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The IRR's Blueprint for Growth 2:
Cut VAT & BEE

February 2025
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Table of Contents

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Introduction

This report summarises evidence and arguments for two simple ideas: to cut VAT and to cut BEE premiums in public procurement to R0. This will save everyone R100 billion, to the benefit of poor people especially. That is good for three basic reasons. Cutting VAT and BEE premiums:

1. Will stimulate economic and jobs growth;
2. Is the most popular choice, and
3. Will alleviate poverty.

Value for Money

This report breaks the ideological deadlock on tax by following the renowned classical liberal, Francis Fukuyama, in focusing on the value-for-money question[1]. How much value, including the social value in poverty relief, do South Africans get out of taxpayer money?

- Quality: government effectiveness has declined at the 3rd fastest rate in the world, since 1996, according to data published by the World Bank[2].
- Quantity: tax revenue grew from 19.8% in 1996 to 25.1% of GDP in 2023, a difference of 5.3%[3]. That means the state extracted R327,305 billion more in 2023 than it would have at the 1996 rate.
- Tax Value for Money Index: Measuring the effectiveness (decrease) and tax revenue (increase) of state expenses, South Africa suffered the world's worst tax value-for-money drop.
- Fiscal Multiplier: Multiple studies find that South Africa's fiscal multiplier is 0[4] or negative[5], meaning that the last rand spent by the government had 0 positive impact on economic growth.

The evidence is clear: South Africans can spend the next rand better than the government. The government gets literally 0 in value for money on the rands it taxes, while 60 million people want value for money and know how to get it in personal spending. Cutting VAT lets money stay where it is more valued, where it adds more value, which means getting useful things done.

VAT

Of all major taxes, VAT falls the most heavily on poor South Africans[6], making it the best tax to cut to stimulate demand, alleviate poverty, and drive economic growth

Popularity

Polling from multiple sources shows that a plurality or most South Africans would like taxes to be cut and for BEE premiums in procurement to be cut[7][8][9].

Political Dysfunction

Not one political party offered a serious proposal to cut tax in its 2024 manifesto[10].

BEE

The Zondo Report showed that confusion due to BEE premiums contributed to state capture[11], and a Harvard University report showed that BEE premiums hurt poor people, and growth[12].

Cutting BEE premium waste by R100 billion allows a VAT cut of 3.5%, from 15% to 11.5%[13].

That leaves R100 billion in the hands of South Africans, who can get better value from it.

Value for Money Transcends Ideology

Value-for-money analysis of the government is difficult. One novel way suggested by a talk delivered by Francis Fukuyama at Wits University in 2019 is to measure government effectiveness against government expenditure or revenue. That puts quality and quantity into a two-dimensional plane, dubbed the Fukuyama Framework, with a clear understanding of the following value matrix:

Fukuyama Matrix		
	More Effective Government	Less Effective Government
Less Tax	Great	Good* (Right-wing)
More Tax	Good* (Left-wing)	Bad

In abstract, the Fukuyama matrix depicts four basic scenarios. The basic idea that will be unpacked is that if people were given these four options, (almost) everyone would agree that it is **bad** to get less effective government at the cost of paying more tax, and that it would be **great** to get more effective government at the cost of less tax[14].

Furthermore, if the green and red options were removed by circumstance then there would be widespread disagreement about what is preferable in the grey zones: some would prefer more effective government even when that comes at the cost of more tax, while others would prefer less tax even when that comes at the cost of less effective government.

Great

It would be "great" if the government was more effective – for example, if it provided more public schools that provide better quality education to more students – while less money had to be spent on the state. Getting more for less is great, according to practically everyone.

Of course, there are a few extremist right-wingers (minarchist libertarians) who do not want more effective government (in quality and quantity of services provided), even if it would cost less. These ideologues want less government, no matter what. But that is a tiny minority.

Everyone else agrees that more for less is better, including when it comes to effective government. However, this great option is not easy to realise.

If it is impossible to move in this direction in a particular country at a particular time, then fiscal decision makers must turn to the remaining three options to see which is preferable.

Good*

It could be good to get more effective government by paying more, or to pay less to get less, so that resources can be used in other ways. The former is a traditionally left-wing position of the reasonable kind, and the latter is a traditionally right-wing position of the reasonable kind.

Just as someone might upgrade or downsize a house, or a car, according to other needs and capacities, paying more for more, or less for less, can both make sense. Each "Good*", has an asterisk, because whether the option is actually good will depend on the details of the case.

Bad

Paying more to get less, in quantity and quality, is bad. There is no asterisk. It is just bad.

Fukuyama's advice was in essence to avoid paying more for less effective government. When more is being paid for less effective government, rational fiscal decision-makers leave their ideological bunkers and agree to cut the state back to size. After that, once the state gets enough marginal value for money again, the two "Good*" options can debate anew.

History never ends. Fukuyama famously wrote about "the end of history", a text which is often misunderstood. As a classical liberal, Fukuyama knows that the left-right debate between the two "Good*" options will always continue where states add material value while compromising liberty interests. Such real trade-offs mean reasonable people will always disagree. However, in extreme cases where the state is so counterproductive that it is not adding any value at the margin, there is no valuable trade-off, and it must be cut.

Value for Money Principle

The underlying principle is that it is good to get more value for money, because resources are scarce, so that getting more for less in a particular purchase or exchange means that more resources are left over to allow for other productive activities.

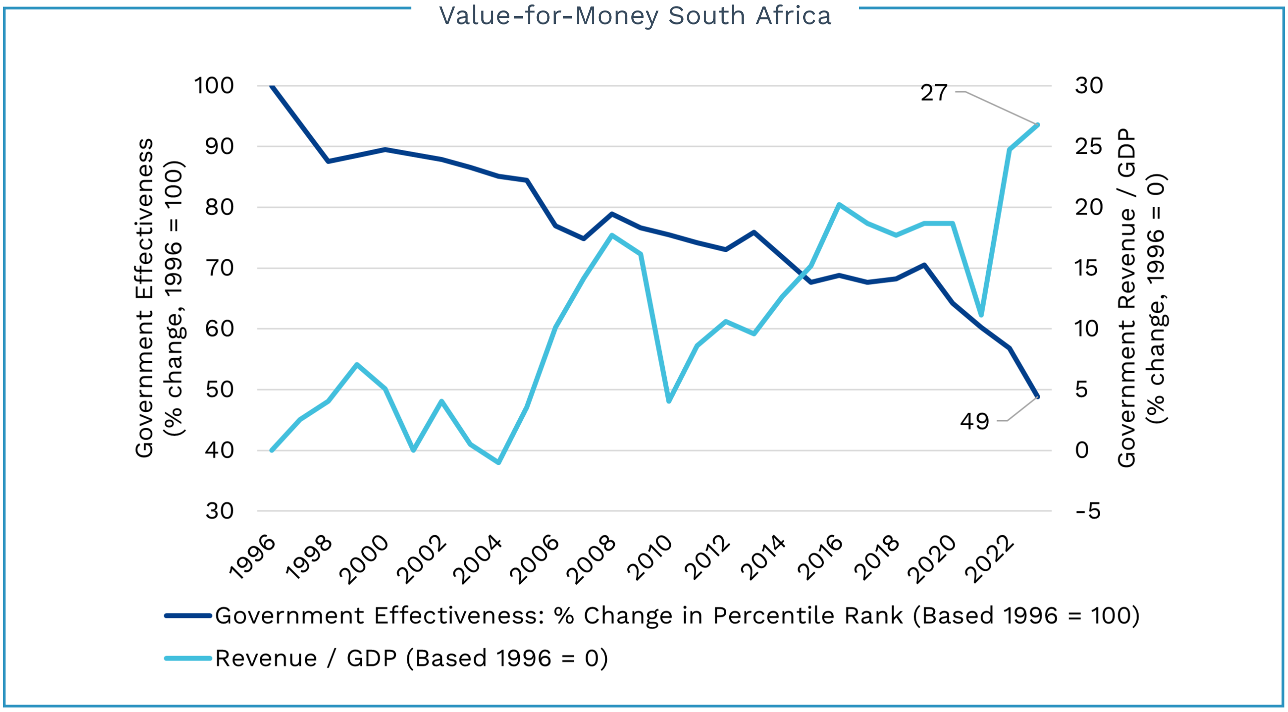
Returning to the example of public schools – if the state could provide more public schools at a higher quality and at a lower cost, then that would be doubly good. It would be good for all those who benefit from the improved education. It would also be good for whoever saves money due to the decrease in cost. If those savings are manifest by a tax cut, then that means taxpayers benefit by being able to spend more on other things.

The obverse is a decrease in value for money, which is doubly bad. Using the same example of public schools, if the quality and quantity of public schooling goes down then this is bad for the students and society at large, because of the decrease in education outcomes.

To make matters worse, if this decrease in government effectiveness comes alongside an increase in government cost, then that means there are less resources left over to buy other goods and services. If that is reflected through a tax raise, then all taxpayers are doubly harmed – by increased cost and by living in a society with decreased education outcomes.

So while left-wingers and right-wingers might disagree in the grey zones of the Fukuyama matrix, the value for money principle is so strong that (almost) everyone agrees that it is bad to get less effective government for a greater cost.

Paying More Getting Less Effective Government



The above graph shows a dramatic decline in government effectiveness together with an increase in government revenue as a portion of GDP.

To explain the axes: Government effectiveness (the measure will be explained in more detail below) dropped 51.2%. The 1996 percentile rank of 83.1% is rebased to 100 in the graph. As such, the final effectiveness score comes down from 51.2% to 48.8%.

Meanwhile Government revenue as a percentage of GDP (measured on the right-hand Y-axis) increased by 26.8% of its initial value. The initial revenue of 19.8% in 1996 is rebased to 0, meaning that in 2000 and 2004 the revenue score (on the right-hand axis) is below 0%, since actual revenue was less than 19.8% of GDP in those years. The final revenue score comes up to 26.8%, which translates to an actual revenue as a percentage GDP rate of 25.1%.

The difference in revenue can be illustrated with this hypothetical. Imagine that in 2023 government revenue was extracted at the 1996 rate, namely 19.8%, rather than the actual rate of 25.1%. What would have happened?

In that hypothetical R327,305 billion more would have been in the hands of ordinary South Africans.

Without facts about government effectiveness in the picture, that increase in revenue might have been good, or bad, depending on one's ideological leanings (left-wing or right-wing) on the two Good* positions. However, South Africa's actual revenue increase coincided with a dramatic decrease in government effectiveness.

In summary, South Africa spent 27% more of its annual output on tax while dropping 51% in the global rankings of government effectiveness. That is evidence of a system-wide failure to get value for money.

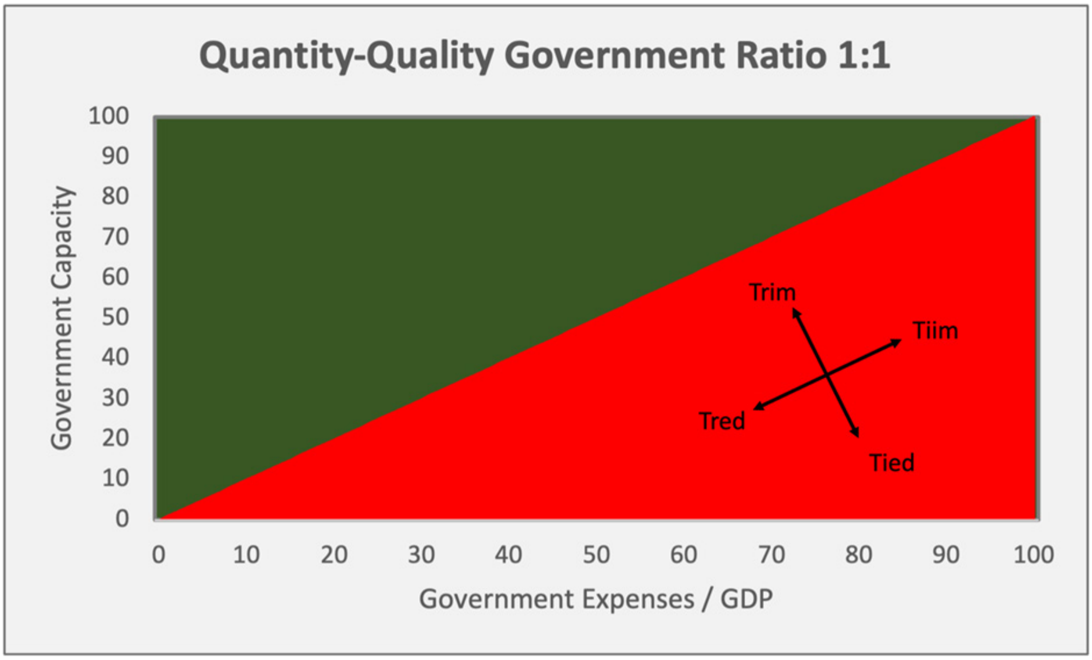
Tax Value for Money Index – TIED Empirical Scores

South Africa has moved in a Tax-Increase-Effectiveness-Decrease (TIED) direction. There are 50 countries that have been recorded as moving in a TIED direction between 1996 and 2023.

Moving in a TIED direction is bad, because it means reducing value for money in fiscal terms. The following graph (using an arbitrary dividing line of 1:1 for illustrative purposes) comes from the "Slash Waste, Cut Taxes" report. It indicates the fiscal compass with four possible directions: Tax-Reduction-Improved-Manageability (Trim), Tax-Reduction-Effectiveness-Decrease (Tred), Tax-Increase-Improved-Manageability (Tiim), and TIED.

Details are discussed in the earlier report, but the cardinal points are that Trim movement is great, as it is an increase in value for money, Tred (right-wing) and Tiim (left-wing) changes can be good, depending on the situation, while TIED changes are simply bad, as they amount to a reduction in value for money which is doubly harmful.

Fukuyama Framework with Tax Value for Money Compass



The Tax Value for Money Index is provided by TIED scores, which measure the distance that a country has moved in the TIED direction as per the compass in the Fukuyama Framework graph above. The "Slash Waste, Cut Taxes" report revealed the first TIED evaluations of all countries around the world, including TIED scores that indicate the degree to which countries have reduced value for money for taxpayers. The updated TIED score is just the average of the increase in revenue as a percentage of GDP and the decrease in effectiveness as a percentile ranking.

South Africa has the worst TIED score in the world, meaning it has decreased in value for money at the fastest rate in the world. This is not a proud world record. It is a reason for change.

Of the 50 countries that have moved in a TIED direction, the top ten are listed below.

Tax Value for Money Index: TIED Score

	Revenue			Effectiveness			TIED score
	1996	2023	Increase	1996	2023	Decrease	
South Africa	**24**	**28**	**4**	**83**	**41**	**42**	**23.1**
Argentina	13	33	20	60	36	24	22.0
Maldives	25	30	4	81	45	36	19.9
Kyrgyz Republic	20	37	17	42	19	23	19.8
Mozambique	13	27	14	50	26	24	19.1
Nicaragua	13	29	16	34	13	21	18.5
Bahamas, The	11	21	10	87	62	26	17.7
Chad	12	24	12	31	8	23	17.6
Grenada	23	33	10	75	51	24	16.9
Greece	37	50	13	78	58	20	16.7

Limited Resources

Why is it bad to move in a TIED direction? Why is it bad to get less value for money?

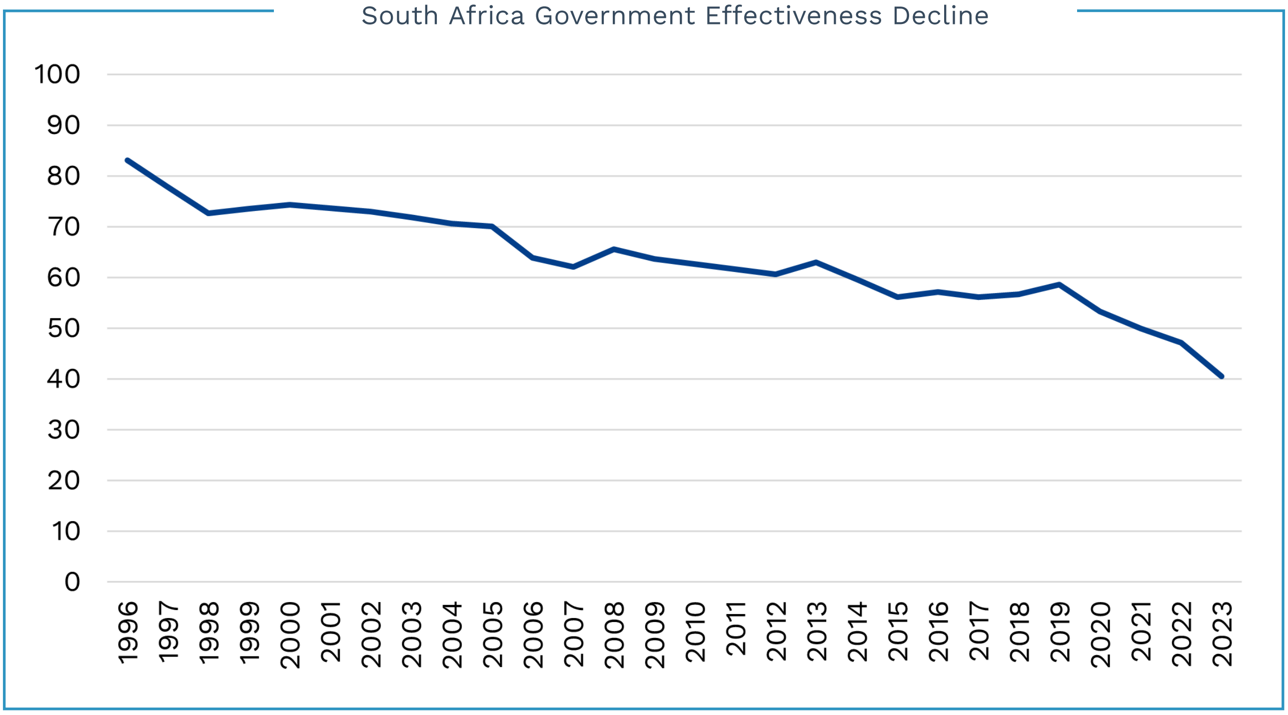
South Africa, like all countries, has limited resources. Due to various factors, including the legacy of apartheid and of pre-apartheid colonial government, both of which were vicious white racist systems of oppression, South Africa is unusually poor, given its other circumstances. That means resources are even more limited than they would otherwise be.

When historically limited resources fail to produce value for money, they are immediately limited even more. Imagine, for example, a household that historically has little water and so has to survive on a few litres a day. If someone pours a litre of that water down the drain, then the water scarcity is even worse. In general, the rational thing to do when confronted by a bad action for which one is co-responsible is to find an alternative way forward that is good, or at the very least not as bad.

In particular, taxpayers are failing to get value for money at the margins, which is a non-ideological reason to cut tax.

Government Effectiveness

South Africa's government effectiveness has dropped badly.



Notice that the overall drop is from the 83rd percentile to the 41st percentile. That is a roughly 42 percentile point drop, or a fall in the rankings by 52%, meaning South Africa more than halved its rank position.

The last few years have been the worst in absolute and relative terms. In 2019 South Africa was still in the 59th percentile, strongly in the top half of the world. Since then, almost half of its drop since 1996 – 18 out of a total of 42 percentile points – occurred.

Why should this measure matter? The Government Effectiveness perception index comes from the World Bank's Worldwide Governance Indicators (WGI), with particular reference to "The Worldwide Governance Indicators: Methodology and Analytical Issues" by Kaufmann, Daniel, Aart Kraay and Massimo Mastruzzi (2010). This is updated regularly, though there is usually a delay of one to two years to allow for data processing, which is why the graphs stop at 2023.

The data is explained as follows on the data portal:

"Government Effectiveness captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. Percentile rank indicates the country's rank among all countries covered by the aggregate indicator, with 0 corresponding to lowest rank, and 100 to highest rank. Percentile ranks have been adjusted to correct for changes over time in the composition of the countries covered by the WGI.[15]"

Furthermore, this dataset summarises "the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organisations, international organisations, and private sector firms."

In the rankings, South Africa suffered the third fastest decline globally since 1996.

Government Effectiveness			
	Government Effectiveness (percentile rank)		Decline in Percentile Rank
Country	**1996**	**2023**	
Puerto Rico	85	36	49
Lebanon	51	6	45
South Africa	**83**	**41**	**42**
Lesotho	53	17	36
Maldives	81	45	36
Zimbabwe	44	12	32
Yemen, Rep.	32	0	31
Venezuela, RB	34	6	29
Mauritania	53	25	28
Belize	64	37	28

The decline in South Africa's government effectiveness is the worst of any peaceful, sovereign democracy. Puerto Rico is not sovereign, as it is a mere territory (pseudo-colony) of the US. Lebanon has been the repeated site of armed conflict.

The reader might wonder about differences within the state. For example, the Department of Land Reform and Rural Development may be the most corrupt and inept in the country, while SARS is still relatively effective. Many municipalities are dysfunctional, while others are still able to maintain roads and neat pavements and even working traffic lights.

The government effectiveness measure loses this kind of granular detail. However, it gains a system-wide perspective by aggregating scores.

Furthermore, it is notable that the key interest is not the country's absolute score, or even its snapshot ranking at any particular time. Rather, what matters in this report is the relative change in ranking.

This ought to account somewhat for information asymmetries and biases across countries, since it means that the measure has a strong component of performance comparison of a country against itself over time.

Furthermore, since emerging markets are part of the dataset in similar measure in 1996 versus 2023, South Africa's competition in the rankings is not just against developed markets but also against other emerging markets. This ought to compensate for potential biases for, or against, emerging markets.

Furthermore, since the primary measure is shift in rankings, there is robustness against global crises, like the GFC, and the lockdown/Covid-19 crisis, which impacted almost all countries net negatively.

Likewise, positive developments in technology that allow government effectiveness to increase is controlled for by the longitudinal country ranking measure.

Ibrahim Index of African Governance (IIAG)

Still, it is worth asking whether South Africa's shocking 51% decline according to the WGI is in line with any other datasets?

Notably, the Mo Ibrahim Foundation keeps its own scorecard of government indicators, the Ibrahim Index of African Governance (IIAG). It records South Africa as having the worst decline in public perception of infrastructure in Africa, from a score of 49.9 in 2013, which was above the African average score of 45.5, to 15 in 2023, just barely above the African minimum score of 9, and below the African average of 44. The African maximum score was 82.2, well above South Africa's score of 15[16].

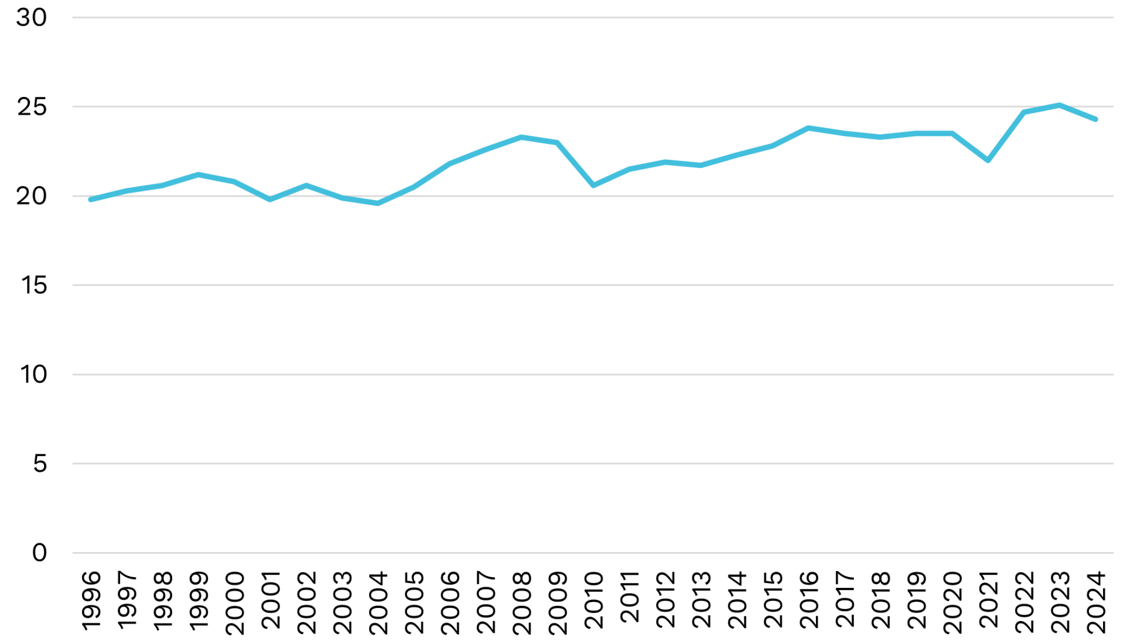
This shows how important it is to look at the change, rather than the absolute score. South Africa does not have the worst, or even nearly the worst infrastructure in Africa. But the change in perception since 2013 is indicative of a real change on the ground.

Likewise, South Africa's anti-corruption mechanism score on the IIAG was 89.3 in 2013, but has come down to 58 in 2023. That indicates a shocking reduction in value for money, since corruption in governance means money does not get its full or intended value.

Government Revenue

Government Revenue has increased as a portion of GDP. However, this has not been a straightforward, or steady, increase. During times of crisis, revenue has decreased as a portion of GDP, particularly after the Global Financial Crisis and the lockdown/Covid-19 crisis. This is not due to reductions in tax rates, but rather a reduction in profits and income, which then reduces tax revenue.

Revenue as a Percentage of GDP[17]



Some ideologues (right-wingers) think it is always bad for government revenues to go up. Some other ideologues (left-wingers) think it is always bad for government revenues to go down.

However, if one looks at a table of the countries whose government revenues have increased the fastest, relative to GDP, both of these ideological positions are easily revealed to be absurd.

Growing Governments, Revenue as a Percentage of GDP			
	Government Revenue / GDP		
Country	1996	2022	Change
Ecuador	18	39	21
Argentina	13	33	20
Kyrgyz Republic	20	37	17
Ukraine	34	50	16
Nicaragua	13	29	16
Colombia	12	28	16
Cambodia	8	24	16
China	10	26	16
DRC	2	17	15
Azerbaijan	18	32	15
Georgia	12	27	14
Equatorial Guinea	17	31	14
Mozambique	13	27	14
Greece	37	50	13
Türkiye	14	26	13
Mongolia	22	34	13
Cyprus	29	42	12
Chad	12	24	12
Honduras	14	25	11
Brazil	33	43	10
South Korea	17	27	10
Grenada	23	33	10
Bahamas, The	11	21	10
Rwanda	15	24	9
Norway	55	64	9
...	...	...	...
South Africa	**24**	**28**	**4**

South Korea grew its state from much lower than South Africa's, to roughly the same level as a portion of GDP. Only a right-wing ideologue (minarchist) could think that South Africa has performed better since its general tax absorption has grown less, as a portion of GDP, than South Korea.

Furthermore, it is notable that while Norway has an extremely high tax revenue rate, it has an extremely capable state.

By contrast, the DRC has a relatively small state, with government revenue accounting for only 17% of GDP. Given the armed conflicts, and the lack of the rule of law, law and order, and infrastructure, the basic coordination problems in the DRC might plausibly require an increase in tax revenue to GDP to solve. But the state is so incapable that it cannot even collect more tax.

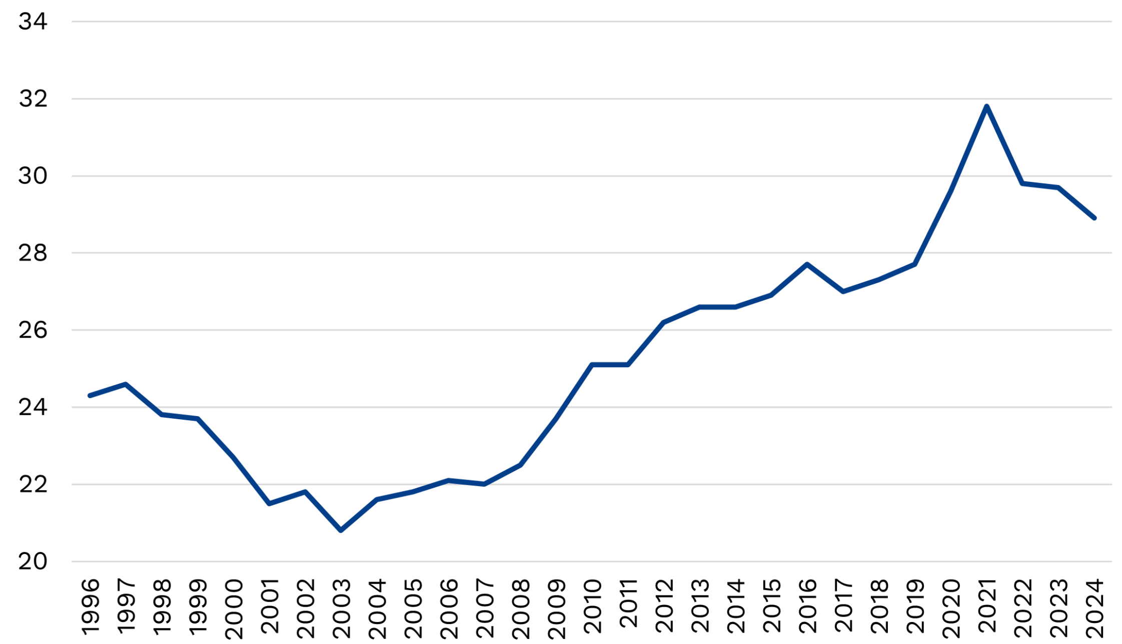
Considering the table above should help common sense triumph over ideology. Different states are in different positions, with different capacities and problems. That should make the decision about whether taxes should stay the same, or go up, or down, a country-specific decision that is based on evidence of state capacity.

Government Expenses

The previous version of this report, titled "Slash Waste, Cut Taxes", focused more on government expenses than government revenue. That is because expenses determine what must be taxed, either immediately or later, or what must be paid through inflation.

The picture is even more dramatic if government expenses increase while government effectiveness decreases over time. It is also worth noting that while there has been a comedown from the lockdown/Covid-19 spike, spending is still significantly above 2019 levels, at 28.9% of GDP, using SARB's measure.

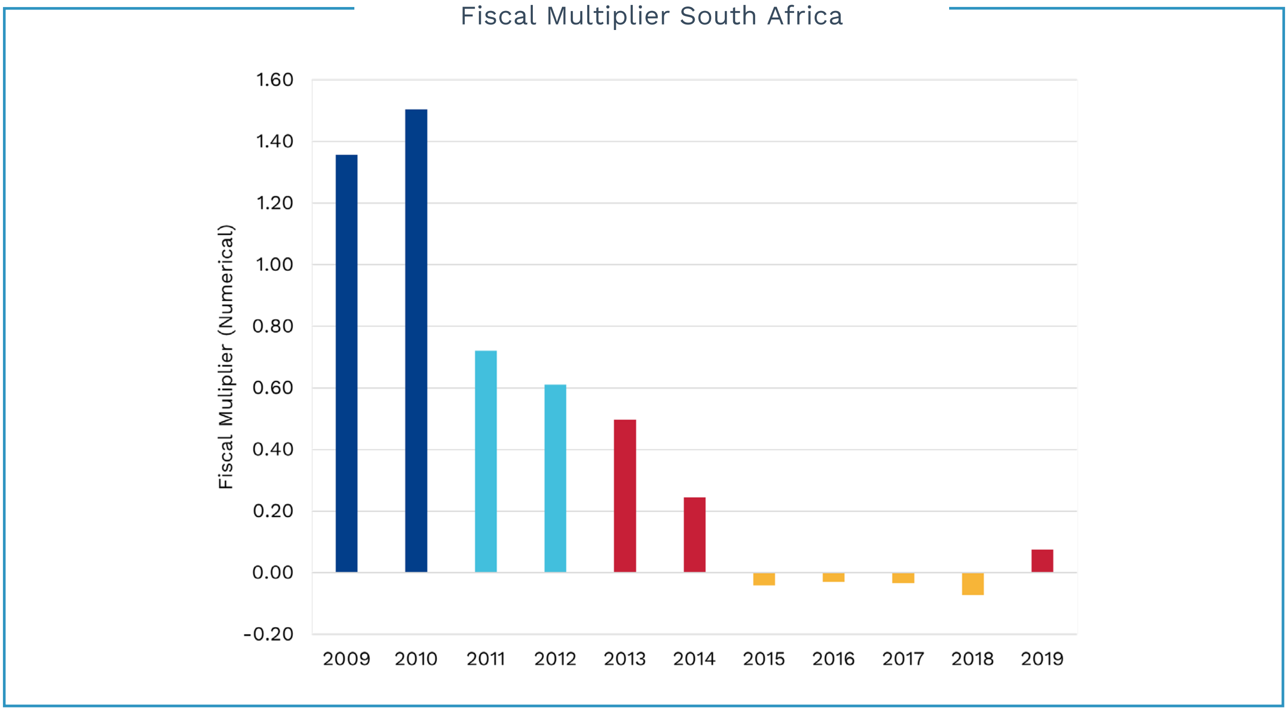
Government Expense / GDP South Africa



That is a lot more money being spent by the state. But are South Africans getting value for that money? No. Government effectiveness has decreased. Recall that roughly half of the effectiveness drop-off was measured since 2019, exactly the same period as the sharpest spike in government spending.

Fiscal Multiplier

The previous "Slash Waste, Cut Taxes" report focused extensively on a fiscal multiplier evaluation by Theo Janse van Rensburg, Shaun de Jager, and Konstantin Makrelov, published by SARB as a working paper, and then (revised) by the South African Journal of Economic and Management Sciences, titled 'Fiscal Multipliers in South Africa after the Global Financial Crisis'. The graph showing annual estimates is reproduced here.



The fiscal multiplier is a measure of impact of government fiscal expenditure. Typically, a fiscal multiplier above 1 is desired, since it means that for every R1 spent on the margins more than R1 of GDP is added. If, instead, that R1 had been spent privately with even greater positive GDP impact then purely from a productivity perspective it would be preferable for that R1 to be spent privately. But still, a multiplier above 1 indicates some form of government productivity.

When the fiscal multiplier is below one that means spending R1 produces a GDP impact of below R1. The fiscal multiplier is not usually thought of as being able to enter the negative range. However, the South African state is breaking new ground, conceptually, and practically. With a negative fiscal multiplier estimate, for every rand the state spends on the margin it literally destroys output. Setting the money on fire would have been less destructive than entrusting it to state spending. Multiple years of negative fiscal multipliers were found by the economists, with 2019 being statistically significant.

A more recent paper published by UNU-Wider, by Gideon du Rand, Hylton Hollander, and Dawie van Lill, reinforces this negative finding. This 2023 paper is titled "Time-varying fiscal multipliers for South Africa, A large time-varying parameter vector autoregression approach".

It shows a negative response to GDP from government consumption dating back to the 2000s, with narrower confidence bounds from 2009.

The authors urged caution in interpreting their own different models for calculating fiscal multipliers, but concluded (with added emphasis): "That being said, our main results do not bode well for stabilization efforts via fiscal policy—**all the multipliers we find** suggest that **resources spent through government decision-making processes in South Africa are net negative** on both individual components of GDP and on the aggregate.

Value-for-Money Summary

In summary there is a simple syllogism with two premises.

> Premise 1: If the state has grown to the point where it is incapable of getting value for money, then the state should be paid less.
> Premise 2: The state has grown to the point where it is incapable of getting value for money.

The conclusion follows as a matter of logical necessity from the truth of the premises:

> Conclusion: The state should be paid less, ie. tax should be cut.

Premise 1) is a value judgement, unpacked by the Fukuyama matrix, that it is bad to pay more in order to get less.

Although extremists on the left and right wings reject this premise, it is rational, and agreed upon by almost everyone.

Premise 2) is a matter of fact. It is a fact that the South African state is incapable of getting value for money, at this size, at this time. This is shown by both fiscal multipliers and TIED scores, where South Africa has the worst in the world. Since there are limited resources, this ongoing failure to get value for money is perpetuating economic stagnancy, and poverty.

The conclusion to cut tax follows logically from the truth of premises 1) and 2).

VAT

If some tax should be cut, why should it be VAT? Why not cut corporate tax, or income tax, etc.?

VAT is a regressive tax, meaning it falls disproportionately heavily on the poor compared to the rich.

Some people make the mistake of thinking that zero-rating makes VAT overall progressive. Unfortunately, there is no good data available that is up to date. However, a 2007 study by Treasury that broke down VAT savings by expenditure quintile undermines the assumption. Notice that savings for the 5th quintile, the richest 20%, are more than twice that of the 1st quintile, the bottom 20%. Zero-rating things like lettuce and fresh milk is much, much better for the rich than the poor. Only zero-rating of mealie meal and bread flour truly benefits poorer South Africans more than rich South Africans.

VAT savings accruing to different expenditure groups in 2006 as a result of zero-rating and exemption						
	Savings, Rands (Millions)					
Zero-rated products	1st Quintile	2nd Quintile	3rd Quintile	4th Quintile	5th Quintile	Total
Mealie meal	383.6	414.7	607.6	347.6	206.9	**1960.4**
Bread flour #	62.1	72	101.8	57.1	31.5	**324.5**
Rice	91.5	128.3	253	220.1	180	**872.9**
Mealie rice	36	44.7	72.5	52.1	39.8	**245.1**
Brown bread	162.7	239.2	515.2	435.5	308.8	**1661.4**
Cooking oils	77.7	104.1	286.6	404.2	516.5	**1389.1**
Fresh milk	48.1	72.2	192.3	251.7	385.9	**950.2**
Sour milk	16.4	22	46.1	42.3	31.7	**158.5**
Milk powder	24.4	36.9	79.8	66.6	47.4	**255.1**
UHT milk	13.9	17	32.5	39.4	68.7	**171.5**
Eggs	50.1	73.4	169.7	165.7	178.2	**637.1**
Potatoes	103	109.8	197.7	183.2	148.1	**741.8**
Mealies	10.2	9	9.4	6.1	14.3	**49**
Tomatoes	49.9	62.7	125	112.6	108	**458.2**
Lettuce	0.4	1	4.4	13.3	43.8	**62.9**
Apples	0	0.1	0.4	1.1	2.9	**4.5**
Bananas	0	0.1	0.2	0.4	1	**1.7**
Oranges	0.9	1.9	9.4	26.1	53.9	**92.2**
Paraffin	2.1	3.4	9.5	12.1	18.9	**46**
Total	**1133**	**1412.5**	**2713.1**	**2437.2**	**2386.3**	**10082.1**

Source: pg 114https://www.treasury.gov.za/publications/other/vat%20merit%20goods%20final%20report%20%20-%2015%20oct%202007.pdf

It is true that cutting VAT would also benefit the rich more than the poor, in absolute terms, but since an estimated 80% of poorer South Africans' budgets is not spent on VAT zero-rated products, cutting VAT would have a substantially bigger impact on impoverished people's purchasing power. Zero-rating was estimated to save R10 billion, while the proposed VAT cut would save over R100 billion.

The following is a calculation of the estimated benefit of a R100 billion VAT cut, achieved by dropping the VAT rate from 15% to 11.5%, based on an estimated 70% pass through and Treasury data on VAT payment by decile.

Estimated Benefit of a R100 Billion VAT Cut (Reduction from 15% to 11.5%)	
Decile	**Savings, Rand (Billion)**
1 (poorest)	1.4
2	2.1
3	2.6
4	3.1
5	3.5
6	4.1
7	5.1
8	7.3
9	12.4
10 (richest)	27.6
Total	**69.0**

Source: Long Report, own calculations from https://www.sars.gov.za/wp-content/uploads/Docs/Tax-Stats/2022/TStats-2022-Highlights-booklet-A5.pdf

This VAT cut is expected to leave R12.6 billion in the pockets of the poorest 50%, and R29.1 billion in the pockets of the poorest 80%. Those billions can be far better spent where it is held before taxation, than by government officials after taxation.

The richest 20% (about two thirds of whom have not been white since 2015) would also be spared roughly R40 billion in taxation. That is expected to also have a positive impact on consumer demand, and so economic growth and employment.

Debt

Among those who support the idea of reining in the size of the state, there is often a prioritisation of paying down public debt, rather than cutting tax. Right-wing South African politicians tend to look towards Argentina as a great example of slashing waste.

But Argentina is a perfect contrast with South Africa. There, public debt really is the biggest problem. Due to excessive public debt Argentina's inflation rate in 2023 was over 200%.

By contrast, South Africa's inflation rate (Consumer Price Index) is 3%[18].

South Africa's biggest problem, according to every poll commissioned by the IRR, is unemployment. South African unemployment is officially over 32%.

By contrast, in Argentina the unemployment rate was 5.7% in 2023[19].

So, in Argentina a big "chainsaw" was taken by President Javier Milei to public spending in order to pay down debt. The result? A perfectly predictable increase in unemployment.

In the seven months after Milei's election 142,000 formal jobs were lost[20]. Poverty increased by over 50%[21].

The *Wall Street Journal* notes the following: "At his inauguration Mr. Milei was careful to warn the nation that recovery would be painful. He's been right. The economy is expected to contract 3.5% this year and annual inflation will finish 2024 near 120%. Even so the president's public approval is above 50%. He scores higher in public trust than any of the past three presidents after 12 months in office.[22]"

Argentina's problems are extremely different from South Africa's. No politician has promised to impose pain, destroying jobs and constricting the economy through decreased consumer demand, for the sake of dealing with inflation by reducing public debt in South Africa. That is because the public does not want that here. Inflation is not our big problem. All polls are clear on this. Unemployment is our big problem.

It is conventional among economists to grant that if R100 billion is suddenly reduced in public procurement and used to pay down public debt, much of which is held abroad, this will repress consumer demand in the short run, which is harmful to jobs on aggregate. For a consideration of the underlying forces in an empirical study, see "Fiscal Austerity and Unemployment"[23]. Cutting the debt suddenly by R100 billion would help inflation but hurt jobs in the short run. Destroying jobs might make sense in a country that had 200% inflation and low unemployment, but it makes no sense in a country with low inflation and mass unemployment.

Popularity Cutting Tax

Afrobarometer

Despite the political silence about tax cuts, the proposal to cut tax is already more popular than its alternatives. It is estimated that this is because millions of South Africans already know that the state is not getting value for money.

In 2023 Afrobarometer asked: "Do you think that the amount of taxes that ordinary people in South Africa are required to pay to the government is too little, too much, or about the right amount?"

The plurality, 48%, said the current amount is "too much".

Afrobarometer survey results		
Too Little	About Right	Too Much
16%	36%	48%

It is remarkable that roughly half of all respondents said taxes are too high, while only 16%, roughly 1 in six, said tax is too little, and about a third said the rate is about right. The "too much" answer is by far the most popular.

Respondents were also asked about taxes on the rich: "Do you think that the amount of taxes that **rich people** in South Africa are required to pay to the government is too little, too much, or about the right amount?"

Afrobarometer survey results		
Too Little	About Right	Too Much
34%	32%	44%

The proportion who think the rich pay too little roughly doubled to a third, while those who think taxes on the rich are "about right" remained at nearly a third. Amazingly, given the total political absence of serious proposals to cut taxes, the most popular answer by far was that the rich are taxed "too much".

If More Tax for More Effective Government were possible

If this report was demagoguery, it would stop there. However, it is worth noting that in a separate question Afrobarometer asked whether more taxes would be worth it IF that meant more services?

"Respondents were asked: Which of the following statements is closest to your view?"

"Statement 1: It is better to pay higher taxes if it means that there will be more services provided by government."

"Statement 2: It is better to pay lower taxes, even if it means there will be fewer services provided by government."

53% agreed with Statement 1, and 40% agreed with Statement 2

That might be taken to be an endorsement of the proposal to raise taxes. However, there is an "IF" in statement 1. It is reasonable for someone to say that taxes are too high, and so should be cut, under the current circumstances of corrupt and inept maladministration, but that taxes would not be too high, and should even be raised, IF that money would actually be spent well.

This means the latter result does not undermine the former. Rather, it seems likely that a large portion of respondents agree with Fukuyama's position that while it is often good to raise taxes to get more and better services, when the state has proved itself incapable of getting value for money, a bad condition that South Africa's government manifests, then taxes must be cut: the most popular option today.

Social Research Foundation

In 2024 the Social Research Foundation gave respondents the following prompt: 'A future coalition government reduces tax rates and instead focuses on creating an environment where large and small businesses can more easily invest and create jobs.' OR 'A future coalition government increases taxes on South Africans so that it can increase the money available for the government to spend on service delivery.'

Two thirds, 65.8%, strongly agreed with the first statement, and another 8.1% agreed with the first statement. Together, that means 73.9% agree that if taxes must go up, or down, they had better go down.

Furthermore, the breakdown by race was roughly even, with 68% of black respondents preferring to reduce taxes.

A majority, 60%, of ANC supporters preferred to reduce taxes.

86% of DA supporters preferred to reduce taxes.

77% of IFP supporters preferred to reduce taxes.

However, neither the ANC, DA, or IFP 2024 election manifesto called for a serious reduction in tax rates

BEE Premiums

The Zondo Report focused attention on "value-for-money", finding that deviating from this goal is at the heart of State Capture.

The Zondo Report found that confusing measures that both require the maximisation of value for money and also require procurement activities that do not maximise value for money created a situation ripe for exploitation by corrupt actors.

"This uncoordinated approach…leaves a critical question unanswered: is it the primary intention of the Constitution to procure goods at least cost or is the procurement system to prioritise the transformative potential identified in section 217(2)? There is an inevitable tension when a single process is simultaneously to achieve different aspirational objectives.

"There are of course many cases, one hopes the vast majority, in which the award of the tender satisfies both objectives of the Constitution but undoubtedly there are other cases some of which may well be high-value tenders in which one or other of these two objectives must be preferred, and it is in such cases that the legislation fails to give guidance.

"In the view of the Commission the failure to identify the primary intention of the Constitution is unhelpful and it has negative repercussions when this delicate and complex choice has to be made, by default, by the procuring official.

“Ultimately in the view of the Commission the primary national interest is best served when the government derives the maximum value-for-money in the procurement process and procurement officials should be so advised.

“The same problem is encountered when a choice must be made between the competing virtues of localisation and lower cost. Again, the view of the Commission is that the legislation should make it clear that in such a case the critical consideration is value-for-money.”

However, as Acting Chief Procurement Officer Willie Mathebula put it, the state pays BEE “preference premiums” under the current procurement system that are capped at 11% for contracts above R50 million and 25% for contracts below R50 million; and BEE “preference premiums will continue to be paid” under the incoming “set-aside” and “prequalification” system under new legislation, namely the Public Procurement Act.

Heedless of the Zondo Report, and the Inclusive Growth report, BEE premiums are set to increase.

Popularity of Cutting BEE Premiums

Another element of political dysfunction is that while cutting BEE premiums to R0 is highly popular, and while the DA, ACPD, ASA, BOSA and others made claims in their manifestos that amount to a reduction of BEE premiums to R0, not one political party in Parliament, and not one role player in the GNU has taken any significant step to cutting BEE premiums.

Zondo Dividend Popularity: Institute of Race Relations

In October 2024, 604 randomly selected IRR survey respondents were given this prompt: “The government spends over a trillion rand per year buying goods and services. How should it decide who to buy from?”

Respondents were asked to choose one of the following options:

1. “The government should buy on a value for money basis, making sure to buy the best product from any company at the best price without overpaying.”
2. “The government should buy on a value for money basis, making sure to buy the best product at the best price. If two companies are tied, the black-owned company should get the contract.”
3. “The government should buy more from black-owned companies, even if it means paying more and getting less value for the same money.”

On the demographically weighted answer set:

47.9% chose option 1.

22.8% chose option 2.

23.7% chose option 3.

That means 70.7% chose value for money as the first priority, reducing BEE premiums to R0.

Furthermore, focusing only on black respondents:

36% chose option 1; 28% chose option 2; 30% chose option 3.

That means 64% chose value for money as the first priority, reducing BEE premiums to R0.

Zondo Dividend Popularity: Social Research Foundation

In April 2024 the Social Research Foundation did a survey of "South African Public Opinion on BEE" with 1,835 "demographically and geographically representative registered voters", with a reported margin of error of 4%.

Respondents were asked which of the following two statements indicate their preference:

"A future coalition government makes race-based procurement rules stricter, so that only black-owned companies can win government tenders."

"A future coalition government gets rid of race-based procurement policies in the public service so that all tenders are issued only on merit."

Unfortunately, this question does not include reality as one of its alternative options. The IRR survey offers people the chance to respond to the current and future policy situation in South Africa – where the state pays more for public procurement due to BEE, but where some white companies will still win tenders – and allows that to be contrasted with would be alternatives. The SRF does not include reality in its range of options, and instead contrasts a policy where not one single white company can win a single government tender with a value-for-money-type outcome.

Still, this is useful to some degree, as it shows people's preferences between these two possible worlds.

63% of respondents prefer value for money, as expressed by the second option above, and 24.6% prefer a "black-owned only" system as described above.

Furthermore, 55% of black respondents prefer the value-for-money option, and 32% prefer the "black-owned only" option.

Zondo Dividend

No one knows how much BEE premiums cost every year. This is a direct violation of the Constitution.

Treasury is obliged by Section 216 of the Constitution to implement transparent cost control. Its failure to account for BEE premiums is a dereliction of that duty.

The "Slash Waste, Cut Taxes" report points to the calculation that BEE premiums directly cost R17 billion. IRR Legal has confirmed with Treasury sources that this estimate is extremely conservative. The estimated indirect cost, due to problems in the legislative design that facilitate state capture as indicated by the Zondo Report, is estimated to be R133 billion.

Cumulatively, the Zondo Dividend, meaning the amount of value for money that could be saved by implementing the Zondo Report's value-for-money advice in public procurement is estimated to be R150 billion.

In the table official data slots are represented with a "?" where Treasury has failed in its constitutional duty to provide transparency and cost management.

Estimated Costs of BEE Premiums and the Zondo Dividend				
	Official	Estimate		
		% Total Procurement	% Real Procurement	Nominal (R billion)
Number of Contracts with Recorded BEE Premiums	?	10%	-	-
Recorded BEE Premium Per Contract	?	5%	5.8%	-
Total Recorded BEE Premiums	?	0.5%	0.6%	5.7
Number of Contracts with Unrecorded BEE Premiums	?	20%	-	-
Recorded BEE Premium Per Contract	?	5%	5.8%	-
Total Unrecorded BEE Premiums	?	1%	1.2%	11.3
Total BEE Procurement Premiums	?	**1.5%**	**1.7%**	**17.0**
Present Cost of Corruption in Public Procurement	?	21.2%	24.4%	240.6
Corruption Cost after Zondo value-for-money advice	?	9.5%	11%	108.3
Zondo Difference	?	**11.7%**	**13.4%**	**132.3**
Pre-Zondo Procurement (R Billion, Q3 2023)	1134.78	100%	115.2%	-
Post Zondo (Real) Procurement	?	86.8%	100%	985.4
Zondo Dividend	?	**13.2%**	**15.2%**	**149.3**

Political Dysfunction

Not one political party has proposed serious tax cuts. The DA came closest, by pushing for more zero-rating exemptions from VAT. However, the Davis Tax Report previously indicated that this is not effective. Given that cutting taxes is the most popular option, and given that working democracies place the basic question of tax size at the heart of political dispute, and given that South Africa has the worst TIED anti-value-for-money score in the world, this fact is the single clearest indication of system-wide political dysfunction in the young democracy.

Overall Summary

Cutting VAT & BEE is the popular choice.

South Africa has the worst TIED score on earth, and its fiscal multiplier is 0 or negative.

In that context, cutting the state back to size is a rational choice for people with both moderate left- and right-wing political preferences.

Cutting BEE premiums is set to boost black business, black employment, and economic growth for all.

Cutting VAT is set to promote consumer demand, which attracts investment, which stimulates long-term sustainable economic growth.

VAT is also the most regressive tax, meaning its burden falls disproportionately on poor South Africans, so that cutting VAT is a direct form of poverty relief that leaves over R12 billion in the pockets of the poorest 50% every year, on conservative estimates. That is equivalent to increasing the R370 Social Relief Distress Grant by a third, to roughly R480 per person.

Rich people might not think much of that difference, but the polls show that people generally want taxes to be cut, and the most urgent need is for tax cuts to help poorer South Africans.

The most underutilized resource in the rainbow republic is the brainpower of millions of people who think more clearly when buying for themselves than government officials do when buying for others. This argument transcends ideological gridlock; its focus is value for money, which everyone from minarchists to communists agree is key to economic growth.

Endnotes

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