INSTITUTE FOR ECONOMIC JUSTICE
RESEARCH POLICY ADVOCACY

IEJ POLICY BRIEF

February 2024

SOCIAL PROTECTION POLICY BRIEF SERIES #6

FISCAL PATHWAYS TO A UBIG

Fiscal pathways to a universal basic income grant (UBIG), and their impacts on poverty, inequality and the wider economy

SUMMARY

- South Africa confronts the strong possibility of a downwards economic spiral, precipitated by low growth, high interest rates, deindustrialisation, high debt servicing costs, and structural unemployment and poverty.
- A basic income grant (BIG) has been proposed by many actors as a way to uphold basic socio-economic rights and alleviate poverty, whilst helping to get the country onto a more inclusive and sustainable economic growth path.
- Given the need to progressively realise the right to social security, the IEJ has long advanced the need for 'pathways' towards a universal BIG that takes the existing Social Relief of Distress (SRD) grant as its starting point.
- Opponents of the BIG say it is not fiscally sustainable, and that it will dampen investment and growth, and exacerbate unemployment. These claims are based on fundamentally neoclassical economic modelling approaches reliant on impossible assumptions of potentially perfect markets.
- Through a partnership with IEJ, Applied Development Research Solutions (ADRS) used its Dynamically Integrated Macro-Micro Simulation Model of South Africa (DIMMSIM) to examine the impact of various scenarios for implementing and funding a BIG.[1] DIMMSIM takes into account both supply and demand factors and various micro- and macro-feedback mechanisms to provide a full picture of the South African economy.
- In the context of a broader discussion on pathways towards a universal BIG, this Policy Brief summarises the three scenarios modelled, each progressively realising a BIG in South Africa. In the model the BIG scenarios are funded by varying mixes of a small wealth tax, a social security tax, and the additional VAT revenue recouped through higher consumption stimulated by the BIG.
- Compared to a business-as-usual baseline, the modelling finds in all three scenarios that a BIG is fiscally sustainable and moreover has a significant positive impact on growth, poverty, and unemployment.
- The scenarios see a large-scale reduction of the poverty rate by up to two-thirds in the next eight years. From a baseline of 2.2%, the BIG pathways see GDP growth expand to between 2.8 and 3.5% by 2030. A BIG also sees a modest decline in unemployment by a few percentage points.
- In the context of chronic high unemployment, South Africa needs a multipronged policy strategy – of which a BIG should form one component – to bring unemployment down significantly, as well as to achieve meaningful economic expansion.

CONTENTS

The IEJ appreciates the support given by the Friedrich-Ebert-Stiftung for this research.

INTRODUCTION

South Africa's social grant system has long contained a glaring gap, namely social assistance to able-bodied people of working age (millions of whom are unemployed and without income). In April 2020 in light of the impact of the Covid-19 pandemic, the South African government introduced, for the first time, non-contributory social assistance for working age adults. Since then this special Social Relief of Distress (SRD) grant has provided a critical lifeline to people who had seen their livelihoods destroyed by lockdown restrictions and the broader economic fallout of the pandemic. At its height, the SRD grant was paid out to nearly 11 million people and directly and indirectly benefited approximately half the population.[2] Although the number of beneficiaries has declined to about 8 million, under tighter targeting measures along with procedural barriers to access, the grant remains in place until at least March 2025.[3]

While the SRD grant was introduced as a response to the crisis of the pandemic, we know that even in "normal" circumstances millions of people in South Africa are without income and have almost no safety net from the state. The scale of the crisis of unemployment and poverty has not abated in the wake of the pandemic, and by some metrics (such as the cost of food and other essentials), is worse than it was before Covid-19. More and more people, for instance, find themselves living in crippling and multidimensional poverty. Approximately one fifth of households have inadequate access to food, and the same proportion send a member to beg for food.[4] In this context, many civil society organisations have been campaigning for the SRD grant to be made permanent and transformed into a more comprehensive (U)BIG.

Government and African National Congress (ANC) leaders have recognised, in various statements, that the SRD cannot be terminated, and that it needs to be transformed into a permanent system of basic income.[5] Despite this broad consensus, the grant has been under attack by some within the state, particularly within National Treasury, and various changes to the governance of the grant have meant that millions of potential beneficiaries are being excluded.[6] This experience points to the importance of developing a comprehensive and permanent basic income floor for everyone in the country.

The introduction of the SRD grant has brought the future of social protection once again to the fore and changed the landscape of political possibility.[7] The Department of Social Development (DSD) is working on a policy framework for a (U)BIG,[8] and political parties including the ANC have introduced formal BIG policies ahead of the 2024 election.

However, it will be critical to take a sound and evidence-based approach to the design and financing of a BIG, in order to have progressive outcomes. For instance, the DSD's Expert Panel on Basic Income Support in 2022 found that if the BIG were funded by additional regressive taxation (specifically an increase to VAT), this would undermine its positive growth impacts.[9] In order to be maximally beneficial, the BIG must be combined with the extension and improvement of public services and employment, as well as continued improvement in other social grants including, critically, the Child Support Grant (CSG)—to ensure that children and their caregivers are not left behind.

However, in the immediate term, the most rapid, effective and efficient mechanism for fighting poverty and hunger is to put money directly into the hands of the people who need it most so that they are able to ensure an adequate standard of living. International evidence is clear—such a measure will also likely have many long-term positive impacts for our society and economy as a whole.[10]

While critics dismiss such a proposal as unaffordable, various modelling exercises have shown that introducing a (U)BIG is both feasible and potentially transformative. The Institute for Economic Justice (IEJ) has released detailed design proposals for such a (U)BIG, proposals for financing such a grant, as well as analysis of the international evidence for its potential impacts.[11]

This Policy Brief builds on this previous work, and considers the results of a modelling exercise undertaken to comprehensively evaluate the macroeconomic impacts of three different fiscal pathways to progressively realising a (U)BIG in South Africa. These constitute low-, medium-, and high-ambition scenarios to expanding and improving the existing Covid-19 SRD grant into a BIG over the medium-term (2023-2030). The scenarios were developed drawing on IEJ's previous policy work on designing and financing a BIG in South Africa. The modelling was undertaken by ADRS, that used its Dynamically Integrated Macro-Micro Simulation Model of South Africa (DIMMSIM) to quantitatively assess the impact of these pathways on a range of economic indicators, including growth, poverty, inequality, and unemployment.

In this Policy Brief we consider these scenarios and modelling results in the context of the current policy debates. For a full overview of the ADRS model that was used, including how it differs from mainstream or neoclassical economic models, see the working paper, "*Macroeconomic and Development Impacts of Selected Basic Income Grant Pathways for South Africa*," available on both ADRS and IEJ websites[1].

International evidence is clear—such a measure will also likely have many long-term positive impacts for our society and economy as a whole.

PATHWAYS TO A BASIC INCOME

A major debate over the design of the BIG in South Africa relates to whether the grant should be targeted or universal within the 18 to 59 age group. Targeting uses various criteria and verification procedures in order to limit receipt of the grant to those deemed most in need. Often a "means-test" is used, whereby applicants have to demonstrate they are below a certain level of income in order to be eligible. A universal approach is when there is no targeting and all individuals are eligible to access the grant regardless of their income level.

The IEJ in principle supports the objective of universality for the BIG. Targeting has been shown in practice in South Africa and all over the world to exclude large proportions of people who should in fact be eligible for the transfer, and those excluded are likely to be the most vulnerable and marginalised.[12] By contrast, the evidence suggests that universality has a wide-range of benefits including that it limits exclusion errors (people who should get the grants not getting them); reduces the administrative burden—on both the state and beneficiaries—that comes with complex application systems; and limits the stigma attached to receiving income support creating instead a common right that all people feel they are entitled to.

However, there is a potential difficulty with a rapid transition to a fully universal grant—which may not be immediately achievable. The South African Constitution requires the government to progressively realise the right to social assistance—meaning that existing measures should be gradually built on, and that we should not go backwards. As such, we consider a phased-in approach, working towards universality, as a potential policy approach – we have referred to these, here and elsewhere, as 'pathways' towards a UBIG, utilising the SRD grant as the basis.

THE MODELLED SCENARIOS

The collaboration between the ADRS and the IEJ offered an opportunity to test the above approach utilising ADRS' DIMMSIM. For more on DIMMSIM, including how it captures the dynamic of the South African economy, and how it differs from other models used for the assessment of a BIG in South Africa, see the full working paper.

Three possible basic income grant scenarios were modelled, which we refer to respectively as the low-, medium-, and high-ambition pathways. These depict options for transitioning the SRD grant into a BIG. They should be viewed as illustrative of different pathways, rather than prescriptive, given that it is possible to use the model for revised versions of these and other scenarios.

COMMON FEATURES OF POLICY SCENARIOS MODELLED

All scenarios start with the SRD grant and expand to reach more beneficiaries at a higher value between 2023 and 2030. The rate at which the value and the coverage is increased, and the characteristics of the grant in 2030 differ in the three scenarios. However the three pathways have specific commonalities. Features shared by the three pathways are as follows:

- **Individual adults:** The grant is targeted to individuals and not the heads of households.[13] This is important to ensure that the grant reaches everyone who needs it, and to reduce the vulnerability of dependents (disproportionately women and children) to abuse by a household-head. In addition, the target age group for the grant remains the same in each scenario. The grant is an adult grant, designed for people from 18 to 59 who do not receive any other grants for themselves. Caregivers receiving child support grants on behalf of their children are eligible to receive the grant. The grant is targeted at adults because this group currently lacks access to any other form of permanent social assistance.
- **No conditionalities:** In all scenarios, the grant does not have conditionalities, or strings attached. People do not have to demonstrate any specific behaviours in order to receive the grant on an ongoing basis, such as active job seeking, specific consumption behaviours, absence of drug or alcohol use, or participation in job training programmes. Conditionalities have been shown to entail high costs and in many cases negligible policy benefits. They can be coercive and lead to negative impacts on beneficiaries, for example, if they have to spend a proportion of their grant money demonstrating compliance for little gain (such as job seeking when jobs are not available), or if they have legitimate reasons not to comply (for example caring responsibilities that make it difficult to participate in the labour market).
- **Take-up rate:** In addition, each scenario assumes a similar take up rate, based on the historical uptake of other grants. As explained in the working paper[1], the modelling "assume[s] a take-up rate for the new grant of 60% in the first year.[14] Thereafter, the rate will increase annually by 3% until it reaches a maximum of 81% by 2030."

THE GRANT VALUE

The differing grant values – across the scenarios and years modelled – are linked to Statistics South Africa's official national poverty lines (NPLs), in order to ensure that the value remains adequate to meet the costs of basic essentials. These are the Food Poverty Line (FPL), Lower-Bound Poverty Line (LBPL), and Upper-Bound Poverty Line (UBPL). The modelling assumes that the poverty lines are adjusted upwards each year by 5%.[15]

The NPLs provide a benchmark that is appropriate given that these are objectively determined by the national statistics body and regularly updated. Government initiatives for poverty alleviation such as social grants should take them into account in determining levels of need. Accordingly, the poverty lines are used as benchmarks for grant values in the modelling. While the NPLs have recently been updated, the ADRS modelling made use of the 2022 NPLs.

TOWARDS UNIVERSALITY IN THE 2030s

The modelling adopts the phased approach discussed above, working towards universality, with the three scenarios representing a short- to medium-term time horizon for expanding the grant. In the modelling, this is achieved through a progressively raised means-test, which incorporates more and more people into the grant over time, prioritising the lowest-income earners first. This is done with acknowledgement of the potential significant weaknesses of means-testing outlined above.

The fairest way to progressively expand the social safety net is to conduct interim, more generous, means-test targeting aimed at moving towards universality. Relative to the first two scenarios, the high-ambition scenario is designed as a step closer to a universal adult basic income grant. If the high-ambition scenario is implemented during the rest of this decade, its economic and developmental outcomes can pave the way for the adoption of a universal adult BIG during the 2030s.

FUNDING MODALITIES

The possible sources of funding for a BIG include additional debt, additional taxation, budget restructuring, and additional revenue resulting from economic growth. There are limits to the government's ability to finance a BIG programme mainly through increasing the income tax rate. Increasing the VAT rate would be regressive—disproportionately impacting the poorest households and undermining the redistributive impact of the BIG. Finally, after years of austerity, cutting the budgets for important state functions further to pay for a BIG would be counterproductive, as it would undermine basic health, education, and other services on which low-income people in particular rely, thus undermining the poverty-alleviation impact of the BIG.

For the purposes of the modelling exercise, the ADRS-IEJ working paper uses three tax instruments to fund the BIG scenarios. The first is the introduction of a social security tax (SST), the second is a wealth tax, and the third is any increase in VAT revenue that results from additional consumption spending as a result of the BIG. For the sake of simplicity, the SST is applied at a flat tax rate.[16] In its work on financing a (U)BIG, the IEJ has proposed a progressive SST – with higher income earners paying a higher rate. A wealth tax is justified on the basis of both the current under taxation of wealth, and its inequitable distribution. As the working paper notes: "As the world's most unequal society with the richest 10% of the population owning more than 85% of household wealth in South Africa,[17] using a wealth tax to partially finance a BIG programme is justified, especially since the allocation of assets continues to shape wealth inequality."[18] How and when the wealth tax and SST are applied in the different scenarios are summarised in Table 1. For detailed information on how the wealth tax and SST are incorporated into the model, please see the working paper[1].

It is important to note that this specific mix of financing instruments for the BIG is not intended as a policy prescription on financing modalities, as there are a range of other financing options which could be explored. The IEJ puts forward 18 progressive financing options, including some used in the ADRS modelling, such as a SST and wealth tax, as well as others like a financial transactions tax and a VAT premium on luxury goods.[19] The IEJ has also analysed the possibility of reducing tax breaks and income support for high income earners and corporations, and reducing wasteful and irregular expenditure.

The IEJ has also advocated strongly against the use of regressive financing measures for a BIG—specifically against the use of a flat VAT increase, or an increase in personal income tax in the lower tax brackets. This extra tax burden would be disproportionately borne by the lowest income earners and would significantly reduce the poverty-alleviation impact of the BIG.

THE SCENARIOS

We refer to the three different scenarios as the low-, medium- and high-ambition scenarios, to denote the rate at which the value of the grant is increased and coverage is expanded. Each of the scenarios is compared to a baseline, or "business-as-usual" (BAU) scenario, which is based on the 2022 Medium-Term Strategic Framework (MTSF) and Medium-Term Expenditure Framework (MTEF), alongside existing fiscal and monetary policy. The BAU scenario does not include the current SRD grant.[20]

Table 1: Details of Each Pathway

	Year	Value	Means Test	Financing
PATHWAY 1 Low Ambition	2023-2024	R350	FPL	Wealth tax at 0.5%
	2025	R350	LBPL	
	2026-2027	FPL	UBPL	Wealth tax at 1%
	2028-2030	LBPL	UBPL	
PATHWAY 2 Medium Ambition	2023-2025	FPL	LBPL	Wealth tax at 1% from 2023 onward
	2026-2027	LBPL	UBPL	
	2028-2030	UBPL	2x UBPL	Introduction from 2028 onwards of a social security tax at 3% of wages up to taxable maximum of R2.5 million
PATHWAY 3 High Ambition	2023-2025	FPL	2x UBPL	Wealth tax of 1% from 2023 onward
	2026-2027	LBPL	4x UBPL	
	2028-2030	UBPL	6x UBPL[21]	Introduction of a SST at 4% of wages up to the taxable maximum of R2.5 million

Source: Adelzadeh. 2023. *Macroeconomic and Development Impacts of Selected Basic Income Grant Pathways for South Africa*.

For each of the scenarios, there are predetermined points at which the grant is expanded in some way, either by increasing access through a change in the means-test or by increasing the value of the grant and its funding. The primary differences between the scenarios therefore are around the end point (value and means test), the timing and combination of financing mechanisms and, the incremental changes that occur within that timeline (that is, what changes happen to the value of the grant and the means-test at various points within the six-year period). Thus the three key variables are:

- **Eligibility criteria**: The level at which the means-test threshold is set. Across all of the three scenarios this is either one of the NPLs, or a multiple thereof.
- **Value:** The monthly amount of the grant. The amounts modelled are indexed against the 2022 poverty lines and grow annually by 5% to adjust for anticipated average inflation from the baseline to the endpoint scenario.
- **Financing:** The new SST and wealth tax are levied at different levels in the modelling scenarios and the revenue is ring-fenced to support the expansion of the BIG.

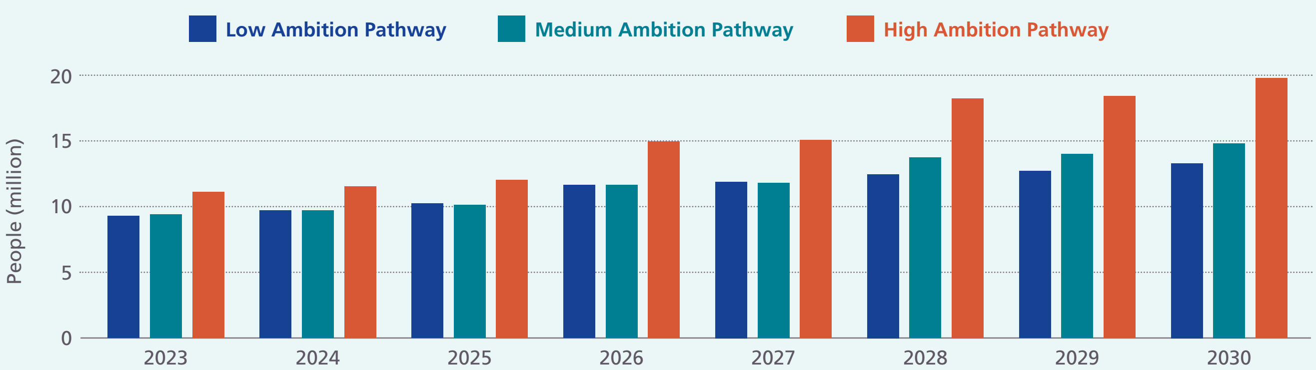
THE RESULTS

The value of economic modelling is that it provides us with projections of the impact of the policy change – in this case the different BIG scenarios. The ADRS DIMMSIM model generates extensive results for a wide range of indicators related to the macro economy, industrial sectors, and household poverty and inequality. In this Policy Brief, we unpack only a portion of these and readers are referred to the primary working paper for more detail.

HOW MANY PEOPLE WILL BENEFIT?

As illustrated in Figure 1., as a result of the gradual upward shifts in the means-test in each scenario, alongside population growth, increasing uptake, and fluctuations in the unemployment rate, the pool of eligible beneficiaries expands between 2023 and 2030. At the start of the low-ambition scenario the number of direct beneficiaries is 9.4 million. In the high-ambition scenario this number reaches 19.8 million by 2030.

Figure 1. Comparison of Pathways: Number of beneficiaries



Source: Adelzadeh. 2023. *Macroeconomic and Development Impacts of Selected Basic Income Grant Pathways for South Africa*.

The 2023/24 budget allocation for the SRD grant allows for 8.5 million beneficiaries per month—and so even the low-ambition scenario would entail a significant expansion of access to social assistance.

The current number of beneficiaries – in practice and budgeted for – for the SRD grant is well below estimates of the number of adults living below the food poverty line. A 2021 estimate suggested that 16.8 million people between 18 and 59 should be technically eligible to receive the SRD grant assuming a means-test of the (then) food poverty line.[22] A DSD-cited survey in 2022 indicated that this figure was approximately 18.3 million people.[23]

These calculations indicate that the food poverty rate is extremely high amongst adults, and that the SRD grant is not currently meeting the need that exists. In light of recent food price inflation, the rate of food poverty is expected to have increased since 2022. Alongside the number of direct beneficiaries, researchers have assumed that recipients have an average of 2.5 dependents, who would indirectly benefit from the grant.[24]

HOW ARE POVERTY AND INEQUALITY IMPACTED IN THE THREE SCENARIOS?

South Africa faces extremely high levels of income poverty, with over half the population below the UBPL according to Statistics South Africa's last Living Conditions Survey. Provision of basic income is the most direct and effective intervention we have to eliminate income poverty and hunger. Accordingly, we see a dramatic impact on income poverty with the introduction of a BIG. Table 2 shows the impact of the BIG pathways on poverty and inequality.

Table 2: Impact of the BIG pathways on poverty and inequality

Household Impact (2023-2030)	Baseline	BIG PATHWAY Low Ambition	BIG PATHWAY Medium Ambition	BIG PATHWAY High Ambition
Poverty Rate (SA) (% change, 2022-2030)	-21.8	-29.1	-55.3	-61.0
PR – Male	-22.6	-30.8	-61.8	-67.3
PR – Female	-21.1	-27.6	-49.6	-55.5
PR – African	-20.8	-28.0	-53.8	-59.8
PR – Coloured	-43.61	-51.9	-76.4	-78.2
PR – Q1	-15.2	-21.8	-41.5	-47.3
PR – Q2	-16.6	-26.5	-52.0	-63.4
Poverty Gap (SA) (% change, 2022-2030)	-25.1	-63.6	-82.2	-83.6
PR – Male	-23.5	-66.3	-86.4	-87.6
PR – Female	-26.6	-60.9	-77.9	-79.5
PR – African	-24.1	-62.6	-81.4	-82.9
PR – Coloured	-45.7	-79.1	-92.3	-92.6
PR – Q1	-20.5	-54.7	-73.7	-75.6
PR – Q2	-22.9	-61.7	-80.2	-83.0
Gini SA (% change)	-9.8	-15.2	-17.7	-19.1
Gini – Male	-9.7	-14.3	-16.5	-18.1
Gini – Female	-8.8	-18.0	-22.3	-23.5
Gini – African	-9.8	-16.4	-19.5	-21.0
Gini – Coloured	-10.1	-15.0	-17.4	-19.9

Source: Adelzadeh. 2023. *Macroeconomic and Development Impacts of Selected Basic Income Grant Pathways for South Africa.*

As explained in the working paper: "The three pathways are expected to lower the national poverty rate by 7.3 (low-ambition), 33.5 (medium-ambition), and 39.2 (high-ambition) percentage points respectively [by 2030]. The results for the poverty gap, which measures the depth of poverty (or how far below the poverty line poor people are falling on average), are even more significant. Relative to the baseline, the low-, medium-, and high-ambition scenarios are projected to reduce the poverty gap in the next 8 years by an additional 38.5, 57.1, and 58.5 percentage points respectively."

Although basic income is intended primarily to be a poverty-alleviation measure, proponents have called for its design to be redistributive—in shifting wealth from the highest to the lowest deciles. This is an important reason for the use of additional progressive taxation to fund the grant. This is particularly important in South Africa, the most unequal country in the world according to the World Bank's Gini Index, a legacy of apartheid-era dispossession of the Black majority in favour of a privileged white minority.

Due to our extreme and entrenched inequality, the impact of the BIG on inequality is more muted than its impact on poverty, but it is still significant. The working paper shows that "Relative to the baseline, the Gini-Coefficient declines by an additional 5.4 (low-ambition), 7.9 (medium-ambition), and 9.3 (high-ambition) percentage points respectively. The Gini-Coefficient is therefore projected to decline from 68.1% in 2022 to 57.7% (low), 56.0% (medium), and 55.1% (high) in 2030."

WHAT IS THE MACROECONOMIC IMPACT?

Many opponents of basic income have suggested that it will negatively affect investment, employment, and economic growth, based on narrow economic modelling using neoclassical economic assumptions.

Using the DIMMSIM to test the macroeconomic impact of the three pathways, the working paper finds positive impacts on consumption, employment, and growth across all three pathways, with the greatest benefits registered in the high-ambition pathway. These are summarised in Table 3.

As the working paper outlines, under the BAU scenario, GDP growth will be on average 2.2% per year for the rest of the decade (to 2030). The average unemployment rate will be 32.1%, (according to the narrow definition.). At the end of the period, the unemployment rate will be 32.4%.

By contrast, in the three scenarios, the BIG creates relatively higher net injections into the economy, which create ripple effects in terms of growth, investment, and consumption. Significant positive impacts are seen in GDP growth, household consumption, aggregate demand, average annual employment, and total real investment. These findings are summarised in Table 3.

To highlight some key results, GDP growth is found to increase from the baseline of 2.2%, to 3.5% on average across the period under the high-ambition scenario. The compounded annual growth rate (CAGR) of aggregate supply increases from a baseline of 2.3% per year, to 2.9%

Table 3: Impact of three BIG pathways on selected macroeconomic indicators

Macroeconomic Indicators	Baseline	BIG PATHWAY Low Ambition	BIG PATHWAY Medium Ambition	BIG PATHWAY High Ambition
GDP Growth (Ave)	2.2	2.8	3.2	3.5
Gross Domestic Expenditure (CAGR,Real)	2.2	2.5	2.8	3.0
GDP Per Capita (CAGR, Real)	0.8	1.3	1.5	1.8
Aggregate Supply (CAGR, Real)	2.3	2.6	2.8	2.9
Aggregate Demand (CAGR, Real)	2.4	2.6	2.7	2.8
Unemployment Rate (Rate)	32.1	29.7	28.2	27.2
CPI (Ave)	3.8	3.6	4.5	5.1
Interest Rate (Ave)	6.9	6.9	7.1	7.2
Current Account-GDP Ratio (Ave)	-4.3	-4.3	-4.5	-4.6

Source: Adelzadeh. 2023. *Macroeconomic and Development Impacts of Selected Basic Income Grant Pathways for South Africa*.

Many observers have pointed out that a decade of austerity has backed South Africa into a fiscal corner, and the only long-term solution to the rising cost of debt and declining revenue is to pivot to a developmental fiscal framework.

under the high-ambition scenario, and the CAGR of aggregate demand increases from a baseline of 2.4%, to 2.8% in the high-ambition scenario. The unemployment rate decreases in each scenario from a baseline of 32.1%, falling to 27.2% in the high-ambition scenario.

The macroeconomic impacts of the three BIG scenarios clearly demonstrates that the progressive realisation of BIG can make a positive contribution to addressing a number of South Africa's entrenched economic challenges, whilst putting the alleviation of poverty and hunger first.

WHAT IS THE FISCAL IMPACT?

Debate has intensified in 2023 about whether, and to what extent South Africa faces a "fiscal crisis". As the commodity windfall of the previous two years has subsided, the National Treasury has raised the alarm over budget deficits and the rising cost of debt. However, many observers have pointed out that a decade of austerity has backed South Africa into a fiscal corner, and the only long-term solution to the rising cost of debt and declining revenue is to pivot to a developmental fiscal framework, whereby fiscal policy is used to drive inclusive growth (to sustainably manage the debt-to-GDP ratio), and the government actively explores ways to reduce the cost of debt. In the short term, this may result in a slightly increased debt-to-GDP ratio. However, if borrowing contributes to actively growing the economy, this is not inconsistent with responsible fiscal management.[25]

The working paper tests the implications of the three BIG pathways for government income and expenditure. The DIMMSIM results are summarised in Table 4. The government's expenditure on social grants relative to GDP will rise under the three scenarios. Under the BAU scenario, the yearly "social benefits paid" will represent 4.9% of GDP on average for the period 2023 to 2030. This increases to 8.5% (low-ambition), 10.8% (medium-ambition), and 12.6% (high-ambition). As the paper demonstrates: "As a result, relative to the BAU scenario, the average government expenditure-GDP ratio for the period 2023 to 2030 is projected to increase from 31.8% (baseline) to 35.6% (low-), 38.4% (medium-) and 40.7% (high-ambition)." It goes on to note: "Overall, the average deficit-GDP ratio during the next eight years is expected to increase modestly by 0.3, 1.1, and 2 percentage points, and the average debt-GDP ratio is projected to remain below 80 percent."

WHAT DOES THIS COST?

There has been much debate over the affordability of a BIG in South Africa, and whether it is fiscally sustainable. The ADRS model results demonstrate that various sources of funding are available for the BIG, and that the grant can be fiscally sustained whilst producing positive feedback effects in the economy.

Table 4: Projections of fiscal impact of BIG pathways 2023-2030

Fiscal Indicators (2023-2030)	Baseline	BIG PATHWAY Low Ambition	BIG PATHWAY Medium Ambition	BIG PATHWAY High Ambition
Total Benefit Paid-GDP Ratio (Annual Ave)	4.9	8.5	10.8	12.6
Taxes on Income and Wealth-GDP Ratio (Annual Ave)	15.7	16.9	17.3	17.5
Government Expenditure-GDP Ratio (Annual Ave)	31.8	35.6	38.4	40.7
Government Revenue-GDP Ratio (Annual Ave)	28.8	32.3	34.3	35.7
Deficit GDP Ratio (Annual Ave)	-3.0	-3.3	-4.1	-5.0
Debt GDP Ratio (Annual Ave)	74.2	73.8	75.5	77.3

Source: Adelzadeh. 2023. *Macroeconomic and Development Impacts of Selected Basic Income Grant Pathways for South Africa*.

Whilst the government would need to increase expenditure in order to phase-in a BIG, the programme produces increased consumption and income multipliers which flow back to the government as revenue. This effect grows more pronounced in the later years of implementation in the scenarios. At the same time, the low-ambition scenario is funded by a small wealth tax of 0.5% in 2023, rising to 1% from 2026. The medium- and high-ambition scenarios apply a SST from 2028 at different rates, alongside the wealth tax. The funding sources for the three scenarios are shown in Figure 2.

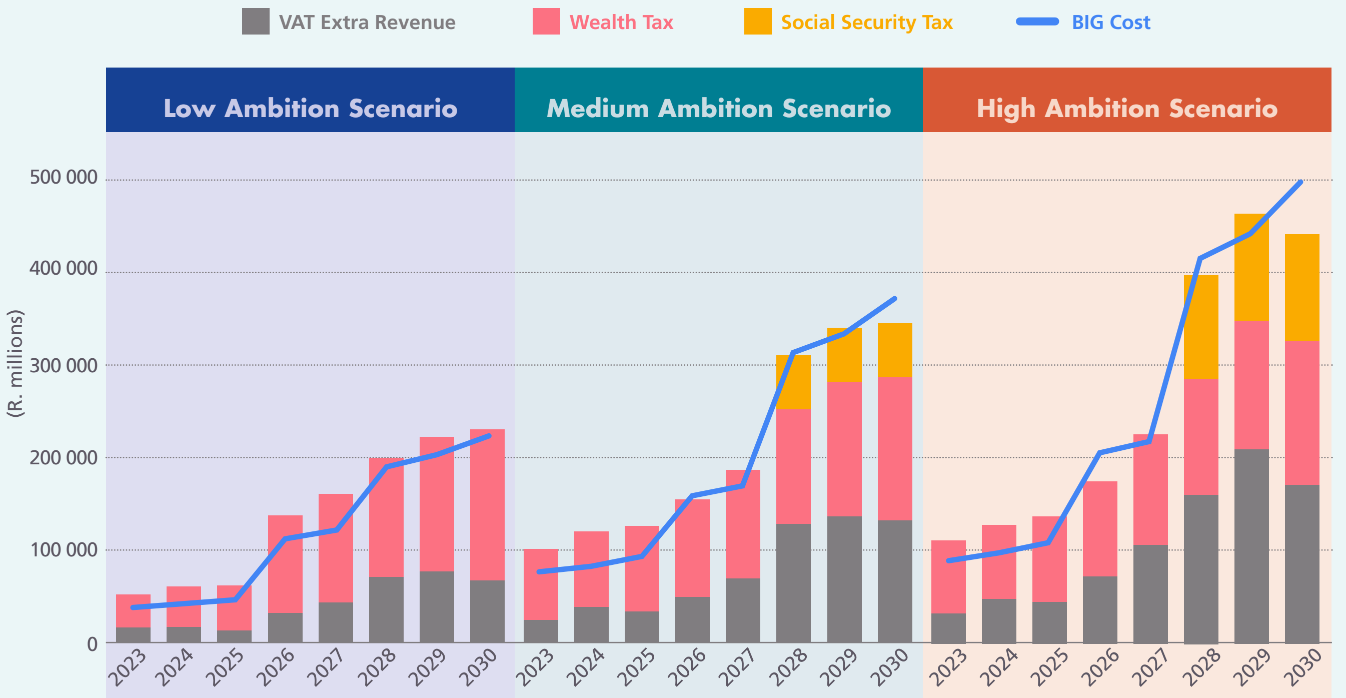
Overall, the net cost of the programme, defined as the gross cost minus extra VAT revenue resulting from increased consumption due to the grant, is much lower than the gross cost. Across each scenario, and the whole period modelled, the net cost of the BIG ranges from 29%-50% lower than the gross cost after taking into account increased VAT revenue. The average annual gross cost of the low-ambition scenario as a percentage of GDP will be 1.55%, and this increases to 3.36% in the high-ambition scenario. However, the average annual net cost as a percentage of GDP falls to 1.01% in the low-ambition scenario, and 1.98% in the high-ambition scenario.

This provides evidence for three important conceptual considerations when thinking about the costs of a U(BIG) First, the expenditure represents not simply a 'handout', but a long-term investment in unlocking the potential, creativity, entrepreneurship, and agency of the millions in South Africa currently marginalised by poverty. Ultimately alongside being a moral imperative to realise basic socio-economic rights, this investment will generate a range of social and economic returns which will be mutually reinforcing and help to strengthen our economy over time.

Second, as shown above, the net costs of the programme are much lower than the gross costs. This provides additional caution for viewing high nominal gross costs as reasons for not considering the implementation of a (U)BIG. Third, the net cost of the grant, in the long-term, may be even lower than projected as the policy lowers the cost of poverty to individuals and the government. Poverty itself is expensive—it is strongly correlated with poorer health, child development, and education outcomes.

The high prevalence of poverty in our society increases complex healthcare needs and therefore costs, undermines the skill level of our workforce, and increases costs associated with policing, security, and the justice system. A 2018 study estimated the cost of child poverty in the United States to be over US$1 trillion (or 5.4% of GDP).[26] Thus, reducing poverty reduces the costs associated with poverty. This is however, difficult to quantify, and not fully taken into account in the model. If the reduced costs of poverty were fully reflected in the model, the net costs of the programme would likely be even lower.

Figure 2. Cost and financing of BIG pathways



Source: Adelzadeh. 2023. *Macroeconomic and Development Impacts of Selected Basic Income Grant Pathways for South Africa*.

CONCLUSION

Directly providing income support to the excluded majority, alongside its impact on hunger and immiseration, has long been thought by many to represent an important element of a strategy for turning around South Africa's crisis of stagnant growth and unemployment. Extensive international evidence points to the stimulus effect of cash transfers on consumption in depressed areas and with local businesses, on job creation and job seeking, on investment in productive assets and the formation of enterprises, in short, on empowering people to realise sustainable livelihoods.[27]

However, in South Africa critics have contended that the programme would carry too high a cost, and that this cost would jeopardise and undermine the stimulus effects of BIG. Such arguments have been based on flawed, narrow economic modelling approaches which rely on faulty neoclassical assumptions and do not provide a full picture of the macro and micro dynamics of the economy.

Using a linked macro-micro model of South Africa that takes into account both supply and demand factors and various micro- and macro- feedback mechanisms to provide a fuller and more dynamic picture of the South African economy, ADRS modelled various funding pathways and impacts of a BIG.

The results for three selected BIG pathways show that the programme is fiscally feasible and sustainable if funded through additional progressive taxation, and will have a significant positive impact on poverty, inequality, and macroeconomic indicators, including reducing the poverty rate by up to two thirds, reducing income inequality up to twice as fast compared to a baseline scenario, increasing GDP growth from a low level to a moderate level, and reducing the unemployment rate. The modelling shows that it is possible to sustainably finance BIG through a progressive mix of financing measures.

A BIG is not a panacea for all of South Africa's socio-economic challenges, but needs to be combined with an appropriate macroeconomic framework that stimulates development; the expansion of affordable, universally available public services; a coherent strategy for a just energy transition; and a well-resourced high-impact industrial policy that promotes jobs-rich economic diversification. As the working paper notes: "Despite its projected significant economic and development contributions, a BIG programme can only be part of larger policy reforms to realise targets such as a 6% average growth rate, zero poverty rate, and a 6% unemployment rate by 2030."

Using the DIMMSIM model, ADRS shows the feasibility, as well as the positive impacts, of expanding the SRD to a permanent BIG with the view to making this universal beyond the short- to medium-term (that is, beyond 2030). Alongside the moderate, but significant, macroeconomic benefits, this action would significantly reduce the burden of poverty and hunger in the country.

Taking action to address this crisis is a moral imperative and a legal obligation embodied in the government's human rights obligations set out in both the Constitution and in various international human rights treaties. It is also an economic necessity given the kind of destabilisation the economy and society is likely to experience if these extreme levels of poverty are not addressed.

ENDNOTES

1. For a full discussion of the model and the modelling results, see the full working paper: Adelzadeh, A. 2023. Macroeconomic and Developmental Impacts of Selected Basic Income Grant Pathways for South Africa. A joint ADRS and IEJ Working Paper.
2. Goldman, M., Bassier, I., Budlender, J., Mzankomo, L., Woolard, I., and Leibbrandt, M. V. 2021. Simulation of options to replace the special Covid-19 Social Relief of Distress grant and close the poverty gap at the food poverty line. No. 2021/165. WIDER Working Paper.
3. As announced in the Medium Term Budget Policy Statement on 1 November 2023.
4. Dlamini, S. N., Craig, A., Mtintsilana, A., Mapanga, W., Du Toit, J., Ware, L. J., and Norris, S. A. 2023. "Food insecurity and coping strategies and their association with anxiety and depression: a nationally representative South African survey". *Public Health Nutrition*, 26(4): 705-715. DOI: 10.1017/S1368980023000186 Accessed on: 9 December 2023.
5. See Ramaphosa, C. 2023. State of the Nation Address; African National Congress. 2022. 55th National Conference resolutions: Social transformation; Department of Social Development. 2023. Basic Income Support for the Unemployed Aged 19 to 59: Draft Policy Proposal.
6. Together with the Socio-Economic Rights Institute, the IEJ launched court proceedings against the government regarding these violations of peoples' rights. The relevant information can be found on the IEJ's website.
7. IEJ, SECTION27 and CESR. 2021. Social Protection During Covid-19. Covid-19 and Human Rights Fact Sheet #3.
8. We use this (U)BIG (with the inclusion of parentheses) designation to refer broadly to the debates regarding basic income support which may be either universal or conditional. When talking about a targeted grant we use the term BIG, and UBIG when talking about a universal grant.
9. Expert Panel on Basic Income Support. 2022. Supplementary Modelling Report. Report into the appropriateness and feasibility of a system of Basic Income Support for South Africa. International Labour Organisation and Department of Social Development.
10. For a much fuller discussion of this research see: Howson, K. and Mcnube, Z., September 2022. Can A Universal Basic Income Contribute To Breaking Structural Poverty In South Africa? IEJ Working Paper No. 7.
11. IEJ. 2021. Financing Options for a Universal Basic Income Guarantee in South Africa. Social Protection Series Policy Brief #2. ; IEJ. 2021. Designing a Basic Income Guarantee. Social Protection Policy Brief Series #3.; Howson, K., and Mncube, Z. 2022. Can a universal basic income contribute to breaking structural poverty in South Africa? Institute for Economic Justice Working Paper Series #7.
12. IEJ. 2022. No one left behind: Why a universal basic income makes more sense than targeted grants. Universal Basic Income Guarantee Factsheet Series #2.
13. National Treasury has previously proposed replacing the SRD grant with a household grant (among other options). For a discussion on this see IEJ. 2022. Statement – Devastating proposals to replace the SRD grant with a jobseekers, caregivers, and/or household grant will exclude millions of poor people, and are regressive, unworkable and unconstitutional.
14. DSD, UNICEF, and SASSA. 2016. Removing Barriers to Accessing Child Grants: Progress in Reducing Exclusion from South Africa's Child Support Grant.
15. The 5% annual increase of the poverty lines used in the model is consistent with the average annual increase of the official poverty lines provided by Statistics South Africa prior to 2022. However, due to high food inflation, in 2023 the NPLs increased by a much greater amount – with the FPL increasing by 14%. This is not reflected in the modelling, which was undertaken prior to this high inflation.
16. This is a simple approach to a Social Security Tax programme that can be further developed to include additional options, such as employer contribution or a progressive SST. Some of the details of the latter are discussed in IEJ. 2021. Financing Options for a Universal Basic Income Guarantee in South Africa. Social Protection Series Policy Brief #2.
17. Chatterjee, A., Czajka, L., and Gethin, A. 2020. Extreme inequalities: The Distribution of Household Wealth in South Africa. *Southern Africa–Towards Inclusive Economic Development (SA-TIED) Research Brief*, 45.
18. Ibid.
19. IEJ. 2021. Financing Options for a Universal Basic Income Guarantee in South Africa. Social Protection Series Policy Brief #2.
20. For a full discussion of all the components of the BAU scenario see the full working paper.
21. This comes to R8500 p/m. Slightly above the income tax threshold currently around R8000 p/m or R95750 p/a.
22. SALDRU. 2021. Report on social policy options produced jointly by SALDRU and the National Treasury Health and Social Development Team.
23. DSD and SASSA. 2022. Portfolio Committee on Social Development: Briefing by DSD and SASSA on Covid-19 SRD Regulations and Implementation.
24. SALDRU. 2021. Report on Social policy options produced jointly by SALDRU and the National Treasury Health and Social Development Team.
25. IEJ. 2023. October 17. 'Open letter: Over 100 experts and organisations call on the President and Minister of Finance to halt all planned budget cuts'.
26. McLaughlin, M. and Rank, M.R. 2018. Estimating the economic cost of childhood poverty in the United States. Social Work Research, 42(2): 73-83.
27. For a fuller discussion of this see Howson, K. and Mncube, Z.. 2022. Can A Universal Basic Income Contribute To Breaking Structural Poverty In South Africa? IEJ Working Paper Series 7.

FRIEDRICH EBERT STIFTUNG
South Africa

The IEJ appreciates the support given by the Friedrich-Ebert-Stiftung for this research.