Thinking BIG...

the proposed Basic Income Grant for South Africa

The idea of a Basic Income Grant (BIG) has become the focus of a major national debate. ***Neil Coleman*** *and* ***Fiona Tregenna*** *argue that such an intervention will significantly reduce poverty levels.*

Serious consideration of the desirability of the Grant originated in a proposal from labour at the 1998 Presidential Jobs Summit, which resolved to initiate an investigation into this issue. This resolution led to the establishment of the Committee of Enquiry into Comprehensive Social Security, the report of which is currently being considered by Cabinet.

Parallel to these processes has been extensive mobilisation of civil society, led by the Coalition for a Basic Income Grant. The Coalition includes Cosatu, SACC, Access, TAC, Sangoco, Black Sash, and a host of other organisations. The next few months are likely to prove decisive as to whether this key intervention to address poverty in South Africa is carried through.

The vicious cycle of poverty

About 22 million people currently live in poverty with an average income of R144 per month. Poverty coincides with race, gender and the rural-urban divide (poor people are predominantly black, female and rural). South Africa also has amongst the most unequal distribution of income in the world. In 1996, according to Census data analysed by WEFA, the poorest 40% of our population got less than 3% of the national income, while the richest 10% enjoyed over 50%.

Together with its social effects, poverty causes economic stagnation and low productivity by:

- reducing access to education and skills;
- worsening health;
- causing instability and insecurity in families and communities;
- increasing the time required for household chores, especially fetching wood and water; and
- making it harder for people to locate employment opportunities.

Current social security system

The current system of grants has three key weaknesses, which limits its effectiveness in breaking the poverty cycle.

- *Failure to reach most of the poor*
  Research conducted for Cosatu on existing social grants revealed that over 13,8 million people in the poorest 40% of South Africa's households do not qualify for any social security transfers. (Haarmann 1998)

The failure to reach all the poor also

emerges from disparities in the share of beneficiaries and the share of poor people by province. The richer more urban provinces have a substantially larger share of beneficiaries than the poorest more rural provinces, when compared against their relative levels of poverty.

- *The real decline in social grants* Relative to headline inflation, the old age pension and disability grants have dropped by almost 20% in recent years. While the recently announced increases are welcome, these do not compensate for the years of cuts, particularly given the current context of rapidly rising food prices, which hit the poor hardest.
- *Low take-up.* Low levels of take-up for most of the main grants is exacerbated by the use of means testing. This points to difficulties in administering them and effectively favour the more urbanised provinces that typically have more efficient delivery systems. The take-up rate for the Child Support Grant (CSG) has been low, particularly in the poorest provinces, although there has been some improvement recently.

A Basic Income Grant (BIG)

Essentially the proposal is for a BIG of between R100 and R200 per month, to be paid to everyone in South Africa from cradle to grave. A BIG is universal, it is not a dole, and it is not means-tested. This makes it more administratively streamlined, and it limits opportunities for corruption and nepotism. It also avoids distortions and disincentives favouring particular groups.

Key motivations and advantages

- BIG could contribute towards the elimination of poverty. Research done at UWC and the Applied Fiscal Research Centre at UCT indicates that a BIG of just R100 per month would nearly triple the average monthly transfers to households. The poverty gap would be reduced, when compared to other proposals to reform social security. This includes measures to ensure full take-up of existing grants, or extension of the CSG to more children.
- A BIG would also have a broader economic impact in stimulating demand and employment, especially in rural areas.
- At the moment very poor and low-income earners act as a social security net for the extremely poor. Researchers have termed this a *poverty tax* on workers. A BIG would allow a larger portion of wages to be channelled to enhancing consumption and social investment – a form of 'wage subsidy'.
- Unemployment in South Africa is at crisis levels. Even where jobs are available, it is difficult for the extremely poor to access them. Research has shown that even nominal increases in earning levels increase the chances of finding employment. The economically liberating effect of BIG is supported by experiences internationally. For example, evaluation of the *bolsa escola*, or minimum income schemes in Brazil showed they reduced the dependency of Brazilian women and sharply increased their labour market participation. According to Guy Standing of the International Labour Organisation (ILO), reasons for this included that women had enough money to afford clothing and travel in search of work. Their children were also more likely to be attending school.
- A BIG would make it possible for poor households to undertake more 'high-risk' investments in small businesses.
- From a social investment point of view, a BIG would considerably enhance the nutritional and educational status of children.

- A BIG could promote reconciliation and social inclusivity.The TRC speaks about a broader reparations scheme to address the wounds left by apartheid.A BIG would be a tangible contribution to this, a kind of 'transformation levy' or 'solidarity levy'.
- The state also has constitutional obligations in dealing with absolute poverty. In the Grootboom case, the Constitutional Court found that, within the test of reasonableness, the state has to make the basic necessities of life available to all, including relief to those in desperate need.The provision of a BIG would advance this.
- A BIG would also assist in combating the HIV/AIDS pandemic, by assisting people living with AIDS and their families in meeting additional nutritional, medical, and palliative needs.
- In terms of administration, it is proposed that payment should be through public infrastructure such as the PostBank.This would keep costs down while also extending much needed infrastructure and services into areas where they are not currently available.The Smart Card system, which Home Affairs plans to introduce, would also lend itself to the smooth administration of the BIG.The capacity and efficiency of SARS has been clearly demonstrated, which would be crucial in administering the tax aspects.

BIG vs more limited interventions

The central strength of a BIG is its universality – everyone qualifies for it, no matter what their income, employment status, age, or other factors.This brings important advantages including: streamlining; low administration costs; low opportunities for corruption or nepotism; and inclusivity and social cohesiveness. Any grant targeted at a particular group, such as a CSG extended to all children, would lose these advantages.

An extended CSG, while an important step forward, would leave a major gap in the social security system: poor adults between the ages of 18 and 60/65. It is estimated that over 800 000 adults living in households *without children in the bottom two income quintiles* – 95% of these would not be reached by any form of social assistance and would be left in destitution.The BIG would close the poverty gap by 64% for this group.

Comparing the effects of the BIG and a CSG – extended to children of 17 years inclusive but with the current means test – demonstrates the great superiority of the BIG.The BIG would close the poverty gap for the bottom two quintiles by an average of 82% compared with 59% for the extended CSG; the average per capita social assistance transfers for the bottom two quintiles would be R121 for the BIG as opposed to R75 for the extended CSG; and the BIG would reach 33 million people, more than four times the reach of the extended CSG.

In practice, where children in poor households are entitled to a CSG and adult members receive no social assistance, the CSG is shared amongst all household members.This means that the actual direct benefits to the targeted children are well below the amount of the CSG, whereas a BIG would relieve pressure on beneficiaries of both old age pensions and the CSG.

It is also important to note the lessons from the implementation of the CSG since its inception.Administrative difficulties, a lack of information about eligibility, and the effect of the means test in discouraging and restricting take-up have led to exclusion of many of the poorest children. Many of these problems would be likely to persist with respect to an extended CSG, and limit its effectiveness in reaching the most vulnerable.

Funding of the BIG

The basic funding model of the BIG is to give it to everyone, rich and poor, and then to 'claw back' the bulk of the costs from income earners over a certain level. In other words, up to a certain threshold, people would retain the entire BIG. At higher income brackets, people would pay back more than the value of the grant in rising multiples, so that very high-income earners would effectively be subsidising several net recipients of the grant.

There would basically be four income brackets: in the first people would retain the full value of the BIG; in the second they would retain a portion thereof. The third bracket would be of net neutral impact; and a fourth bracket in which progressively higher net amounts would be recovered from taxpayers.

This funding model makes the BIG inherently self-targeting in that, although it is universal, it is the poor who actually benefit in real terms. It is also inherently biased towards large families, which tend to be poorer. Each person would receive a BIG whereas recuperation would be by income earner.

While the gross costs of providing a BIG are substantial, a large proportion would be recuperated. The cost, without leaving anyone worse off than before, would be around R23bn. This then is the cost of a 'tax-neutral' recuperation, before the progressive recuperation kicks in.

Of this cost, the amount to be recuperated through the progressive clawback is essentially a political decision, as is the structure/distribution of how this would be done. Initial estimates suggest that about R10bn could be recuperated through this mechanism through the progressive clawback. This progressive measure or 'solidarity levy' would be a demonstrable contribution to reconciliation, reconstruction, and a more equitable development trajectory.

This means that the 'net net' cost of the BIG, to be financed through other sources, could be in the region of R10bn to R15bn. Options for raising this include:

- increased corporate taxation;
- a modest rise in government spending;
- reprioritising government spending;
- restructuring the government employees pension fund.

Is this affordable? This year's tax cuts cost the state exactly in the range of the amount required to finance the BIG. The R15bn in tax cuts, while welcomed by many, will not benefit the majority of our population facing harsh poverty, since they are not part of the tax net.

Further, according to Idasa the reduction of the deficit from the 2,6% planned in the Medium Term Budget Policy Statement in November, to the 2,1% in this year's Budget, reduced the amount available for spending by R5,4bn. These two areas alone (the tax cuts and reduced Budget deficit in this year's Budget) clearly indicate that there is certainly fiscal space to afford a BIG, even without implementing other measures proposed by the Coalition to fund the Grant. Rather than its affordability, the question should be whether SA can afford *not* to introduce a BIG: what is the cost to our society of continuing to live with unacceptable levels of poverty?

The BIG is not a panacea to the myriad of problems facing South Africa. However, we do believe that it is a central pillar of a comprehensive social security system. In turn, this is one critical element of the package of measures needed to address poverty, unemployment, and inequality in the country.

Neil Coleman and Fiona Tregenna both work in Cosatu's parliamentary office and have been involved in the BIG campaign.