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Sending them a message:

Culture, tax collection, and governance
in South Africa

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WHY do South Africans pay tax? And can taxpayer behaviour tell us anything about the way we are – and should be – governed?

To many lay people and specialists, the answer is obvious, and not very interesting: we pay because we have to pay. If tax payments increase, either because more citizens pay or because taxpayers pay more of what the law says they should, that is because the authorities have become better at forcing citizens to pay. In this view, the implications of tax collection for governance are straightforward: whether taxes are collected or not depends on whether the relevant authority is efficient enough to ensure that they are collected. Efficient collection depends on effective coercion, since people will not pay voluntarily. Translated into a general point about governance, that shows that we obey the rules when the government does its job and ensures that the systems are in place to force us to comply.

All of this sounds less like analysis than common sense. And that perhaps explains why trying to understand the dramatic increase in collections by the South African Revenue Service (SARS)¹ can be a frustrating business: few practitioners or analysts are willing to look beyond the common-sense story, that SARS has become technically better at doing its job and that its ability to force people to pay has increased.

Why should that be a problem? Because, if we look at the issue a little more closely, there is no reason why SARS's performance should be seen as commonplace. Not only is it at variance with the widespread assumption that compliance is declining in post-apartheid South Africa; improvements in revenue-raising are unusual internationally, so this is not a case of a South African government agency catching up with world trends. Nor is there any evidence that the tax collection technologies which SARS is employing are available only to it – if it is doing better than others with the same technologies, then something other than better machinery is at play. SARS's performance is currently the object of research at the Centre for Policy Studies because it holds important lessons for our understanding of how states find the money they need to pay for their functions, and, more generally, of the elements of effective government.

If we want to understand why this is so, we must begin by noting that the conventional approach to tax collection described here is in sharp contrast to the way in which the South African policy debate tends to view compliance with public obligations in other spheres of life. On issues such as the payment of municipal service charges or obedience to the requirement that drivers take out a new form of license, to name but two, there is a lively public debate which assumes that the reasons why people comply or refuse to comply are more complicated than the tax explanations suggest. Indeed, far from assuming that the desire not to comply is normal, many of the most vocal and articulate commentators take precisely the contrary view to that which is used to describe tax behaviour – they denounce the lack of morality and sense of civic obligation of those who do not comply.²

¹ For details of SARS's improved performance see Dumisani Hlophe and Steven Friedman '...And Their Hearts and Minds will Follow? Tax Collection, Authority and Legitimacy in Democratic South Africa' *IDS Bulletin* 33 (3), Institute for Development Studies, Sussex University, 2002, pp. 67-76; Laila Smith *The Power of Politics: The Performance of the South African Revenue Service and Some of its Implications*, Johannesburg, Centre for Policy Studies Policy: Issues and Actors, Vol 16, No 2, 2003

² Steven Friedman 'Getting people to obey rules a thorny issue worldwide' *Business Day* 11/3/2003

These two views, both regarded as common sense by many participants in the debate, are based on contrasting assumptions of human social behaviour. The 'common sense' view on tax assumes that people will evade their tax obligations if they can. Implicit here is the assumption that self-interest dictates non-compliance, whether or not we like the political system in which we live and those who govern it - and so tax collection is simply a matter of ensuring that we cannot evade our duty. Those who frequently complain of declining standards of civic virtue assume that non-compliance is a form of deviant behaviour which sets us apart from others elsewhere. Behind this must lie the assumption that people tend to obey society's rules - presumably whether or not they are forced to obey. Here, if you like, humans become instinctive compliers; in the tax view they are instinctive non-compliers.

Citizens' attitudes to compliance hold implications well beyond the tax question. Even before our first universal franchise election in 1994 it became clear that ensuring that citizens comply with their public obligations would be one of the key challenges facing democratic government.³ Predictably, perhaps, that expectation has been vindicated - the post-1994 government has found that ensuring citizen compliance with obligations is among its more difficult tasks. In that context, the story of SARS's enhanced performance is a crucial subject of study - in a context in which we are repeatedly told that levels of compliance are low, tax is one in which they are clearly increasing. Why this should be so is therefore a crucial question for researchers or practitioners who want to derive lessons for more effective governance.

It is also worth noting that tax behaviour would be an important issue even if SARS had not proved so clear an exception to the rule of post-apartheid government. The capacity to tax is one of the key indicators of a state's ability to govern.⁴ Recent analyses have also suggested that the extent to which states rely on taxes may also decide what sorts of states they are, since those states which rely on collecting from their citizens are likely to be more responsive to those they govern than states which largely rely on rents from commodities such as oil or minerals, or on foreign aid.⁵ Also, like other states in the global South, South Africa faces a significant challenge to reduce poverty - not only does tax provide resources which would allow the government to do this; tax collection can in itself reduce inequalities by enabling the state to redistribute wealth through the tax system.⁶ For all these reasons, SARS's enhanced performance is crucial to our understanding of the prospects of South Africa's post-1994 democracy. And the question of why citizens or

³ For a detailed pre-1994 debate on these questions see Riaan de Villiers (ed.) *Governability During the Transition*, Johannesburg, Centre for Policy Studies, 1993

⁴ Deborah Brautigam 'State Capacity and Effective Governance' in Benno Ndulo and Nic van der Walle (eds) *Agenda for Africa's Renewal*, New Brunswick, Transaction Publishers, 1996, p.81 cited in Khehla Shubane 'A Question of Balance' in Khehla Shubane and Ros Atkins *The Right Thing: Two Perspectives on Public Order and Human Rights in South Africa's Emerging Democracy*, Johannesburg, Centre for Policy Studies, 1998

⁵ Mick Moore 'Death without taxes: democracy, state capacity and aid dependence in the fourth world', in M Robinson and G White (eds.). *The democratic developmental state: politics and institutional design*. Oxford Studies in Democratisation. Oxford, Oxford University Press, 1998

⁶ For a discussion of SARS's role in enhancing money available for social purposes see Smith, op. cit.

companies have been more inclined to meet their obligations is crucial to understanding SARS's successes, and drawing the appropriate lessons from them.

Tax compliance: an alternative view

One of the reasons why the conventional view of tax collection seems so self-evident may be that many of its proponents assume that the only alternative is the other position presented here, one which portrays 'normal' taxpayers as enthusiastic compliers. In reality, neither is appropriate.

The argument that tax collection is not purely a matter of coercion – and that, therefore, more is required to ensure compliance than the use of efficient coercive strategies by taxing authorities – is routinely misunderstood. Those who insist that tax collection is simply a matter of management technique note that SARS has indeed enhanced its technical tax collection capacity through a variety of measures.⁷ They note too that enhanced tax collection follows the introduction of these measures. Logic would dictate that it is the measures, not some mysterious change in the attitudes of taxpayers, which has caused the change. Similarly, they might note that there is no evidence that taxpayers have any reason to feel happier better about paying now than they did before SARS performance began improving – indeed, what evidence we have suggests that SARS can be the subject of severe hostility from the tax practitioners or consultants on whom many affluent people rely to complete their tax returns, and who have denounced the methods SARS uses to collect revenue.⁸ So if enthusiasm for tax-paying has not increased, and vigorous enforcement has, the explanation seems obvious.

Both of these arguments implicitly create a false dichotomy. Either, they imply, we assume that tax is paid by reluctant citizens who must be efficiently coerced – or we are obliged to propose some version of the diligent citizen assumed by those who complain of deficient civic morality. If, therefore, we cannot find evidence of people paying tax voluntarily because they feel they are contributing to a state with which they identify or a government programme which they support, we must assume that people have been coerced into paying, and that the compliance decision depends purely on a cost-benefit calculation in which the costs of punishment are weighed against the benefits of escaping tax. This excludes the possibility that the decision to pay may stem not from enthusiastic endorsement of the state but because taxpayers are embedded in a set of rules, values and relationships which create a culture which makes the decision to pay taxes far more likely. If those elements are present, a technically efficient tax authority may be able to use the routines and attitudes which underpin that culture to enhance collections. Efficiency may matter – but only if a culture conducive to payment already exists. If that culture does not exist among taxpayers, then technical efficiency measures may have no effect. And it is also possible that, if increased technical efficiency is not based on an accurate understanding of

⁷ For details see Smith, *ibid.*

⁸ These attitudes are evident in interviews with practitioners conducted by Leslie Dikeni, formerly of the Centre for Policy Studies. Transcripts are lodged at CPS. They are confirmed by subsequent interviews by Laila Smith.

the culture among taxpayers, it may have no effect – or it may reduce the effectiveness of tax collection.

The moral economy of shame

The argument is perhaps best introduced by examining a SARS tactic which forms a significant element of its strategy – the public embarrassment of individuals.⁹

People in public positions, we are told, are prosecuted for alleged tax misdemeanours amid much publicity because SARS believes that this will shame others into avoiding similar ignominy. This is routinely presented as a technically competent enforcement strategy because it sends a signal to recalcitrants that they will be apprehended, altering the cost-benefit calculation in favour of the tax collector. But that is not all that is happening, since SARS insists that ‘embarrassment’, not simply the application of the law, is a goal of the strategy. This raises an obvious question: why, if tax compliance is purely a matter of coercion, should anyone found not to have complied be embarrassed; there is surely no embarrassment in being found to have done something which everyone else does if they can. To insist that a suspected tax non-payer can be embarrassed is to assume that there is a culture which would make this behaviour appear shameful. This is by no means automatic, since there are societies in which non-payment is not a cause of shame. Where there is a culture which makes exposure of non-payment a source of shame, a form of technical efficiency which relies on shaming offenders may be extremely effective. This argument has been made elsewhere.¹⁰ It is supported by, for example, subsequent interviews with tax practitioners, some of whom fiercely criticise SARS and are clearly at best sceptical about the post-apartheid order, but who insist also that morality dictates that citizens should pay tax.¹¹

The example just cited illustrates an important aspect of taxpayer behaviour – that it may have nothing at all to do with enthusiasm for the state or its governing party. One important analysis of tax collection in South Africa and Brazil¹² argues that compliance here may have originally been inspired by political loyalty, but that the behaviour may survive even after its cause has passed into history. In this view white South Africans were happy to pay for a state which protected them against a majority they perceived as threatening;¹³ this creates a set of habits which become, as it were, ingrained, so much so that they might survive the downfall of the state which inspired the habit and its replacement by one which many of the compliers may view with suspicion. This theory remains speculative. But its accuracy may be relatively unimportant to the argument made here because the insistence that tax-paying depends on an underpinning culture does not depend on the claim that it

⁹ See Friedman and Hlophe, *op. cit.*, for details

¹⁰ *Ibid*

¹¹ Dikeni interview transcripts, *op.cit.*

¹² Evan Lieberman ‘Payment for Privilege? Race and Space in the Politics of Taxation in Brazil and South Africa’ *Political Science* Berkeley, University of California, 2000 and ‘National Political Community and the Politics of Income Taxation in Brazil and South Africa in the 20th Century’, *Politics and Society*, 2001 29 (4), pp. 515-555

¹³ Mick Moore ‘When Do the Rich Willingly Pay Income Tax?’ <http://www.ids.ac.uk/gdr/reviews/review-05.html> p.1

stemmed originally from loyalty to a political order. It may well be that understandings derived from more complicated forces than identification with a system of government are instrumental in creating that culture.

People like us: cultural efficiencies

Before discussing this issue, it may be important to note that ‘technical efficiency’ is a less unambiguous term than many analyses assume. What, for example, are we to make of the observation by a tax practitioner that SARS is to be taken seriously because ‘you are no longer dealing with the old-style civil servant with his flask of tea and sandwiches – now the SARS people wear three-piece suits and have worked for major accounting firms’?¹⁴ The point, of course, is that nothing is being said, at least directly, about the competence of the new type of tax collector – we learn only that they have some cultural similarities with the tax practitioners which their predecessors lacked. This raises an important point about understandings of technical competence. It may well be that the practitioner is attempting to convey, in a culturally coded way, that the new consultants are indeed more technically competent than their predecessors because people who work for large firms and dress accordingly are likely to be better able to extract resources from people skilled in tax avoidance. But the comment may also reveal the degree to which technical competence may simply be a code for cultural compatibility – the practitioner does not, on the surface, say anything about competence: he stresses, rather, the degree to which the cultural fit between him and the SARS employee has increased.

But the statement may also mean both – that the new breed of tax official is both more competent and culturally closer to tax practitioners. Part of SARS’s strategy is premised on the understanding that effective tax collection requires a far greater understanding of the workings of particular sectors of industry than the tax collection agency has hitherto been able to achieve.¹⁵ Implicit in this is the notion that competence is not simply a matter of forensic accounting technique – it requires a knowledge of how specific industries and those who work in them operate. The divide between technical competence and cultural understanding becomes blurred since the latter is an important component of the former: one of the elements of technical competence is an understanding of the culture of the companies and individuals from whom compliance is sought.

Equally important is the network of rules and understandings which underpin tax behaviour. The first point which seems apposite here is that participation in the market economy may create appropriate conditions for certain types of compliance to become seen as routine. Clearly, the argument here is not that there is any necessary connection between the existence of formal markets and tax compliance. Brazilian taxpayers who are said to see the seeking of exemptions as a more appropriate response to tax assessments than payment¹⁶ also operate in a market economy. However, the point here is that market activity is

¹⁴ Discussion, tax practitioner, January 2003

¹⁵ Smith, op.cit.

¹⁶ Lieberman, op.cit.

not simply the exchange of goods and services by private owners. It is, as Douglas North among others has shown,¹⁷ embedded in rules, understandings and routines. And, while North's work is instructive precisely because it points us to the reality that these differ between market economies, it may well be that there are characteristics of market activity which make a culture of compliance more likely.

That SARS has achieved its greatest efficiency gains with companies rather than individuals¹⁸ may, therefore, not be solely attributable to the reality that, given the relative size of firms and individuals' assets, companies are likely to be more cost-effective sources of revenue than people. It may also be related to the likelihood that the tax decision-making process is rather different in companies. They are far more rule-bound than individuals because they are composed of and engage with a variety of groups of people whose rights can be protected only by ensuring that the activity is bound by rules. Firms – and this point would obviously be emphasised the larger and more complex the company – are forced to establish sets of rules to govern their internal workings and to engage with government agencies in a variety of rule-bound interactions (on import permits, tariffs, health and safety regulations and the like). It seems likely that this form of behaviour creates patterns in which tax compliance is a more 'normal' option than evasion.

To elaborate. SARS has used payrolls as a key source of information to secure greater compliance. But companies which seek to evade tax cannot do so by falsifying payrolls without jeopardising their labour relations. Similarly, companies which misrepresent profits are negatively affecting shareholders and investors as well as the tax authorities – both these constituencies may have as immediate an interest as the revenue-gatherer in accurate record-keeping, and may in some cases have a greater direct capacity to enforce it. Market activity forces companies into a variety of relationships which rely on the sort of obedience to rules of disclosure which make tax compliance easier to enforce. Individuals, even if they live in a rule-bound society, do not face the same pressures to disclose information, and therefore have greater leeway to evade obligations. To this should be added the reality that firms, like large non-profit organisations, find it more difficult to evade obligations simply because more people are required to participate in the act, and there is an obvious possibility that one or more of them will refuse to co-operate. This ensures that organisations are more likely sources of compliance than individuals. As noted earlier, this does not mean that the factors discussed here mandate compliance – corporate scandals in the United States show that shareholders and workers can indeed be misled, while in sub-Saharan Africa it is not uncommon for large organisations, including some which are publicly owned, to evade their fiscal obligations. But it does create conditions for behaviour which makes compliance an easier option than its alternative, while in different environments, ranging from the informal through to that in which individuals decide whether or not to comply, the reverse may be the case.¹⁹

¹⁷ See for example Douglass C North *Institutions, Institutional Change and Economic Performance*, Cambridge (UK), Cambridge University Press, 1990

¹⁸ Smith, op. cit.

¹⁹ This point is made in *ibid.*

Similarly, we may find that individuals are more likely to be locked into a culture conducive to tax-paying the more habituated they are to particular forms of administrative routine – more specifically, if they are used to interacting with the state through a set of rules which are seen to have two key characteristics: that they are not arbitrary, and that there is a reasonable expectation that compliance will yield benefits – the extension of rights (such as a license to drive a vehicle) and entitlements (a pension or a subsidised place at a state school). It may also be that engagement with the state tends towards compliance if it is assumed, over a fairly long period, to be capable of implementing its own rules. North points towards this when he stresses the role of institutions, or ‘the rules of the game in a society’²⁰ in shaping economic behaviour. It seems plausible that individuals who are used to acting within rules which make compliance with public obligations more routine would be more open to altering their behaviour in response to changes in the efficiency of the tax authority.

Thus the difference between white and black citizens under apartheid may have been not only that whites identified with the government and blacks did not. It may also relate to different experiences of government and its enforcement of rules. Apartheid did not only create a racial hierarchy in access to power and privilege – it also created a state which often behaved very differently towards white and black citizens. To black South Africans, the state often acted arbitrarily, and appeared largely as an alien force. To whites, despite distortions prompted by the fact that intra-white tensions during the system’s heyday ensured that Afrikaans-speakers enjoyed preferences which English-speakers did not, the state was experienced as a set of rules which could plausibly be said to underpin mutual rights and obligations between the state and its citizens. Within limits, participation in the state could hold out a realistic expectation that obeying the rules, and complying with the required administrative procedures, could bring benefits. This may be more likely to inculcate a rule-bound form of behaviour which tends towards compliance. It must be stressed, at the risk of belabouring the point, that this does not mean that we can be confident of predicting the compliance behaviour of individuals and groups from their immersion in rule-bound administration which they experience as relatively benign. This argument does not posit a direct and necessary correlation between the two. Rather, the point is that engagement of this sort with government may create a context in which enhanced technical efficiency by the tax authority can yield significant improvements in tax collection performance.

Two important points must be made about these assertions. First, the argument made here about the legacy of the past differs significantly from the argument that people comply if they identify with the state. Rather, the point is that they are more likely to do so if they are immersed in the rule-bound procedures of the state in ways which make these rules seem like legitimate forms of regulation (even when they are resented) rather than the whims of an alien power. This is important not only as a scholastic point, since it alters fundamentally our notion of what to look for if we want to establish whether a particular tax culture exists. Rather than seeking taxpayers who share a sense of political community

²⁰ North, *op.cit.*, p.3

with the state, we look, if we want to establish a proclivity for meeting fiscal obligations, for those who are sufficiently immersed in the state's rule-bound institutions in ways which prompt them to assume that the rules are indeed implemented in the manner intended. The question of political likes and dislikes, or even of the stated motives for compliance, become irrelevant. The real test is whether the people from whom compliance is required are used to dealing with the state in ways which would make complying, to them, the most plausible response to obligations.

The second is that apartheid was not ended by a sudden rupture – the constitutional settlement of 1993 was the culmination of a lengthy period of reform apartheid which began in the mid-1970s.²¹ As a result, black South Africans' experience of the state during this period was far more complex than the preceding analysis suggested, because individuals and collectives experienced arbitrary and rule-bound state behaviour at the same time. On the collective level, the same group of people might, in the 1980s, be engaged in the highly rule-bound activity of registering their trade union within a process which ensured that compliance with legal obligations would guarantee bargaining rights, at the same time as they experienced arbitrary and entirely oppressive police behaviour in response to resistance activity. And individuals might be participating in the rule-bound and mutually obligating process of applying for a title deed for a home (after black property rights in the cities were conceded in the mid-1980s) while experiencing arbitrary police or official behaviour in other contexts. The degree to which this has produced a culture of compliance is an important area for study: if the claim of one SARS official that black tax-payers behave much as white ones do²² is accurate, then there may have been sufficient incorporation of black people into state institutions to ensure a shared culture of compliance. It is possible too that current experiences of institutions, companies and the state, state are sufficient to compensate for history – that black taxpayers now experience a relationship with the rules of the state which tends towards compliance.

This begs an obvious question: how did the rule-bound nature of the state arise? The argument advanced here, to a degree, turns on its head the assertion made earlier, that the tax relationship may determine the nature of the state. While this position does not insist that the nature of the state determines the tax relationship, it certainly suggests that it may have an important impact. But, if the tax behaviour does not determine the nature of the state, then what does? The answer may be beyond this paper. Suffice it to say that this argument does support Brautigam's assertion that, where states have a colonial past, that experience is vital to an understanding of the nature and capacity of the state now.²³ More specifically, it may be that countries who look back on a form of colonialism in which there was a significant settler presence in the colonised society may inherit forms of state more conducive to tax compliance, because rules and procedures designed for people who enjoyed rights in the metropolitan country might be expected to be more open to rule-

²¹ Steven Friedman *Understanding Reform*, Johannesburg, SA Institute of Race Relations, 1986; *Reform Revisited* Johannesburg, SA Institute of Race Relations, 1987

²² Friedman and Hlope, op.cit.

²³ Deborah Brautigam 'Building Leviathan: Revenue, State Capacity and Governance' *IDS Bulletin* 33 (3), Institute for Development Studies, Sussex University, 2002

bound administration in which the state met obligations to citizens rather than merely exerting arbitrary power over them.

These questions deserve further enquiry. However, far more important for those concerned with developing better governance understandings and practices than the genesis of cultures of compliance is the assertion that they matter and that, without them, technical efficiency may have little effect in ensuring compliance. It is common cause that SARS's efficiencies have had far more impact among companies than individuals, and in the formal economy than in its informal equivalent.²⁴ While part of the explanation lies in strategic choice – SARS targeted the formal sector as a result of a fairly obvious cost-benefit analysis – and it does claim modest successes in the informal sector among taxi operators,²⁵ it may well be that collecting revenues from people engaged in informal economic activity may prove a far greater challenge not simply because of logistical constraints but because the culture of compliance which operates in the rule-bound interaction between the formal sector and the state is absent among informal businesses and those who operate them.

Strategic implications

What are the implications of this analysis for tax collection in particular, governance in general?

This paper has argued that technical efficiency can only be effective if it is underpinned by a culture favourable to compliance – and that this culture needs to be underpinned by rules, values, and routines if it is to influence behaviour. This implies an approach to tax collection different from that which simply relies on more effective means of coercion. It suggests that revenue collection will be enhanced if the tax collection authority is able to devise rules which capitalise on that advantage. This requires 'reading the culture' which underpins tax behaviour effectively enough to know what will influence behaviour and what will not. SARS's success thus far clearly rests on its accurate reading of the interventions which would be likely to induce compliance - one clear example is the use of public embarrassment techniques, and another is the recruitment of officials with a history of working in private accounting firms, who share common understandings with the people from whom they are collecting tax: these have obviously enhanced effectiveness.

Clearly, continued effectiveness will depend on the preservation of the culture and the routines and daily procedures which underpin it. While these cultures may take years to establish themselves, and may be ingrained enough to be fairly robust in the face of tax collection methods of which taxpayers disapprove and which therefore might violate the senses of fairness which makes effective revenue raising possible, SARS and other tax authorities may be most effective when they are able to see the complex system which makes relatively easy compliance possible as an asset, and ensure, within the limits imposed by the need to ensure compliance, that their strategies do not threaten the underpinnings of compliance.

²⁴ Smith, op.cit.

²⁵ *ibid.*

One way of illustrating this is to examine the role of tax practitioners. As noted elsewhere,²⁶ they would seem to be obstacles to effective collection since their task is to advise clients on how best to avoid paying tax. Thus the minister of finance, while not necessarily referring directly to practitioners, expressed an important aspect of the official attitude when he complained that 'tax is avoided by aggressive tax planning, while purportedly adhering to the letter of the law'.²⁷ However, it may well be that the practitioners play a crucial role in enhancing the efficiency of tax collection, for it is they who communicate SARS's intentions to their clients. If it is accepted that effective collection depends on sending messages to taxpayers through the set of routines which underpins the tax-paying culture, then the practitioners are crucial conduits of the message – they must be if they are to do their jobs. Even when they are trying to conceive ways of beating the system, they are also essential cogs in its working. If official intentions to regulate practitioners are implemented, regulation will need to be framed in ways which ensure that this function is retained – if it not, a vital element of effectiveness may be compromised. It is also conceivable that overly aggressive enforcement methods could be counterproductive if they were to appear to violate some of the cultural underpinnings of compliance by appearing arbitrary and capricious.²⁸ And it is important to stress the degree to which formality is an important ally of a tax collection agency, since engagement in formal economic activity tends to incorporate people into the institutional framework which tends towards compliance.

These points are not new to SARS senior leadership who seem very well aware that they are engaged in an activity in which understanding and using the behaviour patterns of taxpayers and the assumptions which underpin them are a crucial ingredient of success.²⁹ As noted above, SARS strategies reflect this, and their success is clearly partly attributable to it. But it is open to serious question whether this point is widely accepted in government. Often, compliance is assumed to be the natural mode of citizen behaviour, and policies which rest crucially on it are therefore not based on a thorough attempt to understand the institutions and understandings which might tend towards or away from compliance. The assumption that citizens will simply respond to a government decision requiring compliance is repeatedly shown to be flawed – current examples are the switch to new forms of drivers' licenses or the registering of domestic workers with the Unemployment Insurance Fund. Ensuring compliance, will, SARS's experience shows, require a far deeper understanding of the behaviours, rules, and norms which prompt people to tend towards compliance or towards ignoring particular expressions of public authority. SARS's performance shows too that developing this knowledge is a continuing process, which will be required well after a measure requiring compliance has been implemented.

²⁶ Smith, op.cit.

²⁷ Trevor A Manuel *Budget Speech by the Minister of Finance*, Cape Town, 20 February 2002 cited in Friedman and Hlophe, op.cit.

²⁸ Claims of this sort were made by informants in the Dikeni interview transcripts

²⁹ Interview, Pravin Gordhan, Mfundo Nkuhlu, SA Revenue Service 12/3/2003

The informal conundrum

The second implication has been noted several times, but requires repetition: incorporating informal economic actors into the rule-bound relationship which produces the possibility of tax compliance may prove far more complex than some in SARS seem to believe, since the issue is not simply cost, but also that informal activity is governed by a different set of institutions and understandings to its formal counterpart.³⁰ This sharply limits the applicability of the SARS experience in countries in sub-Saharan Africa and elsewhere in the South where formal economic activity is limited – and in those agencies and departments of the South African state which are required to deal with the millions of citizens engaged in informal activity.

The challenge seems daunting, since what is required is the creation of a culture of compliance, not the ability to make use of an existing culture, and cultures are not created quickly or easily. But it is one of the key arguments of this analysis that the culture tending towards compliance on which SARS currently relies in its dealings with formal economic activity was also created – it is not an innate feature of human social activity. Given that, there is no reason why such a culture should not be established once again among people who now operate outside the formal rules, even if success is likely to be neither easy nor rapid. And it also seems to follow from this analysis that a starting point will need to be a painstaking and lengthy attempt to understand the ideologies³¹ and institutions which underpin informal activity. While it seems axiomatic that the elements of a culture of compliance will be less evident, the strategic exercise would depend on trying to identify elements of informal economic and political culture which might tend towards a compliance-oriented culture – and ways in which they might be strengthened at the expense of the understandings and institutions which obstruct it. Progress may be slow, and much preliminary work may be needed before greater understanding can produce sustained gains in much wider and more permanent compliance.

The message for other parts of the government are much the same. The first step on the way to progress is an acknowledgement that many citizens do not work and live within the same set of rules as the people who draft policy. Not only do their rules need to be understood, but, as in tax collection, ways need to be found of capitalising on rules and beliefs which open the way to compliance while seeking strategies to weaken those which do not. And the key to this is a much closer link between government and people engaged in informal activity. Three elements seem required to operate parallel to each other – the deepening of representative democracy so that public representatives develop deeper links with citizens engaged in informal economic activity and thus a greater understanding of the institutions and understandings of informal economic actors; a concerted attempt by government agencies to gather reliable data on this before framing policy and continually adapting it as they seek to implement it; and research studies which seek to illumine these patterns

³⁰ Steven Friedman and Ivor Chipkin *A Poor Voice?: The Politics of Inequality in South Africa*, Johannesburg, Centre for Policy Studies, 2001

³¹ 'Ideology' is understood here as 'the subjective per perceptions ... all people possess to explain the world around them'. North, op.cit., p.23, note 7

over a more protracted period and without being encumbered by the need to produce short-term reports – complex social dynamics are not quickly understood.

None of this would make for the speedy government decisions which some analysts see as the precondition of effective government. But where people underpin their economic activity with a set of rules, values and behaviours which are obstructions to effective government, a hasty approach which does not stop to listen and observe carefully the beliefs and deeds which will decide whether or not a policy succeeds is a sure route to rapid failure. The history of tax collection – perhaps also its present in some cases – suggests that people outside the cultural circle which underpins compliance can be incorporated into it. But the process is likely to be difficult and lengthy, underpinned by a style of government more geared to trying to understand and learn from activity at the informal grass roots than has thus far been evident.