Public Sector Policies and Income Distribution in South Africa during the period 1968-80

by

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In the period 1968-80, the total resource allocation of the South African Public Sector, defined as consisting of the three levels of government, increased from R2,734m to R15,623m, representing an average annual growth rate of 14.35% in nominal terms and 5.1% in real terms (1975=100). Over the same period the Central Government increased its share from R1,744m to R10,422m at an annual average rate of 14.74% in current prices, i.e. 6.1% in real terms (1975=100).

Irrespective of the causes of the Public Sector expansion, and aside from its role as the 'law-maker' for the regulation and functioning of the economy, the mere fact that the Public Sector in South Africa has control over resources amounting to more than one-quarter of the GDP, indicates the substantial scope that this sector has for influencing among others the primary income distribution pattern in the economy.

Whether the Government effects any corrections towards a more equitable income distribution is dependent upon its fiscal and monetary policies. To study the case of South Africa this paper will present a fiscal incidence analysis which will be supplemented by a review of the monetary policy and its income redistributive effects.

1. FISCAL INCIDENCE AND INCOME INEQUALITY IN SOUTH AFRICA

A comprehensive fiscal incidence study calls for two separate analyses of expenditure incidence and tax incidence, from which the beneficiaries of expenditure and the providers of revenue could be identified and their receipts and contributions quantified. This is however more easily said than done. Because establishing the primary, secondary and tertiary beneficiaries of government expenditure, as well as identifying the true (ultimate) tax payers is not an easy task, and certainly not an uncontroversial one. For at times it involves a great deal of subjective judgement.

(1) For the whole period, the average share of the Public Sector amounted to 30% of the GDP. For details see Appendix 'A'.

PUBLIC SECTOR POLICIES AND INCOME DISTRIBUTION IN SOUTH AFRICA DURING THE PERIOD 1968-80
I shall nevertheless put forward a discussion of the Central Government expenditures, and their trends in order to ascertain the redistributive outlays, followed by an analysis of the taxes and their composition in the period under study.

1.1 Expenditure Incidence

The incidence of Government expenditure will be studied using two approaches namely the general approach and the direct money-flow approach.

The general approach provides a measure, no matter how crude, of the changes in the composition of the Government expenditure, and helps in getting a rough idea of the impact of the State on poverty and inequality.

Using this approach, Government expenditures have been divided into six categories as follows:

(1) Expenditure on general services; including general administration, defence, police and prisons, foreign affairs.

(2) Expenditure on economic services; including State water schemes, agriculture, roads.

(3) Expenditure on community and social services; including education, welfare, health, housing.

(4) Expenditure on State enterprises such as S.A. Transport services and Dept. of Post and Telecommunications.

(5) Expenditure on Public Corporations, i.e. ISCOR, ESCOM.

(6) Other expenditures including transfers to other Public authorities, subsidies and the like.

TABLE 1 below summarizes the actual magnitudes of the abovementioned expenditures and their relative shares of the total budgeted expenditure for the period 1970-82.
<table>
<thead>
<tr>
<th>Year</th>
<th>Total of Budgeted Expenditure R'000</th>
<th>Expenditure on General Services R'000</th>
<th>% of T</th>
<th>Expenditure on Economic Services R'000</th>
<th>% of T</th>
<th>Expenditure on Community and Social Services R'000</th>
<th>% of T</th>
<th>Expenditure on State Enterprises R'000</th>
<th>% of T</th>
<th>Expenditure on Public Corp's R'000</th>
<th>% of T</th>
<th>Other Expenditure R'000</th>
<th>% of T</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970/71</td>
<td>2324611</td>
<td>597312</td>
<td>25.7</td>
<td>289691</td>
<td>12.5</td>
<td>495100</td>
<td>21.3</td>
<td>245000</td>
<td>10.5</td>
<td>58700</td>
<td>2.5</td>
<td>638728</td>
<td>27.5</td>
</tr>
<tr>
<td>71/72</td>
<td>3425136</td>
<td>695766</td>
<td>20.3</td>
<td>359028</td>
<td>10.5</td>
<td>569734</td>
<td>16.6</td>
<td>279349</td>
<td>8.2</td>
<td>72000</td>
<td>2.1</td>
<td>1448519</td>
<td>42.2</td>
</tr>
<tr>
<td>72/73</td>
<td>3945623</td>
<td>783969</td>
<td>21.5</td>
<td>323617</td>
<td>9.2</td>
<td>586513</td>
<td>15.6</td>
<td>252401</td>
<td>3.0</td>
<td>103363</td>
<td>2.6</td>
<td>150130</td>
<td>42.8</td>
</tr>
<tr>
<td>73/74</td>
<td>4504167</td>
<td>1017522</td>
<td>22.6</td>
<td>410224</td>
<td>9.1</td>
<td>692306</td>
<td>15.4</td>
<td>391625</td>
<td>8.7</td>
<td>86267</td>
<td>2.0</td>
<td>189623</td>
<td>42.2</td>
</tr>
<tr>
<td>74/75</td>
<td>5510800</td>
<td>1310181</td>
<td>23.3</td>
<td>476242</td>
<td>8.5</td>
<td>872477</td>
<td>15.5</td>
<td>465138</td>
<td>7.7</td>
<td>210009</td>
<td>4.1</td>
<td>2279673</td>
<td>40.8</td>
</tr>
<tr>
<td>75/76</td>
<td>6140730</td>
<td>1632296</td>
<td>24.1</td>
<td>407971</td>
<td>7.2</td>
<td>1047972</td>
<td>15.4</td>
<td>577062</td>
<td>4.5</td>
<td>323878</td>
<td>4.8</td>
<td>2718651</td>
<td>47.6</td>
</tr>
<tr>
<td>76/77</td>
<td>8359100</td>
<td>2114500</td>
<td>25.3</td>
<td>851000</td>
<td>10.2</td>
<td>1036700</td>
<td>13.0</td>
<td>619700</td>
<td>7.4</td>
<td>354500</td>
<td>4.4</td>
<td>3342000</td>
<td>39.3</td>
</tr>
<tr>
<td>77/78</td>
<td>9422000</td>
<td>2556900</td>
<td>27.1</td>
<td>1003900</td>
<td>10.7</td>
<td>1303600</td>
<td>13.8</td>
<td>804300</td>
<td>8.5</td>
<td>331900</td>
<td>3.5</td>
<td>3325800</td>
<td>36.5</td>
</tr>
<tr>
<td>78/79</td>
<td>10348500</td>
<td>2542200</td>
<td>24.6</td>
<td>1054000</td>
<td>10.2</td>
<td>1510200</td>
<td>14.6</td>
<td>895600</td>
<td>8.6</td>
<td>502000</td>
<td>4.6</td>
<td>3324900</td>
<td>37.2</td>
</tr>
<tr>
<td>79/80</td>
<td>12237000</td>
<td>3100000</td>
<td>25.1</td>
<td>1237000</td>
<td>10.0</td>
<td>1818700</td>
<td>15.0</td>
<td>1033900</td>
<td>8.4</td>
<td>450200</td>
<td>3.7</td>
<td>4055600</td>
<td>36.0</td>
</tr>
<tr>
<td>80/81</td>
<td>14355600</td>
<td>3276700</td>
<td>27.7</td>
<td>1422200</td>
<td>9.9</td>
<td>2214300</td>
<td>15.2</td>
<td>926500</td>
<td>6.9</td>
<td>300500</td>
<td>2.1</td>
<td>5493600</td>
<td>38.0</td>
</tr>
<tr>
<td>81/82</td>
<td>16879000</td>
<td>4715200</td>
<td>27.9</td>
<td>1611300</td>
<td>9.6</td>
<td>3109200</td>
<td>18.4</td>
<td>991000</td>
<td>5.9</td>
<td>159600</td>
<td>0.9</td>
<td>6293300</td>
<td>37.2</td>
</tr>
<tr>
<td>82/83</td>
<td>19687300</td>
<td>5569400</td>
<td>28.3</td>
<td>1962400</td>
<td>10.0</td>
<td>3521000</td>
<td>18.4</td>
<td>1076000</td>
<td>4.5</td>
<td>156700</td>
<td>0.8</td>
<td>7472200</td>
<td>38.3</td>
</tr>
</tbody>
</table>

Source: Derived from Statistical Table of the Budget White Paper (Various Copies)
Of all the above categories, No. 3, i.e. Expenditure on Community and Social Services, is regarded as having a relatively high redistributive content in favour of the poor. Its growth over the period has been smaller than the overall growth of the budget expenditures. This is mainly due to the relentless increase of the defence expenditure which increased its share from 12.4% of the Budget in 1970/1 to 17.0% in 1982/3; i.e. with an average annual rate of 21.64%. Defence expenditures excluded, the Budget expenditures increased at an annual rate of 17.33% during the period. Compared with this rate, it may be said that category 3 expenditures have had higher than overall average growth rate.

Expenditure on general services is usually said to have favourable impact on income distribution because of its being relatively more unskilled labour intensive than other expenditure. In South Africa however there have been limitations on the redistributive effects of this expenditure. For example, defence, constituting a major component of this category, has been almost entirely exclusive to the Whites. If one ignores the racial discriminatory aspects, expenditures on general services do have progressive redistributive effects. The other expenditure categories are unallocable except No. 6. This category includes items such as 'transfers to S.A. Coloured Persons Council' or expenditure on 'Community Development' that can be said to have favourable redistributive impact.

All in all, if one takes a combined view of the abovementioned 'favourable' items, the proportion of Government expenditures having redistributive bias in favour of the lower income group rises to over fifty per cent of the total Central Government expenditures.

Despite its usefulness in providing overall measures, the general approach to fiscal incidence suffers from a major deficiency. That is, it fails to take account of project-implementation-leakages that so often play havoc with the intended results of public expenditure projects, "thus almost completely distorting the pattern of benefits from many of the so-called redistributive schemes". (2)

(2) Project-implementation-leakages tend to occur mostly in the process of implementing the programmes so that the amount actually accrued to the target groups is only a fraction, sometimes only a small one, of the budgeted total. Further see: Gupta; A.P. Fiscal Policy For Employment Generation In India, Geneva, ILO, 1977. This characteristic of public resource allocation has attracted a great deal of criticism from within the economic profession.
In order to refine the approach and correct the measures for the above-mentioned leakages I propose to use the direct money-flow approach. In terms of this approach an expenditure is assumed to benefit those who happen to receive it as their income. Thus if X is employed as a watchman in a Government department, the expenditure representing his salary can be assumed to benefit X and his income group.

Although superior to the previous approach, this method has a major shortcoming. That is, it is payment-oriented in the sense that it leaves out the secondary and tertiary effects of most of the outlays. An example clarifies the point: Assume a general practitioner, employed by the Government at a salary level of R22 500 p.a., is stationed in a hospital which is located in a poor part of the country. Obviously the poor benefit from his services. Yet the money-flow approach regards the Government outlay on his salary as not benefiting the lower income groups. Other similar examples could be fairly easily cited particularly with respect to teachers.

With regard to this reservation, and in the absence of a better alternative, the money-flow approach is employed below.

The beneficiaries of Government expenditures have thus been divided into 'lower income' and 'other' groups. Expenditures benefiting the former groups are assumed to be favourable to income redistribution. The exercise has been carried for three years of 1970/71, 1975/76 and 1981/82. No racial decomposition of the beneficiaries has been made but whenever possible, the data have been provided in terms of the races as well as their income groups.

Within the framework of the money-flow approach, the most important distributive impact of the Central Government has been its expenditure on wages and salaries of the lower income public servants. (3)

As shown in the following table, this expenditure has had a substantial growth over this period, i.e. 17.25% per annum at current prices.

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(3) To regard employment by the Government as a benefit is justifiable only if the labour market experiences an excess supply of labour. However, the S.A. Government has a history of using its employment as an instrument of alleviating poverty and redistributing income, i.e. the Poor White era and Government employment policies ever since.
<table>
<thead>
<tr>
<th>Year</th>
<th>Whites</th>
<th></th>
<th>Coloureds</th>
<th></th>
<th>Asians</th>
<th></th>
<th>Blacks</th>
<th></th>
<th>Benefits Accrued to Lower Income Group R'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>99313</td>
<td>3262</td>
<td>100,00</td>
<td>30745</td>
<td>1350</td>
<td>100,00</td>
<td>7304</td>
<td>1745</td>
<td>100,00</td>
</tr>
<tr>
<td>1975</td>
<td>106768</td>
<td>5304</td>
<td>162,60</td>
<td>42227</td>
<td>2335</td>
<td>172,96</td>
<td>8706</td>
<td>3885</td>
<td>222,69</td>
</tr>
<tr>
<td>1981</td>
<td>129858</td>
<td>9240</td>
<td>283,26</td>
<td>60089</td>
<td>4178</td>
<td>309,48</td>
<td>13011</td>
<td>8437</td>
<td>483,50</td>
</tr>
</tbody>
</table>

Interracial wage gaps have narrowed, with the Blacks' wage having the largest increase followed by Asians' and Coloureds' respectively. In real terms, however, only Blacks' and Asians' earnings experienced growth. The price index, measured against the CPI, increased to 319,0, in terms of the 1970 prices, exceeding both Whites' and Coloureds' wage indices.

Total 'benefits accrued to lower income groups' from wages and salaries had an average growth rate of 5.52% in real terms (1970=100)(3). This is however much smaller than the average growth rate of the total Budget expenditures; i.e. 9.27% in terms of the 1970 prices. Even if the defence expenditure had been excluded from the total expenditures, the average growth rate of the balance in real terms would have been 7.13%, still higher than the growth rate of the abovementioned benefits.

However one could add to the above, wages and salaries paid by the Governments of the Homelands and the Independent States. Available statistics are summarized below:

TABLE 3: Total Employment by the Governments of the Homelands and Independent States and Resultant Benefits Accrued to Lower Income Group.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total No. of Blacks Employed</th>
<th>Average Earnings p.a.</th>
<th>Wage Index</th>
<th>Total Wages &amp; Salaries Paid (R'000)</th>
<th>Total Benefits Accrued to the Lower Income Group; (R'000)(1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973</td>
<td>93 018</td>
<td>705</td>
<td>100</td>
<td>65 578</td>
<td>55 741</td>
</tr>
<tr>
<td>1975</td>
<td>129 123</td>
<td>1 049</td>
<td>149</td>
<td>135 450</td>
<td>115 133</td>
</tr>
<tr>
<td>1981</td>
<td>202 638</td>
<td>2 550</td>
<td>362</td>
<td>516 727</td>
<td>439 218</td>
</tr>
</tbody>
</table>


(1) It is assumed that 85% of the total wages and salaries paid accrues to the lower income groups.

If the above benefits are added to that of Table 2, the total benefits accrued to the lower income groups, resulting from employment by the Government, increased from R353 156 000 in 1975 to R1 065 642 000 in 1981, at an average rate of 20.2% per annum in current prices. A substantial part of the payments by the Governments of the Homelands and the Independent States is wages and salaries of the teachers and doctors employed by the States.

In addition to the Government expenditures on wages and salaries, there exists other outlays that are specifically intended to benefit the lower income groups.

(3) In calculating the total benefits it has been assumed that 80% of Coloured and Asian and 90% of Black employees belong to the lower income groups.
Using the money-flow approach, from each Budget vote various expenditures that favour these income groups are added together to represent their benefits from the vote\(^{(4)}\). Obviously not every Budget vote has items of this nature. Thus Table 4 summarizes the votes that have had expenditure items directly benefiting the poor, or the lower income groups. Calculations have been made for the years of the beginning, middle and end of the period in order to compare the magnitudes of such benefits and their direction of change over time.

\(^{(4)}\) For elaboration see Appendix B.
### TABLE 4 Budget Expenditure Intended to Benefit the Lower Income Groups (For Selected Years)

<table>
<thead>
<tr>
<th>Vote</th>
<th>Description</th>
<th>R'000</th>
<th>Vote</th>
<th>Description</th>
<th>R'000</th>
<th>Vote</th>
<th>Description</th>
<th>R'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>Transport</td>
<td>14150</td>
<td>6</td>
<td>Bantu Administration</td>
<td>33920</td>
<td>4</td>
<td>Manpower</td>
<td>14332</td>
</tr>
<tr>
<td>11</td>
<td>Custom and Excise</td>
<td>10</td>
<td>7</td>
<td>Bantu Education</td>
<td>59705</td>
<td>5</td>
<td>Cooperation &amp; Development</td>
<td>1016873</td>
</tr>
<tr>
<td>14</td>
<td>Agriculture</td>
<td>64330</td>
<td>8</td>
<td>Transport</td>
<td>32100</td>
<td>6</td>
<td>Transport</td>
<td>160000</td>
</tr>
<tr>
<td>21</td>
<td>Indian Affairs</td>
<td>12243</td>
<td>9</td>
<td>Labour</td>
<td>2671</td>
<td>7</td>
<td>Finance</td>
<td>315500</td>
</tr>
<tr>
<td>23</td>
<td>Labour</td>
<td>1335</td>
<td>15</td>
<td>Social Welfare &amp; Pensions</td>
<td>40744</td>
<td>9</td>
<td>Internal Affairs</td>
<td>692764</td>
</tr>
<tr>
<td>24</td>
<td>Bantu Admin. &amp; Devel.</td>
<td>71449</td>
<td>16</td>
<td>National Education</td>
<td>516</td>
<td>10</td>
<td>Foreign Affairs</td>
<td>301860</td>
</tr>
<tr>
<td>25</td>
<td>Bantu Education</td>
<td>32572</td>
<td>18</td>
<td>Agriculture</td>
<td>125850</td>
<td>11</td>
<td>Mineral and Energy</td>
<td>10946</td>
</tr>
<tr>
<td>29</td>
<td>Health</td>
<td>15731</td>
<td>21</td>
<td>Health</td>
<td>27638</td>
<td>15</td>
<td>Health and Welfare</td>
<td>164200</td>
</tr>
<tr>
<td>34</td>
<td>Industries</td>
<td>778</td>
<td>22</td>
<td>Planning &amp; Environment</td>
<td>2175</td>
<td>16</td>
<td>Education and Training</td>
<td>11977</td>
</tr>
<tr>
<td>39</td>
<td>Social Welfare &amp; Pensions</td>
<td>85590</td>
<td>30</td>
<td>Industries</td>
<td>5283</td>
<td>18</td>
<td>National Education</td>
<td>453</td>
</tr>
<tr>
<td>41</td>
<td>National Education</td>
<td>145</td>
<td>41</td>
<td>Coloured, Rehoboth and Name Relations</td>
<td>165330</td>
<td>21</td>
<td>Industries, Commerce &amp; Tourism</td>
<td>45093</td>
</tr>
<tr>
<td>42</td>
<td>Planning</td>
<td>450</td>
<td>43</td>
<td>Coloured Relations &amp; Rehoboth Affairs</td>
<td>68481</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1970-71 Total</td>
<td>367264</td>
<td></td>
<td>1975-76 Total</td>
<td>830306</td>
<td></td>
<td>1981-82 Total</td>
<td>3242198</td>
<td></td>
</tr>
</tbody>
</table>

**As Percentage of Budget**

- **1970-71**: 15.8%
- **1975-76**: 12.2%
- **1981-82**: 19.2%

**Source:** Derived from "Expenditure to be Defrayed from the Revenue Account" 1971/72, 1976/77 and 1982/83, Central Statistics Services
As can readily be seen in the Table 4 the description of the votes changes from 1970/71 to 1975/76, and similarly from the latter year to 1981/82. Quite expectedly so does the scope of the votes. For instance, expenditures that used to fall under the Coloured Relations and Rehoboth Affairs, and Indian Affairs, are now included in the Internal Affairs vote. Thus care has been taken to take account of such changes so as to make the resultant estimates comparable. Once again no attempt has been made to subdivide the estimates in terms of race classification. The estimates therefore represent the total accruals to the lower income groups across the board. (5)

Estimates in Table 3 conform to the direct money-flow approach, although it has been impossible to remove the project implementation leakages altogether. This is particularly relevant in the case of Transfers to the "Self-governing" and "Independent" States. Although the total "Transfers" is included in the above benefits as accruals to the lower income groups, there is no doubt that a considerable, yet not easily quantifiable, portion of such expenditure does not reach the intended groups at all. A similar point is true of the 'de-centralisation incentives' of which a substantial part accrues to the well-developed areas as opposed to the underdeveloped regions.

Despite such considerations, Table 4 implies that there has been a definite increase in the proportion of Government expenditures intended to favour the poor during the 1970-81 period. (6) But whether such outlays have reached their target groups is a question which cannot be unequivocally answered at a macro level. Rather it has to be verified from the recipients' side.

However, to get a rough idea of the actual accruals to the lower income group, estimates of Table 4 have been used to identify the items that have received considerable attention in Government resource allocation, as shown in Table 5 below:

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(5) In fact using the same method, the classification of accruals according to the races is possible, although the margin of inaccuracy tends to increase as the magnitude of the unallocable expenditures increases.

(6) It is worth noting that the increase in these expenditures has not been steady during the entire period. A glance at Table 1, for example, shows that the relative share of Category 3 expenditures were in fact declining over the 1970-76 period.
TABLE 5: Average Compound Growth of Various Government Expenditures Intended to Benefit the Poor During the Period 1970-81.  

(1970 = 100)

<table>
<thead>
<tr>
<th>Description</th>
<th>Expenditure in 1970-71 (R'000)</th>
<th>Expenditure in 1981-82 (R'000)</th>
<th>Compound Growth rate at 1970 Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industries</td>
<td>778</td>
<td>45093</td>
<td>30,29</td>
</tr>
<tr>
<td>Transport</td>
<td>14150</td>
<td>466000</td>
<td>23,77</td>
</tr>
<tr>
<td>Indian Affairs*</td>
<td>12243</td>
<td>136854</td>
<td>12,19</td>
</tr>
<tr>
<td>Black Admin. &amp; Education</td>
<td>104021</td>
<td>990292</td>
<td>10,56</td>
</tr>
<tr>
<td>Labour</td>
<td>1335</td>
<td>14332</td>
<td>11,78</td>
</tr>
<tr>
<td>Coloured Affairs*</td>
<td>68481</td>
<td>306695</td>
<td>3,24</td>
</tr>
<tr>
<td>Agriculture</td>
<td>64330</td>
<td>250000</td>
<td>1,91</td>
</tr>
<tr>
<td>Health &amp; Welfare</td>
<td>101321</td>
<td>164200</td>
<td>- 5,88</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>367264</strong></td>
<td><strong>3242198</strong></td>
<td><strong>9,81</strong></td>
</tr>
</tbody>
</table>

Source: Table 4 and Appendix 'B'

* Includes expenditure on education.

Both Tables 4 and 5 illustrate the fact that during the 1970-81 period considerable resources have been channelized through the Central Government towards expenditure categories in Table 5. With the exception of subsidy transfers on passenger services, i.e. Transport items in the above table; the other outlays are of a nature that do not make their effects immediately felt in the form of disposable income. Examples of such expenditures are transfers to the Indian and Coloured Universities and/or the erection of schools for the students, not to mention transfers to the governments of the 'self-governing' States.

Health and Welfare transfers have had an average growth rate of 5,99% in real terms during the period. Even with a population growth rate of 2,5%, this still remains a progressive redistributive measure. This is more so if account is taken of the fact that in respect of racial horizontal equity these expenditures have been progressive in the period under study. The following table illustrates the point.
**TABLE 6**  
Indices of Per Capita Benefits Received by the Various Races from Selected Social Security Expenditure During the Period 1970-81.

<table>
<thead>
<tr>
<th>Year</th>
<th>CPI</th>
<th>Old Age Pension</th>
<th>Disability Pension</th>
<th>Maintenance Grant</th>
<th>Total No. of Beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>W* C* A* B*</td>
<td>W C A B</td>
<td>W C A B</td>
<td>W C A B</td>
</tr>
<tr>
<td>1970</td>
<td>100</td>
<td>100 100 100 100</td>
<td>100 100 100 100</td>
<td>100 100 100 100</td>
<td>136551 102265 25732 298760</td>
</tr>
<tr>
<td>1975</td>
<td>156.7</td>
<td>171.3 172.3 172.8 244.4</td>
<td>169.0 163.8 189.6 246.7</td>
<td>156.5 158.9 167.3 133.3</td>
<td>170327 134523 33554 227601</td>
</tr>
<tr>
<td>1981</td>
<td>319.0</td>
<td>332.9 404.9 402.5 771.7</td>
<td>332.0 389.7 417.2 783.1</td>
<td>270.2 425.7 409.8 309.6</td>
<td>190064 197358 51520 299525</td>
</tr>
</tbody>
</table>

*Source: South African Statistics 1982, Central Statistics Services*

(*W = Whites, C = Coloureds, A = Asians, B = Blacks*)
Also with respect to the number of beneficiaries, these expenditures have had a tendency to favour the poor, except in the case of Blacks where the available data do not seem to be consistent. Neither the Central Statistical Services nor the Dept. of Co-operation and Development, which is the primary source of information on the Black beneficiaries, could explain the unexpected, almost steady decline of the Black beneficiaries from 1969 to 1974. Thus no reliable inferences from the above data could be made. And in fact the inexplicable fluctuations in the number of recipients severely undermine the indicative power of the Black earning indices for comparative purposes.

Concerning the other races, the number of Asian beneficiaries grew on average by 6,51% per annum, followed by Coloured and White recipients with growth rates of 6,16% and 3,05% respectively. Thus both in terms of number of recipients and the index of per capita earnings, the Central Government expenditure on social security schemes have been favourable to the poor.

Concerning expenditure of the Agriculture vote, its real growth over the period has been 1,91% which is below the population growth rate. Given the nature of this outlay, i.e. subsidization of the price of bread, and of the prices of some other items of staple food, its overall impact has been progressive in so far as the income elasticity of such items is relatively high.

Finally the nominal increases (24,1% p.a.) in the labour vote have been substantially neutralized by the inflation rate, leaving an 11,8% growth rate for such expenditure during the period. In principle, outlays under this vote favour the redistribution of income to the extent that they either transfer income to the unemployed or intend to create, through training, an income earning capacity for the unskilled and/or unemployed workers.

It can be seen from the aforementioned discussion that the general composition of the fiscal outlays has been favourable to the lower income groups. This is even more so if accounts are taken of the secondary impact of some of these outlays, particularly the type of expenditure which creates an income-generating capacity for the beneficiaries, i.e. education and training. Of course it is one thing to establish that the Government expenditures do intend to benefit the lower income groups, but quite another thing to quantify the degree to which they help alleviating inequality. Or even more difficult, to establish whether they have been 'adequately' biased in favour of equalizing the income distribution.(7) Such issues, relevant as they are, cannot be studied within the framework of the macro analysis of the money-flow approach.

(7) An important aspect of such investigation would be the quantification of the costs and consequences of the redistribution policies.
1.2 TAX INCIDENCE IN SOUTH AFRICA

In considering the effect of a tax four concepts are important: the incidence, the burden, the impacts on the allocation of resources, and on the distribution of income.

The concept of incidence refers to the identification of the real tax payer. For in some cases the real tax payer is different from the one who actually pays the tax. If a firm, for example, can shift forward part of its income tax in the form of higher prices, the real tax payer is then the consumer of the product and not the firm. Further, the incidence of the tax does not necessarily indicate the placing of the ultimate burden. A tax may result in a change of the input-mix of the firm as a result of which some factors of production, i.e. some labourers become redundant. If they cannot find employment they thus bear the burden of the tax through a decline in their income which is tantamount to them paying higher prices for taxed commodities.

From what was said about the tax burden, it is clear that taxes affect the allocation of resources. If the allocation of resources before the introduction of a tax is 'optimum', the tax will lead to an inferior allocation of resources. But when there is likely to be a divergence from 'optimum', as in the case of monopoly and monopoly competition, a tax could improve the resource allocation.

Redistribution of incomes is the result of unequal distribution of the money burden of a tax. Progressive income taxes, for example, can be said to have redistributive consequences in that they reduce the disposable income of the higher income groups by a greater amount (percentage) than that of the lower income groups. By contrast, a general sales tax is regressive as it lays claim to a greater proportion of the low incomes than of the higher earnings.

Although relevant to the discussion, due to the lack of the necessary data, not all of the four foregoing concepts can be discussed in the case of South Africa. Thus a general review of the incidence of the S.A. taxes together with an analysis of the personal income tax will be presented here.

1.2(i). Tax Incidence in South Africa

In South Africa taxes are collected mainly by the Central Government, i.e. its share of the total taxes is over 90%. (See Appendix D.) Expressed as percentage of the National Income, the total taxes grew from 19.4% of the NI in 1968 to 28.7% in 1980. While the average compound growth rate of the NI was 14.4% over
the period, that of the total taxes was 17.9%. In the meantime taxes collected by the Central Government grew at an average rate of 18.3% p.a. from 1968 to 1980.

To illustrate the major sources of the increase of the central tax collection, the following table summarizes the major taxes and their relative contribution to the total.

TABLE 7: Central Tax Collection: Selected Years

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Custom &amp; Excise</td>
<td>417,8</td>
<td>755,4</td>
<td>999,9</td>
<td>1689,9</td>
<td>1477,2</td>
<td>2346,0</td>
</tr>
<tr>
<td>(% Share)</td>
<td>(27.8%)</td>
<td>(30.9%)</td>
<td>(20.5%)</td>
<td>(24.1%)</td>
<td>(11.1%)</td>
<td>(13.5%)</td>
</tr>
<tr>
<td>Companies</td>
<td>377,6</td>
<td>636,1</td>
<td>1117,6</td>
<td>1580,5</td>
<td>2417,6</td>
<td>3770,0</td>
</tr>
<tr>
<td>(non-mining)</td>
<td>(25.1%)</td>
<td>(25.0%)</td>
<td>(22.9%)</td>
<td>(24.0%)</td>
<td>(18.2%)</td>
<td>(21.6%)</td>
</tr>
<tr>
<td>(% Share)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individuals</td>
<td>305,8</td>
<td>587,5</td>
<td>1076,9</td>
<td>1879,2</td>
<td>2090,9</td>
<td>4350,0</td>
</tr>
<tr>
<td>(% Share)</td>
<td>(20.3%)</td>
<td>(24.0%)</td>
<td>(22.1%)</td>
<td>(26.8%)</td>
<td>(15.7%)</td>
<td>(25.0%)</td>
</tr>
<tr>
<td>Gold mining</td>
<td>84,9</td>
<td>98,1</td>
<td>756,8</td>
<td>445,1</td>
<td>3633,0</td>
<td>1700,0</td>
</tr>
<tr>
<td>(% Share)</td>
<td>(5.7%)</td>
<td>(4.0%)</td>
<td>(15.5%)</td>
<td>(6.3%)</td>
<td>(27.3%)</td>
<td>(10.0%)</td>
</tr>
<tr>
<td>Other mining</td>
<td>55,9</td>
<td>33,1</td>
<td>88,8</td>
<td>109,0</td>
<td>211,6</td>
<td>104,9</td>
</tr>
<tr>
<td>(% Share)</td>
<td>(3.7%)</td>
<td>(1.4%)</td>
<td>(1.8%)</td>
<td>(1.6%)</td>
<td>(1.6%)</td>
<td>(0.6%)</td>
</tr>
<tr>
<td>Sales Tax &amp; GST</td>
<td>0,2</td>
<td>177,9</td>
<td>181,4</td>
<td>335,6</td>
<td>1653,1</td>
<td>3290,0</td>
</tr>
<tr>
<td>(% Share)</td>
<td>(0.0%)</td>
<td>(7.3%)</td>
<td>(3.7%)</td>
<td>(4.8%)</td>
<td>(12.4%)</td>
<td>(18.9%)</td>
</tr>
<tr>
<td>Other</td>
<td>227,0</td>
<td>325,7</td>
<td>743,0</td>
<td>1175,4</td>
<td>1611,9</td>
<td>1801,0</td>
</tr>
<tr>
<td>(% Share)</td>
<td>(15.1%)</td>
<td>(13.3%)</td>
<td>(15.2%)</td>
<td>(16.8%)</td>
<td>(12.1%)</td>
<td>(10.3%)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1503,7</td>
<td>2445,9</td>
<td>4877,6</td>
<td>7016,4</td>
<td>13310,3</td>
<td>17420,0</td>
</tr>
<tr>
<td>Source:</td>
<td>Budget Economic Statistics Review (various issues); See Appendix C.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The two noticeable characteristics of the taxes in the period are:

(i) the introduction of sales tax in 1968 and its subsequent evolution into the GST which has assumed a substantial portion of the taxes, i.e. 18.9% in 1982/3.

(ii) the gold bonanza of 1979-1980 seems to have reduced the tax incidence on the companies and individual tax payers whilst having little effect on the GST. Of course the interpretation of the pattern of taxes in 1980/81, the year of the gold bonanza, is complicated by the interrelatedness of expenditure-income (after tax).
The share of income taxes seems to depend primarily on the business cycle, and the contribution of the gold mining. The former relationship is positive while the latter is negative.

The general division of taxes between direct and indirect taxes vary in line with the state of the economy. That is in the boom periods the direct taxes assume a larger proportion and vice versa. Table 8 below illustrates the point:

**TABLE 8: Composition of the Central Government Revenue (1)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Direct Taxes %</th>
<th>Indirect Taxes %</th>
<th>Taxes as % National Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1968/69</td>
<td>69,3</td>
<td>30,7</td>
<td>17,93</td>
</tr>
<tr>
<td>69/70</td>
<td>61,5</td>
<td>38,5</td>
<td>19,41</td>
</tr>
<tr>
<td>70/71</td>
<td>63,3</td>
<td>36,7</td>
<td>19,68</td>
</tr>
<tr>
<td>71/72</td>
<td>62,5</td>
<td>37,5</td>
<td>21,86</td>
</tr>
<tr>
<td>72/73</td>
<td>67,8</td>
<td>32,2</td>
<td>23,12</td>
</tr>
<tr>
<td>73/74</td>
<td>70,5</td>
<td>29,5</td>
<td>24,00</td>
</tr>
<tr>
<td>74/75</td>
<td>74,5</td>
<td>25,5</td>
<td>24,97</td>
</tr>
<tr>
<td>75/76</td>
<td>74,3</td>
<td>25,7</td>
<td>25,79</td>
</tr>
<tr>
<td>76/77</td>
<td>74,6</td>
<td>25,4</td>
<td>28,70</td>
</tr>
<tr>
<td>77/78</td>
<td>70,9</td>
<td>29,1</td>
<td>27,34</td>
</tr>
<tr>
<td>78/79</td>
<td>73,2</td>
<td>26,8</td>
<td>29,36</td>
</tr>
<tr>
<td>79/80</td>
<td>72,2</td>
<td>27,8</td>
<td>27,55</td>
</tr>
<tr>
<td>80/81</td>
<td>74,9</td>
<td>25,1</td>
<td>27,64</td>
</tr>
<tr>
<td>81/82</td>
<td>70,2</td>
<td>29,8</td>
<td>26,79</td>
</tr>
<tr>
<td>82/83</td>
<td>66,6</td>
<td>33,4</td>
<td>29,82</td>
</tr>
</tbody>
</table>

(1) For the actual figures see Appendix C.

1.2.(ii) Redistributive Effects

The redistributive effects of taxes depend on the extent to which they change the distribution of income amongst the income brackets. A tax is progressive if it tends to improve the pre-tax pattern of income distribution towards a more equitable one. On the other hand if a tax widens the gap amongst the income share of different income groups, it is regarded as regressive. In general, the burden of the personal income tax is borne by the respective income earners. Thus its redistributive effects can be quantified.
For South Africa, using the information supplied by the Inland Revenue, the effects of the personal income tax have been measured in Table 9. It should be noted that as Black personal income tax did not used to be collected by the Inland Revenue, the data exclude information on income tax of the Blacks. (8) This is not however a major deficiency from the total revenue point of view as the amount involved is not relatively substantial. From the point of view of measuring the progressiveness of the personal income tax the exclusion of this item tends to understate the redistributive effects of progressive personal income tax. Comparing columns 2 and 5, in Table 9, the redistributive effects of personal income tax has been measured in column 6. The degree of progressiveness is substantial; particularly if account is taken of the fact that the redistribution favours 86% of the tax-paying households in Table 9. Obviously if Black households (of whom 93% earned less than R13 000 p.a. in 1983) (9) were included in the calculations, the income pattern of a much larger number of households would appear to have improved as a result of the personal income tax.

Put it differently, and in reality, the relative income of a much smaller number (than 14%) of households is reduced as a consequence of the progressiveness of the personal income tax.

In absolute terms however 14% of the households (excluding the Black household(s)) paid 62% of the total personal income taxes in 1980. Using the same method, one could study the effects of company income tax. This would require data on the ownership pattern of the company shares; something which is not available for the South African companies. Nonetheless, it is plausible to assume that almost all company shares belong to the income bracket R14 000 p.a. and above, with a skewed distribution in favour of the top income groups. Thus appropriating the company income tax, that amounted to R6 262m (47% of total taxes) in 1980, amongst the top income groups in Table 9 would substantially increase the progressiveness of the taxation systems.

While the progressiveness of the direct taxes was fairly easy to establish, the quantification of the regressiveness of the indirect taxes encounters intractable data problems. To measure the effects of the GST and Custom Duties there is a need for 'household income-expenditure statistics' from which one can

(8) Department of Co-operation and Development has been in charge of collecting Black income tax till 1983. As from 1984/85, with the unification of tax system, Black income tax will also be collected by the Inland Revenue.

(9) Derived from "AMPS 1983 HOUSEHOLD INCOMES", kindly supplied by Market Research Africa.
TABLE 9: Distribution of Income Before and After Personal Income Tax, 1980

<table>
<thead>
<tr>
<th>Income Group</th>
<th>Share of Income Before Tax</th>
<th>% Share of Income After Income Taxes</th>
<th>Share of After-Tax Income</th>
<th>% Share of After Tax Income</th>
<th>% Change in Income Share</th>
<th>Tax-payers' Spread ((\omega))</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less-1000</td>
<td>79977</td>
<td>0.51</td>
<td>79778</td>
<td>0.58</td>
<td>+ 13.7</td>
<td>5.2</td>
</tr>
<tr>
<td>1001-</td>
<td>250238</td>
<td>1.60</td>
<td>3629</td>
<td>1.79</td>
<td>+ 11.9</td>
<td>4.4</td>
</tr>
<tr>
<td>2001</td>
<td>470315</td>
<td>3.00</td>
<td>13148</td>
<td>3.32</td>
<td>+ 10.7</td>
<td>6.1</td>
</tr>
<tr>
<td>3001</td>
<td>612864</td>
<td>3.91</td>
<td>24760</td>
<td>4.28</td>
<td>+ 9.5</td>
<td>6.2</td>
</tr>
<tr>
<td>4001</td>
<td>690282</td>
<td>4.40</td>
<td>33644</td>
<td>4.77</td>
<td>+ 8.4</td>
<td>6.2</td>
</tr>
<tr>
<td>5001</td>
<td>725247</td>
<td>4.63</td>
<td>39795</td>
<td>4.98</td>
<td>+ 7.6</td>
<td>6.2</td>
</tr>
<tr>
<td>6001</td>
<td>761579</td>
<td>4.86</td>
<td>47333</td>
<td>5.19</td>
<td>+ 6.8</td>
<td>6.1</td>
</tr>
<tr>
<td>7001</td>
<td>823650</td>
<td>5.25</td>
<td>56875</td>
<td>5.58</td>
<td>+ 6.3</td>
<td>6.2</td>
</tr>
<tr>
<td>8001</td>
<td>883473</td>
<td>5.71</td>
<td>66617</td>
<td>5.94</td>
<td>+ 4.0</td>
<td>6.3</td>
</tr>
<tr>
<td>9001</td>
<td>939531</td>
<td>5.99</td>
<td>77056</td>
<td>6.27</td>
<td>+ 4.7</td>
<td>6.4</td>
</tr>
<tr>
<td>10001</td>
<td>962955</td>
<td>6.14</td>
<td>86538</td>
<td>6.37</td>
<td>+ 3.7</td>
<td>6.1</td>
</tr>
<tr>
<td>11001</td>
<td>955282</td>
<td>6.09</td>
<td>94095</td>
<td>6.26</td>
<td>+ 2.8</td>
<td>5.6</td>
</tr>
<tr>
<td>12001</td>
<td>903700</td>
<td>5.76</td>
<td>97530</td>
<td>5.86</td>
<td>+ 1.7</td>
<td>5.0</td>
</tr>
<tr>
<td>13001</td>
<td>821273</td>
<td>5.24</td>
<td>96743</td>
<td>5.27</td>
<td>+ 0.6</td>
<td>4.2</td>
</tr>
<tr>
<td>14001</td>
<td>741327</td>
<td>4.73</td>
<td>95269</td>
<td>4.70</td>
<td>- 0.6</td>
<td>3.6</td>
</tr>
<tr>
<td>15001</td>
<td>638957</td>
<td>4.07</td>
<td>88904</td>
<td>4.00</td>
<td>- 1.7</td>
<td>2.9</td>
</tr>
<tr>
<td>16001</td>
<td>544764</td>
<td>3.47</td>
<td>81772</td>
<td>3.37</td>
<td>- 2.9</td>
<td>2.3</td>
</tr>
<tr>
<td>17001</td>
<td>463138</td>
<td>2.95</td>
<td>74751</td>
<td>2.82</td>
<td>- 4.4</td>
<td>1.9</td>
</tr>
<tr>
<td>18001</td>
<td>390757</td>
<td>2.49</td>
<td>67617</td>
<td>2.35</td>
<td>- 5.6</td>
<td>1.5</td>
</tr>
<tr>
<td>19001</td>
<td>328302</td>
<td>2.09</td>
<td>60616</td>
<td>1.95</td>
<td>- 6.7</td>
<td>1.2</td>
</tr>
<tr>
<td>20001</td>
<td>276197</td>
<td>1.76</td>
<td>54156</td>
<td>1.61</td>
<td>- 8.5</td>
<td>1.0</td>
</tr>
<tr>
<td>21001</td>
<td>238048</td>
<td>1.52</td>
<td>49420</td>
<td>1.37</td>
<td>- 9.9</td>
<td>0.8</td>
</tr>
<tr>
<td>22001</td>
<td>207585</td>
<td>1.32</td>
<td>45335</td>
<td>1.18</td>
<td>- 10.6</td>
<td>0.7</td>
</tr>
<tr>
<td>23001</td>
<td>177872</td>
<td>1.13</td>
<td>40764</td>
<td>1.00</td>
<td>- 11.5</td>
<td>0.5</td>
</tr>
<tr>
<td>24001</td>
<td>154693</td>
<td>0.99</td>
<td>36985</td>
<td>0.86</td>
<td>- 13.1</td>
<td>0.4</td>
</tr>
<tr>
<td>25001</td>
<td>134181</td>
<td>0.86</td>
<td>33357</td>
<td>0.73</td>
<td>- 15.1</td>
<td>0.4</td>
</tr>
<tr>
<td>26001</td>
<td>113182</td>
<td>0.72</td>
<td>29240</td>
<td>0.61</td>
<td>- 15.3</td>
<td>0.3</td>
</tr>
<tr>
<td>27001</td>
<td>100989</td>
<td>0.64</td>
<td>27005</td>
<td>0.54</td>
<td>- 15.6</td>
<td>0.3</td>
</tr>
<tr>
<td>28001</td>
<td>1290109</td>
<td>8.23</td>
<td>404650</td>
<td>6.44</td>
<td>- 21.7</td>
<td>2.0</td>
</tr>
<tr>
<td>Total</td>
<td>15680376</td>
<td>100.00</td>
<td>1927823</td>
<td>13752553</td>
<td>100.00</td>
<td>100.00</td>
</tr>
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</table>

Source: Derived from the data provided in Tables 12 and 13 of Inland Revenue Statistical Bulletin, 1983.
calculate the expenditure share of each income bracket and thereby determine the tax incidence for each bracket.

The available households income-expenditure surveys (10) are done for various racial groups separately and their classifications, date of the survey and geographical locations differ. Consequently, they cannot be utilized for a complete tax incidence study of the GST and other indirect taxes. However, to the extent that the average propensity to consume (APC), of the items for which the GST is to be paid, of the lower income groups (around 70%) is higher than that of the higher income groups (around 48%), the GST is regressive. Furthermore, bearing in mind that 99,2% of Black households, 90,7% of Coloured households, 73,9% of Indian households and 34,8% of White households have annual income of less than R12,000, it is obvious that the GST has a profound regressive impact on their share of income. (11) In other words a substantial share of the progressiveness of personal and company income tax, as discussed in Table 9, is negated by the unfavourable effects of GST on the income share of these groups.

The share of GST has grown from 7,3% in 1971/72 to 18,9% of total taxes in 1982/83, while concurrently the share of Customs and Excise has diminished, from 30,9% to 13,5%. It can therefore be said that not only the total Central Government taxes have become less progressive, but also the indirect taxes have become more regressive as their incidence has been shifting from luxuries more to necessities.

1.3 FISCAL INCIDENCE AND INCOME INEQUALITY

In the light of the foregoing fiscal incidence analysis the question to ask is: Has the income distribution pattern become more equitable during the period? Judging by the macroeconomic measure of inequality, the size distribution of South African income has shown marked change towards equitability. That is, the Gini Coefficient fell from 0,71 in 1971 to 0,65 in 1976 and further to 0,57 in 1980. (12) In terms of the racial distribution of income a similar trend is observed. The personal income share of Whites fell from 71,7% in 1970 to 61,5% in 1980 while that of Blacks rose from 19,8% to 29,0% in the same period. Coloureds' and Asians' shares also increased from 6,2 and 2,3 to 6,5 and 3,0 respectively. (13)

(10) The BMR of UNISA has provided Households Income Expenditure data for Blacks, Coloureds and Indians for 1980 and previous three years, and the Central Statistical Services has compiled the same for the Whites in 1975.


(12) S. Devereux: "The Racial and Size Distribution of Income in South Africa 1900-1980".

(13) op cit., p. 70.
Although the Public Sector cannot be credited with the whole of improvement in the income distribution it is nevertheless responsible for a substantial part.

Government’s wage policies, i.e. its endeavour to close the racial wage gap in the Public Sector as shown in Table 2, and its expenditure allocation, have been its two major progressive measures. By contrast its taxation policies have been clearly biased to encourage capital investments and penalize employment. A further Government related regressive factor has the prevailing refractory inflation during the period. Apart from its effects on the purchasing power of earnings, a persistent inflation rate affects the level as well as the structure of aggregate investment in the economy, whereby it influences the job creation capacity and hence income distribution structure. This point will be further discussed in the following section.

2. MONETARY POLICY AND INCOME DISTRIBUTION

An individual’s real income position may change either because of a change in transfer income, a change in the prices of products purchased or a change in factor income. The monetary policy is therefore a relevant variable in the equation of income distribution for it affects the price level and relative factor prices.

In so far as the monetary policy has been the cause of inflation in South Africa, it is to be charged for the reinforcement of a regressive redistribution process. This is particularly relevant in a socio-political milieu where the lower income groups predominantly lack a countervailing protective measure. Otherwise one would expect the unfavourable effects of inflation to get counterbalanced by the measures imposed on the authorities. As the case is in South Africa, the persistent inflation in the past decade is expected to have had impressions on the distribution pattern unfavourable to the poor. A secondary and indirect consequence of inflation on the income distribution emanates from its influence on the level as well as type of investment. By increasing unpredictability of returns, inflation tends to shorten the time horizon of entrepreneurs thereby affecting, in any single period, both the amount invested and the field of investment. The end result is a lower job creation rate. Given the steady population growth, this may mean the distribution of income changing generally biased against the lower income groups.

The other impact of the monetary policy, i.e. its relative factor price effects, is of more direct relevance to income distribution. If entrepreneurs are rational, profit maximizer agents, they would choose the input-mix that maximizes their profit.
The monetary policy in South Africa has resulted in a negative real interest rate for the most part of the past decade. Thus, a priori one would expect a tendency for substituting capital for labour, for that matter capital for any other factor of production. Of course the policy makers might have based the conduct of the monetary policy on the premise of capital-labour complementarity. The evidence, however, as F.P. Biggs demonstrates, indicates otherwise. (14)

Biggs shows the trend of capital intensification in the South African economy during the recent decade. According to Biggs the 1975 rands average cost of a workplace has increased from R8969.44 in 1970 to R14034.01 in 1980, suggesting a compound growth rate of 4.58% per annum. Despite controversies as to whether capital intensification is labour-saving or otherwise, it is only plausible to assert that in a small open economy like that of South Africa the economist's concern for capital intensification is not 'irrelevant' as R. Solow would have said in the case of a closed economy. In other words, given training and information costs together with imperfect labour mobility, any capital intensification in a small open economy is bound to result in a certain amount of labour layoff, thus changing the income distribution pattern.

Next thing to establish is whether capital intensification is autonomous or induced. For if it is autonomous, then relative factor price becomes irrelevant and the monetary policy cannot be taken to account for the trend of capital intensity in the South African economy. R.T. Bell having investigated the case for the manufacturing sector has concluded that capital intensities are not 'autonomous', but induced. (15)

Since there exists no input-market peculiarity about the manufacturing sector, there is no reason to believe that what is true for this sector is not true for the other sectors. After all it only conforms to the expected behaviour on a priori grounds.

Of course capital intensification cannot be wholly attributed to the relative factor-price effects of the monetary policy. Equally relevant is the complementary fiscal measures introduced and evolved over the past 25 years. These


measures in the form of Initial Allowances and Investment Allowances tend to exacerbate the bias against labour intensive production methods.

A further impression of the monetary policy in this context is the degree to which the exchange rate tends to facilitate the importation of capital intensive goods. Any artificially overvalued exchange rate is tantamount to the subsidization of imports. In the absence of a domestic capital goods industry, any subsidization of such goods tends to diminish the employment creation capacity of the local economy, and thus realize some income distribution impact. In this light the recent adjustments towards a more market-oriented exchange rate in South Africa, if continued, could be interpreted as a favourable redistributive measure in its limited scope.

The overall review of the conduct of the monetary policy in South Africa during the past decade cannot but conclude that it has had definite regressive income distribution effects.

A SUMMARY : POLICY IMPLICATION

With respect to the discussion in this paper, it is obvious that the S.A. Public Sector in general, and the S.A. Government in particular, are important elements in the distribution of national resources, i.e. responsible for the allocation of 30% of the National Income.

It has been shown that what the Government has effected through its expenditure policies might have been substantially frustrated by its taxation and monetary policies. For example transfer payments of the Government have been bedevilled by inflation on the one hand, and unfavourable monetary-fiscal measures on the other.

To effect progressive changes in the primary income distribution, the Central Government should opt for a greater degree of consistency in its various policies in order not to nullify the positive results of one policy by the negative effects of another. At the same time attempts should be made to harmonise the conduct of the monetary policy with that of the fiscal policy in the direction of imposing minimum distortion on the inputs market.

Iraj Abedian
School of Economics
University of Cape Town
February 1984
## APPENDIX A

### RESOURCE (EXPENDITURE) ALLOCATED THROUGH THE PUBLIC SECTOR 1960-1980

<table>
<thead>
<tr>
<th>Year</th>
<th>All local authorities$^1$</th>
<th>All provincial administrations</th>
<th>Central Government$^2$</th>
<th>Grand Total</th>
<th>Total as percentage of GDP</th>
<th>Central Government expenditure as % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R'000</td>
<td>R'000</td>
<td>R'000</td>
<td>R'000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1960</td>
<td>244 330</td>
<td>256 728</td>
<td>752 208</td>
<td>1 253 266</td>
<td>25.1</td>
<td>15</td>
</tr>
<tr>
<td>1961</td>
<td>252 235</td>
<td>283 955</td>
<td>735 102</td>
<td>1 271 292</td>
<td>24.1</td>
<td>14</td>
</tr>
<tr>
<td>1962</td>
<td>270 313</td>
<td>308 465</td>
<td>796 818</td>
<td>1 375 596</td>
<td>24.4</td>
<td>14</td>
</tr>
<tr>
<td>1963</td>
<td>303 547</td>
<td>323 704</td>
<td>887 051</td>
<td>1 514 302</td>
<td>24.2</td>
<td>14</td>
</tr>
<tr>
<td>1964</td>
<td>347 053</td>
<td>365 395</td>
<td>1 005 896</td>
<td>1 718 344</td>
<td>25.0</td>
<td>15</td>
</tr>
<tr>
<td>1965</td>
<td>365 516</td>
<td>399 282</td>
<td>1 235 402</td>
<td>1 990 200</td>
<td>26.4</td>
<td>16</td>
</tr>
<tr>
<td>1966</td>
<td>405 712</td>
<td>460 416</td>
<td>1 355 558</td>
<td>2 221 686</td>
<td>27.1</td>
<td>17</td>
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<tr>
<td>1967</td>
<td>429 823</td>
<td>482 762</td>
<td>1 567 014</td>
<td>2 479 599</td>
<td>27.0</td>
<td>17</td>
</tr>
<tr>
<td>1968</td>
<td>476 806</td>
<td>513 102</td>
<td>1 743 908</td>
<td>2 733 816</td>
<td>27.7</td>
<td>18</td>
</tr>
<tr>
<td>1969</td>
<td>530 330</td>
<td>597 179</td>
<td>2 128 097</td>
<td>3 255 606</td>
<td>29.6</td>
<td>19</td>
</tr>
<tr>
<td>1970</td>
<td>587 140</td>
<td>704 571</td>
<td>2 241 194</td>
<td>3 532 905</td>
<td>29.4</td>
<td>19</td>
</tr>
<tr>
<td>1971</td>
<td>685 354</td>
<td>820 849</td>
<td>2 439 704</td>
<td>3 944 907</td>
<td>29.7</td>
<td>18</td>
</tr>
<tr>
<td>1972</td>
<td>772 169</td>
<td>1 013 190</td>
<td>2 925 272</td>
<td>4 710 631</td>
<td>31.3</td>
<td>19</td>
</tr>
<tr>
<td>1973</td>
<td>890 341</td>
<td>1 069 617</td>
<td>3 350 167</td>
<td>5 310 125</td>
<td>28.4</td>
<td>18</td>
</tr>
<tr>
<td>1974</td>
<td>1 040 411</td>
<td>1 241 486</td>
<td>3 750 408</td>
<td>6 032 305</td>
<td>26.1</td>
<td>16</td>
</tr>
<tr>
<td>1975</td>
<td>1 226 907</td>
<td>1 479 282</td>
<td>4 767 925</td>
<td>7 474 114</td>
<td>28.9</td>
<td>18</td>
</tr>
<tr>
<td>1976</td>
<td>1 469 721</td>
<td>1 755 927</td>
<td>6 383 317</td>
<td>9 613 965</td>
<td>33.1</td>
<td>22</td>
</tr>
<tr>
<td>1977</td>
<td>1 800 280</td>
<td>1 917 038</td>
<td>7 387 417</td>
<td>11 104 735</td>
<td>34.5</td>
<td>23</td>
</tr>
<tr>
<td>1978</td>
<td>2 106 973</td>
<td>1 930 764</td>
<td>8 216 900</td>
<td>12 254 637</td>
<td>33.2</td>
<td>22</td>
</tr>
<tr>
<td>1979</td>
<td>2 416 134</td>
<td>2 152 765</td>
<td>9 267 384</td>
<td>13 856 831</td>
<td>31.4</td>
<td>21</td>
</tr>
<tr>
<td>1980</td>
<td>2 777 626</td>
<td>2 423 870</td>
<td>10 421 592</td>
<td>15 623 088</td>
<td>26.7</td>
<td>18</td>
</tr>
</tbody>
</table>


1) Includes expenditure by Divisional Council.

2) Central Government Expenditure excludes Grants to the Provincial Administrations.
### APPENDIX B I.

**Budget Expenditure Intended to Benefit the Lower Income Group**

**1970/71**

<table>
<thead>
<tr>
<th>Vote</th>
<th>Sub-head</th>
<th>Description</th>
<th>Amount (R'000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 - Transport</td>
<td>J</td>
<td>Bus Bantu Transport</td>
<td>650</td>
</tr>
<tr>
<td></td>
<td>L</td>
<td>Railway Bantu Transport</td>
<td>13500</td>
</tr>
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<td></td>
<td></td>
<td><strong>Total</strong></td>
<td><strong>14150</strong></td>
</tr>
<tr>
<td>11- Custom &amp; Excise</td>
<td>F</td>
<td>Payments to the Homelands</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Total</strong></td>
<td><strong>10</strong></td>
</tr>
<tr>
<td>14- Agriculture</td>
<td>C</td>
<td>Wheat Price Stabilisation</td>
<td>27396</td>
</tr>
<tr>
<td></td>
<td>E</td>
<td>Maize Price Stabilisation</td>
<td>31884</td>
</tr>
<tr>
<td></td>
<td>E</td>
<td>Maize Product Subsidy</td>
<td>4750</td>
</tr>
<tr>
<td></td>
<td>E</td>
<td>Maize Import Loss</td>
<td>300</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Total</strong></td>
<td><strong>54330</strong></td>
</tr>
<tr>
<td>21- Indian Affairs</td>
<td>F</td>
<td>Education Subsidy</td>
<td>2669</td>
</tr>
<tr>
<td></td>
<td>G</td>
<td>Teachers' Training</td>
<td>515</td>
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<tr>
<td></td>
<td>H</td>
<td>Post-graduate Subsidy</td>
<td>545</td>
</tr>
<tr>
<td></td>
<td>J</td>
<td>Vocational School Subsidy</td>
<td>98</td>
</tr>
<tr>
<td></td>
<td>K</td>
<td>Colleges Construction</td>
<td>142</td>
</tr>
<tr>
<td></td>
<td>L</td>
<td>Univ. Durban-Westville</td>
<td>1775</td>
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<tr>
<td></td>
<td>M</td>
<td>General Welfare</td>
<td>58</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>Other Welfare</td>
<td>3746</td>
</tr>
<tr>
<td></td>
<td>O</td>
<td>Child Welfare</td>
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<tr>
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<td><strong>Total</strong></td>
<td><strong>12243</strong></td>
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<tr>
<td>23- Labour</td>
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<td></td>
<td>G</td>
<td>Wage Subsidies</td>
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<td>H</td>
<td>Sheltered Employment</td>
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<td><strong>Total</strong></td>
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<td>24- Bantu Admin. &amp; Dev.</td>
<td>A</td>
<td>Transfer to Homelands</td>
<td>3341</td>
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<tr>
<td></td>
<td>G</td>
<td>Allowances to Chiefs</td>
<td>173</td>
</tr>
<tr>
<td></td>
<td>H</td>
<td>Welfare Expenditure</td>
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</tr>
<tr>
<td></td>
<td>J</td>
<td>Retreats &amp; Rehabilitation</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>K</td>
<td>Child Welfare</td>
<td>727</td>
</tr>
<tr>
<td></td>
<td>L</td>
<td>Old Age Welfare</td>
<td>110</td>
</tr>
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<td></td>
<td>M</td>
<td>Subsidies for General Welfare</td>
<td>51</td>
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<tr>
<td></td>
<td>N</td>
<td>S.A. Bantu Trust Fund</td>
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<td>O &amp; Q</td>
<td>Payment to Transkei Govt.</td>
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<td><strong>Total</strong></td>
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<tr>
<td>25- Bantu Education:</td>
<td>A - H</td>
<td>Bantu Education Vote</td>
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<td>29- Health</td>
<td>K</td>
<td>Medical Poor Relief</td>
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</tr>
<tr>
<td></td>
<td>L</td>
<td>Tuberculosis</td>
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</tr>
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<td></td>
<td><strong>Total</strong></td>
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<td>Vote</td>
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<td>Description</td>
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</tr>
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<td>-------</td>
<td>------------------</td>
<td>--------------------------------------------</td>
<td>----------------</td>
</tr>
<tr>
<td>34-</td>
<td>Industries</td>
<td>Development of Border and Less-developed Area</td>
<td>778</td>
</tr>
<tr>
<td>41-</td>
<td>National Education</td>
<td>Bursaries &amp; Loans</td>
<td>145</td>
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<td>42-</td>
<td>Planning</td>
<td>Industrial Townships Subsidy</td>
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<td>43-</td>
<td>Coloured Relations &amp; Rehoboth Affairs</td>
<td>Agricultural Training</td>
<td>16</td>
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<tr>
<td></td>
<td></td>
<td>Univ. Western Cape</td>
<td>950</td>
</tr>
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<td></td>
<td></td>
<td>Coloured Persons Council</td>
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<tr>
<td>Total</td>
<td></td>
<td></td>
<td>68481</td>
</tr>
<tr>
<td>Grand Total</td>
<td></td>
<td></td>
<td>R367264</td>
</tr>
<tr>
<td></td>
<td></td>
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<td>15.80%</td>
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### APPENDIX B II

Budget Expenditure Intended to Benefit the Lower Income Group 1975/76

<table>
<thead>
<tr>
<th>Vote</th>
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<th>Description</th>
<th>Amount (R'000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>6-</td>
<td>Bantu Administration</td>
<td>A Salaries &amp; Wages for Homelands</td>
<td>15496</td>
</tr>
<tr>
<td></td>
<td></td>
<td>G Allowances to Chiefs</td>
<td>58</td>
</tr>
<tr>
<td></td>
<td></td>
<td>H Welfare Expenditure</td>
<td>35666</td>
</tr>
<tr>
<td></td>
<td></td>
<td>J Rehabilitation Services</td>
<td>62</td>
</tr>
<tr>
<td></td>
<td></td>
<td>K Child Welfare</td>
<td>959</td>
</tr>
<tr>
<td></td>
<td></td>
<td>L Old Age Welfare</td>
<td>90</td>
</tr>
<tr>
<td></td>
<td></td>
<td>M Subsidies for General Welfare</td>
<td>19</td>
</tr>
<tr>
<td></td>
<td></td>
<td>N S.A. Bantu Trust</td>
<td>200334</td>
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<tr>
<td></td>
<td></td>
<td>O Payment to Homeland Governments</td>
<td>86536</td>
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<td>Total ...</td>
<td>339220</td>
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<td>Bantu Education</td>
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<td>Transport</td>
<td>J Bantu Bus Services</td>
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<td>L Non-White Railway Services</td>
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<td>9-</td>
<td>Labour</td>
<td>F Total Allowance to Trainees</td>
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<td>G Wage Subsidies</td>
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<td>H Sheltered Employment</td>
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<td>Social Welfare and Pensions</td>
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<td>M Bursaries and Loans</td>
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<td>Agriculture</td>
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<td>K Maize Price Stabilisation</td>
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<td>K Maize Products Price Stabilisation</td>
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<td>Total ...</td>
<td>27638</td>
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<td>Planning and the Environment</td>
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## APPENDIX B III.

Budget Expenditure Intended to Benefit the Lower Income Group

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| 20-  | Agriculture and Fisheries | Prog 9 Housing for Farm Labourers | 3000 |
|      |                            | Prog 10 Bread Subsidy          | 166300 |
|      | "  " Maize Subsidy         | 87000                        |
|      |                            | Total                        | 250000         |
| 21-  | Industries, Commerce and Tourism | Prog 2 Decentralisation of Industries | 45093 |

| 24-  | Community Development | Prog 2 Housing Programme      | 258200         |
|      |                      |                              |                |
|      |                      | Grand Total                  | 3242198         |
|      |                      |                              | 19.21%          |
### Appendix C

**Composition of the S.A. Government Revenue 1968/69 - 1982/83 (Rm)**

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* Shows indirect taxes as defined by the U.N. System of National Accounts 1968
## TABLE 1: Total Taxes Collected by the Government Authorities 1968-1980

<table>
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<tr>
<th>Year</th>
<th>Direct Taxes (R'000)</th>
<th>% Total</th>
<th>Indirect Taxes</th>
<th>Total Indirect Tax</th>
<th>As % Total</th>
<th>Total Taxes</th>
<th>Total Taxes as % of National Income</th>
<th>Taxes Collected by the Central Government as % of Total Taxes</th>
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TABLE 3: Property Rates Collected by Local Authorities and Divisional Councils 1968/80.

(R'000)

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<th>Local Authorities</th>
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Source: S.A. Statistics 1982: Central Statistical Services
## APPENDIX 'E'

**TABLE 1: Distribution of Income Amongst the Tax-payers 1980 (R'000)**

<table>
<thead>
<tr>
<th>Income Group</th>
<th>Tax Units</th>
<th>Share of Pre-tax Income 1980</th>
<th>Share of Pre-tax Income 1980</th>
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*Total: 1353404 | 637882 | 1991286 | 1991288 | 15680376 | 100,00*

**Source:** Derived from Inland Revenue Statistical Bulletin 1983.
## APPENDIX E

### TABLE 2: Income Tax Incidence By Income Groups 1980

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<td>Unmarried</td>
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Source: Derived from Inland Revenue Statistical Bulletin, 1983
These papers constitute the preliminary findings of the Second Carnegie Inquiry into Poverty and Development in Southern Africa, and were prepared for presentation at a Conference at the University of Cape Town from 13-19 April, 1984.

The Second Carnegie Inquiry into Poverty and Development in Southern Africa was launched in April 1982, and is scheduled to run until June 1985.

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