

Taxation and Poverty Relief

Critical Health

Critical Health looks at VAT and its effects on poverty, with particular emphasis on the government's own attempt to deal with this problem through its so-called poverty relief fund. Critical Health also considers the response of a number of welfare organisations to the fund and the way in which it is being implemented. We thank the Community Resource and Information Centre (CRIC) for their assistance in writing this article.

From GST to VAT

At the end of September last year, the government replaced General Sales Tax (GST) with Valued Added Tax (VAT). There are a number of goods and services for which one did not pay GST, but workers and the unemployed now have to pay VAT on almost all consumer items. These include foodstuffs, such as meat, eggs and vegetables, and medicines and stamps. VAT is charged on services and is included in electricity and water bills and telephone accounts. VAT is payable on professional services such as those provided by doctors, dentists and lawyers.

As a result of these changes, the expected increase in the cost of living for the working class is almost 5%. In other words, a family which spends, for example, R 700 per month will now have to find an extra R21 to buy the same goods and services as before. On the other hand, the capitalist class stands to gain substantially from the introduction of VAT. Unlike GST, VAT is not charged on capital goods. As a result, big business will save up to R7 billion a year.

VAT: Taking from the Pockets of Consumers

The introduction of VAT reflects a long standing policy on the part of the government to shift the burden of taxation from big business and high income earners to workers and the unemployed. It has shifted its emphasis from company and individual income taxes to consumer taxes such as GST and VAT. Income tax

on individuals is calculated in such a way that low income earners pay a lower percentage of their income than high earners. A consumer tax, on the other hand, is charged at the same rate to rich and poor. It is significant that a consumer tax is one of the few ways in which the unemployed can be taxed.

The change in government tax policy has had dramatic results. Between the late 1970s and the middle of the 1980s, government revenue from individual taxes increased from 30% to 60%. Before 1978, GST did not exist, but, by the mid 1980s, its contribution to government revenue was 30%.

Economic Policy and Taxation

The government's approach to tax must be seen within the context of its broader economic strategy. It is moving rapidly towards a free market economy, at all costs. It is decreasing the role of the state, deregulating the economy and pursuing a rigid monetary policy. This approach is contributing to a massive increase in unemployment as well as a decline in the availability and quality of a wide range of services.

The government is also cutting food and transport subsidies. In 1991, it stopped the subsidy on brown bread altogether. We are now experiencing spiralling prices for bread as well as increasing bus and train fares. The working class is thus being forced to find the extra money for VAT at a time when living standards are being attacked from all sides.

In the months immediately before VAT was implemented, the government did all it could to obscure the reality of the effects of this tax. It embarked on an extensive propaganda campaign to convince South Africans that VAT is in their interests. It spent R10 million to argue that VAT is a "fair" tax and that it is difficult for companies to cheat by evading payment. It tried to assure the public that the benefits to big business will be passed on to consumers in the form of lower prices.

The government, however, knew from the outset that VAT was going to bring hardship to the majority in South Africa, but it suggested that the needy should be specifically targeted. According to van Heerden, the chief director of tax policy development in the Department of Finance, "experience has shown that a country's tax system is not an efficient manner of rendering assistance to the lower income groups and that target-orientated rendering of assistance outside the tax system is more beneficial."

This view is based on the argument that, if a consumer tax is not charged on basic items such as meat and vegetables, the rich also do not pay tax on these items.

The Financial Mail sums this up as ‘‘misplaced subsidies that have little real relevance for the needy’’. But, this line of reasoning entails that, in order to ensure that the rich pay, everyone else must pay as well. The government and big business are conveniently forgetting that the government has moved away from income taxes, by means of which the rich are taxed proportionately more, to consumer taxes, where rich and poor are taxed equally. In other words, changes in tax policy have benefited the rich and now it is being argued that, in order to tax the rich, the poor also need to be taxed.

The Poverty Relief Fund

It is clear that the government was intent on introducing VAT irrespective of its effects on the poor. It announced a poverty relief fund to cushion the effects of VAT on the needy and set aside R220 million in the 1991/92 budget for this purpose. This money was to be spent when VAT replaced GST, in other words, during the last six months of the 1991/92 financial year. The government stated that the fund was for food assistance, which would be provided by government departments and non-governmental organisations.

In comparison with other government expenditure, an extremely small amount of money was allocated to the fund. In the same budget, the government made R380 million available for secret security activities. It had just spent R100 million to fight Swapo in the Namibian election. The government is spending R68 million over 3 years merely to put VAT into operation. This brings the government’s commitment to poverty relief into question. It is likely that it was more concerned with preventing opposition to VAT than assisting the poor.

The government, moreover, set aside a smaller amount to the fund than what it expected to gain from the poor as a result of the change from GST to VAT. According to the Bureau for Market Research, Unisa, there are more than 16 million people in South Africa who live below the minimum subsistence level. These people will have paid the government roughly an additional R500 million in the 1991/92 budget year as a result of the change to VAT. In other words, the government’s intention is to give with one hand and take a lot more with the other.

The amount that each needy person can expect to receive is also clearly inadequate. According to a report commissioned by the government, the more than 16 million people below the minimum subsistence level were considered to be ‘‘deserving of the first call on any assistance’’. A fund of R220 million over six months means that only R2.25 is available for each person every month.

This figure, however, includes the cost of administering the fund as well as transporting and distributing the food. The amount available for food is, therefore, even less than R2.25 per person.

Poverty Relief: Who Needs it?

The government has, in fact, chosen not to make the fund available to all those in need of assistance. It has specifically targeted the more than two million people who are already showing physical signs of nutritional deficiency. The fund only provides an amount of R15,94 for each of these people every month and, again, only a portion of this amount is available for food.

Ina Perlman, from Operation Hunger, says that the fund is barely sufficient for a bag of maize meal and does not cover the Department of Health's recommendation of a food parcel of R30,00 per person a month.

The other 14 million people "deserving" assistance have not been catered for and are expected to suffer as a result of VAT, without getting a cent in the form of relief. This includes one and a half million people who receive inadequate state grants as well as a number of aged who do not receive any grants at all, many of whom also experience nutritional deficiency. The total number of people who suffer nutritional deficiency is estimated to be about three and a half million and



Marching against VAT. *Photo: Dario Fossate*

it is certain that VAT will contribute to a growth in this figure.

The Response to VAT

At its national congress in July last year, the Congress of South African Trade Unions (Cosatu) decided to actively oppose the introduction of VAT. It convened a VAT summit in August, which was attended by a wide range of trade union, political, consumer, health and welfare organisations. This led to the formation of the Co-ordinating Committee on VAT (VCC), which represents a broad alliance of organisations from very different backgrounds, but all united in their opposition to VAT.

The VCC called for a postponement of VAT and for negotiations on the way in which VAT should be implemented. It demanded that VAT should not be charged on basic foods, medicines, medical services, electricity and water charges. It also called for adequate amounts to be made available for poverty relief and for negotiations on poverty relief programmes. The demands were accompanied by various forms of mass action including marches throughout the country which involved more than 100 000 people.

Immediately after the Cosatu congress, the South African Chamber of Commerce (SACOB) called for an increase in the poverty relief fund to R1,2 billion. It recognised the potential for massive opposition and said, "unless a suitable programme is announced, the implementation of VAT stands under threat." It argued that an amount of R1,2 billion "would be highly visible and, to an extent, would defuse some of the opposition that is building up towards VAT." It said, however, that the R220 million allocated for 1991/92 should remain unchanged, that the larger amount should only be made available in 1992/93 and that the fund should be reassessed in 1992/93. Big business was clearly prepared to manipulate the fund so as to allow for the smooth introduction of VAT.

The government refused to agree to the postponement of VAT. It made a few minor compromises and, thereafter, it was not prepared to negotiate around the issue. It also failed to set up adequate mechanisms to distribute the money in the relief fund.

Government Intransigence

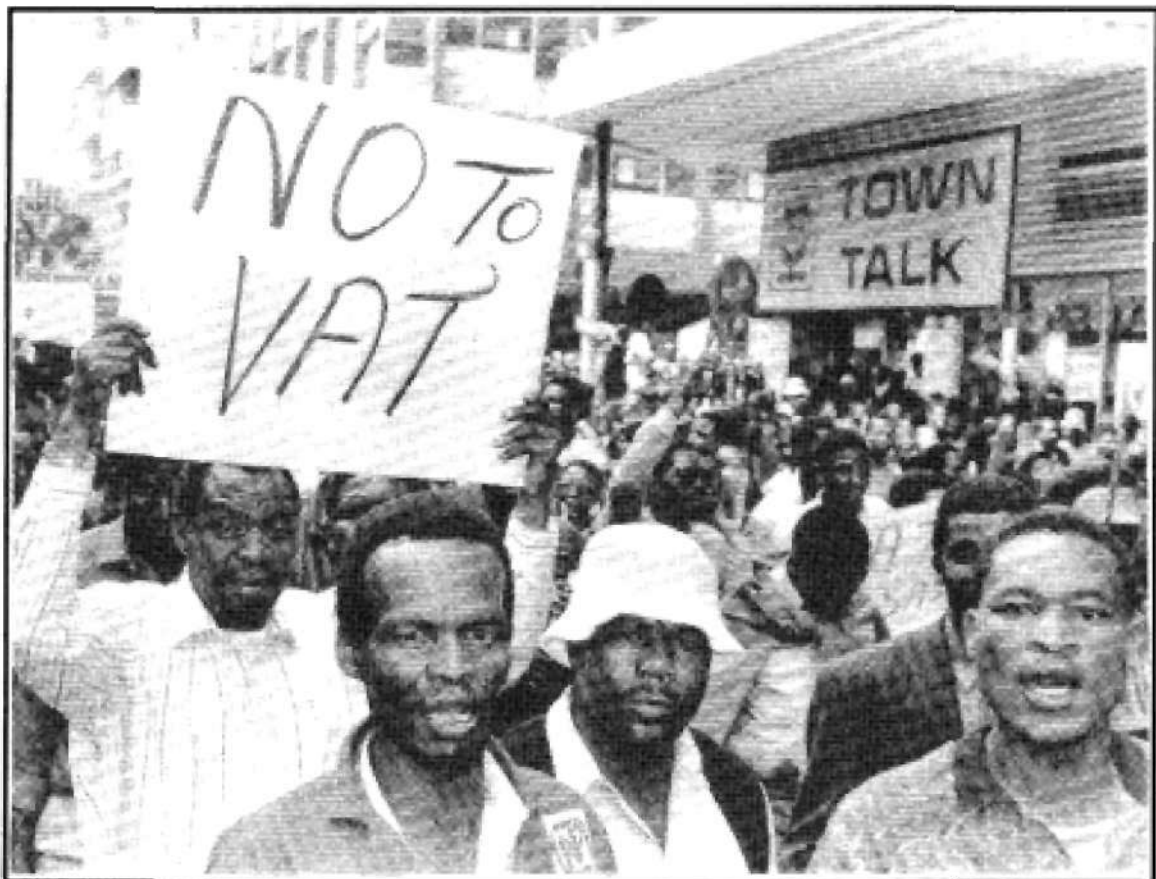
In the 1991/92 budget speech, the minister of finance, Barend du Plessis, expressed reservations about whether the available infrastructure could efficiently target aid. By the middle of August, the Department of Health had still not approached non-



There is likely to be an increase in the levels of malnutrition. *Photo: Medico Health Project*

governmental organisations such as Operation Hunger and World Vision. It, nevertheless, said that it intended to rely mostly on the private sector and did not envisage any significant increase in the number of public servants. It hastily convened a forum for non-governmental organisations at the beginning of September. However, by the end of September, the department was in no position to ensure the adequate distribution of the poverty relief fund.

The government had shown its true colours. It had previously assured the public that the introduction of VAT would be accompanied by a fund with the organisational backing to distribute food to the needy. On the one hand, it managed to make the necessary changes for the switch to VAT, but, on the other, it failed dismally to prepare the ground for distribution of the fund. Despite massive opposition, it went ahead with its unshakeable commitment to introducing VAT at the end of September. In terms of its very dubious commitment to poverty relief,



Large profits are being made by food producers at various stages of production and distribution. *Photo: Dario Fossate*

it merely agreed to refrain from charging VAT on eight basic food items for a period of six months. The food items are milk, mielies, mielie rice, samp, dry beans, rice, lentils and tinned pilchards.

The Effects of VAT

The introduction of VAT has been disastrous for workers and the unemployed. There have been massive increases in the price of a wide range of goods and services. The soaring price of foodstuffs has been particularly devastating. The inflation rate for food has been consistently above 25% ever since the introduction of VAT. This is far higher than the average rate of inflation for all items, which has been in the region of 16%.

The increases are due mainly to the direct effect of charging VAT on goods and services for which one did not pay GST, but there have been other factors as well. Retailers have taken advantage of the uncertainty surrounding the implementation of the new tax and prices shot up in August and September, before the implementation date. Contrary to government and big business propaganda, large

scale producers have not lowered the price of their products in response to the savings they have made on capital goods purchases. In terms of food, it appears as if large profits are being made at various stages of production and distribution.

According to Ina Perlman, the recent price increases, unemployment and the emerging drought are causing more families to fall below minimum living standards to the point where they can not afford even basic food items such as meat, milk, eggs, poultry and margarine. Operation Hunger's evaluation of household budgets shows that many people are being forced to cut food expenses in order to pay for other expenses such as rent, service charges and school fees. In these households, up to 80% of food consumption is made up of maize.

Over the years, Operation Hunger has worked in areas in which nutritional standards had improved and people had acquired an independent capacity for feeding their families. In 70% of these areas, there has been a reversal of the situation. About 90% of school feeding schemes are no longer supplying maize, but parents are increasingly unable to afford it. Mrs Perlman estimated that, by December 1992, an additional two to two and a half million people will be in need of some food subsidy.

The Poverty of the Fund and Bureaucratic Constraints on its Distribution

A wide range of problems have been raised in terms of the poverty relief fund itself. It has been unable to and is unlikely to reach remote rural areas. There has also been criticism that the fund has been set up specifically to provide food aid and that it will not meet the need for long term development work in communities. A World Vision spokesperson, Esrom Matambunye, said that the largest part of World Vision's poverty relief work involves social development as opposed to food aid. According to Matambunye, the R220 million fund is grossly insufficient to meet *the massive investment requirements for intensive development of communities*. World Vision's executive director, John Allwood, said the poverty relief fund is not "a proper undergirding of long-term sustainable development in a creative way, which would enhance the production of food and improve the supply of food to those who need it most."

The fund is, furthermore, not even fulfilling its narrow role of providing food to the needy. Allwood referred to the implementation of the fund as a "camel", because it has not proved to be "a response to an immediate crisis, with the quick

delivery systems and decision-making normally associated with a relief project.''

In February this year, the minister of national health, Rina Venter, announced that only R16 million had been spent. Another R10 million had been allocated to various organisations. In other words, only 12% of the original R220 million has been approved for distribution so far.

In Port Elizabeth, 68 organisations surveyed by Operation Hunger said that they were promised funds last year and, of these, only eight have received funds after 5 months of waiting. In the Western Cape, organisations have experienced similar difficulties. Only three out of 14 organisations, which had applied for support last year, had received funds by the end of February.

One reason for the delay in distribution is the government's unwillingness to set up a distribution network which bypasses the bureaucratic maze of the apartheid system. According to Perlman, Operation Hunger did not previously receive state funding, but, with the announcement of the R220 million fund, the organisation reconsidered whether it should apply for state funds. The regional structures of the organisation unanimously decided that Operation Hunger should apply, but should only accept assistance on condition that the money is distributed directly from Pretoria.

Operation Hunger sent a letter of application for funds to the minister of national health. It made a modest request for R58 million to feed almost two million people for up to eight months. It pointed out that the organisation has more than 6 000 feeding schemes and 15 000 development points. It would, therefore, be impossible to receive funds through the various homeland administrations and regional government structures. The minister failed to respond for at least three months. After public prompting by Operation Hunger, she said that she thought the organisation wanted to bypass regional government structures so that it did not have to account for funds. She made this claim despite Operation Hunger's submission of a full schedule of expenses. In February, the minister finally agreed that Operation Hunger could apply for funds at a national level. Operation Hunger has since received R10 million from the department of national health, an amount which should cover just over a month of poverty relief work.

However, it seems that, even if the funds were directly allocated from Pretoria, they would not reach all the organisations involved in poverty relief. According to a spokeswoman for the Black Consumer Union, which has eight associations involved in food and development work, the consumer body has not applied for funds. Application forms are too complicated for its volunteer workers to understand and the consumer union does not have personnel who can assist them.

Moreover, many voluntary organisations involved in community work do not have fund raising numbers. This is an official requirement for the receipt of

funds and many applications have been refused for this reason. The same source also said that the government has not set coherent criteria for deciding which organisations should receive a share of the poverty relief fund. She claims, for example, that a hospital in northern Natal received money from the poverty relief fund despite the fact that it is not involved in poverty relief work.

The Need for an Independent Trust Fund

World Vision has not applied for funds because the organisation does not wish to bear the responsibility for delivering state funds. John Allwood argued that “as soon as you become a conduit of state funds, then delivery of funds is liable to state mechanisms, including auditors, parliament and evaluators. World Vision prefers evaluations by community groups.”

The organisation feels that the most effective structure for the distribution of poverty relief funds is an independent trust, administered by representatives of various non-governmental welfare and development organisations. An independent trust would be more impartial than government, which still supports elements of apartheid, such as separate departments of health. A trust of this nature would be able to operate more freely than a government department, which is bound by regulations.

A trust was agreed upon at the forum for non-governmental organisations, convened by the government, in September last year. It was intended that this trust would involve both government and non-governmental organisations. Allwood said, however, that the government has subsequently decided to retain authority over the relief fund, even though it relies on non-governmental organisations to distribute the fund.

Conclusion

VAT, we have argued, together with other aspects of government economic policy, is having a devastating impact on workers and the unemployed. The continuing recession and drought are making the situation even worse. Nonetheless, the government and the Department of National Health, in particular, have

done very little to ensure the development of adequate poverty relief measures.

South Africans have continued to resist VAT. On 4 and 5 November last year, more than three and a half million people stayed away from work. The government has, however, failed to respond to repeated demands by the VCC for the reopening of negotiations on VAT.

In his budget speech in March, Barend du Plessis highlighted the government's continued lack of commitment to poverty relief. He announced an allocation of R440 million to the relief fund for the 1992/93 financial year. This amount is for the full twelve months, whereas the allocation of R220 million in 1991/92 was for a six month period. In other words, the same number of rands has been made available for each month. However, the amount of food that can be bought with these rands will decrease as the months go by, due to the effect of inflation on the buying power of the rand.

The government is also intent on charging VAT on the eight basic food items which it temporarily excluded from the VAT net last year. This is despite the fact that there is still no adequate poverty relief network. Cosatu and the ANC have indicated that they would resist the charging of VAT on these items.*

Critical Health

*At the time of publication, there were indications that the government may extend the period during which VAT is not charged on these foodstuffs. But, if it does so, it is almost certain that this extension will not be for more than a few months, although no official indication has been given as to the time limit of this concession. Rina Venter has announced (once again) that negotiations are being planned around the distribution of the funds.
