Economic Notes

Economic Notes is supplied by Labour Research Service (LRS), Cape Town

VAT will hit the poor

Unions must demand 5 per cent

The replacement of GST with VAT on 30 September is going to hit the poor the hardest. But the bosses will reap huge benefits from the tax change - in hard cash.

Calculations by the Labour Research Service show that VAT at 12 per cent will *more than double the sales tax paid by low-income households*. Low-income households will pay, on average, between R26 and R38 more sales tax per month under VAT than under GST. This will reduce the money that each household can spare for essential goods and services by 5%.

For workers' living standards to be maintained, unions will have to demand an extra 5% increase at wage negotiations. This is a once-off demand, directly a result of the introduction of VAT. So unions should be demanding 14% for inflation *plus* another 5% for the effect of VAT - a total of 19% just to maintain the buying power of workers' wages!

Sales tax payments under VAT will be higher than under GST because VAT (unlike GST) will have very few exemptions. In fact workers can expect exemptions only on:

- Graded mealie-meal
- Brown bread
- Passenger transport by bus or rail
- Rental accommodation

Certain municipal services Consumers will have to pay VAT on all other goods and services they buy. This wider coverage of VAT is the reason why workers will be 5% worse off, despite the fact that VAT (12%) is 1% less than GST (13%). In fact the Labour Research Service estimates that low-income households will have to pay an extra R546 million in sales tax in the 1991/92 tax year.

Poverty relief up, job creation down

The government says it knows that VAT will be a heavy burden on the poor. In return the government says it has set aside R220 million for poverty relief. At the same time it announced that it was to reduce by R45 million its spending on job creation and training for the unemployed!

Manufacturers will get a massive R3,75 billion tax break from VAT in the 1991/92 tax year. From 30 September sales tax will not have to be paid on machinery. The government says this will reduce manufacturing costs and the cost of investment. It hopes that consumers will benefit from lower prices. It says that more jobs will be created as a result of the reduced cost of investment. This is wishful thinking.

At what rate should VAT be set? A VAT rate of 6% would mean consumers would pay the same as GST at 13%. This would make VAT fair for workers while still reducing the cost of investment. The revenue lost through this lower rate could be raised through:

- Reintroducing tax on dividends
- A capital gains tax
- A minimum tax on company profits
- Special taxes on luxury goods
- Higher estate and gift taxes. ❖

New strike record in 1990

Strike actions rose to record levels in 1990. The number of "man-days" lost to strikes rose by 33% in 1990, to just over 4 million "man-days".

Strikes in the public sector grew dramatically, say industrial consultants Andrew Levy & Associates in their 1990 annual report. In 199024% of all strikes took place in the public sector, compared with only 1% in 1989.

Significantly, the number of strikes involving companies with fewer than 200 workers grew the most. This, say Levy & Associates,is because unions are now focusing greater attention on smaller employers. Just under 40% of all strike activity in 1990 involved the smaller employer compared to 32% in 1989.

Levy & Associates also say that in most cases these smaller employers have "less expertise, less experience and less tolerance in the IR area". The potential for industrial action is therefore raised.

Wages continue to be the most important trigger for strike actions. In 1990 two-thirds of all strikes were in support of wage increases. Nearly three-quarters of all strikes lasted for fewer than 4 days while only 11% lasted for more than 10 days.

Levy & Associates report that the longest strike in 1990, at Zebediela Estates, lasted 87 days. Workers there are organised by the National Union of Farmworkers, a Nactu affiliate. Numsa recorded the largest number of strikes of any union, just under 70, in 1990.Saccawu accounted for the most 'man-days' lost through strike actions.

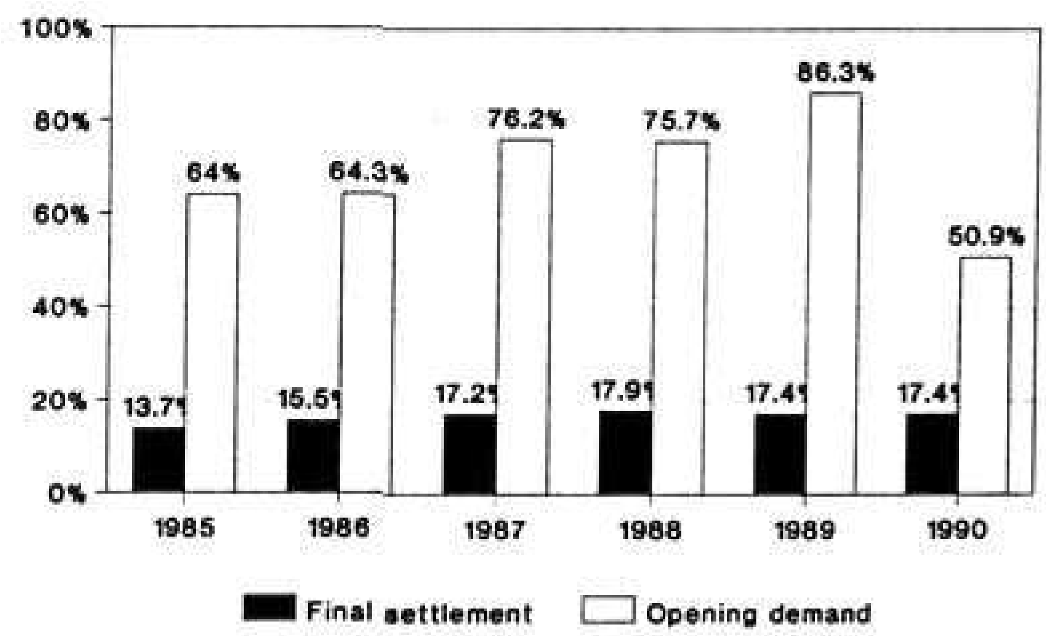
During 1990, nearly 64% of all wage negotiations involved some form of industrial action. In 1987 the figure was only 32%. But the level of the opening wage demand in 1990 was well below previous years. This, say Levy & Associates, "indicates an increasing maturity in the bargaining process on the part of the labour movement".

Unions, however, continued to win large wage increases in 1990, even with negative economic growth for the economy. The Levy &Associates wage survey

Smaller employers hit hardest
Break down of strike action by firm size

Labour Research Service
(Source: A Levy & Ass.)

Opening demands fall
... but unions still win large increases



Labour Research Service
(Source: A Levy & Ass)

shows that in 1990 the average increase on payroll was 17,4%. The key focal point of conflict for the 1990s will be centralised wage bargaining and centralised social security benefits, say Levy & Associates. Even the IR Consultants admit that employers which attack centralised bargaining forums like industrial councils will face fierce opposition from unions. ❖

Company Profile: Murray & Roberts

Murray & Roberts is South Africa's largest construction company. Its operations go beyond just construction, however.They extend from housing and construction materials (such as Premix Asphalt) to the manufacturing of structural steelwork and ship repairs.

Murray & Roberts has five divisions. Each of these divisions own a number of operating companies. The largest division is construction. Its profits more than doubled in 1990 from R43 million to R95 million.

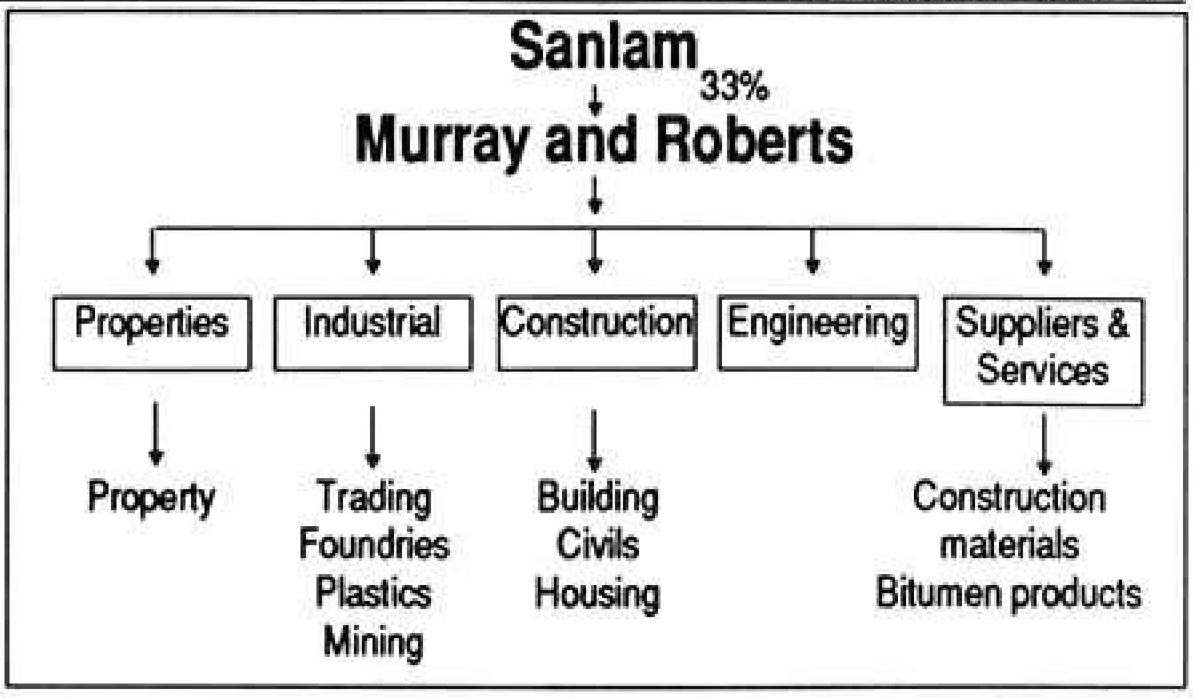
Murray & Roberts' total profits reached record levels in 1990. Profits increased by 36% to R301 million.

Shareholders received a 22% increase in their profit pay-out (dividends). At the same time employment was cut by 4% from 47 000 in 1989 to 45 000 in 1990.

Compared to the 1986 employment figure, 4 000 fewer workers are employed by Murray & Roberts. The bosses are more interested in making profits for shareholders than expanding employment!

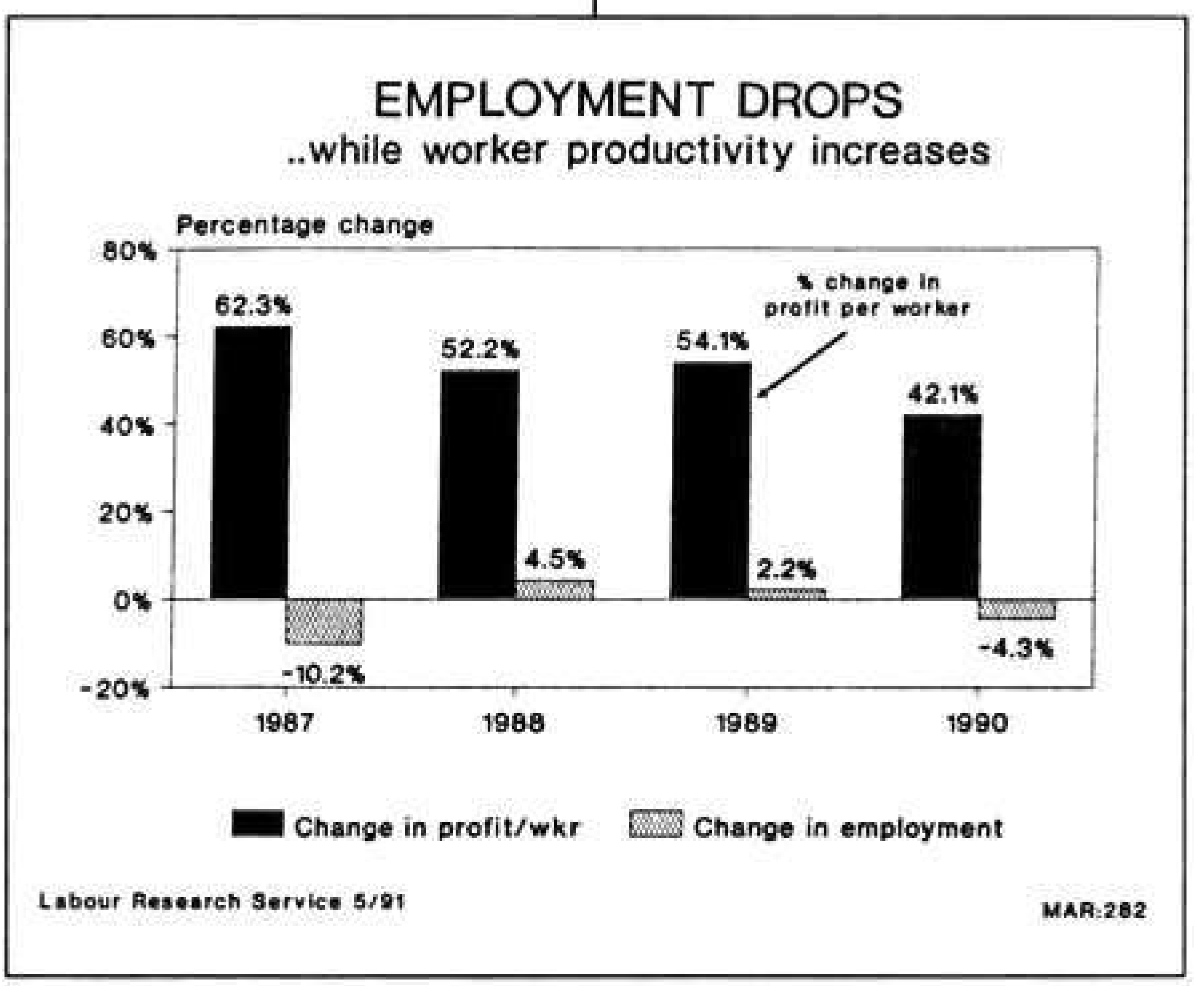
At the same time workers' productivity improved dramatically. Even Murray & Roberts' Chief Executive, Dave Brink, admits this.

In his 1990 annual report Brink stated that the com-



1990 Financial Results: by division

Divisions	Sales	Profits
Construction	R1 379 million	R95 million
Industrial	R1 188 million	R97 million
Suppliers & services	R656 million	R66 million
Engineering	R607 million	R23 million
Properties	R18 million	R17 million
Group	**R4 014 million**	**R310 million**



pany's productivity improvement was "the most important achievement over the last four years". Profit per worker, for example, increased by 42% in 1990.

Directors have also kept themselves happy. Each director earned R8 028 per week in 1990! This is 53 times more than the earnings of some of Murray & Roberts' workers. ❖

Inflation	Consumer Price Index (1985=100)	Annual rate of inflation (% increase over 1 year)
Area	**Mar 1991**	**Mar 90 - 91**
Cape Town	221.8	13.8%
Port Elizabeth	227.1	14.2%
East London	219.0	14.2%
Durban	212.6	13.2%
Pietermaritzburg	218.2	13.5%
Witwatersrand	228.1	14.7%
Vaal Triangle	217.5	12.7%
Pretoria	234.3	14.6%
Klerksdorp	234.4	14.3%
Bloemfontein	234.4	10.1%
OFS Goldfields	223.2	14.0%
Kimberley	211.0	12.1%
South Africa	**224.1**	**14.1%**
Area	**Apr 1991**	**Apr 90 - 91**
Cape Town	225.4	14.6%
Port Elizabeth	231.1	15.3%
East London	221.1	14.0%
Durban	215.3	13.3%
Pietermaritzburg	220.7	13.9%
Witwatersrand	231.8	15.3%
Vaal Triangle	220.2	13.4%
Pretoria	235.8	14.2%
Klerksdorp	236.4	14.7%
Bloemfontein	197.7	10.1%
OFS Goldfields	226.6	14.6%
Kimberley	213.9	12.8%
South Africa	**227.3**	**14.6%**

Source: Central Statistical Service

Another economic plan

"Blame it on the workers!" That is the theme of a draft economic policy document issued by the State President's Economic Advisory Council. The causes of South Africa's economic problems, according to this body of top businessmen and civil servants,are laid at the door of the working class: sanctions,disinvestment, unrest, low productivity, etc. So naturally, the proposed policy recommends anti-union measures: the closed shop should be outlawed, and the "labour market" must be freed of restrictions (such as minimum wages and industrial councils?).

The tone of the document is perhaps not surprising: the chairman of the Economic Advisory Council, Warren Clewlow, is also chairman of Barlow Rand. The Council's proposed economic strategy is basically a"supply-side" strategy. This includes plans to:

- reduce inflation
- stabilise the rand
- reduce the government's stake in the economy
- reduce company taxes
- de-regulate
- privatise

Then - abracadabra - the economy will start performing. While waiting for the miracle to occur, the government will sit on its hands and do nothing about unemployment, poverty and much-needed productive investments. The document does acknowledge a government responsibility for the provision of housing stands "with minimum standards of service" at subsidised prices. Infrastructure, education, training and health services "on an affordable basis" are also recognised as government duties. But there are no concrete proposals. ✩

A summary of the report is available from LRS.