

Game on

Several long-simmering tensions have come to the boil during the first week of November suggesting the game is in two areas: party-politics and inequality.

NUMSA was expelled from Cosatu (Saturday); the World Bank published a seminal paper on inequality in SA (Wednesday); and a labour relations indaba between business, government and labour took place in Ekurhuleni (Tuesday) where all 3 parties committed themselves to investigate a minimum wage to address wage inequality.

Party politics

The long-simmering departure of NUMSA from Cosatu happened on 7/8 November, ironically the same weekend that the Berlin Wall came down 25 years ago! The fall of the Wall contributed to an earthquake here in SA. Could the NUMSA departure from Cosatu, and therefore from the ruling ANC alliance, lead to a mini-earthquake in SA party politics?

NUMSA has made it clear that they will form a new political movement that will be considerably to the left of the ANC with policies that will advance “socialism”. Provisionally called the United Front, it will participate in the local government elections of 2016 in some municipalities and will launch an all-out assault in the 2019 elections.

The test of course is simple: can a NUMSA-party get the votes? And even if they got it once, can they sustain it – or will they go the way of COPE and even shorter-lived AGANG? They need to attract at least say 6%-7% of the vote and then *hold on to it*. COPE got 7% and the EFF over 6% in their respective first elections.

Is there enough room at the left of our politics for both the EFF and the United Front, or will one of them have to make way for the other; will they compete or co-operate?

That lies in the future and we will only know the answers in four and a half years' time.

Any progress the parties of the left make can only be at the expense of the ANC. In 2014 ANC support was reduced from two-thirds to 62%. Whether it is because of the economy, Nkandla, corruption ... a fifteen year support level of around two-thirds has been breached.

We know that about one-third of the electorate has consistently voted to the right of the ANC, although in 2014 that slipped slightly to 31%. Simple arithmetic suggests that if the 10 parties on the right can hold their 31% and the left wing parties can poll 15% to 20% of the vote, the ANC would go down towards 50%. Competitive politics would be in sight. Then the game is really on.

The rise of the left takes place against the backdrop of increased focus on inequality.

Inequality Report

The World Bank released a report on inequality in SA. A specific focus was on how much tax and spending policies have contributed to combatting inequality. The findings are overwhelming and unambiguous, even if not entirely new:

- Over the last twenty years SA has achieved the largest reduction in **poverty** of the 12 middle-income countries for which similar studies have been done. Based on a poverty line of \$2.50 per day some 3.6 million people have been lifted out of poverty.
- Extreme poverty, defined as \$1.25 per day, has been halved from 34.4% of the population to 16.5%.
- This is the result of policies like social grants and free basic services.
- These policies have also helped to reduce **inequality** from a Gini of 0.77 before the impact of fiscal policy to 0.59 if these fiscal interventions are accounted for.
- The problem is that at 0.59 SA's Gini is still higher than countries like Brazil BEFORE one accounts for similar fiscal transfers in those societies. SA has extreme inequality however one cuts the cake. Much more needs to be done to reduce inequality (and of course, reduce poverty even more).
- Taxation is in general progressive, meaning the higher income groups pay more in tax than their share of the income and the other way round for the poor who pay less in taxes than their share of income.
- The surprise in taxes (for me at least) is that our income tax system is less progressive than in comparable middle income countries. Measured by the conventional measure of progressivity, the Kakwani Index (Afrikaans readers must bite their tongues!), SA measures 0.13 against Brazil's 0.27 and Mexico's 0.30.
- The other surprise is that two of our indirect taxes (VAT, petrol) are actually progressive, whilst a third (excise duties largely on tobacco and liquor) is very regressive. The overall effect, according to the same Kakwani Index, is neutral to marginally regressive.
- The report confirms the view taken in the mini-budget that there is no room to increase deficits and the debt-to-GDP ratio.

Policy implications

The policy implications of the above are quite clear:

- Fiscal policy has reached the limits of what it can contribute to further redistribution. In ordinary language, there is not much scope for higher taxes and spending to alleviate inequality.
- The only scope left is slightly more progressive personal income tax. Given that the minister said in his mini-budget in October that he is looking for R12 billion, I would expect some of that to come from higher income taxes. This can be achieved by simply not giving relief for inflation ("fiscal drag", the economists call it). Effectively that ups the tax but not as painfully as an increase in rates. As Jean Baptiste Colbert put it so poetically, the art of taxation consists in so plucking the goose as to obtain the largest possible amount of feathers with the smallest possible amount of hissing.
- Further reductions in inequality would have to come from better service delivery in the public sector and more jobs in the private sector. Nothing new here, but an indication of where the attention will be over the next five years.
- More jobs must come from "inclusive growth", a theme often repeated by the NDP and political rhetoric in general.
- But what exactly is this inclusive growth? The report does not elaborate but the best explanation comes from an unrelated article by Ricardo Hausmann, who led the

International Panel that gave advice to the Mbeki government on growth. Hausmann argues that connecting citizens to the various networks that make economic activity possible, like roads, electricity, infrastructure, skills and so on will also include them in growth.

Minimum wage and inequality

Against all this the idea of using a national minimum wage to address inequality is gaining momentum. SA does not have one national minimum wage as do some other countries. We have different minima for different sectors. So for domestic workers, working more than 27 hours per week, the current minimum is R1 877 pm; for farm workers it is R2 420 per month.

A minimum wage is all about the number – set it at R1 and the impact is nil; set it at R10 000 per month and the impact is enormous. What is the optimum amount that will help reduce poverty and inequality but not increase unemployment? That is what the Nedlac parties must now consider. The Economist Peter Montalto of Nomura Securities argues that a minimum wage of R2 500 pm could result in a net positive impact, but he is dead against the R4 500 that has been called for by Cosatu's Zwelinzima Vavi.

The game is certainly on regarding the importance of inequality and the best way to deal with it.

So What?

- NUMSA's breakaway gives *gestalt* to the split between the ANC and the left. They are leaving because the ANC is not left enough. As with the EFF, the split will become bigger and more vicious. Competitive politics and democracy will gain.
- (As discussed in our October newsletter, the split may also result in more unrest on the shop floor – a clear negative.)
- Although they have made a huge contribution, taxation and spending have reached the end of their impact on poverty and inequality. Further progress will now have to come from better value for money and more jobs – precisely the areas the mini-budget prioritised.
- This is likely to keep macro-economic policy in the middle. So the political noise will be on the left, but policy in the middle.
- This benign balance could be disturbed by a national minimum wage set too high – but that debate still has a long way to run.
- This week's developments move our politics further to a divide between the hard left, left of centre and right of centre.