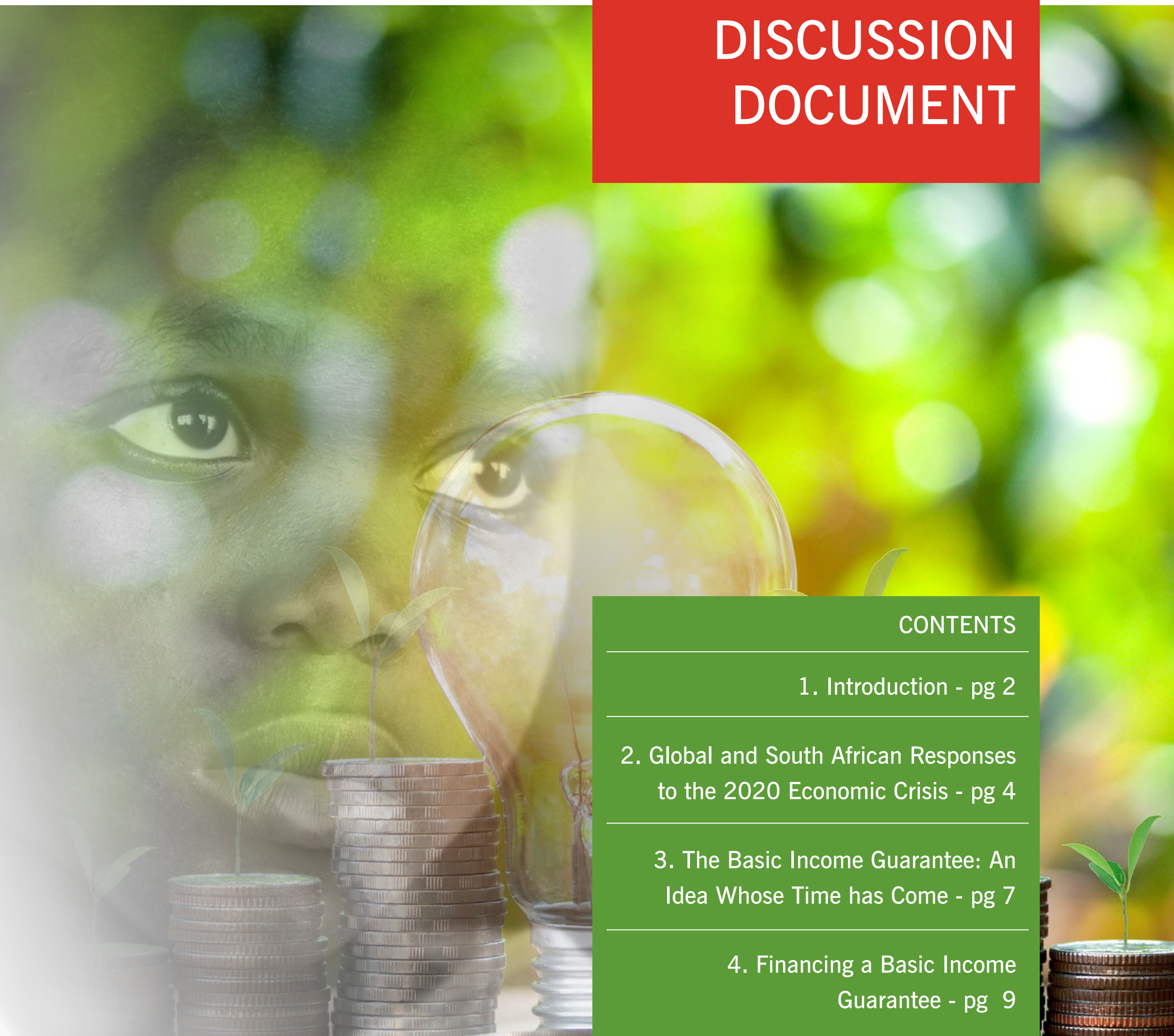
Basic Income Guarantee

BIG

FOR A BETTER SOUTH AFRICA

NOVEMBER 2021

A STUDIES IN POVERTY AND INEQUALITY (SPII) DISCUSSION DOCUMENT



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1 // INTRODUCTION //

South Africa's economy has performed dismally since its miracle transition to democracy in 1994. Between 1994 and 2020, GDP per capita increased by only 16.1%, an annual average of 0.65%. South Africa now has unemployment rates of: 74.8% for youth, 48.7% for Black Africans, 53.2% for Black African females, 53% in the Eastern Cape, 50.3% in the Northern Cape and 49.9% in the Northern Cape (Stats SA, 2021). Also, 10 million people and 3 million children went hungry during April and May 2021, according to the fifth wave of the National Income Dynamics Study Coronavirus Rapid Mobile Survey (NIDS-CRAM, 2021).

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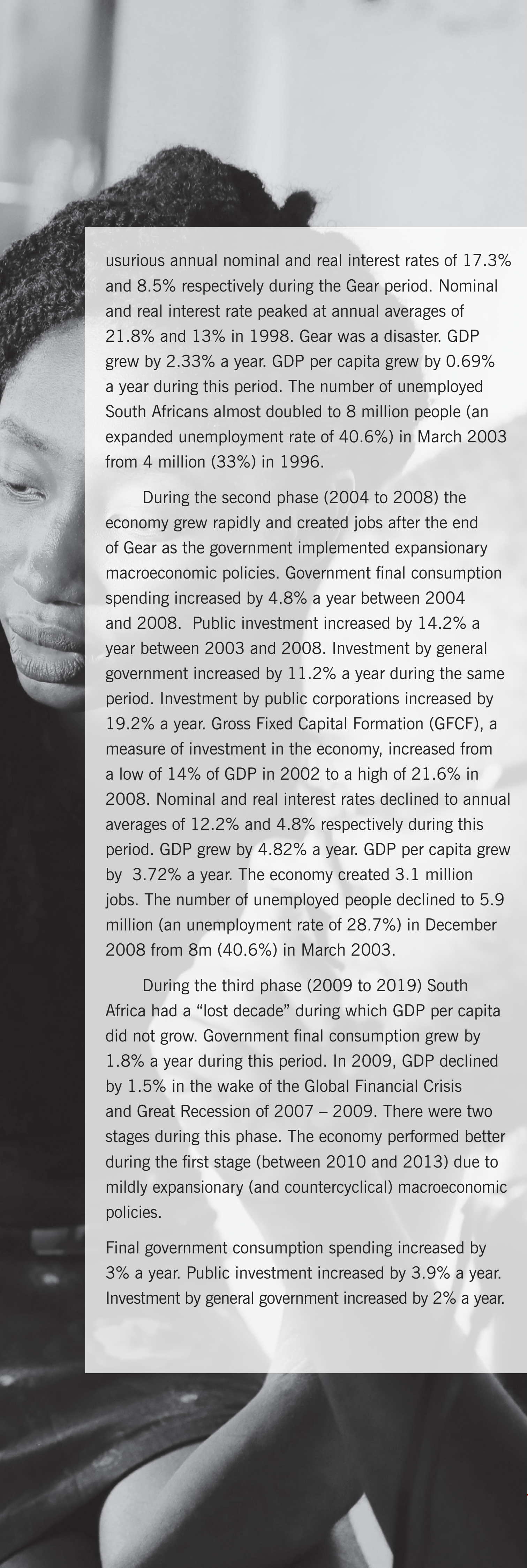
>
> *(NIDS-CRAM, 2021)*

South Africa is now an unviable society. The unemployment crisis is a national disgrace, the most heart-breaking betrayal of the promises and dreams of our liberation. The time has come to change course and chart a new path for economic development. There were three phases in terms of South Africa's macroeconomic performance between 1994 and 2019. GDP growth was low and unemployment soared when there were contractionary macroeconomic (fiscal and monetary) policies. GDP growth increased and unemployment declined when macroeconomic policies were expansionary. Although it is difficult to isolate the effect of fiscal policies alone, the economy performed poorly when government spending was weak and grew rapidly during the one period when it started spending again. There was a strong multiplier effect. During the first phase (1996 to 2003), the government implemented the Growth, Employment and Redistribution Programme (Gear) programme, a neoliberal stabilisation plan although there was no inherited apartheid debt crisis. In 1996, the debt to GDP ratio was 49.5%. The foreign debt ratio was 1.9%.

During this period, government final consumption spending increased by 2.6% a year, with growth of 4.6% and 5.7% in 2002 and 2003 respectively, which lifted the average for the eight-year period. There was a public sector investment strike. Public Investment by general government and public corporations declined by 24.9% between 1998 and 2001. It returned to 1998 levels in 2004. Between 1997 and 2001, investment by general government declined by 15.2%. It returned to 1997 levels in 2003. Between 1998 and 2001, investment by public corporations collapsed by 41.9%. It returned to 1998 levels in 2006. There were punitive,



usurious annual nominal and real interest rates of 17.3% and 8.5% respectively during the Gear period. Nominal and real interest rate peaked at annual averages of 21.8% and 13% in 1998. Gear was a disaster. GDP grew by 2.33% a year. GDP per capita grew by 0.69% a year during this period. The number of unemployed South Africans almost doubled to 8 million people (an expanded unemployment rate of 40.6%) in March 2003 from 4 million (33%) in 1996.

During the second phase (2004 to 2008) the economy grew rapidly and created jobs after the end of Gear as the government implemented expansionary macroeconomic policies. Government final consumption spending increased by 4.8% a year between 2004 and 2008. Public investment increased by 14.2% a year between 2003 and 2008. Investment by general government increased by 11.2% a year during the same period. Investment by public corporations increased by 19.2% a year. Gross Fixed Capital Formation (GFCF), a measure of investment in the economy, increased from a low of 14% of GDP in 2002 to a high of 21.6% in 2008. Nominal and real interest rates declined to annual averages of 12.2% and 4.8% respectively during this period. GDP grew by 4.82% a year. GDP per capita grew by 3.72% a year. The economy created 3.1 million jobs. The number of unemployed people declined to 5.9 million (an unemployment rate of 28.7%) in December 2008 from 8m (40.6%) in March 2003.

During the third phase (2009 to 2019) South Africa had a "lost decade" during which GDP per capita did not grow. Government final consumption grew by 1.8% a year during this period. In 2009, GDP declined by 1.5% in the wake of the Global Financial Crisis and Great Recession of 2007 – 2009. There were two stages during this phase. The economy performed better during the first stage (between 2010 and 2013) due to mildly expansionary (and countercyclical) macroeconomic policies.

Final government consumption spending increased by 3% a year. Public investment increased by 3.9% a year. Investment by general government increased by 2% a year. Investment by public corporations increased by 5.9% a year. Interest rates declined by 700 basis points between December 2008 and July 2012. GDP increased by 2.8% a year. GDP per capita increased by 1.2% a year.

During the second stage (2014 to 2019), there was a collapse in the trend GDP growth rate due to contractionary macroeconomic policies. The growth of government final consumption expenditure declined to 1.1% a year. It declined in per capita terms. There was a second post-apartheid public sector investment strike. Between 2013 and 2019, public investment declined by 35.5%. Between 2016 and 2019, investment by general government declined by 27.3%. Between 2013 and 2019, investment by public corporations collapsed by 54.7%. Interest rates increased by 200 basis points between 2014 and 2016. Therefore declining per capita government consumption spending, a public sector investment collapse and higher interest rates reduced the trend GDP growth rate to 1% a year between 2014 and 2019. GDP per capita declined by 0.47% a year during this period.

There is a view that the boom in world commodity prices was the reason for the increase in GDP during second phase. But during the 2001 to 2008 commodities boom, the world's top 20 mining countries achieved an average mining GDP growth rate of 5% a year, while SA's mining sector GDP shrank by 1% a year, according to the Minerals Council of South Africa (MCSA, 2011). It appears that the strong rand wiped out the benefits of booming world commodity prices. There was a sharp increase in mining investment between 2006 and 2008. But it only accounted for about 9.7% of total investment during this period (SARB 2021). Finally, all sectors of the economy increased employment during the mini-boom. But the mining sector shed 110 000 jobs. Another view (Sachs 2012) is that the end of the commodity boom in 2011 was the reason for the decline in the GDP growth rate during the third phase. But mining's direct contribution to the economy is very small. The annual average contribution of mining to GDP growth between 2014 and 2019 was -0.1% (Stats SA, 2020).

2 // GLOBAL AND SOUTH AFRICAN RESPONSES TO THE 2020 ECONOMIC CRISIS //

South Africa's economy entered a fourth phase when the lockdown started in March 2020. In response to the pandemic-induced recession, most countries decided to spend their way out of the crisis. Global stimulus packages were worth $16 trillion by 17 March 2021, equivalent to about 17.1% of world GDP, according to the IMF (2020). The direct state contribution to these stimulus packages – through additional spending and foregone revenue - was $10 trillion or 10.6% of world GDP. Central Banks in the United States ($4 trillion), Eurozone ($4.2 trillion), Japan ($1.3 trillion) and England ($0.6 trillion) printed $10.1 trillion between the end of December 2019 and June 2021 to support their economies.

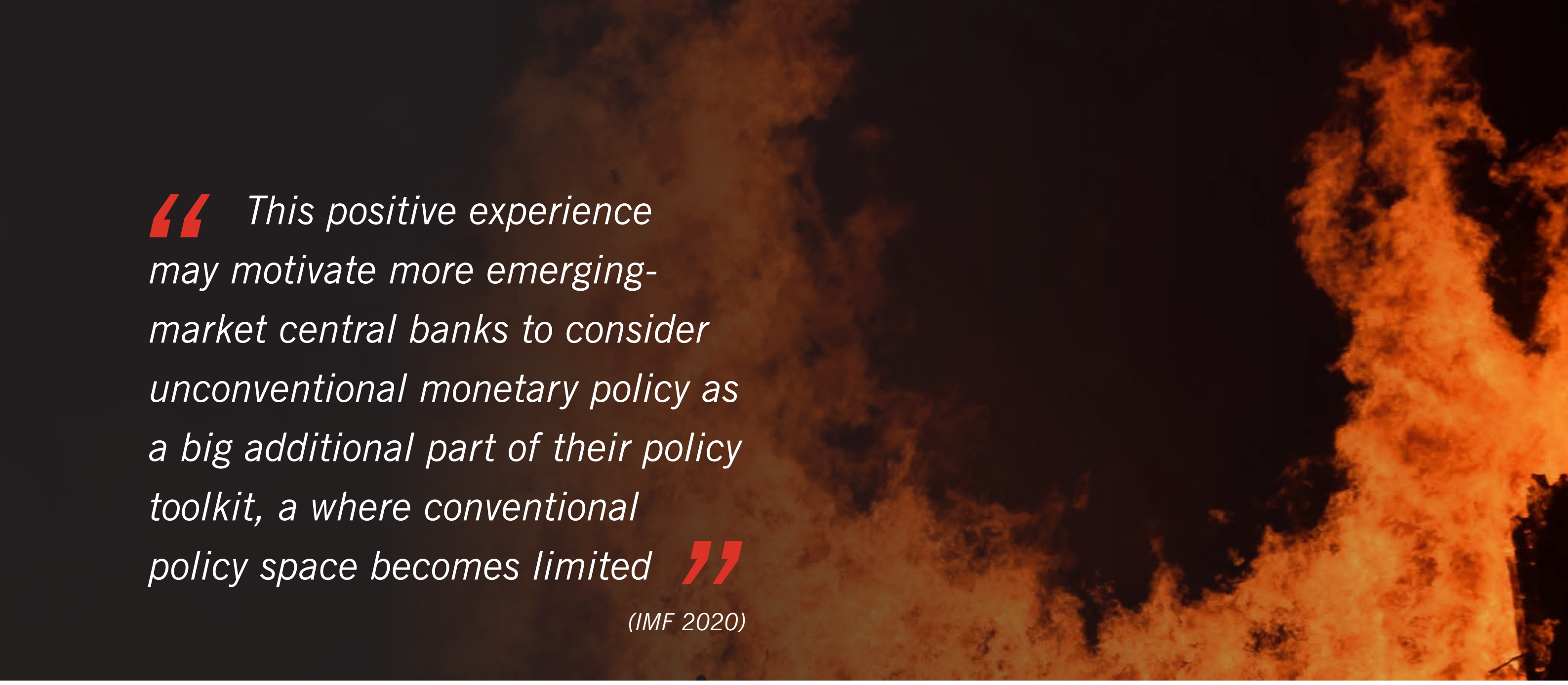
For the first time, about 20 emerging market central banks implemented quantitative easing (QE) , the purchase of government bonds on primary and secondary markets. The IMF concluded that QE had lowered bond yields and had not contributed towards currency depreciation or inflation. There was no punishment from international investors. "This positive experience may motivate more emerging-market central banks to consider unconventional monetary policy as a big additional part of their policy toolkit, especially where conventional policy space becomes limited" (IMF 2020).

By comparison, Gqubule and Frye (2021) found that South Africa's response to the economic crisis was inadequate. On 21 April 2020, President Cyril Ramaphosa announced a R500 billion stimulus package that was worth 10% of the country's Gross Domestic Product (GDP). The authord looked through the smoke and mirrors of the package and found that National Treasury had effectively cancelled the stimulus. The real stimulus – new money that was injected into the economy - was only R123.5billion, about a quarter of the headline number that the president cited.

There were two-components of the real stimulus. There were above-the-line (on-budget) measures – higher government spending and foregone tax revenues - of R46.6billion, equivalent to 0.9% of GDP in 2020. These measures comprised: a R34.6 billion increase in non-interest spending and tax relief of R12 billion during 2020/21. There were below-the-line (off-budget) measures of R76.9 billion, equivalent to 1.5% of GDP. The measures comprised: R18,2 billion that banks advanced to their clients as part of the government's R200 billion loan guarantee scheme; and R58.7billion that the Unemployment Insurance Fund paid to 5.4m people who were temporarily unemployed because of the lockdown. The stimulus package was equivalent to 2.5% of GDP. The direct state contribution was only 0.9% of GDP.

As part of the stimulus, National Treasury allocated R40.9 billion towards the additional grant payments. But only R25.5 billion was new money. This was because R15.4 billion was not payable during 2020/21 because of early payment of grants and was paid out of the previous financial year's allocation. The government topped up the CSG, with a one-off payment of R300 in May 2020. During the following five months until the end of October 2020, 7.2 million care givers (as opposed to 12.8 million beneficiaries of the CSG) received an extra R500 a month. Other grant beneficiaries received an extra R250 until the end of October 2020. A social relief of distress (SRD) grant was paid to about 6 million beneficiaries (the numbers varied each month) who did not receive any other grants, until April 2021.

In October 2020, the government announced an Economic Recovery and Reconstruction Plan (ERRP) (The Presidency, 2020). The plan has two inter-related pillars. First, the government has established a R100 billion infrastructure fund, which was first announced



> *"This positive experience may motivate more emerging-market central banks to consider unconventional monetary policy as a big additional part of their policy toolkit, a where conventional policy space becomes limited"*
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> *(IMF 2020)*

in September 2018, to leverage private investment. But the budget has allocated an average of only 0.1% of GDP a year to the fund during the three-year MTEF period: R4 billion in 2021/2022; R6 billion in 2022/2023; and R8 billion in 2023/2024 (National Treasury 2021). The fund has barely got off the ground and appears to have only spent R1.7 billion. A presentation by finance minister Enoch Godongwana to the ANC National Executive Committee, said there was projected underspending of R2.3 billion from the infrastructure fund that will partly fund a R19.6 billion cash gratuity to increase in public sector workers (ANC 2021)

Second, the government has launched Operation Vulindlela, a joint initiative between the Presidency and National Treasury to implement structural reforms, which were outlined in an economic strategy in October 2019 (National Treasury 2019). Structural reform is code for privatisation, deregulation, liberalisation and the withdrawal of the state of from network industries - electricity, transport, telecommunications and water. It refers to measures to improve the supply (or production) side of the economy by removing institutional and regulatory impediments to the functioning of free markets. But Harvard University economist Dani Rodrik says gains from such neoliberal reforms since the 1980s have been elusive. "The experience suggest that structural reform yields growth only over the long term, at best. More often than not the short-term effects are negative." National Treasury's strategy modelled the reforms and concluded that they would have a marginal impact on the economy until 2030.

But the recovery plan has pinned its hopes that the structural reforms will unleash an improbable new wave of huge private sector investments. South Africa has an investment ratio of 13.7% of GDP. The annual shortfall to achieve the 30% target in the National Development Plan is R900 billion. But the planned liberalisation in the energy sector - the lifting of the licensing threshold for embedded generation projects to 100 MW- is expected to spur investment of R25 billion a year for three years. New Independent Power Producer projects, part of the fifth bid window of the government's programme for private sector participation in renewable energy, will generate investment of R50 billion over three years, equivalent to just over R16 billion a year.

Transnet's reforms are expected to attract private sector investment of only R10 billion a year over a decade. If successful, these three measures to attract investment of about R50 billion a year. This is equivalent to only 5.5% of the annual investment shortfall. Private sector investment responds with a lag (or delay) to rising GDP growth as happened during 2004 – 2008. It follows GDP growth and does not kickstart the economy. There cannot be a private sector investment boom within the context of austerity policies that will reduce GDP growth and no plan to reverse a public sector investment strike, which has been the main reason for the collapse of total investment since 2015.

In February 2021, National Treasury (2021) announced a R264.9 billion austerity budget over the next three years — with cuts of R27.7 billion (0.5% of GDP) in 2020/2021, R87.3 billion (1.5% of GDP) in 2022/2023 and R150 billion (2.5% of GDP) 2023/2024. The Budget Review said: "Over the medium-term expenditure framework period, consolidated noninterest spending will contract at an annual real average rate of 5.2%." If one adds population growth, real per capita noninterest spending will decline by 6.6% a year over the next three years. There were cuts in: health (R50 billion, in the middle of a pandemic), police (R39 billion, including 18 000 retrenchments of police officers), social grants (R36 billion), basic education (R25 billion), tertiary education (R24.6 billion) and defence (R15 billion).

The government ended the SRD grant at the end of April ahead of a lockdown to contain the spread of the deadly delta variant of the coronavirus that did not allocate a cent to the millions of people who would suffer from its devastating impact. Nine weeks, later South had the worst social unrest and violence since 1994, which included unprecedented violence and looting and 342 deaths. At the end of July 2021, former finance minister Tito Mboweni announced a R36 billion stimulus package, which was equivalent to 0.7% of GDP. It included the reintroduction of the SRD grant until the end of the financial year at a cost of R26.7 billion (Ministry of Finance, 2021).

South Africa now has more fiscal space to provide a stimulus to the economy after the rebasing of its GDP in August 2021. At the end of March 2021, the country had gross (before cash balances) loan debt of R3.9 trillion, which was equivalent to 70.7% of GDP. After subtracting cash balances of R333.9 billion, the government had net loan debt of R3.6 trillion, equivalent to 64.7% of GDP. There is no universe in which South Africa has a high debt ratio, even when benchmarked against upper middle income countries. According to the IMF (2020), the world average debt to GDP ratio increased by 15 percentage points to 98.6% of GDP in December 2020 from 83.6% the year before.

Every country had similar shocks to their GDP and tax revenues. In relative terms, South Africa, whose debt increased by 13.1 percentage points, according to the IMF, is where it was before the crisis. Selected debt ratios for upper middle class countries were: Angola (136.5%), Argentina (103%), Brazil (98.9.%), Egypt (89.8%), Sri Lanka (101.2%) and Pakistan (87.6%). On what basis does South Africa have a high debt ratio? There is no tipping point at which a rising debt ratio results in economic collapse. South Africa has a GDP growth problem, not a debt problem. If it increases GDP growth, the bottom part of the debt ratio, the country's public debt will take care of itself.

There will be a technical rebound of the economy during 2021, primarily because the lockdown was not as severe as the one in 2020. After that all forecasts say the economy will revert to its pre-pandemic trend of low GDP growth in 2022. This means that the forecasters do not believe the recovery plan will add to GDP growth. The IMF has forecast has forecast an annual average GDP growth of 1.5% between 2022 and 2026. On the current trajectory, South Africa will have a second lost decade until 2030. After 27 years of failed economic policies, South Africa needs a new macroeconomic policy framework to deliver GDP growth of at least 6% until 2030. ■

3 // THE BASIC INCOME GUARANTEE: AN IDEA WHOSE TIME HAS COME //

Two decades after the release of landmark Taylor report, the BIG has made a dramatic comeback in South Africa. "In the context of widespread hunger, declining income and job losses, calls for a Universal Basic Income Guarantee (UBIG) have increased," the Institute for Economic Justice (IEJ) says. Over the past year, there has been a proliferation of reports, which outline in detail how a BIG can be financed and implemented. The SPII paper reviewed 10 of the reports.

1. **Social Protection Pathways** to a Basic Income Grant Beyond Covid-19 by Viviene Taylor
2. **Basic Income Support for the Unemployed Aged 18 – 59:** A Discussion Paper (Department of Social Development)
3. **From a "Two-speed society" to one that works for all:** by Colin Coleman
4. **Towards income security for all:** Institute for Economic Justice Policy Brief
5. **Universal Basic Income Guarantee:** Financing Options Analysis (DNA Economics)
6. **Fiscally Neutral Basic Income Grant Scenarios:** Economic and Development Impacts (ADRS)
7. **Microsimulation analysis by SASPRI** for the project on the rapid assessment on the implementation and utilisation of the R350 Covid-19 Social Relief of Distress Grant: Modelling Options for a Basic Income Grant.
8. **Draft Report:** Financial Feasibility of the Basic Income Grant (Deloitte)
9. **A Basic Income Grant for SA:** With a Focus on the Costs and Financing Options (Joint ANC Economic and Social Transformation Task Team BIG)
10. **Is a Basic Income Grant Sustainable?** by Intellidex for Business Unity South Africa

Table 1: Selected Taxes to Pay for BIG

	TAXES	REVENUES 2020/21 (Rbn)
1	3% tax on the top 1% (354 000 people with an average wealth of R17.8 million and total wealth of R6.3 trillion)	**189**
2	3% tax on the top 0.1% (35 400 people with an average wealth of R97 million and total wealth of R3.4 trillion)	**103**
3	Social security tax	**64.7**
4	Resource rent tax	**38.8**
5	Eliminate retirement fund contribution deductions for those earning above R1 million (2018/2019	**32.0**
6	Claw back irregular/wasteful expenditure, last reported by the auditor-general for 2018/2019 to be R42.8 billion, by a target of 30%	**12.8**

The above reports mostly propose taxes to pay for the BIG. Some are budget neutral. However, such proposals invite criticism, some of which is legitimate, that they ignore the perverse macroeconomic effects of tax increases. Since the economic recovery is fragile and tax increases can be deflationary, because they withdraw money from the economy, the focus should be on taxes on idle wealth and high earners who do not spend most of their income. Some of the proposed tax increases to finance the BIG can undermine the recovery by taxing people who are not high earners. Budget neutral proposals defeat the purpose of providing a stimulus to the economy. The BIG is not affordable within the context of austerity policies that will reduce GDP growth and result in budget cuts for other departments.

Most of these reports have a static accounting analysis of the financing of the BIG. They do not have a dynamic economic analysis that takes into account the fiscal multipliers – the additional GDP generated by each rand of new spending. Such an analysis recognises that the BIG can generate tax revenues - that would not have occurred without the grant – that can partly pay for itself. Many proposals that seek to minimise its size to address self-imposed constraints – using criteria such as age and employment status – fail to recognise that the whole point of such a grant is that it must be large enough to provide a meaningful boost or stimulus to the economy and that it is at a sweet spot that allows beneficiaries use it for more than meeting immediate needs to prevent hunger. However, the research reports all show that the government can implement a BIG in the short term if it has the political will.

> *"The Expanded Public Works Programme (EPWP) has a budget of only R3 billion a year over the next three years of the medium term expenditure framework, which will enable it to create about 500 000 full-time equivalent jobs each year."*

3.1 False Dichotomies (Jobs and Grants)

Internationally, universal basic income and job guarantees are seen as competing proposals. But Martin Luther King Jr, the United States civil rights leader, saw the two policies as complementary (King, 2018). Also, as is shown below, the BIG will provide a stimulus to the economy and create millions of jobs. In South Africa, most people would still want a job after receiving basic income. A dignity floor at the UBPL and universal social security, which would include increasing the CSG to the UBPL, would eliminate income poverty in three years. But this is a very low floor. We must set a higher bar for human well-being. There must be a second dignity floor at the level of the living wage. The minimum wage was set too low – far below what most South Africans would agree constitutes a living wage.

A job guarantee at the level of a yet-to-be-determined living wage would create a new floor for private sector wages and lift millions of working people out of poverty as well as precarious work. The Expanded Public Works Programme (EPWP) has a budget of only R3 billion a year over the next three years of the medium term expenditure framework, which will enable it to create about 500 000 full-time equivalent jobs each year. It could form the basis of providing a job guarantee and be converted into a quasi-public institution that is outside the state and has civil society oversight and professional management. This will require a much larger budget – at least 20 times the existing one – and a change in focus from creating temporary "work opportunities" towards providing full-time jobs.

3.2 False Dichotomies (Production and Consumption)

Expenditure on grants should be seen as an investment in the nation's prosperity and political stability. But there is a false dichotomy between production and consumption, which states that the government should rather focus on spending on infrastructure. The implication is that grants are a waste of money. However, consumption spending by households accounts for 62% of GDP. Any attempt to revive the economy has to include measures to revive consumption spending. Global stimulus packages blended cash transfers to address the immediate humanitarian crises and investments in infrastructure to create jobs. For example, The $1.9 trillion American Rescue Plan provided humanitarian relief, including cash transfers. The $1 trillion American Jobs Plan will be spent on infrastructure. Cash transfers provide an immediate boost to the economy, while infrastructure projects take time to implement.

Handa et al. (2018) evaluated eight unconditional cash transfer pilot programmes in Ethiopia, Ghana, Kenya, Lesotho, Malawi, Zambia (two) and Zimbabwe, the majority of which started in the late 2000s. They found that beneficiaries invested their meagre transfers in productive assets, including livestock, agricultural assets, agricultural inputs and children's education. The authors also evaluated the potential for local supply side responses to increased demand for goods and services and found significant "spillover" effects. The programmes generated substantial impacts for non-beneficiaries. Nominal local multiplier effects ranged from 1.27 in Malawi to 2.52 in Ethiopia (Hintalo area). The authors found no evidence that cash transfers created dependency. ■

4 // FINANCING A BASIC INCOME GUARANTEE //

Table 2: BIG Alone ("Adult BIG") Option

	FPL (Rbn) R624pm	LBPL (Rbn) R890pm	UBPL R1 335
BIG Gross Cost with 60% Uptake	153.5	218.9	328.4
Recoup from Taxpayers	(52.4)	(74.8)	(112.1)
Net Cost	**101.1**	**144.1**	**216.3**
Stimulus (direct)	125.1	43.0	72.2
Stimulus (1.5 multiplier)	151.7	64.5	108.3

Table 3: BIG and CSG Option

	FPL (Rbn) R624pm	LBPL (Rbn) R890pm	UBPL R1 335
BIG Gross Cost with 60% Uptake	153.5	218.9	328.4
Gross Cost of extending BIG to children	101.2	147.0	224.3
Total	**254.7**	**365.9**	**552.7**
Recoup from Taxpayers	(52.4)	(74.8)	(112.1)
CSG (Budgeted spending)	(77.2)	(77.0)	(80.1)
Net Cost	125.1	214.1	360.5
Stimulus effect	125.1	89.0	146.4

The SPII paper presented eight scenarios for the implementation of a BIG and the increase of the child support grant (CSG) to the UBPL. This CSG proposal would effectively extend the BIG to children. All eight scenarios assumed that there would be implementation of the BIG and an increase in CSG to the UBPL over three years to: the Food Poverty Line (FPL) of R624 a month during 2022/2023; the Lower Bound Poverty Line (LBPL) of R890 during 2023/2024; and the Upper Bound Poverty Level (UBPL) of R 1335 during 2024/2025. This is not for reasons of affordability because there is no financial constraint based on Modern Monetary Theory (MMT) assumptions. The economic constraint is the availability of real resources or inflation. The phased implementation is to ensure that there will be an ongoing stimulus to the economy that is not exhausted after one year.

Although there can be monetary financing of the BIG by the Reserve Bank at no cost and other options (shown below) that can reduce the country's debt burden if there is the political will, all the scenarios are based on a debt-financed implementation. This means that the BIG and CSG proposals can be implemented with or without MMT assumptions. The public discourse and the reviewed research reports have tried to answer a question of how the country can pay for the BIG. As a result, there are many proposals to make the BIG as small as possible because of a perceived fiscal constraint. But the real questions are: Can we afford not to implement a BIG? How much will the BIG can stimulate the economy? Therefore, the paper sought to make the BIG as large as possible.

With a 60% uptake, based on one IEJ scenario, the gross cost of implementing the BIG is: R153.5 billion at the FPL, R218.9 billion at the LBPL and R328.4 billion at the UBPL. The cost of implementing the proposals on the CSG is: R102 billion at the FPL; R147 billion at the LBPL; and R224.3 billion at the UBPL. The cost of implementing both proposals – for the BIG and the CSG – is: R254.7 billion at the FPL; R365.9 billion at the LBPL and R552.7 billion at the UBPL. Although the idea of having to explain how the BIG can be financed (or answer the dreaded "pay for" question) is problematic from an MMT point of view, the government will be able to tap into new revenue streams if it implements the grant. Looking at the issue through a conventional lens, there are three ways of financing the BIG.

First, the paper accepts the realistic IEJ assumption that there will be VAT collections of 12% of the value of the grant. This means that beneficiaries would spend 80% of the new grant on items that have VAT. For the BIG, there would be increased VAT collections of: R18.4 billion at the FPL; R26.3 billion at the LBPL; and R39.4 billion at the UBPL. For the BIG and the CSG, there would be VAT collections of R21.3 billion at the FPL; R34.7 billion at the LBPL and R56.7 billion at the UBPL. Second, the paper uses the SASPRI assumption that the full value of the grant can be recouped from seven million taxpayers who are above the income tax threshold. There would be tax revenues of: R52.4 billion at the FPL; R74.8 billion at the LBPL; and R112.1 billion at the UBPL.

> *Assuming a stimulus of 1.5 times, there would be GDP growth of 4.5% a year during the three year period. Using the Storm and Schroder (2020) employment multipliers, the economy would create 3.7 million jobs over three years.*

Third, implementing the BIG and the CSG at the UBPL would generate higher tax revenues than would have been collected without the proposals. The paper uses the 2021 Budget Review assumptions and projections about GDP growth and tax revenues until 2023/2024. To enable three year projections, the estimates for 2024/2025 are the same as those for the previous year. The 2021 Budget forecast a return to the low pre-pandemic rates of GDP growth, which is expected to increase by 1.9% in 2022/2023 and 1.6% in 2023/2024. The budget also forecast tax buoyancy – a ratio that measures the relationship between GDP growth and tax revenue collections – of 1.15 in 2022/2023 and 1.07 in 2023/2024. Using these assumptions the paper developed higher GDP growth and tax revenue forecasts.

For the BIG alone and a stimulus of 1.5 times, there would be additional tax revenues of R39.9 billion at the FPL; R65.8 billion at the LBPL; and R97.6 billion at the UBPL. For the BIG and the CSG and a stimulus of 1.5, there would be additional tax revenues of R49.4 billion at the FPL; R86.7 billion at the LBPL; and R148 billon at the UBPL. For the BIG alone, the three revenue sources would finance: 74.4% of the gross costs in 2024/2025. For the BIG and the CSG option, they would finance 65% of the gross costs in 2024/2025. In addition we must look at the net cost of implementing the CSG proposals after taking into account planned spending on the grant of: R77.2 billion in 2022/2023; R77 billion in 2023/2024; and R80.1 billion in 2024/2025. Therefore the net cost of implementing the CSG proposals is R24 billion in 2022/2023; R70 billion in 2023/2024; and R144.2 billion in 2024/2025.

Based on these assumptions, we can now present the costs of the two preferred options. The costs of the BIG alone ("adult BIG") option are presented on Table 2 above. This option provides a R216 billion stimulus into the economy over three years. This seems like a lot of money. But it is only equivalent to 1.1% of projected GDP of about R20 trillion over the three year period. Assuming a stimulus of 1.5 times, there would be GDP growth of 3.4% a year over the three year period. This compares with a baseline of 1.6% a year using National Treasury's forecasts. Using the Storm and Schroder (2020) employment multiplier for the South African economy – government spending of R1 billion will create 6 900 jobs – this option would create 2.2 million new jobs during the three year period.

The BIG alone option does not provide a large stimulus, hence the decision to present an option where it is extended to children. The costs of the BIG and CSG option are presented in Table 3 above. This option provides a R360 billion stimulus to the economy over three years. This is equivalent to 1.8% of projected GDP of about R20 trillion over the three year period. It is a small price to pay for an intervention that could eliminate income poverty in three years, radically change the lives of millions of people and become the most transformative policy since 1994. Assuming a stimulus of 1.5 times, there would be GDP growth of 4.5% a year during the three year period. Using the Storm and Schroder (2020) employment multipliers, the economy would create 3.7 million jobs over three years.

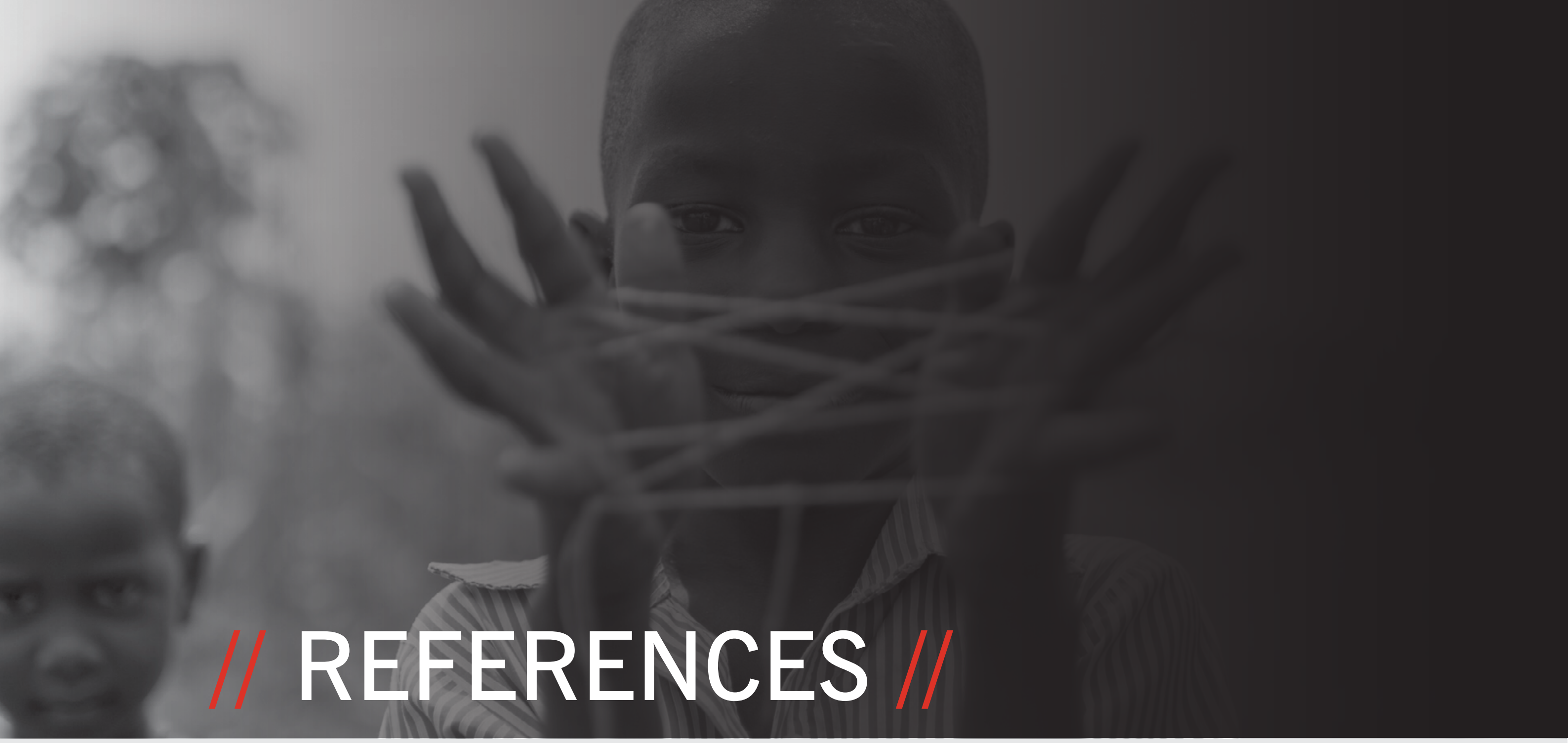
Finally, the stimulus and the larger size of the economy helps to contain the public debt ratio. The 2021 budget had forecast an increase in public debt to R5.2 trillion in 2023/2024, which was equivalent to 77.3% of the rebased GDP statistics. The BIG alone option with a 1.5 fiscal stimulus results in an increase in debt to almost R5.4 trillion or 77% of GDP in 2023/2024. If one implements the BIG and the CSG proposal, public debt increases to R5.5 trillion, which is equivalent to 76.8% of GDP. Therefore, the debt ratio will be virtually the same after implementing the BIG and CSG proposals. If public debt will remain the same, whether or not we implement the proposals, is there a reason not to have a BIG?

To repeat, the BIG is not affordable within the context of austerity and the current budget envelope. To ensure long-term sustainability, the BIG and the increase in the CSG to the UBPL must be implemented within the context of a new macroeconomic policy framework that has a GDP growth target of 6%. The BIG proposals can provide a first stimulus during the initial three year period. They will require a top-up stimulus – investments in infrastructure and jobs – to achieve the target 6% growth rate. During this period, the government should lock-in the higher GDP growth rate until 2030 and beyond through a second stimulus that will significantly increase spending on infrastructure and the EPWP. ■

5 // OTHER FINANCING OPTIONS //

Finally, there are numerous other financing options. The government finances its deficits on the bond market where banks and insurers purchase its debt instruments. However, there is a range of alternative means of financing that do not require private sector debt finance with a market-determined cost of capital. They include:

1. **Monetary financing** – an umbrella term that includes many proposals such as QE for the people, helicopter money, sovereign money creation. These proposals involve money creation for public purpose.
2. **Central Bank direct lending on favourable terms** such as a payments holiday until the economy recovers (Like the IMF loan)
3. **Quantitative easing** to reduce the cost of capital
4. **Excess Foreign Exchange Reserves**
5. **Unemployment Insurance Fund Surpluses**
6. **Restructuring the SA Inc. balance sheet.** The PIC has an obscene level of funding. Reducing its assets by 50% would enable it to write off state debt of more than R775 billion and release R400 billion into the economy.
7. **PIC direct lending on favourable terms** such as a payments holiday until the economy recovers (Like the IMF loan)
8. **Government Employees Pension Fund (GEPF)** contribution holiday
9. **Increased borrowing**
10. **Higher Taxes**



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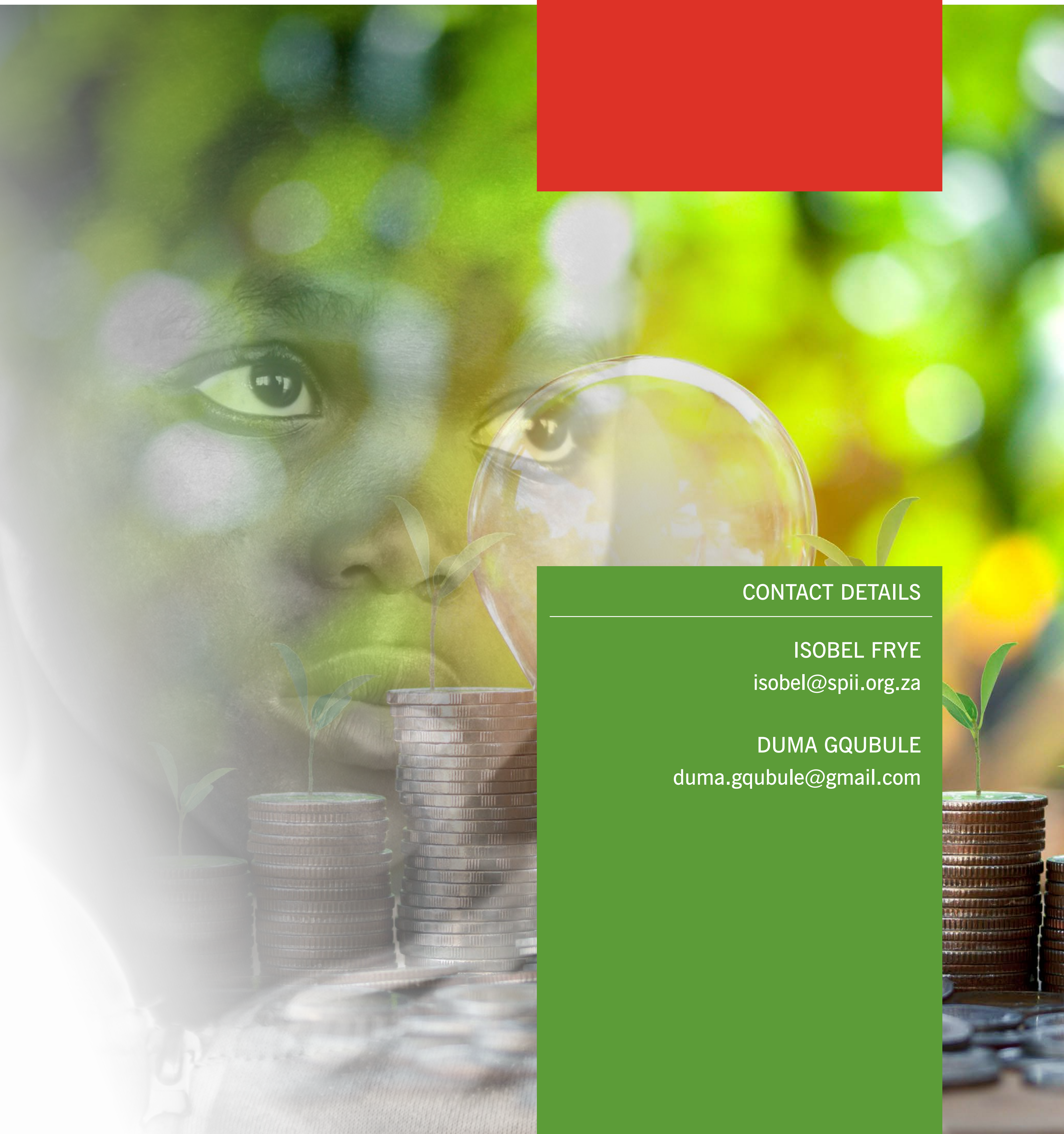

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