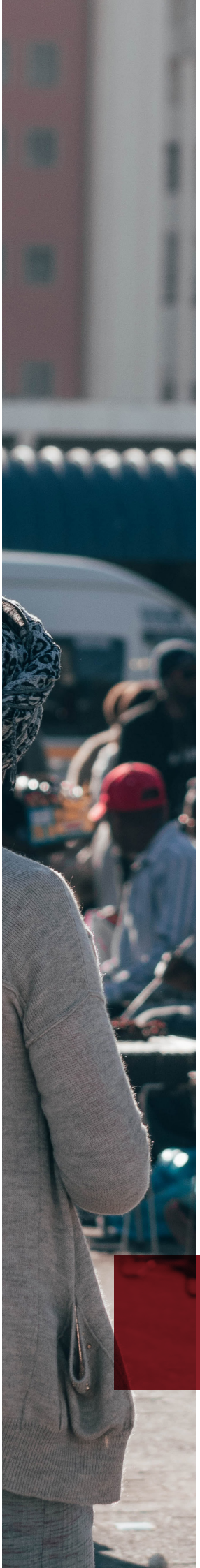
WORKING PAPER

A BASIC INCOME GRANT FOR A BETTER SOUTH AFRICA: THE EVOLUTION OF SOCIAL ASSISTANCE IN SOUTH AFRICA AFTER 1994

DUMA GQUBULE | AUG 2022

SPI
SOCIAL POLICY INITIATIVE



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EXECUTIVE SUMMARY

Whichever way one slices the data, South Africa's economy has performed dismally since its miracle transition to democracy in 1994. Between 1994 and 2021, the country's Gross Domestic Product (GDP) per capita increased by only 20.5%. After 28 years of democracy, South Africa is an unviable society with record levels of unemployment poverty and inequality. During the first quarter of 2022, the country had unemployment rates of: 75.1% for youth, 50.1% for Black Africans, 53.7% for Black African females, 52.6 % in the Eastern Cape, 51.6% in Mpumalanga and 50.9% in Limpopo. The unemployment rate for people of all races was 45.5%. South Africa's unemployment crisis is a national disgrace, the most heart-breaking betrayal of the dreams and promises of our liberation. The government has failed the people who fought and struggled for so long for a better life for all.

The Indlulamithi scenarios have forecast GDP growth of 1.8% a year between 2020 and 2030 based on current policies . On this trajectory, we estimate that there will be 17 million unemployed people by 2030. The unemployment rate will increase to 50.9%. South Africa is facing a dystopian future until 2030. Repeat episodes of political and social unrest and instability could turn the country into an economic wasteland. After 28 years of failed economic policies, the time has come to change course and chart a new path

towards economic development until 2030 and beyond. Therefore, the Basic Income Grant (BIG) is a macroeconomic policy issue, the first step on a proposed new path to transform the whole economy. It is primarily about economic recovery not social policy, though the BIG will have a positive impact on indicators such as hunger, poverty, and inequality. The BIG must be implemented within the context of a new macroeconomic policy framework, which has a 6% GDP growth target that is binding on National Treasury and the Reserve Bank.

This paper adds to the growing resource of research reports about the financing of a BIG in South Africa that have proliferated since the start the of pandemic-induced recession in 2020. Most of these reports propose various taxes to finance the implementation of a BIG. But new taxes, depending on which ones are selected, can withdraw money from the economy and reduce the size of a stimulus and the efficacy of fiscal policy. This paper instead provides a critical addition to existing scholarship by investigating the feasibility of implementing an unfunded BIG. This would provide the maximum possible fiscal stimulus to an economy that is reeling from the effects of a "lost decade" in terms of economic development between 2009 and 2019 during which GDP per capita did not grow and a once-in-a-century recession that decimated the livelihoods of millions of people.

This paper considered two options from eight scenarios. The first option of providing a BIG for adults aged 18 to 59 would cost an additional R374.8 billion over the three-year phased implementation period, assuming a 70% uptake – since many people would elect not to receive the grant - and a clawback from taxpayers. After escalating the 2021 poverty lines by 5% a year, the BIG would be at the food poverty line of R655 a month during the first year in 2023-2024, the lower poverty line of R982 during the second year in 2024-2025 and the upper poverty line of R1 546

during the final year in 2025-2026. This would provide a stimulus of between 1.7% and 2.6% of GDP a year over the three-year implementation period, assuming fiscal multipliers of one and 1.5 respectively. There would be a GDP growth rate of between 3.5% and 4.5% a year. The economy would create between 1.3 million and 1.6 million jobs - much higher than the 640 000 jobs that would be created under National Treasury's baseline forecast of 1.8% GDP growth a year during the implementation period.

The second preferred option - to also extend the BIG to children who currently receive a Child Support Grant (CSG) of R480 a month – would cost an additional R547.8 billion over three years. Under this option, the CSG would increase to the food poverty line of R655

a month during the first year in 2023-2024, the lower poverty line of R982 during the second year in 2024-2025 and the upper poverty line of R1 546 during the final year in 2025-2026. This preffered option would provide a first stimulus of between 2.5% and 3.8% of GDP a year over three years, assuming fiscal multipliers of one and 1.5 respectively. There would be a GDP growth rate of between 4.3% and 5.6% a year. The economy would create between 1.6 million and 2.1 million jobs - much higher than the 640 000 jobs that would be created under National Treasury's baseline forecast of 1.8% GDP growth a year during the implementation period.

This preferred option would eliminate income poverty in three years, radically change the lives of millions of people and become by far South Africa's most transformative policy since 1994. It would achieve Martin Luther King's dream of abolishing poverty directly. The BIG would provide a dignity floor below which no South African should fall. During the implementation period, the government must also put in place measures to lock-in the higher GDP growth rate until 2030 and beyond through a second stimulus package that will significantly increase spending on public employment programmes, infrastructure and industrial policies that will increase the employment intensity of GDP growth. In a separate paper, we show that such policies could achieve full employment by 2035.

The government must establish a new quasi-public institution — with professional management and civil society oversight — that will amalgamate all the government's public employment programmes, become an employer of last resort and develop the capacity to create up to five million full-time jobs within five years at a living wage of R5 000 month, indexed to the inflation rate. In practice, the new institution would create the residual number of jobs that cannot be created through higher GDP growth and industrial policies. If the policies to grow the economy and increase the employment intensity of GDP growth do not succeed, the new institution will have to create more jobs.

Most people would still want a job after receiving basic income. A job guarantee at the living wage would provide a second dignity floor for private sector wages and lift millions of working people out of poverty as well as precarious and exploitative work. The first and second stimulus packages would provide a near-perfect solution out of 28-years of policy dithering around the crises of unemployment, poverty and inequality. This solution would meet people's basic needs, provide economic stimulus and lay the foundation for addressing unemployment through reimagining the world of work as we recraft our economy to take us from dystopia to a credible and more inclusive future.

"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 JNR, 1968

THIRTEEN MISCONCEPTIONS ABOUT IMPLEMENTING A BASIC INCOME GRANT

1 SOUTH AFRICA IS A MONETARILY SOVEREIGN COUNTRY THAT CANNOT RUN OUT OF MONEY.

According to modern monetary theory (MMT), a new school of economics, a country that prints its own currency, borrows only in its own currency and does not peg it against another currency, cannot be broke. Technically, such a country cannot default on its domestically issued debt. Sovereign currency nations can harness the power of what author Stephanie Kelton refers to as their "public money or sovereign currency." A country does not need to have a reserve currency to enjoy this privilege. This means that there are no financial constraints on spending. There are limits to spending, but they have nothing to do with budgets or budget deficits. The limit is the availability of real resources or inflation. Although "public money" can finance a BIG, this proposal does not depend on MMT assumptions. Monetary finance is only one of up to 10 options that can be used to finance a BIG.

2 A NATIONAL BUDGET DOES NOT OPERATE LIKE A HOUSEHOLD BUDGET.

A household has an independence between its spending and its income. If a household discovered that its income (salaries) would decline if it cut spending to balance spending and income it would not consider such an option. It would focus on increasing its income. When the government increases its spending, it increases its income (GDP) through a multiplier effect. The International Monetary Fund (IMF) says the multiplier for infrastructure spending is 2.7. Such spending can generate the income to pay for itself. When a country cuts its spending, it reduces its income (GDP) through a negative multiplier effect. The IMF says it is minus 1.5. Austerity is a self-defeating policy that results in an increase in the debt to GDP ratio.

3 A BIG IS UNAFFORDABLE WITHIN THE CONTEXT OF THE CURRENT MACROECONOMIC POLICY FRAMEWORK OF AUSTERITY WHERE ITS INTRODUCTION WOULD REQUIRE CUTS TO OTHER PROGRAMMES.

The low GDP growth due to austerity would result in lower tax revenues. There would be a vicious downward spiral with endless cycles of budget cuts, lower tax revenues and more budget cuts. The current policy framework is a guaranteed path towards creating an economic wasteland by 2030. The macroeconomic policy framework is a set of ideological – not

technical – assumptions that determine what is possible. For example, South Africa has had a tax-to-GDP ratio of about 25% for a quarter of a century. If it had the same ratio as Poland's 35% there would be an extra R600 billion available. A different set of assumptions about an ideal tax-to-GDP ratio, the role of the Reserve Bank in the economy, whether SA's debt is too high, and the ability use of the SA Inc balance sheet to finance spending can dramatically change the macroeconomic policy framework.

4 A BUDGET-NEUTRAL & FULLY FUNDED BIG IS A DUMB IDEA THAT DOES NOT MAKE SENSE IN THE CONTEXT OF AN ECONOMY THAT NEEDS A LARGE STIMULUS TO PROPEL IT ONTO A NEW GROWTH PATH.

Over the past two years, there has been a proliferation of reports on how to finance a BIG. None have proposed an increase in value added tax (VAT). Opponents of the BIG have put forward straw person arguments that there must be large increases in VAT and personal income taxes to fully finance a BIG. People who support a BIG have proposed various taxes to finance it. However, new taxes depending on which ones are selected can withdraw money from the economy and reduce the size of a stimulus as well as the efficacy of fiscal policy. Since tax increases can be deflationary, the focus should be on taxes on idle wealth and high earners who do not spend most of their income. There can be taxes on financial transactions, luxury goods and excess profits in mining and telecommunication. But a BIG does not have to be financed.

A fully funded BIG would retain harmful austerity policies and does not make sense in an economy that needs a large stimulus. This paper proposes an unfunded BIG that provides the maximum possible stimulus to an economy that is reeling from the shocks of a once-in-a-century recession that decimated the livelihoods of millions of people and a cost-of-living crisis in the wake of the war in Ukraine. There is a self-financing element of the BIG. Between 50% and 60% of the gross R547.8 billion cost of implementing a BIG and extending it to children would flow back to the government after considering VAT, a claw back from taxpayers and additional tax revenues from the stimulus to the economy that would not have been earned in its absence.

5 A BIG WILL NOT COST A LOT OF MONEY.

The R547.8 billion cost of implementing a BIG for adults and extending it to children sounds like a lot of money. But in economic terms it would be only 2.5% of an estimated GDP of R21.8 trillion during the three year implementation period. If a household discovered that it would only cost 2.5% of its income to eliminate black tax, it would pay the money without batting an eyelid.

6 A BIG WILL NOT RESULT IN AN INFLATIONARY SURGE.

The stimulus due to a BIG would be too little to cause an inflationary spike. In 2021, the under-utilsation of production capacity in the manufacturing sector was 22.4%, primarily due to insufficient demand for the products that companies could produce. The BIG stimulus would be the equivalent of adding 2.5 litres of water to a 100 litre tank that is only 77.6% full. It would require eight times more stimulus – a BIG of more than R12 000 a month - for the water tank to overflow and for inflation to appear. Therefore, it is absurd to suggest that such a small stimulus could result in hyper-inflation as has been the case in Zimbabwe and Venezuela.

"EVERYONE HAS THE RIGHT TO... SOCIAL SECURITY, INCLUDING, IF THEY ARE UNABLE TO SUPPORT THEMSELVES AND THEIR DEPENDENTS, APPROPRIATE SOCIAL ASSISTANCE. THE STATE MUST TAKE REASONABLE LEGISLATIVE AND OTHER MEASURES, WITHIN ITS AVAILABLE RESOURCES, TO ACHIEVE THE PROGRESSIVE REALISATION OF EACH OF THESE RIGHTS." (SECTION 27 (1) (C) AND 27 (2) OF THE SOUTH AFRICAN CONSTITUTION)

7 SOUTH AFRICA'S DEBT IS NOT HIGH BY INTERNATIONAL STANDARDS AND A BIG WILL NOT RESULT IN A SOARING PUBLIC DEBT RATIO.

South Africa's 70% debt to GDP ratio is not high by international standards, even when benchmarked against other upper middle income countries. The idea that South Africa has a high public debt ratio is propaganda and fiction. The country has a GDP growth problem, not a debt problem. If it increases GDP growth, the debt will take care of itself. The same applies to interest payments. If the economy grows faster than interest payments, they will become smaller as a share of GDP. The government can also bypass the bond market and raise money from the Reserve Bank and the PIC at no cost or on favourable terms, as this report proposes. This report shows that here are many ways to fund a fiscal stimulus and a BIG that do not involve increasing public debt. Some of the proposals in this report will reduce the country's debt to GDP ratio. The spending on a BIG would be too little to cause public debt to soar. National Treasury has projected that the debt ratio will increase to 75.1% of GDP in 2024-2025 from 72.8% in 2022-2023. Implementing a BIG and extending it to children would increase spending by R312.8 billion over this period. If the recipients spent their money in Soweto, Umlazi and the Cape Flats there would be local multiplier effects that galvanise township economies. The higher GDP would help to contain the debt ratio. It would increase to 77.5% of GDP by 2024/2025, assuming a multiplier of 1.5 and 78.2 % of GDP assuming a multiplier of one. An increase in the debt ratio of between 2.4 and 3.1 percentage points would be a small price to pay for a policy that would eliminate income poverty in three years.

8 SA INC.IS NOT BROKE. IT HAS A VAST PUBLIC SECTOR BALANCE SHEET

The national balance sheet has assets worth R4.3 trillion, which comprised Public Investment Corporation (PIC) assets, foreign exchange reserves, the assets of state-owned companies (SOCs) and development finance institutions (DFIs) as well as government cash balances. At the end of March 2022, the PIC, the asset manager of the Government Employees Pension Fund and the Unemployment Insurance Fund, had assets of R2.6 trillion. At the end of June 2022, the Reserve Bank had gross foreign exchange and gold reserves of R963 billion. The assets are way above what is required to finance payments for public sector pensions, unemployment benefits and imports. This report proposes a restructuring of the

public sector balance sheet through a release of assets worth R1.6 trillion to reduce public debt and make investments in people and infrastructure to stimulate the economy.

9 A BIG WILL NOT CREATE DEPENDENCY.

The idea that people would not want to work after receiving basic income of only R1 564 a month is absurd. An expert panel appointed by the Department of Social Development concluded that: "We find that social transfers are important in underwriting job search and the costs of participating in any demand-side employment activation interventions for labour force participants. Social transfers therefore promote job search, employment effects and entrepreneurial ventures without cultivating a dependency culture. These positive effects of social assistance transfers to households therefore reflect enabling features of income support, such as promoting economic and social participation and agency on the part of recipients. We find that there is no evidence to support the view that a dependency culture or syndrome exists in relation to social grants or is likely to exist in relation to an implemented basic income support."

10 A BIG WILL BE AFFORDABLE AND SUSTAINABLE IF IT IS IMPLEMENTED WITHIN THE CONTEXT OF A NEW MACROECONOMIC POLICY FRAMEWORK, WHICH HAS A 6% GDP GROWTH TARGET.

With a forever larger economy, the country could comfortably afford a forever increase in spending on the BIG and much more. South Africans would be able to dream again about the kind of country they want to live in. This paper proposes two stimulus packages for the economy. The implementation of the BIG provides a first stimulus – the quickest way to push the GDP growth rate to nearly 6%. But during three-year implementation period, the government must also put in place measures to lock-in the higher GDP growth rate until 2030 and beyond through a second stimulus package that will increase spending on public employment programmes, infrastructure, and industrial policies.

11 PROVIDING A BIG AND CREATING JOBS ARE NOT MUTUALLY EXCLUSIVE.

There are 12.4 million unemployed people in South Africa. There is a positive relationship between GDP growth and employment. An employment multiplier measures the percentage increase in employment that is associated with a one percentage point increase in GDP growth. Implementing a BIG and extending it to children would create 2.1 million jobs – almost 1.5 million more than would be created under the National Treasury's baseline forecast of 1.8% GDP growth over the next three years. But we cannot ask the people to wait patiently and starve until we have reached full employment, which cannot be achieved on the current trajectory. The maths of job creation shows that higher GDP growth alone will not be enough to reach full employment. With 6% GDP growth, there would still be 11.3 million unemployed people by 2030.

The government must also implement industrial policies that steer the economy towards sectors that have high employment multipliers and can absorb unemployed people who have the education and skills profiles that we have and not the ones we wish we had as was done. The East Asian developmental states implemented such policies. The government must also significantly increase spending on public employment programmes and implement a job guarantee. But the people who shout "jobs, not grants" will find reason to object to such spending. As Martin Luther King Jnr showed basic income and job guarantees are complementary policies. They are two sides of the same coin

12 SOUTH AFRICA'S SOCIAL SECURITY SPENDING IS NOT HIGH.

According to a middle-class urban legend, South Africa's spending on social grants has increased astronomically since 1994. It is now too high and unaffordable. But the facts tell a different story. The 1996 Budget Review said social grants were equivalent to 2.4% of GDP. There were 2.9-million beneficiaries of social grants. The social assistance budget was spent on grants for the elderly (60%), the disabled (24%) and maintenance grants (14%). Racial parity in awards to the elderly and to disabled people was achieved in 1993, and in July 1995 the value of these grants was R410 a month for all population groups.

There were two parts to the state maintenance grant: allowances for parents and the child at R410 and R127 a month respectively. But the grant had limited reach - 200,000 women and about the same number of children. Most African women were excluded from accessing the grant. Only 0.2% of African children received it. It would have cost R12 billion to extend it to the whole population, which was deemed unaffordable as it was equivalent to the total social assistance budget in 1995-1996.The Lund committee recommended the phasing out of the state maintenance grant and the introduction of a new child support grant of R70 a month for children younger than nine. In April 1998 the government introduced a grant of R75 a month for children aged under eight. There was initially a slow take-up of the grant — after three years only 25% of the targeted group were receiving the grant.

In 2002 the seminal Taylor report on social security said government should extend the grant to all children. During 2021-2022, the government spent R224.5bn (3.6% of GDP) on social grants for 28.9 million beneficiaries. Therefore, there has been a small increase - 1.2 percentage points as a share of GDP - shared between 26 million more beneficiaries. The distribution of social grant spending was 43.9% for the old-age pension, 36.3% for the child support grant, and 13.2% for disability grants. All that has happened since 1994 is that government has implemented a constitutional obligation — over 15 years between 1998 and 2013 — to extend the grant to all children. The government would have faced a Constitutional Court challenge if it had not implemented the child support grant.

But the child support grant of R480 a month is still 23.1% below the 2021 food poverty line of R624. Since 2020, the

government has also paid a R350 a month social relief of distress grant to about 10 million beneficiaries. The grant is 43.9% below the food poverty line. South Africa now has public social protection spending of 5.5% of GDP, very far below the world average of 12.9%, according to the International Labour Organisation. The South African figure includes social security funds such as the Unemployment Insurance Fund. The average for upper middle-income countries was 8% of GDP. SA spent 1.5% of GDP on social protection for the elderly, compared with a world average of 7%. The average for upper middle-income countries was 5.3%.

13 A BIG IS NOT A SILVER BULLET SOLUTION TO ALL OF SOUTH AFRICA'S ECONOMIC PROBLEMS.

It is only the first step towards transforming the whole economy. Universal social security would require the government to eliminate means tests for the old age pension and the CSG. The BIG and the job guarantee could supplement other means of social provisioning through universal public services – free education and healthcare and subsidised public electricity, transport and mass housing. We must equalise our education and health systems. We must take profits out of education and health, which must become part of the national basket of public goods and human rights.

"RESEARCH SHOWS THAT GRANTS ARE, BY A CONSIDERABLE DISTANCE, THE COUNTRY'S MOST EFFECTIVE ANTI-POVERTY MEASURE. THE STANDARD MIDDLE-CLASS STEREOTYPE.....IS THAT GRANTS ARE A SUBSTITUTE FOR PRODUCTIVE ECONOMIC ACTIVITY. THEY ARE NOT – THEY ARE WHAT PEOPLE LIVING IN POVERTY USE TO MAKE TAKING PART IN THE ECONOMY POSSIBLE. GRANTS KICK-START LOCAL ECONOMIES. STUDY AFTER STUDY SHOWS THAT, IN THE MAIN, PEOPLE USE GRANTS AS LEVERS TO GET IN ON THE ECONOMY. SO, GRANTS DON'T CREATE DEPENDENCE – THEY ARE THE COUNTRY'S MOST EFFECTIVE WAY OF PREVENTING IT."

STEVEN FRIEDMAN

INTRO-DUCTION

Whichever way one slices the data, South Africa's economy has performed dismally since its miracle transition to democracy in 1994. Between 1994 and 2021, the country's Gross Domestic Product (GDP) per capita increased by only 20.5% (SARB 2022b). After 28 years of democracy, South Africa is an unviable society with record levels of unemployment, poverty and inequality. During the first quarter of 2022, the country had unemployment rates of: 75.1% for youth, 50.1% for Black Africans, 53.7% for Black African females, 52.6 % in the Eastern Cape, 51.6% in Mpumalanga and 50.9% in Limpopo. The unemployment rate for people of all races was 45.5%.

The absorption rate, which measures the percentage of the working-age population (15 to 64) that is employed, was 36.5%. For Black African people the absorption rate was 33.5%, which compared with a figure of 62.6% for white people. For women it was 32.4%. In the Eastern Cape only 28.3% of the working-age population was employed (Stats SA, 2022b). The average absorption rate for upper income countries was 59.7% in 2021 (ILO, 2022). South Africa's unemployment crisis is a national disgrace, the most heart-breaking betrayal of the dreams and promises of our liberation. The government has failed the people who fought and struggled for so long for a better life for all.

About half of South Africa's population lives in poverty and more than one in five people have inadequate access to food. The National Income Dynamics Study (NIDS) Coronavirus Rapid Mobile Survey (CRAM) said 10 million people and three million children went hungry during April and May 2021. About 1.8 million people and 400 000 children lived in households that were affected by perpetual hunger, which was defined as hunger every day or almost every day. Women were more likely to shield their shield their children from hunger than men (NIDS-CRAM, 2021). The World Bank (2022) said South Africa was the most unequal country in the world, ranking first among 164 countries within the Bank's global poverty database with a consumption per capita Gini coefficient of 67 in 2018. The Gini coefficient is a measure of inequality in incomes or consumption. It ranges between 0 and 1 (or 100 percent) where 0 means perfect equality and 1 (or 100 percent) perfect inequality.

Orthofer (2016:23) said wealth was much more concentrated in the hands of the few compared with incomes, which were high in their own right. The wealthiest 10% of the population owned at least 90% - 95% of all wealth. The next 40% - the middle class – owned 5% - 10% of all wealth. The poorest 50% owned no measurable wealth. The finding was that while there may be a growing middle class

with regard to income, there is no middle class with regard to wealth. “What stands out, however, is the small wealth share of the middle of the distribution or the virtual absence of a socioeconomic group that Piketty refers to as ‘patrimonial’ or ‘propertied’ middle class - the emergence of which was the principal structural transformation of the distribution of wealth in developed countries during the twentieth century. The middle 40% of the wealth distribution is almost as asset poor as the bottom 50%.”

The World Bank (2021) and the International Monetary Fund (2022a; 2022b) have forecast GDP growth of 1.5% a year between 2022 and 2026. The Indlulamithi scenarios have forecast GDP growth of 1.8% a year between 2020 and 2030 based on current policies (ADRS, 2021) . On this trajectory, we estimate that there will be 17 million unemployed people by 2030. The unemployment rate will increase to 50.9%. South Africa is facing a dystopian future until 2030. Repeat episodes of political and social unrest and instability could turn the country into an economic wasteland.

After 28 years of failed economic policies, the time has come to change course and chart a new path towards economic development until 2030 and beyond. Therefore, the Basic Income Grant (BIG) is a macroeconomic policy issue, the first step on a proposed new path to transform the whole economy. It is primarily about economic recovery not social policy, though the BIG will have a positive impact on indicators such as hunger, poverty, and inequality. The BIG must be implemented within the context of a new macroeconomic policy framework, which has a 6% GDP growth target that is binding on National Treasury and the Reserve Bank, the most important institutions in the economy.

This is the first of three papers that will be released by the Social Policy Initiative (SPI) during the second half of 2022. Together, they provide a vision for the South African economy and comprehensive policy responses to the triple crises of unemployment, poverty, and inequality. The second paper: South Africa’s Unemployment Crisis: A National Disgrace. A Plan to Achieve Full Employment by 2035 analyses the evolution of the country’s unemployment crisis since 1994 and makes proposals to address it. The third paper Vision 2035: A New Macroeconomic

Policy Framework for South Africa was developed for the South African Council of Churches (SACC). It integrates the proposals in the first two papers, makes other recommendations and provides a vision and plan for the economy.

This paper adds to the growing resource of research reports about the financing of a BIG in South Africa that have proliferated since the start the of pandemic-induced recession in 2020. Most of these reports propose various taxes to finance the implementation of a BIG. But new taxes, depending on which ones are selected, can withdraw money from the economy and reduce the size of a stimulus and the efficacy of fiscal policy. This paper instead provides a critical addition to existing scholarship by investigating the feasibility of implementing an unfunded BIG. This would provide the maximum possible fiscal stimulus to an economy that is reeling from the effects of a "lost decade" in terms of economic development between 2009 and 2019 during which GDP per capita did not grow and a once-in-a-century recession that decimated the livelihoods of millions of people.

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institution — with professional management and civil society oversight — that will amalgamate all the government's public employment programmes, become an employer of last resort and develop the capacity to create up to five million full-time jobs in five years at a living wage of R5 000 month, indexed to the inflation rate. In practice, the new institution would create the residual number of jobs that cannot be created through higher GDP growth and industrial policies. If the policies to grow the economy and increase the employment intensity of GDP growth do not succeed, the new institution will have to create more jobs.

Most people would still want a job after receiving basic income. A job guarantee at the living wage would provide a second dignity floor for private sector wages and lift millions of working people out of poverty as well as precarious and exploitative work. The first and second stimulus packages would provide a near-perfect solution out of 28-years of policy dithering around the crises of unemployment, poverty and inequality. This solution would meet people's basic needs, provide economic stimulus and lay the foundation for addressing unemployment through reimagining the world of work as we recraft our economy to take us from dystopia to a credible and more inclusive future.

2. SOCIAL ASSISTANCE POLICIES UNDER APARTHEID

Brockerhoff (2013) provides a brief review of how South Africa developed a social assistance system that gave broad coverage to the old and children, while providing none for working age adults. Noting that the concept of "targeted social assistance" for the "deserving poor" dated back to Victorian models of social welfare, the author said the South African system was "set up and designed to target those parts of the white population who despite preferential treatment in education and employment might find themselves in need of social assistance – the young, the old and people living with disabilities." The idea of providing pro-poor relief dated back to the activities of the Dutch Reformed Church in 1657.

With the advent of industrialisation, and urbanisation in the wake of the opening of mines, the demand for a welfare system for White people grew. Means-tested social pensions were first introduced in 1928 for those Whites and Coloureds who were not covered by occupational pension schemes, which had been introduced during the 1920s. The welfare net expanded during the 1930s with the introduction of the state maintenance grant (SMG) and others for the blind (1936) and the disabled (1937). Lund (2008) says the SMG was imported from British social policy and built on the model of a nuclear family with formal marriage, where fathers were employed in a labour market with full or nearly full employment and provided the household's primary source of income. The SMG was designed to respond to the unlikely events of widowhood, divorce, abandonment or single parenthood.

Brocherhoff (2013) says few whites claimed social pensions because most of them had well-paid jobs and were covered by occupational insurance schemes at their places of work. The poor white problem, which had led to forms of social security emerging in the 19th century, had been effectively eliminated in 1939 through various laws that ensured preferential treatment and the creation of a so-called "civilised labour policy" as part of the 1925 Wage Act. This law established a minimum income for whites and an employment guarantee. In 1943, take-up rates for the elderly were 40% for Whites, 56% for Coloureds and 4% for Africans (Van der Berg, 1998).

In 1944, the government extended old-age pensions to Africans, whose benefit levels were less than a tenth of those of whites and the means test was more stringent (Van der Berg, 1998). In 1946, the government extended the disability grant to Africans (Brockenstein, 2013). By 1958, Africans made up 60% of the 347 000 old age pensioners, but received only 19% of spending (Van der Berg, 1998). During the 1970s, the government established "independent" homelands for different ethnic groups and appointed puppet leaders for these Bantustans. There was a gradual process of deracialising social assistance to bolster the puppet regimes. This led to a rapid increase in funds flowing to the Bantustans for old

age pensions. Coverage also increased outside the homelands.

In 1978, Africans made up 70% of 770 000 pensioners (Van der Berg, 1998). From the late 1970s, the apartheid government reluctantly accepted the principle of moving to parity in social spending. Spending on old age pensions increased to 1.8% of Gross Domestic Product (GDP) in 1993 from 0.6% in 1970. During the same period, African pensions rose five times in real terms while those for white people fell by a third. By 1990, Africans accounted for 67% of pension payments.

In 1993, 1.2 million Africans received the old age pension. They accounted for 81% of the total beneficiaries of 1.5 million people. In the same year, the take-up rate for old age pensions (the percentage of pensioners relative to the population of pensionable age) was 69.4% for all population groups. – 89.5% for Africans; 84.9% for Coloureds, 61.5% for Indians and 20.3% for Whites. However, there were still huge racial inequities in the value of grants. In 1990, per capita spending on all grants was: R142 for Whites; R221 for Coloureds; R179 for Indians and R79 for Africans (Van den Berg, 1998)

3. MACROECONOMIC POLICIES AFTER 1994

The South African economy's performance since 1994 has followed a trend identified by Coe and Pettifor (2016) who conducted an analysis of the United States and United Kingdom economies over a century. They found that public debt had declined in both countries in periods associated with expansionary fiscal policies. It had gone up when spending was cut and matters were left to the market. The experience of the United Kingdom was telling.

The country's debt ratio peaked at 250% of GDP at the end of the second world war in 1946. "The following year under a labour government programme that included the introduction of the welfare state and the National Health Service, national debt began to fall. Over the era commonly associated with pro-public sector and anti-private sector policies, when contemporary belief would lead us to conclude that the public debt must have steadily risen, it actually fell just over 200 percentage points to 50%, roughly 7 percentage points a year" (Coe and Pettifor, 2016:10).

There have been four phases in terms of South Africa's macroeconomic policies and performance since 1994. 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 during the two phases when government consumption and investment spending was weak and grew rapidly during the one phase when it started spending again.

During the first phase, from 1996 to 2003, the government implemented the Growth, Employment and Redistribution Programme (Gear) programme, a neoliberal stabilisation plan to reduce debt, though there was no inherited apartheid debt crisis. In 1996, the debt to GDP ratio was 49.5%. The foreign debt ratio was 1.9% (National Treasury, 2022a). The idea that there was an apartheid debt crisis – and that there was a need for austerity policies - is propaganda and fiction. Under Gear, government final consumption spending increased by 2.6% a year. There was the first post-apartheid 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 alone 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. GDP grew by 2.33% a year. GDP per capita grew by 0.69% during this period (SARB, 2022b). The number of unemployed South Africans almost doubled to 8 million people in March 2003 from 4 million in 1996, according to the expanded definition. The unemployment rate increased to 40.6% in March 2003 from 33% in 1996 (Stats SA, 2000; Stats SA 2009; Stats SA, 2022b).

During the second phase, from 2004 to 2008, the economy grew rapidly after the end of Gear as the government implemented expansionary economic policies. Government final consumption spending increased by 4.8% a year. Public investment (by general government and public corporations) increased by 14.2% a year between 2003 and 2008. Gross Fixed Capital Formation (GFCF), a measure of investment, increased from 14% of GDP in 2002 to 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 (SARB, 2022b). The economy created 3.1 million jobs. The number of unemployed people declined to 5.9 million in December 2008. The unemployment rate plunged to 28.7% in December 2008 from 40.6% in March 2003. (Stats SA, 2009; Stats SA, 2022).

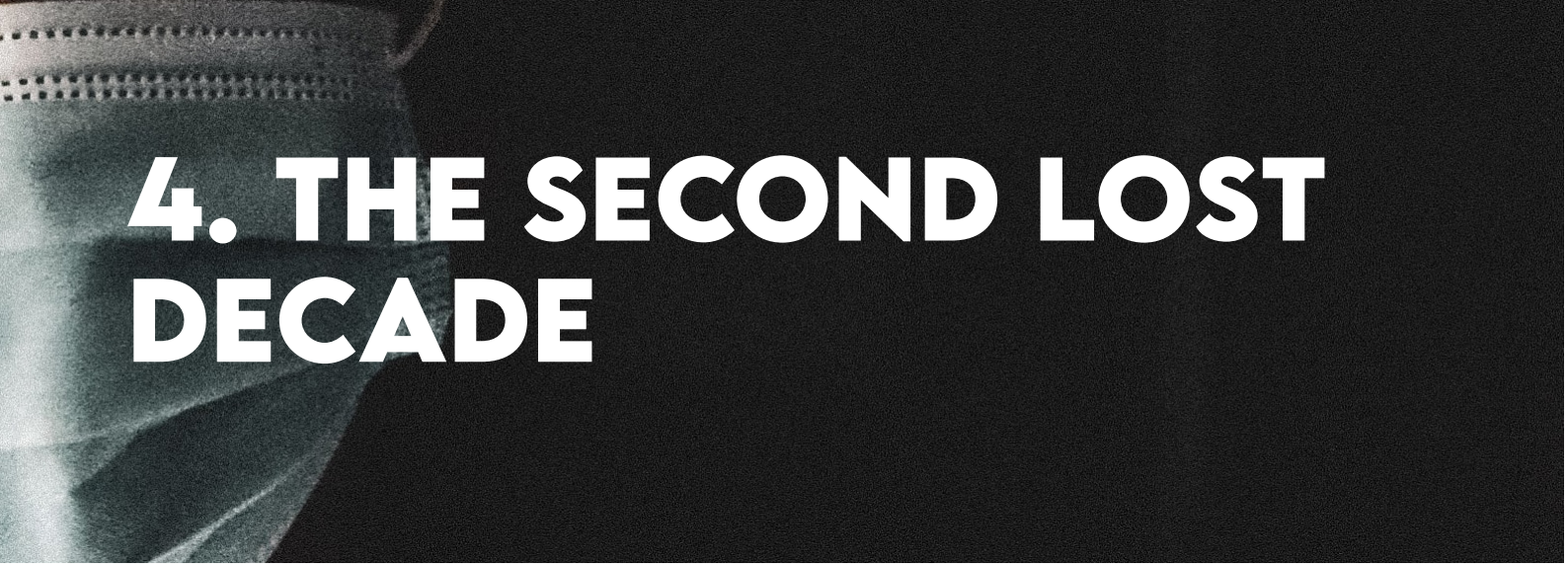
During the third phase, from 2009 to 2019, South Africa had a "lost decade" during which GDP per capita did not grow. Government final consumption grew by 1.8% a year during this period. In 2009, GDP declined by 1.5% in the wake of the Global Financial Crisis. There were two stages during this phase. 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. 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 (SARB, 2022b). There were budget revenue surpluses – in-year revenues compared with budget forecasts – of R28.9 billion during this period (National Treasury, 2020b; 2020c).

During the second stage, from 2014 to 2019, there was a collapse in the trend GDP growth rate due to contractionary macroeconomic policies. The growth of government final consumption spending declined to 1.1% a year, which was lower than the growth of

the population. There was a second post-apartheid public sector investment strike. Between 2016 and 2021, investment by general government declined by 27.3%. Between 2013 and 2021, investment by public corporations collapsed by 53%. Interest rates increased by 200 basis points between 2014 and 2016. Therefore, declining per capita final government consumption spending, a public sector investment strike 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 (SARB, 2022b). The lower GDP growth rate resulted in budget revenue shortfalls of R250 billion between 2014-2015 and 2019-2020 (National Treasury, 2020b;2020c)

There is a view that there was no austerity during this period and that a rising debt ratio proves that there was government overspending or a Keynesian stimulus. However, there was no overspending. Real (after inflation) consolidated non-interest spending increased by 1.4% a year between 2012-2013 and 2021-22. But gross loan debt increased from R1.4 trillion (37.6% of GDP) to R4.3 trillion (69.5% of GDP) during the same period (National Treasury, 2022a). There were austerity measures of R41.8 billion in 2015, R73 billion in 2016, R54 billion in 2017 and R121 billion in 2018. National Treasury increased the expenditure ceiling by R16 billion in 2019 to accommodate Eskom bailouts. It announced austerity measures of R156.1 billion in 2020 and R264 billion in 2021 (National Treasury, 2015; National Treasury, 2016; National Treasury, 2017; National Treasury, 2018 National Treasury, 2019; National Treasury, 2020; National Treasury, 2021). Austerity is a self-defeating policy because it reduces GDP growth and increases the debt ratio. The rising debt ratio was owing to austerity policies, not overspending.

There is another 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 2022b). Finally, all sectors of the economy increased employment during the mini-boom. But the mining sector shed 110 000 jobs (Stats SA, 2009, 2022b). Sachs (2012) says 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 contribution to the economy is small. The annual average contribution of mining to GDP growth between 2014 and 2019 was -0.1% (Stats SA 2022a). Since the start of the lockdown on 27 March 2020, the economy has entered a fourth



4. THE SECOND LOST DECADE

In response to lockdowns and the resulting pandemic-induced global 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 International Monetary Fund (IMF). The state contribution to these packages – additional spending and foregone revenue - was $10 trillion or 10.6% of world GDP (IMF, 2021). 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. (Yardeni and Quintana, 2022).

Central balance sheets are now worth: 130% of GDP in Japan, 60% in the eurozone and 40% in the US and the UK (Pettifor, 2021). They nationalised bond markets to determine the cost of capital and provided a "magic money tree" to finance government spending. In the United Kingdom, the Bank of England financed 92% of the government's £485.5bn borrowing. In the United States, the Federal Reserve provided 62% of the government's borrowing of $5.3 trillion between December 2019 and September 2021 (Atlantic Council, 2022; Micossi, S and Avgouleas, E, 2021; Ministry of Finance. Japan, 2022; St Louis Fed, 2022; Yardeni, E and Quintana, M, 2022).

South Africa's response to the crisis was inadequate. In April 2020, President Cyril Ramaphosa announced a R500 billion stimulus package that was allegedly worth 10% of GDP (The Presidency, 2020a). But National Treasury cancelled the stimulus. If one looks through the smoke and mirrors of the package, the real stimulus – new money that was injected into the economy - was only R104.1 billion. This was equivalent to 1.6% of GDP in 2020-2021. It was only 20.8% of the headline number that the president that the president announced. There were two-components of the real stimulus. There were above-the-line (on-budget) measures – higher government spending and foregone tax revenues - of R27 billion, equivalent to 0.5% of GDP compared with the world average of 10.6%. There was a R19.7 billion increase in non-interest spending during 2020-2021 compared with what had been budgeted for in the 2020 budget (National Treasury, 2022: 32; National Treasury 2020: 25).

Direct tax relief – as opposed to deferrals, which are not foregone tax revenues - was R7.3 billion. "For the direct tax relief measures, the exemption from the skills development levy provided relief of about R5.9 billion, in line with estimates. Companies could choose to benefit from either the Temporary Employer/Employee Relief (TERS) Scheme or the expanded employment tax incentive, and claimed R57.3 billion from the TERS against only R1.4 billion from the employment tax incentive" (National Treasury 2021: 42). There were below-the-line (off-budget) measures of R77.1 billion, equivalent to 1.3% of GDP. They comprised: R18,4 billion that banks advanced to clients as part of the government's R200 billion loan guarantee scheme (BASA, 2021); and R58.7 billion that the Unemployment Insurance Fund paid to people who were

unemployed because of the lockdown under the TERS (UIF, 2021).

In October 2020, the government announced an Economic Recovery and Reconstruction Plan (ERRP) (The Presidency, 2020b). The plan has two related pillars. First, the government has established an infrastructure fund. In September 2018, Ramaphosa said the fund would mobilise R400 billion (The Presidency, 2018). But National Treasury cancelled the fund. In the February 2019 budget, National Treasury (2019) said the fund would mobilise R100 billion over the next decade, a miniscule amount considering the country's infrastructure backlogs and the unmet needs of millions of South Africans. Every year since 2019, National Treasury has made an allocation to the fund, which was subsequently cancelled. (National Treasury 2019; National Treasury, 2020, National Treasury, 2021, National Treasury, 2022). The fund has no money, almost four years after the President's announcement.

Second, the government has launched Operation Vulindlela, a joint initiative between the Presidency and National Treasury to implement structural reforms, which were first outlined in an economic strategy in October 2019 (National Treasury, 2019b). 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 Rodrik (2016:28) says gains from such neoliberal reforms since the 1980s have been elusive. "That 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 (2019b) said the benefits from the structural reforms would be marginal – 142 000 jobs over the first three years and one million jobs by 2030.

The government's recovery plan has pinned its hopes on structural reforms to unleash an improbable new wave of private sector investment. South Africa had an investment ratio of about 13% of GDP in 2021, the lowest since we started collecting national statistics in 1946 (SARB, 2022). It is lower than it was after Sharpeville in 1960, the June 1976 riots, the apartheid debt crisis in 1985, and international sanctions. The annual shortfall to achieve the 30% target in the National Development Plan (NDP) is more than R1 trillion. The 2022 budget allocated R812.5 billion towards infrastructure during the MTEF period until 2024-2025. This was equivalent to an annual average of 4% of GDP during the period. The annual shortfall to achieve the NDP's target for public investment of 10% of GDP is R400 billion.

New Independent Power Producer (IPP) 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. (Zali, 2021). The liberalisation in the energy sector - the lifting of the licensing threshold for embedded generation projects to 100 MW - will attract investments of R54 billion, according to finance minister Enoch Godongwana (Godongwana, 2022). Transnet is planning to invest R100 billion in Durban port over a decade and has invited bids for private sector to participate in the project. It is not clear how much the private sector will contribute. Transnet has said it would provide private rail operators third party access to its network. Godongwana (2022) said the move result in investment of R58 billion. After the allocation of spectrum, estimates suggested that telecommunications companies would invest R50 billion. These small investments, which will take place over a number of years, are not game-changers for the economy and are likely to close less than 5% of the country's annual investment shortfall.

Private sector investment responds with a lag (a delay) to rising GDP growth as happened during the 2004 – 2008 mini-

boom, when the government started spending again after the end of Gear. 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. Kelton (2013) says: "Capitalism runs on sales. In survey after survey, we find that the number one reason businesses are slow to hire and invest in new plant and equipment is a lack of demand for the things they produce. Businesses hire and invest when they're swamped with customers."

During the 2022 budget, National Treasury announced a R469.9 billion main budget revenue overrun for three-year the 2021 medium term expenditure framework (MTEF) period to 2023-2024 compared with what was budgeted for in 2021. This was owing to high commodity prices. The windfall for the 2021-2022 fiscal year was R197.4 billion. Non-interest expenditure during the year was R63.1 billion higher than in the 2021 budget. The difference of R134.3 billion was used to repay debt. This means that only a third of the revenue overrun was invested in the economy (National Treasury, 2022). During the three-year MTEF period until 2024/2025, National Treasury has prioritised austerity and debt reduction. After inflation, there will be a real decline in non-interest spending of 6.6% throughout the period. There will be real declines in spending on health, basic education and social protection of 11.8%, 7.1% and 12.9% respectively. The social wage, which includes these three spending items, will decline by 8.1%, according to Forslund (2022). The objective is to have a primary surplus – the difference between revenues and non-interest spending - at the end of 2023-2024. The debt ratio will then stabilise at 75.1% of GDP in 2024-2025 (National Treasury,2002)

The Indlulamithi initiative (ADRS, 2021) has presented three scenarios for the economy until 2030. Under the "Isbhujwa" trickle down outlook, the government will continue with the 1996 policy framework. This scenario will produce average GDP growth of 2.2% a year until 2030. With the "Gwara-Gwara" immiserating outlook the government will also implement policies that are more conservative than those of the 1996 policy framework, as the recent budget has done. This "second lost decade" scenario will produce average GDP growth of 1.8% a year until 2030, which is barely higher than the country's population growth rate.

On this trajectory, our modelling shows, the labour force will increase by 6.4 million people – an annual average of 716 000 – to 33.5 million people in December 2030 from 27.1 million people in December 2021. The economy will create 2 million jobs – an annual average of 222 000. The number of unemployed people will increase by 4.4 million – an annual average of 494 000 – to 17 million by December 2030 from 12.5 million in December 2021. The unemployment rate will increase to 50.6% from 46.2% during the same period." (Gqubule 2022b)

The "Nayi-le-Walk" pro-poor outlook requires a shift from the status quo. Under this scenario, the government will implement a six pillar policy framework, which includes bold macroeconomic and social policy reforms. The Reserve Bank will change its mandate to target inflation and a 6% GDP growth rate. The government will introduce a new grant of R1000 a month and make the public works programme an employer of last resort. Under this scenario, there will be GDP growth of 6.2% a year until 2030. The economy will create between 8.7 million and 10 million jobs and the official unemployment rate will decline to 12%. The poverty rate will decline by 50% to 23%.

5. SOCIAL ASSISTANCE AFTER 1994

In 1994, South Africa's first democratic government inherited an inefficient and ineffective social welfare system, which had fragmented and duplicated services that did not meet the human needs of vulnerable and poor citizens. "There were 14 different departments for various race and ethnic groups and the then homelands that were also administered through the welfare system" (The Presidency, 2015:6). The White Paper for Social Welfare said the welfare budget was made up of two components: social security (referred to as social assistance in this paper) and welfare assistance and services. "The social security component amounts to 88% of the welfare budget, and welfare assistance and services to 8%, while 4% is allocated to capital expenditure." The social assistance budget was spent on grants for the elderly (60%), the disabled (24%) and maintenance grants (14%) (Department of Welfare, 1997:43). The inherited racist social security system had relatively wide coverage of grants for the elderly but almost none for African children. There was also no income support for the working age population.

However, the Reconstruction and Development Plan (RDP) - the ANC'S blueprint for a post-apartheid economy - had said very little about social assistance. It called for a developmental social welfare programme and the review of all apartheid policies and laws. It said there was a need for a national social security system that would meet the needs of workers in both the formal and informal sectors and the unemployed. A safety net would include social assistance in the form of cash or in-kind benefits that would be given to those most at risk. The assistance could include grants, public works programmes, the provision of food, clothing and healthcare to those in need (ANC, 1994).

The RDP White paper, developed once the ANC was in government, did not mention the word social assistance (RSA, 1994). In 1996, section 27 (1) of the Constitution said everyone has the right of access to social security, including if they are unable to support themselves and their dependents, appropriate social assistance. It said the state must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of each of these rights. Like the RDP, the 1997 White Paper for Social Welfare called for developmental social welfare.

Brockerhoff (2013:24) cited the then ministry of welfare, which said: "the main feature of developmental social welfare was that social development and economic development were interdependent and mutually

reinforcing." However, the 1997 White Paper was also vague on the issue of extending social assistance to the working age population, which was the main weakness of the inherited apartheid social assistance system. There was no roadmap to meeting the Constitutional obligation to provide social security to all South Africans who could not support themselves or their dependents.

After criticism of the draft White Paper by the Congress of South African Trade Unions, Brockerhoff (2013) wrote, the final document had a commitment to develop "a comprehensive social security policy and legislation." It said there was a need for "comprehensive social assistance for those without other means of support, such as a general means tested social assistance scheme." It continued: "Although the Department of Welfare has a central role to play in serving the social security needs of the great number of people who have no formal employment and live in grinding poverty, the creation of an effective social security system requires integrated inter-departmental and inter-ministerial planning and co-ordination, in consultation with civil society" (Department of Welfare, 1997: 53)

According to the 1996 Budget Review: "Social security and welfare spending by the general government comprised 3.5% of GDP in 1993/94. Of this, 0.7% of GDP comprised benefits paid by the Unemployment Insurance Fund (UIF) and the various workmen's compensation funds. Social grants paid out of government revenue amounted to 2.4% of GDP. Welfare services of various kinds, including subsidies to welfare organisations make up the balance of welfare spending. Grants paid by welfare departments amount to 88% of government spending on welfare (excluding social security funds) and constitute 7.5% of government spending. On 31 May 1995 there were 2.85 million beneficiaries of grants." (Department of Finance, 1996:2-15). Therefore, the welfare budget, excluding social insurance benefits such as the UIF, was about 2.8% of GDP.

Lund (2008) said 12% of the social assistance budget went to grants for child and family care, and 84% of these grants went to the SMG with the remainder going to Foster Care Grants (FCGs), for those taking care of children who are not their kin, and to the Care Dependency Grant (CDG), intended for caregivers of profoundly physically or mentally impaired children to enable the them to be cared for at home rather than in residential institutions. Racial parity in awards to the elderly and to disabled people was achieved by the end of September 1993, and in July 1995 the value of these grants was R410 per month. The CDG was R410 per month for the whole population. The FCG was R288 per month.

There were two parts to the SMG: allowances for parents and the child at R410 and R127 a month respectively. The grant was available to a parent initially only mothers or guardians living with a child under 18 years of age on condition that the parent/guardian was unmarried, widowed or separated; had been deserted by the spouse for more than six months; had a spouse who received a social grant or had been declared unfit to work for more than six months; or had a spouse who was in prison, a drug treatment centre or similar institution and had been for more than six months.

Until 1992, the grant was payable for up to four children, then reduced to two children only. It was means tested and the applicant had to prove that she – and later he (after 1992 men could be included as well) - had attempted to obtain maintenance from the partner or other parent of the children through the private parental maintenance system. While the level of the SMG was equalised for all population groups in 1993, the grant had limited reach – 200 000 women and about the same number of children. And there was racial inequity in terms of access.

The Lund Committee of Child and Family Support (Lund, 1996) said all South Africans were eligible for the grant, but for a variety of reasons African women were largely excluded from access. In a 20-year review of social security, the Presidency (2015) said In 1993, the last year for which racially disaggregated welfare spending data is available, only 0.2% of African children were in receipt of maintenance grants, while 1.4% of white children, 4% of Indian children and 5% of Coloured children received the grant. The Lund Committee said about R1.2 billion was spent on the SMG in 1995.

Patel and Plagerson (2016) wrote that the expense of extending the SMG to the whole population was deemed unaffordable at an estimated cost of R12 billion, which was equivalent to the total social assistance budget in 1995/1996. The Lund Committee recommended a grant for children for children aged 0 – 9. Cabinet. In April 1998, the government introduced a R75 child support grant for children aged 0 – 7 years at . This sparked a civil society campaign to increase both the amount and the age limit, Patel and Plagerson said. It took 15 years – between 1998 and 2013 – for the government to meet the Constitutional obligation to extend the grant to all children.

There was initially a slow take-up of the grant. After three years, only 25% of the targeted group were receiving the grant (Taylor 2002). In March 2002, Viviene Taylor, the chairperson of the Committee of Inquiry into a Comprehensive System of Social Security for South Africa presented a seminal report Transforming the Present – Protecting the Future to Minister of Social Development Zola Skweyiya. The Committee had a wide brief that extended beyond social assistance, which is the focus of this report. It recommended that the government should extend the CSG to all children under the age of 18.

Between 2003 and 2005, the government extended the grant to children under 14. The CSG was extended to: children under nine from April 2003; children under 11 from April 2004; and children under 14 from April 2005. In 2009, cabinet said I would extend the CSG to children under 18. Implementation would be phased in during 2009/10 starting with children under the age of 15. National Treasury's 2010 Budget Review said: "Growth over the medium-term expenditure framework is largely the result of the extension of the child support grant to eligible children up to their 18th birthday. The extension of child support will be phased in over three years, with additional allocations of R1.3 billion, R3.1 billion and R5 billion in 2010/2011, 2011/2012 and 2012/2013 respectively" (National Treasury, 2010: 104).

The Taylor Committee also recommended the implementation of a Basic Income Grant to close the gap in the social assistance policy. Its report said: "The last vestiges of state racial discrimination have subsequently been removed, but a key underpinning principle of the old system remains in place, i.e the assumption that those in the labour force can support themselves through work, and that unemployment is a temporary condition. In reality those who cannot find work and who do not, or no longer, qualify for UIF payments, fall through a vast hole in the social safety net." It continued: "Ideally, people should be able to earn a living through employment rather than rely on welfare payments. However, given the size of the unemployment problem and the extent of the growth challenge, full employment is not a feasible scenario in the short to medium term." (Taylor 2002:15).

The report was adamant that there should also be income support for the working poor. "Importantly, with changing forms of employment, and hence changing statistical definitions of unemployment, the distinction between 'employed' and 'unemployed' is also becoming blurred. For the purposes of social policy, for example, the difference between an unemployed person and someone employed in the informal sector at virtually no income appears insignificant since such

work does not provide adequate job and income security (Taylor 2002:15). Is the person in chronic underemployment not just as deserving of income security? Why provide income support to someone with zero hours of work last week and not to someone who did a few (two) hours?

“Moreover, unlike industrialised countries, large proportions of the formally employed are in poverty and are categorised as ‘working poor.’ In the context of a labour surplus economy, more and more people are being pushed into the informal economy. The Committee’s research into unemployment trends and workerless households reveals that those involved in informal work or in the ‘informal sector’ also tend to fall into the category of the working poor. In short, there is a growing need for a platform of general social protection that supports both the unemployed and the working poor” (Taylor 2002:38).

6. ASSESSMENT OF SOUTH AFRICA’S SOCIAL ASSISTANCE PROGRAMMES

During the 2021/2022 fiscal year, South Africa spent R224.5 billion on social grants for 18.4 million beneficiaries (old age, children, disability, foster care, care dependency) and 10.5 million beneficiaries of the R350 a month special Covid-19 social relief of distress grant. This was equivalent to 3.6% of GDP (National Treasury, 2022). By comparison, the government spent 2.4% of GDP on social grants for 2.85 million beneficiaries in 1996. Therefore, all that has happened since 1994 is that there has been a small increase – 1.2 percentage points as a share of GDP - which must now be shared between 26 million more beneficiaries, half of whom are children (Department of Finance, 1996; National Treasury, 2021; National Treasury 2022). Since it is a Constitutional obligation, the government would have faced a legal challenge if it had not extended the grant to all children.

Though it has wide coverage in providing grants for the elderly, the disabled and children, South Africa’s spending on social protection is not high by international standards, even when benchmarked against upper middle income countries. The ILO (2021) says South Africa has public social protection spending (excluding health) of 5.5% of GDP compared with a world average of 12.9%. The South African figure includes spending by social security funds such as the Unemployment

Insurance Fund. The average in upper middle income countries is 8% of GDP. South Africa's public social protection spending for older persons is 1.5% of GDP. The world average was 7.0% of GDP with wide variations across regions. The average for upper middle income countries was 5.3% of GDP. Also, spending on the CSG, at R480 per month, is inadequate. It is 26.3% below the 2021 food poverty line of R624 per month.

The International Labour Organisation (ILO) Recommendation No. 202 says member states should establish and maintain social protection floors as a nationally defined set of basic social security guarantees, which secure protection aimed at preventing or alleviating poverty, vulnerability and social exclusion. National social protection floors should comprise at least the following for social security guarantees: access to essential healthcare, including maternity care; basic income security for children; basic income security for persons in active age who are unable to earn income, in particular in cases of sickness, unemployment, maternity and disability; and basic income security for older persons.

In South Africa, according to the ILO (2021), 49.3% of the population was covered by at least one social protection benefit in 2020, the second highest in Africa after Tunisia (50.2%) – but still only half-way through the set indicator in the United Nations Sustainable Development Goals (SDGs) of universal coverage. The world average was 46.2%. The coverage in other regions was: Europe and Central Asia (83.9%), the Americas (64.3%), Asia and the Pacific (44.1%) and Africa (17.4%). South Africa had coverage of 76.6% for child and family benefits. This was above the world average of 26.4%. The coverage in other regions was: Europe and Central Asia (82.3%) and the Americas (57.4%).

There is wide coverage of 66.5% for people with severe disabilities. This is well above the world average of 33.5%. South Africa had coverage of 81.4% for older people. This as above the global average of 77.5%. The coverage in other regions was: Europe and Central Asia (97.2%), Asia and the Pacific (73.5%), the Americas (88.1%) and Africa (27.1%). But there was poor coverage of only 11.9% for unemployed people. This was below the global average of 18.6%. The coverage for other regions was: Europe and Central Asia (51.3%), the America's (16.4%), Asia and the Pacific (14%) and Africa (5.3%).

In January 2015, South Africa ratified the United Nations (UN) International Covenant on Economic, Social and Cultural Rights (ICESCR), which calls for countries to use "maximum available resources" and "all appropriate means" to progressively realise the rights that are in the Covenant." These include rights to: work, fair wages, safe and healthy working conditions, join trade unions and strike, social security, an adequate standard of living, freedom from hunger, the highest attainable standard of physical and mental health, free and compulsory primary education and secondary and higher education, which should progressively become free.

In its first report on South Africa that was adopted on 29 November 2018, the CESCR said the levels of all non-contributory social assistance benefits were too low to ensure an adequate standard of living. it said those with little or no income between the ages of 18 and 59 and are capable of working are not covered by existing schemes. The Committee recommended that South Africa should: raise the levels of non-contributory social assistance benefits to a level that ensures an adequate standard of living for recipients and their families; ensure that those between 18 and 59 have access to social assistance; establish a social protection floor in line with the rights-based definition under ILO Social Protection Floors Recommendation, 2012 (No. 202); expand the coverage of the Unemployment Insurance Fund to all workers, regardless of their status; and consider introducing a universal basic income grant.

7. 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 two years, there has been a proliferation of reports, which outline in detail how a BIG can be financed and implemented. Some of the reports are listed below:

1 SOCIAL PROTECTION PATHWAYS TO A BASIC INCOME GRANT BEYOND COVID-19 BY VIVIENE TAYLOR (TAYLOR, 2002)

2 BASIC INCOME SUPPORT FOR THE UNEMPLOYED AGED 18 – 59: A DISCUSSION PAPER (DEPARTMENT OF SOCIAL DEVELOPMENT) (DSD, 2020)

3 FROM A “TWO-SPEED SOCIETY” TO ONE THAT WORKS FOR ALL: BY COLIN COLEMAN (COLEMAN, 2020)

4 TOWARDS INCOME SECURITY FOR ALL: INSTITUTE FOR ECONOMIC JUSTICE POLICY BRIEF (IEJ, 2021A)

5 UNIVERSAL BASIC INCOME GUARANTEE: FINANCING OPTIONS ANALYSIS (DNA ECONOMICS, 2021)

6 FISCALLY NEUTRAL BASIC INCOME GRANT SCENARIOS: ECONOMIC AND DEVELOPMENT IMPACTS (ADRS, 2021B)

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. (WRIGHT ET. AL.,2021)

8 DRAFT REPORT: FINANCIAL FEASIBILITY OF THE BASIC INCOME GRANT (DELOITTE, 2020)

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) (ANC, 2021)

10 IS A BASIC INCOME GRANT SUSTAINABLE? BY INTELLIDEX FOR BUSINESS UNITY SOUTH AFRICA (INTELLIDEX, 2021)

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.

8. MYTHS ABOUT PUBLIC SECTOR FINANCE

8.1 SOUTH AFRICA IS A MONETARILY SOVEREIGN COUNTRY THAT CANNOT RUN OUT OF MONEY

South Africa is a monetarily sovereign country that cannot fail to meet its obligations in its own currency unless it chooses to do so. It cannot go bust or run out of money. Austerity is a political choice. According to modern monetary theory (MMT), a monetarily sovereign country is one 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, such as another currency. In other words, it does not accumulate foreign currency loans or peg its currency against another currency. Technically, such a country cannot default on its debt.

It can pursue its economic development objectives without worrying too much about the reactions of international investors. MMT is a new school of economics that is within the Keynesian tradition. Kelton (2020) says monetarily sovereign countries can harness the power of their "public money" or "sovereign currency." This means that such countries have no financial constraints on spending. But "every economy has its own internal speed limit, regulated by the availability of our real productive resources. MMT distinguishes the real limits from delusional and unnecessary self-imposed constraints," she says. South Africa has constraints that relate to state capacity and corruption.

Over the past four decades, every developing country currency or debt crisis — including Mexico (1982 and 1994), East Asia (1997), Russia (1998), Brazil (1999), Argentina (2002 and 2018), Turkey (2018), Lebanon (2019), Zambia (2020) and Sri Lanka (2022) — arose because of a loss of monetary sovereignty after the accumulation of foreign currency loans or futile attempts to defend a currency peg. MMT does not apply to many developing countries that do not have monetary sovereignty. The countries that are used to show that MMT does not work do not have monetary sovereignty. However, South Africa is not Sri Lanka. It has a relatively high degree of monetary sovereignty.

It does not fix its currency. At the end of March 2022,

it had foreign loans of R493.3 billion, which was equivalent to 11.4% of gross loan debt of R4.3 billion. Foreign loans were equivalent to 7.9% of GDP in 2022. Foreign ownership of government bonds was 28.2% in 2021 (National Treasury 2022). Foreign ownership of shares on the Johannesburg Stock Exchange (JSE) was 40% in May 2020. An astonishing 75% of the assets of JSE-listed companies were foreign at the end of December 2020 (Gqubule, 2021). South Africa can increase its monetary sovereignty by paying off some of its foreign loans and reducing foreign ownership of bonds and shares. It can ban the large inward listings of companies that have few domestic assets and distort the JSE.

8.2 A COUNTRY DOES NOT NEED TO HAVE A RESERVE CURRENCY TO IMPLEMENT MMT

Kelton (2020) writes in her book The Deficit Myth that she gets asked if MMT applies to countries outside the United States. "It does! Even though the US dollar is considered special because of its status as a global reserve currency, lots of other countries have the power to make their monetary systems work for their people. MMT can be used to describe and improve the policy choices available to any country with a high degree of monetary sovereignty." This means that many sovereign currency nations in the global South can pursue their economic development objectives, including the achievement of full employment, without worrying too much about the reactions of international investors.

There is no logical reason why such a country that uses the power to issue its sovereign currency to support economic development should automatically see a debasement of its currency through inflation, depreciation or punishment from international investors through a "sudden stop" of capital inflows. The two issues are not related. People who argue otherwise should specify the transmission mechanism that will make this automatic debasement happen. The IMF (2020) conducted a study of 20 emerging market central banks, which had, in the wake of the pandemic, for the first time, implemented quantitative easing (QE), including purchases of government bonds on primary and secondary markets. Primary markets are where new debt is issued on the bond market. Secondary markets are where existing bonds are traded. None of these countries had reserve currencies.

The IMF (2020: 46) concluded that QE had lowered bond yields and had not contributed towards currency depreciation. There had been 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." In a Project Syndicate article, Piroska Nagy-Mohacsi wrote that QE in rich countries had huge positive spillover effects on emerging markets as investors searched for yield. The result was a quiet revolution in emerging market central banks, which could mimic rich country policies including QE and the monetisation of government deficits without inflation or currency depreciation. (Nagy-Mohacsi, 2020)

During March 2020 there was the largest "sudden stop" of capital flows to emerging markets in history as investors withdrew $100 billion and fled to the safety of United States dollar assets as markets recognised the scale of Covid-19 shock. In South Africa, non-residents sold assets worth R100 billion. The rand lost a quarter of its value but has since recovered significantly. During such "sudden stops" South Africa can let its exchange rate absorb the pressure as MMT recommends or implement capital controls – restrictions on flows of capital to and from the country - to protect its monetary sovereignty. The Reserve Bank can also intervene in financial markets and purchase bonds and shares to

restore calm. In developed countries, many central banks have effectively nationalised their bond markets.

8.3 MONETARY FINANCING BY THE RESERVE BANK WILL NOT NECESSARILY RESULT IN AN INFLATIONARY SURGE

There are many causes of inflation. It can be due to excess aggregate demand (or spending) that is above an economy's productive capacity. In such cases, there is too much money chasing too few goods and services. Inflation can also be due to supply-side (or cost-push) factors such as Eskom price hikes. The war in Ukraine has resulted in higher oil and food prices. While interest rate increases can reduce aggregate demand, they cannot end the war in Ukraine or reduce oil prices.

In 2021, in South Africa, the under-utilisation of production capacity in the manufacturing sector was 22.4%, primarily due to insufficient demand for the products that companies could produce (Stats SA, 2022d). This means that there was too little money chasing too many goods in the economy – the opposite of what happens when there is demand-pull inflation. If one extends this spare capacity to the R6.1 trillion economy, there could be additional non-inflationary spending of more than R1 trillion. With so much spare capacity in the economy, monetary financing cannot result in an inflationary surge.

All new money - 95% of which is created by commercial banks when they advance new loans – is potentially inflationary. Therefore, it is not clear why public money created by a central bank should be inherently more inflationary than money that is created by commercial banks. Why should commercial banks always have a monopoly on the creation of new money? Also, it is not clear why the government must always borrow money on the bond market – from commercial banks and non-bank financial institutions such as Old Mutual and Sanlam – and not from the Reserve Bank. Why should these profit-making institutions always have a monopoly on lending to the government?

Though there is a fear that central banks could abuse the power to create money, the same applies to commercial banks which caused the global financial crisis (GFC) of 2007 to 2008. There can be institutional mechanisms to ensure that there is no abuse of the power to create money. In practice, Jackson (2013) says this means that that the central bank should have no say over how the money will be used. The government should have no say over how much money will be created. The decisions on how much money to create should be based on an analysis of an economy's productive capacity. If too much money is created, traditional monetary and fiscal policy tools can be used to control inflation. For commercial banks, there are macroprudential policies to prevent the abuse of power.

8.4 A NATIONAL BUDGET DOES NOT OPERATE LIKE A HOUSEHOLD BUDGET.

A household has an independence between its spending and its income. If a household discovered that its income (salaries) would decline if it cut spending to balance spending and income it would not consider such an option. It would focus on increasing income (salaries). When the government increases its spending, it increases its income (or GDP) through a multiplier effect. The IMF says the multiplier for infrastructure spending is 2.7 (IMF 2021). Such spending can generate the income to pay for itself. When a country cuts its spending, it reduces its income (GDP) – the denominator or bottom part of the debt to GDP ratio - through a negative multiplier effect. The IMF says the negative multiplier is minus 1.5 (Pettifor, 2012). Austerity is a self-defeating policy that results in an increase in the debt to GDP ratio. The sustainable way to reduce a country's debt burden is to grow its

economy. However, South Africa is not Sri Lanka. It has a relatively high degree of monetary sovereignty.

8.5 SOUTH AFRICA'S PUBLIC DEBT IS NOT HIGH BY INTERNATIONAL STANDARDS, EVEN WHEN BENCHMARKED AGAINST OTHER UPPER MIDDLE-INCOME COUNTRIES

Most countries decided to spend their way out of the pandemic-induced crisis of 2020. As a result, the world average debt to GDP ratio increased by 15.6 percentage points to 99.2% of GDP in December 2020 from 83.6% in December 2019. Almost every country had similar shocks to GDP and tax revenues. South Africa's debt ratio increased by 13.1 percentage points to 69.4% in 2020 from 56.3% in 2019. In relative terms South Africa is where it was before the crisis.

At the end of December 2021, the world average debt to GDP ratio was 97%. For advanced economies it was 119.8%. South Africa's debt ratio was 69.1%. By comparison, the average debt ratio for emerging market economies was 66.1%. Asia and Latin America had average debt ratios of 72.9% and 72.4%, respectively. Selected debt ratios for upper middle-income countries were Egypt (93.5%), Brazil (93%), Angola (86.3%), India (86.8%), Croatia (80.6%), Argentina (80.6%), Morocco (76,3%) and China (73.3%).There is no universe in which South Africa has a high debt ratio (IMF, 2022a).

At the end of March 2022, South Africa had gross loan debt of R4.3 trillion, which was equivalent to 69.5% of GDP. After subtracting government cash balances of R289 billion, there was net loan debt of R4.1 trillion or 64.9% of GDP. South Africa's interest costs were R268.3 billion, which was 6.2% of gross loan debt. It was also equivalent to 4.3% of GDP and 14.2% of government spending (National Treasury, 2022a). There are three ways to reduce the country's interest burden. First, the government can borrow from the Reserve Bank or the PIC on favourable terms to reduce the average cost of capital. The Reserve Bank can provide monetary financing at no cost. Second, the government must end its austerity measures and implement policies that will grow the economy. This will reduce interest costs as a percentage of GDP and government spending, which tracks the growth of the economy. Finally, the Reserve Bank can implement QE, the purchase of government debt on the secondary market.

8.6 SA INC. IS NOT BROKE. IT HAS A VAST PUBLIC SECTOR BALANCE SHEET

South Africa must look at the entire SA Inc. balance sheet. At the end of March 2022, the gross national debt was R4.3 trillion. The Road Accident Fund had a net asset value of minus R404 billion (National Treasury 2022a). At the end of September 2021, Eskom's debt was R392.1 billion (Eskom, 2022). The other side of the national balance sheet included assets worth R4.3 trillion, which comprised PIC assets, foreign exchange reserves and government cash balances. At the end of December 2021, the PIC had assets of R2.6 trillion. This included public sector debt (the government and SOCs) of R797 billion.

Between December 2015 and December 2021, the PIC provided additional loans of R209.6 billion to the public sector (SARB 2022a). There is no reason why it cannot provide the government with more loans on favourable terms. At the end of June 2022, the Reserve Bank had gross foreign exchange reserves of R963 billion. With import cover of 8 months, this was well above the international benchmark of three months of imports. In 2021, South Africa had monthly imports of R115 billion (SARS, 2022). The country needs foreign exchange reserves of R345 billion to cover imports of three months. Therefore, it had excess foreign exchange reserves of R618 billion at the end of May 2022. At the end of March 2022, the government also had cash balances of R289 billion (National Treasury 2022a).

9. MYTHS ABOUT THE BASIC INCOME GRANT

9.1 THE BIG AND FALSE NOTIONS OF PUBLIC FINANCE

Tcherneva (2007:4) says a focal point of basic income proposals is their budget-neutral stance. Such analysis presumably stems from efforts to quash neoliberal objections to deficit spending. But they rely on what she refers to as "false notions" of public finance which equate the national budget with a household budget. Discussion on how to finance basic income or job guarantees is only relevant for countries that have given up sovereign control of their currencies. "Although the ideology of the taxpayers' money is entrenched in all contemporary discourse, it is crucial to dispel its false premises. A sovereign currency nation can always pay for its programs of choice, be they basic income, job guarantees, or any other, irrespective of tax collections"

Many of the South African research reports on implementing the BIG, some of which are listed above, also rely on "false notions" of public finance. These so-called "pragmatic" proposals incorrectly assume, or give the impression that "taxpayer's money" is the only way to finance a BIG. Therefore, there can be no central bank financing of the BIG. They take as a starting point the National Treasury's false position, which is based on public debt fearmongering, that there is no fiscal space to implement a BIG. This means that there cannot be even the most miniscule in increase in public debt to finance the BIG. The real question to ask is not whether we can afford to pay for the BIG but how much of a boost to the economy the grant will provide. The higher the fiscal multiplier the more the grant can pay for itself without financing. The other real question to ask is whether we can afford not to implement the BIG.

9.2 AUSTERITY AND THE BIG

Budget neutral proposals would retain South Africa's harmful austerity policies. ADRS founder Asghar Adelzadeh says: "Our fiscally neutral BIG scenarios show that it is possible to address the extensive poverty and inequality in South Africa even under an austerian policy regime." Such scenarios are useful up to a point. They show that the BIG can be implemented in the short term if there is the political will. However, accepting the existing budget envelope with low-growth over the next few years due to austerity means that the BIG will impossible to sustain and be unaffordable.

The BIG can only be affordable and sustainable within the context of a new macroeconomic policy framework that will deliver a GDP growth of at least 6% until 2030 and beyond. Budget neutral proposals defeat the purpose of providing a significant stimulus

to the economy. ADRS and SASPRI modelling shows that a BIG at the UBPL would only provide boosts to the economy of 0.5 and 0.6 percentage points of GDP respectively. A budget-neutral BIG is a dumb idea that does not make sense in the context of an economy that needs a large fiscal stimulus to propel it onto a new sustainable growth path.

9.3 TAX INCREASES AND THE BIG

Budget neutral proposals invite legitimate criticism that they ignore the perverse macroeconomic effects of tax increases. Kelton (2020:33) says: "More than any other school of economic thought, MMT emphasises the importance of deciding when tax increases should accompany new spending and which taxes will be most effective in restraining inflationary pressures. Raising taxes when it is not necessary can undermine fiscal stimulus." 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 and modelled tax increases to finance the BIG can undermine the recovery by taxing people who are not high earners.

9.4 TARGETING THE POOR AND THE BIG

There has been a proliferation of dozens of options to gradually implement basic income, according to criteria such as age and employment status. However, poverty is pervasive. It cuts across age and employment status. The number of people in each of the proposed age cohorts is too small to make a dent in poverty or provide a meaningful stimulus. It would take too long to confront poverty. It took 15 years to increase coverage of the CSG to all children. A basic income grant for the unemployed only would leave out millions of the "working poor" - people with precarious work in the informal sector (2.5 million) and gig economy and as domestic (1.1 million) and agriculture workers (800 000).

However, studies (DSD, 2020) show that informal workers invest some of their basic income in their enterprises to increase productivity and output. Taylor (2002:17) said: "With changing forms of employment, and hence changing statistical definitions of unemployment, the distinction between employed and unemployment is also becoming blurred. For the purposes of social policy, for example, the difference between an unemployed person and someone employed in the informal sector at virtually no income appears insignificant, since such work does not provide adequate job and income security."

9.5 FALSE DICHOTOMIES (BASIC INCOME AND JOBS)

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. In an article in Look magazine soon after he was assassinated on 4 April 1968, King called for an economic bill of rights that would "guarantee an income for all who are not able to work. Some people are too young, some are too old, some are physically disabled, and yet in order to live, they need income." It would also guarantee "a job to all people who want to work and are able to work" (King 2018).

Tcherneva (2007:25) says the dichotomy of policies that target "only income" or "only employment" is no longer constructive. "An effective safety net must provide both a guaranteed income and guaranteed work opportunities." She says a job guarantee programme in the United States would offer a federally funded job to anyone who is ready, willing, and able to work, but who has not found other employment. The jobs would be

federally funded but do not need to be provided by the federal government. Civil society organisations could also bid to implement projects that will create jobs.

Also, if the goal of basic income is to make a baseline of consumption a human right, the goal of the job guarantee is to make work a universal human right (Spross 2020). Within the South African context a dignity floor at the UBPL of R1 546 a month as a human right would eliminate poverty. But this is a very low floor. It would not be enough to enable human flourishing. We must set a higher bar for 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.

The proposal is that the government should amalgamate all its public employment programmes – including the Presidential Employment Stimulus, the expanded public works programme (EPWP), the Community Work Programme, the National Youth Service and the Jobs Fund which cost about R25 billion a year – and convert them into a quasi-public institution that is outside the state and has civil society oversight and professional management. The new institution should have a target to provide up to 5 million full time jobs a year at a living wage of R5 000 a month, indexed to the inflation rate, within 5 years. The job guarantee will play a critical role in increasing the labour intensity of GDP growth.

There are three macroeconomic policy tools (or levers) that can tackle the unemployment crisis. There is a relationship – an employment multiplier – between GDP growth and employment. First, there must be a new macroeconomic policy framework that has a minimum target of 6% GDP growth that is binding on National Treasury and the Reserve Bank. Second, there must be aggressive industrial policies that increase the employment intensity of GDP growth and steer production towards sectors that have high employment multipliers. Third, the government must significantly increase the size of public employment programmes and provide a job guarantee. In practice, the proposed new institution that will make the government an employer of last resort will create the residual number of jobs that cannot be created by GDP growth and industrial policies. If these policies do not succeed, the new institution will have to create more jobs. If the policies succeed, there will be less jobs to create.

9.6 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 (62.2%) and general government (20.6%) accounted for 82.8% of GDP during 2020 (Stats SA 2021). Since it is such a critical component of national output, any attempt to revive the economy has to include measures to revive consumption spending.

In the wake of the pandemic-induced recession of 2020, 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. In June 2020, South Korea, used credit cards to disburse cash transfers of up to 1 million won (R12 500) to 97% of households in two weeks. The cash had to be spent by the end of August 2020, when the cards expired (Suzuki 2020). In February 2020, Hong Kong announced a HK$10

000 (R18 600) cash transfer to all adult permanent residents. In June 2021, the country announced a HK$5 000 (R9 300) cash transfer that had to be spent in five months (Leung et al. 2021).

Gentilini et al. (2021:5) say there were 734 cash-based measures that had been planned or implemented in 186 countries and 48 social pension programmes in 38 countries in response to the pandemic-induced recession in 2020. "Taken together, there are 782 cash transfer programmes globally, which account for 42% of total social assistance and 23% of global social protection responses. In a sample of 125 countries with available data, the average transfer size was 31% of monthly GDP per capita, ranging from 18% in North America to 52% in Sub-Saharan Africa." Among the highest country-level rates were low income countries like Burkina Faso (290%), Sierra Leone (175%) and Malawi (141%).

Handa et al. (2018) evaluated eight unconditional cash transfer programmes in Ethiopia, Ghana, Kenya, Lesotho, Malawi, Zambia (two) and Zimbabwe, the majority of which started in the late 2000s. They examined whether households invested their meagre grants in productive assets – livestock, agricultural assets and agricultural inputs. Results showed that with the exception of Kenya, there were significant, positive impacts on at least one of the three productive asset indicators. They also analysed the impact on children's education. The impacts on secondary schooling enrolment were significant in six evaluations. "It is clear that household are not only utlilising transfers for immediate subsistence needs, but also using the transfer for investment in productive activities and human capital for children."

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). This means that every dollar transferred in the Hintalo generated an additional $1.52 of benefits for the local economy through the multiplier effect. These multiplier effects largely accrue to non-beneficiaries, who are local shopkeepers and service providers. Egger et al. (2019) evaluated the effects of a one-time transfer of a one-off cash transfer of about US$1000 to 10 500 households across 653 randomised villages in rural Kenya and found similar results. The implied shock was 15% of local GDP. The study found large impacts on consumption and assets for recipients. There were large spillovers to non-recipient households and firms. The local fiscal multiplier was 2.6.

9.7 THE BIG DOES NOT CREATE DEPENDENCY

The idea that people would not want to work after receiving basic income of only R1 564 a month is absurd. The Handa et al. (2018:279) study of cash transfers in eight African countries found that there is no evidence that cash transfers create dependency. "Our results add to a variety of other studies that have come to similar conclusions: cash transfers in resource-poor settings have not been found to reduce the labour supply of beneficiary households in a meaningful way." Friedman (2021) says: "The standard middle-class stereotype….is that grants are a substitute for productive economic activity. They are not – they are what people living in poverty use to make taking part in the economy possible.

"Grants kick-start local economies: after they began to spread to everyone entitled to them, rural areas in which the only economic activity was lines of sad men queuing for half a dozen jobs on the mines came to life. "Today people in these areas queue in stores. On the pavement outside these shops people sell crafts, foods and other locally made goods. Study after study

shows that, in the main, people use grants as levers to get in on the economy. So, grants don't create dependence – they are the country's most effective way of preventing it," he says.

A department of social development expert panel (DSD,2021) concluded that: "We find that social transfers are important in underwriting job search and the costs of participating in any demand-side employment activation interventions for labour force participants. Social transfers therefore promote job search, employment effects and entrepreneurial ventures without cultivating a dependency culture. These positive effects of social assistance transfers to households therefore reflect enabling features of income support, such as promoting economic and social participation and agency on the part of recipients. We find that there is no evidence to support the view that a dependency culture or syndrome exists in relation to social grants or is likely to exist in relation to an implemented basic income support."

10. FINANCING A BASIC INCOME GRANT

TABLE 2: ADULT BIG OPTION

	2023-2024 FPL R655pm (Rbn)	2024-2025 LBPL R982pm (Rbn)	2025-2026 UBPL R1 546 (Rbn)
Gross Cost 70% uptake	*194.9*	*295.8*	*473.1*
Clawback from taxpayers	*(41.7)*	*(62.5)*	*(98.3)*
Net Cost 1.0	***153.2***	***233.3***	***374.8***
Stimulus with 1.0 multiplier	*153.2*	*80.1*	*141.5*
Stimulus with 1.5 multiplier	*229.8*	*120.2*	*212.3*
Cumulative Stimulus 1.5	**229.8**	**350.0**	**562.3**

TABLE 3: BIG & CSG OPTION

		2023-2024 FPL (Rbn) R655pm	2024-2025 LBPL (Rbn) R982pm	2025-2026 UBPL R1 546 pm
1	*Gross Cost BIG with 70% uptake*	*194.9*	*295.8*	*473.1*
2	*Gross Cost of CSG*	*106.9*	*163.8*	*261.6*
3	***Total***	***301.8***	***459.6***	***734.7***
4	*Clawback from taxpayers*	*(41.7)*	*(62.5)*	*(98.3)*
5	*CSG (Budgeted spending)*	*(80.7)*	*(84.3)*	*(88.6)*
6	*Net Cost CSG (2-5)*	*26.2*	*79.5*	*173.0*
7	***Net Cost BIG and CSG***	***179.4***	***312.8***	***547.8***
8	*Stimulus 1.0*	*179.4*	*133.4*	*235.0*
9	*Stimulus 1.5*	*269.1*	*200.1*	*352.5*
10	***Cumulative Stimulus 1.5***	***269.1***	***469.2***	***821.7***

This paper presents eight scenarios (with more details provided in the appendices) for the implementation of a BIG for adults (aged 18 – 59) and the increase of the child support grant (CSG) to the Upper-Bound Poverty Line (UBPL). The CSG proposal would extend the BIG to children. After escalating the 2021 poverty lines by 5% a year, we assumed that there would be a phased implementation of the BIG and an increase in CSG to the UBPL over three years to: the Food Poverty Line (FPL) of R655 a month during 2022-2023; the Lower Bound Poverty Line (LBPL) of R982 during 2023-2024; and the UBPL of R 1 564 during 2024-2025. This is not for reasons of affordability because there is no financial constraint based on MMT assumptions. The phased implementation of the BIG 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. This section presents only two options: the "adult big" and the preferred "BIG and CSG" options.

10.1 ADULT BIG OPTION

With a 70% uptake, the gross cost of implementing a BIG for adults would be R473.1 billion over the three-year implementation period. The net cost after a clawback from taxpayers would be R374.8 billion over the same period. This is equivalent to 1.7% of National Treasury's projected GDP of R21.8 trillion over the same period. This additional spending would provide a stimulus of between 1.7% and 2.6% of GDP a year over the implementation period, assuming fiscal multipliers of one and 1.5 respectively. There would be a GDP growth rate of between 3.5% and 4.5% a year.

The economy would create between 1.3 million and 1.6 million jobs - much higher than the 640 000 jobs that would be created under National Treasury's baseline forecast of 1.8% GDP growth a year during the implementation period. National Treasury projections are that the debt-to-GDP ratio will increase to 75.1% in 2024-2025 from 72.8% in 2022-2023. With additional spending of R233.3 billion and interest costs of R15.6 billion over the two year period, implementation of the BIG would increase the debt ratio to between 77.6% and 77.2% of GDP, assuming fiscal multipliers of one and 1.5 respectively. The debt ratio would increase by between 2.1 and 2.5 percentage points.

There are three ways of funding the implementation of the gross cost of implementing the BIG of R473.1 billion. First, the assumption is that recipients would spend 80% of their income (12%) on items that have VAT. The government would earn VAT receipts of R56.8 billion that it would not have earned without the BIG. Second, there will be a clawback of R98.3 billion from taxpayers who are above the income tax threshold. Third, there would an increase in tax revenues (due the stimulus effect) of between R109.1 billion and R164 billion that the government would not have earned in the absence of the BIG assuming fiscal multipliers of between one and 1.5 respectively.

After taking into account additional interest payments of R25.1 billion, these three items would generate net financing of between R239.1 billion (50.5% of gross cost) and R294 billion (62.1% of gross cost). This means that between 50% and 60% of the additional spending would eventually return to the government. The net cost of implementing the BIG would be between R179.1 billion and R234 billion.

10.2 BIG AND CSG OPTION

With a 70% uptake, the gross cost of implementing the preferred option of implementing a BIG for adults and extending it to children who receive a CSG of R480 a month would be R734.7 billion during the three-year implementation period. The net cost after a clawback from taxpayers and taking into account the existing CSG budget would be R547.8 billion. This is equivalent to 2.5% of National Treasury's projected GDP of R21.8 trillion over the same period. This additional spending would provide a stimulus of between 2.5% and 3.8% of GDP a year over the implementation period, assuming fiscal multipliers of one and 1.5 respectively. There would be a GDP growth rate of between 4.3% and 5.6% a year.

The economy would create between 1.6 million and 2.1 million jobs - much higher than the 640 000 jobs that would be created under National Treasury's baseline forecast of 1.8% GDP growth a year during the implementation period. National Treasury projections are that the debt-to-GDP ratio will increase to 75.1% in 2024-2025 from 72.8% in 2022-2023. With additional spending of R312.8 billion and interest costs of R21 billion over the two year period, implementation of the BIG would increase the debt ratio to between 78.2% and 77.5% of GDP, assuming fiscal multipliers of one and 1.5 respectively. The debt ratio would increase by

between 2.4 and 3.1 percentage points.

There are four ways of funding the implementation of the gross cost of implementing the BIG of R734.1 billion. First, there is existing CSG budget of R253.6 billion over the three-year implementation period. The net cost of implementing the CSG proposal would be R26.2 billion in 2023-2024; R79.5 billion in 2024-2025; and R173 billion in 2025-2026. Second, the government would earn VAT receipts of R77.5 billion that it would not have earned without the BIG. Third, there will be a clawback of R98.3 billion from taxpayers who are above the income tax threshold.

Fourth, there would an increase in tax revenues (due the stimulus effect) of between R154.5 billion and R223.8 billion that the government would not have earned in the absence of the BIG assuming fiscal multipliers of between one and 1.5 respectively. After taking into account additional interest payments of R36.7 billion, there would be net financing of between R293.6 billion (45.4% of the gross cost of implementing the BIG and the CSG net cost and R362.9 billion (56.2%). This means that between 45% and 56% of the additional spending would eventually return to the government. The net cost of implementing the BIG and CSG option would be between R283.2 billion and R352.5 billion.

11. OTHER FINANCING OPTIONS

South Africa must implement a fiscal stimulus to increase the GDP growth rate to 6%. Under current policies, the economy will grow by 1.5% a year between 2022 and 2026, according to the IMF. The stimulus should blend consumption and investment spending. Assuming a fiscal multiplier of 1.5 times, closing this gap will require a fiscal stimulus of about 3% of GDP (about R180 billion) during the first year with its size easing gradually as private consumption and investment spending respond to the higher growth rate. The stimulus will be from the main budget and SOCs which must resume investment spending.

11.1 MONETARY FINANCE

The Reserve Bank can finance government spending directly at no cost. Monetary finance is an umbrella term that refers to a range of proposals – including quantitative easing (QE) for the people, helicopter money, strategic QE and sovereign money creation – that require cooperation between a central bank and the government to provide a direct injection of new money into the real economy that is not financed by the issue of interest-bearing debt. It involves the central bank money creation for public purposes as opposed to commercial bank money creation, which is for profit.

11.2 CENTRAL BANK LENDING

Central Banks can lend directly to the government, DFIs and SOCs on favourable terms without going through the bond market. They can also lend to private companies. The New Development Bank loan to South Africa has a five-year payment holiday until the economy recovers. The IMF loan has a three-year payment holiday. There is no reason why the Reserve Bank cannot provide loans to the public sector with similar terms and at interest rates that are much lower than market-determined rates on the bond market. Central Banks can also purchase government, DFI and SOC bonds on market-determined terms in the primary market, where new debt instruments are issued.

11.3 QUANTITATIVE EASING

The Reserve Bank can reduce the cost of government borrowing. Quantitative easing (QE) refers to central bank money creation to purchase government and private sector bonds. In advanced countries, QE mostly involved purchases of government bonds on secondary markets, where existing debt instruments are traded. Such purchases increase the price of bonds and reduce their yield or the cost of capital. The Bank could implement a yield curve control policy, as has been practised in countries such as Japan and Australia, where the central bank sets a target for long-term bond yields (the cost of capital) and commits to purchase as many bonds as is required to meet the target.

11.4 EXCESS FOREIGN EXCHANGE RESERVES

At the end of June 2022, South Africa had foreign exchange reserves of almost R963 billion – well above the R345 billion required to meet an international benchmark for import cover of three months. The Reserve Bank can release 50% of foreign exchange reserves - R482 billion - into the economy.

11.5 PUBLIC INVESTMENT CORPORATION LENDING

In December 2021, the PIC had government and SOC bonds worth R800 billion. Like the Reserve Bank, the PIC can provide direct lending to the government and SOCs on favourable terms without going through the bond market where it gets market-determined returns. The favourable terms could include a payment holiday until the economy recovers and lower interest rates.

11.6 GOVERNMENT EMPLOYEES PENSION FUND PAYMENT HOLIDAY

There is no need for South Africa to have a fully-funded pension fund for government employees. On this basis, the GEPF has excess funding. It can have a three-year payment holiday, which would provide a modest stimulus to the economy. The government would receive more than R158.4 billion during the period. Workers could receive an extra R86.1 billion.

11.7 RESTRUCTURING THE SA INC. BALANCE SHEET

The GEPF accumulated surpluses of R470 billion between 2012-2013 and 2020-2021. This was equivalent to an annual average surplus of R52.2

billion during the period. There is no reason for it to have such surpluses. The surpluses do not benefit workers. The proposal is to reduce PIC assets by 50%. This would allow the PIC to release R1.2 trillion - write off government and SOC bonds of R 800 billon and release cash and shares of more than R400 billion into the economy. After the restructuring, as shown in appendix seven below, the GEPF would still have had an annual surplus of R12 billion in 2020-2021. The Reserve Bank could release 50% of its foreign exchange reserves worth R482 billion.

11.8 INCREASED BORROWING ON THE BOND MARKET

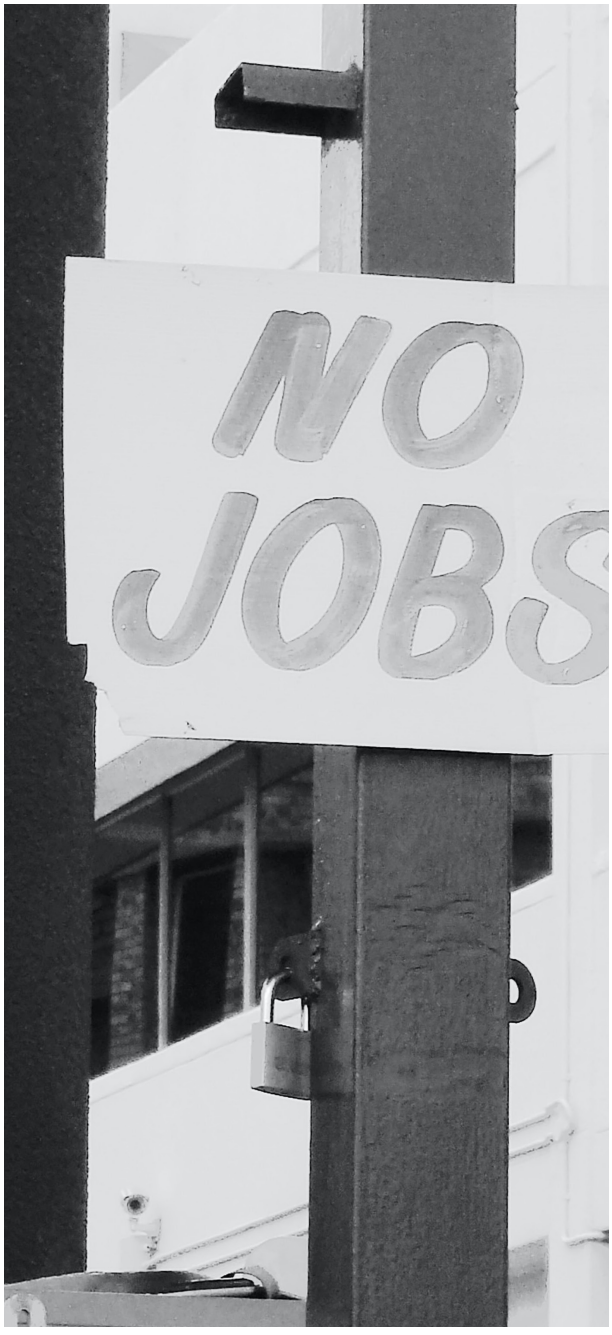
This policy brief proposes that the Reserve Bank and the PIC could provide the bulk of the funding for a fiscal stimulus at no cost or on favourable terms. However, South Africa's level of debt is not high by international standards, even when benchmarked against upper middle income countries . The country can increase its level of borrowing on the bond market.

11.9 HIGHER TAXES

South Africa can increase taxes on idle wealth and high earners that will not impede the fragile recover or reduce the efficacy of the proposed stimulus. Chaterjee et al (2020) estimate that a wealth tax could raise more than R140 billion. Civil society organisations have proposed other taxes on resource rents, financial transactions, carbon emissions and measures to curb illicit financial flows and profit shifting. The government could also raise more funds from reducing corruption. Over the longer term, South Africa can also gradually increase the ratio of tax revenues to GDP to 35% from about the level of about 25% where it has been for more than two decades, without disrupting the economy.

11.10 PRESCRIBED ASSETS

South Africa also has a deep financial sector with total assets of about R21.3 trillion. This comprised bank assets of R6.7 trillion and non-bank financial assets of R14.6 trillion at the end of December 2021. A social compact with a 10% target for impact or developmental investments could raise more than R1 trillion within the next five years.



CONCLUSION

South Africa is now at a crossroads, the most critical juncture in the post-apartheid period. It can choose to double down on the failed economic policies of the past 28 years and have a second lost decade until 2030 when there will be 17 million unemployed people. Under this scenario, the country would be an economic wasteland with repeated cycles of political and social instability. The other option would be to make a decisive break with the past and chart a new path towards economic development with a new macroeconomic policy framework that has a minimum 6% GDP growth target that is binding on National Treasury and the Reserve Bank. Since other policies would take time to implement and have an impact, a BIG for adults and children would be the quickest way to reach the 6% target.

This paper has shown that paying R547.8 billion for a BIG for adults and children can be affordable and sustainable within such a new macroeconomic policy framework. This first stimulus to the economy would cost 2.5% of a projected GDP of R21.8 trillion during the three year implementation period. It would stimulate the economy, resulting in a higher GDP growth rate and up to 1.5 million more jobs that would have been created without the BIG. If a household discovered that it would cost 2.5% of income to eliminate black tax, it would pay the money without batting an eyelid. The higher growth rate would help to contain the debt to GDP ratio. Over two years, the debt ratio would increase by between 2.4 and 3.1 percentage points, primarily because the second year stimulus is small. The debt ratio would decline if there was a top-up stimulus - higher public infrastructure spending during the implementation period, especially during the second year. In following years, the debt ratio would decline

During the implementation period, the government must put in place measures to lock-in the higher GDP growth rate until 2030 and beyond through a second stimulus package that will increase spending on infrastructure, industrial policies that will increase the employment intensity of GDP growth and public employment programmes. The government must develop the capacity to become an employer of last resort that can provide a job guarantee. The conclusion is that the first and second stimulus packages would provide a near-perfect solution out of 28 years of policy dithering around the crises of unemployment, poverty and inequality. This solution would meet people's basic needs, provide economic stimulus and lay the foundation for addressing unemployment through re-imagining the world of work as we recraft our economy to take us from dystopia to a credible and more inclusive future.

APPENDIX ONE: BIG SCENARIOS WITH A 70% UPTAKE

1. BIG SCENARIOS

	FPL R655pm (Rbn)	LBPL R982pm (Rbn)	UBPL R1 546 (Rbn)
Gross Cost 70% uptake	*194.9*	*295.8*	*473.1*
Clawback from taxpayers	*(41.7)*	*(62.5)*	*(98.3)*
Net Cost 1.0	***153.2***	***233.3***	***374.8***
Stimulus with 1.0 multiplier	*153.2*	*80.1*	*141.5*
Stimulus with 1.5 multiplier	*229.8*	*120.2*	*212.3*
Cumulative Stimulus 1.5	**229.8**	**350.0**	**562.3**

Note:

Stats SA publishes its national poverty lines in July each year. The fiscal year starts in March. The projections above are based on an annual 5% price escalation using the preceding year's estimated poverty lines.

The gross cost calculations are based on Stats SA projections of population aged 18 – 59 of: 35.4 million in 2023; 35.9 million in 2024; and 36.4 million in 2023. Therefore, with a 70% uptake, there will be 24.8 million beneficiaries in 2023; 25.1 million beneficiaries in 2024; and 25.5 million beneficiaries in 2025.

The clawback calculations are based on 70% of 7.6 million taxpayers (5.3 million people) who are above the income tax threshold as per National Treasury (2022). There are no projections.

2. FINANCING OF THE BIG

2.1 FINANCING WITH A BIG STIMULUS OF 1.0

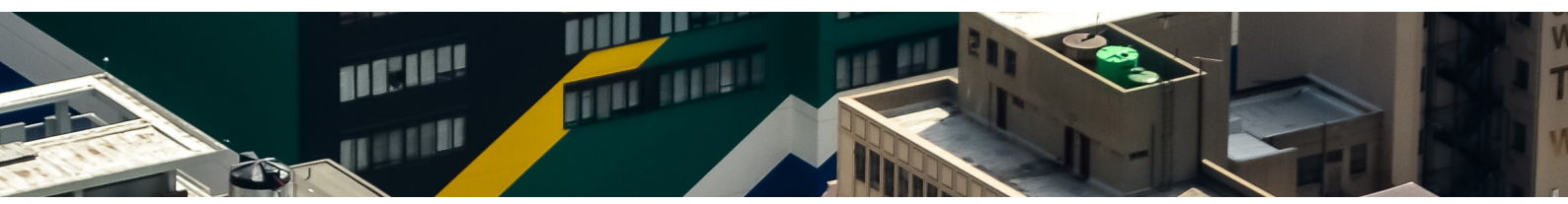
		2023-2024	2024-2025	2025-2026
		FPL (Rbn)	LBPL (Rbn)	UBPL (Rbn)
		R655pm	R982pm	R 1 546pm
1	*Gross cost 70% uptake*	*194.9*	*295.8*	*473.1*
2	*VAT @ 12%*	*(23.4)*	*(35.5)*	*(56.8)*
3	*Clawback from taxpayers*	*(41.7)*	*(62.5)*	*(98.3)*
4	*Increase in tax revenue (Stimulus effect)*	*(40.0)*	*(65.4)*	*(109.1)*
5	*Total Financing (2, 3 & 4)*	*(105.1)*	*(163.4)*	*(264.2)*
6	*Interest payments*	*10.1*	*15.6*	*25.1*
7	*Net financing*	*95.0*	*147.8*	*239.1*
8	***Net financing as % of gross cost***	***48.7***	***50.0***	***50.5***
9	***Net cost (1 - 7)***	***99.9***	***148.0***	***234.0***

2.2 FINANCING WITH A BIG STIMULUS OF 1.5

		FPL (Rbn)	LBPL (Rbn)	UBPL (Rbn)
		R655pm	R982pm	R 1 546pm
1	*Gross cost 70% uptake*	*194.9*	*295.8*	*473.1.*
2	*VAT @ 12%*	*(23.4)*	*(35.5)*	*(56.8)*
3	*Clawback from taxpayers*	*(41.7)*	*(62.5)*	*(98.3)*
4	*Increase in tax revenue (Stimulus effect)*	*(60.7)*	*(98.3)*	*(164.0)*
5	*Total Financing (2, 3 & 4)*	*(125.8)*	*(196.3)*	*(319.1)*
6	*Interest payments*	*10.1*	*15.6*	*25.1*
7	*Net financing*	*115.7*	*180.7*	*294.0*
8	***Net financing as % of gross cost***	***59.4***	***61.1***	***62.1***
9	***Net cost (1 - 8)***	***79.2***	***115.1***	***179.1***

3. BIG STIMULUS (MULTIPLIER) SCENARIOS

	2023/2024	2024/2025	2025/2026
BIG Stimulus 1.0 (Rbn)	*153.2*	*80.1*	*141.5*
BIG Stimulus 1.0 (%)	*2.3*	*1.1*	*1.8*
BIG 70 Stimulus 1.5 (Rbn)	*229.8*	*120.2*	*212.3*
BIG Stimulus 1.5 (%)	*3.4*	*1.7*	*2.8*



4. GDP SCENARIOS WITH BIG

	2022/2023	2023/2024	2024/2025	2025/2026
GDP without BIG (Rm)	*6 441.3*	*6 805.3*	*7 233.7*	*7 689.4*
GDP growth without BIG (Nominal, %)		*5.7*	*6.3*	*6.3*
GDP with BIG 1.0 (Rm)	*6 441.3*	*6 958.5*	*7 313.8*	*7 830.9*
GDP growth with BIG 1.0 (Nominal, %)		*8.0*	*7.5*	*8.3*
GDP with BIG 1.5 (Rm)	*6 441.3*	*7 035.1*	*7 353.9*	*7 901.7.*
GDP growth with BIG 1.5 (Nominal, %)		*9.2*	*8.1*	*9.2*

5. DEBT SERVICE WITH BIG

	2023/2024 (Rbn)	2024/2025 (Rbn)	2025/2026 (Rbn)
BIG (Rbn)	*153.2*	*233.3*	*374.8*
Debt service (interest) cost (Rbn)	*10.1*	*15.6*	*25.1*
TOTAL	***163.3***	***248.9***	***399.9***
Debt service (interest) cost (%)	*6.6*	*6.7*	*6.7*

6. DEBT SCENARIOS WITH BIG

	2022/2023 (Rm)	2023/2024 (Rm)	2024/2025 (Rm)
Debt without BIG (Rm)	*4 692.2*	*5 065.6*	*5 429.3*
Debt to GDP without BIG (%)	*72.8*	*74.4*	*75.1*
Debt with BIG 1.0 (Rm)		*5 228.9*	*5 678.2*
Debt to GDP with BIG 1.0 (%)		*75.1*	*77.6*
Debt with BIG 1.5 (Rm)		*5 228.9*	*5 678.2*
Debt to GDP with BIG 1.5 (%)		*74.3*	*77.2*

7. TAX REVENUE GROWTH SCENARIOS

7.1 TAX REVENUE GROWTH WITHOUT BIG AS PER 2022 BUDGET REVIEW – 2025-2026 PROJECTION AS PER 2024-2025 GDP GROWTH AND TAX BUOYANCY

	2022/2023	2023/2024	2024/2025	2025/2026
Gross Tax Revenue (Rm)	*1 598.4*	*1 694.3*	*1 807.6*	*1 928.7*
GDP Growth (Nominal, %)		*5.7*	*6.3*	*6.3*
Tax buoyancy		*1.06*	*1.06*	*1.06*
Increase (%)		*6.0*	*6.7*	*6.7*

7.2 TAX REVENUE GROWTH WITH A BIG STIMULUS OF 1.0

	2022/2023 (Rm)	2023/2024 (Rm)	2024/2025 (Rm)	2025/2026
Gross Tax Revenue (Rm)	*1 598.4*	*1 734.3*	*1 873.0*	*2 037.8*
GDP Growth (Nominal, %)		*8.0*	*7.5*	*8.3*
Tax Buoyancy		*1.06*	*1.06*	*1.06*
Increase In Tax Revenue (%)		*8.5*	*8.0*	*8.8*
Increase in Tax Revenue (Rm)		***40.0***	***65.4***	***109.1***

7.3 TAX REVENUE GROWTH WITH A BIG STIMULUS OF 1.5

	2022/2023 (Rm)	2023/2024 (Rm)	2024/2025 (Rm)	2025/2026
Gross Tax Revenue (Rm)	*1 598.4*	*1 755.0*	*1 905.9*	*2 092.7*
GDP Growth (Nominal, %)		*9.2*	*8.1*	*9.2*
Tax Buoyancy		*1.06*	*1.06*	*1.06*
Increase in Tax Revenue (%)		*9.8*	*8.6*	*9.8*
Increase in Tax Revenue (Rm)		***60.7***	***98.3***	***164.0***

Note:

The above scenarios project the 2024/2025 GDP growth and tax buoyancy estimates to the 2025/2026 to generate three year forecasts.

APPENDIX TWO: BIG & CHILD SUPORT GRANT SCENARIOS WITH A 70% UPTAKE

1. BIG AND CHILD SUPPORT GRANT (CSG) SCENARIOS

		2023-2024 FPL (Rbn) R655pm	2024-2025 LBPL (Rbn) R982pm	2025-2026 UBPL R1 546 pm
1	*Gross Cost BIG with 70% uptake*	*194.9*	*295.8*	*473.1*
2	*Gross Cost of CSG*	*106.9*	*163.8*	*261.6*
3	***Total***	***301.8***	***459.6***	***734.7***
4	*Clawback from taxpayers*	*(41.7)*	*(62.5)*	*(98.3)*
5	*CSG (Budgeted spending)*	*(80.7)*	*(84.3)*	*(88.6)*
6	*Net Cost CSG (2-5)*	*26.2*	*79.5*	*173.0*
7	***Net Cost BIG and CSG***	***179.4***	***312.8***	***547.8***
8	*Stimulus 1.0*	*179.4*	*133.4*	*235.0*
9	*Stimulus 1.5*	*269.1*	*200.1*	*352.5*
10	***Cumulative Stimulus 1.5***	***269.1***	***469.2***	***821.7***

Note: Stats SA publishes its national poverty lines in July each year. The fiscal year starts in March. The projections above are based on an annual 5% price escalation using the preceding year's estimated poverty lines. The gross cost calculations are based on Stats SA projections of population aged 18 – 59 of: 35.4 million in 2023; 35.9 million in 2024; and 36.4 million in 2023. Therefore, with a 70% uptake, there will be 24.8 million beneficiaries in 2023; 25.1 million beneficiaries in 2024; and 25.5 million beneficiaries in 2025. The clawback calculations are based on 70% of 7.6 million taxpayers (5.3 million people) who are above the income tax threshold as per National Treasury (2022). There are no projections. The gross cost of the CSG – or extending the BIG to children - is based on an assumption of 13.6 million beneficiaries in2023-2024 and 13.9 million beneficiaries in 2024-2025 as per the 2022 Budget Review. The 14.1 million beneficiaries used for the 2025-2026 calculation is an estimate or projection. The R88.6 billion budgeted CSG spending for 2025-2026 is a projection that is based on a 5% escalation

2. FINANCING OF THE BIG AND CSG

2.1 FINANCING A BIG AND CSG WITH A STIMULUS (MULTIPLIER) OF 1.0

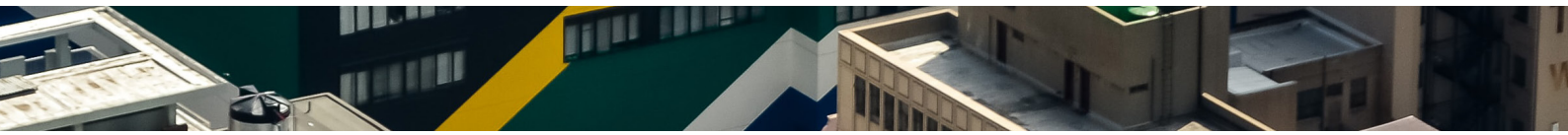
		2023-2024 FPL (Rbn) R655 pm	2024-2025 LBPL (Rbn) R982 pm	2025-2026 UBPL (Rbn) R 1 546pm
1	*Gross cost 70% uptake plus CSG net cost*	*221.1*	*375.3*	*646.1*
2	*VAT @ 12%*	*(26.5)*	*(45.0)*	*(77.5)*
3	*Clawback from taxpayers*	*(41.7)*	*(62.5)*	*(98.3)*
4	*Increase in tax revenue (Stimulus effect)*	*(46.3)*	*(86.2)*	*(154.5)*
5	*Total Financing (2, 3 & 4)*	*(114.5)*	*(193.7)*	*(330.3)*
6	*Interest payments*	*11.8*	*21.0*	*36.7*
7	*Net financing*	*102.7*	*172.7*	*293.6*
8	***Net financing as % of gross cost***	***46.4***	***46.0***	***45.4***
9	***Net cost (1 - 7)***	***118.4***	***155.2***	***352.5***

2.2 FINANCING WITH A BIG AND CSG WITH A STIMULUS (MULTIPLIER) OF 1.5

	2023-2024 FPL (Rbn) R655pm	2024-2025 LBPL (Rbn) R982pm	2025-2026 UBPL (Rbn) R 1546pm
Gross cost 70% uptake plus CSG net cost	*221.1*	*375.3.*	*646.1*
VAT @ 12%	*(26.5)*	*(45.0)*	*(77.5)*
Clawback from taxpayers	*(41.7)*	*(62.5)*	*(98.3)*
Increase in tax revenue (Stimulus effect)	*(70.3)*	*(124.6)*	*(223.8)*
Total Financing (2, 3 & 4)	*(138.5)*	*(232.1)*	*(399.6)*
Interest payments	*11.8*	*21.0*	*36.7*
Net financing	*126.7*	*211.1*	*362.9*
Net financing as % of gross cost	***57.3***	***56.2***	***56.2***
Net cost (1 - 7)	***94.4***	***164.2***	***283.2***

3. BIG AND CSG STIMULUS (MULTIPLIER) SCENARIOS

	2023-2024	2024-2025	2025-2026
BIG and CSG Stimulus 1.0 (Rbn)	*179.4*	*133.4*	*235.0*
BIG and CSG Stimulus 1.0 (%)	*2.6*	*1.8*	*3.1*
BIG and CSG Stimulus 1.5 (Rbn)	*269.1*	*200.1*	*352.5*
BIG and CSG stimulus 1.5 (%)	*4.0*	*2.8*	*4.6*



4. GDP SCENARIOS WITH BIG AND CSG

	2022-2023	2023-2024	2024-2025	2025-2026
GDP without BIG (Rm)	*6 441.3*	*6 805.3*	*7 233.7*	*7 689.4*
GDP growth without BIG (Nominal, %)		*5.7*	*6.3*	*6.3*
GDP with BIG and CSG 1.0 (Rm)	*6 441.3*	*6 984.7*	*7 367.1*	*7 924.4*
GDP growth with BIG 1.0 (Nominal, %)		*8.4*	*8.3*	*9.4*
GDP with BIG 1.5 (Rm)	*6 441.3*	*7 074.4*	*7 433.8*	*8 041.9*
GDP growth with BIG 1.5 (Nominal, %)		*9.8*	*9.2*	*11.2*

5. DEBT SERVICE WITH BIG AND CSG

	2023-2024 (Rbn)	2024-2025 (Rbn)	2025-2026 (Rbn)
BIG and CSG (Rbn)	*179.4*	*312.8*	*547.8*
Debt service (interest) cost (Rbn)	*11.8*	*21.0*	*36.7*
TOTAL	***191.2***	***333.8***	***584.5***
Debt service (interest) cost (%)	***6.6***	***6.7***	***6.7***

6. DEBT SCENARIOS WITH BIG AND CSG

	2022-2023 (Rm)	2023-2024 (Rm)	2024-2025 (Rm)
Debt without BIG (Rm)	*4 692.2*	*5 065.6*	*5 429.3*
Debt to GDP without BIG (%)	*72.8*	*74.4*	*75.1*
Debt with BIG 1.0 (Rm)		*5 256.8*	*5 763.1*
Debt to GDP with BIG 1.0 (%)		*75.3*	*78.2*
Debt with BIG 1.5 (Rm)		*5 256.8*	*5 763.1*
Debt to GDP with BIG 1.5 (%)		*74.3*	*77.5*

7. TAX REVENUE GROWTH WITH A BIG AND CSG

7.1 TAX REVENUE GROWTH WITHOUT BIG AS PER 2022 BUDGET REVIEW – 2025/2026 PROJECTION AS PER 2024/2025 GDP GROWTH AND TAX BUOYANCY

	2022-2023	2023-2024	2024-2025	2025-2026
Gross Tax Revenue (Rm)	*1 598.4*	*1 694.3*	*1 807.6*	*1 928.7*
GDP Growth (Nominal, %)		*5.7*	*6.3*	*6.3*
Tax buoyancy		*1.06*	*1.06*	*1.06*
Increase (%)		*6.0*	*6.7*	*6.7*

7.2 TAX REVENUE GROWTH WITH A BIG AND CSG STIMULUS OF 1.0

	2022-2023 (Rm)	2023-2024 (Rm)	2024-2025 (Rm)	2025-2026
Gross Tax Revenue (Rm)	*1 598.4*	*1 740.6*	*1 893.8*	*2 083.2*
GDP Growth (Nominal, %)		*8.4*	*8.3*	*9.4*
Tax Buoyancy		*1.06*	*1.06*	*1.06*
Increase In Tax Revenue (%)		*8.9*	*8.8*	*10.0*
Increase in Tax Revenue (Rm)		***46.3***	***86.2***	***154.5***

7.3 TAX REVENUE GROWTH WITH A BIG STIMULUS OF 1.5

	2022-2023 (Rm)	2023-2024 (Rm)	2024-2025 (Rm)	2025-2026
Gross Tax Revenue (Rm)	*1 598.4*	*1 764.6*	*1 932.2*	*2 152.5*
GDP Growth (Nominal, %)		*9.8*	*9.2*	*11.2*
Tax Buoyancy		*1.06*	*1.06*	*1.06*
Increase in Tax Revenue (%)		*10.4*	*9.5*	*11.4*
Increase in Tax Revenue (Rm)		***70.3***	***124.6***	***223.8***

Note:

The above scenarios project the 2024/2025 GDP growth and tax buoyancy estimates to the 2025/2026 to generate three year forecasts.

APPENDIX THREE: BIG SCENARIOS WITH AN 80% UPTAKE

1. BIG SCENARIOS WITH AN 80% UPTAKE

	2023-2024	***2024-2025***	***2025-2026***
	FPL R655pm Rbn	***LBPL R982pm Rbn***	***UBPL R1 546 Rbn***
Gross Cost 80% Uptake	*222.4*	*338.2*	*539.9*
Recoup from Taxpayers	*(47.9)*	*(71.9)*	*(113.2)*
Net Cost	***174.5***	***266.3***	***426.7***
Stimulus effect 1.0	*174.5*	*91.8*	*160.4*
Stimulus with 1.5 multiplier	*261.8*	*137.7*	*240.6*
Cumulative Stimulus 1.5	***261.8***	***399.5***	***640.1***

Note:

Stats SA publishes its national poverty lines in July each year. The fiscal year starts in March. The projections above are based on an annual 5% price escalation using the preceding year's estimated poverty lines.

The gross cost calculations are based on Stats SA projections of population aged 18 – 59 of: 35.4 million in 2023; 35.9 million in 2024; and 36.4 million in 2023. Therefore, with an 80% uptake, there will be 28.3 million beneficiaries in 2023; 28.7 million beneficiaries in 2024; and 29.1 million beneficiaries in 2025.

The clawback calculations are based on 80% of 7.6 million taxpayers (6.1 million people) who are above the income tax threshold as per National Treasury (2022). There are no projections.

2. FINANCING OF THE BIG

2.1 FINANCING A BIG AND CSG WITH A STIMULUS (MULTIPLIER) OF 1.0

		2023-2024	2024-2025	2025-2026
		FPL R655pm Rbn	LBPL R982pm Rbn	UBPL R 1546pm Rbn
1	*Gross cost 80% uptake*	*222.4*	*338.2*	*539.9*
2	*VAT @ 12%*	*(26.7)*	*(40.6)*	*(64.8)*
3	*Recoup from taxpayers*	*(47.9)*	*(71.9)*	*(113.2)*
4	*Increase in tax revenue (Stimulus effect)*	*(44.7)*	*(72.3)*	*(120.4)*
5	*Total Financing (2, 3 & 4)*	*(119.3)*	*(184.8)*	*(298.4)*
6	*Interest payments*	*11.5*	*17.8*	*28.6*
7	*Net financing*	*107.8*	*167.0*	*269.8*
8	***Net financing as % of gross cost***	***48.5***	***49.4***	***50.0***
9	***Net cost (1 - 7)***	***114.6***	***171.2***	***270.1***

2.2 FINANCING WITH A BIG STIMULUS (MULTIPLIER) OF 1.5

		2023-2024	2024-2025	2025-2026
		FPL R655pm Rbn	LBPL R982pm Rbn	UBPL R 1 546pm Rbn
1	*Gross cost 80% uptake*	*222.4*	*338.2*	*539.9*
2	*VAT @ 12%*	*(26.7)*	*(40.6)*	*(64.8)*
3	*Recoup from taxpayers*	*(47.9)*	*(71.9)*	*(113.2)*
4	*Increase in tax revenue (Stimulus effect)*	*(63.9)*	*(103.6)*	*(173.6)*
5	*Total Financing (2, 3 & 4)*	*(138.5)*	*(216.1)*	*(351.6)*
6	*Interest payments*	*11.5*	*17.8*	*28.6*
7	*Net financing*	*127.0*	*198.3*	*323.0*
8	***Net financing as % of gross cost***	***57.1***	***58.6***	***59.8***
9	***Net cost (1 - 7)***	***95.4***	***139.9***	***216.9***

3. BIG STIMULUS (MULTIPLIER) SCENARIOS

	2023-2024	2024-2025	2025-2026
BIG Stimulus 1.0 (Rbn)	*174.5*	*91.8*	*160.4*
BIG Stimulus (%)	*2.6*	*1.3*	*2.1*
BIG Stimulus 1.5 (Rbn)	*261.8*	*137.7*	*240.6*
BIG stimulus 1.5 (%)	*3.8*	*1.9*	*3.1*

4. GDP SCENARIOS WITH BIG

	2022-2023	2023-2024	2024-2025	2025-2026
GDP without BIG (Rm)	6 441.3	6 805.3	7 233.7	7 689.4
GDP growth without BIG (Nominal, %)		5.7	6.3	6.3
GDP with BIG 1.0 (Rm)	6 441.3	6 979.8	7 325.5	7 849.8
GDP growth with BIG 1.0 (Nominal, %)		8.3	7.6	8.5
GDP with BIG 1.5 (Rm)	6 441.3	7 067.1	7 371.4	7 930.0
GDP growth with BIG 1.5 (Nominal, %)		9.7	8.3	9.6

5. DEBT SERVICE WITH BIG

	2023-2024 (Rbn)	2024-2025 (Rbn)	2025-2026 (Rbn)
BIG (Rbn)	*174.5*	*266.3*	*426.7*
Debt service (interest) cost (Rbn)	*11.5*	*17.8*	*28.6*
TOTAL	***186.0***	***284.1***	***455.3***
Debt service (%)	***6.6***	***6.7***	***6.7***

6. DEBT SCENARIOS WITH BIG

	2022/2023 (Rm)	2023/2024 (Rm)	2024/2025 (Rm)
Debt without BIG (Rm)	*4 692.2*	*5 065.6*	*5 429.3*
Debt to GDP without BIG (%)	*72.8*	*74.4*	*75.1*
Debt with BIG 1.0 (Rm)		*5 251.6*	*5 713.4*
Debt to GDP with BIG 1.0 (%)		*75.3*	*80.0*
Debt with BIG 1.5 (Rm)		*5 251.6*	*5 713.4*
Debt to GDP with BIG 1.5 (%)		*74.3*	*77.5*

7. TAX REVENUE GROWTH SCENARIOS

7.1 TAX REVENUE GROWTH WITHOUT BIG AS PER 2022 BUDGET REVIEW – 2025 PROJECTION AS PER 2024/2025 GDP GROWTH AND TAX BUOYANCY

	2022-2023	2023-2024	2024-2025	2025-2026
Gross Tax Revenue (Rm)	*1 598.4*	*1 694.3*	*1 807.6*	*1 928.7*
GDP Growth (Nominal, %)		*5.7*	*6.3*	*6.3*
Tax buoyancy		*1.06*	*1.06*	*1.06*
Increase (%)		*6.0*	*6.7*	*6.7*

7.2 TAX REVENUE GROWTH WITH A BIG STIMULUS OF 1.0

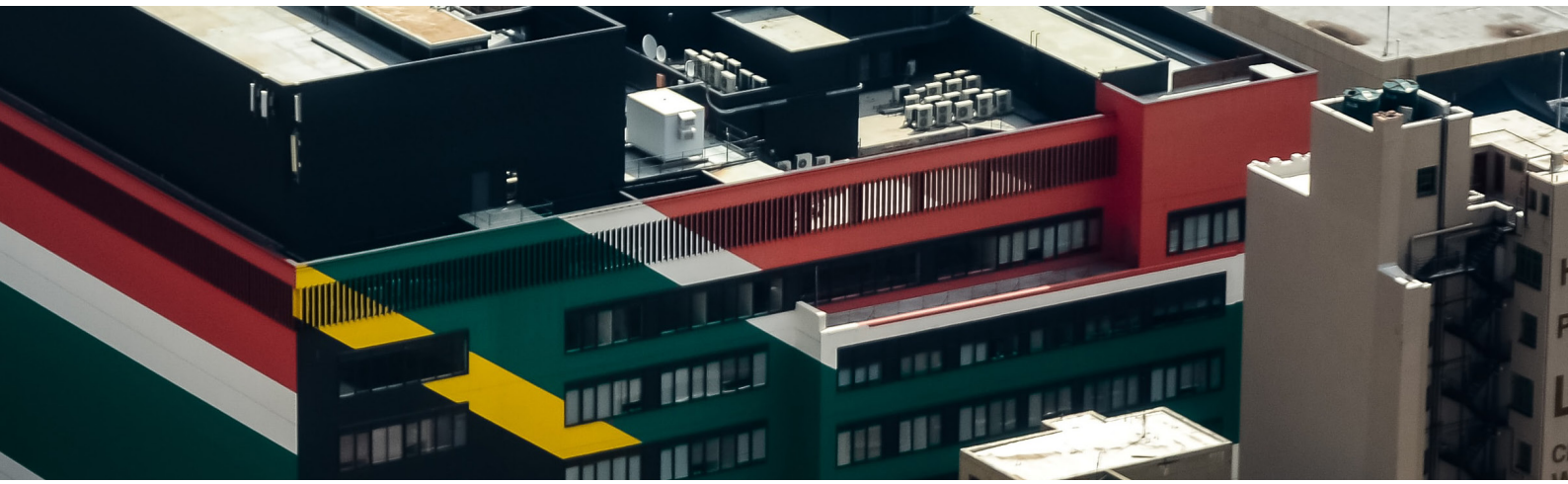
	2022/2023 (Rm)	2023/2024 (Rm)	2024/2025 (Rm)	2025/2026
Gross Tax Revenue (Rm)	*1 598.4*	*1 739.0*	*1 879.9*	*2 049.1*
GDP Growth (Nominal, %)		*8.3*	*7.6*	*8.5*
Tax Buoyancy		*1.06*	*1.06*	*1.06*
Increase In Tax Revenue (%)		*8.8*	*8.1*	*9.0*
Increase in Tax Revenue (Rm)		***44.7***	***72.3***	***120.4***

7.3 TAX REVENUE GROWTH WITH A BIG STIMULUS OF 1.5

	2022/2023 (Rm)	2023/2024 (Rm)	2024/2025 (Rm)	2025/2026
Gross Tax Revenue (Rm)	*1 598.4*	*1 758.2*	*1 911.2*	*2 102.3*
GDP Growth (Nominal, %)		*9.7*	*8.3*	*9.6*
Tax Buoyancy		*1.06*	*1.06*	*1.06*
Increase in Tax Revenue (%)		*10.0*	*8.7*	*10.0*
Increase in Tax Revenue (Rm)		***63.9***	***103.6***	***173.6***

Note:

The above scenarios project the 2024-2025 GDP growth and tax buoyancy estimates to the 2025-2026 fiscal year to generate three year forecasts.



APPENDIX FOUR: BIG & CHILD SUPPORT GRANT SCENARIOS WITH 80% UPTAKE

1. BIG AND CHILD SUPPORT GRANT (CSG)

		2023-2024 FPL (Rbn) R655pm	2024-2025 LBPL (Rbn) R982pm	2025-2026 UBPL R1 546 pm
1	*Gross Cost 80% uptake*	*222.4*	*338.2*	*539.9*
2	*Gross Cost of CSG*	*106.9*	*163.8*	*261.6*
3	***Total***	***329.3***	***502.0***	***801.5***
4	*Recoup from taxpayers*	*(47.9)*	*(71,9)*	*(113.2)*
5	*CSG (Budgeted spending)*	*(80.7)*	*(84.3)*	*(88.6)*
6	*Net Cost CSG*	*26.2*	*79.5*	*173.0*
7	***Net Cost BIG and CSG***	***200.7***	***345.8***	***599.7***
8	*Stimulus 1.0*	*200.7*	*145.1*	*253.9*
9	*Stimulus 1.5*	*281.3*	*206.4*	*361.7*
10.	**Cumulative stimulus 1.5**	***281.3***	***487.7***	***849.4***

Note:

Stats SA publishes its national poverty lines in July each year. The fiscal year starts in March. The projections above are based on an annual 5% price escalation using the preceding year's estimated poverty lines.

The gross cost calculations are based on Stats SA projections of population aged 18 – 59 of: 35.4 million in 2023; 35.9 million in 2024; and 36.4 million in 2023. Therefore, with an 80% uptake, there will be 28.3 million beneficiaries in 2023; 28.7 million beneficiaries in 2024; and 29.1 million beneficiaries in 2025.

The clawback calculations are based on 80% of 7.6 million taxpayers (6.1 million people) who are above the income tax threshold as per National Treasury (2022). There are no projections.

The R88.6 billion budgeted CSG spending for 2025-2026 is a projection that is based on a 5% escalation

2 FINANCING OF THE BIG AND CSG

2.1 FINANCING WITH A BIG AND CSG WITH A STIMULUS (MULTIPLIER) OF 1.0

		2023-2024 FPL (Rbn) R655 pm	2024-2025 LBPL (Rbn) R982 pm	2025-2026 UBPL (Rbn) R 1 546pm
1	*Gross cost 80% uptake plus CSG net cost*	*248.6*	*417.7*	*712.9*
2	*VAT @ 12%*	*(29.8)*	*(50.1)*	*(85.5)*
3	*Recoup from taxpayers*	*(47.9)*	*(71.9)*	*(113.2)*
4	*Increase in tax revenue (Stimulus effect)*	*(52.8)*	*(95.0)*	*(171.8)*
5	*Total Financing (2, 3 & 4)*	*(130.5)*	*(217.0)*	*(370.5)*
6	*Interest payments*	*13.2*	*23.2*	*40.1*
7	*Net financing*	*117.3*	*193.8*	*330.4*
8	***Net financing as % of gross cost***	***47.2***	***46.4***	***46.3***
9	***Net cost (1 - 7)***	***131.3***	***223.9***	***382.5***

2.2 FINANCING WITH A BIG AND CSG WITH A STIMULUS (MULTIPLIER) OF 1.5

		2023-2024 FPL (Rbn) R655pm	2024-2025 LBPL (Rbn) R982pm	2025-2026 UBPL (Rbn) R 1546pm
1	*Gross cost 80% uptake plus CSG net cost*	*248.6*	*417.7.*	*712.9*
2	*VAT @ 12%*	*(29.8)*	*(50.1)*	*(85.5)*
3	*Recoup from taxpayers*	*(47.9)*	*(71.9)*	*(113.2)*
4	*Increase in tax revenue (Stimulus effect)*	*(73.5)*	*(135.2)*	*(247.2)*
5	*Total Financing (2, 3 & 4)*	*(151.2)*	*(257.2)*	*(445.9)*
6	*Interest payments*	*13.2*	*23.2*	*40.1*
7	*Net financing*	*138.0*	*234.0*	*405.0*
8	***Net financing as % of gross cost***	***55.5***	***56.0***	***56.8***
9	***Net cost (1 - 7)***	***110.6***	***183.7***	***307.9***

3. BIG AND CSG STIMULUS (MULTIPLIER) SCENARIOS

	2023-2024	2024-2025	2025-2026
BIG and CSG Stimulus 1.0 (Rbn)	*200.7*	*145.1*	*253.9*
BIG and CSG Stimulus 1.0 (%)	*2.9*	*2.0*	*3.3*
BIG and CSG Stimulus 1.5 (Rbn)	*281.3*	*206.4*	*361.7*
BIG and CSG stimulus 1.5 (%)	*4.1*	*2.9*	*4.7*

4. GDP SCENARIOS WITH BIG AND CSG

	2022-2023	2023-2024	2024-2025	2025-2026
GDP without BIG (Rm)	*6 441.3*	*6 805.3*	*7 233.7*	*7 689.4*
GDP growth without BIG (Nominal, %)		*5.7*	*6.3*	*6.3*
GDP with BIG and CSG 1.0 (Rm)	*6 441.3*	*7 006.0*	*7 378.8*	*7 943.3*
GDP growth with BIG 1.0 (Nominal, %)		*8.8*	*8.4*	*9.8*
GDP with BIG 1.5 (Rm)	*6 441.3*	*7 086.6*	*7 440.1*	*8 051.1*
GDP growth with BIG 1.5 (Nominal, %)		*10.0*	*9.3*	*11.3*

5. DEBT SERVICE WITH BIG AND CSG

	2023-2024 (Rbn)	2024-2025 (Rbn)	2025-2026 (Rbn)
BIG and CSG (Rbn)	*200.7*	*345.8*	*599.7*
Debt service (interest) cost (Rbn)	*13.2*	*23.2*	*40.1*
TOTAL	***213.9***	***369.0***	***639.8***
Debt service (interest) cost (%)	***6.6***	***6.7***	***6.7***

6. DEBT SCENARIOS WITH BIG AND CSG

	2022-2023 (Rm)	2023-2024 (Rm)	2024-2025 (Rm)
Debt without BIG (Rm)	*4 692.2*	*5 065.6*	*5 429.3*
Debt to GDP without BIG (%)	*72.8*	*74.4*	*75.1*
Debt with BIG 1.0 (Rm)		*5 279.5*	*5 798.3*
Debt to GDP with BIG 1.0 (%)		*75.4*	*78.6*
Debt with BIG 1.5 (Rm)		*5 279.5*	*5 798.3*
Debt to GDP with BIG 1.5 (%)		*74.5*	*77.9*

7. TAX REVENUE GROWTH WITH A BIG AND CSG

7.1 TAX REVENUE GROWTH WITHOUT BIG AS PER 2022 BUDGET REVIEW – 2025/2026 PROJECTION AS PER 2024/2025 GDP GROWTH AND TAX BUOYANCY

	2022-2023	2023-2024	2024-2025	2025-2026
Gross Tax Revenue (Rm)	*1 598.4*	*1 694.3*	*1 807.6*	*1 928.7*
GDP Growth (Nominal, %)		*5.7*	*6.3*	*6.3*
Tax buoyancy		*1.06*	*1.06*	*1.06*
Increase (%)		*6.0*	*6.7*	*6.7*

7.2 TAX REVENUE GROWTH WITH A BIG AND CSG STIMULUS OF 1.0

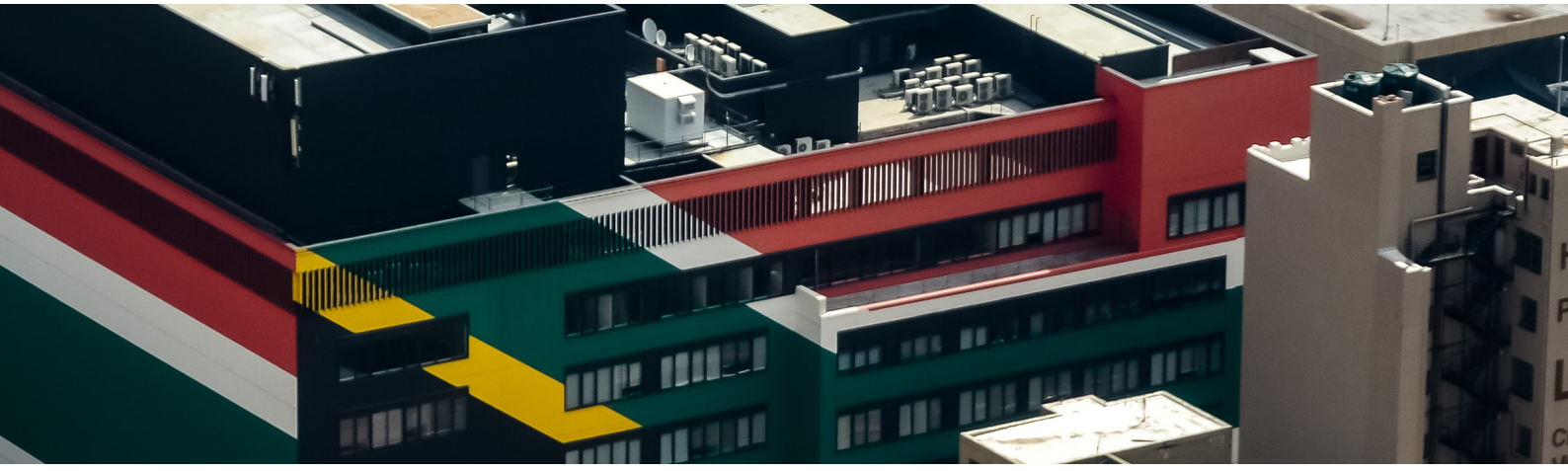
	2022-2023 (Rm)	2023-2024 (Rm)	2024-2025 (Rm)	2025-2026
Gross Tax Revenue (Rm)	*1 598.4*	*1 747.1*	*1 902.6*	*2 100.5*
GDP Growth (Nominal, %)		*8.8*	*8.4*	*9.8*
Tax Buoyancy		*1.06*	*1.06*	*1.06*
Increase In Tax Revenue (%)		*9.3*	*8.9*	*10.4*
Increase in Tax Revenue (Rm)		***52.8***	***95.0***	***171.8***

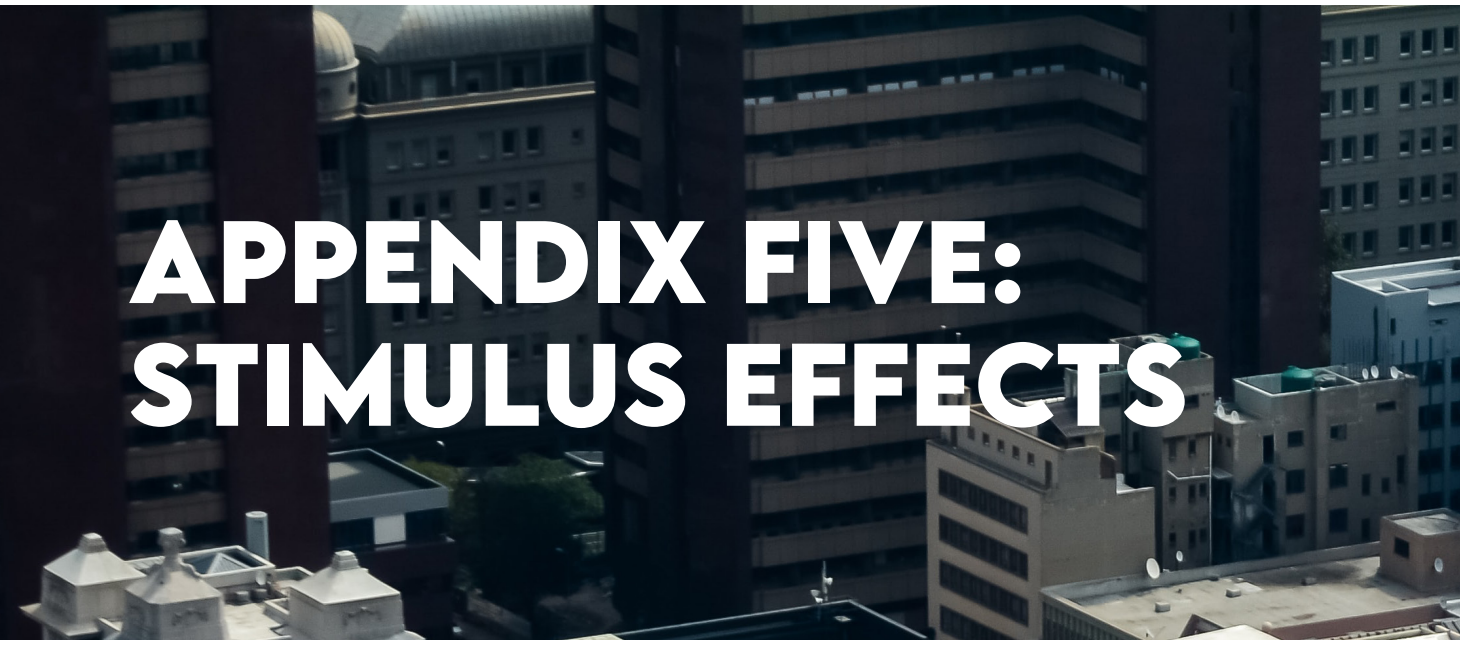
7.3 TAX REVENUE GROWTH WITH A BIG AND CSG STIMULUS OF 1.0

	2022-2023 (Rm)	2023-2024 (Rm)	2024-2025 (Rm)	2025-2026
Gross Tax Revenue (Rm)	*1 598.4*	*1 767.8*	*1 942.8*	*2 175.9*
GDP Growth (Nominal, %)		*10.0*	*9.3*	*11.3*
Tax Buoyancy		*1.06*	*1.06*	*1.06*
Increase in Tax Revenue (%)		*10.6*	*9.9*	*12.0*
Increase in Tax Revenue (Rm)		***73.5***	***135.2***	***247.2***

Note:

The above scenarios project the 2024/2025 GDP growth and tax buoyancy estimates to the 2025/2026 to generate three year forecasts.





APPENDIX FIVE: STIMULUS EFFECTS

1. SIZE OF STIMULUS AS PERCENTAGE OF GDP

		2023-2024	2024-2025	2025-2026	Average
	Baseline forecast	1.7	1.8	1.8	1.8
1	BIG 70 and Stimulus 1.0	2.3	1.1	1.8	1.7
2	BIG 70 and CSG Stimulus 1.0	2.6	1.8	3.1	2.5
3	BIG 70 and Stimulus 1.5	3.4	1.7	2.8	2.6
4	BIG 70 and CSG Stimulus 1.5	4.0	2.8	4.6	3.8
5	BIG 80 and Stimulus 1.0	2.6	1.3	2.1	2.0
6	BIG 80 and CSG Stimulus 1.0	2.9	2.0	3.3	2.7
7	BIG 80 and Stimulus 1.5	3.8	1.9	3.1	2.9
8	BIG 80 and CSG Stimulus 1.5	4.1	2.9	4.7	3.9

2. GDP GROWTH AFTER STIMULUS EFFECTS

		2023-2024	2024-2025	2025-2026	Average
	Baseline forecast	1.7	1.8	1.8	1.8
1	BIG 70 and Stimulus 1.0	4.0	2.9	3.6	3.5
2	BIG 70 and CSG Stimulus 1.0	4.3	3.6	4.9	4.3
3	BIG 70 and Stimulus 1.5	5.1	3.5	4.6	4.4
4	BIG 70 and CSG Stimulus 1.5	5.7	4.6	6.4	5.6
5	BIG 80 and Stimulus 1.0	4.3	3.1	3.9	3.8
6	BIG 80 and CSG Stimulus 1.0	4.6	3.8	5.1	4.5
7	BIG 80 and Stimulus 1.5	5.5	3.7	4.9	4.7
8	BIG 80 and CSG Stimulus 1.5	5.8	4.7	6.5	5.7

3. STIMULUS EFFECTS

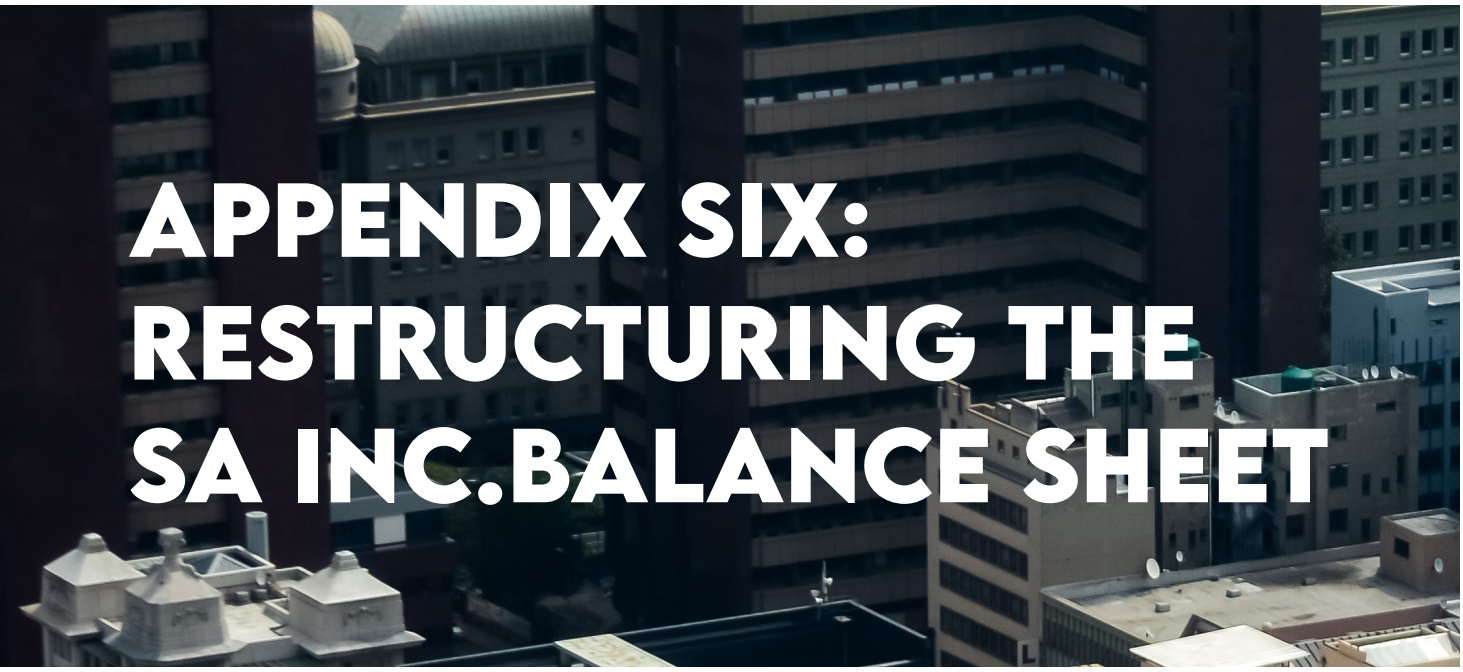
		2023-2024	2024-2025	2024/2025	TOTAL
1	BIG 70 and Stimulus 1.0	153.2	80.1	141.5	374.8
2	BIG 70 and CSG Stimulus 1.0	179.4	133.4	235.0	547.8
3	BIG 70 and Stimulus 1.5	229.8	120.2	212.3	562.3
4	BIG 70 and CSG Stimulus 1.5	269.1	200.1	352.5	821.7
5	BIG 80 and Stimulus 1.0	174.5	91.8	160.4	426.7
6	BIG 80 and CSG Stimulus 1.0	200.7	145.1	253.9	599.7
7	BIG 80 and Stimulus 1.5	261.8	137.7	240.6	640.1
8	BIG 80 and CSG Stimulus 1.5	281.3	206.4	361.7	849.4

4. JOB CREATION

		Average GDP growth 2023/2024 to 2025/2026	Average job growth 2023/2024 to 2025/2025	Estimated job creation 2023/2024 to 2025/2026
	Baseline forecast	1.8	1.4	638 861
1	BIG 70 and Stimulus 1.0	3.5	2.8	1 295 609
2	BIG 70 and CSG Stimulus 1.0	4.3	3.4	1 582 609
3	BIG 70 and Stimulus 1.5	4.4	3.5	1 630 768
4	BIG 70 and CSG Stimulus 1.5	5.6	4.5	2 117 492
5	BIG 80 and Stimulus 1.0	3.8	3.0	1 690 905
6	BIG 80 and CSG Stimulus 1.0	4.5	3.6	1 679 020
7	BIG 80 and Stimulus 1.5	4.7	3.8	1 775 803
8	BIG 80 and CSG Stimulus 1.5	5.7	4.6	2 166 680

Note:

Based on an estimated 15 million employed people in March 2023



APPENDIX SIX: RESTRUCTURING THE SA INC.BALANCE SHEET

South Africa can restructure the SA Inc. balance sheet, specifically assets worth R3.6 trillion – R2.6 trillion at the PIC and foreign exchange reserves worth R963 billion at the Reserve Bank. The PIC is the asset manager of the Government Employees Pension Fund (GEPF) and the Unemployment Insurance Fund (UIF), which account for 94.2% of its assets (PIC 2022). According to the latest actuarial valuation on 31 March 2021, the GEPF had assets of R2 trillion and a funding level of 110%. The GEPF trustees have a targeted minimum funding level is 90%. Therefore, the GEPF has excess funding of R372.3 billion above this target (GEPF, 2022). At the end of March 2022, the UIF had net assets of R82.8 billion, after paying R58 billion to people who were temporarily unemployed after the lockdown in 2020 under the Temporary Employer/ Employee Relief Scheme. The proposal is that there could be a R1.6 trillion restructuring of the SA Inc. balance sheet. The PIC could release 50% of its assets worth about R1.2 trillion into the economy. This would include writing off public sector debt of R800 billion. Assuming government debt of R500 billion, this would reduce the debt to GDP ratio for 2022-2023 to 65.1% from a projected 72.8%. The Reserve Bank could also release 50% of its foreign exchange reserves worth about R482 billion.

1.1 PUBLIC INVESTMENT CORPORATION

There are two ways to fund pensions schemes – through tax revenues (pay-as-you-go) or through accumulated funds or savings invested in financial markets (pre-funding). Private sector pension funds are pre-funded because a company can go bankrupt and have to pay all employee pensions on the same day. The GEPF is fully funded. But there is no scenario in which the government could close shop and have to pay the pensions of 1.3 million public servants on the same day. There will always be teachers, nurses and police officers to make contributions to the fund. Therefore, in the OECD most pension funds for state employees operate on a PAYG basis or with partial funding (Ponds et al, 2011). There are also two ways of designing pension schemes. In a defined benefit scheme, the pension benefits are specified upfront and are not related to the value of a member's contributions or the performance of a fund. In a defined contribution scheme, the pension benefits depend on the value of the member's contributions and the performance of a fund.

The GEPF is a defined benefit scheme. Pension benefits are guaranteed – based on years of service and final salary – and

are not dependent on investment returns or the level of employer and employee contributions. Workers do not benefit or make losses if the value of the assets in the PIC increase or decrease. As former finance minister Trevor Manuel pointed out in an interview with Today's Trustee in 2005: "Given that the GEPF is a defined benefit fund, it would be inappropriate to consider any returns accruing from such investments to be benefitting the beneficiaries. This is simply because the pension benefits are predetermined. Such investments are essential to the extent that the employer (government) is able to meet its obligations to employees." This means that the PIC's assets belong to the government and not the workers. The PIC is the government's means of financing its obligation to employees. There is no evidence that a promise to pay that has the backing of financial assets is stronger than one that is only backed by employer and employee contributions to a fund.

Until 2013, employer and employee contributions to the GEPF were sufficient to pay all pensioners. There was no need for a fund. Since then, there has been an increase in the number of pensioners and improved benefits for them. But between 2013 and 2021, the fund accumulated surpluses of R470 billion – about R52 billion a year as is shown in Table 1 below. This level of funding is obscene in a country that has such high levels of unemployment, poverty and inequality. There is no need for such surpluses. The decisions on whether to pre-fund pension obligations to public sector employees and the level of funding, are political decisions.

1.2 FOREIGN EXCHANGE RESERVES

Balakrishnan et al. (2016) note that central banks hold foreign exchange reserves to shield their economies against external shocks. "In many respects, these large stocks of foreign exchange reserves represent idle resources. There are real costs associated with diverting resources towards the accumulation of foreign exchange reserves, instead of using them to finance economic development. It is important to question whether such safeguards could be secured in other ways, in which case idle reserves could be mobilised for the realisation of rights. Explicit restrictions on short term capital inflows and outflows, often called capital controls, represent one alternative to the accumulation of foreign currency reserves." Mbeng Mezui and Duru (2013) found that African countries had excess foreign exchange reserves of between $165.5bn and $193.6bn on average per year between 2000 and 2011. This was more than the continent's infrastructure financing gap of $93bn a year. The social cost of holding these excess reserves was up to 1.65% of GDP on average. "Therefore, there may be room for creating investment vehicles for holding a part of assets as less liquid, higher-yielding wealth. This objective can be met through setting up appropriate investment vehicles to supplement the existing development partners, private and public sectors."

TABLE 1: SCENARIO ONE (STATUS QUO)

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Revenue									
Employee Contributions	30.8	33.5	36.1	38.6	42.1	45.3	48.7	51.7	52.8
Employer Contributions	17.1	18.7	20.3	21.7	23.4	25.1	26.9	28.6	28.7
Total Contributions	**47.9**	**52.2**	**56.4**	**60.3**	**65.5**	**70.4**	**75.6**	**80.3**	**81.5**
Investment Income	55.0	57.7	64.1	73.4	73.7	77.3	84.8	88.6	82.1
Total Revenue	102.9	109.9.	120.5	133.7	139.2	147.7	160.4	168.9	163.6
Total Expenditure	43.2	57.9	85.8	83.1	88.3	94.9	102.5	110.5	110.6
Surplus	**59.7**	**52.0**	**34.7**	**50.6**	**50.9**	**52.8**	**57.9**	**58.4**	**53.0**
Contributions - Expenditure	**4.7**	**(5.7)**	**(29.4)**	**(22.8)**	**(22.8)**	**(24.5)**	**(26.9)**	**(30.2)**	**(29.1)**

TABLE 2: SCENARIO TWO (50% INVESTMENT INCOME)

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Revenue									
Employee Contributions	30.8	33.5	36.1	38.6	42.1	45.3	48.7	51.7	52.8
Employer Contributions	17.1	18.7	20.3	21.7	23.4	25.1	26.9	28.6	28.7
Total Contributions	**47.9**	**52.2**	**56.4**	**60.3**	**65.5**	**70.4**	**75.6**	**80.3**	**81.5**
Investment Income	27.5	28.9	32.1	36.7	36.9	38.7	42.4	44.3	41.1
Total Revenue	75.4	81.1	88.5	97.0	102.4	109.1	118.0	124.6	122.6
Total Expenditure	43.2	57.9	85.8	83.1	88.3	94.9	102.5	110.5	110.6
Surplus	32.2	23.2	(0.3)	13.9	14.1	14.2	15.5	14.1	12.0

Source: National Treasury Budget Reviews 2021 and 2022

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