

**SUBMISSION TO THE PORTFOLIO COMMITTEE ON SOCIAL DEVELOPMENT
relative to the
TAYLOR COMMISSION REPORT**

The Taylor report evaluates all aspects of the South African social security system. It looks at the holes in the safety net of this system. In particular, it investigates a *Basic Income Grant* (BIG) as a means for mending these holes and creating a sustainable environment. In this submission the South African New Economics (SANE) Foundation puts forward some ideas on how the impact of the BIG can be expanded so that it will not simply be a mechanism for redistribution, the cost of which has to be borne by the tax payer and the national economy, but that it will act as a powerful mechanism for reviving and making sustainable an ailing economy.

The Taylor report points out that a BIG "could become a springboard for development", but does not elaborate on how this would come about. Chapter 14 of the report deals with the financing of the BIG but only on the basis of taxation. This is a 'zero-sum' income redistribution analysis and is not a wide enough basis for looking at the overall social and economic impact of a BIG. Additional beneficial aspects of a BIG which need further exploration and which could provide new insights into the process of poverty relief are:

- Local and national multiplier effects of a BIG
- Introduction of local complementary currencies (already operating successfully in many countries) preferably backed by supplies and services provided by local government
- Addressing the dilemma of great need existing side-by-side with idle manpower, skills and capital
- Developing appropriate technology for self-sufficiency in rural and urban communities
- Promoting industries set up for local needs rather than for export earnings
- Maintaining and encouraging social cohesion through community enterprise and local sustainability
- Evaluating poverty and wealth creation by a BIG beyond monetary criteria
- Setting up experimental programmes or pilot projects in specific communities for evaluating alternative economic sufficiency and sustainability.

Information and *SANE Views* on these topics can be read at www.sane.org.za. Some extracts are provided below

Some relevant extracts from various SANE Views bulletins:

SANE Views, vol2 #12, dated May 2002 on the topic:

NEW ECONOMICS FOR A NEW FUTURE

It is obvious to all with eyes to see and hearts to hear that the South African economy is not working. SANE does not just offer opinions on what is not working but offers practical alternatives. These alternatives are based on the identification of key determinants and philosophical underpinnings for the economy of the future.

Some key determinants of the economic future are:

1. Labour saving technological innovation
2. Transition to an information age
3. Limits to growth and sustainability
4. Shift in material and philosophical underpinnings of economic policy.

How do these key determinants manifest themselves?

1. Jobless growth (GDP expands but employment contracts).
2. Income redistribution, *from the poor to the rich*
3. Environmental collapse and the imminent decline of the petroleum era.
4. 'Global economic warfare' in which rich nations are the winners.

What adaptations will we have to make?

- Accept the evidence that *free-market* economics will not provide the answers for the future of the world - just as *socialism* and central planning have failed; this does not mean that there is no validity or merit in these ideologies, but rather that they must be applied and understood in a larger and more open-minded context;
- Recognise that, although markets are powerful self-organising systems, without appropriate constraints and limitations global and individual needs will be adversely affected;
- Come to terms with real limits to growth, climatic change and destruction of the natural environment;
- Change our lifestyles, expectations and world-views.

SANE Views vol2 #7, dated March 2002 on the topic:

Developing the BIG Idea

There is no simple single formula for implementing and financing the BIG, and a range of ideas and research projects are under consideration. The Economic Policy Research Institute (EPRI.2000) under the guidance of Professor Michael Samson has carried out research to show that the South Africa economy can afford to pay a BIG of R100 (see SANE Views #28, 2001). Professor Pieter le Roux (2001) of the Institute of Social Development (ISD) at the University of the Western Cape has also published a major research publication on the topic: Poverty and the Basic Income Grant in which he demonstrates that the best progressive tax for paying the BIG is a VAT type tax.

Both these research papers are based on quantitative considerations of tax structures and income distribution. Both present calculations based on a zero-sum, win-lose analysis. They pay little attention to considerations as to how a BIG can affect the performance of the economy as a whole through indirect multiplier effects, and on win-win, or even lose-lose possibilities.

In SANE Views 1#3 ... the possibility of paying a BIG in complementary local currencies rather than in rands is explored. This opens up the possibility (provided the BIG is managed effectively) of achieving greater local circulation of this currency, resulting in a multiplier effect not gained by paying the BIG in terms of the national currency.

Dr Norman Reynolds, formerly chief development economist in Zimbabwe, has proposed a BIG for Zimbabwe and has also written up some case histories of the funding of local development projects in which the human factors of enthusiasm, initiative and trust have played vital roles.

SANE Views vol2 #15 dated July 2002 on the topic
Financing BIG Needs

"...The Basic Income Grant (can be paid) in local currencies managed by the Reserve Bank so that the funds stay within marginalised areas and build up local demand ... (Local currencies) thus reward local production and are used to pay for local services, saving Councils from their current financial ruin."

Reynolds suggests moving from a simple grant to a tradable 'work rights' allocation system for doing community work. We quote here his arguments for his proposals:

"GEAR, Government's macro-economic policy, fails to understand that South Africa has two economies. The first, with which it deals, is the modern one that is largely centred upon the cities. The second is the marginalised economy, the real apartheid legacy of townships, of dysfunctional rural areas and of hawkers on city streets. Globalisation has further marginalised these areas where most South Africans live, where there is no working economy, no cash circulation, little active exchange of goods or services or of laughter amongst residents.

"Neighbours have become 'economic strangers'. Life has degenerated to that of daily, individual survival. The drivers of the modern economy - scale, low unit costs, cash circulation, a diversity of goods and services – are absent.

"With the loss of jobs with restructuring and the failure of the modern economy to create, increasing numbers of citizens are now economic prisoners of these depressing places Unemployment is often 40% or higher."

And from a subsequent bulletin commenting on the Taylor Commission report:

SANE Views 2#11 dated May2002

... The report is comprehensive in terms of current social welfare needs and circumstances. What it does not address effectively is the context and implications of Free Markets and Globalisation in which South Africa operates. These are giving rise to increasing unemployment and income gaps between rich and poor, and it seems inevitable that they will lead to the collapse of market economies.

The Department of Social Welfare cannot unilaterally address these global issues but it also cannot ignore them in their assessment of South African needs. It must structure its policies in the light of these realities. Perhaps it is the role of the South African New Economics Foundation (SANE) to provide this context and offer a wider vision. Comprehensive welfare provisions must be seen not only in terms of what is currently happening in South African economic development and in the

globalisation process, but also in the context of the dynamics of the global economy and its inevitabilities for South Africa. Planning for the future must take this into consideration.

To develop a perspective on what is likely to happen in the global economic future it is valuable to look at a book by David Fleming, 'The Lean Economy' (this book is to be published shortly). In this book Fleming looks at what he considers the inevitable collapse of the global market economy because of the decline in the supply of oil and gas, of a growing deficit in the food supply and of climatic change. This will give rise to hyper-unemployment and social fracture. Fleming posits that the only way out is for dramatic change from a growth orientated economic paradigm to one of a conserving 'lean economy'. He sees the need for lean and local production of primary goods and for local currencies..

A question that must be raised is how metropolitan areas in South Africa can be adapted to providing their own food. This may also require a move back to rural communities appropriately developed to cater for local needs and economic structures (see SANE Views Vol 2 #10 on 'Adapting Urban Industrial Illusions'). Small scale local manufacture and energy generation can reduce waste, costs and unemployment. It will cause the South African economy to develop along the lines sketched in the 'Guinea Fowl' economy (see SANE website).

The subject of how a welfare structure should be adapted under such radically transformed economic realities will not be pursued here, but clearly it is necessary to explore this further, both conceptually and in terms of practical local pilot projects in South Africa. We don't have all the answers but the issues raised here should be addressed in social welfare planning.

This submission compiled by Dr Aart Roukens de Lange, Editor of *SANE Views*
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