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## Fiscal structures in an alternative constitutional model in South Africa

### Summary

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Fiscal considerations have for centuries played quite a decisive role in political, constitutional and economic development. In the thirteenth century parliaments were created to facilitate the negotiations of the kings with their landlords on tax matters. Subsequently tension developed between king and parliament on the question of where real power was vested, and it was fiscal considerations that finally decided the issue in favour of parliament.

In the last century and a half the Western countries have been experiencing a more or less parallel process of political and economic democratization. Two models can be constructed in an attempt to explain the possible causal relationship between these two processes. According to the first model, political reform was a prerequisite for social reform and greater welfare spending on the unprivileged classes. According to the second model, political and social reform took place only after economic and organizational improvements had increased the tax capacity to such an extent that the privileged groups could afford the political reform and greater welfare spendings. Historical evidence for both models can be furnished.

The implication of the first model for the present South African situation is that an improved fiscal dispensation for the Coloureds and Indians is not attainable before effective bargaining power is institutionalized for these two population groups. The implication of the second model is that the tax capacity of the relatively small modern sector of the South African economy poses in effect a structural constraint on political and social reform. If we assume a certain element of truth in both models, the dilemma of the South African situation boils down to the following question: in what way can sufficient political bargaining power be institutionalized for the Coloureds and Indians to enable them to improve their fiscal and welfare positions without giving them that amount of political power that can be misused to overstrain the capacity of the South African economy and create economic chaos?



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To avoid the fiscal implication of fuller citizenship for Coloureds and Indians, some people have proposed that all the welfare and educational services must be offered in the market and sold at a 'full' price to those who can afford it. This is an impractical proposal, given the collective nature of these services and the necessarily redistributive effects of such services.

Those who see in the fiscal problems of a new constitutional model another opportunity to propagate a 'return' to a more or less *Laissez-faire* Capitalism have also lost touch with reality. It must be stated categorically that the role governments are playing in modern politicized economies has become irrevocably institutionalized. Because the distinction between public and private sectors is becoming decreasingly meaningful, the traditional 'free market' theories and ideologies have become increasingly anachronistic.

In the democratic system of the Western World the necessary fiscal restraint and financial discipline is brought about by the tax capacity of the economy and the tax willingness of the voters. In spite of this, many Western countries are guilty of overspending. The fiscal system to be introduced for the Coloureds will probably allow them to spend more or less three times more than their own contribution to the central budget. Given that the Coloured Cabinet will not be responsible to their own voters for the bulk of their spendings, it will be difficult to bring about the necessary fiscal and financial discipline. The Coloured Parliament will regard the amount the 'White Parliament' makes available to them as arbitrary, which can be an important source of continuing friction.

According to estimates, the Coloureds paid R43,6 million in direct (personal) taxes and indirect taxes in 1972/3. To this an amount of R37 million can be added as their (indirect) contribution via company tax and the loan levy. In the same year the departments of Coloured Affairs and Community Development and the Hospital Services of the Cape Province spent nearly R170 million on behalf of the Coloureds. The department, therefore, spent in 1972/3 2,2 times more than the Coloureds' total contribution to the central budget.

In 1977/8 Coloured taxation amounted to R103 million, whereas the indirect contribution was estimated on R87 million. The total spending of the same three departments was R457 million - 2,4 times more than the total contribution by Coloured sources.

In the new constitutional model four budgets must be accepted by the different parliaments and the Council of Cabinets, namely, the budget for the common area (for an amount of, say,  $G$ ) and one for each of the separate areas of the Whites, Coloureds and Indians for the amounts of  $B$ ,  $K$  and  $I$ . The taxes  $T$  and loans  $L$  to finance it will probably be determined by the Council of Cabinets and the parliaments.

Therefore  $(T + L) = G + B + K + I$

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#### FISCAL STRUCTURES:SUMMARY

How, for example, is the amount of  $K$  to be determined? In the first place it depends on the demarcation of what belongs to the common area and what to the separate areas of Whites, Coloureds and Indians.

##### *First Possibility*

The amount of  $K$  can be decided by the Council of Cabinets each year, but that will cause chronic friction.

##### *Second Possibility*

The Coloured Community can be regarded as a development community to whom a development subsidy  $O$  is given over and above their own direct and indirect contribution  $kX$  to the central budget. It could be decided that  $O$  increases each year by a certain percentage built into a formula to be negotiated:  $K = kX + O(a+b+c)$  where  $a$  is a development coefficient,  $b$  is the growth rate of national income in real terms and  $c$  is the inflation rate. This formula could perhaps bring about some kind of fiscal discipline and as a result also some political stability.

##### *Third Possibility*

Some kind of R-for-R formula can be arranged with the personal tax of the Coloureds ( $kT$ ) as basis.  $K = kX + 10kT$

In this case the Coloured Parliament can perhaps also be granted limited powers to determine the level of the personal taxes of the Coloureds as a method to increase the amount available for spending by the Coloured Parliament.

Or one could combine the second and third possibilities in a somewhat more complex formula  $K = kX + 4kT + O(a+b+c)$

The success of any of these formulas will in the final instance depend on the willingness of the parties to play the difficult game of bargaining politics.