Financialisation and taxation: undermining democratic cohesion in South Africa

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Overview

- Argument
- Theoretical framing: tax & financialisation
- Case study: South Africa
  - Taxation trends
  - Employment trends
  - Privately delivered social provision

Argument

Financialisation undermines democratic cohesion.

There is an emerging literature on financialisation & democracy (Nölke 2019, see also Karwowski 2019).
But it mostly focuses on financial sector lobbying and influence.

We argue it undermines the **vertical** (state – citizens) and **horizontal** (citizen – citizen) contract underlying taxation in democratic societies.

Tax in theory

Tax as central in the emergence of modern states (Tilly 1975):

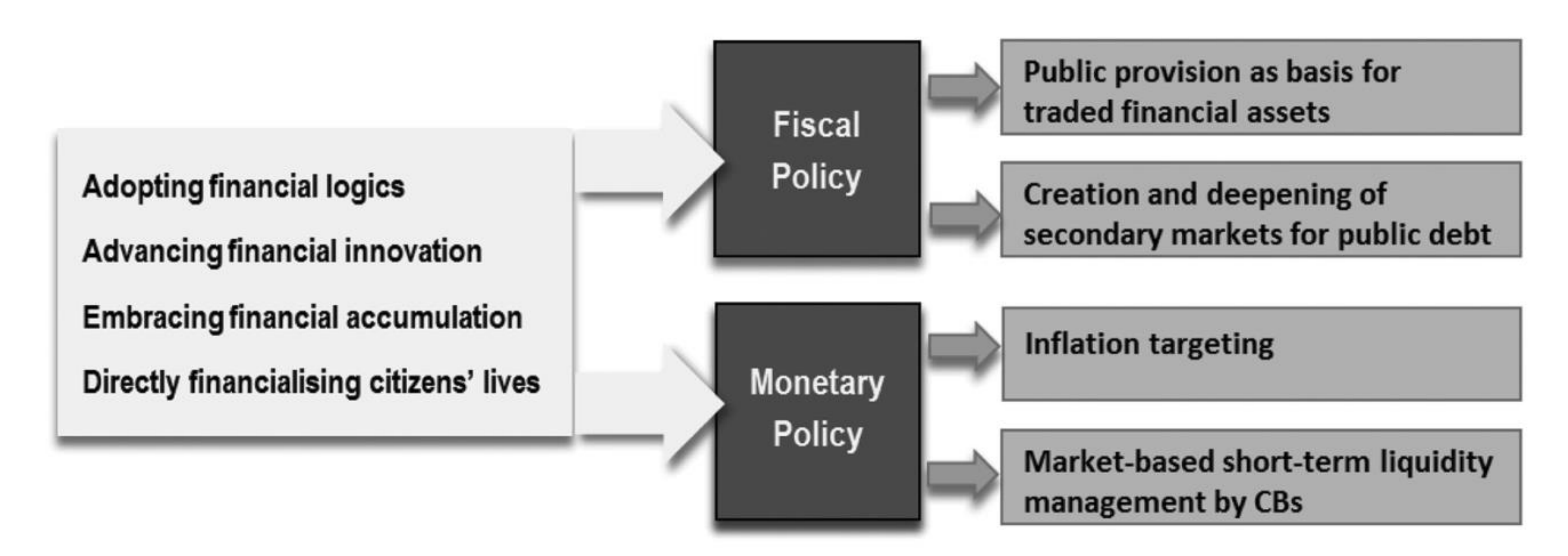
> "the history of state revenue production, is the history of the evolution of the state. As specialization and division of labour increase, there is a greater demand on the state to provide collective goods where once there were solely private goods or no goods at all." (Levy 1998).

Taxation is crucial to the social contract in democracies:

- Links of accountability between state and citizens ('fiscal exchange')
- Creation of political community ('horizontal' solidarity)

Financialisation theory: the state

“the changed relationship between the state […] and financial markets and practices in a way potentially detrimental to the state’s accountability towards its citizens.” (Karwowski 2019: 1001)



The case of South Africa

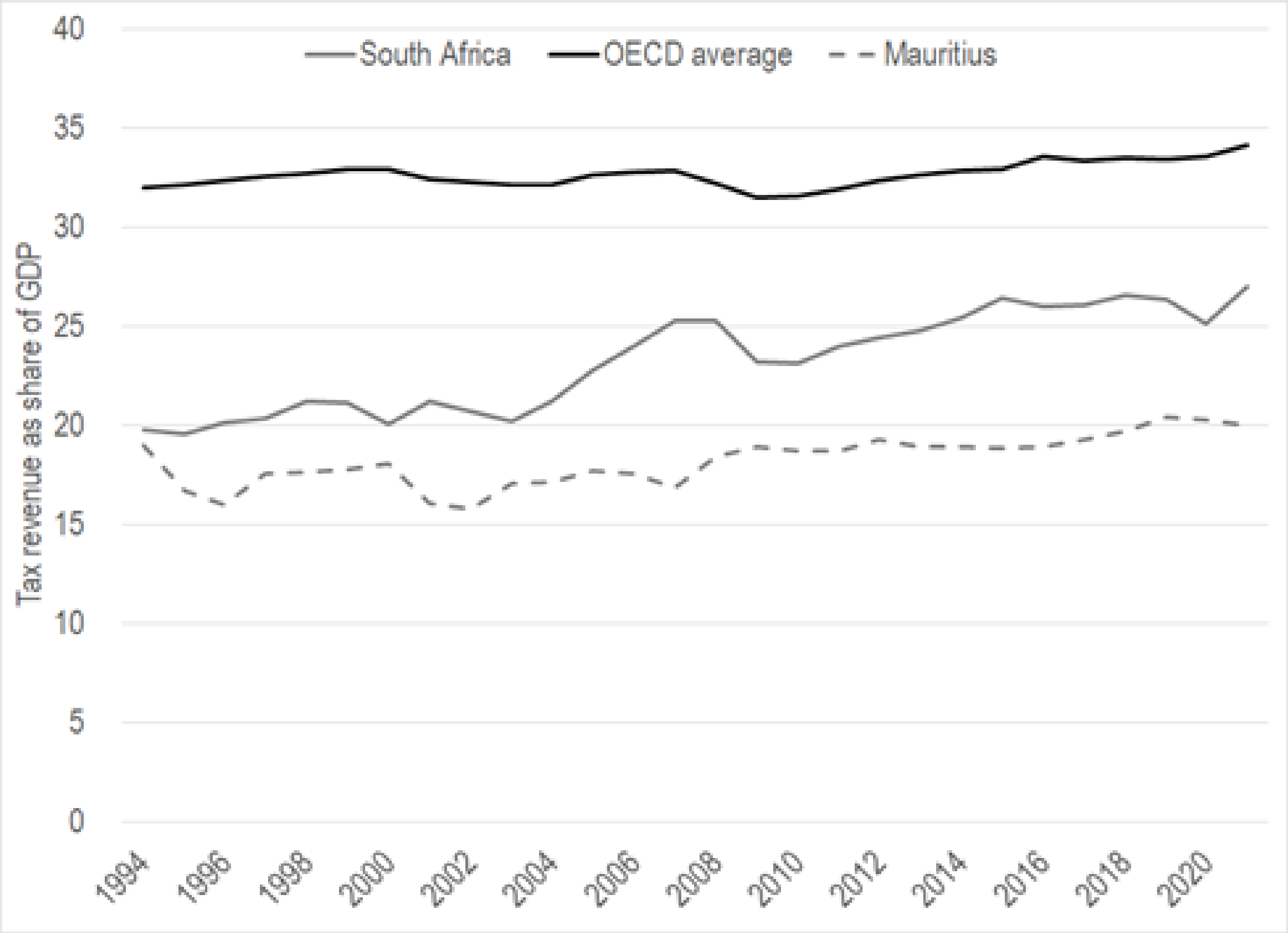
Financialisation undermines democratic cohesion by delegitimizing taxation and tax collection. It weakens the vertical and horizontal contract underlying taxation in democratic societies.

In South Africa, company tax has declined as a source of tax revenue. The state increasingly relies on **personal income tax** (PIT). Financialisation has transformed the **labour market**. Due to **income polarization**, the vast majority of jobs is in the tertiary sector. The bulk of the PIT take is from taxing finance professionals and government employees. These groups often opt out of **social provision**. As a result, there is a growing resentment amongst these groups towards taxation.

Tax revenue in democratic South Africa

- SA ideal case study country
- After apartheid, tax revenue increased strongly
- SARS became democratically legitimate
- Tax policy as success story
- Highly financialised country (in comparison to EE peer group, Karwowski 2022)

Tax revenue % of GDP: SA, OECD & Mauritius, 1994-2021

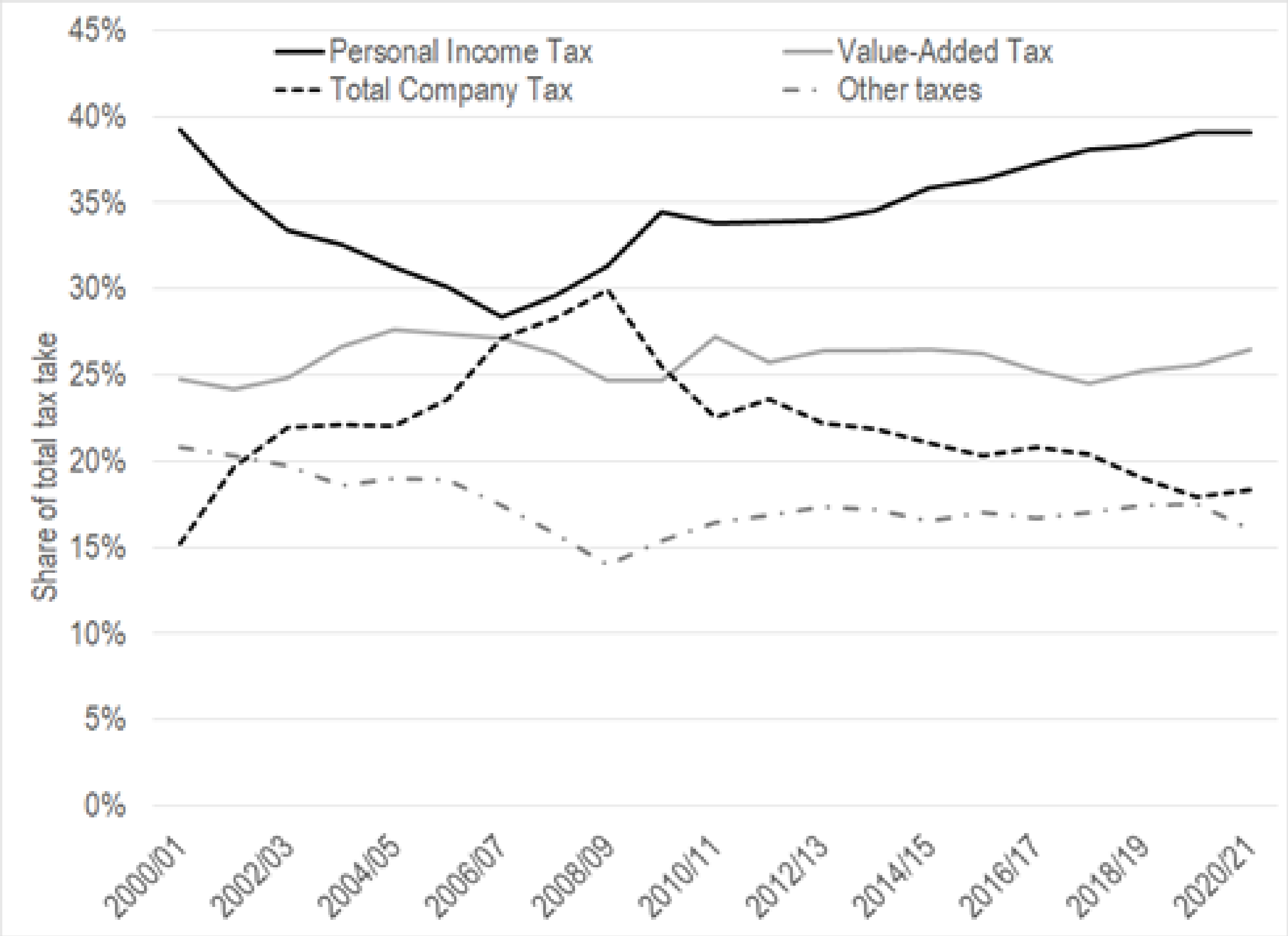


Source: OECD 2024.

Financialisation: structural transformation and taxation

- While growing during the boom years, company tax (CT) has declines as share in total tax since 2008/9
- Since the GFC tax revenue has increasingly relied on PIT
- Including an increase in PIT for top tax brackets from 40 to 41% in 2016, VAT increase from 17 to 18% in 2016 and reduction of CT from 28 to 27% in 2022

Tax revenue by type, 2002-21



Source: SARS 2024.

The bulk of the tax burden

PIT tax collection by income bracket, 2013-2024

Taxable bracket	2013		2017		2021		2024	
R thousand	**% of taxpayers**	**% of PIT**	**% of taxpayers**	**% of PIT**	**% of taxpayers**	**% of PIT**	**% of taxpayers**	**% of PIT**
R0 - R750	94.5	54.4	93.5	49.9	92.3	49.3	89.3	43.3
R750 - R1 000	3.2	14.7	3.1	11.6	3.8	12.4	5.0	12.8
R1 000 - R1 500	2.3	30.9	2.1	12.2	2.3	11.8	3.4	14.1
R1 500 +	Tax bracket n/a		1.4	26.3	1.6	26.5	2.3	29.8
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: National Treasury, South Africa, 2013-2024.

The top two tax brackets shown here contribute around 40% of total PIT revenue, while only making up between 3.5 and 5.7% of PIT payers.
These are official budget figures widely publicized (by NT), widely publicized and discussed figures.

Media (and elite) perception

“According to a quarterly Labour Market Report by **Solidarity**, published earlier this week, only 3.3 million out of a total 33 million eligible tax payers in the country pay 93% of all personal income tax. Worse still, only 3.7% – or 1.1 million people – pay just short of 70% of the total income tax received” (**BusinessTech** 2015).

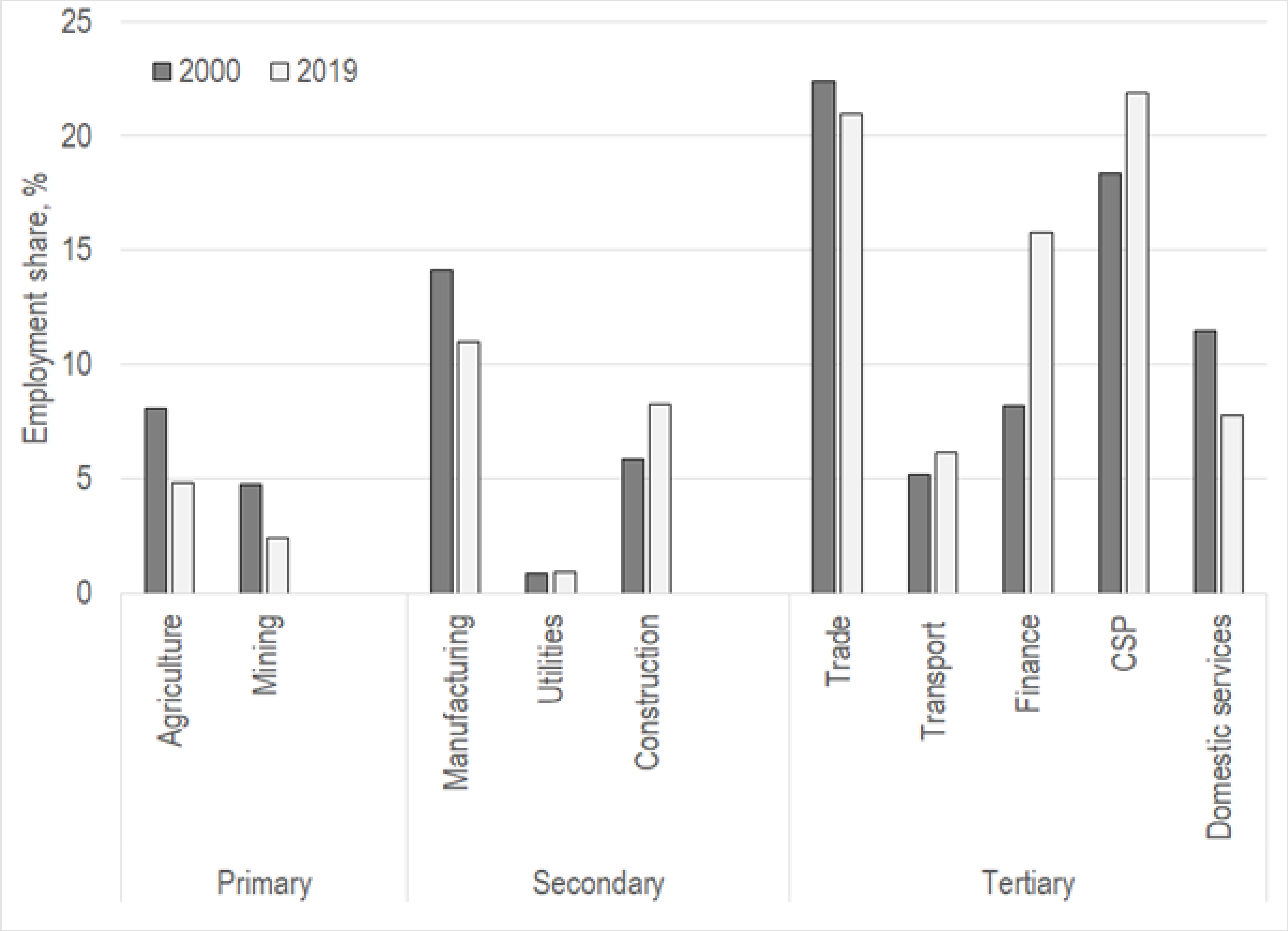
“Unfortunately, in an environment where public trust in government is very low due to unfulfilled promises to address irregular and wasteful expenditure, they are becoming tired of bearing this burden… Consequently, many are engaging in a form of ‘tax revolt’ by deciding to do easier or less work that results in less tax, leaving the country, or engaging in tax evasion” (**Tickle** as quoted by **SAICA** 2020).

“some 860 000 [South Africans] earned above R750 000 per year. This small group of people was paying almost 60% of all personal income tax (PIT). They were also the people with the skills and the means to leave South Africa” (Endres, CEO of **IRR**, 2024).

Labour market developments

- Over the past two decades, employment has shifted towards the tertiary sector
- Finance and CSP (community, social and personal services) saw the biggest gains
- CSP mainly picks up on government employment
- At the same time, there was a decline in mid-high skilled jobs (technicians) and mid-low skilled jobs (clerks, operators, skilled agriculture)

Employment share by sector, 2000 and 2019

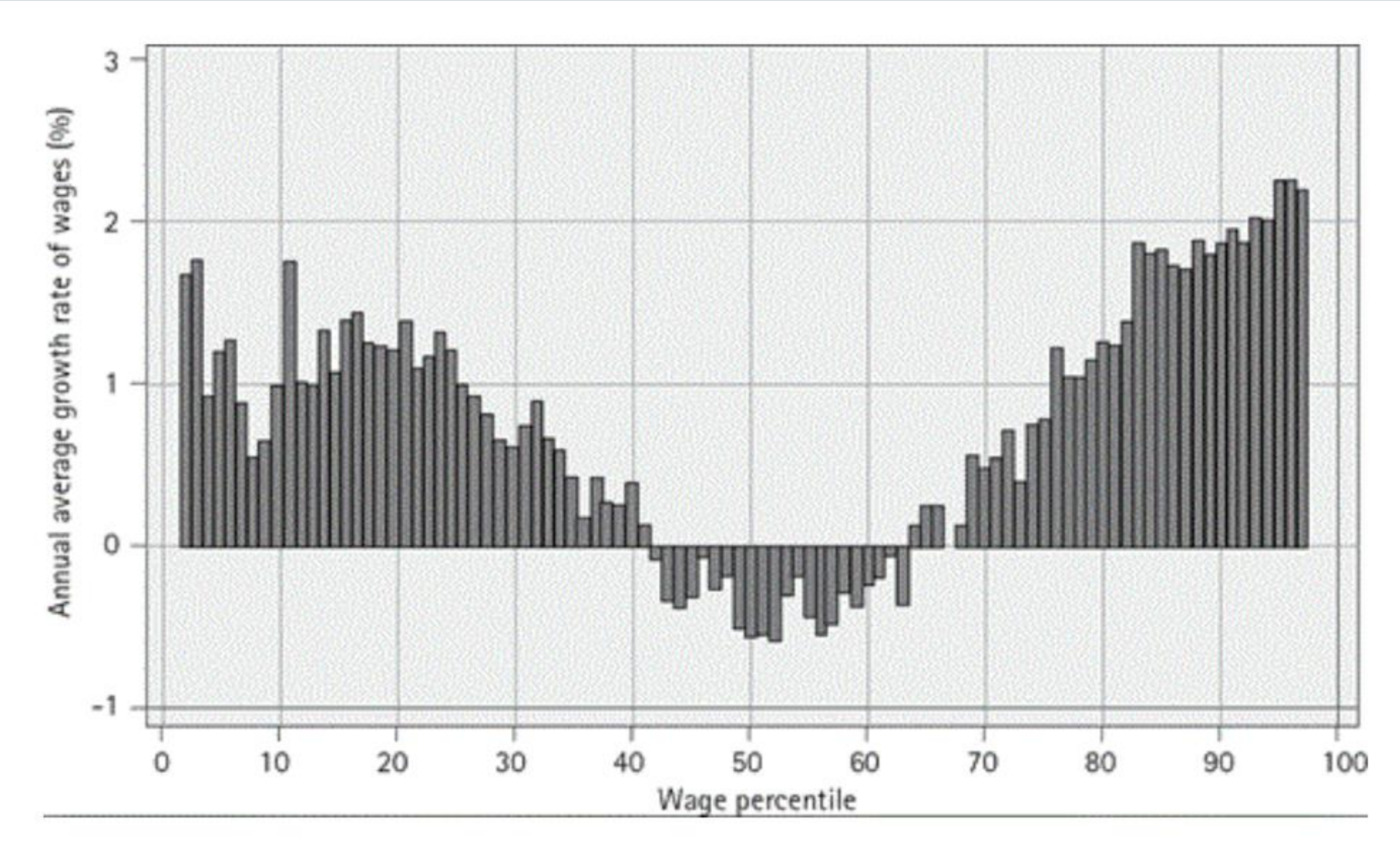


Source: Bhorat et al. 2021.

Income polarization

- **As a result, the middle of the income distribution has been squeezed…**
- **…and income further polarized**

Annual average real growth rate of wages, 2000-2017



Source: Bhorat et al. 2021.

Undermining social cohesion

- Those who pay most of the tax, opt out of public services:
  - **Healthcare:** 43% private voluntary health insurance (PVHI) as % of total health expenditure (2021, OECD); this benefits ca. 15% of the population (OECD)
  - **Pensions:** ca. 10% have private pension plan, pension plan assets worth 78% of GDP in 2020 (well above OECD average of 60% of GDP)
  - **Safety and security:** 2.8 million registered private security guards versus 180,000 police employees (SAPS 2021)

- At the same time, South Africa has one of the most extensive **social benefits** systems in the global South, paying over **13% of GDP** to households 2022 (OECD 2024). In 2020, there were **11 million beneficiaries** (or 20% of South Africans).

Conclusion

- State financialisation: “the changed relationship between the state […] and financial markets and practices in a way potentially detrimental to the state’s accountability towards its citizens” (Karwowski: 1001) requires an update
- Proposed: “the changed relationship between the state and financial markets and practices in a way potentially detrimental to the state’s accountability towards its citizens, citizens’ solidarity within society, and social and democratic cohesion”
- This is inherent to financialisation as the starting point is ‘self-sufficiency’ of individual (see pensions, healthcare …).
- For policymakers ‘outsourcing’ provision of social infrastructure is convenient (tax decisions are difficult), but they also generate democratic consensus/ political community.

Thank you

Any questions?