BASIC INCOME GRANT: THERE IS NO ALTERNATIVE! (BIG: TINA!)

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ABSTRACT

This paper argues that anti-poverty policy in South Africa, existing and proposed, cannot succeed in a politically acceptable period of time. With one shining exception, policymakers in South Africa, by virtue of their fixation with growth on the one hand, and welfare 'dependency' on the other, impose unnecessary constraints on government's ability to tackle mass poverty, mass unemployment and gross inequality. The Harvard group, appointed to make recommendations for relaxing the binding constraints that prevent the country achieving its growth goals, is criticised for neglecting the duty to point out the implications of the possible failure of their proposals. AsgiSA's compilers are criticised for the same reason. Acknowledging the need for sustained and sustainable growth for the *eradication* of poverty, the paper demonstrates that slow growth (3-4 per cent per annum) with redistribution, yields welfare outcomes (poverty *reduction*) for the poor that are superior to what 6-7 per cent per annum distribution neutral growth would yield. Noting that the hypothetical grants used to achieve this end could not be distributed because the able-bodied poor for whom they are intended cannot be satisfactorily identified, the paper concludes that a universal grant is the only way to extend social protection to them. Numbering some 5-6 million in workerless households, and possibly another two million in 'working poor' households, they will continue to depend on grants intended for children and the aged unless a basic income grant is introduced. The annual increase in the value of final consumption, most of which accrues to the top two income deciles, is shown to exceed the net cost of a modest basic income grant several times over. South African society is becoming increasingly polarised. Political will is required to persuade the well-to-do that redistribution is necessary to avert calamitous social upheaval in the future, consequent upon the seemingly growing alienation of the poor.

ACKNOWLEDGEMENTS

Thanks to Alide Dasnois whose kind offer of up to 1600 words in the *Cape Times* on the Basic Income Grant (if I could get the words out soonish! I didn't!), spurred me into writing the present article. Jo-Anne Smetherham helped to convert the torrent of words that Ms Dasnois' offer inspired into two 1600 worders for the newspaper – her clarity about what was worth mentioning (acquired at the cost of several readings of the paper and the hard work of writing initial drafts) made these possible. The two articles were published in the *Cape Times* on Monday 21st and Tuesday 22nd of July 2008.

The release of the final report of the Harvard wise persons, and that of the Commission on Growth and Development (both in May 2008), furnished a backdrop against which to reflect on the inadequacies of South Africa's anti-poverty policies. My partner, Anna McCord, source of most of my knowledge about public works, has commented at length on the paper, especially that part of it devoted to the 'do no harm' dictum. Debbie Budlender read the paper and offered extensive comments, almost every one of which has been taken up. My debt to her is large. Dorit Posel worked her way meticulously through the final draft, laying waste to typographical errors and analytical weaknesses alike. For her generosity, many thanks are in order. Naturally, I lay claim to all of the paper's remaining errors.

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Wenn zwei brave Menschen über Grundsätze streiten, haben immer beide recht.
(Whenever two good people argue over principles, both are always right)
Marie von Ebner-Eschenbach (Harper-Collins, 1998, p.291)

INTRODUCTION AND STRUCTURE OF PAPER

Much has been said and written, in recent times, about the virtues (or lack thereof) of a basic income grant (BIG). It is a matter on which strong views are held, some supported by little more than scraps of anecdotal evidence glued together by ancient prejudice. The purpose of this article is to reflect not so much on the BIG itself, but rather on the reasons why it is unlikely that any other policy can address the problem of the mass poverty associated with mass unemployment in South Africa.

We commence with two guides to policy formation: the first is a rule on social justice, derived from political theory, the second, a test of policymaker's *bona fides* (the Display Test). This is followed by a brief discussion of the rationale for a BIG, and of government responses to proposals for the introduction of such a grant. The report on relaxing constraints on growth, made by the Harvard group is then argued to fail the Display Test. One of the proposals in its subset of recommendations on the labour market, a wage subsidy offered as a means of alleviating unemployment, is then subjected to a brief review. A glimpse at the recently published *Growth Report* is used to tackle the growth fundamentalist proposition that sustained poverty reduction can only come from growth (a claim that fundamentalists use to misrepresent the grant proponent's viewpoints, who contrary to conservative assertions, do not deny the importance of growth). This is followed by an excursion into the murky recesses where ANC anti-poverty policy is formulated. A laudable concern with self-help is argued to translate, without the apparent benefit of any evidence, into an anti-welfare stance. An empirical demonstration of the welfare superiority of modest growth with redistribution over fast, distribution-neutral growth is then presented. The next section of the paper examines the consequences of the fact that the hypothetical targeted grants used to reduce poverty in the previous section of the paper, cannot be implemented in the real world. This drives the paper to its logical conclusion, namely, that the only politically acceptable way of giving social protection to the mass of able-bodied poor people in South Africa, is through a universal social grant (a BIG). The paper is concluded with a demonstration of the affordability of a modest BIG in South Africa. This is done by showing that the annual *increase* in final consumption, most of which would have been enjoyed by those in the top two deciles, dwarfs the net cost of a BIG.

SOCIAL JUSTICE AND RESPONSIBLE POLICY FORMATION

While recognising that politics is a messy business, where opportunism, compromise and expediency often rule, it is as well to remind ourselves that the ANC came into power expressing a set of ideals, born out of the protracted suffering of the majority of the population. Although policy has ostensibly been intended to alleviate the misery of poverty and inequality that the democratic government inherited in 1994, many among the poor have had to wait an unconscionably long time for relief. Impatience in the past has frequently boiled over into social disorder – in recent times, it has been coupled with an outburst of xenophobia. While poverty and inequality, be they never so extreme, cannot be enrolled to excuse the inexcusable, the simmering anger that lies behind the violence, has at least part of its origin in continued deprivation, powerlessness, and alienation of some large number of people (Everatt *et al*, 2007) – government ignores this at its peril.

It may well be that in the recent upheavals, the most needy played no significant part – being either too demoralised or too remote to do so. Even so, defending the ethical proposition that the needs of the most needy should be addressed first is not difficult. A recent paper by Standing (2008) examining the ways that cash grants can boost work and economic security, offers five principles or criteria by which to evaluate social policy. The first one, and his discussion of it, reads as follows:

> *'The Security Difference Principle*
>
> *A policy or institutional change is socially just only if it improves the security and work prospects of the least secure groups in society.'*
>
> 'So, for instance, if a policy boosted the job opportunities of middle-income groups while worsening the prospects of more disadvantaged groups, that could not be justifiable unless the losers were compensated in ways they found acceptable. The Security Difference Principle stems from Rawls, who from a liberal philosophical perspective essentially argued that social and economic inequalities are only just if they allow for the betterment of the worst-off groups in society …..

> Whether or not one accepts the Rawlsian perspective, this principle can stand as a moral precept. A policy should be judged by whether it helps the least secure. If it does not do so, one should be uneasy (especially if it benefits others who are not so insecure), unless some other principle is recognised that is demonstrably superior. If so, it would be up to the evaluator to state it and support it.'[i]

Applying this rule to South Africa's anti-poverty policy yields a mixed score card. Correctly identifying the aged and young children as being particularly vulnerable, the ANC government left the old age pension structure created by the apartheid government intact (by 2003, all discriminatory provisions were gone from pensions), and embarked on a project of tackling child poverty by a vast expansion of the reach of the child support grant. It is, however, misleading to talk of 'child poverty' (or the poverty of the aged), in abstraction from the households in which they are located. Poor children live in poor households – unless the poverty of the household as a whole is addressed, child support grants will be shared among all in the household. The pensioner story is so well-known that it hardly needs to be repeated – pensions are large relative to mean incomes – a pensioner in a household is thus a highly desirable asset. Benefit dilution is inevitable – many a pension supports a large household. While the intention of the policymakers may have been honourable, it is clear that the outcome is somewhat less so. The security of many in the least secure groups has improved, but it could have done so by much more if the security of all members of poor households had been taken into account.

This brings us to the 'Display Test', advanced by Pincione and Tesón (2006), which may be used to test policymaker's *bona fides*. It is described in the long passage that follows, taken word-for-word from their article (rephrasing it in other words merely to avoid citing them directly, seems silly). They argue that:

> '… someone passes The Display Test if and only if he (*sic*) publicly acknowledges the downsides of his political proposal or, if he did not publicly acknowledge them, he would insist on the proposal if exposed to those downsides [i.e., that the policymaker concerned would press ahead with the proposal even if its drawbacks were made known]. For present purposes, we stipulate that a downside of a political proposal is any feature of it that, if disclosed, would likely reduce the audience's support for it. Such downsides are not only those outcomes that are *predictable* on the grounds of the most reliable theories available. They include, in addition, any non-negligible probability that the

> proposal will have bad effects, given the most reliable theories available. Those who pass The Display Test, then, do not publicly conceal or overlook the proposal's downsides; typically, they do not feel embarrassed by their recognition that it may frustrate some worthy goals. On the other hand, those who fail The Display Test are either ignorant or dishonest. They may be simply people who would withdraw their proposals if exposed to their downsides, in which case they are ignorant. Alternatively, they may conceal the problems with their proposal because they seek rhetorical advantages, as something different from winning the audience's informed approval. In that case, they are posturers who take advantage of the audience's rational ignorance.'[ii] (2006, p.78)

It may be claimed, and with justification, that policy is seldom, if ever, made in a manner that would ensure that its sponsors pass the Display Test. That this is so, does not in any way detract from the assertion that the policymaking process should pass the test. A brief discussion of parallels with the law may be useful here. Typical legal enactments specify what appropriate social conduct in a particular field should be (prescribing if necessary, the institutions required to make this possible), then they lay out the sanctions for non-compliance. The pinnacle of the body of law, the constitution, however, takes a somewhat different form – one that could possibly be described as meta-policy. In a constitution, a bill of rights typically specifies the set of freedoms that everyone to whom it applies should enjoy. These are usually a mixture of negative and positive rights. The former oblige others to refrain from interfering with people's attempts to exercise certain rights and freedoms. Positive rights, by contrast, usually involve the transfer of assets or income (in cash or kind) to ensure that the rights in question can indeed be exercised.

In the South African case, if, after all of the relevant rights and freedoms have been exercised, any individual lacks the wherewithal to sustain themselves (admittedly at some minimal level), the state has a duty to do so. The relevant sections are 26 (Housing) and 27 (Health care, food, water and social security). These and other protections are extended to children in section 28. Although sections 26 and 27 each have a 'weasel clause', that allows the state to evade its responsibilities by proclaiming that it lacks the 'available resources', the intention of the Constitution is clear – if all of the measures intended to permit people to realise their potential fail to vouchsafe them a (minimally) acceptable standard of living, the state should step in to make good the deficiency. The differences between legal enactments and policy measures do not concern us here – the issue is that of the principle at stake. The principle established by the Constitution is that when indirect measures (the creation of an enabling climate) fail to secure the welfare of certain individuals, the state has a responsibility to do so by direct measures (housing, health care, food, social security).[iii]

Translating the general provisions of the Constitution by prescribing specific steps which government should take could see the Court encroaching on the prerogatives of the Executive and the Legislature, a step which the Constitutional Court in the landmark *Grootboom* case explicitly declined to take.[iv] The Court did, however, offer guidance 'in the form of a "reasonable measures test"', which has the following provisos:

'A government programme seeking to deliver socio-economic rights may be considered a *reasonable measure* if:
- the programme is reasonable both in its inception and in its implementation;
- the programme is balanced and flexible;
- it makes appropriate provision for crises and gives attention to short-, medium and long-term needs;
- the programme does not exclude a significant segment of society; and
- the programme takes into account the degree and extent of the denial of the right it is trying to realise. It does not ignore those whose needs are most urgent.' (Streak and Wehner, 2004, p.64, emphasis in original.)

Together, the 'reasonable measures test', and the Display Test (with its requirement that policymakers look explicitly at possible downsides of any policy proposal), make up a formidable apparatus with which to evaluate the performance of those in the business of recommending, formulating and implementing policy. From the icy clutches of this ordeal, there should be no escape for those who, upon being warned, or becoming aware of possible ill-effects of the policies they propose, fail to acknowledge and make provision for the possible consequences.

WHY A BIG? WHY NOT?

A BIG is a universal transfer to all those with the right to be in a country (citizens by birth, by naturalisation, or persons with rights of permanent residence). Certain categories of person already receive (or attract) social grants, e.g., old age pensioners, children, and the disabled. Although some of the institutions representing these latter groups demand that their constituents receive the BIG in addition to the categorical grants, the ethical basis for doing so is slender. The old age pension, although not generous, is well in excess of median income,[v] and the argument that it costs less to maintain a child than an adult, has some merit. Making categorical grants 'universal' (dropping means tests that currently limit access) would remove the need to give the BIG to those who currently do not qualify for the child support grant (CSG), the state old age pension (SOAP), or disability (and various other) grants.

In South Africa, the over-riding reason for advocating the BIG is the conviction that existing policies for addressing poverty (and inequality) cannot succeed in a politically acceptable period of time. Chief among these policies is the quest for sustained, rapid economic growth. To say that the policy cannot succeed, is not to deny that it is the surest, indeed the only way, *in the long-term*, to eradicate the problem of mass poverty.

'In the long term' – aye, there's the rub. Conservative champions of 'growth as the saviour of the poor' (growth fundamentalists) devote a great deal of time to attacking imaginary opponents. Typically, these opponents are those who argue that growth, although necessary, is not sufficient (something fundamentalists acknowledge), and that the complementary measures proposed must include social grants for the able-bodied poor (a suggestion that fundamentalists reject). Grants, they say, without the courtesy of any supporting evidence, cause 'dependency' – grants are 'consumption' when what 'we' need is investment. The latter proposition, invariably made by a well-fed commentator, is often cast in terms of the fish and fishing-rod parable.

Six years ago, the Taylor Committee of Inquiry into Comprehensive Social Security recommended the phased introduction of a universal social grant. It did so in full awareness of the strong likelihood that a BIG cannot be made large enough to eradicate poverty. The Committee claimed, with appropriate empirical support, that a BIG can, however, significantly reduce poverty's severity.

In a variety of mealy-mouthed ways, government rejected the proposal. Instead, and with much fanfare, and inspired by the Millennium Development Goals, government resorted to two slogans – halving poverty and halving unemployment by 2014 (they featured prominently in the ANC's 2004 election manifesto). As I have demonstrated elsewhere (Meth, 2006a; 2008a), in the unlikely event that the policies implemented to halve unemployment were to succeed, there would still be almost three million officially unemployed and perhaps another two million discouraged by the end year (2014). The halving poverty story is even worse – there are indications of extreme confusion in government about what it is, that has to be achieved. Not only is the base year whose levels of poverty are to be halved, not spelled out anywhere, government understanding of the achievements of recent years, is blighted by a misplaced faith in a set of overly-optimistic estimates of progress. These results, from the van der Berg *et al* stable in Stellenbosch University (2005; 2007a; 2007b), and the methodology used to derive them, have been critically examined in Meth (2006b; 2007a; 2008b).[vi]

Until growth comes along and rescues them, South Africa's able-bodied poor are to be sustained instead by a 'massified' Expanded Public Works Programme (EPWP), and a number of other smaller initiatives, all important and many quite innovative.[vii] Taken together, however, the EPWP plus these initiatives, pale into insignificance in the face of the problem of mass unemployment, a major cause of mass poverty (Karuri *et al*, 2007). Regardless of the resources thrown at the EPWP, the largest direct intervention in the employment creation sphere, attempts to 'massify' it are foredoomed by institutional constraints, most notably a lack of capacity in all spheres of government. These ensure that the EPWP can never amount to much more than a shadow of the 'guaranteed work' programmes[viii] currently being explored in countries like India and elsewhere (which is not to suggest that those programmes do not have problems of their own).[ix]

Some may object that the Display Test, with its three possible outcomes, candid; ignorant or posturer, is unduly harsh. Be that as it may, applying it to the unwillingness of senior politicians to countenance the construction of a truly comprehensive social grant system, and their insistence instead on saving South Africa's unemployed poor through growth, with a little help from the 'social wage' and the extended public works programme (EPWP), one can find only one prominent politician who passes, the Minister of Social Development, Zola Skweyiya. At the end of 2006, he 'came out in support of a basic income grant' ('Skweyiya calls for basic income grant', *Mail & Guardian online*, 10th November 2006). In the ensuing furore, he 'stuck to his guns' ('Skweyiya sticks by his call for basic income grant', *Mail & Guardian online*, 20th November 2006). Then, on 7th December 2006, an article under the heading 'Cabinet pours cold water on basic income grant' appeared in the *Mail & Guardian* (online edition). The article went on to say that Cabinet turned:

> '…instead to ways to find "exit strategies" to reduce reliance on social grants.'

> The article said that '… the Cabinet had noted a proposal for linking social grants to poverty alleviation initiatives and other economic activities.
>
> But it said the beneficiaries of social grants – 'most of whom are able-bodied individuals' -- would be given incentives linked to exit strategies.
>
> 'These would include skills development and participation in labour intensive programmes such as the extended public works programme.'[x]

In recent times, this meagre arsenal has had added to it, a proposal for a wage subsidy. It is considered further below.

Since about 2001, the severity of poverty has fallen. Nobody has succeeded, however, in demonstrating that this is due to the jobs being created for the poor. Rather, such amelioration as has occurred, appears to have been the result of the increase in the number of social grant recipients (by 2007, eight million child support grants were being disbursed each month – in April 2001, the number was about 975 000). According to the *Budget Review 2007*, in the poorest 20 per cent of households, the proportion whose main source of income was salaries and/or wages, fell from 25 per cent in 2002, to 18 per cent in 2005. The proportion relying mainly on social grants rose from 16 per cent to 40 per cent. In the second poorest quintile, the proportion of households whose main income source was salaries and/or wages rose slightly over the period (from 29 per cent to 32 per cent). Whereas social grants were cited by 31 per cent of households as the main income source in 2002, by 2005, this had risen to almost 50 per cent. The income source whose decline was greatest, was remittances (2007, p.101).

In 2006, about one-third of all households in South Africa, home to more than 16 million of the country's total population of about 47 million, contained no workers. Consumption levels in all except a minority of one- and two-person households, were below a modest poverty line of about R14 per capita per day. More than 85 per cent of these households contained people of working age, 2.4 million of whom were officially unemployed, while a further 1.6 million reported that they wanted to work, but had not actively sought jobs, mainly because they believed there were none to be had. Most of them had never enjoyed the luxury of a 'proper' job, and nearly all had been unemployed for longer than a year. About 45 per cent of the 'never employed befores' were in the age cohort

15-24 years, with about 40 per cent in the cohort 25-34 years. Among the 'unemployed for longer than a year', the percentages were 33 and 38 respectively.[xi] Clearly, South Africa's problem is not simply one of youth unemployment, as is sometimes claimed.[xii] Widely held to be unemployable,[xiii] these people are, for a variety of reasons, likely to be at the tail-end of the job queue. Growth, if it benefits them at all, will only do so after it has drawn in the better qualified (in all the senses in which this may be understood).

FAILING THE DISPLAY TEST: ASGISA AND THE HARVARD BOYS?

Governments everywhere are forever announcing new initiatives, 5-point plans, 12-point plans, think of any number below, say, 20, and some government, somewhere, will have announced a plan with as many bullet-points in it, often aimed at pulling the country out of some severe crisis. South Africa is no exception. In February 2006, the Deputy-President unveiled the Accelerated and Shared Growth Initiative for South Africa (AsgiSA). Growing out of the commitment to halve poverty and unemployment by 2014, AsgiSA had, as one of its components, the South Africa Growth Initiative, a project located in the Center for International Development in Harvard University. Taking part in what Bill Easterly (2002), former World Bank development specialist, described as '*The Elusive Quest for Growth*', the eminent economists participating in the project have recently (May) issued their final report (Hausmann, 2008). The report offers an impressively long list of recommendations (21 of them) for tackling growth constraints. If newspaper reports are to be believed,[xiv] however, government's reception of the report is located at the lukewarm end of the spectrum.

Although it is not the intention to engage extensively here with AsgiSA or with the Harvard team's association with the initiative, the way that the project has operated, opens a window onto a topic not often addressed in the world of 'expert analysis and advice', namely, that of accountability. AsgiSA is well on the way to failing the Display Test. Its concern, as noted above, is with seeking ways to ensure that the halving poverty and halving unemployment goals are met. The principal means is 'accelerated and shared' growth. Growth, it is important to bear in mind, is a means, not an end in itself. Although the AsgiSA document recognises the severity of South Africa's poverty problem (on p.4 of the 2006 AsgiSA document, reference is made to the one-third of households '… not yet able to benefit directly from our economic advances'), it does not to say what should be done, if, when all the experts have finished pawing over the data, the policy measures they recommend do not do the job. Instead, the AsgiSA document ends with this astounding claim:

> 'Our second decade of freedom will be the decade in which we radically reduce inequality and virtually eliminate poverty. We know now that we can do it, working together around an initiative which has the support of the nation.' (AsgiSA, 2006, p.16)

It is easy to dismiss this as political puffery. To do so, however, would be a mistake, for it is likely that there are many senior figures in the ANC (and in business?) who actually believe this stuff. That belief, in turn, probably helps to inform the ANC's approach to social protection – since poverty will shortly be eradicated, the argument must run, it is not necessary to extend the social grant system much beyond children and the aged – not only is it not necessary – to do so would only reinforce tendencies towards dependence.[xv]

What should be the stance of a high-powered research team like that assembled for Harvard's South Africa Growth Initiative towards the AsgiSA? Presumably their terms of reference, or the memorandum of understanding between them and government made no reference to redistribution or social protection policy – AsgiSA is, after all, concerned with relaxing the 'binding constraints' that prevent growth of the desired level from being attained. Consistent with this, the Harvard final report makes no reference to poverty. It notes in passing that inequality is high,[xvi] and speculates a little on the effects on inequality of (a) relaxing skill constraints, and (b) the relationship of black economic empowerment (BEE) to the skill shortage. It does not say – hey! hang on a minute – these are our recommendations, but what are you (government) going to do if they do not deliver the desired growth, or, if they do deliver the desired rate of growth, but cannot deliver on the 'shared' part of it? The absence of such a caution is odd. Some of the constraints identified by the Harvard group are formidable, lending the report an air of pessimism. Not only does the report itself state that '… the growth acceleration observed since 2004 does not appear to be externally sustainable' (Hausmann, 2008, p.3), but not long before it was released, other members of the Harvard team had published a policy brief which stated that potential output growth was in the region of 3-4.5 per cent, quite a long way below government's desired six per cent per annum[xvii] (Frankel and Sturzenegger, 2008).

Some of the Harvard recommendations could be implemented relatively quickly – others could not. The year 2014 is a scant six years away – why would a researcher participating in a project whose creators expect it to achieve the impossible goal of 'virtually eliminating poverty' by 2014, not want to create some distance between themselves and the inevitable failure to realise that goal? Of course, they can always turn around afterwards and say, truthfully, that there were no promises, no certainties that their package of recommendations would necessarily succeed (apart from which, government is unlikely to have implemented all of them anyway). Such a claim would, however, only make matters worse – if there are no guarantees, and if there is a possibility of failure (defined as falling short of the desired outcome – halving poverty and unemployment), and if this failure places intended beneficiaries of the policies in a worse position than they might have been under a different policy regime, then it is incumbent upon those making the policy recommendations to make this known. In short, the final report does not do well on the Display Test.

Remarkably deaf to constructive criticism of its efforts at addressing poverty, the South African government is not easily deflected from its chosen path. Even so, one cannot but wish that given their standing, the Harvard team had seen fit to confront government more resolutely over the question of possible (likely) failure (or at best, only partial success). Do they subscribe to some unspoken rule in terms of which, as consultants, they do not stray outside of the confines of a set of terms of reference, even if there is a possibility that the advice they offer will not lead to the desired goals being achieved? Or is there something about the ideological predispositions of (some of) the Harvard team members that prevented them from even considering these issues, let alone being more confrontational about them?[xviii] They clearly are not afraid of controversy, as their critique of the way that BEE (which they acknowledge to be desirable, but if successful, ultimately redundant) is designed and implemented in South Africa, shows. Is it the case that despite all the concessions to the 'necessary but not sufficient' stories about growth, they are unwilling even to consider further redistribution through the fiscus?

Giving a provocative heading to this section of the paper was not done merely to be sensationalist – nor was it done to suggest that the Harvard group has anything in common with 'los Chicago boys',[xix] nasty extension of the seamier side of US foreign policy that they were. Rather, the intention is to show why it is necessary for economists to join the conversation about the ethics of dispensing advice (especially if one is giving advice about giving advice). Starting this paper with a pair of ethical propositions (the first explicit – attend to the neediest first; the second implicit – policy should be formulated in such a way as to pass the Display Test) announces a particular stance towards social policy. It grows out of a long-held belief that those making policy recommendations on the basis of their social scientific analytical skills, have a responsibility to do so in a manner that would satisfy ethical precepts similar to those informing professional practice in other disciplines, medicine being a case in point. A good starting point is with the maxims of *primum non nocere* (first, do no harm), or *primum succurrere* (first, hasten to help, as in the case of the terminally ill). Tracing the originator of the first of these, commonly but apparently mistakenly believed to have been Hippocrates, Smith (2005), points out that although as a:

> '… general maxim for medical practice this "do no harm axiom" is deficient … [it] can serve as a potent reminder that all clinical and pharmacological decisions carry the potential for harm.' (2005, p.375)

Exploring its deficiency, Smith cites the words of a pioneering pharmacologist, Lou Lasagna, whose verdict on the 'do no harm' maxim reads as follows:

> 'To observe this advice literally is to deny important therapy to everyone, since only inert nostrums can be guaranteed to do no harm. It is more reasonable to ask doctors to balance the potential gains against the possible harm; would that we could only quantify these probabilities more precisely!' (2005, p.375)

For the word 'doctors', substitute 'social and economic policy makers and advisors', and we have the beginnings of a set of guidelines.[xx] Just as drugs have side effects (some, like those caused by chemotherapy, being extremely unpleasant, and almost unavoidable) and surgery is inescapably invasive, so many (most?) economic and social policies entail trade-offs. The sacrifices that have to be made by one group are held to be justified by the benefits that (should) accrue to the target group.[xxi] The medical profession shares with its colleagues in the social sciences the difficulty of 'quantifying more precisely', and that is where one area where trouble starts. All too often, policymakers are bombarded with conflicting analyses and prescriptions that are the result of differing interpretations of the same empirical data. South Africa is no exception – the lack of agreement on the extent and severity of poverty, and the absence of secure knowledge about the trajectory of inequality, encourages those in power to believe the best, and some of those in opposition, the opposite.

Under such circumstances, what is to be done? The ‘do no harm’ maxim sparked a rash of inquiries in the 1990s, spanning many disciplines, from humanitarian aid,[xxii] to education (Smith, 2005, p.375), to business ethics (Baron, 1996). The latter paper offers an interesting analysis of possible answers to the:

> ‘… fundamental moral question … about the advice we give each other about what to do, about what choices to make.’ (1996, p.198)

Baron contrasts a simple utilitarian view which holds that ‘… moral obligations depend on expected consequences’, with a ‘constraint-based ethical system’ that distinguishes between ‘act’ and ‘omission’. This distinction, he argues, imparts to moral intuition (‘judgements about cases and principles’) a systematic bias. It is illustrated by a number of studies that reveal an asymmetry between the judgement of an act that causes harm, as opposed to an omission which also allows the same harm to be caused, the former attracting uniform opprobrium, the latter (often), none at all. Circumstances in which omission was tolerable tended to vary between cultures (the doctrine of *laissez faire* tolerates omission without great difficulty), and with the proximity of the relationship between the individuals concerned. Dealing as it does with the complexities of moral action in a highly complex world, the argument is considerably more dense than the hints given above suggest. For our purposes here, though, only one thing matters, and that is that when an omission may have harmful consequences, regardless of who it is that may be affected, there is an onus on researchers to explore and to disclose those consequences. It may well be (and often is) the case that the ‘do no harm’ principle has to be flouted for the greater good. The harm that is likely to be done should, however, still be exposed.

Regardless of the limits placed by terms of reference on consultants, those whose recommendations are in danger of being implemented, have a duty to consider the implications of the possible failure of those recommendations. If the fundamental moral question is what advice do we give each other, mine would be that consultants ought not to allow themselves to be constrained by the often arbitrary boundaries, created by the terms of reference of the projects in which they are involved – participation in a project intended to yield policy recommendations means doing enough to pass the Display Test. Sometimes ‘enough’ may not be very much – the Harvard team could have scraped through merely by presenting an honest assessment of the likelihood of the growth that it is reasonable to foresee in South Africa achieving the AsgiSA goals. All told, the Harvard project yielded 20 papers – if the probability of success is as slender as the tone in one or two of them suggests, then the team should have insisted that government commission studies on alternative approaches to alleviating poverty.[xxiii] In a project as important as this, caveats deserve the prominence which only an appearance in the final report can hope to secure, for that is the document most people are likely to consult. Policymakers are frequently under extreme pressure, hence the oft-repeated call for a two- or three-page brief. All the more reason then, to ensure that health warnings cannot be missed.

As far as AsgiSA's compilers are concerned, the obvious defence against a charge of failing the Display Test they could offer, would be the argument that those whom growth cannot rescue will be taken care of by the country's 'comprehensive' social security system. If the system, existing and proposed, offered a plausible plan for dealing with the large number of able-bodied poor whom growth will not save from poverty, such a riposte would be justified. As it is though, no such plan exists – without it, and without any contemplation of failure in the AsgiSA document, AsgiSA fails not only the Display Test, it fails the 'reasonable measures test' as well.

Modest labour market interventions

Whatever one may think of the Harvard package as a whole, the recommended labour market interventions probably avoid having to face the full rigour of the Display Test, because they do not lay claim to being much more than proposals to 'alleviate' unemployment. Providing the bar is set low enough, success in this case may not prove to be too elusive. The major recommendation is a wage subsidy for which new entrants become eligible when they turn 18 years of age. The subsidy would take the form of a once-off deposit of, say, R5000 into a special account for each young person turning 18 years of age. This could be drawn down by a participating employer and used to pay part of the wage. Author of the labour market paper, James Levinsohn (2008), estimates that if the subsidy were set at that amount, it could cost about R3.75 billion per annum in any year for the 18-year-olds (of whom there would obviously be a 'fresh supply' each year). A subsidy for all those turning 18 would not, of course, make any impression on the existing stock of unemployed. Discussing the group to be targeted when (and if) such a policy were introduced, Levinsohn suggests that there are 'arguments for including all individuals up to the age of 30 for men and perhaps even 40 for women in the initial roll-out'.[xxiv] Armed with knowledge of population distributions by age, and of age-specific unemployment rates, and making some assumptions about take-up rates (Levinsohn offers 75 per cent, for argument's sake), one can make educated guesses at the cost of the proposal for a variety of subsidy levels. That is interesting, but not as interesting as speculation on the rate at which the stock of unemployed could be absorbed into employment (in which Levinsohn does not engage).

Assume that the economy's performance of the past few years of creating roughly 500 000 new jobs each year (in the absence of wage subsidies) can be sustained for a decade. Growth of the working-age population is about 390 000 a year. Labour force growth is erratic in the extreme, but if the participation rate, including the discouraged, is approaching 70 per cent, then, on average, about 270 000 of each year's increase, make their way, sooner or later, into the labour market. Job growth would thus reduce the stock of unemployed by about 230 000 per annum. Assuming that the growth in the working age population and the changes in the participation rate observed over the period 2003-2007 continue into the future, then, with somewhat over seven million jobless, getting the expanded unemployment rate down to a tolerable ten per cent by 2018 would entail the creation of almost 800 000 jobs each year for a decade. The unemployed would then number about 2½ million (probably still located in workerless households). Whether such an achievement would be politically acceptable cannot, of course, be determined by social scientists or politicians. They may set the targets, but the ultimate test is conducted (not in any organised manner) by the 'people' – as we have seen in recent times, the people are not overly impressed by government's recitation of the number of housing subsidies provided, or water connections made, as a response to their pleas.

Objections to the calculations made above on the grounds that it is only the officially unemployed who should enter the calculus may satisfy pedantic politicians – they are unlikely to do anything other than inflame passions among the poor. More than three quarters of the discouraged unemployed (all of whom express their desire to work by saying they are willing to accept a job in less than 4 weeks) give as their reason for not working 'Cannot find any work'.

Suppose that Levinsohn's proposal for the target population at start-up is adopted. Then, using the 2006 figures for illustrative purposes, in addition to the crop of 18 year-olds, there would be about 1.9 million men aged between 19 and 30 years, and 3.8 million women from 19 to 40 years, eligible for the subsidy. Numbers of unemployed have fallen a little since 2006, but not by as much as to make the sudden presence of somewhere near five or six million people milling around the labour market, waving wage subsidies, anything other than shocking. Except in the fictional world of bourgeois economics with its instantly clearing markets, absorbing these people will take many years.

Two conditions must be met in order for the wage subsidy to have even a ghost of a chance of succeeding. The first has to do with labour legislation in South Africa. Business has long claimed that the law is too restrictive – getting rid of incompetent workers (and retrenching in a downturn) are both argued to inhibit employment creation. There is evidence to support the claim.[xxv] The second is more nebulous. Lurking behind the wage subsidy proposal must be the proposition that there are millions of jobs potentially available, mainly in low-skill occupations, which could be filled if only the existing labour supply acquired the rudimentary skills necessary to carry out the work.[xxvi] Employers, in this view of the world, are inhibited from dipping into the huge pool of unemployed, because (a) they cannot easily discover which applicants are trainable, and (b) training them (possibly even in the most basic skills) is costly – outlays on training would not be easy to recover. Employing low-productivity workers in a climate where unions play a significant role in setting wages, is thus not economically feasible. Creating a supply of 'suitable' labour, the argument must run, will uncover the latent demand for it (is this an instance of Say's Law in operation?). Obviously, the impact of releasing these constraints (making firing easy, and subsidising low-productivity workers through their first year or so of employment) on employment levels is impossible to estimate, something that Levinsohn acknowledges (2008, p.16).

In the face of an inability to say how many jobs could be created by these means, Levinsohn offers the only sensible suggestion he can, namely, that the proposal be tested by means of pilot programmes with subsidies of varying levels (2008, p.17). It is, however, going to be several years before the effectiveness of subsidies can be known. In the meanwhile, most of the unemployed will remain in that state. The saddest part of this story is that precious years have been lost due to government dithering. The wage subsidy proposal is not new – in the 2001 budget, for example, government set aside R600 million as a 'wage incentive'. The *Budget Review* observed that the Treasury and SARS set themselves the task of:

'… investigating economically and administratively efficient tax measures that will:

- Encourage job creation by reducing the cost of hiring new workers and of offering learnerships.[xxvii]
- Encourage the formalisation of employment that is currently in the informal sector. This will have positive effects on other

> government programmes – for example, the UIF – and ensure their benefits are more widely available.' (National Treasury, 2001, p.77)

Treasury invited interested bodies to make a pitch for the money – as far as I can recall, it was turned over to the Department of Labour, to fund learnerships.

Whether or not the results of the pilot programmes Levinsohn proposes are capable of indicating that the subsidy programme could be successfully scaled up to make roll-out at a national level possible, is not considered. Since he makes it clear that the details of implementation are beyond the scope of the study (2008, p.14), he can hardly be criticised for failing to do so. If the proposal were subjected to the 'Display Test' it would probably squeak through, because of Levinsohn's precaution of recommending tests of the wage subsidy proposal before mass implementation, and because of the apparently limited ambitions of the proposals implicit in his paper's title 'Two Policies to Alleviate Unemployment in South Africa'. In its present form, though, the proposal is still at such a preliminary stage as to make it inappropriate, as noted above, to put it to the test. Any policymaker, however, who takes up the wage subsidy without exhaustive evaluation of its merits and without due consideration of the steps to be taken in the event of its failing to match up to expectations, ruling out in the process other alternatives that may yield greater welfare, would be in danger of failing the Display Test. That has not happened yet – what we have in the meanwhile is more beating of the growth drum.

HOW IS ANTI-POVERTY POLICY MADE?

Growth fundamentalism is promoted, knowingly or otherwise, at the very highest levels of government. On 21st May, 2008, *The Growth Report*, the fruit of two year's labour led by a Commission consisting of 'experienced policy, government and business leaders … and two renowned economists' (South Africa's Minister of Finance, Trevor Manuel, was a member of the Commission), was published.[xxviii] On the 22nd May 2008, the *Cape Times* published an article on the report by the Minister, under the heading 'Unlocking the rapid growth that is our only hope for reducing poverty' (p.9). That headline may be the creation of the paper's sub-editors – if so, they are not misrepresenting the Minister – this is what he wrote:

> ‘No country has been able to sustainably reduce poverty without rapid growth.’[xxix]

Had he said that ‘no lower middle-income country has been able to *eradicate* poverty without sustained growth’, the Minister would have been on safer ground – it is a relatively simple matter to show that modest growth, if sustained, in a country like South Africa, with its relatively high income and its exceptionally high inequality, can (and indeed, already has), make a significant dent in poverty, and much more quickly than rapid distribution-neutral growth.[xxx] Given the intellectual standing of the Minister of Finance, not only in South Africa, but internationally, and the power of the National Treasury, it comes as little surprise to find arguments of the type cited above dominating the discourse. Amongst the (Harvard) experts whom the South African government has appointed to look at growth constraints, a slightly more nuanced assessment of the growth debate may be found. In a June 3rd 2008 posting on his weblog, Dani Rodrik (see end-note xxviii), extending the critique of Bill Easterly (discussed in that note), had this to say about *The Growth Report*:

> ‘Contrary to what Prof Easterly argues, the report makes useful contributions to policymakers’ understanding. The most important is the emphasis on growth itself, underplayed by many advisers and activists in the 1990s and early 2000s. Growth is not everything. But it is the foundation for everything. The poorer the country the more important growth becomes, partly because it is impossible to redistribute nothing and partly because higher incomes make a huge difference to the welfare of the poorest.’

The crucial questions (and these are empirical matters) are (i) is it true that growth was underplayed, and if so, to what effect?, and (ii) how poor does a country have to be for it not to be able to redistribute anything? Where average income is less than 700 dollars per annum? (see note xxix)

The challenge against the existing leadership in South Africa at Polokwane last year, had at its core the proposition that the poor had not been well served (despite the growth which ANC policy had made possible). The arguments were visceral, however, rather than analytical – those in the ANC who dispute the (simplistic) growth story are on the margins. There does not appear to be anyone in the party with influence, capable of making the simple point that (a) it may be worth sacrificing some growth, if need be, when the payoff is relatively rapid *reduction* of poverty, and that (b) a higher middle-income country, with monstrous inequalities, could probably also *eradicate* poverty in the medium-term through a combination of modest growth and redistribution, if it were of a mind to do so. As we will see below, the emphasis on growth, coupled with a fear of 'dependency' that verges on the paranoid, conspire to keep ANC policy on the same track that has led to the widespread discontent, harnessed so successfully at Polokwane by the new leadership.

So, until growth saves the poor, the major labour market components of anti-poverty policy are the EPWP, the skills drive, and the various learnership schemes.[xxxi] These may soon be buttressed by a wage subsidy of as yet undecided form, apparently favoured by Treasury.[xxxii] Apart from the warning by the Minister of Social Development that social grants were necessary because the 'halving' policies were inadequate, there is no indication that consideration has been given by senior politicians and policymakers to the (distinct) possibility that all of this is not enough. Nor does the buck stop there – although it is not entirely clear how policy in the ANC is decided, the Commission Reports and Draft Recommendations drawn up at the ANC National Conference in June 2007, are consistent with government utterances on the form that social protection against unemployment should take. The document expresses the beliefs that:

> '36 We are building a developmental state and not a welfare state given that in welfare state (*sic*), dependency is profound
> 37 Our attack on poverty must seek to empower people to take themselves out of poverty, while creating adequate social nets to protect the most vulnerable in our society.

This results in, among others, a draft resolution to the effect that:

> 44 Grants must not create dependency and thus must be linked to economic activity' (ANC, 2007, p.13)

Pontificating about 'developmental states' is all very well, but South Africa lacks the bureaucratic capability to link grants to economic activity in a manner that would provide social protection to all who need it (the able-bodied poor). Not only did the conference delegates fail to apply their minds adequately to this matter – they formulated instead, a resolution that is manifestly not capable of being implemented.[xxxiii] Delegates who supported it will be as culpable as policymakers, if (when) the anti-poverty policies fail.

The statement attributed to Cabinet when it rejected Minister Skweyiya's call for a basic income grant, has been reported above. Part of the Cabinet statement made reference to 'able-bodied beneficiaries of grants'. This is misleading. Since there are, at present, no grants for the able-bodied (unemployed) adult poor, the dependency of which the ANC so heartily disapproves, is actually benefit dilution (the sharing of categorical grants like the child support grant or the old age pension). One wonders how, in the absence of the grants, the people concerned would have survived? Paradoxically, the ANC government has conceded that social grants are one of the more effective ways of bringing relief to the poor. After boasting about the 'community assets' (2182 of them) left behind by 'R6.5 billion expenditure on infrastructure', government acknowledges that: '… public works [the other 'major' anti-poverty programme] are not as efficient as income grants in alleviating income poverty' (PCAS, 2003, p.19).

Although Minister Skweyiya continues in his role as champion of the poor, the policy direction articulated at the June 2007 conference (it does not differ much from the party's stance at previous conferences) acts as a constraint on what he can propose, apparently compelling him to depart from the ideal of a universal (non-means-tested grant). So much is clear in his Budget Vote Speech, delivered to the National Assembly on 30th May 2008, which refers to 'basic income', once more. Here is what he said:

> 'We currently distribute the CSG to over 8,6 million children. It is also our medium term aim to increase qualification age limit for the CSG up to the 18th birthday, resources willing and enabling.
>
> However, a world with a more human face requires us to guarantee further and sustainable employment and income opportunities for the parents and care givers of these children. As directed by the People's Congress in Polokwane, we will table proposals on the phased introduction of conditional basic income support. Our attention will be focussed on the most vulnerable who survive outside our social security. This will break the cycle which has made poverty an inevitable intergenerational inheritance based on the station of one's birth.'

Presumably, pressure to conform to Polokwane's *diktat* [xxxiv] compels the Minister to talk of 'conditional' grants, and to direct attention to parents and care-givers, instead of the able-bodied poor in general. The latter, however, and not only the parents and care-givers among them, make up the target group.

As is the case elsewhere, and as has so frequently been the case in the past, the problem of providing social protection for the able-bodied poor – those capable of working, but unable to find employment,[xxxv] defies solution. There are no conditions capable of being enforced by this, or any other government with a problem similar to South Africa's, to ensure that a 'conditional basic income support' lands up in the right hands. Although the able-bodied poor, like such obvious candidates for social protection as children, the aged (the infirm or disabled are more problematic), stand out as being particularly deserving of assistance, their problem, as far as the design of policy is concerned, is that unlike children, or pensioners, there is no distinctive characteristic by means of which they can be identified. Even if the ANC government were willing to give grants to the able-bodied unemployed poor, they would have great difficulty in devising the means by which to do so. It is thus not possible to close the hole in South Africa's social protection system by the methods used in much-developed economies, methods such as welfare-to-work (in the UK), or its more coercive counterpart 'workfare' (in the USA). (These policies could also not work in this country because the low-paying jobs into which to drive the poor do not exist in sufficient numbers).

WAR OF PREPOSITION (WITH APOLOGIES TO GRAMSCI)

Let us ignore, for a moment, the uncomfortable truth that the able-bodied poor cannot be identified, and pretend that an adequate method for doing so exists. It is a simple matter to show that rapid distribution-neutral economic growth that does not pull those at the bottom of the income distribution into employment, is inferior, in welfare terms *for those groups*, to slow growth with redistribution. This is illustrated in Table 1 below. Growth rates have been manipulated to yield the desired results, but they are close to the sorts of figures bandied about in South Africa. Income estimates (gross income) from the 2005/2006 Income and Expenditure Survey, (Rands per capita per month in 2006 prices) have been used as a base on which to perform a few crude simulations.[xxxvi] Growth of the working-age population is assumed to be 1.2 per cent per annum.

Although the first decade of democracy was marred by increasing unemployment, and with it, an increase in the numbers of workerless households, in general, economic growth does not proceed as in the simulation whose results are reported below. We can expect at least some members of households in the poorest deciles to obtain employment. This will speed up the rate of poverty reduction. Nevertheless, it is important to spare a thought for the strictures of the labour market, in particular, those that determine the absorptive capacity in the short- to medium-term. With that in mind, let us revisit the hoary old debate about redistribution (and, with, through, before, after) growth.

Four scenarios are considered, two are distribution neutral, and two engage in redistribution of differing degrees. Scenario 1 is rapid-growth distribution neutral, Scenario 2 is slow-growth distribution neutral, Scenario 3 is slow-growth with modest redistribution, and Scenario 4 is slow-growth with slightly more redistribution. In the redistributive scenarios, in which per capita income growth is held at 2.5 per cent per annum, the redistributions are achieved by taking income from the total that would have been received by those in decile 10 if per capita income growth had been 2.5 per cent per annum, and redistributing it to those in deciles 1, 2 and 3.

An arbitrary poverty line of R432 per capita per month, derived from the Hoogeveen and Özler (2004) figure of R322 (in 2000 prices), is used to show when individuals climb out of poverty. For the fast-growth option, eight years of income growth (to the symbolically important year of 2014) at roughly five per cent per annum (about 6.2 per cent GDP growth corrected for assumed population growth), are enough to place the individual in decile 3 with a mean income of R433 just out of poverty's reach – the roughly 50 per cent of people with mean incomes lower than this, obviously, are still in poverty.[xxxvii] Whereas in 2006, all 11.6 million people in the bottom three deciles were below the poverty line, by 2014, this would have fallen to 9.5 million out of a population of 11.8 million. By about 2018, about half of the 3.9 million people in decile 2 would have climbed above the poverty line, along with the remainder of those in decile three who were below it in 2014. In this scenario, the folk in the bottom decile are still well the poverty line in 2022.

In the second scenario, if it is assumed that per capita income growth is the same across the whole distribution (2.5 per cent per annum), then GDP growth (crudely, income growth plus population growth) slips to about 3.7 per cent per annum over the sixteen year period. This is just enough to raise half of the members of decile 3 above the poverty line by 2022. Everyone else is still below the line by that year.

Table 1 Trickle-down with rapid growth vs. slow growth with redistribution

	Bottom decile	Decile 2	Decile 3	Top decile
Average household size	2.8	3.3	3.8	3.6
5% growth per annum – distribution neutral (Scenario 1)				
2006	128	242	292	9 390
2014	190	358	432	13 894
2022	281	530	639	20 560
Percentage increase in income 2006-2022	119.0	119.0	119.0	119.0
2.5% growth per annum – distribution neutral (Scenario 2)				
2006	128	242	292	9 390
2014	156	295	355	11 441
2022	191	360	433	13 939
Percentage increase in income 2006-2022	48.5	48.5	48.5	48.5
2.5% growth per annum – with re-distribution (Scenario 3)				
2006	128	242	292	9 390
2014	190	358	432	11 276
2022	281	530	639	13 495
Percentage increase in income 2006-2022	119.0	119.0	119.0	43.7
2.5% growth per annum – with re-distribution (Scenario 4)				
2006	128	242	292	9 390
2014	281	432	482	11 085
2022	432	530	580	13 440
Percentage increase in income 2006-2022	236.5	118.8	98.9	43.1

Sources: Incomes. Statistics South Africa, 2008, p.32.

Average household size (expenditure deciles): P0100, 4 March 2008, p.72.

Notes:

Per capita incomes in the base year were estimated by dividing household incomes by average household size. The latter refers to the number of all individuals – children working-age adults and those of pensionable age, in the household.

Deciles are of households. Varying household size means that the numbers of individuals in each decile are not equal. Household sizes by expenditure decile rather than income decile were used because published data on the latter were not available at the time the calculations were performed. The differences are unlikely to have much influence on the results, of what is, in any event, a purely speculative exercise.

Scenario 3 – slow growth with redistribution – shows how it is possible to achieve the same results for the poor as those yielded by the fast growth of scenario 1. Of course, as long as it is ecologically sustainable, six or seven, or even eight per cent growth per annum would be preferable. If that cannot be achieved, or if a growth spurt like that experienced in South Africa in the past couple of years, splutters to a halt, the wellbeing of the poor need not be sacrificed. The cost, to those in decile 10, of ensuring that this is so, can readily be estimated from the figures for scenarios 2 and 3. The heartlessness of ‘trickle-down’ (distribution neutral) growth is plain to see in panel 2 – 16 year's sustained GDP growth at 3.7 per cent per annum is just sufficient to raise about 2.2 million people in decile 3 out of poverty. Scenario 3 suggests that if by 2014, each individual in decile 10 sacrifices just R165 per month out of the R2051 increase in income they enjoy over the period 2006-2014, the poor can be brought to the same condition as 6.2 per cent GDP growth would have placed them. The sacrifice required to produce a similar effect by 2022 is R444 per month per individual out of an income increase of R2499 per month between 2014 and 2022.

Another way of looking at this is to allow all per capita incomes to grow by 48.5 per cent over the period 2006-2022, then subtract from the total income of those in the 10th decile sufficient income to bring income growth over the period in deciles 1, 2 and 3 back up to 119 per cent, i.e., the percentage by which it would have grown if the rate of growth had been steady at about five per cent per annum. Doing so would mean that income growth in the decile 10, instead of being 48.5 per cent, would amount to 43.7 per cent over the period.

In scenario 4, redistribution is taken a little further, lower down the scale. The average individual in decile 3 emerges from poverty in 2008, their counterpart in decile 2 by 2014, and in decile 3 by 2022. Income growth rates have been made to fall sharply from decile 1 to decile 3 (they were equal in scenario 3), to give robust pro-poor (inequality-reducing) growth rather than the weak imitation of it, where all incomes rise by the same proportion. The difference in income growth in the 10th decile, if scenario 4, rather than scenario 3 changes could be brought about, is just over half-of one per cent over 16 years (or a mere R55 per capita per month). Instead of the absolute differences between mean incomes in the tenth and first deciles at the end of the period being the R20 279 that it is in scenario 1, or the R13 749 it is in scenario 2, and the R13 214 it would be in scenario 3, the scenario 4 redistribution yields a difference of R13 008 (per capita per month, that is!).

For the fast-growth scenario over the period of 16 years, the ratio of the *increase* in decile 10 incomes to the *value* of decile 1 incomes is 40:1. Even under conditions of slow growth, in the absence of redistribution on the scale proposed here (and it is not suggested that it is adequate), the ratio is almost 24:1. The redistribution in scenario 3 would reduce this to a little below 15:1, while that in scenario 4 knocks it down to a little over 9:1. Recall now what this ratio represents: the *increase* in the value of the income in the top income group, to the *total value* of income received in the bottom income group.[xxxviii]

In a country where inequality is as bad as it is in South Africa, and where the failure to reduce it is polarising the society along lines that are as rigid as they are invisible, it is surely not unreasonable to demand sacrifices of the sort spelled out in scenario 4? Recent events have shown how completely alienated the poor are from those who have prospered since the advent of democracy. The shock of the violent and misguided response to the immigrants among the poor, where it has not simply reinforced racist prejudice, has probably brought about a clearer understanding than ever before of the dangers of allowing poverty and inequality to fester on, unchallenged, for so many years.

BUT WE CANNOT IDENTIFY THE ABLE-BODIED POOR!

If only real life were so simple – the poor in workerless households would be identified – the well-off would support government’s attempts to alleviate poverty and would pay the additional tax without a whisper of complaint about punishing the wealth creators and so on, and so on. Neither, unfortunately, is true. The able-bodied poor, as was noted above, have none of the distinguishing characteristics so necessary for the successful running of bureaucratic systems. Someone who is poor and unemployed is distinguishable from someone who has a flourishing informal-economy business, only by close observation. Someone who is poor but has no desire to work because they can live off grandma’s pension and brother Freddy’s disability allowance, is also indistinguishable, except by close observation, from someone who is poor and is desperately seeking work.

This is the central problem of social grant systems. If a grant of say, R500 per month were made available to all the unemployed, rational economic calculation performed by people working long hours for low wages is likely to cause some large number to become ‘unemployed’ rather rapidly in order to claim the benefit (recall that R432 per month was barely enough to maintain one person in 2006). Table 2 gives an indication of the sectors where people most at risk are located. Certainly all of those earning R500 per month or less would be tempted, and possibly many of those earning less than R1000 per month, whose opportunity costs of accepting employment are high (e.g., high transport and child care costs).

Government’s current investigation into the possibility of paying a grant to former recipients of Unemployment Insurance (UI) benefits who have exhausted their entitlements, represents an attempt to reach the only group among the unemployed who have the characteristic of identifiability, so necessary for the task of excluding the ineligible. Qualifying for a categorical grant is not always a simple matter. The difficulties that applicants face, however, differ significantly according to the type of grant sought. One has merely to compare the relative ease with which eligibility for child support grants and old age pensions may be demonstrated (age being the primary criterion), with the difficulties involved in established eligibility for a disability grant, or a foster care grant, to see that this is so. Proving, to the satisfaction of the authorities, when one is able-bodied, that not only is one unemployed, but also that one has taken all possible steps to find employment (or start a business), is more difficult still, and by several orders of magnitude.

Table 2 Workers aged 15-65 years (1000s), by monthly income and sector

Monthly income	Formal	Informal	Domestic	Total
Total	12 908	2718	1075	16 816
None	28	284	0	314
R1-R500	281	619	253	1156
R501-R1000	975	559	421	1971
Sub-total	1284	1462	674	3441
R1001-R2500	2850	640	349	3864
R8001+	1410	47	0	1471
Don't know/refused	706	51	13	773
Unspecified	44	13	0	103
Total – all workers	12 908	2718	1075	16 816
Workers below R1000 as % of total	9.9	53.8	62.7	20.5

Source: September 2007 LFS, Statistical release P0210, 27 March 2008, Table 3.5, p.18.

Note: Workers are employers, employees and the self-employed

What to do about the 'able-bodied poor' is a question to which answers have been sought by policymakers for many centuries. In England, for example, a draft bill in 1535 proposed public works as a solution to the problem of unemployment. By 1834, the awful Poor Law Amendment Act in that country introduced the principle of 'less eligibility', in terms of which the value of the poverty relief granted to any able-bodied poor person was to be lower than the lowest wage paid anywhere in the economy. The rationale behind this brutal principle was that of not distorting the labour market.

Public works, as was noted above in the discussion about South Africa's EPWP, have lost none of their charm, as far as policymakers are concerned. If this programme were a serious contender for the role of social protection mechanism for the long-term unemployed (a role for which it is not particularly well-suited), the nightmares of the wage-setting process would soon dampen the ardour of those given to mindless EPWP promotion. Public works are supposed to have the virtue of being self-targeting – only those truly in need would (should?) be prepared to work for the low wages on offer (unlike social grants, this targeting mechanism requires no elaborate bureaucratic structures). If the wage is 'too generous', i.e., does not conform to something like the Poor Law principle of less eligibility, then the cold realities of the labour market take over and flood the programme with low-wage workers, keen to escape the hardship of their day-to-day struggles, in favour of 'easy money' from the government. Reasonably intelligent guesses (and that is all that can be done to 'estimate' likely programme participants) of the likely numbers so attracted, can be made by referring to Table 2 above.

Government as employer of last resort will not work – not only are the numbers involved huge, how huge it is not possible to say – but government, for all the boasting about the EPWP being on target (see their website) lacks the capacity to administer the existing programme, let alone one that is ten or more times as big (for that is what is required). Growth cannot happen fast enough to rescue the poor, and government (and the ANC-in-conference, seriously out of touch with reality), wants labour market activation (active labour market policy) as a condition for receipt of social grants by the unemployed. Wage subsidies may have some impact, but as the modesty of their architect shows (although he does not say as much), they may alleviate, but they will not solve the problem of mass unemployment.

SOME BIG ARITHMETIC

Unlike government's existing and proposed measures to 'rescue' the able-bodied poor, a Basic Income Grant could reach them quickly and efficiently (if the mess that is the Department of Home Affairs could be sorted out). Several simulations showing that a grant of R100 per month (in 2000 prices) was fiscally feasible, were prepared for the Taylor Committee (le Roux, 2002; Meth, 2002; Samson *et al*, 2002). In doing so, a distinction was made between gross costs of the grant (the sum that had to be raised to give the grant to everyone), and net costs (the cost after claw-back through the tax system). Opponents of the BIG invariably cite gross costs of the grant as a major reason for not making the grant (the other major reason is the 'dependency' it would allegedly cause). Yet as Pieter le Roux pointed out a long time ago, the net cost (roughly, the amount remaining in the hands of the poor after tax claw-back) is considerably less than the gross cost (le Roux, 2002, pp.105ff).

One way to approach the question of the affordability of the grant is by examining increases in final consumption expenditure by households. Ideally, what is required for such an exercise is a set of yearly estimates of the distribution of expenditure by household decile. Since these are not available, it is necessary to make do with what is – namely, the annual estimates of consumption expenditure presented in the South African Reserve Bank (SARB) *Quarterly Bulletins* (the March 2008 edition has been used) and the observations for one year in the Income and Expenditure Survey (IES) for 2005/2006. [xxxix]

The value of the BIG proposed by the Taylor Committee was R100 per month in 2000 (in current prices).[xl] To keep pace with inflation, this would have had to have grown to about R144 by 2007 (in current prices). Excluding delivery costs,[xli] the gross cost of the grant would have been about R56.6 billion in 2001. By 2007, in current prices, the total cost, adjusted for population growth as well, would have been approximately R82 billion.

Final consumption expenditure by households (measured in current prices) increased by R59 billion between 2000 and 2001, and by R145.3 billion between 2006 and 2007 (SARB *Quarterly Bulletin*, March 2008, p.S-107). Year-on-year growth in household consumption thus exceeded the gross cost of a BIG (of R100 per capita per month in 2000 prices) in 2001 – by 2007, growth in consumption was almost 80 per cent as large again as the gross cost of a BIG. In 2001, the gross cost of a BIG would have amounted to 8.9 per cent of final consumption – by 2007 it would have fallen to 6.7 per cent of final consumption expenditure (clearly, it is assumed here that the introduction of a BIG would not have had adverse economic effects).

If 2005/2006 IES is to be trusted, about two-thirds (65 per cent) of the annual increase in final expenditure would have been consumed by fewer than nine million people among a population of about 47 million (that is, the roughly 18 per cent of the total population in household deciles 9 and 10). Supposing that the grant had been introduced in 2007, a sacrifice by the well-off of part of their *increase* in consumption in that year (and its equivalent in succeeding years), would have financed the BIG with ease. The net cost of a BIG of R100 in 2000 prices (the cost after tax claw-back) would probably have been somewhere in the region of 35-40 per cent of the gross cost of the grant (Meth, 2002, pp.41-42). On the assumption that the net cost of a BIG would be about 37 per cent of the gross, it looks as though net cost expressed as a proportion of the increase in final consumption between 2000 and 2001, would probably have been in the region of 35 per cent. By 2007, this would have fallen to about 21 per cent. If most of the tax claw-back was from the folk in deciles 9 and 10 (the top decile), then they would have given up about half of the increase in consumption they enjoyed. By 2007, the proportional sacrifice they would have been required to make would have fallen below one-third of the increase in their consumption.[xlii] Thus, after the initial shock, and assuming that the economy grows at a reasonable pace (four per cent on average should not be beyond reach), in subsequent years, the proportion of the increase in consumption of the well-off would have to sacrifice would fall with each succeeding year.

Another way of looking at the question is to note that in constant price terms (2000 prices), the value of final consumption expenditure by households increased by R20 billion between 2000 and 2001. This was roughly the estimated net cost of the BIG in the year 2000. Between 2006 and 2007, the increase had grown in size to R55 billion – the increase in the latter year was thus almost three times as large as it was in the first year. South Africa’s population in 2007 was about 47.9 million, and in 2000, about 44.1 million, an increase of 8.5 per cent. Because final consumption expenditure growth rapidly outstrips population growth, mean per capita expenditure rose from roughly R13 173 per annum in 2000, to about R17 703 in 2007, an increase of R4530 (all in constant 2000 rands).

At the top end of the income distribution, the increase, in absolute terms, would have been much larger, while at the bottom end it would have been smaller. Shuffling income around so that the poor received an extra R1200 per annum of the total increase would not have placed an intolerable burden on the well-to-do. Keeping the real value of the BIG constant, it is likely that the net burden would have increased by roughly the same proportion as the population over the period Clearly, if R100 per person per month was feasible in 2000, then its equivalent (or more) in real terms today must also be feasible, even allowing for population growth.

CONCLUSION

Among the less impolite epithets flung at proponents of the Basic Income Grant (BIG) is that of ‘populist’. Dire predictions about what would happen if ‘Latin American-type’ redistributive policies were tried here are routinely offered, as though none of us had read any of, for example, Chile’s history. We are informed, for good measure, as though we were unfamiliar with the concept of opportunity cost, that diverting government revenue from other vital areas means pandering to consumption, at the expense of investment (health and education being most frequently mentioned). What few of these critics do is to stand back from their ideology (of which, like halitosis, they seem blissfully unaware), and pose a series of hard questions, something along the following lines (the list is not exhaustive):

- Will what is being done or proposed now, work? (i.e., can poverty, unemployment and inequality be tamed in an acceptable period of time?)
- If there is a likelihood that it will not, is there something else that could be done instead? Could that something else be more robust redistribution?
- Do our policies pass the Display Test?
- Do our policies benefit the most needy, i.e., are they in accordance with Standing's Security Difference Principle?
- Would easing up on the sillier aspects of BEE, the target of (polite) Harvard criticism, make well-off (whites) more receptive to the idea of greater redistribution through the fiscus?
- Does the ANC ideology of 'dependency' have any real basis, or is it simply a self-serving elite fantasy?

This paper has played around with a few of these questions, in particular, the first three of them. Emerging from the speculations about poverty reduction illustrated in Table 1, were some fairly shocking figures about inequality – according to the 2005/2006 Income and Expenditure Survey from which the base year figures in that table are drawn, mean annual household expenditure in the bottom decile was R5775, while that in the top decile was R320 295 (medians were R5995 and R250 750 respectively). Those in the top decile received more than 50 per cent of total income – those in the bottom decile 0.2 per cent. In decile 2, it was 1.2 per cent and in decile 3, 2.2 per cent (Report No. 01-00-01 (2008), pp.31-33). The 11-12 million people in these households make up about one-quarter of the population. Even if the difficulties of under-reporting are severe (and for the 2005/2006 IES they appear not be), these figures, treated simply as orders of magnitude, illustrate, in practical terms, what lurks behind the high Gini coefficients one hears being bandied about.

That a modest Basic Income Grant is affordable admits of no doubt – unless, that is, the well-off reduce their labour input, and potential investors take fright. To finance the grant, redistribution is necessary – hardly, one would have thought, a contentious proposal to make in one of the most unequal countries in the world. Creating a climate in which the well-off could be persuaded to make the necessary sacrifice is a political project of the utmost importance – understanding the conditions necessary for its achievement requires a concentrated research effort. The feasible size of a BIG, and the means by which it should be distributed, as well as the ways in which it should be financed, are also questions that need to be addressed as a matter of extreme urgency.

An affordable BIG (could this be in the region of R150-200?) cannot make the poor rich. It will not even lift all households above whatever miserable poverty line is adopted by the Treasury. It would, however, keep the wolf from the door. For many poor households, it could provide a base from which the efforts at self-help, so desired by our political rulers, could commence and be sustained.

Objections to the BIG are primarily political (or ideological) – they have little basis in substantive research. One (relatively crude) critique (Thurlow, 2002),[xliii] enjoyed popularity in official circles, presumably because it showed the possible negative macroeconomic effects of a BIG The fact that the paper could be billed as 'international research' probably encouraged the belief that it was 'authoritative', as did, no doubt, the fact that its results were churned out by a CGE model. As the department with the greatest research capacity and the greatest interest in the BIG (if only to demonstrate conclusively that such a thing was unaffordable), one might reasonably have expected Treasury to have devoted time and energy to both the micro- and macro-economic aspects of the issue. Thurlow suggested 'more research', and so did the rest of us. It does not seem, however, as though much more has been done since the flurry of papers that appeared in 2002 – certainly, if Treasury has carried out or commissioned additional work since then on this critical question, the results of such activities have not been made public.[xliv]

It has been left to the initiative of outsiders to build the models necessary to begin addressing this issue. If the oft-expressed commitment to evidence-based policy formation were sincere, government would long since have launched a major project aimed at exploring the merits (and demerits) of a BIG in a dispassionate manner. Instead, precious years have been frittered away while government sought to 'prove' that the conditions of the poor were improving at a rate of which the poor approved.

Given my treatment of the arguments against the BIG, it would be hypocritical if I did not insist that the proposal for the introduction of such a grant be subjected to the Display Test as well. Every objection, trivial or substantial, should be evaluated. Of course, many of the predictions made about the effects of the BIG, positive and negative, can only be tested in practice. This makes it all the more important to exercise both caution and critical faculty beforehand. Like policies aimed at curing poverty by means of ‘accelerated and shared growth’, the proposal to make modest social grants universal, is a major piece of social engineering (but so too, is doing nothing). The law of unintended consequences will work, to a greater or lesser extent, on all policy options – our task as analysts (and one in which we can never be wholly successful) is to try to anticipate what these might be.

My perception is that although considerable progress has been made (the child support grant story, for all its warts, is a mammoth success), the illusion that the poor would continue to look favourably upon the appeals for patience while government seeks to undo the evils of centuries of colonial domination and segregation, followed by five decades of apartheid, has been shattered by recent events. How long will it be before violent, ill-disciplined people, people with no hope, no voice and no scruples, begin to view South Africans who live in luxury (or even comparative luxury), as interlopers?

It is also my view that a country like South Africa, with its mass poverty and mass unemployment, cannot solve the age-old problem of what to do about the able-bodied poor, using the means employed in wealthy economies, especially the social democracies. The country does not have the resources to engage in the sort of one-on-one activities necessary to make active labour market policies work (assuming that the jobs into which to insert people exist). Policies aimed at improving education, skills training, and labour market information will succeed in propelling some people into employment. So too, will the proposed wage subsidy. They will not, however, do much more than scratch the surface of the problem – the roughly six million people in workerless households who do not qualify for grants, along with the couple of million in households containing the working poor, cannot be reached by any of the conventional social protection mechanisms. Unless a way can be found to provide them with social grants, they will continue to depend, as they presently do in large numbers, on grants that are not intended for them – child support grants, pensions and disability grants. Introducing a grant for all adults (except pensioners and the disabled) would make it possible to allow the real value of the child support grant to fall because the adults who once consumed a large part of it will no longer be doing so. Once the adult grant had caught up with the child support grant, both could be inflation adjusted. Providing a universal grant would remove the pressure from the state old-age pension – if the number of people depending on the pension were to be reduced, most of the elderly would be lifted well above the poverty line.

Unless growth fundamentalists can muster much more compelling arguments, my conclusion is that in South Africa at least, dismissing out of hand (or ignoring), the case for more redistribution, is wrong. Growth alone cannot do the job – everybody recognises that growth is necessary (certainly, no proponent of the BIG whom I have ever met, denies the importance of growth), but most acknowledge as well (or insist) that it is not sufficient. If poor people were to have placed before them, the pros and cons of the various options, it seems unlikely that they would be swayed by a claim that growth can do enough in the short- to medium-term to make it reasonable to deny them the relief from poverty in the form of social grants, which the well-to-do in this country could so easily afford to finance.

An affordable basic income grant cannot make the poor rich – it probably would not even lift all households above whatever miserable poverty line is finally adopted by Treasury. It would, however, keep the wolf from the door – for many poor households, it could provide a base from which efforts at self-help, so desired by our political rulers, could commence and be sustained. Growth has not been able to eliminate poverty in wealthy countries like the UK and USA – there is little chance that it will do so in South Africa. This means that it is impossible to look forward to a time when a BIG will not be necessary. What is required is the political will to entertain the possibility of what seems to me to be glaringly obvious, namely that growth alone cannot do what is demanded of it. If that were done, the task of explaining to the well-to-do (probably, as noted above, more receptive now to such thoughts, than at any time in the recent past), the necessity for tackling poverty and inequality, quickly and directly, could begin to be tackled.

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NOTES

[i] Suppose the worst-off group is smallish, hard to identify and administratively difficult to reach. There is some merit in the argument that social justice would be served by helping those 'next' to the bottom, while attempts were being made to increase the accessibility of the worst-off group.

[ii] The passage quoted here was used in an article that considered rational ignorance and poverty statistics (Meth, 2007b). Rational ignorance is a concept which posits that when the cost of obtaining the information required to make an informed decision exceeds the expected benefits of making that decision, it is economically irrational to spend time and resources acquiring the information in question.

[iii] We know that in South Africa, many go hungry. We also know that the Constitution grants everyone the right not to go hungry. Clearly, the existence of the right is not sufficient to prevent hunger. The likely reason for the gap between the promise and the reality is the inability of poor and/or oppressed to make demands effectively. To put it bluntly, they lack the political power to enforce their demands.

[iv] Grootboom is much-discussed, and with good reason. Among the many who have written about it, here is Rogers Dhliwayo of Idasa: "In *Grootboom and Others,* a group of adults and children had been rendered homeless as result of their eviction from an informal dwelling situated on private land earmarked for formal low-cost housing. The respondents applied for an order requiring local government to provide them with adequate shelter or housing until they obtained permanent accommodation. The Constitutional Court held that the state has an obligation to provide for the housing needs of those unable to support themselves and their dependents." The Court stopped short of saying how this obligation should be discharged. In a footnote, the author points out that details of the Grootboom case (2000 (11) BCLR 1169 (CC) 2001 (1) 46 (CC))) are available at http://www.concourt.gov.za

[v] In 2005, the pension was set at R780 per month. In 2006 it was R820. Median per capita income, estimated from the 2005/2006 Income and Expenditure Survey (IES), was R577. Median incomes in the IES would have had to have been under-reported by about 40 per cent to bring them into equality with pensions. If one accepts the Hoogeveen and Özler (2004, p.9) upper-bound poverty line of R593 per capita per month in 2000 prices, i.e., about R795 per month in 2006 prices, then pensioners with no other sources of income hover quite close to poverty.

[vi] Apologies for the orgy of self-citation are sought in advance. The papers cited consider the contributions made by others to the debate on poverty and unemployment, topics on which I have been working, more or less without cease, since being appointed to the Taylor Committee in

July 2000. Running through all my work is a theme which says that over-estimation of success in the struggle against poverty and inequality is a serious, possibly fatal error. From the point of view of intellectual rigour, probably the most outstanding work on poverty is the collection of papers by Bhorat *et al* (2001). In propaganda terms, the most significant work is that of van der Berg and his colleagues. Although it offers a significant critique of much of the published work on poverty, as well as an innovative attempt to use alternative data sources to measure poverty, what should be tentative findings have been taken up by a government all too keen to demonstrate that its policies are working.

[vii] It is not possible to review here, all of these interventions, even less so is it possible to consider the many other policy tools deployed to foster growth. That is not the object of the exercise. The task, rather, is to pose the question: 'can all of these activities reduce poverty and unemployment at an acceptable rate?' The answer to that question seems to be in the negative.

[viii] Two initiatives, funded by Britain's Department for International Development (DfID), are currently investigating the possibility of introducing job guarantee schemes for the unemployed.

[ix] Of late, even the World Bank has come to recognise that social grants may be superior to public works programmes. A paper by Murgai and Ravallion (2005) looking at the proposed extension of the Maharashtra Employment Guarantee Scheme (MEGS), to the country as a whole (EGS), in terms of which the government would act as employer of last resort to the entire surplus rural labour force, concluded that an un-targeted grant (of equal fiscal size) to all rural folk (how non-rural claimants would be excluded is not obvious from their discussion) would have a greater poverty-reducing impact than the EGS (2005, p.23). Their findings are hedged about with caveats, but the fact that the Bank is even prepared to sanction such research, is an indication of the severe strain which massive public works programmes impose.

[x] The hope that some significant number of EPWP participants will be able to 'graduate' out of poverty after the short spell of employment the programme is supposed to offer, is pure delusion – for people in the many areas of the country where there is little hope of stimulating economic activity, EPWP employment, if it were not deliberately (and callously) curtailed, would create a dependency even stronger than that likely to result from the social grants the ANC fears so much.

[xi] These ratios are estimated from the data set for the 2006 General Household Survey (GHS).

[xii] It can be turned into one by extending the boundary of youth up to the age of 35 years. Whatever reasons justified such a deviation from international norms (see below) in this regard in the past, it is not obvious why such a distinction should continue to be maintained. The tension between defining youth as someone aged between 15 and 34 years, and the recent reduction in the Children's Act of the age of majority from 21 to 18 years is obvious. Using the UK as an example of international norms, we note that when youth unemployment is being discussed, it is held to affect individuals aged between 16 and 24 years. The New Deal for Young People, the active labour market policy in the UK for dealing with unemployed youth, is for those under the age of 25 years.

[xiii] Labels of this sort have been attached to the unemployed for quite a while. In 2002, former Director-General of the Department of Trade and Industry, Alistair Ruiters, was reported as saying that "most of the unemployed were unemployable because they lacked the skills required by the economy as it restructured and became more capital intensive." The claim appeared in a newspaper article by Linda Ensor under the heading "Most jobless people 'are unemployable' " (*Business Day*, 8 May 2002).
The year before that, Bhorat flirted with the concept of unemployability – in a paper looking at public expenditure and poverty alleviation, he stated that: "Studies of labour demand patterns in the economy … have argued that in many cases individuals at the low end of the labour market are not going to be in great demand, and indeed large sections of the unemployed are unlikely to be employed anyway." (2001, p.168) In support of this claim he cited a piece of collaborative work (Bhorat and Hodge, 1999). The latter paper, which examines structural change and changes in production methods, draws highly pessimistic conclusions for African, and to a somewhat lesser extent Coloured, labour market participants.

[xiv] See for example, the article by David Christianson, "Government cool on Harvard reforms", *Business Day* online version, 19 May 2008. An earlier article by Nic Dawes in the *Mail & Guardian* (online edition), under the headline "Liberalise to grow: heads butt over Asgisa" (27 October 2006), pointed to the shape that responses to the final report were likely to take.

[xv] Other commentators talk of ‘dependency’ in the same tone as the ANC. Discussing possible responses to the impact of rising food prices on the wellbeing of those in poverty, Azar Jammine, head of a well-known research consultancy, said that “Increases in social grants, the issuance of food vouchers or the direct delivery of food parcels to the poor carry the risk of increasing the dependency syndrome among the poor.” See the article “Econometrix backs VAT cut on foods”, *Business News*, Wednesday 14 2008, p.5. Syndrome is an interesting word – according to the Oxford English Dictionary, it has two meanings, the first is ‘a group of symptoms which consistently occur together’, the second ‘a characteristic combination of opinions, emotions, or behaviour’. Not surprisingly, Jammine does not say whether he regards ‘dependency’ as an illness (the first meaning), or simply a form of behaviour in which ‘they’ (the poor), routinely engage (he may regard it as both).

[xvi] Hausmann nibbles at the (weak) claim that income inequality is substantially reduced (2008, p.1n) by what is referred to by government as the ‘social wage’. In its most extreme (preposterous) form, the government’s *Ten Year Review* had the social wage reducing income inequality to such an extent that the Gini coefficient of 0.68 in 1997 (pre-taxes and transfers), fell to 0.35 in 2000, after taxes and transfers (PCAS, 2003, pp.90ff). If the very high Gini coefficients yielded by the 2005/2006 IES (Statistics South Africa, 2008, pp.36ff) are to be believed, then it is possible that the emergence of a small but significant Black middle class, on the one hand, and the continuing presence of households containing no workers, and receiving no grants, on the other, has contributed to an increase in income inequality in South Africa, rising social spending notwithstanding.

[xvii] Treasury’s prediction for growth in the medium-term is 4.3 per cent per annum. See *Budget Review 2008*, p.2.

[xviii] The Harvard University group appointed by government, draws heavily on academics of the Kennedy School who run the Master of Public Administration / International Development (MPAID) program. Dani Rodrik (on whom, more below) notes that at the time of its creation ten years ago, the MPAID was to be ‘a program with no equal anywhere’. Although the appointment of this particular group raised a few quizzical eyebrows (mine included), I did not give much thought to the question of the group’s ideology (which I expected to incline toward the conservative), until idle Googling threw up some interesting links to Ricardo Hausmann. One of these was to ‘BoRev.net, Dispatches from the

Bolivarian Revolution'. Highly polemical, the posting on that site on October 22, 2007 (Everyone's smarter than Ricardo Hausmann), discusses his alleged role in the shock-treatment applied to Venezuela's ailing economy by the Pérez government in 1989. One would hope, if the allegations have any substance, that these were sins of Hausmann's youth, and that he now subscribes fully to MPAID's ethos of "hard minds and soft hearts" (see Dani Rodrik's weblog, "Thoughts on graduation and the MPAID program", June 04, 2008). Without knowing a great deal more about Latin American politics, it is difficult to take a view one way or another on the issue. Perhaps the place to start is with the (apparently) more measured presentation in Coppedge (2000). Hausmann's biography on the Harvard site says that he was Professor of Economics in IESA between 1985-1991, where he founded the Center for Public Policy (IESA stands for Instituto de Estudios Superiores de Administración). The Coppedge paper's reference to the name given to the group of which Hausmann was a member – the 'IESA boys', by analogy with the 'Chicago boys', is not very flattering. There are chilling parallels between the '*paquete*' of measures introduced by the Pérez government in 1989 and South Africa's GEAR – in Venezuela, however, popular reaction was violent, leading to the disturbances referred to as the *Caracazo*. According to Jana Silverman, this urban uprising "… began as a series of uncoordinated, unplanned protests in the working class suburbs of Caracas against the doubling in price of bus fares – a direct consequence of the neoliberal economic package recently implemented by President Carlos Andrés Pérez." See "The Contradictions of Hugo Chavez", Published on July 14, 2002, in 'Left turn: Notes from the global intifada', Downloaded 5th June 2008.

[xix] A group of Chicago University-trained Chilean economists, who served the government of that country's military dictator, Augusto Pinochet (1974-1988).

[xx] In the form handed down to us, this is still inadequate, because there are few 'inert nostrums' in social and economic policy. Even a decision to do nothing to change existing policies, could have harmful, if unintended consequences.

[xxi] Policies guaranteed to bring about Pareto optima (positive-sum games?) would meet the 'do no harm' criterion. If the marginal utility of income were constant, and if a given transfer of income could be effected without frictional losses, the result would be a zero-sum. If the marginal utility of income declines sufficiently to offset the frictional and

efficiency losses that are likely to result from a redistributive transfer in the real world, then society's overall utility would rise (a positive sum).

[xxii] A book with this maxim as title appeared in 1999 (Anderson, 1999). Much of the special issue of the journal *Disasters* (December 1998), was devoted to the search for principles in the wake of the crisis of humanitarian action marked by such failures as Rwanda, Bosnia, Sudan and Zaire (Hendrickson, 1998, p.283). Leader argues that the core principles (impartiality, neutrality and independence), have been remarkably constant – what was lacking was knowledge of how to apply them (1998, p.305).

[xxiii] As Debbie Budlender points out, an injunction of this sort sounds like the rather lame 'more research is needed (*pers. comm.* 13th June). That is not what intended – scattered throughout the Harvard papers are some quite pessimistic findings. One example (the remarks about potential growth referred to above are another), may be found in the Frankel *et al* (2006) paper. On p.9 they observe that: "If, as we will show, the current ASGI-SA framework poses a major challenge in terms of external sustainability, what are the policy options to make the program feasible? And then there is still the question of whether there will be productive opportunities for such a large increase in public infrastructure. Or will the economy just pile up a large number of "white elephant" projects?" For further discussion of this issue in their paper, see pp.56ff. Gathering such comments and knitting them into a sober assessment of the AsgiSA's prospects, would inject a much-needed note of realism into the conversation.

[xxiv] The ethical implications of the adoption of arbitrary boundaries like this merit consideration. Why not 35 years for the men? Or 40 years? It may well be appropriate to discriminate in favour of women, but doing so, would require a strong motivation.

[xxv] See, for example, the reference to a World Bank study which reports this finding, in footnote 12 in Levinsohn, 2008, p.11.

[xxvi] Banerjee *et al* (2006, p.4) argue that: "The unemployed are becoming, on average, less skilled and the gap is widening between their skill level and the skill level of the employed. These results have important policy implications. For example, because the unemployed became ever less-skilled, and those employed yet more skilled, policies to transition the unemployed into the labor market face even greater hurdles." This claim

appears not to sit too comfortably with evidence of rising educational levels among the unemployed. In that regard, however, there are two comments to be made. In the first place, education does not equal skill, and in the second, South Africa's schools are reportedly doing a singularly poor job of preparing youngsters for the world of work. Arguing that socio-economic status (SES) is a major determinant of school performance in South Africa (i.e., inequality matters), van der Berg (2005, p.67) concludes that (partly) because of inequalities: "… the great majority of our schools are dysfunctional". "Even middle-income South Africans," he argues, "with all the advantages that means, get dragged down by their schools, rather than being provided with opportunities by them. Truly transformational education should mean that schools are able to turn around the effects of the lower SES and counteract some of the effects of poverty on education. We are far from this state."

[xxvii] The original work on wage subsidies in the 'new' South Africa was done by Heintz and Bowles (1996). In the 'old' South Africa, wage subsidies to foster the aims of the Regional Industrial Development Policy (RIDP) gained a very bad name because of the rampant corruption and abuse their poor design encouraged.

[xxviii] As befits work carried out by such a high-powered group, the *Report* has generated much interest in the responsible parts of the business press. The *Financial Times* (London) ran a thoroughly dismissive piece by Bill Easterly – see "Trust the development experts – all 7bn" (online edition, May 28 2008). This elicited a "put-down" (Dani Rodrik's phrase – see his weblog 'Unconventional thoughts on economic development and globalization', June 03, 2008) from Martin Wolf "Useful dos and don'ts for fast economic growth" (*Financial Times* online edition, June 3 2008). According to Rodrik, the best response to Easterly was by Jonathan Dingel, who said (on his weblog 'Trade Diversion') that: "If you're overconfident about development, Bill Easterly pokes holes in your arguments. And if you're modest, he makes fun of you." (May 28, 2008).

[xxix] A PowerPoint presentation by one of the 'renowned' economists (Nobel laureate Michael Spence) was used in the launch of *The Growth Report*. The version I downloaded on 22nd May 2008 has Spence, presumably anxious to drive home the point about growth and redistribution, telling us (on slide 19) that:

- "Growth is a necessary condition for poverty reduction in poor countries

- It is arithmetically impossible to reduce poverty through redistribution in countries where the average income is below 700 dollars a day." [Did Spence mean to say 'per annum'?]
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[xxx] The Minister does not specify the form that growth may take. Instead, he cites a passage from *The Growth Report*, (it is on p.3 of the *Report*) part of which reads as follows:
"[Policy makers] will succeed only if their promises are credible and inclusive, reassuring people that they or their children will enjoy their full share of the fruits of growth."
In development jargon, 'inclusive' appears to have succeeded the 'shared growth' (as in AsgiSA) which, in turn, seems to have supplanted 'pro-poor growth'.

[xxxi] It makes sense to treat the EPWP not as a grant (as some commentators do), but rather as quasi-government employment to counter labour market failure.

[xxxii] Although Treasury appears to look favourably upon subsidies, it has not yet decided on the form that these should take. *Budget Review 2008* (p.104) refers to extensive modeling of a broad-based subsidy costing about R25 billion (per annum?) that would increase employment by about 325 000 over a five-year period. The combined effect of the subsidy and social insurance would, it is claimed, reduce the poverty headcount by 20 per cent. Reference is also made in the *Review* to the subsidy for first-time workseekers (the Levinsohn proposal, or some variant of it).

[xxxiii] The addition of just two words 'if possible', would transform draft resolution 44.

[xxxiv] In case anyone misses the point, the Oxford English Dictionary defines *diktat* as an order or decree imposed by someone in power without popular consent. As far as social protection is concerned, it is unlikely that the proceedings at Polokwane represent the 'people's will'. A referendum, preceded by widespread debate would be a far more reliable test of that slippery concept.

[xxxv] This is the progressive interpretation of their predicament; the conservative view is that they are idle, refusing to accept work at the 'going wage'.

[xxxvi] To estimate per capita incomes, use has to be made of the unsatisfactory assumption that incomes are equally distributed within households (there is no practical alternative). For an exercise of the sort proposed here, this is unfortunate, but not fatal.

[xxxvii] Differences between mean and median estimates of income in the lower deciles are small. See Statistics South Africa, Report 01-00-01 (2008), p.32.

[xxxviii] Given the progressive nature of the tax system, these ratios overstate inequalities. Because the well-to-do are skilled at reducing their tax burden, it is not easy to ascertain the extent of overstatement.

[xxxix] Final consumption figures in the estimates below are from the SARB *Quarterly Bulletin* for March 2008 (p.S-107).

[xl] Like other social grants in South Africa, the amount was fixed arbitrarily. The Consumer Price Indices used to inflate the BIG are from the SARB's website (Series KBP7032J). Population estimates have been made by backcasting the 2007 mid-year population figure using the growth rates given in Statistical Release P0302, 3 July 2007, p.3. These go back as far as the year 2001-2002. A growth rate of 1.28 per cent per annum for the year 2000-2001 is assumed, to allow a population figure for 2000 to be estimated.

[xli] Happily ignoring the potential of advanced technology, figures of 20 per cent or more of the cost of the grant were bandied about by opponents of the grant.

[xlii] The calculations on which these estimates are based will be made available on application to the author – chasmeth@googlemail.com. My proposal (Meth, 2002) following that by le Roux (2002), called for the tax burden to be spread (by VAT) much further down the income distribution. Although the amounts collected would be relatively small, those in households with modest incomes (say, down to about R2500 per month) are so much better-off than the poor, that calling for a contribution from them (in the spirit of solidarity) would not be inappropriate. Tax burdens on those in deciles 9 and 10 would be minimised if satisfactory tax mechanisms could be devised for clawing back the grant from those who do not 'need' it.

[xliii] Thurlow acknowledges (grudgingly?) that a BIG "… appears to overcome the problem of identifying the poor… " (2002, p.22) and acknowledges on the same page that "… the results [spewed out by his model] do suggest that the income distributional effects of the [BIG] are progressive". His concern with the sustainability (fiscal and political) of the grant, leads him to an unrequited flirtation with targeted grants – the statement cited above on the 'progressive' nature of the BIG is preceded by a warning to the effect that "… this study is unable to determine the microeconomic advantages of targeted as opposed to universal grants… ". Given the predominantly macroeconomic emphasis of his paper, detailed microeconomic analysis of grants with conditions attached to them is hardly to be expected. What is odd, however, is that Thurlow should have floated the 'targeted grants' red herring at all. He notes quite explicitly early on in his paper (p.3) that BIG works by 'avoiding the means test' – an inescapable feature of any targeted grant aimed at the able-bodied poor, who, as we note above, lack characteristics such as age that would make them easy to identify.

[xliv] This includes the results of some modelling commissioned from Professor Simkins in the University of the Witwatersrand.