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The Economics of Implementing Universal Basic Income in South Africa

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SPI SOCIAL POLICY INITIATIVE

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The Economics of Implementing **Universal Basic Income** in South Africa

UBI is "about the economy, stupid." It is an economic stimulus, not a grant!

By Duma Gqubule

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ACTSA is the successor organisation to the Anti-Apartheid Movement (AAM) in the UK and was established in 1994. We work in solidarity with civil society organisations and activists across Southern Africa and the UK, so that the legacies of colonialism, racism and apartheid are replaced with justice, human rights and peace.

Thirty years after South Africa held its first democratic and non-racial election, ACTSA remains aligned with people still working to realise the promises of the freedom charter for all.

Working across the SADC region, ACTSA aims to hold the UK government to account for its foreign policies and actions, including measures to combat international corruption and to support constitutional democracy and human rights through education, advocacy and campaigning.

Support for this SPI publication has been made possible by a Bob Hughes Small Grant Award. Bob Hughes was the Hon President of ACTSA from 1994-2021 and the chair of AAM during many years of the struggle.

For more information: www.actsa.org

Since 2006, we have dreamt of a world where basic needs are met. Today, 18 years later, the fight for UBI continues! We believe financial security should not be a privilege. Let's work together to make it a reality.

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Foreword

This Strategic Position Paper on the SPI model of a 96% self- financing decent Universal Basic Income (UBI) in South Africa was commissioned with the aim of creating compelling engagement with agnostics and sceptics. I believe that it sets out the argument and the data very well.

One of SPI's founding visions was the realisation of the rights and guarantees of the South Africa Constitution. These include the fundamental rights to Equality, Human Dignity and Life, and universal enjoyment of the socio-economic rights. We have always viewed Section 27(1)(c), namely the right to social security, as being a pivotal right of access to the fundamental rights, as well as other socio-economic rights such as the right to food. The objective of a sound social security system is basic income security, and this is delivered through a variety of avenues, including contributory UIF and private pensions, and revenue funded, like grants for people who can't provide for themselves.

Social security meets people's basic needs, but it has an even more crucial role: decently designed social security systems guarantee a healthy and growing economy, and decent jobs. It keeps the economy working through correcting market failings, primarily the distribution of income and wealth. As the most unequal country in the world, the decline and stagnation in GDP growth should not surprise anyone. And yet year on year, the same failing economic and fiscal policies are repeated to a deepening crisis.

What this research presents is a very simple and affordable way to break this stranglehold through the introduction of a decent, universal basic income, indexed to the national poverty lines, and rolled out over a three year period. The scale of the policy is larger than has been proposed by other UBI advocates, and unapologetically so, because the scale of the solution must equal the scale of the problem.

The modelling in this report demonstrates that it can be done, subject to a change to the macroeconomic framework and set monetary policy principles that have, the author argues, been critical in the aggregated economic stagnation of South Africa over the last 30 years.

This strategic position paper provides the economics of implementing a successful UBI in South Africa. The contribution that this paper makes to the debate is firstly that the UBI must be appreciated as an economic stimulus, it is not a poverty reduction programme. It is a first step towards full employment and it is a critical step towards higher GDP growth if implemented as this paper suggests. And that leads to the second contribution, namely that there must be a change to the macroeconomic policy framework which requires a shift in the national vision and plan for the country, to unite around the twin goals of decent GDP growth and full employment that the SPI UBI can achieve.

In this election year we trust that this Strategic Position Paper provides content for real engagement. We have not seen anything else on the table that provides concrete steps to achieve the outcomes that everyone claims to want.

Let's see SPI's contribution matched by leaders' political will, and the courage of their stated convictions.

Thank you to ACTSA for supporting this work, and Duma Gqubule for spending the painstaking hours constructing and running and checking and rechecking the models and the numbers.

Isobel Frye
Executive Director
January 2024

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Executive summary

"I am now convinced that the simplest approach will prove to be the most effective – the solution to poverty is to abolish it directly by a now widely discussed measure: the guaranteed income."

"We need an economic bill of rights. This would guarantee a job to all people who want to work and are able to work. It would also guarantee an income for all who are not able to work. Some people are too young, some are too old, some are physically disabled, and yet in order to live, they need income."

Martin Luther King Jnr, 1968

After thirty "wasted years" South Africa is now an unviable country that has record levels of unemployment, poverty and inequality with Black African women bearing the brunt of the government's failed neoliberal economic policies. In 2023, GDP per capita, an imperfect measure of average living standards, was lower than it was in 2007. It is expected to decline for another three years. By the end of 2026, the country will have had 19 years of declining average living standards. We cannot continue like this, implementing the same failed economic policies and expecting a different result.

South Africans must understand the scale of the economic crisis. Getting 11.7 million people to work is the equivalent of a war effort. There is no single policy that will get the country to achieve full employment. There is a need for multiple policies to address the multiple dimensions of the crisis. The policy tools to confront the crisis must be very large and have an impact throughout the economy. We need a Marshall Plan for the economy that is similar to the one that rebuilt Europe after World War 2.

Universal Basic Income (UBI) must be part of such a plan for the South African economy. During 2022, the Social Policy Initiative (SPI) published a working paper: "A Basic Income Grant for a Better South Africa: The Evolution of Social Assistance in South Africa after 1994." This strategic position paper is an update to that document, which considers new information, including the National Treasury's latest macroeconomic forecasts and Stats SA's 2023 national poverty lines.

This Social Policy Initiative (SPI) strategic position paper provides an updated analysis of the economics of implementing Universal Income (UBI) in South Africa.

There are two principles that underpin the economics of UBI. Firstly, UBI is primarily about economic stimulus and recovery, not redistribution or reducing inequality, though it will help to achieve these objectives. To paraphrase a former United States president: UBI is "about the economy, stupid." It is an economic stimulus, not a grant! If UBI is about recovery, we must let it rip and provide the largest possible stimulus to the economy. It becomes sustainable within the context of a significantly higher GDP growth rate and generates the resources to mostly pay for itself. This paper's proposal has pegged UBI at a sweet spot that is large enough to maximize its self-financing element.

Raising taxes and cutting other spending to pay for UBI would retain harmful austerity policies and cancel the stimulus. This would reduce GDP growth and make UBI unaffordable. Similarly, choosing a smaller UBI to make it affordable would reduce the stimulus and the GDP growth rate and make it less sustainable. Secondly, UBI must be implemented within the context of a new macroeconomic policy framework, which has a vision and plan for the economy that unites the country around a common set of goals. Since the UBI stimulus effect

will fade after a few years, the government must put in place other measures to lock-in the higher GDP growth rate beyond the UBI implementation period.

This paper modelled 12 scenarios for implementing UBI. The SPI preferred option is that UBI be paid to adults (18 – 59) and children who received a child support grant (CSG) of R505 per month during 2023-2024. The assumption is that there will be a 70% uptake for adults since not all people who are eligible to get basic income will elect to receive it. There will also be a clawback from 70% of 7.1 million people who are above the income tax threshold. A core principle of this proposal is that UBI must be pegged to objective measures of poverty and not random numbers.

After escalating the 2023 national poverty lines by 5% a year, adults and children will receive: UBI of R798 per month (R9 576 a year) during 2024-2025, R1 166 a month (R13 992 a year) during 2025-2026 and R1 804 a month (R21 648 a year) during 2026-2027. By the third year, about 33 million people will be receiving UBI – 18.7 million adults and 14.1 million children. After the subtracting the clawback and budgeted CSG spend, the net cost of implementing UBI will be R656.9 billion over three years.

National Treasury has forecast an average annual GDP growth rate of 1.5% during the three year medium-term expenditure framework (MTEF) period until 2026-2027. The additional spending on UBI will provide a fiscal stimulus of R985.4 billion, assuming a multiplier of 1.5 times, equivalent to 4.1% of National Treasury's projected GDP during the MTEF period. The economy could grow by 5.6% a year. Under the status quo scenario, the economy will create 724 000 jobs during the MTEF period. Under the UBI scenario, the economy will create 2.7 million jobs – about 2 million additional jobs.

National Treasury has forecast that national debt will increase to R6.5 trillion in 2026-2027, equivalent to 77.5% of GDP. After implementing UBI, debt will increase to R7.2 trillion in 2026-2027. But since GDP will be R1 trillion higher at R9.4 trillion in 2026-2027 than in National Treasury's forecasts, the debt ratio will decline to 76.9% of GDP. This means that the debt-to-GDP ratio will be almost the same with or without implementing the UBI. There are three elements of UBI self-financing. By 2026-2027, the government will receive additional VAT receipts of R78.8 billion, a clawback of R108.2 billion and higher tax revenues of R593 billion due to the stimulus effect. After paying additional interest of R46 billion there could be UBI self-financing of R734.4 billion, equivalent to 96% of the cost of implementing it.

"So where will the money come from?" is the question people ask. Firstly, central banks can finance economic development. For more than a century, monetary financing – central bank creation of new "public money" to support government spending - has been the norm internationally. It returned to the mainstream of central banking policies in the wake of the global financial crisis of 2008 after a pause during the neoliberal era from the 1980s. So, yes the Reserve Bank can finance a stimulus for the economy, including UBI. To the argument – a lazy reading of economic history – that monetary financing automatically results in an inflationary surge, large industrial companies have had excess capacity of more than 20% for a long time because people do not have the enough money to buy the goods and services that they can produce. With too little money chasing too many goods, a surge in inflation owing to excess demand is impossible.

Secondly, SA Inc. has a large public sector balance sheet that has assets of almost R4-trillion. This includes assets worth R2.6-trillion at the Public Investment Corporation – the asset manager of the Unemployment Insurance Fund and the Government Employees Pension Fund and – and foreign exchange reserves of R1.2-trillion. The assets are way above what is required to pay pensions and unemployment benefits and cover imports. This paper proposes a one-off restructuring of the SA Inc. balance sheet to release half of these assets into the economy. Thirdly, there is no universe in which South Africa has a high debt ratio, even if it is benchmarked against emerging market peers. South Africa can borrow more – but this must be accompanied with monetary-fiscal policy coordination with the Reserve Bank pursuing a yield targeting strategy to reduce the cost of government borrowing.

Though South Africa must address the crises at Eskom and Transnet in the short-term, resolving these issues will only take us back to back to the pre-pandemic trend of low GDP growth and rising unemployment. We need a long-term vision and plan for the economy that goes beyond UBI. Over the past few months, SPI has been presenting "Vision 2035: A Plan to Achieve Full Employment in South Africa." It provides a framework and funding options to simultaneously boost demand and address supply-side constraints that are due to inadequate investments in infrastructure, including electricity and transport.

UBI will eliminate income poverty within three years and provide a first dignity floor below which nobody will fall. Vision 2035 also recommends the establishment of a new quasi-public institution that will amalgamate all public employment programmes (PEPs) and develop the capacity to create up to five million work opportunities (2.5 million full-time equivalent jobs) within five years at a living wage of R5 000 month, indexed to the inflation rate. The new institution will also develop the capacity to provide a job guarantee - a second dignity floor for wages that lifts millions of working people out of poverty and precarious and exploitative work.

This paper provides a menu of funding options. Basic income is part of a basket of opportunities that Vision 2035 will provide. For a worker who is facing retrenchment at a coal mine in Mpumalanga owing to just transition policies, UBI on its own will not leave her or his family better off. But the future may not seem bleak when the worker considers other items in the basket of opportunities, including jobs that will be created due to higher GDP growth, public employment, more financing for small enterprises and universal public services such as free education and healthcare. If South Africa implements UBI during the 2024 budget and puts in place other measures to lock-in the higher GDP growth rate in the medium term, the just transition will no longer be an empty slogan that has no content. Within months, the benefits will be there for all to see and fears of retrenchment will start receding.

1. Introduction

South Africa's economy has performed dismally since its miracle transition to democracy three decades ago. From 1994 to 2022 GDP per capita, an imperfect measure of average living standards, increased by 22% (SARB, 2024a). By comparison, over the same period, GDP per capita growth in local currencies, was 783% in China, 337% in Vietnam, 315% in Ethiopia, 285% in India and 216% in Poland, according to the World Bank (2023a). In South Africa, GDP per capita in 2023 was lower than it was in 2007. It is expected to decline for another three years from 2024 to 2026. By the end of 2026, the country will have had 19 years of declining average living standards. We cannot continue like this.

After thirty "wasted years" South Africa now has record levels of unemployment, poverty and inequality with Black African women bearing the brunt of the government's failed neoliberal economic policies. South Africa has the world's highest unemployment rate. Djibouti is in second position (World Bank, 2023b). During the third quarter of 2023, according to Stats SA (2023a) there were 11.7 million unemployed people, and the unemployment rate was 41.2%. The country also has the world's second highest youth unemployment rate after Djibouti. There were 2.4 million young people aged 15 to 24 who had no work and their unemployment rate was 67.6%. There were also 8.7 million young people (15-34) who were not in education, employment or training (NEET).

South Africa's unemployment crisis is a heart-breaking betrayal of the dreams and promises of the country's liberation. About half the country lives in poverty and one in five people have inadequate access to food. The DSD (2021) found that there were 29.1 million people – 48.9% of the population – who were living in households that had a per capita monthly disposable income that was below Stats SA's upper bound poverty line of R1 300 a month. Stats SA (2021) found that 20.6% of households nationally considered their access to food as inadequate or severely inadequate. South Africa is also the most unequal country in the world. The top 10% earned 67% of incomes and owned 86% of wealth, according to Chancel et al. (2022) in an analysis for the World Inequality Lab.

The lesson of the past three decades is that the economy grows and creates jobs when the government invests in its people and infrastructure. There was a period from 2003 to 2008 when the government ended the slash and burn austerity policies under the Growth, Employment and Redistribution (Gear) policy of 1996 and significantly increased spending on its people and infrastructure. The economy grew by 4.5% a year, created 3.1 million jobs, and the unemployment rate fell to 28.7% from 40.6% (Stats SA, 2020). But since the global financial crisis of 2008, the government stopped spending on its people and infrastructure. The GDP growth rate collapsed and unemployment soared.

South Africans must understand the scale of the crisis. Getting 11.7 million people to work is the equivalent of a war effort. There is no single policy that will get the country to achieve full employment. There is a need for multiple policies to address the multiple dimensions of the crisis. The policy tools to confront the crisis must be very large and have an impact throughout the economy. Therefore, unemployment is a macroeconomic policy issue that we cannot address through projects. We need a Marshall Plan for the economy that is similar to the one that rebuilt Europe after World War 2.

The macro drivers of unemployment are easy to understand. On the supply-side, the driver is the annual number of new entrants into the labour force or the labour force growth rate. Using a population growth rate of 2.4%, slightly lower than the pre-pandemic average, almost 800 000 people will enter the labour market each year until 2035. On the demand side, the GDP growth rate and the employment multiplier determine the employment growth rate. The employment multiplier is an observed historical relationship between GDP and employment. The economy has an employment multiplier of 0.9 based on an analysis of the past two decades that strips out two periods of fundamental dislocation in the labour market after the global financial crisis of

2008 and the pandemic of 2020. This means that there must be an annual GDP growth rate of 4.2% just to create jobs for the new entrants into the labour market until 2035. Therefore, GDP growth alone will not be enough to achieve full employment

There are three levers to confront the unemployment crisis. First there must be a GDP growth rate that is high enough to create enough jobs for all the new entrants into the labour market and gradually reduce the number of previously unemployed people. Second, industrial policies must seek to change the structure of production according to the broad division of sectors – agriculture, industry and services – and within these sectors. Such policies can increase the employment multiplier and accelerate the pace of job creation by targeting labour-intensive sectors that can absorb the unemployed and diversify the export basket. Third, public employment programmes (PEPs) can create the residual number of jobs that cannot be created through GDP growth and industrial policies.

This Social Policy Initiative (SPI) strategic position paper provides an updated analysis of the economics of implementing Universal Income (UBI) in South Africa. There are two fundamental principles that underpin the economics of UBI. Firstly, UBI is primarily about economic stimulus and recovery, not redistribution or reducing inequality, though it will help to achieve these objectives. To paraphrase a former United States president: UBI is "about the economy, stupid". It is an economic stimulus, not a grant! The end-goal is to achieve full employment, defined as an unemployment rate of less than 5%. UBI is the first step on the path towards full employment. If UBI is about recovery, we must let it rip and provide the largest possible stimulus to the economy. It becomes sustainable within the context of a significantly higher GDP growth rate and generates the resources to mostly pay for itself.

But if UBI is primarily about redistribution and reducing inequality it will be funded with higher taxes that will retain harmful austerity policies, impede an economic recovery which will make it unaffordable. Nothing, let alone UBI, is affordable within the context of austerity policies where any new spending item must be funded with new taxes or budget cuts. The low GDP growth due to austerity would result in lower tax revenues and set off a vicious downward spiral with endless cycles of budget cuts, lower revenues and more budget cuts and increased unemployment and misery.

Secondly, UBI must be implemented within the context a new macroeconomic policy framework and vision and plan for the economy that can unite the country around a common set of goals. Since the stimulus effect will fade after a few years, the government must put in place other measures to lock-in the higher GDP growth rate beyond the UBI implementation period. Over the past few months, the SPI has been presenting "Vision 2035: A Plan to Achieve Full Employment in South Africa" to various CSOs and political parties. Appendix Three below provides a summary of the plan.

2. Implementation of UBI

During 2022, SPI published a paper: "A Basic Income Grant for a Better South Africa: the Evolution of Social Assistance in South Africa after 1994." It provided scenarios for implementing UBI and the preferred option was a basic income that was paid to adults (aged 18 - 59) and children who receive a child support grant (CSG). The paper modelled the cost of an unfunded UBI for the scenarios and the preferred option – R547.8 billion over three years - and its effect on the economy using indicators such as GDP and debt ratios. It estimated the costs by projecting Stats SA's three poverty lines for 2022 by 5% a year. (Gqubule, 2022).

Since the release of the 2022 working paper, there have been new developments that inform this annual update. Firstly, National Treasury has published the 2022 medium-term budget policy statement (MTBPS), the February 2023 budget and the 2023 MTBPS, which have new estimates and forecasts for key macroeconomic indicators. Secondly, in 2023, Stats SA (2023c) published large increases in the national poverty lines - a 14.6% increase in the food poverty line (FPL) to R760 per month, a 12% increase in the lower bound poverty line (LBPL) to R1 058 per month and a 10% increase in the upper bound poverty line (UBPL) to R1 558 per month. Finally, Cardoso et al. (2023) published a game-changing paper that measured social protection multipliers for 42 developed and developing countries.

The paper, probably the most extensive study of the macroeconomic effects of social protection spending, suggests that the fiscal multipliers could be much higher than the estimates that were made in the 2022 working paper. It finds that cumulative social protection multipliers over up to 12 quarters are higher than those for total government spending. This is because social protection spending tends to be more targeted towards poorer groups — who have a high propensity to consume.

Mexico's cumulative multiplier was an astonishing 7.4 and in other middle and low-income developing countries — Pakistan (5.1), Brazil (4.5), Ecuador (3.3), Cape Verde (2.7), Nepal (2.7) and Malawi (1.6) — social protection spending also had a large effect on GDP. The paper found that social protection multipliers are significantly higher in more unequal countries — those where the income share of the poorest half of the population is smaller. This indicates a large macroeconomic benefit of increasing social protection spending in countries with high poverty levels. It implies that South Africa, with high levels of inequality and poverty, could have a high social protection multiplier

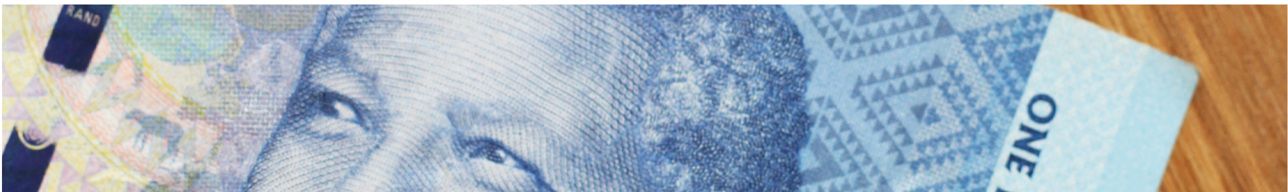
This update has modelled 12 scenarios for implementing UBI. There were four scenarios - two with costs for implementing the UBI for adults (18 to 59) with 70% and 80% uptakes and another two for implementing the UBI for adults and children with 70% and 80% uptakes. This was based on the assumption made in other studies that not all people who qualify to receive UBI will elect to do so. (Four years after the implementation of the Child Support Grant (CSG), there was an uptake of only 25%). For each of the four scenarios, we looked at the macroeconomic effects with social protection multipliers of 1, 1.5 and 2, which resulted in a total of 12 scenarios.

Instead of presenting findings for four scenarios as was done in the original paper, this update only shows the results of the preferred and likely option – UBI for adults and children with a 70% uptake and a social protection multiplier of 1.5. SPI is collaborating with Dante Cardoso at the University of São Paulo in Brazil and the Department of Social Development (DSD) in Pretoria to calculate a social protection multiplier for South Africa. The outcome could be a number that is higher than the assumptions that this paper makes.

Findings

The **gross costs** of implementing UBI for adults and children will be R862.9 billion over three years – R557.7bn for adults and R305.2 billion for children who received a means-tested CSG of R505 per month during 2023-2024. The CSG, which reaches about two-thirds of all children, must be universal but this paper uses statistics provided by National Treasury in the 2023 MTBPS. With a 70% uptake, the number of UBI adult beneficiaries will be 25 million in 2024-2025, 25.4 million in 2025-2026 and 25.8 million in 2026-2027, using Stats SA's 2022 population projections. CSG beneficiaries will be 13.7 million in 2024-2025, 13.9 million in 2025-2026 and 14.1 million in 2026-2027. There will be clawback of basic income from 70% of 7.1 million people who are above the income tax threshold. Therefore, there could be about 33 million UBI beneficiaries during 2026-2027.

After escalating the 2023 national poverty lines by 5% a year, adults and children will receive: UBI at a FPL of R798 per month (R9 576 a year) during 2024-2025, a LBPL of R1 166 a month (R13 992 a year) during 2025-2026 and a UBPL of R1 804 a month (R21 648 a year) in 2026-2027. In 2026-2027 an unemployed mother of two children will receive three UBI payments of R5 412 a month (R64 944 a year) for herself and her children. After the subtracting the clawback and budgeted CSG spend, the net cost of implementing UBI for adults and children will be R656.9 billion over three years.



National Treasury has forecast an average annual GDP growth rate of 1.5% during the three year medium-term expenditure framework (MTEF) period until 2026-2027. The proposed additional spending on UBI during the three-year phased implementation period will provide a stimulus to the economy of R985.4 billion, assuming a multiplier of 1.5 times, equivalent to 4.1% of National Treasury's projected GDP of R23.8 billion during the MTEF period. Therefore, the economy could grow by 5.6% a year. Under the status quo scenario, assuming an employment multiplier of 0.9 and 17 million employed people during the first quarter of 2024, the economy will create 724 000 jobs during the MTEF period. Under the UBI scenario, the economy will create 2.7 million jobs – about 2 million additional jobs.

As is shown later, there are options to finance the implementation of UBI, using modern monetary theory (MMT) assumptions, that do not involve the accumulation of additional debt. There are other options that minimise the accumulation of debt. Without these assumptions, National Treasury has forecast that national debt will increase to R6.5 trillion in 2026-2027, equivalent to 77.5% of GDP. After implementing UBI, debt will increase to R7.2 trillion in 2026-2027. But since GDP will be R1 trillion higher at R9.4 trillion in 2026-2027 than in National Treasury forecasts, the debt ratio will decline to 76.9% of GDP. This means that the debt-to-GDP ratio will be almost the same with or without implementing the UBI.

There are three elements of UBI that contribute to its self-financing. First, as the Institute for Economic Justice (IEJ, 2021) has shown, the lowest spending 70% of the population spends 81% of disposable income on VAT-related items. Therefore, it is reasonable to assume that about 12% of UBI spending will return to government through higher VAT payments. Second, the assumption is that there is a clawback from 70% of the 7.1 million people who are above the income tax threshold. Third we have modelled the increase in tax revenues due to the stimulus effect using the tax buoyancy ratios that were published in the 2023 MTBPS. This ratio measures the relationship between GDP growth and tax revenues. By 2026-2027, the government will receive extra VAT receipts of R78.8 billion, a clawback of R108.2 billion and additional tax revenues of R593 billion. But the government will also have to pay additional interest payments of R46 billion. The net effect is that UBI could result in self-financing of R734.4 billion, equivalent to 96% of the cost of implementing it.

3. Paying for vision 2035

According to modern monetary theory (MMT), a new school of economics that is within the Keynesian tradition, a monetarily sovereign country that prints its own currency, borrows only in its own currency and does not promise to convert its currency into something it can run out of (such as gold or another currency) cannot be broke or run out of the money that it issues. Such countries can harness the power of their "public money." They have no financial constraints to spending. But "every economy has its own internal speed limit, regulated by the availability of our real productive resources. MMT distinguishes the real limits from delusional and unnecessary self-imposed constraints" (Kelton, 2020:3-4).

Throughout most of the 20th century, central banks were agents of economic development. They funded the state, managed exchange rates, capitalised development finance institutions (DFIs), mobilised private banks to direct long-term credit to targeted industries and supported industrial policies through credit allocation techniques such as subsidized interest rates, credit ceilings and capital controls to affect either the quantity or the allocation of credit (Epstein, 2005). There was active co-ordination of monetary and fiscal policies. Central banks were were subordinated to ministries of finance and had a wide range of goals aside from price and financial stability. These included the maintenance of low interest rates on government debt (Ryan-Collins and Van Lerven, 2018).

There was a pause during the neo-liberal era, from the early 1980s, which promoted the artificial separation of monetary and fiscal policies. But in the wake of the global financial crisis and Great Recession of 2007 to 2009, there was a return to monetary-fiscal policy co-ordination. Central banks started purchasing large amounts of government debt on secondary markets and engaging in monetary financing - the creation of new money by a central bank to support government spending. In the United Kingdom, according to Bateman and Van't Klooster (2023) the Bank of England (BoE) financed 49% of the £635 billion increase in debt from 2008 to 2012. In the United States, the Federal Reserve ("the Fed") financed 21% of the $5.7 trillion increase in debt during the same period

During the Covid-19 pandemic of 2020, central banks pivoted towards large-scale monetary financing. In the United States, the Fed financed 48% of the $4.9 trillion increase in debt in 2020. In the Euro area, the European Central Bank (ECB) financed 83% of the €1.1 trillion increase in debt. In the United Kingdom, the BoE financed 97% of the £315 billion increase in debt. According to International Monetary Fund (IMF) estimates, central banks purchased around 75% of public debt that was issued in 2020 (Gabor, 2021). Central banks had effectively nationalised (or taken over) bond markets to determine the cost of government debt. The separation of monetary and fiscal policies - an outlier in the history of central banking - was an artificial construct that had come to an end.

Bateman and Van't Klooster (2023) say monetary finance should be understood as a conventional and legitimate part of a central bank's core functions. From 1866 to 1968, the United Kingdom parliament annually voted to authorize the BoE to provide the total amount of public expenditure approved through the national budget process. Parliament would vote on estimates of national expenditure and then authorize the BoE to purchase the debt issued by the Treasury to fund that expenditure. In 1968, the United Kingdom repealed the requirement for annual parliamentary approval of central bank credit to the Treasury. Monetary finance occurred under a permanent, rather than annual legislative authority.

To the argument – a lazy reading of economic history - that monetary financing automatically results in an inflationary surge, Stats SA (2023b) surveys have shown in recent years that large industrial companies have excess capacity of more than 20%, primarily due to insufficient demand for the goods they can produce. There is too little money chasing too many goods, so an inflationary surge owing to excess demand is impossible in South Africa. Epstein (2019:7) says increases in the money supply are not typically, by themselves, a cause

of hyperinflation. He says MMT advocates correctly claim that most hyperinflations are due to profound structural disruptions in economies, such as famines or wars or gross mismanagement of the supply side of the economy, not the demand side. "There is virtually no evidence that increases in the money supply, or debt monetization, in the context of a well-functioning supply side of the economy ….is likely to lead to hyperinflation."

"So where will the money come from?" is the question that people still ask. South Africa is a monetarily sovereign country. It is not Zambia or Sri Lanka. It cannot run out of the currency that it issues. There is no reason why it must always pay exorbitant prices on the bond market to borrow the currency that it issues from financial institutions. A developmental central bank can finance government spending, take over the bond market for an extended period, capitalise DFIs and use regulatory levers to influence the allocation of private capital. The driver of the rising debt ratio is that the cost of capital (r) is greater than the GDP growth rate (g). The Treasury and the Reserve Bank can co-ordinate monetary and fiscal policies to repress the cost of government debt and increase the GDP growth rate.

SA Inc also has a large public sector balance sheet that has assets of almost R4-trillion. This includes assets worth R2.6-trillion at the Public Investment Corporation (PIC) – the asset manager of the Unemployment Insurance Fund (UIF) and the Government Employees Pension Fund (GEPF) - and foreign exchange reserves of R1.2-trillion. The government also has cash of about R150 billion. The UIF still has a surplus of R110 billion, according to National Treasury (2023), after the government created almost R60 billion "out of thin air" and paid 13.8 million people who were unemployed during the Covid-19 lockdowns. There was no need for the surplus before the pandemic and there is still no need for it now. The GEPF accumulated surpluses of R587.1 billion during the 11 years to 2022-2023.

In 2021 the GEPF had funding of 110% — almost R400 billion above the 90% target its trustees have set. There is no need for these surpluses. A company can go bust and have to pay all its pensions on the same day. But there is no scenario in which the government will ever have to pay 1.3 million pensions on the same day. The GEPF's surpluses are the equivalent of taking an insurance policy for an event that can never happen as is explained in more detail in appendix two. At the end of November 2023 the Reserve Bank had foreign exchange reserves of R1.2-trillion — R640 billion above the international benchmark that there must be reserves to cover three months of imports.

Finally, there is no universe in which South Africa's debt ratio of about 75% is high by international standards, even when it is benchmarked against emerging market peers. The IMF (2023a), projected a world average debt ratio of 93.3% for 2023. According to the IMF (2023b) advanced countries had an average debt ratio of 112.1% with Japan (255%), Greece (168%) and Italy (143.7%) having the highest debt ratios. The average for emerging market and middle income countries was 68.3% with countries such as Egypt (92.7%), Angola (84%), China (83%) and India (81.9%) having much higher debt ratios. The conclusion is that SA Inc. can finance a stimulus for the economy, which includes higher spending on UBI, a job guarantee, infrastructure, industrial policies, universal public services, subsidised public electricity, transport and mass housing and regional integration. Below is a menu of funding options.

a. Monetary Finance

Monetary finance refers to central bank creation of “public money” to support government spending. The central bank simply transfers the money to the government’s account. This means that the Reserve Bank can fund government spending, including a fiscal stimulus and UBI. There could be institutional or political mechanisms to ensure that there is no abuse of the power to create public money - a parliamentary approval process for Reserve Bank transfers to the fiscus, state-owned enterprises (SOEs) or DFIs that is similar to the one that was used in the United Kingdom. Such transfers should also be informed by detailed analysis of the economy’s productive capacity.

b. Central Bank Lending

The Reserve Bank can by-pass the bond market and directly lend to the government, SOEs or DFIs on favourable terms – at the repo rate or with payment holidays - until the economy recovers.

c. Quantitative Easing

The Reserve Bank can significantly increase its purchases of government bonds on the secondary market, where existing debt instruments are traded. It can take over the bond market for an extended period and determine the cost of government borrowing using a strategy that is called yield targeting.

d. PIC lending

The PIC can by-pass the bond market and directly lend to the government, SOEs or DFIs on favourable terms – at lower interest rates or with payment holidays until the economy recovers. It can also purchase government bonds on the secondary market.

e. Increased borrowing

South Africa can increase its borrowing on the bond market to finance a stimulus for the economy. This must be accompanied by monetary-fiscal policy coordination with the Reserve Bank pursuing a yield targeting strategy to reduce the cost of government borrowing.

f. Restructuring the SA Inc. Balance Sheet

The assets in the PIC are way in excess of what is required to pay public sector pensions and unemployment benefits. The Reserve Bank also has excess foreign exchange reserves, as is explained in more detail in appendix two. SA Inc. can have a one-off restructuring of its balance sheet with a 50% reduction of PIC assets and foreign exchange reserves that can release R1.9 trillion into the economy. The restructuring can involve:

- The PIC writing off of state debt worth R700 billion, which would reduce the debt ratio by 10 percentage points to 64.7% of GDP
- The PIC writing off Eskom, Transnet and SANRAL debt worth R127.1 billion.
- The PIC transferring R500 billion to the fiscus
- The Reserve Bank reducing its foreign exchange reserves by R600 billion. A portion can be used to settle Eskom and Transnet’s foreign denominated debt and the rest can be sold on the foreign exchange market for rands and transferred to the fiscus

g. Higher Taxes

To maximize the efficacy of the stimulus effect and the self-financing element of UBI, there should be no new taxes for 99% of South Africans during the economic recovery phase. But South Africa can increase taxes on idle wealth and high earners that will not impede a fragile recovery or reduce the efficacy of the proposed UBI stimulus. Chaterjee et al. (2020) estimate that a wealth tax could raise more than R140 billion. Civil society organisations have proposed other taxes on resource rents, financial transactions, dividends and luxury goods. They have called for measures to curb illicit financial flows and profit shifting and cancelling the wasteful employment tax incentive The government could also raise more funds from reducing corruption and wasteful spending (IEJ, 2021).

Appendix one: UBI scenarios with a 70% uptake

a. UBI and Child Support Grant (CSG) scenarios

		2024-2025 FPL (Rbn) R798pm	2025-2026 LBPL (Rbn) R1 166pm	2026-2027 UBPL (Rbn) R1 804pm
1	*Gross Cost UBI with 70% uptake*	*239.3*	*355.3*	*557.7*
2	*Gross Cost of CSG*	*131.2*	*194.5*	*305.2*
3	***Total***	***370.5***	***549.8***	***862.9***
4	*Clawback from taxpayers*	*(47.9)*	*(70.0)*	*(108.2)*
5	*CSG (Budgeted spending)*	*(87.3)*	*(93.0)*	*(97.8)*
6	*Net Cost CSG (2-5)*	*43.9*	*101.5*	*207.4*
7	***Net Cost UBI and CSG***	***235.3***	***386.8***	***656.9***
8	*Stimulus with 1.5 multiplier*	*353.0*	*227.3*	*405.2*
9	*Cumulative stimulus 1.5*	*353.0*	*580.2*	*985.4*

Notes:

Stats SA publishes national poverty lines in July each year. The 2023 poverty lines were: R760 per month food poverty line (FPL), R1 058 per month lower bound poverty line (LBPL) and R1 558 upper bound poverty line (UBPL). The fiscal year starts in April. The projections above are based on an annual 5% price escalation using the preceding year's poverty lines. Therefore, the values after the price escalations were: R798 FPL in 2024-2025, R1 166pm in 2025-2026 and R1 804pm in 2026-2027. The annual spending per beneficiary, after the price escalations, are: R 9 576 (FPL) in 2024-2025, R13 992 (LBPL) in 2025-2026 and R21 648 (UBPL) in 2026-2027.

The gross cost calculations are based on Stats SA projections for the population aged 18 – 59 of: 35.7 million in 2024; 36.3 million in 2025; and 36.8 million in 2026. These projections are from the 2022 mid-year population estimates. Stats SA did not publish the 2023 estimates because of Census 2022, which was published in 2023 Therefore, with a 70% uptake, there will be 25 million beneficiaries in 2024; 25.4 million beneficiaries in 2025; and 25.8 million beneficiaries in 2026.

The clawback calculations are based on 70% of 7.1 million taxpayers (5 million people) who are above the income tax threshold (as per National Treasury (2023). There are no projections.

The calculations of the gross cost of the child support grant (CSG) are based on estimates of 13.7 million beneficiaries in 2024-2025 and 13.9 million in 2025-2026 as per National Treasury's 2023 Budget Review publication. The gross cost 2026-2027 is based on a projection of 14.1 million beneficiaries.

The CSG beneficiaries will receive R505 a month during 2023-2024. The proposal is that they should receive a UBI of R798 per month (R9 576 a year) during 2024-2025, R1 166 a month (R13 992 a year) during 2025-2026 and R1 804 a month (R21 648 a year) in 2026-2027. Therefore in 2026-2027 an unemployed mother of two children will receive three UBI payments of R5412 a month (R64 944 a year) for herself and her children.

The budgeted CSG spend for 2024-2025 and 2025-2026 is based on the estimates in National Treasury's 2023 Budget Review publication. The budgeted CSG spend for 2026-2027 is a projection that is based on a 5% price escalation.

b. Financing of UBI and CSG

Financing UBI and CSG with a stimulus (multiplier) of 1.5

		2024-2025 FPL (Rbn) R798pm	2025-2026 LBPL (Rbn) R1 166pm	2026-2027 UBPL (Rbn) R 1 804pm
1	*Gross cost 70% uptake plus CSG net cost*	*283.2*	*456.8*	*765.1*
2	*VAT @ 12%*	*(28.2)*	*(46.4)*	*(78.8)*
3	*Clawback from taxpayers*	*(47.9)*	*(70.0)*	*(108.2)*
4	*Increase in tax revenue (Stimulus effect)*	*(100.0)*	*(269.3)*	*(593.4)*
5	*Total Financing (2, 3 & 4)*	*(176.1)*	*(385.7)*	*(780.4)*
6	*Interest payments*	*16.0*	*26.7*	*46.0*
7	*Self- financing*	*(160.1)*	*(359.0)*	*(734.4)*
8	*Self-financing as a % of gross cost*	*56.5*	*78.6*	*96.0*
9	*Net cost (1-7)*	*123.1*	*97.8*	*30.7*
10	*Net cost as % of gross cost*	*43.5*	*21.4*	*4.0*

c. UBI and CSG stimulus (multiplier) scenarios

	2024-2025	2025-2026	2026-2027	Total and Average
UBI Stimulus 1.5 (Rbn)	*353.0*	*227.3*	*405.2*	*985.4*
UBI Stimulus 1.5 (% of GDP)	*4.7*	*2.9*	*4.8*	*4.1*
GDP Forecast (Treasury)	*7442.9*	*7898.6*	*8412.5*	*23 754.0*

d. GDP scenarios with UBI and CSG

	2023-2024	2024-2025	2025-2026	2026-2027
GDP without UBI (Rm)	*7008.6*	*7 442.9*	*7 898.6*	*8 412.5*
GDP growth without UBI (Nominal, %)		*6.2*	*6.1*	*6.5*
GDP with UBI 1.5 (Rm)	*7008.6*	*7 795.9*	*8 478.8*	*9 397.9*
GDP growth with UBI 1.5 (Nominal, %)		*11.2*	*13.9*	*19.0*

e. Debt service with UBI and CSG

	2024-2025 (Rbn)	2025-2026 (Rbn)	2026-2027 (Rbn)
BIG and CSG (Rbn)	*235.3*	*386.8*	*656.9*
Debt service (interest) cost (Rbn)	*16.0*	*26.7*	*46.0*
TOTAL	***251.3***	***413.5***	***702.9***
Debt service (interest) cost (%) (MTBPS, 2023, p 59)	*6.8*	*6.9*	*7.0*

f. Debt scenarios with UBI and CSG

	2023/2024 (Rm)	2024-2025 (Rm)	2025-2026 (Rm)	*2026-2027* *(Rm)*
Debt without UBI (Rm)	*5 238.0*	*5 641.3*	*6 133.4*	*6 524.0*
Debt to GDP without BIG (%)	*74.7*	*75.8*	*77.7*	*77.5*
Debt with BIG 1.5 (Rm)		*5 892.6*	*6 546.9*	*7 226.9*
Debt to GDP with UBI 1.5 (%)		*75.6*	*77.2*	*76.9*

g. Tax revenue growth scenarios

1. Tax Revenue Growth without UBI and CSG stimulus as per 2023 MTBPS estimates

	2023-2024 (Rm)	2024-2025 (Rm)	2025-2026 (Rm)	2026-2027 (Rm)
Gross Tax Revenue (Rm)	*1 730.7*	*1 854.0*	*1 975.8*	*2 111.9*
GDP Growth (Nominal, %)		*6.2*	*6.1*	*6.5*
Tax buoyancy		*1.15*	*1.07*	*1.05*
Increase (%)		*7.1*	*6.6*	*6.9*

2. Tax Revenue Growth with a UBI and CSG stimulus of 1.5

	2023-2024 (Rm)	2024-2025 (Rm)	2025-2026 (Rm)	2026-2027 (Rm)
Gross Tax Revenue (Rm)	*1 730.7*	*1 954.0*	*2 245.1*	*2 705.3*
GDP Growth (Nominal, %)		*11.2*	*13.9*	*19.0*
Tax Buoyancy		*1.15*	*1.07*	*1.08*
Increase in Tax Revenue (%)		*12.9*	*14.9*	*20.5*
Increase in Tax Revenue (Rm)		***100.0***	***269.3***	***593.4***

Appendix two: Restructuring the South Africa Inc. balance sheet

In 2016, a Trade and Industrial Policy Strategies (TIPS) policy brief brought attention to the Unemployment Insurance Fund's (UIF) growing surplus of more than R100 billion and made an innovative proposal of using it to finance a fiscal stimulus for an economy that was not performing. Makgetla (2016) showed how the surplus had accumulated because contributions were much higher than benefits paid. The stimulus proposals included a three-year payment holiday on contributions and increased investment of the surpluses in job creation projects. There was no reason to have the surplus. During the pandemic in 2020, South Africa created almost R60 billion out of thin air when it ran down the UIF surplus to pay 13.8 million people who were temporarily unemployed during the lockdowns (UIF, 2021). According to National Treasury (2023b) the UIF will have a surplus of R109.1 billion at the end of the 2023-2024 fiscal year. There is still no need for this surplus.

The time has come to innovate again and restructure the SA Inc. balance sheet to finance a stimulus. The country has a vast public sector balance sheet that has assets of almost R4 trillion. This comprises assets worth R2.6 trillion at the PIC – the asset manager of the Government Employees Pension Fund (GEPF) and the UIF – at the end of March 2023, foreign exchange reserves worth almost R1.2 trillion at the South African Reserve Bank (SARB) at the end of December 2023 (SARB, 2024a) and projected cash balances of almost R150 billion for the end of March 2024 (National Treasury, 2023b).

At the end of March 2023, the PIC owned shares worth R1.5 trillion, equivalent to 6.9% of the JSE's total market capitalisation of R22.2 trillion (SARB, 2023). It also owned public and private sector bonds worth R862.3 billion, equivalent to 20.2% of the bond market's total market capitalisation of R4.3 trillion (PIC, 2023b; SARB, 2023). At the end of March 2023, the PIC owned government, state-owned company (SOC) and municipal debt of R836.1 billion, which included:

- Government bonds worth R700.2 billion, equivalent to 14.7% of total debt of R4.7 trillion (PIC, 2023b; National Treasury, 2023b).
- Eskom bonds worth R89.9 billion, equivalent to 21% of the power utility's total debt of R426.7 billion at the end of September 2023 (PIC, 2023b; Eskom 2023).
- South African National Roads Agency (SANRAL) bonds worth R18.9 billion, equivalent to 44.6% of total debt of R42.4 billion at the end of March 2023. At the time, SANRAL had not yet recognised R23.7 billion received from the government as an appropriation to settle its debt because it had not yet met conditions between the company and National Treasury. SANRAL debt after the appropriation was R18.7 billion (SANRAL, 2023)
- Transnet bonds worth R18.5 billion, equivalent to 14.2% of the company's total debt of R130 billion at the end of March 2023 (PIC, 2023b; Transnet, 2023).

The PIC's assets are way in excess of what is required to pay public sector pensions and unemployment benefits. Until 2013, employer and employee contributions to the GEPF were sufficient to pay all pensioners. There was no need for a fund. Since then, there has been an increase in the number of pensioners and improved benefits. But, as table 1 below shows, the GEPF accumulated surpluses of R587.1 billion – an annual average of R53.4 billion - during the 11 years from 2012-2013 to 2022-23. There is no reason to have these large annual surpluses. According to the latest actuarial valuation on 31 March 2021, the GEPF had assets of R2 trillion and a funding level of 110%. The GEPF trustees have a targeted minimum funding level of 90% (GEPF, 2021). This was the trustees' best estimate.

The fund could outperform or underperform the trustees' projection. "The 90% funding level is what we should focus on," a trustee says. Therefore, the GEPF had funding of R372.3 billion above this target in 2021. There is no reason to have such a large surplus. Table 2 shows a scenario where the GEPF earns only 50% of its investment income after a restructuring of the SA inc. balance sheet. It would still be able to pay pensioners

as if it was fully funded. The international rule of thumb or benchmark is that a country should have foreign exchange reserves that are enough to cover three months of imports. Using trade statistics for 2022, this was equivalent to about R522 billion (SARB, 2023). South Africa's foreign exchange reserves of almost R1.2 trillion in December 2023 were equivalent to 6.7 months of imports. Therefore, the country had excess foreign exchange reserves of about R640 billion.

The excess funding at the GEPF and SARB is about R1 trillion. The UIF surplus is R109.1 billion. The proposal is that there should be a R1.9 trillion restructuring of the SA Inc. balance sheet through a 50% reduction of PIC assets and foreign exchange reserves. The PIC could release 50% of its assets worth R1.3 trillion into the economy. This would include writing off government debt of R700 billion. Using 2023 medium term budget policy statement (MBPTS) projections, there will be gross loan debt of R 5.2 trillion in March 2024, equivalent to 74.7% of GDP. After a write-off there would be debt of R4.5 trillion, equivalent to 64.7% of GDP. The debt ratio would decline by 10 percentage points.

There could be a write-off of Eskom, Transnet and SANRAL debt of R127.3 billion. The PIC would then be able to transfer R500 billion to the fiscus to finance a stimulus after reducing cash balances and selling shares. The final stage of the restructuring would be for the Reserve Bank to release 50% of its foreign exchange reserves worth R600 billion. It could settle a portion of the country's foreign denominated debt and that of Eskom (about R170 billion) and Transnet (R17.7 billion) (Eskom 2022, Transnet, 2023). The rest could be sold on the market to get rands that could be transferred to the fiscus

Government Employees Pension Fund

There are two ways to fund pensions schemes – through tax revenues (pay-as-you-go) or through accumulated funds or savings invested in financial markets (pre-funding). Private sector pension funds are pre-funded because a company can go bankrupt and have to pay all employee pensions on the same day. The GEPF is more than fully-funded. But there is no scenario in which the government could close shop and have to pay the pensions of 1.3 million public servants on the same day. There will always be teachers, nurses and police officers to make contributions to the fund. The GEPF surpluses are the equivalent to taking an insurance policy for an event that cannot happen. Therefore, in the Organisation for Economic Co-operation and Development (OECD) most pension funds for state employees operate on a pay-as-you-go (PAYG) basis or with partial funding (Ponds et al, 2011).

There are also two ways of designing pension schemes. In a defined benefit scheme, the pension benefits are specified upfront and are not related to the value of a member's contributions or the performance of a fund. In a defined contribution scheme, the pension benefits depend on the value of the member's contributions and the performance of a fund. The GEPF is a defined benefit scheme. Pension benefits are guaranteed – based on years of service and final salary – and are not dependent on investment returns or the level of employer and employee contributions. Workers do not benefit or make losses if the value of the assets in the PIC increase or decrease.

Former finance minister Trevor Manuel pointed out in an interview with Today's Trustee in March 2005: "Given that the GEPF is a defined benefit fund, it would be inappropriate to consider any returns accruing from such investments to be benefitting the beneficiaries. This is simply because the pension benefits are predetermined. Such investments are essential to the extent that the employer (government) is able to meet its obligations to employees." This means that the PIC's assets belong to the government and not the workers. The PIC is the government's means of financing its obligation to pay the pensions of public sector employees. There is no evidence that a promise to pay that has the backing of financial assets is stronger than one that is only backed by employer and employee contributions to a fund.

Foreign Exchange Reserves

Balakrishnan et al. (2016) say that central banks hold foreign exchange reserves to shield their economies against external shocks. ”In many respects, these large stocks of foreign exchange reserves represent idle resources. There are real costs associated with diverting resources towards the accumulation of foreign exchange reserves, instead of using them to finance economic development. It is important to question whether such safeguards could be secured in other ways, in which case idle reserves could be mobilised for the realisation of rights. Explicit restrictions on short term capital inflows and outflows, often called capital controls, represent one alternative to the accumulation of foreign currency reserves.” Mbeng Mezui and Duru (2013) found that African countries had excess foreign exchange reserves of between $165.5bn and $193.6bn on average per year between 2000 and 2011.

This was more than the continent’s infrastructure financing gap of $93bn a year. The social cost of holding these excess reserves was up to 1.65% of GDP on average. “Therefore, there may be room for creating investment vehicles for holding a part of assets as less liquid, higher-yielding wealth. This objective can be met through setting up appropriate investment vehicles to supplement the existing development partners, private and public sectors.”

Table 1: Scenario One (Status Quo)

	2012/13 Rbn	*2013/14 Rbn*	*2014/15 Rbn*	*2015/16 Rbn*	*2016/17 Rbn*	*2017/18 Rbn*	*2018/19 Rbn*	*2019/20 Rbn*	*2020/21 Rbn*	*2021/22 Rbn*	*2022/23 Rbn*
Employee Contributions	*30.8*	*33.5*	*36.1*	*38.6*	*42.1*	*45.3*	*48.7*	*51.7*	*52.8*	*53.2*	*53.1*
Employer Contributions	*17.1*	*18.7*	*20.3*	*21.7*	*23.4*	*25.1*	*26.9*	*28.6*	*28.7*	*28.8*	*29.8*
Total Contributions	**47.9**	**52.2**	**56.4**	**60.3**	**65.5**	**70.4**	**75.6**	**80.3**	**81.5**	**82.0**	**83.0**
Investment Income	*55.0*	*57.7*	*64.1*	*73.4*	*73.7*	*77.3*	*84.8*	*88.6*	*82.1*	*108.6*	*116.4*
Total Revenue	*102.9*	*109.9.*	*120.5*	*133.7*	*139.2*	*147.7*	*160.4*	*168.9*	*163.6*	*190.6*	*199.4*
Benefits Paid	*43.2*	*57.9*	*85.8*	*83.1*	*88.3*	*94.9*	*102.5*	*110.5*	*110.6*	*135.5*	*137.4*
Surplus	**59.7**	**52.0**	**34.7**	**50.6**	**50.9**	**52.8**	**57.9**	**58.4**	**53.0**	**55.1**	**62.0**
Contributions - Expenditure	**4.7**	**(5.7)**	**(29.4)**	**(22.8)**	**(22.8)**	**(24.5)**	**(26.9)**	**(30.2)**	**(29.1)**	**(53.5)**	**(54.4)**

Source: National Treasury Budget Review publications

Table 2: Scenario Two (50% investment income)

	2012/13 Rbn	*2013/14 Rbn*	*2014/15 Rbn*	*2015/16 Rbn*	*2016/17 Rbn*	*2017/18 Rbn*	*2018/19 Rbn*	*2019/20 Rbn*	*2020/21 Rbn*	*2021/22 Rbn*	*2022/23 Rbn*
Employee Contributions	*30.8*	*33.5*	*36.1*	*38.6*	*42.1*	*45.3*	*48.7*	*51.7*	*52.8*	*53.2*	*53.1*
Employer Contributions	*17.1*	*18.7*	*20.3*	*21.7*	*23.4*	*25.1*	*26.9*	*28.6*	*28.7*	*28.8*	*29.8*
Total Contributions	**47.9**	**52.2**	**56.4**	**60.3**	**65.5**	**70.4**	**75.6**	**80.3**	**81.5**	**82.0**	**83.0**
Investment Income	*27.5*	*28.9*	*32.1*	*36.7*	*36.9*	*38.7*	*42.4*	*44.3*	*41.1*	*54.3*	*58.2*
Total Revenue	*75.4*	*81.1*	*88.5*	*97.0*	*102.4*	*109.1*	*118.0*	*124.6*	*122.6*	*136.3*	*141.2*
Benefits Paid	*43.2*	*57.9*	*85.8*	*83.1*	*88.3*	*94.9*	*102.5*	*110.5*	*110.6*	*135.5*	*137.4*
Surplus	***32.2***	***23.2***	***(0.3)***	***13.9***	***14.1***	***14.2***	***15.5***	***14.1***	***12.0***	***0.8***	***3.8***

Appendix three: vision 2035: a plan to achieve full employment in South Africa

For too long, many civil society organisations (CSOs) have pursued "single issue" campaigns, such as UBI, jobs, youth unemployment, health, education and children's rights. The framing of these campaigns has sometimes sub-consciously accepted the austerity mindset and pitted CSOs and their campaigns against each other because of alleged budget constraints. After the budget, each CSO pleads for resources, only for its own "single issue" campaign and makes a case for how it can be funded. The time has come for increased collaboration between CSOs, organised labour, all political parties and progressive Business around a new macroeconomic policy framework for a better South Africa. Though South Africa must address its electricity and transport crises in the short-term, resolving these issues will only take us back to back to the pre-pandemic trend of low GDP growth and rising unemployment. We need a new long-term plan for the economy that goes beyond UBI.

Over the past few months, the SPI has been presenting "Vision 2035: A Plan to Achieve Full Employment in South Africa" to various CSOs and political parties. It is an initial attempt to provide an alternative vision and plan for the economy that can unite the country around a common set of goals. This paper deliberately provides no recommendations on how to finance UBI. It provides a menu of funding options for the seven pillars of Vision 2035 around which CSOs can also unite. Though there may be a need for earmarked financing for programmes such as the proposed National Health Insurance fund, the funding menu avoids pleading for resources for "single issue" campaigns. While the implementation of UBI can proceed without any dedicated funding, the rollout of other pillars of the plan and their sequencing and interaction with each other may overheat the economy and require new taxes.

According to the summarised seven pillars of Vision 2035, South Africa must:

1. Have a mobilising vision and plan for the economy that has a 6% GDP growth target that is binding on National Treasury and the Reserve Bank.

2. Implement UBI, phased in at the three national poverty lines, over three years. It must be provided to adults aged 18 to 59 and extended to children who currently receive a child support grant (CSG). The UBI will provide a first dignity floor below which no South African will fall.

3. Establish a new quasi-public institution — with professional management and civil society oversight — that will amalgamate all PEPs and develop the capacity to create up to five million work opportunities (2.5 million full-time equivalent jobs) within five years at a living wage of R5 000 month, indexed to the inflation rate. The institution will also develop the capacity to provide a job guarantee - a second dignity floor for wages that lifts millions of working people out of poverty and precarious and exploitative work.

4. Implement aggressive industrial policies that increase annual industrial policy and black small and medium enterprise (SME) financing to 2.5% of GDP within five years from 0.3% and develop new policy tools to steer production to labour intensive sectors and those that diversity the export basket. Within this total, the government must increase spending on black and black woman-owned SMEs to 1% of GDP. The new policy tools should include developmental targets (or quotas) for bank lending or investments in priority industries and black SMEs.

5. Increase public investment spending to between 10% and 15% of GDP or whatever is required to achieve a target of 30% of GDP for total investment.

6. Deliver a basket of high-quality universal public services that supplements basic income and the job guarantee. The government must take profit out of health, education and electricity and deliver affordable and subsidised public electricity, transport, and mass housing. South Africa can no longer delay equalising its education and health systems. There must be free quality education and healthcare.

7. Accelerate regional integration. South Africa's most important foreign policy priorities must be to help achieve peace and security in the region and create a strong and balanced regional economy. South Africa stands to gain the most from faster regional integration and suffer the most from the lack of it. South Africa must also better integrate international migrants into its economy.

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