PRESENTATION ON BASIC INCOME GRANT

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THE CRISIS BEFORE THE CRISIS

- SA had a lost decade between 2009 and 2019 during which GDP per capita did not grow
- Between December 2008 and March 2020, unemployment increased by 4.9m people to 10.8m. Unemployment rate of 44.1% for Black Africans and 48.2% for Black African females
- 64% poverty rate for Black Africans (2015, Stats SA)
- Most unequal country in the world – Gini of 0.63% (income) and 0.95 (wealth)
- Five consecutive years of declining GDP per capita (2015 to 2019)
- Two recessions in two consecutive years in 2018 and 2019
- Three consecutive quarters of declining GDP by March 2020 and was heading for a third recession in three consecutive years
- Six out of nine quarters of declining GDP. Seven out of nine quarters of declining investment despite three summits where pledges worth R774bn were made and government gazetted projects worth R340bn
- February 2020 budget had forecast three more years of declining GDP per capita

THE CRISIS AFTER THE CRISIS

- Intersecting public health, humanitarian and economic crises PLUS political and public safety crisis
- Botched response to pandemic. 2.2m infections and 182 369 excess deaths - South Korea 175 046 infections and 2051 deaths
- GDP declined by 7.2% in 2020. Could take three years to return to 2019 GDP. GDP per capita in 2020 was only 17.6% of what it was in 1994. GDP per capita is now where it was in 2005
- Unemployment increased by 1.4 million people to 11.4m people during crisis. Unemployment rates: 74% (youth), 47.9% (Black Africans), 51.5% (Black African females), 49.6% (Eastern Cape) and 49.5% (Limpopo)
- Austerity measures of R265bn, which will be withdrawn from the economy and deepen the crisis – health (R50bn), police (R39 billion and 18 000 retrenchments), social security (R36bn), basic education (R25bn) and tertiary education (R24.6bn)
- Over the top lockdown and not a cent allocated to millions of affected people and end of SRD
- 10 million people and 3 million people were in a households affected by hunger in April/May. Will increase after the end of SRD grant (NIDS-CRAM)
- Under current policies, SA will have a second lost decade until 2030
- Only way out of crisis is to inject new money into the economy. Must spend our way out of crisis and implement BIG

DANGER OF SINGLE NARRATIVE

Modern Monetary Theory (MMT) economists break down the artificial separation between monetary and fiscal policy. A central bank can finance government spending.

- A monetarily sovereign country that prints its own currency, borrows only in its own currency and does not promise to convert its currency into something that it can run out of (gold or another currency) cannot go bust or run out of money. (Greece, Zimbabwe and Zambia are not monetarily sovereign countries).
- Sovereign currency nations do not have to conduct their budgets like households.
- They do not have to tax or borrow before they can spend or balance their budgets
- SA is a monetarily sovereign state. It cannot fail to meet its obligations in its own currency unless it chooses to.
- SA can harness the power of its "public money or sovereign currency" There are no financial constraints to spending.
- There are limits. They have nothing to do with budgets or deficits. The limit is availability of real resources (inflation).
- In SA there are constraints relating to corruption and state capacity
- MMT distinguishes the real limits from delusional and unnecessary self-imposed constraints

DANGER OF SINGLE NARRATIVE

- A national budget is not the same as a household or company budget

- A household does not issue the currency that it spends. It has to come up with the money first. The state does not

- A household has an independence between income and spending

  - When a country spends it increases its income (GDP) through a multiplier. IMF says infrastructure multiplier is 2.7. Can generate income to pay for itself

  - When a country cuts spending it reduces its income (GDP) through a negative multiplier (IMF says it is 1.5)

  - Austerity is a self-defeating process that reduces GDP and increases the debt to GDP ratio

BASIC INCOME GRANT

“I am now convinced that the simplest approach will prove to be the most effective – the solution to poverty is to abolish it directly by a now widely discussed measure: the guaranteed income.” (Martin Luther King)

- There are now numerous research reports and scenarios on how to pay for BIG
    - Social Security Tax (R65bn)
    - Elimination of retirement fund deductions (R32bn)
    - Wealth Tax (R189bn)
- Show that BIG can be implemented in the short term with tax increases on upper income groups
- Most research reports are fiscally neutral. Have no impact on budget because tax increases pay for BIG
    - Based on “false notions” of public finance that equate national budget with a household
    - Retain harmful austerity policies which will withdraw R265bn from the economy over next three years
    - Defeat the purpose of providing a fiscal stimulus to the economy
    - Tax increases can undermine recovery because they withdraw money from economy
    - Recovery is fragile. Must only tax idle wealth and high earners who do not spend most of their money

BASIC INCOME GRANT

Some proposals call for gradual implementation based on age and employment status

- Also based on “false notions” of public finance
- Poverty is pervasive and intersects across age, employment status and geography
- There are millions of employed people who are poor – with precarious and exploitative work in informal sector (2.5m), agriculture (0.8m), private households (1.1m), the gig economy and elsewhere
- There are 2.5m people in the informal sector who would not benefit from a BIG for the employed. Studies show that informal sector workers would invest some of their BIG in their enterprises to increase productivity and output.
- Each of the proposed age bands are too small to make meaningful dent on poverty or provide a sufficient stimulus. Will take too long to address poverty
- “The censorship of our aspirations for what people regard as pragmatic policy destroys the truly transformational aspect of a BIG.” (Isobel Frye)
- BIG can be the most transformative economic policy introduced since 1994. Can reduce the poverty rate by 66% and inequality by 14% (ADRS)

BASIC INCOME GRANT

Unfinanced or partially financed BIG will generate some of the resources to pay for itself

- VAT collections
- Clawback through the tax system
- Fiscal multiplier measures additional GDP generated by each rand of spend
- Gentilini and others (2020) say basic income multipliers range from 0.8 to 2.52.
- BIG will generate higher GDP growth and tax revenues than would have happened without BIG
- Net cost after VAT, multipliers and stimulus should be at least 50% of gross cost

BASIC INCOME GRANT

Phased implementation at the three poverty levels

- Must reach agreement in civil society and not be divided on how to implement BIG

- Phasing not for reasons of affordability but to ensure that there is ongoing stimulus for three years that will not be exhausted after first year.

- Limit inflationary impact because BIG should be part of a wider stimulus that has other spending items

- But BIG can be implemented with or without MMT principles

BASIC INCOME GRANT

	FOOD POVERTY LINE (Rbn) (R585)	LOWER POVERTY LINE (Rbn) (R840)	UPPPER POVERTY LINE (Rbn) (R1268)
80% uptake (IEJ)	192	275	415
VAT (IEJ)	23	33	50
5% Clawback (Deloitte)	9.6	13.8	20.8
Net Cost (50% of gross costs after multiplier and stimulus effects)	**96**	**137.5**	**207.5**

2030 VISION FOR FOR SOUTH AFRICA

BIG is not a silver bullet solution to all the problems in the SA economy. It is not an isolated technocratic fix. It should be the first step towards transforming the whole economy

- **Universal public services** – take profit out of electricity, water, education, and healthcare and deliver affordable, quality, subsidised and green public transport and mass housing
    - Can no longer postpone equalising education and health - free, quality and universal basic and tertiary education and health and eventually eliminate private schools, NSFAS, private hospitals and medicals aids
- **Universal Social Security –** Increase CSG to FPL and eventually to other poverty lines. Implement commitment to abolish means test for SOAP and CSG. USS and BIG would eliminate poverty
- **Deep transition of the economy** – exit coal (at Eskom and Sasol) in ten years and related industries like oil refineries. Will cost more than R1 trillion. Green public transport including 100 000 new energy vehicles (taxis) and related infrastructure. Refurbish rail network. High speed and rapid transit rail
- **Job Guarantee** – Martin Luther King called for economic bill of rights that would provide guaranteed income and a job guarantee. Saw them as complementary. Increase R3bn budget for EPWP to R60bn.

FINANCING A STIMULUS FOR SOUTH AFRICA

1. Monetary Financing – umbrella term that encompasses many proposals such as QE for the people, helicopter money, sovereign money creation. Money creation for public purpose
2. Central Bank Lending
3. Quantitative Easing
4. Excess Foreign Exchange Reserves
5. UIF surpluses
6. Restructuring SA Inc Balance Sheet – reduce PIC funding by 50%. Release R1.1 trillion into economy
7. PIC Lending
8. GEPF payment holiday
9. Increased borrowing
10. Higher taxes
11. Prescribed Assets