EXECUTIVE SUMMARY

A NEW WAY FORWARD: A MANIFESTO FOR ECONOMIC TRANSFORMATION

SPI
SOCIAL POLICY INITIATIVE

DUMA GQUBULE | SEP 2022


A BIG WILL STIMULATE ALL LOCAL ECONOMIES
FROM SOWETO TO THE CAPE FLATS
BASIC INCOME GRANT
MOBILISING A VISION & PLAN FOR THE ECONOMY
OBJECTIVE OF FULL EMPLOYMENT BY 2035
R
R
100%
<5%
UNEMPLOYMENT
6%
GDP
TARGET
A NEW MACROECONOMIC POLICY FRAMEWORK
BINDING ON NATIONAL TREASURY & THE RESERVE BANK

EXECUTIVE SUMMARY

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 2022). After 28 years of democracy, South Africa is now an unviable society with high rates of unemployment, poverty and inequality with Black African women bearing the brunt of the government's failed economic policies. During the second quarter of 2022, there were 12.3 million unemployed people. The country had unemployment rates of: 71.9% for youth, 48.3% for Black Africans, 51.3% for Black African females, 51.8 % in the Eastern Cape, 49.4% in Kwazulu-Natal and 49.2% in the North West. The unemployment rate for people of all races was 44.1.%.

About half of South Africa's population lives in poverty and more than one in five people have inadequate access to food. There were 29.1 million people – 48.9% of the population in 2020 – who were living in households that had a per capita monthly disposable income that was below Statistics South Africa's upper bound poverty line of R1 300 a month. Ten million people and three million children were in households affected by hunger in the last seven days during April and May 2021. South Africa is also the most unequal country in the world, ranking first among 164 countries. The top

10% earn 66.5% of wealth and 85.7% of wealth. The top 1% earn 21.9% of income and 55% of wealth.

South Africa had a “lost decade” during which GDP per capita did not grow between 2009 and 2019. After a technical rebound in 2021 from the previous year’s recession, most forecasts say the economy has returned to its pre-pandemic trend of low GDP growth. The government’s own forecasts show that it does not believe that its own recovery plan will result in higher rates of growth. On the current trajectory, the South Africa is on a dangerous economic development path. It is heading towards a second “lost decade” and a dystopian future with rising levels of unemployment, poverty and inequality

that will result in repeated cycles of political and social instability. The time has come to change course and chart a new path towards economic development until 2030 and beyond.

This is the third paper published by the Social Policy Initiative (SPI) during th second half of 2022. The first paper: A Basic Income Grant for a Better South Africa: The Evolution of Social Assistance in South Africa adds to the growing resource of research reports about the financing of a Basic Income Grant (BIG) in South Africa that have proliferated since the start the of pandemic-induced recession in 2020. It proposes the phased implementation over three years of a BIG for adults (aged 18 to 59) that will be extended to children who currently receive a child support grant (CSG) of R480 a month.

The second paper: South Africa’s Unemployment Crisis: A National Disgrace. A Plan to Achieve Full Employment by 2035 provides an in-depth analysis of unemployment trends and policies since 1994. It provides proposals and scenarios to achieve full employment by the year 2035. This paper was commissioned by the South African Council of Churches (SACC). It integrates both reports, provides a review of international best practices in economic development, and makes six recommendations to take the economy onto a new development path that will create full employment by 2035.

First, there must be a mobilising vision and plan for the economy. This will require a new macroeconomic policy framework, which has an annual GDP growth target of 6% that is binding on National Treasury and the Reserve Bank with the objective of achieving full employment, an unemployment rate that is less than 5%, by 2035. The government will have to spend into the economy the 4.5% difference between the target and the 1.5% forecast.

If the stimulus blends consumption and infrastructure spending there could be a fiscal multiplier, the additional GDP that is generated by each rand of additional government spending, of 1.5. This means that the government must spend 3% of GDP - about R180 billion - to achieve the target during the first year.

But achieving a higher GDP growth rate requires a short-term solution to the power crisis. The economy cannot afford another day, week, or month of power blackouts.

Eskom's incompetence has created an energy shortfall. There has been an unprecedented collapse in plant performance since 2018. The energy availability factor (EAF) has declined from 78% in 2018 to 57% in April 2022. The quickest way to end power blackouts is to appoint a consortium of local and international engineers to fix the current fleet. An increase in the EAF to 75% would add about 7 000 MW to the grid. Renewable independent power producers (IPPs) will not solve the crisis in the short term.

South Africans must understand the scale of the unemployment crisis. The country will need an annual GDP growth rate of 5.6% just to absorb new entrants into the labour market. Therefore, a GDP growth rate of 6% a year – not much higher than the minimum required to stop the numbers from rising - will not be enough to eliminate unemployment. With 6% GDP growth, there would still be 11.3 million unemployed people in 2030 because most of the jobs would only absorb new entrants into the labour force and hardly make a dent into the 12.3 million unemployed people. This means that South Africa cannot continue to aim water pistols at the blazing infernos of unemployment, poverty, and inequality

Second, the government must provide a Basic Income Grant (BIG) to people aged 19 to 59 and extend it to children who receive a child support grant (CSG) of R480 a month. This paper's modelling escalated the 2021 national poverty lines by 5% a year over a three-year implementation period. The BIG would be R655 a month during first year in 2023-2024, R982 a month during the second year in 2024-2025, and R1 546 a month during the third year in 2025-2026. The BIG will cost R547.8 billion during the three-year implementation period.

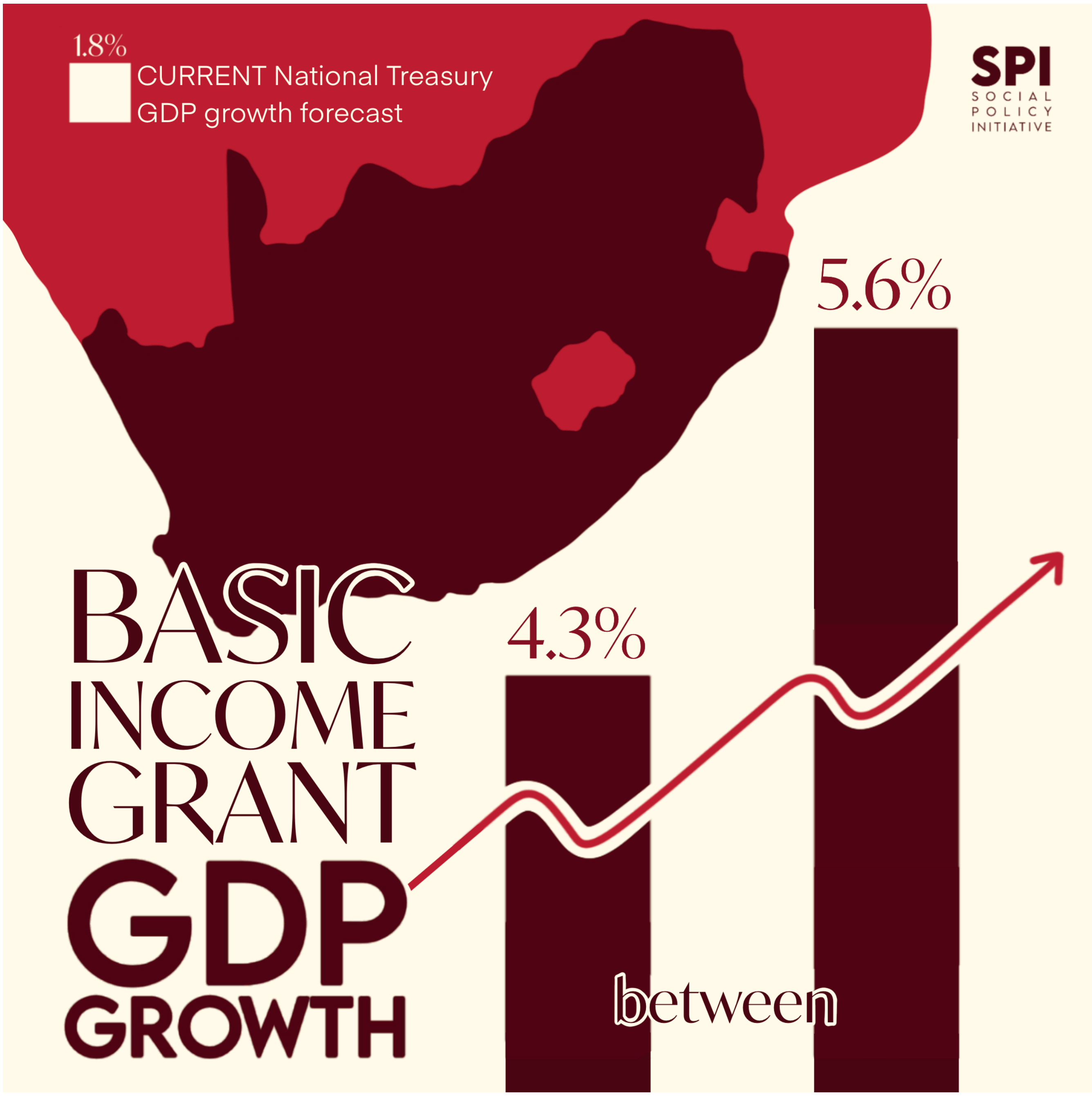
The new spending will be equivalent to 2.5% of projected GDP of R21.8 trillion during this period. It will stimulate local economies from Soweto to the Cape flats and result in a GDP growth rate of between 4.3% and 5.6% a year. It will create between 1.6 million and 2.1 million jobs. The debt ratio would increase by between 2.4 and 3.1 percentage points.

The BIG will provide a first dignity floor below which no South African should fall. The people cannot starve while they wait for government policies to achieve full employment. The BIG will also provide a first stimulus to the economy. Since infrastructure projects and industrial policies take time to implement, the BIG would be the quickest way to get close to the 6% GDP growth target. During the three-year implementation period the government must put in place additional macroeconomic policy levers to lock-in the higher GDP growth rate. The second stimulus must include higher spending on public employment programmes, infrastructure, and industrial policies.

Third, most people would still want a job after receiving a BIG. Since GDP growth alone will not be enough to address the unemployment crisis, there must a significant expansion of public employment programmes to eventually provide a job-guarantee. The government must establish a new quasi-public institution — with professional management and civil society oversight — that will amalgamate all 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. 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. In practice, the new institution would create the residual number of jobs that cannot be created through higher GDP growth and increased spending on infrastructure projects and industrial policies.

“WE NEED AN ECONOMIC BILL OF RIGHTS. THIS WOULD GUARANTEE A JOB TO ALL PEOPLE WHO WANT TO WORK AND ARE ABLE TO WORK. IT WOULD ALSO 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.”

(MARTIN LUTHER KING JNR, 1968)



Fourth, the government must implement industrial policies that steer production to sectors that have high employment multipliers. This will require higher spending on industrial policies and more policy tools. The government must increase annual industrial financing to at least 2% of GDP within five years from 0.2%. Annual funding for black small and medium enterprises (SMEs) must increase to at least 0.5% of GDP. The government must also introduce targets (or quotas) for bank lending to labour intensive sectors and black SMEs. With 6% GDP growth and no industrial policies, the economy will create 13.5 million jobs by 2035. The unemployment rate will decline to 24.7%. But with aggressive industrial policies that increase the employment multiplier to 1.1 from 0.8 the economy will create 21 million jobs – 7.5 million more than in the first scenario. The unemployment rate will fall to 4.4%.

Fifth, the government must increase public infrastructure spending to between 10% and 15% of GDP within five years - or whatever is required to support total investment of 30% of GDP. This will require urgent measures to restore the financial health of state-owned companies.

Finally, South Africa must deliver a basket of high-quality universal public services to supplement basic income and a job guarantee. It must take profit out of health and education, and deliver affordable and subsidised green public energy, transport, and mass housing. There must be innovation in the delivery of public services and the rebuilding of state capacity. This could include the establishment of new quasi-public institutions – like the Solidarity Fund - that have civil society oversight and professional management to deliver infrastructure, a job guarantee, a national health service and universal, free and quality education.

BIG INTRODUCTION

ADULTS & CHILDREN RECEIVING CSG (R480) PM

"WHILE THE RICHEST SOUTH AFRICANS HAVE WEALTH LEVELS BROADLY COMPARABLE WITH THOSE OF AFFLUENT WESTERN EUROPEANS, THE BOTTOM 50% IN SOUTH AFRICA OWN NO WEALTH AT ALL. THE TOP 10% OWN CLOSE TO 86% OF TOTAL WEALTH AND THE SHARE OF THE BOTTOM 50% IS NEGATIVE, MEANING THAT THIS GROUP HAS MORE DEBTS THAN ASSETS. SINCE 1990, THE AVERAGE HOUSEHOLD WEALTH FOR THE BOTTOM 50% HAS REMAINED UNDER ZERO."

(WORLD INEQUALITY REPORT, 2022)

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ADULTS & CHILDREN RECEIVING CSG (R480) PM