TRANSITION INCOMPLETE OR FORGOTTEN[1]

Overcoming the Legacy of Exclusion

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by

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Introduction

This discussion takes place at a very opportune time. This is the time where the National Planning Commission (NPC) is reviewing the implementation of the National Development Plan (NDP) in South Africa. The objective of the Plan was presented at last year's symposium.

The NPC asks the questions:

- Is our mind-set changing from being short-termists to being long-termists
- In the spirit of the much desired Social Compact, are we ready to being part of the solution rather than part of the problem
- Are we asking ourselves, 'What is my contribution towards realising the long term dreams of my society, rather than my own?'

You will realise that the questions are deliberately not asking about growth, unemployment, poverty or inequality. This is deliberate. This is because these are merely outcomes or symptoms of underlying imbalances which are originated by bad societal decisions, behaviours and actions – elsewhere in the economy. Until we deal with the underlying imbalances, solutions on growth, unemployment, poverty and inequality will be unattainable.

That is the premise the NPC would like to table today.

Discussion

It is the same premise against which we should be thinking about our tax regime… 'What will be its contribution towards realising the long term dreams of our society, rather than those of individuals?'

This is the question we should be asking ourselves, in all our respective circumstances. It is this very question that has engrossed the Second Commission, which is entrusted with overseeing the implementation of the Plan.

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[1] Draws on work commissioned by the NPC, through OECD and World Bank, 2017

But let us start with some statistics, to refresh our consciences:

- About one fifth (20%) of South Africans can only afford to consume less than R500 a month—just enough to meet their nutritional requirements.
- Over half (50%) spend R1, 000 a month.
- In spite of a progressive fiscal system, the richest 10% of South Africans are about 66 times as rich as the poorest 10%.
- Both poverty and inequality are thus unacceptably high. This is both income and wealth inequality. The latter generating the biggest skewness.
- On the face of it, employment is key to reducing poverty and inequality. But in the medium term, employment can deal with income inequality, the lesser of the two evils, but will not deal with wealth inequality.
- In turn, education is a key determinant in raising one's propensity to earn an income. However, decades of improvement have yet to close the educational gaps created under apartheid. The gap between the proportion of whites and black Africans completing secondary education, is about the same size in 2010 as it was in 1950, while the gap for tertiary education has disappointingly increased.
- For a sharper context - poverty is 13% among the employed and a staggering 47% among the unemployed.

So employment, can be seen as a key stepping stone out of poverty and toward a more inclusive and socially just society. This has, therefore, been at the heart of the NDP.

In this regard, tax has to be seen as one of the key levers for, not only realising redistribution, but for creating the requisite environment for growth and investment. It should also facilitate access to good quality education for all.

That is what makes today's discussion crucial.

But, of course, all this should happen side by side with increasing expenditure efficiency by all sectors. Tax alone is not enough.

How has the Commission responded?

One of the ways in which we have responded is to identify key interventions that will spur growth and labour absorption in the economy. This we have done by identifying what we see as low hanging fruit, but sustainable - which calls for judicious prioritisation. In this regard, we have identified infrastructure investment, to undo bottlenecks, as the most important intervention. We believe this will have a multifold impact in the economy – growth, private sector crowding in, job creation, skills development and poverty reduction.

It is instructive to note that we are not living in world of abundance. Resources are finite. Our ability to fund development has been declining since the Plan was drafted.

- Economic growth post the 2008 financial crisis has been much lower than that of the golden years of 1994-2008.
- It can be safely argued that policy implementation has followed the same trend - worsened
- Actual poverty reduction, since 1994, is merely a 1/3 of what is targeted in the NDP.
- We are faced with a much weaker economy and growing negative prospects.

All these point to a real possibility of the country not realising many of the NDP goals. It would be helpful if every discussion, decision and action of every economic agent, is in line to reverse this trend – both in the short and long term.

This will have to be premised on the 5 pillars of the NDP, namely

- Mobilising all South Africans;
- Active engagement of citizens;
- Expansion of the economy;
- Building of key capabilities (in particular that of the State, to be an active developmental state); as well as,
- Strong leadership.

Three broad areas of focus that we need to deliver on over the remaining tenure of the Commission are:

- Enhancing quality of life of our citizens;
- Achieving a not only expanded but also inclusive & fairer economy;
- Leadership & active citizenry that will be premised on a well-founded Social Compact.

Indicators of success of this delivery plan, will be seen in the delivery against:

- Significantly reducing the cost of living and the cost of doing business in South Africa;
- Fighting corruption, increasing accountability and building a capable state;
- Giving voice to the voiceless and keeping those with voice accountable;
    - This will include amongst others, increased youth involvement in all aspects of the economy;
- Increasing the quantity and quality of service delivery;
- Building efficiencies and developing a professional public service, which is key for service delivery;
- Improving asset allocation and reallocation, to achieve optimal participation ownership & control;
- Improving the efficacy of capital intermediation in the financial sector.

We have to pause at this point and ask the question, "Is our tax regime sufficiently geared to support these desires?" This forum is based placed to respond to this question. This is where I will leave it.

Why are we where we are?

As we set our eyes into the future, we need to take stock of why we are where we are today? There is overwhelming acceptance that we are weaker than when we were when the nation adopted the Plan. How much of this is inherited and how much is self-inflicted? Over and above poor economic capabilities, we have seen an increasingly

- Constrained policy and implementation space; and
- Declining confidence and trust levels amongst key stakeholders;
    - Safety and trust have significantly deteriorated since the 1990's[2]. These are at their lowest since 1994

[2] ISD database, OECD, 2017 (Unpublished)

These are all dangerous outcomes for stability.

Tax solutions, under such circumstances, are at best ineffective. These are circumstances characterised by waning tax morality, poor compliance and ultimately low tax buoyancy. That means, tax reform alone will not deliver the results we desire.

We need to change the environment within which we operate. We had done extremely well as a country since 1994, in building a complementary tax system to our developmental agenda. All this effort will be lost, if things do not change.

How can tax design and policy help?

It is very difficult to provide advice in this regard and be conclusive. However, what is critical is that any good policy is one that deals with underlying imbalances and incentivises economic agents to be innovative and independent. This principle applies to tax. We need to test the effectiveness of our tax system, against its ability to make the economy more efficient and resilient to business cycles.

So, we seek a tax regime that does not focus on symptoms but rather on underlying problems. The tax system should be:

- Progressive;
- Aid in closing income and wealth gaps;
- Encourage private sector led growth;
- Incentivise investment – less consumption and more savings;
- Incentivise higher labour absorption;
- Promote skills development;
- Encourage R&D to spur innovative entrepreneurship;
- Proactively, promote SMME development, amongst other considerations;
- Bridge inherent imbalances of gender, race and geography; and
- Ensure economic stability.

Conclusion

It is against these outcomes that our tax regime should be judged. We appreciate that this is a very difficult balance, given the inherent inequities obtaining in the country, both from a commercial and governance view-points. But we also are conscious of the fact that if this is not done, things will increasingly deteriorate and become unmanageable.

Also, we appreciate that tax is only one part of a very complex solution. It nonetheless, remains a very important part.

We wish you well in finding lasting solutions towards a better livelihood for all South Africans.

I thank you.