TIPS

FORUM 2003

PAPERS

Current Debates Around BIG: The Political and Socio -Economic Context

Neil Coleman

Development Policy Research Unit

School of Economics, University of Cape Town

Forthcoming Chapter in an International Labour Organisation Publication *A Basic Income Grant for South Africa,* edited by Guy Standing and Michael Samson, University of Cape Town Press.

Current Debates Around BIG: The Political and Socio-Economic Context

By Neil Coleman

1. An insider's view[1]

Picture the scene. Negotiations in preparation for the Presidential Jobs Summit in August 1998. Bilateral discussions are taking place between Government and Labour. The Minister responsible for driving the Summit heads the Government delegation. Labour has formally put the proposal for a Basic Income Grant on the agenda. The Minister, who has dismissed a number of labour's key proposals, on other issues, looks puzzled when BIG is placed on the table. He confesses to being in the dark on the matter, and asks for more motivation in the next session.

In response COSATU, which had commissioned research on gaps in the social security system and alternative solutions[2], produces a document outlining the key elements of BIG, and responses to possible objections. Again the

[1] As a participant in many of the engagements discussed below, I have had privileged access to the inner dynamics of these processes. While I have done so in my capacity as a representative of COSATU or the Basic Income Grant Coalition, the insights and perspectives reflected in this Chapter do not constitute the official viewpoint of these organisations. Despite the political sensitivity of the issues dealt with below, I have tried to give an honest and accurate account of unfolding events in this important debate.

[2] This research was commissioned in late 1997. Its main finding was that the introduction of a Basic Income Grant would be the most effective way of remedying the defects in the social security system inherited from apartheid. The research was conducted by Claudia and Dirk Haarmann.

government delegation appears taken aback, and clearly does not feel ready to engage on the issue. However in a subsequent discussion, a formal agreement is recorded to put the matter into a process, through NEDLAC, which would investigate the proposed BIG in the context of an overall investigation into our social security system. This important breakthrough in the 1998 Presidential Jobs Summit was a foot in the door for labour, supported by the community constituency, which had seen a number of its proposals blocked by government or business. On the other hand sections within government, led by the Treasury clearly hope that this process solution would allow the issue to die a quiet death.

Scroll forward four years to late 2002. From being an obscure issue that few understood, BIG now is one of the top issues on the national agenda. A government appointed committee of enquiry has formally recommended its introduction, it is the subject of a significant national campaign, and it has been endorsed by a wide cross section of civil society. There is widespread agitation within ANC and Alliance structures for the gaps in our social security system to be addressed, and a growing debate on whether BIG should be introduced. And yet…

Despite this remarkable shift, the pro and anti camps appear to be heading for a stalemate on the issue. The formal position of government has yet to be announced - government had repeatedly deferred a decision on the recommendations of the Committee.[3] Yet public statements by government leaders suggest a hostile approach to these recommendations, particularly on BIG. Treasury and the Finance Minister, despite being represented on the Taylor Committee of Enquiry, publicly campaign against its proposals, in apparent violation of Cabinet discipline. On the other side, there does not appear to be an open champion of BIG in government, although there is significant sympathy and support for the idea by certain government leaders, within the social cluster departments, and by certain ANC MPs. At the same time, attempts in the 2002 ANC National Conference to get the ANC to reject the proposal for a BIG, are themselves rejected and the ANC leadership is instructed to engage with civil society on the matter. Neither side is able to impose its will on the other. As a consequence the national debate on the critical policy questions is in danger of being stranded in the political wilderness.

This article aims to locate these dynamics around the BIG debate within the broader political and economic contestation taking place in South African society in recent times, and to assess some of the strategies, which need to be pursued to break this looming deadlock.

[3] Government proposed to respond to these recommendations in its July 2002 Cabinet Lekgotla (retreat). This was subsequently deferred to the January 2003 Lekgotla, and then its July 2003 meeting.

2. Boxing at Shadows: Current Critiques of BIG

The real debate on the merits of a Basic Income Grant has not yet begun in earnest. This may seem an odd statement after all that has happened over the last few years. However the discussion, particularly with government, has largely been characterized by avoidance of the issues, and certainly not allowed for any meaningful engagement. It is not accidental that the report of a government appointed committee of enquiry, which deals extensively with the issues, has not been officially advanced for discussion in the public domain in any serious way[4]. Indeed such discussion has been actively discouraged. Therefore questions around the logistics, financing, viability etc of BIG, which were examined in some detail by the Taylor Committee, are not as important as some might assume, in determining government's decision on the matter.

Far more fundamental, the debate around BIG is located in an intense contestation over the political and socio-economic direction being taken by the country. While the BIG campaign has actively and consciously attempted to avoid the debate escalating into an open confrontation around for example the government's macro economic policy, it would be naive to believe that the fundamental fault lines which characterise all other socio-economic questions of national importance could somehow be avoided in the BIG campaign. While a slightly pessimistic scenario, it is therefore probably realistic to assert that a favourable decision around BIG will not in the first instance be determined by a detailed debate around the logistics, financing and administration of the Grant. Rather, it is more likely to depend on a broader political shift, entailing a different type of development strategy. If correct, this analysis suggests that a decisive breakthrough for the BIG campaign will require a major shift in the balance of forces within government, and the ANC, on the direction of socio-economic strategy.

The interpretation by conservative forces, particularly within government, of BIG as a threat to macro-economic strategy, helps to explain their reluctance to engage in meaningful discussion on the merits of the matter, as well as the ideological character of the debate, to the extent that it has taken place. It is difficult to analyse the responses to Taylor's proposals, since there has been no official response, nor any coherent document outlining government perspectives on the issue. However, one can discern faint outlines of such a response through occasional press statements, and remarks by government officials or Ministers. It is often difficult to know the status of these comments, since government has not

[4] There has been no attempt by government to popularise or explain to the public what the recommendations of this Committee were. While the Department called for submissions on the recommendations of the Taylor Report in June 2002, this has been followed by complete silence, and little encouragement of public debate on the issue. Repeated requests for engagement by civil society have met a stone wall.

yet taken a position on Taylor. Nevertheless these remarks have been widely interpreted by the press, in the absence of contradictory statements, to mean that government has decided to *inter alia* oppose a BIG.

The ideological character of these responses can be seen in the way the following critiques of BIG have been raised:

- productive employment versus handouts;
- developmental social security or "dependency";
- opportunity costs;
- capacity to implement;
- affordability versus fiscal unsustainability.

2.1 Productive Employment versus Handouts

In an interview after last July's Cabinet Lekgotla, while not expressing a formal government decision on the matter, government spokesperson Joel Netshitenze spoke of people needing to be afforded "the dignity of work" rather than having to rely on government grants, and that these should be limited to the special cases requiring government support. Leaving aside the fact that such a statement would have been expected from a conservative Harvard economist, or a World Bank spokesperson, this statement was most remarkable for its apparent ignorance of the South African situation, or the approach proposed by the Taylor Committee.

The South African reality, as documented by Taylor, is that the majority of poor South Africans neither have access to the social security net, or the prospect of formal employment. More specifically, over 13 million poor people live in households, which have no access to any social grant. At the same time, the phenomenon of structural unemployment, with people excluded from the labour market for increasing periods of time, is deepening. This is reflected in the statistic for "expanded unemployment", which includes the phenomenon of "discouraged workers" (or workers who have given up actively looking for work), which has now risen to 7,9 million people or over 40% of the economically active population[5]. It is therefore pure ideology in this context to claim to be able to offer

[5] This calculation is made by Martin Nicol in the SA Labour Bulletin, April 2003. The broader definition of unemployment is more useful in accurately describing the South African reality. 'Discouraged' in South Africa may often involve a rational calculation to use limited resources e.g. on food than on futile efforts to find work. This does not mean however that if a work opportunity becomes available, the majority of unemployed in this category, won't take it. This was graphically illustrated by a survey of households in Kwazulu Natal which was repeated after five years. The same proportion of discouraged workers had found work in this period as of people who were actively seeking work at the time of the original survey. (Martin Nicol , ibid)

people the “dignity of work” as opposed to social grants, when it is clear that for millions of poor people this is a cruel illusion.

Further, the ‘work not handouts’ critique ignores the thrust of the Taylor report, as well as the perspective advanced by the BIG Coalition. Both advocate a developmental package, closely linking income security and other measures to address various forms of poverty,[6] with a new developmental growth path, which generates economic activity precisely through integrating the majority who have historically been marginalized from the mainstream economy, as consumers and producers. In this perspective, guaranteeing a minimum income is precisely seen as a *key means* to integrating people into sustainable economic activity. Far from seeing work and grants as mutually exclusive options, this approach sees such a developmental package as critical to allowing people over the medium term to become more self-reliant, and reducing the number of people who depend on grants to stave off destitution. The South African reality therefore requires *both* the large-scale expansion of employment opportunities, and a guaranteed minimum income, if the problems of poverty in the country are to be seriously addressed.

2.2 Developmental social security or “dependency”

Linked to the above argument is the notion that the BIG approach advocates a form of “welfarism” which creates dependency. Those making this allegation counterpose BIG to a “developmental” social security which purportedly promotes self-reliance and limits assistance to those who are “truly in need” because they belong to some particularly vulnerable group (this usually refers to poor children, the aged and the disabled). At its most transparent, this approach is simply a thinly veiled rationalisation for abdicating the state’s responsibility to care for those people who currently fall through the net. Such a perspective flies directly in the face of the approach taken by our constitution.

Even those, however, who genuinely believe, based on the purported problems of the social democracies, that we need to avoid the dangers of dependency inculcated by welfarism, do not appear to have their feet planted on the same soil as the rest of us. For the vast majority of South Africans their dependency, in the form of an inability to support themselves and their dependants, their lack of access to assets etc is directly a function of the structural poverty and inequality, which permeates their communities. In other words *poverty is the most debilitating root of poor peoples dependency*. Anything, which perpetuates poverty, deepens that dependency. Measures, which fundamentally attack that poverty, such as a BIG, empower poor people and lessen their

[6] Taylor identifies the following forms of poverty: income poverty, services poverty, and asset poverty; and proposes a Comprehensive Social Protection Package to address these forms of poverty in an integrated way- see below.

dependency. This is particularly the case when BIG is seen as part of a developmental package, and not an end in itself.

Currently the main form of dependency of the very poor is *on the poor*, particularly the working poor, who function as their primary social security net. This structure of social security effectively acts as a re-distributive mechanism towards the rich, since the poor are actually subsidising society. This reverse redistribution has been correctly conceptualised by Dr Michael Samson as a tax on the working poor. Somebody has to pay. The question is who?

The argument that an effective social security net can consist purely of measures limited to those with "special needs" (children, aged, disabled) appears to be ideological in character, since it is blind to present day realities of our social grants, which are already predicated on this selective approach. Various studies, including those in this volume, demonstrate that existing grants, "targeted at special needs", play no such function, but rather support whole families or extended families. Strictly speaking there are no grants purely benefiting the aged, children or disabled people-only grants going to *families* fortunate enough to have these categories of people qualifying for such grants. The notion of targeted grants in this context is thus a fiction, which continues to be repeated to avoid grasping the nettle of a universal income grant.[7]

Finally, the notion that poor people will somehow become passive because they are receiving a grant, and elect not to work, is a distortion of the South African reality, and the thrust of the BIG proposal. The idea that people would elect not to work because they are receiving R100 per month cannot be defended. If anything, international evidence tends to suggest, as argued below, that BIG would act as a bridge to employment and other forms of economic activity. Second, because BIG is not means tested, and is received as a right by all, including the working poor, there is no potential disincentive to work, since employment doesn't automatically disqualify you from receiving the grant.[8]

[7] This is in no way to suggest that once a BIG is introduced, such grants become superfluous. In fact it is only after the introduction of BIG, that these grants will be able to play their true role of targeted support for the old, children, & disabled. It is with this in mind that the platform of the BIG Coalition calls for existing grants to be retained after the introduction of BIG- but merely states that no-one should receive less in grants than before the introduction of the BIG, which could mean that the SOAP or CSG for example could be set off against the value of the BIG, rather than receiving it as an add-on.

[8] Unlike the dole. However, beyond an agreed cut-off point, higher paid workers would return the grant via the income tax system. Therefore the threshold would have to be pegged in a way, which didn't result in the perverse consequence that for example, a low-paid worker earning less than the combined value of the Grant received by him and his dependants, was forced to forfeit the grant and therefore face a reduction in income.

2.3 Lack of Capacity to implement

When the Taylor report was released, commenting on the proposal to introduce BIG, the Minister of Social Development said in essence: "great idea, but we do not have the capacity to even implement our existing system. How on earth would we manage to implement such a proposal?" While concerns about capacity are clearly legitimate, the disturbing thing about the Minister's statement, and those of others who rejected the BIG proposal out of hand on these grounds, is that they do not appear to have read the discussion of this matter in the Taylor report, or considered the views of the BIG Coalition. If they have done so, there is no attempt to respond to the critical issues raised in the Report.

Among the important questions relating to questions of capacity which critics appear to have ignored are: the impact of the abolition of means testing; building public sector financial institutions to facilitate delivery; use of SARs to administer collection; proposals for gradual phasing in of BIG; and the use of new technology to expedite delivery. Taylor and the BIG Coalition argue that the abolition of means testing[9] will not only benefit the very poor whom it hurts most. Importantly, the removal of means testing not only for the BIG but also grants such as the CSG and possibly old aged pension, will massively simplify administration and reduce bureaucratic interference and corruption. The only step to qualify for non-means tested grants would be to produce the required ID (see below).

The BIG Coalition call for the expansion of public sector financial institutions, such as the Post Office Bank, to facilitate safe and convenient delivery, through encouraging people to open accounts, which would enable them to receive payment without long queues, or the concurrent health and security risks.[10] While this roll-out of infrastructure would take time and resources, the advantages are manifold, both in reducing bureaucratic logjams as indicated above, as well as the economic benefits of extending banking services to the majority.[11]

[9] "Means testing" involves the administration of a test by the bureaucracy to determine whether an applicant earns less than a prescribed income. Intended to target the poor, the experience in SA and internationally is that the test actually makes it most difficult for the very poor to access grants, since they do not have the means to deal with administrative requirements, or to negotiate corrupt officials.

[10] The bureaucratic chaos, the long hours spent by old people queuing for pensions, the corruption, and cash heists, associated with delivery of grants, largely by the private sector, has become legion.

[11] These include the obvious benefits of savings, the extension of affordable credit, including the use of low interest rates to assist people with co-operative and other ventures, housing etc. This is broadly in line with government policy, but the extension of the public sector has ironically been resisted by the private sector financial institutions, despite the fact that the vast majority of black South Africans are unbanked (over 70%).

Parallel to this, the rolling out of a national electronic identification system, which is being developed by Home Affairs and the SA Reserve Bank (the so-called HANIS system), has enormous potential for the delivery of a universal grant such as BIG, and could facilitate a monthly payment without any bureaucratic intermediation, apart from initial registration for the grant. The development of smart card technology would allow for virtual elimination of fraud in issuing of Ids, with each card having a unique finger print (illiteracy would not be a barrier to the mass roll-out of such a system). Further the smart cards would allow for direct payment of grants onto cards, allowing beneficiaries to access their cash in virtually any area in the country.[12]

The proponents of BIG argue that not only will the abolition of the means test drastically reduce the need for bureaucratic intervention, but also the "clawing back" of BIG via the income tax system is within the administrative capacity of the state, and could be relatively easily administered by one of the most effective state agencies, the SA Revenue Services. The difficult task in this regard is not so much an administrative, but a political one: to determine the structure of this claw back; at what point people would have to return part or whole of the grant; and at what point high income earners would have to cross-subsidise the value of one or more grant via additional income tax payments. This would certainly be no more complex, from an administrative point of view, than a number of other highly complex tax structures, which SARs is effectively administering.

While none of these arguments outlined above are addressed, or even acknowledged by the ideological opponents of BIG, perhaps most telling is their failure to address the central proposition of the Taylor report in regard to capacity: that *BIG needs to be phased in over a period of several years to allow the necessary systems and administrative capacity to be put in place.*[13] The compelling arguments of Taylor in this regard were accepted by the BIG Coalition, whose preference had been for the speedier introduction of a BIG. This does not appear to have even registered, however, in the discourse of those within government apparently determined to block BIG at all costs. The Coalition for its part has proposed a forum of government and civil society to look at these practical questions of implementation.

The failure of political will to address questions of capacity also has its roots in developments around the state, particularly in the post-1996 period. While space does not permit a full analysis here, the critical issue affecting capacity has been the ideology of a "slim state", fiscal conservatism, combined with promotion

[12] The technology allows, relatively cheaply, for portable equipment to be used at various sites to "read" the cards and issue cash to beneficiaries, or facilitate direct payment for goods, at their convenience. This is particularly important for people living in remote rural areas, in terms of cutting down transaction costs.

[13] The committee proposes that a universal Child Support Grant (up to 18) be introduced first, to introduce and test the systems, followed by the full-scale introduction of the BIG, by about 2005/6.

of the role of the private sector in delivery, increasingly in the form of public private partnerships (PPP's), and the contracting out of state functions to private agencies.[14] In a period requiring the massive expansion of state capacity, and the building of a developmental state, the effect of this approach has been disastrous on the state's capacity to deliver its developmental goals. This in turn creates a vicious cycle, where the running down of the state, and over-reliance on the (costly) private sector, is perversely used as a justification to avoid embarking on major developmental interventions, such as the BIG, because we are told, "the state lacks capacity"!

No-one has any illusions that the introduction of a BIG would be a major reform requiring the building of the necessary capacity, and the requisite time and resources to roll out that capacity. But ideologically-driven critics of BIG are not really interested in engaging in a discussion about building that capacity, since it runs counter to the type of state which they want to see. The result: perpetuation of the status quo in relation to the social security system, with all its deficiencies and inequities, and continued failure to address the root cause of the states inability to deliver effectively.

2.4 Opportunity costs and public works

An argument implicit in some of the opposition to BIG is the notion that implementation of a BIG would somehow "crowd out" other more worthy expenditure by the state. In other words that the opportunity costs are too high. Associated with this argument is the suggestion, to use the quaint American phrase, that other expenditure would give you "more bang for your buck".[15] The approach which has been mooted as an alternative to BIG in government quarters has been the implementation of a "massive" public works programme (PWP).

Such a counter position of supposedly conflicting alternatives would not be advanced if the Comprehensive Social Protection approach proposed by the Taylor Committee had been seriously considered. Clearly both BIG and PWPs have vital, but very different roles to play in poverty alleviation, as part of a comprehensive package. The BIG has the potential within a relatively short space of time to totally wipe out destitution, and make a serious dent on levels of poverty. Its truly massive scale is reflected in the fact that over 20 million poor

[14] In some quarters in government, particularly the Treasury, one gets the impression that major expansion in public sector delivery is resisted on ideological grounds (undermines a slim state) Related to this, there continues to be promotion of the role of private sector institutions in welfare delivery. Given the abysmal track record of the private sector in this area, for example the delivery of state social pensions, this is difficult to understand, unless it is derived from ideological fundamentalism.

[15] This is particularly ironic in the context of the massive expenditure committed in terms of the arms deal, and the "crowding out effect" this has on other areas of expenditure.

people would benefit from the grant on a monthly basis. PWP's on the other hand, even if implemented on a "massive" scale could only conceivably reach a far smaller number of people;[16] but would have other important benefits such as basic training and preparation for formal employment, and the creation of infrastructure.

Massive PWP's are more medium term in character, involving relatively high administration costs. Implementation of BIG, as argued in the Taylor Report can kick in on a large scale over the relative short term, and grants are relatively cheap to administer, particularly given the technology discussed above. It is significant that government reports, budget analysis etc consistently reflect that income transfers, particularly in the form of the Old Age Pension, have been the most efficient and effective form of government expenditure targeted at poverty. The same would be true of BIG, except on a far larger and more comprehensive scale.

BIG and PWPs therefore need to be mutually reinforcing elements of a package. It is only possible to understand the counter position of the two in the context of the ideological intervention mentioned above, extolling the dignity of labour, and the need for the poor to pull themselves up by their own bootstraps. The use of PWP's as an ideological tool in the debate does the cause of PWPs themselves a disservice.

Labour had proposed large scale PWPs directed towards infrastructure and housing at the 1998 Presidential Jobs Summit (and again at the pending Growth and Development Summit), and received little response from government. It would therefore be welcome if there had been a major change of heart. However, the evidence is not very encouraging. The budget for PWPs has been cut back or remained static in real terms in recent years, and there was virtually no mention in the 2003 budget speech of the proposed massive PWPs. The small-scale and restricted nature of PWPs, despite the RDP vision, is not unconnected to macro-economic policy. Senior government sources indicate nearly a year after the Cabinet announcement in July 2002 that little substantial work has been done on this proposal.

Underlying the debate is the question of fiscal affordability of one poverty alleviation measure versus another. Again, this debate is conducted by critics in the realm of ideology rather than hard economics or serious analysis of affordability of different alternatives. Just as there has been no serious attempt by government critics to realistically cost the BIG (as opposed to massively inflating projected costs for political reasons-see below); nor has a figure been put to the proposal for "massive" public works. The line of argument has also deliberately attempted to create an either/or scenario to polarise the debate into supporters of

[16] Currently PWPS only employ about 30-40,000 people a year. Even if this were increased ten-fold, PWPs would still only transfer income to at best about 10% of the people who would benefit from a BIG (this is based on the calculation that one PWP job is roughly equivalent to four BIGs, since the PWPs pay about R400 per month).

BIG versus supporters of PWP's.[17] No coherent argument or econometric projections have been advanced to substantiate the view that our economy cannot fiscally sustain both the introduction of a BIG as well as larger scale PWPS. Similarly no cost benefit analysis was made of the opportunity costs of the military expenditure envisaged in the recently concluded arms deal, and its implication for expanded social expenditure of the type under discussion. It seems that when "hard choices" have to be made, they always have to be made **between various forms of social spending**, which are projected as mutually exclusive alternatives.

A recurring theme of government budgets in recent years has been the government's "inability to spend", and rollovers. This is linked directly to the failure to invest in building the necessary state capacity, and is the flip side of the running down of the state, and fiscal conservatism. Even with this inability to spend effectively (an obscenity in the context of the huge social demands and critical shortages), certain areas suggest themselves as relatively simple ways to increase transfer of resources to the poor, within existing constraints. A key candidate for this is to substantially increase social grants. In this context it is inexplicable that government has consistently failed to raise for example Old Age Pensions above the level of inflation[18], despite constant complaints that they are unable to spend. The refusal to do so is directly linked to the fiscal conservatism, which lies at the heart of both the diminishing capacity and failure to spend. The reluctance to entertain a BIG yet again threatens to frustrate another area, which would allow for a major transfer of resources to the poor, to match available resources to the areas of most critical need.

2.5 Affordability versus fiscal unsustainability

As with the issues outlined above, the real debate has not yet begun on the fiscal affordability and sustainability of a BIG. Two senior officials of the Treasury were members of the Taylor Committee, which concluded that the package of comprehensive social protection recommended by the Report was "affordable when seen from a long-term perspective as all improvements… occur broadly within current macroeconomic constraints… *In particular, the implementation of a universal system of social assistance grants in key areas*

[17] Fedusa, the predominantly white collar federation that is part of the Labour constituency in NEDLAC, has fallen directly into this trap by supporting PWPs "as opposed to" BIG, and have allowed this to be projected publicly. This partly reflects, in a crude way, their interests, since they are afraid that their higher paying members will have to pay increased tax to finance BIG. Conversely, there are some concerns within the BIG Coalition about the viability of PWPs, which threatens to place themselves in the opposite corner to PWPs, although this is a position the Coalition has thus far avoided.

[18] Since it was deracialised in 1993 with the introduction of parity between black and white pensioners, the old age pension has been undergoing managed erosion of about 1,5%p/a in real terms.

becomes both feasible and affordable"(Taylor Committee p149). The representatives of Treasury tabled no minority report on this or any other issue.

Nevertheless it is an open secret that there were persistent attempts by the Treasury, at the highest level, to block the recommendations on BIG right up to the finalisation of the Report. Subsequent to this the Treasury, as well as the Finance Minister, have openly campaigned against the proposals of the Committee on BIG. Little reference has been made in these attacks to the calculations for the Committee that the net costs of a BIG would be less than R24 billion per annum. Instead, the "debate" around affordability was rapidly moved to the terrain of scare tactics and gross exaggeration to bolster the argument that the costs of BIG would be outrageous and unaffordable. In particular, the Minister of Finance stated before parliament shortly after the release of the report that the costs of BIG would be over R60 Billion.

He also stated in the Alliance Summit in April 2002, before the release of the report, that a BIG would cost R 66,2 billion including the costs of administration, and, when challenged on the gross vs. net costs, argued that the claw back via the tax system could not be considered in the cost estimate. He argued that this was totally unaffordable, would consume 6% of GDP, and would be nearly double the cost of the education budget.[19]

This *a priori* assertion that BIG is unaffordable, is not based on any engagement with the economists who did the calculations for the Taylor Committee.[20] The assumption that you can discount the tax claw back, which would accrue to the fiscus, is without any rational basis. While it is correct that the administration costs of the BIG would have to be factored in, the estimates used by the Minister have not been tested. In effect the critics in government have totally ignored the work done by economists for the Taylor Committee, and the considerable work done for the BIG Coalition.

Clearly more work needs to be done in this area. But the refusal to engage with work done so far, again suggests that the critics in government are not seriously concerned with the balance of evidence, but have an ideological axe to grind.

[19] He also erroneously informed the summit that the pending report of the Taylor Committee would "discourage" the introduction of a BIG. A copy of the draft report was however already available within limited circles, and it was confirmed to delegates that indeed the Taylor Committee would strongly endorse the proposal for a BIG.

[20] Attempts by the BIG Coalition to set up a meeting between the Minister and economists who have worked on BIG have proved fruitless.

To sum up, the opposition to BIG has been largely ideologically driven, and is not the product of any meaningful process of engagement. Those elements within government opposing BIG, while not necessarily in the majority, are nevertheless very powerful, and in a position to block its introduction. This therefore takes us back to the point raised at the beginning of this discussion - that there is a need for a shift in the developmental paradigm if there is to be a serious prospect of making BIG a reality. We now turn to the political and socio-economic context within which the BIG debate is raging.

3. The Socio-Economic Context

South Africa's socio-economic reality is characterised by two contradictory trends: on the one side a deepening social and economic crisis demands radical new measures to stave off a social implosion; on the other side a growing malaise of denial within government on the extent of this crisis, and determination to stick to current macro-economic policy in the mistaken belief that it offers a way forward. In other words, structural socio-economic realities demand *inter alia* the introduction of a BIG. But subjective perceptions and socio-economic policies within government point in the other direction. There is however a "creative tension" between these two poles, which contribute to some modification in existing positions, as we discuss later.

Important socio-economic factors, which underpin the BIG debate, include the following:

3.1 Deepening crisis of poverty unemployment and inequality

Perhaps the most serious challenge facing our new democracy is the worsening crisis of poverty, unemployment and inequality. Despite the levels of denial within government, the statistics consistently show that nearly ten years after our transition to democracy, all the efforts to improve the lives of our people have not been able to reverse this trend. Most disturbingly the absolute and relative levels of *poverty* continue to worsen; the levels of *inequality*, both across the board and within racial groups, continue to widen; and levels of *unemployment* have grown exponentially since 1994. These three features of our socio-economic reality are closely interlinked, and the levels of employment and underemployment in particular are an important factor in determining deepening levels of poverty and inequality.

Stats South Africa last year revealed[21] an alarming deterioration since 1995 in the economic position of the low-income and the poor: from 1995-2000, despite government's efforts the share of the poorest 60% of households in the national income fell from 17% to 15%, with the biggest decline amongst the poorest households. During the same period the average African household income actually *fell by 19%* to R26 000 a year.

This decline in living standards was directly linked to the rise of unemployment during this period, and growing underemployment. Even using the 'narrow' official definition of unemployment (excluding discouraged workers), a huge leap in unemployment is recorded, from 16% in 1995 to 30% in 2002. That is far higher than any other middle income country reporting to the ILO.

Growing joblessness has been accompanied by a shift to poorly paid, insecure survival strategies[22]. As a result the average income from work declined sharply between 1995 and 2002. In 1995, 35% of workers earned under R 1000 a month. By 2002, 39% earned under R1000 a month, and in real terms, their incomes had fallen by a third[23].

The Stats SA earning and spending survey reveals a concomitant growth of levels of inequality: while African household income fell dramatically, average white household incomes rose as rapidly- between 1995-2000 they increased by 16% to R158 000 a year.

Regardless of debates, which will continue, over the accuracy and implications of these statistics, one reality is unavoidable: poverty in South Africa is not a 'worrying problem' or a 'persistent enclave' as it may be described in some other countries- it is *the dominant reality* for the majority of our people. 22 million or 53% of our people live in severe poverty, on average surviving on less than R144 per month (or far less than the international measurement of a dollar a day). There are 3.1 million workerless African households, and nearly 8 million unemployed. Two in three children live in poverty.

[21] Stats South Africa: Earning and spending in South Africa (2002). The statistical analysis below is largely taken from labour's position paper to the Growth and Development Summit.

[22] 2,2 million people who are regarded as 'employed' work in the informal sector. Many of these 'jobs' are desperate survivalist activities with little remuneration or stability. Half of those in this sector, according to the Labour Force Survey, earn less than R500 per month. The majority of workers in the formal sector earn over R2500 per month.

[23] Stats SA: 1995 October Household Survey and 2002 Labour Force Survey

It is not helpful to allow the debate on this serious situation to degenerate into a cycle of political point scoring against government combined with defensiveness and denial by officialdom, which leads to myopia around the reality of the problem. Objective analysis of the role of current policies in addressing the crisis needs to identify:

- the role of existing policies in ameliorating the problem (i.e. without which the situation would in fact be worse);
- the role of existing policies in perpetuating the problem;
- gaps in current policies which need to be addressed.

3.2 The existing social security net is unable to cushion this crisis

This leads directly to the next question. Namely the large gaps in the current social security system, and its inability to act as a safety net for the majority of people living in poverty. Research conducted for the Taylor Committee found, in relation to the three variables listed above that: the existing system, with all its inadequacies plays a significant role in ameliorating levels of poverty- without social grants, 58% of households would fall below the subsistence line, as opposed to the current figure of about 50%;[24] second, the existing system, even within the boundaries of current eligibility, discriminates against the very poor- in particular means testing made it more difficult to access grants- as a result less than four million of a potential 8.4 million beneficiaries were actually receiving their grants; finally the majority of South Africa's poor were not eligible for grants under the current system, and even with full take up of existing grants, over half the population, or 21.9 million people would remain below the poverty line.

The Taylor Committee in summarising the massive gaps in the social security system concluded:

> "There is no income support for children between 7-18 years, adults between 18-59 years, (or) general household assistance where no-one is employed. Over 13 million people live below the poverty line and have no access to social security. As such South Africa's social security system is neither comprehensive nor adequate".

The growth in unemployment and poverty means both that the existing social security system has to support more people, and that other forms of social support for the poor are coming under greater stress. In particular this means that the incomes of lower paid workers and the working poor have to stretch further, since

[24] Most significant in this regard is the Old Age Pension.

this de facto acts as the safety net for most poor people.[25] Yet the total income of working people has itself declined in real terms in recent years: labour's share in the national income dropped from 58% in 1992 to 51% last year . This puts both the incomes of working people, and social structures as a whole, under greater stress.

Taken together, the growth in absolute and relative levels of poverty, the huge gaps in the social security system, and the growing strain on other forms of support for the poor, place increasing pressure on society to introduce a universal form of basic income support. This is further underpinned by the undermining of one of the key planks of government's post-1994 platform namely social delivery…

3.3 Poverty is undermining social delivery

Increasing poverty is undermining many of the most important gains of the new government. This is most apparent in relation to delivery of basic services and infrastructure. In the absence of net employment generation, and in the face of declining incomes, the impressive rollout of various services has proved to be unsustainable in certain areas, or have come under growing pressure. Poverty in communities has led to widespread disconnections of services such as water, electricity, and telephone services (2 million new telephone users have been disconnected in the last couple of years).[26] Even subsidised housing, which is aimed more at lower-middle income earners, has been resold at a fraction of its value, particularly as retrenchments take their toll.

Poverty also indirectly undermines the effectiveness of delivery of other social services, such as health and education, through factors such as deteriorating nutrition, and unhealthy social conditions. This direct connection between income poverty and access to basic services was clearly articulated in the Taylor Committee's discussion of the concept of Comprehensive Social Protection (CSP).

[25] Of course this support does not only come from low-paid workers, but since this safety net is primarily located in the African community, it is disproportionately from the low-paid. It is also important to recognise that various social and economic factors are leading to the degeneration of traditional social structures, including networks of extended family support. This is exacerbated by shifts in rural-urban demographics. Therefore, this 'safety net' is not only itself porous, but is being further compromised by growing social and economic pressures.

[26] While the policy of free lifeline services for electricity and water, which has not yet fully been implemented, will ameliorate this situation, these are for a very small basic amount. Households living in poverty will still face unsustainable choices, such as between paying for water, and buying the basic foodstuff needed for survival. With implementation of prepaid meters for electricity and water, it will become increasingly clear that this is less about a "culture of non-payment", and more about people simply being unable to afford basic services because of poverty.

In this conception, a package of CSP would simultaneously seek to address three interrelated forms of poverty: namely income poverty; services (or capability) poverty and asset poverty. The Committee argued that failure to address one area of poverty would compromise efforts in other areas.[27] Therefore a minimum level of guaranteed income is required to ensure that access to services, albeit subsidized is sustainable. Conversely free education, or public health, or access to affordable water, electricity etc (measures to address services poverty), combined with access to a basic income, or wealth-producing assets, means that poor people are less pressurised to make the choice between paying for services, and for example buying food.

It therefore becomes clear why a guaranteed minimum income becomes an indispensable part of the drive to extend basic services to the historically excluded majority. Growing poverty and expanded service delivery cannot coexist even over the short to medium term, as we have seen over the space of a few years.

3.4 Poverty is a fetter on economic development

It is trite that extreme poverty is not only a product of underdevelopment, but is itself a fetter on economic development. The marginalization of over half our population from the mainstream of the economy, apart from being socially and morally indefensible, is also one of the main problems of the South African economy. Such marginalization is not a by-product, but integral to the economic growth path, which South Africa has followed for decades.

One of the major tasks of South Africa's new democracy is to break that cycle of economic marginalization and underdevelopment. However the persistent reality post-1994 is that our growth path has continued to marginalize and deepen the poverty of the majority, albeit in a slightly different way. Some expansion of the social wage has been viciously counterbalanced by large scale job losses, informalization of work, and therefore declining incomes; at the same time as wealth has become rapidly more concentrated in the hands of the minority.[28]

[27] "There are certain basic requirements that should be available to all, and not subject to being traded off against each other… it is not acceptable to ask a poor parent to choose between attaining a certain level of household income or sending their children to school, though this is not an uncommon choice in reality" (Committee Report, p. 41).

[28] The figures quoted above show that even if there is greater "deracialisation of wealth", the aggregate levels of inequality between the bottom and top quintiles has continued to grow since 1994. Put differently, while there are more wealthy black individuals the poor (largely black) have continued to grow poorer, both in relative and absolute terms; and the wealthy minority have continued to grow richer, both in relative and absolute terms.

A number of surveys of investors have come up with interesting results in trying to determine the main factors retarding investment. Consistently the top two factors cited are the problems of high interest rates and low domestic demand. Of course "low domestic demand" is directly a function of widespread poverty and lack of disposable income. It is seen as retarding the mass production of commodities for domestic consumption, and therefore has a negative effect both on the development of domestic production, and job creation, since domestic production of basic consumer goods tends to be more labour intensive than other forms of production.

This therefore constitutes a significant pressure on society to ensure meaningful redistribution of income, reduction of inequality, and provision of a basic guaranteed income for all citizens. It is an indictment of our society and economic decision-makers that, despite these realities, we continue to allow apartheid-inherited inequalities not only to persist, but also deepen.

Nevertheless there is growing recognition, both by international investors[29] and local corporations (if in a slightly contradictory way) that current levels of poverty and inequality are unsustainable, and themselves act as a barrier to economic growth. This was one of the explicit motivations from the captains of industry for the formation, with labour, of the Millenium Labour Council, which negotiated sensitive amendments to labour legislation. For the first time, they recognised that the developing socio-economic crisis, if not arrested, could lead to a social explosion.

The critical question is whether this leads to a serious rethink of current economic strategies, and recognition that the key problem of South Africa's economy is not *levels of growth*, but the *type of growth* or growth path, which continues to generate such skewed results.[30] This is clearly demonstrated by the track record of the years since 1994, which have seen *a higher growth rate* than in preceding years, combined with *deteriorating* social and economic indicators. There is no evidence that simply higher rates of growth, on this same growth path, will change these patterns. "Trickle down economics"[31] have in this respect been discredited in practice in the South African context, as it has in other parts of the world.

[29] Including interestingly by international ratings agencies, notoriously conservative, who have cited high levels of poverty and unemployment as serious obstacles to growth.

[30] Of course this is not to suggest that low levels of growth are desirable. Only that higher levels of growth will have the desired effect provided that this takes place in the context of a developmental, equitable and re-distributive growth path. This is the fundamental premise underlying the Reconstruction and Development Programme.

[31] The idea that higher levels of growth in themselves will "trickle down" and benefit the poor in society.

3.5 A growth path, which marginalizes the majority, is unsustainable

Patterns of accumulation, and the growth path in general, have retained many of the worst features of the pre-1994 period, when tested against key social indicators such as job creation, wealth redistribution, levels of poverty, and levels of inequality. To the extent that new features have been introduced to the economy, many of these have actually acted to *exacerbate* the situation. This explains why the deterioration in social indicators described above has been so rapid during this period, despite government's best efforts in areas such as social delivery, the latter only partially offsetting these negative consequences.

The new features referred to here include measures to rapidly "liberalise" "open up" and deregulate the South African economy, in a bid to steer a forced march to international competitiveness and promote foreign investment. These measures have involved:

- rapid reduction of tariffs, and a major focus on export orientation, leaving sections of our economy exposed and unable to adapt;
- exchange control liberalization, making the economy more vulnerable to economic speculation and capital flows, as well as large scale relocation by domestic corporations;
- contractionary fiscal and monetary policies, leading to high interest rates, tight restraints on public investment to meet the social deficit, and severe limits on the states role in driving development;
- privatization and commercialization of state corporations, as well as outsourcing of functions of the public sector *inter alia* through PPPs.

The effect of all these policies, combined with the strategy of capital to disinvest and rationalize their operations, can be dramatically seen in the large scale job loss; the failure to generate significant new employment (the number of new jobs are a fraction of the new work seekers coming on to the market annually); the alarming growth in the number of poor people in the lowest economic quintiles; and the redistribution of income to the rich, or the growth in levels of inequality. These impacts taken together constitute a *growth in the economic marginalization of the majority since 1994,* not a reduction of that marginalization. This situation is completely unsustainable in the context of our new democracy, and the legitimate expectation that the historical inequities characterizing the apartheid economy would be fundamentally transformed.[32]

3.6 The Macro Economic Policy has failed to meet all the key developmental targets it set itself

The macro-economic strategy adopted by government in 1996, GEAR (Growth Employment and Redistribution Strategy), codified the programme of "economic liberalization" described above. Nevertheless it set itself key targets, which, if achieved, would have had a major beneficial impact on conditions of the majority. The strategy was supposed to, after five years[33] have achieved *inter alia* the following: the creation of about 1.3 million new jobs; employment growth of about 3%; a dramatic real increase in government investment (over 7%) and private investment (about 12%); GDP growth of over 4%; and a dramatic reduction of real interest rates to 3%.

In reality the strategy achieved exactly the opposite in relation to these variables, as demonstrated in Table 1 below: large scale job loss, high real interest rates, low levels of growth in government and private sector investment, and lower than projected GDP growth. At the same time the strategy consistently met, or 'improved on', three key targets- reductions in the budget deficit, tariffs and inflation.[34] These targets were achieved through contractionary fiscal and monetary policies, and the liberalization of the trade regime. This is *directly connected* to the negative consequences outlined above- massive shedding of jobs, and squeezing out of economic expansion and investment.

[32] Defenders of these policies within government argue, because the apartheid economy was so "closed" and "protected", that it was necessary to take these steps to make our economy internationally competitive, and that we have now turned the corner. While it may be true that job loss is now not at such a rapid rate, and that there is some minor employment creation in certain sectors, this is hardly a major achievement with unemployment levels at over 40%, and with devastation of sectors of our economy and society. This Thatcherite philosophy of "take the pain now and reap the benefits later", begs the question of who is taking the pain, and what the long-term destructive consequences are to the society of this brutal restructuring process. Most fundamentally there is no evidence that this lays the basis for more equitable economic growth; rather it is more likely to raise levels of profitability for a South African capital, which is more footloose and internationalized, and therefore not reinvesting, as well as financial and speculative capital.

[33] GEAR was supposed to run until the end of 2000.

[34] The fact that these are the core targets which have consistently been prioritized, regardless of their impact on other targets, is reflected in the fact that even in the face of serious international economic turmoil such as the Asian crisis, or in the face of serious domestic problems such as rising unemployment, little or no flexibility has been shown in relation to these targets. The de facto cornerstones of economic policy have been the budget deficit target and the inflation target- where government has consistently *'overachieved'* despite its negative impact on other areas. (This is of course until recently, when the volatility in the Rand, and high food prices, led to the failure of the Reserve Bank's inflation target).

This dismal picture has not, however, led to serious questioning of the macro-economic strategy in government,[35] despite widespread concern by civil society. In fact, a successful ideological offensive has been waged, in particular by the Treasury, and sections of South African business, supported by sections of the media, arguing that the macro economic strategy has been successful in "stabilising" the South African economy, and that in fact it has been very effective in establishing "sound economic fundamentals" (this is a euphemism in particular for contractionary fiscal policies, and reduction in the economic role of the state). It is hard to understand how either of these terms ("stabilization" or "sound economic fundamentals") can be credibly applied to a period in which such massive destabilization took place in relation to employment, deindustrialization of sectors of our economy, large-scale capital flight and speculation on the currency etc. The terms of the debate reflects less the objective reality of what has been going on in the economy, and more the reality that those who are articulating this interpretation have disproportionate influence in our public and private media.

Despite this apparent rigidity on macro economic policy, there have been subtle shifts of emphasis in the last couple of years partly as a result of pressure from civil society, and partly as a result of internal debates within the ANC. One manifestation of this has been the emphasis on "micro-economic reform" involving areas such as industrial policy[36]. In this conception, macro economic policy has stabilized the economy, and created the framework within which other interventions can take place, particularly to create jobs. However, this does not resolve the contradiction of different areas of policy essentially pulling in opposite directions.[37] Further much of this remains at the level of rhetoric.

The other shift in nuance, which has marginally opened up space, particularly in the fiscal arena, has been the pursuit of what has been called "moderately expansionary" fiscal policies over the last two years, after ANC structures called for a more flexible application of fiscal policy. However, this shift is more apparent than real. This growth in spending has taken place within the extremely

[35] Although there has been some debate in the ANC, and slight shifts in nuance within government- see below.

[36] This is a 'left' version of the notion of micro-economic reform which tends to be punted particularly by some people in the SA Communist Party who hope that this opens the space to introduce interventionist policies without directly taking on macro-economic policy. The evidence however, is that a far more conservative interpretation is intended, as articulated by the Minister of Trade and Industry. The key element of this strategy is to bring the 'input costs' such as electricity, water, etc down, to make the SA economy more competitive. Deregulation, privatisation, PPPs are seen as key elements of this strategy- this lies at the root of many of the conflicts unfolding today around restructuring of public enterprises, policy on user fees and cross-subsidisation, and so on.

[37] The retention of contractionary macro economic policy alongside attempts to pursue more interventionist or expansionary approaches to social or industrial policy, if this is ultimately the direction which emerges, is likely to lead to incoherence and clash of policies. As things stand, macro economic policy remains the dominant area of policy with all other areas subordinate.

tight fiscal parameters set out in the Medium term expenditure framework.[38] The reality underneath the hype is demonstrated by the estimate that social expenditure, which had suffered cuts in previous years, is now back in real terms to per capita expenditure in 1995. Hardly, a major expansion, given the woefully inadequate budgets inherited from the apartheid era.

Much of the apparent expansion has been enabled by more efficient tax collection by the Revenue Services, who have consistently over collected. The slightly more "expansionary" stance therefore comes off a very tight fiscal base, with budget deficits continuing to be reduced to the 2% figure, from about 5% in 1995. Tax also continues to be reduced as a proportion of GDP, with the ratio now below the GEAR parameters of 25%. These tight fiscal parameters preclude the adoption of a genuinely expansionary fiscal stance on a scale required to make a meaningful dent on the social deficit inherited from apartheid.[39] However we will limit our comments for the purposes of this article, to the impact of these parameters on adoption of a BIG.

3.7 The impact of macro-economic policy on the BIG debate

As indicated above, economists commissioned to investigate *inter alia* the fiscal implications of BIG, argued that it could be implemented "within current macro economic constraints". The BIG Coalition has also persuasively argued that a BIG is not only affordable in the short term, but that over time, the relative burden on the fiscus actually diminishes as levels of poverty decrease. Why then do those driving macro economic strategy see the demand for a BIG as a threat to fiscal sustainability?

The answer to this question is not a simple one, since it has not been possible to secure a direct engagement on these issues with those responsible in government. However, one gets the impression that the real concern is less about whether the fiscus would be able to afford it; and more about the implications of giving in to what is seen as "populist demands"'. First, that it would open up the government (or future governments) to pressure to increase the amount of the grant, and that costs could spiral out of control. This is what the technocrats in government referred to as 'open-ended fiscal exposure' in discussion at the Jobs Summit. This may be why the projected costs of the BIG are grossly exaggerated, to scare off those who may otherwise be supportive of the idea.

[38] The MTEF is a three year rolling budget which has essentially entrenched the parameters set out in Gear, particularly on budget deficits and tax: GDP ratios.

[39] It is hard to make sense of the notion that fiscal policy is expansionary, in the face of massive shortages and cuts in key areas of social delivery, as well as under funding of delivery arms of government, both in the provinces, but particularly local government.

Second, there seems to be a fear that agreeing to a BIG would open the floodgates for other major new areas of expenditure. An example that has been given is the demand for the provision of anti retrovirals for those living with HIV and Aids. But there has been no discussion as to how macro economic strategy can be adjusted to address national priorities such as attacking poverty, dealing with the Aids pandemic, and creating jobs. It is assumed that questions such as these have to be subordinated to pre-ordained macro economic parameters.

Third, the proposal for a BIG runs counter to the underlying philosophical approach of Gear proponents, particularly the more conservative technocrats in Treasury. This approach promotes the reduction of the role of the state, is suspicious of interventionist measures such as BIG, and regards "consumption expenditure" as inherently wasteful.

If this analysis is correct, it helps to explain why it is so difficult to secure an engagement on the issue. If BIG is seen as so inimical to the broad macro economic approach, then it makes sense to refuse to engage on the merits, based on the balance of evidence. Such an engagement is regarded as inherently dangerous, and opening up the very heart of macro economic strategy for debate, something the technocrats have consistently refused to do.

By subordinating broader developmental debates to the narrow concerns of a rigid fiscal policy, means and ends are subverted. Fiscal policy, instead of being a means to achieve developmental goals becomes the ultimate objective, to which other policies must be subordinated. A technocratic and narrow approach to fiscal policy in turn leads to irrational decisions being taken on critical areas of policy. This has clearly been seen on the issues of HIV/Aids, where the primacy of fiscal policy, and the perceived threat which demands for Aids drugs posed to this policy, determined decisions on the matter. As with BIG, this policy issue has not been dealt with on the balance of evidence, and economic research demonstrating the massive social and economic costs of not acting has been ignored, because of its perceived threat to macro economic parameters.

While the BIG Coalition, correctly, has tried to avoid the debate spiralling into a clash over governments economic policy, it is clear that the debate will inevitably spill over into the broader discussion about appropriate developmental and economic strategies, which would allow for the required interventions to address the critical problems facing society.

4. Political Factors

The impasse on socio-economic policy obviously constitutes a serious concern for proponents of BIG, and all those advocating a different type of development strategy. However, there is some cause for optimism about the political progress, which has been made, and the potential for further progress. In the first instance, major success has been registered in placing the demand for BIG on the national agenda, and in capturing the popular imagination. From relatively little knowledge of the issue, the organizations in the BIG Coalition have managed to mobilize support across a fairly broad cross-section of society.

The recommendations of the Taylor Committee for introduction of a BIG were a major boost for the campaign, and have given a particular *gravitas* to the proposal. Importantly it also situated the campaign in a broader developmental framework, linking the campaign of civil society to a more far-reaching conception of Comprehensive Social Protection, which drew the connections between a number of issues of concern to the constituent members of the Coalition.

Significantly, despite some reservations being expressed by ANC leadership, a groundswell of support for the idea in the ANC mass constituency, led to it being placed on the agenda in the run up to the ANC policy conference and national conference in September and December 2002 respectively. The realities of growing poverty and the inadequacy of existing social security led ANC branches to prioritise the issue of social security almost above any other issue. The resonance of the campaign was reflected in both the ANC provincial and national conferences, and forced a debate, which the national leadership was apparently reluctant to entertain.[40] Most significantly, an attempt by ANC leaders to direct the Commission dealing with the matter to reject BIG was defeated in favour of a resolution calling on the ANC to engage with civil society organizations on the matter.[41] This reflects the sensitivity of the issue within the ANC and mass organizations more broadly.

A problem, which the Coalition faces in opening this apparent window of opportunity, is the fact that the ANC is not driving the policy process on this or other questions. This is one of the central problems of transformation, which has been identified, in the tripartite alliance, and in the ANC itself. The tendency on such issues of major social contestation is for the ANC to adopt compromise positions, which are then interpreted by those in government, including technocrats, who give it the required spin. A general commitment by the ANC to adoption of a "comprehensive social security system" for example has been interpreted by technocrats to mean consolidation of the architecture of the existing system- i.e. fine tuning it rather than overhauling it.[42] In the absence of a process

[40] Delegates to the ANC Policy Conference were instructed not to discuss the issue of BIG, but this was forced back onto the agenda in the ANC National Conference in Dec 2002.

[41] Something which has still not taken place five months later, despite an urgent request by the national leadership of the Coalition to meet with the ANC Office Bearers in December.

[42] Some ANC leaders argue that we *already* have a comprehensive social security system.

of engagement it becomes difficult to pin down such sophistry, or to establish an understanding of how this view can be sustained in the face of the massive gaps in the current system.

While the discussion above on socio-economic questions may appear bleak, there is a political contestation, albeit of fairly low intensity, both within and between Alliance partners on appropriate development strategies. This was the focus of some discussion in the Alliance Summit in April 2002, and continues to be a point of engagement in the run up to the 2003 Growth and Development Summit. COSATU in particular and the Coalition in general are engaging with these processes to *inter alia* keep discussion of the BIG on the agenda.

It is in this context that repeated delays have taken place on a decision by Cabinet on the recommendations of the Taylor Report- from July 2002 to January 2003, and now to July 2003. This appears to be a hot potato which government does not want to finally pronounce on, particularly in view of the upcoming 2004 general elections. The Basic Income Grant issue promises to feature prominently in the 2004 elections. Civil society, and two of the Alliance partners have already made it clear that this is a matter, which needs to be addressed. On the conservative side, the opposition DA has opportunistically announced support for a version of BIG as one of the key planks of their elections platform, something that COSATU denounced as a poisoned chalice.[43] This is further complicated by the development of social movements mobilizing against the government around issues such as services cut-offs evictions etc. The ultra-left and opportunist character of some of these movements has led the ANC to be ultra-defensive, and sometimes lump together movements such as the BIG Coalition, TAC, and even its own alliance partners, with movements which are fundamentally antagonistic and oppositional in nature.

In the context of these complex political dynamics, different positions are discernible on BIG and related issues within government, cabinet and the ANC. These different positions themselves reflect a process of social contestation. It would certainly be misleading to suggest a monolithic opposition within government to BIG. However this tends to get blurred by the fact that Treasury is being allowed to dominate the debate, and has disproportionate power, which gives them a de facto veto.

[43] The DA which has not engaged in any of the policy debates on the matter from the job summit through to the Taylor Committee has patently jumped on the bandwagon as an electioneering ploy, creating an awkward problem for the supporters of BIG, given the hostility with which the DA is viewed by the majority and the ANC in particular. Further, their interpretation of BIG, and proposed approach is so flawed and fraught with difficulties that it plays into the hands of those trying to discredit BIG as unworkable. For a statement analyzing the problems with the DA approach see COSATU's statement on its website at www.cosatu.org.za.

There are signs that political pressure in support of BIG is achieving progress, albeit limited. The decision to extend the Child Support Grant from the age of 6 to 14 years is directly a result of the campaign; there are recent indications that the ANC will support its further extension to 18. While an important breakthrough, it is nevertheless limited and flawed in a number of respects.[44] Considerable additional mobilization will be required to correct these deficiencies and achieve a universal grant of the sort envisaged by BIG.

The difficult trick, which both government and BIG campaigners will have to perform in negotiating this debate, is to avoid getting pushed into the "Aids corner", where government makes it impossible for itself to climb down, and campaigners become locked in a level of confrontation with government which makes it extremely difficult to negotiate a solution.

5. What is the alternative?

To begin a meaningful debate within government and society, and avoid the creation of straw men, we need to locate the debate within an alternative developmental paradigm. There needs to be a serious stocktaking of our social and economic realities; the impact of existing policies in addressing these; and a meaningful discussion of viable alternatives to the current *cul de sac*. We accept that the BIG is not by itself a panacea for the crisis of poverty and inequality in South Africa, but rather it must be seen as an integral part of an overall development strategy. The BIG needs to be aligned with appropriate socio-economic strategies to address poverty, including: employment creation measures; a comprehensive social wage; asset redistribution; and access to affordable public services.

6. Developmental impact of BIG

As part of a broad development strategy, a Basic Income Grant would have significant socio-economic benefits which would be felt by the poor over the relative short term:

- The grant will assist the poor to enter economic activity thereby helping to empower the poor and break the poverty trap. Existing experience suggests people are often willing to pool their limited resources in joint activities. The grant would also create this possibility.

[44] The staggered extension of the CSG over several years is causing considerable confusion. Even more seriously the retention of means testing is an administrative and financial disaster.

- It would help to create a degree of economic independence, and therefore empower women and other vulnerable groups, particularly in female and child headed households. The Brazilian experience tends to suggest that it would promote greater participation of women in the labour market, as well as school-going by children.

- On an annual basis about R22 Billion would be pumped into the poorest households and communities in the country. This would not only boost economic demand at a national level, but promote local economic activity in the most marginalised areas. The poor tend to consume locally produced goods. This would therefore have beneficial impacts at the level of employment.

- By providing everyone with a minimum level of income, the BIG will totally eliminate the worst forms of poverty (destitution) and close the poverty gap by 75%. It would constitute a significant exercise in redistribution, and to a limited extent, lower the levels of inequality. Importantly, it could lay the basis for more equitable development, as more of the poor participate in economic activity.

- Improvement of key social indicators requires the elimination of the worst form of poverty. The grant would therefore be an important boost in efforts to improve health, education and other social indicators. This in turn, as demonstrated by successive UNDP reports, has significant impacts in terms of overall economic productivity and employment.

- To the extent that HIV/Aids is so much more difficult to combat in conditions of extreme poverty, the grant would assist at different levels. Firstly in improving peoples nutritional status. Secondly in assisting getting timeous access to medical care (inter alia through being able to pay for transport). While not an HIV grant per se, nevertheless all sufferers and their families would be beneficiaries of the Grant, and therefore avoid the problems associated with destitution.

- The securing of a minimum level of income would tend to reinforce governments programme of service delivery, and help overcome the current problem of income poverty making these programmes unsustainable in poor communities.

- The grant would help to increase the bargaining power of the working poor, and assist in combating the worst forms of exploitation. For example a farm or domestic worker earning R400 per month, with five children, would now qualify for a total of R600 in grants, regardless of the fact that she was working. This would increase her bargaining power to look for a better job.

- The grant would be a major step forward in implementing the South African Constitution's commitment to basic socio-economic rights for all.

7. Way Forward

Many argue that the political settlement in South Africa is not sustainable, unless it is accompanied by a corresponding economic settlement. The implementation of a BIG could be an important element of such a national agreement. There are however many obstacles to achieving this goal.

Despite the major challenges outlined, the situation is not hopeless. Those campaigning for a Basic Income Grant have already scored significant gains, including the positive recommendations in the Taylor report; the popularization of the BIG campaign; the widespread acceptance of need for comprehensive social security reform, and the significant extensions this year of the Child Support Grant.

Nevertheless there remains considerable confusion, even schizophrenia, within government on the issue at hand. The latest line to emerge is that the Taylor Report has no status, and is not discussed by government, a comment reportedly made by government spokesperson Joel Netshitenze. At the same time government has set up an interdepartmental task team looking at taking forward elements of the Committee's recommendations, and the July Cabinet lekgotla is due to pronounce on the matter. Negotiations for the Growth and Development Summit (GDS), currently being concluded, also require that government engage civil society on the recommendations of the Taylor Committtee.

A broader alliance of civil society has emerged, not only around the BIG issue, but around the implementation of a comprehensive social protection package as envisaged by Taylor. There is an ongoing contestation taking place as to what is required by the constitution, and what is meant by the notion of Comprehensive Social Security, which the ANC has committed itself to.

The way forward requires a combination of strategies to win broad social and governmental acceptance that the approach being advocated by civil society and the BIG Coalition is a helpful one. Following the GDS, this will require broad engagement with government at a high level, ongoing engagement with the ANC in the run up to the 2004 elections, and continued mobilisation of society. In addition, there is a need for further serious academic research on certain issues, particularly relating to the financing of the BIG.

Particularly important is to secure a qualitatively different type of engagement with government, which cuts across the ideological divide (although some of these differences will ultimately have to be settled). To achieve this the Coalition has proposed the establishment of a government/civil society forum to engage on practical questions, to determine how legitimate concerns about the implementation of BIG can be addressed. The type of practical questions which would need to be addressed in such a forum include:

- How to phase in BIG and over what period;
- Its relationship to the Child Support Grant;
- Its relationship to other grants and poverty alleviation measures;
- Systems of administration, identification and payment;
- The details of financing and taxation, and appropriate cut-offs (when people cease to receive the benefit and begin to pay it back).

Table 1[1]. Audit of GEAR projections versus actual results, 1996-2000[2]

	1996		1997		1998		1999		2000		Average	
	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual/ Projected	Projected	Actual
MODEL CHARACTERISTICS:												
Budget deficit (% of GDP) (fiscal year)	5.1	4.6	4	3.8	3.5	2.3	3	2.4[3]	3	2.6[4]	3.7	3.1
Real interest rate [5]	7	12.6	5	10.4	4	15.85	3	10.3	3	N/a	4.4	12.3
Average tariff (% of imports)	10	5.1	8	4.75	7	4.11	7	4.07	6	4.06[6]	7.6	4.4
Average real wage growth, private sector	-0.5	1.7	1	2.3	1	8.7[7]	1	2.3	1	N/a	0.8	2.1[8]
Average real wage growth, govt sector	4.4	0.9	0.7	3.5	0.4	2.7	0.8	-2.1	0.4	N/a	1.3	1.25
Real govt investment growth	3.4	5.3	2.7	4.4	5.4	2.6	7.5	-5.4	16.7	N/a	7.1	1.8
Real parastatal investment growth	3	10.6	5	9.7	10	51.5	10	-17.2	10	N/a	7.6	13.65
Real private sector investment growth	9.3	7.4	9.1	4.7	9.3	-2.9	13.9	-4.4	17	N/a	11.7	1.2

[1] This table is extracted from COSATU's "Accelerating Transformation" (2000, pp 91-92) an analysis of COSATU's engagement with government from 1994-1999. The bulk of the work on this table was done by Fiona Tregenna.

[2] Selective audit of key indicators.

[3] Revised estimate.

[4] Projected figure.

[5] For actual figures, the mortgage bond rate minus inflation is used.

[6] Figure for first quarter only.

[7] This figure is thought to be unreliable but is the official figure.

[8] This average excludes the suspect 1998 figure; including it would yield an average of 3.8.

Table 1 (contd). Audit of GEAR projections versus actual results, 1996-2000

	1996		1997		1998		1999		2000		Average	
	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual/ Projected	Projected	Actual
RESULTS:[9]												
GDP growth	3.5	4.2	2.9	2.5	3.8	0.6	4.9	1	6.1	3.5	4.2	2.4
Inflation (CPI)	8	7.4	9.7	8.6	8.1	6.9	7.7	5.2	7.6	5	8.2	6.6
Employment growth (non-agricultural formal)	1.3	-1.1	3	-2	2.7	-3.8	3.5	-2.1	4.3	N/a	2.9	-2.25
New jobs per year[10]	126 000	-58 000	252 000	-103 000	246 000	-194 000	320 000	-105 000	409 000	N/a	270 000	-115 000[11]
Real export growth, manufacturing	10.3	59.7	12.2	6.3	8.3	0.0	10.5	6.7	12.8	N/a	10.8	18.2
Gross private savings[12] (% of GDP)	20.5	20.8	21	19.3	21.2	17.8	21.5	17.6	21.9	N/a	21.2	18.9
Government dissavings[13] (% of GDP)	3.1	5	2.3	4.7	1.7	3.5	0.7	2.6	0.6	N/a	1.9	4

Sources: South African Reserve Bank Quarterly Bulletin June 2000; Department of Finance Budget Review 2000; Department of Trade and Industry Economics Database.

[9] Note that this refers to "results" in the sense of model outcomes; under this there are both projections and actual figures.

[10] Figures used are for non-agricultural formal jobs.

[11] Note that as with other figures in this column, this is the average annual figure over the period reflected.

[12] Note that this includes consumption of fixed capital at replacement value, an assumption used in the GEAR projections. Without this, the actual savings figures would be about a third of those presented here.

[13] This essentially reflects the government's deficit less capital investment.