure A). While this figure may be justifiable, it is essential that service delivery factors be taken into account in making a comparison between South Africa and other highly-taxed countries. For example, Canada, a country with a very similar progressive income tax system to South Africa, offers some of the highest quality public services to all residents – either completely free or heavily subsidised (World Bank: Public Services Delivery). This means that while the wealthier people of Canada pay significantly high taxes, they actually see the returns from their sacrifice in the form of quality public service delivery. Of South Africa, unfortunately, the same cannot be said.

Finally, it is essential to note that South Africa's tax base is so small that only a meagre portion of the population (between five and six million, out of a population of more than fifty million) supports the rest by paying income taxes (The National Treasury & SARS: 2013 Tax Statistics). The reason for this is not just that the vast majority of residents are exempt from tax due to being unemployed or not earning enough to fall into the lowest tax bracket, but also that a number of people (especially those in high income brackets) avoid and evade taxes because they perceive taxes as being exorbitant or because they do not believe they are getting enough (if anything) in return (Jobs down and tax evasion up) (Ross & McGee, 2012).

These factors combined make it incredibly difficult to reasonably justify the introduction of another, even higher tax bracket.

3. Introduction of Solidarity (Wealth) Tax

Another taxation proposal by COSATU that would affect the so-called "super-rich" is solidarity tax. This concept seems to be based on similar wealth taxes that have recently been introduced in a number of developed countries such as France and the United Kingdom. The issue, however, is exactly this – these taxes have apparently only been introduced in developed or high-income countries with any success and so very little precedent is available to judge what the effect of such a tax in South Africa would be.

As has been mentioned, this form of tax would affect those people considered to be wealthy. As has already been established, this group of people already suffer the highest tax burden. It is not unreasonable to follow, then, that the introduction of this new tax would likely do little to placate these people who already give away so much in taxes (Wanniski, 1978). Another issue, as with the previous section, is to consider what these people would be getting in return for paying this tax – and the simple answer is that they would get nothing. The revenue generated from solidarity tax, as COSATU suggests, would be put towards redistribution and further uplifting of the previously disadvantaged and the poor. While this aim is admirable, it needs to be taken into account that the people who would be handing over this money likely would not perceive it as being fair or just that even more of their wealth is being taken from them without the promise of a direct return, as callous as this concept may be.

One must consider what the repercussions of the introduction of such a tax would be, on top of the many other taxes already paid by those who would be expected to pay this one. The likely answers are immigration or tax evasion. As it is the highly skilled who earn the most, these people have the most opportunities to take their skills elsewhere – to a country where they feel that they are receiving something in return for all the taxes they pay (Canada, for example, as has already been discussed here).

Loss of skilled workers and loss of any portion of its already meagre tax base are two things that South Africa certainly cannot afford. Thus, the introduction a new tax that could lead to these eventualities is not wise.

4. "Land Tax"

The third major tax reform proposed by COSATU to be discussed here is the imposition of tax on the productivity of agricultural land. COSATU claims that by taxing agricultural land, further development can be achieved on a redistributive front. I do not contest this, in that the revenue from such a tax could very well be used to fund redistributive projects.

COSATU, however, doesn't seem to have taken into account the effect that this tax would have on the level and prices of agricultural output – namely food – and what the implications of yet another increase in food prices would be on the poor people it aims to protect and promote with these proposals (Bird, 1974). It is likely that food prices have already been inflated by the effects of other taxes in place such as e-Tolls, fuel levies, excise taxes on fuel and emissions or through import taxes. To inflate food prices even further would only worsen the situation of those people in need, causing an even more unmanageable level of poverty.

Primarily for this reason, it would be unwise to introduce a tax on land that may very well end up causing food prices to increase and output to fall.

5. Wage Gap Tax

Another new tax COSATU would have introduced is "Wage Gap" tax – the taxation of companies who are sluggish in closing the wage gap between low- and middle-income earners. This implies that COSATU would see unskilled workers on the lower tiers of a company's workforce earning as much as (or closer to) what skilled or semi-skilled workers on the middle and higher tiers do. The fact is that South Africa is not a communist society and so it follows that factory workers or janitors cannot reasonably earn the same salaries as CEO's and accountants – application of the theory that earnings in a Capitalist society are related directly to skill level and education (Card, 1999).

While it would be ideal if everyone could earn high salaries, it simply isn't feasible in the real world. Firms cannot afford to pay all their employees higher wages without suffering cuts in revenue or in extreme cases having to lay off workers, or even face bankruptcy.

If this wage gap tax were to be introduced, it would place even more pressure on firms' revenue, forcing some of these firms to lay off workers, thus having exactly the opposite effect of what was intended by COSATU to begin with.

6. Export Taxes on Minerals, Investment Tax and Taxes on Luxury Items

The final group of taxes to be discussed here are taxes that would inflate the prices of other major sale items controlled or generally purchased by the wealthier portion of the population. These proposed taxes would be levied on: the export of minerals, a major source of export income for South Africa and also an industry controlled by large corporations perceived as being rich. On the sale of luxury goods, most frequently purchased by those people perceived as being rich. And, finally, a tax on financial transactions within South Africa or across South Africa's borders.

None of these proposed taxes could possibly do more good than harm. Taxing exports causes export prices to rise (a simple application of tried and tested economic theory) and would thereby lead export volumes to fall, causing a loss of export income and a worsening of South Africa's Terms of Trade and current account balance. The taxation of luxury goods causes the prices of these goods to rise and again, the quantity demanded and purchased to fall, causing loss of income by producers and economic stagnation as Gross Domestic Product feels the backlash. Finally, taxing transactions in the financial markets leads to market inefficiency and transaction delays as well as loss of income through decreased foreign investment as investors would prefer to put their money into markets they perceive as being free and efficient (Wang & Yau, 2012).

For these reasons, it would not be wise or economically feasible to introduce any of these proposed taxes.

7. Conclusion

Trade Unions have a single economic purpose. That is, they exist to maximise the utility of their members by maximising their wages and employment. COSATU's taxation proposals for the National Budget have illustrated this point – trade unions do not exist to draft taxation legislation.

Much of the analysis done in this paper is based on underlying economic theory, supported where prudent by analysis of the literature. Having so analysed the possible and probable economic effects of the taxation proposals discussed in the body of this paper, it can be concluded that they do not, for the most part, promote economic growth and while they could increase economic inclusion for some they may just as easily cause harm to others. A few of the proposals, while they may end up having redistributive effects, would cause more damage than they would be doing good. Some of them, it would seem, may even end up doing exactly the opposite of what COSATU's reasoning behind proposing them was – leaving the poor worse off.

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