The government’s capacity for carrying out its policy mandate is, in principle, determined by two main variables:

- the total amount of value created in the economy
- government’s ability to capture an appropriate share of such value creation for service delivery

A fundamental trade-off in designing appropriate policies, strategies and systems (which in theory is the modality for matching investment with needs) is the balance between different sets of incentives: between investment and employment; between investment and taxation; between employment and taxation; between taxation and well-being.

However, even if government appreciates the efficiency of private investment in the economy, there is frequently concern about the ability of the authorities to secure a ‘fair share’ of resources for the state. To be clear, the objective of government is to create a conducive environment for development and revenue-generation by providing tax and non-tax incentives. Compensation should not be levied at such a high rate that it discourages companies from investing. By contrast, policy should avoid a vicious cycle of value destruction, where value is lost to vested interests, consequently leaving less value for circulation in the economy. Policy and strategy need to be evaluated from the perspective of all stakeholders: both vested interests and general interests ought to be considered.

The task before us is to identify the optimal mix of tax instruments and non-tax incentives towards investments that meet the NDP objectives. We suggest a framework for analysing an investment–incentive balance between (a) the national imperatives of growth and escalating investments in new activities, and (b) the overriding need to ensure an appropriate revenue base for creating employment and reducing poverty.

The framework has three dimensions of analysis:

1. **Value creation** occurs when the value of aggregate outputs exceeds the value of aggregate inputs on a sustainable, long-term, basis. A major objective is to provide an analytical frame for assessing how employers and the state address value creation: what are their approaches to enhancing value associated with escalating investment, opportunities for greater inclusion by people in small businesses, and new employment opportunities?

2. **Value capture** measures the state’s share of value created. At the societal level, we can equate net value creation to net social benefits (or tax returns to the state).

3. **Value circulation**, based on the aforementioned, incorporates the process by which income and opportunities derived from the benefits to government from remittances to the fiscus generated by an expanding economy are redistributed towards a more equitable, shared and sustainable growth path.
The framework provides a holistic and integrated view of the processes by which value is created, captured and circulated as a basis for a new alignment of incentives. It suggests a feedback from the total value created within the sector to the country’s financial and economic welfare in a virtuous cycle of growth and employment creation.

Embedded in this approach is the coordination of fiscal, tax and non-tax incentives around the NDP. The NDP is a foundation for inclusive growth based on a combination of incentives and cast within an overall industrial strategy. Its long-term effectiveness depends on all stakeholders to cohere around a new investment paradigm.

A systemic, structural multistakeholder and collaborative response to the issues outlined above, involving both the public and private sector, is needed to align and trade off public incentives with sectors that have the proven potential to create jobs and value (in the form of innovation, structural change and transformation). This will require, as the World Bank suggests, ‘reorienting investment tax incentives towards more responsive sectors (those with greater employment multipliers), which would stimulate growth, create employment and support the alleviation of poverty’.

27 Davis Tax Committee (2014).
Concluding remarks

Our emphasis is on assessing the effectiveness of tax and non-tax incentives as an instrument to cause structural changes in the economy towards a more inclusive and sustainable growth path. We have looked at the array of tax and non-tax incentives on offer in South Africa, the relative advantages they bestow on key sectors, and the investment some of these incentives have been able to attract. We discussed the important dimensions of tax incentives, and how sector and organisation-level dynamics influence their efficacy. Lastly, we explored what should be taken into account when assessing the value of incentives, in particular the important role of employment and output multipliers.

We believe there is a role that corporations receiving support (or industry bodies representing them) can play in ensuring that incentives do not focus on capital in a way that displaces labour. This is important as we consider the changing world of work. Moreover, it is important to prioritise sectors that have a wide-ranging and significant impact on the employment of unskilled workers, the largest group of unemployed people in South Africa. In this way, both the private and public sector can contribute to developing an ecosystem that limits the tendency to narrowly privatise returns while socialising losses. This is not just the role of policymakers and policy and tax advocates, but of all parties interested in enabling greater and more widespread individual and collective well-being.