

Reclaiming our taxes from the elite

South African taxpayers have a right to accountable governance whereby our taxes are used for social good rather than being funnelled to the politically connected

OPINION
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It is, of course, true that government policy requires public funding, especially in a country facing as many daunting social problems as ours.

Emphasis on raising tax revenue is therefore logical and necessary; after all, citizens in high-tax jurisdictions such as Scandinavia and Western Europe live well.

But there is a huge difference between taxes that work for society as a tool for social good and taxes that are a coerced extraction simply to raise revenue.

In the first instance, tax laws codify the important social norm that citizens ought to give back to their societies and contribute to the greater good. It is a collective-gains justification that is rooted in reciprocity and goes well beyond revenue mobilisation.

Harvard economist Lant Pritchett explains it like this: taxes are either the price that citizens pay for a civilised society, or a coerced tribute to the Leviathan. The first is socially beneficial, the latter is parasitic.

In parasitic contexts, governance failures are typically blamed on inadequate resources, even in conspicuously well-resourced domains such as South Africa's basic education. And so the drive for more tax revenue is fuelled.

Countries where taxes serve the collective good have long tax histories that are intertwined with citizens' insistence on participatory politics, as expressed in the famous slogan of the 1775 American Revolution, "no taxation without representation".

Socially beneficial taxes are a democratic trait; in a 2017 blog, Adam Chodorow described modern democracy as the "by-product of a series of tax disputes".

History has demonstrated that, when taxes are divorced from participatory politics, they do become a coerced tribute to the political elite with potential harm to society.

Much as democratic governments govern by consent and must work for the electorate to earn their votes, they also tax by consent and must "earn" tax revenues — that is, cultivate voluntary compliance. The way to do this is by using the money the government collects from taxpayers to benefit society.

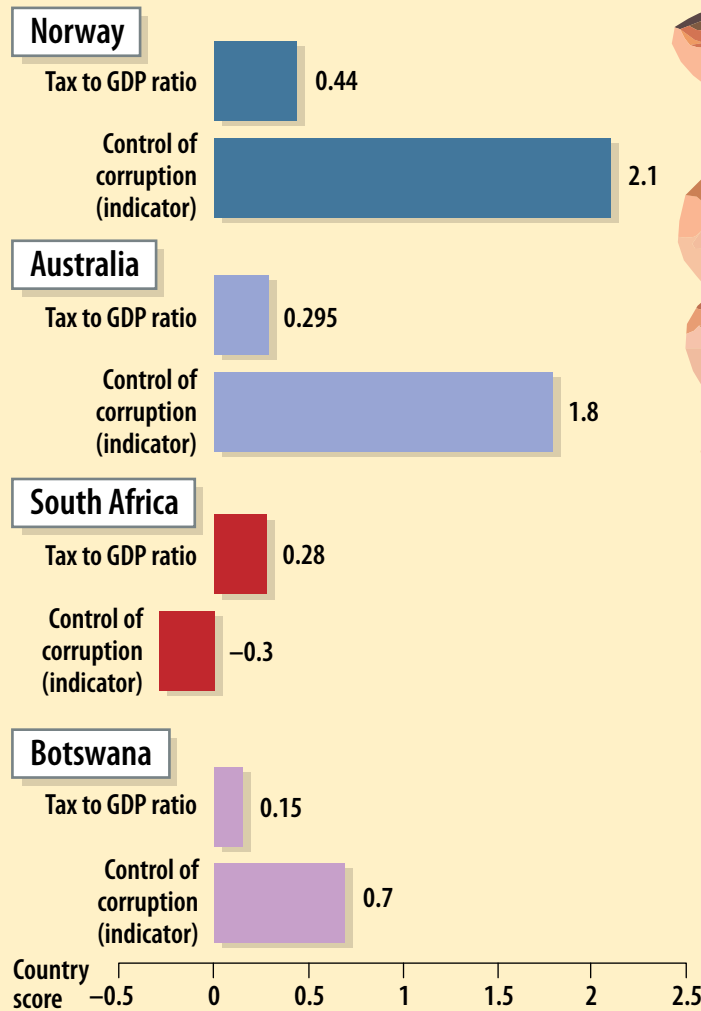
Like electoral support, tax embodies a transactional state-society relationship and has, throughout history, spurred productive disputes if governments strayed.

Over time, this transactional and conflictual bargaining over taxes cultivated benign social contracts with well-defined roles for both state and society — taxpayers comply, largely voluntarily, with their tax obligations and governments spend tax revenue accountably and to the benefit of society.

Taxes are a valuable democratic

SA's broken tax-governance link

Tax to GDP ratio vs control of corruption



Graphic: JOHN McCANN Compiled by: SANSIA BLACKMORE Data sources: OECD, WORLD BANK



lever to enforce accountability precisely because of the inherent reciprocity. It gives citizens bargaining power vis-à-vis a much more powerful political elite.

This raises an obvious point — governments that prefer not to be accountable have the power to use punitive tax rules rather than face taxpayer objection.

None of this implies that taxpayers as a group have more or different rights. All voters pay some sort of tax and have a right to be enraged by the elite's diversion of tax revenue.

Studies have shown, however, that salient taxes, such as assessed personal income tax and property rates, are more likely to sensitise taxpayers to grand corruption and therefore to trigger tax bargaining.

Using tax-to-GDP data from the Organisation for Economic Co-operation and Development and the World Bank's Control of Corruption governance indicator, the graph above shows how we have divorced our tax collection from democratic practices of good governance.

Norway has a 44% tax-to-GDP ratio yet couples its high tax collection with accountable governance as shown by its proper control of corruption. The result is that taxes are visibly used to serve society and are not diverted to enrich the elite.

This fuels a virtuous cycle of voluntary compliance, making punitive tax enforcement unnecessary.

Australia has a similar positive link between its tax collection, at 29.5% of GDP, and good governance.

South Africa collects taxes at a comparable rate of 28% of GDP but has relinquished control of corruption, underperforming even Botswana with a much lower tax-to-GDP rate.

This broken tax-governance link is the warning signal that the virtuous cycle between society's taxes and society's well-being has been interrupted.

As taxpayers witness their taxes being diverted towards elite enrichment and become recalcitrant — not because they have low tax morality but, in fact, because their sense of morality is being violated — the rules become more punitive.

We now see new tax rules that also plug exit strategies, making tax emigration prohibitively costly.

Our high tax collection is maintained by substituting coercive enforcement for accountable governance and voluntary tax compliance.

And for this, South African Revenue Service commissioner Edward Kieswetter, at R11.7 million a year, is the best remunerated public official.

This approach to taxation is problematic on many fronts. First, it is a time bomb; it alienates taxpayers and narrows the tax base while the dependency burden on the state grows. The chasm between tax revenue and government expenditure is pulling apart and we are hemorrhaging taxpayers.

Second, we are renegeing on the central democratic principle of equality before the law, running a sort of tax autocracy that resembles the Chinese model of rule by law, where the relentless rule-enforcing elite themselves are above the law

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(and rules of accountability).

It does raise the question about whether our extreme inequality feeds an elite-serving agenda of unaccountability of the sort we heard about during the Zondo hearings and still hear about daily, through reports of misappropriation of taxpayer money.

Because of our extreme inequality, we rightly have a very progressive tax system with concentrated tax burdens on a small number of individuals.

Whereas taxpayer happiness in normal democracies matters, and governments would be careful to earn both their tax compliance and their votes, taxpayer happiness seems of no consequence in South Africa.

Viewed as a source of revenue, not electoral support, especially assessed income taxpayers are subdued rather undemocratically to simply produce revenue.

The trouble is, if a government does not have to earn tax compliance, corruption runs unchecked and, as we have seen, exacerbates poverty and inequality over time.

This in turn leads to more tax progressivity and smaller numbers of taxpayers, who can be subdued with relatively little political cost.

This would constitute a cynical elite-serving abuse of the respected principle of progressive taxation that would normally promote fairness and equity in unequal societies.

It also demonstrates how socially risky it is to divorce taxation from participatory politics.

There is no comprehensive survey that measures tax morality in South Africa. There are surveys that measure related social values and norms, though, such as the World Values Survey and the Afrobarometer.

All indications are that South

Africans display a norm of ready tax compliance, even in the face of overwhelming distrust in the government and disapproval of its performance.

It is a myth that taxpayers are generally non-compliant and deserving of punitive enforcement, which would make harsh tax collection a lofty, society-serving endeavour.

There must, of course, be punitive rules for hardened rule breakers but the long-suffering taxpayers deserve the honest and accountable governance that would transform our taxes from an elite-serving revenue tool into a tool for social good.

How can a high-tax society like ours forge that without going the route of tax revolts?

There are not many avenues to stop corrupt governments when they double down and deliberately thwart constitutional accountability mechanisms. Even an election which it lost failed to remove ANC incumbents from the positions they misuse for their own benefit, with great cost to society.

In all of this, there is a heartening institutional shift. Recently, the supreme court of appeal confirmed that municipal officials can be held personally liable for intentionally or negligently incurring unauthorised, irregular, fruitless and wasteful expenditure.

Unbelievably, the Municipal Finance Management Act of 2003 has had this provision all along.

A judicial approach that acknowledges the indivisibility of accountable governance and tax enforcement could help us reclaim our taxes from the elite and use it for the good of South Africans. It will also signal a return to the rule of law, as our Constitution intended.

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