lines were provided in various White Papers the instructions to public corporations were:

- To balance their accounts, taking one year with another over a period of five years, after providing for interest and depreciation at historic cost (1961 White Paper).
- To adopt pricing policies so that "revenues should normally cover their accounting costs in full" and take into account both short-run and long-run marginal costs, i.e. costs of producing an additional unit of output (1967 White Paper).
- To take the opportunity cost of capital into account in pricing their output (1978 White Paper).

The pricing policies of nationalised industries had been based on the following general principles:

- Consumers should pay the true cost of the provision of goods where it can be identified.
- Cross-subsidisation between profitable and unprofitable services within the industry might be permitted in some circumstances. For example, British Rail could use a surplus earned by commuter services to subsidise loss-making rural services.
- Below cost prices could be charged when there was a surplus capacity and a reduction in price would stimulate demand.
- Differential prices might be charged when demand fluctuated and was heavier at certain times, so that prices were higher at peak times and lower at the off-peak time.
- Multi-tariffs could be introduced, listing charges that were related to the volume of goods transported or purchased and customers could be offered reduced charges.

British corporations had found implementation of marginal cost pricing policies difficult. British Rail could not price some of its services on the basis of marginal costs. The Post Office estimated that marginal cost pricing would have added to its costs as it would have required the establishment and operation of computer models, and results would not have been substantially different from those of a pricing policy based on average costs.

14.9.3 Consumer tariffs

The primary and only objective of consumer tariffs is that they should yield enough income to pay the full costs of supplying such services to individual consumers. For this reason it is necessary to keep full operational accounts for each particular service. The purpose is for each consumer to pay the full cost of each unit of a particular service consumed. The full cost includes the fixed production cost as well as the variable operational cost for supplying each service unit.

As is the case with the prices of private consumer goods, consumer tariffs, therefore, fulfil the same function as prices of private consumer goods by allocating consumer spending to different factors of production. Consumer tariffs have no consumer regulation function, nor a redistribution of wealth function.

Governments are supposed to deliver particular public services at cost with no deliberate profit element built into the consumer tariff structure – the tariff is supposed to cover only the per unit of the services supplied. Casual surpluses or deficits on the operational accounts of particular services should be carried forward to the next financial year so that the surplus or deficit of the previous year can be taken into account when establishing the new tariff for the ensuing year.

Surpluses and deficits are inevitable as it is impossible to make absolutely correct budget forecasts. The proper way of dealing with casual surpluses and deficits is to establish a tariff stabilisation fund for each particular service and to credit or debit any casual surpluses or deficits against such a fund.

Where local Governments are allowed to compile their tariffs in such a way as to deliberately induce a surplus, this becomes an indirect tax on particular services with a redistribution of wealth effect which is unacceptable as the benefit-received principle is violated. There is no moral justification for consumers of particular services to be taxed in order to subsidise the users of collective services. It is unfair because not all users are tax payers. These arguments apply in all instances, also at the central government level where consumer tariffs for particular services are pooled with all other revenue in the State Revenue Fund.

To comply with the objective of a consumer tariff, an operational account should be

established for each particular service, while the structure of the consumer tariff should be of such a nature that it covers the expenditure of such service without surpluses or deficits.

If certain consumers need to be subsidised for some acceptable reason, they should be openly and directly subsidised from the tax revenue. Governments should not hide their social policies behind indirect and invisible subsidies from consumer tariffs.

14.9.4 Nominal levies and sundry revenue

There are some sources of revenue, such as nominal levies and sundry charges, that are similar to user charges and sometimes based on the benefit-received principle. Nominal levies sometimes do not recover the full cost of the service rendered but, just as in the case of user charges, imposing nominal levies is an effort to relieve the burden on the ordinary taxpayer by trying to recover part of the cost from the beneficiaries of a special service.

Nominal levies partially compensate Governments for the costs of special services rendered on request to identifiable individuals, or for special paperwork, such as extracts from official records and the issue of various certificates and documents. The services related to nominal levies are not continuous services offered for sale on a regular basis but are delivered sporadically at the request of an individual or business enterprise.

Nominal levies are seldom charged for public goods or services in the normal sense of their meaning and cannot therefore be regarded consumer tariffs or user charges.

Sometimes a nominal levy is paid for a privilege or right granted by Government to an individual or business enterprise. The enjoyment of such a right may cause expenses for the Government and the purpose of a nominal levy is then to recover all or some of these expenses. Various form of licence fee fall into this category.

The fees for trading licences with a regulation function should be no more than a nominal amount to cover only the application and registration costs, because the regulation of businesses is a collective service for the protection of the public, which should be financed from taxation.

Fines, forfeitures and traffic fines are casual sources of revenue which should not be deliberately budgeted for in order to balance the operational account of some service.

Administrative revenues are collected by a unit of Government from individuals as part of the performance of general governmental functions. These governmental functions are primarily regulatory in nature. It must also provide a certain basic framework within which private economic activity will take place. In the performance of these and other general functions, Government frequently charges a fee, levies a fine, escheat, or otherwise collects revenue from individuals. The correlation between the payment of administrative revenue by the individual is usually broad and imprecise. Only in a general sense, therefore, may it be said that a quid pro quo relationship exists in the case of administrative revenues.

14.9.5 Earmarked taxes

There is some disagreement concerning the economic efficiency results of earmarked taxes. Some suggest that earmarking tends to reduce the willingness of taxpayers to approve expenditures on specific public services. Others argue that earmarking is important as a device to generate taxpayer support for the expansion of certain governmental services.

Earmarking may increase allocational efficiency by insuring more rational individual choice since, with earmarking, the individual can appraise more closely the relevant costs and benefits of a particular project. The individual is thus able to adjust the amount consumed of each public good in order to attain his or her most preferred consumption position. This is not true in general fund financing which is similar to a "joint-product sale" in the sense that to get one commodity the consumer must also purchase another. The individual consumer of quasi-public goods, in the latter case, is subject to an allocational distortion since his or her independence of choice is reduced.

General fund financing will tend to attract a greater supply of publicly-supplied economic goods with elastic demands than will earmarked financing. Thus, when "general fund financing" is used, society receives a greater proportion of those economic goods with highly elastic demands since they are tied in with the acquisition of other goods, and it receives a

smaller proportion of those goods which possess less elastic demands.

It is sometimes argued that the social security programmes should be financed from "general" instead of "earmarked" taxes since negative allocational non-neutrality can result from an excise tax on the wage alone, but not on capital. It is claimed, for example, that payroll taxes, by increasing the cost of hiring new employees, encourage the substitution of capital for labour since capital is not subject to the payroll tax. Therefore, it is argued that labour will be forced into "non-covered" employment while capital is drawn to employment "covered" under social security. It is thus concluded that important non-neutrality takes place.

Consideration can be given to the general tax financing of social security benefits from the progressive personal income tax. This would make the financing of social security more equitable in ability-to-pay terms. This would be a move away from any initial "private insurance" intent for the social security programme and would recognise, instead, that its benefits primarily represent a "redistributional" programme toward lower-income groups rather than a precise quid pro quo exchange of costs and benefits. (The schedule of benefits may be designed to favour workers whose lifetime earnings are below average. However, part of this redistribution could also reflect a transfer from the "youthful poor" to the "elderly poor".) Such considerations may be quite pertinent to state run health and unemployment insurance programmes.

The overall focus of the Treasury Department on user charges, levies and earmarked taxes is limited to offering definitions and general positions on desirability.

The review of the public finance literature looks at the issue from a different direction. It looks primarily at the relative "publicness" or "privateness" of a good as a basis for assessing options with respect to finance and provision. The particular character of the good or service will also determine what financing technique is feasible or available to policy-makers. A user fee or earmarked tax option may be desirable, but excluded as a policy option due to technical reasons (collection costs, inability to apply exclusion principle, etc).

The differentiation between user charges and levies is unclear in the Treasury documentation. For instance it recommends that "a policy preference [should favour] user charges above levies on economic efficiency and equity grounds" (Department of Finance, 1998). As levies are used in very different circumstances to user charges a general preference is inappropriate as the options are not substitutes. A similar inconsistency arises with comments such as: "Levies are a last resort and should only be considered where costs are borne by the targeted group benefiting from the service to be financed."

The idea of a "quasi-user charge", to be used where a "user charge" proves unattainable, is described by the Treasury as "essentially a levy". Television licence fees are used as an example. This is confusing and probably should be considered as a levy without any reference to a user charge. Levies are determined by statute and benefits are not directly linked to use. The use of a term such as "quasi user charge" in this context does not serve to improve clarity.

The Treasury does not make the distinction drawn by Gildenhuys between "user charges" and "consumer tariffs". Consumer tariffs would be used in the case of "quasi-collective-services" to pay for the extra operational costs incurred of supplying services to individuals. User charges, by contrast, do not cover the full costs of such services. This would occur in services where full-cost collective services would exceed the affordability of the larger part of the population. An example would be primary healthcare services.

"Consumer tariffs" would therefore seek to recover the full cost of each unit of a particular service consumed. An example in South Africa would be the billing of private medical schemes by public hospitals. The full cost would include full production and variable costs. A separate operational account is appropriate in such circumstances.

In the conclusions offered by the Treasury Department the proposal is made that in considering levy proposals, "the agency so funded is accountable to the constituency who bears the charge". This proposal is too broad and consequently difficult to apply.

- No distinction is made between a user charge, a consumer tariff, or an administrative levy of one form or another. Clearly the circumstances in each of these instances would vary so substantially that the term "accountability" is confusing.

- If it is assumed that this is a reference to an administrative levy and not a user charge, then it is difficult to understand what is meant by constituency and how this might practically be applied to a specific instance. Particularly if the levy has a regulatory function. The levy may be imposed in the broader interests of the country and be opposed by a particular constituency. Distinguishing between broader and narrower interests lies in the domain of Government policy.
- Thirdly, accountability to narrower interests, if it assumed they can be disentangled in some democratic manner, could have perverse consequences, e.g. in the case of regulatory authorities or bodies where regulatory capture is facilitated.

There are therefore numerous instances where a levy must be applied and administered in a manner that is accountable to Government in a transparent manner, but for which clear separation from the paying public is required. A case-by-case assessment is required. For instance, a distinction should be made between a licence fee paid to a commercial television station and levies used to finance a regulatory authority.

The Katz Commission suggestion that the distinction between user charges and general taxes on the basis of the benefit received principle can be blurred as "many taxes can be based on benefits received" is not correct. The distinction is typically made between benefits that are received in exchange for payment, e.g. an electricity and water charge, and those that are received collectively, e.g. through a defence force. The distinction is not based on the existence of a benefit, but rather on how directly the benefit is linked to the person paying.

The Katz Commission refers to instances where an "impost was merely used as a revenue generation device" and as such the "charge is more akin to a tax". It should be pointed out that crude examples of this, such as "traffic tickets," will have to be distinguished from a policy which has as its objective to make a particular class of person pay directly for services which they previously received free. This would have redistributional consequences but would not necessarily be regarded as a tax. In all instances Government authorities should clearly and transparently implement policy, making clear what its distributional and administrative objectives are. Poor policy making should be seen as a separate issue from the *a priori* appropriateness of a particular form of provision or finance.

Consideration needs to be given to the principles required to determine the initial grounds for the application or non-application of a particular form of finance or provision. Where grounds exist, certain pre-requisites should then be satisfied before implementation.

Social security systems typically make use of variety of funding sources and provider systems. These range from general tax-funding to regulated private markets, with many options in-between. South Africa has a fairly under-developed social security framework, and makes use of either direct state provision or partially regulated private markets. There is a need therefore to broaden the range of social security instruments, and to modernise existing approaches.

14.10 Generic financial framework for social security

Social security systems usually have the following features as reflected in their financial framework (see figure 19):

- *Non-contributory*: This reflects benefits provided directly by the state, either as social transfers or benefits in kind. These benefits can be either means-tested or universal.
- *Contributory*: These benefits are funded through some form of contribution. These can be voluntary, as in the case of medical schemes and private retirement, or mandatory where social insurance schemes (UIF, COIDA) are involved. Mandatory contributions can either provide universal cover (National Health Insurance) or be limited to contributors only (Social Health Insurance). Voluntary contributions can either occur in relatively unregulated environment (private short-term insurance) or in regulated environments (medical schemes in South Africa).

14.10.1 Principles underpinning social security financial management

A clear need has emerged to specify the underlying public finance principles that underpin South Africa's social security system, both from a technical