“Breaking the Poverty Trap”: Financing a Basic Income Grant in South Africa

BIG Financing Reference Group

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This paper was first presented as a draft to a closed conference held by the Basic Income Grant Financing Reference Group on 24 November 2003 in Johannesburg. Suggestions and comments by the participants have been incorporated into this final version.

Executive summary

Nearly a decade after South Africa’s historic transition to democracy, pervasive poverty and inequality pose the greatest threat to human dignity and social cohesion. Roughly half of our population – including two thirds of all children – continues to live in poverty, despite a significant expansion of social service delivery. Our current social security system has shown the effectiveness of income transfers in combating poverty. However, the social safety net inherited from the apartheid era was modelled on the “welfarist” programmes developed for industrialised countries, which assume close to full employment and are designed to address special contingencies and fluctuations in the economic cycle. Furthermore, the "apartheid welfare state" was initially intended to respond to the material conditions of the white population, which were very different from those currently facing the majority of the population.

As a result, South Africa’s social security system leaves more than half of the poor without access to social assistance. It is therefore insufficient to support local economic development or sustainable livelihoods in communities facing long-term, structural unemployment and overlapping dimensions of poverty. Furthermore, poverty – particularly income poverty – often prevents people from accessing public services, thereby undermining the effectiveness of other forms of social investment. By threatening long-term social stability, extreme poverty and inequality also discourage investment and inhibit economic growth. Failure to reverse the trend of deepening poverty could trigger a downward spiral of economic decline and social conflict.

This view is underscored by Government’s new report (October 2003) entitled Towards a Ten Year Review. Among the report’s main findings, it concludes that:

“(T)he advances made in the First Decade by far supersede the weaknesses. Yet, if all indicators were to continue along the same trajectory, especially in
respect of the dynamic of economic inclusion and exclusion, we could soon reach a point where the negatives start to overwhelm the positives. This could precipitate a vicious cycle of decline in all spheres. Required are both focus and decisiveness on the part of government, the will to weigh trade-offs and make choices, as well as to proceed along a new trail.” (page 102)

Government has both a constitutional obligation and a political and moral commitment to ensuring that all in South Africa have the means to meet their basic needs. In 2000, government appointed a Committee of Inquiry to investigate ways for the state to reform the social security system to provide comprehensive coverage for all. The Committee called for the introduction of a range of measures, including a universal Basic Income Grant (BIG) of at least R100 a month, to eliminate destitution, to address different aspects of poverty, to stimulate local consumption-driven economic growth and job creation, and to lay a foundation for sustainable livelihoods.

Although a growing alliance of civil society organisations have endorsed the BIG proposal as part of a comprehensive social protection package, government has yet to adopt an official position on it. Recent events suggest that there is a range of opinion amongst public officials, with some voicing objections to certain features of the grant. Concerns have focused on the potential developmental impact of the grant and the state’s capacity to deliver a universal grant. In addition, some policy-makers have challenged the affordability of the BIG, despite government’s recent shift to a more expansionary fiscal policy that presents more opportunities for social investment when compared to the previous, restrictive fiscal environment.

These debates necessitate serious engagement on proposals for a BIG as part of an effective, comprehensive and sustainable social security system that can protect the millions of people who live in households that receive no social assistance. This paper explores further the question of the BIG’s affordability. It represents the outcome of a five-month process that brought together four prominent South African economists who had previously researched matters related to the implementation of a BIG and had proposed raising the necessary funds from different sources, including personal income tax, value-added tax (VAT), company tax and excise
taxes. The project enabled the economists to revisit their previous work on the economics of a Basic Income Grant, to interrogate each other's financing models, to develop a common set of assumptions about how a BIG would work, and to reach broad consensus on a number of fundamental points.

They concluded:

- The Basic Income Grant is an affordable option for South Africa.
- There are feasible financing options for a Basic Income Grant.
- The optimal financing package will involve a mix of tax sources.
- The Basic Income Grant would significantly reduce poverty.
- The Basic Income Grant would be developmental.

In the wake of this research, it is critical to that government considers proposals for a comprehensive social protection strategy before making final decisions on any components of a social security package. This will require engagement by civil society on multiple levels, both with key government departments and decision-makers and in multi-sectoral bodies, such as NEDLAC.

To lend coherence and continuity to this process, this paper proposes the establishment of a government/civil society forum to consider a range of practical questions related to the configuration and implementation of a comprehensive social protection package and to determine how legitimate concerns about the BIG and other components of the package can most appropriately be addressed.
Section 1: Overview, history and political considerations of a BIG

1. Introduction

Seven years have passed since South Africa adopted a new, democratic Constitution that guarantees fundamental human and socio-economic rights, including the right to social security. Just a year later, the White Paper on Social Welfare gave further expression to that right by pledging that every South African should have a minimum income. The intervening years have seen the emergence of broad popular support for the introduction of a Basic Income Grant (BIG) as a concrete mechanism to give effect to these commitments.

This report was compiled subsequent to the release of Government’s draft Ten Year Review document and the 2003 Medium Term Budget Policy Statement. Those documents reflect an awareness of the fragility of the past decade’s advances and the need to adopt a “developmental paradigm” to consolidate those gains. This must include a commitment to further expansion of social security, including effective delivery of social grants to all who meet the constitutional criteria for social assistance.

In light of these developments, there is an increasingly urgent need to engage seriously the debates around the proposed BIG. Although a BIG would not be a panacea for all the shortcomings of the current social security system, it has a crucial role to play as a core component of a comprehensive social protection system. A BIG would be particularly effective in alleviating income poverty, which often exacerbates other dimensions of poverty. It could further enhance the impact of new social investment initiatives announced recently by government, such as the extension of the Child Support Grant and Expanded Public Works Programme. For example, a BIG will help people to afford transportation and other costs associated with finding work. It is therefore imperative that we analyse in detail the costs, benefits and feasibility of a BIG.
This paper represents one contribution to that process. It is the result of a collaborative initiative, funded by Open Society South Africa, which brought together founding members of the Basic Income Grant Coalition (Black Sash, COSATU and the SACC), leading social policy experts and a cluster of economists who have conducted previous research for government. Beginning in July 2003, these participants came together to identify key principles and questions to guide further research on the financing of a BIG.

The participating economists were then asked to build on their earlier work by assessing the affordability and potential financing mechanisms for a universal income support grant. Their conclusions, together with an analysis of the social and political context of the BIG debate, were presented to government officials at a closed meeting on 24 November 2003. That paper was substantially revised to incorporate comments from participants at that meeting. It is now being published to inform current deliberations regarding social policy and to enrich public discourse on comprehensive social protection.\(^1\)

This paper is divided into three sections. The first section:

- Reviews the socio-economic context for the BIG debate, including an assessment of the depth, structural nature and impact of poverty, unemployment and inequality in South Africa;
- Assesses the political and policy environment in which the BIG debate is taking place, including the legal and constitutional obligations incumbent on government, government’s policy commitments, and the impact of evolving fiscal policy;
- Identifies the likely impact of a BIG, as proposed by the Committee of Inquiry into a Comprehensive Social Security System for South Africa and the BIG Coalition;
- Critiques objections to the BIG; and
- Outlines the need for rigorous investigation of the various claims made concerning the cost of a BIG and the impact of different methods of financing the grant.

\(^1\) A more detailed outline of the project is attached hereto as Appendix 1.
The second section presents findings of the economists, including the shared assumptions agreed at the start of the inquiry, a review of the points of consensus that have emerged from the economic research, an overview of the financing options and the impact of each on poverty and inequality, and the economists' assessments of the affordability of a BIG.

Finally, we set out the way forward, highlighting elements of consensus on the BIG, particularly around its affordability, the impact of various financing mechanisms, its unique contribution to addressing poverty, the developmental nature of a BIG, and its potential to create and promote employment.

2. **The Socio-Economic Context**

Deeply-rooted, structural poverty represents one of the major challenges inherited from the apartheid era. Although there is no clear consensus on an appropriate poverty line, most observers agree that roughly half of South Africa’s population continues to live in poverty, in spite of the poverty reduction initiatives undertaken by our democratic government since 1994.² Extreme economic inequalities also persist, leaving South Africa one of the most unequal nations in the world. Furthermore, the structure of the economy locks the majority into a poverty trap, which has been reinforced by the economic growth path.

Correcting this situation will require a massive intervention by government with the support of business, labour and civil society in order to place our economy on a

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² The Report of the Committee of Inquiry into a Comprehensive Social Security System for South Africa (the Taylor Committee) notes that most researchers put the percentage of the population living in poverty between 45 and 55 per cent, depending on the poverty line used. (p. 29) However, the task of determining a “poverty line” is complicated by the variety of indicators (income, expenditure, consumption, assets, etc.) that can be used to measure poverty. The choice of indicators will also vary depending on whether one is interested in absolute poverty or relative poverty. Identifying a poverty line therefore requires analysts to make assumptions about acceptable or desirable levels of income/consumption (in the case of absolute poverty) or of inequality (in the case of relative poverty). These decisions are intrinsically subjective. As a result, economists admit that poverty lines are often quite arbitrarily drawn. The Taylor Committee recommended that government establish a national poverty line, based on absolute indicators. (p. 62) For the purposes of its analysis of the impact of social grants, the Committee used a “subsistence line” of R401 per capita per month and found that, even with full take up of existing social security programmes, 51.4 per cent of the population would remain in poverty. (p. 59). [Transforming the Present – Protecting the Future, Report of the Committee of Inquiry into a Comprehensive System of Social Security for South Africa, March 2002 (hereafter, “Taylor Report”)].
developmental path. Government’s Ten Year Review calls on these diverse sectors to forge a new social compact to harmonise and integrate their various activities and to harness them to the realisation of national development objectives.\(^3\) A number of initiatives, including the 2003 Growth and Development Summit, have begun to explore the content of such a compact. President Mbeki has drawn attention to the persistent vulnerability and economic marginalisation of the majority and called for measures to address this historic legacy. We believe that agreement on a comprehensive social protection package should form an important element of the overarching peoples contract being proposed by government.

2.1 The deepening crisis of poverty, unemployment and inequality\(^4\)

Perhaps the most serious challenge facing our new democracy is the deepening crisis of poverty, unemployment and inequality. Statistics suggest that nearly ten years after our transition to democracy, efforts to improve conditions for our people have not managed to reverse this trend, even if they have significantly improved certain aspects of their lives.

Statistics South Africa has revealed an alarming deterioration since 1995 in the economic position of the low-income and the poor. Despite government’s efforts to reduce poverty and inequality, the poorest 60 per cent of households’ share of national income fell from 17 per cent in 1995 to 15 per cent in 2000, with the biggest decline amongst the poorest households. During the same period the average African household income actually fell by 19 per cent in real terms.\(^5\)

This decline in living standards was directly linked to the rise of unemployment and growing underemployment during this period. Even using the narrow “official”


\(^5\) Statistics South Africa, *Earning and Spending in South Africa*, (Pretoria: StatsSA, 2002), 33 & 47. Although the statistical analysis contained in this report is contested, there is little doubt that South Africa faces a deep crisis of poverty and inequality. The statistical analysis below is largely taken from labour’s position paper to the Growth and Development Summit.
definition of unemployment (which excludes discouraged work-seekers), unemployment leapt from 16 per cent in 1995 to 30 per cent in 2002. This represents a much greater increase than that experienced by any other middle-income country. The more accurate, expanded definition (including so-called ‘discouraged jobseekers’), puts unemployment at over 40%.

Growing joblessness has been accompanied by a shift to poorly paid, insecure survival strategies. As a result, the average income from work declined sharply between 1995 and 2002. In 1995, 35 per cent of workers earned less than R 1000 a month. By 2002, 39 per cent earned less than R1000 a month, and their incomes had fallen by a third in real terms. This has coincided with growing racial inequality in income distribution. While African household income fell dramatically between 1995 and 2000, the average annual income for white households rose to R158 000, a 15 per cent increase in real terms.

Although the accuracy and implications of these statistics remain contested, one fact is unavoidable: poverty in South Africa is not a ‘worrying problem’ or a ‘persistent enclave’ as in some countries. It is the dominant reality for the majority of our people. Twenty-two million or 53 per cent of our people live in the poorest 40 per cent of households; on average, they survive on R144 per person per month (or far less than the international measurement of a dollar a day). There are 10.2 million

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7 2.2 million people who are regarded as ‘employed’ work in the informal sector. Many of these ‘jobs’ are desperate survivalist activities with little remuneration or stability. Half of those in this sector, according to the Labour Force Survey, earn less than R500 per month. The majority of workers in the formal sector earn over R2500 per month.


9 *Earning and Spending in South Africa*, 33.

10 Calculated from data compiled by Claudia Haarmann, "Poverty and the Current Social Assistance Programmes in South Africa," Applied Fiscal Research Centre Research Monograph No. 21 (April 2001), 24-25.
people living in 3.1 million workerless African households. Roughly two-thirds of all children grow up in poverty. Our problem is severe, and it requires bold initiatives.

2.2 The existing social security net is unable to address this crisis

Our social security net, which includes both contributory social insurance and state-funded social assistance, is modelled on systems developed for industrialised countries with full employment. However, South Africa’s unemployment rate is estimated at 42 per cent, with more than 8.4 million people unable to find work. Furthermore, our unemployment problem is not cyclical, but rather of a long-term, structural nature.

As a result, current policies and programmes are incapable of providing the comprehensive protection promised by the Constitution; they are not designed to assist people of working age who are unable to provide for themselves as a result of protracted unemployment. There are other gaps, too. Children older than nine are presently ineligible for social assistance, even if they live in poor households, and child-headed households often cannot access grants. Ironically, the means test intended to “target” grants can prevent the neediest households from establishing

\[\text{\textsuperscript{11}}\] Taylor Report, 28 and 70.


\[\text{\textsuperscript{14}}\] This is complicated further by the fact that the ‘apartheid welfare state’ was in essence designed in the first instance to benefit whites, and address their material realities, which were very different from those facing the majority of the population.

\[\text{\textsuperscript{15}}\] Statistics South Africa, \textit{Labour Force Survey, March 2003}, published September 2003, \textit{x and Table 6.2, 62-63}. Figures given are for the “expanded” definition of unemployment, which includes those who have given up looking for work.

\[\text{\textsuperscript{16}}\] See further the discussion in Chapters 2.4 and 6 of the Taylor Committee report.

\[\text{\textsuperscript{17}}\] Government is in the process of extending eligibility for the Child Support Grant to children under the age of 14 over the next three years. However, even with this extension, older children will still be excluded from social security coverage.
their eligibility for assistance. Those in the poorest decile receive no social grants.\footnote{Taylor Report, 24-25.} Over all, half the poor live in households that get no social assistance at all.\footnote{Taylor Report, 59.}

Despite its inadequacies, the existing social security system plays a significant role in ameliorating poverty. Without social grants, 58 per cent of households would fall below the subsistence line, as opposed to the current figure of about 53 per cent.\footnote{The Old Age Pension makes the greatest contribution in this regard, reducing the poverty gap for pensioners by 94 per cent. See Taylor Report, 59.}

State transfers contribute two-thirds of the income earned by households in the poorest quintile.\footnote{Towards a Ten Year Review, 18.} Ultimately, however, the current system lacks the capacity to eradicate poverty. Even with full take-up of existing grants, over half the population, 21.9 million people, would remain below the poverty line.\footnote{This calculation made by the Taylor Committee before the decision to extend the Child Support Grant to children below the age of 14.}

The growth in unemployment and poverty means both that the existing social security system has to support more people and that other forms of social support for the poor are coming under greater stress. In particular, lower paid workers and the working poor have to make their incomes stretch further, since they act as the \textit{de facto} safety net for most poor people.\footnote{Of course this support does not only come from low-paid workers, but since this safety net is primarily located in the African community, it is disproportionately from the low-paid. It is also important to recognise that various social and economic factors are leading to the degeneration of traditional social structures, including networks of extended family support. This is exacerbated by shifts in rural-urban demographics. Therefore, this ‘safety net’ is not only itself porous, but it is being further compromised by growing social and economic pressures.}

Yet the total income of working people has itself declined in real terms in recent years; labour’s share in the national income
dropped from 58 per cent in 1992 to 51 per cent in 2002.25 This puts both the incomes of working people and social structures as a whole under greater stress.

Taken together, the growth in absolute and relative levels of poverty, the huge gaps in the social security system, and the growing strain on other forms of support for the poor, signal the urgent need to implement a new model of social assistance that can promote local economic development and foster sustainable livelihoods.26

2.3 Poverty is undermining social delivery

Increasing poverty is undermining many of the most important gains of the democratic era. This is most apparent in relation to delivery of basic services and infrastructure. In the face of job losses and declining incomes, the impressive rollout of basic services has been difficult to sustain in certain areas. Poverty has led to widespread disconnection of services such as water, electricity, and telephone. For example, two million new telephone users have been disconnected in recent years.27 Even subsidised housing, which is specifically intended for lower middle-income earners, is being resold at a fraction of its value, often when the homeowner is retrenched.

Poverty also undermines the effectiveness of delivery of other social services. Poor nutrition and unhealthy social and environmental conditions, for instance, thwart


26 Given current trends in capitalist development and technological innovation, a diminishing proportion of the population is likely in future to have traditional “jobs” in the formal sector. More and more people will therefore have to find an alternative way of making a living (a livelihood). Livelihoods include homestead farming, fishing (with individual or shared boats), writing or other creative arts, or providing services (such as consultancy, personal services, transport, and a host of other work often called ‘freelance’). People who make livelihoods find ways to meet the demands of others, using their own equipment and skills. Livelihoods, as opposed to employment, already comprise a significant and expanding sector of economic activity at all levels of income.

27 While the policy of free lifeline services for electricity and water, which has not yet fully been implemented, will ameliorate this situation, these are for a very small basic amount. Households living in poverty will still face unsustainable choices, such as between paying for water, and buying the basic foodstuff needed for survival. With implementation of prepaid meters for electricity and water, it
state efforts to improve public health and education. This direct connection between income poverty and access to basic services was clearly articulated in the concept of Comprehensive Social Protection (CSP) recommended by the Committee of Inquiry.  

A CSP package would seek to address simultaneously three interrelated forms of poverty – income poverty, services (or capability) poverty and asset poverty – and also respond to special needs. The Taylor Committee noted the tendency of proponents of tight fiscal control to make trade-offs in the provision of basic services, regardless of the social costs. The Committee’s Report states: “There are certain basic requirements that should be available to all, and [should] not subject to being traded off against each other… [I]t is not acceptable to ask a poor parent to choose between attaining a certain level of household income or sending their children to school, though this is not an uncommon choice in reality.”

This apparent “dilemma” arises only within the context of a very tight fiscal envelope. As long as spending decisions are perpetually constrained by unnecessarily tight fiscal targets, policy makers will be compelled to approach such decisions as a series of unacceptable trade-offs. Instead, the constrictive and regressive aspects of revenue policy must be open to reconsideration.

More recently, the state has begun to quantify the value of the “social wage” – the broad basket of social expenditure that is presented as a quantified benefit for each

will become increasingly clear that this is less about a “culture of non-payment”, and more about people simply being unable to afford basic services because of poverty.

28 The Committee of Inquiry position is based on the United Nations Commission on Social Development principle of social protection as articulated in page 40 of their Report:

“The ultimate purpose of social protection is to increase capabilities and opportunities and, thereby, human development. While by its very nature social protection aims at providing at least minimum standards of well being to people in dire circumstances enabling them to live with dignity, one should not overlook that social protection should not simply be seen as a residual policy function of assuring the welfare of the poorest – but as a foundation at a social level for promoting social justice and social cohesion, developing human capabilities and promoting economic dynamism and creativity”.

29 Taylor Report, 41.

30 The social wage comprises of direct income transfers (such as social security benefits, UIF, pensions and retirement funds) and social subsidisation of the costs of basic needs such as housing, health, education, electricity and transport, primarily through public provision financed through the fiscus. Although, in general, the social wage needs to be publicly funded, if it is to benefit everyone, some aspects of the system are funded, at least partly, by contributions from only some members of society e.g employer and worker contributions to retirement funds, the Compensation Commission
person living in poverty. However, it is clear that many of the services that are included under the rubric of the social wage can only be accessed or enjoyed in a sustainable fashion by those having a minimum level of income. An understanding of the interconnectedness of income and social delivery is essential if we are to move from statistical analysis to the drafting and implementation of an evidence-based policy.

It therefore becomes clear why a guaranteed minimum income must be an indispensable part of the drive to extend basic services to the historically excluded majority. Growing poverty and expanded service delivery cannot coexist even over the short to medium term, as we have seen over the space of the last few years.

2.4 Poverty is a fetter on economic development

Extreme poverty is not only a product of underdevelopment, but is itself a fetter on economic development. The exclusion of over half our population from the mainstream economy, apart from being socially and morally indefensible, is also one of the main problems of the South African economy. Such marginalisation is not a by-product of, but integral to, the economic growth path that South Africa has followed for decades.

One of the challenges for South Africa’s social transformation is to break the cycle of economic marginalisation and underdevelopment. Since 1994, however, our pattern of economic growth has continued to marginalise and deepen the poverty of the majority, albeit in a slightly different way. Expansion of the social wage has been offset by large scale job losses, informalisation of work, and a consequent decline in incomes; at the same time, wealth has become rapidly more concentrated in the hands of a minority.31

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31 The figures quoted above show that even if there is greater "deracialisation of wealth", the aggregate levels of inequality between the bottom and top quintiles has continued to grow since 1994. Put differently, while there are more wealthy black individuals the poor (largely black) have continued...
There is now a growing acknowledgement by domestic and international investors alike\textsuperscript{32} that current levels of poverty and inequality are not only unsustainable, but also act as a brake on economic growth. This was one of the explicit motivations from the captains of industry for the formation, with labour, of the Millennium Labour Council, which negotiated sensitive amendments to labour legislation. For the first time, they recognised that the deepening socio-economic crisis, if not arrested, could lead to a social explosion.

The critical question is whether this will prompt a serious reconsideration of current economic strategies and a recognition that the key problem of South Africa’s economy is not \textit{levels of growth}, but the \textit{type of growth} or growth path, which continues to generate such skewed results.\textsuperscript{33} This is clearly demonstrated by the track record of the years since 1994, which have seen \textit{a higher growth rate} than in preceding years, combined with \textit{deteriorating} social and economic indicators. There is no evidence that simply higher rates of growth, on this same growth path, will change these patterns. “Trickle down economics”\textsuperscript{34} have in this respect been discredited in practice in the South African context, as it has in other parts of the world.

3. The Political and Policy Context

The success of South Africa’s transition to democracy and the dismantling of apartheid will ultimately be judged by our capacity to address apartheid’s legacies of poverty, inequality and underdevelopment. As the 1994 Reconstruction and Development Programme observed at the outset of the democratic era: “No political democracy can survive and flourish if the mass of our people remains in poverty, to grow poorer, both in relative and absolute terms; and the wealthy minority have continued to grow richer, both in relative and absolute terms.

32 Including, interestingly, by notoriously conservative international ratings agencies, which have cited high levels of poverty and unemployment as serious obstacles to growth.

33 Of course this is not to suggest that low levels of growth are desirable. Only that higher levels of growth will have the desired effect provided that this takes place in the context of a developmental, equitable and re-distributive growth path. This is the fundamental premise underlying the Reconstruction and Development Programme.

34 The idea that higher levels of growth in themselves will “trickle down” and benefit the poor in society.
without land, without tangible prospects for a better life. Attacking poverty and deprivation must therefore be the first priority of our democratic Government.  

3.1 Constitutional and legal obligations

These priorities were reflected in the socio-economic rights incorporated into South Africa’s new Constitution in 1996. The Constitution guarantees everyone the right of access to social security, “including, if they are unable to support themselves and their dependants, appropriate social assistance”\(^{36}\). The state is obliged to “take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation” of this right. The Constitution also imposes a particular duty on the state to ensure that children under the age of 18 have access to “basic nutrition, shelter, basic health care services and social services.”\(^{37}\)

South Africa is obliged by international law to give effect to the right to social security in terms of the Convention on the Rights of the Child, the Convention on the Elimination of All Forms of Discrimination against Women and the International Covenant on Economic, Social and Cultural Rights. The latter Covenant is the leading international human rights treaty protecting socio-economic rights. The right to social security is protected in articles 9 and article 11 of the Covenant, which gives everyone the right to an adequate standard of living. Although SA has not yet ratified this treaty, it has signalled its intention to do so. The Covenant has already become an important source of guidance to the interpretation of our constitutional provisions on socio-economic rights.

3.2 Policy commitments

The 1997 Welfare White Paper introduced the paradigm of social protection into the social development discourse. A basic income was part of its vision: “There will be universal access to an integrated and sustainable social security system. Every


\(^{36}\) Section 27(1)(c).

\(^{37}\) Section 28(1)(c).
South African should have a minimum income, sufficient to meet basic subsistence needs, and should not have to live below minimum acceptable standards.” [Ch. 7, para. 27]

The formal proposal for a South African Basic Income Grant (BIG) was first broached at negotiations in preparation for the Presidential Jobs Summit in August 1998, during bilateral discussions between Government and Labour. The Minister of Trade and Industry requested further motivation at the next session of bilateral discussions.

In response to this request, COSATU, which had commissioned research on gaps in the social security system and alternative solutions, produced a document outlining the key elements of BIG, and responses to possible objections. This led to a formal agreement to put the matter into a process, through NEDLAC, which would investigate the proposed BIG in the context of a comprehensive investigation into our social security system.

In 2000, government appointed a Committee of Inquiry, chaired by Prof. Viviene Taylor, to carry out that investigation. The Committee commissioned independent research and solicited submissions from a wide range of stakeholders. Its report, published in May 2002, formally recommended the introduction of a BIG as the keystone of a comprehensive social protection package and the most effective way of combating income poverty.

The Taylor Report put the BIG squarely on the national agenda. A broad cross-section of civil society organisations rallied behind the Taylor Committee recommendations, coming together to form the Basic Income Grant Coalition. A

38 This research was commissioned in late 1997. Its main finding was that the introduction of a Basic Income Grant would be the most effective way of remedying the defects in the social security system inherited from apartheid. The research was conducted by Drs. Claudia and Dirk Haarmann.

39 The Committee of Inquiry into a Comprehensive Social Security for South Africa.

40 As of November 2003, the members of the Basic Income Grant Coalition are: Activists Networking Against the Exploitation of Child Domestic Workers, Age-in-Action, AIDS Consortium, Alliance for Children’s Entitlement to Social Security, Anglican Diocese of Johannesburg, Black Sash, Children’s Institute, Church of the Province of South Africa, Community Law Centre (UWC), Congress of South African Trade Unions, Co-operative for Research and Education, Diakonia Council of Churches, The Dominican Order, Earth Africa, Ecumenical Service for Socio-Economic Transformation, Foundation for Contemporary Research, Gender Advocacy Programme, HOPE Africa, IDASA, Joining Hands Against Hunger, Joint Enrichment Programme, Missionaries of Africa in South Africa, NADEL Human
marked shift in interest and political will began to take place. Within both the ANC and Alliance structures, there was renewed commitment to addressing the gaps in our social security system, and the BIG attracted serious consideration as the most comprehensive method of achieving this goal.

To date government has yet to announce a formal position on the BIG or, indeed, on any of the Taylor Committee recommendations. Instead, it has repeatedly deferred a decision at successive Cabinet lekgotlas. Throughout this period, though, some government leaders made public remarks that were widely interpreted in the media as suggesting a dismissive – or even hostile – approach to the Committee’s recommendations, especially on the BIG. The Minister of Finance and Treasury officials were particularly associated with these criticisms, despite having been represented on the Taylor Committee.

At the same time, there has been obvious sympathy and support for a BIG among certain government leaders, officials within key departments, some African National Congress MPs and rank-and-file members of the African National Congress (ANC). The extent of this support became evident at the ANC’s 51st National Conference in December 2002, where a draft resolution on social security that omitted any mention of the BIG was amended to mandate further engagement with progressive forces in support of the grant. Members of the BIG Coalition continue to enjoy cordial and fruitful working relationships with many government officials, particularly within the Department of Social Development.

Meanwhile, the call for a BIG continues to attract local and international attention. Increasing sections of civil society are firmly committed to the introduction of a BIG as part of a comprehensive social protection package. Recent press statements and documents by the People’s Budget Coalition (made up of Congress of South African Trade Unions, the South African Council of Churches, and the South African NGO Coalition) and the even larger Basic Income Grant Coalition all reiterate the call for

41 Government proposed to respond to these recommendations in its July 2002 Cabinet Lekgotla (retreat). This was subsequently deferred to the January 2003 Lekgotla, and then to July 2003.
the implementation of a BIG. And yet, in spite of the scale and significance of the debate around comprehensive social security, there is still no formal and transparent process within government for assessing the BIG.

As a result, pro- and anti-BIG forces are in danger of reaching a stalemate on the issue. If government continues to maintain an official, but unenforced, silence on BIG – or, worse still, reaches a final position without being seen to grapple in an open and transparent manner with the fundamental issues raised by the debate – then there are likely to be persistent tensions and conflicts between government and proponents of the BIG, rather than consolidating and building on the gains of the past ten years of democratic transformation. This would be a great tragedy, particularly in light of the shared commitment to poverty eradication and social progress among actors on both sides of this debate.

3.3 Fiscal policy

Recent evidence of the depth and structural nature of poverty and unemployment highlights the need for bold moves to break the cycle of poverty, facilitate broad-based transformation and enable people to build sustainable livelihoods. Government has begun to embrace a more expansionary fiscal strategy, evident in the 2003/04 and 2004/05 National Budgets, and to give greater priority to social spending. This has created additional space to explore new ways of providing universal access to social security.

As shown in Appendix 2, transfer payments for social security, which make up part of the equitable shares allocated to the provinces, have increased significantly in real terms, representing a commendable attempt to provide social relief to those in need.

In addition, the 2003 Estimates of Expenditure reveals that total grant beneficiaries have doubled from 2.5 million at the beginning of 1997 to well over 5 million by 2002. Most of this growth is attributable to an increase in the number of Child Support Grant (CSG) beneficiaries, brought about by a concerted national effort to register eligible children and by government’s decision to gradually increase the maximum age of eligibility for the CSG from 7 to 14 years over the next three years.

Table 1. Trends in grant beneficiary numbers (per province)
<table>
<thead>
<tr>
<th>Province</th>
<th>April 2001</th>
<th>April 2002</th>
<th>March 2003</th>
<th>Ave. annual growth over period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern Cape</td>
<td>722 440</td>
<td>903 975</td>
<td>1 035 763</td>
<td>15.2%</td>
</tr>
<tr>
<td>Free State</td>
<td>205 003</td>
<td>275 018</td>
<td>356 518</td>
<td>17.3%</td>
</tr>
<tr>
<td>Gauteng</td>
<td>425 615</td>
<td>517 070</td>
<td>682 156</td>
<td>18.0%</td>
</tr>
<tr>
<td>KwaZulu-Natal</td>
<td>792 144</td>
<td>1 024 408</td>
<td>1 285 463</td>
<td>18.8%</td>
</tr>
<tr>
<td>Limpopo</td>
<td>491 680</td>
<td>646 972</td>
<td>784 082</td>
<td>25.5%</td>
</tr>
<tr>
<td>Mpumalanga</td>
<td>250 849</td>
<td>314 734</td>
<td>387 071</td>
<td>20.0%</td>
</tr>
<tr>
<td>Northern Cape</td>
<td>100 271</td>
<td>124 021</td>
<td>134 260</td>
<td>12.8%</td>
</tr>
<tr>
<td>North West</td>
<td>304 075</td>
<td>411 123</td>
<td>450 712</td>
<td>19.1%</td>
</tr>
<tr>
<td>Western Cape</td>
<td>318 136</td>
<td>433 520</td>
<td>501 126</td>
<td>15.1%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>3 610 215</strong></td>
<td><strong>4 650 840</strong></td>
<td><strong>5 617 151</strong></td>
<td><strong>18.2%</strong></td>
</tr>
</tbody>
</table>


According to the National Treasury, it is estimated that approximately 3.6 million children between the ages of 0 and 7 are currently eligible for the CSG. Of these nearly 2.5 million are currently receiving the grants, leaving another 1 million to gain access. The extension to children under 14 will add another 3.2 million eligible beneficiaries over the next 3 years.42

Citing administrative constraints, the Department of Social Development decided to adopt a phased approach to CSG extension. Seven- and eight-year olds will be able to apply for grants in 2003/4; nine- and ten-year olds in 2004/5; and eleven-, twelve- and thirteen-year olds in 2005/6.43 To fund this rollout, government has allocated an additional R1.1 billion for the Child Support Extension Grant in 2003/4, with R3.4 billion and R6.4 billion earmarked for 2004/5 and 2005/6 respectively.

The extension of the CSG is welcome, in spite of the extensive confusion caused by staggered rollout. Even more significant is government’s more expansionary approach to fiscal policy and the scope it offers for greater investment in

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42 Note, however, that government's targets are based not on estimates of the total number of children living in poverty, but rather on the number of poor children that the Department of Social Development believes it has the capacity to reach. The actual number of children in need may be significantly larger than the official target, depending on the poverty line used.
comprehensive social protection if this trend is continued and deepened and arbitrary fiscal constraints, particularly in relation to tax and deficit: GDP and ratios are relaxed. In order for this new direction to be sustainable, it must be based on empirical evidence and rational policy choices. Detailed economic policy analysis, such as the work of the four economists involved in this project, is therefore essential to inform this work. It is equally important, however, for government to undertake its own studies and to engage seriously with this independent research.

3.4 Current thinking within Treasury

At a Public Finance and Monetary Policy Chamber meeting at NEDLAC on 23 October 2003, representatives of the National Treasury reaffirmed that government has no official position on the BIG. At the same time, their presentation revealed the broad outlines of Treasury’s current understanding of several key issues related to the state’s role in financing of social security.

Treasury officials underscored the “relatively large role of social assistance from general revenue, especially compared to developing countries”. They quoted Van der Berg’s claim that “South Africa spends more than many developed welfare states on social assistance – over 2% of GDP” [Van der Berg, 2002] and Seekings’ assertion that South Africa has “a public welfare system that [is] exceptional in the South in that it include[s] an effectively universal and generous old age pension system” [Seekings 2002]. However, this analysis overlooks the impact of apartheid policies in promoting widespread reliance on cash income. Both land policy, which forced many peasants off the land, and the migrant labour system, which made families dependent on cash remittances received from absent breadwinners, promoted extensive reliance on the cash economy.

Of greater concern to the BIG Financing Reference Group was Treasury’s claim that the existing system of social grants, particularly the old age pension and the extended CSG, already constitute “a small BIG”. Furthermore, Treasury consistently exaggerates the estimated cost of implementing a BIG. In a portion of the presentation entitled “The BIG according to ‘Taylor’ “, Treasury repeated the claim

43 Intergovernmental Fiscal Review 2003, Chapter 6 - Social Development
that a BIG would cost between R45 billion and R65 billion, citing the gross cost estimates of Van der Berg, Bhorat and le Roux.

Notwithstanding their assurances that they have no official position on a BIG, the Treasury representatives concluded that a BIG will “require large fiscal adjustments either in overall spending levels, and the ability to spend on competing priorities, such as health, education, job creation and infrastructure, and basic services”. They also claimed that financing a BIG would “require adjustments to macroeconomic and or long-term economic development implications”. They therefore, without concrete analysis of the benefits and real costs of a BIG, recommended further investigation of alternative options and their impact.

Unfortunately, no data or detailed analysis was presented to support these assertions, nor was any alternative plan put forward to extend social security to the 11.8 million poor people who currently live in households with no access to social assistance. Instead, Treasury argued that “given these, government is taking the appropriate route by strengthening income support through extending the child support grant and also budgeting for growth in other grants (disability, foster, care dependency); maintaining growth in real spending in other areas critical to development, viz. infrastructure; services (basic; social; justice; public administration)”. They insisted that government would “continue on a prudent but expansionary fiscal framework, enhancing stability and ensuring real growth in resources available for expenditure on goods & services”. They also contended “a too rapid expansion of income support will upset this positive dynamic.”

The BIG Financing Reference Group would welcome an urgent clarification of these statements. In general, though, it must be recognised that striking an appropriate balance between fiscal prudence and social spending is not simply a technical task. Fiscal policy choices involve inherently political decisions about the allocation and redistribution of resources, and these decisions have immediate effects on the lives of people. For example, the tax:GDP over the current MTEF period is rigidly pegged at between 24.6% and 24.7% of GDP. Effectively, this prevents government from releasing additional and much-needed resources for social spending.
Fiscal policy continues to be located within – hence shaped by – a broader pro-capital, pro-market economic paradigm. The modestly expansionary trend of the past three years has been financed primarily from two sources: improved revenue collection and a slight relaxation of the extremely tight deficit targets of the late 1990s. However, government has now reached a plateau in enhanced revenue collection capacity. Although some scope remains for additional deficit financing, there are also limits to the sustainability of this approach.

Similarly, monetary policy, through inflation targeting and high interest rates has several negative implications on the quality of life of the poor. For example, lower income earners, who are unable to access credit through banks, pay high interest. Furthermore, the poor are not the primary beneficiaries of lower inflation, as food prices, transportation costs and medical care costs – some of the key expenditure priorities for poor households – are less responsive to declines in overall inflation rates.

If more resources are to be made available for social investment and poverty eradication, the structure of taxation must ultimately be overhauled, both to make the tax system more progressive (i.e., to shift a larger proportion of the total tax burden onto higher income earners) and to increase total revenue collection. For example, the People's Budget Campaign has consistently argued that a tax:GDP ratio of up to 29% would provide billions in additional revenue without harming the economy.

The extent and nature of these changes clearly requires further debate. In addition, there must be broad agreement on appropriate indicators of progress. Measurement tools should not be limited to macro indicators, but must include indices such as maternal mortality rates, Gini coefficients, human development indices. These must also be broken down by region to permit assessment of the evenness of progress across the country. Government's assertion that "the macroeconomic fundamentals are in place" must be evaluated in light of the lived experiences of households and communities around the nation.

4. **BIG: The Keystone of Comprehensive Social Protection**
4.1 Taylor Committee and BIG Coalition proposals

The Taylor Committee concluded that, despite recent developments, the social security system continues to exclude the majority of poor people: “There is no income support for children between 7-18 years\textsuperscript{44}, adults between 18-59 years, (or) general household assistance where no-one is employed. Over 13 million live below the poverty line and have no access to social security… SA’s social security system is neither comprehensive nor adequate.”

The Taylor Committee further noted that, as a developing economy, coping with the structural legacies of apartheid, South Africa is unlikely to be able to create stable and meaningful employment opportunities for all economically active adults in the foreseeable future. A narrow, employment-centred concept of social security is therefore insufficient to meet the challenges of poverty and inequality. Social welfare policies based on a notion of close to full employment (where unemployment is largely cyclical) are clearly inapplicable to the South African situation. Our unemployment is structural and hence the concept of traditional social security based on industrialised country norms is not appropriate\textsuperscript{45}.

As mentioned above, Taylor recommended the adoption of the notion of \textbf{social protection}, which includes a package of five components, namely income poverty alleviation, capability poverty alleviation, asset poverty alleviation, special needs and social insurance.

One of the Taylor Committee’s main proposals to combat income poverty was the introduction of a Basic Income Grant, phased in on the basis of an urgent and substantial expansion in the Child Support Grant. It claimed that a BIG “has the

\textsuperscript{44} Government announced in December 2002 that the child support grant would be progressively rolled out to very poor children up to 14 over a three year period, commencing in 2003.

\textsuperscript{45} Martin Nicol argues that the narrow definition of unemployment is of limited value in accurately describing the South African reality. The problem of unemployment goes way beyond those actively looking for work. ‘Discouraged’ in South Africa may often involve a rational calculation to use limited resources on food or other basic necessities, rather than expending them on futile efforts to find work. This does not mean, however, that if a work opportunity became available, the majority of unemployed in this category wouldn’t take it. This was graphically illustrated by a survey of households in KwaZulu-Natal, which was repeated after five years. The same proportion of discouraged workers had found work in this period as of people who were actively seeking work at the time of the original survey. [Martin Nicol, “2 out of 3 Isn’t a Pass Mark”, \textit{South African Labour Bulletin} 27:2 (April 2003), 40 to 42].
potential, more than any other possible social protection intervention, to reduce poverty promote human development and sustainable livelihoods” and is “easier to roll out in the short term than ... (other) poverty programmes.” According to the Taylor Committee, a BIG would:

- be set initially at no less than R100 per month;\(^{46}\)
- be paid to every person legally resident in South Africa, regardless of age or income;
- supplement existing grants to households so that no one would receive less social assistance than he or she does now; and
- be financed primarily through the tax system.\(^{47}\)

The BIG Coalition has called further for the grant to be inflation indexed and delivered primarily through public institutions.

The BIG Coalition argues that a BIG would alleviate poverty, provide all households with a minimum level of income to enable them to better meet their basic needs, stimulate equitable economic development, promote family and community stability, and affirm and uphold the inherent dignity of all people.

Specifically, it would:\(^{48}\)

- **Target the poor more effectively.** By eliminating means tests and complicated application processes, a BIG would reach even those destitute households

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\(^{46}\) The figure of R100 per person per month was part of the original terms of reference for the Taylor Committee, stemming from COSATU’s proposal to the 1997 Presidential Jobs Summit. This, in turn, was based on the findings of Dr. Claudia Haarmann’s research, which found that R100 a month would roughly double the per capita spending of the poorest decile. The platform of the Basic Income Grant Coalition, formed in 2001, also endorsed a R100 monthly grant, but called for this to be inflation-indexed. The amount is seen as sufficient to eradicate extreme destitution, but small enough to be fiscally sustainable and to avoid discouraging beneficiaries from seeking work or other sources of income.

\(^{47}\) See also People’s Budget Campaign, *2004-2005 People’s Budget* (Johannesburg: NALEDI, 2003), 14.
effectively excluded from the current social assistance programme. Targeting would be achieved by paying the grant to everyone, then recovering it from wealthier people through the income tax system. The richest households would also pay a solidarity tax to subsidise the cost of providing the grant to poorer households. Research conducted for the Taylor Committee found that a BIG could close the poverty gap by nearly 74 per cent. With full take-up, the number of poor South Africans without access to social assistance would be nil, and destitution would be virtually eradicated.

- **Be cost-effective.** As the grant is universal, there would be no need for a costly (and potentially corrupt) bureaucracy to investigate and adjudicate applications. More money would go directly to beneficiaries, rather than being absorbed by administrative expenses. Such transfers have repeatedly been shown to be the most direct and effective way to reduce poverty.

- **Be developmental.** The means-tested ‘dole’ schemes common in industrialised nations penalise people who try to improve their incomes by terminating their benefits. In contrast, a universal BIG of R100 a month would prevent people from falling into destitution, but it would not be sufficient to discourage people from looking for ways to earn additional income. To the contrary, research demonstrates that success in job seeking is strongly correlated to income: as income rises, people tend to look for work more vigorously and are more likely to find it. Even a small, stable income enables poor households to take the sort of risks inherent in job seeking and entrepreneurship.\(^{49}\)


\(^{49}\) In a 2002 survey of more than 2000 households in the rural Eastern Cape (Mount Frere and Xhlanga), rural Western Cape (Ceres) and urban Cape Town (Khayelitsha and Nyanga), Dr. Cobus de Swardt concluded: “...[C]hronically poor households need to fulfil their absolute basic needs and have some surplus cash in order to become economically active, generate income and become upwardly mobile in more sustainable ways. It is in this regard that a BIG appears – from all three very different human ecologies – to be useful as a developmental instigator.” He went on to say that a BIG could “enable greater participation in productive activities (both land-based and in the other sectors of the economy) by reducing the severity of the impoverishment, and by providing inhabitants with some monetary resources, and uplift the general low economic base of these areas (e.g., through economic multipliers). Furthermore, there is evidence of a positive correlation between raised income and success in securing work. The small but stable income provided by the BIG would notably assist poor people to cover expenses and take risks associated with job seeking and self-employment.” [Cobus de Swardt, “Unravelling Chronic Poverty in South Africa: Some Food for Thought,” Paper delivered to the International Conference on Chronic Poverty Research, Manchester, UK, 7-9 April 2003, 44-45.]
• **Stimulate economic growth.** Cash transfers into households increase and stabilise demand, consumption and savings. Spending is likely to be concentrated on basic, locally-produced and labour-intensive commodities, thus benefiting local markets and stimulating job creation. Increased consumption is likely to have particular impact on rural areas where it has the potential to kick-start the economy.

• **Combat the ‘poverty tax’.** Under the present system, it is typically the working poor, not the rich, who are ultimately responsible for helping the very poor to survive. The need to provide assistance to unemployed family members or friends acts as an effective ‘tax’ on the wages of the working poor. The BIG reduces these demands, allowing workers to devote a larger proportion of their wages to productivity-enhancing consumption and social investment (in health, improved housing, skills development, children’s education, etc.).

• **Improve the efficiency of social investment.** UN studies have shown that poverty undermines social investment. Inadequate child nutrition, for example, creates long-term health problems, which are associated with higher medical costs, poorer educational performance, lower labour productivity, increased absenteeism, etc. This places an extra burden on women who are typically responsible for health care and education in the family. By strengthening the capacity of households to meet basic health and education needs, the BIG enhances the benefits of additional state investment in these public goods.

• **Enhance responses to the HIV/AIDS pandemic.** The current social assistance system is ill-equipped to deal with the HIV/AIDS pandemic. The support given is insufficient to absorb the additional burden that affected households have to carry. Those most affected by HIV/AIDS – working-age adults – have very little access to social grants. The BIG fills this gap by ensuring that households have a small but regular income with which to buy nutritious food. It will also reduce the need for children to drop out of school, diminish the burden on households that take care of orphans and assist households in accessing health care.
• **Contribute to equity and social cohesion.** If it were financed through a progressive system of taxation, the BIG would be strongly redistributive, helping to address the economic inequalities that are a legacy of the apartheid era. Evidence from other developing countries demonstrates that such inequality is a significant obstacle to economic growth and investment. The BIG could even act as a form of general reparations, along the lines proposed by the Truth and Reconciliation Commission.

### 4.2 Common objections to the BIG\(^{50}\)

Despite the lack of an official response to the Taylor Committee recommendations, a number of public officials and other commentators have raised important concerns about the BIG proposal, including some practical considerations that require further discussion and planning. To date, discussion has centred primarily around five issues:

- Productive employment versus “handouts”;
- Developmental social security or “dependency”;
- Opportunity costs;
- Capacity to implement;
- Affordability and fiscal sustainability.

Since these have been recurring themes in the BIG debate, it is essential to analyse them in greater depth.

#### 4.2.1 Productive employment versus handouts

Social grants are often misunderstood as an alternative to employment. Following the July 2003 Cabinet Lekgotla, for example, a key government spokesperson claimed that people needed opportunities to experience “the dignity of work” rather than relying on state grants; grants, he claimed, should be reserved for those with special needs. Such comments seem to ignore both the dynamics of the poverty
trap confronting millions of South Africans and the multi-dimensional response proposed by the Taylor Committee.

Given the long-term, structural nature of unemployment, the majority of poor South Africans have little prospect of formal employment. Indeed, poverty is deepening precisely because more and more people are being excluded from the labour market for increasing periods of time. In this context, to champion the “dignity of work” as a simplistic alternative social grants is at best misguided and at worst a cruel hoax.

Further, the ‘work not handouts’ critique ignores the thrust of the Taylor report, as well as the perspective advanced by the BIG Coalition. Both advocate a developmental package, closely linking income security and corresponding measures to address other forms of poverty with a new developmental growth path, which stimulates economic activity by integrating the historically-marginalised majority into the mainstream economy as consumers and producers.

From this perspective, guaranteeing a minimum income becomes a key means of enabling people to engage in sustained – and sustainable – economic activity. Far from positing work and grants as mutually exclusive options, this model views both as complementary components of a developmental package that will allow people to become more self-reliant over the medium term, thereby reducing the number of people who must rely on grants to stave off destitution.

South Africa’s circumstances require both the large-scale expansion of employment opportunities and a guaranteed minimum income in order to make lasting inroads into poverty. The BIG can therefore be a crucial partner to the expanded public works programme that is both a key government objective and a mutually agreed goal established at the Growth and Development Summit (GDS), held in June 2003.

4.2.2 Developmental Social Security or “dependency”

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50 “Current debates around BIG: the political and socio-economic context” by Coleman, N. Cape Town 2003

51 Taylor identifies the following forms of poverty: income poverty, services poverty, and asset poverty; and proposes a Comprehensive Social Protection Package to address these forms of poverty in an integrated way.
A related objection is that a Basic Income Grant would create “dependency”. Proponents of this view tend to contrast a universal BIG with a selective social security system that caters for the needs of the "deserving" poor (i.e., those who belong to some particularly vulnerable groups, such as poor children, the aged and the disabled). A selective system is presumed to be developmental because it limits benefits to those who are "truly" in need, whilst expecting others to be self-reliant.

However, a social security system that offers benefits only to those with “special needs” cannot provide comprehensive coverage, as is obvious from the massive gaps in our current social security net. Moreover, numerous studies demonstrate that existing grants, ostensibly targeted at "special needs", do not achieve their objectives because they must be used to support whole families or extended families. Strictly speaking, there are no grants purely benefiting the aged, children or disabled people, only grants going to families fortunate enough to have these categories of people qualifying for such grants and excluding millions who don’t. The notion of targeted grants in this context is thus a fiction.

The vast majority of South Africans are unable to support themselves and their dependants because they lack of access to resources (income, assets, services, etc.). This, in turn, is a direct function of the structural poverty and inequality that permeates their communities. In other words poverty is the most debilitating root of poor people’s dependency. Anything, which perpetuates poverty, deepens that dependency. Measures that reduce poverty, such as a BIG, can empower poor people and lessen their dependency. This is particularly the case when BIG is seen as part of a developmental package, and not an end in itself.

Currently the very poor are primarily dependent on other poor households, particularly the working poor, who act as their primary social security net. The current structure of social security effectively requires the poor to subsidise the very poor, diminishing the obligations on the rich and deepening inequality by leaving the affluent free to accumulate greater personal wealth. This regressive redistribution has been correctly characterised by Dr Michael Samson as a tax on the working poor.
Finally, the notion that grants will make poor people passive and unwilling to work is at odds with South African experience and the thrust of the BIG proposal. The idea that people would elect not to work because they are receiving R100 per month (or a future, inflation-linked figure) is unfounded. If anything, international evidence tends to suggest that a BIG would facilitate employment and other forms of economic activity. Second, because BIG is not means-tested but is received as a right by all, including the working poor, there is no disincentive to work, since employment does not automatically disqualify one from receiving the grant.

4.2.3 Opportunity Costs and public works

Another objection to a BIG is the claim that the grant would “crowd out” state spending on other social programmes. This view is based on the assumption that the programmes at risk of being “crowded out” by the implementation of a BIG, would be more effective (and efficient) than a BIG in eradicating poverty. Again, these views are often expressed without a thorough understanding of the role of a basic income grant within a comprehensive social protection system. One problematic view, being punt ed by some, is that the proposed expanded public works programme (EPWP) would be an alternative to the BIG or that it could achieve the same outcomes. As the Taylor Committee report clearly illustrated, the BIG and EPWP should not be

52 Brazil has introduced several pilot projects since Senator Eduardo Suplicy first tabled legislation to establish a Guaranteed Minimum Income in Brazil in 1991. These initiatives have significantly improved the level of schooling and employment in various cities and districts. Their positive effects have been observed and duplicated to such an extent that, as of August 2002, almost all municipalities (of a total of 5561 in Brazil) have agreed to implement the Bolsa Escola program, which provides a modest income grant to poor families with children between the ages of 6 and 15, provided the children attend at least 85 per cent of their school classes. The grant is delivered via a magnetic card issued by the government. Similar programmes are being implemented by the Ministry of Health (Food Scholarship); Program to Eradicate Infant Work (PETI) and others.

In 2003, under the leadership of President Lula, a decision was taken to introduce the Bolsa Familia (Basic Family Grant) as national policy to support Brazil's most disadvantaged. This programme has become part of an integrated system of social protection that is developmental in nature. It is important to note that Brazilian governments say that “The minimum income that our government proposes must be seen as a step towards the implementation….of a citizen’s basic income.” [Eduardo Suplicy, “Legitimising Basic Income in Developing Countries: Brazil”, Paper presented to the NGO Global People’s Forum, Johannesburg, 28 August 2002; downloaded from www.sacc-c.org.za/suplicy.html]

53 For this reason, a BIG is radically different from a “dole”. However, as a household's income rises and its living standards improve, a growing portion of its BIG benefits will be recovered through the tax system. Recovery rates will have to be determined in a way that does not create perverse incentives (in other words, so that no one incurs a net penalty for earning additional income).
pitted against each other as they are, in fact, complementary interventions. They have very different roles to play in poverty alleviation as part of a comprehensive social protection package.

The Basic Income Grant Coalition has consistently shared this view. As long ago as the 1998 Presidential Jobs Summit, organised labour proposed large scale PWPs directed towards infrastructure and housing. This call was reiterated at the 2003 Growth and Development Summit.

Nevertheless, there is evidence to show that public works programmes, on their own, are not a cost-effective strategy to alleviate income poverty on the massive scale needed in South Africa. Dr. Anna McCord has calculated that even if the Expanded Public Works Programme announced in November 2003 achieves its goal of creating 200 000 jobs per annum over the next five years, it is not likely to have a significant impact on unemployment, given the scale of the nation’s unemployment crisis.

McCord’s work shows that in order to achieve a significant reduction of unemployment and to reach the 3.2 million workerless households spending less than R800 per month, government would need to undertake a much larger public works programme. She estimates the cost of a programme that would create 3.2 million part-time jobs at R16.8 billion to R28 billion per annum. These costs rise to R37 billion to R61.6 billion a year if full-time jobs are created.

McCord writes: “The evidence available in South Africa and internationally suggests that in and of themselves, public works programmes … do not necessarily move

54 Ibid., 7. McCord uses the term “jobs” because the stated goal of the EPWP is to create one million jobs over five years, but she notes that “workdays created” is a more precise measure and a better analytical tool. She also warns that the limited data concerning the structure of employment created, the number of workdays created and the wage levels of existing public works programmes makes it difficult to determine what constitutes a “job”. In general, however, McCord assumes a wage level of R35 per day. The actual cost of creating the number of jobs envisioned would depend in part on the percentage of spending allocated to wages. She observes that simple projects and small-scale agriculture-related infrastructure tend to be the most labour-intensive, allowing 40-80% of costs to be devoted to wages, while water, sanitation and transport projects tend to spend as little as 5-15% of total costs on wages. It should be noted that the 2004/05 national budget allocates R15 billion for the EPWP over the next five years.
participants out of poverty, but offer a temporary respite, reducing the depth of poverty during the period of employment, and they do not offer sustainable livelihood improvements without a range of complementary social development interventions." McCord concludes that "given no significant new allocations are to be made to fund the programme, expectations regarding its impact may not be realistic in terms of reducing poverty, creating sustainable jobs, improving training and stimulating economic growth." 

In contrast, the BIG has the potential to eliminate destitution and to substantially reduce overall poverty levels in a relatively short period. Its truly massive scale is reflected in the fact that over 20 million poor people would benefit from the grant on a monthly basis. It is not feasible, however, to implement an EPWP on such a scale. However, the programme will have other important benefits such as basic training and preparation for formal employment and the creation of infrastructure.

Furthermore, PWPs are essentially a medium term strategy, involving relatively high administration costs. A BIG could be put in place more rapidly and could be delivered more cheaply, especially once some of government's plans for technological innovations are realised (see below).

It is significant that government reports and independent analyses consistently acknowledge that income transfers, particularly the Old Age Pension, have been the most efficient and effective form of government expenditure targeted at poverty. We should expect the same results from a BIG, except on a far larger scale.

Although PWPs are not especially effective in eliminating destitution, they can address other aspects of poverty by providing basic training, preparing people for


57 Currently PWPS only employ about 30-40,000 people a year. Even if this were increased ten-fold, PWPs would still only transfer income to at best about 10% of the people who would benefit from a BIG. (This is based on the calculation that one PWP job is roughly equivalent to four BIGs, since the PWPs pay about R400 per month.)
formal employment and improving public infrastructure. Indeed, an EPWP is clearly the most appropriate and responsible approach to public infrastructure development in situations of high unemployment.

BIG and PWPs must therefore be mutually reinforcing elements of a comprehensive package. When they are counterposed as competing options, it is often as part of a conservative agenda that extols the dignity of labour and the need for the poor to pull themselves up by their own bootstraps. We will do a disservice to all South Africans if we permit the struggle to find the most effective weapons against poverty to be eclipsed by ideological posturing.

Finally, no coherent argument or econometric projections have been advanced to substantiate the view that our economy cannot fiscally sustain both the introduction of a BIG as well as larger scale PWPs.

4.2.4 Capacity to implement

Some officials who have recognised the value of a BIG in principle have raised doubts about the practical difficulties in putting it in place. A primary concern has focused on government's capacity to deliver a universal grant. Such objections have, however, tended to ignore important implications of universal delivery such as the effects of abolishing means testing, the use of SARS to administer recovery, the strengthening of public sector financial institutions to facilitate delivery, proposals for the phasing in of BIG, and the use of new technology to facilitate payment. Furthermore, government is already committed to putting in place many of the necessary improvements to the delivery infrastructure as part of its plan to address deficiencies in the current delivery system.

The Taylor Committee found that means testing often prevents the poorest households from accessing grants.59 By abolishing the means test and recognising

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58 One of the Taylor Committee’s most compelling arguments for a BIG is that, unlike other measures to address poverty which are medium to long term in character, a BIG could be implemented relatively quickly and have a major impact in the short-term.

59 The Taylor Committee found that the poorest decile are not able to access social grants as they cannot overcome the obstacles associated with proving their eligibility. One of the prime obstacles is the means test.
the right of all in South Africa to social security, the BIG would streamline delivery and substantially reduce per capita administration costs.

Moreover, the state has ample capacity to recover a substantial portion of the gross cost of a BIG though the tax system, thanks to the efficiency of the SA Revenue Service. The difficult task in this regard is not so much an administrative but a political one: to determine the structure of this recuperation (e.g., at what point people would have to return part or all of the grant and at what point high income earners would have to cross-subsidise the value of one or more grants via additional income tax payments). However, this task would certainly be no more complex, from an administrative point of view, than any of a number of other highly complex tax structures, which SARS is administering effectively.

The BIG Coalition has also called for the expansion of public sector financial institutions, such as the Post Office Bank, to facilitate safe and convenient delivery of grants. Increasing people’s access to affordable banking services would enable them to receive payment without facing long queues or the concurrent health and security risks. While the rollout of this infrastructure would take time and resources, the advantages are manifold, both in reducing bureaucratic logjams and extending the economic benefits of banking services to the majority.60 In this regard, the recent commitments by the financial institutions to improve access to affordable banking services is welcome, as is government’s acknowledgment of the need to strengthen the PostBank.

Opponents of the BIG have tended to overlook one of the central administrative recommendations of the Taylor report: that BIG needs to be phased in over a period of several years to allow the necessary systems and administrative capacity to be put in place.61 The BIG Coalition has accepted the compelling arguments of Taylor in this regard, despite its preference for a speedier introduction of the BIG.

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60 These include the obvious benefits of savings, the extension of affordable credit, including the use of low interest rates to assist people with co-operative and other ventures, housing etc. This is broadly in line with government policy, but the extension of the public sector has ironically been resisted by the private sector financial institutions, despite the fact that the vast majority of black South Africans are unbanked (over 70 per cent).

61 The committee proposes that a universal Child Support Grant (up to 18) be introduced first, to introduce and test the systems, followed by the full-scale introduction of the BIG, by about 2005/6.
Perhaps the most significant aid to delivery will be the introduction of the Home Affairs National Identity System (HANIS), which is currently being developed by the Department of Home Affairs and the SA Reserve Bank. HANIS will replace the present bar-coded ID book with a ‘smart’ Identity Card. Smart card technology can be used to deliver social grants in a number of ways. For people living in urban areas, the cards could be used to draw cash at ATMs. For those in more rural areas, the possibility of having remote points of access at local spaza shops will mean far less travelling and queuing. Post Bank public information terminals and the Department of Public Service and Administration’s planned multi-purpose community centres could also play an important role in extending rural infrastructure for efficient grant delivery. Government is already planning to deliver existing social grants using the smart card capacity of HANIS.

4.2.5 Affordability and Fiscal Sustainability

As with many of the issues above, the real debate has not yet begun on the affordability and fiscal sustainability of a BIG. Two senior officials of the Treasury were members of the Taylor Committee, which concluded that the package of comprehensive social protection recommended by the Report was “affordable when seen from a long-term perspective as all improvements… occur broadly within current macroeconomic constraints… In particular, the implementation of a universal system of social assistance grants in key areas becomes both feasible and affordable”.62

Nevertheless, some public officials have sought to question the affordability of a BIG by citing highly inflated estimates of its cost. Shortly after the release of the Taylor Report, for example, the Minister of Finance told parliament that a BIG would cost more than R60 Billion.63 This figure reflects the gross costs of the grant, plus an estimated administrative fee based roughly on the high cost of delivering means-

62 Taylor Committee, 149.

63 He also stated in the Alliance Summit in April 2002, before the release of the report, that a BIG would cost R 66.2 billion including the costs of administration, and, when challenged on the gross vs. net costs, argued that the claw back via the tax system could not be considered in the cost estimate. He argued that this was totally unaffordable, would consume 6% of GDP, and would be nearly double the cost of the education budget
tested grants. It ignores the Taylor Committee’s calculations of the net costs of a BIG, which would be about R24 billion per annum.

This a priori assertion that BIG is unaffordable, like the Treasury claim cited above (section 3.4), is not based on any engagement with the economists who did the calculations for the Taylor Committee. The assumption that one can discount the partial recovery of the grant through taxes is without any rational basis. While it is correct that the administration costs of the BIG would have to be factored in, the estimates used by the Minister have not been tested; they are not based on an official costing of the policy options. In effect the critics in government have totally ignored the work done by economists for the Taylor Committee, not to mention the considerable work done for the BIG Coalition.

Further analysis is undoubtedly required. Indeed, it is this recognition that motivated the BIG Coalition to sponsor the current research into the fiscal implications of a Basic Income Grant and appropriate financing options. We would welcome similar initiatives, as well as a formal and detailed costing by the National Treasury. However, the need for further investigation should not become a rationale for dismissing or ignoring the valuable work done thus far.

To sum up, the opposition to BIG has been largely driven by misunderstanding, partial information, and ideological differences. It is clearly not the product of any meaningful process of engagement. This therefore takes us back to the point raised at the beginning of this discussion – that there is a need for a shift in the developmental paradigm if there is to be a serious prospect of making BIG a reality. The BIG Coalition has argued persuasively that a BIG is not only affordable in the short term, but that over time, the relative burden on the fiscus actually diminishes as levels of poverty decrease. Why then do those driving macro economic strategy see the demand for a BIG as a threat to fiscal sustainability? The answer to this question is not a simple one, since we have only recently managed to secure detailed engagement on these issues with those responsible in government.

A few potential explanations are offered.

64 Attempts by the BIG Coalition to set up a meeting between the Minister and economists who have worked on BIG have proved fruitless.
One view is that the real concern is less about whether the grant is affordable and more about the implications of giving in to what is seen as “populist demands”. First, that it would open up the government (or future governments) to pressure to increase the amount of the grant, and that costs could spiral out of control. This is what government officials referred to as ‘open-ended fiscal exposure’ in discussion at the Jobs Summit. This may be why the projected costs of the BIG are grossly exaggerated, to scare off those who may otherwise be supportive of the idea. The assumptions inherent in this concern should be interrogated in an empirical manner, including an investigation of the various alternatives that have been explored to date.

Second, there seems to be a fear that agreeing to a BIG would open the floodgates for other major new areas of expenditure. An example that has been given is the demand for the provision of anti-retrovirals for those living with HIV and AIDS. But there has been no discussion as to how macro economic strategy can be adjusted to address national priorities such as attacking poverty, dealing with the AIDS pandemic, and creating jobs. It is assumed that questions such as these have to be subordinated to pre-ordained macro economic parameters.

It is clear therefore, in describing the history, context and political considerations for a BIG, that there has not yet been a meaningful national dialogue on the real issues of BIG’s feasibility and implementation. Much of the debate has been ideological in character. Hopefully we are now reaching the stage where an empirically based and rational discussion can finally begin to emerge.

Central to this is a serious consideration of the economics of BIG, its financing and affordability, and the developmental impact thereof. To this end, we hope that the consensus emerging from the reports of the economists tasked with establishing the cost of a Basic Income Grant, using a set of fundamental assumptions, will be an

65 Guy Standing has proposed that the value of a BIG be pegged to the value of national per-capita income. This would mean that the value of the BIG would grow more slowly in times of slow economic growth, and that all South Africans would benefit directly from times of prosperity. See Guy Standing, “The South African solidarity grant”, in A Basic Income Grant for South Africa (Cape Town: Cape Town University Press, 2003), 13.
important step forward in advancing the debate. These conclusions are described in Section 2 of the paper.
Section 2: Financing the Basic Income Grant: Consensus from the Reports of the Economists

2.1 Introduction

From June to November 2003, the BIG Financing Reference Group commissioned four economists to research the financing of a Basic Income Grant for South Africa. The economists interrogated a number of competing models addressing financial issues affecting a Basic Income Grant, and worked closely as a team and in coordination with the project’s Reference Group in order to carefully interrogate the critical issues. Each economist approached the problem from a unique angle, using complementary data sources and investigating alternative financing options. This section evaluates the results of the research along a number of dimensions. In particular, the following explores the assumptions of the various models, the instruments employed for financing the grant, the economic consequences and the distributional impact. We highlight areas of common agreement, differences among the models, and the areas that require further research.

2.2 Baseline assumptions

All four economists agree on the fundamental assumptions driving the campaign for a Basic Income Grant. The grant would be universal—provided as a right to all South Africans, eliminating the need for a means test. Consistent with the Taylor Committee’s recommendation, the grant would be fixed at R100 per person per month; however, the grant would also be inflation-indexed to ensure that its purchasing power remains constant over time. The year 2000 was selected as a base year. This meant that for 2003, the nominal amount of the grant would be approximately R120. The universal nature of the grant would facilitate administration, ensuring close to full take-up. The Basic Income Grant would provide the foundation for all other social grants, constituting the first amount paid of each

66 Consumer price inflation rates (CPIX) for the years 2000, 2001 and 2002 were 7.7%, 6.6% and 10.0%, respectively. Thus, one would require R126.29 in 2003 to buy the same basket of goods that one could buy for R100 in 2000.
grant. For instance, the Child Support Grant would consist of R120 from the Basic Income Grant, plus a supplement of R40, constituting the total payment of R160 at 2003 rates.

2.3 Financing the Basic Income Grant

All the economists approached the problem of financing through adjustments to the tax structure, and all identified feasible and affordable options for paying for the grant. A consensus emerged that a combination of tax instruments would be the most efficient strategy for financing the grant. Yet the economists each identified different combinations of taxes, with varying implications for the net cost of the grant.

The various tax finance scenarios generated different results in terms of the net cost of the grant, and the distribution of the financing burden across income groups in South Africa. Taxes on goods and services progressively reduce the net benefit to the lower and middle-income groups, reducing the cost of the grant while shifting some of the financing burden away from higher income taxpayers. The strategy targets the very poorest at the expense of the lower middle-income groups. This problem can be addressed by constructing a tiered VAT structure that places a greater emphasis on luxury goods. Taxes on income and corporate profits focus the greatest burden on the highest income groups, and create a more uniform distribution of benefits across the lower and lower middle-income groups. Combination strategies allow policy-makers to more flexibly adjust the net cost of the grant, while balancing tax burdens to minimise the economic costs of higher taxation. The following discussion reviews each of the four analyses.

2.3.1 Economic Policy Research Institute (EPRI)

EPRI has constructed alternative income tax scenarios that recovered the grant from higher income households, leaving a net cost to be financed by an optimal combination of tax instruments. The magnitude of the fiscal impact of the Basic Income Grant depends on several factors:

- The size of the grant.
- The relationship between the Basic Income Grant and other social grants.
• The associated adjustments to the overall tax structure.

• The growth effects resulting from consequent improvements in living standards.

• The impact of the grant on other government expenditures.

• The effect of the associated tax changes on economic growth.

• The take-up rates for the grant.

The size of the grant is benchmarked at one hundred rand per person per month in terms of the average purchasing power in the year 2000, equivalent to R120 in mid-2003. The population estimate is based on the mid-year estimate for fiscal year 2003/2004 from Statistics South Africa, reported as 46 million people. Growing this population at an annual rate of 2% per year yields an estimated population in 2005 of 48 million people.

The first adjustment to the gross cost is the existing obligation on the part of government to finance social grants as determined by the South African Parliament. The major grants quantified for this analysis are the Child Support Grant and other child grants, the State Old Age Pension and the Disability Grant. Based on the micro-simulation analysis with baseline data in September 2000, in 2005 there will be at least 11.9 million South Africans eligible for social grants. This analysis makes the assumption that the Basic Income Grant, as the cornerstone of a comprehensive system of social security, would constitute the foundation for all other social grants. The calculated amount of this first adjustment is 17.1 billion rand in terms of 2003 purchasing power.

With the tax modelling EPRI has carried out, the estimated tax recovery from the higher marginal tax rates is equal to 21 billion rand. In addition, on the pre-net amount of benefit, an amount equal to 3.7 billion rand in Valued Added Tax and other indirect taxes accrues to the National Treasury. This leaves a net amount of 27.3 billion rand to be financed out of additional taxes (equivalent to 22.3 billion rand in terms of 2000 purchasing power). This is the net fiscal burden of the Basic Income Grant.
2.3.2 Prof. Pieter le Roux

Prof. le Roux focused on the valued added tax and excise taxes, constructing a negative expenditure tax framework. His model considers the net impact of the grant plus the taxation used to finance the grant. It states that the impact of a grant plus a VAT increase has a more progressive net impact than when a grant is financed by an income tax increase, at least when concentrating some of the burden of income tax on the lower to middle income taxpayers. This is in spite of the fact that VAT increases taken by themselves can be regressive.

His analysis calculates that a R100 grant paid to every legal resident in South Africa (man, woman and child), financed out of an increase in VAT of about 7%, and a proportionate increase (i.e. a 50% increase) in excise and fuel taxes, would put a burden on those with high expenditures. They would pay far more than they would receive.

This would impose a heavier tax on the affluent. Poorer individuals, on the other hand, would pay very little extra tax on their expenditures, and would therefore have a net gain as a result of the grant. The lower the expenditures, the bigger would be the net benefit. In practical terms, Prof. le Roux concludes that “a BIG could only be implemented by 2005, at which stage a VAT increase of only 3-4% would be needed if expected increases in the efficiency of tax collection were not given back in further income tax cuts, but were earmarked for the income grant.”

He notes that other options for using consumption taxes to fund a BIG, including through the introduction of a luxury VAT rate, have not yet been explored, and require further research.

2.3.3 Prof. Charles Meth

Prof. Meth identified combinations of income tax and taxes on goods and services that balanced burden on different tax bases. His model is a tool for comparing the distributional effects of trickle down growth with those of a redistributive strategy in the form of a Basic Income Grant, under alternative growth scenarios. Benefits in the model are financed by any desired combination of income taxes and VAT, with calculations for excise taxes factored in. Income taxes it is assumed are paid only
by formal sector income earners in the top four deciles. The model can take into account differential costs of collecting taxes, varying costs of delivering benefits as well as the time lags involved in introducing different benefit programmes. One of the model’s most important features is its ability to make comparisons of the household income changes resulting from different social security policy options, including a trickle down growth strategy compared to more pro-active solutions, with a particular focus on the BIG. By allowing for the delays involved in the introduction of a BIG, it is possible to obtain a better picture of the net welfare gains.

By varying the proportion collected using income taxes, the model allows the quantification of the net amount transferred to the poor through the tax and benefit system. In a combination VAT and income tax-financed scenario, both Prof. le Roux and Prof. Meth concur that the size of the transfer increases as the proportion of the benefit funded by income tax rises. In Prof. Meth’s baseline scenario, if the grant were to be R100 per month in 2000 prices, the size of the net transfer in 2000 would be R20.7 billion. Alternative policy options generate net costs between R19 billion and R30 billion.

2.3.4 Dr. Ingrid Woolard

Dr. Woolard demonstrated the feasibility of combining corporate and personal income tax increases to recover the cost of the grant. Dr. Woolard’s model assumes that the BIG is the foundation for all other social grants. Since the Department of Social Development is in the process of extending the age up to which children qualify for child support grants to 14 (This age will take effect in 2005), it was decided that rather than use actual recipients in 2000 (as obtained from the IES), to use instead potential recipients in 2005. Recipients were determined using the criteria applied by the Department of Social Development in 2003, as adapted given the data. The model estimated 28.4% of the population in 2005 would be eligible for one of the existing social grants. Dr. Woolard’s model assesses funding the BIG via the PIT and corporate tax systems.

The 2003 corporate taxation system is a 30% primary tax on profits and 12.5% secondary tax. This is equivalent to a 38.7% effective tax rate. In 2003/04 it is estimated that the primary corporate tax would bring in R65.8 billion and the
secondary tax is R8.0 billion. In 2005/06 the primary corporate tax is estimated as R75.8 billion and the secondary tax as R9.0 billion at current taxation rates. A 3% increase in the primary corporate tax rate would finance 15% of the cost of a BIG, while a 5% increase would fund a quarter of the cost of a BIG. Given the funding through corporate tax, the remainder is assumed to be funded through personal income tax increases. Alternative scenarios were modelled; several of those evaluated as politically feasible by the Reference Group could fund the BIG in combination with a 3-5% increase in the corporate tax rates. The marginal tax rate on the lowest income earners would be raised to 30-35%, while the top rate would be raised to 45%.

The net fiscal income tax burden, excluding the multiple-dependent household effect, from these scenarios ranged from R27 billion to R42 billion. The multiple-dependent household effect reflects the fact that, for instance, a taxpayer with four dependants will yield greater net benefits than a taxpayer with no benefits but the same income. Dr. Woolard’s definition of net burden would attribute equal net burdens to both households. The Reference Group estimates the multiple-dependent household effect could be as great as R8 billion. In addition, Dr. Woolard’s calculations of income tax net burden do not recover the full cost of the BIG—a full recovery scenario would raise the net burdens by between R2 billion and R9 billion.

The alternative approaches by EPRI, Prof. Le Roux, Prof. Meth and Dr. Woolard underscore the options available to government in financing the Basic Income Grant. Each of these strategies stands alone—but they can be combined to provide even greater flexibility. Taken together, these independent analyses corroborate the position by the BIG coalition that financing the Basic Income Grant is clearly feasible.

### 2.4 The impact on poverty and inequality

All the models predict dramatic impacts of the Basic Income Grant in terms of reducing poverty and/or inequality. Prof. le Roux makes the critical point that the Basic Income Grant “would do away with extreme destitution”, the most compelling motivation for the BIG. The EPRI model focuses specifically on quantifying poverty reduction, while the other models measure inequality effects by evaluating the net benefits of the Basic Income Grant by income and/or expenditure decile of the
population. While these are different approaches, they are not contradictory but rather provide a fuller assessment of the positive social impact of a Basic Income Grant.

EPRI’s micro-simulation model supports the quantification of the distributional impact of the Basic Income Grant, including assessments of poverty rates and poverty gaps. The analysis discussed here is based on the poverty line used by the Taylor Committee, but seven different poverty lines were evaluated in their analysis. The Basic Income Grant, along with the government’s commitment to pre-existing social grant programmes in 2005, reduces the individual headcount poverty rate by 56%.

The impact of the Basic Income Grant on poverty gap measures is even greater, since much of the positive social impact of the grant is realised below the poverty line. The Basic Income Grant, together with the government’s commitment to pre-existing social grant programmes in 2005, substantially reduces the average household rand poverty gap, measured in terms of 2003 purchasing power. The median poverty gap disappears—since the average poor household is raised out of poverty by the grant. The mean poverty gap falls by nearly eighty percent.

A similar analysis holds for the average household percentage poverty gap—the poverty measure employed by the Taylor Committee. The Basic Income Grant, combined with the government’s commitment to pre-existing social grant programmes in 2005, reduces the mean household percentage poverty gap by 77.5%.

The aggregate poverty gap measure reflects the macro-economic magnitude of poverty nationally and provincially. Research by EPRI has found that, from a macroeconomic perspective, the aggregate rand poverty gap falls from over R32 billion to less than R7 billion— a drop of nearly 80%.

The table below, for instance, shows the aggregate poverty gap to be a little over R32 billion. In other words, this statistic indicates that it would require R32 billion to completely eradicate poverty in South Africa, assuming these resources were efficiently distributed. The Northern Cape has the lowest aggregate poverty
gap—not because it is the least poor province but because it is has a relatively small population and a relatively low poverty rate compared to other provinces. Likewise, Gauteng has a higher aggregate poverty gap than the Northwest Province—not because Gauteng is poorer but because it is larger in population.

Table 2. EPRI’s model quantifying the impact of a BIG on the Poverty Gap

<table>
<thead>
<tr>
<th></th>
<th>Before (based on Statistics SA I&amp;E 2002)</th>
<th>After (based on EPRI Micro-simulation)</th>
<th>Rand difference</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>National</td>
<td>32 250</td>
<td>6 650</td>
<td>25 601</td>
<td>79.4%</td>
</tr>
<tr>
<td>Western Cape</td>
<td>840</td>
<td>143</td>
<td>697</td>
<td>83.0%</td>
</tr>
<tr>
<td>Eastern Cape</td>
<td>7 167</td>
<td>1 493</td>
<td>5 674</td>
<td>79.2%</td>
</tr>
<tr>
<td>Northern Cape</td>
<td>527</td>
<td>129</td>
<td>398</td>
<td>75.5%</td>
</tr>
<tr>
<td>Free State</td>
<td>2 487</td>
<td>650</td>
<td>1 836</td>
<td>73.8%</td>
</tr>
<tr>
<td>KwaZulu-Natal</td>
<td>8 170</td>
<td>1 542</td>
<td>6 628</td>
<td>81.1%</td>
</tr>
<tr>
<td>Northwest</td>
<td>2 501</td>
<td>575</td>
<td>1 926</td>
<td>77.0%</td>
</tr>
<tr>
<td>Gauteng</td>
<td>3 881</td>
<td>799</td>
<td>3 082</td>
<td>79.4%</td>
</tr>
<tr>
<td>Mpumalanga</td>
<td>1 729</td>
<td>289</td>
<td>1 440</td>
<td>83.3%</td>
</tr>
<tr>
<td>Limpopo</td>
<td>4 946</td>
<td>1 027</td>
<td>3 918</td>
<td>79.2%</td>
</tr>
</tbody>
</table>


The Basic Income Grant, combined with the government’s commitment to pre-existing social grant programmes in 2005, reduces the aggregate poverty gap by 79.4%. EPRI analysed many alternative poverty intervention scenarios, and used several poverty measures—the Basic Income Grant was by far the most effective in each case, and the only one that eliminated destitution.

Prof. Meth modelled several BIG scenarios, each with a slow growth and a moderate growth option. The first of these scenarios documents the impact of a BIG as a foundation for the Child Support Grant. Under the slow growth scenario, the average income of the poorest deciles grow by the amount of the grant, and moderately more over the ten year period because of the economic growth. While the incomes of the highest income groups initially fall because of the cost of financing the grant, the long run impact depends on the growth scenario. Under the lowest growth scenario, the change in income per capita for the highest income decile is only a loss of R1590.
Under the moderate growth scenario, all income groups are better off—and the highest income decile gains income of R2690 on a per capita basis.

Under the low income growth scenario, the Gini coefficient measure of inequality falls from 61% to 54%—still a high level of inequality, but far from South Africa’s status as one of the world’s most unequal countries. Under the moderate income growth scenario, the Gini coefficient measure falls a bit less—from 61% to 55%. More rapid growth benefits the upper income groups disproportionately. More rapid economic growth generates a smaller decrease in inequality than slow growth because the incomes of those earning an income rise faster than the numbers of non-waged (especially unemployed) fall. The reduction in severe inequality is greatest for the Basic Income Grant scenarios than for all the alternative policy options modelled, as measured by Gini coefficients. In particular, public works can generate more inequality, at least in the bottom half of the distribution. As Prof. Meth explains, “PWP jobs are rationed. This has the effect of giving relatively substantial incomes to some individuals within a particular decile, and nothing at all to others who could be in equally poor circumstances.”

In contrast to the dynamic analysis of Prof. Meth, Dr. Woolard provides a detailed analysis based on household survey data of the static distributional impact. Her analysis provides estimates that between 83.3% and 85.7% of the South African population would be better off (or at least no worse off) with a Basic Income Grant, after taking into account the fiscal burden and the value of the benefits.

Examining the distribution of net benefits by income group, everyone in the lowest income groups (decile 1 to 6) benefits from the BIG. Nearly everyone in the 7th decile and almost everyone in the 8th decile are net beneficiaries. Between half and a third of the people in the 9th decile benefit, but only a miniscule fraction of the highest income decile benefit. Average per capita incomes rise for every group except the highest income decile. To understand the calculation of net benefits, consider the following 2 households which would be in decile 9 with per capita income of R25 000:

a) The first example describes one individual who earns R100 000 per year, an unemployed partner and 2 children. The current tax paid by this individual
and hence the household is R14 700 per year. After the BIG, each household member would get R1 512 from the BIG (R6 048 total) but the individuals tax would rise to R22 500 under one scenario. This is an increase in his or her tax burden of R7 500 or a net decrease of R1 452 of the household income (R363 per capita).

b) The second example describes two people in one household who each earn R25 000 per year. The household does not pay tax currently and would not do so under any of the scenarios. As a result the household is R3 024 better off (or R1 512 per capita).

2.5 The affordability of the Basic Income Grant

The consensus among the team of economists confirmed the unambiguous affordability of a Basic Income Grant for South Africa. Prof. Le Roux’s analysis identifies feasible and affordable financing options given even the most conservative financial constraints. He concludes: “In the South African context, a grant of R100, financed by an increase in VAT, excise and other indirect direct taxes (or by not realising potential decreases in such taxes) would be affordable and well-targeted.” Prof. Meth, identifying the question as one primarily of political will, developed a framework in which combinations of tax scenarios can be effectively modelled. Prof. Meth states: “Politically, the question of overall burden affordability relates to the willingness of the authorities to confront the debate about redistribution head-on.” His model allows for various tax mixes that adjust the net burden to the constraints dictated by the political balance of forces.

EPRI’s model takes a different approach, provides substantial cross-country empirical evidence supporting the findings of the Reference Group. Comparisons of South Africa with OECD countries demonstrate that South Africa’s tax structure is not unduly burdensome. The average OECD country’s ratio of revenue to national income exceeds 40%, compared to a ratio less than 25% for South Africa. The relevance of an OECD comparison is supported by the argument that unduly high tax rates will induce immigration out of South Africa, and the overwhelming majority of immigration from South Africa is to OECD countries. The relevance is reinforced
by the comparability of South Africa’s financial system—a key determinant of taxable capacity—to those in industrialised countries.

Studies also document that South Africa’s government revenue (relative to national income) is significantly less than that of other countries with comparable income levels. EPRI’s research has shown that South Africa’s government revenue (as a percentage of national income) is about four percentage points lower than the average for countries with similar income levels (within 20% of South Africa’s per capita national income). Another EPRI study supported a similar conclusion, comparing South Africa’s tax ratio with those of countries with similar income levels. The ten countries with per capita incomes closest to South Africa were analysed—their average tax rate was six percentage points higher than that for South Africa.\textsuperscript{67} Econometric studies that control for individual country characteristics have found South Africa’s average tax rate to be significantly less than that which would be predicted given the country’s economic profile.\textsuperscript{68} Furthermore, tax effort analysis suggests that South Africa could mobilise up to an additional fifty-five billion rand per year without undermining international competitiveness.

Another recent study by EPRI that focused on developing countries demonstrated that that South Africa’s expected tax rate (measured as the expected value of the tax to GDP ratio given South Africa’s economic fundamentals) was equal to 31.7%, which is 7.8 percentage points of GDP higher than the actual average tax rate of 23.9%. South Africa ranks as the fifth most under-taxed country in the study’s sample, based on this tax effort analysis.

The basic income grant represents a substantial commitment of fiscal resources. However, a well-managed programme is affordable and consistent with fiscal responsibility. The net cost of the Basic Income Grant represents between 2 and 3% of South Africa’s national income. Cross-country tax analysis documents that South Africa can afford to raise taxes by at least 5% of national income. South Africa’s tax structure has the potential to finance the entire cost of the programme without

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recourse to deficit spending. The long-term growth implications of the developmental impact further support macroeconomic stability and fiscal affordability. The Basic Income Grant is clearly affordable.

2.6 The impact of a BIG on economic growth and development

A major political question centres on the role of a Basic Income Grant in promoting economic growth, social development and job creation. Prof. le Roux makes the point that “the impact of a universal grant at the level of R100 per person is likely to be developmental”. In particular, if financed through a progressive expenditure tax, then the “grant would not harm economic growth and development. In fact, in the long run, it would probably have a positive impact on economic development and growth.” Prof. Meth emphasises the importance of the political task of creating “a climate of social solidarity” across income groups as a platform for the BIG. By minimising any possible backlash by upper income groups, the economic costs are minimised while the BIG reaps the maximum developmental benefits.

The Basic Income Grant, according to EPRI, would improve access to and efficiency of social services, and make human capital more productive. The grant would also make the labour market work better, creating jobs and supporting economic growth. In addition, a Basic Income Grant would change the macroeconomy by shifting spending towards job creation, reducing poverty and inequality and improving investors’ perceptions of the economy. All these factors promote economic growth.

EPRI’s research has focused on three areas in which a Basic Income Grant would have positive growth effects—the productive impact of social capital, the positive labour market effects and the macro-economic consequences.

First, the Basic Income Grant promotes the accumulation of human and social capital. The interactions are mutually reinforcing. Both nutrition and education support health, and health raises not only the absorption of learning but also the total

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returns to education by extending life span. The expectation alone of imminent improvements in these social spheres may improve social stability.

Second, theoretical and empirical evidence indicates that the Basic Income Grant positively influences both the supply and demand sides of the labour market. Closely linked to the optimal management of social risk, the labour supply transmission mechanism operates through the effect that higher living standards exert on the capacity of unemployed job seekers to find work. Likewise, a basic income grant increases the demand by employers for workers through its direct and indirect effects on productivity. Directly, a basic income grant supports the accumulation of human capital by a worker, and it supports the worker’s productivity-bolstering consumption. Better nutrition, health care, housing and transportation all support the increased productivity of the worker. Indirectly, the basic income grant supports higher worker productivity by reducing the informal “tax” on workers that results from the combination of severe poverty and a remittance-oriented private social safety net.

While the implementation of a basic income grant will partially reduce the need for the private social support network, it will release significant resources to wage earners to bolster their own productivity-improving consumption. The interaction of this effect and the tax effect discussed above creates a type of effective wage subsidy: as employers increase the wages of workers, more of the wage increase goes to the employee’s own consumption. This magnifies the increase in labour productivity, increasing the profits of the business enterprise and potentially increasing employment.

Third, a dual macro-economic transmission mechanisms exists by which the basic income grant may stimulate economic growth. The basic income grant will not only bolster the overall level of aggregate demand in the economy, but also shift the composition of spending towards labour-absorbing sectors of the economy.

The economic growth resulting from social security reform has positive fiscal effects. It raises overall national income, and thus supports the capacity of the economy to support fiscal expenditure. Further, by concentrating growth on lower income individuals, recipients of the basic income grant gradually move to income levels in
which their net transfer is reduced. This lowers the overall net cost of the basic income grant transfers over time.

Just as the basic income grant has a positive impact on economic growth, it also supports more efficient social services. Higher living standards raise the efficiency of the educational system, reducing the repeat rate and thus economising on educational resources. Improved nutrition raises lifetime health levels, reducing the strain on the public health system. The medium-to-long term impact of the basic income grant is likely to reduce the cost pressure on several social sectors, resulting in a reduction in the net fiscal impact of the grant.

A Basic Income Grant fortifies the ability of the poor to manage risk while directly improving their livelihoods. In addition, the grant improves the efficiency of social capital and societal cohesiveness while stimulating overall economic activity. These factors increase both the supply and demand for labour, increasing employment and economic growth and thus sustaining a dynamic growth and development process.

2.7 Conclusions

The economists reached a consensus on the affordability and social imperative of a Basic Income Grant. Prof. le Roux concludes that “a universal income grant is particularly appropriate to countries such as South Africa and Namibia. Indeed, it is the only feasible way in which to deal effectively with poverty and inequality in the short- to medium-term.” Prof. Meth’s analysis raised the question of “whether the country can afford not to introduce the BIG.” The EPRI research concludes that “the Basic Income Grant is feasible, affordable, and supportive of poverty reduction, economic growth and job creation. The grant will fortify the ability of the poor to manage risk while directly improving their livelihoods. In addition, the BIG will improve the efficiency of social capital and cohesiveness while stimulating overall economic activity. These factors increase both the supply and demand for labour, increasing employment and economic growth and thus sustaining a dynamic growth process.”
Prof. le Roux points to one way forward for the researchers: “It would be sad if those of us who favour such a grant would lose the argument for a BIG because we do not have answers, or have contradictory answers, to many of the questions raised by a government that is genuinely concerned about poverty and inequality.” This project organised by the Reference Group has begun the task of reconciling and integrating the important research by economists in terms of financing a Basic Income Grant for South Africa. Further work would continue to strengthen the capacity of civil society to engage with policy-makers on questions revolving around the implementation of a BIG. This would require a common modelling framework and an agreed data source, processed with a consistent methodology that supported the investigations of the diverse economists analysing the Basic Income Grant. The consensus of the economists pointed to Statistics South Africa’s 2000 Income and Expenditure Survey as the optimal basis for future research. Ongoing research—based on sharing data and modelling methodologies—is proceeding with the aim of expanding a public understanding of policy options for financing a Basic Income Grant for South Africa.
Section 3: Conclusion and Way Forward

The need for a BIG, we contend, is underscored by some key statements in Government’s draft Ten Year Review document.

It found that significant progress has been achieved in deracialising the provision of social assistance and improving the take up of social grants amongst those eligible. The Review also strongly affirmed the effectiveness of social grants in reducing poverty, in general, and extreme poverty, in particular. The strengthening of the social wage has also contributed to an increase in the quality of life for those who have access to these services.

At the same time, however, the Review highlighted South Africa’s continuing crises of poverty and unemployment. It states that roughly one third of all households live below the poverty line; the numbers of jobless have increased to 4.3 million, up from 1.9 million in 1995.⁶⁹

The Review concluded: “The advances made in the First Decade by far supersede the weaknesses. Yet, if all indicators were to continue along the same trajectory, especially in respect of the dynamic of economic inclusion and exclusion, we could soon reach a point where the negatives start to overwhelm the positives. This could precipitate a vicious cycle of decline in all spheres. … If decisive action is taken on a number of focused areas, the confluence of possibilities is such that the country would enter a road of faster economic growth and job creation, faster and more efficient provision of quality services, increased social cohesion and reduction of the paradigm of exclusion prevalent among sections of society.”

In 2002, the Taylor Committee recommended the introduction of a Basic Income Grant as part of a comprehensive social protection package intended to eliminate extreme poverty, reduce inequality, stimulate local economies, and create jobs.

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⁶⁹ These figures contrast sharply with the latest unemployment data in Statistics South Africa’s March 2003 Labour Force Survey which puts unemployment at 8.42 million in terms of the “expanded” definition and 5.25 million in terms of the official “narrow” definition. The source of the Ten Year Review document’s much lower figure of 4.3 million unemployed is not clear, but it might be derived by subtracting the reported number of new jobs created. This remains highly controversial.
However, concerns about the affordability of the BIG have impeded implementation of the Taylor Committee proposal.

This project responded to these concerns by enabling the four participating economists to explore in greater depth their previous work on the economics of a Basic Income Grant, to interrogate each other’s financing models, and to reach broad consensus on a number of fundamental points. The participants agreed on several key conclusions, including:

- **The Basic Income Grant is an affordable option for South Africa.** Although the four economists posit slightly different net costs for the BIG, representing transfers to the poor of differing amounts, there was consensus that the grant is affordable without necessitating increased deficit spending by government.

- **There are feasible financing options for a Basic Income Grant.** The four economists modeled a variety of tax-based financing options for a BIG, each of which has different redistributive implications, but all of which represent feasible options.

- **The optimal financing package will involve a mix of tax sources.** There was agreement that a mixed financing package, involving revenue raised from adjustments to personal income tax, VAT, excise and/or corporate tax rates, represents the most stable and sustainable financing package. In order to ensure that the benefit of the income grant to the poor is not reduced through a VAT source base, the introduction of a tiered VAT structure as has been proposed before at NEDLAC requires stringent consideration. One innovative way to adapt the proposals of the various economists would be to explore further the possibility of a tiered VAT structure, in combination with other financing sources.

- **The Basic Income Grant would significantly reduce poverty.** Consistent with other evidence of the effectiveness of social grants in alleviating poverty, the economists agreed that a BIG would dramatically reduce poverty by closing the poverty gap. In particular, the universal nature of the grant allows it to eradicate extreme poverty altogether.
- **The Basic Income Grant would be developmental.** The BIG has the potential to enhance the ability of poor households to manage risk, to improve the efficiency of social capital, to stimulate economic activity, to improve both the supply of and the demand for labour, thereby supporting increased employment and sustained, dynamic, and broad-based economic growth.

The evidence emerging from this project underscores the need for further, detailed consideration of the Basic Income Grant in the context of a broader package of measures designed to achieve comprehensive social protection. Government is already engaged in an ongoing, internal consideration of the Taylor Committee recommendations. In addition, it is gradually revising its fiscal framework to harness more resources for social delivery.

It is critical to build broad social and political support for a comprehensive social protection strategy before government makes final decisions on any components of a social security package. This will require engagement on multiple levels, both within government and in multi-sectoral bodies, such as NEDLAC.

To lend coherence and continuity to this process, the **BIG Financing Reference Group proposes the establishment of a government/civil society forum to consider a range of practical questions related to the configuration and implementation of a comprehensive social protection package and to determine how legitimate concerns about the BIG and other components of the package can most appropriately be addressed.** Such questions might include, for example:

- The timetable for the phasing in of various components of the package, including the BIG;
- The most politically and economically sustainable financing mix;
- The relationship between the BIG and other social grants, especially the Child Support Grant;
- The relationship between the BIG and other components of a comprehensive social protection package; and
Appropriate systems for the administration and payment of the BIG, including arrangements for identification and the prevention of fraud.

We undertake to make the final technical documents prepared for this project by the four economists available to the members of such a forum.

South Africa stands at an historic juncture. We have the opportunity to forge a new paradigm for developmental social protection as part of a new social compact – one that can accelerate social transformation, address apartheid’s legacies of poverty, inequality and deep-seated structural unemployment and promote social cohesion. The options before us deserve careful consideration and open national debate.
Appendix One: The BIG Financing Reference Group

The BIG Coalition has consistently maintained that the choice of a financing mechanism is a political one that is the prerogative of government. It is necessary that such prerogative be exercised in an informed manner and based on empirical data. The Taylor Committee did not fully assess the fiscal impact of the BIG as it had no mandate to consider changes to the tax structure. A number of the economists who sat on the Committee have conducted their own research investigating the question of the sourcing of sustainable financing for a BIG as a cornerstone to alleviation of poverty and the promotion of sustainable development. The various economists involved in this research have identified diverse potential revenue sources and have assessed the affordability of the recommendations of the Taylor Committee.

Believing that the development of policy on social security and poverty alleviation must be informed by the work of these economists, who are experts in this field in South Africa, the BIG Coalition recognised the urgent need to review and assess these various findings. It also saw the need to interrogate the economists' conclusions, to address the question of the relative social costs inherent in the different assumptions and to present this work to relevant decision makers.

These imperatives informed the current research design. Through the auspices of the Black Sash, the BIG Coalition secured funding to undertake a three-month project to address the above questions, and to present the findings of the project to key decision makers from the Presidency and the Departments of Finance and social Development, as well as to a broader constituency, including business and civil society organisations. The BIG Coalition mandated the BIG Finance Reference team to be responsible for guiding and directing this project. The Reference team reflects *inter alia* the sectoral representation of the BIG coalition.

Briefly, the project process entailed four phases:
Phase One - An audit of existing work and a review of the various findings was conducted. The findings of this audit were synthesised into a concept framework document that guided the development of a final paper.

Phase Two - The Reference Team simultaneously identified the main economists who had conducted definitive work in the field, as well as other economists working on related issues, and identified areas of agreement and dissension between the economists. Key questions were then formulated to guide the original authors as they tested the dissenting findings as part of their examination of the alternative cost/benefits of the financing models.

Phase Three - The outcomes of the above process were used to flesh out the original framework document into a final paper. Several meetings were held, and draft documents were exchanged to facilitate agreement on underlying assumptions and other areas of consensus and disagreement.

Phase Four – A revised draft paper was presented at a closed conference to which government, other economists, business and social partners were invited. The paper was refined, based on comments received from participants at that conference. The key findings, contained in Part Two of this paper, were also presented to a broader conference, involving representatives of BIG Coalition members, other civil society organisations, and selected government and private sector representatives. The final report is now being released to stimulate further public debate.
Appendix Two: Social Development expenditure by economic classification

<table>
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<tr>
<th>R million</th>
<th>2002/3 Estimated actual</th>
<th>2003/4</th>
<th>2004/5 Medium term estimates</th>
<th>2005/6</th>
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<tr>
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<td>31 100</td>
<td>37 623</td>
<td>43 929</td>
<td>51 023</td>
</tr>
<tr>
<td>Transfer payments</td>
<td>28 391</td>
<td>33 951</td>
<td>39 740</td>
<td>46 248</td>
</tr>
<tr>
<td>Of which social security</td>
<td>27 259</td>
<td>32 438</td>
<td>38 158</td>
<td>44 593</td>
</tr>
<tr>
<td>Other current</td>
<td>2 709</td>
<td>3 671</td>
<td>4 188</td>
<td>4 775</td>
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<tr>
<td>Capital</td>
<td>147</td>
<td>185</td>
<td>206</td>
<td>225</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>31 247</strong></td>
<td><strong>37 808</strong></td>
<td><strong>44 135</strong></td>
<td><strong>51 248</strong></td>
</tr>
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**Percentage Share**

<table>
<thead>
<tr>
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<th>2002/3</th>
<th>2003/4</th>
<th>2004/5</th>
<th>2005/6</th>
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<tr>
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<td>99.5%</td>
<td>99.5%</td>
<td>99.6%</td>
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<tr>
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<td>Of which social security</td>
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<tr>
<td>Other current</td>
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<td>9.5%</td>
<td>9.3%</td>
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<td>0.5%</td>
<td>0.4%</td>
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<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
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