UNIVERSITY OF THE WITWATERSRAND, JOHANNESBURG

Basic income support & economic growth

"Basic Income Support Debate" | Department of Social Development

26 October 2021

Michael Sachs

Public Economy Project | Southern Centre for Inequality Studies

University of the Witwatersrand | Johannesburg

michael.sachs@wits.ac.za www.michaelsachs.joburg

PUBLIC ECONOMY PROJECT

SOUTHERN CENTRE FOR INEQUALITY STUDIES

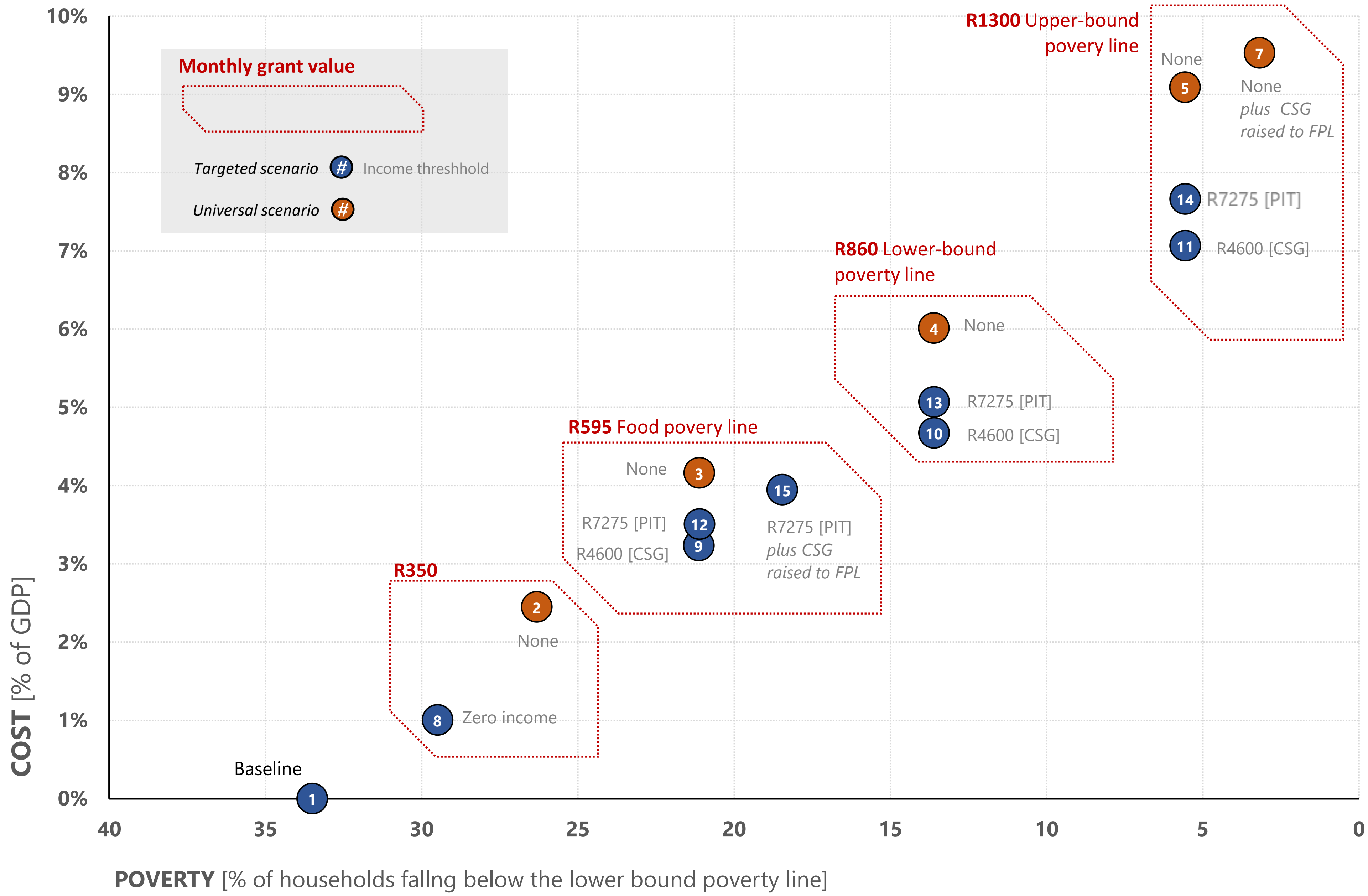
What are we debating?

- South Africa’s current social welfare programmes are distributed outside the labour market (to the elderly, children and disabled)
- The proposal is to extending basic income support to the working-age population (various designs are under discussion)

- More than 40% of South Africans live below the “lower bound poverty line”
- Hunger is a daily reality for about 35% (those below the “food poverty” line)
- It is common cause that this level of consumption should not be tolerated
- On the other hand, the top 10% of the population has levels of consumption that are similar to “first world” elites

- The proposal is to transfer of purchasing power (i.e. command over commodities) from affluent to poor citizens (with the status of poor non-Citizens left ambiguous)
- This can be achieved by redistribution:
  – South Africa has an effective system of tax and transfer.
  – Extracting market/private income from affluent South Africans through taxes
  – Distributing this income to working age adults living in poverty

Design options: Cost and Poverty Impact



Source Data: Modelling by Gemma Wright et al using SAMOD

Financing basic income support

- Government could finance a new programme by borrowing taking account of:
  - The current state of the economy
  - Government's fiscal position
- This is an important *sequencing* issue

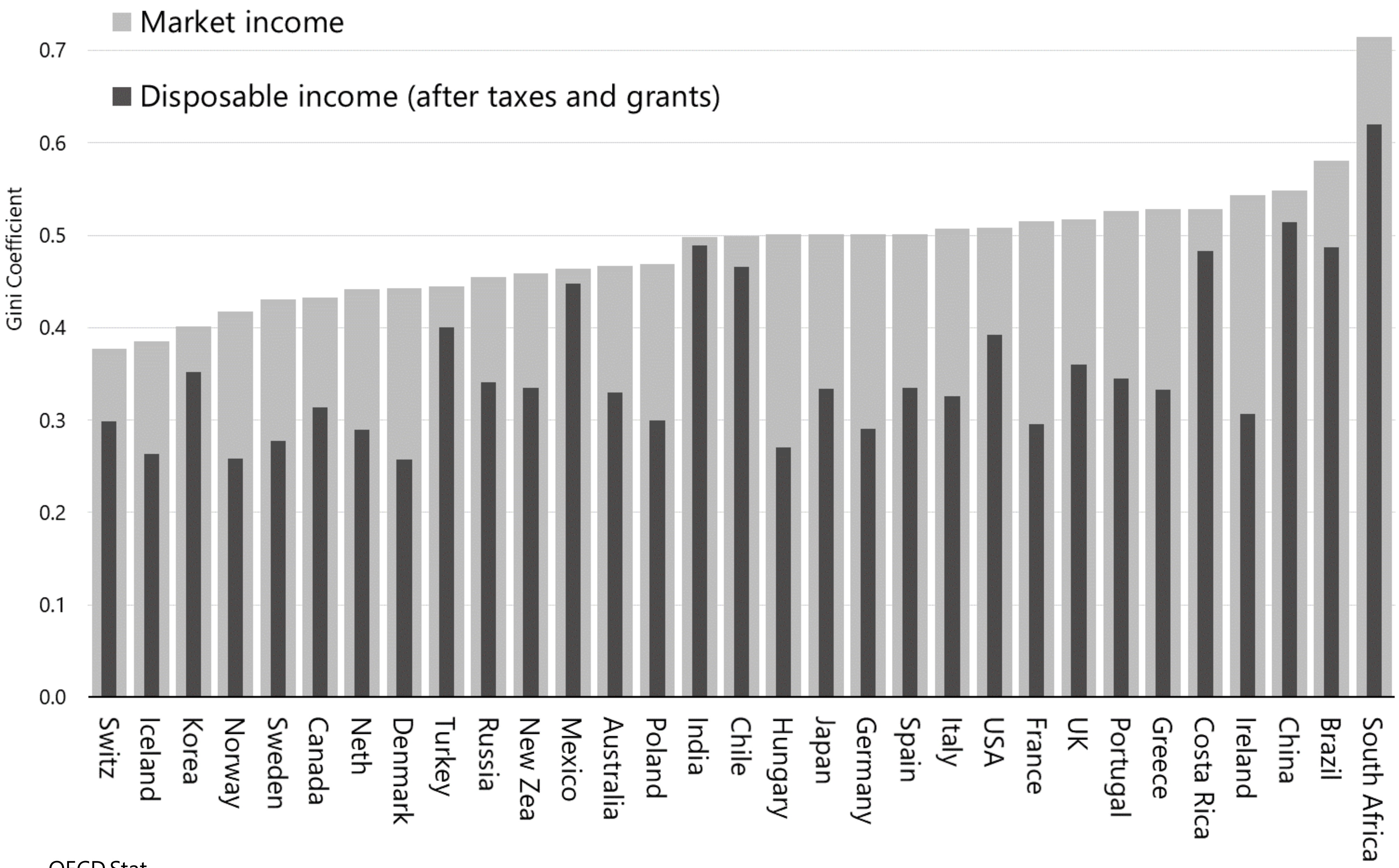
- Every rand spent on basic income support means an extra rand of taxation, now or in the near future
- Government can extract real resources from society in several ways (taxation, borrowing, money-printing, conscription….)
- Taxation is (by far) the most transparent, accountable, progressive and efficient mechanism
- It has also proven to be the only mechanism that is compatible with sustained growth

- Looking to South Africa's tax system, the only dependable sources of revenue are Personal Income Tax (PIT) and VAT
- PIT is progressive, VAT is a broad-based and dependable source of revenue
- Other taxes might be phased in over time (e.g. a Wealth tax)
- In combination PIT and VAT extract resources from affluent households (top 10%) and the middle 30%. The distribution of this burden across "nonpoor" strata will be a salient political issue

Basic income and poverty, inequality and unemployment

- **Poverty and hunger**
  - Substantial reduction can be achieved
  - Elimination of hunger and poverty a meaningful possibility
- **Reducing inequality**
  - More extensive redistribution of private/market incomes through the fiscal system
  - A wider difference between market outcomes and "post-fiscal" incomes
  - "Pre-distribution": What are the implications of more fiscal redistribution for inequality in market outcomes?
- **Employment**
  - Household-level effects on labour supply are probably positive
  - Small business
  - Expanded potential for livelihood strategies
  - Dependency remains salient, but is not decisive and can be addressed over time
  - But, basic income support would have a limited direct impact on unemployment
  - Jobs depend on growth, capital accumulation and structural transformation of production: What are the implications of more redistribution for growth?

Inequality in market income and "post-fiscal" income



OECD.Stat

Possible shifts across productive sectors?

Towards	Away from
▪ Agriculture, food, fishing and forestry	▪ Computers, broadcasting and activities
▪ Utilities (electricity, water, sanitation)	▪ Basic metals, iron and steel
▪ Transport, vehicle repairs and related services	▪ Machinery and equipment
▪ Wholesale and retail trade	▪ Chemicals
▪ Alcohol and tobacco	

- Shifts within sectors (e.g. retail) resulting from the transfer of purchasing power
- Employment enhancing, perhaps?
- Productivity enhancing, perhaps not?

Redistribution and growth in South Africa

- Ostry et al (2014) : inequality is unequivocally bad for growth, redistribution is weakly correlated with poorer growth outcomes, but this negative effect is outweighed but the growth-enhancing impact of lower inequality, especially for moderate redistributions,.
- Lindert's (2004): the trade-off between growth and redistribution does not exist over the long run, but this is contingent on political and fiscal institutions
- Kanbur (2000): "… the trade off between growth and equity is ever present and needs to be negotiated by each society in the context of its own socio-political framework"
- South Africa
  - already redistributes a large share of GDP relative to its level of development
  - has been mired in a crisis of low investment and slow growth for decades
  - has divided politics and a weak state
- How will South Africa negotiate the trade-off?
  - Bottom 50% will gain
  - Top 10% and middle 40% will need to sacrifice real income and consumption levels
- Does South Africa have the political capacity to negotiate these trade-offs?

Successful redistributions

- As capitalism grows public services and income transfers increase as a share of income
- Successful redistributive development strategies have been associated with (Lindert, 2004):
  - More open economies with lower import barriers, competitive markets and a thriving export sector
  - Larger reliance on regressive, less distortionary taxation to finance progressive expenditure policies
  - Social investments are designed complement productivity growth and limit welfare dependency, especially among young adults
  - High levels of democratic accountability, limiting inefficiency and corruption
  - Universalism rather than strict means testing, which lowers the cost of administration

michael.sachs@wits.ac.za