TAXING TIMES: THE BUDGET, TAXPAYERS, STRIKES, THE ECONOMY, EMERGING MARKETS AND THE ART OF POLITICKING AND SUBTERFUGE IN SOUTH AFRICA: TEN POINT PLAN FROM DAVOS FOR RECONSTRUCTION

Anis Mahomed Karodia (PhD)
Professor, Faculty Member and Senior Researcher, Regent Business School, Durban, South Africa
Dhiru Soni (D. Phil)
Professor and Director of Research, Regent Business School, Durban, South Africa

ABSTRACT
The paper attempts to look at the above issues with a view of placing them in perspective, especially during the trying times of the economic recession. It attempts to outline the very taxing times that the economy of South Africa is undergoing in terms of the pain inflicted on taxpayers by budgetary constraints, the high taxes, unemployment, poverty and inequality that is increasing. It also discusses the issue of strikes and the politicking and subterfuge by businesses to influence government policies. The paper will raise eye brows in various quarters, but the impact of these issues upon the economy of South Africa, cannot be underestimated. It is not possible to exhaust these issues in a paper of this nature, but it is aimed at those who share a common interest, in this regard.

Key Words: Taxing Times, Budget, Strikes, Economy, Politicking, Subterfuge Protests, Economy

INTRODUCTION
South Africa may be a victim of events beyond its control, namely the decision by the United States Federal Reserve to taper its programme of easy money. In this regard Hazelhurst (2014): 18) reports that "for six years, monthly monetary boosts from the Fed flowed into emerging markets, including South Africa, boosting local currencies and funding economic growth. However, the Fed's policy shift in May last year saw that, the countries that benefitted sending their currencies tumbling and stalling their economies. As a result the Rand hit a five year low and the South African economy is struggling to expand by 2 percent a year." The reality is that, the US monetary policy is not entirely to blame for these problems. Each of the affected countries, South Africa included, has made themselves sitting ducks in a number of ways. In South Africa, there is a more fundamental concern than the weal rand, which will inevitably strengthen over time. It is the continuing destruction of the country's social and economic fabric through the mismanagement of public resources. People who should be appointed into key positions within local government are not. And people who get there do not have the skills.

These are for political reasons. There are a number of political reasons for this scenario, as identified by Hazelhurst (2014: 18). These are:

- "The cost of violent political unrest and protests, strikes which are difficult to quantify in monetary terms but the costs are frightening. There are losses from property damage, work hours lost, the bill to keep law and order and the communities involved and the operations of businesses that are hampered, cannot be easily calculated.
- The human life lost cannot be quantified in monetary terms.
- Economic losses such as these are not quantified in the country's budgets but each year represents a huge burden on the fiscus and the taxpayer, who have to foot the bill for government spending. All of this hampers economic growth and the struggle to create meaningful jobs.
- Protests of this kind against housing shortages, delays in providing sanitation and the sudden disappearance of water, among other things, are a part of South Africa's way of life.
- But in recent months there has been an unprecedented rise with regards demonstrations and destruction which run into billi9ons of rand.
- The introduction of e – tolls on Gauteng Provinces by the South African National Roads Agency (Sanral) is another example of expensive mismanagement.

All of this has damaged South Africa's cre4dibility on global markets; sowing distrust of government in civil society has now become the order of the day, together with ostentatious display of wealth in the top echolons of government exacerbates the situation and provokes protests, lawful and unlawful, peaceful and violent.

OUTLOOK GLOOMY FOR MINING SECTOR

A fight for a bigger piece of the pie, paired with a highly uncertain regulatory environment, has painted a gloomy picture of the South African mining sector for investors... according to Prinsloo and Marais (2014: 4) "there needs to be a shift in focus from sharing the pie because investors want their slice in dividends, unions want theirs in the form of salary increases – to growing the pie for all stakeholders, therefore, discussions must move in this direction and thus creating a positive atmosphere." One hundred thousand miners went on strike in the platinum mines and this follows a wave of wildcat strikes in 2012 that left dozens of people dead. The strikes affect more than 40 percent of global platinum supply. The government needs to show real commitment to amending the labour laws pertaining to collective bargaining and strike action to minimize investor uncertainty. South Africa has to position itself as a good and promising place for investment, and there can therefore be no margin for error, as the economy further declines, thus putting paid to meaningful job creation. In terms of the mining charter, it expires this year and companies are expected to reach a 26 percent black ownership level by April, 2014. This raises questions about what will happen to companies that do not achieve compliance in time, and whether the target for black ownership will be raised.

Prinsloo and Marais (2014: 4) point out that "Parliament is considering changes to the act that will enable the Minister to control the exports of certain minerals and that this would force companies to sell to local manufacturers at discounted prices. This would further deter investment in the mining industry if enacted into law." The issue of mineral and prospecting rights will also have to be cleared by government, the role of state – owned mining companies, the issue of strategic minerals and the country's Mining Charter will have to be also seriously clarified. According to a City Bank survey, Prinsloo and Marais (2014) report

that "South Africa has the largest and most valuable proven mineral reserves of $2.5 trillion dollars. This $1 trillion is more than that of its nearest competitor Russia. But without mineral investment that wealth will moistly remain buried." All of this needs to be leveraged in the face of competition, particularly in Africa. If the status quo remained South Africa would probably continue to do poorly in attracting new mining investments relative to emerging and increasingly challenging mining jurisdictions in sub – Saharan Africa, such as Mozambique, Botswana, Guinea – Conakry and the Democratic Republic of Congo. This would mean a widening performance gap between South Africa and its peers in the mature mining jurisdiction category, such as Canada and Australia. The JSE's mining index lost 4 percent in the past year versus an 11.7 percent gain in the All Share inde3x, while the rand declined 24 percent against the dollar. This tells an important story. A story that must be turned around, but cannot be achieved by unrealistic policies, the loss of investor confidence and escalating unrest in the mining sector of South Africa, as the economy slides even further.

The issue of labour representation is central to the problems in the mining industry. The volatile labour environment has become a major concern for companies and investors alike. Unless, there is a major shift in industrial relations and the legacy of socioeconomic deprivation faced by mineworkers is meaningfully dealt with, South Africa's mining sector will continue to suffer (Donnelley, 2014: 26). A complete overhaul of the Act is required. The3 Act is being amended and changes to Sections 18 and 21 could water it down. This is a complex area of scholarship and requires more in depth research.

BOLD BUT RIGHT STEP

The Reserve Bank's decision to raise interest rates by half a percentage point was met with dismay in some quarters, given the weak outlook for the local economy. Trade unions were incensed, and Business Unity South Africa, the country's main big business lobby group, regretted the decision, which it maintained would reduce growth and job creation. Commercial banks have set their prime lending rate at 9 percent. "The Bank acknowledged that growth prospects were poor; it lowered its forecasts for growth this year and next to 2.8 percent and 3.3 percent respectively, down from 3 percent and 3.4 percent at its previous policy meeting in November of 2013" (ISA, 2014: 3). The bad news is that some analysts believe expansion this year will not exceed last year's estimated 2 percent mark due to weak domestic demand and investment, rising prices, power shortages and poor business and consumer confidence. This time around the impact might be small but a series of hikes will choke the economy. Monetary policy must remain accommodative because it will stimulate continued economic growth. The problem is that rates will have to rise further to fight inflationary effects of ac weak currency. Local petrol prices are rising, despite the fact that oil prices are stable, because of the weakening rand, but food prices according to Isa (2014) "pose an even bigger inflation threat as maize prices sky rocketed by 12 percent in January. She adds that "although consumer inflation was lower than expected in December of 2013, producer price increases have begun to reflect the rising price trend, accelerating to 6.5 percent in December from 5, 8 percent in November of 2013, well above expectations."

Although inflation has breached its target range before, it has never done so on a sustained basis, and the Bank would have lost credibility if it had not raised interest rates to quash the trend. The main intention of the Bank is to target inflation but takes growth and employment into account when making interest rate decisions." (Isa, 2014). The Bank has also shown that it would not succumb to political pressure and its policy will therefore not be affected by the

political agenda of the ruling party, in spite of the fact that 2014 is an election year. It was done just like its peers to fight the fall out of currency depreciation and capital flight and therefore by taking an unpopular step, it has established its reputation as credible and independent.

Technically speaking the reality is that the up – and – down outlook of the rand continues its slide, because, it has been a mixed bag for 2014 when it comes to the release of South Africa's indicators, with some numbers spelling doom and gloom, and others suggesting a better year than the last. According to Lisa Steyn (2014: 25) "inflation data released by Statistics South Africa showed that the Consumer Headline Price Index annual inflation rate in December 2013. On average prices increased by 0.3 percent between November 2013 and December 2013." The official average annual inflation rate for 2013 was 5.7 percent as compared to the 2012 figure of 5.6 percent and will likely reduce inflation expectations for the first quarter of 2014. Assuming that inflation will stay within the Reserve Bank's target range of between 3 and 6 percent, it may have the effect of no interest rate hikes in 2014, according to Bishop (In Steyn, 2014). This is most unlikely and, will be argued later in this paper. Steyn (2014) states that the "annual percentage change in the Producer Price Index, which measures the average change in the price of goods and services sold by manufacturers and producers in the wholesale market, was 5.8 percent in November, 2013, compared with 6.3 percent in October, 2013. In many instances the year started off badly in terms of manufacturing output showing no positive results because of the weak rand as it fell 2.5 points in December to 49.9, the first time since last April that it had fallen below the critical 50 point mark." These are complex issues that need to be tracked as was seen by the International Monetary Fund revising South Africa's economic growth outlook for 2014 downward from 2.9 percent to 2.8 percent but believes that it will still be higher than the growth recorded in 2013. In the final analysis and although much greater discussion and analysis is required, the data provided shows a mix of positive and negative outcomes, but it is still early in the 2014 year for a clear direction to emerge in relationship to what occurred in 2013.

BITE FROM RANDS FALL STILL TO COME

It must be unequivocally understood that South Africa may slip into a perennial malaise, and it may continue to result in underperformance. It can therefore, be stated that thus far the rands sustained slide against most major currencies, has not fed into inflation. However, this may be short lived for South African consumers. The rand's steep slide poses something of a bigger risk. It has broken the R11 rand mark against the dollar which means that it has depreciated about 60 percent since April of 2011 when it stood at about R6. 50 to the US currency, and the rand has depreciated by more than 15 percent against a trade weighted basket of currencies and over the past year in a trend that normally pushes up the cost of imports and fans domestic inflation. Isa (2014: 5) states that "the rand is now headed for an eighth straight quarter of losses and breaking the R11 mark puts it in a league of crisis levels, despite the offshore environment having stabilized somewhat." Global trends are partly to blame for the currency's depreciation. The US Federal Reserve has begun tapering its official bond – buying programme, which has pumped large amounts of cash into emerging markets. Inflation has significantly undershot consensus forecasts for three months in a row, which on the surface is good news because it means interest rates are unlikely to rise in the medium term. But, if we scratch deeper then there is cause for concern. Domestic demand has been weak that it has limited the ability of producers and retailers to pass on price increases.

Consumers are unable to spend in the face of high debt levels and slow growth in employment and disposable income. Eventually, either companies will have to pass their rising costs on to consumers or will be forced to close. Isa (2014: 5) states in this regard "that South Africa has had consecutive periods of excessive weakness in the currency and therefore something has to give, somewhere and that inflation will eventually fall because consumers will be hurt to such an extent that demand will collapse."

What this means is that South Africa's already sluggish pace of economic growth may stutter more than it has already. Some analysts are predicting that the economy will fail to achieve official forecasts of quicker growth of about 3 percent this year. . in reality it could expand to 2.5 percent only and, therefore South Africa could slide into a perennial malaise, continued tepid growth, resulting in underperformance, as its capacity remains idle for a protracted period of time. The problem is that, when capacity remains idle for a long time, it becomes obsolete. Changes in South Africa's business cycle have declined six times in the last nine months. As shown by Reserve Bank figures. Kevin Lings (in Isa, 2014) says that "the current trend in the leading indicator suggests that the South African economy will remain under pressure during the first half of 2014." This is largely due to domestic circumstances, and thus a weak economy will have to contend with higher inflation this year. Economists therefore predict that consumer price increases will breach the upper end of an official 3 percent to 6 percent target range in the middle of the year. One of the problems is that fuel prices are rising in response to the weaker rand. They rose 17 percent last month, making fuel one of the main contributors to inflation during the month of January, 2014. Food prices are also a threat. The Reserve Bank sees the weak rand as a main threat to inflation outlook. Electricity prices are also rising but slower than other indicators.

EMERGING MARKETS REAPING WHAT THEY SOWED AMIDST CONTAGION

Rodrik and Subramanian (2014: 16) state that "from Istanbul to Brasilia to Mumbai comes a crescendo of complaints about dollar imperialism because central bank governors allege that the policies of central banks in industrial countries, especially the Federal Reserve, pursued a self – interest, and are wreaking havoc in emerging market economies." The allegation is mostly unfair. Emerging markets are not hapless and undeserved victims; they are reaping what they sowed. When the Fed relaxed its policy in terms of quantitative easing Brazil complained together with other emerging markets about a wall of money flooding their market and placing upward pressure on their currencies. Now that the Fed is unwinding the programme, the complaint from emerging markets is that capital is fleeing. This was so because policy elsewhere was unproductive, in fact counter – productive. Emerging markets supported global growth but such support is now not forthcoming and their argument is that the stimulus enacted in 2008 and 2009 was entirely self – interested. It is therefore not convincing to cloak self – interest as unselfish cooperation. It has to be understood according to Rodrik and Subramanian that "the victimhood narrative is further misplaced for two broader reasons. Many large emerging market countries have consciously and enthusiastically embraced financial globalization" including South Africa. There were no domestic compulsions and they therefore further add that "forcing these countries to so ardently woo foreign capital. About six months ago, when a bout of volatility hit the fragile five – Brazil, India, Indonesia, South Africa and Turkey, many of them responded by trying to open up their economies and enact policies to attract even more capital. The Indian rupee has become vulnerable because of the continued relaxation of regulations on foreign inflows. In Turkey a story was spun by policymakers of invulnerability to shocks and contagion, even

as the economy's growth was driven by a flood of short – term capital flows. China provides an instructive contrast because it insulated itself from foreign capital and the vagaries of Fed action and the fickleness of foreign finance. Emerging markets have followed policies that were bound to create volatility and can only blame themselves. They ran up large current account deficits, with high inflation in some of these countries. They failed to tighten lending regimens and controls, and political turmoil and looming uncertainty in the run – up to elections have compounded the problem. The emerging market problems are domestically generated and not the fault of foreigners.

According to Kisling, Himaras and Lim (2014: 3) "The most vulnerable emerging markets have already reached a bottom in terms of their "badness". Even if they do continue to see economic slowdown, it would not be enough to derail the economic slowdown and the strong US recovery." They further add that "the global economy will grow 3.7 percent this year, up from the October estimate of 3.6 percent because of accelerating expansions in the US and UK. The economies of Japan, Europe and the US are forecast to expand together for the first time since 2010, according to data. ." From all of this, it can be gleaned that shifts among asset classes and the global declines this year have led to a surge in volatility. Stress in emerging markets has made a winner out of two of last year's least loved assets. Treasuries, pushing the 10 year note yields down to the lowest level over several months. Gold which posted its worst annual return since 1981 last year has climbed more than 5 percent in January, 2014. This is indeed serious and the situation will get worse.

DEMAND - LED INFLATION HAS TO BE CORRECTED BY POGRESSIVE DECISIONS

Bishop (2014: 3) states that "the calculation of consumer price index (CPI) inflation is of crucial importance for South Africans, as it determines the outcome of inflation and thus the decision to change interest rates at the Reserve Bank, CPI inflation is the measure targeted by the Reserve Bank, and as such it is the survey method, choice of items included and weighting of the prices consumers face at the tills that count." In this regard her arguments can be summarized as follows:

- State controlled inflation (administered inflation) has seen an increase of 64.6 percent since the start of 2009 compared to 29.5 percent increase in the overall CPI inflation rate in the same period.
- State controlled prices include electricity tariffs, water tariffs, property rates and taxes, petrol and diesel prices and the cost of public transport.
- Municipal service rises have risen by 37 percent in real terms over and above inflation between 2009 and 2012. This implies an 80 percent rise for these services.
- The cost of electricity has risen 103 percent since 2009 and the cost of water by 70 percent on average and this has driven inflation higher than expected.
- Core Inflation provides a better estimation of the trend of inflationary pressures driven by demand.
- Food prices can be affected by drought, rand volatility or global supply issues, the dollar price of international petroleum products. Is it the correct measure?
- CPI measures is clearly a better measure of demand pressures in the economy as both electricity and water prices are rising due to the expansion of infrastructure.
- The reason is basic in nature because the Reserve Bank hikes interest rates in order to attempt to quell future increases in inflation, in order to keep CPI inflation between 3

and 6 percent. If it exceeds this mark then it is obvious that the repo rate will have to rise.

- The issues are complex because the rand has weakened considerably year on year against other currencies or key trading partners, and this weakness has caused concern that, it could lead to higher inflation expectations in 2014, and by implication higher CPI inflation."

No RESPITE FOR EMERGING MARKETS

The capital flight from emerging markets has become somewhat the mode du jour as developed markets regain some footing. According to Holmes (2014: 27) "the news triggered investor fears that the US economic recovery was not as advanced as thought. Money flowed out from that market, but not into the emerging markets that have been ready recipients for the past five years. And China's high growth rate over the last five years has been fuelled by debt." Deteriorating economic data coming out of China is a serious concern to global participants and investors scrambled into safe territory. Despite knocks to developed markets, emerging markets continue to bear the brunt of the sentiment. This has led to indiscriminate selling and, South Africa's economic frailities could send investors running faster from this country than from other emerging economies... new car sales are down, fuel costs are going up. It's a storm. All of this will affect the fragile economy. On the other hand Benjamin (2014: 27) states that "import figures are likely to go up again as soon as the government's investment programme gets under way, but she says that a World Bank report warns that infrastructure bottlenecks are holding back South Africa's export growth." The recent trade figures are important because increased exports would have an important part to play in reducing South Africa's current account deficit. There is nothing wrong with deficits provided the borrowed money serves sustained development and not corruption. Deficits are rising and this situation has to be seriously addressed. And should be narrowed to at least 3.9 percent of GDP by the second quarter of 2014. Imports are under pressure and by implication makes, recovery less possible, in the medium term.

POLITICKING AND SUBTERFUGE

Given the discussion thus far in this paper and the seriousness of the economic climate that faces South Africa, it can be revealed that various attempts by big business to influence government policies have not only raised eyebrows but, it is a case of setting and consolidating both the capitalist and neoliberal agenda, during very vulnerable times in South Africa. Philip de Wet (2014: 12) reports that this issue in terms of new revamped policies that powerful business groups were lobbying is outlined hereunder:

- Planned restrictions on the way alcoholic products can be marketed;
- Tobacco legislation, and the tightening of rules on the sale and use of tobacco;
- The planned credit amnesty for consumers;
- The activities of the Competition Commission; and
- The new draft framework for intellectual property protection.

At about the same time de Wet (2014) reports that "The Mail and Guardian revealed a proposed plan by the United States lobbying group – Public Affairs Engagement (PAE) to launch want many see as an aggressive, covert attempt to influence South African government policy in respect to intellectual property and more specifically the drug patents held by large pharmaceutical companies. The proposal indicates forming a front company based in Washington, lobbying against reduced protection for drug patents. The firm would lobby countries such as Rwanda and Tanzania to convince South Africa that its leadership position on the continent would be threatened by adopting weaker rules on safeguarding intellectual

property. The spell of conspiracy was in the air." The Minister of Health, together with other government officials responded by stating that they will treat their dealings with big business interests or large companies with greater suspicion or paranoia. The ANC referred to 'subterfuge and treachery. It's a question of how far business will go to secure larger profits and consolidate the neoliberal agenda. Citizens may be less forgiving. At a time that South Africa is confronted with market volatility, poor administration, economic decline, increased crime and violence, endemic corruption, it will be very difficult to regain lost public trust. Government must be most cautious an there has to be a process of overseeing government for purposes of accountability, because both the government and the predatory elite can sell not only the country but its people to the highest bidder. The public therefore, requires tangible answers and assurances from government, because the issue is most serious.

CONCLUSION

The issues raised in this paper are relevant and important to the South African government, its people and the narrow tax base of the country. Investors looking for global opportunities are and will be skeptical to invest in South Africa currently because of a host of factors and reasons outlined in the paper. At the moment, in spite of the negativity against the country, investors could look at frontier markets such as South Africa for growth at a bargain price, despite sell off's in emerging markets and very sharp currency swings. Despite the labour problems, the weaker rand has helped make the Johannesburg Stock Exchange (JSE) look attractive for foreign investors holding dollars, especially because mining stocks will bounce back .All of this will be dependent upon the government of South Africa and the trajectory of South Africa and its development and willingness to attract foreign Direct Investment will be dependent on the May 7 elections. The government will have a golden opportunity to market its bona fides to the world that, it will be on a path of reconstructive surgery to reconstruct the economy by means of sound economic policies, stop endemic corruption and promote the general welfare. Trying times are not over for South Africa in a multipolar world. Business leaders have identified ten priorities for a South African recovery. These will not be discussed because they are self – explanatory and are listed as follows as reported by Coleman, (2014: 10). In terms of the discussions at Davos towards the end of January 2014. They are:

- A complete overhaul of South Africa's labour relations architecture.
- Bureaucratic overload.
- Fle3xible and responsive trade policy.
- Free movement of capital.
- Administrative excellence.
- Prosecuting corrupt officials.
- Regional integration of South Africa's economy.
- Unlocking cheap, clean energy.
- Advance the provisio0n of infrastructure.
- Certainty of the operating environment.

South Africa can become a winning nation. This requires the resilience and support of all citizens.

BIBLIOGRAPHY

Bishop, A. (2014). Correct measure of demand – led inflation key to progressive decisions. Monetary Policy. Opinion and Analysis. Business Report. February 2. Page 3.

Chantelle, B. (2014). Surge in Exports is due to global growth, not the rand. Mail and Guardian. February 7 to 13. Page 27.

Coleman, C. (2014). Ten priority areas for SA Inc in 2014. Opinion. Business Times. Sunday Times. February 2. Page 10.

De Wet, P. (2014). Politicking "amounts to subterfuge." Mail and Guardian. January 24 to 30. Page 12.

Hazelhurst, E. (2014). Protests take their toll on the economy and state. Opinion and Analysis. Business Report. February 10. Page 18.

Holmes, T. (2014). No respite for emerging markets. Mail and Guardian. February 7 to 13. Page 27.

ISA, M. (2014). Bite from rand's fall yet to come. Business Times. Sunday Times. January 26. Page 5.

Kisling, W. Himaras, E. and Lim, W. (2014). Calm broken in markets amid concerns of contagion from emerging economies. Opinion and Analysis. Business Report. February 2. Page 3.

Rodrik, D. Subramanian, A. (2014). Emerging markets are mostly reaping the whirldwind they sowed. Opinion and Analysis. Business Report. February 6. Page 16.

Steyn, L. (2014). Up – and down outlook as rand continues its slide. Business. Mail and Guardian. January 24 to 30. Page 25.