

# **The Basic Income Grant:** Poverty, Politics and Policy-making

by  
Ravi Naidoo

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The concept of a Basic Income Grant is at the heart of an intense debate in our society, a debate that is revealing much about South Africa's post-1994 class transformation. This is a debate that increasingly reflects the balance of forces for and against redistribution in what remains one of the most economically unjust countries in the world.

I am pleased to be able to give this Harold Wolpe lecture on the B.I.G., which is truly a BIG debate in every sense of the word, and which I predict will remain so for as long as South Africa continues to experience conditions of mass poverty and inequality.

In the time available, I will be talking to the following points:

- Mass poverty as reality
- What are the alternatives to a BIG?
- What did the Taylor Committee propose?
- The BIG: technical issues
- The BIG: politics

**1. Mass poverty is the reality in South Africa, and this reality has not receded meaningfully in the past eight years.**

Scenario planners at the highest levels of government start with the baseline that poverty and inequality levels have not decreased since 1994, and are unlikely to do so with our current economic policies. Of course, official public statements don't usually acknowledge this reality. Predictably some may be heard to talk in vague terms of "life is getting better", which in some respects, mainly procedurally, it is – but it is not getting better in terms of poverty outcomes.

The impact of this state of mass poverty on South Africa is harsh. A few examples follow:

- 25% of all births in 1999 were into households in extreme destitution, and another 50% were into poor households. Such adverse circumstances experienced in early life, of course, have an enormous impact on a child's chances of future success. Children born into poverty are more likely to suffer from disability and illness, get a poor education, suffer violence and abuse, be unemployed, and so on.
- Poverty induces behaviour that increases vulnerability to HIV/AIDS, now estimated at 25% prevalence. A woman may be so financially dependent on her husband, for example, that she may feel she cannot refuse unsafe sex.
- Poverty and inequality are heavily correlated to property and violent crimes. This we know intuitively, though even a recent World Bank study of South Africa confirms this. Poverty also contributes to domestic violence and child abuse; the Ministry of Justice found that its programmes for children fail in the poorest communities, because of the effects of poverty.
- 22% of all households report hunger, and 166 children were reported to have starved to death in the Eastern Cape last month.

On the economic side an investment study done for the Office of the President found that mass poverty is a major constraint to investment. The study found that the poverty and inequality situation looks untenable to investors, who are convinced that this will backfire on South Africa, and have the view that government is not doing enough.

So it is in this context that COSATU proposed a BIG at the Presidential Job Summit in 1998.

*So what is a Basic Income Grant?*

A Basic Income Grant is a grant that is paid to all citizens without the psychologically damaging stigma of means testing. In other words, it is a universal grant that does not impose a judgement as to whether someone is a 'deserving' poor person or not. Rather this grant goes to everyone as a right. This does not mean that the rich actually get the benefit, since the tax system can be reworked to ensure that the better off actually pay back the cost of the grant, and then some.

The concept is quite simple, though it fundamentally turns on their heads many concepts of our current social security – concepts that we borrowed from Britain over the past century.

When the Taylor Committee studied the potential impact of a BIG in South Africa it found the following:

	Poverty Gap Reduction	Additional People Freed From Poverty
Current situation	23%	--
Full take-up of existing grants	37%	0,8 million
BIG	74%	6,3 million

If everyone were to receive a BIG of R100 per month, the BIG would cost approximately R48 billion per annum. After we claim back the taxes, however, the net cost can be brought down to approximately R15 billion (this net amount is what the grant would actually cost the State) – and this benefit would be in the hands of the poor not the rich.

## 2. What are the alternatives to a BIG?

### ***Public works programmes:***

Creating temporary jobs for the unemployed through public works programmes would cost between R36 billion - R64 billion a year, and that is paying at below the poverty line. A high proportion of the budget, up to 85% in some instances, goes to administration costs. Finally, the possibility of scaling up the public works programmes by 30 times its current 200,000 jobs a year appears next to impossible given the serious project management problems experienced with this existing small roll-out. Other questions, such as how public works programmes could address poverty issues like AIDS orphans, are also relevant.

Thus while one accepts that public works are very important, they cannot be seen as a serious measure to reduce mass poverty.

### ***Create quality jobs:***

The creation of millions of quality jobs is obviously the first prize, if this can be done. Unfortunately, key formal sectors shed almost 600,000 jobs between 1996-2001. Some growth appears to have occurred in other sectors, but these new jobs

have tended to be mainly low-paid, poor quality jobs.

The reality is that unemployment or informal work is the work situation of approximately 50% of the total workforce. Despite what we hope for, the research of the Taylor Committee found that the creation of millions of quality jobs is not likely to happen for a long time to come.

***Redistribution of income-generating assets:***

People are poor because they don't have the means to generate an income. The racial distribution of poverty is obviously linked to the racially skewed distribution of economic assets in South Africa. Fundamentally changing this underlying distribution is a necessary goal – but, like public works and quality job creation, the policy outcomes thus far have been dismal (for example, for land, where only 1% was redistributed against a target of 30%). In short, there has been an inability to redistribute assets to the poor on any major scale.

***Use existing grants:***

South Africa's most effective grant is currently the State Old Age Pension, which is responsible for approximately 50% of rural income. So why don't we just increase this grant instead of introducing a BIG? Because 81% of adults and 76% of children live in households without pensioners, so they would not gain from an increase in the SOAP. The other existing grants have even bigger gaps in coverage.

In short, all these are important strategies that need to be pursued. But none can really claim to be serious alternatives to BIG in terms of denting mass poverty.

### **3. What did the Taylor Committee propose?**

The Committee recommended a framework for Comprehensive Social Security for South Africa. This covered retirement provision, national health insurance, social insurance funds, administration and institutional arrangements, etc. – not only the BIG (though the BIG has grabbed the headlines).

The Taylor Committee recommended a universal social security package to address income, service and asset poverty. However, the Committee found that income poverty was the biggest problem. The Committee found that the lack of income was undermining government services and asset programmes (where, for example, people cannot pay for transport to access services, and people are selling the assets that the government is transferring to them thus creating some perverse secondary markets).

The Committee proposed that a BIG (which is called a solidarity grant) be phased in by 2006, starting with children up to the age of 18 years. Such a phasing-in would reduce the financial and administrative risk to government.

The Committee found that such a phased-in approach would make BIG both “affordable and feasible”.

I will not go into all the details on the Taylor Committee report, suffice to say that all the key government departments were on the Committee, including the National Treasury. And in the almost two years of the Committee investigation and debate, there was never a substantive argument that could be mustered against these conclusions.

#### 4. Some of the 'technical' issues in the BIG debate

##### ***Affordability:***

Throughout history 'affordability' has been used a reason not to implement radical social reforms. So the 'New Deal' in the USA was opposed by US business for the same reason, as was the case with the Beveridge social security reforms in Britain. In most cases, when a national crisis was recognised the argument of affordability was set aside.

Of course, with 'affordability' you also have to look at the cost of *not acting*. Delaying necessary spending to save money is false economy, because the cost gets higher once the damage is done.

Most importantly, what does 'affordability' mean in the context where income and company taxes have been cut by R48 billion since 1996? This is more than three times the net cost of the BIG ( $\pm$  R15 billion).

##### ***Economic growth:***

There is a growth and development strategy paper doing the rounds which disingenuously argues that "[W]ith growth, poverty decreases..." – inferring an automatic relationship between economic growth (estimated at a low 2,6% of GDP for 2003) and poverty reduction.

However, it does not take much to know that South Africa has very skewed patterns of distribution. With South Africa's extremely high levels of inequality you need extremely high levels of economic growth, for there to be any meaningful trickle down to the poor.

##### ***Dependency:***

Since the demise of 'affordability' as an objection, it is now argued that a BIG of R100 will 'create dependency'. Let's just think about the logic of this view – that giving greater income security to, say, a poor woman is going to make her *more* dependent than she already is. You would think that this woman is already dependent on others, possibly an abusive partner whom she cannot afford to leave. Poverty, after all, creates the worst kind of dependencies.

The 'creating dependency' argument is also extremely hypocritical. We are all dependent, after all. A man is dependent on his wife. A student is dependent on her teacher. Most of all, businesses and the rich in this country are heavily dependent on explicit and implicit state subsidies.

Lastly, several of the alternatives to a BIG (such as public works) clearly carry a greater dependency than a BIG, as one discovers when a scheme ends in a particular area.

##### ***Administrative capacity:***

This is a real issue. Any new social security system requires that a new administration system be developed to implement it. This is obvious. So it is disingenuous to argue that a proposed scheme is unviable because the administrative system doesn't exist at the time that the scheme is proposed.

It was for exactly that reason that the Committee recommended that BIG is phased in, allowing time for the development of administrative capacity.

This included the creation of a national social security agency to deliver the scheme, and the completion of a new ID system. In both of these areas there has been progress. A new ID system is being developed and is due for completion by 2005; and a few weeks ago, Cabinet approved the creation of a national social security agency.

## **5. Some of the politics of the BIG debate**

There are three challenges facing the BIG.

### ***BIG as part of the 'Developmental State':***

The Developmental State must address issues of assets, services and incomes. In this sense, the BIG is not a panacea that is an alternative to assets and services, but rather an essential income strategy of a Developmental State.

However, some have attempted to distinguish a Developmental State from a so-called Welfare State. In this view the Developmental State is about things and the Welfare State is about giving people money. Part of this misunderstanding of a Developmental State is recent, and is a wilful misunderstanding aimed at undermining the BIG proposal.

However, another part of the misunderstanding stems from past approaches, such as the Social Security White Paper of 1997, which sought to promote the trendy concept of 'Developmental Social Welfare', which has failed miserably. This concept was built around a deep-seated notion of an 'undeserving poor' and promoted ways for the 'able-bodied' to pull themselves up by their own bootstraps. This notion bears no relation to the human development policies followed by Developmental States that have actually been successful.

### ***Challenge to existing policy approach:***

Consistent with the mistitled Growth, Employment and Redistribution strategy (GEAR), there is a desire to find 'a market strategy', i.e. investor-friendly, to reduce poverty. The experience since 1996 has been that no such strategy can be found.

Nonetheless, what we have seen, and are seeing, is a process of company tax reduction coupled with increased appeals for corporate social responsibility. This is, in a sense, a reversion to the policy approach of the 19<sup>th</sup> century, altruism of the rich rather than rights administered by the state (and paid for through compulsory taxes). Thus, there has recently been much interaction between the government and business on poverty reduction focused on leveraging corporate social responsibility. Such approaches will probably amount to little more than opportunities for corporate branding.

### ***Challenge to economic policy makers' authority:***

Policy approaches do not develop in a vacuum. These approaches are developed by important people (at a political and bureaucratic level), whose careers are heavily invested in them. Thus, by promoting a very different approach to poverty, the BIG challenges the position of these policy-makers as the decisive influence in policy formulation in South Africa.

As a result, we can look forward to two responses. Firstly, a much higher burden of proof will be required for the BIG proposal. BIG will be buried under a mountain of apparently legitimate technical queries – and some blatantly ridiculous, like that of one government economist who opposed BIG because the Committee hadn't studied the effect that BIG may have in *increasing* domestic violence. The sole purpose of this higher burden of proof would be to act as a veritable barrier to taking the policy further. These would be policy barriers that would not be raised in regard to other policy approaches that serve prevailing interests (such as the recent announcement to expand public works).

Secondly, as happens everywhere else in the world, there will be a natural herd effect on those intellectuals who want to stay on the right side of officialdom. Thus these 'respectable' intellectuals will be lining up to create the required levels of technical noise. And as Joseph Stiglitz said of his former World Bank research teams, if you try hard enough and manipulate the data, you can always find ways to get your research to reflect the official concerns.

## **6. A concluding thought**

I'd like to conclude with a real life story that describes how I think this debate will play out.

Last year NALEDI acted as the advisor to unions in stopping the privatisation of Spoornet (the railways). Initially, NALEDI did research showing that privatisation of the railways would result in poor areas being cut off from other areas and that economic development objectives would be undermined. This research was ignored, even though it was entirely accurate.

Then the union threatened strike action unless the research was considered. That engagement with the research then happened, and eventually the government conceded that its privatisation plans would indeed not have the benefits that were claimed.

So in February 2002, the President in his Address to the Nation stated that, finally, government and labour have reached an agreement on restructuring a state asset. What was omitted, of course, was that the agreement was that the privatisation plan was not going to work!

Nonetheless, the point of the story is this: the research and appeals to reason, while important in making a case, ultimately do not determine policy. Research and appeals to reason can be ignored. When power is mobilised behind a proposal, only then does a debate on the merits of the issue become likely. In other words, it is power that facilitates a real debate.

And it is there that those in favour of a BIG need to focus their energies.